INSTITUTIONAL RESEARCH
Healthcare & Biotechnology
COMPANY UPDATE

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Bionovo, Inc. (Nasdaq/BNVI)

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Neutral **Lowering rating on financing**

Bionovo is developing innovative therapeutics from botanical extracts

Investment Highlights

1) Bionovo **released the FDA-approved clinical development plan for Menerba for hot flashes associated with menopause last month.** The final minutes from the November 2010 meeting included a suggestion for a small Phase 1 study in advance of the pivotal Phase 3a study. The suggested Phase 1 trial will compile additional safety data on 20 postmenopausal women who will receive 15g/day of Menerba, a dose three times higher than the previously tested dose in the Phase 2 study. The Company hopes to start the Phase 1 trial in Q1/2011 and the Pivotal Phase 3a trial in Q2/2011, after animal toxicology studies are conducted and trial material is manufactured and packaged. Still on tap for Bionovo is a potential partner(s) for Menerba for Europe (approved for Phase 3 trials in November) and/or the US.

2) Earlier last fall, Bionovo reported financial results for their Q3/2010, including revenues of $68,000 and a net loss of $4.6 million or ($0.21) per share, compared with a net loss of $3.7 million or ($0.24) per share in the prior year period. During the Q3/2010 quarter, R&D expenses increased to $3.7 million and G&A costs increased slightly to $987,000, as compared with the prior year period. Cash burn for the quarter was approximately $3.8 million, and Bionovo ended the quarter with $5.6 million in cash on hand on a pro forma basis including the proceeds from a November 2010 private equity placement.

3) We are **lowering our rating on Bionovo shares to a Neutral** due to the Company's near-term need to raise additional working capital, and also due to the recent history of the stock related to share dilution from a potential offering and the lack of research support from certain other investment banking firms recently involved with the Company. We would like to see the Company strengthen its balance sheet in the near future, perhaps to the extent of amassing 12-15 months worth of cash burn, either through one or more Menerba partnerships or a potential equity raise, before once again feeling comfortable with recommending that investors purchase these shares at current levels.

Current Price $1.22

Price Target N/A

Estimates	F2008A	F2009A	F2010E
Revenues($000s)	$233	$227	$175
EPS	($0.22)	($1.00)	($0.82)

Stock Data	
52-Week Range	$0.34-$3.65
Shares Outstanding (mil.)	21.8
Market Capitalization (mil.)	$26.6
Enterprise Value (mil.)	$25.7
Debt to Capital (9/10)	18.8%
Book Value/Share (9/10)	$0.45
Price/Book	2.7 x
Average Trading Volume (3-Month)	205,000
Insider Ownership	20.2%
Institutional Ownership	13.0%
Short interest	650,000
Dividend / Yield	$0.00/0.0%

Price target and ratings changes over the past 3 yrs:
Initiated - November 3, 2009 - Buy -Price Target $2.00
Lowered to Neutral - January 17, 2011

Conclusion/Stock Valuation

Bionovo has developed a novel technology platform using extracts from Chinese traditional medicine botanical agents, a readily available and well studied source of materials, to target several areas of difficult to treat, unmet medical needs. The Company has published clinical results in several trials showing strong efficacy and unusually positive safety, thus attracting a strong following in the medical/scientific community. Up next for the Company will be further clinical studies on the existing Menerba portfolio program, and possibly accelerating progress on other programs with the potential signing of new partnerships or receipt of government research funding, which began to flow again since 2009.

Bionovo's shares have not performed as well over the past 12-15 months as other stocks in our two-tiered comparison group, which includes Abraxis Bioscience (Nasdaq/ABII/Not Rated); Ariad (Nasdaq/ARIA/NR); Onyx (Nasdaq/ONXX/NR); OSI Pharmaceuticals (Nasdaq/OSIP/NR); and Poniard Pharmaceuticals (Nasdaq/PARD/NR) in our oncology group and include BioSante (Nasdaq/BPAX/NR); Columbia Labs (Nasdaq/CBRX/NR) and Noven Pharmaceuticals, which was bought-out in 2009 at $16.50 per share by Hisamitsu of Japan at an approximate valuation of $400 million, in our Women's Health group. This trading pattern could be due to a number of buy-outs in our comparison group, including for Noven, Abraxis and OSI, but also to a delay (and corresponding additional costs incurred) related to progress at the FDA for the Company's Menerba Phase 3 trial program. Despite these shares not reaching our original price target set in late 2009, we are recommending that shareholders stay on the sideline with BNVI shares for the time being, at least until certain issues are resolved related to potential equity financing and/or partnership agreements. Thus, we are lowering our rating on BNVI shares to Neutral at this time.

Catalysts/Investor Timeline

1) Results for Q4/2010 – Mid-March 2011
2) Initiation of Phase I Menerba high dose safety trial in US – Q1/2011
3) Initiation of Phase IIIA Menerba trial in US and Europe – Q2/2011
4) Results for grant application for Bezielle for pancreatic cancer – 2011
5) Launch Bezielle Phase III for advanced breast cancer – 2012 (unless outside funding received)
6) Launch Seala Phase I/II – 2012 (unless outside funding received)
7) Publish Phase III data/Sign partnership agreement for Menerba – 2011-2
8) Release interim and final data results from Phase I/II Bezielle study for advanced breast cancer – 2012
9) Launch Phase I/II trial and release interim data for Seala – 2012
10) File IND for BN107 and/or BN108 for advanced breast cancer - 2012

Risk Factors

We believe an investment in Bionovo involves the following risks:

