



PALLA PHARMA

2020 ANNUAL GENERAL MEETING

28 May 2020
ASX: PAL

SIMON MOORE
NON-EXECUTIVE CHAIRMAN

JARROD RITCHIE
CHIEF EXECUTIVE OFFICER

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CHAIRMAN'S ADDRESS

SIMON MOORE
NON-EXECUTIVE CHAIRMAN



CEO & MANAGING DIRECTOR'S PRESENTATION

JARROD RITCHIE
CHIEF EXECUTIVE OFFICER



PALLA PHARMA

PALLA PHARMA AT A GLANCE

Fully integrated opiate manufacturer from 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

Manufacturer of opiate-based tablets via either Contract Manufacturing Organisation (CMO) or direct sales to distributors based on ownership of Marketing Authorisations (MAs)

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

BOARD OF DIRECTORS

Wide breadth of industry experience across pharmaceuticals, agriculture and investment management



Mr. Simon Moore
Non-Executive Chairman



Mr. Jarrod Ritchie
CEO/MD/Founder



Mr. Stuart Black
Non-Executive Director
Chair of Audit & Risk
Committee



Ms. Sue MacLeman
Non-Executive Director
Chair of Human Capital
Committee



Mr. Todd Barlow
Non-Executive Director

EXPERIENCED GROUP EXECUTIVE TEAM

Over 120 years of experience in the narcotic industry



Mr. Jarrod Ritchie
CEO/MD/Founder



Mr. Brendan Middleton
Chief Financial Officer



Mr. Richard Scullion
Commercial & Sales Director



Ms. Lucy Waddell
Group Head of Quality



Dr. Artur Abreu
Site Director – Australia



Mr. Michael Long
Director of Agriculture



Dr. Richard Bos
Director of Research &
Development



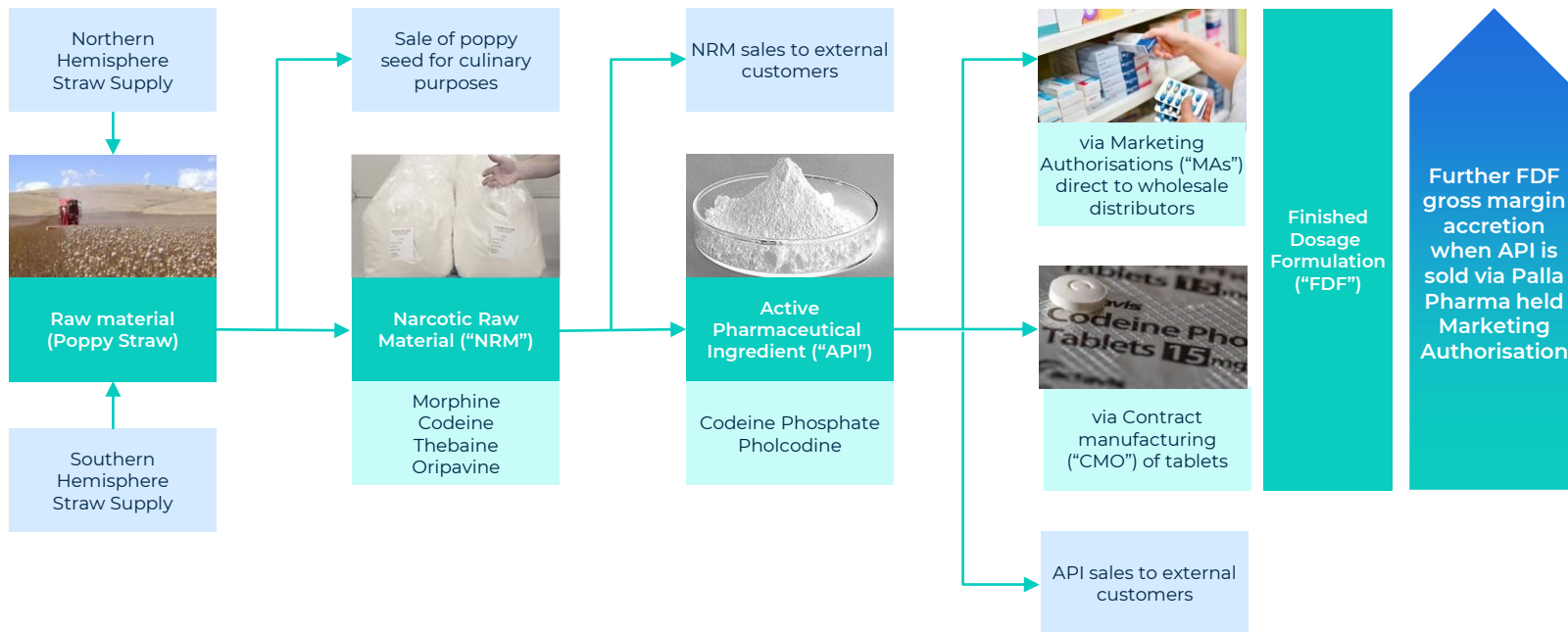
Ms. Nicole Mikschofsky
Finance and Operations
Manager - Norway



