

May 19th 2022



Neuren Pharmaceuticals Limited (NEU)

The company will hold its Annual Shareholders Meeting at **4.30pm (NZ Time) Monday 30 May 2022.**

The location is **L18 Bourke Place, 600 Bourke Street, Melbourne, Victoria, Australia.**

You can also join the meeting online [here](#).

Company Overview

The company is incorporated in New Zealand, based in Melbourne, and listed on the ASX. It is developing new therapies for highly debilitating neurodevelopmental disorders that emerge in early childhood and are characterised by impaired connections and signalling between brain cells. It has two drugs in clinical development for which currently there are no approved drug therapies.

Current Strategy

The company's strategy is to develop treatments for multiple disorders in parallel that results in a substantial commercial opportunity.

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	A	See below
Director share ownership	A	See below
Executive Remuneration	R	See below
Golden parachutes/handshakes	A	See below
Director Independence	G	See below
Board Composition	A	See below
Director Tenure	A	See below
ASM Format	G	See below
Independent Advice for the Board	A	See below

Directors Fees: The Director Fee Pool is not disclosed in the Annual Report, although the actual payments made to individual directors are shown.

The current fee pool of NZ\$400,000 is, however, disclosed in the Notice of Meeting, as part of the (limited) discussion surrounding the proposed increase in Directors Fees to AU\$500,000. We note, however, that this proposed fee pool:

- is not supported by any independent benchmarking
- does not break down the proposed fee pool by director type and/or director
- implies that the company has included some 'headroom' for future payments, but does not specify the amount of the headroom.

The company clearly states that no retirement benefits are paid to non-executive directors, with all payments made in cash.

NZSA expects a more transparent disclosure of the fee pool within the annual report in future as well as improved justifications for any director fee pool increases.

Director Share Ownership: There is no disclosure as to whether Directors are required to own shares. NZSA policy is whilst this should be encouraged it should be up to each Director to decide depending on their personal circumstances.

Executive Remuneration: The CEO is paid a fixed salary and share based incentive payments, funded by a loan from the company (subject to performance conditions).

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets and the level of achievement associated with any awards.

For Neuren, note 10 in the Annual Report describes the milestones and targets associated with the vesting of the loan-funded shares, as part of the financial statement liability calculation.

The amount of loan-funded shares held by the CEO disclosed elsewhere in the report.

NZSA would prefer greater clarity surrounding remuneration disclosure in future. We note the relatively poor executive remuneration disclosures as compared with other ASX-listed companies.

Golden parachutes/handshakes: Neuren discloses that *“Senior executive service agreements generally include a requirement for 3 months’ notice of termination by the executive or the Group. There are no other termination payments.”*

The term “generally” makes this unclear in relation to the CEO. In the interests of transparency, NZSA believes there should be clear disclosure around the severance terms associated with the CEO, including whether specific termination payments are offered.

Following discussions, NZSA is comfortable with the company’s position, but would appreciate clearer disclosure in the annual report relating to CEO remuneration and terms/conditions in future.

Director Independence: A table on page 20 of the annual report clearly discloses a majority of independent directors. Trevor Scott as an independent director – however, given his 20 year tenure, NZSA does not believe that he can be considered independent.

Board Composition: There is no skills matrix to demonstrate how the individual Directors skill sets contribute to the governance of the company, although the skills required by the company are disclosed.

The nature of the company’s board indicates a commitment to thought, experiential and social diversity, with relevant experience for Neuren.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

For Neuren, we note that one Director, Trevor Scott, has served since 2002. While this is justified to some extent as a retention of institutional knowledge, we believe that Neuren should actively consider and communicate succession plans for Dr. Scott to shareholders.

All other directors were appointed in 2018 except for Managing Director, Jon Pilcher, appointed in 2021. While this is not currently a concern, this indicates that Neuren will be required to provide some focus on director rotation over the next five years, to avoid a sudden loss of institutional knowledge.

ASM Format: NZSA prefers ‘hybrid’ ASM’s (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation.

We note that Neuren’s auditor (based in Auckland) will not be physically present at the company’s meeting (in Melbourne), as the Board considers *“impractical and an unnecessary expense for the auditor to travel to Australia to attend the annual general meeting in person”*. The auditor will attend virtually.

Independent Advice for the Board: NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities.

Whilst there were disclosures around financial risks in the Annual Report there was no disclosure around non-financial risks and how these are identified and managed. The company refers shareholders to its website in its annual report for risk disclosure, but it is unclear where these are visible.

