

FINAL TRANSCRIPT

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ADDXF.PK - Half Year 2010 ADDEX PHARMACEUTICALS LTD Earnings Conference Call

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PRESENTATION

Operator

Good morning, good afternoon. I'm Christina, the Chorus Call operator for this conference. Welcome to the Addex Pharmaceuticals Half Year 2010 Financial Results Conference Call. Please note that for the duration of the presentation, all participants will be in listen-only mode and the conference is being recorded. After presentation, there will be an opportunity to ask questions (Operator Instructions). This call must not be recorded for publication or broadcast.

At this time, I do like to turn the conference over to Mr. Chris Maggos. Please go ahead, sir.

Chris Maggos - Addex Pharmaceuticals - Head - IR and Communications

Thank you, Christina. Hello, everyone. Today, Tim Dyer, our CFO, will take you through the first half 2010 financial results, and then Vincent Mutel, CEO, will discuss the status of the pipeline before opening the call for your questions. You can download the slides for the conference call on the internet webcast window at the bottom.

Tim?

Tim Dyer - Addex Pharmaceuticals - CFO

Thanks, Chris. Good afternoon, ladies and gentlemen.

So, I'll just draw your attention to the disclaimer before I move on to the highlights. So, I'd like to detail the 2010 half year financial results highlights before going into the details. First of all, for the first half 2010, we reported a net loss of CHF17.3 million, revenues of CHF2.7 million and cash burn of CHF19.9 million. We finished the period with cash and cash equivalents of CHF56.7 million, and we've maintained our cash burn guidance at CHF30 million to CHF35 million for the full year 2010.



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So now for the details, starting with the balance sheet. In the first half of 2010, our cash and cash equivalents position decreased by nearly CHF20 million to CHF56.7 million. This net cash outflow is driven mainly by the cost of operations and CHF2.9 million of cash which has been used to reduce the period end creditor balance, which you'll see lower down under payables and accruals.

Other current assets have increased significantly to CHF2.9 million, mainly due to the prepay pension costs of CHF0.9 million, which related to H2 2010. As a reminder, we pay the annual pension contribution in January of each year and amortize them to the income statement on a monthly basis. Hence, this is a regular prepayment that appears on the H1 balance sheet, but not at the yearend. Also included in other current assets are CHF0.4 million of French government research tax credits receivable for H1 2010. I'll talk further about the French government research tax credits later in the presentation when I cover revenue.

So, moving on to the property, plant and equipment position, which is net of accumulated depreciation, this has decreased by 16% to CHF8 million, mainly due to the H1 depreciation charge which has not been compensated by new investments in property, plant and equipment. It's worth noting that as part of our cash preservation measures, we have significantly reduced our investment in property, plant and equipment from CHF3.3 million in 2009 to CHF0.5 million -- or expected CHF0.5 million for the full year 2010.

Payables and accruals decreased by CHF2.9 million to CHF7.3 million at the end of June, mainly due to reduced levels of ongoing outsourced clinical development activities, since we currently have no ongoing clinical trials. At the end of 2009, we had significant payables and accruals related to the ongoing Phase IIb programs, the majority of which have been settled in the first half of this year.

So, moving on to deferred income, which is at CHF0.1 million, this relates to technology access fees from Merck under the mGluR4 PAM collaboration, which will be recognized through the end of November this year. Finally, non-current liabilities relate to an IAS 19 retirement benefit obligation provision.

So, that was the balance sheet. Now, moving on to the income statement, we recognized revenue from collaborations of CHF1.1 million, consisting of technology access fees and research funding received from Merck under the mGluR4 collaboration. I'd like to remind you that this research collaboration was extended on the 30th of November 2009 for one year.

Although they had not previously done so, last November Merck agreed to start covering costs for all mGluR4 related R&D activities at Addex by committing \$1.8 million of research funding, which is being received and recognized on a quarterly basis until the 30th of November 2010.