Mr. Craig Sweeney
Site Director – Norway

FULLY INTEGRATED GLOBAL SUPPLY CHAIN

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



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



FY19 RESULTS OVERVIEW

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

Revenue \$54.7m, +18.4%; shortfall due to deferral of committed customer orders into FY20.

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

Operating EBITDA* increased by \$2.1m underpinned by improved operating leverage leading to increased Gross Profit with minimal change in Indirect Overhead Costs.

Over 70 tonnes of NRM equivalent available in raw material providing sufficient input supply for at least the next 12 months.

Net debt down \$17.5m to \$3.5m at December 2019 following capital raise in November 2019; standby debt facility limit of \$16m is expected to provide sufficient headroom to support execution of current strategy and business plans.

Opiate Equivalent Sold (mt)

 +14.6%

On FY18; solid organic revenue growth in API and opiate based FDF products.

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; throughput efficiencies from increased plant utilisation driving margins.

Operating EBITDA* (\$)

 +\$2.1m

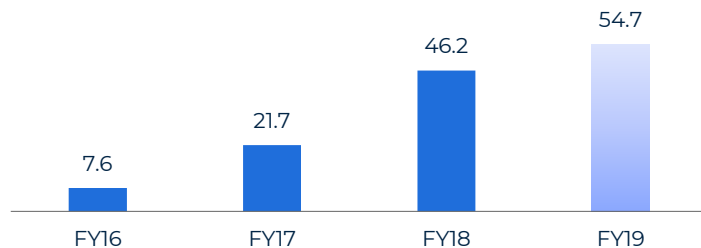
On FY18 to -\$0.3m; benefit of operating leverage and minimal change in indirect overhead costs.

* Operating EBITDA is a non-GAAP financial measure – see appendix of 2019 Full Year Result presentation for reconciliation of Operating EBITDA to statutory net profit/(loss) after tax.

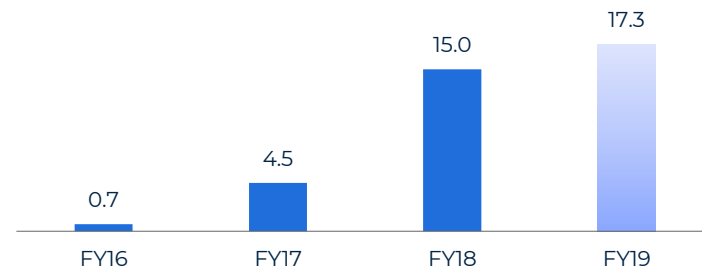
FULL YEAR RESULTS TREND

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

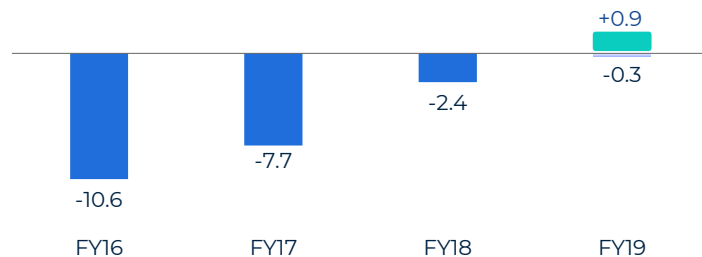
Revenue (\$M)



Gross Profit (\$M)



Operating EBITDA* (\$M)



Underlying NPAT* (\$M)



 = Normalised Result

* Operating EBITDA is a non-GAAP financial measure – see appendix of 2019 Full Year Result presentation for reconciliation of Operating EBITDA to statutory net profit/(loss) after tax.

