# Company Update
# Full Year Financial Results

28th February 2018

TPI Enterprises Ltd

ABN 26 107 872 453

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# TPI Background

# TPI Background

***Technology and Innovation Based Company***

| | | |
|---|---|---|
| 1. | Founded: | January 2004 |
| 2. | Listed on the ASX (TPE): | August 2015 |
| 3. | Employees: | 150 |
| 4. | Core competency: | Lowest cost Narcotic Raw Material (NRM) producer based on novel environmentally friendly water based extraction technology |
| 5. | Manufacturing and Head Office: | Melbourne, Victoria (relocated from Cressy in 2016) |
| 6. | Other sites: | Kragerø, Norway; Cressy, Tasmania |
| 7. | Market Cap: | $220 million |

# What We Do

*One of Four Fully Integrated Pain Relief Suppliers Globally*

1. Source Raw Material (Opium Poppies) globally
   a. Only company to source in both hemispheres.

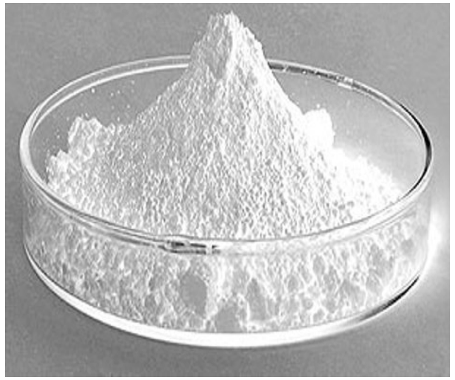
2. Extract, isolate and purify and sell Narcotic Raw Material (NRM) at our Melbourne based facility
   a. Morphine
   b. Codeine
   c. Oripavine
   d. Thebaine

3. Convert NRM into Active Pharmaceutical Ingredients (API) at our Norwegian facility (Codeine Phosphate and Pholcodine) and sell globally

4. Convert to API into Finished Dosage Formulation (FDF) at our Norway facility selling within Scandinavia and the UK

5. Sell poppy seed for culinary purposes globally

# Narcotics Industry Overview

| | *Natural narcotics* | *Synthetic and semi-synthetic narcotic derivatives* | |
|---|---|---|---|
| **Raw Material Sourcing** | **Narcotic Raw Material (NRM)** | **Active Pharmaceutical Ingredient (API)** | **Finished Dosage Form (FDF)** |
|  |  |  |  |
| | Morphine<br>Codeine | Morphine Sulphate<br>Codeine Phosphate | MS Contin<br>Panadeine<br>Panadeine Forte |
| | Thebaine | Oxycodone HCl<br>Hydrocodone<br>Buprenorphine | Oxycontin<br>Vicadin<br>Endone<br>Tylenol |
| | Oripavine | Naloxone<br>Naltrexone<br>Buprenorphine HCl | Suboxone<br>Subutex<br>Narcan<br>Revia<br>Contrave* |

# Complete Supply Chain Control

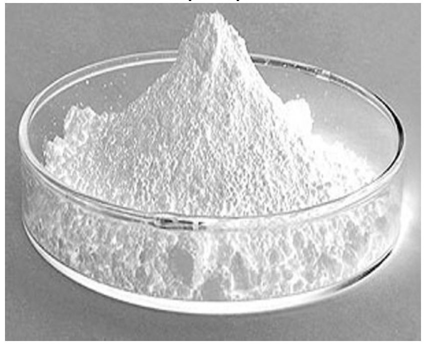
*One of Four (4) Fully Integrated Narcotic Suppliers Globally*

TPI capability

Raw Material Sourcing

Narcotic Raw Material (NRM)

Active Pharmaceutical Ingredient (API)



Finished Dosage Form (FDF)

