BELL POTTER

Speculative
See Key Risks on Page 7 & Biotechnology Risk Warning on Page 9
Speculative securities may not be suitable for Retail clients

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Pharmaxis Ltd. (PXS)

BI terminates agreement, discontinues development of partnered drug

Recommendation
Hold (Buy)
Price
$0.081
Valuation
$0.09 (previously $0.20)
Risk
Speculative

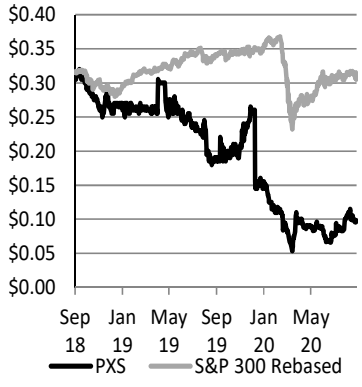
GICS Sector
Pharmaceuticals & Biotechnology

Expected Return	
Capital growth	**11.1%**
Dividend yield	**0.0%**
Total expected return	**11.1%**
Company Data & Ratios	
Enterprise value	**$25.5m**
Market cap	**$32.1m**
Issued capital	**395.8m**
Free float	**98.7%**
Avg. daily val. (52wk)	**$78,045**
12 month price range	**$0.053- $0.285**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.09	0.09	0.19
Absolute (%)	15.29	11.36	-47.03
Rel market (%)	15.04	9.35	-37.34

Absolute Price



SOURCE: IRESS

Termination of BI partnership – another setback for PXS

Boehringer Ingelheim (BI) has terminated its 2015 agreement with PXS for Drug BI_1467335 and discontinued its development for Diabetic Retinopathy (DR). Recall that last year in December, BI had discontinued the development of the same drug for NASH, due to dose related safety risk. We had believed that given the dose restrictions on BI to move this drug forward for DR, strength of efficacy signal from Phase 2A would be important and key deciding factor. Unfortunately, in the Phase 2A DR trial in patients with moderate to severe non-proliferative DR there was a lack of clear efficacy signal which prompted BI's decision. PXS notes that the drug met the primary endpoint of ocular safety and was well tolerated in the DR trial. PXS now has a 90 days' notice period during which it can request for return of all IP and data generated on the product so far. Once received, PXS intends to look at the totality of data to identify if the drug can be developed for another indication in which risk of drug interaction is of less concern (probably neurological indications). To date the deal has delivered €57m (A$83m) in upfronts and milestones to PXS and had it continued PXS stood to receive another €177m in development + approval milestones alone.

Valuation reduced to $0.09, Switch to Hold (speculative)

Removal of BI_1467335 for DR from our model had no near term impact on cash flows or earnings, however had a material impact on our long term forecasts and valuation. Removal of the drug from our model, partially offset by adjusting our DCF for time creep has led to a material reduction in our valuation for PXS to A$0.09/sh (was A$0.20/sh). We are switching to Hold (spec.) on valuation. Our PXS valuation is now weighted towards Bronchitol + Aridol segment, with modest value ascribed to its drug development business. Key downside risk to our valuation is further delay or PXS being unsuccessful in partnering its LOXL-2 asset, while upside risk to our valuation is progress of PXS-5505 myelofibrosis asset into Phase 1/2 trial which we currently do not include in our valuation. **Key catalysts:** a) FDA approval decision for Bronchitol on 1st Nov'20, triggering US$7m milestone in 4QCY20 and US$3m on product shipment in 1QCY21 from partner Chiesi; b) a partnering deal for LOXL-2 before end of CY20 and c) Initiation of Phase 1/2 myelofibrosis trial in Dec'20.