KEY FY19 ACHIEVEMENTS

Increased API capacity from 30 tonnes to 70 tonne with minimal investment; exited non-opiate supply agreement

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

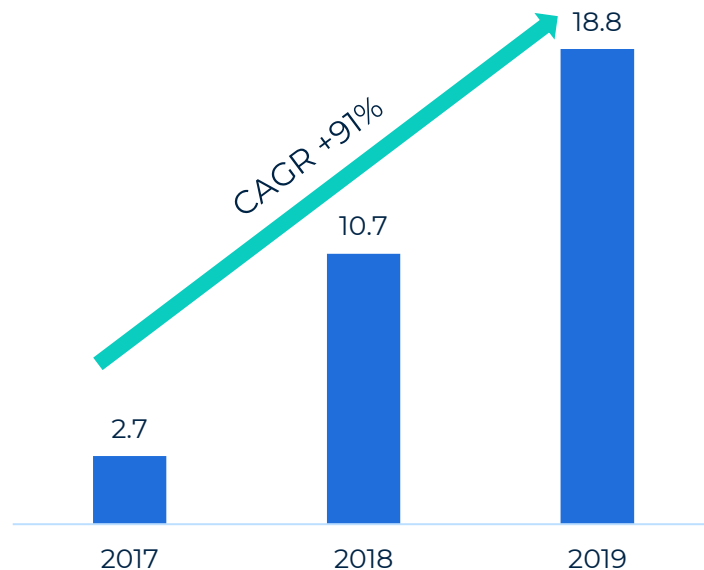
The % of NRM used for internal higher margin downstream processing continues to grow rapidly, resulting in higher margins and reducing volume required for strong earnings growth.

R&D investment to optimise the NRM production process increased production efficiency by 4%.

Reduction in indirect costs, FTE's and production complexity in Norway following the exit from a legacy non-opiate based CMO contract.

77% increase in API sales and doubling of API production with only \$200k of capital investment.

Codeine Phosphate Revenue Contribution A\$ Millions



A gloved hand holding a flask with blue liquid in a laboratory setting. The background is a blurred laboratory with various glassware and equipment.

MARKETING AUTHORISATIONS TO DRIVE EARNINGS GROWTH

JARROD RITCHIE
CHIEF EXECUTIVE OFFICER

VOLUME TO VALUE: OPERATIONAL CHANGES STAGES 1 TO 3

Stage 1-2 complete, Stage 3 to be completed by Q3 2020

Stage 1. Completed (NRM to API):

1. NRM Capacity circa 70t in Australia
2. Expansion of Norway API Capacity to 70 tonnes
3. Shift from NRM sales to API sales sees customer base move from 5 to 55

Stage 2. Capability completed (API to CMO):

1. Capacity expanded with termination of non-opiate CMO contract
2. Reduced complexity and increased plant utilisation uptime.

Stage 3. On track – (API to MA):

1. 7 MAs acquired
 2. Validation progressing well for key product 30mg CPO/500mg Paracetamol tablets and Caplets
 3. Submission to MHRA of application to manufacture CPO tablets at Palla Norway (June 2020)
 4. Receipt of approval and start of production in Norway (July 2020)
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REVENUE MIX CHANGE AND GROSS MARGIN UPLIFT

Strategic ascendance from Volume to Value forecast to deliver significant margin uplift

Revenue mix:

1. FY20 Revenue expected to be flat on prior year with uplift in FY21-22 driven by increase in MA related sales.
 2. Product mix change in FY20 - early termination of the non-opiate CMO contract offset by MA related opiate product sales in 2H.
 3. FY20 revenue skewed to 2H20 with first MA related tablet sales to occur in Q420.
-

Gross Profit mix:

1. Despite flat FY20 revenue, Palla expects significant uplift in FY20 Gross Profit driven by high margin MA related sales in 2H20.
 2. Early exit from non-opiate CMO contract delivers significant indirect overhead cost savings effective from April 2020.
 3. Higher margin product mix change sees Gross Profit increase at a faster rate than Revenue over FY21-22 period.
-

€802m EUROPEAN CODEINE PHOSPHATE MARKET

Palla enters UK, the largest European CPO related MA market; First sales to occur in Q4 2020

