# Biotech Daily

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*Daily news on ASX-listed biotechnology companies*

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## MARKET REPORT

The Australian stock market recovered 4.1 percent on Friday September 19, 2008 with the All Ordinaries up 188.8 points to 4,840.7 points.

Twenty-one of the Biotech Daily Top 40 stocks were up, nine fell, five traded unchanged and five were untraded.

Polartechnics was best, up 2.3 cents or 25 percent to 11.5 cents with 17,000 shares traded, followed by Cellestis and Sunshine Heart both up 11.11 percent to $2.00 and 10 cents respectively.

Cathrx and Ventracor climbed more than 10 percent; Bionomics was up 9.38 percent; Universal Biosensors put on 8.33 percent; Circadian and Clinuvel were both up 6.25 percent; Novogen, Phosphagenics and Starpharma were up more than five percent; Acrux and Prana climbed more than four percent; Chemgenex and Mesoblast were up more than three percent; Labtech was up 2.94 percent; with Biota, Cochlear, Heartware, Peplin and Pharmaxis up one percent or more.

Proteome led the falls, down 2.3 cents or 21.9 percent to 8.2 cents, followed by Cytopia down 10.53 percent to 17 cents.

Psivida lost 7.69 percent; Progen was down 5.88 percent; Arana, Living Cell and Sirtex fell more than four percent; Neuren shed 2.6 percent; with Antisense and Resmed down more than one percent.

## EDITORIAL: THE REAL FRIENDS OF MERVYN & THE PERILS OF OWNER-DRIVERS

There are a number of biotechnology companies where the founder - often the founding scientist - holds the largest parcel of shares and also takes on the role of daily management, either as chief executive officer or as an executive director.

The market does not like this arrangement and for very good reasons. There are very few people with the ability to divorce their precious creation from vagaries such as accounting regulation, the cost of development; safety and efficacy; and either major pharmaceutical company or unknown biotechnology company competition.

And if they want to run their own companies, why not do it as a private company, without the cost of ASX compliance? Linfox, Dick Smith and Crazy John's are examples of well-run profitable private companies. Why bother with director's interest statements, quarterly reports, ASX in Wonderland regulations and annual reports, particularly for companies with market capitalizations of little more than a Sydney house.

Avantogen's Dr Richard Opara (76%), Compumedics' David Burton (70%), Genetic Technologies Dr Mervyn Jacobson (42%) and Mesoblast's Prof Silviu Itescu (34%) are merely the best known owner-drivers in the biotechnology industry. They are very different people, their technologies and skills are all different. The fact of their position and the way in which the market views their ownership is all that they have in common.

On the other hand Chemgenex's Dr Greg Collier, Acrux's Dr Richard Treagus, Cochlear's Dr Chris Roberts, CSL's Dr Brian McNamee and Pharmaxis' Dr Alan Robertson are universally respected because they are divorced from the technology and run their companies as businesses. Dr Collier is an excellent example: recognizing Autogen's deficiencies he bought new technology and Chemgenex is a quality company built on that technology. Being a gifted medico or scientist is not necessarily a barrier to running a serious company.

We await the turmoil to be caused to a company recovering from a bout of the ASIC 'flu, following the call for a board spill by Genetic Technologies' single largest shareholder and director Dr Mervyn Jacobson (see Biotech Daily; September 18, 2008). It is highly unlikely that the board will be able to muster the 58 percent of shares to defeat the spill, partly because many people won't bother to vote, in an election that will make or break the company. There is also a group of shareholders known as "the friends of Mervyn" who include friends and family, some of whom are previously well-known to Biotech Daily. While they are aware of the consequences of the board spill, they may nevertheless, for loyalty to Mervyn, vote for the spill.

The quality of directors with their heads on the chopping block is extraordinary: highly respected chairman Henry Bosch, managing director and chief executive officer Michael Ohanessian (appointed on September 24, 2007) who previously ran Vision Biosystems, with directors including former Federal Labor Minister John Dawkins, David Carruthers and Monash University deputy chancellor Dr Leanne Rowe, (appointed April 17, 2008).

