

Bioshares

Australia's independent biotech and pharmaceutical investment magazine

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Biotech Capital Limited (BTC)

Biotech Capital listed in August last year as a biotech cash box. The company raised \$40 million to invest in unlisted Australian biotech companies with the possibility of some investments in listed Australian biotechs as well. The investments are managed by **Challenger Biotech Management**, a subsidiary of Challenger International and investments are evaluated with the assistance of **Foursight Associates**. The Foursight group includes **Sir Gustav Nossal, Professor David Pennington, Dr John Stocker and Dr Graham Mitchell**. The biotech investments will be diversified throughout the biotech sector in areas including genomics, proteomics, bioinformatics, medical devices and enabling technologies. Once fully invested, Biotech Capital expects to have between 10 – 20 biotech investments.

Investment No. 1

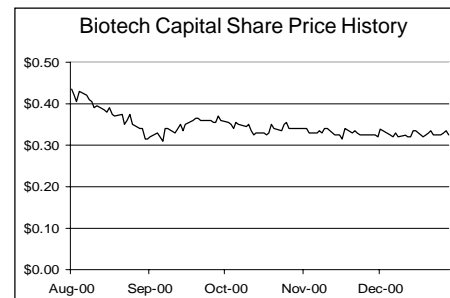
Proteome Systems Limited. Biotech Capital's first investment was impressive. In September last year it invested \$3 million into Proteome Systems (PSL), an emerging biotech company located in North Ryde, Sydney, that is specialising in the area of proteomics. Proteomics involves the separation, identification and characterisation of proteins (see Proteomics feature, *Bioshares* Edition 2). PSL was formed in January 1999 after its CEO, **Keith Williams**, pulled his proteomics team out of **APAF (Australian Proteomics Analysis Facility)** based at **Macquarie University**. Williams, previously a professor at Macquarie University, is a world leading authority in Proteomics with over 25 years experience in the field and over 250 scientific publications to his name.

So why is proteomics important to biotechnology and drug development and how is PSL placed in a global perspective? Proteomics is a natural extension and follow-on from genomics. There are approximately 10 times the number of proteins in the body than there are genes. Proteins are encoded by genes. Most drugs developed to date are proteins, most drugs act on proteins and most markers of disease in the body are proteins. PSL has only a handful of competitors worldwide in this area. Although it is less advanced commercially than its main competitors, it has a wealth of experience in the field. PSL now has a US subsidiary and expects to list on the Nasdaq within the next 12 months. If this occurs, Biotech Capital's initial investment in PSL will almost certainly be positively re-rated.

Investment No. 2

Pacific Knowledge Systems Pty Ltd. In December last year Biotech Capital made a \$2 million investment in Pacific Knowledge Systems (PKS). PKS has developed a novel computer software algorithm used by the pathology industry to rapidly interpret diagnostic test results. The technology was developed at the **University of NSW**. Founding shareholders include the **Australian Bioscience Trust** managed by **Rothschild Bioscience Managers**.

PKS has reached a commercially advanced stage. Its lead product, called **LabWizard**, is currently being used by all of the **Mayne Nickless Pathology Laboratories**, by **St Vincent's Pathology** in Melbourne, **Clinipath** and **General Pathology**



Price:	\$0.33
Capitalisation:	\$30 million
Strong Buy (short term)	
Spec. Buy - Class B (long term)	

Laboratories and PKS receives payments from each of these pathology companies. PKS is looking to extend its coverage in the pathology industry both throughout Australia and internationally. With the founding director of one of the country's leading pathology service providers, **Michael Boyd** from **Sonic Healthcare**, on the Board of Biotech Capital, investors should not be surprised if Sonic's laboratories soon develop an interest in PKS's technology. (*PKS has recently signed Sonic's Southern Pathology as a client.*)

Investment No. 3

Alchemia Pty Ltd. The third likely investment for Biotech Capital will be Alchemia. Alchemia is also an investee company of Medica Holdings and specialises in carbohydrate chemistry. *Bioshares* understands Biotech Capital is undertaking due diligence on Alchemia with a view to investing up to \$4 million.

Alchemia has developed a new method of manufacturing carbohydrate drugs and compounds which offers significant efficiency and cost benefits. In December last year Alchemia delivered an important external validation to investors by striking an exclusive partnership with the **Dow Chemical Company**. In the last financial year Dow had sales of US\$19 billion and the company employs over 41,000 people. In the same month Alchemia advertised for 18 new scientists to join the team, bringing total staff numbers to 44. Alchemia also plans to list on the Nasdaq within 12 months. An investment in Alchemia by Biotech Capital will also validate Medica's earlier investment in Alchemia.

29% discount to fair value

Biotech Capital listed at 50 cents with one option entitlement to each two shares purchased through the float. The options (BTCO) are currently trading at approximately 10 cents each. If it is assumed Biotech Capital's fund should be valued at the cash raised (\$40 million), the fair value of the shares should be 50 cents less the value of half an option (one option per two shares or half an option per share if you like), or 45 cents. The shares are currently trading at 32 cents or at a 29% discount.

Continued over

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Biotech Capital is currently offering exceptional value to investors. Investors have the opportunity to invest in biotech companies at a venture capital (VC) stage and investors should be reminded that VC companies generally aim for returns of between 30 – 40% per annum. All capital gains and dividends are tax-free (although losses are not tax deductible), and the fund is currently trading at a significant discount.

Recommendation

Cash box type funds often trade at a discount, rightly or wrongly, to counter the perceived risk of investing in a fund where the investments have yet to be determined. If Biotech Capital’s investments in PSL and Alchemia (likely) are any indication of the quality of the fund, its share price may soon be attracting a premium rather than the hefty discount currently attached. *Bioshares* place a short-term **Very Strong Buy** on BTC and a longer term **Speculative Buy Class B** recommendation on the stock.

Summary

Bioshares reminds investors that PDFs represent an improved answer to the management of risk associated with early stage speculative investments. PDFs are an ideal vehicle to effect investment in biotech start-ups with the capital gains tax exemption a worthy compensation for investing in earlier stage technologies in development. The popularity of the PDF structure now offers investors a choice of investment styles, with each of the four biotech PDFs distinctly different.

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