Physiomics new CEO is embarking on a new course for the group. Recognising the company’s inherent strength in oncology bio simulation platforms (“in silico”) the team are concentrating on a three pronged strategy to share risk and boost revenues.

Following the placing announced today, Physiomics’ working capital pressures have abated. Our estimation is the group has sufficient cash for at least 17 months assuming a cash burn rate of £60k per month.

- Group net assets end December 2010 stood at just £427k. Cash/ cash burn rates of around £50k per month, possibly rising to £60k / £70k per month over 2011-12 suggests Physiomics has approximately 17 months of cash. The group is likely to require further funding (>£1m) to broaden the simulation offering, consummate the Jubilant alliance and other investment and running cost requirements. We expect further equity placing over the course of 2011/2012.

- Short-term the team are focused on completing the alliance with Jubilant Biosys Limited (India based contract research organisation) to cross sell pharmaceutical and research services to an enlarged client base. We are positive Physiomics will secure a new revenue stream possible in H2 2011, however we are mindful that the structure of any joint venture will increase Physiomics’ capital requirements. The deal is expected to be completed soon, and we would view it as a positive catalyst if sealed soon on attractive terms.

- Physiomics is raising £600K via the issue of 120m new shares at 0.5p per share. The funds will be used for working capital purposes.

- The board has been strengthened by the appointment of Dr Mark Chadwick as CEO from December 2010. Dr Chadwick’s prior employment included Excelsyn (VP of Business Development) a chemistry services provider and BioFocus as Director of Commercial Operations. Biofocus was acquired by Galapagos for $40m in 2005. Dr Chadwick’s focus is to improve Physiomics revenue generating ability.

- Adopting “in silico” methods ie mathematical models that simulate patient response helps reduce the cost of pharmaceutical R&D trials and is admissible as supporting evidence to US Food & Drug Administration and other healthcare regulatory agencies. Revenues are recognised using “percentage of completion”

- The “in silico” approach is not without risk given the need to invest and build new computational models that can be applied in different medical fields. A former AIM company Entelos Inc (delisted in 2009) also used predictive simulation technologies and can be considered a competitor. Whilst on AIM, a feature of Entelos financial performance was the “lumpy” nature of revenues. Physiomics is likely to face similar revenue issues as it broadens its simulation offering into new therapeutic areas.

**Strengths**

- Existing computational model addresses oncology an area that accounts for 18% of pharmaceutical research
- Placing today alleviates cash pressures
- New CEO/ new strategy from December 2010
- Valuation suggests IP worth circa £6m

**Weaknesses**

- Interims to end Dec 2010; loss of £360k
- Co has a cash requirement approximating £50k pcm
- Relatively weak investment appetite for biotech sector
- Co has warned over tough trading conditions
Physiomics principal business is the provision of outsourcing services and computational biology to pharmaceutical companies. The aim of the technology is to improve the 6% success rate of oncology drugs by pharmacokinetic (PK) and pharmacodynamic (PD) modelling.

Typically the service provision aims at i) design of optimal drug schedules (via simulation of different dose schedules) ii) optimising drug combinations allowing clients to prioritise the most effective drug combinations and best schedules for validation in vivo. This leads to better administration of defined drug doses and improved understanding of drug synergy.

Finally iii) Single-blind validation study (ie predicting xenograft growth when two separate drugs are used in different combinations). These studies can quickly simulate thousands of possible schedules for combinations of different drugs enabling quick prioritisation.

The team have developed the ModelPlayer and Database, allowing licensees to perform experiments “in silico” ie via computer simulation. This has powerful cost savings for pharmaceutical companies as patient modelling is far cheaper than paying for patient trials.

In April 2009 Physiomics announced a licence agreement with Eli Lilly & Co (NYSE LLY: Mkt Cap US$40.5bn). Physiomics licensed a customised version of “ModelPlayer” for unspecified anti cancer drug compounds with options over further licenses. Eli Lilly was the first licensee of the bio-simulation technology, however due to difficult trading conditions since the team has not secured further major license wins. 2009 also saw revenues peak at £459k with maiden profits of £24.5k a performance that could be repeated in 2012 in the event of licence wins.

