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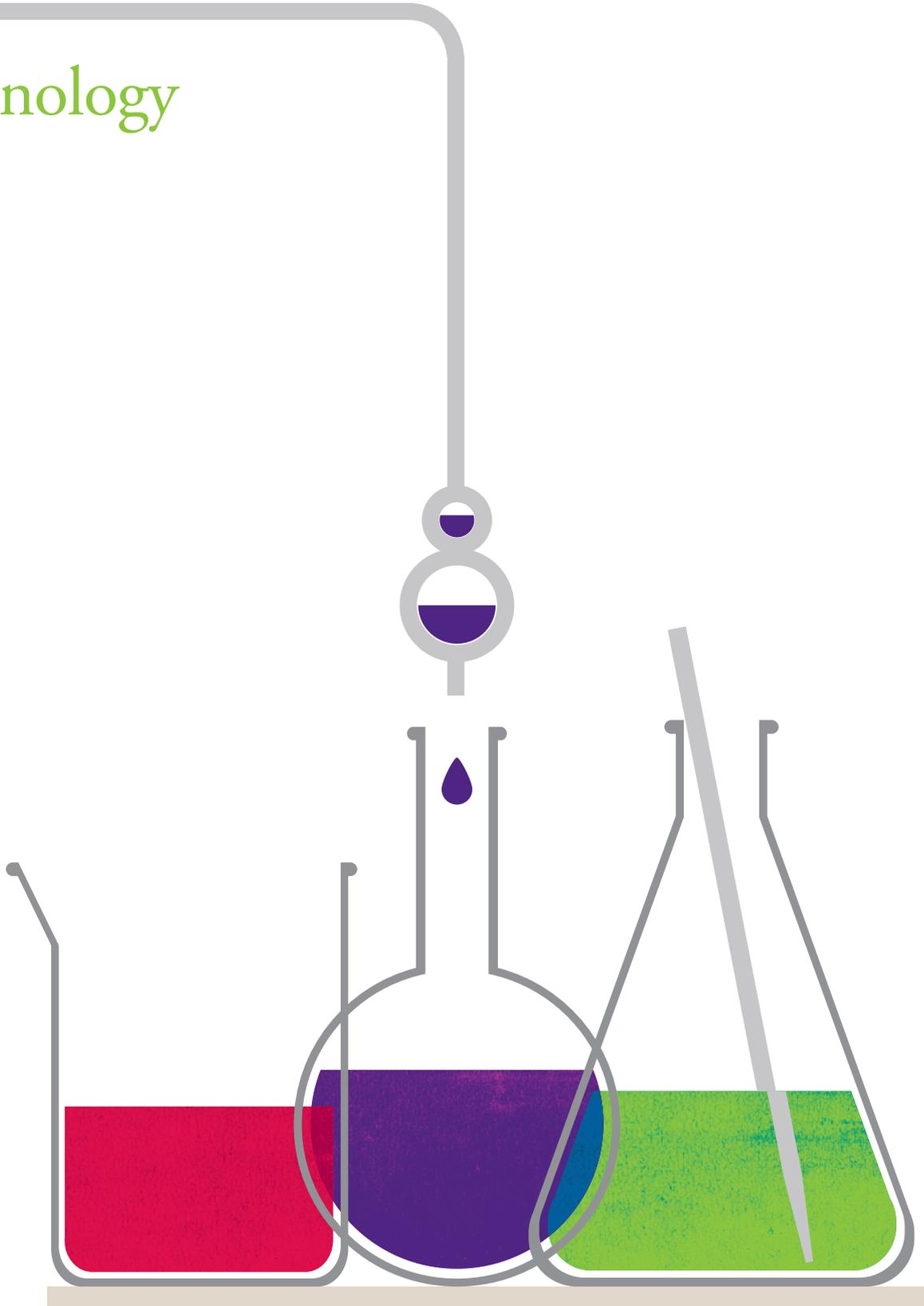
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AusBiotech
AUSTRALIA'S BIOTECHNOLOGY ORGANISATION

INDUSTRY POSITION SURVEY APRIL 2013

Biotechnology



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Dr Anna Lavelle
CEO AusBiotech Ltd

The Biotechnology Industry Position Survey each year provides us with a snapshot of the Australian biotechnology sector for those who know it best – the industry’s leaders – giving us a comprehensive view to underpin AusBiotech’s advocacy on public policy issues impacting the industry.

Michael Cunningham
National Head of Life Sciences
Grant Thornton



We are excited by our continued involvement with the annual industry survey, which is now in its third year. This research was conducted as part of our ongoing commitment to the biotechnology industry.



Foreword

Industry snapshot

The past 12 months has been an exciting period for the Australian biotechnology industry. Major headlines are becoming commonplace with an active M&A environment, multi-million dollar deals and landmark regulatory approvals, all assisting to increase the industry's profile.

However, the industry does face a number of challenges. Consistent with previous years, respondents are continuing to express concern regarding the level of support from the Federal Government which along with competitive and tight capital markets saw only 16% of respondents identify the Australian operating environment (economic and public policy) as conducive to growing a biotechnology company. These results were particularly interesting given one of the major public policy initiatives; the R&D Tax Incentive reform has been well received.

