PALLA PHARMA

2019 FULL YEAR RESULTS

27 February 2020
ASX : PAL

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AGENDA

PALLA PHARMA AT A GLANCE

Fully integrated global opiate manufacturer from the farm gate to tablet production

Lowest cost producer of Narcotic Raw Material (NRM) which is the highest cost input for opiate based Active Pharmaceutical Ingredient (API) and Finished Dosage Formulation (FDF) products

Rapidly growing global supplier of opiate-based pain relief medicines and plans for high-value anti-addiction products

Manufacturer of opiate-based tablets via either contract manufacturing (CMO) and/or direct sales to distributors based on ownership of marketing authorisations

CAPTURING VALUE FROM THE SUPPLY CHAIN

Acquisition of finished dosage Marketing Authorisations de-risks path to long term earnings growth

2015 to 2017

ESTABLISH SUSTAINABLE MANUFACTURING FOOTPRINT

- Relocated factory to Victoria
- Invested in capacity for long term growth
- Listed on ASX

SECURE STRAW SUPPLY AND MARKET ACCESS

- Drove legalisation of NSW/VIC poppy cultivation
- Secured secondary straw supply from Europe
- Acquired Norway operations
- Developed tolling opportunity with prior industry competitors

2018

INTEGRATE NORWAY & POSITIONING FOR GROWTH

- Expanded sales channels and offerings to exploit lowest cost NRM producer status
- Significant API customer base growth
- CMO division turnaround
- NRM volume growth as increased volumes drive down costs
- Delivered 41 tonnes of opiate equivalent sales volumes

2019

ACCELERATE REVENUE GROWTH

- Demonstrated Market share growth in Codeine Phosphate (CPO) and Pholcodine API's, and opiate based FDF
- Continuing to diversify customer base and revenue streams: secure long-term supply agreements in API and FDF customer base
- Expanded API manufacturing capacity to meet sales growth
- Realise further cost benefits of increased scale
- Further manufacturing process cost reduction initiatives
- Secure additional Northern Hemisphere straw supply

2020 / 2021

FOUNDATION SET TO DELIVER SHAREHOLDER RETURNS

- Fixed overheads now covered with future Gross Profit falling largely to the bottom line
- Access to straw for near term growth secured
- Continuing to establish a global diversified growing platform
- API production capacity requiring limited new capex
- Rapid market share wins in API continuing
- Capturing greater margin through acquisition of Marketing Authorisations
- Low cost NRM the backbone of our competitive advantage across the whole supply chain
- Expansion into new markets with anti-addiction planned

FULLY INTEGRATED GLOBAL SUPPLY CHAIN

Diversified straw supply; fully integrated operations now with ownership of Marketing Authorisations

Northern Hemisphere Straw Supply

Raw material (Poppy Straw)

Southern Hemisphere Straw Supply

Sale of poppy seed for culinary purposes

Narcotic Raw Material (“NRM”)

Morphine
Codeine
Thebaine
Oripavine

NRM sales to external customers

Active Pharmaceutical Ingredient (“API”)

Codeine Phosphate
Pholcodine

API sales to external customers

Finished Dosage Formulation (“FDF”)

via Contract manufacturing (“CMO”) of tablets

Market Authorisations: New margin accretion opportunity for FY20 and beyond

Finished Dosage Formulation (“FDF”)

Direct sales to wholesale distributors

Accretive gross margin for the group as NRM moves to higher value products through the supply chain

SIGNIFICANT UPLIFT FROM DOWNSTREAM MARGIN

Ownership of Marketing Authorisations acquired in January 2020 increase supply chain margin availability

Acquisition of API capability in 2017 increased opiate supply chain gross profit contribution, importantly it significantly de-risked the customer base (5 NRM customers to 55 API customers).

