

Biotechs have come of age

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The Australian biotech sector has evolved. Investing in this space has traditionally been regarded as suited only to the brave, as there was a bit of a wild west feel about the industry given how quickly fortunes could be made and lost.

While a simple announcement on the outcome of a clinical trial or milestone event will still more than likely have a big impact on the value of a stock, industry veterans believe biotech has grown up, thanks to the success of the likes of CSL, ResMed and Cochlear.

“We now have a cohort of managers who have 10-plus years or more experience of being able to shepherd and lead a biotech start-up to a company that is much more mature and ready for investors,” says AusBiotech chief executive Anna Lavelle.

“This is a wonderful asset to have and, given that we have a relatively small population, this is a significant advantage compared to other markets, like Singapore.”

Singapore is trying to become the regional biotech hub, offering significant tax incentives for biotech companies to base there. While it has managed to lure big pharmaceutical companies to establish manufacturing facilities in the tiny island nation, there is a distinct lack of home-grown technologies and start-up expertise.

Investing in this space today is also less risky, since there is a greater diversity of biotechs at different stages of their development. Industry watchers believe the local biotech sector has never looked this good, as Australia has never had as many companies on the cusp of commercialising their technology.

Alchemia is expecting US Food & Drug Administration (FDA) approval for its synthetic anti-coagulant drug before the end of the month; QRxPharma is expected to lodge a new drug application in the US for its immediate release pain drug MoxDuo IR any day now; and ImpediMed is close to signing up health insurers in the US to cover its L-Dex lymphedema detection device.

While shares in ImpediMed have lagged most of its peers, losing around 30 per cent since January, the stock is a favourite with DMP Asset Management investment director Julian Mitchell.

“They have disappointed the market by setting a target for the number of [insurance agreements], but they didn’t get any, although they’ve got a lot of interest [from insurance companies to extend reimbursement coverage for L-Dex],” Mitchell says.

“They are still confident that they will get those covered lives, and when that happens I expect the stock to re-rate very substantially to north of a dollar.”

But even then there is probably further upside as L-Dex has only secured approval to be used to detect lymphedema – the build-up of fluids in cancer patient survivors – in the arms, while the leg market is substantially bigger.

If the company can win regulatory approval for its device to be used on legs, it would present another chance for a re-rating.

Another laggard that is likely to win favour with investors is Pharmaxis, according to Shaw Stockbroking analyst Matthijs Smith.

The stock has lost around 60 per cent of its value since it said that it was unlikely to gain European regulatory approval for its cystic fibrosis treatment, Bronchitol, three weeks ago.

“We believe Pharmaxis has most likely hit a speed hump rather than run off the road, although the share price would suggest the market thinks the latter,” Smith says.

Pharmaxis is likely to lodge an appeal, and Smith says he believes there is a good chance it would be successful.

“The reality is, the clinical data for Pharmaxis’s drug shows that it is very safe, that it works and it has the potential to transform the lives of people born with cystic fibrosis,” he adds.

“For investors willing to take the risk, we think the product still has enormous potential to deliver significant upside, especially at the current prices.”

Those with a lower risk tolerance could find Starpharma appealing, as it has already signed a deal with the world’s

largest condom manufacturer to use its special gel coating on its condoms, and has recently signed a similar deal with a Japanese condom maker.

The gel has been proven to prevent the spread of sexually transmitted diseases, including human immunodeficiency virus.

Starpharma has also delivered excellent clinical trial data, using its gel to treat the most common vaginal infection, a condition called bacterial vaginosis, and this could potentially be the first product on the market to prevent infection, Smith notes.

Shaw Stockbroking is urging investors to buy the stock with a price target of \$2.30.

Acrux is another attractive option. Under its own steam, it has successfully taken its testosterone replacement therapy all the way to final approval. Most drug developers would have turned to a large pharmaceutical company for help.

“That’s not going to make you 10 times your money. It’s a real company now,” DMP Asset Management’s Mitchell says.

“But I think there are a few other things that can happen that will add a fair bit more value, like the veterinary healthcare products that it is doing with Eli Lilly and the [launch] of its menopause treatment Ellavie in Europe after it gained approval in Sweden late last month.”

What is perhaps more interesting is that Mitchell believes Acrux is a likely takeover target for its licensing partner, Eli Lilly.

But investors shouldn’t be lulled into thinking investing in the sector has got any easier.

The need to have an understanding of the technology, and the market for the promising product will make all the difference – particularly since the medical fraternity is generally slow to give up old habits, even for a better product.

Further, even experts often get it wrong, Mitchell says.

“People do scenario analysis and place a risk factor on what is normally a binary outcome.

“So all you know is that the risk valuation is wrong.”

Signs of life

Near-term milestones to watch

Company	Date	Milestone
Alchemia (ACL)	2QCY 2011	Approval of fondaparinux by the FDA
Impedimed (IPD)	2QCY 2011	Sign-up health insurers in US
Phylogica (PYC)	2QCY 2011	Sign deal with large pharma
QRxPharma (QRX)	2QCY 2011	Lodge NDA for lead product
Tissue Therapies (TIS)	2HCY 2011	Sign licensing deal with large wound care company

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