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	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)	-35.8%
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 - May '19)	-2.3%
Year 19 (May '19 - May '20)	39.5%
Year 20 (May '20 - Current)	84.2%
Cumulative Gain	1906%
Av. Annual gain (20 yrs)	20.6%

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

Extract from Bioshares –

Pharmaxis: Karst Peak Continues Investment in Australia Biotech

Hong Kong funds management group Karst Peak Capital has been increasing its investment interest into Australian biotech companies. After making an estimated \$100 million profit from its investment in Avita Medical, the fund last week made a \$3.2 million investment in Pharmaxis (PXS: \$0.084) at \$0.08 per share with total funds raised being \$4.4 million.

Pharmaxis has attracted some top tier funds to its register, including the specialist US biotech fund BVF, which also participated in the placement to maintain its 19.5% stake. Karst Peak will now hold 8.9% of Pharmaxis.

Last week Pharmaxis announced that it had sold the Russian distribution rights for Bronchitol for \$2 million, which will also reduce regulatory and marketing expenses by \$1 million a year. The company is exploring further similar deals.

In March this year Bronchitol was launched in the US for the treatment of cystic fibrosis. Pharmaxis expects sales of Bronchitol and Aridol (a lung function test that uses the same components of Bronchitol - mannitol) to double next year (\$4 million in FY2020) and believes this business will now remain profitable.

In this financial year, that part of the business received US\$10 million in milestone payments from Chiesi for US approval and supply of product for the US market. Any additional revenue now from Bronchitol sales will go straight to the bottom line (approximately 20% of net sales from the US) with manufacturing costs largely fixed.

However, the likely appeal of funds like Karst Peak are the drug development assets of the company, which have the potential to build a billion-dollar company. In February this year Pharmaxis enrolled the first of 42 patients in a Phase Ic/IIa myelofibrosis study with its drug candidate PXS-5505. That compound directly affects bone marrow fibrosis and has been shown to reverse fibrosis in the bone marrow in animal models. The compound is taken orally and could be a blockbuster if successful.

Karst Peak Capital Biotech Investments

Stock	Date of entry	Amount invested	Estimated Profit
Avita Medical	June 2018	\$19M	\$97M - \$119M*
Cyclopharm	Dec 2019	\$9.8M	\$11.9M
Neuren Pharmaceuticals	March 2020	\$14.3M	\$5.4M
Pharmaxis	April 2021	\$3.2M	\$0.16M

* Mostly exited

Continued over

Attraction of Myelofibrosis for Drug Developers

A competitor to Pharmaxis in the myelofibrosis sector is US-based Constellation Pharmaceuticals. Its lead program is in myelofibrosis with its drug candidate pelabresib. A Phase III trial started in November last year in 310 patients. What makes myelofibrosis an attractive indication for drug developers is that the endpoint is clear – number of patients with more than a 35% reduction in spleen volume – and the length of study is relatively short. Constellation's Phase III study is expected to take less than two years (September 2022) to reach the primary endpoint with the treatment response being measured at 24 weeks.

Constellation Pharmaceuticals has a market capitalisation of US\$1.0 billion. In its Phase II study, in one arm with 63 patients receiving pelabresib plus ruxolitinib, 67% of patients achieved at least a 35% reduction in spleen volume.

Karst Peak Capital

Following on from its very successful investment in Avita Medical, Karst Peak hired a healthcare analyst in Sydney earlier this year to help manage its investments into the local sector. Other investments Karst Peak has made in the Australian biotech sector include Cyclopharm (see table) and Neuren Pharmaceuticals (see page 4).

Karst Peak is known to conduct some of the most extensive due diligence prior to investing, so its presence on the register should be of interest to other investors.

Summary

Results from Pharmaxis' Phase Ic/IIa myelofibrosis study are expected towards the end of next year. The IIa part of the study will see 24 patients treated with PXS-5505 as a monotherapy in an open label format with no placebo. Over this period any increase in value in Pharmaxis will likely reflect positive developments with this program.

Pharmaxis is capitalised at \$38 million (including the placement announced) with around \$20 million in cash at the completion of the raise.

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 Some 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 of 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

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