



PALLA PHARMA

ASX ANNOUNCEMENT

Thursday 29th August 2019

Palla Pharma delivers record 1H19 revenue and maiden Operating EBITDA profit

Palla Pharma Limited (ASX:PAL), a fully integrated opiate manufacturer and supplier to the global pain relief market, is pleased to announce its results for the financial half-year ended 30 June 2019 (1H19), which delivered record revenues of \$27.3 million and a maiden Operating EBITDA profit of \$0.3 million.

1H19 Highlights (vs 1H18)

- Record 1H19 Revenue up 20.3% to \$27.3 million (1H18 \$22.7 million).
- Gross Profit margin increased 126 bps to 34.6% (1H18 33.3%)
- Operating EBITDA up \$2.1 million to a maiden profit of \$0.3 million (1H18 loss of \$1.8 million)
- Underlying Net Loss of \$2.3 million (1H18 loss of \$3.9 million)

Commenting on the result, Managing Director and CEO, Jarrod Ritchie said, “We are pleased to have delivered a strong 1H19 result and a significant turnaround for our business, resulting in record 1H19 Revenue of \$27.3 million and an Operating EBITDA profit of \$0.3 million.

“We have built a healthy, established and profitable business with a clear direction on what needs to be done to deliver on our strategic initiatives. A fully integrated global supply chain allows us to utilise our low-cost opiate production and provides us with multiple channels to market. Increases in Narcotic Raw Material (“NRM”) extraction rates and Active Pharmaceutical Ingredient (“API”) production have led to a substantial boost in operating efficiencies, allowing Palla Pharma to enhance gross margin and further invest in research and development activities.

As we head into the second half of 2019, a diversified poppy straw supply chain with a dual hemisphere supply strategy ensuring reliable straw supply, and a highly experienced management team focussed on delivering our strategy, we have laid strong foundations for sustainable and continuous long-term growth. With production capability about to increase markedly we now hold a genuine competitive edge in the narcotic industry with our unique extraction process, and have a strong foothold to be a global leader in the industry.”

Result overview

Strong sales growth in API, Finished Dosage Formulation (“FDF”) and poppy seed revenue have resulted in a record 1H19 revenue of \$27.3 million, a 20.3% increase on 1H18 revenue of \$22.7 million, primarily driven by the growth of API, opiate based FDF and poppy seed sales.

Operational highlights:

- A strong 2018/19 growing season in Australia provided record poppy straw harvest volumes achieved at the lowest growing cost for a domestic harvest
- Record sales volumes of opiate equivalent product increasing 35.5% compared to 1H18, primarily due to growth in higher margin API sales and opiate based FDF products
- Palla Pharma holds in excess of 100 tonnes of NRM equivalent in inventory at 30 June 2019, underpinning raw material supply for the next 12 months

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- NRM production continued to improve with more reliable straw supply seeing daily extraction rates increasing further compared to 2018
- First API sales into developing markets in south-east Asia market

Raw Material Straw Supply & Poppy Seed

A positive growing season in Australia through 2018/19 saw record poppy straw volumes harvested at the lowest growing cost achieved for domestic harvest. Northern Hemisphere straw supply improved further during the half-year period, securing additional aggregator supply agreements, and a strong rebound in plantings after the previous season's drought.

Palla Pharma took advantage of continued record prices of over €4 per kilogram for premium grade poppy seed to realise most of its seed inventory during the half-year period.

NRM Production

NRM production continued to improve with more reliable straw supply seeing daily extraction rates exceed those achieved in 2018. Increased reliable raw material supply saw NRM extraction rates at the Melbourne production facility increase by 17.9% compared to FY18. As the capacity of NRM production for the Group is currently greater than that of API production, external NRM sales will continue to be a revenue contributor in the short to medium term.

