Pharmaxis Ltd

Annual General Meeting
22 November 2018
Sydney
Chairman's Address by Malcolm J McComas

Welcome to the Pharmaxis 2018 Annual General Meeting.

The 2018 year has been a successful one for Pharmaxis, particularly the evolution of our amine oxidase chemistry platform. When we sold the first drug from this chemistry platform to Boehringer Ingelheim in 2015, we knew there was more value in the underlying drug development platform from which it came. This first transaction demonstrated the Company's capability to develop drugs from that platform and the ability to close an asset sale with a global pharma company at a substantial price.

With Boehringer Ingelheim now responsible for developing the drug they had acquired, we turned our attention to the next most advanced drug in our pipeline, the anti-fibrotic LOXL2 program where we decided to collaborate with Synairgen in the development of this program. We did that for two reasons: to access their specific respiratory capability; and to share the scientific and financial risks. From 2015 we also invested modestly in the other drug programs within the platform, with the expectation that a number of them might fail before reaching the relatively more expensive preclinical and clinical phases - such is the nature of the biotech drug discovery space in which we operate.

While there are always set-backs and obstacles to negotiate, over the past year we have been able to significantly advance a number of these drug development programs towards, into and through phase 1 clinical trials. These stages of drug development are much more expensive than the ongoing cost of running our 17 drug development scientists and research laboratories. However, funding was provided by the success of the program itself. You will recall that Boehringer Ingelheim paid Pharmaxis A$42 million dollars in milestone payments upon commencement of phase 2 clinical trials in NASH and diabetic retinopathy with the anti-inflammatory drug they had acquired. By way of side note, advancing two diseases into clinical trials in parallel says a lot about the confidence Boehringer has in the drug developed by Pharmaxis.

The Boehringer milestone payments also provided the funds for the Company to buy back control of the LOXL2 program and increase the financial returns for Pharmaxis in a LOXL2 partnering deal. This means that Pharmaxis now expects to receive around 83% of LOXL2 partnering revenue, compared to around 65% under the previous Synairgen collaboration agreement. Numerically, a LOXL2 deal with an A$50m upfront would more than repay that investment.

As of today, our amine oxidase platform has delivered a lot of value:

- the sale to Boehringer;
- the LOXL2 program which has recently completed phase 1 and subject to 3 months toxicity studies that will report later this quarter, is ready to partner;

- the cancer focused pan LOX inhibitor compound that is scheduled to commence phase 1 early next year; and,

- several other programs that could enter phase 1 over the next twelve months, including a topical LOX inhibitor program focused on scarring, and an anti-inflammatory program.

While we intend to partner the LOXL2 program after phase 1 as we did with the SSAO program, our intention with the remaining programs is to take them into phase 2 before partnering. We believe this will deliver greater value to Pharmaxis for an acceptable phase 2 program profile relative to the cost.

It was pleasing to see that the stock market responded in part during the year to our progress with the Pharmaxis share price moving from a price range between approximately $0.24 and $0.27 to $0.30 and $0.32 (a 20-25% increase), at least before the recent and widespread October stock market decline. However, even before this decline, in the view of the Board and also our major shareholders who recently invested in our placement at 32.5 cents per share, the Pharmaxis share price does not reflect the value that has been created over recent years.

How the Company creates shareholder value is therefore a regular point of discussion at Board meetings and with investors when the Company articulates its plans and progress. The discussion is particularly relevant with the prospect of additional partnering payments from existing and new deals with global pharma companies and requires us to consider how best this financial value can be delivered to shareholders, not just the ongoing funding of good science. This is an important discussion that needs to be addressed by all biotech companies.

We maintain the position articulated at the Company's 2017 AGM, that our first priority in the creation of shareholder value is to actually build value in the company. By delivering new drugs from our drug discovery platform and closing new partnership deals for those drugs, the Company can generate significant future cash flows.

We recognize that the past year and the next few are periods of relatively high drug discovery expenditure as we seek to commercialise the valuable amine oxidase platform as quickly as possible. As you will see from the CFO's presentation, the increase in expenditure has not been the result of building a large fixed cost research infrastructure, which currently stands at 17 scientists. It is the direct result of unprecedented success of the drug development programs within the amine oxidase platform that has allowed us to progress a very high percentage of these programs into the significantly more expensive, externally conducted, preclinical development and phase 1 studies.

The conclusion of our current programs will exhaust the drugs that can be developed from our amine oxidase platform. Thus, we expect the number and rate of new drugs entering the more expensive phases of development to decrease.

It is important for shareholders to understand that the Board has considered and will continue to consider capital management initiatives as milestones from partners are received. While we appreciate there exist a range of opinions amongst shareholders as to the appropriate balance of investment in our pipeline and capital management initiatives associated with partner milestone payments, to date the Board has considered the current higher level investment in drug discovery to be the important priority. We believe a significant number of shareholders share this view. While it is not useful to predetermine future decisions, as partnering revenues hopefully grow and research expenditures normalize, I expect there will be capacity for both capital management initiatives and further investment in research.

Before I ask Gary Phillips (Chief Executive Officer) and David McGarvey (Chief Financial Officer) to outline our progress over the past year in more detail, I would like to formally welcome our newest Board member, Mr. Edward Rayner, who is attending his first Pharmaxis Annual General Meeting.

I would also like to note our appreciation for the contribution over the past six years of Dr Simon Buckingham who retires at the end of today's meeting. Simon's tenure has covered a critical time for Pharmaxis, a period which has seen the Company repositioned as a drug developer focused on inflammatory and fibrotic diseases. Simon's significant career experience in drug development, commercialisation and partnering with large pharma companies has been immensely valuable to Pharmaxis as we reorganized the business in 2014 and then negotiated important partnerships with Chiesi and Boehringer Ingelheim. We recognise and thank Simon for his considerable contribution as a director over a sustained period and wish him well as he moves into other areas. We are also appreciative that he will continue his support of our LOXL2 partnering as a consultant to the Company.

I would also like to acknowledge the work of our CEO Gary Phillips and the members of the management team including David McGarvey (CFO), Wolfgang Jarolimek (Drug Discovery), Brett Charlton (Medical) and Kristen Morgan (Alliance Management). They have continued to show first class leadership and initiative in delivering on the company's objectives.

MJ McComas
Chairman
Sydney
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