Concerns regarding the stability of the R&D Tax Incentive reforms and the ever-present requirement for smaller market participants to approach equity markets for funding are weighing on perceptions of the operating environment. Many have acknowledged the difficult year for small caps in 2012, across industries, in attracting risk-shy investors. BioShares (31 December 2012) released their annual capital raising figure for the industry at \$257m, which compares poorly to 2011 (\$630m), 2010 (\$554m) and 2009 (\$672m). This result underscores some of the challenges biotechs confronted during 2012. The result was not far from the low of the GFC in 2008 when only \$185m was raised.

Despite these concerns the industry remains optimistic with 56% of respondents characterising 2012 as a good or excellent year and 73% expecting to grow during 2013. In further good news we saw the Business Indicators Index (BBI) finish 2012 at a record high with a market capitalisation for its 54 tracked companies of \$31.3b. The large cap biotech's enjoyed a brilliant year, as evidenced by the Bioshares Large Cap Index appreciating 60%.

These results combined with a number of analysts tipping the biotech sector to be a 'hot space' in 2013, should see investor interest continue to strengthen which will be good news, particularly for those companies in need of capital.

The momentum in part generated by companies such as Sirtex Medical, who during 2012 achieved an increase of 193% in its share price whilst also being included in the S&P/ASX 200, continues in early 2013 with a number of capital raisings at both the small and large end of the market.

Key findings of the survey

This survey is a result of both AusBiotech and Grant Thornton's ongoing commitment to the biotechnology industry.

Consistent with our previous years' findings, the Australian operating environment (economic and public policy) remains a key concern with only 16% (24%:2012) of respondents identifying the environment as conducive to growing a biotechnology company, and 38% indicating that the operating environment is working against the growth of companies.

The reported level of support from the Federal Government for the biotechnology industry, on a scale of 1 to 10 with 10 being most supportive, saw 68% of respondents indicate the level of support at 5 or lower.

The competition for capital remains high with 71% of companies flagging the possibility of raising capital in the coming 12 months. For a significant portion of companies the requirement to raise capital in the short term is pressing with 37% of companies holding less than 12 months' cash.

With capital at a premium, it is no surprise non-cash remuneration remains a significant component of most companies' remuneration strategy, with only 20% of companies using cash only remuneration strategies.

The R&D Tax Incentive amendments have been well received with the majority of respondents reporting they have already received or are expecting to derive benefits from it.

The expansionary sentiment towards employment persists, with only 7% of companies planning to decrease staff numbers during 2013, whilst 55% have flagged an intention to be a net hirer of staff.

The survey

The survey results provide an independent perspective of the impact of the current economic and regulatory environment on the biotechnology industry.

Issues investigated include:

- Sentiment
- Funding
- Government policy

AusBiotech and Grant Thornton would like to express appreciation to those who participated in the survey in support of the industry.



Quotes from survey participants

A period of stability and certainty to allow confident business planning is needed | **Further initiatives to assist early stage companies and/or projects that have insufficient capital** | A greater level of support for the device design industry will lead to flow on benefits to local manufacturing | **Greater tax incentives to attract VCs to start ups** | Maintain and enhance the R&D Tax Incentive scheme | **Don't abandon the 45% tax concession on research spend** | Amend ESOP rules to make them more tax friendly to share recipients



Survey findings | Sentiment

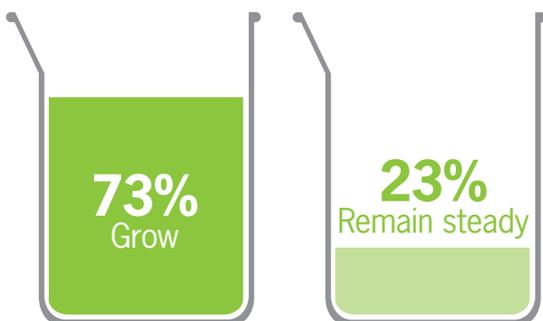
With capital markets generally tight, persistent global financial concerns and local and international political issues, the environment remains particularly challenging for biotechnology companies, especially those at the smaller end of the market reliant on regular capital raisings. Respondents remain frustrated with the local operating environment, with only a small portion of respondents identifying it as conducive to growing a biotechnology company.