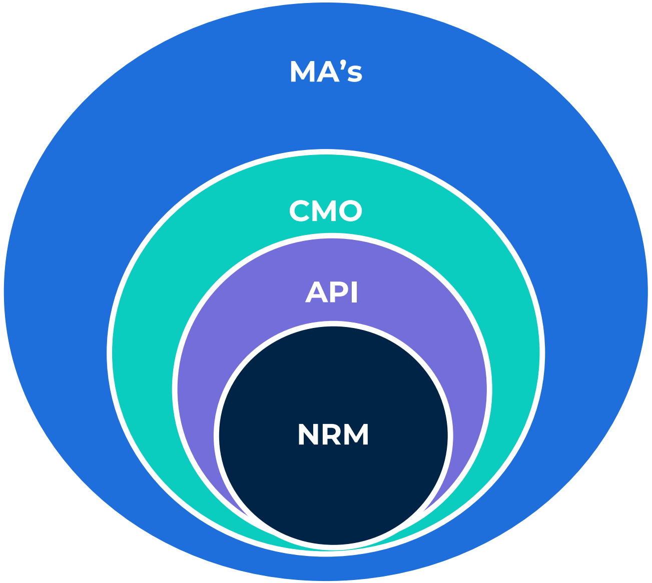
CMO manufacture of opiate based finished dosage products increases the gross profit contribution further and allows access to markets closed to API imports.

Acquisition of Marketing Authorisations (MA`s) and sale to wholesale distributors further increases the gross profit contribution opportunity compared to converting NRM to API and then onto CMO products.

A single kilogram of opiate equivalent sold via a MA requires c30% of the agricultural poppy straw input material to achieve the same level of EBITDA compared to selling the NRM alone.

Finished dosage production allows access to markets closed to API importation, such as France and the UK.

Gross Profit Contribution at Each Stage of the Supply Chain

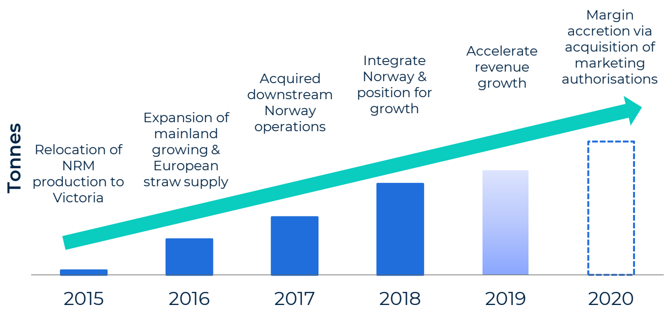


* diagram illustrative only

MARKET OPPORTUNITY

Significant addressable opiate equivalent market opportunity

Opiate Equivalent Volumes Sold



Source: Company records

- Norway operations acquired in 2017 to further leverage cost advantage in NRM production.
- Marketing Authorisations acquired give access to margin accretive segment supplying direct to wholesale distributors.
- Potential acquisition of manufacturing site in UK increases tableting capacity of opiate equivalent 5 fold to 125 tonnes.

Sizeable Addressable Global Opiate Market (Tonnes)

Source: INCB “Estimated World Requirements of Narcotic Drugs”, July 2019.

- One of six licensed NRM producers globally, and one of only three fully integrated suppliers of opiates from NRM, API though to FDF products.
- Key competitive advantage as a lowest cost producer in NRM, API and FDF products with multiple channels to market.
- Cost advantage enabling market share gains.

RESULTS SUMMARY

JARROD RITCHIE
CHIEF EXECUTIVE OFFICER

2019 RESULTS OVERVIEW

Continued double-digit growth in revenue and gross profit driven by opiate-based API and FDF products

Record Revenue of $54.7m, +18.4%; shortfall to target estimate due to deferral of committed customer orders into FY20. API sales increased by 77%.

Record sales volumes of opiate equivalent product increased +14.6%, due to growth in higher margin API sales.

Operating EBITDA[1] increased by $2.1m but was below expectation due to the revenue shortfall impact, additional R&D investment in new product development, the investment in quality processes in Norway. Adjusting for these items, Normalised EBITDA[2] was $0.9m.

Indirect cost were marginally higher (0.6% yoy) despite Revenue and Gross Profit growth. Future earnings growth based on leveraging volume and increased margin from FDF using acquired MA`s significantly adding directly to the bottom line

Net debt was reduced by $17.5m following a capital raise in November 2019; balance sheet is now optimised for further growth.

Opiate Equivalent Sold (mt)

+14.6%

On FY18; solid organic revenue growth in API predominantly

Revenue ($)

+18.4%

On FY18 to $54.7m; impacted by customer orders deferred to FY20.

