Life Sciences Review
16 October 2015

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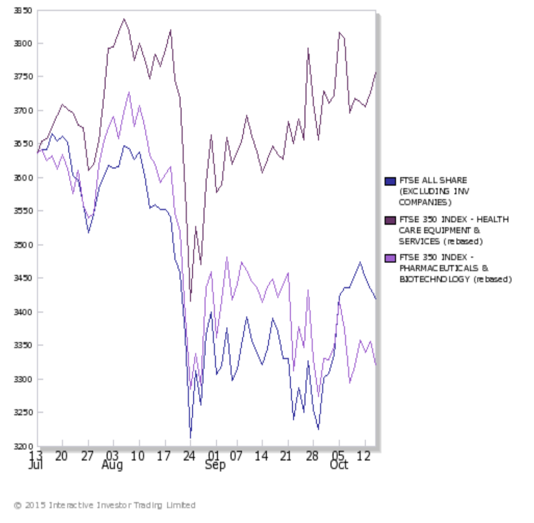

Source: www.iii.co.uk

FTSE All Share	CY2015	CY2016
PE	16.1	14.7
P/Book	1.8	1.8
EV/Sales	1.5	1.4
EV/EBITDA	9.1	8.4
FTSE 350 Healthcare Eqpt & Services	**CY2015**	**CY2016**
PE	20.7	18.5
P/Book	3.3	3.0
EV/Sales	2.7	2.6
EV/EBITDA	12.4	11.4
FTSE 350 Pharma& Biotech	**CY2015**	**CY2016**
PE	16.8	15.8
P/Book	5.7	5.5
EV/Sales	3.6	3.6
EV/EBITDA	11.9	11.0

Source: Bloomberg

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Hair of the dog anybody?

Our August edition of the life sciences review **'The Biotech Feast - after the party comes the hangover'** warned that those at the top of the life sciences tree were showing signs of calling the end of a valuation bubble, and that we had seen something of a hiatus in deal activity particularly in terms of licensing deals. What we could not foresee however was the proximity and ferocity of the impending 'correction'. Indeed the story of the quarter can be seen in the sector charts, with the life sciences indices significantly underperforming the wider market. Over the last 3 months the FTSE350 Pharma & Biotech Index is down some 9%, although the slump has been more pronounced stateside, perhaps reflective of the punchier valuations we have seen across the pond, and consequently a bigger distance to fall when sentiment moves the other way. Over the same period the S&P Pharmaceuticals Select Index was down an astonishing 27%.

The trigger for this downturn was Hilary Clinton's comments on social media that she would be seeking to combat the high price of drug pricing following the 50-fold price increase of decades old toxoplasmosis treatment Daraprim. Any change in legislation is however likely to be fiercely contested and some years away. We also believe that innovative drugs targeting debilitating and fatal areas of unmet need, will still be able to secure premium prices for successful treatments in the long term, thereby underpinning the value of any licensing deal that those pioneering them, can secure with partners.

Indeed in the UK we still expect two new entrants to the listed life sciences universe before the end of the month, Evgen Pharma which is looking to raise circa £5m at the second attempt, and has a novel approach to stabilising the anti-cancer agent Sulforadex®, and Faron Pharma whose lead drug Traumakine® is in Phase III development for the treatment of acute respiratory distress syndrome.

Amongst our coverage universe there are a number of companies we think should not be unduly affected by the debate. **BELLUS Health's (TO:BLU)*** lead candidate KIACTA™ has the potential to delay or prevent long term chronic care regimes (dialysis in this case) for a rare disease population who has little other hope of an effective treatment. **ProMetic Life Sciences (TO:PLI)*** plasma processing platform is well positioned to provide a wide range of affordable biopharmaceuticals.