Other income of CHF1.6 million comprises French government research tax credits related to R&D expenditure incurred at our French subsidiary. Of this amount, CHF1.2 million relates to 2009 expenses and was received in the first half of 2010. In addition, there is CHF0.4 million related to expenses incurred during H1 2010, which have been accrued. We will be making an application in 2011 for the 2010 credits, which we expect to be paid -- received by us in the first half of 2011.

I'd like to point out that we did not recognize the 2009 amount in 2009 since this was the first application we had made and there was significant uncertainty over whether the application would be challenged by the authorities. So, in summary, H1 total income is CHF2.7 million.

So, moving on to operating costs, research and development expenses decreased by 22% to CHF16.7 million compared to CHF21.4 million incurred in H2 2009. The primary driver of this decrease is a reduction in outsourced clinical development activities. It's worth noting that we were running three phase IIb trials in 2009, in sharp contrast to H1 2010, in which clinical activities were split between wrapping up these phase IIb trials and preparing the Phase II program for our lead compound 48621 in PD-L1D.



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General and administrative expenses decreased by 4% to CHF3.3 million in H1 2010, mainly due to the effects of a reduction in headcount, which has been offset by both adjustments in the IAS 19 retirement benefit obligation provision and the IFRS 2 non-cash charge related to the new equity incentive plan, giving a net loss, which decreased by 25% to CHF17.3 million compared to CHF23.1 million in the second half of 2009. Again, this is mainly due to reduced R&D costs. Basic and diluted loss per share decreased accordingly to CHF3.01 for H1 2010 compared to CHF4.02 for H2 2009.

So, moving on to the consolidated cash flow statement, we started the reporting period with CHF76.6 million of cash. We used CHF20 million in operations, which includes reducing our creditor balance by CHF2.9 million as mentioned before. This was compensated by CHF0.5 million of research funding from Merck under the mGluR4 collaboration.

Cash flow used in investing activities was CHF0.3 million and there were some minor amounts of cash coming from interest income. In addition, the strengthening of the Swiss franc against other major currencies, and especially the euro, impacted negatively our cash flow statement, with an exchange loss of CHF0.1 million resulting in a cash balance of CHF56.7 million at the end of June 2010.

Now, the next slide gives an analysis of the headcount development. You'll note that the headcount is off by 14% since the same time last year, so 30th of June 2009, and 7% in this first half of 2010. I'd like to point out that 14 of the 22 departures since June 2009 relate to temporary staff who were on fixed term contracts.

Of the total headcount of [135 at the end of June, 110.5 are in R&D and 24.5] (corrected by company after the call) are in G&A. I would just like to point out that G&A excludes everything which is not R&D or direct to R&D, which includes the CEO, business development functions, HR, IR, finance and other support functions.

In addition, the streamlining of the organization that we mentioned during the February conference call is complete. A new equity incentive plan and modifications to the organization structure have been implemented. And based on known departures, we are expecting the current payroll of 135 to be around 120 full-time equivalents by the yearend.

So, to conclude, I'd like to talk a little bit about the financial outlook. As mentioned earlier, we have maintained our cash burn guidance at CHF30 million to CHF35 million for the full year, and have extended our cash reach guidance until early 2012. It is worth noting that no cash inflows from new collaborations or any contingent milestones under existing license agreements are included in this guidance. We'll continue to focus on cost saving measures and expect to finish the year with the headcount of 120 FTEs.

So, I will now hand over to Vincent, who will discuss our product pipeline.

Vincent Mutel - *Addex Pharmaceuticals* - CEO

Hello, everyone. Thanks, Tim. I'd like to give a brief review of the pipeline status prior to opening the call for your questions. As you know, ADX48621 is scheduled to start Phase II testing in late 2010 in patients with Parkinson's disease-levodopa induced dyskinesia, PD-LID, and in early 2011 it will start Phase IIa testing in focal dystonia patients. To be clear, these are patients that do not have Parkinson's disease.

