

3 March 2020
ASX Code: MXC

A
S
X

R
E
L
E
A
S
E

MGC Pharma signs a binding amendment to supply agreement with ONIX Brazil: Significant minimum order volumes set to deliver material revenue and cashflow

MGC Pharmaceuticals Ltd (ASX: MXC, 'MGC Pharma' or 'the Company'), a European based 'Seed to Medicine' bio-pharma company specialising in the development and production of phytocannabinoid-derived medicines, is pleased to provide a material update regarding the execution of a binding amendment to the supply and distribution agreement with Brazil-based ONIX Empreendimentos e Participações ('ONIX').

Key Highlights of the Amended Agreement:

- Execution of a binding amendment to the supply and distribution agreement with Brazil-based ONIX, establishing minimum order volumes and pricing of MGC Pharma's EU GMP cannabinoid derived medicines
- Year one minimum order volume of 20,000 units, which has an estimated value of at least A\$1.65 million (€1.0 million), including an immediate down payment of ~A\$107,000 (€65,000) as part payment for the first purchase order of 4,000 units
- Minimum order volume of 50,000 units per annum from year two onwards, with an estimated value of at least A\$4.1 million (€2.5 million) per annum
- Minimum seven-year term, which may be renewed for an additional five-year term by mutual agreement
- Together with only the existing level of monthly sales in Australia, is expected to deliver breakeven cashflow at 5,000 units per month at the commencement of year two, based on the Company's current cost structure (including overheads and corporate costs) and product margins
- Year two contracted volume is expected to enable MGC Pharma to achieve positive EBITDA beginning in 2021, based on the Company's current cost structure and product margins
- Significantly improved payment terms for MGC Pharma – a down payment on purchase order and 30-day payment terms from product arrival, a significant reduction from the industry standard 90-day terms, and improves MGC Pharma's working capital cycle

On 19 June 2019 MGC Pharma signed an exclusive supply agreement with ONIX's subsidiary OnixCann, a distributor of phytocannabinoid based products ('**Original Agreement**'). The first shipment under the Original Agreement arrived in Brazil during January 2020, following ONIX placing its first purchase order in November 2019 and receiving import and distribution approval from Anvisa, the Brazilian National Health Surveillance Agency and regulatory authority.

MGC Pharma and ONIX have agreed and executed a binding amendment to the Original Agreement which now establishes minimum orders for the distribution of MGC Pharma's products by ONIX for a minimum period of seven years (the '**Amended Agreement**'). ONIX will purchase a bulk order of a combination of MGC Pharma's pharmaceutical grade products including CannEpi[®], CogniCann[®] and products including MP100 from the recently launched Mercury Pharma line, which is now to be produced under EU GMP guidelines, to enable distribution in key European and South American markets. Other Mercury Pharma products to be provided under the Amended Agreement will include MP1:30, MP1:1, MP7:1, MP15:1 ratios and Mercury Pharma Wide Spectrum line dedicated for the Brazilian market.

The Amended Agreement, further details of which are set out below, will immediately strengthen the Company's operating cashflows. In the first 12 months following execution of the Amended Agreement, ONIX are to purchase a minimum of 20,000 units from MGC Pharma, with an order value of at least ~A\$1.65m. A down payment of ~A\$107,000 (€65,000) is immediately payable upon ONIX executing the Amended Agreement, which is part payment of the first 4,000 units purchase order totalling ~A\$330,000 (€200,000).

A second purchase order of 4,000 units is to be placed within three months following execution of the Amended Agreement. The total estimated value of the second purchase order is ~A\$330,000 (€200,000). All purchase orders received are on contract terms of a material deposit paid upfront (up to 50%), and the balance of the order value to be paid on 30-day terms from product delivery.

From the start of year two in March 2021 onwards, ONIX has committed to purchase a minimum of 50,000 units per annum, with an annual order value of at least ~A\$4.1 million.

The purchase orders in the first 12 months under the Amended Agreement, together with the current level sales in Australia, are expected to deliver breakeven cashflow at 5,000 units per month by early 2021, based on the Company's current cost structure (including overheads and corporate costs) and product margins. This does not factor in any increase of sales in Australia in the future, the potential benefit of new market entry or material orders being received in the future from the United Kingdom, Ireland, Poland, or other EU markets.

It is an important milestone for MGC Pharma to allow ONIX to register MGC Pharma's products in Brazil as the Brazilian regulatory authority, Anvisa, imposes a very high level of regulatory compliance, and is a significant validation of the quality of MGC Pharma's products. Approval will enable ONIX to be one of the first to distribute cannabinoid medicines to Brazilian pharmacies. A key factor in the achievement of registration with Anvisa is MGC Pharma's products being able to meet product shelf life stability criteria of 12 months under Brazilian climate zone (4B) and pharmaceutical standards according to new Brazilian Regulation RDC 327. The process for completion of regulatory registration and import licenses are currently well advanced with ONIX and the regulatory authorities in Brazil.