Growth

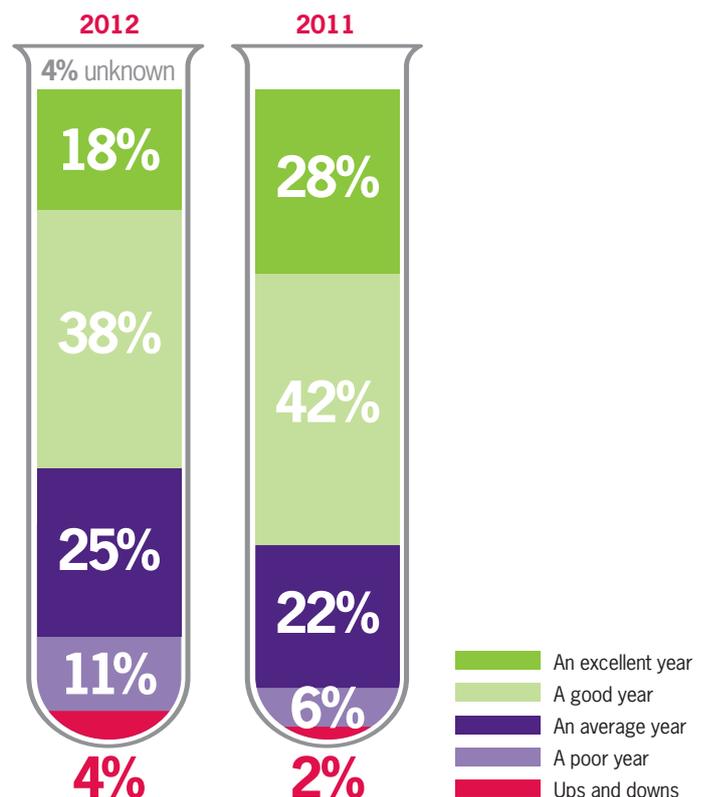
While there was anticipation of a positive year ahead when 2012 commenced, the performance softened significantly with 56% of respondents characterising 2012 as a good or excellent year down from 70% in the previous year. However, the prospective sentiment remained strong with 73% of respondents expecting their business to grow in the coming year.

This paralleled analysts' comments that the global financial crisis has had a 'longer tail' than expected and many believe the tide will shift in 2013, especially for the small caps, as investors seek better returns than interest rates alone and will look for growth stocks instead of yield stocks.

In 2013 do you expect your business to...?

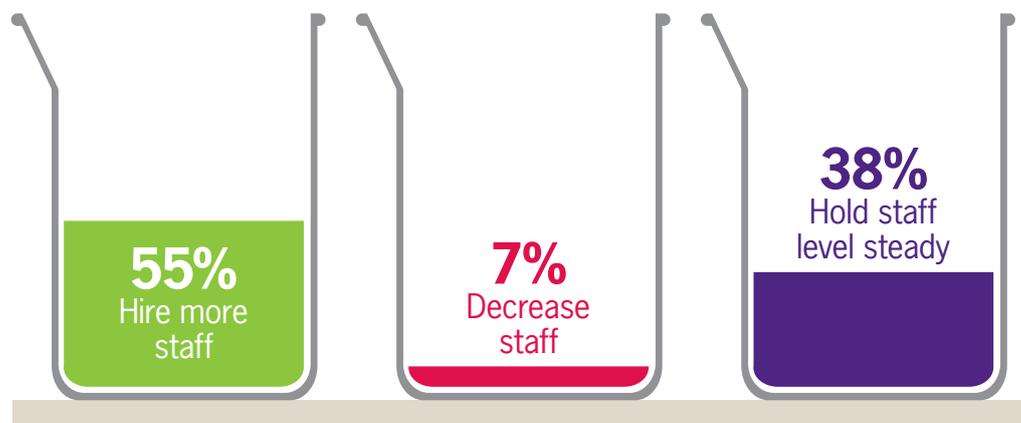


How would you characterise 2012 in relation to your company's business success?



The demand for sales and marketing staff is expected to persist as the local industry matures.

Regarding staffing levels, do you expect to...?



Research and Development Tax Incentive

The R&D Tax Incentive remains a positive public policy initiative with 41% of respondents identifying it has had a positive impact, with a further 25% expecting it to benefit them in the future. Amongst the most pressing public policy issues, respondents repeatedly expressed concern that the R&D Tax Incentive would be reduced or withdrawn.

“
Don't abandon the 45% tax refund on research spend.”

Expansionary employment strategies

With many high profile redundancies receiving publicity during 2012 in the broader economy, it is pleasing to report that the expansionary sentiment towards employment noted in previous surveys remains intact, with the company's surveyed intending to hire nearly 300 staff during 2013. Over half of the companies (55%) are expecting to increase staff numbers and only 7% are expecting to reduce employee/contractor numbers. Interestingly there is a significant increase in the demand for engineers and business development professionals, and consistent with previous years, demand for sales and marketing staff remains strong.

“
Lock in the R&D Tax Incentive.”

