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Pharmaxis (PXS)

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Speculative Investment

Outperform

Encouraging initial efficacy data, adding new programs

Our View

PXS continues to make good progress developing its drug candidates. It has reported encouraging initial evidence that its anti-fibrosis drug PXS-6302 improves patient scars and is expected to report initial data from the ongoing trial of PXS-5505 in myelofibrosis (MF) before the end of the year. It also recently added an externally-funded Phase II trial of PXS-4728 (handed back by Boehringer in 2020) in patients at high risk of Parkinson's disease (PD). However, the US launch of its cystic fibrosis (CF) drug Bronchitol in the US has been disappointing, in part due to Covid impacts, and partner Chiesi has cut its peak US sales estimate by 50% to ~US$25m. PXS has sufficient funds to support operations through FY23, but we estimate it will require further funds in FY24. We have reduced our valuation by 13% to $0.28/sh (4-May $0.32/sh) or $0.27/sh fully diluted, due to lower US Bronchitol sales expectations. We maintain our Outperform recommendation.

Key Points

PXS-5505 in the fibrotic bone marrow cancer myelofibrosis (MF)
By the end of August PXS had recruited over half the target of 24 late stage MF patients. Based on the current recruitment rate it appears to be on track to complete recruitment in Q1 CY23. PXS expects to report interim data before the end of the year. This could potentially include initial safety data and clinicians' general impression of impact on disease parameters such as blood counts and symptom scores. Trial subjects are treated with PXS-5505 for six months, so we expect the full data in Q3 CY23. If the trial is successful, the next step is likely to be to test PXS-5505 in combination with standard of care JAK inhibitors.

PXS-6302 in wound scars
Initial results from the first 8 subjects in the 50-patient randomised trial of PXS-6302 in patients with established scars showed high inhibition of target LOX enzymes and reduction in the scarring biomarker hydroxyproline (a measure of collagen content). Prof Fiona Wood noted positive changes it the appearance and pliability of the treated scars. Tolerability issues seen in the first 8 subjects (4 withdrew due to redness and itching) have been successfully addressed by reducing application frequency from daily to 3x/week. Full recruitment is expected Q4 CY22 with results in H1 CY23. Plans for a second clinical trial are currently in preparation. A trial in recent burn scars has been proposed, but other indications such scar prevention post-surgery are under consideration.

Chiesi downgrades US Bronchitol expectations
The US launch of the company's Bronchitol CF treatment by its partner Chiesi has been significantly disrupted by Covid. Chiesi has downgraded its peak sales forecast for Bronchitol in the US by 50% to US$25m, in light of less frequent patient clinic visits which reduce the opportunities to introduce new patients to Bronchitol, and the increased availability of disease-modifying CFTR modulator drugs that address a greater proportion of the CF population. The impact of the decreased peak US sales of Bronchitol is to halve the 5-year forecast adjusted EBITDA contribution from US sales to ~$5m per annum. Management expects the mannitol business unit to be EBITDA positive in FY23 (we assume this includes the profit on the sale of the Orbital inhaler technology for US$5m).

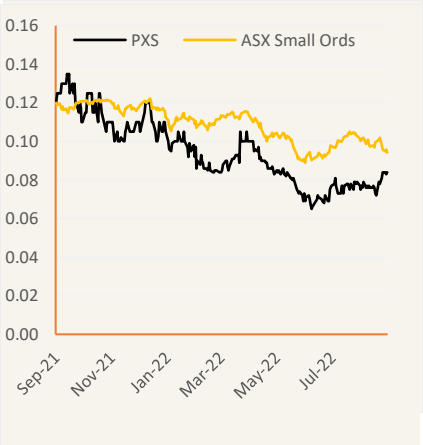
Cash and balance sheet - funded through to FY24
PXS had $8.9m cash at 30 June and has subsequently received $6.9m from the sale of its Orbital inhaler technology. In addition, it expects to receive $4.9m in FY23 in relation to its FY22 R&D tax credit. This gives it pro forma cash of $20.7m, which would be sufficient to fund operations into FY24.

Our conflicts of interests are disclosed on the last page of this report.

