Edison healthcare quarterly

August 2012

Published by Edison Investment Research

Edison investment research

The Edison healthcare team

www.edisoninvestmentresearch.co.uk

Robin Davison

Robin is the head of the biotech, med-tech and life science team at Edison Investment Research. He has over 15 years' experience covering the biotech, pharmaceuticals and healthcare sectors both as an investment analyst and as a journalist on specialist industry and financial publications. He was formerly biotech analyst for Durlacher Corporation, a contributor to Financier Worldwide, a co-founder and editor of Biopoly and editor of Scrip World Pharmaceutical News.

Lala Gregorek

Lala joined Edison's healthcare team in January 2010 from Canaccord Adams, where the focus of her coverage as a life sciences analyst was on UK and European biotech stocks. Before graduating with an M.Phil in bioscience enterprise from Cambridge University, she worked in risk management as a credit analyst covering European financial institutions and hedge funds at Dresdner Kleinwort and Lehman Brothers. Lala also holds a BA (Hons) in biological sciences from Oxford University.

Mick Cooper

Mick joined Edison's healthcare team in January 2010, after working for three years at Blue Oar Securities as the pharmaceuticals & biotechnology equity analyst, where he covered a wide range of healthcare companies. He holds a doctorate from Cambridge University and completed an MBA at INSEAD business school in France after working as a parliamentary researcher. Mick is also a CFA charterholder.

Christian Glennie

Christian joined Edison's healthcare team in January 2012 and has 11 years' experience covering the global biotech/pharmaceutical sector as an analyst and a journalist. He came to Edison having held senior analyst and editorial roles at EvaluatePharma and EP Vantage. Christian also has prior experience as a marketing analyst at Zeneca Agrochemicals.

Franc Gregori

Franc is a pharmacist who started his career with Boots, Eli Lilly and Pfizer before moving into the City as an analyst. He has worked with Robert Fleming, BZW and BNP Paribas, where he was involved in a number of major transactions. He joined Edison's healthcare team from Charles Stanley, where he focused his coverage on small- and mid-cap life sciences stocks. Franc gained his pharmaceutical qualifications from the Welsh School of Pharmacy and King's College London. He has an MBA from Cranfield and the University of Washington.

John Savin

John is an analyst working on biotech, pharma, medical device and diagnostics companies. As founder CEO of Physiomics plc, he devised the strategy, raised funds and took the company to AIM in 2004. At Greig Middleton, John was director in charge of the pharma and biotech analyst team and worked with corporate finance on fund-raising, IPOs and corporate restructuring. He has an industry background in sales and marketing with GE Healthcare and AstraZeneca and is a co-author on a number of scientific publications. He has a PhD in organic chemistry as well as MBA degrees.

Emma Ulker

Emma has a strong background in broking, having worked for five years as an equity sales assistant at Société Générale on the European sales desk. After this she worked for Thomson Financial where she helped to ensure the integrity of financial data across all instruments. Emma is a qualified linguist with an MA in technical and specialised translation in Spanish and French. In addition, Emma recently earned the Investment Management Certificate, CFA level 4.

Wang Chong

Wang is a physician with over 21 years of experience in the healthcare industry. He is also experienced in M&A transactions and has helped negotiate multi-million-pound out-licensing deals with Unilever and Schering-Plough. His previous roles include CFO of Phytopharm, life sciences analyst at Canaccord Capital (Europe), CEO of Osmetech, leader of UK healthcare initiatives at management consultants Arthur D. Little, and commercial roles at Glaxo Wellcome and SmithKline Beecham.

Andrew Fellows

Andrew is a qualified medical doctor with over 20 years' experience in healthcare research, including pharmaceuticals, biotech and medical technology companies. He was formerly head of research in London for MainFirst Bank AG as well as analyst on European healthcare companies, and prior to that worked as an analyst on European pharmaceuticals and biotech at Pictet & Cie in London.

Crisis? What crisis?

Franc Gregori

The Q2 reporting season produced no nasty surprises but did highlight the (still) rising pressures facing the pharmaceutical industry. Yet we believe the worst will soon be over, with the five-year earnings outlook set to improve. From an investment perspective, there are clear opportunities, especially within the smaller companies' universe, and we re-iterate our view that stock selection remains the key.

Price cuts and reimbursement issues are increasing

Austerity measures in many European countries have brought efforts to rein in healthcare expenditures back to the fore and drug prices are in the firing line. Governments and payors are increasingly seeking to rebase pharmaceutical prices downwards, while parallel imports are set to become more of a factor.

Regulatory complexities are rising

The once relatively straightforward European approval system appears to be fragmenting, with additional regulatory and non-regulatory hurdles (eg the UK's NICE and Germany's IQWiG) to be overcome. Understandably, delay to launch timings and/or peak sales can materially affect a product's NPV.

Industry pressures the biggest in a generation...

Add in falling R&D productivity, poor product replenishment rates and the biggest patent cliff seen in a generation and the pharmaceutical industry appears to be facing a ruinous environment that cost cutting and acquisitions cannot offset.

...but valuations are undemanding

Yet these issues are well documented and, in our view, included in share prices. Importantly, the impact of the patent cliff is abating (2012 is the peak year) and five-year earnings growth rates are set to rise once more. Within the smaller companies space there are clear opportunities that are set to benefit from this challenging environment and we believe stock selection remains the key.

30 August 2012

Franc Gregori

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Prices as at 17 August 2012

Crisis? What crisis?

So, what have we learned from the Q2 reporting season? The first thing is that there were few surprises across a broad range of reporting companies, which contrasts positively with the mixed messages from other industry sectors. While reassuring for investors, a number of themes did emerge to suggest the outlook could be more negative than is reflected in current valuations, with the various impacts of the continuing austerity measures being felt more widely than would be expected.

Reimbursement prices being targeted across Europe

That healthcare budgets in a number of developed countries, notably in Europe, are increasingly under the spotlight should come as no surprise. The magnitude of these expenditures, coupled with rising demand as the population ages, means such a focus is understandable but genuine efficiency drives are politically difficult to enact and so the axe inevitably falls on the "softer" areas – and there can be fewer easier political targets than drug bills. But this is not new, price controls have been a feature of most developed markets for some time. What is new is the magnitude of pressure and the indiscriminate way in which cuts are enacted, with little genuine consideration of the clinical value a particular drug offers.

Interestingly, governments and payors are actively looking at the reimbursement prices being achieved in the peripheral European countries and using these as the benchmarks for their own pricing discussions in what has been termed a 'race to the bottom'. Unfortunately, other than a degree of 'behind-the-scenes' posturing about relocating research and manufacturing facilities to more conducive markets, there is little the industry can do to offset these pressures in the near-term. The threat to withhold novel drugs from the low reference price countries unless suitably reimbursed carries more weight but clearly will take longer to have an effect.

A related issue is the emergence of parallel imports (where a third-party distributor buys branded goods in a low-price country and transports them to a higher price market) as a significant issue again. Those with long memories will recall how Spanish and Greek imports undermined the industry's profitability in the 1990s (as lower local prices augmented by weak currencies provided material arbitrage opportunities) and it is interesting to see that Romania has joined the parallel trading fray. This is particularly noticeable since the creation of the euro had largely removed the exchange rate opportunities from mix but this is a factor that could become significant if, for example, Greece exited the common currency.

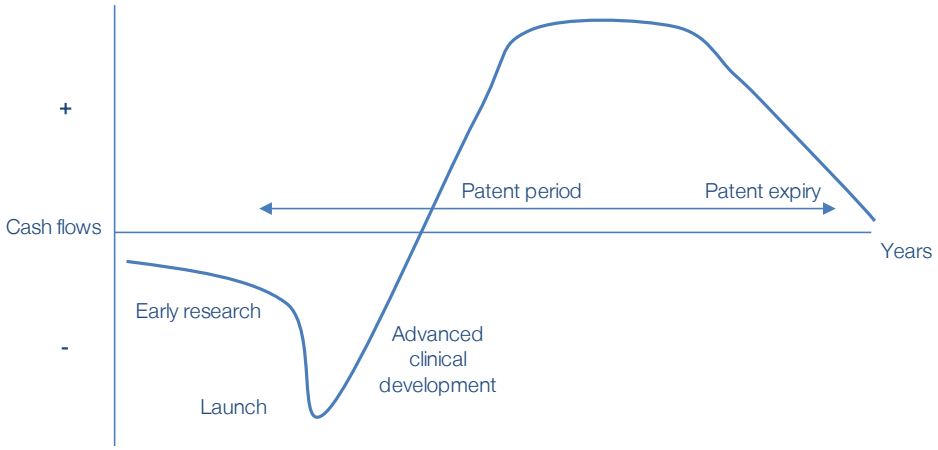
Regulatory approvals a growing concern?

More important, in our view, was that a number of these large pharma companies commented on how they no longer see Europe as a unified market for regulatory approvals. It has long been the case that a central approval was followed by pricing and re-imbursement negotiations at an individual country level, but a subtle change appears to have taken place with some management saying they are now looking at the regulatory requirements on a more country-specific basis. Although we do not currently view this as an issue it could become a factor in the future, particularly if it slows down a novel product's launch timings and/or adoption and market penetration since this would adversely impact both the magnitude and timings of sales and so could materially reduce the product's NPV.

Exhibit 1 shows a typical pharmaceutical product lifecycle from a cash-flow perspective. The earlier research stages are relative inexpensive, but cash outflows ramp up rapidly as the more expensive

clinical stages kick in, culminating with the extensive Phase III trial programmes required for most product approvals. Once approved the sales curve rises quickly, reflecting rapid market adoption, with peak sales in individual markets often achieved within four years of launch. Barring competitive pressures, sales then remain relatively constant and reflect lifecycle management efforts until the patent expiry sees a major erosion of sales (a major product can lose two-thirds of peak sales in a matter of weeks).

Exhibit 1: Product lifecycle curve for a typical 'branded' pharmaceutical



Source: Edison Investment Research

The basic term of patent protection is 20 years but, with development times usually exceeding eight years, this means a product's effective lifespan is only around 12 years at best. The increasing regulatory burdens, and higher approval hurdles, not only involve more costly clinical programmes but also consume valuable patent life. In some cases this has resulted in the effective product life dropping to less than eight years. Hence the appeal of Orphan Drug and data exclusivity protection applied to certain products (eg 12 years for US biologicals). Clearly, against this background, any further factors that could delay a product's timeline to peak sales (or result in lower peak sales) could have a significant effect on the product's NPV and, in turn, on company valuations.

Existing industry issues dwarf these newer threats...

However, these concerns should be placed in perspective. The well-documented effects of ageing populations, the growing prevalence of chronic diseases, greater use of expensive treatments, and expanding public healthcare coverage have combined to stretch existing healthcare resources for some time. In turn, healthcare providers have employed a number of cost-containment strategies, with pricing and reimbursement cuts the more obvious responses but encouraging generic uptake and limiting treatment funding (eg through economic value bodies such as the UK's NICE and Germany's IQWiG) also being employed to good effect. Hence, the recent austerity driven measures represent an escalation of existing pressures rather than representing new threats.

More specifically, the industry has been facing issues of greater magnitude for some time, with rising regulatory hurdles and falling R&D productivity just two fundamental shifts that spring to mind. A bigger and more immediate threat has been the patent cliff that many of the larger players face as intellectual property protection for well known blockbuster products expires. Collectively the pharmaceutical industry is set to lose nearly $100bn in sales over 2010 to 2015 as a series of major products lose their primary protection in seven major markets. Despite efforts to replenish

the lost revenues through internal and acquired product development and extensive cost reductions to offset the lost profits, the effects will be felt at the individual company level.

Exhibit 2: Macro drivers in the pharmaceutical industry

Demand for healthcare is rising...	..but pressures are increasing
Demographic trends, particularly ageing populations	Pricing and reimbursement cuts are now common
Expanding public healthcare coverage	Generic uptake is being encouraged
Growing prevalence of chronic diseases	Higher regulatory hurdles raise costs and cause delays
Technology advances raise patient expectations	
Industry specific issues...	**...drive strategic responses**
Patent cliff as a number of blockbusters lose primary protection	Expansion into new/emerging markets
R&D productivity has fallen and replenish rates are low	Innovation and higher value-adding therapies
Greater emphasis on economic value (eg NICE and IQWiG)	Diversification into complementary areas
Cost cutting and streamlining not enough to restore profitability	Acquisition of late-stage pipelines

Source: Edison Investment Research

Clearly these factors have been known for some time and the affected companies' management have acted to mitigate the impacts and, more importantly, we would argue this has been reflected in share prices.

...but valuations are undemanding

More relevant is that the effect of the patent cliff is abating, with 2012 the peak year for expiries, suggesting the forecast earnings growth will begin to look more encouraging when analysts re-base their five-year CAGRs next March. Meanwhile, prodigious cash flows mean the dividend cover is secure and so the total return (expected share price appreciation plus dividend yield) argument remains convincing within a potentially uncertain investment environment.

Further down the market cap scale, large pharma's development dearth is the smaller research company's opportunity as promising late-stage compounds are snapped up at attractive prices. Equally important are the opportunities created as novel therapies are developed (eg companion diagnostics, biologicals etc) and 'hot' disease areas targeted (eg Hepatitis C). Similarly, as large pharma exits 'difficult' disease areas and divests of non-core assets, the smaller companies are well placed to exploit the market gaps that are formed.

Looking ahead, we believe there are clear opportunities within the smaller companies' universe but stock selection remains the key to investment success. There are a plethora of companies with attractive business models that merit investors' attention and we continue to favour companies showing material progress in clinical development, where management delivers against stated goals, and where there is strong newsflow.

Upcoming newsflow

Exhibit 3: Expected near-term newsflow catalysts for pharma/biotech

August		
Consort Medical	30 Aug	AGM & IMS
Oxford BioMedica	31 Aug	H112 interim results
Phylogica	late-Aug	FY12 prelim results
September		
Vectura	1-5 Sept	QVA149 - detailed Phase III data at ERS
Vectura	1-5 Sept	QVA149 - GSK to presebt lower-dose data from Phase IIb dose-ranging trial of vilanterol/umeclidinium
Transgene	11 Sep	Q212 results
BTG	12 Sep	Lemtrada - PDUFA date of Aubagio (teriflunomide) in relapsing MS
Vectura	18 Sep	AGM
ProMetic Life Sciences	20 Sep	OctaplasLG - FDA Adcom
Algeta	28 Sept-2 Oct	Alpharadin - QoL and safety of subsequent chemotherapy use from ASYMPCA trial at ESMO
Allergy Therapeutics	Sept	FY12 prelim results
Astex Pharmaceuticals	Sept	Dacogen - EU approval in eldery newly diagnoses de novo or secondary AML
Abcam	Sept	FY12 prelim results
e-Therapeutics	Sept	AGM
Immupharma	Sept	H112 results
YM BioSciences	Sept	FY12 prelim results
Q3 unspecified		
Ablynx		ALX0171 - Phase I respiratory syncytial virus data
Allergy Therapeutics		Pollinex Quattro Grass - feedback on German MAA, potential approval
e-Therapeutics		ETS6103 – Phase IIb trial in treatment-resistant depression starts
BTG		Zytiga - update on FDA accepance of sNDA in chemo-naive metastatic HRPC
MorphoSys		MOR103 - Phase II proof-of concept data in RA
MorphoSys		MOR103 - Phase I data from PK study of subcutaneous formulation
Oxford BioMedica		TroVax - initial results from Phase IIb (n=80) in hormone refractory prostate cancer
Vectura		NVA237 - initiate additional US phase III in COPD
Vectura		QVA149 - initiate additional US phase III in COPD
YM BioSciences		CYT387 - initiate pivotal Phase III trial in myelofibrosis
October		
Animalcare	4 Oct	FY12 results
Wilex	11 Oct	Q312 results
Epistem	16 Oct	FY12 results
Bioinvent	18 Oct	Q312 results
Photocure	24 Oct	Q312 results
AstraZeneca	25 Oct	Q312 results
Clavis	25 Oct	Q312 results
Shire	25 Oct	Q312 results
Vectura	25 Oct	VR315/VR632/NVA237/QVA149 - Novartis Q312 results
Vernalis	25 Oct	AUY922 - Novartis Q312 results
GSK	31 Oct	Q312 results
e-Therapeutics	Oct	H112 results
November		
Pharming	1 Nov	Q312 results
Biotie	2 Nov	Q312 results
Morphosys	7 Nov	Q312 results
Paion	7 Nov	Q312 results
Agennix	8 Nov	Q312 results
Ark Therapeutics	8 Nov	Q312 IMS
BTG	8 Nov	H113 interim results
Evotec	8 Nov	Q312 results
Algeta	15 Nov	Q312 results
GW Pharmaceuticals	15 Nov	Sativex - Almirall Q312 results
ProMetic Life Sciences	15 Nov	Q312 results
Vectura	15 Nov	Respiratory pipeline read through - Almirall Q312 results
Topotarget	21 Nov	Q312 results
Algeta	22 Nov	Alpharadin - Medivation enzalutamide PDUFA date
BTG	22 Nov	Zygtiga - Medivation enzalutamide PDUFA date
GW Pharmaceuticals	Nov	FY12 results
Oxford BioMedica	Nov	Q312 IMS
Phytopharm	Nov	FY12 results
Vectura	Nov	H113 interim results
Vectura	Nov	NVA237/QVA149 - Novartis R&D day
Vernalis	Nov	AUY922 - Novartis R&D day

Source: Edison Investment Research

Exhibit 4: Expected near-term newsflow catalysts for pharma/biotech (cont'd)