On AIM **OptiBiotix Health (LON:OPTI)*,** which is looking to harness the power of the human microbiome is primarily developing non-prescription products and therefore steering well clear of the issue, whilst **Sareum's (LON:SAR)*** CHK1, approaching the end of its pre-clinical phase promises to enhance the efficacy of chemotherapy treatments, thereby possibly saving health providers significant sums in terms of wasted treatments and relapses.

Economic Review

Turning Japanese…

"I'm turning Japanese, I think I'm turning Japanese, I really think so." Those of us who can remember The Vapors' song from 1980 can probably also remember the booming Japanese economy of that era and subsequent asset bubble that went pop in 1990. The burst bubble which resulted in the so called 'lost decade' (So-called because it was more like two decades that were lost.) Companies that were technically bust learned to save rather than invest - a kind of corporate paradox of thrift - and massive government fiscal stimulus was required to maintain GDP and avoid a major depression. Arguably monetary policy was ineffective through the era, and even negative interest rates, tried at one stage, failed to move the dial.

All this came flooding back to mind when reading the recently published Japanese Machine Orders for August. They came in a whopping 4% lower than the year before. Market consensus expectation was for around a 3.2% increase; so quite a shock. The 'core' orders were worse yet, falling 5.7% year on year. Over in the US, the likes of Caterpillar, Cummins, Parker Hannifin &c. are also having an equally torrid time.

Of course this visibly reflects the slowdown in emerging markets and the consequent aftershock of commodities' price slumps and the impacts on the industries surrounding those commodities. However, reminiscent of the 'lost decades', there is definitely no appetite on either side of the Atlantic, or the Pacific, or anywhere for that matter, to go near a 'depression'. So it looks like there will be more of the same in terms of fiscal stimulus and monetary indifference globally, with the corollary negligible levels of GDP growth and poor productivity, for the immediate and foreseeable future.

However not all is doom and gloom. As long as panic can be avoided, and seven years beyond Lehman Bros I think that is likely as we are all quite inured to these mini-shocks, then price deflation particularly on food and fuel could result in increased consumer spending to offset the industrial slowdown.