Fully integrated Value Chain

# 2nd Half 2017 Highlights & Key Priorities

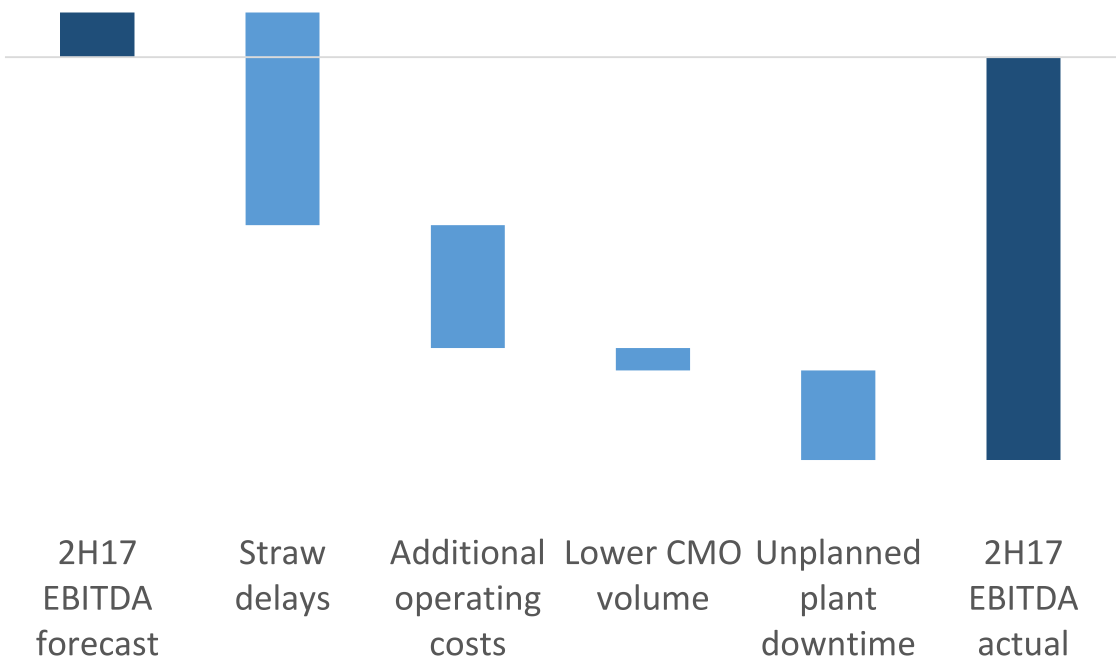
# 2H 2017 Highlights

*A substantially strengthened foundation*

| | | |
|---|---|---|
| 1. | Signed 2nd UK CPO contract | 11 July |
| 2. | Acquisition of Norwegian API and FDF Facility | 12 July |
| 3. | Fully underwritten raising of $18.0 million | 17 July |
| 4. | 2nd Poppy Straw supply source secured (UK) | 5 September |
| 5. | Receipt of medicinal cannabis licence | 29 September |
| 6. | Closing of Norway Acquisition | 3 October |
| 7. | Announce first toll processing shipment occurs | 13 October |
| 8. | Signing of profitable binding agreement to sell Portugal asset | 6 November |

# 2H 2017 Financial performance versus expectation

## *Straw delivery delays impacted 2H 2017 positive EBITDA projection*




1. TPI was targeting a positive 2H 2017 operating EBITDA contribution, subject to FX, seed pricing and normal commercial risks.

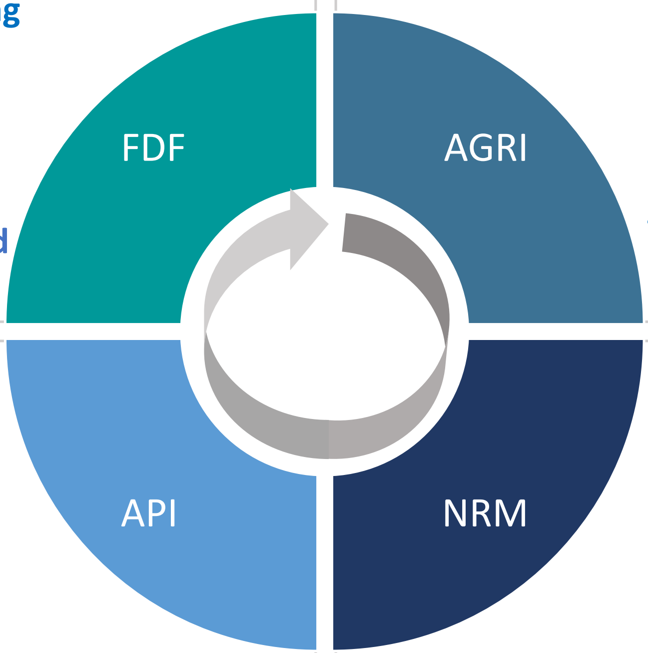
2. 2H 2017 operating EBITDA of -$3.6m fell short of target.