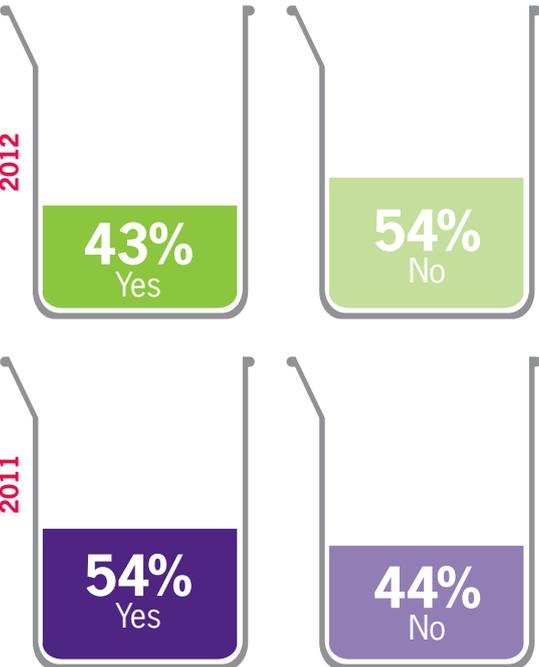
Survey findings | Funding

Availability of funding

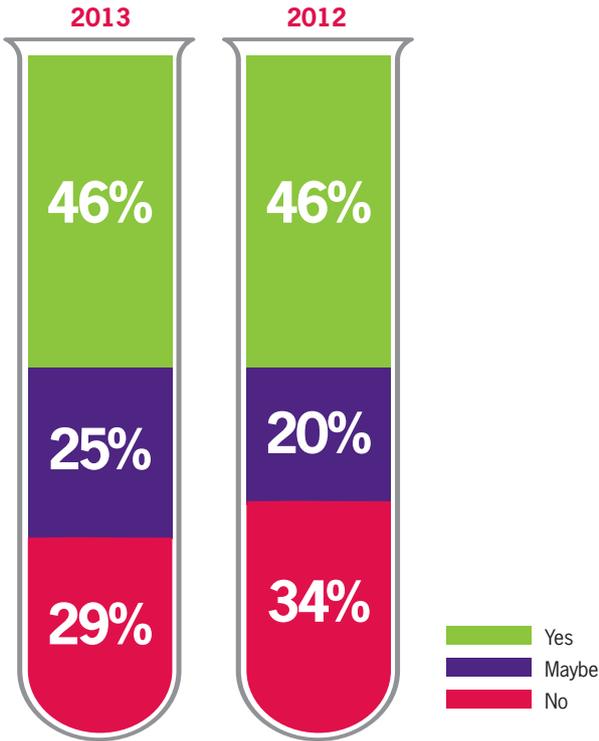
Global market uncertainty combined with investors maintaining relatively higher cash allocations in their portfolios, ensured 2012 remained a challenging year on the funding front for small cap biotechnology companies, especially those looking to attract funding for pre-commercialisation technology.

This was reflected in the annual industry capital raising figures which were at their lowest levels since the GFC. It was therefore no surprise to see the percentage of respondents who raised capital during 2012 fall from 54% to 43%. When considered with the knowledge that average cash balances continue to decline for respondents and the intention and need to raise capital remains strong, there is no doubt that the competition for capital will be significant during 2013.

Did you raise capital during the survey period?



Do you plan to capital raise this year?

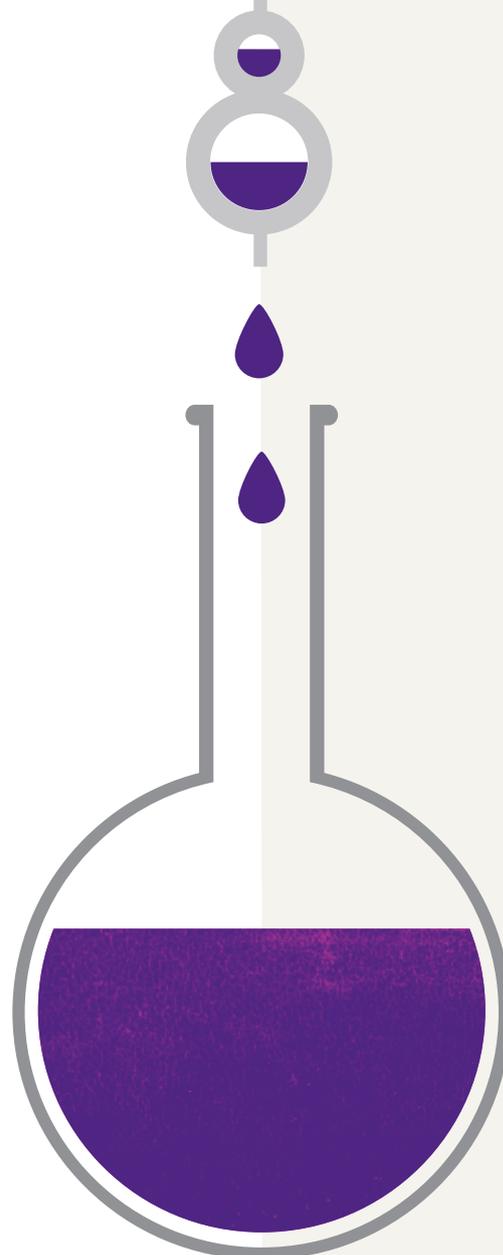
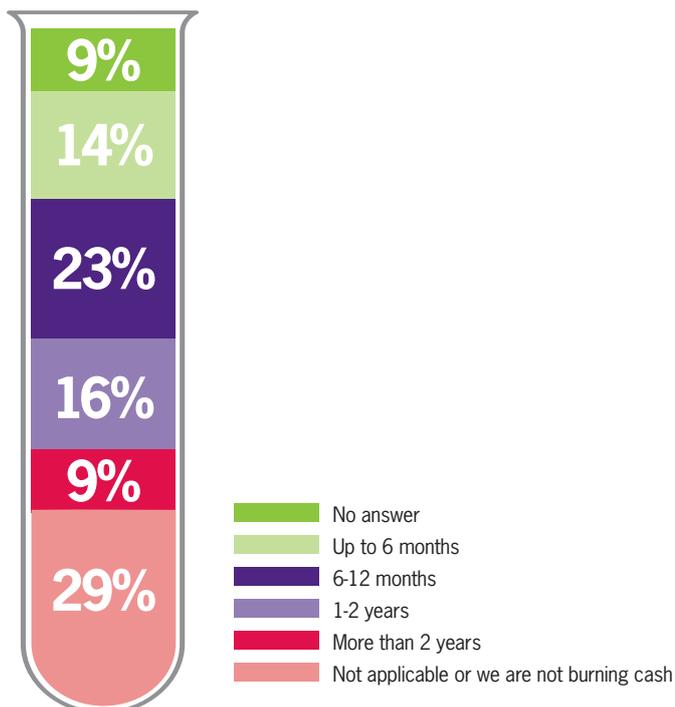