Palla Pharma continues to invest in research and development of its core NRM production process to further optimise the NRM extraction process and increase production efficiencies. Utilising its competitive advantage as the lowest cost producer, combined with reliable straw supply, Palla Pharma has increased sales volumes and secured long-term supply agreements

API Production

Palla Pharma experienced significant growth in API production and sales volumes and expects volumes to continue to grow strongly throughout 2019, with nearly full capacity utilisation expected by the final quarter of the year. Since acquiring the Norway operations in 2017, API production capacity has increased from 500kg/week to over 1,000kg/week. Further market share gains and customer diversification have continued to be realised in both Codeine Phosphate and Pholcodine API markets, along with sales into new regions not previously supplied including first sales into developing markets in south-east Asia.

While pricing across the industry is at cyclical lows, Palla Pharma continues to attract new API volumes at commercially attractive margins, demonstrating the Group's competitive cost advantage in API production. This was further underlined by the securing of a new multi-year supply agreement in July 2019 for 24 tonnes of Codeine Phosphate per annum with a minimum term of 3 years and total contracted revenue of not less than US\$25m.

FDF Production

During the half-year period, further improvement in both tableting and packaging production uptime was achieved; however, non-opiate based production remained a challenge due to the bespoke nature of the contracts and range of products needing to be produced. There was a marginal decrease in tablets packed during the half-year period due to the loss of production in January 2019 due to the investment by Palla Pharma to upgrade its labelling of CMO product to include a serialisation labelling system as per a new EU Directive.

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Trading Update and Outlook

1H19 was a period of further investment by Palla Pharma in the business to achieve its stated strategic objectives. Palla Pharma is developing strong foundations for growth, exploring developed markets, penetrating existing markets, and developing a suite of new opiate-based API's.

In July 2019, Palla Pharma announced that it had entered into a new three-year supply agreement valued at not less than US\$25 million with a European customer. Palla Pharma will supply 24 tonnes of Codeine Phosphate per annum for three years with deliveries expected to begin in 4Q 2019. This contract strongly positions Palla Pharma into 2H19 and beyond.

Palla Pharma reached settlement of the legal case in relation to high codeine poppies during 1H19. As a result, the company now has over 100 tonnes of NRM equivalent in poppy straw at its Melbourne facility ready for processing. This provides sufficient raw material supply for at least 12 months of production.

API production capacity will increase a further 50% to over 1,500kg/week by 4Q19 with a circa \$100,000 capital investment required. This will bring API production capacity to 70t per annum.

With increased production volumes and improvement in Norway CMO production, Palla Pharma is optimistic about continued enhancement of operating margins in 2H19.

FY19 revenue is expected to be \$60+ million driven by continued API, external NRM and opiate based FDF sales. Palla Pharma expects to see continued improvement in operating leverage and gross margin enhancement to further drive operating EBITDA into FY20.

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Conference call details

Chief Executive Officer Jarrod Ritchie and Chief Financial Officer Brendan Middleton will host an analyst and investor conference call today at 10.30am AEST to present the Company's results for the half-year ended 30 June 2019.

To pre-register for this conference and avoid a queue when calling, please use the following link below:

<https://sl.c-conf.com/diamondpass/pallapharma-10001592-invite.html>

You will be given a unique pin number to enter when you call which will bypass the operator and give you immediate access to the event.

If you are unable to register, then at the time of the conference you can call one of the numbers below and provide the **conference ID 10001592** to an operator:

- Attendee Dial-in (Australia Toll Free): **1 800 558 698**
- Alternate Australia Toll Free: **1 800 809 971**

For more information please contact:

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About Palla Pharma Limited:

Palla Pharma Limited (ASX:PAL) is a vertically integrated opiate manufacturer from poppy straw growing through to tableting production. Palla Pharma has developed an innovative, efficient and environmentally sustainable opiate manufacturing process based on a unique water-based extraction technology. The company is one of six licensed opiate producers globally, and one of three fully integrated suppliers from opiate extraction through to tableting production delivering on its strategy to secure access to regulated downstream narcotics markets by leveraging its production cost advantage.

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