

August 22, 2023

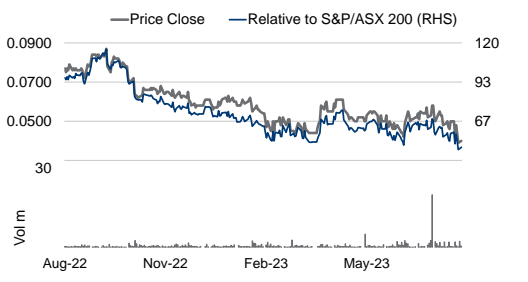
## SPECULATIVE BUY (no change)

Stock code:	PXS AU
Price:	A\$0.04
12-month target price:	A\$0.13
Previous target price:	A\$0.24
Up/downside to target price:	225.0%
Dividend yield:	0.0%
12-month TSR*:	225.0%
Market cap:	A\$28.82m
Average daily turnover:	A\$0.05m
Index inclusion:	N/A

\* Total stock return – Up/downside to target price + 12-month forward dividend yield.

### Price performance

(%)	1M	3M	12M	3Y
Absolute	-23.1	-23.1	-49.4	-61.9
Rel ASX/S&P200	-20.4	-21.4	-49.4	-78.3



Source: IRESS

### Financial summary

	Jun-23A	Jun-24F	Jun-25F	Jun-26F
Revenue (A\$m)	19.19	10.48	18.48	58.10
EBITDA Norm (A\$m)	-9.54	-18.73	-14.45	15.66
Net Profit (A\$m)	-11.27	-19.55	-15.58	10.08
EPS Norm (A\$)	-0.018	-0.024	-0.016	0.010
EPS Growth Norm (%)	359%	37%	-33%	
P/E Norm (x)	NA	NA	NA	4.02
DPS (A\$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
Franking	NA	NA	NA	NA
EV/EBITDA (x)	NA	NA	NA	1.59
Gearing (Net Debt/EBITDA)	0.97	0.12	0.70	-0.99

Source: Company data, Morgans estimates

### Related research

[PXS \(SPEC BUY - TP A\\$0.24\) - 15 Feb 2023](#)
[PXS \(SPEC BUY - TP A\\$0.24\) - 31 Jan 2023](#)

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### Scott POWER

Analyst(s) own shares in the following stocks mentioned in this report:

– Pharmaxis

# Pharmaxis

## Clinical-stage pipeline continues to advance

- FY23 results were above our expectations, with upside driven by A\$7.2m in licensing fees.
- Promisingly, key clinical milestones were achieved for the main clinical-stage programs (ie Myelofibrosis and skin scarring), enabling both to advance.
- We have made minimal changes to forecasts and assume clinical success is achieved to enable a licensing transaction in FY26. In the meantime, we do not rule out the need for additional capital and therefore our valuation has been diluted.
- Our target price declines to A\$0.13 (was A\$0.24). Speculative Buy maintained.

### Event

- PXS posted FY23 results above expectations, with net loss of A\$11.3m (Morgans - A\$17.5m) on revenue of A\$19.2m (+21%; Morgans A\$12.5m).
- The cash balance sits at A\$9.2m.

### Analysis

- Product revenue is still recovering slowly post COVID (A\$5.8m, -22%), while A\$7.2m from Aptar Pharma exercising its rights to acquire PXS' proprietary inhaler resulted in upside to our estimates. Grant and other income was flat (A\$6.2m).
- Opex increased 9% to A\$17m, with employee costs up 9.1% (A\$11.3m) and clinical trial costs flat (A\$5.7m).
- Lead drug candidate PXS-5505 for Myelofibrosis is advancing, with FDA allowing a protocol amendment to the ongoing monotherapy study where PXS-5505 will be used in combination with ruxolitinib (a class of drug known as a JAK inhibitor) in a 12 month open label study targeting 15 patients. Recruitment is scheduled to start later this year and take c6 months to complete, with data expected 2HCY24 potentially enhancing licensing opportunities.
- PXS-6302 for scars reported encouraging Phase 1c results last May in patients with established scars, where the primary endpoint of safety and tolerability was met. On the back of these promising results, PXS extended its collaboration with Professor Fiona Wood and the University of Western Australia and is aiming to run additional studies.

### Forecast and valuation update

- We have made minimal changes to our FY24/25/26 forecasts and assume success in the key clinical program (PXS-5505) enabling a licensing agreement (FY26).
- We have assumed additional funding will be required in FY24. As a result of the dilution, our DCF based valuation declines to A\$0.13 (was A\$0.24). We have set our target price at the same level.