- **FDA and regulatory risks** – Bionovo is subject to regulatory review for its ongoing research and development activities, principally the US Food and Drug Administration but also potentially with other regulatory agencies as well, including in Europe and Asia. In addition, the manufacture and handling of the Company's novel botanical agent-derived pharmaceuticals are subject to additional oversight and regulation and in fact are somewhat ground-breaking in terms of FDA approval.
- **Reliance on joint venture partners and/or additional capital** — Currently, Bionovo has enough cash on hand to fund ongoing research and marketing development programs into calendar 2011, approximately. Alternatively, the Company could obtain partnership agreements or government funding to offset planned R&D spending or to accelerate development of an existing or new R&D program in the pipeline. While other companies in the oncology and women's health areas have obtained such partnerships or grants in the past, there can be no assurance that Bionovo will do so in the present environment. However, many of the Company's current management team and directors have successfully negotiated such deals in the past and this may aid efforts for Bionovo to do so in the future.
- **Need to defend patents and other intellectual property** – Bionovo currently has filed 66 patents on its technology and product pipeline, including one key patent for Menerba in the US declared effective in 2006. However, the Company may need to defend its patents in the US and overseas in the future, particularly if one or more products receive approval and are successfully marketed.

Bionovo, Inc.
Consolidated Statements of Income
(in $000s, except EPS)

Robert M. Wasserman

FYE December	2006	2007	2008	1Q09 March	2Q09 June	3Q09 Sept	4Q09 Dec	2009	1Q10 March	2Q10 June	3Q10 Sept	4Q10E Dec	2010E	2011E
Revenues	$15	$582	$233	$0	$7	$10	$210	$227	$0	$7	$68	$100	$1,000	$2,000
Expenses														
Research and development	4,021	9,938	11,416	3,601	2,954	3,000	3,050	12,605	3,601	2,954	3,673	3,700	12,500	13,500
General and administrative	1,799	4,284	6,097	1,009	1,175	1,200	1,250	4,634	1,009	1,175	987	1,000	5,000	5,500
One-time and other	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total operating expenses	5,820	14,221	17,513	4,610	4,129	4,200	4,300	17,239	4,610	4,129	4,660	4,700	17,500	19,000
Loss from operations	(5,805)	(13,640)	(17,280)	(4,610)	(4,122)	(4,190)	(4,090)	(17,012)	(4,610)	(4,122)	(4,592)	(4,600)	(16,500)	(17,000)
Interest income	262	850	731	54	16	50	200	320	54	16	2	100	700	600
Interest expense	(47)	(87)	(129)	(33)	(22)	(20)	(20)	(95)	(33)	(22)	(9)	(20)	(80)	(80)
Other expense, net	(23)	(25)	(21)	(79)	(6)	(10)	(10)	(105)	(79)	(6)	(28)	(10)	(100)	(100)
Net income (loss)	(5,615)	(12,901)	(16,700)	(4,668)	(4,134)	(4,170)	(3,920)	(16,892)	(4,668)	(4,134)	(4,627)	(4,530)	(15,980)	(16,580)
Basic and diluted income (loss) per share	($0.11)	($0.20)	($0.22)	($0.31)	($0.27)	($0.27)	($0.18)	($1.00)	($0.21)	($0.19)	($0.21)	($0.21)	($0.73)	($0.73)
Basic and diluted shares outstanding	49,923	65,763	76,353	15,273	15,273	15,280	21,800	16,906	21,740	21,740	21,785	21,885	21,788	22,800
Key ratios:														
Cash Flow/share	($0.10)	($0.17)	($0.19)	($0.28)	($0.23)	($0.23)	($0.15)	($0.89)	($0.20)	($0.16)	($0.18)	($0.18)	($0.60)	($0.57)
EBITDA/share	($0.09)	($0.16)	($0.18)	($0.28)	($0.23)	($0.23)	($0.15)	($0.88)	($0.20)	($0.16)	($0.18)	($0.18)	($0.59)	($0.57)

Balance Sheets
($000s)

	12/31/09	9/30/10
Assets:		
Cash and equivalents	$2,799	$3,113
Short-term investments	13,135	0
Prepaid expenses & other	375	69
Receivables	251	1,365
Total current	16,560	4,547
Property & equip., net	6,197	7,121
Other assets and patent pending, net	1,392	2,371
TOTAL ASSETS	$24,149	$14,039
Liabilities:		
Accounts payable	$311	$386
Accrued liabilities & other	1,190	1,538
Current portion of notes & obligations	535	1,177
Total current	2,036	3,101
Notes payable & other	217	1,102
Stockholders' equity	21,896	9,836
TOTAL LIAB & EQ	$24,149	$14,039

Investor Catalyst Timeline

	2011E	2012E
Menerba - Menopausal Hot Flashes		
Launch Phase III - Europe	Q1	
Launch Phase III - US	Q1	
Partnership agreement	X	
Release Phase III data		X
Bezielle - Advanced Breast Cancer		
Launch Phase II	X	
Release of interim data		X
Release complete Phase II data		X
Seala - Vaginal Atrophy		
Launch Phase I/II	X	
Release Phase I/II data		X
Bezielle - Pancreatic Cancer		
Results for grant application		
BN 107 - Advanced Breast Cancer		
File IND		X
BN 108 - Advanced Breast Cancer		
File IND		X

Source: Dawson James Securities, Inc. estimates; Company documents

Important Disclosures:

Price Chart:

Price target and ratings changes over the past 3 years:
Initiated – November 3, 2009 – Target $2.00
Lowered to Neutral – January 17, 2011

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Ratings definitions: 1) Buy: the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; **2) Neutral:** the stock is fairly valued for the next 12-18 months; and **3) Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold.

	Company Coverage		**Investment Banking**	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Buy	16	73%	5	31%
Neutral	6	27%	4	67%
Sell	0	0%	0	0%
Total	22	100%	9	41%

Information about valuation methods and risks can be found in the "CONCLUSION/STOCK VALUATION" and "RISKS" sections of this report.