The difficulties in attracting funding continue to place significant strain on small biotechnology companies.

The competition for capital in the coming year will be significant with the percentage of companies with less than two years of cash on hand (62%) increasing from the prior year (53%). This suggests that biotechnology companies are running lower cash balances due to ongoing equity market constraints. With 37% of companies having less than 12 months cash on hand and 46% expecting to raise funds within 12 months, the pressure to raise funds and the competition for capital will continue to increase.

Tight capital markets and expansionary views to employment will ensure that non-cash based remuneration strategies remain a key tool for most biotechnology companies.

How long do you estimate your cash on hand will last at your current burn rate?



Survey findings | Government policy

Appropriate support from the Federal Government was the top-line issue for respondents who urge the Government to support access to capital via policy instruments and programs.

Of the 24 companies surveyed that raised capital in 2012, an overwhelming 88% did so by issuing (diluting) equity in the forms of equity issue, convertible notes or rights issue. The capital raised was for the dominant purpose of research and development, working capital or commercialisation – all critical to the survival of a biotechnology company, especially during pre-revenue phases. The industry is keen to see the Government support non-diluting forms of capital, especially the preservation of the R&D Tax Incentive, and to continue beyond that with tax reform, such as preferential tax treatments for patient investors and innovative manufacturers.

While the industry welcomed the Federal Government's release of its long-awaited Industry and Innovation Statement – A Plan for Australian Jobs – in February, it is unclear if the 2013 Election and disruption in the lead up and/or the result, will undermine the delivery of key elements.

The industry welcomed the announcement of venture capital funds of \$350 million, and changes to venture capital tax concession programs to provide clarity and certainty of tax treatment for investments and facilitate participation by 'angel' syndicates. However, AusBiotech would like to see broad-based investor tax reform that impacts more widely than venture capitalists alone.

Election 2013

With a Federal election later this year, respondents were asked if they thought a Labor or Coalition government will be better for the biotechnology industry. More than half of respondents did not answer this question (52%), while 11% were undecided and could see no benefit of one party over the other, showing the majority (almost 63%) are ambivalent. Of those who made a choice, the Coalition was a more popular choice (32% versus 5%) and respondents cited the Coalition's business-friendly policies as the reason.

“

Innovation, wealth creation and job creation should be bi-partisan issues regardless of who wins the Federal election.

”

Medicines have officially taken over as Australia's number one export with \$4.1b in 2011-12.

Australian policy makers and businesses need to do more to make manufacturing competitive globally.

Manufacturing

Manufacturing has continued to grab headlines in the past year, mostly due to the impact of the high Australian dollar and job losses in traditional manufacturing, such as automotive. While Australia is currently struggling to compete globally on 'low cost, high volume' items, it has a strong comparative and competitive advantage in its ability to specialise in 'high tech, high cost, low volume' manufacturing of elaborately transformed goods such as medical devices and bio-pharmaceuticals. This coupled with a burgeoning biotechnology industry that is globally impressive by any comparative measure, could be a good news story for Australia.

Medical technology (devices and diagnostics) and pharmaceutical manufacturing exports are on the rise and **medicines have officially taken over as Australia's number one export with \$4.1b in 2011-12.** This is substantially more than the car industry at \$2.8b and more than double the wine industry at \$2b for the same period. The value of Australia's medical technology exports is approaching \$1.9b (ABS, Customised Statistical Report 2011).

The majority of responding companies (62%) are manufacturing, and of those respondents 41% manufacture in Australia and 38% manufacture overseas, with a cross-over of 21% that manufacture both locally and overseas.

The high Australian dollar has caused much debate, however biotech manufacturing leaders quoted in the Australian Financial Review (20 Dec 2012), including Cochlear's Chris Roberts, CSL's Brian McNamee and ResMed's then CEO Peter Farrell, have rejected calls to try to lower the dollar and instead call for a pro-business government to support manufacturing.

Biotechnology and medical technology manufacturers are not especially assisted by the largest existing innovation support program, the R&D Tax Incentive, as it phases out as a product or as IP reaches commercialisation. This is the point at which Australian IP is most vulnerable to being sold overseas and the resulting community benefits going with it.