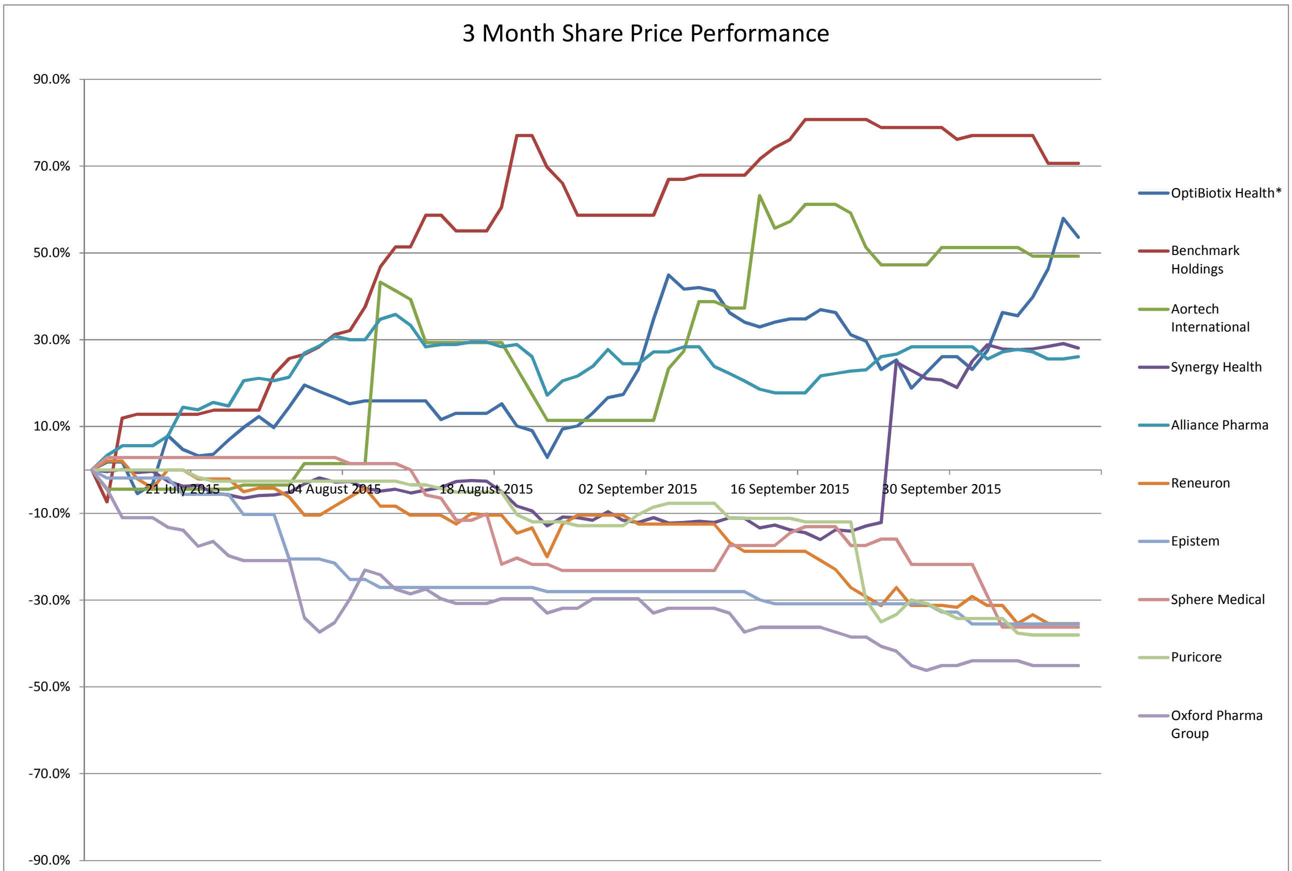
In this environment high growth companies (outside of the resources sector) should arguably command a premium amongst investors because the returns from property, bonds and mainstream share indices may be pretty dull for some time. All of which should auger well for stocks in the Tech and Life Sciences areas and particularly for the small-mid cap names; which can grow fastest of all.

By William Lynne

Risers and Fallers

As at 13 October 2015	*3 month Share price movement*
OptiBiotix Health*	57.97%
Benchmark Holdings	52.46%
Aortech International	49.25%
Synergy Health	29.14%
Alliance Pharma	25.56%
Reneuron	(34.08%)
Epistem	(35.51%)
Sphere Medical	(36.23%)
Puricore	(35.84%)
Oxford Pharma Group	(45.05%)

Source: Fidessa



Source Fidessa

Risers

OptiBiotix Health* (LON:OPTI 52.3p/£38.5m 3mth +57.97%)

The life sciences business developing compounds to tackle obesity, high cholesterol and diabetes, in September announced that it had completed testing and primary data analysis on its capsular food supplement to reduce cholesterol, and commenced pilot manufacturing studies. Although under the terms of an option with a multinational consumer goods company the results were embargoed under a confidentiality clause, OptiBiotix stated that it had commenced pilot manufacturing studies to define the scale up requirements to take the strain from laboratory to pilot scale manufacture. These studies are important in determining the best microbial growth conditions to optimise production yields and volumes.

In the following month the company announced additions to its growing intellectual property portfolio with the registration of five new microbial strains under the Budapest Treaty. The Budapest Treaty is an international treaty administered by the World Intellectual Property Organisation which enables the deposition of micro-organisms for the purposes of patent protection. This provides a reference point for filing and defending patents and establishing title during commercial discussions. Registration of these strains protects the advances made in developing novel sugars using OptiBiotix's proprietary OptiBiotic® platform technology.