Earnings Forecast

Year end 30th June	2019A	2020A	2021E	2022E	2023E
Revenue (A$m)	12.2	12.7	31.4	20.2	17.7
EBITDA (A$m)	-15.7	-12.1	6.2	-5.7	-4.4
NPAT (reported) (A$m)	-20.1	-13.9	1.9	-10.0	-8.7
NPAT (normalised) (A$m)	-19.0	-13.4	2.8	-8.9	-7.7
EPS (reported) (cps)	-5.1	-3.4	0.5	-2.5	-2.1
EPS (adjusted) (cps)	-4.8	-3.3	0.7	-2.2	-1.9
EPS growth (%)	N/A	N/A	NM	N/A	N/A
PER (x)	N/A	N/A	11.6	N/A	N/A
EV/EBITDA (x)	-1.6	-2.1	4.1	-4.5	-5.8
Dividend (¢ps)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	-128.1%	NM	66.4%	NM	62.1%

NOTE: REVENUE INCLUDES R&D TAX INCENTIVE, MILESTONES FROM CHIESI DEAL AND FY21/22 REVENUE INCLUDES RISK ADJUSTED UPFRONT AND MILESTONES FROM LICENSING DEAL FOR LOXL-2. SOURCE: BELL POTTER SECURITIES ESTIMATES

Switching to Hold (spec.) on valuation

We value PXS at $0.09/sh

There was no change to our FY21-FY23 earnings. The decision of BI to stop developing the drug had no near term impact on PXS' cash flows or our forecasts, given that the next milestone under the deal was not due till FY24 in our view (on initiation of a Phase 3 trial). BI would have had to first run a Phase 2b trial in DR for which there was no milestone payable to PXS.

However our long term earnings forecast and valuation is impacted by the removal of revenues (potential milestones and royalties on sales) from the PXS/Boehringer Ingelheim drug BI_1467335 for Diabetic Retinopathy indication from our model, following BI's decision to discontinue development of the drug and terminating its partnership with PXS. Had BI continued development of the drug, PXS would have stood to potentially receive ~€177m in Phase 3 initiation, filing and approval milestones along with additional sales milestones and royalties on net sales. We have also adjusted our DCF for time creep.

Our valuation for PXS has reduced to A$0.09/sh (was A$0.20/sh). **We switch to Hold (Speculative) on valuation** (was Buy, spec).

Table 1 - No Changes to our FY21-23 Forecasts

	FY2021E			FY2022E			FY2023E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	31.4	31.4	0%	20.2	20.2	0%	17.7	17.7	0%
Interest Income	0.3	0.3	0%	0.3	0.3	0%	0.1	0.1	0%
Operating Costs	25.2	25.2	0%	25.9	25.9	0%	22.1	22.1	0%
EBITDA	6.2	6.2	0%	-5.7	-5.7	0%	-4.4	-4.4	0%
EBIT	3.0	3.0	0%	-8.9	-8.9	0%	-7.6	-7.6	0%
NPAT (adjusted)	2.8	2.8	0%	-8.9	-8.9	0%	-7.7	-7.7	0%
Adjusted Diluted EPS	0.7	0.7	0%	-2.2	-2.2	0%	-1.9	-1.9	0%
NPAT (reported)	1.9	1.9	0%	-10.0	-10.0	0%	-8.7	-8.7	0%
Reported Diluted EPS	0.5	0.5	0%	-2.5	-2.5	0%	-2.1	-2.1	0%

ALL AMOUNTS IN AUD IN MILLIONS EXCEPT EPS. SOURCE: BELL POTTER SECURITIES ESTIMATES

Our DCF valuation model is based on a WACC of 19.0% and a terminal growth rate of 1%.

Table 2 - Summary of Valuation

Forecasts	Base case
Enterprise value from DCF (AUDm)	24.8
Add: Proforma cash incl. R&D tax rebate receivable (AUDm)	19.7
Less: Current Debt (related to finance lease on manufacturing/office premises)	8.2
Equity value (AUDm)	36.4
Total diluted shares (million)	415.5
Value per share (AUD)	**$0.09**
Current Share price (AUD)	$0.081
Expected Capital Growth	11.1%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 3 - PXS Sum-of-parts DCF Valuation Summary

Asset	Probability adjusted NPV (A$m)	Value per share (A$)	% Mix	Probability of success/Risk adjustment	Current Phase
Bronchitol and Aridol	$29	**$0.07**	80.7%	Bronchitol - US (90%)	Marketed for Aridol, Marketed for Bronchitol (Ex-US and Canada)
New Drug Development	$23	**$0.05**	62.0%	LOXL-2 (NASH -18.0%)	LOXL-2 (Phase 1 complete)
Corporate/Non-Allocated	($27)	**-$0.07**	-74.4%	NA	NA
Proforma Cash (incl R&D tax rebate receivable)	$20	**$0.05**	54.1%	NA	NA
Reported Debt	($8)	**-$0.02**	-22.4%	NA	NA
Equity Value	**$36.4**	**$0.09**	**100.0%**		