Gross Profit ($)

+15.3%

On FY18 to A$17.3m; due to increased sale of API`s

Operating EBITDA[1] ($)

+$2.1m

On FY18 to -$0.3m; benefit of operating leverage and minimal change in indirect overhead costs.

1. Operating EBITDA is a non-GAAP financial measure – see appendix for reconciliation of Operating EBITDA to statutory net profit/(loss) after tax.
2. Normalised EBITDA is Operating EBITDA adjusting for non-recurring items (refer slide 11)

2019 REVENUE SUMMARY & NORMALISED EBITDA

Revenue was impacted by customer delays in committed orders in late FY19 which impacted profitability

FY19 revenue shortfall versus prior estimate

Revenue below guidance impacted by two customer order deferrals.

A major UK API customer's operating licence temporarily suspended impacting 4Q 19.

Pricing impacted by early termination of the non-opiate based CMO agreement in December 2019.

Revenue shortfall impacted 4Q19 profitability.

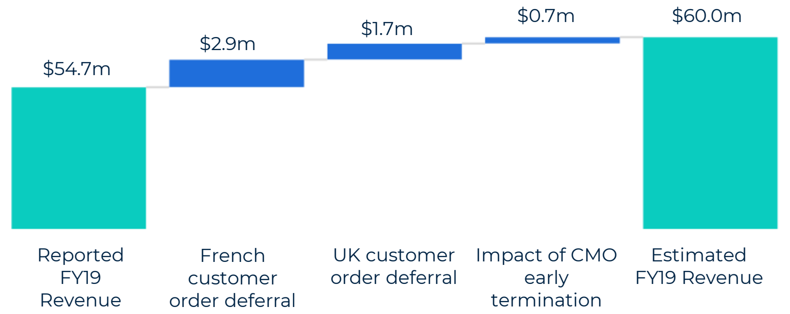
Normalised FY19 Operating EBITDA

Additional compliance investment in Norway and R&D impacted profitability.

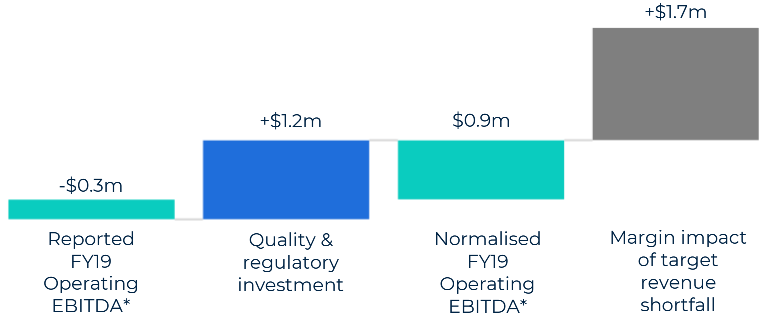
Adjusting for these one-time items results in a Normalised Operating EBITDA profit.

* Operating EBITDA is a non-GAAP financial measure – see appendix for reconciliation of Operating EBITDA to statutory net profit/(loss) after tax.

Estimated FY19 Revenue Shortfall ($m)



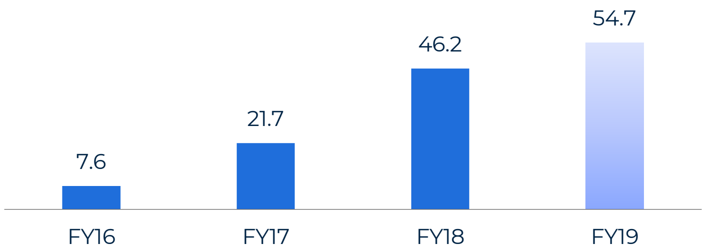
Normalised FY19 Operating EBITDA ($m)



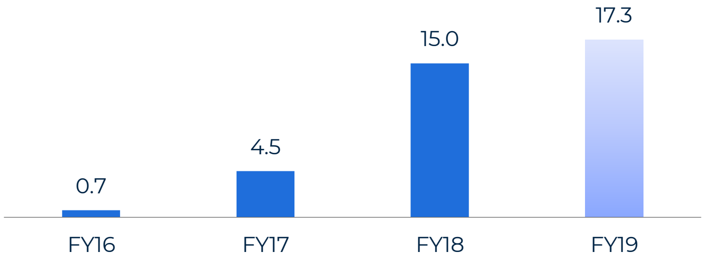
FULL YEAR RESULTS TREND

Continued market share gains driving revenue growth, increased plant utilisation leading to improved profitability

