

Biotech Capital Limited

Biotechnology

Diversified venture capital exposure ...
at a fair price

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ASX Code: BTC/BTCO

Price: A\$0.375

Key Points

- Biotech Capital Limited (BTC) is a unique investment vehicle that provides exposure to a diversified portfolio of early stage, Australian biotechnology companies. The fund offers investors the benefit of diversification within the biotech sector. BTC intends to concentrate on the areas of genomics, proteomics, bioinformatics, developers of medical devices and developers of enabling technologies.
- We anticipate the share price to be primarily driven by news flow relating both to existing investments and future investments. In addition we anticipate BTC share price will most likely bear some relationship to NASDAQ listed biotech companies.
- It is common for specialised listed funds to be discounted by the market for lack of transparency and risk that they will make an undesirable investment. We believe the latter risk in particular will be minimised in BTC's case by their investment selection process and calibre of management.
- We are particularly comforted by the relationship with Foursight Associates for independent assessment of opportunities.
- The company's calculation of Net Tangible Assets (NTA) is currently 49.7¢ps based on 35.8¢ps cash plus the cost base of investment made to date. The fund has reviewed 82 companies of which it has invested in 4 for a total \$11m or 13.9¢ps. At current levels the BTC share price is trading at a 23% discount to NTA and only a 7% premium to cash backing.

Portfolio Overview

Since listing on 29 August 2000 at an issue price of \$0.50, BTC have taken positions in four companies. (See Table 1)

Table 1
Current Portfolio

Company	Market	Amount Invested	Ownership
Proteome Systems	proteomics	\$3m	1.8%
Pacific Knowledge Systems	bioinformatics	\$2m	10%
Alchemia	carbohydrate chemistry	\$2m	3.3% (fully diluted)
X-Ray Technologies	medical devices	\$4m	20%

Source: Company data, CSFB estimates.

Investment View

Spec BUY

The diversified aspect of this investment makes it particularly attractive to investors seeking exposure to a number of early stage bio-medical companies. In addition we are confident in management's ability to make high-quality investment decisions based on a solid track record to date and affiliations with prominent industry figures.

The shares are currently trading at a 23% discount to NTA, which makes them attractive when considered in light of investments made to date. In particular we like Alchemia and Proteome Systems. Both these companies seem to have in place the critical success factors for the US market and will probably list on the NASDAQ exchange.

Pooled Development Fund Structure

Biotech Capital is structured as a Pooled Development Fund (PDF) for Australian taxation purposes. The benefit to shareholders is that under current PDF arrangements, any dividend paid to shareholders is tax-free. Similarly, should a shareholder realise a capital gain, this is also CGT free. However, investors cannot claim a deduction for a capital loss or claim deductions on interest from borrowings.

Comment

Biotech Capital seems relatively cheap versus its NTA and the IPO offering price of \$0.50/share.

The two major value drivers will be NTA growth and closing of the discount to NTA. We suspect BTC's assets will be re-valued upwards progressively as investee companies hit development milestones. We also expect to see closing of the discount as NTA grows reflecting increased comfort levels that investment process is working.

Harry Karelis (Director) heads up an efficient review process focusing on Intellectual Property (IP), management, alliance partners and growth potential. In addition quality of investment assessment is greatly enhanced by industry consultants Foursight. Currently BTC have three investments in the early stages of active assessment.

CSFB Private received handling fees in relation to Biotech Capital's float on the Australian Stock Exchange.

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