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 4 – PXS- Key assumptions used in New Drug Development segment

Asset	Indication	Stage	Partnering Status	First Fiscal Year of sales (Est.)	Peak Market share	Peak Global Sales (US$m)	Probability of success
LOXL-2	NASH - F3/F4 fibrosis stage	Phase 1 complete	Partnering process ongoing	2029	5% (US), (3.5% ROW)	$1,448	18.0%

GLOBAL PEAK SALES ARE PRE-RISK ADJUSTMENT AND ROYALTIES. SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 5 – Deal Assumptions for LOXL-2 (expected to be partnered in 2HCY20)

Asset	Indication	Stage at Licensing	Licensee	Fiscal Year Timing of deal (Est.)	Total Deal Value in USDm (upfront plus milestones)	Upfront (USDm)	Other developmental & regulatory Milestones (USDm)	Commercial Milestones Est (USDm)	Royalty Rate (%)	PXS's share
LOXL-2	NASH and a second indication (potentially IPF)	Phase 1 complete	TBC	2021	700	30	470	200	11.0%	83.0%

NOTE: ROYALTIES ARE LIKELY TO BE TIERED. WE ASSUME A FLAT RATE FOR NOW. FOR LOXL-2 DEAL PXS AND ITS PARTNER SYNAIRGEN WILL SHARE THE DEAL VALUE IN 83:17 RATIO. SOURCE: BELL POTTER SECURITIES ESTIMATES

Upside Risk to our valuation

- **Clinical success will allow for increased probability of success:** We currently assign an 18.0% probability of success (of reaching the market) to LOXL-2 in NASH, following the successful completion of its Phase 1 trial. We envisage that subsequent advancement of LOXL-2 into Phase 2A trials following a partnering deal for it, will allow us to assign a higher POS and therefore could lead to material upgrades in our numbers.
- **Conservative assumptions for LOXL-2 to start with in absence of Phase 2 clinical data:** Our market penetration & pricing assumptions and deal size assumptions, are all based on the premise that LOXL-2 will be behind several years to other drugs targeting NASH to get to market. At that stage we expect the drug is more likely than not to be used as an add on therapy with existing standard of care by then to improve efficacy, likely in the more severe end of the fibrosis stage spectrum of NASH. However, given the scarcity of anti-fibrotic assets in development for NASH, we expect both partnering interest and deal size for the LOXL-2 asset with its novel mechanism of action (MoA) to be in line with other high value deals in this space recently. In the absence of Phase 2 clinical data from LOXL-2, we are conservative in our assumptions at this stage.
- **We do not model royalty revenue from a second indication (likely IPF) for LOXL-2 presently:** At this stage in our valuation, we do not include a market revenue model for LOXL-2 for Idiopathic Pulmonary Fibrosis (IPF) as a potential secondary indication and therefore do not model royalty revenue as a percentage of net sales from this indication to PXS. Confirmation of IPF as a second indication by PXS' future partner and progress of this into Phase 2 clinical trials is likely to considerably increase the market opportunity for this asset, in which case it's likely to be a source of considerable upside to our valuation in future.
- **No sales milestones from LOXL-2 deal included in our model:** At this stage we do not model PXS' share of the assumed US$200m sales milestones from a potential LOXL-2 deal in our model. We intend to include it in our model once a LOXL-2 deal is inked by PXS, in which case it's likely to be a source of upside to our valuation.
- **No value assigned for other early stage pipeline assets:** We also do not include any value for PXS' early stage pan LOX inhibitors (systemic and topical). The LOX inhibitor program is developing a drug which broadly inhibits all the LOX family of enzymes, which has potential anti-fibrotic application in scarring (a topical formulation) and other severe fibrotic indications including some cancers (a systemic formulation).