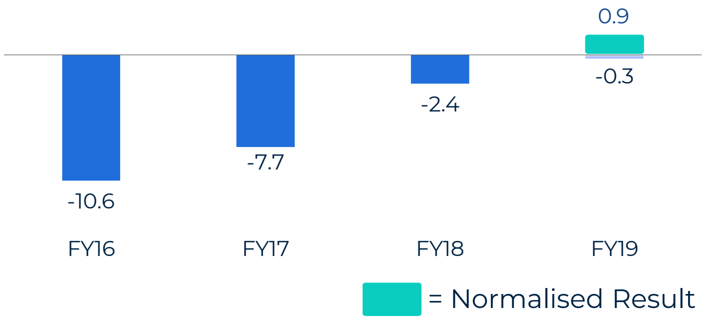
Revenue ($M)



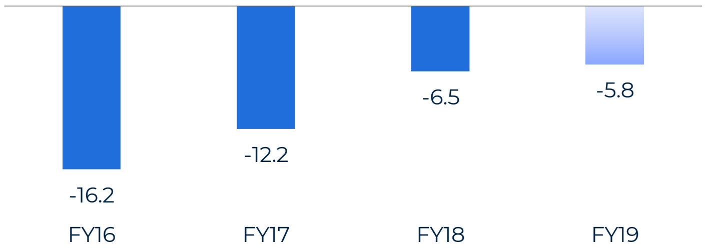
Gross Profit ($M)



Operating EBITDA* ($M)



Underlying NPAT * ($M)



* Operating EBITDA and Underlying NPAT are non-GAAP financial measures – see appendix for reconciliation of Operating EBITDA to statutory net profit/(loss) after tax.

BUSINESS UNIT UPDATE

JARROD RITCHIE
CHIEF EXECUTIVE OFFICER

AGRICULTURE

Diversification strategy and agricultural expertise underpins supply quality

Continued utilisation of Codeine poppy varieties and enhanced Morphine poppy varieties continue to be a focus, ensuring greater quality straw to supply the NRM production facility.

Improved supply from the northern hemisphere continues to mitigate the risk associated with growing in one jurisdiction, including one off weather events.

It is expected that in 2020 the majority of agricultural supply will come from the northern hemisphere due to the reduction in area in NSW and Victoria due to the drought in 2019.

A combination of crop from the 2020 harvest, WIP and FG across the supply chain enables Palla to confidently meet orders up to 70 tonnes of API production in 2020.

NARCOTIC RAW MATERIAL (NRM)

Core competitive advantage in NRM extraction; economics benefit selling downstream rather than external

Palla`s unique water-based extraction process is its fundamental competitive advantage. This combined with increasing reliability and quality of poppy straw creates a strong platform for earnings growth.

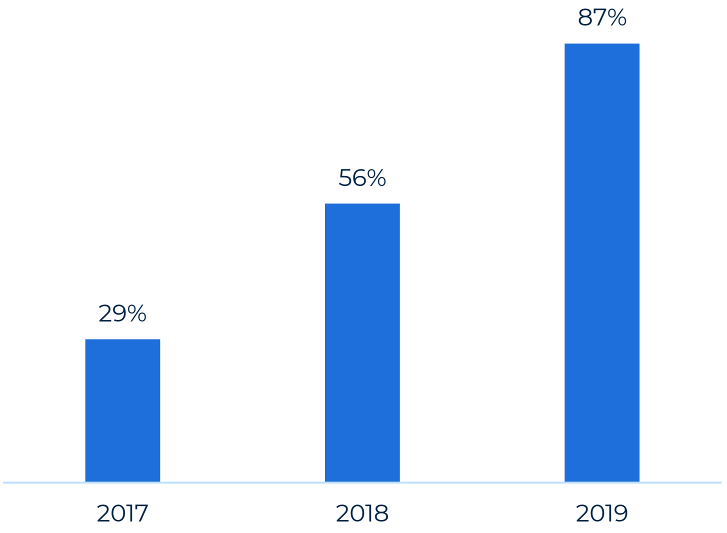
The % of NRM used for internal higher margin downstream processing continues to grow rapidly, resulting in higher margins and reducing volume required for strong earnings growth

Further R&D investment has optimised the production process and increased production efficiency by 4%.

