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Momentum builds for small cap biotechs

Stocks

Yolanda Redrup

Capital that local investors dedicate to risky investments that was once largely tied up in junior explorers is starting to flow to early stage biotech companies, according to stock brokers and fund managers.

The momentum behind local biotech and medtech giants like CSL, Cochlear and ResMed is filtering downstream, with investors hunting for companies which could go on to have similar success in the decades to come.

Cumulus Wealth partner Marco Longo told *The Australian Financial Review* it had become easier to get capital raisings away for speculative biotechs and it had been a favourable market for the last 18 months or so.

"Last year, there were a number of mid to large cap biotechs that improved from the [positive] sentiment, but this year it's filtered into some of the smaller ones as well," he said.

"Looking at what's happening in the US, the iShares Nasdaq biotechnology ETF has been hitting all time highs ... and that's contributed to it as well.

"A few years ago, who'd have thought a company like Invex Therapeutics could raise \$26 million so easily. I tried to get some stock for my clients and it was impossible – there was so much demand."

Invex, which is backed by Andrew Forrest's Tattarang and is endeavouring to repurpose an existing drug known as Exenatide to treat intracranial hypertension, is one of a few small cap biotechs to recently report clinical trial results.

In May, it announced it had met all primary end points of its phase two clinical trial and its data was strongly supportive of moving to a phase three trial. It indicated the drug successfully reduced intracranial pressure over a variety of time periods and lowered patients' monthly headache days by an average of 7.7 days per month.

On the back of the news, Invex

shares are still trading up more than 31 per cent since April.

Invex chairman Dr Jason Loveridge said although the business was a small cap, it was more advanced than many other early stage biotechs and could feasibly have a commercial product within three to four years.

"I think Invex is still relatively undervalued compared to its peers relative to its stage of development," Dr Loveridge said.

"We will begin recruitment for phase three in 2021 ... We're looking at 250 patients, so it's a decent size for an orphan drug indication. We believe it'll take about two years to complete.

"Our strategy is to focus on Exenatide. We know there are a number of other diseases we could address with different formulations, so we're not looking for other assets."

According to a 2014 study published in *Nature Biotechnology*, the chance of a biotechnology company getting a drug approved for all of its classifications while it's in phase one trials is only 10.4 per cent, but the odds increase substantially as it progresses to later stage trials.

Other stocks Mr Longo likes include personalised cancer treatment biotech Prescient Therapeutics and Antisense Therapeutics, which is developing a drug to treat Duchenne muscular dystrophy. Cumulus was involved in raisings for both of these companies.

Australian Ethical's Andy Gracey is

also a fan of Prescient, saying its CAR-T technology is a hot space, particularly in the US.

Mr Gracey said Australian Ethical was also invested in two other cancer treatment companies, OncoSil and Immutep, the latter of which raised \$12 million in late April and is expected to release data for phase two of its immunotherapy clinical trial this year and next.

"The risk capital comes in fits and starts for biotech ... but there is genuine interest. For good technology there is capital there, with people like Bell Potter

and Morgans being particularly active."

"What we want to see is quality signs. I don't want to invest in the petri dish phase. I want to see signals of efficacy and safety.

"Then generally we like to see multiple programs. Like with Opthea, for example, even if you have question marks in one indication, you still have another. We're not afraid to be active [investors] as well."



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Australian Ethical's Andy Gracey likes biotechs with multiple programs that have advanced beyond the petri dish phase. PHOTO: PIETER NAESENS