Palla owns 3 UK registered MAs for Codeine Phosphate combinations in both Caplet and Tablet form: 30/500mg Caplet, 30/500mg Tablet and 8/500mg Tablet

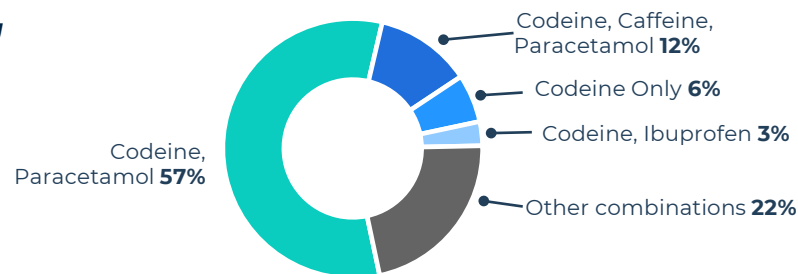
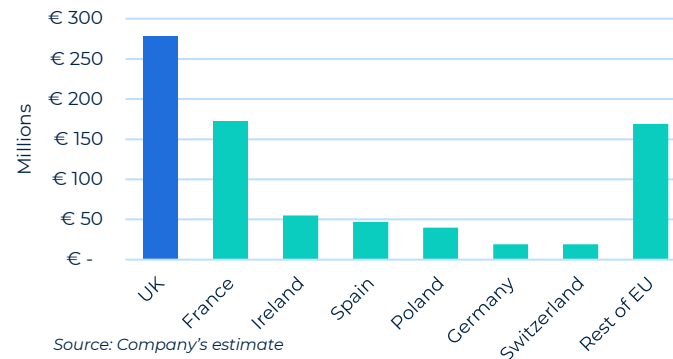
These MAs account for approx. 10% of the UK market for codeine and dihydrocodeine tablet sales

Targeting to enter other European markets using these MAs in FY21 such as France and Spain

Palla now owns MAs for the most popular form of Codeine in EU

Codeine, Paracetamol accounts for 57% (€500m) of the EU market

Ongoing trials to enter the second biggest product group, Codeine, Caffeine and Paracetamol, accounting for 12% of EU market



OPTIMISING RESOURCE ALLOCATION FOR MA FOCUS

Rightsizing in API and investing in FDF Capability

Melbourne, Australia NRM Manufacturing



Before FTE`s	Now FTE`s
85 FTE`S	85 FTE`S

Kragerø, Norway API/CMO Manufacturing



Before FTE`s	Now FTE`s
API 16 CMO 61 O/H 20	API 16 CMO 10 O/H 20

Kragerø, Norway MA Manufacturing



Now FTE`s	Q3 2020 FTE`s
MA 0	MA TBD

- Created Executive Committee comprising:
 - Mr. Jarrod Ritchie CEO
 - Mr. Brendan Middleton CFO
 - Mr. Richard Scullion Commercial Director
 - Appointed Dr David Hartley (ex CSL) start date July 1
- Appointed two FDF UK based Sales directors
 - Mr. John Shreeve
 - Mr. Stuart White
- Total headcount reduction in Norway of 51 Direct and Indirect labour.
 - Appointment of new FTE`s for MA production occurring as production ramps up in Q3/Q4

A gloved hand holding a flask with blue liquid in a laboratory setting. The background is a blurred laboratory with various glassware and equipment.

TRADING UPDATE & OUTLOOK

JARROD RITCHIE
CHIEF EXECUTIVE OFFICER

YTD TRADING UPDATE

Acquisition of Marketing Authorisations underpins strategic transition from volume to value

As noted in the February update, a major customer lost its manufacturing license and to date has not had it reinstated. This event and supply chain disruptions related to COVID-19 will negatively impact 1H results however we expect sales volumes of API in 1H 2020 will be the same as occurred in 1H 2019.

Northern Hemisphere straw supply has delivered a far superior result compared to last year in both quantity and alkaloid concentration. This will flow through the P&L resulting in better COGS.

PAL has received a \$250k grant from AusIndustry to continue to optimise the NRM extraction process in Australia. This efficiency in NRM production underpins our competitive strength in all sectors of the market.