The major challenge facing the team is the need to build a customer base and reputation amongst US, UK and EU pharmaceutical majors who will buy not just a license but further contract services after the initial licence.

In November 2010 the UK’s Carbon Trust awarded the trio of Green Biologics, North Energy Associates and Physiomics a grant of £268k to demonstrate an advanced fermentation process for Butanol. Recent newsflow from Physiomics has been broadly supportive, in particular Dr Chadwick’s appointment and the 11th March 2011 announcement that Physiomics had moved to commercial discussions with Jubilant Biosys with a further announcement when that deal was agreed.

### b) Physiomics interim results 31st December 2010

<table>
<thead>
<tr>
<th></th>
<th>Interim 2010 (£k)</th>
<th>Interim 2009 (£k)</th>
<th>Y/E 2010 (£k)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>14</td>
<td>117</td>
<td>153</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>388</td>
<td>238</td>
<td>496</td>
</tr>
<tr>
<td>Share Based Compensation</td>
<td>-50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Interest Expense</td>
<td>-2</td>
<td>+2</td>
<td></td>
</tr>
<tr>
<td>Loss before Tax</td>
<td>370</td>
<td>123</td>
<td>391</td>
</tr>
<tr>
<td>Tax Credit</td>
<td>10</td>
<td>10</td>
<td>23</td>
</tr>
<tr>
<td>Net Loss</td>
<td>360</td>
<td>113</td>
<td>368</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>-0.036</td>
<td>-0.0158</td>
<td>-0.043</td>
</tr>
</tbody>
</table>
c) Board of Directors

Dr Paul Harper; Executive chairman. Experienced AIM executive, former CEO Of Cambridge Antibody Technology Limited and Provensis Ltd. Previous positions include Corporate development director of unipath, the medical diagnostics business of Unilever and Director of R&D for Johnson & Johnson Ltd. Formerly head of antimicrobial chemotherapy for GSK. Dr Harper holds a Phd in Molecular virology.

Dr Mark Chadwick; CEO; Experience includes VP at Excelsyn where he grew turnover to £14m and EBITDA to £1m prior to the acquisition of Excelsyn by AMRI for US$19m. Previous positions include Director of commercial operations at Biofocus, a profitable drug discovery services provider that was acquired for US$40m in 2005 by Galapagos.

Dr Christophe Chassagnole; Chief Operating Officer; former senior researcher at CRITT Bio-Industries (Toulouse) for 3 years joining Physiomics in May 2004 as project leader for the model portfolio. Appointed COO in May 2007.

Mr Roger Jones; Financial Controller and Company Secretary; chartered accountant with over 30 years experience at a number of biotechnology companies, including Cambridge Antibody Technology, Onyxvax, Archmedes Pharma, Angel Biotech and Provensis.

Professor David Fell; Co-founder and Scientific Adviser; recognised expert in systems biology, runs a research team at Oxford Brookes University with current projects including the analysis of metabolic networks. He is the author or co-author of approximately 85 scientific publications.

d) Summary

The board flagged at the interims, a new three pronged approach to i) complete the Jubilant deal and review potential targets ii) create a drugs combinations database in collaboration with a partner and iii) appoint a scientific board and new hiring.

There is the risk of some slippage in achieving these goals over 2011, (though the board did not highlight a timetable) clearly the Jubilant alliance needs to be concluded on the right terms quickly. A review of the Jubilant website suggests the company is well advanced in building a computational chemistry database and in structural biology.

The capital raising environment has been tough for biotechnology companies given a more cautious approach by Big Pharma to R&D spending and the lack of M&A. Whilst it appears the sector is through its worst point, the institutional appetite for funding biotechnology has possibly changed for good. The bar is being set higher, and biotech companies are now under more pressure to show viable commercial operations earlier on. Physiomics’ approach does fit this philosophy

Despite the new funding (cash availability approx £600k) we would suggest Physiomics will struggle to complete significant technology acquisitions in the short-term. It may take around £300k-£400k and up to 24 months to develop computational model for example in the cardiovascular area. On the scientific board and new hiring, we expect new sales hires soon given the very weak revenues at the interims. The team need to broaden the licensee interest in “Virtual Tumour” and “Model Player” quickly in our view.