AusBiotech, on behalf of high-tech manufacturers, is urging a tax incentive to support export-oriented local production. Such a program would, unlike a direct grant, require companies to actually generate economic benefits for Australia (income) before they would be eligible for the incentive. Tax reform, as an extension of the R&D Tax Incentive, is the preferred path.



If you take an Australian idea or IP and manufacture it and sell it to the world, then why not have a manufacturing incentive that attaches to it.



Mr Barry Thomas,
CEO of Cook Medical,
told AAP (Feb 2013)

Demographics

About the survey

This is the third joint Biotechnology Industry Position Survey by AusBiotech and Grant Thornton. The survey was conducted via mail and email during January and February 2013. It was open to all ASX listed life sciences companies and AusBiotech member biotechnology companies, including unlisted companies.

Issues explored by the Biotechnology Industry Position Survey were identified by AusBiotech and Grant Thornton's Life Sciences team. Enquiries regarding this survey may be directed to:

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Analysis of respondents

Companies were asked to submit information regarding their financial status, issues impacting their business, their current outlook and expected plans for the future.

Responses were received from 58 companies. The major identified area of business was Therapeutics (48%) with medical devices and diagnostics representing 38% respectively.



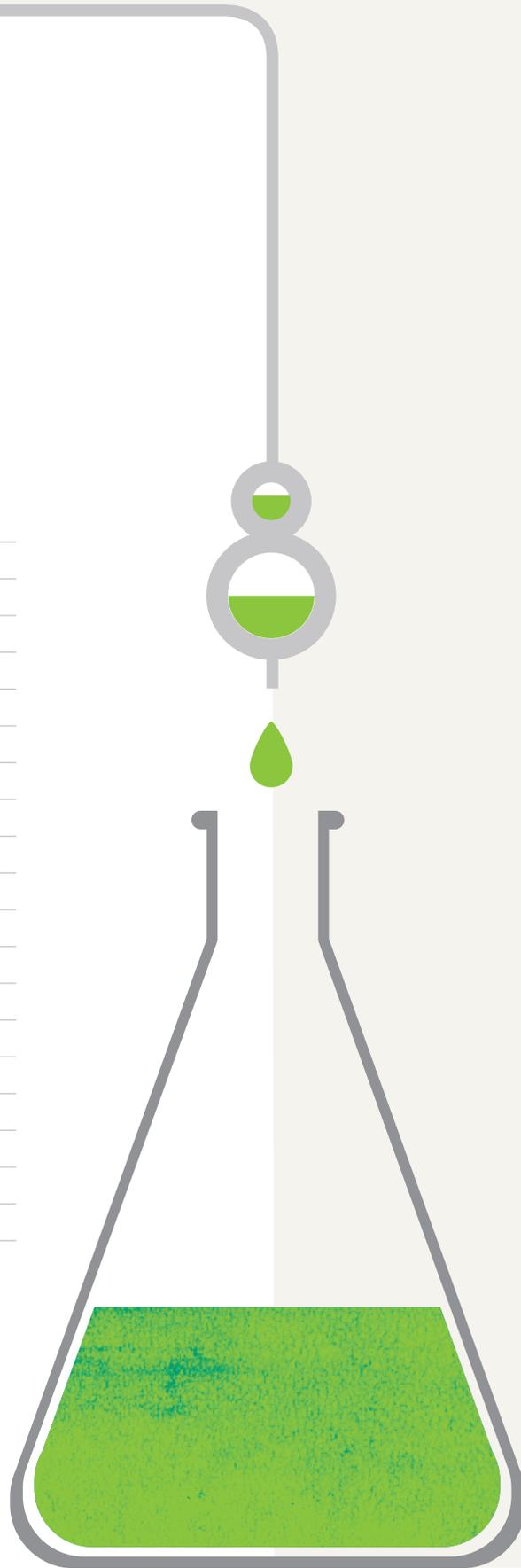
For additional copies of the survey, please contact AusBiotech ausbiotech.org or Grant Thornton at grantthornton.com.au

Survey participants

Our sincere thanks goes to the following participants who agreed to be named.

AdAlta	Immunaid
Benitec Biopharma	Immuron
BioDiem	Implicit Bioscience
Bioplatforms Australia	IQNovate
BioProspect	Medtronic
Bioscience	Mimetica
Biotron	Minomic International
Blamey Saunders hears	Mobius Medical
Bluechiip	Neural Diagnostics
Bristol-Myers Squibb	Osprey Medical
Cell Therapies	Pharmaxis
Clik-Lok Australia	Pitney Pharmaceuticals
Cochlear	Plasvacc
Cook Medical	Propanc Health Group Corporation
Elastagen	PSivida Corp.
Genetic Technologies	Shire Australia
Geneworks	Sienna Cancer Diagnostics
Given Imaging	Suda
Hydrix	Tissue Therapies

AusBiotech and Grant Thornton also wish to thank the remaining survey participants who did not wish to be named here.



About AusBiotech

AusBiotech is Australia's biotechnology industry organisation representing over 3,000 members, covering the human health, agricultural, medical devices and diagnostics, functional foods, environmental and industrial industries in biotechnology.