PXS initiated a Phase 1 trial in healthy volunteers with its LOX systemic asset PXS-5505 in Feb'19. The SAD (single ascending dose) part of this study was completed in June'19 and the MAD (multiple ascending dose) part of the study was completed in 1QCY20. Phase 1 data was positive showing good PK profile and dose related strong inhibition of all LOX family of enzymes. PXS has also generated positive results from PXS-5505 in myelofibrosis and pancreatic cancer in preclinical models and has completed 3 month and 6 month toxicology studies in parallel with the Phase 1 trial in healthy volunteers. IND to start Phase 1/2 (in myelofibrosis, a bone marrow cancer) has been recently approved by the FDA and PXS intends to initiate recruitment in 4QCY20. PXS-5505 has also been granted orphan drug designation from the FDA for myelofibrosis. PXS' estimate that the myelofibrosis market is valued in excess of US$1bn per annum.

Preclinical development for the topical asset PXS-6302 was completed in 2QCY20, including initial stability studies of the formulation. Investigator initiated studies to assess the drug in burn related scars and pre-existing scars are being discussed with an Australia based hospitals' burn unit and expected to start in 2HCY20.

PXS believes that the above two assets may have higher potential and value add if developed to Phase 2A or 2B before partnering, vs. the strategy with its later stage assets targeting NASH which it looked to partner at or after Phase 1. Progress of these two assets into Phase 2 trials in future is likely to be a source of upside to our valuation.

- **We model limited markets for Bronchitol and risk adjust the US opportunity:** For Bronchitol, we model the existing markets of Australia, Western Europe including Italy, Eastern Europe and Russia and also model US, following the recent positive recommendation in support of approval by the FDA advisory committee and CRL received from the FDA. PXS' US partner Chiesi is responsible for its commercialisation. Should Bronchitol get approved and launch in US, PXS will receive a US$10m milestone from Chiesi, additional US$15m sales milestones and a mid to high teen percentage of royalties on net sales. At this stage we assign US sales and the aapproval and launch milestones from Chiesi a 90% probability of success, given FDA approval is yet to be granted, although the likelihood based on the CRL is high. FDA approval and launch of Bronchitol in the US therefore will be an upside to our valuation for PXS. We also do not model the US$15m sales milestone receivable from Chiesi on meeting certain undisclosed sales thresholds at this stage, which would represent an upside.
- **We model limited markets for Aridol:** For Aridol, we model the existing markets of Australia, Europe and South Korea and US where the company relaunched Aridol in Dec'18 following FDA approval of its manufacturing facility. We also model revenue from Canada. Aridol received approval in Canada in June 2019 and supplied its first (launch) order to Methapharm for Canada in 2QFY20.

Pharmaxis Ltd. (PXS)

COMPANY DESCRIPTION

Pharmaxis, is a biopharmaceutical company focused on the development of drugs for inflammatory and fibrotic diseases. Boehringer Ingelheim has recently terminated its 2015 agreement with the company for Phase 2 SSAO/VAP-1 inhibitor BI_1467335, discontinuing its development for both NASH and Diabetic Retinopathy due to dose related safety signals. PXS is now looking to partner its Phase 1 LOXL-2 inhibitors which are targeting Non-alcoholic Steatohepatitis (NASH), a multibillion dollar market, estimated to grow to be ~US$20bn-US$35bn. The LOXL-2 drug while not first-in-class, has evidence that it is best-in-class and can be useful in other fibrotic diseases and we forecast it to be a blockbuster (i.e. have over US$1bn in peak sales). NASH market is expected to grow with rise in obesity and surpass HCV as the leading cause of liver transplant. There are currently no approved drugs which make the market largely untapped and underserved. The multifactorial aspect of NASH and future treatments likely to be a combination of therapies ensures that companies remain on the lookout for promising assets to license, which bodes well for licensing prospects for PXS' LOXL-2 inhibitors. PXS is also focusing on developing its earlier stage pipeline (LOX assets) targeting scarring and myelofibrosis (est. >$1bn market). PXS also has two marketed respiratory products Bronchitol and Aridol which is approaching a key inflexion point with the US approval for Bronchitol expected on 1st Nov'20. US approval will see the segment generate cash (milestone from partner Chiesi) and become profitable.

INVESTMENT STRATEGY

We have a Hold (speculative) recommendation on Pharmaxis. Our investment thesis is based on:

$0.09 valuation: We value PXS using a risk adjusted DCF at $0.09. The valuation is approximately an 11.1% premium to the previous closing share price of $0.081/sh.