Development of a Thebaine customer base has been initiated with first samples supplied. An on-plant production process which is comparative in cost to Morphine on a $/kg has been developed during 2019.

Investment in contemplated additional capacity to 200 mt will be driven by the FDF strategy.

% of NRM Used for Higher Margin Downstream Manufacture



ACTIVE PHARMACEUTICAL INGREDIENT (API)

77% sales increase achieved YOY and increased capacity from 30 tonnes to 70 tonne with minimal investment

Main increase in Group Revenue derived from 77% increase in API sales in 2019.

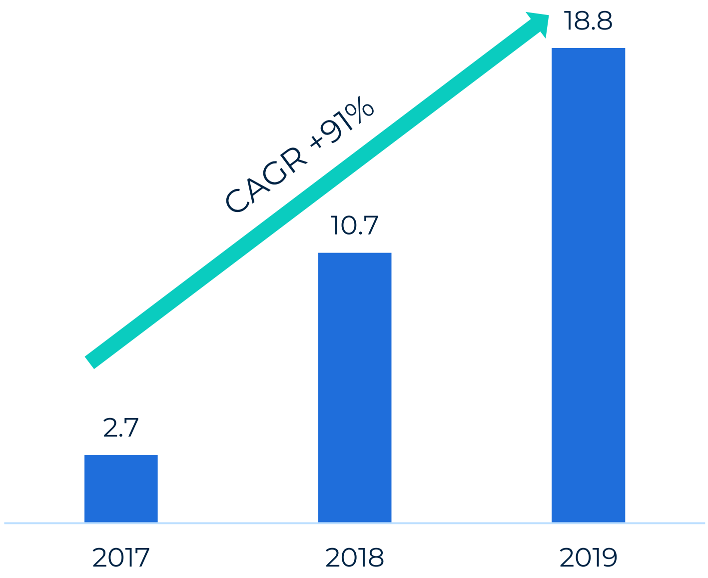
Doubled FY19 API production with only $200k of capital investment.

In January 2020 the Norway site received approval to manufacture 70T of Codeine Phosphate & 5T Pholcodine.

Backup manufacturing capacity via UK CMO agreement provides additional security of API supply with additional CEP approved Feb 5 2020.

Anticipate requirement for additional Capacity post FY20. Investment of a further $5 million for capex in either Norway or the UK with increase by a further 70 tonnes.

Codeine Phosphate Revenue Contribution A$ Millions



OPIATE BASED (FDF) GROWTH CONTRIBUTION

Early exit from non-opiate CMO and Acquisition of MA`s provides further opportunity for margin accretion

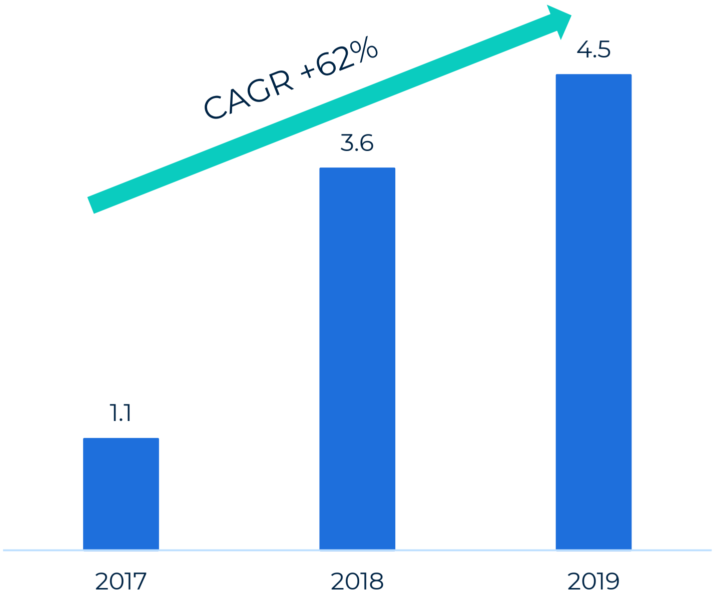
Marketing authorisations will be transferred to Norway during 1H 2020. The acquisition of the MA`s and the release of capacity due to exit of non-opiate CMO creates strong earnings potential for Palla.