December		
Astex Pharmaceuticals	8-11 Dec	SGI110 - Phase II data from Phase I/II Stand Up to Cancer trial in MDS and AML at ASH
MorphoSys	8-11 Dec	MOR208 - Phase I data in CLL at ASH
BTG	15 Dec	Zytiga - estimated PDUFA date (assuming priority review) in chemo-naive HRPC
Consort Medical	Dec	H111/12 interim results
Q4 unspecified		
Ablynx		Ozoralizumab - initiate Phase IIb RA trial
Algeta		Alpharadin - Phase I/IIa safety data + docetaxel in HRPC patients with bone metastases
Algeta		Alpharadin - Us and EU regulatory filings in HRPC with bone metastases
Astex Pharmaceuticals		AT13387 - Phase II data + imatinib in refractory GIST
Astex Pharmaceuticals		AT7519 - initial Phase II data from trial + Velcade in mutliple myeloma
Biotie		Selincro - potential CHMP opinion for alcohol dependence
Biotie		SYN115 - Phase IIb Parkinson's Disease trial reads out (UCB option exercise)
Biotie		SYN117 - Phase II data from US DoD trial in PTSD
BTG		DC Bead - initial dats from PARAGON exploratory studies in mCRC
BTG		Varisolve PEM - NDA filing for treatment of varicose veins
e-Therapeutics		ETX1153a – Phase I MRSA trial starts
GW Pharma		Diabetes exploratory programme - Phase II update/initial data (1st two trials)
GW Pharma		Diabetes exploratory programme - completion of 3rd study
GW Pharma		Sativex - Italy, Sweden, Austria, Czech Republic launches (End-2012-early 2013)
GW Pharma		Sativex - national approvals for second round MRP (10 new countries)
GW Pharma		Sativex - regulatory submissions in Middle East
GW Pharma		Sativex - completion of Australian appeal
MorphoSys		MOR208 - Phase I data in CLL
Oxford BioMedica		EncorStat - initial results from Phase I/II trial in corneal graft rejection
Oxford BioMedica		RetinoStat - additional data from Phase I/II in wet AMD
Oxford BioMedica		RetinoStat - exercise Sanofi option
Oxford BioMedica		StarGen - initial Phase I/II results in Stargardt disease
Oxford BioMedica		UshStat - initial Phase I/II results in Usher's syndrome
Paion		GGF2 - top-line data from Phase I heart failure trial
SkyePharma		Lodotra - US launch in RA
TopoTarget		Belinostat - Phase II data from BELIEF monotherapy for relapsed/refractory PTCL trial
TopoTarget		Belinostat - file rolling NDA as monotherapy for relapsed/refractory PTCL
Vectura		NVA237 (Seebri Breezhaler) - EU approval & launch
Vectura		NVA237 - Japan approval & launch
Vectura		QVA149 - EMA filing in COPD
Vectura		QVA149 - Japan filing in COPD
Vernalis		V18444 - results of receptor occupancy study
Vernalis		V158866 - initiate Phase II POC study in spinal cord injury neuropathic pain
Vernalis		RPL554 - Phase II anti-inflammatory study results
Vernalis		Cough/cold portfolio - preparations for US infrastructure build
Conferences etc		
Milan	27-31 Aug	World Congress on Pain
Vienna	1-5 Sept	European Respiratory Society
Chicago	6-8 Sept	2012 Chicago Multidisciplinary Symposium in Thoracic Oncology
Milan	6-9 Sept	European Society of Retina Specialists (EURETINA)
New York	7 Sep	Newsmakers in the Biotech Industry (BioC)
San Francisco	9-12 Sept	Interscience Conference on Anti-microbial Agents and Chemotherapy
New York	17-19 Sept	Pharmaceutical Strategic Alliances
Vienna	28 Sept-2 Oct	European Society for Medical Oncology
Zurich	1-2 Oct	Biotech in Europe Investor Forum
Berlin	1-5 Oct	European Association for the Study of Diabetes
Washington	4-7 Oct	The Retina Society
Boston	7-9 Oct	American Neurological Association
San Francisco	9-10 Oct	BIO Investor Forum
Lyon	10-13 Oct	ECTRIMS
Minneapolis	12-16 Oct	American Society of Bone and Mineral Research
Atlanta	20-25 Oct	American College of Chest Physicians
Sydney	27 Oct	International Association for the Study of Lung Cancer
Boston	28 Oct-1 Nov	American Society of Radiation Oncology (ASTRO)
San Diego	30 Oct-4 Nov	American Society of Nephrology and Renal Week
Los Angeles	3-7 Nov	American Heart Association
Dublin	6-9 Nov	EORTC-NCI-AACR
Anaheim	8-14 Nov	American College of Allergy, Asthma and Immunology
Boston	9-13 Nov	AASLD Liver Meeting
Chicago	10-13 Nov	American Academy of Opthalmology
Washington	10-13 Nov	American College of Rheumatology
Hamburg	12-14 Nov	Bio-Europe
Atlanta	8-12 Dec	American Society of Haematology ASH

Source: Edison Investment Research

Company coverage

Company	Note	Date published
4SC	Outlook; Review	13/07/2012; 03/08/2012
Aastrom BioSciences	Review	23/03/2012
Abcam	Outlook; Update	07/07/2011; 21/09/2011
Ablynx	Update; Outlook	14/03/2012; 19/07/2012
Addex Therapeutics	Update; Update	06/06/2012; 30/07/2012
ADVENTRX Pharmaceuticals	Outlook	25/05/2012
Agennix	Outlook; Update	13/06/2012; 16/08/2012
Algeta	Update; Update	14/05/2012; 19/06/2012
Allergy Therapeutics	Update; Update	11/04/2012; 20/08/2012
AmpliPhi Biosciences	Outlook	09/08/2011
Animalcare Group	Review; Outlook	13/10/2011; 19/07/2012
Ark Therapeutics	Outlook	23/03/2012
Arrowhead Research	Outlook	15/08/2012
Astex Pharmaceuticals	Update; Update	17/02/2012; 26/07/2012
BioInvent	Update, Update	15/06/2012; 18/07/2012
Biotie Therapies Corp	Review; Update	07/03/2012; 06/07/2012
BTG	Outlook; Update	03/07/2012; 09/08/2012
Circadian Technologies	Update	14/03/2012
Clavis Pharma	Update; Update	09/07/2012; 28/08/2012
Consort Medical	Update; Outlook	01/05/2012; 18/06/2012
Deltex Medical	Update	23/04/2012
e-Therapeutics	Update; Outlook	30/03/2012; 16/06/2012
EpiCept	Update; Update	02/03/2012; 13/06/2012
Epigenomics	Update; Review	04/04/2012; 06/08/2012
Epistem Holdings	Update	31/03/2011
Evolva	Outlook	04/04/2012
Evotec	Update; Outlook	05/04/2012; 19/07/2012
Exonhit	Outlook	21/05/2012
GW Pharmaceuticals	Update; Update	29/03/2012; 29/05/2012
Hybrigenics	Update; Update	28/03/2012; 22/06/2012
ImmuPharma	Update; Outlook	26/10/2011; 05/07/2012
Imperial Innovations	Outlook	03/08/2012
Lombard Medical Technologies	Update; Update	11/05/2012; 10/07/2012
Medcom Tech	Outlook; Review	12/12/2011; 13/06/2012
Medigene	Update; Update	26/06/2012; 12/07/2012
MorphoSys	Update; Outlook	12/12/2011; 07/06/2012
Neovacs	Oulook	06/07/2012
Omega Diagnostics	Update; Outlook	03/05/2012; 24/07/2012
OncoGenex Pharmaceuticals	Update; Update	20/06/2012; 14/08/2012
Oncolytics Biotech	Update; Update	07/03/2012; 06/07/2012
Oxford BioMedica	Update; Update	14/05/2012; 06/07/2012
Paion	Update; Update	16/03/2012; 09/08/2012
Pharming Group	Update	17/05/2011
Phylogica	Update	11/05/2012
Phytopharm	Outlook; Update	13/07/2012; 16/08/2012
ProMetic Life Sciences	Update	03/02/2012
Proteome Sciences	Outlook; Update	03/04/2012; 06/06/2012
SkyePharma	Update; Update	27/04/2012; 04/07/2012
Sunesis Pharmaceuticals	Update	04/04/2012
Synta Pharmaceuticals	Update; Update	23/03/2012; 02/07/2012
TiGenix	Review; Update	02/04/2012; 16/07/2012
TopoTarget	Update	12/04/2012
Transgene	Update; Update	28/03/2012; 23/05/2012
Vectura	Update; Update	09/05/2012; 02/08/2012
Vernalis	Update; Outlook	19/04/2012; 10/08/2012
Wilex	Update; Update	18/07/2012; 28/08/2012
YM BioSciences	Update	01/03/2012

Investment Trusts

BB Biotech	Investment Trust Review; Update	08/05/2012; 31/07/2012
Biotech Growth Trust (The)	Investment Trust Review	10/11/2011; 26/07/2012
International Biotechnology Trust	Investment Trust Review	25/10/2011; 16/04/2012
Worldwide Healthcare Trust	Investment Trust Review	24/06/2011; 10/02/2012

To view the May edition of the Investment Trusts Quarterly, featuring biotechnology and healthcare trusts, see the investment companies and trusts sector profile on our website.

QuickViews

To view the following QuickViews see the healthcare sector profile on our website.

AB Science	06/02/2012
Achillion	12/03/2012
Active Biotech	21/02/2012
Alnylam Pharmaceuticals	10/02/2012
Ariad Pharmaceuticals	05/03/2012
Array BioPharma	09/02/2012
Anthera	24/02/2012
Arrowhead Research	04/01/2012
AVEO Pharmaceuticals	08/05/2012; 10/08/2012
Basilea	12/01/2012
BioCryst Pharmaceuticals	20/02/2012
BioLineRx	20/02/2012
Biota Holdings	11/04/2012
Celldex Therapeutics	12/03/2012
Clinuvel	05/01/2012
Curis	31/01/2012
Cytos Biotechnology	14/08/2012
Dechra Pharmaceuticals	23/02/2012
Endocyte	18/04/2012
EKF Diagnostics	23/03/2012
Galapagos	05/03/2012
Genfit	09/02/2012
Genmab	12/03/2012
Hutchison China Meditech	01/08/2012
Idenix	11/01/2012
Immunodiagnostic Systems Holdings	28/06/2012
Imperial Innovations	12/03/2012; 30/04/2012
Infinity Pharmaceuticals	06/01/2012; 30/01/2012
Keryx Biopharmaceuticals	05/03/2012
MagForce	03/02/2012
Neovacs	22/02/2012
NicOx	22/03/2012
NovaBay Pharmaceuticals	19/07/2012
Orexo	01/02/2012
Pharmaxis	30/01/2012
Photocure	22/02/2012; 01/06/2012
QRxPharma	28/03/2012
Sangamo BioSciences	03/02/2012
Sarepta Therapeutics	07/03/2012; 31/07/2012
Source Bioscience	27/03/2012
Stratec Biomedical	17/05/2012; 25/07/2012
Sucampo Pharmaceuticals	11/05/2012; 13/07/2012
ThromboGenics	21/03/2012
United Drug	14/05/2012

Vivus	23/02/2012
Zeltia	26/04/2012

Alternext stocks covered

Biosynex
CARMAT
Cellectis
Cerep
ExonHit
Genfit
GenOway
Hybrigenics
IntegraGen
Ipsogen
MEDICREA International
Neovacs
Tekka
Visiomed Group

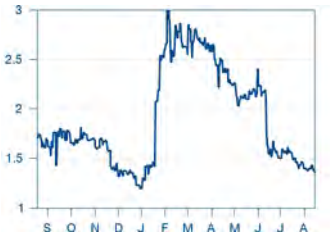
Company profiles

Edison investment research

Sector: Pharma & Healthcare

Price:	€1.36
Market cap:	€69m
Forecast net cash (€m)	12.6
Forecast gearing ratio (%)	N/A
Market	FRA

Share price graph (€)



Company description

4SC is a Munich-based drug discovery and development company focused on the development of small-molecule compounds for treating cancer and autoimmune diseases. Its R&D pipeline has six NCEs, five of which are in clinical trials.

Price performance

%	1m	3m	12m
Actual	(10.3)	(33.1)	(20.1)
Relative*	(15.8)	(39.0)	(31.5)

* % Relative to local index

Analyst

Robin Davison

4SC (VSC)

INVESTMENT SUMMARY

4SC should have a clear run to seek to demonstrate synergistic activity of resminonstat with sorafenib in hepatocellular carcinoma (HCC), after recent failures in Phase III studies removed three rivals from contention as potential first-line therapies. Head-to-head studies with brivanib (Bristol-Myers Squibb) and linifanib (Abbott) have failed to show an advantage over sorafenib, while a combination study with erlotinib (Roche/Astellas) failed to show an additive benefit in first line HCC. We view these competitive developments as significantly enhancing resminostat's profile in HCC.

INDUSTRY OUTLOOK

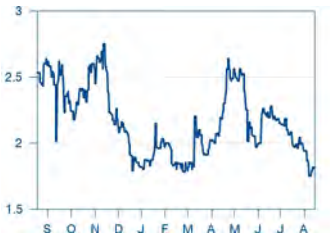
Resminostat is emerging as a leader in solid tumour indications within the HDACi class while in Crohn's disease, Vidofludimus faces potential competition from a handful of developing small molecule drugs, with one high-profile compound, GSK1605786, in Phase III. There are also four injectable products in mid/late-stage development for Crohn's disease.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	1.0	(18.5)	(18.9)	(48.9)	N/A	N/A
2011A	0.8	(17.1)	(17.3)	(43.1)	N/A	N/A
2012E	1.0	(14.2)	(14.4)	(31.2)	N/A	N/A
2013E	0.9	(17.8)	(18.0)	(35.8)	N/A	N/A

Sector: Pharma & Healthcare

Price:	US$1.82
Market cap:	US$77m
Forecast net cash (US$m)	9.9
Forecast gearing ratio (%)	N/A
Market	NASDAQ

Share price graph (US$)



Company description

Aastrom Biosciences uses autologous cell therapy to process and inject the patient's own cells. The lead Phase III product aims to reduce the amputation rate in patients with blocked leg arteries: this has $1.25bn sales potential.

Price performance

%	1m	3m	12m
Actual	(9.5)	(19.5)	(30.7)
Relative*	(13.5)	(24.7)	(41.6)

* % Relative to local index

Analyst

John Savin

Aastrom Biosciences (ASTM)

INVESTMENT SUMMARY

Operating costs in H1 were $17.9m before a non-cash gain of $1m on warrants less $1.5m in equity issued as interest on the convertible preference shares issued in Q1. R&D was $13.9m, up from $9.6m in H111 due to the costs of initiating the REVIVE Phase III study. Admin costs fell slightly to $4m vs $4.1m in H111. Cash was $28.7m so on a level basis, Aastrom has cash till H213, depending on how REVIVE costs develop as recruitment of the 594 patients across 80 sites accelerates in H212.

INDUSTRY OUTLOOK

Phase II RESTORE CLI data showed a statistically significant reduction in combined amputation risk (p=0.0032). If REVIVE meets its 12-month endpoint, Ixmyelocel-T should be the first cell therapy for CLI and the only option for 100,000-150,000 potential amputees per year. Ixmyelocel-T has c 25% M2 macrophages, which may be critical for efficacy. Aastrom is planning the Phase IIb RENEW Ixmyelocel-T study in ischaemic dilated cardiomyopathy.

Y/E Dec	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2010A	0.3	(11.4)	(11.6)	(39.7)	N/A	N/A
2011A	0.0	(28.4)	(29.0)	(75.1)	N/A	N/A
2012E	0.0	(32.5)	(37.1)	(96.0)	N/A	N/A
2013E	0.0	(35.4)	(41.1)	(106.4)	N/A	N/A

Edison investment research

Sector: Pharma & Healthcare

Price:	392.0p
Market cap:	£791m
Forecast net cash (£m)	45.0
Forecast gearing ratio (%)	N/A
Market	AIM

Share price graph (p)

Company description

Abcam produces and sells antibodies and other protein tools for use in research via its website. Its main clients are universities, research institutes and pharmaceutical companies across the world.

Price performance

%	1m	3m	12m
Actual	(5.9)	3.9	14.0
Relative*	(8.8)	(3.6)	4.6

* % Relative to local index

Analyst

Mick Cooper

Abcam (ABC)

INVESTMENT SUMMARY

Abcam's revenues in FY12 (June year end) grew by c 17%, although underlying growth, excluding the effects of the acquisitions of Ascent Scientific and Epitomics, was only c 11.5% despite its portfolio increasing in size by c 25%. In comparison, in FY11 sales grew in line with its product offering by 16.9%. The sharp slow down in growth is due to significant pressure on academic research budgets. The acquisition of Epitomics in May will enhance Abcam's growth prospects and remove a competitive threat. However, we still believe the current market price reflects an over-optimistic view of Abcam's prospects of growth and profitability. We value Abcam at 324p/share.

INDUSTRY OUTLOOK

More biological research is conducted into proteins, increasing the demand for protein research tools. However, the funding of academic research is coming under greater pressure as governments look to reduce their debts. Abcam is the market leader for research antibodies but has a limited market position in the wider protein research tools market.

Y/E Jun	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	71.1	27.2	26.0	10.9	36.0	28.1
2011A	83.3	33.3	32.3	13.4	29.3	21.5
2012E	97.9	37.0	36.6	14.9	26.3	21.4
2013E	126.7	44.3	43.6	16.5	23.8	17.9

Sector: Pharma & Healthcare

Price:	€2.95
Market cap:	€126m
Forecast net cash (€m)	57.1
Forecast gearing ratio (%)	N/A
Market	Euronext Brussels

Share price graph (€)

Company description

Ablynx is a drug-discovery company with a proprietary technology platform. It is developing a novel class of therapeutic proteins called Nanobodies to treat a range of indications; seven products are in clinical development.