The only replacement that has been put forward by Dr Jacobson is Grahame Leonard, a worthy director, but not an adequate replacement for the talent that is being lost.
Director Fred Bart continues and is not subject to Dr Jacobson's motion.

In short, it is very hard to see how this coup will benefit more than a few shareholders in the longer term. For the good of the industry, the Genetic Technologies board should fight back, but it won't be an easy election to win.

Over the next month to the proposed extraordinary general meeting, the Friends of Mervyn group will have to decide whether they are really friends of Mervyn or whether they are friends of Genetic Technologies. One could argue that if they were Real Friends of Mervyn, they would want him to own 19.95 percent of a $1.30 stock rather than 42 percent of a 6.7 cents stock.

In general, the market devalues companies who are controlled and run by their founders because of this sort of danger, principally the potential for sudden, inexplicable decisions or - in some cases - the companies being run to benefit very few.

There are exceptions to this rule: Gerry Harvey of Harvey Norman is the prime example. The difference is that Mr Harvey has a very long history of success which has transferred into shareholder wealth for all investors. Nonetheless, whenever Harvey Norman strikes trouble, Mr Harvey's control is always raised as an issue.

Closer to home, Prof Itsecu has hardly put a foot wrong in running Mesoblast, but neither has he had to deal with any significant setbacks of the sort that occur in the high risk world of biotechnology. When something does go wrong, the finger will be pointed at his large shareholding and the close relationship between Mesoblast and the unlisted Angioblast, in which he holds "less than 50 percent" (see Biotech Daily; June 13, 2008).

David Burton's Compumedics produces exceptional brain monitoring technology - among other devices - at its Abbotsford premises. Mr Burton is talented, creative and personable. His company deserves success, but we believe his 70 percent ownership and position as executive chairman is the major impediment to the $20 million he wants to raise to go to the next level.

Biotech Daily does not adhere to the 1980s pro-privatization mantra that ownership is all that matters. It is management that runs companies. The ownership only matters when it improperly interferes with sound management.

Biotech Daily does not believe that inventors and discoverers necessarily make bad CEOs of their own companies, but the market does and mostly it is the correct call.

We have said to anyone who would listen from April 2007 after the ASIC investigation of Genetic Technologies was revealed, that "Mervyn can either have 42% of a 10 cent a share company or 19.95 percent of a $1.30 a share company.

The same is true for all in this position

**David Langsam, Marc Sinatra**

## ANADIS

Anadis and Tatura Milk Industries are co-operating to increase the volume of colostrum products leaving Australia such as Travelan and Gastrogard-R for digestive tract illnesses.
Anadis is focused on antigen-primed, dairy-derived health products using its colostrum-derived technology.
Anadis said the technology enabled it to develop polyclonal antibody and other protein-based solutions to a range of diseases.
The company said the cooperation was "in light of recent successes in negotiating [the] sale of Anadis-based products" into the US and Asia.
The Goulburn Valley Victoria-based Tatura Milk dairy company is a major shareholder in Anadis and is assisting the increased commercialization push with manufacturing systems, market development input and export logistics management.
Anadis and Tatura Milk are also combining to develop a range of high volume products for Tatura Milk major clients in Asia.
Anadis chief executive officer Dr Zeil Rosenberg said the orders would "consume our current product stockpiles quickly and they need to be replaced to meet demand".
Anadis was unchanged at seven cents.