The valuation at £7.6m (enterprise value circa £6.7m) suggests investors are placing a low value on the existing service and are waiting for precise revenue enhancements either via a Jubilant combination, service extensions or new licences. In our view, revenue gains are likely over the 17 month funded period possibly back to 2009 levels, though this time investors are more likely to re-rate Physiomics as customer numbers/ revenues return particularly if the new growth is more global and via the possible Jubilant alliance. We are impressed with the new Chief Executive and expect him to engineer a corporate turnaround...though it will take time.
**Key to Material Interests**

Below are five standard disclosures of Material Interests. Of these five disclosures, the following numbers are relevant in this case:

**Company Name: Physiomics**

**Relevant disclosures: NA**

1. The analyst has a personal holding of the securities issued by the company, or of derivatives related to such securities.

2. HB Markets plc or an affiliate owns more than 5% of the issued capital of the company.

3. HB Markets plc or an affiliate is party to an agreement with the company relating to the provision of corporate broking services, or has been party to such an agreement within the last 12 months. Our corporate broking agreements include a provision that we will prepare and publish research at such times as we consider appropriate.

4. HB Markets plc or an affiliate has been a lead manager or co-lead manager of a publicly disclosed offer of securities for the company within the last 12 months.

5. HB Markets plc is a market maker or liquidity provider in the securities issued by the company.

**DISCLOSURES:**

**ANALYST RATINGS:** The definitions of our analyst ratings can be viewed on our website in the section entitled "research & prices" under "Analyst Ratings." See www.hbmarkets.com.

**CONFLICTS MANAGEMENT POLICY:** Details of this policy can be viewed on our website in the section entitled ‘research & prices’ under 'Conflicts Policy'. See www.hbmarkets.com.

**QUARTERLY STATEMENT OF RESEARCH RECOMMENDATIONS:** Our quarterly statement of research recommendations can be viewed on our website in the section entitled “research & prices”. See www.hbmarkets.com.

**RISK WARNING NOTICE:** All investments are speculative and prices may change quickly and go down as well as up. Past performance will not necessarily be repeated and is no guarantee of future success. There is an extra risk of losing money when shares are bought in some smaller companies including “penny shares”. There can be a big difference between the buying price and the selling price of these shares and if they have to be sold immediately, you may get back much less than you paid for them or in some circumstances, it may be difficult to sell at any price. It may also be difficult for you to obtain reliable information about the value of this investment or the extent of the risks to which it is exposed. Where a company has chosen to borrow money (gearing) as part of its business strategy its share price may become more volatile and subject to sudden and large falls. This investment may not be suitable for all investors, and clients should carefully consider their own personal financial circumstances before dealing in the stock market, particularly those on fixed incomes or approaching retirement age. If you have any doubts you should seek advice from your investment adviser or your broker at this firm.

**AIM:** The Alternative Investment Market (AIM) is market designed primarily for emerging or smaller companies. The rules of this market are less demanding than those of the official List of the London Stock Exchange and therefore companies quoted on AIM carry a greater risk than a company with a full listing.

**MATERIAL INTEREST:** We endeavour at all times to ensure that our research is clear, fair and not misleading, however, we do not hold our research out as being impartial and it should not be viewed as wholly objective since HB Markets plc (including its parent company and its subsidiaries, their directors, officers or employees) may have or previously held a material interest in the company which is the main subject matter of the research note, or any other company mentioned, and may be providing or have provided within the previous 12 months significant advice or investment services in relation to any company or a related company referred to in this document, or any other associated document. This document has been prepared and issued by HB Markets plc on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate and the opinions given are fair and reasonable, neither HB Markets plc nor any director, officer or employee shall in any way be responsible for its contents. This document is intended to provide clients with information and should not be construed as an offer or solicitation to buy or sell securities.