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Companies covered: AXP, MVP, NEU, PXS,
RNO, VTI

| | Bioshares Portfolio |
|---------------------------------|---------------------|
| Year 1 (May '01 - May '02) | 21.2% |
| Year 2 (May '02 - May '03) | -9.4% |
| Year 3 (May '03 - May '04) | 70.6% |
| Year 4 (May '04 - May '05) | -16.3% |
| Year 5 (May '05 - May '06) | 77.8% |
| Year 6 (May '06 - May '07) | 17.4% |
| Year 7 (May '07 - May '08) | -36% |
| Year 8 (May '08 - May '09) | -7.4% |
| Year 9 (May '09 - May '10) | 50.2% |
| Year 10 (May '10 - May '11) | 45.4% |
| Year 11 (May '11 - May '12) | -18.0% |
| Year 12 (May '12 - May '13) | 3.1% |
| Year 13 (May '13 - May '14) | 26.6% |
| Year 14 (May '14 - May '15) | 23.0% |
| Year 15 (May '15 - May '16) | 33.0% |
| Year 16 (May '16 - May '17) | 16.8% |
| Year 17 (May '17 - May '18) | -7.1% |
| Year 18 (May '18 - current) | 3.7% |
| Cumulative Gain | 729% |
| Av. Annual gain (17 yrs) | 17.1% |

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Bioshares

10 August 2018

Edition 756

Delivering independent investment research to investors on Australian biotech, pharma and healthcare companies

Extract from Bioshares –

Pharmaxis Strengthens Balance Sheet Ahead of LOXL2 Licensing Deal

Pharmaxis (PXS: \$0.305) has announced a significant capital raising that will be completed in two tranches. The company has received commitments of \$24 million, which will be raised at a slight premium at \$0.325 per share. Four of the company's directors will be participating in the placement as well as the company's CEO.

Arix Biosciences Enters the Register

An important feature of the raise is that the lead investor is listed UK biotech investment group, Arix Bioscience plc, which will invest \$14.2 million to obtain an 11.1% stake in Pharmaxis. Another specialist biotech investment group, BVF Partners, which is currently a shareholder, will invest a further \$7.1 million to take its holding up to 22.9%.

Edward Rayner from Arix will join the Pharmaxis board, which suggests the listed fund is seeking to form a long term relationship with Pharmaxis. Rayner was previously with AMP Capital in Australia. Pharmaxis is the first investment by Arix in Australia, which Pharmaxis CEO Gary Phillips said is being driven by the higher biotech asset prices in the UK and the US.

Arix listed on the LSE at the start of 2017 raising £100 million. It has 13 investments in private biotechs, with an emphasis on leading edge drug discovery plays. Its investment approach has been to focus on private biotechs and to seek IPOs for those companies. Three of its investee companies have gone on to list on the Nasdaq stock exchange. Its investment mandate includes holding a minimum 10% ownership in its investee businesses.

Arix's investment in Pharmaxis is the first of its VIPes (Venture Investment in Public Equity). The investment arguably highlights how attractive an entry opportunity that Pharmaxis is, offering the type of large potential gains sought by venture capital investors.

Pharmaxis CEO Gray Phillips said that it was important that there was no discount in this placement. Smaller investors are able to buy stock on market.

Balance Sheet Strengthening

The capital raise is also important because it places Pharmaxis in a substantially stronger negotiating position ahead of a commercial transaction for its LOXL2 asset, giving the company a proforma cash balance of \$54 million at the end of FY2018. A LOXL2 deal is expected to be negotiated later this year.

Pharmaxis has developed two lead compounds that block the LOXL2 enzyme. Phase I single ascended dose studies were successfully completed with both compounds, showing target engagement with dose response patterns. A multiple ascending dose study has been conducted with one of its leads, also showing target engagement and stable

