

20 May 2009

Edition 134

Healthcare Snippets

There are a number of significant milestones on the near horizon for the life science sector. From our experience the market anticipates the milestones well. Currently investors are being rewarded for the risk taken. Here are the companies to watch.

- **Avexa** – The release of the 16 week data is expected in June 2009 and we expect the data will be good.
- **Acrux** – Axiron (Testosterone MD-Lotion), is on track to report Phase 3 clinical trial results in 3QCY09. Assuming the results of this trial are similar to that of the previously reported Phase 2 trial, ACR will be able to file for regulatory approval in 4QCY09 in the US and in 1QCY10 in EU. With Axiron contributing over 60% of our valuation, we believe it timely to focus on these important milestones.
- **ChemGenex** – Data from its registration directed Phase III trial will be presented at a major cancer conference in the US on 1 June 2009. We believe the data will be positive and the market will appreciate this.

Also in this edition of the snippets we note some positive outcomes from the recent budget, Cochlear has been upgraded to a Buy and we review positive data released by Peplin, Pharmaxis and Tissue Therapies.

Budget surprise

The recent Federal Budget had an unexpected surprise for the sector with the announcement of 45% refundable tax credits for research and development, which will be available to firms in tax loss - providing significant benefit to biotechnology companies with a turnover under \$20m.

Stock Idea

Cochlear (COH, Buy, TP A\$54.00)

We recently upgraded our recommendation on the stock to a Buy. We believe the release of the new generation COH cochlear implant (CI), known as the Mulberry, will be a major positive for the share price. The release is likely to be in June 2009. History has shown us that strong growth occurred when the last generation COH CI's were released. As a result we upgraded FY10 numbers of CI sold and recommend investors buy into this quality franchise.

Recent newsflow shows quality results coming through

Pharmaxis (PXS, Buy, TP A\$3.45)

PXS has released positive phase III clinical results for Bronchitol in people with CF. The trial enrolled 324 patients and was designed to assess if 400mg of Bronchitol, administered twice a day for six months, improved lung function (FEV1) when measured against a placebo.

A meeting will now be scheduled with the European Medicines Agency (EMA) to determine the timeframe for filing for marketing authorisation in Europe and elsewhere (ex-US), with an application expected to be made in 3QCY09. PXS has orphan drug status and fast track status from the US FDA and orphan drug designation from the EMA for Bronchitol in CF.

Peplin (PLI, Buy, TP A\$0.90)

PLI has released Phase III actinic keratosis (AK, sun spots) clinical trial results for its lead compound, PEP005 Topical Gel (ingenol mebutate, concentration 0.05%, applied once a day for 2 days). The primary end-point was the complete clearance rate of AK lesions within the assigned treatment area. The complete clearance rate was 27.4% (p<0.0001) across all non-head sites, including the difficult to clear back of the hand and arm locations.

Analysts

Tanya Solomon
+61 7 3334 4521
tsolomon@abnamromorgans.com.au

Scott Power
+61 7 3334 4884
scottp@abnamromorgans.com.au

www.abnamromorgans.com.au

There was a 66.7% median reduction in lesion count ($p < 0.0001$). The secondary efficacy endpoint was the partial clearance rate of AK lesions within the treatment area, this was 44.4% ($p < 0.0001$). We view this as a solid result and maintain our positive longer term view. Those investors with a shorter term view may care to take some profits.

Tissue Therapies (TIS, Hold, TP A\$0.16)

TIS announced that the second patient from the clinical trial taking place in Canada has shown a 32% reduction in the size of the chronic diabetic ulcer on the left heel in 6 weeks. This is an impressive result considering the patients had significant complicating clinical factors including severe diabetes and kidney failure. The clinical trial of VitroGro is continuing on schedule and is expected to complete recruitment of up to 30 patients with three types of ulcers by mid CY09. The first patient treated showed a 29% reduction in the size of their chronic ulcer. Further patient updates are expected over the coming months.

An update on M&A activity

Arana Therapeutics (AAH)

Cephalon's offer for AAH is now unconditional - With a relevant interest of 50.38%, Cephalon International Holdings' offer for AAH is now unconditional. The Board has recommended acceptance of the offer. The offer will close on 1 June 2009 unless extended.