Summary (AUD)

Market Capitalisation	**$46M**
Share price	**$0.083**
52 week low	$0.071
52 week high	$0.15
Cash as at 30 June 2022	$8.9m

Share price graph (AUD)



Key Financials (AUDm)

	FY22A	FY23E	FY24E
Revenue ($m)	15.6	20.4	16.5
R&D ($m)	(10.5)	(10.6)	(10.9)
SG&A ($m)	(4.4)	(4.3)	(4.5)
EBITDA ($m)	(11.2)	(6.1)	(11.0)
Reported NPAT ($m)	(1.9)	(7.3)	(12.3)
NPAT Adj. ($m)	(1.9)	(7.3)	(12.3)
EPS Adj. (c)	(0.4)	(1.3)	(2.2)
PE ratio (x)	n/a	n/a	n/a
DPS (c)	0.0	0.0	0.0
EV/Sales	2.6	2.0	2.5
EV/EBITDA (x)	n/a	n/a	n/a
ROE	n/a	n/a	n/a

Pharmaxis - Summary of Forecasts — PXS $ 0.083

PROFIT & LOSS SUMMARY (A$m)

Year end June	FY22A	FY23E	FY24E	FY25E
Mannitol segment revenue	9.8	8.3	10.7	14.6
Other royalties, milestones	0.8	6.9	0.0	0.0
Other (incl. R&D tax incentive)	5.1	5.2	5.8	5.2
Total Revenue	**15.6**	**20.4**	**16.5**	**19.7**
Growth (pcp)	-34%	30.7%	-19.3%	20.0%
Mannitol segment expenses	(11.1)	(11.5)	(12.1)	(12.9)
R&D Expenses	(10.5)	(10.6)	(10.9)	(10.5)
Corporate & other expenses	(4.4)	(4.3)	(4.5)	(4.6)
EBITDA	**(11.2)**	**(6.1)**	**(11.0)**	**(8.3)**
Dep'n/Amort'n	(3.2)	(1.0)	(0.7)	(0.5)
EBIT	(14.4)	(7.0)	(11.7)	(8.7)
Net Interest	0.2	0.1	0.1	0.1
NovaQuest Payments	0.0	(0.4)	(0.7)	(1.3)
Pre-Tax Profit	(1.9)	(7.3)	(12.3)	(10.0)
Tax Expense	0.0	0.0	0.0	0.0
NPAT Adj.	**(1.9)**	**(7.3)**	**(12.3)**	**(10.0)**
Growth (pcp)	n/a	n/a	n/a	n/a
Adjustments	0.0	0.0	0.0	0.0
NPAT Reported	(1.9)	(7.3)	(12.3)	(10.0)

PER SHARE DATA

Year end June	FY22A	FY23E	FY24E	FY25E
EPS (c) - Reported	**(0.4)**	**(1.3)**	**(2.2)**	**(1.8)**
Growth (pcp)	n/a	n/a	n/a	n/a
EPS (c) - Adjusted	(0.4)	(1.3)	(2.2)	(1.8)
Growth (pcp)	n/a	n/a	n/a	n/a
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0.0	0.0	0.0	0.0
Gross CF per share (c)	(3.4)	(0.5)	(1.9)	(1.2)
NTA per share (c)	1.8	0.6	0.5	(1.2)

KEY RATIOS

Year end June	FY22A	FY23E	FY24E	FY25E
Net Debt : Equity (%)	-41%	-44%	-69%	-72%
Net Debt: EBITDA (x)	0.4	0.3	0.2	(0.5)
Current ratio (x)	3.2	2.4	2.4	1.1
ROE (%)	-28%	-98%	-323%	887%
ROIC (%)	992%	n/a	n/a	2550%
Dividend Payout Ratio (%)	n/a	n/a	n/a	n/a

VALUATION MULTIPLES

Year end June	FY22A	FY23E	FY24E	FY25E
PE Ratio (x)	**n/a**	**n/a**	**n/a**	**n/a**
Dividend Yield (%)	**0.0%**	**0.0%**	**0.0%**	**0.0%**
EV/Sales (x)	2.6	2.0	2.5	2.1
EV/EBITDA (x)	n/a	n/a	n/a	n/a
EV/EBIT (x)	n/a	n/a	n/a	n/a