Continued over

Bioshares Model Portfolio (10 August 2018)

| Company | Code | Price (current) | Price added to portfolio | Recommendation | Cap'n (\$M) | Date added |
|-----------------------------|------|-----------------|--------------------------|----------------|-------------|----------------|
| Clinuvel Pharmaceuticals | CUV | \$12.28 | \$4.15 | Spec Hold A | \$587 | December 2014 |
| Bionomics | BNO | \$0.470 | \$0.295 | Spec Buy A | \$227 | March 2016 |
| Volpara Health Technologies | VHT | \$0.870 | \$0.375 | Spec Buy A | \$201 | June 2017 |
| Somnomed | SOM | \$1.985 | \$0.94 | Buy | \$123 | January 2011 |
| Opthea | OPT | \$0.595 | \$0.160 | Spec Buy A | \$121 | November 2014 |
| Pharmaxis | PXS | \$0.305 | \$0.260 | Spec Buy A | \$98 | December 2016 |
| Osprey Medical | OSP | \$0.250 | \$0.695 | Spec Hold B | \$85 | September 2015 |
| Cogstate | CGS | \$0.510 | \$0.515 | Spec Buy A | \$58 | August 2018 |
| Micro-X | MX1 | \$0.340 | \$0.38 | Spec Buy A | \$49 | May 2017 |
| Factor Therapeutics | FTT | \$0.048 | \$0.041 | Spec Buy B | \$40 | March 2018 |
| Visioneering Technologies | VTI | \$0.210 | \$0.435 | Spec Hold B | \$41 | March 2017 |
| AcruX | ACR | \$0.200 | \$0.31 | Spec Buy A | \$33 | July 2017 |
| AirXpanders | AXP | \$0.085 | \$0.745 | Spec Buy B | \$24 | September 2015 |
| Adalta | 1AD | \$0.295 | \$0.23 | Spec Buy A | \$30 | July 2017 |
| Rhinomed | RNO | \$0.220 | \$0.320 | Spec Buy B | \$26 | December 2015 |
| MediBio | MEB | \$0.230 | \$0.395 | Spec Buy A | \$26 | September 2017 |
| Dorsavi | DVL | \$0.100 | \$0.480 | Spec Buy B | \$17 | December 2016 |
| Adherium | ADR | \$0.090 | \$0.495 | Spec Buy A | \$16 | May 2016 |

Portfolio Changes – 10 August 2018

IN:
No changes

OUT:
No changes

– *Pharmaxis cont'd*

pharmacokinetics after seven days. The 400mg daily dose achieved greater than 80% target inhibition over 24 hours.

Data from two Phase I studies and toxicology work is expected at the end of Q3 this year, the outcome of which will allow formal partnering discussions in Q4.

Phase II data from the asset sold to Boehringer Ingelheim in 2015 is expected in 1H 2019 in both NASH and diabetic retinopathy. Pharmaxis is entitled to milestones and a percentage of sales. The commencement of Phase III studies in both indications will trigger €62 million (\$97 million) in milestone payments in total.

Pharmaxis is capitalised at \$120 million (including the placement underway).

Bioshares recommendation: Speculative Buy Class A

Bioshares

How Bioshares Rates Stocks

For the purpose of valuation, Bioshares divides biotech stocks into two categories. The first group are stocks with existing positive cash flows or close to producing positive cash flows. The second group are stocks without near term positive cash flows, history of losses, or at early stages of commercialisation. In this second group, which are essentially speculative propositions, Bioshares grades them according to relative risk within that group, to better reflect the very large spread of risk within those stocks. For both groups, the rating “Take Profits” means that investors may re-weight their holding by selling between 25%-75% of a stock.

Group A

Stocks with existing positive cash flows or close to producing positive cash flows.

- Buy** CMP is 20% < Fair Value
- Accumulate** CMP is 10% < Fair Value
- Hold** Value = CMP
- Lighten** CMP is 10% > Fair Value
- Sell** CMP is 20% > Fair Value
(CMP–Current Market Price)

Group B

Stocks without near term positive cash flows, history of losses, or at early stages commercialisation.

Speculative Buy – Class A

These stocks will have more than one technology, product or investment in development, with perhaps those same technologies offering multiple opportunities. These features, coupled to the presence of alliances, partnerships and scientific advisory boards, indicate the stock is relative less risky than other biotech stocks.

Speculative Buy – Class B

These stocks may have more than one product or opportunity, and may even be close to market. However, they are likely to be lacking in several key areas. For example, their cash position is weak, or management or board may need strengthening.

Speculative Buy – Class C

These stocks generally have one product in development and lack many external validation features.

Speculative Hold – Class A or B or C

Sell

Corporate Subscribers: Cogstate, Bionomics, LBT Innovations, Opthea, ResApp, Pharmaxis, Dimerix, Cyclopharm, Adalta, Medibio, Pharmaust, Actinogen Medical

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