

RESEARCH NOTE
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Marshall Edwards, Inc. (MSHL-\$3.10)
MSHL Reports 3Q08 Financial Results; Near-Term Focus Remains on OVATURE Trial

Company Statistics

Price:	\$3.10
Market Capitalization (M):	\$213
Average Daily Volume (1-month):	19,939
Dividend:	\$0.00
Yield:	0.0%
Rating:	BUY
EPS Growth Rate:	NM

Financials

FYE Jun	2006A	2007A	2008E	
EPS:	-\$0.13	-\$0.22	-\$0.17	
Prior EPS:	--	--	-\$0.18	
Quarterly EPS:	Q1	-\$0.03	-\$0.13	-\$0.05
	Q2	-\$0.03	-\$0.03	-\$0.03
	Q3	-\$0.06	-\$0.03	-\$0.05
	Q4	-\$0.01	-\$0.03	-\$0.04
P/E Ratio:	NM	NM	NM	

Research Analyst Certification and Important Disclosures start on page 3 of this document.

INVESTMENT CONCLUSION: We continue to believe that shares of MSHL offer long-term oriented, risk-tolerant investors a unique investment opportunity within the development-stage biopharmaceutical universe. The company's lead drug candidate, phenoxodiol, is the subject of the ongoing Phase III "OVATURE" ovarian cancer trial, which was designed under the auspices of a Special Protocol Assessment with the FDA, and the company's pipeline of drug candidates continues to expand (triphendiol, NV-143, etc.). Thus far, phenoxodiol's safety profile has been highly encouraging, and we believe **long-term oriented**, risk-tolerant investors should take a fresh look at this "under-the-radar" stock, which we rate BUY.

KEY POINTS

- Earlier today, via a 10-Q filing for the third quarter of the company's fiscal 2008 year, Marshall Edwards reported a net loss of (\$0.05) per share, which compares to our estimate of a (\$0.06) loss per share. Given the company's status as a development-stage biopharmaceutical company, we do not attach any significance to these near-term quarterly results.
- We remind investors that phenoxodiol is currently in a Phase III trial (the "OVATURE" study), which is evaluating the combination of phenoxodiol and the standard chemotherapy agent carboplatin in 470 platinum-resistant ovarian cancer patients. Our understanding continues to be that patient accrual should be completed around the end of the year, though that estimate is of course subject to change. The trial's most recent update, filed on March with the National Institutes of Health and publicly available on www.clinicaltrials.gov, lists 24 centers in the U.S. that are actively recruiting patients, along with five active sites in Australia and 21 in Europe.
- Marshall Edwards ended March with no debt and cash and marketable securities totaling \$22 million. Last year, the company announced that it raised gross proceeds of \$16.4 million via a private placement of approximately 5.5 million shares of its common stock at \$3.00/share. For every block of 10 shares of common stock purchased, investors also received a warrant to purchase an additional 4 shares of common stock (exercise price of \$3.60 is valid from February 6, 2008 through August 6, 2012). The current cash balance should be sufficient to fund the company's operations through the end of this calendar year and into 2009, though we reiterate that management will likely seek additional capital this year. We continue to expect the company to try to identify a commercialization partner for phenoxodiol sometime next year, following a look at initial progression-free survival data from the OVATURE study.

- Beyond phenoxodiol (which is also being explored in early-stage prostate cancer), we expect an IND filing for triphendiol (formerly NV-196) the coming months, to be followed by a study combining triphendiol with gemcitabine for the treatment of pancreatic cancer, while NV-143 (melanoma) continues to progress through pre-clinical evaluations. The next Novogen compound that we believe could potentially be licensed for clinical development by Marshall Edwards is NV-128, and with all these earlier-stage compounds now under the MSHL tent, we expect the company to return to the equity market for additional funds during the next year. We look forward to tracking the continued progress of these earlier-stage compounds and note that their availability to a potential partner or acquirer should aid Marshall Edwards at the negotiating table in the coming months.
- We maintain our BUY rating for *suitable, risk-tolerant* biotech investors.

VALUATION: We are maintaining our \$7 fair value estimate, which is based on a probability-adjusted future revenue analysis of the company's pipeline products and its net cash position. We remind investors that, as is the case with virtually every development-stage biopharmaceutical stock within our coverage universe, traditional valuation metrics such as current P/E ratios, revenue multiples, and EBITDA multiples cannot be employed when attempting to value shares of MSHL. Instead, we believe investors should focus on the following issues when evaluating biotech stocks: (i) the revenue potential for each of the company's drug candidates; (ii) the time that will be necessary to complete the required clinical trials and regulatory filings; and (iii) the level of financial resources at the company's disposal to fund these drug development projects. Risks that could impede the achievement of our price target include clinical and regulatory uncertainties, potential reimbursement issues, the emergence of competitive threats, and lingering geopolitical issues around the globe.

