

Biotron Limited

ASX: BIT Bloomberg BIT AU Reuters: BIT.AX

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\$0.30
SPEC. BUY

C-Test (CT1) to Commence Clinical Trials

| | | | | | |
|--------------|------|-------------------|----|----------------|--------|
| # of Shares: | 57M | Market Cap (\$M): | 17 | Current Price: | \$0.30 |
| % All Ords: | 0.00 | % Sector: | na | Valuation: | \$0.67 |

FIGURE 1: SHARE PRICE CHART

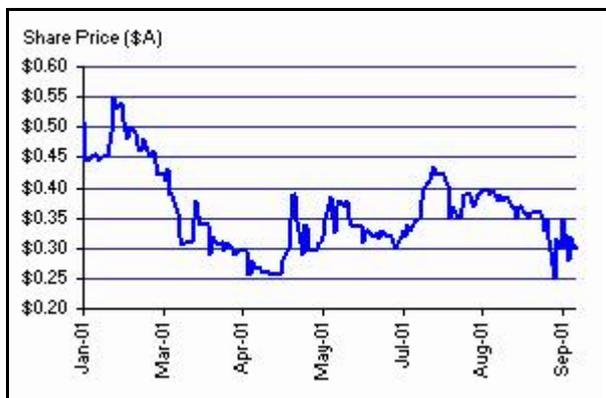


TABLE 1: EARNINGS SUMMARY

| Yr to 30 Jun | 1999A | 2000A | 2001A | 2002F |
|---------------|-------|-------|-------|-------|
| Profit (A\$M) | 0 | 0 | -1 | -3 |
| EPS (c) | n/a | 0.0 | -2.2 | -4.4 |
| Div (c) | 0.0 | 0.0 | 0.0 | 0.0 |
| P/E (x) | n/a | n/a | -13.5 | -6.9 |
| Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| Franking (%) | 0 | 0 | 0 | 0 |
| Chg EPS (%) | n/a | n/a | n/a | n/a |

Event

Biotron (BIT) today announced the commencement of clinical trials of its lead cancer diagnostic C-Test (CT1). In addition the company announced a strategic collaboration agreement with Bruker Daltonics Inc (Nasdaq:BDAL), a multi national developer and supplier of medical and research-based instruments (market capitalisation of US\$845m).

Impact

Progress to full-scale human clinical trials of the C-Test (CT1) represents a significant milestone in the commercialisation of BIT's intellectual property. Furthermore the sensitivity and speed of analysis available from mass spectrometry, as well as its versatility, makes this technology attractive for a growing range of applications including automated diagnostic screening procedures. Instrument miniaturization, coupling mass spectrometry with other analytical techniques, such as the novel cancer diagnostic screening test being developed by BIT, represents a significant step in the mainstreaming of the instrument in primary healthcare.

Summary

Structural issues in the global pharmaceutical industry are creating opportunities for small biotechnology research companies. Biotron is seeking to exploit these opportunities with a novel platform technology developed at JCSMR.

Investment Opinion

We believe Biotron offers exposure to the exciting, if somewhat speculative, end of the biotechnology sector. The downside risk for investors are delays in achieving any licensing related outcomes. Notwithstanding the long lead time required for the commercialisation of Biotron's seven project portfolio, we have valued (on an NPV basis) the company's three more mature projects (CT-1, CT-2, Virion) at 67¢ per share.

C-Test (CT1). As indicated in our initial report dated 8 February 2001, the C-Test (CT1) project is one of seven projects currently being conducted by BIT at the ANU facility. The test being developed seeks to detect a unique component of the human immune system, whose absence has been identified by Dr Chris Parish as correlating with the presence of cancer in the body. The test represents an improvement on currently used immunoassay diagnostic techniques, such as the PSA, for its accuracy and general screening applications. Unlike immunoassay approaches, which rely on measures using monoclonal antibody interactions and tumour-specific single antigens, the C-Test (CT1) holds promise of accurately detecting the presence of all types of cancer in the first instance. The use of mass spectrometry to measure for the absence of the unnamed constituent remains a key aspect of the C-Test (CT1).