AusBiotech is dedicated to the development, growth and prosperity of the Australian biotechnology industry, by providing initiatives to drive sustainability and growth, outreach and access to markets, and representation and support for members nationally and around the world.

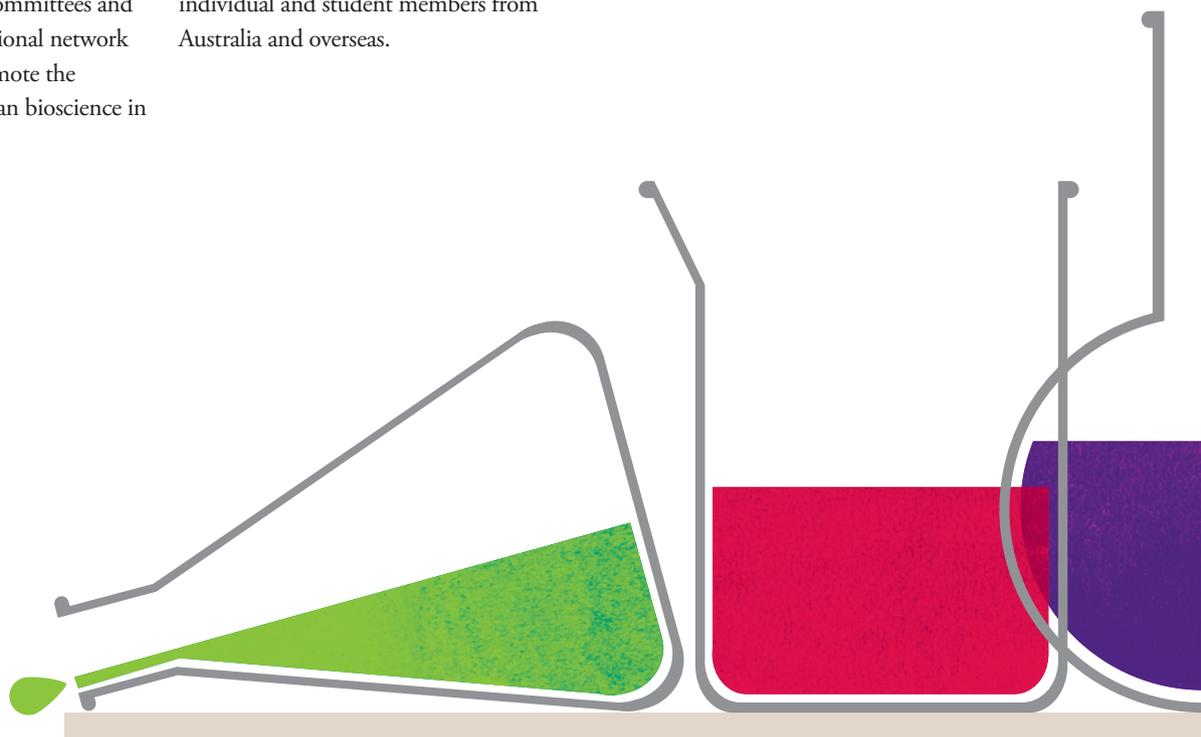
AusBiotech is a not-for-profit organisation, which has representation in each Australian state and in various special interest sectors. Active state committees and advisory groups provide a national network to support members and promote the commercialisation of Australian bioscience in the global marketplace.

AusBiotech has been working on behalf of members for more than 25 years, since it was established as the Australian Biotechnology Association and 15 years later changed its name to AusBiotech.

AusBiotech's membership base includes biotechnology companies, ranging from start-ups to mature multinationals, research institutes and universities, specialist service professionals, corporate, institutional, individual and student members from Australia and overseas.

If you want to know more please contact AusBiotech's national office...

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About Grant Thornton Australia