A decision to acquire the UK site is well advanced and would provide significant capacity within the UK/outside the EU. Any acquisition would be complementary to the Norway facility.

Exit from the legacy non-opiate based CMO contract will improve the profitability of the business by reducing annual indirect costs by $1 million and FTE`s in Norway from 95 to 47 due to the significant reduction in production complexity.

Marketing Authorisations acquired in January 2020 are opiate based and enable sale of FDF into the UK- the largest Codeine Phosphate market globally.

Opiate based FDF Revenue Year on Year $A Million



FINANCIAL RESULTS

BRENDAN MIDDLETON
CHIEF FINANCIAL OFFICER

TRADING RESULTS SUMMARY

Double-digit revenue and gross profit growth; margin improvement opportunity with FY20 product mix change

A$ million	FY19	FY18	Change %
Revenue	54.7	46.2	↑ 18.4%
Gross profit	17.3	15.0	↑ 15.3%
Gross margin (%)	*31.6%*	*32.6%*	↓ 100 bps
Indirect overhead	17.6	17.5	↑ 0.6%
Operating EBITDA[a]	**(0.3)**	**(2.4)**	↑ 87.5%
Significant items	1.8	0.2	↓ nm
Reported EBITDA	**(2.1)**	**(2.6)**	↑ 19.2%
Depreciation and amortisation	2.5	2.5	
Reported EBIT	**(4.6)**	**(5.1)**	↑ 9.8%

(a) Operating EBITDA is a non-GAAP financial measure – see appendix for reconciliation of Operating EBITDA to statutory net profit/(loss) after tax.

- API demand drove double-digit revenue and gross profit growth.
- Gross margin impacted by NRM R&D and increased non-opiate FDF supply contract costs.
- Margins expected to improve after early exit from non opiate FDF contract and improved product mix.
- Indirect overhead costs increased 0.6% due to quality and regulatory investment in Norway and R&D.
- Significant items included litigation settlement and first year cross-border tax implementation costs for Norway.
- Normalised EBITDA was $0.9m (refer slide 11)

INCOME STATEMENT SUMMARY

Improvement in underlying EBIT; underlying Net Loss impacted by increased finance expenses

A$ million	FY19	FY18	Change %
EBIT (before significant items)	**(2.8)**	**(5.0)**	⬆ 44.0%
Net finance expenses	(2.9)	(1.6)	⬆ 81.3%
Income tax benefit	(0.1)	0.1	⬇ 200.0%
Net Profit/(Loss) (before significant items)	**(5.8)**	**(6.5)**	⬆ 10.8%
Significant items	(1.8)	0.7	⬇ nm
Reported Net Profit/(Loss)	**(7.6)**	**(5.8)**	⬇ 31.0%

- Underlying EBIT driven by revenue and gross profit growth.
- Net finance expenses impacted by higher debt facility utilisation.
- Borrowings reduced following the capital raise with a reduced interest rate.
- The reported Net Loss higher due to significant items; prior period included a gain on sale of the Group's Portugal operations.

CAPITAL EMPLOYED SUMMARY

Net working capital impacted by high codeine patent challenge litigation; significant reduction in net debt

A$ million	Dec 2019	Dec 2018	Change %
Trade & other receivables	13.4	14.7	-8.8%
Contract assets	6.0	3.5	71.4%
Inventories			
- Raw materials	8.6	7.0	22.9%
- Work in progress	15.4	13.4	14.9%
- Finished goods	0.4	0.6	-33.3%
Total inventories	**24.4**	**21.0**	**16.2%**
Trade & other payables, provisions	-12.7	-11.6	9.5%
Net working capital	**31.1**	**27.6**	**12.7%**
Cash	2.0	1.9	5.3%
Borrowings	5.5	22.9	-76.0%
Net debt	**3.5**	**21.0**	**-83.3%**
Contributed equity	**211.0**	**181.5**	**16.3%**

- Contract assets increased due to delays in CMO shipment; expected to reduce in 1H20 with non-opiate FDF contract terminated and remaining products delivered to UK customer.
- Inventory increase as a result of patent litigation and inability to process straw until resolved in June 2019.
- Trade payables increase to fund inventories and patent litigation settlement.
- Net debt reduced following capital raise in November 2019.

