

SIRTeX Medical (SRX) added to the portfolio

Year	SIRTeX Medical Limited Corporate History 1997-2009
1997	Company incorporated in 1997 as Paragon Medical, name changed to SIRTeX Medical.
1997	SIRTeX acquired three technologies relating to treatment of liver cancer, developed by Cancer Research Institute and Dr Bruce Gray.
1997	SIRTeX lead product SIR-Spheres targets tumors and irradiates it by process known as Selective Internal Radiation Therapy (SIRT), destroying the tumor and leaving normal cells unaffected.
1998	SIR-Spheres gains marketing approval from Australia's Therapeutic Goods Administration.
2000	Lists on 24 August, with a \$15 million raising at \$1.00 per share, valuing group at \$54 million.
2000	Shares debut strongly, closing first day at \$2.04 per share, hitting \$4.90 in August.
2001	US approval delays impact sentiment, shares hit all time low 46 cents 30 September.
2002	Approval for treatment of secondary liver cancer received from United States Food and Drug Administration.
2002	First US patient treated on 22 May.
2002	European CE Mark approval gained for the treatment of all forms of liver cancer in October.
2002	SIR-Spheres available in 22 countries, September quarterly sales exceed \$1.3 million.
2002	Shares hit all-time high \$5.94 per share on 9 December.
2002	Chairman Chris Roberts resigns replaced by Gray as executive chairman.
2003	January, monthly sales exceed \$1.0 million for first time.
2003	US based biopharmaceutical company Cephalon Inc. makes cash takeover for company at \$4.85 per share on 12 February, valuing SIRTeX at \$271 million, subject to 90% acceptance condition.
2003	Founder and major shareholder Gray enters into deed to sell 19.9% of stock with intentions of selling remaining balance of 17.7% holding into Cephalon offer.
2003	Cephalon CEO notes product sales could reach \$US175 million on 25% market penetration.
2003	Cephalon bid closes 27 May unsuccessful with 88% acceptance level, falling short of 90% target.
2003	CEO Colin Sutton resigns 6 June replaced by Gray.
2003	First treatment with SIR-Spheres undertaken in Germany, group sales hit \$10.2 million.
2004	US hospitals fully reimbursed for SIR-Spheres set at \$US14,000 per dose.
2004	December 22, University of Western Australia (UWA) launches legal action against Gray, alleging intellectual property infringement, involves SIRTeX in action.
2005	Current CEO Gilman Wong appointed 26 May.
2005	Public funding in Australia approved for liver cancer treatment.
2005	SIRTeX shares sold down to \$1.14 after failed takeover offer for company.
2006	Gray steps down as Chairman on 22 August, Richard Hill appointed.
2006	SIRTeX revenue exceeds \$20 million for first time, along with initial net profit of \$1.8 million.
2007	CEO Wong undertakes a series of new clinical trials, significantly expands R&D program.
2007	Company enters Korean, Indian & Taiwanese markets under licensing agreements.
2007	Revenue exceeds \$30 million, unit dose sales top 2,000 for year.
2008	United States FDA approval received for new purpose built production facility in Wilmington, Massachusetts, to supply US market with a plant capacity of 10,400 per annum.
2008	Federal Court of Australia finds in favour of SIRTeX in action taken by UWA, awarded costs.
2009	SIRTeX records 42% rise in unit dose sales to 3,664, reported net profits jump to \$18.2 million, net cash on hand increased to \$26.4 million.
2009	Prestigious Journal of Clinical Oncology publishes independent editorial supporting the role of selective internal radiation therapy (SIRT) in treating patients with secondary liver cancer.

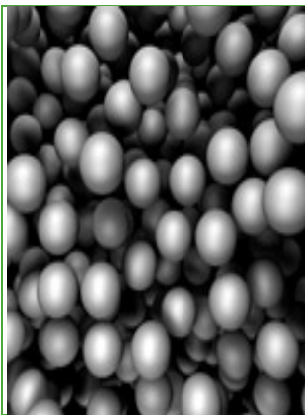
In our June 2009 quarterly newsletter we reviewed two businesses forming part of the Fund's investment holdings. In this edition, we review SIRTeX Medical, a business that we have followed since its listing in 2000. The Fund began adding SIRTeX to its portfolio during May (\$2.75 entry price). Table 2 provides a snapshot of the group's climb over the years, culminating in a record financial result for 2009.