Early exit from a non-opiate CMO supply contract saw reduced headcount at Norway, achieving annual cost savings estimated at \$2m.

Recruitment of a UK based FDF sales team has been completed along with a Senior Executive who will join the company in July.



OUTLOOK

FDF capacity expansion and strong EBITDA growth from Marketing Authorisation transfers

Transition from volume to value; margin uplift from MAs represents a significant earnings growth opportunity compared to API.

MAs transfer and first product sales expected in 2H 2020.

Major UK customer loss of MHRA license will impact API volumes and Revenue in 1H20, however transition to MA holder will see 2H20 significantly stronger than 1H20.

Significant decrease of indirect cost base in Norway due to non-opiate based supply contract termination.

Industry is still experiencing over capacity; Palla is strongly positioned to gain market share as a low-cost producer of the key starting input material (NRM) for opiate based API and FDF products.

Short term opportunities to supply non-opiate based products, such as paracetamol at attractive margins due to COVID-related supply shortages.

Palla expects Revenue in FY20 to be flat on prior year with significant uplift in Gross Profit driven by higher margin MA product sales.

Strong Revenue and EBITDA growth expected in FY21-22 period driven by increased higher margin MA related sales.





FORMAL BUSINESS OF MEETING

SIMON MOORE
NON-EXECUTIVE CHAIRMAN

FORMAL BUSINESS OF MEETING

Meeting Agenda

- | | |
|--------|--|
| Item 1 | To receive and consider the Financial Report of the year ended 31 December 2019 together with the Directors' Report and Auditor's Report as set out in the Annual Report |
| Item 2 | Resolution 1 - Adoption of Remuneration Report |
| Item 3 | Resolution 2 - Re-election of Todd Barlow as a Director |
| Item 4 | Resolution 3 – Approval of Share Appreciation Rights Plan |
| Item 5 | Resolution 4 – Ratify the prior issue of Shares |
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ITEM 1 – FORMAL BUSINESS OF MEETING

To receive and consider the Financial Report of the year ended 31 December 2019 together with the Directors' Report and Auditor's Report as set out in the Annual Report.

There is no requirement for shareholders to vote on this item.

ITEM 2 – FORMAL BUSINESS OF MEETING

RESOLUTION 1 - ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of Section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report as contained in the Directors’ Report for the year ended 31 December 2019 be adopted.”

The vote on this resolution is advisory only and will not bind the Directors or the Company. The vote will, however, be taken into consideration in determining future remuneration policy for Directors and executives.

Valid Proxies Received		
For:	46,796,752	98.57%
Against:	472,891	1.00%
Open:	207,083	0.44%
Abstain:	23,883,952	

ITEM 3 – FORMAL BUSINESS OF MEETING

RESOLUTION 2 - RE-ELECTION OF TODD BARLOW AS A DIRECTOR

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, Todd Barlow, who retires in accordance with clause 23.10(b) of the Company’s Constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company.”

Valid Proxies Received		
For:	72,192,273	99.23%
Against:	359,335	0.49%
Open:	203,723	0.28%
Abstain:	63,318	

ITEM 4 – FORMAL BUSINESS OF MEETING

RESOLUTION 3 - APPROVAL OF SHARE APPRECIATION RIGHTS PLAN

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 7.2, exception 13 and for all other purposes, the Palla Pharma Share Appreciation Rights Plan (SARP), and future issues to Eligible Individuals under the Palla Pharma SARP from the date of this Meeting for the next three years, as described in the Explanatory Statement, be approved.”

Valid Proxies Received		
For:	70,429,398	98.79%
Against:	692,920	0.97%
Open:	171,263	0.24%
Abstain:	67,097	

ITEM 5 – FORMAL BUSINESS OF MEETING

RESOLUTION 4 - RATIFY THE PRIOR ISSUE OF SHARES

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders approve and ratify the prior issue by the Company of 12,000,000 Shares to certain institutional, professional and/or sophisticated investors on 25 October 2019 under the Placement at the issue price of \$0.70 per Share, as announced on 17 October 2019, and otherwise on the terms outlined in the Explanatory Statement which accompanies and forms part of the Notice.”

Valid Proxies Received		
For:	13,329,905	97.19%
Against:	176,504	1.29%
Open:	208,763	1.52%
Abstain:	246,310	



PALLA PHARMA