Benchmark Holdings (LON:BMK 93p/£204m 3mth +52.46%)

At the end of July, Benchmark advanced its position in aquaculture genetics and made a strategic move into the tilapia genetics and breeding sector with two acquisitions for a combined initial consideration of NOK 140m (c. £11.0m), satisfied from existing cash balances. Expanding on Benchmark's position as the second largest global player in salmon breeding and genetics, the acquisitions represent a strategic move into aquaculture genetics across a wider number of the major farmed species, and into breeding in the fast growing tilapia sector.

In September, the company announced that its subsidiary SalmoBreed AS had achieved a major breakthrough in genetic breeding programs for Pancreas Disease and sea lice resistance through a new genetic method in aquaculture called Genomic Selection. This method is already recognised in genetic science for other species, and can provide a more accurate and safer selection than by using traditional methods, but has never been used in aquaculture before. On 8 October, the company confirmed it was contemplating the potential acquisition of INVE Aquaculture Holding B.V, which would constitute a reverse takeover under the AIM Rules. The shares were suspended and will remain so until such time as an admission document is published or the talks otherwise conclude.

Aortech International (LON:AOR 37.5p/£1.81m 3mth +49.25%)

In August, the biomaterials and medical device IP Company announced its FY March 2015 financial results. Group revenue from continuing operations doubled from the previous year to US$844k. Operating profit came in at US$81k (2014: US$440k loss) before amortisation costs and exceptional items and the loss from continuing operations more than halved from US$823k to US$326k. Administrative costs continue their downward trend following the exit from the US. The company is now refocussing on progressing its polymer heart valve towards human trials. The Litigation against former CEO Frank Maguire continues.

Synergy Health (LON:SYR 2,308p/£1,366m 3mth +29.14%)

On 27 August, the provider of specialist outsourced support services to health related markets provided a Q1 to June trading update in line with the Board's expectations. Reported revenue for the three months to 28 June 2015 increased by 9% to £104.2 million (Q1 2014/15 £95.6 million). Underlying revenue, excluding currency effects, increased by 10.7%. Operating margin remains 60 basis points higher than the comparative period. In September, the company informed the market that the US District Court for the Northern District of Ohio had ruled against the Federal Trade Commission's request for a preliminary injunction to block STERIS's acquisition of Synergy Health. At the court meeting/GM held on 2 October, the merger was approved by shareholders. As per the original announcement in October 2014, Steris shareholders will receive 439p per share in cash and 0.4308 per Steris share.

Alliance Pharma (LON:APH 56.8p/£131.9m 3mth +25.56%)

In September, the speciality pharmaceutical company reported interim results to June 2015. Revenue was up 6.6% to £22.8m. This 6.5% increase was achieved despite the hand-back in 2014 of nine products, which APH had been distributing for Novartis since 1998. These products contributed £959,000 to first-half sales last year, although their profit contribution was relatively modest. HydromolTM continues to grow well, with sales up 11% to £3.3m (H1 2014: £3.0m) and the acquisition of MacuShieldTM in February 2015 contributed sales of £1.4m. PBT rose marginally from £5.4m to £5.5m. Net bank debt stood at £26.5m up from £21.1m.

Fallers

ReNeuron (LON:RENE 3.875 p/£131.3m 3mth -34.08%)

The UK based stem cell company in July announced a £68m placing at 5p per share to provide working capital for core cell-based therapeutic programmes and new exosome nanomedicine programme in oncology through to first half of 2019. The placing provides funding for stroke and retinitis pigmentosa programmes through to market authorisation application based on existing clinical development plans. The issue price represented a 2.5 per cent premium to the closing mid-market price of 4.88p on 9 July 2015. AT the AGM on 24 September a trading update was provided. The company has two stem Cell therapies in clinical trials and expects to start dosing patients on a candidate for retinitis pigmentosa in the US this year. Elsewhere in the business, the exosome nanomedicine programme is proceeding well, with pre-clinical studies continuing in order to further elucidate the mechanism of action and utility of this therapeutic platform in a range of potential cancer indications.