Both bronchitol and drug development business have key inflexion points in FY21: PXS had a disappointing set back in Dec'19 and Sep'20 which caused a significant fall in its stock price, when partner Boehringer Ingelheim (BI) decided to discontinue further development of the partnered SSAO/VAP-1 drug BI_1467335 for NASH and for DR respectively. PXS' bronchitol and drug development business are approaching key inflexion points in 4QCY20 which could drive a turnaround for PXS if positive. These include: a) FDA approval decision on Bronchitol on 1st Nov'20, which will trigger a US$7m milestone from PXS' partner Chiesi in 4QCY20 and another US$3m in 1QCY21 and push the segment towards profitability; b) Conclusion of partnering process for LOXL-2 by end of 4QCY20. The asset has successfully completed Phase 1 trials and longer term toxicology studies, as well as added to the data package with further supporting studies providing evidence around its utility in fibrotic disease but also it's best in class characteristics. PXS has been in partnering discussions for a while (since Jan'19) which have taken longer than it initially expected and the possibility of further delays or PXS being unsuccessful to partner the asset represent a downside risk to our current forecasts; and c) Initiation of Phase 1/2 myelofibrosis trial with PXS-5505 in Dec'20, for which we currently do not assign any value and therefore it represents an upside to our current forecasts.

LOXL-2 targeting NASH has blockbuster potential: Pharmaxis' Phase 1 LOXL-2 asset is targeting Non-alcoholic Steatohepatitis (NASH), a multibillion dollar market, estimated to grow to be ~US$20bn-US$35bn. We model US$1.45bn peak worldwide sales (pre risk adjustment) for LOXL-2 in NASH.

NASH represents significant commercial opportunity: NASH is a large market, growing rapidly with an increasing obese population. NASH is now the fastest growing reason for a liver transplant in the US and is expected to surpass Hepatitis C Virus (HCV) as the

leading cause of liver transplants. There are currently no drugs approved for NASH, which makes this market largely untapped and underserved and a lucrative market opportunity for PXS to target. There are several drugs in development and interest and competition has both heated up. However, we note that a string of keenly awaited trials have been unsuccessful and the first of the drugs awaiting approval was recently knocked back by the FDA. There have been a number of high value deals in this space and active companies are looking to license or acquire to build a portfolio of assets targeting different stages of NASH. Average deal sizes are ~US$860m, however some have also been over $1bn.

Scarcity of anti-fibrotic assets in development for NASH: Drugs targeting NASH fall under 3 groups based on their mechanism of action and stage of NASH they target – metabolic modifiers, anti-inflammatory agents and anti-fibrotic agents. It is expected that the future treatment for NASH is likely to be a cocktail of therapies as was seen earlier with HCV. Therefore we see drugs from each of the 3 categories to complement each other and competition likely to be restricted to drugs within the same category. Pharmaxis' LOXL-2 asset is an anti-fibrotic agent and therefore should complement other drugs in advanced development. There are very few drugs in development in this category and as far as we are aware it is the only one in its class being actively developed for NASH.

Drugs not first-in-class but potentially best-in-class: PXS' LOXL-2 inhibitors are not the first in their class. However based on pre-clinical data and Phase 1 data, we believe the drugs possess a more favourable PK/PD profile which position them as best-in-class. Data so far provides evidence of good safety profile, good oral bioavailability and potent, long lasting inhibition of targeted enzyme.

Potential exists to expand the use of LOXL-2 into broader fibrotic diseases: LOXL-2 has the potential to be used across fibrotic diseases with the LOXL-2 enzyme upregulated in other areas such as lung and kidney, implying a broader utility in treating other diseases such as pulmonary fibrosis (IPF) and kidney fibrosis.

Partnership with Boehringer Ingelheim validated chemistry platform: PXS signed a multi-million dollar product acquisition deal with Boehringer Ingelheim (BI) in 2015, which marked the start of the turnaround for the company, strengthened its balance sheet and validated its amine oxidase chemistry platform and its ability to execute valuable deals. Although, the company had a disappointing set back in Dec'19 and Sep'20 with BI choosing to discontinue development of the partnered asset for NASH and DR respectively and terminating the agreement with PXS, the deal has delivered to date €57m (A$83m) in upfronts and milestones to PXS.