Price performance

%	1m	3m	12m
Actual	2.8	18.0	(53.3)
Relative*	(3.4)	4.7	(55.7)

* % Relative to local index

Analyst

Mick Cooper

Ablynx (ABLX)

INVESTMENT SUMMARY

Ablynx has developed a broad pipeline using its Nanobody technology in many disease areas. These therapeutic proteins have the specificity of monoclonal antibodies and many of the benefits of small molecules. Its lead Nanobody, ozoralizumab (ATN-103 for the $24bn TNF market), showed promising efficacy, low immunogenicity and was well tolerated in Phase II studies in RA, which could enable Ablynx to re-partner the product (Pfizer previously had the rights). Two other Nanobodies are in Phase II trials, caplacizumab (ALX-0081/0681) in TTP and ALX-0061 in RA; data from the latter study is due in H212. Ablynx is also planning to form new collaborations and partner other Nanobodies. With a cash position of €76.5m at 30 June 2012, Ablynx should have enough cash to fund operations for the next two to three years.

INDUSTRY OUTLOOK

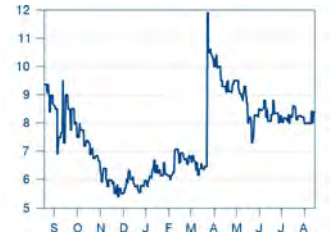
There is a strong demand for novel pharmaceutical products. The characteristics of Ablynx's Nanobodies and initial clinical trial results mean they have considerable commercial potential in many indications.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	31.4	(23.0)	(24.0)	(56.9)	N/A	N/A
2011A	21.9	(42.8)	(43.3)	(99.1)	N/A	N/A
2012E	26.2	(35.8)	(36.8)	(84.3)	N/A	N/A
2013E	36.7	(28.6)	(30.0)	(68.7)	N/A	N/A

Sector: Pharma & Healthcare

Price:	CHF8.39
Market cap:	CHF66m
Forecast net cash (CHFm)	14.4
Forecast gearing ratio (%)	N/A
Market	Swiss Stock Exchange

Share price graph (CHF)



Company description

Addex Therapeutics is a Swiss biotech company with a proprietary allosteric modulator discovery platform and a pipeline in CNS, inflammatory and metabolic disorders. It has a partnership with J&J (Ortho-McNeil-Janssen).

Price performance

%	1m	3m	12m
Actual	(2.6)	4.8	(11.7)
Relative*	(7.4)	(5.6)	(27.2)

* % Relative to local index

Analyst

Robin Davison

Addex Therapeutics (ADXN)

INVESTMENT SUMMARY

Addex has seen an unexpected boost to the prospects for its lead partnered product, JNJ-40411813, as a result of a trial setback with Lilly's pomaglumetad methionil, a mechanistically-close competitor. The news may allow Janssen Pharmaceuticals, Addex's partner, to catch up with a rival that had hitherto been several years ahead. Both products aim to up-regulate mGluR2, but Lilly's is an orthosteric mGluR2/3 agonist, while Addex's is a more selective mGluR2 PAM. Meanwhile Addex continues its concerted campaign to secure a global licensing deal for dipraglurant, following the recent positive results in Parkinson's disease levodopa-induced dyskinesia (PD-LID).

INDUSTRY OUTLOOK

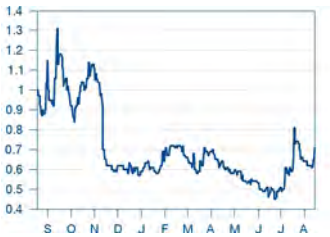
Addex Therapeutics has established the industry's leading position in allosteric drug discovery and is generating a stream of high-value novel small molecule products in CNS, metabolic, inflammatory and other diseases. Dipraglurant is fast catching up with Novartis's mavoglurant (AFQ056), also an mGluR5 negative allosteric modulator, in the PD-LID indication.

Y/E Dec	Revenue (CHFm)	EBITDA (CHFm)	PBT (CHFm)	EPS (CHFc)	P/E (x)	P/CF (x)
2010A	4.0	(29.4)	(32.2)	(5.3)	N/A	N/A
2011A	3.7	(27.2)	(29.8)	(4.0)	N/A	N/A
2012E	0.6	(21.7)	(22.7)	(2.9)	N/A	N/A
2013E	0.6	(17.2)	(17.9)	(2.3)	N/A	N/A

Sector: Pharma & Healthcare

Price:	US$0.71
Market cap:	US$31m
Forecast net cash (US$m)	34.4
Forecast gearing ratio (%)	N/A
Market	NASDAQ

Share price graph (US$)



Company description

Adventrx Pharmaceuticals is a development-stage US pharmaceutical company focused on the development of ANX-188, a potential treatment for sickle cell disease complications. A pivotal Phase III study with ANX-188 is expected to start by the end of 2012.

Price performance

%	1m	3m	12m
Actual	7.5	22.6	(41.4)
Relative*	2.8	14.8	(50.6)

* % Relative to local index

Analyst

Christian Glennie

ADVENTRX Pharmaceuticals (ANX)

INVESTMENT SUMMARY

Fundamental to ADVENTRX's investment case is the successful development and commercialisation of ANX-188, a product that has the potential to become the standard of care for the treatment of severely painful 'crisis' episodes in patients with sickle cell anaemia. Discussions are ongoing with the FDA over the design of the Phase III trial required for approval and reaching agreement, which ADVENTRX expects in H212. This presents an important milestone and potential catalyst. ADVENTRX has secured the manufacture and supply of ANX-188 required for the trial, through recently signed contracts with Pierre Fabre (for active ingredient) and Patheon (to formulate, fill and finish). ADVENTRX recently selected an undisclosed additional indication for ANX-188 with a Phase II study to start in H113.

INDUSTRY OUTLOOK

ANX-188 is the lead candidate in a limited development field to become the first approved therapy to reduce the duration of crisis episodes, which typically require hospitalisation for six to seven days.

Y/E Dec	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (c)	P/E (x)	P/CF (x)
2010A	0.5	(8.5)	(8.5)	(106.91)	N/A	N/A
2011A	0.0	(13.4)	(13.3)	(47.06)	N/A	N/A
2012E	0.0	(16.9)	(16.9)	(35.15)	N/A	N/A
2013E	0.0	(18.7)	(18.7)	(38.31)	N/A	N/A

Edison investment research

Sector: Pharma & Healthcare

Price:	€0.37
Market cap:	€21m
Forecast net cash (€m)	2.7
Forecast gearing ratio (%)	N/A
Market	FRA

Share price graph (€)

Company description

Agennix is a drug development company based in Germany and the US. Its is focused on oncology.

Price performance

%	1m	3m	12m
Actual	(77.0)	(75.8)	(85.6)
Relative*	(78.4)	(77.9)	(87.7)

* % Relative to local index

Analyst

Mick Cooper

Agennix (AGX)

INVESTMENT SUMMARY

Agennix has been developing talactoferrin for the treatment of non-small cell lung cancer (NSCLC). However, it is now restructuring to reduce cash burn and conducting a strategic review after the negative results from the Phase III FORTIS-M in third-line+ NSCLC, which showed that patients receiving talactoferrin had no survival benefit over those on placebo. As part of the strategic review, Agennix is expected to terminate the Phase III FORTIS-C trial in first-line NSCLC with chemotherapy to analyse the data from c 100 patients. It will also consider the potential of talactoferrin for nosocomial infections, and options for its other oncology assets satraplatin (partnered in Japan with Yakult Honsha) and RGB-286638. Agennix probably has enough cash to operate into Q213.

INDUSTRY OUTLOOK

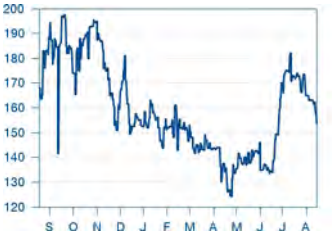
Oncology is a major focus of pharmaceutical companies. Efficacious oncology products can enjoy premium pricing and be sold by relatively small sales forces, but there is significant competition.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	0.2	(35.5)	(36.4)	(106.7)	N/A	N/A
2011A	0.0	(41.6)	(42.6)	(98.3)	N/A	N/A
2012E	0.0	(41.7)	(42.3)	(82.5)	N/A	N/A
2013E	N/A	N/A	N/A	N/A	N/A	N/A

Sector: Pharma & Healthcare

Price:	NOK153.50
Market cap:	NOK6732m
Forecast net cash (NOKm)	632.6
Forecast gearing ratio (%)	N/A
Market	OSE

Share price graph (NOK)



Company description

Algeta is a Norwegian biotech company with the leading position in alpha-emitting pharmaceuticals for oncology. Its lead product Alpharadin is in development as a potential new treatment for cancer patients with bone metastases.

Price performance

%	1m	3m	12m
Actual	(8.2)	11.5	(12.9)
Relative*	(12.8)	3.2	(22.9)

* % Relative to local index

Analyst

Robin Davison

Algeta (ALGETA)

INVESTMENT SUMMARY

Updated data from the pivotal Phase III ALSYMPCA study of Alpharadin presented at ASCO confirm the 3.6-month increase in median survival (14.9 vs 11.3 months) in metastatic castration-resistant prostate cancer to a highly significant level (p=0.00007). Also disclosed was a 5.5-month increase in time to first on-study skeletal-related event. Survival benefits were also confirmed in the pre- and post-docetaxel subgroups. The hazard ratio (0.695) represents a 30.5% reduction in the relative risk of death and a 44% improvement in overall survival. Filing is now set for H212 and we assume launch, pending approval, in 2013. Q2 cash and equivalents stood at NOK478m.

INDUSTRY OUTLOOK

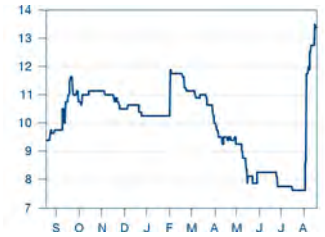
Algeta is the world leader in the development of alpha-pharmaceuticals. Interest around Alpharadin is growing after positive Phase III data and the approvals for metastatic castration-resistant prostate cancer of Dendreon's Provenge, Sanofi's Jevtana and J&J's Zytiga.

Y/E Dec	Revenue (NOKm)	EBITDA (NOKm)	PBT (NOKm)	EPS (öre)	P/E (x)	P/CF (x)
2010A	270.9	26.1	23.1	58.47	262.5	N/A
2011A	250.4	23.7	19.9	49.75	308.5	N/A
2012E	641.3	338.5	333.8	791.37	19.4	41.0
2013E	711.8	257.0	251.1	590.64	26.0	50.1

Sector: Pharma & Healthcare

Price:	13.4p
Market cap:	£54m
Forecast net debt (£m)	2.0
Forecast gearing ratio (%)	14.0
Market	AIM

Share price graph (p)



Company description

Allergy Therapeutics is a European-based speciality pharmaceutical company focused on the treatment and prevention of allergy.

Price performance

%	1m	3m	12m
Actual	75.4	64.6	35.4
Relative*	70.0	52.6	24.3

* % Relative to local index

Analyst

Lala Gregorek

Allergy Therapeutics (AGY)

INVESTMENT SUMMARY

FDA clinical hold on Pollinex Quattro (PQ) Grass has been lifted following agreement on Phase III exposure chamber study design. The US allergy immunotherapy (AIT) opportunity could boost growth post-2013, contingent on securing a development and marketing partner (Allergy's US focus). A restructured balance sheet provides flexibility to execute business development objectives (new products, infrastructure, markets, European consolidation) and deliver on its three-part growth strategy. Allergy's medium-term aim is to become a sustainable, cash-flow positive, top-three global AIT player. The core European business is profitable, but 2013 sales will be marginally affected by the UK Anapen recall. The key H212 catalyst is German regulatory feedback on PQ Grass. FY12 prelims report in September.

INDUSTRY OUTLOOK

Pollinex Quattro (c 50% of revenue) is an ultra short-course allergy vaccine given as four shots over three weeks, which has comparable efficacy to existing vaccines (typically requiring 16-50 injections under specialist supervision pre-hayfever season).

Y/E Jun	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	40.8	3.0	0.3	0.3	44.7	37.4
2011A	41.6	2.0	(1.7)	(0.7)	N/A	N/A
2012E	43.0	3.9	1.2	0.4	33.5	10.8
2013E	47.1	4.5	2.6	0.5	26.8	15.0

Sector: Pharma & Healthcare

Price:	US$0.13
Market cap:	US$3m
Forecast net debt (US$m)	2.2
Forecast gearing ratio (%)	73.0
Market	OTC

Share price graph (US$)

Company description

AmpliPhi Biosciences is a US/UK biotech company focused on developing of bacteriophages (viruses that infect bacteria) for therapeutic applications. Its lead development product, BioPhage-PA, has potential in treating chronic ear infections.

Price performance

%	1m	3m	12m
Actual	(20.2)	(38.1)	(23.5)
Relative*	(23.7)	(42.1)	(35.6)

* % Relative to local index

Analyst

Christian Glennie

AmpliPhi Biosciences (APHB)

INVESTMENT SUMMARY

AmpliPhi is seeking to launch new studies of its bacteriophage approach to treating a range of bacterial infections, mainly for human use, and will require additional funding to progress its R&D portfolio. In November 2011 it raised £2.7m in a credit loan note from the prominent financiers Jim Mellon and Gwynn Williams, who are presumed to be key investors. BioPhage-PA has completed a Phase II trial targeting gram negative bacteria often resistant to existing antibiotics for chronic inner ear infections. BioPhage-PR is in preparation for clinical trials for the treatment of pseudomonas-based lung infections in cystic fibrosis patients.

INDUSTRY OUTLOOK

The growth of resistance to antibiotics is a serious problem, and pharma companies are increasingly seeking alternative methods of combating bacterial infections to conventional chemical antibiotics. AmpliPhi's pioneering development of bacteriophages, which specifically target bacteria, might benefit from a faster and less expensive path to market.

Y/E Dec	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (c)	P/E (x)	P/CF (x)
2009A	12.2	2.4	2.1	10.2	1.3	N/A
2010A	2.1	(2.1)	(2.2)	(10.2)	N/A	N/A
2011E	0.4	(5.2)	(5.2)	(11.6)	N/A	N/A
2012E	0.4	(12.1)	(12.2)	(27.0)	N/A	N/A

Edison investment research

Sector: Pharma & Healthcare

Price:	126.0p
Market cap:	£26m
Forecast net cash (£m)	2.3
Forecast gearing ratio (%)	N/A
Market	AIM

Share price graph (p)

Company description

Animalcare markets and sells licensed veterinary pharmaceuticals, animal identification products and animal welfare goods for the companion animal market across the UK. Its products are sold in Europe through distributors.

Price performance

%	1m	3m	12m
Actual	(3.1)	(25.9)	(11.3)
Relative*	(6.1)	(31.3)	(18.6)

* % Relative to local index

Analyst

Mick Cooper

Animalcare Group (ANCR)

INVESTMENT SUMMARY

Animalcare's sales fell by 10% to £5.4 in H112, largely because a supplier stopped making Buprecare ampoules (5.5% of FY11 sales) in July 2011 and because of weak pet identification sales. Underlying operating profit fell 18% to £1.2m. This weakness continued in H212 because of the impact of Buprecare and because pet identification sales fell by c 32%. However, Animalcare should return to strong growth in H113 despite challenging market conditions. Underlying growth (excluding Buprecare) of its core veterinary medicines business grew by c 15% in H212. Animalcare will be relaunching its Buprecare ampoules in H113. It launched four new products in the last six months, and has a robust pipeline. The company has a strong balance sheet (net cash of £1.75m at H112).

INDUSTRY OUTLOOK

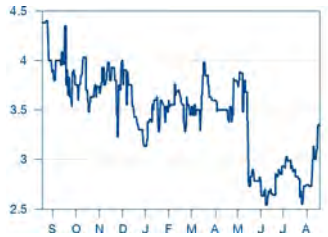
The companion animal market, which was previously growing at c 5% in the UK, is now flat. Future market growth will probably depend on the development of innovative treatments and products to offset the impact of the government's debt reduction measures.

Y/E Jun	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	11.2	3.2	2.8	10.6	11.9	9.1
2011A	11.8	3.5	3.3	13.1	9.6	8.3
2012E	10.9	2.6	2.6	10.5	12.0	10.4
2013E	11.5	2.8	2.8	10.4	12.1	10.0

Sector: Pharma & Healthcare

Price:	3.3p
Market cap:	£7m
Forecast net cash (£m)	4.9
Forecast gearing ratio (%)	N/A
Market	LSE

Share price graph (p)



Company description

Ark Therapeutics specialises in product development and GMP manufacturing contract services for viral-based products. It has gene therapy and small molecule pipeline candidates for treating vascular diseases and cancer and is seeking partners for more development.

Price performance

%	1m	3m	12m
Actual	15.5	22.9	(19.3)
Relative*	12.0	14.0	(25.9)

* % Relative to local index

Analyst

Christian Glennie

Ark Therapeutics (AKT)

INVESTMENT SUMMARY

Ark Therapeutics is focused on generating revenues by securing manufacturing service contracts for multiple types of viral-based products at its GMP manufacturing facility in Kuopio, Finland. Ark already has manufacturing deals with PsiOxus and Glasgow University, and recently signed a manufacturing/development deal for a therapeutic vaccine with a European gene therapy company and a letter of intent with EMD Millipore for a multiple-level collaboration over viral-based vaccines and other viral products and processes. Multiple discussions are ongoing with pharma/biotech/CRO/CMO companies and academic institutions. Ark expects its manufacturing facility to break-even on its £3.6m overhead costs in 2012/13.

