# ANNUAL GENERAL MEETING

RACV CLUB
LEVEL 2, 501 BOURKE ST, MELBOURNE VIC 3000
AT 11.00 AM ON 28 NOVEMBER, 2017

## CHAIRMAN'S ADDRESS

Good morning ladies and gentlemen, I'm Roger Corbett, the Chairman of our Company and I would like to welcome you all to the 2017 Mayne Pharma Annual General Meeting.

As we have a quorum, I now declare the annual general meeting open.

Let me start by introducing the Board members, senior executives, and the Company's auditor.

Joining me at the front of the room are my fellow non-executive Directors: Bruce Mathieson, Ian Scholes, Ron Best, Professor Bruce Robinson, Phil Hodges, Nancy Dolan, our Chief Executive Officer, Scott Richards and our Group CFO and Company Secretary, Nick Freeman. We're very pleased to have Phil Hodges in attendance with us. Phil has travelled from the US and was the founder of Metrics, the Company we bought in 2012 in the United States.

Welcome also to Mr Ashley Butler, the Company's auditor and other representatives of EY.

I'll now outline the procedure for today's meeting. There are three items of business on today's agenda:

1. I will present my Chairman's Report, then

2. Scott will provide an update on the trading performance; and then

3. We will go into the formal part of the meeting where we will vote on the resolutions outlined in the notice of meeting. We will then conclude the meeting.

I will now move to the Chairman's report.

First of all, I have been in business for over 40 years and have worked across numerous businesses and sectors. I think running a business can be a bit like sailboat racing and this analogy is particularly relevant to Mayne Pharma today.

Sailboat racing depends on many skills and factors. You might have a good boat with good equipment. However, skilled sailors are needed to overcome difficult sailing conditions.

The weather is something you encounter that is completely out of your control. However, what you can impact, is how effectively you sail in the conditions versus your competitors. Teamwork is critically important and you need to have a longer-term strategy, which may change over the course of the race if the weather changes or you face an unexpected current.

Over the last year, Mayne Pharma has faced the perfect storm in the US with exceptionally challenging market conditions driven by customer consolidation and the speed up of approvals through the US FDA which has accelerated generic price deflation and the loss of exclusivity on Doryx® 50mg and 200mg tablets.

Many of our US peers have also experienced declining share prices, revenue, earnings and margins over the last year as well as material asset impairments from recent acquisitions. In the most recent US quarterly reporting period this month, our US peers continued to report heightened levels of price deflation pressure in the high single digits to mid-teens, revenue declines typically ranging between -5% to -15% on the prior corresponding period (pcp) and declining generic gross profit margins which for many companies has been around a 1000 basis point reduction.

Mayne Pharma has to use its skills to out sail our competitors. The best teamwork, tactics and strategy are required to navigate these market and environmental conditions to come out ahead.

I am confident we have the right skipper in Scott to turn the sails and correct our path, the right crew including experienced and capable leaders such as John Ross, President of USA and Stefan Cross, President of International Operations, the right equipment and the right strategy to navigate through these challenging conditions. With Scott now based in the US after relocating in September there are early signs that we are beginning to see a rebound in the generic business based on trading in October and November and recent customer wins. Stefan has taken on responsibility for rest of world and will be active in developing our business in other markets.

I am also confident that we have strengthened our business significantly over the last year, that our brand and contract service businesses will further diversify our business

earnings over time and we have multiple opportunities to execute on to drive growth in the second half and beyond.

Without a doubt, the US remains the largest and most profitable pharmaceutical market in the world. In the last 18 months, we have had our most successful first-to-market generic launches of dofetilide and doxycycline hyclate immediate-release tablets that demonstrate the outstanding returns that can be achieved from generic R&D investment. These successes underscore the ongoing fundamental attractiveness of the US marketplace when you execute well.

I fully expect the US generic market will emerge from this period, stabilise and return to growth driven by macro factors such as the aging population and the increasing incidence of chronic disease, together with industry factors such as the pipeline of branded products losing patent protection and the efficient nature of the generic market which drives 80%-90% substitution rates. Furthermore, government legislation is ultimately aimed at lowering the cost of healthcare through the use of generic medicines.

Moving to the 2017 actual results.

The Company reported the strongest results in its history with revenue up 114% to $573m, underlying EBITDA up 133% to $207m, reported NPAT grew 137% to $89m and reported earnings per share grew 30% to 6.2 cents. These results were driven by product acquisitions, new product launches and continued growth in Metrics Contract Services.

The Teva product acquisition completed in August 2016 contributed significantly to the result with sales of US$180m and EBITDA of US$90m. These results were unfortunately below our original guidance and reflect a market that has faced unexpected, aggressive price competition and pressure in the second half. These industry headwinds are being equally faced by our competitors and are driven by consolidation of our customers and more rapid generic approvals through the FDA.

Whilst the changing generic market dynamics have been challenging, we remain focused on executing our strategy to become a leading player in the generic industry over the medium to long term. The Teva product acquisition has transformed the scale and breadth of the generic business, diversifying Mayne Pharma's earnings across more products, therapeutic areas, dosage forms and complex technologies. In addition, the acquisition has created new relationships with customers and suppliers unlocking new portfolio and pipeline opportunities. During FY17, we in-licensed three products as a result of new relationships following the Teva deal including generic Nuvaring® from Mithra, which is the largest contraceptive product sold in the US and two transdermal patches from Corium.

