

# US Congress gives US\$3.7 billion to nanotech research. This biotech company uses nanotech to make insoluble drugs soluble in water.

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## ***This is your last, best time to buy it...***

*By Christian DeHaemer*

Recently, Congress voted to increase funding for nanotechnology – bringing the total up to US\$3.7 billion over the next four years. Europe is putting up US\$915 million for nanotech. Japan paid out US\$750 million in 2002.

World governments are falling all over themselves to fund this type of research. The National Science Foundation estimates that there will be a US\$1 trillion global market for nanotechnology in 2015. That's huge. I smell a profit opportunity of cosmic proportions. But before I get ahead of myself, a little background...

## **What is nanotechnology?**

Before I tell you how to profit from the coming nano-revolution, let me first tell you what it's all about. The word "nanotechnology" describes anything involving dimensions of less than about 1,000 nanometers. In layman's terms, very small stuff.

As you know, everything, including manufactured goods, is made from atoms. The properties of those goods depend on how those atoms are arranged. If we rearrange the atoms in coal we can make diamonds. If we rearrange the atoms in sand we can make computer chips. If we rearrange the atoms in dirt, water and air, we can make carrots.

Current manufacturing methods are the top-down sort. You start with a block of iron or a sheet of fiberglass and you cut parts out and bend stuff around, add and remove it. In other words, casting, grinding, and milling. I like to think of Michelangelo's *Rebellious Slave*. He started with a big block of marble and cut away to reveal a statue.

But next year, the year after, and the year after that, nanotechnology will let us start at the bottom and build things up. Manufacturers will be able to put the building blocks of nature together inexpensively. There will be a new generation of products that are cleaner, stronger, lighter and more precise.

## **You can buy it now**

You've probably seen those ads for Lee Performance Khakis and other clothing products. In one television commercial a guy goes to Las Vegas and gets beer, wine and nacho cheese spilled all over his pants, but there is no stain. Nothing sticks to the pants because they are made from "nano-whiskers" produced by Nano-Tex, which makes stain-resistant textiles.

There is also Advanced Powder Technologies' ZinClear, a transparent sunblock with more UV protection than zinc oxide. No more white stuff on your nose. There is nanotech in the running boards of SUV's.

NanoBio makes NanoDefend, a product that decontaminates surfaces, and NanoGreen, which does the same thing for skin. General Les Lyles, Commander of Air Force Materiel Command, says, "Nanotechnology is going to revolutionize everything we do [in the military]."

Inmat's Air D-Fense makes a product that gives Wilson's Double Core tennis balls twice the life of regular balls. The balls have a nano-clay composite layer to slow the escape of air. This product might be transferable to car tires, a billion dollar market. Nano-clay is lighter, thinner, cheaper and better for the environment than current products.

## 10% of US GDP will be nano in 2015

Again, the National Science Foundation estimates that the global market for nanotechnology will be US\$1 trillion by 2015. Total US GDP is US\$10.4 trillion. *That means we are talking 10% of the current US economy.* And many people think this is an underestimation.

Nano will be as big as the Internet, PC's or the automobile. It hits all the right investment buttons: *rapid growth, environmentally friendly, energy efficient, and good for national security.*

Just imagine computers smaller than bacteria, or the contents of the Library of Congress stored in something smaller than a marble. Or how about materials 100 times stronger than steel at a fraction of the weight? Or medical robots that hunt down tumors or blocked arteries? Or bioengineered tissues to replace damaged or diseased body parts?

*This is the ultimate disruptive technology.* Change is upon us. Here at *Taipan*, we mean to profit from it. I have a list of 20 stocks that are moving forward in this field. Nine of these look to be buys in the next six weeks. Today, I'll tell you about one of them.

## Skyepharma (SKYE:NASDAQ)

Skyepharma makes drug delivery technology. They have successfully developed a number of new proprietary products, which are then licensed to third parties for commercialization.

For instance, DepoCyt is an injectable, sustained-release formulation of cytarabine for the treatment of lymphomatous meningitis. It uses DepoFoam to gradually release cytarabine into the spinal fluid. This extends dosing to once every two weeks instead of twice a week.

Foradil is a fast onset, long acting bronchodilator for the treatment of asthma. Xatral OD treats prostatic hypertrophy. Solaraze is a gel for the treatment of actinic keratosis, a pre-cancerous skin condition caused by overexposure to the sun.

The nanotechnology comes in because SKYE is involved in making insoluble drugs more effective. Nearly half of all new drugs are insoluble in water. Because of this, many never reach the market. Solubility technology can reformulate such drugs and increase their commercial potential.

## Sister morphine

SKYE recently announced that it has submitted an application to the United Kingdom's Medicines and Healthcare Products Regulatory Agency for approval of DepoMorphine, a sustained-release injectable formulation of morphine for control of postoperative pain. DepoMorphine was submitted to the US FDA in July 2003 and approval is pending.