What started out as an innovative liver cancer treatment pioneered by company founder and largest individual shareholder Dr Bruce Gray, has continued to gain international acceptance under the leadership of CEO Gilman Wong.

However, it hasn't been all smooth sailing. In fact, in just under a decade, SIRTeX has enjoyed significant regulatory approval, been the subject of a \$4.85 per share all cash bid from US based Cephalon Inc. that ultimately failed and successfully defended a court case brought against it by the University of Western Australia alleging intellectual property infringement by its then CEO Gray. In short, the media has had a field day and investors have had to pick up the pieces on more than one occasion. So why our interest?

Despite the best intentions of so many to derail the business, the group has weathered the storm and now finds itself in superb shape, with a growing revenue stream and a strong balance sheet. Importantly, the technology that the business is built on continues to gain global recognition.

2



What are SIR-Spheres Microspheres?

SIR-Spheres microspheres are tiny resin microspheres that are loaded with yttrium-90, a radioisotope that emits pure beta radiation. Yttrium-90 has a "half life" of about 64 hours. The radiation from yttrium-90 is largely confined to a tissue depth of 2 - 3 mm. After injection into the artery supplying blood to the tumors, the spheres are trapped in the tumour's vascular bed, where they destroy the tumour cells by delivering the beta radiation. The radiation is targeted and contained within the patient's body and after 14 days the majority of the radiation effect has occurred. SIR-Spheres microspheres are considered a regional treatment as the radiation is directed to the liver and does not affect other organs in the body.

SIRTeX has largely remained a one product company, focused on the treatment of liver cancers. Conventional treatment would see a patient diagnosed with the disease either undergoing surgery in a minority of cases or exposed to general chemotherapy. In contrast, Gray pioneered a novel and targeted approach to fight

the disease which he labeled SIRT – Selective Internal Radiation Therapy – performing the first ever SIRT procedure on a patient in 1987.

As opposed to external radiation therapy that damages healthy cells as well as diseased cells, SIRT is an internal radiation therapy. The thinking is that if radioactive materials can be placed in direct contact with the tumor, then greater amounts of radiation can be applied, since there is less danger of affecting healthy tissues and more chance that the cancer cells can be irradiated away. This kind of treatment is called brachytherapy.



The procedure typically takes about an hour, is administered by specially trained radiologists and is similar to the traditional method of placing chemotherapy in a patient's hepatic artery (one of two blood vessels that feed the liver) except that the chemotherapy drugs are replaced with the radioactive element yttrium-90. These microspheres are one third the width of a human hair and are lodged into the smaller blood vessels that feed the tumor, preventing blood flowing to the tumor while emitting radiation that helps to destroy the cancerous cells. Due to the targeted nature of this approach, it can deliver a much more potent dose of radiation, up to 40 times conventional radiation therapy and is less harmful to healthy liver tissue.

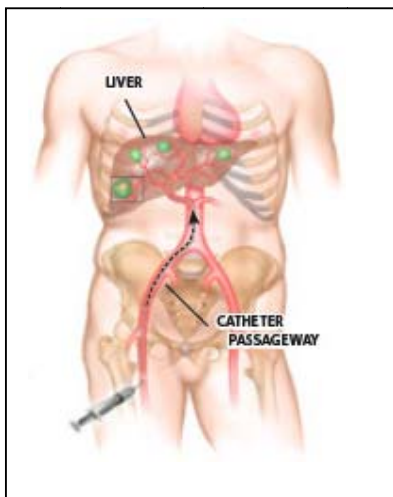
However it was not until results of a phase III trial in 1997 comparing chemotherapy with SIRT that others started to take notice. While the patient numbers were small, by 1999 the trial showed that 42% of patients who got a SIRT treatment were still alive verses just 26% for those just receiving chemotherapy.