3. Key drivers of the shortfall were:

   a. External straw delays: customs and shipping delays on remaining tolling contract volume and Hungary straw.
   b. Additional operating costs: increased labour in anticipation of greater straw volumes through 4Q 2017 which didn't eventuate.
   c. Lower Contract Manufacturing Organisation ('CMO') volumes: CPO tablets into the UK.
   d. Unplanned plant downtime: Norway API production downtime due to unresolved maintenance issue from prior owner impacted first 6 weeks post acquisition.

4. Tolling contract will continue to be delivered into April 2018.

# Progress Against Key Priorities




1. Purchase of dossiers – **exploration ongoing**
2. Efficiency gains – **negotiating contract repricing**
3. Secure government tenders - **ongoing**
4. Investment in multi-tip tablet punch for five-fold volume increase – **achieved**

1. Further expansion of mainland Australia growing – **NSW & SA trialled successfully**
2. Additional northern hemisphere supply chains – **secured Hungary straw supply**
3. Reduce straw freight costs - **ongoing**
4. Genetically Modified Organism (‘GMO’) research to reduce farming input costs - **ongoing**

1. Expand API product portfolio - **ongoing**
   a. Naloxone
   b. Morphine Sulphate
   c. Dihydrocodeine
2. File pholcodine CEP – **on track**
3. Expand production capacity: 32 to 70 tonnes - **ongoing**
4. Install automation at the Norwegian facility - **ongoing**

1. Continue to improve operating leverage – **2017 Opex/Revenue reduced 51%**
2. Implement 24/7 operation at Coolaroo factory – **currently running 24hrs 6 out of 7 days**
3. Increase factory efficiency by 5% - **not achieved to date**
4. 1500 tonnes of seed sold for 2017 – **exceeded target, 1700 tonnes sold**

# 2018 Group Outlook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# 2018 Group Outlook

*Delivering material profit growth*

1. Forecasting revenue of at least $50m.
2. Expect material operating EBITDA improvement and positive operating EBITDA 1H 2018.
3. Produce and sell at least 45 tonnes of API. Expect direct NRM sales to remain slow, with majority of NRM volume supplied downstream to Norway for further value add.
4. Toll processing at least 10 tonnes of NRM.
5. Sell at least 1,000 tonnes of poppy seed .
6. Expect to more than double Norwegian API production capacity.
7. Implementing an Operational Excellence program for API and FDF.
8. Optimise inventory levels through balancing the NRM supply chain.
9. Explore the acquisition of dossiers to utilise significant granulation, tableting and packaging capacity in Norway for FDF.