Recent Company Visits

Prima Biomed (PRR, Not formally covered)

We recently caught up with Martin Rogers Executive Director from Prima Biomed via a teleconference. Prima Biomed has had a strong run recently (from A\$0.03 to A\$0.11) following the successful results from a broadly similar company in the US Dendreon (NASDAQ:DNDN). DNDN released positive pivotal trial results for its treatment targeted at prostate cancer.

Prima's core compound CVac is a potential ovarian cancer therapy vaccine. Prima is setting about divesting its non-core assets to focus on the CVac program. Its current cash reserves of A\$0.25m at 30 April are to be boosted by a placement to Laurence Freedman of A\$1.5m, a share purchase plan priced at A\$0.07 and A\$12m funding facility from Fortrend Securities.

Prima recently announced that it has commenced discussions with a potential North American institutional investment fund. The funds raised will enable a Phase IIb/III Pivotal trial to be undertaken. Currently the company has commenced its Investigational New Drug application for the FDA. It is anticipated that the trial could commence in September 2009. The trial would take approximately two years to complete. Prima would explore partnering opportunities during this time. An interesting play for investors with a high risk profile.

QRx Pharma (QRX, Not formally covered)

The share price of QRX has rallied strongly from A\$0.28 in early April to the current price of A\$0.50. We met with John Holladay (MD) and Chris Campbell (CFO) in early May for an update. QRX has a comfortable level of cash (approx. A\$25m) to undertake the current clinical program.

There is plenty of newsflow over the coming quarters to maintain investor interest. In 2QCY09 QRX will commence the Dual Opioid IV Phase 2 Investigator study. In 3QCY09 a comparative study will be undertaken with QRX's MoxDuo IR versus the existing treatment Percocet. Also in that quarter the FDA is expected to review MoxDuo Immediate Release Phase 3 Combination Rule study to obtain Special Protocol Assessment (SPA). In 4QCY09 QRX is aiming to be able to secure a strategic partnership, which if successful would be a major positive.

Bionomics (BNO, Not formally covered)

We met with BNO's MD Deborah Rathjen in early May. BNO has A\$6.1m in cash and has achieved a number of significant milestones. Looking forward the key events to focus on include the initiation of a Phase II program for their lead cancer compound BNC105 and a Phase I trial for their anxiety compound BNC210 both expected to start in 3QCY09.

Milestone Watch... Near-term milestones to watch

Company	Date	Milestone
Acrux (ACR)	3QCY09	Testosterone MD-Lotion Phase III clinical trial results
Avexa (AVX)	1HCY09	Signing marketing partner for lead HIV compound
	2QCY09	Release of 16 week Phase III clinical trial data for ATC
	Achieved	Release of 96 week interim data from the Phase IIb ATC extension study
	4QCY09	Release of 144 week final analysis data Phase IIb ATC extension study
	2QCY10	Conclusion of enrolment of Phase III ATC study
Peplin (PLI)	4QCY10	Release of 24 week Phase III ATC data
	Achieved	Actinic Keratosis (sun spots) – Results of Phase IIb clinical trial – head
	Achieved	Actinic Keratosis (sun spots) – Results of Phase III clinical trial – non-head
Alchemia (ACL)	Mid CY09	Actinic Keratosis (sun spots) – Commence Phase III clinical trial – head
	Achieved	Submission of ANDA to FDA for fondaparinux
Pharmaxis (PXS)	End CY09	Approval fondaparinux by FDA
	2QCY09	Headline data for the Phase III EU trial for Bronchitol to treat cystic fibrosis
	2QCY09	Conclusion of recruitment for the second Phase III trial of Bronchitol to treat cystic fibrosis
Tissue Therapies (TIS)	Mid CY09	Commence second Phase III trial for Bronchitol in bronchiectasis (was 1QCY09)
	1HCY09	Complete human trials of VitroGro
ChemGenex (CXS)	Achieved	Complete recruitment for lead compound
	1HCY09	File chemistry and manufacturing controls section of rolling NDA for omacetaxine
	Mid CY09	File clinical section of rolling NDA for omacetaxine
Arana Thera (AAH)	Achieved	Results of Phase II psoriasis trial
Biota (BTA)	3QCY09	Results of recruitment Phase III LANI trial
ImpediMed (IPD)	Achieved	FDA clearance for U-400
Clinuvel (CUV)	1QCY09	US Phase II trials with afamelanotide in photodynamic therapy (PDT)
	2QCY09	US Phase III trials with afamelanotide in erythropoietic protoporphyria (EPP)
Antisense Therapeutics (ANP)	2HCY09	ATL/TV1102 for Multiple Sclerosis - Results of chronic (extended duration) toxicology study being undertaken by license partner, Teva to support longer term clinical trials
	2HCY09	ATL1103 for Growth & Sight disorders - Study Report on current toxicology studies