INDUSTRY OUTLOOK

The fields of gene therapy and oncolytic virus development are relatively active, indicating a number of opportunities for Ark in terms of potential pipeline development partners, as well as companies and academic institutions requiring manufacturing expertise and capabilities.

Y/E Dec	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	3.1	(13.2)	(15.1)	(6.7)	N/A	N/A
2011A	7.1	(1.7)	(4.1)	(1.5)	N/A	N/A
2012E	3.6	(6.2)	(8.5)	(3.7)	N/A	N/A
2013E	5.5	(4.9)	(7.0)	(3.0)	N/A	N/A

Sector: Pharma & Healthcare

Price:	US$2.75
Market cap:	US$37m
Forecast net debt (US$m)	0.7
Forecast gearing ratio (%)	9.0
Market	NASDAQ

Share price graph (US$)

Company description

Arrowhead Research Corporation is a nanomedicine company with clinical programmes in two distinct areas, small RNAi therapeutics and obesity. It also has developed or acquired platform technologies for RNAi delivery and peptide targeting.

Price performance

%	1m	3m	12m
Actual	(24.9)	(45.3)	(41.1)
Relative*	(28.2)	(48.8)	(50.4)

* % Relative to local index

Analyst

Andrew Fellows

Arrowhead Research (ARWR)

INVESTMENT SUMMARY

The 2011 acquisition of Roche's RNAi (RNA interference) business makes Arrowhead one of the leaders in RNAi and delivery solutions for RNAi. The recent acquisition of Alvos Therapeutics adds a library of homing peptides, also aimed at developing targeted therapeutics, with or without the use of RNAi. This will speed up development of new projects both for partnering and in-house development. The most advanced projects in-house are a first-in-class obesity compound and an RNAi compound for solid tumours (both Phase I), valued at $60m. The value of the platform technology is not included in this figure.

INDUSTRY OUTLOOK

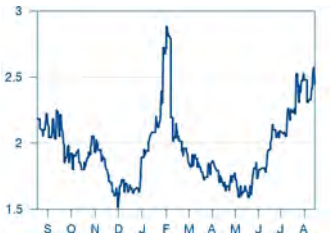
Gene silencing is a potentially exciting area for new product development, with targeted therapies offering better disease control and fewer side effects than current medications. Large and medium-sized pharmaceutical companies are likely to invest in this field via collaborations of which Arrowhead would be a beneficiary.

Y/E Dec	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (c)	P/E (x)	P/CF (x)
2010A	0.0	(1.5)	(0.2)	(44.9)	N/A	N/A
2011A	0.3	(8.2)	(7.4)	(29.4)	N/A	N/A
2012E	0.1	(19.4)	(19.8)	(165.7)	N/A	N/A
2013E	0.1	(16.9)	(17.3)	(128.1)	N/A	N/A

Sector: Pharma & Healthcare

Price:	US$2.44
Market cap:	US$240m
Forecast net cash (US$m)	131.8
Forecast gearing ratio (%)	N/A
Market	NASDAQ

Share price graph (US$)



Company description

The newly renamed Astex Pharmaceuticals was formed by the merger of SuperGen and Astex earlier this year. The company is now a UK-US focused oncology drug discovery and development company.

Price performance

%	1m	3m	12m
Actual	15.0	57.7	10.3
Relative*	10.0	47.6	(7.1)

* % Relative to local index

Analyst

Robin Davison

Astex Pharmaceuticals (ASTX)

INVESTMENT SUMMARY

The European Medicines Agency (EMA) has adopted a positive opinion on J&J's application for Dacogen (decitabine) for treatment of elderly patients with acute myeloid leukaemia (AML). The decision is the key hurdle to obtaining an EU-wide approval for the drug. EU sales of Dacogen should ensure the continuation of a meaningful royalty stream to Astex after the expiry of the drug's US exclusivity next year. It therefore puts Astex in a position to initiate planned new studies with AT13387 and SGI-110, without needing to raise new finance. As a result of the CHMP decision, we value Astex at $560m.

INDUSTRY OUTLOOK

Astex offers a low-risk oncology play with multiple study read-outs in 2012. Although the potential approval of Dacogen in AML offers a material near-term catalyst, we see the investment case in the longer term being centred on Astex's ability to exploit its strong financial position to generate value from its R&D pipeline and fragment-based discovery technology.

Y/E Dec	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (c)	P/E (x)	P/CF (x)
2010A	53.0	18.6	17.9	29.2	8.4	8.1
2011A	66.9	9.7	7.9	12.8	19.1	15.2
2012E	74.4	5.8	4.2	4.6	53.0	32.7
2013E	73.3	3.3	0.9	1.2	203.3	72.4

Sector: Pharma & Healthcare

Price:	SEK2.96
Market cap:	SEK207m
Forecast net cash (SEKm)	95.0
Forecast gearing ratio (%)	N/A
Market	NASDAQ OMX Mid Cap

Share price graph (SEK)

Company description

BioInvent is a human therapeutic antibody company based in southern Sweden. It has a lead product, BI-505 in Phase I for multiple myeloma.

Price performance

%	1m	3m	12m
Actual	42.1	(81.3)	(83.5)
Relative*	37.8	(82.5)	(85.0)

* % Relative to local index

Analyst

John Savin

BioInvent International (BINV)

INVESTMENT SUMMARY

BioInvent's investment case now rests on BI-505. As a Phase I cancer candidate this is risky but, in our long-standing view, has a good chance of ultimate success. BI-505 should progress into Phase II and has an optimal biological dose level; data is due in late H2. H1 revenues were SEK21m; SEK45m is expected for FY12. BioInvent is cutting costs significantly and has cash into H213; H1 cash was SEK186m.

INDUSTRY OUTLOOK

If BI-505 can be directly marketed it would be very valuable, given its orphan indication (multiple myeloma). Management may partner too early for immediate cash but investors should either back the internal development project or sell the business. The n-CoDeR projects and other collaborations may yield milestones if partners progress projects. Of the clinical results in 2012, BI-204 failed to show any primary efficacy; the secondary data is still being analysed but offers slim hope. This followed the termination of TB-402 after Phase II hip data and the return of TB-403 for cancer.

Y/E Dec	Revenue (SEKm)	EBITDA (SEKm)	PBT (SEKm)	EPS (fd) (öre)	P/E (x)	P/CF (x)
2010A	83.0	(135.0)	(124.0)	(2.08)	N/A	N/A
2011A	125.0	(66.0)	(67.0)	(1.00)	N/A	N/A
2012E	45.0	(179.0)	(180.0)	(2.49)	N/A	N/A
2013E	50.0	(71.0)	(74.0)	(1.00)	N/A	N/A

Sector: Pharma & Healthcare

Price:	€0.41
Market cap:	€159m
Forecast net debt (€m)	30.7
Forecast gearing ratio (%)	66.0
Market	OMX

Share price graph (€)

Company description

Biotie Therapies is a Finnish/US biotech company with a focus on clinical programmes in CNS and niche inflammatory diseases. Its lead project nalmefene, for the treatment of alcohol dependency, is partnered with Lundbeck. UCB is a strategic partner.

Price performance

%	1m	3m	12m
Actual	13.9	0.0	(6.8)
Relative*	8.4	(4.2)	(3.2)

* % Relative to local index

Analyst

Lala Gregorek

Biotie Therapies (BTH1V)

INVESTMENT SUMMARY

Biotie's retention of SYN120 rights after Roche decided not to opt-in to a development license for strategic reasons means the company now has three unencumbered Phase II-ready assets (including BTT-1023 and ronomilast) available for global licensing. A deal on any of these could extend the current cash reach beyond early 2013, although Biotie may explore other options to raise additional funds this year. Catalysts expected by year-end include the European approval decision for alcohol dependency therapy Selincro, which could mean a Q113 launch (triggering an undisclosed milestone payment from partner Lundbeck), and data from the Phase IIb tozadenant Parkinson's disease trial. Commercial success of these partnered projects has the potential to transform Biotie.

INDUSTRY OUTLOOK

Biotie's focus is on neurodegenerative and psychiatric diseases, and niche inflammation indications. It is an active consolidator; it completed the €94m purchase of private company Synosia in February 2011.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	2.0	(7.3)	(8.5)	(5.2)	N/A	N/A
2011A	1.0	(28.3)	(20.8)	(3.5)	N/A	N/A
2012E	0.1	(27.2)	(28.0)	(6.7)	N/A	N/A
2013E	0.1	(28.6)	(29.6)	(7.5)	N/A	N/A

Sector: Pharma & Healthcare

Price:	332.0p
Market cap:	£1093m
Forecast net cash (£m)	144.5
Forecast gearing ratio (%)	N/A
Market	LSE

Share price graph (p)

Company description

BTG is a UK-based biopharmaceutical company with a direct commercial presence in US acute care medicine and interventional oncology. It has a number of internal and partnered R&D programmes.

Price performance

%	1m	3m	12m
Actual	(17.6)	(10.5)	21.1
Relative*	(20.1)	(17.0)	11.1

* % Relative to local index

Analyst

Robin Davison

BTG (BTG)

INVESTMENT SUMMARY

AstraZeneca's discontinuation of AZD9773/CytoFab after the failure of a Phase IIb study in severe sepsis/septic shock has a material impact on BTG's valuation, but the investment case remains strong. Although disappointing, the outcome of the study is a reflection of the challenging nature of the sepsis indication. Cytofab was carried at a low probability in our model, although the attractive economics of the licensing deal, meant it nonetheless made a material contribution (£136m) to the valuation. We have revised our valuation to £1.3bn or 396p per share. This suggests there is a c 15% upside in the current share price.

INDUSTRY OUTLOOK

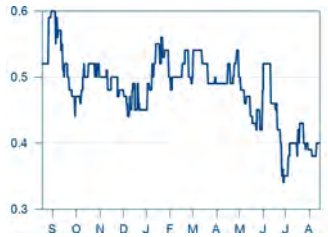
BTG presents a defensive growth business whose valuation is largely underpinned by the DCF valuation of its core US speciality pharma and interventional activities, its cash and predictable royalty streams.

Y/E Mar	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2011A	111.4	16.0	16.6	13.6	24.4	N/A
2012A	197.0	57.3	57.2	14.9	22.3	22.5
2013E	201.0	49.4	49.4	12.5	26.6	32.3
2014E	223.5	53.0	53.5	12.0	27.7	27.0

Sector: Pharma & Healthcare

Price:	A$0.40
Market cap:	A$19m
Forecast net cash (A$m)	13.2
Forecast gearing ratio (%)	N/A
Market	ASX

Share price graph (A$)



Company description

Circadian's focus is on its VEGF-C and VEGF-D portfolio, with a receptor blocking antibody (IMC-3C5) in Phase I trials with ImClone (Lilly), and a VEGF-C targeting antibody (VGX-100) due to enter glioblastoma trials in late 2011.

Price performance

%	1m	3m	12m
Actual	2.6	(10.2)	(24.0)
Relative*	(2.4)	(13.1)	(24.7)

* % Relative to local index

Analyst

John Savin

Circadian Technologies (CIR)

INVESTMENT SUMMARY

Circadian is focused on developing VGX-100, a VEGF-C inhibitory monoclonal antibody for anti-cancer therapy. Preclinical data suggests synergistic action with Avastin in glioblastoma. The US-run Phase I trial is underway. An exploratory Phase IIa trial could start in 2013. A dry-eye disease indication shows preclinical promise and VGX-300 (against VEGF-D) is in preclinical development. There are also two diagnostic products, one of which (to identify unknown cancers) has excellent evaluation data and was launched on 16 July.

INDUSTRY OUTLOOK

On a DCF basis to March 2012, we estimate a revised indicative value of A$100m (A$2.16 per share). Avastin is not very effective in glioblastoma and may be synergistic with VGX-100. Value should develop strongly as new VGX-100 indications become clearer. The return of the ThromboGenics/BioInvent PlGF antibody by Roche removes a possible glioblastoma competitor, although TB-403 may be developed for eye indications.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2010A	0.6	(10.2)	(8.5)	(19.1)	N/A	N/A
2011A	0.4	(11.5)	(10.1)	(20.9)	N/A	N/A
2012E	0.5	(8.7)	(7.7)	(14.1)	N/A	N/A
2013E	1.1	(11.2)	(10.8)	(23.3)	N/A	N/A

Edison investment research

Sector: Pharma & Healthcare

Price:	NOK57.00
Market cap:	NOK1933m
Forecast net cash (NOKm)	146.6
Forecast gearing ratio (%)	N/A
Market	OSE

Share price graph (NOK)

Company description

Clavis has two Phase III cancer therapies. CP-4126 (improved gemcitabine) targets pancreatic cancer; Elacytarabine (improved ara-C) targets refractory AML.

Price performance

%	1m	3m	12m
Actual	(5.4)	0.4	68.4
Relative*	(10.1)	(7.0)	49.0

* % Relative to local index

Analyst

John Savin

Clavis Pharma (CLAVIS)

INVESTMENT SUMMARY

Clavis develops cancer therapies with improved delivery characteristics that also overcome low hENT1, a widespread drug resistance mechanism to gemcitabine and cytarabine. CP-4126 is globally partnered with Clovis (as CO-1.01) and potentially pivotal LEAP trial top-line results in metastatic pancreatic cancer are due in Q412. A Phase I of CP-4126 plus cisplatin in non-small cell lung cancer started in July. Elacytarabine, for acute myeloid leukaemia, is in Phase III and results are due in Q113. CP-4126 offers most value.

INDUSTRY OUTLOOK

If LEAP is pivotal, CP-4126 might launch in H114. With recruitment complete, 64% of patients are low hENT. There is US protection till 2021 and to 2024 in the EU. A CP-4126 formulation patent may extend cover to 2030. Currently, Clavis plans to sell elacytarabine direct in the EU; a US partner is expected. Elacytarabine US protection runs to 2021; 2024 in the EU. We estimate the 2013 value to Clavis of the milestones and royalties on CO-1.01 would be NOK6.2bn.

Y/E Dec	Revenue (NOKm)	EBITDA (NOKm)	PBT (NOKm)	EPS (öre)	P/E (x)	P/CF (x)
2010A	29.6	(108.7)	(105.3)	(411.92)	N/A	N/A
2011A	43.5	(149.7)	(144.1)	(470.03)	N/A	N/A
2012E	42.7	(157.1)	(156.1)	(466.11)	N/A	N/A
2013E	39.1	(173.2)	(178.2)	(531.98)	N/A	N/A

Sector: Pharma & Healthcare

Price:	743.5p
Market cap:	£213m
Forecast net debt (£m)	34.9
Forecast gearing ratio (%)	34.0
Market	LSE

Share price graph (p)

Company description

Consort Medical is an international medical devices company. It operates through two divisions: Bespak (inhalation and injection technologies) and King Systems (airway management products).

Price performance

%	1m	3m	12m
Actual	5.0	14.7	35.7
Relative*	1.8	6.3	24.6

* % Relative to local index

Analyst

Lala Gregorek

Consort Medical (CSRT)

INVESTMENT SUMMARY

Consort Medical's FY12 results provide evidence of execution on its growth strategy, with record full-year revenues and profits; the company remains well positioned to deliver further top-line growth. The management target of double-digit profit growth in the medium term should be achieved organically in the core business (increased volumes) and through new opportunities. Consort is leveraging its strong market position in the design, development and manufacturing of high-margin disposable medical devices which, coupled with investment in operational improvements and the ongoing expansion and diversification of its pipeline, should mean it continues to offer a defensive, dividend-paying growth opportunity for investors.

INDUSTRY OUTLOOK

Consort designs, develops and manufactures high-margin disposable medical devices through its Bespak (drug delivery technologies) and King Systems (airway management) divisions. These have leading positions in strong defensive, but relatively fragmented, markets.

Y/E Apr	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (fd) (p)	P/E (x)	P/CF (x)
2011A	126.8	26.6	17.4	44.7	16.6	10.0
2012A	136.6	28.0	19.4	50.6	14.7	8.7
2013E	141.0	30.1	21.1	55.1	13.5	7.4
2014E	151.1	33.0	23.6	61.6	12.1	6.9

Sector: Pharma & Healthcare

Deltex Medical Group (DEMG)

Price:	25.2p
Market cap:	£38m
Forecast net debt (£m)	1.6
Forecast gearing ratio (%)	164.0
Market	AIM

Share price graph (p)

Company description

Deltex is a UK medical device company that manufactures and sells the CardioQ-oesophageal Doppler monitor and disposable probes for haemodynamic monitoring to reduce recovery times after high-risk and major surgery.

Price performance

%	1m	3m	12m
Actual	1.5	(13.3)	23.9
Relative*	(1.6)	(19.6)	13.7

* % Relative to local index

Analyst

John Savin

INVESTMENT SUMMARY

The trading update disclosed H1 UK probe sales rising at 30% to £1.32m, a gain of £300k. A further 50 monitors were installed, with the proportion sold rather than placed increasing due to the lower price. Sales in January to May were 40% higher but June was poor due to fewer operations with the Queen's Diamond Jubilee and industrial action. Overall, H112 sales at £3.2m were 6.7% up on H111, £200k higher.

INDUSTRY OUTLOOK

The Enhanced Recovery Partnership, an NHS expert consensus report, strongly backed CardioQ for intraoperative fluid management on 3 July. The Intraoperative Fluid Management Technologies Adoption Pack issued on 8 May allows comparable products to CardioQ, but only CardioQ can be bought directly without a tendering process, as it is already approved by the NHS supply chain. Only CardioQ has NICE validation for GDFM. Competing systems like LiDCO and FloTrac cannot generate adequate data due to their inherent technical limitations. Consequently, Deltex has a clear run at the NHS market.