Mass Spectrometry. Since its introduction 100 years ago, the mass spectrometer (MS) has become a standard scientific research tool in the analysis of low molecular weight particles. These have included trace quantities of pollutants and drugs, gases and stable-isotopes. The basic mechanism of action involves an electron-impact source, used to generate a beam of electrons to ionise volatilised molecules under investigation. The resulting particles are then benchmarked on the basis of fragmentation patterns and mass-charge ratios for the purpose of determining atomic weights. Various types of MS instruments have evolved using different and specialized methods for smashing and ionising the target molecules, but are all essentially the same technique in principle.

Clinical Trials. The company has conducted extensive animal studies and preliminary human trials, using the technique of matrix assisted laser desorption/ionisation time of flight (MALDI-TOF) mass spectrometry, as initial proof of concept. Results to date have indicated a 100% success rate in the detection of the presence of cancer. BIT is now proceeding to full-scale clinical trials expected to be complete in 12 months and involve blood samples from approximately 1,500 subjects sourced from medical institutions in New South Wales, Victoria and the ACT. The National Health Sciences Centre (NHSC) will conduct the clinical trials, under agreement with BIT. We note that the NHSC clinical trials unit has conducted trials for and maintains close relationships with global pharmaceutical companies including Eli Lilly, Servier, NovoNordisk, Pharmacia, Novartis and Aventis.

Bruker Collaboration. BIT also announced a strategic alliance with Bruker Daltonics Inc (NASDAQ:BDAL) to co-develop an integrated C-Test/Mass spectrometer product utilising the company's OMNIFLEX™ mass spectrometer and associated software/hardware. Under the agreement Biotron and Bruker will collaborate technically and commercially in the development of the test and the potential extension of the product to the analysis of other biomarkers. We view the coupling of BIT's C-Test (CT1) project with the established mass spectrometer supplier, Bruker Daltonics, as a significant step towards ultimate commercialisation of BIT's intellectual property. We believe the alliance provides leverage to both parties through the expansion of the use of mass spectrometry into mainstream cancer diagnostics given the advantages over current early cancer detection techniques in terms of accuracy, sensitivity and general screening applications.

FY01 Result. BIT announced full year results for the period ended 30 June 2001. A loss of \$1.3m was compared with our forecast loss of \$0.3m. The result reflects start up costs associated with the expansion of R&D facilities and included the purchase of the Bruker Daltonic's Mass Spectrometer albeit at a significant discount to purchase price and costs attributed to the ASX float of approximately \$1m.

Valuation. Our valuation of BIT currently stands at 67 cents on the basis of successful progress of all three mature projects within the current investment environment. We note the C-Test (CT1) will generate revenues for BIT on a fee-per-test basis. In addition we note all intellectual property developed by BIT during the Bruker collaboration will accrue to BIT. Our initial conservative assessment assumes a target market of \$1.0 billion in diagnostic cancer screening tests versus the company's prospectus estimate of \$1.6 billion.

Summary and Outlook

We believe the commencement of full-scale C-Test (CT1) human clinical trials and the strategic alliance with major mass spectrometry player Bruker Daltonics are significant milestones in the commercial development of Biotron's intellectual property. Notwithstanding the potential for international exposure, the Bruker collaboration delivers a technical valuable ally in the ongoing development of the C-Test (CT1) and access to potential technology transfer and distribution capabilities of an established global player. That said, we believe the added involvement of the NHSC Clinical trials unit raises the possibility of closer associations with major pharmaceutical players in BIT's several other projects.

Disclosure of Interest:

ASSIRT Equities has been commissioned to prepare an independent report by Johnson Taylor Potter Corporate Finance Limited and will receive a fee for preparation of this report.



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