Early stage pipeline assets represent future value: PXS' oral pan LOX inhibitor PXS-5505 is targeting the bone marrow cancer myelofibrosis with an estimated market value of >$1bn per year. Phase 1 trial is complete and PXS has been granted orphan drug designation by the FDA. IND for a Phase 1/2 trial has been approved by the FDA, with trial expected to start in 4QCY20. Pre-clinical studies for the topical LOX asset PXS-6302 targeting scarring is now complete. Investigator initiated clinical studies to assess safety and efficacy of the drug in burns related scars and pre-existing scars is expected to start in 2HCY20. We do not assign any value to these assets currently, however they represent future upside on progression into mid stage trials.

12 months cash runway with near term boost expected: PXS' had cash at end of FY20 of ~A$14.8m, which along with the ~$4.9m R&D rebate expected for FY20, in our view, provides PXS ~12 months cash runway. A US$10m Milestone from Chiesi for Bronchitol (US$7m in 4QCY20 and US$3m in 1QCY21) and upfront from a LOXL-2 deal in 4QCY20 should further extend this cash runway. The company has a modest debt (related to finance lease) of A$8.2m.

Risks

The key risks specific to Pharmaxis include, but are not limited to, the following:

- **Clinical risk:** There is a risk that PXS' clinical trials for its pipeline assets fail to reach their endpoints, which would in turn impact its commercial and partnering prospects.
- **Reliance on partnerships to unlock value:** The success of PXS' business model is underpinned by its ability to ultimately attract valuable partnering deals for its assets, given PXS lacks the commercial infrastructure to support commercialisation. Our valuation in part is underpinned by PXS' ability to ultimately attract a valuable partnering deal for its LOXL-2 asset. Failure to attract partners for this asset or to negotiate attractive deal terms as we have postulated will impact our forecasts.
- **Bronchitol US approval decision will affect our valuation:** Bronchitol and Aridol, (PXS' currently marketed products) account for the majority of our current valuation for PXS. US Bronchitol sales are the key driver for revenue and the segment achieving profitability. Therefore if FDA does not approve Bronchitol, it will adversely affect our valuation. FDA decision is expected on 1st Nov'20. Chiesi has recently resubmitted its NDA addressing the matters detailed in the CRL issued by the FDA in June'19. Key matters pertain to revisions to packaging and user instructions and running a Human Factor Study after these to test their effectiveness in enabling healthcare professionals to properly conduct a mannitol tolerance test (MTT). We currently assign a 90% probability of success to US sales of Bronchitol.
- **Regulatory risk:** Successful commercialisation of PXS' products is ultimately dependent on getting approval from the regulatory authorities to commercially launch the product. While PXS' partner with much more experience in navigating regulatory channels will be responsible for obtaining approvals, failure to satisfy regulatory requirements could mean that the product will fail to reach the market.
- **Commercial risk:** The pharmaceutical market is intensely competitive and in particular the NASH space which PXS is targeting has several companies engaged in drug development. PXS' products are unlikely to be the first to market and therefore would not have first mover advantage. There is no guarantee that mid-late stage clinical trial results of the LOXL-2 drugs, even if they hit the endpoints of the studies, will be viewed as clinically meaningful by clinicians' vis-à-vis other approved NASH drugs by then on the market. Even if the drugs do get approved on successful pivotal studies, commercial adoption might still be hampered by the cost of the combination (especially since in LOXL-2's case we assume an add-on therapy positioning) or the competition in the NASH market having much larger impact than we have postulated.
- **Funding risk:** Delays in partnering of LOXL-2 is likely to impact PXS' funding position in the short term. PXS has cash of A$14.8m and debt related to finance lease of A$8.2m. This along with the expected R&D rebate for FY20 should provide ~12 months cash runway. A US$10m milestone from Chiesi is due over 4QCY20/1QCY21. However, dependent on the size and cost of a phase 2 myelofibrosis trial, PXS may need to raise additional capital to fund it should there be delays in partnering its LOXL-2 asset.