# Financial Summary

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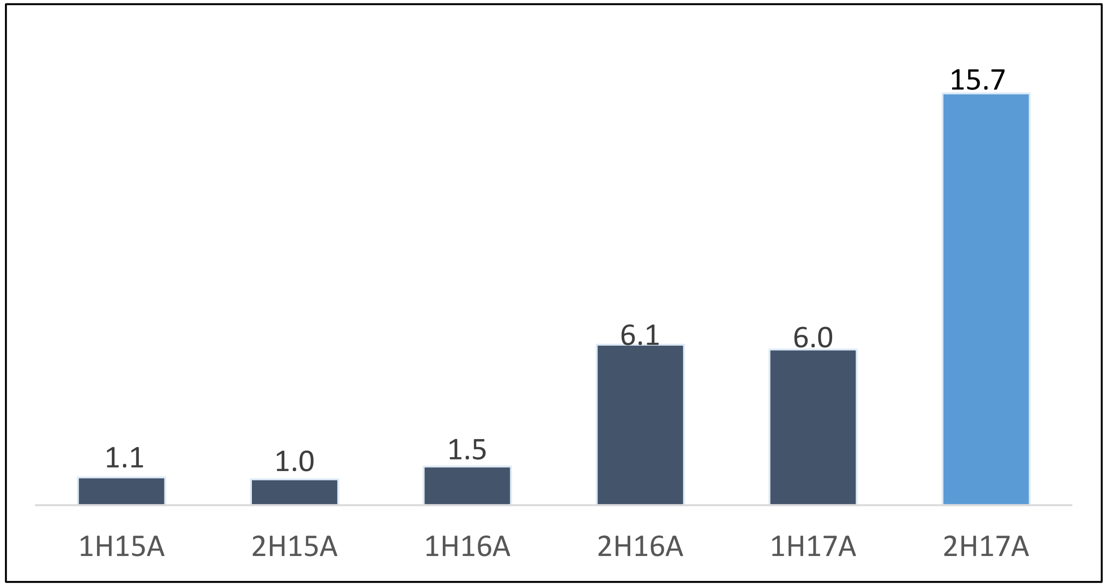
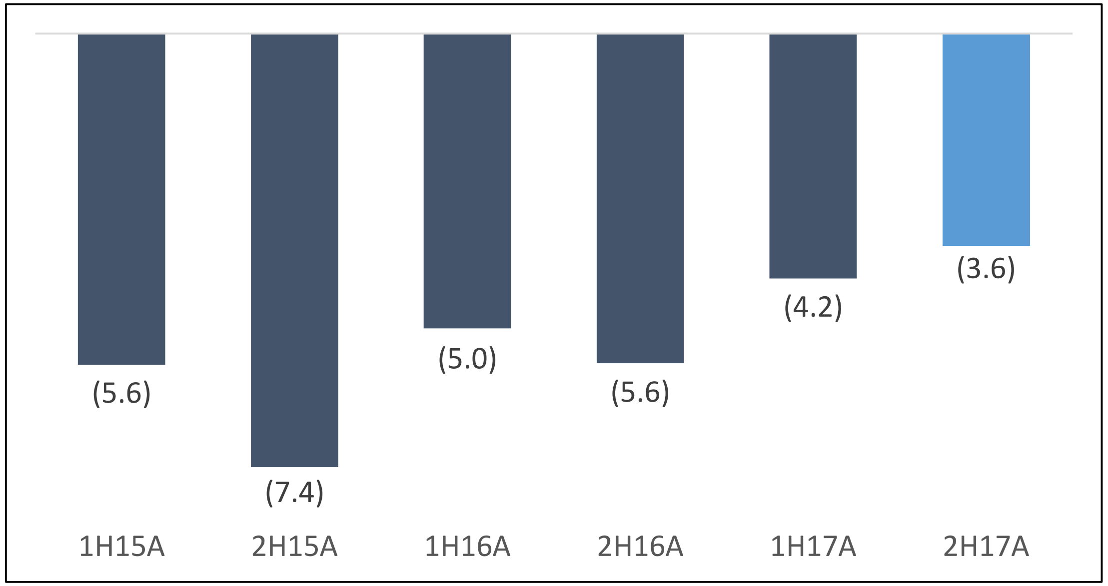
# Financial Half Year Trends

**Revenue ($m) – Australia and Norway**




**Operating EBITDA ($m) – Leverage beginning to emerge**



# Group Profit and Loss Summary

| Profit & Loss Summary (A$'000) | FY2017 | FY2016 |
|---|---|---|
| **Operating revenue** | | |
| CMO, API, NRM, seed sales | 21,666 | 7,615 |
| Cost of goods sold | 17,188 | 6,940 |
| **Gross profit** | **4,478** | **675** |
| *Gross profit (%)* | *20.7%* | *8.9%* |
| Overhead costs | 12,223 | 11,264 |
| **Operating EBITDA** | **(7,745)** | **(10,589)** |
| *Less:* acquisition and transaction integration costs | 2,043 | - |
| *Less:* inventory impairments and agricultural trialling costs | 2,391 | 737 |
| *Less:* discontinued operation | 298 | - |
| *Add:* other income | 597 | 2,942 |
| **Reported EBITDA** | **(11,880)** | **(8,384)** |
| Depreciation and amortisation | 2,763 | 2,859 |
| Net finance expenses | 2,050 | 2,778 |
| **Net Profit/(Loss)** | **(16,693)** | **(14,021)** |

**2017 Profit and Loss Highlights:**

1. Revenue growth both organic and by acquisition of TPI Norway: total revenue growth of +280% y-y, +63% from organic growth through further NRM market penetration.
2. Full year Operating EBITDA loss improved to -$7.7m from -$10.6m.
3. Gross margins and operating leverage benefitting from higher manufacturing throughput, further improvement expected in 2018.
4. Strong cost control and positive margin mix contributed to an improved Operating EBITDA loss.
5. One-off expenses predominantly relate to acquisition and integration costs ($2.0m), agricultural trials and impaired stock-on-hand ($2.4m), partially offset by other income.
6. Impairment of inventories relates to further analysis having been completed of legacy mother liquors showing a lower alkaloid concentration than previously expected.