I probably don't need to remind you that the mechanism of ADX48621, inhibition of the mGluR5, is a clinically validated mechanism in PD-LID and in a variety of other indications. As you know, mGluR5 negative allosteric modulators are currently being developed by large pharma companies for PD-LID and other indications. So, the bottom line is that we are not the only ones continuing to invest in this area and interest in products with this mechanism remains quite high.



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I'd like also to draw your attention to the fact that we have another lead product, effectively a co-lead product. Ortho-McNeil-Janssen Pharmaceuticals is completing Phase I testing of ADX71149 as we speak. You remember that we receive a milestone payment of EUR1 million upon initiation of Phase I testing about one year ago.

Last but not least, we are very excited about the prospect of ADX71943, which you remember recently demonstrated its potential for osteoarthritic pain. We are excited about this product because, as you remember, the mechanism of action is clinically validated, just like with ADX71149 and ADX48621. Like for ADX48621, ADX71943 is subject to ongoing out-licensing discussion, which could have a significant impact on our future.

And lastly, I'd like to reiterate our current strategy with regard to out-licensing. Because we have a proprietary discovery platform, which already has generated CHF43 million in partnering revenues, we intend to pursue an opportunistic out-licensing strategy whereby we will look to strike deals often and in many cases early. Don't forget our track record of three deals with companies like Merck and J&J indicate that products coming from our platform can attract the best partners and win unusually rich terms even at early stages.

If you like to explore the productivity of our pipeline, I refer you to our May 11 R&D Day, which is available on our website. It covers not only the technology, but some of the more exciting programs that you will find on our discovery pipeline.

Okay, I think that concludes our prepared remarks. And operator, can you please open the call for questions?

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions).

The first question is from Mrs. Victoria English, MedNous. Please go ahead, madam.

Victoria English - MedNous - Analyst

Yes, I have a question for Vincent and this relates to the comment that you've made about your licensing strategy going forward. You used the term opportunistic and I was wondering whether is this, in fact, a shift and if so, does this mean that you'll be putting more emphasis on your discovery activities in the future, as this would be the engine to generate?

Vincent Mutel - Addex Pharmaceuticals - CEO

Yes, I think you are -- first, hello. It's a good question. I think you are absolutely right about that -- and I think we comment on that already in the past, that what we want now very clearly is to value the platform technology as much as the products. What we have indicated in the past is -- so it's not very new, but I think it's useful to reiterate that, that we are entering and we have entered into active out-licensing discussion for quite a large part of our portfolio.

In fact, the four -- three most advanced product, 48621, 71943, 68692 and mGluR2 NAM products, are project on which we have now embarked on out-licensing discussions. And this is corresponding clearly to a desire now to decrease the risk going forward. But by maintaining enough rights on the molecules that we have, we don't want as well to deprive the Company of the potential future upside.

So, the strategy is a bit more now, let's say, mitigated than it was before and in particular, we want to raise the attention of the market and also of the -- potentially the pharma that the Company is having a platform which can produce a lot of things. We



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have shown, and I think quite well now, on the early stage pipeline that we can develop a number of very good products for different indications. But in addition to that, that we want to enter into early stage partnership for a large part of this portfolio because also I should say the indications we are dealing with justify that.

Victoria English - *MedNous - Analyst*

Thank you.

Operator

Next question, Mr. Peter Welford from Jefferies. Please go ahead, sir.

Peter Welford - *Jefferies International - Analyst*

Hi. Yes, thank you for taking my question. I've got a couple. Let me start with two on the 71149 J&J program. And Vincent, do you want to give some clarity on when you say in the press release that there was EUR112 million milestones, can you clarify is that milestones to come or does that include the initial EUR4 million upfront and also the milestone you received on Phase I start in the R&D? So, is that EUR112 million still what's to come or is that total?