Pharmaxis Ltd.
as at 7 September 2020

Recommendation	Hold, Speculative
Price	$0.081
Valuation	$0.09

Table 6 - Financial summary

Pharmaxis Ltd (PXS) — **Share price (A$)** **$0.081**
As at 7 September 2020 — **Market cap (A$m)** **32.1**

Profit and Loss

Y/e June 30 (A$m)	2019A	2020A	2021E	2022E	2023E
Product Sales Revenues	5.7	7.0	9.1	12.2	14.2
Other Revenue (commercial)	0.0	0.0	21.8	7.4	0.0
Other Income	6.5	5.6	0.5	0.5	3.5
Total Revenue	**12.2**	**12.7**	**31.4**	**20.2**	**17.7**
EBITDA	**-15.7**	**-12.1**	**6.2**	**-5.7**	**-4.4**
Depreciation & Amortisation	-2.6	-3.2	-3.2	-3.2	-3.3
EBIT	**-18.3**	**-15.3**	**3.0**	**-8.9**	**-7.6**
Net interest & Other Income/(Expense)	-0.7	1.9	-0.2	0.0	0.0
Pre-tax profit	**-19.0**	**-13.4**	**2.8**	**-8.9**	**-7.7**
Tax	0.0	0.0	0.0	0.0	0.0
Net profit (loss) normalised	**-19.0**	**-13.4**	**2.8**	**-8.9**	**-7.7**
Abnormal items	-1.1	-0.6	-1.0	-1.1	-1.1
Reported Net profit (loss)	**-20.1**	**-13.9**	**1.9**	**-10.0**	**-8.7**

Cashflow

Y/e June 30 (A$m)	2019A	2020A	2021E	2022E	2023E
Reported NPAT	-20.1	-13.9	1.9	-10.0	-8.7
Non-cash items	5.6	2.2	4.6	4.6	4.5
Net change in Working capital	-5.4	-1.6	5.1	-0.2	-3.2
Operating cashflow	**-19.8**	**-13.3**	**11.6**	**-5.6**	**-7.5**
Capex	-0.6	-0.3	-0.3	-0.5	-0.7
Investments	0.0	0.0	0.0	0.0	0.0
Investments in intangible assets	-0.4	-0.3	-0.3	-0.3	-0.4
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
Investing cashflow	**-1.0**	**-0.6**	**-0.6**	**-0.8**	**-1.1**
Change in borrowings	-1.6	-2.2	-2.3	-2.0	-2.5
Equity issued	22.7	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	-0.3	-0.3	-0.7	-0.8	-1.0
Financing cashflow	**20.8**	**-2.5**	**-3.0**	**-2.7**	**-3.5**
Net change in cash	**0.1**	**-16.4**	**8.1**	**-9.1**	**-12.0**
Cash at end of period*	31.1	14.8	22.8	13.7	1.7
* Includes effect of exchange rate fluctuations on cash balance					
Free cash flow (op. CF less capex and intangibles)	**-20.8**	**-13.9**	**11.0**	**-6.4**	**-8.5**

Balance sheet

Y/e June 30 (A$m)	2019A	2020A	2021E	2022E	2023E
Cash	31.1	14.8	22.8	13.7	1.7
Current receivables	7.2	6.9	1.7	1.8	4.9
Inventories	2.1	2.6	2.8	3.0	3.2
Other current assets	0.1	0.2	0.2	0.2	0.2
Current assets	**40.6**	**24.5**	**27.5**	**18.7**	**10.0**
PPE	10.3	8.9	6.1	3.5	1.0
Non-current receivables	1.1	1.1	1.1	1.1	1.1
Intangible assets	0.8	0.9	1.1	1.3	1.6
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Non-current assets	**12.1**	**10.9**	**8.3**	**5.9**	**3.7**
Total assets	**52.7**	**35.4**	**35.8**	**24.6**	**13.7**
Payables	4.8	3.5	3.5	3.5	3.5
Debt	7.2	8.2	6.3	4.6	2.3
Provisions	1.1	1.2	1.3	1.4	1.5
Financial liabilities (Novaquest financing agreement)	23.6	21.2	20.5	19.8	18.8
Deferred Lease Incentive	1.1	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0
Total liabilities	**37.9**	**34.0**	**31.6**	**29.3**	**26.0**
Net Assets	**14.8**	**1.4**	**4.3**	**-4.7**	**-12.3**
Shareholders' equity	367.3	367.3	367.3	367.3	367.3
Reserves	21.8	22.3	23.3	24.3	25.4
Retained earnings/(losses)	-374.2	-388.2	-386.3	-396.3	-405.0
Total shareholders equity	**14.8**	**1.4**	**4.3**	**-4.7**	**-12.3**

Valuation data

Y/e June 30	2019A	2020A	2021E	2022E	2023E
Net profit -normalised (A$m)	-19.0	-13.4	2.8	-8.9	-7.7
EPS - normalised (c)	-4.8	-3.3	0.7	-2.2	-1.9
EPS growth (%)	N/A	N/A	NM	N/A	N/A
P/E ratio (x)	N/A	N/A	11.6	N/A	N/A
FCFPS (c)	-5.3	-3.5	2.8	-1.6	-2.2
Price/FCF (x)	-1.5	-2.3	2.9	-5.0	-3.8
DPS (c)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	N/A	N/A	N/A	N/A	N/A
EV/EBITDA	-1.6	-2.1	4.1	-4.5	-5.8
EV/EBIT	-1.4	-1.7	8.5	-2.9	-3.3

Share price now (A$)	$0.081
Valuation (A$):	$0.09
Premium (discount) to price	11.1%
Recommendation:	Hold
Risk Rating	Speculative

Profitability ratios

Y/e June 30	2019A	2020A	2021E	2022E	2023E
EBITDA margin (%)	N/A	N/A	19.8%	N/A	N/A
EBIT margin (%)	N/A	N/A	9.5%	N/A	N/A
Return on assets (%)	-36.0%	-37.8%	7.9%	-36.4%	-56.0%
Return on equity (%)	-128.1%	NM	66.4%	NM	62.1%
Dividend cover (x)	N/A	N/A	N/A	N/A	N/A
Effective tax rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Liquidity and leverage ratios

Y/e June 30	2019A	2020A	2021E	2022E	2023E
Net debt (cash) (A$m)	-24.0	-6.6	-16.5	-9.1	0.6
Net debt/equity (%)	N/A	N/A	N/A	N/A	N/A
Net interest cover (x)	NM	N/A	NM	N/A	N/A
Current ratio (x)	5.0	3.6	3.7	2.3	1.1

Segmentals

Y/e June 30	2019A	2020A	2021E	2022E	2023E
Bronchitol and Aridol					
Product Sales	5.7	7.0	9.1	12.2	14.2
Other revenue (Clinical trial cost reimbursement)	0.0	0.0	12.9	0.0	0.0
Other income	0.0	0.0	0.0	0.0	0.0
Total Revenues	**5.7**	**7.0**	**22.0**	**12.2**	**14.2**
EBITDA	**-5.0**	**-4.0**	**10.5**	**0.3**	**1.7**
New Drug Development					
Product Sales	0.0	0.0	0.0	0.0	0.0
Other revenue (Milestone+license+royalty)	0.0	0.0	8.9	7.4	0.0
Other income (R&D tax incentive etc.)	6.0	5.2	0.0	0.0	3.0
Total Revenues	**6.0**	**5.2**	**8.9**	**7.4**	**3.0**
EBITDA	**-6.8**	**-5.1**	**-1.1**	**-2.8**	**-2.8**
Corporate					
Other income	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
EBITDA	**-3.9**	**-3.0**	**-3.3**	**-3.3**	**-3.3**
Total Company					
Revenues	**12.2**	**12.7**	**31.4**	**20.2**	**17.7**
EBITDA	**-15.7**	**-12.1**	**6.2**	**-5.7**	**-4.4**

Interims

Y/e June 30 (A$m)	2H19A	1H20A	2H20A	1H21E	2H21E
Revenue	9.7	3.8	8.9	21.7	9.7
EBITDA	-5.8	-8.0	-4.1	10.2	-4.0
Depreciation & Amortisation	-1.3	-1.6	-1.6	-1.7	-1.5
EBIT	**-7.2**	**-9.6**	**-5.7**	**8.5**	**-5.5**
Net interest & Other Expense	0.1	-0.2	2.1	-0.1	-0.1
Pre-tax profit	-7.1	-9.8	-3.6	8.4	-5.6
Tax	0.0	0.0	0.0	0.0	0.0
Net Profit (loss) - normalised	**-7.1**	**-9.8**	**-3.6**	**8.4**	**-5.6**
Net Profit (loss) - reported	-7.5	-10.3	-3.6	8.0	-6.1

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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