We were unable to find any disclosures around the external and independent internal assurance channels to the board or its sub-committees, beyond meeting with the external auditor. While the Audit Committee reviews internal audit plans and outcomes, it is unclear whether the plans are set and approved by the Audit Committee. There is no reference as to whether relevant assurance staff have unfettered access to the Board.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure
Audit rotation	A	See below

Audit Rotation: Not disclosed if the Lead Audit Partner is rotated at 5 years or whether the Audit Firm is rotated at 10 years. NZSA also expects disclosure of the appointment dates of the Lead Audit Partner and Audit Firm to improve transparency for investors.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure
Political donations	G	No donations were made

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	n/a	There was no dividend paid.
Capital Raise process	A	See below
Takeover or Scheme	n/a	<i>n/a if no takeover</i>

Capital Raise process: NZSA notes a Placement of AU\$20m in September 2021 followed by a Share Purchase Plan of AU\$2m in October 2021. While we normally prefer an entitlement-based offer, we

believe the capital raise methodology to be appropriate given the company's stage in its development cycle.

Financial Overview: Neuren Pharmaceutical's share price rose from \$1.50 to \$3.61 (as of 9th May 2022) over the last 12 months – a 141% increase. This compares favourably with the NZX 50 which declined by 10% in the same period. The capitalisation of NEU is \$466m (AUD) and would place it approximately in 52nd place out of 138 companies if it were listed on the NZX by size. This makes it a mid-sized company.

Metric	2021 (AUD)	2020 (AUD)	Change
Total Income	\$3.6m	\$.96m	78%
R & D Tax Incentive	\$3.2m	\$0.7m	346%
NPAT	-\$7.8m	-\$9.2m	n/a
EPS ¹	-\$0.06	-\$0.08	n/a
PE Ratio	n/a	n/a	
Current Ratio	49.87	33.12	51%
Debt Equity	0.02	0.03	-34%
Cash at Bank	\$36.8m	\$24.2m	52%
Operating CF	-\$9.9m	-8.1m	n/a
NTA Per Share ¹	\$0.30	\$0.21	48%
Dividend Per Share ¹	n/a	n/a	

¹ per share figures based off actual shares at balance date (not weighted average)

Neuren is very much in a start-up phase having completed positive Phase 3 clinical trial results for trofinetide in Rett syndrome, announced in December by their US partner Acadia Pharmaceuticals. A number of other drugs are in earlier stages of trials. The Annual Report states;

“The Group has assessed that all research and development expenditure to date does not meet the requirements for capitalisation as an intangible asset because it is not yet probable that the expected future economic benefits that are attributable to the asset will flow. The Group's current assessment is that future expenditure will not meet that requirement prior to the approval of a New Drug Application by the US Food and Drug Administration.”

Outside of cash and trade receivables, the only asset the company has is property, plant and equipment of \$12,000.

A drug company in its early start-up phase requires cash to complete trials, and during the year the company successfully completed a capital raise of \$20m by the issue of shares at \$2.05 per share to institutional investors. In addition, the company completed a SPP raising \$3.3m. Cash at bank is \$36.8m compared with \$24.2m the year before. Operating cashflows were **-\$9.97m** compared with **-\$8.1m** in 2020.

The company is in a solid financial position with no debt and the NTA is \$0.30 per share. The shares trade at a hefty 1086% premium to NTA. This indicates the market is confident that the trials will be successful, approval of a new drug application by the FDA will be granted, and commercialisation will proceed sometime in the future. An indication of the companies pipeline and key milestones in the next 18 months can be [found on page 3](#) of the Annual Report.

NEU has accumulated losses of \$119m.

The company received an increased R & D tax incentive of \$3.2m for the year.

A NZ based fund manager, Milford Asset Management, owns a 5.35% stake in the company.

Resolutions

1. To re-elect Dianne Angus as a Director.

Dianne Angus was appointed to the Board in July 2018. Her biography is set out in the Notice of Meeting.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect Jenny Harry as a Director.

Jenny Harry was appointed to the Board in July 2018. Her biography is set out in the Notice of Meeting.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

4. To increase the Director Fee Pool by \$A135,000 to \$A500,000.

There is no disclosure when the Fee Pool was last approved by shareholders. There is no disclosure as to how the Fee Pool will be applied to individual Directors. There is no independent Report setting out appropriate comparator company data to determine whether the increase is in line with other comparable companies.

NZSA expects these disclosures in the interests of transparency.

For these reasons, we will vote undirected proxies **AGAINST** this resolution.

Proxies

You can vote online or appoint a proxy at <https://www.linkmarketservices.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **4.30pm (NZ Time) Saturday 28 May 2022.**

Please note you can appoint the NZ Shareholders Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA