

Dear Client

When looking at the risk/reward profile of a junior biotech company, the key is always the entry and price and mitigating as much downside as possible. Just like wildcat exploration, the biotech sector has been littered with failures and juniors struggling to raise capital in a market looking for instant gratification.

The timeline of developing new drugs is not dissimilar to moving a mineral/precious metals discovery into production, however buying prior to potential catalysts can provide outstanding returns along the way.

Following the success of **Noxopharm (NOX)** which provided clients with a five-six bagger (15c to a high of 89c), I have identified what I believe to be a compelling speculative situation in the biotech sector.

PharmAust Limited (PAA) is currently capped at a miserly \$4.4m but is undergoing a 1 for 1 rights issue at 5c with a 1 for 3 unlisted 12c option. Whilst the market capitalisation and shares on issue will double, the enterprise value of the company won't change at a time when there are a number of potential catalysts that could see multiple upside from 5c.

STRONG SPECULATIVE BUY AT 5C (RIGHTS SHORTFALL)



ASX: PAA SHARES ON ISSUE: 185M (POST RIGHTS)

WHY I RATE PAA AS AN OUSTANDING OPPORTUNITY

- Strong management team led by Executive Chairman Dr Roger Aston.

Dr Aston currently serves as Chief Executive Officer of PharmAust's wholly owned subsidiary, Pitney Pharmaceuticals. Dr Aston served as Chief Executive Officer of Mayne Pharma Group until 15 February 2012. During his career, he has been closely involved in start-up companies and major pharmaceutical

companies. Aspects of his experience include FDA and EU product registration, clinical trials, global licensing agreements, fundraising through private placements, and a network of contacts within the pharmaceutical, banking and stock broking sector fields. Dr Aston holds a B.Sc. (Hons) and Ph.D. degrees from the University of Manchester from 1975 to 1981. Dr Aston is currently Chairman of ResApp (RAP) which at one stage had a market capitalisation >\$300m (currently \$222m undiluted).

- PAA's market capitalisation is underpinned by its 100% owned subsidiary Epichem Pty Ltd that generated \$733,514 in revenue during the June-September quarter 2016. **Revenue for FY 17 is expected to exceed \$3m.**
- Significant progress has been made with PAA's key anti-cancer product Monepantel (MPL). Considerable time was lost due to palatability issues (taste) during phase 1 trials, however these have now been addressed.
- As a drug already approved by regulators for the treatment of veterinary parasitic infections (Novartis Animal Health), monepantel ("MPL") has undergone a substantive research, development and registration programme. The subsequent discovery by PharmAust that MPL has potent cancer suppressing activity in preclinical model systems has led to PharmAust targeting MPL for the treatment of both Veterinary and Human Cancers.
- PAA's approach is driven by the fact that translation of new cancer treatments from pet dogs to humans is a lower risk strategy than initiating both human and canine trials simultaneously. Studies of pet animals with cancer are now increasingly "integrated" into the development pathways for new cancer treatments. Cancers naturally occurring in dogs share many features with human cancer and more closely reflect what one might expect in man during a clinical evaluation.
- Currently, two centres are participating in the canine Phase II (The University of Cambridge, Department of Veterinary Medicine in the UK and the Animal Referral Hospital in Homebush, NSW). Following recruitment and treatment of sufficient numbers of dogs (6-8) with MPL, preliminary outcomes will be reported.

Lead product MPL showed suppression of cancer biomarker p70s6k in a successful phase 1 trial of advanced solid tumours (Human) at Royal Adelaide Hospital.

- A key focus is on the effect of MPL on a range of cancers, including using MPL in conjunction with standard chemotherapy drugs, in order to identify the optimal combinations and the cancers most susceptible to treatment with MPL.
- **PAA are reformulating and repurposing existing drugs that have been proven to be safe with no toxicity.**
- PAA have signed a mandate with Joseph Gunnar & Co, LLC to raise capital in the USA and list on the NASDAQ.

PROPOSED TIMETABLE FOR PAA'S WORK IN CANINES AND MAN

Q2 2017 - Evidence for tumour suppressive activity in canines	<ul style="list-style-type: none"> • Tumour regression or • Stable disease
Q3 2017 - Seek Option Exercise by Novartis Animal Health	<ul style="list-style-type: none"> • Canine anticancer market estimated at \$500M per annum
Q1 2017 - Reformulation of MPL into a dry powder in capsule for Phase II (MAN)	<ul style="list-style-type: none"> • Minimises the number of capsules to be taken by patients • Better stability and ease of storage
Q3/Q4 - 2017 Initiate Phase II in Man	<ul style="list-style-type: none"> • Centres to be identified in the US and Australia



Epichem is a wholly owned subsidiary of the ASX listed company PharmAust Limited. Located in Technology Park, Western Australia, Epichem has been delivering products and services in synthetic and medicinal chemistry to the global drug discovery and pharmaceutical industries in 35 countries worldwide for over 12 years. Epichem has a newly constructed state-of-the-art laboratory and has world class equipment and

expertise in synthetic and medicinal chemistry for the cost effective synthesis of drug analogue libraries and intermediates. Epichem has considerable expertise and experience in multidisciplinary and multicentre drug discovery projects and is actively working with many clients and collaborators including the not-for-profit Drugs for Neglected Disease *initiative* (DNDi) as part of a consortium to find a cure for Chagas Disease.

Epichem is continuing to attract new customers and is set for expansion and growth in revenues. A realistic target of \$10m revenue per annum by 2020 is attainable and underpins PAA's current valuation.

RISK AND REWARD ANALYSIS

At the rights issue price of 5c with a market capitalisation of only \$9.25m (assuming 100% of rights issue taken up) , PAA represents a compelling speculative opportunity in the junior biotech sector. The underlying value and growth potential of Epichem alone more than justifies PAA's current valuation and provides considerable downside support.

The real upside potential is likely to come from not only success in the phase 2 canine trials but also advancing towards phase 2 human trials in late CY 2017. Any significant success in these trials is likely to see further interest from major pharmaceutical companies, however with an extremely attractive risk/reward profile I liken this opportunity to a junior explorer about to commence drilling on a major target with a reasonable chance of success.

If there is a reason behind a junior seeing a 400-500% increase in its share price (other than daytrading activity), there is normally scope to see further acceleration as larger investors/funds becoming attracted to the story.

PharmAust (PAA) is trading around its all-time low at a time when a number of exciting developments are set to take place in CY17. There is a major opportunity for clients to build positions in a junior biotech with **multiple upside potential that is underpinned by the Epichem business that is generating solid revenues with growth potential.**

STRONG SPECULATIVE BUY AT 5C



****** Please note that this is an opinion piece only and not official Argonaut research. The views expressed are my own only***** MONDAY 5 DECEMBER 2016**

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