### Investment view

- We believe PXS is developing a portfolio of unique clinical compounds which have demonstrated promising activity across a broad range of diseases and conditions (eg cancers (myelofibrosis, myelodysplastic syndrome, liver and pancreatic); neurological (Parkinson's disease); and skin scarring (established and post-surgical). We use a DCF based valuation methodology to derive a target price of A\$0.13. We have a Speculative Buy recommendation.

### Price catalysts

- Update on recruitment for the expanded Myelofibrosis trial (expected by 2Q24).

### Risks

- Delays in trial recruitment and failure to meet clinical endpoints.

# Pharmaxis

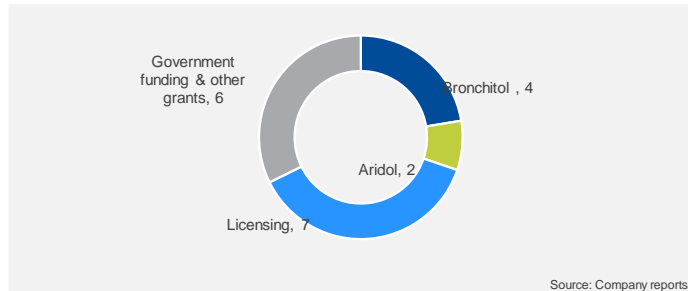
**SPECULATIVE BUY**

as at August 22, 2023

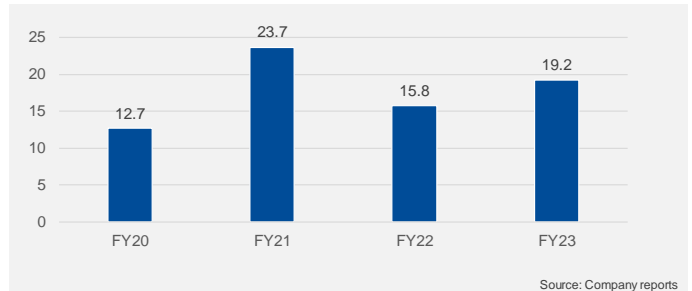
Price (A\$):	0.04	12-month target price (A\$):	0.13
Market cap (A\$m):	28.82	Up/downside to target price (%):	225.0
Free float (%):	100.0	Dividend yield (%):	0.0
Index inclusion:	N/A	12-month TSR (%):	225.0

Pharmaxis (PXS) engages in the research, development, and commercialisation of healthcare products for the treatment of fibrotic and inflammatory diseases worldwide. The company operates through two segments, Mannitol Respiratory Business and New Drug Development. It offers Bronchitol, an inhaled dry powder for the treatment of cystic fibrosis; and Aridol, an airways inflammation test that is used to assist in diagnosing and managing asthma. The company's product pipeline consists of amine oxidase inhibitors comprising semicarbazide-sensitive amine oxidase for neuro inflammatory conditions such as Parkinson's Disease; selective lysyl oxidase like inhibitors targeting chronic fibrotic diseases, such as pulmonary fibrosis, kidney fibrosis, and cardiac fibrosis; and pan-lysyl oxidase inhibitors targeting myelofibrosis and other cancers, and scarring.

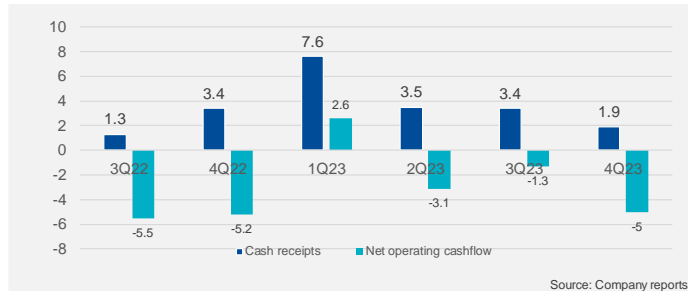
## Revenue by segment (A\$m) - FY23



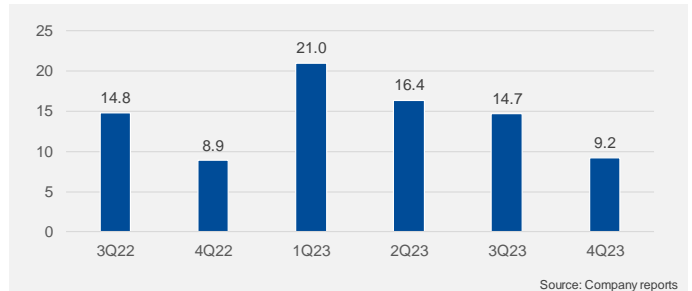
## Historical revenue (A\$m)