INVESTMENT RISKS: Novogen Relationship Introduces Several Unique Risks. Novogen owns approximately 72% (49.5 million shares) of Marshall Edwards' outstanding common stock, resulting in a relatively small trading float for shares of MSHL, and members of Marshall Edwards' senior management team also hold similar executive positions at Novogen. Should Novogen decide to sell some or all of its holdings, subject to the applicable Rule 144 regulations, that decision could have a negative near-term impact on the market value of MSHL. Additionally, under recently amended terms of their existing agreement, **Marshall Edwards is contractually obligated to pay Novogen an \$8 million license fee when/if phenoxodiol is approved, along with additional \$8 million annual license fees beginning at the end of the calendar year in which phenoxodiol first receives approval for marketing in the U.S. or any other country.** Other clauses of their agreement include the fact that Marshall Edwards must reimburse Novogen for the costs associated with supplying phenoxodiol, at "cost plus 50%," and the company must also reimburse Novogen one-half of the costs related to filing, prosecuting, and maintaining phenoxodiol's patent position, along with royalties on any future sales of phenoxodiol.

Marshall Edwards Will Most Likely Need to Enter Into a Commercialization Agreement with a Larger Pharmaceutical Company to Market Phenoxodiol. Under its present structure, Marshall Edwards is solely focused on the clinical development of oncology drug candidates such as phenoxodiol. The company does not currently have the financial resources in place to both pursue phenoxodiol's clinical development and put in place a suitable sales & marketing infrastructure. Although management has retained the services of a third-party advisor to find a commercialization partner, there can be no assurances the company will be successful in these efforts.

Speed of Enrollment in Recently Initiated OVATURE Study Remains Uncertain. We are still unclear as to the ultimate rate at which patients are being enrolled in this 470-patient pivotal trial, leading to uncertainty regarding when results might first be available.

COMPANY DESCRIPTION: *Marshall Edwards, Inc., with operations based in North Ryde, NSW, Australia, is a biopharmaceutical company focused on the development and commercialization of drugs for the treatment of various forms of cancer. The company's lead drug candidate is phenoxodiol, a Multiple Signal Transduction Regulator that is currently undergoing several clinical trials in multiple types of cancer; additional drug candidates include triphendiol and NV-143. Marshall Edwards was originally incorporated in December 2000 as a subsidiary of Novogen Ltd., and Novogen currently owns over 70% of the company's common stock.*

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Brian D. Rye, CFA, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC Equity Research Disclosure Legend May 7, 2008

Company	Disclosure(s)
Marshall Edwards, Inc. (MSHL)	1,4,7,8

Janney Montgomery Scott LLC (“JMS”) Equity Research Disclosure Legend

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2. The research analyst primarily responsible for preparing this research report or a member of the research analyst’s household has a financial interest in the securities of the company in the form of a long position in such securities.
3. The research analyst primarily responsible for preparing this research report or a member of the research analyst’s household has a financial interest in the securities of the company in the form of options (O), warrants (W), futures (F), and/or a short position (S).
4. JMS or an affiliate managed or co-managed a public offering of securities for the company in the past 12 months.
5. JMS or an affiliate received compensation for investment banking services from the company in the past 12 months.
6. JMS or an affiliate received compensation for products or services other than investment banking services from the company in the past 12 months.
7. JMS may seek compensation for investment banking services from the subject company (ies) in the next 3 months.
8. The research analyst is compensated based on, in part, JMS’s profitability, which includes its investment banking revenues.
9. JMS or an affiliate beneficially owns 1% or more of any class of common equity securities of the company.
10. An Employee or Director of JMS is an officer or Director of subject company.
11. Other:

Definition of Ratings

- BUY** Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.
- NEUTRAL** Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.
- SELL** Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of March 31, 2008*

<u>BUY</u>	<u>NEUTRAL</u>	<u>SELL</u>
45%	53%	2%

*As a percent of total coverage. See ratings definition above.

Janney Montgomery Scott Ratings of Investment Banking Relationships as of March 31, 2008**

<u>BUY</u>	<u>NEUTRAL</u>	<u>SELL</u>
7%	4%	0%

**Percentages of each rating category where JMS has performed Investment Banking services over the past 12 months.

Other Disclosures

Investment opinions are based on each stock’s 6-12 month return potential. Our ratings are not based on formal price targets, however our analysts will discuss fair value and/or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor’s investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst’s views.

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