Y/E Dec	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	6.3	(0.7)	(1.0)	(0.72)	N/A	N/A
2011A	6.3	(0.8)	(1.1)	(0.71)	N/A	N/A
2012E	7.1	(0.5)	(0.8)	(0.57)	N/A	185.7
2013E	8.6	0.0	(0.3)	(0.20)	N/A	196.8

Sector: Pharma & Healthcare

e-Therapeutics (ETX)

Price:	35.0p
Market cap:	£48m
Forecast net cash (£m)	8.3
Forecast gearing ratio (%)	N/A
Market	AIM

Share price graph (p)

Company description

e-Therapeutics is a drug discovery and development company with a proprietary network pharmacology discovery platform and a clinical pipeline (with potential to be out-licensed post-Phase II).

Price performance

%	1m	3m	12m
Actual	(4.1)	(10.3)	4.5
Relative*	(7.1)	(16.8)	(4.1)

* % Relative to local index

Analyst

Lala Gregorek

INVESTMENT SUMMARY

e-Therapeutics was busy behind the scenes in 2011, securing funding, strengthening its management team and board, revitalising its discovery activities and preparing for new clinical trial starts. Now 2012 is a year for execution. The first Phase I ETS2101 trial in brain cancers is now enrolling, with a second (solid tumours) imminent, and two other assets are due to enter the clinic this year. With new hires and a new network pharmacology hub, the discovery division is fully active. Business development activity is ramping up. e-Therapeutics has been highly visible on the conference circuit, raising the profile of its discovery platform and existing pipeline.

INDUSTRY OUTLOOK

Network pharmacology could potentially revolutionise drug discovery and shorten the path to market by minimising technical risks (failure on safety or efficacy grounds) and drug development costs. e-Therapeutics is well positioned, with limited direct competition and growing industry interest in systems biology-based multi-target approaches to drug discovery.

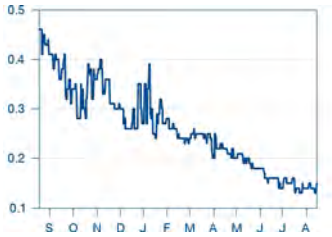
Y/E Jan	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2011A	0.0	(2.5)	(2.7)	(3.5)	N/A	N/A
2012A	0.0	(4.0)	(3.9)	(2.5)	N/A	N/A
2013E	0.0	(6.2)	(6.1)	(3.7)	N/A	N/A
2014E	0.0	(6.3)	(6.3)	(3.8)	N/A	N/A

Edison investment research

Sector: Pharma & Healthcare

Price:	US$0.15
Market cap:	US$11m
Forecast net debt (US$m)	3.8
Forecast gearing ratio (%)	15.0
Market	OMX, OTCQX US

Share price graph (US$)



Company description

EpiCept is a specialty pharmaceutical company focused on the development and commercialisation of pharmaceutical products for cancer treatment and pain management.

Price performance

%	1m	3m	12m
Actual	(18.8)	(33.3)	(72.9)
Relative*	(22.3)	(37.6)	(77.2)

* % Relative to local index

Analyst

Wang Chong

EpiCept (EPCT)

INVESTMENT SUMMARY

EpiCept's investment case is centred on finding a development partner for AmiKet, a product for chemotherapy-induced peripheral neuropathy. Although EpiCept's valuation is depressed as a result of the ongoing regulatory and commercial setbacks with respect to Ceplene and Azixa, the upside from a successful deal could be considerable. Epicept recently realised $2.6m from the recent sale of the European rights to Ceplene to Meda, and while it has enough cash to last until Q3 or Q4, our valuation is under review pending evaluation of the impact of the Ceplene sale.

INDUSTRY OUTLOOK

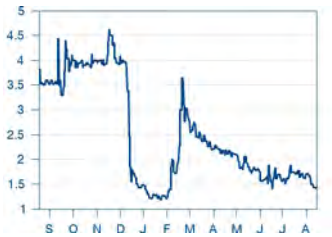
There are many products in clinical development for AML induction therapy; the main direct rivals for maintenance of remission and prevention of relapse include clofarabine and IL-2 monotherapy, although the IL-2 monotherapy has not been shown to be effective to date.

Y/E Dec	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (c)	P/E (x)	P/CF (x)
2010A	1.0	(15.4)	(15.4)	(32.1)	N/A	N/A
2011A	1.0	(14.1)	(15.3)	(22.9)	N/A	N/A
2012E	0.4	(9.2)	(10.3)	(9.4)	N/A	N/A
2013E	N/A	N/A	N/A	N/A	N/A	N/A

Sector: Pharma & Healthcare

Price:	€1.45
Market cap:	€13m
Forecast net cash (€m)	4.4
Forecast gearing ratio (%)	N/A
Market	FRA

Share price graph (€)



Company description

Epigenomics is a German molecular diagnostics company focused on early detection of cancer. Its main product is Epi proColon, a blood-based DNA test for colorectal cancer that uses a sophisticated PCR assay to detect methylated copies of the septin9 gene.

Price performance

%	1m	3m	12m
Actual	(18.9)	(23.3)	(63.1)
Relative*	(23.9)	(30.0)	(68.4)

* % Relative to local index

Analyst

Wang Chong

Epigenomics (ECX)

INVESTMENT SUMMARY

Epigenomics finished its first quarter with cash and equivalents of €11.5m, having reported lower revenues owing to a one-off payment a year ago, and lower R&D and administrative spending thanks to cost-cutting efforts. The third module (analytical validation) of a US filing for Epi proColon have been filed. The fourth (clinical data) hinges on the outcome of a 300-sample head-to-head study with the FIT assay that has started enrolment. While on current assumptions we see sufficient cash to last beyond 2013, the company cautions that lack of funding might pose a threat, and says it is evaluating all options, including a capital markets transaction.

INDUSTRY OUTLOOK

Epi proColon offers patients a simple and convenient alternative to faecal occult blood testing, and should increase compliance for colorectal screening by addressing those individuals who currently do not participate in screening programmes. Epi proLung is an aid in the diagnosis of lung cancer from bronchial lavage using the SHOX2 biomarker.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	1.8	(10.0)	(10.3)	(127.5)	N/A	N/A
2011A	1.4	(7.9)	(8.3)	(96.9)	N/A	N/A
2012E	1.0	(8.4)	(8.6)	(98.5)	N/A	N/A
2013E	6.8	(4.8)	(5.1)	(59.3)	N/A	N/A

Sector: Pharma & Healthcare

Epistem Holdings (EHP)

Price:	420.0p
Market cap:	£37m
Forecast net cash (£m)	2.6
Forecast gearing ratio (%)	N/A
Market	AIM

Share price graph (p)

Company description

Epistem has a profitable contract services business and an emerging clinical biomarker technology with Sanofi as a big client. Novel Therapeutics is partnered with Novartis although the active collaboration has now ended.

Price performance

%	1m	3m	12m
Actual	1.8	4.4	9.9
Relative*	(1.3)	(3.2)	0.8

* % Relative to local index

Analyst

John Savin

INVESTMENT SUMMARY

Epistem reported H112 sales of £3.1m with overall FY12 sales in line with expectations. The H1 PBT loss (after £257k of capitalised R&D) was £536k and there was a £145k tax credit gain. The new BD deal adds $1m cash with further milestone payments of up to $3m, plus escalating supply volumes over the next five years. In H1, CRO services were flat at £1.4m, helped by increased US biodefense work. Biomarkers grew to £1.7m due to Sanofi buying c £1m of genetic analysis tests for its R&D projects. GeneDrive sales were at £0.3m; other hair test projects were flat at £0.4m.

INDUSTRY OUTLOOK

Epistem believes Genedrive (a DNA-based diagnostic point-of-care system) will change the shape of the DNA diagnostics. The new global (ex India) deal with BD on GeneDrive for TB adds strongly to this case. GeneDrive has now been CE marked but published data is very limited. The TB market seems a good one as other tests are unreliable or expensive. Results will be presented on 16 October.

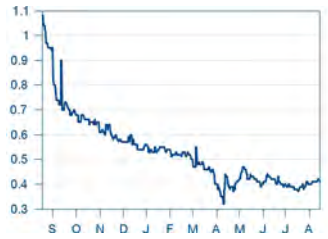
Y/E Jun	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	5.7	0.5	0.4	3.8	110.5	N/A
2011A	5.8	(0.4)	(0.6)	(7.0)	N/A	N/A
2012E	5.3	(1.0)	(1.1)	(14.1)	N/A	N/A
2013E	5.6	(1.0)	(1.1)	(13.9)	N/A	N/A

Sector: Pharma & Healthcare

Evolva (EVE)

Price:	CHF0.41
Market cap:	CHF69m
Forecast net cash (CHFm)	5.8
Forecast gearing ratio (%)	N/A
Market	Swiss Stock Exchange

Share price graph (CHF)



Company description

Evolva is an international biosynthesis company. It has developed a technology platform which it uses to create new methods of making nutritional and consumer health products and novel drugs.

Price performance

%	1m	3m	12m
Actual	10.5	(2.3)	(62.5)
Relative*	5.1	(12.0)	(69.1)

* % Relative to local index

Analyst

Mick Cooper

INVESTMENT SUMMARY

Evolva has developed an innovative biosynthesis platform mainly focused on developing new production methods for nutritional and consumer health products. Its most advanced programmes in this field are vanilla (at scale-up phase) and stevia (moving to pilot-scale) and Evolva could find partners for both projects this year. It already has nutritional alliances with BASF, IFF and Roquette. The platform is also used to develop pharmaceutical products. It's lead pharmaceutical product, EV-077, is in a Phase IIa trial for complications associated with diabetes, data will be presented at the ESC Congress on 28 August. After this, EV-077 could be out-licensed. Evolva also has a collaboration with Roche. It had cash of CHF23m at end-2011 and has a CHF30m equity line so it can operate beyond 2013.

INDUSTRY OUTLOOK

The manufacturers of nutritional and consumer health products are always interested in cheaper production methods, especially if the product is natural and has health benefits. Evolva is primarily targeting this market.

Y/E Dec	Revenue (CHFm)	EBITDA (CHFm)	PBT (CHFm)	EPS (CHFc)	P/E (x)	P/CF (x)
2010A	18.6	(20.7)	(23.5)	(16.7)	N/A	N/A
2011A	11.1	(24.6)	(26.5)	(14.0)	N/A	N/A
2012E	11.0	(20.4)	(22.7)	(12.7)	N/A	N/A
2013E	11.3	(20.3)	(22.4)	(10.9)	N/A	N/A

Sector: Pharma & Healthcare

Price:	€2.59
Market cap:	€308m
Forecast net cash (€m)	43.0
Forecast gearing ratio (%)	N/A
Market	FRA

Share price graph (€)

Company description

Evotec is a drug discovery business that provides outsourcing solutions to pharmaceutical companies, including Boehringer Ingelheim, Pfizer and Roche. It has operations in Germany, India, UK and US.

Price performance

%	1m	3m	12m
Actual	6.2	9.3	26.5
Relative*	(0.3)	(0.3)	8.4

* % Relative to local index

Analyst

Mick Cooper

Evotec (EVT)

INVESTMENT SUMMARY

Evotec reported a second year of profit in 2011, after sales grew by 45% to €80.1m and net income by 123% to €6.7m. Sales growth continued in H112, increasing by 26% to €42.0m; although underlying operating profit fell 6% to €1.6m - due to set-up costs for two major drug discovery contracts, and investment in its capabilities. Evotec continues to invest in its capabilities as it aims to double sales by 2016 at the latest. It has developed a high throughput screening process for monoclonal antibodies, EVOmAb. Also, a collaboration with Harvard (CureBeta), which began last year, recently led to a new alliance with Janssen. Evotec has maintained its guidance of >10% sales growth and improved profitability compared to 2011.

INDUSTRY OUTLOOK

Pharmaceutical companies are outsourcing their drug discovery activities to improve their productivity and decrease the fixed costs associated with them. In this expanding market, Evotec's growth depends on it being able to provide a high-quality integrated service that cheaper service providers are unable to deliver.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	55.3	6.5	4.5	3.8	68.2	160.5
2011A	80.1	12.0	7.5	5.6	46.3	28.2
2012E	89.1	13.6	6.4	4.8	54.0	23.5
2013E	105.1	19.6	12.0	9.4	27.6	15.0

Sector: Pharma & Healthcare

Price:	71.5p
Market cap:	£95m
Forecast net cash (£m)	26.3
Forecast gearing ratio (%)	N/A
Market	AIM

Share price graph (p)

Company description

GW Pharmaceuticals is a UK speciality pharma company focused on developing cannabinoids as pharmaceuticals. Lead product Sativex is marketed in a number of European countries for multiple sclerosis-associated spasticity.

Price performance

%	1m	3m	12m
Actual	(5.3)	(13.9)	(28.6)
Relative*	(8.2)	(20.2)	(34.5)

* % Relative to local index

Analyst

Lala Gregorek

GW Pharmaceuticals (GWP)

INVESTMENT SUMMARY

GW remains focused on fully exploiting its lead cannabinoid drug Sativex and on its pipeline potential. The company continues to make solid operational progress as it transitions from an R&D company to a commercial business, and thus remains an attractive opportunity for investors seeking lower-risk healthcare exposure. Near-term focus is on supporting Sativex's European roll-out for MS spasticity (a second MRP recommended approval in 10 additional EU countries, further national approvals/launches are expected from end-2012), pipeline growth and manufacturing capacity expansion (supporting broader commercial operations ahead of potential Sativex US cancer pain launch in 2015).

INDUSTRY OUTLOOK

GW is a leader in the field of cannabinoid drugs, which have the potential to become novel therapies for a broad range of diseases. Cannabinoids are diverse chemical compounds which GW extracts from different cannabis plant varieties (chemotypes) it has bred. Sativex is GW's lead drug; we estimate it will achieve 5-10% market share in its approved indications.

Y/E Sep	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	30.7	5.9	5.2	4.1	17.4	23.6
2011A	29.6	3.7	3.3	2.7	26.5	44.2
2012E	30.6	2.0	1.3	2.3	31.1	N/A
2013E	25.7	(5.6)	(6.3)	(3.4)	N/A	N/A

Sector: Pharma & Healthcare

Price:	€0.90
Market cap:	€16m
Forecast net cash (€m)	3.9
Forecast gearing ratio (%)	N/A
Market	Euronext Paris

Share price graph (€)

Company description

Hybrigenics is a French drug development company that also provides yeast two-hybrid services to companies and academic institutions. Its lead drug, inecalcitol, is in Phase II and is being developed for prostate cancer and severe psoriasis.

Price performance

%	1m	3m	12m
Actual	4.7	(31.0)	(27.6)
Relative*	(3.8)	(39.0)	(32.9)

* % Relative to local index

Analyst

Mick Cooper

Hybrigenics (ALHYG)

INVESTMENT SUMMARY

Hybrigenics is developing vitamin D3 analogue, inecalcitol, for treating prostate cancer, severe psoriasis and chronic lymphocytic leukaemia (CLL). A Phase IIa trial in castrate resistant prostate cancer (CRPC) demonstrated its potential in this indication. H112 services revenue was stable at €1.62m, while the cash position was stronger at €4.2m, chiefly as a result of two recent rounds of funding. The proceeds are mainly destined for the ongoing development of inecalcitol in CLL while Hybrigenics seeks to partner ongoing development in CRPC. Further analysis of the recent psoriasis trial data showing that inecalcitol still has potential in this indication, or progress in the cancer indications, could be significant catalysts for the shares.

INDUSTRY OUTLOOK

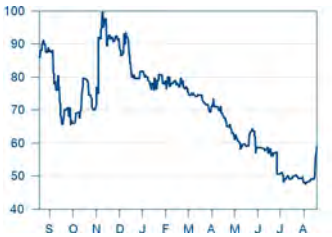
Inecalcitol is being developed in three major indications and faces much competition from existing drugs and those in development. However, its good safety profile could give it an advantage and allow its use in combination with other established therapies.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	4.6	(4.0)	(4.6)	(34.5)	N/A	N/A
2011A	6.6	(2.0)	(2.5)	(14.2)	N/A	N/A
2012E	6.3	(2.9)	(3.1)	(14.8)	N/A	N/A
2013E	6.8	(3.2)	(3.3)	(14.9)	N/A	N/A

Sector: Pharma & Healthcare

Price:	59.0p
Market cap:	£46m
Forecast net cash (£m)	7.4
Forecast gearing ratio (%)	N/A
Market	AIM

Share price graph (p)



Company description

ImmuPharma is a UK drug development company linked to the leading French research organisation (CNRS). The lead project, Lupuzor for lupus, has completed a Phase IIb trial and a development partner is being sought.

Price performance

%	1m	3m	12m
Actual	13.7	(5.1)	(33.5)
Relative*	10.2	(12.0)	(39.0)

* % Relative to local index

Analyst

Christian Glennie

ImmuPharma (IMM)

INVESTMENT SUMMARY

ImmuPharma is seeking a development partner for its Phase III-ready lupus candidate, Lupuzor, having reclaimed global rights from Cephalon after Cephalon's acquisition by Teva in October 2011. A deal with a larger pharmaceutical/biotech partner, or a contract research organisation, will ideally be concluded in 2012. The FDA has agreed an SPA for a Phase III programme, based on ImmuPharma's Phase IIb study completed in 2009, and granted fast-track status. The Phase I/IIa escalating-dose study of N6L in cancer has completed and results are due in H112. ImmuPharma reported a net loss of £3.4m in 2011 and held £11.2m net cash, sufficient for three years at a projected annual cash burn rate of £3.5m.