And also on 71149, when you say that the Phase IIa is likely to start second half '10, can I ask is that your estimation or is that the latest information from the sort of joint steering committees and discussions you've had from J&J based on what you know about the progress they're making and results they've got to date?

Vincent Mutel - *Addex Pharmaceuticals - CEO*

So, I take the second question, Peter. Hello. The current information is that the compound is in Phase I at J&J, as we have already disclosed early on. It's completing Phase I and that's more or less where we are. So, we cannot really say very much more.

Now, regarding the milestone payment that we are expecting, I think it was excluding what we already received.

Vincent Mutel - *Addex Pharmaceuticals - CEO*

It's our future milestones.

Chris Maggos - *Addex Pharmaceuticals - Head - IR and Communications*

I think the EUR1 million that we received last June can be taken off of that, so the total remaining to be received would be EUR111 million.

Peter Welford - *Jefferies International - Analyst*

Okay, that's great. And the other question, then, is just with regards to the sort of -- if you look at your pipeline with obviously CNS, metabolic, inflammation, you've researched the three areas. I guess there's two parts to the question, which is one, are you looking to go into any additional areas or at this time do you think this is sort of enough, if you like, for the resources you've got? And then secondly, are you considering, I guess, therapeutic area partnership type discussions as well as individual product discussions, or would you -- do you have a preference for one or the other at this time? Thank you.

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Vincent Mutel - *Addex Pharmaceuticals - CEO*

Yes, it's a very good question. No, we don't want to enter into new area at the current stage we are. For sure, we have a very robust and strong development around CNS. And it's very clear that if we would consider a kind of business area partnership, it certainly would be on this kind of -- more on the CNS like than the other. But to answer the question, no, we will not do anymore further development in cancer oncology or things like that.

Peter Welford - *Jefferies International - Analyst*

Thank you.

Operator

The next question is from Robin Davison, Edison Investment Research. Please go ahead.

Robin Davison - *Edison Investment Research - Analyst*

Thank you. Hello there. First of all, the sort of extension in the cash runway of the Company, I'm wondering whether that's come about because you have perhaps not including now Phase I for 68692 or whether it's to do with just sort of trimming costs or the relative of cost in the euro versus the Swiss franc, that sort of thing. So, that's one question. The second one, I really wanted to know whether there'd been any progress on the GLP-1 PAM since the sort of R&D Day, which talked about optimizing in the IVGTT model and when would you likely get the results from that?

Tim Dyer - *Addex Pharmaceuticals - CFO*

Yes, I'll take the first question, Robin. Yes, we've done some -- we've been looking at the -- reevaluating the estimates. A lot of it's coming from the fact that we now have a clear view on what the headcount will be going into 2011. We've also revisited some of the costs which we put in related to the clinical development programs. And as time moves on, we get a much clearer estimate and we're able to refine those estimates. But the majority of it's coming from the headcount quite frankly.

Vincent Mutel - *Addex Pharmaceuticals - CEO*

Regarding the GLP-1, at the R&D Day the objective we had, as you remember, was to optimize the PK. We had compound which demonstrate activity in the db/db mice in the OGTT model, so having an effect on glycemia. Unfortunately, these molecule were having a bad -- a very poor PK at this specific molecule. We have been able to improve this, I mean preserving the good characteristic of the molecule and improve the PK, but not enough still yet to be able to have a molecule which qualify for further development.

Robin Davison - *Edison Investment Research - Analyst*

All right. Okay, thank you.

Operator

Next question, Mr. Andrew Weiss from Bank Vontobel. Please go ahead, sir.

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Andrew Weiss - *Bank Vontobel - Analyst*

Thanks for taking the question. With regards to the Merck deal that was inked, one of them in December of '07, the other in January of '08, how long did that take to negotiate? And especially also, then, push back and forth with the lawyers between the start that you negotiated to the time that you got it actually signed? And the second question would be on the reduction of staff down to FTE of 120, could you tell us how much is R&D and how much is admin?