CAPITAL RAISING ASSUMPTIONS

Year end June	FY22A	FY23E	FY24E	FY25E
Shares Issued (m)	87.6	0.0	60.0	0.0
Issue Price (A$)	0.105	0.00	0.20	0.00
Gross Cash Raised (A$m)	9.8	0.0	12.0	0.0

BALANCE SHEET SUMMARY

Year end June	FY22A	FY23E	FY24E	FY25E
Cash	8.9	6.3	7.0	0.3
Receivables	8.0	5.0	5.7	5.6
Inventories	2.3	1.8	1.9	2.1
Other	0.0	0.0	0.0	0.0
Total Current Assets	19.2	13.2	14.7	8.0
Inventories	0.0	0.0	0.0	0.0
Property Plant & Equip	3.2	2.2	1.6	1.1
Intangibles	1.0	1.0	1.0	1.0
Other	1.7	1.7	1.7	1.7
Total Current Assets	6.0	5.0	4.3	3.8
TOTAL ASSETS	**25.2**	**18.1**	**19.0**	**11.9**
Accounts Payable	2.7	2.1	2.7	3.6
Borrowings	2.3	2.3	2.3	2.3
Employee benefit obligations	1.1	1.1	1.1	1.1
Other	0.0	0.0	0.0	0.0
Total Current Liab	6.1	5.5	6.1	7.0
Borrowings	2.3	2.3	2.3	2.3
Provisions	0.1	0.1	0.1	0.1
Other	10.6	10.6	10.6	10.6
Total Non-Current Liab	8.3	8.3	8.3	8.3
TOTAL LIABILITIES	**14.4**	**13.7**	**14.3**	**15.3**
TOTAL EQUITY	**10.8**	**4.4**	**4.6**	**(3.5)**

CASH FLOW SUMMARY

Year end June	FY22A	FY23E	FY24E	FY25E
EBIT (excl Abs/Extr)	**(14.4)**	**(7.0)**	**(11.7)**	**(8.7)**
Add: Dep'n & Amort'n	3.2	1.0	0.7	0.5
Other non-cash items	(1.4)	(0.1)	1.2	(2.6)
Less: Tax paid	0.0	0.0	0.0	0.0
Net Interest	0.2	0.1	0.1	0.1
Change in Rec.	(5.0)	3.0	(0.7)	0.1
Change in Inv.	1.3	0.5	(0.1)	(0.1)
Gross Cashflows	(16.1)	(2.6)	(10.6)	(6.7)
Capex	(0.3)	0.0	0.0	0.0
Free Cashflows	(16.2)	(2.6)	(10.6)	(6.7)
Share Issue Proceeds	9.1	0.0	11.3	0.0
Other	(2.7)	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
Net Cashflows	**(9.8)**	**(2.6)**	**0.7**	**(6.7)**
FX Effect on Cash	0.0	0.0	0.0	0.0

PXS base case valuation summary

	Probability (%)	Valuation (A$m)	Valuation A$/share)
PXS-5505 in myelofibrosis	15%	88.3	0.16
PXS-6302 in wound scarring	15%	53.9	0.10
Mannitol respiratory business	100%	1.2	0.00
SG&A	-	0.7	0.00
Portfolio total	-	144.1	0.26
Cash (end FY23e)	-	6.3	0.01
Total Valuation	-	150.5	0.27

A new lease of life for PXS-4728

PXS-4728, which was returned to PXS by Boehringer Ingelheim in 2020, will be investigated in a Phase II Trial to explore its potential to prevent at-risk patients from progressing to Parkinson's disease (PD). Over 80% of the cost of the trial will be covered by a GBP2.9m grant from the charity Parkinson's UK. The placebo-controlled trial will recruit 40 patients with isolated Rapid Eye Movement Sleep Behaviour Disorder (iRBD) which is a strong risk factor for the development of PD and Lewy Body dementia. It will examine whether PXS-4728 can reduce the inflammation in the brain of patients with iRBD that is associated with progression to disease. The 3-month study is expected to commence recruitment in Q1 CY23 and report data in 2024.

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