INDUSTRY OUTLOOK

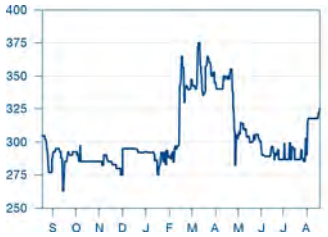
GSK recently acquired HGSI for $3bn, taking full ownership of previously partnered lupus drug Benlysta, as well as albiglutide (diabetes) and darapladib (CVS disorders). H112 US sales of Benlysta were $69m; product uptake has been slower than expected due to high price and reimbursement issues.

Y/E Dec	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	0.0	(3.9)	(2.2)	(2.1)	N/A	N/A
2011A	0.0	(3.6)	(3.4)	(3.9)	N/A	N/A
2012E	0.1	(3.7)	(3.7)	(4.3)	N/A	N/A
2013E	0.1	(3.9)	(3.9)	(4.5)	N/A	N/A

Sector: Pharma & Healthcare

Price:	325.5p
Market cap:	£321m
Forecast net cash (£m)	44.2
Forecast gearing ratio (%)	N/A
Market	AIM

Share price graph (p)



Company description

Imperial Innovations is a technology transfer, incubation and venture investment company. It invests in ventures from Imperial College London, Cambridge and Oxford Universities and UCL. The majority of its investments are bio/med tech.

Price performance

%	1m	3m	12m
Actual	12.4	7.3	5.6
Relative*	8.9	(0.5)	(3.1)

* % Relative to local index

Analyst

Robin Davison

Imperial Innovations (IVO)

INVESTMENT SUMMARY

Imperial Innovations offers the potential for significant value creation from the maturation of, and realisations from, its portfolio of equity holdings in early-stage biotech and technology companies. Its investment strategy is to be directly involved in the management of companies from start-up, while making progressively larger investments over time. Two portfolio companies, Circassia and Nexeon, have reached the stage where significant investments have been made. Future portfolio value growth should arise from successful IP commercialisation by the portfolio companies and would be crystallised by liquidity events.

INDUSTRY OUTLOOK

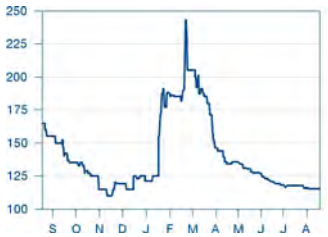
We contend the investment case centres on the real value of the portfolio and the success of the strategy of investing in maturing companies. Portfolio companies are valued per International Private Equity and Venture Capital Valuation guidelines and hence there is potential for significant value creation if exits are achieved at valuations in excess of these.

Y/E Jul	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	4.3	(3.2)	(2.7)	(4.6)	N/A	N/A
2011A	4.5	(4.4)	(2.8)	(4.5)	N/A	N/A
2012E	4.0	(5.9)	(3.9)	(4.0)	N/A	N/A
2013E	N/A	N/A	N/A	N/A	N/A	N/A

Sector: Pharma & Healthcare

Price:	115.5p
Market cap:	£23m
Forecast net cash (£m)	12.3
Forecast gearing ratio (%)	N/A
Market	AIM

Share price graph (p)



Company description

Lombard Medical Technologies is a manufacturer and supplier of cardiovascular implants. The principal product, Aorfix, is a flexible endovascular stent graft for the treatment of abdominal aortic aneurysm (AAA).

Price performance

%	1m	3m	12m
Actual	(1.7)	(11.5)	(30.0)
Relative*	(4.7)	(17.9)	(35.8)

* % Relative to local index

Analyst

Emma Ulker

Lombard Medical Technologies (LMT)

INVESTMENT SUMMARY

Data from the US Pythagoras study of Aorfix for repair of abdominal aortic aneurysms (AAA) were presented at the Society of Vascular Surgery annual meeting. The trial reported a non-inferior 12-month mortality rate and a significantly lower incidence of major adverse events versus open surgery. The US market's acceptance of minimally invasive surgical techniques and Aorfix's unique application could offer a significant commercial opportunity for Lombard. A £14.2m tranche of equity funding is contingent on 2012 FDA approval, which is targeted for Q412. Lombard reports H112 results on 30 August.

INDUSTRY OUTLOOK

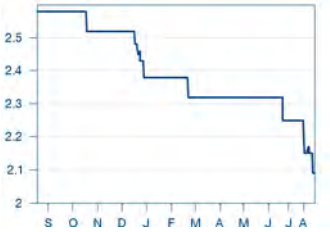
Lombard will compete with larger US corporations to achieve further penetration in the $1.2bn global AAA market on the basis of US FDA approval for Aorfix. The 0-90° label claim (above 60° would be unique) and clinical evidence provide a potential competitive edge for Aorfix in the endovascular aneurysm repair-receptive US market.

Y/E Dec	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	3.0	(8.4)	(8.4)	(73.5)	N/A	N/A
2011A	4.0	(11.0)	(11.1)	(60.1)	N/A	N/A
2012E	4.9	(10.0)	(10.3)	(43.7)	N/A	N/A
2013E	12.3	(10.7)	(11.0)	(35.5)	N/A	N/A

Sector: Pharma & Healthcare

Price:	€2.09
Market cap:	€21m
Forecast net cash (€m)	0.4
Forecast gearing ratio (%)	N/A
Market	MAB

Share price graph (€)



Company description

Medcom Tech distributes a wide range of innovative orthopaedic products across Spain, Portugal and Italy. Its portfolio includes knee and hip implants, plates and screws to repair bone and spine fractures, and advanced types of bone cement.

Price performance

%	1m	3m	12m
Actual	N/A	N/A	N/A
Relative*	N/A	N/A	N/A

* % Relative to local index

Analyst

Mick Cooper

Medcom Tech (MED)

INVESTMENT SUMMARY

Revenues grew by 18% to €14.5m in 2011. This marked a rapid return to growth after sales fell by 8% in H210, despite the market shrinking by over 10%. Growth was driven by a larger sales force and the quality of its portfolio. Despite the sales growth, net income fell by 88% to €0.18m. This was largely because of one-off costs associated with consultants for an SAP system, and recruiting for senior roles. Strong growth should continue and be increasingly profitable, as it benefits from its reps becoming more productive and working capital constraints being lifted. The central Spanish government is settling invoices worth c €6.5m.

INDUSTRY OUTLOOK

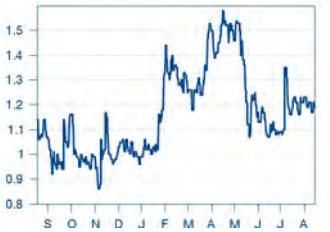
The Spanish orthopaedic market is estimated to be worth €400m. The market was growing at c 5% pa prior to the implementation of austerity measures, but it is now estimated to be declining by c 5%. The growth drivers partially offsetting budget constraints are the aging population, political pressure and technical innovations.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	12.3	2.5	1.7	16.3	12.8	N/A
2011A	14.5	1.5	0.3	2.0	104.5	N/A
2012E	17.8	4.8	3.1	22.2	9.4	2.1
2013E	22.8	7.1	5.3	38.6	5.4	5.0

Sector: Pharma & Healthcare

Price:	€1.19
Market cap:	€45m
Forecast net cash (€m)	19.9
Forecast gearing ratio (%)	N/A
Market	Deutsche Borse

Share price graph (€)



Company description

Medigene is a German biotech company with a focus on cancer and autoimmune diseases. It has brought two products to the market and research efforts are focused on anti-rheumatic agent RhuDex.

Price performance

%	1m	3m	12m
Actual	1.8	(0.2)	3.3
Relative*	(4.5)	(8.9)	(11.5)

* % Relative to local index

Analyst

Christian Glennie

Medigene (MDG)

INVESTMENT SUMMARY

Medigene has made significant recent pipeline progress. Anti-rheumatic agent RhuDex is poised to start a Phase II proof-of-concept study in primary biliary cirrhosis (PBC) by end 2012, while EndoTAG-1, a novel formulation of paclitaxel, now has an Asian development/commercialisation partner in SynCore Biotechnology to cover 50% of the cost of a global Phase III trial in 400 patients with triple negative breast cancer; an NDA is expected in 2018. We estimate Q212 cash of €25m - boosted by €19.1m received from Astellas and Cowen Royalty for complete disposal of economic interest in Eligard (for hormone-resistant prostate cancer) - will last into 2014. The genital warts ointment Veregen has gained EU-wide approval and launches in a further 17 European markets, through existing or new partnerships, are expected in 2012 and 2013.

INDUSTRY OUTLOOK

RhuDex's new development path in PBC, an orphan drug indication, offers a potentially lucrative market opportunity with limited pipeline competition.

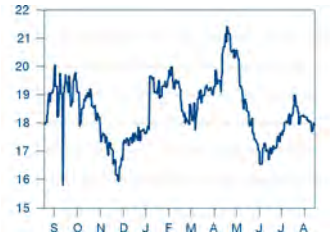
Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	2.3	(17.3)	(17.2)	(47.15)	N/A	N/A
2011A	4.7	(16.6)	(15.5)	(26.47)	N/A	6.6
2012E	6.7	(9.0)	(10.3)	(27.89)	N/A	N/A
2013E	8.0	(9.2)	(11.1)	(29.98)	N/A	N/A

Edison investment research

Sector: Pharma & Healthcare

Price:	€17.92
Market cap:	€419m
Forecast net cash (€m)	139.5
Forecast gearing ratio (%)	N/A
Market	FRA

Share price graph (€)



Company description

MorphoSys is a German biotechnology company. It uses its proprietary technologies to develop human antibodies for therapeutic use across a range of indications. It also develops diagnostic antibodies and sells antibodies for use in research.

Price performance

%	1m	3m	12m
Actual	(2.0)	(2.1)	(0.7)
Relative*	(8.0)	(10.7)	(15.0)

* % Relative to local index

Analyst

Mick Cooper

MorphoSys (MOR)

INVESTMENT SUMMARY

MorphoSys is a profitable biotechnology company with a broad portfolio of products (19 antibodies in clinical studies) and partnerships based on its HuCAL antibody platform. In 2011 it generated revenues of €101m pa and net income of €8.2m, fully funding its proprietary pipeline. In 2012 sales will fall by c 25% (due to a one-off milestone in FY11), but MorphoSys should remain profitable. The company is entering a key period for its own pipeline as data from the Phase I/II trial in rheumatoid arthritis with MOR103 (the most advanced of its three proprietary clinical antibodies) is due at the end of Q312; these results could result in MOR103 being out-licensed. MorphoSys could also form major new alliances this year based on its new antibody platform, Ylanthia. MorphoSys had cash of €134m at the end of Q212.

INDUSTRY OUTLOOK

The pharmaceutical industry is out-licensing more drug discovery and developing more biological products, as it looks to increase R&D productivity and to create better products that are more resistant to generic competition. Both trends should benefit MorphoSys.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	87.0	16.0	17.9	59.2	30.3	89.0
2011A	100.8	18.8	21.9	72.3	24.8	14.4
2012E	75.3	6.8	5.5	21.2	84.5	56.7
2013E	79.7	7.9	8.3	30.5	58.8	40.8

Sector: Pharma & Healthcare

Price:	€1.54
Market cap:	€24m
Forecast net debt (€m)	0.1
Forecast gearing ratio (%)	4.0
Market	Euronext Paris

Share price graph (€)

Company description

Neovacs is a biotech company, focused on the development of targeted active immunotherapies for the treatment of severe chronic autoimmune and inflammatory diseases.

Price performance

%	1m	3m	12m
Actual	(1.3)	(53.3)	(60.6)
Relative*	(9.2)	(58.7)	(63.4)

* % Relative to local index

Analyst

Wang Chong

Neovacs (ALNEV)

INVESTMENT SUMMARY

Although TNF-Kinoid successfully completed a Phase IIa proof of concept trial for rheumatoid arthritis (RA) with promising efficacy data earlier this year, interim analysis of a Phase IIa trial for Crohn's disease (CD) failed to show significant improvement in clinical remission, causing the share price to collapse. This negative CD result, despite the existing RA data, will increase the challenge of attracting a licensing partner for TNF-Kinoid. Neovacs has a novel Kinoid platform technology and another IFN-Kinoid completed a Phase I/II trial for lupus with encouraging efficacy data last year.

INDUSTRY OUTLOOK

Neovacs's kinoids are immunotherapeutic products. Its lead product, TNF-kinoid, is being targeted at the anti-TNF market for the treatment of rheumatoid arthritis and Crohn's disease, which is worth over $20bn. For lupus, there are limited treatments available; the FDA has just approved the first new treatment for this indication in 50 years.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	0.0	(10.0)	(10.3)	(69.2)	N/A	N/A
2011A	0.4	(10.2)	(10.3)	(52.0)	N/A	N/A
2012E	0.0	(10.2)	(10.2)	(55.9)	N/A	N/A
2013E	0.0	(10.7)	(10.7)	(58.2)	N/A	N/A

Sector: Pharma & Healthcare

Omega Diagnostics (ODX)

Price:	15.8p
Market cap:	£13m
Forecast net cash (£m)	0.1
Forecast gearing ratio (%)	N/A
Market	AIM

Share price graph (p)

Company description

Omega is a UK-based company focused on developing and marketing in-vitro diagnostic products in infectious and autoimmune diseases and for food intolerance. Intolerance tests account for over 40% of revenues.

Price performance

%	1m	3m	12m
Actual	(7.3)	27.3	15.6
Relative*	(10.2)	18.0	6.1

* % Relative to local index

Analyst

John Savin

INVESTMENT SUMMARY

FY12 revenue, at £11.12m, was up 5% on a like-for-like basis, with an adjusted PBT of £1.0m and reported profit after tax of £0.32m. Development of a 40-50 launch test menu for allergy-iSYS is on track for a March 2013 launch. The Indian subsidiary traded from July 2012 and adds up to £448k of additional revenue in FY13. New Point of Care (PoC) tests should be marketed from the first half of FY14. These are ideal for developing world use and could gain rapid government and NGO sales.

INDUSTRY OUTLOOK

Omega's allergy division tests for IgE, the clinical basis of allergy, rather than IgG, as in food intolerance tests. The allergy test market is worth c $600m. Progress in moving the 40-50 launch test menu to the iSYS is steady for a March 2013 launch. The main PoC product is a test for CD4+ white cells; if the CD4+ cells are too low, retroviral therapy against HIV is required, yet 65% of developing-world HIV patients are not monitored. A syphilis test for screening in pregnancy is also important.

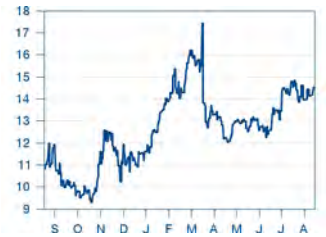
Y/E Mar	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2011A	7.9	0.9	0.7	1.7	9.3	20.0
2012A	11.1	1.2	1.0	1.2	13.2	19.6
2013E	12.9	1.5	1.3	1.4	11.3	7.9
2014E	16.1	2.2	1.9	1.9	8.3	7.3

Sector: Pharma & Healthcare

OncoGenex Pharmaceuticals (OGXI)

Price:	US$14.50
Market cap:	US$211m
Forecast net cash (US$m)	69.0
Forecast gearing ratio (%)	N/A
Market	NASDAQ

Share price graph (US$)



Company description

OncoGenex is a drug discovery and development company creating novel treatments for various cancers. Its leading products are antisense therapies which promote the programmed cell death of tumour cells.

Price performance

%	1m	3m	12m
Actual	(0.1)	16.0	22.1
Relative*	(4.5)	8.6	2.9

* % Relative to local index

Analyst

Mick Cooper

INVESTMENT SUMMARY

OncoGenex has two promising antisense therapies in clinical trials, both with the potential to treat many cancers. Its lead product, custirsen, is in a pivotal Phase III trial, SYNERGY, in first-line castration resistant prostate cancer (CRPC); this study should report data in Q413. A second Phase III trial, AFFINITY, in second-line CRPC has just started patient enrolment and a third in second-line non-small cell lung cancer should start in H212. Custirsen is partnered with Teva and increased median overall survival by 41% to 23.8 months in a Phase II study in CRPC. Its second clinical drug, OGX-427, demonstrated promising anti-tumour activity and was well tolerated in a Phase II in CRPC and Phase I in bladder cancer. A Phase II trial in CRPC with OGX-427 and abiraterone should start in H212. It had net cash of $97m at Q212.

INDUSTRY OUTLOOK

There remains a significant unmet need for efficacious oncology products, in particular for those that do not impair a patient's quality of life. Both OncoGenex's products appear to be highly efficacious and have limited side effects.

Y/E Dec	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (c)	P/E (x)	P/CF (x)
2010A	13.6	(10.7)	(11.5)	(164.2)	N/A	N/A
2011A	5.5	(22.3)	(14.7)	(150.8)	N/A	N/A
2012E	19.1	(24.4)	(24.0)	(184.3)	N/A	N/A
2013E	0.0	(32.6)	(32.5)	(222.3)	N/A	N/A

Edison investment research

Sector: Pharma & Healthcare

Price:	C$3.03
Market cap:	C$228m
Forecast net cash (C$m)	30.4
Forecast gearing ratio (%)	N/A
Market	NASDAQ, TSX

Share price graph (C$)

Company description

Oncolytics Biotech is a Canadian company focused on developing Reolysin, a pharmaceutical formulation of the oncolytic reovirus, for the treatment of a wide variety of human cancers (Phase III trial in head and neck cancer).