# Group Balance Sheet Summary

| Key Balance Sheet Items (A$'000) | December 2017 | December 2016 |
|---|---|---|
| **Net working capital** | | |
| Trade receivables | 8,602 | 2,149 |
| Inventories | | |
| - Raw materials | 6,545 | 2,357 |
| - Work in progress | 9,158 | 4,278 |
| - Finished goods | 797 | 173 |
| Trade Payables | (6,688) | (3,115) |
| **Net working capital** | **18,414** | **5,842** |
| **Net debt** | | |
| Cash | 3,645 | 623 |
| Borrowings | 13,227 | 28,073 |
| **Net debt** | **9,582** | **27,451** |
| Contributed equity | 181,482 | 122,179 |

**2017 Balance Sheet Highlights**

1. Increased net working capital position largely due to acquisition of TPI Norway.
2. Trade receivables aging profile influenced by longer trade credit terms granted to API customers acquired.
3. Opportunity to further optimise internal supply chain to reduce level of raw materials and work in progress being carried.
4. Net debt reduction y-y of -$17.9m due to capital raisings completed during 2017.
5. Expiry of current working capital debt facility with WHSP extended to February 2019 with headroom available to fund working capital and growth initiatives.
6. Two successful capital raisings completed:
    1. March 2017: $44m (debt reduction and working capital)
    2. July 2017: $18m (acquisition of TPI Norway)

# Business Unit Focus & Outlook

# NRM 2018 Focus and Outlook

## *Greater throughput, margins and profits*

1. TPI expects to improve on 2017's result with improved throughput in 2018.
2. This will drive greater manufacturing efficiencies, improving both the gross and EBITDA margins.
3. Targeting NRM production of 65 tonnes.
4. Outlook for NRM prices currently subdued and factored in to current EBITDA calculations.
5. Targeting seed sales in excess of 1,000 tonnes.
6. Outlook for seed pricing currently greater than €1,400 per tonne.
7. Targeting 6,000 ha contracted for straw, including 2,000 ha for planting in NSW.

# Norway Integration Update

***Cost rationalisation to contribute more meaningfully in 2H 2018***

1. 4Q 2017 a transitional quarter for the Norwegian acquisition.

2. Opportunity in CMO to negotiate more favourable contract terms – retaining status-quo manufacturing overheads through 1Q 2018 until negotiations finalised.

3. Decision to expand local finance / systems team before addressing system review and integration with Australia – prudent management of execution risk.

4. Further execution of material cost-saving initiatives expected to be realised from 2Q 2018.

5. Existing API management team full-time relocation to Norway expected by May.

Norwegian Facility: Access to Codeine Phosphate (CPO) Finished Dosage Markets

# API/FDF 2018 Focus and Outlook

*Tightened operating procedures, realised efficiency gains and additional volumes*

1. Implementing an Operational Excellence program in API/FDF.
2. Expect to drive additional cost efficiencies in 2018.
3. Expect to grow existing API production capacity by 100% by end-2018.
4. Renegotiating key CMO contract pricing.
5. CEP submission for production of additional APIs.
6. FDF Dossier acquisition to grow FDF addressable market, utilise NRM cost advantage

# Appendices

# GAAP versus non-GAAP reconciliation

| Profit & Loss Summary (A$'000) | FY2017 | FY2016 |
|---|---|---|
| **Net Profit/(Loss) for year** | **(16,693)** | **(14,021)** |
| *Add:* | | |
| (+) acquisition related expenses | 1,873 | - |
| (+) transaction integration services | 170 | - |
| (+) agricultural area trialling expenses | 433 | 267 |
| (+) inventory impairments | 1,959 | 470 |
| (+) loss from discontinued operation | 646 | - |
| (+) depreciation and amortisation | 2,763 | 2,859 |
| (+) net finance expenses | 2,050 | 2,778 |
| *Less:* | | |
| (-) other income | (597) | (2,942) |
| (-) depreciation expense from discontinued operation | (349) | - |
| **Operating EBITDA** | **(7,745)** | **(10,589)** |

1. The consolidated financial statements of the Group are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASB's) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS's) adopted by the International Accounting Standards Board (IASB).

2. This presentation and the Directors' report contained in the Annual report includes a non-GAAP financial measure which is not prepared in accordance with IFRS being:

   a. Operating EBITDA: calculated by adding back (or deducting) finance expense/(income), taxation expense, depreciation, amortisation, acquisition related expenses, transaction integration services, agricultural area trialling expenses, inventory impairments, losses from discontinued operations, and deducting other income and depreciation expense from discontinued operations, to net profit/(loss) after tax.

3. The Group believes that this non-GAAP financial measure provides useful information to readers to assist in the understanding of the Group's financial performance, financial position or returns, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS.

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