STRATEGY & OUTLOOK

JARROD RITCHIE
CHIEF EXECUTIVE OFFICER

STRATEGIC INITIATIVES

How Palla Pharma is delivering on its strategic objectives

Develop strong foundation for growth

- Lowest cost producer NRM globally; continue to develop and refine production processes **(complete)**
- Globally diversified poppy straw supply chain with dual hemisphere supply strategy **(complete)**
- Fully integrated supplier provides multiple channels to market **(acquired MA's in FY20)**
- Highly experienced management team **(further senior executive appointment in FY20)**

Penetrate existing markets

- One of six licensed NRM producers globally; one of three fully integrated suppliers
- Exploit lowest cost to produce competitive advantage and reliability of supply through diversified poppy straw sourcing strategy **(complete)**
- Secure long-term supply agreements **(ongoing)**

Continue to explore and develop new markets

- Significant unmet demand in developing countries with 92% of global supply consumed by 15% of the global population
- Strong population growth demographics in developing countries with lack of access to pain medication
- Activating existing and referral relationships with agents in Africa and Asia **(continuing to develop – first sales into Africa and Asia in FY19)**

Development of new products

- Develop suite of opiate based API's **(FY20/21)**
- Target anti-addiction API's **(FY21)**
- Obtain marketing authorisations to expand opiate based Finished Dosage capability **(acquired MA's in FY20)**
- Continue to explore market consolidation and downstream value-add acquisition opportunities **(ongoing)**

2020 OUTLOOK

Continued revenue growth, API capacity expansion and EBITDA positive growth

Continued revenue and earnings growth with greater focus on API sales and use of Norway capacity to produce opiate based finished dosage products.

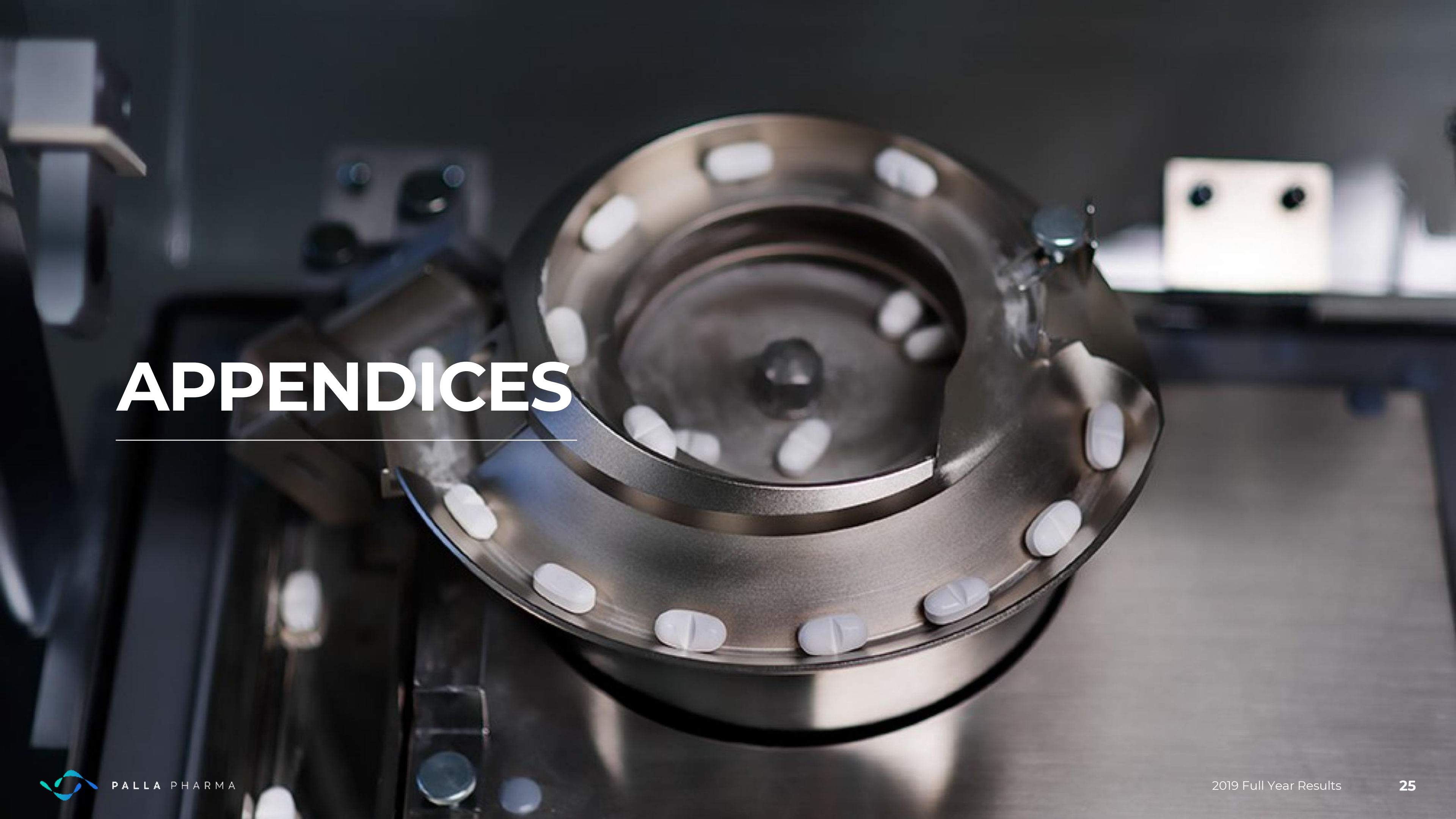
Potential for significant revenue and earnings upside should acquisition proceed in the UK. Focus on use of MA`s at either Norway site or UK site being considered.