The SIRTeX treatment has gained traction over the years, offering real progress in the treatment of this fatal disease - being the fifth most widespread cancer and one of the deadliest. The company notes that more than 600,000 new cases of primary liver cancer develop worldwide each year and at least 200,000 secondary liver cancer cases. In ninety percent of cases, the tumors are inoperable thereby relying on new therapies such as SIRT to treat the patient.

At the time of the takeover bid for the company in 2003, Cephalon CEO Frank Baldino noted "In the US alone, where the incidence of metastatic cancer is more

than 50,000 cases annually, the product could reach sales of \$US175 million (\$A291 million) based on the \$US14,000 per dose cost and a 25% market penetration." Similarly the European market is estimated to exceed \$US850 million while Asia remains the wild card.

While it is early days, SIRTeX has made steady progress in changing the mindset of the industry's gate keepers, the oncologists. Currently, the SIRT treatment is seen as a last line therapy rather than the preferred first-line treatment option. Under the steady guidance of Wong, management has significantly stepped up its investment in funding new clinical trials. At last count, 15 clinical trials into primary and secondary liver cancer were underway, with the group outlaying some \$8.9 million on research and clinical trials during the past year. Of these, SIRTeX is sponsoring 4 trials while 8 are investigator led. And the investment seems to be paying off with a growing number of independent trials confirming the treatment's effectiveness when compared to traditional chemotherapy regimes, including the most recent publication of clinical trial results in the prestigious *Journal of Clinical Oncology* that noted "...yttrium 90 radio-embolization may become the therapy of choice compared with other forms of ablation."



A specially trained interventional radiologist administers SIR-Spheres microspheres. Other specialists experienced in the treatment of liver tumours will review the individual treatment plan. The procedure is usually performed as an outpatient procedure under local sedation in the radiology suite. A small incision will be made in the patient's groin and a flexible catheter will be guided into the liver under x-ray vision. The catheter is moved through the hepatic artery and positioned by the interventional radiologist to allow for targeted infusion of the SIR-Spheres microspheres to the liver tumours. SIR-Spheres microspheres take about 15 minutes to be infused and the whole procedure takes about one hour from beginning to end.

Expanding the indications of use is as important as the opening of new markets. While Gray successfully opened up the US market following the group's FDA approval in 2002, it has been Wong that has built the all important foundations to grow the business. SIRTeX is now represented in over 25 countries and the SIRT treatment enjoys full reimbursement funding in the US, Australia, Germany, Belgium and Turkey, while Spain and Italy are offered on a regional basis. In the group's largest market, the US, SIRTeX operates in 41 states and has its SIR-Spheres actively used in over 140 treatment centres. Unit sales have compounded by 41% over the

past five years with the group selling 2,304 doses during 2009 at a price of US\$14,000 per dose. In Europe, the group is gaining real traction with dose sales up 117% to 983 over the past year at an average selling price of 12,000 Euro per dose. Importantly, SIRTeX enjoys the support of the oncologists to promote its treatment option. At present, the group operates in Germany, Austria and Spain with 68 centres and 15 countries in total. Expectations are that the UK and French markets will open during the 2010 year and discussions with the UK National Institute for Clinical Excellence (NICE) are expected to recommend funding for SIRT treatment.

These important advancements are necessary for the group to stay at the forefront of product development and competitive threats. The company has a number of issued patents covering the SIR-Spheres technology and accompanying R&D pipeline of new products. The cornerstone US patent protecting the SIR-Spheres expires in January 2014 although extensions have been obtained via the group's manufacturing process. In terms of direct competitors, only one is currently evident, namely Canadian based MDS Nordion distributing the product TheraSpheres. The delivery of TheraSpheres is essentially identical to that of SIR-Spheres except that it uses glass microspheres as opposed to SIR-Spheres' biocompatible resin based microspheres. More importantly TheraSpheres are only approved by the FDA as a humanitarian device, while SIRTeX enjoys full approval.