## Quarterly cash receipts and outflow (A\$m)



## Quarterly cash balance (\$m)



## Bull points

### Major milestones approach

PXS-5505 Myelofibrosis Phase 2a trial combination trail to start recruiting late calendar 2023

PXS-6302 - established scarring - Phase 1c - extended with UWA and Prof Fiona Wood - start late calendar 2023

PXS-6302 - scar prevention post surgery - first patient 2Q24

## Bear points

### Lower sales growth

Sales of bronchitol slower than expected

### Clinical trial not meet endpoints

PXS-5505 myelofibrosis Phase 2a fails to be clinically meaningful

PXS -6302 established scarring Phase 1c study does not meet primary endpoint

## Environmental, Social and Governance



### Exposure

There is little reporting of the company's environmental impact, although given the mechanical nature of the device, it would be fair to assume limited material and ongoing exposure to environmental or social sustainability risk

### Management

PXS have policies in place to ensure human rights and labour risks through its Code of Conduct and Modern Slavery Policy. There is limited representation of females on the board (~17%).

Source: Morgans

Figure 1: Financial summary

Pharmaxis						Closing price (A\$)	0.04	Price target (A\$)	0.13		
<b>Income statement</b>						<b>Valuation metrics</b>					
Divisional sales	2022A	2023A	2024F	2025F	2026F	Methodology -DCF-PER Comp		Target Price	\$0.13		
Milestone payments	0.0	0.0	0.0	0.0	30.0	<b>DCF valuation inputs</b>					
R&D rebates + other	0.0	0.0	0.5	0.5	3.6	Rf	3.50%				
<b>Total revenue</b>	<b>15.8</b>	<b>19.2</b>	<b>10.5</b>	<b>18.5</b>	<b>56.6</b>	Rm-Rf	5.50%				
<b>EBITDA</b>	<b>-12.0</b>	<b>-9.5</b>	<b>-18.7</b>	<b>-14.5</b>	<b>15.7</b>	Beta	1.40				
Associate income	0.0	0.0	0.0	0.0	0.0	<b>CAPM (Rf+Beta(Rm-Rf))</b>					
Depreciation	3.2	1.8	1.0	1.2	1.1	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	95.5		
EBITA	-15.2	-11.4	-19.7	-15.6	14.5	Equity (E/EV)	97.6%	Minority interest (A\$m)	0.0		
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	Debt (D/EV)	2.5%	Net debt (A\$m)	0.0		
<b>EBIT</b>	<b>-15.2</b>	<b>-11.4</b>	<b>-19.7</b>	<b>-15.6</b>	<b>14.5</b>	Interest rate	5.00%	Investments (A\$m)	0.0		
EBIT(incl associate profit)	-15.2	-11.4	-19.7	-15.6	14.5	Tax rate (t)	30.0%	Equity market value (A\$m)	95.5		
Net interest expense/FX	-13.3	-0.1	-0.2	0.0	-0.2	WACC	10.9%	Diluted no. of shares (m)	720.5		
Pre-tax profit	-1.9	-11.3	-19.6	-15.6	14.7	<b>DCF valuation</b>					
Income tax expense	0.0	0.0	0.0	0.0	0.0				\$0.13		
After-tax profit	-1.9	-11.3	-19.6	-15.6	14.7	<b>Multiples</b>					
Minority interests	0.0	0.0	0.0	0.0	0.0	Enterprise value (A\$m)	2021A	2022A	2023A	2024F	2025F
<b>NPAT</b>	<b>-1.9</b>	<b>-11.3</b>	<b>-19.6</b>	<b>-15.6</b>	<b>14.7</b>	EV/Sales (x)	10.1	19.9	19.6	26.6	18.7
Significant items	0.0	0.0	0.0	0.0	0.0	EV/Sales (x)	0.4	1.3	1.0	2.7	1.0
NPAT post abnormals	-1.9	-11.3	-19.6	-15.6	14.7	EV/EBITDA (x)	55.5	-1.7	-2.1	-1.4	-1.3
<b>Cash flow statement</b>						<b>At target price</b>					
EBITDA	2022A	2023A	2024F	2025F	2026F	EV/EBITDA (x)	2021A	2022A	2023A	2024F	2025F
Other cash items	-12.0	-9.5	-18.7	-14.5	15.7	PE (pre-goodwill) (x)	-3.4	-1.3	-1.7	-1.3	-1.2
Net interest (pd)/rec	0.0	0.0	0.0	0.0	0.0	PE (pre-goodwill) (x)	-20.7	-37.4	-8.5	-6.0	-8.6
Taxes paid	13.3	0.1	0.2	0.0	0.2	<b>Per share data</b>					
Change in working capital	0.0	0.0	0.0	0.0	0.0	No. shares	2021A	2022A	2023A	2024F	2025F