Continue to focus on improved straw supply in both quality and price from both hemispheres.

A full calendar quarter of additional API capacity has been demonstrated with this run-rate expected to carry forward into FY20.

Plans for API expansion and new product development remains a key focus for 2020.

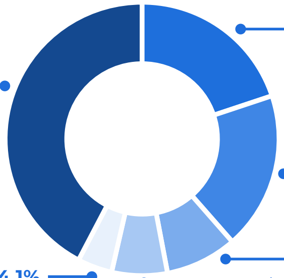
Continue to address inventory and working capital levels; expect raw materials and work in progress reduction through FY20 as high codeine poppy straw is converted and sold; reduce net debt.



APPENDICES

COMPANY OVERVIEW

SHAREHOLDERS



CAPITAL STRUCTURE

Share Price (26 February 2020)	$0.83
Fully Paid Ordinary Shares	125.9m
Share Appreciation Rights	4.9m
Market Capitalisation (26 February 2020)	$76.9m
Net debt (31 December 2019)	$3.5m

DIRECTORS & SENIOR MANAGEMENT

Simon Moore	Independent	Non-Executive Chairman
Jarrod Ritchie		Chief Executive Officer
Stuart Black	Independent	Non-Executive Director
Todd Barlow		Non-Executive Director
Sue MacLeman	Independent	Non-Executive Director
Jaime Pinto		Company Secretary
Brendan Middleton		Chief Financial Officer

NON-GAAP FINANCIAL MEASURE RECONCILIATION

Reconciliation of Operating EBITDA (non-GAAP financial measure) to statutory Net Profit/(Loss)

A$ million	FY19	FY18
Net Profit/(Loss) for period	**(7,639)**	**(5,788)**
Add:		
(+) litigation settlement expenses	1,913	-
(+) acquisition related expenses	122	296
(-/+) (gain)/loss from discontinued operations	-	(1,119)
(-/+) (gain)/loss from non-core equipment disposal	(14)	233
(+) depreciation and amortisation	2,514	2,551
(+) net finance expenses	3,089	1,653
(+/-) income tax expense/(benefit)	(138)	135
Less		
(-) other income	(158)	(392)
Operating EBITDA	**(312)**	**(2,432)**

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