Source: Company data; ABN AMRO Morgans

RESEARCH TEAM

ROGER LEANING	-	Head of Research	SCOTT POWER	-	Senior Analyst
CHRIS BROWN	-	Senior Analyst	TOMSARTOR	-	Analyst
FIONA BUCHANAN	-	Senior Analyst	TAMARA STRETCH	-	Analyst
NICK HARRIS	-	Analyst	TANYA SOLOMON	-	Analyst
MICHAEL KNOX	-	Director of Strategy & Chief Economist	PAUL STEVENSON	-	Analyst
JAMES LAWRENCE	-	Fixed Interest Analyst	SAM TURNER	-	Analyst
JOSEPHINE LITTLE	-	Analyst	MARCEL VON PFYFFER	-	Associate Director - Strategy
BELINDA MOORE	-	Senior Analyst			

ABN AMRO MORGANS OFFICES

BRISBANE	(07) 3334 4888	CHATSWOOD	(02) 94 11 8988
BUNDABERG	(07) 4 153 1050	COFFS HARBOUR	(02) 6651 5700
BURLEIGH HEADS	(07) 5520 8788	GOSFORD	(02) 4325 0884
CAIRNS	(07) 4052 9222	HURSTVILLE	(02) 9570 5755
CALOUNDRA	(07) 5491 5422	MERIMBULA	(02) 6495 2869
CAPALABA	(07) 3245 5466	NEUTRAL BAY	(02) 8969 7500
CHERMSIDE	(07) 3350 9000	NEWCASTLE	(02) 4926 4044
EMERALD	(07) 4988 2777	NEWPORT	(02) 9998 4200
GLADSTONE	(07) 4972 8000	ORANGE	(02) 6361 9166
GOLD COAST	(07) 5592 5777	PARRAMATTA	(02) 9615 4500
IPSWICH	(07) 3202 3995	PORT MACQUARIE	(02) 6583 1735
MACKAY	(07) 4957 3033	SCONE	(02) 6544 3144
MILTON	(07) 3114 8600	WOLLONGONG	(02) 4227 3022
NOOSA	(07) 5449 9511	MELBOURNE	(03) 9947 4111
REDCLIFFE	(07) 3897 3999	BERWICK	(03) 9796 2676
ROCKHAMPTON	(07) 4922 5855	BRIGHTON	(03) 9519 3555
SPRING HILL	(07) 3833 9333	CAMBERWELL	(03) 9813 2945
SPRINGWOOD	(07) 3808 7588	GEE LONG	(03) 5222 5128
SUNSHINE COAST	(07) 5479 2757	TRARALGON	(03) 5176 6055
TOOWOOMBA	(07) 4639 1277	WARRNAMBOOL	(03) 5559 1500
TOWNSVILLE	(07) 4771 4577	CANBERRA	(02) 6232 4999
YEPPOON	(07) 4939 3021	ADELAIDE	(08) 8464 5000
SYDNEY	(02) 8215 5000	PERTH	(08) 9261 0888
ARMIDALE	(02) 6770 3300	BUNBURY	(08) 9791 9188
BALLINA	(02) 6686 4144	DARWIN	(08) 8981 9555
BALMAIN	(02) 8755 3333	HOBART	(03) 6236 9000

DISCLAIMER - ABN AMRO MORGANS LTD

This report was prepared as a private communication to clients and was not intended for public circulation or publication or for the use of any third party, without the approval of ABN AMRO Morgans Ltd ("ABN AMRO Morgans"). While this report is based on information from sources which ABN AMRO Morgans considers reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect ABN AMRO Morgans judgment at this date and are subject to change. ABN AMRO Morgans has no obligation to provide revised assessments in the event of changed circumstances. ABN AMRO Morgans, its directors and employees do not accept any liability for the results of any actions taken or not taken on the basis of information in this report, or for any negligent misstatements, errors or omissions. This report is made without consideration of any specific client's investment objectives, financial situation or needs. Those acting upon such information without first consulting one of ABN AMRO Morgans investment advisors do so entirely at their own risk. It is recommended that any persons who wish to act upon this report consult with an ABN AMRO Morgans investment advisor before doing so. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