As you can tell by the chart, this information was well received. It's not surprising, since one injection can provide pain relief for 48 hours following surgery – in other words, *no catheter*. Anyone who has given birth via caesarean can tell you they'd be happy not to have an additional tube stuck in them. DepoMorphine could be used in 11 million procedures annually in the US and Europe alone.

DepoMorphine has been through seven clinical trials. It is currently licensed to EndoPharma in North America. SKYE will license it in Europe later this year.

SKYE has a market cap of US\$754 million with 61 million shares outstanding. They



have a forward P/E of 40 and a trailing PEG ratio of 1.20 on 109% revenue growth. This is not at all overvalued. In fact, it is quite cheap for a proven company with an extensive pipeline.

For comparison, Alkermes Inc. (ALKS:NASDAQ) is in the same business of making drug delivery systems. ALKS has a US\$1.08 billion market cap, roughly the same number of employees at 436 to 492, similar gross margins (SKYE = 60.82, ALKS = 54.05). But ALKS has negative revenue growth of 3.40%, compared to SKYE's 109.60% positive revenue growth. In fact, SKYE's actual revenue was almost three times ALKS's at US\$134.4 million compared to US\$54.10 million.

Given all this, SKYE should be valued at three times ALKS – and yet ALKS has a larger market cap. It would be absurd, but the truth is it doesn't really matter. Biotechs aren't about fundamentals, neither are nanotechs. They are about vision, big growth, and the future. This stock has all three. **Buy SKYE under US\$15.00.**

## SIX MORE NANOTECHS TO OWN IN 2004

Here are six more stocks the *Red Zone VIP* Team has been racing to get to you.

**Stock #1:** In early December, volume on this puppy was 11 times higher than average on no news. And it traded at only US\$2.09. The *Red Zone VIP* Team's near-term target is US\$5 – a possible 140% gain. This company produces materials for use in paint, plastics, and even cosmetics – a billion dollar market. It has already made nanoparticles used in fuel-cell research, for example, and for the development of pharmaceuticals – another billion-dollar industry.

**Stock #2:** is a venture capital company, the idea lab for nano. What would any industry be without an “incubator”? Stock #2, like its Internet predecessors CMGI and Softbank, is in the business of investing in upstart nanotechnology companies.

**Stock #3:** has invested alongside some of the most prestigious venture capital firms. Last April, the company invested US\$1.5 million in Nanosys, which is considered by industry analysts to be the premier nanotechnology firm. They have a vast portfolio of companies, which will line their pockets if the IPO market comes back in the spring.

This stock is trading at US\$9 a share. When the speculators come back and nanostock IPO's are leading the news – and they will – this stock will be one of the ones talked about.

**Stock #4:** This next gem is one of the top manufacturers of measurement tools used in disk drives and semiconductor chips. This company has proven its ability to grow quickly by acquiring and integrating competitors' technologies and making them its own. It recently hit a new 52-week high and is headed up much higher. Semiconductor equipment can be a tricky, volatile market, but this company has managed to stabilize its returns and make a killing in profits. With a market cap of US\$855 million, this next-generation company has seemingly limitless profit potential.

**Stock #5:** The parent patent recently granted by the US Patent and Trademark Office for this company's “Methods for the Electronic Assembly and Fabrication of Devices” is just part of a series of pending patent applications that could significantly broaden #4's proprietary position in the nanotechnology and nanomanufacturing areas. It trades under US\$6 a share and has huge upside potential.

**Stock #6:** is a big player in the field of nanotechnology, specializing in the design, synthesis and screening of polymers and catalysts for life sciences and the electronics industries. In fact, companies such as Merck and ExxonMobil have asked #5 for assistance in creating new materials with targeted properties. Considering that this company helps other companies cut costs by up to 99%, who wouldn't be interested?

But that's not what attracted us to #5. The fact that it has more than 115 patents and another 415 patent applications pending worldwide, making it difficult for competitors to break in, is what brought us into the picture. We're not missing the boat with this play, either.

And finally... with a gorgeous chart, **Stock #6** is a screaming buy under US\$35 a share. It is a biopharmaceutical company engaged in the development of two polymer-based drug delivery platforms. Already, the company's technologies are being used in more than fifteen development programs with eight collaborations. Five are already in clinical phase trials.

With #6's technology, microparticles that prolong the delivery of drugs in the small intestine make it possible for once-a-day dosing, instead of the usual four doses a day. Wow. And with big pharma desperate to protect market share from patent expirations, the ability to introduce the same drug with a new delivery system will be worth a fortune. Several fortunes, in fact. And #6 can help.

Happy Profiting.

For more information on the *Red Zone VIP* system and to get the names of these nanotech stocks, please use the link below:

<http://www.agora-inc.com/reports/TRV/WTRVDC01/> ■

Sincerely,

A handwritten signature in black ink, appearing to read "Chris DeHaemer", with a long horizontal flourish extending to the right.

Christian DeHaemer  
Founder and Senior Analyst  
*The Red Zone of Profits*