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Bioshares

14 October 2016
Edition 669

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

Extract from *Bioshares* –

An Exceptional Share Price Increase for LBT Innovations

LBT Innovations' (LBT:\$0.87) share price surged by 358% percent this week, following the company's announcement of the receipt of clearance from the FDA for its Automatic Plate Assessment System (APAS). The company closed the week with a capitalisation of \$101 million, with 72 million shares traded during the week (of 115 million shares on issue). Prior average daily turnover has been 70,000 shares

The APAS instrument is designed for use in microbiology labs in which agar plates are cultured for the purpose of determining bacterial infections. The system automates a task which has traditionally been conducted through human inspection and has the potential to deliver cost savings to pathology labs around the world.

The price increase is exceptional because the stock has traded well below \$0.20 for most of its history, since listing in 2006. The company's historical share price performance can be explained by a commercial relationship with French life sciences instrumentation firm bioMerieux which did not yield sizeable revenues (excluding milestone and other payments), and which was terminated in 2015.

The company's current share price performance is based on expectations of the company's potential opportunities for APAS.

However, we suggest the response by investors has been one of exuberance, perhaps seeking to place early bets on the 'next Cochlear' or even the 'next Nanosonics'. LBT Innovations has a number of milestones to achieve before revenues might flow from sales of APAS units.

The actual product cleared by the FDA has been the APAS Compact, or the basic imaging system. The product destined for the market, APAS Independence, will integrate input (such as a plate incubator) and output modules, with the basic imaging system.

As noted in *Bioshares* 639, an APAS system may sell for between US\$100,000 – US\$200,000, with an incubator that generally sells for around US\$300,000. These figures gives an indication of the pricing levels for the APAS Independence system.

The company anticipates a launch of APAS Independence in 12 months time. Before then, a test version will be tested in a pathology laboratory to gather performance data.

The company also expects to showcase its technology at industry events throughout 2017 and to develop and release cost utility data.

APAS is being developed Clever Culture Systems, a joint venture between LBT Innovations and Hettich AG and will share profits. CCS will generate income from instrument

Cont'd over

	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 - current)	21.7%
Cumulative Gain	796%
Av. Annual gain (14 yrs)	18.9%

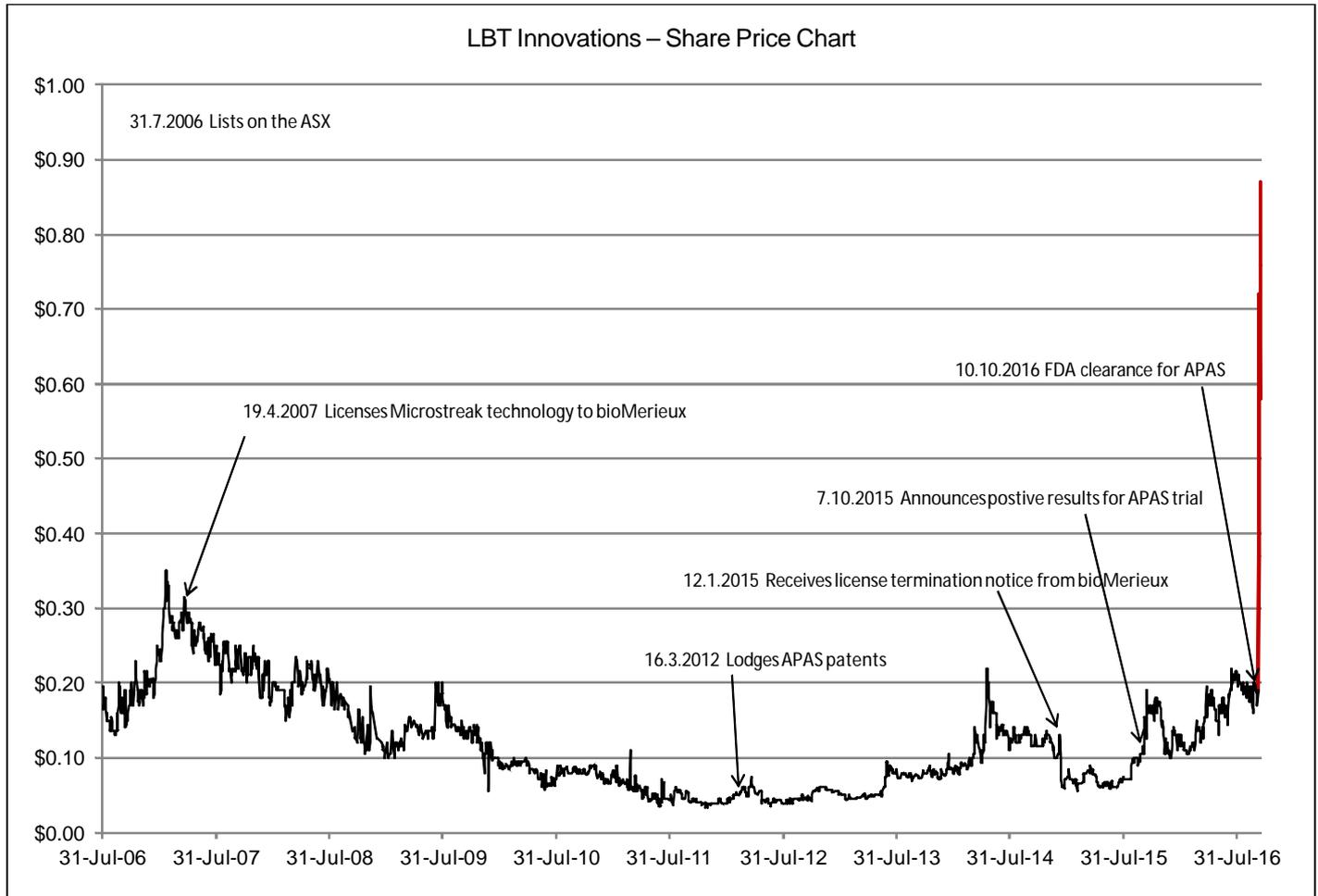
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sales and software licence fees. Hettich will receive payment for manufacturing and LBT will receive payment for software development. A key feature of the CCS revenue model will be the generation of a recurring license income stream from the installed base.

CCI will be seeking a partner to market APAS. The company wants to accelerate the development of APAS Independence, following feedback received from potential partners. However, accelerated development will require an increase in spending by LBT Innovations, which therefore increases the likelihood of a capital raising at some stage in the near future.

Summary

We have confidence that LBT Innovations' recently installed CEO, Brent Barnes, who took over from founder CEO Lusia Guthrie, will drive the company in a very focused manner, towards the meeting of the development milestones for APAS Independence.

Given the company's exceptional price performance over the week, we recommend that investors **Take Profits**, recognising the fact that the company still has key milestones to meet (through its joint venture company Clever Culture Systems) over the next 12 months, including the appointment of a marketing partner and the successful completion of engineering and performance data collection tasks for APAS Independence.

Bioshares

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 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

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