<b>Cash flow from ops (1)</b>	<b>-13.1</b>	<b>-5.5</b>	<b>-15.2</b>	<b>-16.1</b>	<b>6.6</b>	EPS (cps)	455.6	548.9	720.5	887.2	1012.2
Capex (2)	-3.2	-3.2	-1.8	-1.0	-1.2	EPS (normalised) (c)	-0.6	-0.4	-1.6	-2.2	-1.5
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Cash flow from invest (3)</b>	<b>-3.2</b>	<b>-3.2</b>	<b>-1.8</b>	<b>-1.0</b>	<b>-1.2</b>	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Incr/(decr) in equity	6.7	7.0	10.0	25.0	0.0	<b>Growth ratios</b>					
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Sales growth	2021A	2022A	2023A	2024F	2025F
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	Operating cost growth					
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EBITDA growth	-33.5%	21.8%	-47.9%	80.0%	
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	EBIT growth	18.2%	3.5%	0.0%	13.0%	
<b>Cash flow from fin (5)</b>	<b>6.7</b>	<b>7.0</b>	<b>10.0</b>	<b>25.0</b>	<b>0.0</b>	EBITDA growth	-413.4%	25.3%	-73.3%	20.8%	
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EBIT growth	-413.4%	25.3%	-73.3%	20.8%	
Incr/(decr) cash (1+3+5+6)	-9.6	-1.8	-7.0	7.9	5.4	EBIT growth	-413.4%	25.3%	-73.3%	20.8%	
Equity FCF (1+2+4)	-16.3	-8.8	-17.0	-17.1	5.4	NPAT growth	33.4%	-479.9%	-73.5%	20.3%	
<b>Balance sheet</b>						<b>Operating performance</b>					
Cash & deposits	2022A	2023A	2024F	2025F	2026F	Pre-goodwill NPAT growth	2021A	2022A	2023A	2024F	2025F
Trade debtors	8.9	9.2	2.2	10.1	15.5	Pre-goodwill EPS growth	17.2	13.4	19.7	13.1	22.8
Inventory	3.2	3.6	1.7	3.0	9.6	Normalised EPS growth	0.8	-76.2	-49.7	-187.3	-80.3
Investments	2.3	1.6	1.0	1.8	5.8	Asset turnover (%)	-12.5	-96.8	-59.4	-197.4	-86.8
Goodwill	0.0	0.0	0.0	0.0	0.0	EBITDA margin (%)	-12.3	-12.3	-58.7	-195.5	-86.6
Other intangible assets	1.1	1.1	1.1	1.1	1.1	Return on net assets (%)	-104.4	-141.1	-119.1	-148285.7	-165.7
Fixed assets	3.2	1.6	2.4	2.3	2.3	Net debt (A\$m)	-18.7	-8.9	-9.2	-2.2	-10.1
Other assets	1.5	1.1	1.1	1.1	1.1	Net debt/equity (%)	-657.7	-82.7	-96.5	-16669.3	-107.6
<b>Total assets</b>	<b>25.2</b>	<b>23.5</b>	<b>14.8</b>	<b>24.7</b>	<b>40.6</b>	Net interest/EBIT cover (x)		-1.1	-97.3	-106.9	-352.2
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	<b>Shareholders' equity</b>					
Trade payables	1.5	2.7	3.6	4.1	5.2	Share capital	2022A	2023A	2024F	2025F	2026F
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Other reserves	376.1	371.8	362.2	371.7	386.4
Provisions	2.4	2.6	2.6	2.6	2.6	Retained earnings	22.6	22.6	22.6	22.6	22.6
Other liabilities	10.5	8.6	8.6	8.6	8.6	Other equity	-387.9	-384.9	-384.9	-384.9	-384.9
<b>Total liabilities</b>	<b>14.4</b>	<b>13.9</b>	<b>14.8</b>	<b>15.3</b>	<b>16.4</b>	Total equity	0.0	0.0	0.0	0.0	0.0
Share capital	376.1	371.8	362.2	371.7	386.4	Minority interest	10.8	9.6	0.0	9.4	24.2
Other reserves	22.6	22.6	22.6	22.6	22.6	<b>Total shareholders' equity</b>	<b>10.8</b>	<b>9.6</b>	<b>0.0</b>	<b>9.4</b>	<b>24.2</b>
Retained earnings	-387.9	-384.9	-384.9	-384.9	-384.9	<b>Total liabilities &amp; SE</b>	<b>25.2</b>	<b>23.5</b>	<b>14.8</b>	<b>24.7</b>	<b>40.6</b>
Other equity	0.0	0.0	0.0	0.0	0.0						
Total equity	10.8	9.6	0.0	9.4	24.2						
Minority interest	0.0	0.0	0.0	0.0	0.0						
<b>Total shareholders' equity</b>	<b>10.8</b>	<b>9.6</b>	<b>0.0</b>	<b>9.4</b>	<b>24.2</b>						
<b>Total liabilities &amp; SE</b>	<b>25.2</b>	<b>23.5</b>	<b>14.8</b>	<b>24.7</b>	<b>40.6</b>						