However as we briefly noted earlier, far more destabilising has been the ongoing battle between Gray and current SIRTeX board members. While the UWA court case against the company has been thrown out with some \$5.5 million in legal costs expected to be recouped, Gray continues to pursue his own agenda of change, including the removal of the current chairman. Despite holding just under 30% of issued capital, shareholders have successfully resisted Gray's numerous attempts and for good reason.

As Table 3 highlights, the financial numbers are moving in the right direction. A growing top line and an improving bottom line have allowed management to position the group for solid growth. With no net debt and a cash balance of \$26 million, SIRTeX is well placed to execute on its market rollout. Wong's confidence in the future is reflected in an investor update provided in September 2008 "We believe our treatment is moving out of the early adaptor stage, where clinicians tried it as a new technology. We're now looking at transitioning into more main stream acceptance of our treatment. We believe sales growth is not only sustainable but should accelerate as we move forward." Commenting on the latest set of numbers, Wong remains confident "SIRTeX continues to take significant strides forward with each of our regional businesses successfully building the awareness and reputation

of SIR-Spheres....The outlook for the coming year is very promising as we continue to drive the SIRTeX business forward.”

Table 3: SIRTeX Medical Financial Snapshot

\$'M	2003	2004	2005	2006	2007	2008	2009	2010
Revenue	10.2	9.5	11.8	22.6	33.3	38.1	65.6	85.0
Operating Margin (%)	12.6	14.2	19.5	24.8	21.9	23.5	26.4	28.1
EBITDA (adj)	1.2	(0.3)	(1.1)	5.8	4.7	3.1	16.4	23.9
EBITA (adj)	1.0	(0.6)	(1.4)	5.5	4.3	2.5	15.6	22.9
NPAT (adj)	3.2	0.7	(1.4)	1.8	1.6	1.2	13.3	16.7
Net Debt / (net cash)	(10.2)	(9.7)	(6.0)	(10.0)	(10.7)	(10.0)	(26.4)	(43.1)
Market Capitalisation	229.6	127.2	77.6	129.2	191.6	167.4	251.1	251.1
Enterprise Value	219.4	117.5	71.6	119.2	180.9	157.4	224.7	224.7
Unit Dose number	407	581	739	1,368	2,102	2,575	3,664	5,100
Earnings Yield (%)	0.5	n/a	n/a	4.6	2.4	1.6	6.9	10.0
ROCE (%)	16.4	-6.0	-6.0	24.0	23.0	15.0	96.0	137
Cover ratio	n/a	n/a	n/a	n/a	n/a	n/a	53	n/a
GOCF / EBITDA (%)	n/a	115	214	66	34	54	121	90
Earnings per share (¢)	5.8	n/a	n/a	3.2	2.8	2.2	23.9	30.0
PER	72	n/a	n/a	73	123	136	19	16.5
Share Price 30 June (\$)	4.16	2.30	1.40	2.32	3.44	3.00	4.95	4.95
Issued Capital million	55.2	55.3	55.4	55.7	55.7	55.8	55.8	55.8

Quant
Screen

6

Overcoming obstacles has been a real feature of the group since listing in 2000. Apart from the \$15 million raised at the time of its float, the group has not seen the need to raise additional capital and sits with a current market capitalisation of just \$275 million. The group's financial metrics are on the rise and based on our assessment, this year's outlook is promising. The threat of further board ructions can't be ruled out, however, shareholders are unlikely to tamper with a winning formula.

While the rising Australian dollar will impact the group's top line during 2010, sales are expected to rise strongly from this year's 3,664 doses to our estimate of 5,000. Based on our assessment, SIRTeX is expected to lift sales to \$85 million, leading to operating profits of \$23 million and a bottom line contribution of \$17 million, up from last year's adjusted net profit of \$13.3 million.

Having navigated his way through some tough periods, Wong has a clear sight of the horizon and based on recent events the outlook suggests better times lay ahead.

Selector Funds Management Limited Disclaimer

The information contained in this document is general information only. This document has not been prepared taking into account any particular Investor's or class of Investors' investment objectives, financial situation or needs.

The Directors and our associates take no responsibility for error or omission; however all care is taken in preparing this document.

The Directors and our associates may hold units in the fund and may hold investments in individual companies mentioned in this document.