Epistem (LON:EHP 172.5p/£18.22m 3mth -35.51%)

The personalised medicine and biotechnology company, on 4th August updated on trading for FY June 2015. Income over the full year was £4.5m, broadly in line with market expectations. EBITDA losses are expected to be £3.8m, in line with market expectations and reflecting the increased expenditure leading up to the launch of the Company's rapid, low cost, simple to use 'Point of Care' device Genedrive®. Net cash at 30 June 2015 was £4.9m (2014: £4.2m). The Company is now placing its first Genedrive Tuberculosis products with its Indian distributor as part of Genedrive's introduction to the Indian market. The initial product sales will be used to satisfy Key Opinion Leader studies and to build a bank of clinical reference data to support product positioning and entry into the Indian market. In the same announcement Epistem revealed that Matthew Walls would be leaving his position as Chief Executive Officer and that Dr. Ian Gilham, Non-Executive Chairman, will act as Chief Executive Officer on an interim basis, with immediate effect. Dr. Gilham has international experience in the research, development and commercialisation of diagnostic and pharmaceutical products. He is Non-Executive Chairman of a number of UK and European companies including Horizon Discovery Group plc, Multiplicom NV, and Biosurfit SA. Dr. Gilham was formerly Chief Executive of Axis-Shield plc, a FTSE listed global diagnostics company, acquired by Alere in November 2011 for £235m.

Sphere Medical (LON:SPHR 11p/£15.59m 3mth -36.23%)

The provider of innovative monitoring and diagnostic devices for the critical care setting on 22 September announced H1 June 2015 results. There were no material revenues in the period but operational highlights including those which were post period end included, first commercial sale of Proxima 3, German and Dutch sales managers hired, growing number of hospital approval processes under way and the launch of a programme to identify global commercial partner. Proxima delivers near real time analysis of blood gases and electrolytes metabolites, at the patient's bedside. Proxima can be used on patients across a wide therapeutic range, enabling faster clinical decision making and improved patient outcomes, whilst potentially reducing costs for healthcare payers. The company made a net loss of £3.5m in the period and had year-end cash and equivalents of £12.8m following a £13.2m equity fundraising at 16p.

PuriCore (LON:PURI 18.1p/£9.09m 3mth -35.84%)

The international company focused on applying its proprietary hypochlorous acid platform technology to unmet needs in human health, announced H1 June 2015 results in September. Group revenue increased 5.9% to $9.1m (H1 2014:$8.6m) but gross margin decreased to 24.5% (H1 2014: 28.2%) due to increased service costs within Supermarket Retail. The company recorded a $3.8m EBITDA compared to $2.2m in H1 2014 and had year-end net cash of $16.3m. In September, the Company reached a settlement with the California Department of Pesticide Regulation in connection with the sale and promotion of the Company's concentrate products in California which resulted in a charge of $0.4m in the H1 accounts. The Environmental Protection Agency is also reviewing the concentrate products and the Company has not yet received any feedback or conclusion from the EPA. No provision has been recorded related to the EPA investigation. The Company will update as and when more information is known. The Company has implemented measures to enhance compliance controls.

Oxford Pharma Group (LON:OXP 6.3p/£75.35m 3mth -45.05%)

The drug development company that re-develops approved drugs to make them better, safer and easier to take announced H1 June 2015 results in September. Revenue was £342k (2014: £336k), the majority derived from a partnership with Ache Laboratorios in Brazil. The loss before tax was £2.2m (2014: loss of £1.7m) reflecting the higher level of clinical activity compared to the prior period. The company has run two proof-of-concept clinical studies in the period, compared to one in the comparative period, resulting in Research and Development spending increasing to £1.5m from £1.0m in the first half of 2014. The Company raised gross proceeds of £20.0m from a placing of new ordinary shares at a price of 10 pence per share in June 2015 in order to proceed along its clinical pathway with and allow the expansion of the pipeline. The company's NSAID (Non-steroidal anti-inflammatory drug) programmes are designed to reduce gastric irritation in comparison to existing formulations.

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