## OCCUPATIONAL AND MEDICAL INNOVATION

Occupational and Medical Innovations says it has "successfully concluded a routine audit by the US Food and Drug administration".
Occupational and Medical said the routine audit included on-site inspections of its headquarters and its contract manufacturing facilities in Huangyan China, operated by Zhejiang Vitalcare Medical Device Co.
The company said the routine audit was part of the overall surveillance process conducted by the FDA of companies who market medical devices in the US registered through the premarket notification, also called PMN or 510(k).
Occupational and Medical said the audit involved all systems, including design history files, production and process controls, the corrective and preventive action (CAPA) system, as well as overall company management at both facilities.
Occupational and Medical chief executive officer Matthew Austin said the findings from the audit support the quality of his company, its product range and manufacturing partner.
"Our compliance with FDA regulations is an integral component in ensuring that [Occupational and Medical] is a leading player in the safety engineered medical device sector able to supply global healthcare companies such as our $US91 billion dollar US partner Cardinal Health," Mr Austin said.
Occupational and Medical was untraded at 30 cents.

## COGSTATE

Cogstate shareholders will vote on the grant of 1,040,000 options to chief executive officer Brad O'Connor and four directors as well the approval of a capital raising.
Cogstate has proposed issuing Mr O'Connor 460,000 options with 145,000 options to each of Dr Michael Wooldridge, Martyn Myer, Richard Morgan and David Simpson.
The meeting will also vote on the issue of 7,783,765 shares for a private placement and the reelection of Mr Morgan .
The meeting will be held at Ernst & Young at Level 23, 8 Exhibition Street, Melbourne on October 23, 2008 at 1pm.
Cogstate was up one cent or 7.14 percent to 15 cents.

## CSL

CSL says its share plan closed on September 16, 2008 with applications for $145 million of new CSL shares.
Eligible shareholders could subscribe for up to $5,000 of shares in the company.
CSL said the plan was part of the funding arrangements for CSL's proposed acquisition of Talecris Biotherapeutics (see Biotech Daily: August 13, 2008).
CSL said the offer provided for an issue price the lower of $36.75, being the price at which CSL shares were issued to institutional investors under the placement completed on August 14, 2008 and the volume weighted average price (VWAP) of shares traded during the 15 trading day period prior to the offer close, less a five percent discount.
The VWAP was $39.99 and the discounted VWAP was $37.99. CSL said that "accordingly, the issue price for each new CSL share …. is $36.75".
A total of 3,955,161 new CSL shares will be issued on or about September 22, 2008.
CSL said the shares would participate in the fully-franked final divided of 23 cents a share for the 2007-'08 financial year, payable on October 10, 2008.
CSL fell 25 cents or 0.64 percent to $39.00

## BIO-MELBOURNE NETWORK

The Bio-Melbourne Network says its October 15 2008 workshop will examine the "what" and "how to" of opportunity identification for products as well as competitor mapping.
Bio-Melbourne Network chief executive officer Michelle Gallaher says that as the world's capital markets progress through another round of rationalization and bad debt exposure, with capital access for innovation and technology development more expensive and harder to find "it is a good time to reflect on the key drivers of commercial success for biotech companies".
Ms Gallaher said investors and fund managers often say that that innovation companies do not have a clear view of their end-user market, nor likely competitor positioning, which are crucial components in the value of a licencing deal for any technology.
The Bio-Melbourne Network said its Bio-Workshop would "assist senior managers making decisions about which projects to fund for further development".
Bioshares co-editor David Blake will open the workshop with an overview highlighting the importance of product-market orientation in attracting investors and maximizing the value of deal negotiations.
Cogentum directors Nairy Baghdikian and Michael Johnson will demonstrate how to prove market value, mapping potential users, decision makers, gatekeepers and stakeholders of your technology's adoption.
Acrux's director of business development Hugh Alsop will present a case study on maximizing the success of a licencing opportunity.
Mr Alsop will describe Acrux's use of the market-focused product development process to boost the value and success of the company's opportunities for Testosterone MD-Lotion.
The Bio-Workshop will be held at Graduate House, 220 Leicester St, Carlton, with registration from 8.45 am, followed by a light lunch at 12.30pm.
To register visit www.biomelbourne.org or call Shane Hickey on +613 9667 8182