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# Bioshares

**21 December 2018  
Edition 775 Extract**

*Delivering independent investment research to investors on Australian  
biotech, pharma and healthcare companies*

Companies covered: **ACR, BCT, CGS, DXB, OPT, RNO**

## Top Six Stock Picks – 2019

	Bioshares Portfolio
Year 1 (May '01 - May '02)	21.2%
Year 2 (May '02 - May '03)	-9.4%
Year 3 (May '03 - May '04)	70.6%
Year 4 (May '04 - May '05)	-16.3%
Year 5 (May '05 - May '06)	77.8%
Year 6 (May '06 - May '07)	17.4%
Year 7 (May '07 - May '08)	-36%
Year 8 (May '08 - May '09)	-7.4%
Year 9 (May '09 - May '10)	50.2%
Year 10 (May '10 - May '11)	45.4%
Year 11 (May '11 - May '12)	-18.0%
Year 12 (May '12 - May '13)	3.1%
Year 13 (May '13 - May '14)	26.6%
Year 14 (May '14 - May '15)	23.0%
Year 15 (May '15 - May '16)	33.0%
Year 16 (May '16 - May '17)	16.8%
Year 17 (May '17 - May '18)	-7.1%
Year 18 (May '18 - current)	-21.0%
<b>Cumulative Gain</b>	<b>531%</b>
<b>Av. Annual gain (17 yrs)</b>	<b>17.1%</b>

Each year we select six stocks which we believe should outperform over the next 12 months. Our six picks for 2018 delivered a disappointing result. Business plan failure, particularly in the USA, and in some cases, poor capital management, contributed to this underperformance, against a backdrop of broader market weakness. The ASX All Ordinaries has declined by almost 10% over the last 12 months.

Our picks for 2019 are Acrux, Bluechiip, Cogstate, Dimerix, Opthea and Rhinomed. Bluechiip has been added to the Bioshares Model Portfolio. We have looked for stocks that have either clinical trial results in the offing, a positive sales growth outlook, a profit result or substantial development of a product pipeline ahead.

### **Opthea (OPT: \$0.58; Cap'n – \$117 million) Two Clinical Trial Readouts Ahead in 2019**

At current prices, Opthea is a standout investment opportunity. The company has made exceptional progress this year with its randomized Phase IIb trial of OPT302 in combination with ranibizumab (Lucentis) in 366 patients with wet Age Related Macular Degeneration (AMD). AMD is characterised by unwanted blood vessel growth and 'leaky' blood vessels in the eye. OPT302 works by 'soaking' up growth factors which promote blood vessel growth.

Opthea closed recruitment of the trial five months ahead of schedule, which means that the company now expects to report trial results in Q4 2019.

The company also anticipates reporting results from a randomised 117 patient Phase I/II trial of OPT302 in combination with aflibercept (Eylea) in patients with Diabetic Macular Edema (DME) in H2 2019.

An important feature of OPT302 is that it is being investigated to treat *both* wet AMD and DME. There are only a few other drugs being developed for both indications, with Novartis' brolocizumab the most advanced followed by OPT302 (see *Bioshares 772*).

The market opportunity for OPT302 in wet AMD lies with the more than 50% of patients who do not achieve significant vision gains with VEGF-A inhibitors (Lucentis, Avastin and Elyea), and an even greater proportion (two-thirds) in DME patients. OPT may also work to improve the duration of response of VEGF therapies when delivered in combination.

The potential exists for a high value transaction to take place in 2020, if results from both trials are positive and convincing.

Opthea has been able to bring a key clinical milestone forward, in contrast to the more common announcement of delay and deferment of results. It indicates strong enthusiasm for OPT302 by physicians, who would be keen to add another efficacious drug to the options they have for treating AMD and DME.

**Bioshares recommendation: Speculative Buy Class A**

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Blake Industry & Market Analysis Pty Ltd  
ACN 085 334 292  
PO Box 193  
Richmond Vic 3121  
AFS Licence  
No. 258032  
Enquiries for *Bioshares*  
Ph: (03) 9326 5382  
Fax: (03) 9329 3350  
Email: info@bioshares.com.au

**David Blake - Editor/Analyst**  
Ph: (03) 9326 5382  
Email: david[at]bioshares.com.au  
**Mark Pachacz - Editor/Analyst**  
Ph: 0403 850 425  
Email: mark[at]bioshares.com.au

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**How Bioshares Rates Stocks**

For the purpose of valuation, Bioshares divides biotech stocks into two categories. The first group are stocks with existing positive cash flows or close to producing positive cash flows. The second group are stocks without near term positive cash flows, history of losses, or at early stages of commercialisation. In this second group, which are essentially speculative propositions, Bioshares grades them according to relative risk within that group, to better reflect the very large spread of risk within those stocks. For both groups, the rating “Take Some Profits” means that investors may re-weight their holding by selling between 25%-75% of a stock.

**Group A**

Stocks with existing positive cash flows or close to producing positive cash flows.

- Buy** CMP is 20% < Fair Value
  - Accumulate** CMP is 10% < Fair Value
  - Hold** Value = CMP
  - Lighten** CMP is 10% > Fair Value
  - Sell** CMP is 20% > Fair Value
- (CMP–Current Market Price)

**Group B**

Stocks without near term positive cash flows, history of losses, or at early stages commercialisation.

**Speculative Buy – Class A**

These stocks will have more than one technology, product or investment in development, with perhaps those same technologies offering multiple opportunities. These features, coupled to the presence of alliances, partnerships and scientific advisory boards, indicate the stock is relative less risky than other biotech stocks.

**Speculative Buy – Class B**

These stocks may have more than one product or opportunity, and may even be close to market. However, they are likely to be lacking in several key areas. For example, their cash position is weak, or management or board may need strengthening.

**Speculative Buy – Class C**

These stocks generally have one product in development and lack many external validation features.

**Speculative Hold – Class A or B or C**

**Sell**

**Corporate Subscribers:** Cogstate, Bionomics, LBT Innovations, Opthea, ResApp Health, Pharmaxis, Dimerix, Adalta, Medibio, Pharmaust, Actinogen Medical, Patrys

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**Bioshares**  
**PO Box 193 Richmond VIC 3121**  
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