

# Mossberg's Investor Digest

## Best Idea Profile

## AspenBio Pharma (Nasdaq:APPY)

### DESCRIPTION:

Founded in 2000, AspenBio Pharma is a pre-revenue biotechnology company that has developed a novel blood test AppyScore™ that can rapidly aid in the diagnosis of appendicitis. The company has also developed novel reproduction drugs for use in high value animals, primarily dairy cows.

### KEY INVESTMENT CONSIDERATIONS:

**AppyScore test for diagnosing appendicitis is far better at ruling out appendicitis as the cause of abdominal pain.** Appendicitis is the inflammation of the appendix, a 4-inch long tube that is attached to the large intestine and serves no function. (Charles Darwin proposed that the appendix was used by our primate ancestors for digesting leaves and its function was lost in the evolutionary process.) When blocked, the appendix becomes inflamed and can potentially burst, leading to complications including death. This is a rapidly progressing condition, which can progress from inflammation to rupture in 24 to 36 hours, so it is important that it be diagnosed quickly. The current method for diagnosing appendicitis involves a CT Scan which only has a 78% chance of correctly ruling out the infection and exposes the patient to a massive (50x a standard chest x-ray) amount of radiation. (misdiagnosis also leads to 15% of appendectomies being unnecessary.) The cost of a CT Scan is also far greater... between \$200 to \$2,000. AspenBio's AppyScore has a 95% chance of ruling out appendicitis, has no exposure to x-ray radiation, costs approximately \$100 per test and can provide results in as little as 15 minutes.

**\$1 billion potential market** – 7% to 9% of the world's population will get appendicitis in their lifetime. According to APPY, 10MM patients enter the emergency room annually complaining of abdominal pain. At \$100 per test, this could be a \$1 billion market.

**Making progress with new clinical study** – Under APPY's prior leadership, the previous clinical study demonstrated a negative predictive value of 87%. Even though that was better than a CT Scan's predictive value (78%), it was below the company's target of 90% and caused the stock to lose approximately 2/3 of its value. During 2009 APPY began a new clinical study and this month plans to meet with the FDA to answer questions prior to approval of AppyScore. The test is expected to receive approval by late '10 or early '11.

**New management brings credibility** – After missteps in managing the company's first round clinical trials, the company replaced its CEO. The new CEO, Daryl Faulkner, has more than 25 years experience in developing and commercializing medical devices. Previously, he was with Digene, which sold for \$1.6 billion to Qiagen. Surely Mr. Faulkner would have better things to do if he didn't believe that there was some merit in AspenBio's products.

**Potential sale of animal science products could provide growth capital** – The company currently licenses its reproductive drug technology to Novartis. As these drugs come to market, the value of the technology could be harvested in a sale to Novartis. The company could use the proceeds to support the development of its AppyScore test without having to raise outside capital at dilutive prices.

### VALUATION:

The company has about \$15 million in cash, which gives it about 15 months to reach commercialization at its current cash burn rate. Prior to the missteps of the prior management team and based on the anticipated success of the new appendicitis test, shares traded between \$6 to \$8 per share (and peaked at \$14). If the new management is successful in making progressive steps towards commercialization, which appears to be the case, the company's value should increase in line.

#### (Nasdaq:APPY)

Investment Data (as of 1/22/10)

<b>Recent Price</b>	<b>\$2.20</b>
52-Week Range	1.22 - 3.15
Fiscal Year End	December
Shares Outstanding	37 MM
Average Trading Volume (3 mos)	135,000
Market Capitalization	\$81 MM
Cash	\$15 MM
Debt	\$3 MM
Enterprise Value (EV)	\$69 MM
Debt/ Equity	N/A
BV/ Share	N/A
TTM Revenue	340K
P/ Revenue	NA
TTM EPS	-0.40
P/ EPS	NA
TTM EBITDA	-12.6MM
EV/ EBITDA	NA

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.