Vincent Mutel - *Addex Pharmaceuticals - CEO*

Okay. Regarding the Merck, and not only the Merck but J&J as well, I mean in our experience we had negotiation time which were, let's say, nine months to six months. But in general, I think if I take into account all the preexisting negotiation we had, it is more close to nine months than six. I mean, it's quite a challenge to have finish lawyer negotiation, as you know, which are taking a hell of time, so rapidly.

So, that's probably the worse than with all the element of negotiation into it was the element which was taking the most time. I would say nine months to -- I mean there are normal -- I mean, in BD people say 12 months is more the norm than the exception. In our experience, we've been lucky, I should say. We had a very good traction and a lot of competitive attraction around some of those programs. For the mGluR4, it took us quite a while.

Tim Dyer - *Addex Pharmaceuticals - CFO*

Yes, so, just on the second question, Andrew, it's roughly in proportion to the split between G&A and R&D.

Andrew Weiss - *Bank Vontobel - Analyst*

Okay. Thank you.

Operator

(Operator Instructions). Gentlemen, there are no more questions at this time.

Vincent Mutel - *Addex Pharmaceuticals - CEO*

Okay. Thank you, operator.

Operator

Excuse me, we have a late registration from O'Brien, Piper Jaffray. Please go ahead.

Unidentified Participant

Hi. My first question is regarding ADX71149. When do you expect to announce the Phase I results? And the second is on ADX71943. If this is not licensed, will you start the Phase I in early '11 anyway? And then regarding the Merck deal, from what I hear, this is due to expire in November '10. And do you expect that that will be renewed?



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Vincent Mutel - *Addex Pharmaceuticals - CEO*

That's a lot of question, which are involving our partners and I cannot really answer to the last one. I mean, your other question regarding 71943, we have -- because we had now this result in osteoarthritic pain, which are quite interesting and quite -- I mean which are very good results, we are not really linked to a partnership to start the development. Is more we are considering exploring other activities of the compound.

I mean, this is a molecule which is a GABA-B positive allosteric modulator. It means that the potential for application of this molecule, which is now demonstrating clearly efficacy in a model at very low dose, which is quite -- was quite surprising, I should say, to us, is opening up a lot of other possibilities. And we would like to be having perhaps more information about the potential of this drug in other indications.

I would like to remind you that there are people developing GABA-B molecules for other indications than pain. We decide to do it because it was risk benefits which was very much in favor of this indication. But now with the very potent activity we see in vivo, we are thinking again of potentially looking at other indications. So, that's the reason why we have delayed 71943 development.

And regarding 71149, I cannot tell you more than what we have been allowed to disclose, which is that the compound is in Phase I. And okay, we are now in the stage of development where we hope that this is going to conclude favorably and be able to announce that the molecule has been decided to move in Phase II. But it's to our partner to do that and to allow us to do that.

Unidentified Participant

Okay. Thank you.

Vincent Mutel - *Addex Pharmaceuticals - CEO*

Welcome.

Operator

Currently, at the moment, we have no more questions. Would you like to conclude your call?

Vincent Mutel - *Addex Pharmaceuticals - CEO*

Very good. So, okay, thank you, operator. Chris, do you have anything to add?

Chris Maggos - *Addex Pharmaceuticals - Head - IR and Communications*

Just as a reminder, the first half financial statements, the webcast replay, the slides and the transcript are going to be made available -- are being made available on our website. You can download them there. Please feel free to contact us if you have any other questions.

Vincent Mutel - *Addex Pharmaceuticals - CEO*

Okay, everyone, so, thank you for joining us today. We look forward to speaking with you individually and welcome your interest in Addex. So, have a nice day.



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Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing the Chorus Call facility and thank you for participating in the conference. You may now disconnect your lines. Goodbye.

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