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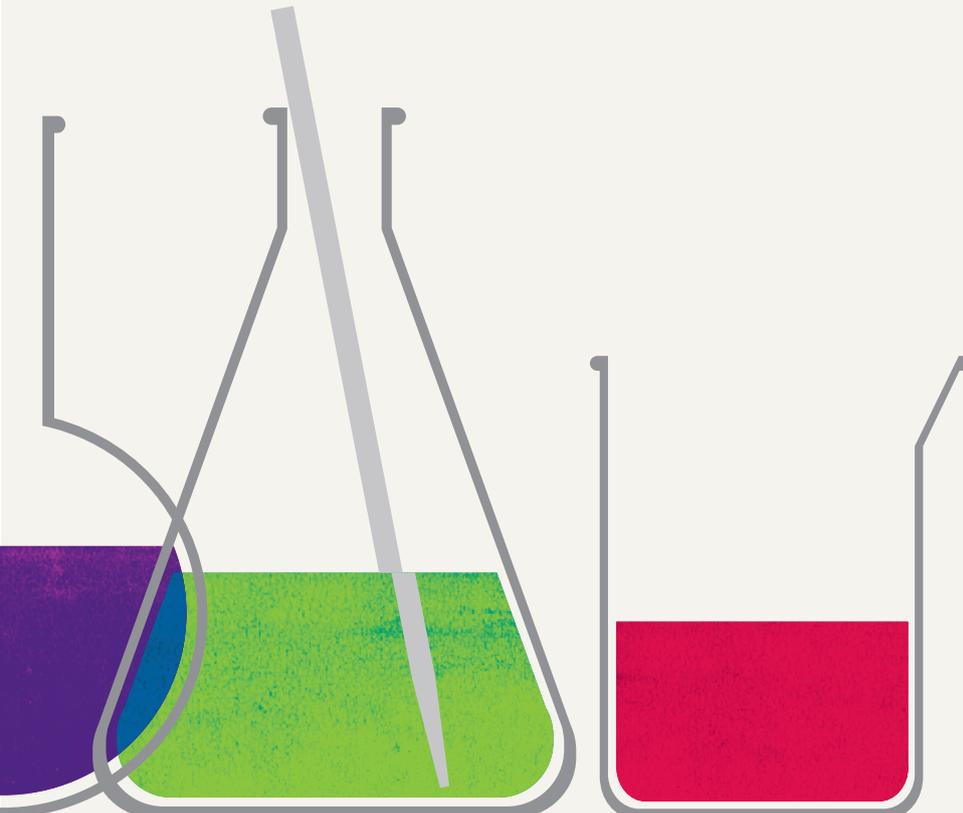
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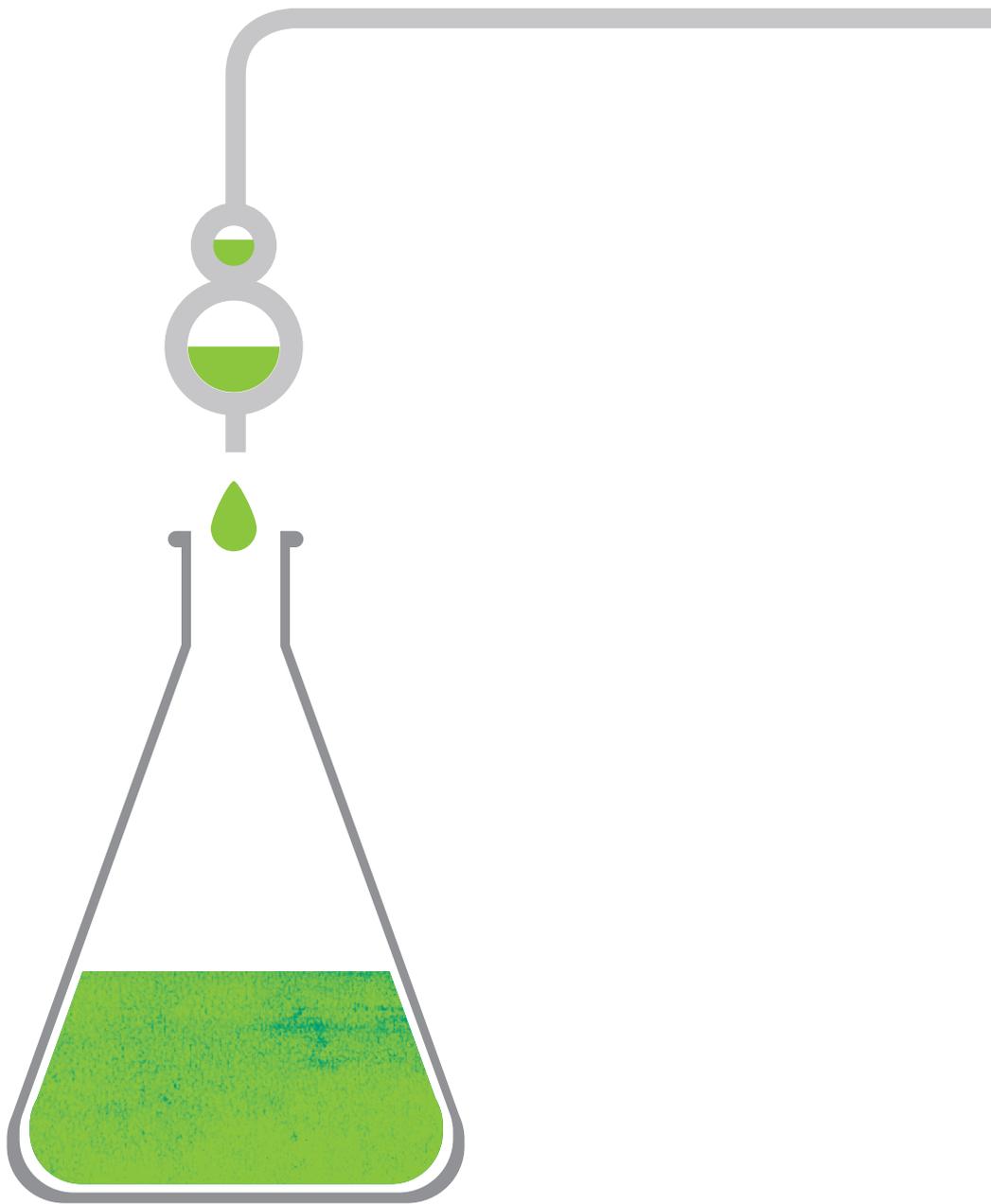
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