Price performance

%	1m	3m	12m
Actual	(12.9)	(17.7)	(22.2)
Relative*	(16.6)	(22.6)	(19.0)

* % Relative to local index

Analyst

Wang Chong

Oncolytics Biotech (ONC)

INVESTMENT SUMMARY

Oncolytics Biotech's investment case hinges on the outcome of its pivotal Phase III trial of Reolysin in squamous cell carcinoma of the head and neck (SCCHN). This study is due to render interim data in mid-2012, which could be the trigger for a major pharmaceutical licensing partnership. Oncolytics has 12 other ongoing clinical trials with Reolysin, including Phase II studies in non-small cell lung, pancreatic, melanoma and ovarian cancers, and a Phase I trial in colorectal cancer. Four new Phase II randomised trials sponsored by CTG are due to start in 2012.

INDUSTRY OUTLOOK

Oncolytics's rivals are the companies developing oncology products in the same therapeutic areas, but there are some interesting viral oncolytic companies, including Jennerex, Genelux and Viralytics, suggesting a new era in cancer treatment. Oncolytics is one of the two leaders in the area, with Amgen the other after its acquisition of BioViex for up to US$1bn.

Y/E Dec	Revenue (C$m)	EBITDA (C$m)	PBT (C$m)	EPS (c)	P/E (x)	P/CF (x)
2010A	0.0	(20.0)	(20.0)	(29.5)	N/A	N/A
2011A	0.0	(28.7)	(28.3)	(39.9)	N/A	N/A
2012E	0.0	(40.9)	(40.9)	(52.4)	N/A	N/A
2013E	0.0	(34.9)	(35.0)	(44.8)	N/A	N/A

Sector: Pharma & Healthcare

Price:	2.2p
Market cap:	£31m
Forecast net cash (£m)	15.9
Forecast gearing ratio (%)	N/A
Market	LSE

Share price graph (p)

Company description

Oxford BioMedica is a UK biotech with a leading position in gene therapy, based on its LentiVector technology, and in cancer vaccines. It is focusing on ophthalmology, with four collaborative projects with Sanofi, and has two clinical assets (ProSavin and TroVax).

Price performance

%	1m	3m	12m
Actual	(5.1)	(39.6)	(65.2)
Relative*	(8.0)	(44.0)	(68.0)

* % Relative to local index

Analyst

Lala Gregorek

Oxford BioMedica (OXB)

INVESTMENT SUMMARY

Receipt of $3m on opt-in by Sanofi to exclusive global licenses to two ocular assets (StarGen and UshStat), coupled with the £11.6m gross equity raise via a firm placing and open offer, have significantly strengthened Oxford BioMedica's balance sheet. It now has a cash runway into 2014 and the funds to fully leverage its proprietary LentiVector gene delivery platform and manufacturing, as well as to dedicate investment into its growing ocular portfolio. The latter is important given the focus of its growth strategy on high value fast-growing markets. ProSavin and TroVax development continues (the latter recently began a Phase II colorectal cancer trial), with the aim of generating further data to support partnering, although no new money from the fund raise is being allocated to these projects. Interims report on 31 August.

INDUSTRY OUTLOOK

Gene therapy can correct dysfunctional cells and/or create endogenous therapeutic protein factories. Oxford BioMedica's LentiVector platform is well suited for ocular diseases, a novel area of unmet need supported by orphan drug pricing potential.

Y/E Dec	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	11.2	(6.5)	(6.6)	(0.9)	N/A	N/A
2011A	7.7	(10.1)	(10.3)	(0.9)	N/A	N/A
2012E	9.0	(8.1)	(8.4)	(0.6)	N/A	N/A
2013E	0.5	(14.9)	(15.3)	(0.9)	N/A	N/A

Sector: Pharma & Healthcare

Price:	€1.01
Market cap:	€25m
Forecast net cash (€m)	10.2
Forecast gearing ratio (%)	N/A
Market	FRA

Share price graph (€)

Company description

Paion is a biopharmaceutical company specialising in the development of CNS products. The company has four NCEs in its R&D portfolio, with the lead programme, remimazolam, partnered with Ono Pharmaceutical in Japan.

Price performance

%	1m	3m	12m
Actual	30.0	7.6	(39.3)
Relative*	22.0	(1.8)	(48.0)

* % Relative to local index

Analyst

Emma Ulker

Paion (PA8)

INVESTMENT SUMMARY

Formalisation of Paion's out-licensing agreement with Yichang for the Chinese rights to short-acting anaesthetic remimazolam brings a modest financial benefit and provides some flexibility while the company identifies suitable new assets to add to its anaesthetics and critical care portfolio. Acquisition of German distribution rights to the first of these additional assets, ultra-short acting anaesthetic remifentanil, were recently announced. The increase in the proportion of day-case and minimally invasive surgeries is driving the use of short-acting general anaesthetics such as remimazolam. We have increased our valuation to €54m from €44m.

INDUSTRY OUTLOOK

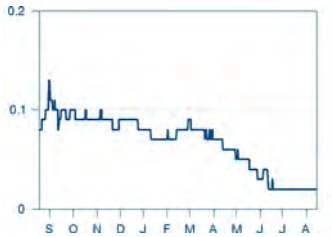
Remimazolam has important advantages over competing products, including fast onset and offset of action and the fact that a reversal agent exists if there is oversedation. Morphine-6-glucuronide has an interesting competitive profile, although Paion is funding only the maintenance of its patents at present.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	4.5	(7.7)	(8.4)	(32.1)	N/A	N/A
2011A	3.2	(6.2)	(6.9)	(25.9)	N/A	N/A
2012E	24.9	16.1	16.1	54.0	1.9	2.1
2013E	1.2	(8.4)	(8.2)	(31.0)	N/A	N/A

Sector: Pharma & Healthcare

Price:	€0.02
Market cap:	€14m
Forecast net debt (€m)	9.5
Forecast gearing ratio (%)	67.0
Market	AMS

Share price graph (€)



Company description

Pharming, a Dutch company listed on Euronext, has focused on Ruconest/ Rhucin for angioedema, a rare hereditary disease. Ruconest is EU marketed by Sobi. In the US, a Phase III with partner Santarus is concluding. US kidney rejection trials have started.

Price performance

%	1m	3m	12m
Actual	(14.3)	(60.9)	(79.3)
Relative*	(18.8)	(65.4)	(81.9)

* % Relative to local index

Analyst

John Savin

Pharming Group (PHARM)

INVESTMENT SUMMARY

Pharming has announced a strategic restructuring with a smaller board and probable staff redundancies. The core problem is very weak Ruconest sales by SOBI: Q112 revenues were €394k (annualised perhaps €2-3m if sales build). This could not fund Pharming's €20m annual costs. Cash as of March 2012 was €7.6m. A new €10m share drawdown facility plus warrants will enable completion of the US Rhucin Phase III (now full recruited, data due Q3) giving a $10m payment from the US partner Santarus if the endpoint is met plus a further $5m on FDA acceptance of the data, maybe in Q113.

INDUSTRY OUTLOOK

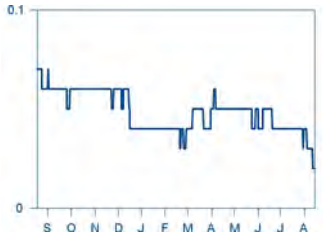
In 2011, Shire's Firazyr sold $33m, mostly in the EU. This shows the level of Ruconest sales SOBI should be generating but, in a small orphan market, there is little absolute margin on a partnering model. Pharming's main opportunities could be in transplantation, but it will take cash for the trials and perhaps two or three years before a solid clinical readout.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	1.8	(3.7)	(20.7)	(3.9)	N/A	N/A
2011A	3.0	(15.0)	(15.5)	(3.3)	N/A	N/A
2012E	4.4	(12.8)	(13.4)	(2.6)	N/A	N/A
2013E	8.1	(9.9)	(11.2)	(2.2)	N/A	N/A

Sector: Pharma & Healthcare

Price:	A$0.02
Market cap:	A$10m
Forecast net cash (A$m)	0.9
Forecast gearing ratio (%)	N/A
Market	ASX

Share price graph (A$)



Company description

Phylogica is a drug discovery company with a proprietary technology platform based on naturally derived Phylomer peptides. Its business model centres on drug discovery collaborations with large pharma partners, including Roche, MedImmune, Pfizer and Janssen.

Price performance

%	1m	3m	12m
Actual	(45.2)	(51.1)	(67.1)
Relative*	(47.9)	(52.6)	(67.4)

* % Relative to local index

Analyst

Lala Gregorek

Phylogica (PYC)

INVESTMENT SUMMARY

Phylogica's strategy is to leverage its Phylomer peptide drug discovery platform to become a preferred discovery partner for large pharma. The investment case continues to rest on its ability to monetise its proprietary discovery platform, by both achieving milestones under its four existing collaborations and securing additional deals. Phylogica received an undisclosed research milestone from Pfizer in May and should reach other key value inflection points in the next six months. Active discussions are ongoing for four new discovery alliances with prospective partners, some with larger deal economics, although timelines have been impacted by large pharma reorganisations. Cash at end-June was $2.8m.

INDUSTRY OUTLOOK

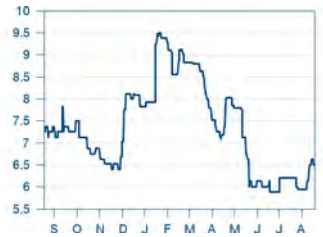
Peptides have some advantages of small molecules (stability, formulation flexibility and COGS) and the binding specificity of antibodies, but their key benefit is the ability to address intractable intracellular targets. Phylomer libraries are a source of novel peptide drug leads, which due to their diversity yield better quality and quantity hits vs random peptide libraries.

Y/E Jun	Revenue (A$m)	EBITDA (A$m)	PBT (A$m)	EPS (c)	P/E (x)	P/CF (x)
2011A	2.4	(3.5)	(3.5)	(1.2)	N/A	N/A
2012A	1.7	(5.0)	(5.1)	(1.2)	N/A	N/A
2013E	5.7	(0.6)	(0.7)	0.0	N/A	N/A
2014E	N/A	N/A	N/A	N/A	N/A	N/A

Sector: Pharma & Healthcare

Price:	6.5p
Market cap:	£23m
Forecast net cash (£m)	7.3
Forecast gearing ratio (%)	N/A
Market	LSE

Share price graph (p)



Company description

Phytopharm is a UK biotech company principally focused on the development of drugs for neurodegenerative disease. Lead candidate Cogane is undergoing a Phase II study in Parkinson's disease, with results due in February 2013.

Price performance

%	1m	3m	12m
Actual	4.8	(3.7)	(14.8)
Relative*	1.6	(10.7)	(21.8)

* % Relative to local index

Analyst

Christian Glennie

Phytopharm (PYM)

INVESTMENT SUMMARY

Phytopharm's near-term focus is on Cogane, currently undergoing a 400-patient Phase II trial (Confident-PD) in Parkinson's disease, with a solid pre-clinical data package in amyotrophic lateral sclerosis (ALS). Dosing into Confident-PD should be completed in December 2012, with top-line data due in February 2013, a significant potential catalyst for the stock and stimulus for securing a development partner. A Phase I bioavailability study with a solid dose capsule formulation (Phase II is using a liquid formulation) has started and results by end 2012/early 2013 are important to boost the partnering package and create a Phase III-ready asset. Cash of £13.3m as of 31 March 2012 provides funding until the end of 2013.

INDUSTRY OUTLOOK

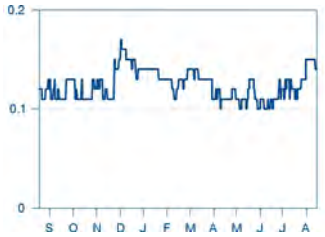
Cogane, a small molecule orally active agent, is one of the leading industry-wide pipeline candidates with disease-modifying potential for Parkinson's disease. Potential partners could advance the development of Cogane for multiple neurodegenerative indications.

Y/E Sep	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	0.7	(4.3)	(4.1)	(1.3)	N/A	N/A
2011A	0.1	(8.4)	(8.0)	(2.2)	N/A	N/A
2012E	0.0	(10.5)	(10.4)	(2.7)	N/A	N/A
2013E	0.0	(8.3)	(8.2)	(2.2)	N/A	N/A

Sector: Pharma & Healthcare

Price:	C$0.14
Market cap:	C$60m
Forecast net debt (C$m)	N/A
Forecast gearing ratio (%)	N/A
Market	TSX

Share price graph (C$)



Company description

ProMetic Life Sciences is an international biopharmaceutical business, comprised of a group of companies focused on developing ligand-based technologies and therapeutics.

Price performance

%	1m	3m	12m
Actual	16.7	16.7	12.0
Relative*	11.7	9.8	16.6

* % Relative to local index

Analyst

Lala Gregorek

ProMetic Life Sciences (PLI)

INVESTMENT SUMMARY

ProMetic's investment case rests on deriving greater value from proprietary ligand enabling technologies by moving up the value chain and developing higher-value/less-commoditised technologies. 2012 should be a positive year financially: revenues will be more heavily H2 weighted and improved order visibility means confirmed revenues should exceed C$21m, with upside potential. The company has had recent business development success, broadening its customer base and securing new projects/strategic alliances in plasma-derived therapeutics. These include a $10m orphan drug license and strategic manufacturing deal with Hematech and an exclusive US development/commercialisation deal with NatPharma, which both leverage ProMetic's development and manufacturing expertise and accelerate investment in the Laval facility. Our forecasts are under review.

INDUSTRY OUTLOOK

Business focus is on validating the plasma-derived therapies manufacturing subsidiary, boosting resin sales, and securing further partners for its novel oral small molecule drugs.

Y/E Dec	Revenue (C$m)	EBITDA (C$m)	PBT (C$m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2010A	11.4	(8.4)	(10.4)	(3.3)	N/A	N/A
2011A	17.6	(0.2)	(1.9)	(0.9)	N/A	N/A
2012E	N/A	N/A	N/A	N/A	N/A	N/A
2013E	N/A	N/A	N/A	N/A	N/A	N/A

Sector: Pharma & Healthcare

Price:	32.6p
Market cap:	£64m
Forecast net debt (£m)	4.8
Forecast gearing ratio (%)	740.0
Market	AIM

Share price graph (p)

Company description

Proteome Sciences is a protein biomarker contract research organisation. It has a broad patent portfolio covering isobaric mass-tagging in mass spectrometry and biomarkers for various neurological and oncology indications.

Price performance

%	1m	3m	12m
Actual	(7.3)	34.0	61.5
Relative*	(10.1)	24.3	48.1

* % Relative to local index

Analyst

Mick Cooper

Proteome Sciences (PRM)

INVESTMENT SUMMARY

Proteome Sciences has a broad IP portfolio covering mass spectrometry techniques and biomarkers, which is now being commercialised. The company earns royalties and manufacturing payments from Thermo Fisher Scientific, which sells Proteome's TMT products. PS Biomarker Services carries out protein assays and biomarker discovery for pharmaceutical companies, including Eisai and J&J. Proteome Sciences also out-licenses its proprietary biomarkers non-exclusively to diagnostic companies. The value of Proteome's technology platform has received further validation from GSK's acquisition of Cellzome, which has used Proteome's TMT products since 2008. Underlying sales grew by 127% to £1.0m in FY11 and are forecast to rise to 3.2m in FY12, largely due to growth of PS Biomarker Services sales.

INDUSTRY OUTLOOK

Pharma companies are expanding their biomarker programmes due to pressure from regulators and to improve productivity. Protein biomarkers promise to be particularly useful as they provide a direct read-out of changes occurring in a person.

Y/E Dec	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	0.5	(4.5)	(4.9)	(3.0)	N/A	13.0
2011A	1.0	(4.1)	(4.5)	(2.1)	N/A	N/A
2012E	3.2	(2.4)	(2.8)	(1.4)	N/A	N/A
2013E	6.7	0.4	(0.1)	0.0	N/A	N/A

Sector: Pharma & Healthcare

Price:	98.1p
Market cap:	£23m
Forecast net debt (£m)	N/A
Forecast gearing ratio (%)	N/A
Market	LSE

Share price graph (p)

Company description

SkyePharma is a drug delivery specialist. It uses its technologies and expertise to develop new formulations of established drugs and new chemical entities, bringing clinical and lifecycle management benefits.

Price performance

%	1m	3m	12m
Actual	(5.0)	35.7	83.6
Relative*	(7.9)	25.9	68.5

* % Relative to local index

Analyst

Robin Davison

SkyePharma (SKP)

INVESTMENT SUMMARY

The EU approval and launch of Flutiform was a prerequisite to the investment case, without which SkyePharma would have been unable to refinance its convertible bonds effectively. The refinancing of the convertible bonds has removed a large uncertainty since £63m needed to be refinanced by November 2013 and a further £20m by December 2014. Now with the finances effectively stabilised, the key sensitivities become the achievement of a meaningful market share of the ICS/LABA market and ensuring the generation of sufficient cash over the next five years to repay the new bonds. Our forecasts are under review.

INDUSTRY OUTLOOK

Flutiform is an inhaled corticosteroid/long-acting beta-agonist combination of fluticasone and formoterol for treating asthma. With Germany and now UK launches expected before year-end (generating €4m milestones each), news flow is now focused on further European approvals (generating a further €9m in milestones).

Y/E Dec	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	58.1	18.9	8.3	33.8	2.9	0.9
2011A	55.2	12.6	(0.2)	(3.3)	N/A	1.8
2012E	N/A	N/A	N/A	N/A	N/A	N/A
2013E	N/A	N/A	N/A	N/A	N/A	N/A

Sector: Pharma & Healthcare

Price:	US$3.25
Market cap:	US$155m
Forecast net cash (US$m)	5.7
Forecast gearing ratio (%)	N/A
Market	NASDAQ

Share price graph (US$)

Company description

Sunesis Pharmaceuticals is US biotech company focused on the development of anticancer drugs. Its lead compound, vosaroxin, is in a Phase III study for relapsed/refractory AML.

