

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.

One of the opportunities for early adaptors is to take a high conviction position in a small biotech opportunity that displays the traits capable of seeing a transformation in not only market capitalisation but also industry recognition.

Whilst Australian biotech investors will look at underlying revenue, it is the US and Northern Hemisphere investors that focus on the blue sky potential of developing a revolutionary drug or a major breakthrough.

Based on this thematic **PharmAust (PAA)**, offers a unique mix of revenue growth and a potential drug discovery platform that could provide a multiple share price re-rating.

STRONG SPECULATIVE BUY UP TO 7C



ASX: PAA SHARES ON ISSUE: 157.3M

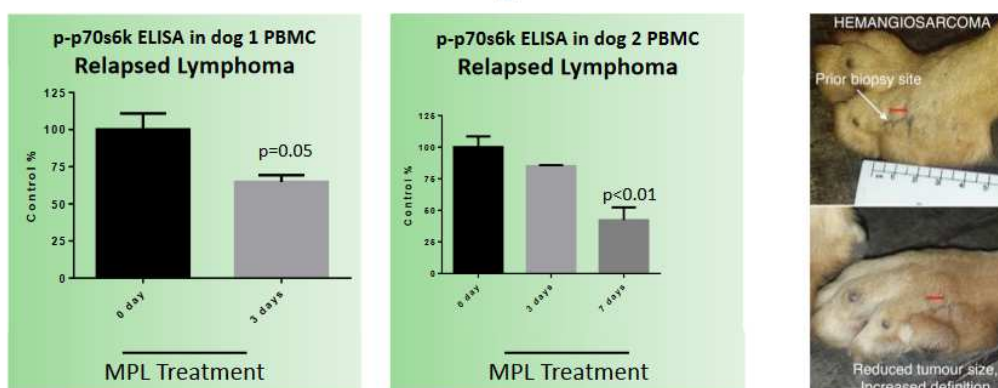
WHY I RATE PAA AS AN OUTSTANDING OPPORTUNITY

- Very low market capitalisation of only \$11m, \$3m pa in revenue, a cash position of c\$3m and a clinical stage asset. **PAA is trading at shell value.**
- Re-invigorated management team with the appointment of Dr Richard Hopkins as CEO, and Dr Richard Mollard as Chief Scientific Officer.
- Dr Roger Aston remains as Chairman. Roger was a founding Director and CEO of Mayne Pharm (MYX) and served until February 2012. Roger is one of the most respected biotech leaders in Australia and is also the Chairman of ResApp (RAP) who oversaw a rapid appreciation in market cap to c\$300m.

- Epichem (100% owned subsidiary) have expanded at its Bentley facility, and now have the potential to increase the \$3m in revenue from by adding more drug curtains (fumes). These are likely to be revenue accretive.
- PAA are reformulating and repurposing existing drugs that have been proven to be safe with no toxicity.
- 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 funded by a major pharmaceutical company. 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.
- Significant progress has been made with PAA’s key anti-cancer Monepantel (MPL) with phase 2 trials underway in canines. Phase 1 studies in both humans and dogs have shown MPL is safe and shows some evidence of clinical activity. There have been palability issues, however PAA are working towards having MPL reformulated.
- 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.

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

Suppression of p70s6k and tumour size and increased QOL by MPL in Canines



About our business



State of the Art Facilities and Expertise

Epichem provides products and services in synthetic and medicinal chemistry to the drug discovery and pharmaceutical industries. Specialties include:

- custom synthesis of analogue libraries, scaffolds and intermediates
- reference standards of drug impurities, degradants and metabolites

Epichem understands industry's needs for quality, confidentiality and timeliness and has the people, facilities and systems to deliver.

Epichem on LinkedIn 

News and Events

14 February 2017
Epichem shines a light on pharmaceutical impurities with x-ray crystallography.
[See full story here.](#)

16 September 2016
Epichem proudly announces its Quality Management System is now ISO 9001:2015 certified.
[Click here for details of Epichem's ISO 9001:2015 certification in English](#)
[Click here for details of Epichem's ISO 9001:2015 certification in Japanese](#)

[Archived News and Events](#)

Featured Products

3-hydroxy- α -(methylamino)acetophenone hydrochloride



EPL-AA2
C₉H₁₁NO₂.HCl
201.65 g/mol
Purity >98%

dextromethorphan-N-oxide hydrochloride



EPL-AA9
C₁₈H₂₅NO₂.HCl
323.87 g/mol
Purity >98%



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. They export to 33 countries worldwide and there are numerous opportunities to attain accreditation in molecules/development that will enable them to become one of only a handful of providers globally.

Epichem has access to considerable human talent and apart from delivering products there is also the potential to create a "blue sky" component that will assist in closing the US/Aus valuation gap.

RISK AND REWARD ANALYSIS

With a market capitalisation of only \$11m and an on-going revenue stream from Epichem, PAA must rate as one of the most undervalued biotech companies on the ASX. Juniors that are underappreciated by the market are normally lacking in critical areas and it would appear that the only thing holding PAA is a lack of market awareness and a history of mining and oil related investments prior to the acquisition of Pitney. Looking at a risk/reward analysis there is the potential for 30-40% downside considering the 5c rights issue, however this will provide an outstanding buying opportunity. If there is any success with phase 2 trials in canines and Novartis exercise the option, it will assist in funding phase 2 trials in humans which would command a market capitalisation of c\$50m.

PAA is one of the most compelling biotech opportunities on the ASX and around 7c is hideously undervalued even taking into consideration an Australian style valuation. Based on the underlying fundamentals, the appointment of an experienced executive team to drive things forward and allowing for the high risk nature of the company I am suggesting PAA is a strong speculative BUY up to 7c, but higher prices could be paid to secure a meaningful line of stock.

Tony Locantro
Dealer Private Clients



GPO Box 2553, Perth WA 6001

Level 30, Allendale Square,

77 St Georges Terrace, Perth WA 6000

Direct Line: +61 8 9224 6851

Mobile: +61 402 604 862

Email: TLocantro@argonaut.com

Corporate Advisory | Stockbroking & Research | Special Situations

[Click here](#) to access an important electronic communications disclaimer

GENERAL ADVICE WARNING

Please read the above information carefully and contact me, prior to investing, if you have any questions. I have forwarded you this document because you have expressed a general interest in having these types of offers referred to you for your perusal and consideration. It is very important that you note that the above information has been prepared without taking into consideration any of your objectives, financial situation or needs, and because of that it is important that you carefully consider the appropriateness of the financial product to your personal circumstances before investing. This does not constitute personal financial advice nor is it formal Argonaut research. All investments tend to be impacted to some degree by current market, economic, political and legal influences. It is often beyond the ability and resources of persons not working in financial markets to be constantly aware of these influences. As a consequence this is why we recommend that you ask for professional advice from one of our financial advisers before proceeding to acquire or dispose of any investment or financial product.

Argonaut has received fees from the company and the Author own shares in PharmAust