Source: Morgans estimates, company data

## Changes to forecasts

We have made little change to our revenue and EBITDA forecasts for FY24/25/26. We assume a licensing transaction is completed in FY26.

Figure 2: Changes to forecasts

	Prev-FY24	New-FY24	% change	Prev-FY24	New-FY25	% Change	Prev-FY26	New-FY26	% Change
Revenue	10.5	10.5	0.0%	18.5	18.5	0.0%	58.1	58.1	0.0%
EBITDA	-18.7	-18.7	-0.2%	-14.4	-14.5	0.3%	15.7	15.7	0.3%
NPAT	-20.8	-19.6	6.0%	-16.5	-15.6	5.5%	13.8	14.7	5.5%
EPS	-2.5	-2.2	10.9%	-1.7	-1.5	9.8%	1.4	1.5	9.8%

Source: Morgans estimates

Queensland		New South Wales		Victoria	
Brisbane	+61 7 3334 4888	Sydney	+61 2 9043 7900	Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677	Sydney: Margaret St	+61 2 8215 5000	Brighton	+61 3 9519 3555
Brisbane: Tynan Partners	+61 7 3152 0600	Sydney: Reynolds Securities	+61 2 9373 4452	Domain	+61 3 9066 3200
Brisbane: North Quay	+61 7 3245 5466	Sydney: Currency House	+61 2 8216 5111	Geelong	+61 3 5222 5128
Bundaberg	+61 7 4153 1050	Armidale	+61 2 6770 3300	Hawthorn	+61 3 9900 4350
Cairns	+61 7 4222 0555	Ballina	+61 2 6686 4144	South Yarra	+61 3 9006 9955
Gladstone	+61 7 4972 8000	Balmain	+61 2 8755 3333	Southbank	+61 3 9037 9444
Gold Coast	+61 7 5581 5777	Bowral	+61 2 4851 5555	Traralgon	+61 3 5176 6055
Kedron	+61 7 3350 9000	Chatswood	+61 2 8116 1700	Warrnambool	+61 3 5559 1500
Mackay	+61 7 4957 3033	Coffs Harbour	+61 2 6651 5700		
Milton	+61 7 3114 8600	Cronulla	+61 2 8215 5079	<b>Western Australia</b>	
Newstead	+61 7 3151 4151	Gosford	+61 2 4325 0884	West Perth	+61 8 6160 8700
Noosa	+61 7 5449 9511	Merimbula	+61 2 6495 2869	Stockbroking, Corporate Advice, Wealth Management	
Redcliffe	+61 7 3897 3999	Mona Vale	+61 2 9998 4200	Perth	+61 8 6462 1999
Rockhampton	+61 7 4922 5855	Neutral Bay	+61 2 8969 7500		
Springfield-Ipswich	+61 7 3202 3995	Newcastle	+61 2 4926 4044	<b>South Australia</b>	
Spring Hill	+61 7 3833 9333	Orange	+61 2 6361 9166	Adelaide	+61 8 8464 5000
Sunshine Coast	+61 7 5479 2757	Port Macquarie	+61 2 6583 1735	Stockbroking, Corporate Advice, Wealth Management	
Toowoomba Chalk Capital	+61 7 4639 1277	Scone	+61 2 6544 3144	Exchange Place	+61 8 7325 9200
Townsville	+61 7 4725 5787	Wollongong	+61 2 4227 3022	Norwood	+61 8 8461 2800
West End	+61 7 3151 8300			Unley	+61 8 8155 4300
<b>Northern Territory</b>		<b>Australian Capital Territory</b>		<b>Tasmania</b>	
Darwin	+61 8 8981 9555	Canberra	+61 2 6232 4999	Hobart	+61 3 6236 9000

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**Regulatory disclosures:** Analyst owns shares in the following mentioned company(ies): Pharmaxis  
Morgans Corporate Limited was Joint Lead Manager to the Placement of shares in Pharmaxis Limited in October 2022 and received fees in this regard.

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