Price performance

%	1m	3m	12m
Actual	1.9	15.8	120.0
Relative*	(2.6)	8.4	85.4

* % Relative to local index

Analyst

Robin Davison

Sunesis Pharmaceuticals (SNSS)

INVESTMENT SUMMARY

Sunesis is moving closer to its key 2012 event, the interim analysis of its pivotal VALOR Phase III study of vosaroxin in relapsed/refractory acute myeloid leukaemia. The 187-event trigger point for the interim analysis is now projected in September. The VALOR study has enrolled 317 patients so far and should reach full recruitment of 450 in Q4. Sunesis's investment case rests entirely on the outcome of the VALOR study and so the interim analysis is of critical importance. Our model indicates a valuation of $300m (of which AML contributes $270m). Sunesis offers a potentially highly geared upside linked to success in the VALOR study, albeit with a high single-product risk.

INDUSTRY OUTLOOK

Vosaroxin is one of around 10 agents in Phase III studies for various AML settings, but is the lead compound in the relapsed/refractory setting. There is, however, more competition in the front-line setting.

Y/E Dec	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (c)	P/E (x)	P/CF (x)
2010A	0.0	(21.3)	(24.6)	(593.7)	N/A	N/A
2011A	5.0	(25.8)	(20.1)	(43.3)	N/A	N/A
2012E	0.0	(32.5)	(30.5)	(65.4)	N/A	N/A
2013E	0.0	(32.5)	(32.9)	(70.5)	N/A	N/A

Sector: Pharma & Healthcare

Synta Pharmaceuticals (SNTA)

Price:	US$6.58
Market cap:	US$417m
Forecast net debt (US$m)	7.9
Forecast gearing ratio (%)	48.0
Market	NASDAQ

Share price graph (US$)

Company description

Synta Pharmaceuticals is a US biopharmaceutical company focused on developing small molecules for treating cancer. It has two lead products: ganetespib (Phase IIb/III) and elesclomol (Phase II).

Price performance

%	1m	3m	12m
Actual	5.1	63.6	68.1
Relative*	0.6	53.1	41.6

* % Relative to local index

Analyst

Robin Davison

INVESTMENT SUMMARY

Synta will shortly perform a second interim analysis of the Phase IIb stage of its GALAXY study, which is evaluating ganetespib in combination with docetaxel in second-line, non-small cell lung cancer (NSCLC). The data, which is expected to be presented at the European Society of Medical Oncology congress (28 September-2 October), will inform the design of the Phase III portion of the GALAXY study, which is due to start in Q4. The company has also raised $25m. We maintain our valuation of $702m.

INDUSTRY OUTLOOK

Ganetespib is the leader in the HSP90 inhibitor class. It is also one of around 10 agents in or entering Phase III trials specifically for second-line NSCLC.

Y/E Dec	Revenue (US$m)	EBITDA (US$m)	PBT (US$m)	EPS (c)	P/E (x)	P/CF (x)
2010A	14.8	(30.4)	(33.4)	(92.8)	N/A	N/A
2011A	7.6	(40.6)	(44.0)	(104.4)	N/A	N/A
2012E	0.1	(61.4)	(64.3)	(121.6)	N/A	N/A
2013E	0.0	(67.9)	(70.6)	(120.6)	N/A	N/A

Sector: Pharma & Healthcare

TiGenix NV (TIGB)

Price:	€0.59
Market cap:	€51m
Forecast net debt (€m)	0.1
Forecast gearing ratio (%)	0.0
Market	Euronext Brussels

Share price graph (€)

Company description

TiGenix produces cell therapeutics. Its lead Phase III development candidate, Cx601, treats perianal fistulas in Crohn's disease. ChondroCelect is approved and sold direct in the EU for knee cartilage repair.

Price performance

%	1m	3m	12m
Actual	14.3	14.3	(25.3)
Relative*	7.3	1.4	(29.2)

* % Relative to local index

Analyst

John Savin

INVESTMENT SUMMARY

ChondroCelect is now fully reimbursed in the Netherlands, enabling TiGenix to invest in national marketing and product support. Private insurers often specify use of only ChondroCelect. The crucial Cx601 ADMIRE-CD study in perianal fistulas started on 10 July as expected. The Cx621 safety study showed that the intralymphatic groin injection of adipose stem cells was safe and well tolerated. A US partner on Cx601 may be agreed in H212-H113. Cx611 (autoimmune diseases) reports in H113; all 53 rheumatoid arthritis patients have been recruited. Q112 results showed a strong ChondroCelect performance with sales up 123% to €700k. Cash was solid at €16.7m. TiGenix is funded into 2013 but may need up to €4m from non-dilutive funding.

INDUSTRY OUTLOOK

ChondroCelect sells for €18,000, so 1,670 implantations a year (85 in 2011; maybe 40 in Q1) could take TiGenix to profit. In Crohn's disease, about 120,000 patients have fistulas. With direct EU sales from 2016 plus an anticipated US partner, Cx601 could be highly lucrative.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (fd) (c)	P/E (x)	P/CF (x)
2010A	0.6	(13.8)	(13.8)	(43.6)	N/A	N/A
2011A	1.1	(15.1)	(14.6)	(21.4)	N/A	N/A
2012E	3.2	(12.8)	(13.3)	(14.6)	N/A	N/A
2013E	8.5	(9.6)	(10.2)	(11.1)	N/A	N/A

Sector: Pharma & Healthcare

Topotarget (TOPO)

Price:	DKK1.12
Market cap:	DKK146m
Forecast net cash (DKKm)	42.9
Forecast gearing ratio (%)	N/A
Market	OMX

Share price graph (DKK)

Company description

Topotarget is a Danish drug development company in the field of oncology. Its lead product is belinostat and it has out-licensed the North American and India rights to Spectrum Pharmaceuticals.

Price performance

%	1m	3m	12m
Actual	(7.6)	(64.4)	(41.5)
Relative*	(13.1)	(68.3)	(55.3)

* % Relative to local index

Analyst

Mick Cooper

INVESTMENT SUMMARY

Topotarget is only developing belinostat, which is partnered with Spectrum Pharmaceuticals. Data from a pivotal Phase II trial, BELIEF, for peripheral T-cell lymphoma (PTCL) are due in H212, which could lead to the drug being approved in the US in 2013. Belinostat is also being developed for cancer of unknown primary (CUP) and non-small cell lung cancer (NSCLC). Recent Phase II data in CUP showed belinostat almost doubled the response rate to chemotherapy, but surprisingly there was no progression-free survival benefit. Spectrum is buying another company with a drug for PTCL, but says it is still committed to belinostat. Topotarget should be able to operate into Q213 with its current cash reserves (DKK89m, c $15m, at Q112).

INDUSTRY OUTLOOK

Topotarget's belinostat is a histone deacetylase inhibitor (HDACi). Two such drugs have been approved and nine others are in clinical development. However, belinostat has a favourable safety profile and could be the first HDACi approved for solid tumours in combination therapy.

Y/E Dec	Revenue (DKKm)	EBITDA (DKKm)	PBT (DKKm)	EPS (DKK)	P/E (x)	P/CF (x)
2010A	107.8	(3.8)	(6.7)	1.01	1.1	0.1
2011A	65.6	(28.0)	(31.4)	(0.25)	N/A	N/A
2012E	2.4	(79.5)	(82.8)	(0.62)	N/A	N/A
2013E	2.2	(73.5)	(78.0)	(0.59)	N/A	N/A

Sector: Pharma & Healthcare

Transgene (TNG)

Price:	€8.27
Market cap:	€262m
Forecast net cash (€m)	57.4
Forecast gearing ratio (%)	N/A
Market	Euronext Paris

Share price graph (€)

Company description

Transgene is a French drug discovery and development company focused on the treatment of cancer and infectious diseases with immunotherapies. It has four products in Phase II development.

Price performance

%	1m	3m	12m
Actual	13.6	13.8	(14.8)
Relative*	4.4	0.7	(21.1)

* % Relative to local index

Analyst

Mick Cooper

INVESTMENT SUMMARY

Transgene has four immunotherapy products in Phase II clinical trials, which could lead to it to becoming a fully-integrated pharmaceutical company in five years. Its lead product, TG4010, is a therapeutic vaccine and has started a Phase IIb/III trial in non-small cell lung cancer. This could lead to Novartis exercising its option to in-license the drug in 2013. Its second drug, JX594, an oncolytic virus, is in a Phase IIb study in hepatocellular carcinoma (HCC, data due in Q113) after it significantly increased survival in a Phase II study in HCC. Initial Phase II data in HCV with TG4040 showed promising levels of efficacy; further data is expected this year. However, TG4001 now needs to be partnered for development in HPV-related cancers, following disappointing Phase II data in CIN. It has sufficient cash to operate into H214.

INDUSTRY OUTLOOK

There is currently considerable interest in immunotherapies - both therapeutic vaccines and oncolytic viruses, especially for the treatment of cancers - after the approval of Provenge and Yervoy. They are generally well tolerated and are showing promising levels of efficacy.

Y/E Dec	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	14.1	(32.2)	(33.8)	(122.5)	N/A	N/A
2011A	14.4	(42.1)	(42.9)	(137.1)	N/A	N/A
2012E	14.9	(50.3)	(52.3)	(164.9)	N/A	N/A
2013E	15.4	(53.0)	(55.1)	(173.9)	N/A	N/A

Sector: Pharma & Healthcare

Price:	79.0p
Market cap:	£262m
Forecast net cash (£m)	68.8
Forecast gearing ratio (%)	N/A
Market	LSE

Share price graph (p)

Company description

Vectura is a UK speciality pharmaceutical company developing a range of inhaled therapies and technologies, principally for the treatment of respiratory diseases such as asthma and COPD.

Price performance

%	1m	3m	12m
Actual	7.5	17.6	(17.4)
Relative*	4.2	9.1	(24.2)

* % Relative to local index

Analyst

Lala Gregorek

Vectura (VEC)

INVESTMENT SUMMARY

Vectura is closer to H212 European approval/launch of once-daily LAMA Seebri Breezhaler (NVA237) after a positive CHMP recommendation. EMA approval triggers a $10m milestone from Novartis; Japan approval is also expected by year end, with potential for a further $2.5m milestone. However, presentations at the European Respiratory Society (1-5 September) are the next major catalyst: further data from the IGNITE Phase III QVA149 programme are expected (four trials have so far read-out positively). Phase III data will support Europe and Japan QVA149 filings expected in Q412; while agreement between Novartis and the FDA on NVA237/QVA149 trial protocols means new Phase III trials will start imminently, permitting US filings in 2014. VR315 US development continues, confirmed by recent milestones.

INDUSTRY OUTLOOK

Vectura offers exposure to potential generic ICS/LABA asthma combinations (despite US regulatory complexity) and a novel LAMA (NVA237) and LABA/LAMA combination (QVA149), which could become first-in-class therapies, at least ex-US, in the blockbuster COPD market.

Y/E Mar	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2011A	42.9	3.0	1.7	1.9	41.6	95.2
2012A	33.0	(4.2)	(4.6)	1.3	60.8	N/A
2013E	29.4	(4.5)	(5.1)	(0.3)	N/A	N/A
2014E	20.5	(14.1)	(14.8)	(3.8)	N/A	N/A

Sector: Pharma & Healthcare

Price:	25.2p
Market cap:	£112m
Forecast net cash (£m)	79.0
Forecast gearing ratio (%)	N/A
Market	AIM

Share price graph (p)

Company description

Vernalis is a UK speciality pharma company with a late-stage US cough/cold pipeline and an early to mid-stage R&D pipeline of CNS and cancer projects. Its latest fundraise will enable it to build a US-based sales force for the former.

Price performance

%	1m	3m	12m
Actual	11.0	6.9	(32.7)
Relative*	7.6	(0.9)	(38.2)

* % Relative to local index

Analyst

Franc Gregori

Vernalis (VER)

INVESTMENT SUMMARY

Vernalis's deal with Tris Pharma to develop a range of Rx (prescription only) extended release cough/cold products for the US market may prove to be the long-awaited transformational event that delivers sustainable profitability. Precise timelines remain uncertain but the simpler 505(b)(2) regulatory pathway suggests that the first products could be approved in time for the 2014/15 cough and cold season. Planning for the creation of the US sales force has begun, with recruitment likely just ahead of product approval. We suspect further in-licensing efforts to now focus on products that will complement the seasonality of this 'cough and cold' portfolio.

INDUSTRY OUTLOOK

H112 revenue was £5.9m (£2m from frovatriptan royalties; £3.9m from research collaborations), R&D costs were lower but G&A increased slightly. H112 operating loss was £4.3m (down from £5.9m pre-exceptionals in H111). FY R&D of £13-15m is expected, and G&A for H212 should be at similar levels to H112 (ie c £2.8m). Cash was £84.5m as at 12 June.

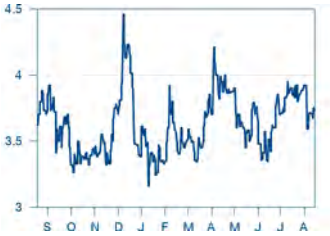
Y/E Dec	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	P/E (x)	P/CF (x)
2010A	14.2	(2.0)	(3.4)	(1.0)	N/A	N/A
2011A	12.2	(6.0)	(6.3)	(3.4)	N/A	N/A
2012E	11.6	(7.6)	(7.8)	(1.6)	N/A	N/A
2013E	9.5	(9.9)	(10.2)	(2.0)	N/A	N/A

Edison investment research

Sector: Pharma & Healthcare

Price:	€3.73
Market cap:	€118m
Forecast net debt (€m)	3.4
Forecast gearing ratio (%)	68.0
Market	FRA

Share price graph (€)



Company description

Wilex develops therapeutic and diagnostic products for cancer. Lead development programmes are Redectane (pre-registration), Rencarex (Phase III for adjuvant treatment of renal cancer) and Mesupron (Phase II for pancreatic and breast cancers).

Price performance

%	1m	3m	12m
Actual	(2.1)	5.8	0.2
Relative*	(8.1)	(3.4)	(14.1)

* % Relative to local index

Analyst

John Savin

WILEX (WL6)

INVESTMENT SUMMARY

Wilex guidance for FY12 has increased to €16-18m; the H2 rise of €2m is mainly due to the deferred recognition of $17.5m cash received from Prometheus in July in respect of Rencarex. H1 operating costs were €13.3m, of which €6.9m was R&D. The cash use is €1.7-2m per month (€20-24m a year). Losses in H1 reduced to €5.6m vs €10.6m. A €25m value rights issue will enable the €7.7m dievini loan (capital plus interest) to be converted to equity and raise up to €17.3m cash.

INDUSTRY OUTLOOK

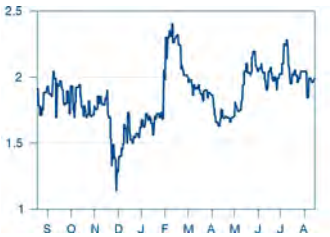
The 25 July Oncology Drugs meeting advised the FDA that an accurate imaging test for clear cell renal cancer would be useful; the the design and potential label arising from a Redectane Phase III trial may be clearer after an FDA meeting in September. The Mesupron plus capecitabine Phase II breast cancer trial showed a subgroup 8.3-month progression free survival vs 4.3 months on capecitabine alone; a positive trend. Rencarex data should be available in Q412 and could lead to filing for clear-cell renal cancer.

Y/E Nov	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (c)	P/E (x)	P/CF (x)
2010A	1.3	(22.4)	(22.5)	(134.4)	N/A	N/A
2011A	11.7	(12.8)	(13.6)	(65.8)	N/A	N/A
2012E	17.4	(10.0)	(10.9)	(44.9)	N/A	N/A
2013E	20.6	(7.3)	(8.3)	(33.3)	N/A	N/A

Sector: Pharma & Healthcare

Price:	C$1.99
Market cap:	C$312m
Forecast net cash (C$m)	120.5
Forecast gearing ratio (%)	N/A
Market	NYSE MKT, TSX

Share price graph (C$)



Company description

YM BioSciences is an oncology-focused business developing compounds licensed from academia and acquired through takeovers. Its stock is listed on NYSE MKT and the Toronto Stock Exchange.

Price performance

%	1m	3m	12m
Actual	(2.0)	(5.7)	2.6
Relative*	(6.2)	(11.2)	6.8

* % Relative to local index

Analyst

Christian Glennie

YM BioSciences (YM)

INVESTMENT SUMMARY

A pivotal programme for CYT387 in myelofibrosis is being finalised and, subject to regulatory clearance, could begin in the second half of 2012. YM BioSciences also says it is designing clinical studies of CYT387 in additional indications. 2012 should see final nine-month data from the compound's core Phase I/II study, interim results from an extension trial and interim data from a twice-daily dosing Phase II study. The company finished its fiscal third quarter with C$137m in cash and equivalents - after raising C$74m in February 2012 through a public offering - and says it is weighing licensing discussions against the prospect of retaining CYT387's full commercial economics.

INDUSTRY OUTLOOK

CYT387 is one of the most advanced unpartnered JAK1/2 inhibitors in development, and has a potentially significant efficacy advantage. Incyte/Novartis's ruxolitinib (Jakafi) is the most advanced competing JAK inhibitor, gaining FDA approval in 2011 for the treatment of myelofibrosis.

Y/E Jun	Revenue (C$m)	EBITDA (C$m)	PBT (C$m)	EPS (c)	P/E (x)	P/CF (x)
2010A	2.6	(17.3)	(17.3)	(26.8)	N/A	N/A
2011A	1.0	(24.4)	(24.0)	(25.7)	N/A	N/A
2012E	1.3	(31.5)	(22.5)	(15.7)	N/A	N/A
2013E	1.3	(35.4)	(35.3)	(22.5)	N/A	N/A

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