In terms of the business segments, the Generic Product Division sales were $419m and gross profit was $218m up very significantly on the last year driven by the acquisition of the Teva product portfolio and strong performance of the underlying business with dofetilide capsules being the key driver of growth year on year followed by new product launches such as generic Acticlate®.

Whilst the Teva portfolio has not performed to expectations financially in the first year, I still believe the acquisition remains highly strategic and has strengthened our organisation bringing further scale and market access. We are yet to see the real benefits of this deal including cost savings and greater overhead recovery in our facilities, diversification of our channels to market and access to new pipeline assets to drive growth.

The Specialty Brands Division reported sales of $62m and gross profit of $59m which was down on the prior year reflecting the loss of exclusivity on Doryx 50mg and 200mg in May 2016.

The acquisition and relaunch of two patent-protected foam products from GSK drove much stronger performance for Specialty Brands in the second half of FY17 versus the first half. Fabior® (containing the active ingredient tazarotene), a topical foam used to treat acne and Sorilux® (containing the active ingredient calcipotrene), a topical foam used to treat plaque psoriasis, were successfully re-launched by Mayne Pharma's Specialty Brands sales team in January 2017. Both products outperformed the acquisition business case in FY17 and have exceeded the previous peak prescription volumes under the former brand owner.

The Company remains attracted to the underlying fundamentals of the US dermatology market and has stepped up its investment in this space through doubling its dermatology field sales force which Scott will talk more about and ongoing investments in R&D.

Metrics Contract Services delivered an outstanding result with revenue up 18% to $58m and gross profit was up 22% to $32m. The stronger growth reflects growing customer demand for end to end solutions, operational efficiencies and the investments being made in Greenville in new technical equipment and manufacturing facilities.

The final segment, Mayne Pharma International which includes our Australian operations and export sales grew 2% to $34m and gross profit declined 13% to $7m. Australian sales benefited from increased sales of Lozanoc® and oxycodone but were negatively impacted by reduced injectable and Kapanol® sales. The decline in gross profit reflects reduced one-off licensing fee income and international Kapanol royalties.

The Company ended the year with cash of $63m and outstanding borrowings of $340m. The Company's gearing ratio was 1.3x on a net debt to EBITDA basis at 30 June 2017. The negative operating cash flow in FY17 reflected the significant investments made in

working capital which were largely one off and driven by the Teva portfolio acquisition as no finished goods inventory or trade receivables were acquired. The Company achieved positive net operating cash flow of $52m in the second half of FY17 after tax, interest, working capital and one-off items.

The Company will be performing a review of the carrying value of its acquired and development intangible assets at the half year ending 31 December 2017, the impact of which cannot be quantified at this time. While market conditions have been challenging, the outlook is for a strong recovery in the second half and beyond which Scott will talk more about.

We made significant investments over the year to advance our product pipeline and expand our facilities.

The Company invested $35m in the development of generic and branded products focusing on higher value and niche product opportunities including first-to-market generics, hard-to-manufacture products and complex products requiring clinical end point studies.

In terms of our facilities, we invested over $100m to transform our manufacturing network in Greenville, North Carolina and Salisbury, South Australia. Both site expansions are on budget and on track to be completed on time with the Greenville site due to open in early 2018 and the Salisbury expansions due to be completed in mid-2018. These investments will bring new capacity and capability on line and support the mid to long-term growth we are forecasting across our product portfolio, as well as offering commercial contract manufacturing to our contract service clients.

We see significant strategic value in controlling the supply chain where possible to reduce business continuity risk, service our customers better, protect our intellectual property and reduce cost. The new Greenville solid dose facility quadruples the Company's US manufacturing capacity and creates new analytical laboratories and formulation development suites, enabling Metrics Contract Services to offer a "concept to commercialisation" solution in one location for its clients.

So, in conclusion, our US business today has three highly complementary platforms across generic products, contract services and specialty brands. Our strength lies in the integrated operations from product development through to manufacturing and marketing of our products and services around the world. Having both branded and generic product platforms together with contract services diversifies our business model and our organisational competencies, while enabling the Company to fully leverage growth opportunities. Metrics Contract Services utilises our fixed asset base associated with manufacturing and testing and will enable us to enhance our return on investment in the new Greenville facility with third party manufactured products. As our branded products lose exclusivity the Company can participate in the related generic markets that form.

Before handing over to Scott, I wanted to mention that we have begun the search for another US Director with pharmaceutical experience. This will strengthen the Board's skills in this area and add to 35 years of US pharmaceutical industry experience that Phil Hodges brings to the Board. We hope to announce something on this early next year.

Also, I wanted to mention that Scott will be selling up to 5m shares in the current trading window to cover financial obligations including $3m in taxation that relates to his original 7.5m option package. He will also be unwinding the structured loan facility which allowed him to participate in the Teva rights issue last year. Scott has invested approximately $10m in the Company through the exercise of options and participation in the various equity raisings since becoming CEO more than five years ago. He will continue to be heavily committed to the Company through his ongoing equity holdings which will comprise up to 4.6m ordinary shares and 8.6m shares under the Company's Executive Share Loan Scheme, excluding the current share issue contemplated today.

Finally, I would like to thank all the employees at Mayne Pharma for their continued commitment and hard work over the last year and also to thank all our shareholders for your continued support of Mayne Pharma particularly through this challenging period.

With that, I will now hand over to Scott.