DISCLOSURE OF INTEREST

ABN AMRO Morgans and/or its affiliated companies may make markets in the securities discussed. Further, ABN AMRO Morgans and/or its affiliated companies and/or their employees from time to time may hold shares, options, rights and/or warrants on any issue included in this report and may, as principal or agent, sell such securities. ABN AMRO Morgans affiliates may have acted as manager or co-manager of a public offering of any such securities in the past three years. ABN AMRO Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report.

The Directors of ABN AMRO Morgans advise that they and persons associated with them may have an interest in the above securities and that they may earn brokerage, commissions, fees and other benefits and advantages, whether pecuniary or not and whether direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities, and which may reasonably be expected to be capable of having an influence in the making of any recommendation, and that some or all of our Proper Authority holders may be remunerated wholly or partly by way of commission. The Directors of ABN AMRO Morgans advise that the author/s of this report and/or their associates hold an interest in securities mentioned in this report.

RECOMMENDATION STRUCTURE

Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

Absolute performance, short-term (trading) recommendation: The Trading Buy/Sell recommendation implies upside/downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Each stock has been assigned a Volatility Rating to assist in assessing the risk of the security. The rating measures the volatility of the security's daily closing price data over the previous year relative to other stocks included in either the S&P/ASX200 Index (large caps) or the Small Ordinaries Index (small caps) of which it is a member. This rating is a quantitative (objective) measure provided as an additional resource and is independent of the qualitative research process undertaken by our research analysts.

A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

REGULATORY DISCLOSURES

ACL: The Analyst owns shares. TIS: ABN AMRO Morgans Limited is the Lead Manager to the Tissue Therapies Limited rights issue in January 2009 and may receive fees in this regard. The Analyst owns shares. ACR: The Analyst owns shares. IPD: The Analyst owns shares. CXS: ABN AMRO Morgans Limited is the Underwriter to the Chemgenex Pharmaceuticals Limited rights issue and may receive fees in this regard. ABN AMRO Morgans Limited was the Lead Manager to the Chemgenex Pharmaceuticals Limited share placement in April 2009 and received fees in this regard. ABN AMRO Morgans Limited was the Lead Manager to the ChemGenex Pharmaceuticals Limited placement and SPP in September 2008 and received fees in this regard. The Analyst(s) owns shares. ABN AMRO Morgans Limited was the Lead Manager to the ChemGenex Pharmaceuticals Limited placement and SPP in September 2008 and received fees in this regard. The Analyst owns shares. PLI: The Analyst owns shares. CSL: ABN AMRO Morgans Limited was a broker to the placement of shares by CSL Limited in August 2008 and received fees in this regard. AAH: ABN AMRO Morgans Limited has been appointed as financial adviser to Arana Therapeutics Limited in relation to the takeover offer from Cephalon Inc in March 2009 and may receive fees in this regard. ABN AMRO Morgans Limited was Broker to the Arana Therapeutics Limited share buyback in October 2008 and received fees in this regard. SHL: ABN AMRO Morgans Limited was a participating broker to the Sonic Healthcare Limited placement in November 2008 and may receive fees in this regard. VCR: ABN AMRO Morgans Limited was the Lead Manager to the Ventracor Limited capital raising in October 2008 and received fees in this regard. PRY: ABN AMRO Morgans Limited was a participating broker to the placement of shares in Primary Health Care Limited in March 2008 and received fees in this regard. ABN AMRO Morgans Limited was a participating broker to the placement of shares in Primary Health Care Limited in February 2008 and received fees in this regard. AVX: The Analyst owns shares. ABN AMRO Morgans Corporate Limited is the lead manager to the Avexa Limited renounceable rights issue and may receive fees in this regard.

PRIVACY

Personal information held by ABN AMRO Morgans Ltd may have been used to enable you to receive this publication. If you do not wish your personal information to be used for this purpose in the future please advise us, including your account details to your local ABN AMRO Morgans Ltd office or to Reply Paid 202, GPO Box 202 Brisbane Qld 4001.