Key terms of the Amended Agreement

The Amended Agreement is structured as follows:

1. A minimum order of 20,000 units of MGC Pharma's product line is to be placed in the first 12 months (with an estimated revenue of ~A\$1.65 million (€1.0 million)), with an agreed timing as follows:
 - A 4,000 unit purchase order upon execution of the Amended Agreement, with an immediately payable down payment of ~A\$107,000 (€65,000). The total estimated value of the first purchase order is ~A\$330,000 (€200,000).
 - A second purchase order of 4,000 units is to be placed within three months following execution of the Amended Agreement. The total estimated value of the second purchase order is ~A\$330,000 (€200,000).
 - Subsequent purchase orders within the 12 months following execution of the Amended Agreement will be for the balance of 12,000 units and will have a total estimated value of ~A\$1.0 million (€600,000).
2. A minimum of 50,000 units of MGC Pharma's product line is to be purchased in each subsequent 12-month period. The total estimated value is ~A\$4.1 million (€2.5 million) per annum.
3. Following the payment of a deposit with each purchase order (up to 50%), the balance of the invoice is to be paid in 30 days of delivery of products. This is a significant reduction from the industry standard 90-day terms.
4. ONIX's exclusive right to distribute MGC products in Brazil shall be subject to ONIX's compliance with the minimum order volumes of the Amended Agreement. The exclusivity period shall be for a period of one year from the full payment of the first purchase order and shall be automatically renewed.

5. The Amended Agreement is effective immediately and will remain in force for a period of seven years. After the end of the seven-year term, the Amended Agreement may be renewed for an additional five-year term by mutual agreement.
6. The Amended Agreement also includes standard termination rights, including the right for either party to terminate the Amended Agreement if the other party commits a substantial breach of the Amended Agreement and fails to remedy it within twenty days after receiving notice of such default.

Brazil Pharmaceutical Medicine Market

The existing pharmaceutical medicine market in Brazil is large, with a population of over 210m people¹. The National Healthcare Expenditure in Brazil is estimated at A\$267b¹, with total pharmaceuticals expenditure estimate at A\$24b¹. According to Interfarma - Pharmaceutical Research Industry Association, the Brazilian pharmaceutical market is expected to grow from A\$59.9 billion to A\$66 billion by 2023², through the selling of approximately 238 million units².

Roby Zomer, Co-founder and Managing Director of MGC Pharma, commented: “This binding extension of our existing agreement with ONIX is a clear commitment of minimum order volumes over the next seven years, and confirmation that ONIX are the partners we are looking for in the region. This is a significant milestone for MGC Pharma and will have an immediate positive impact on the Company’s cashflows.

“The expected revenue contribution of the Amended Agreement is estimated to be a minimum of A\$1.65 million in the first year, and A\$4.1 million in each subsequent year. Importantly, the Amended Agreement, in combination with our current Australian sales is expected to deliver our stated operating breakeven cashflow target of 5,000 units per month by the start of 2021, excluding any sales increases from our current or new markets in the future. This agreement is a significant step forward for the Company and a milestone in our development to establish a successful bio-pharma business.”

Marcelo Galvão, Founder of Onix, commented: “We are very pleased to sign this agreement with MGC Pharma. With a population of over 210 million, Brazil has a large pharmaceutical market. Anvisa, the Brazilian National Health Surveillance Agency, has very high standards, and requires products to be produced under EU Good Manufacturing Practice guidelines. The ability of MGC Pharma to meet Anvisa’s strict requirements is a significant validation of MGC Pharma’s products and capabilities as a leading bio-pharma company, firmly placing MGC Pharma ahead of many of its peers in entering the Brazilian market.”

--Ends--

Authorised for issue by the Board, for further information, please contact:

UK IR/Media Advisors

Catherine Leftley/Megan Dennison
 St Brides Partners Ltd
 +44 (0) 207 236 1177
catherine@stbridespartners.co.uk
megan@stbridespartners.co.uk

MGC Pharmaceuticals Ltd

Brett Mitchell
 Executive Chairman
 +61 8 6382 3390
info@mgcpharma.com.au

¹ Source: [Prohibition Partners, LATAM Cannabis Report, 2018](#)





² Source: [Interfarma Guide 2019](#)

About MGC Pharma

MGC Pharmaceuticals Ltd (ASX: MXC, OTCQB: MGCLF) is a European based bio-pharma company developing and supplying affordable standardised phytocannabinoid derived medicines to patients globally. The Company's founders were key figures in the global medical cannabis industry and the core business strategy is to develop and supply high quality phytocannabinoid derived medicines for the growing demand in the medical markets in Europe, North America and Australasia. MGC Pharma has a robust product offering targeting two widespread medical conditions – epilepsy and dementia – and has further products in the development pipeline.

Employing its 'Seed to Medicine' strategy, MGC Pharma has partnered with renowned institutions and academia to optimise cultivation and the development of targeted phytocannabinoid derived medicines products prior to production in the Company's EU-GMP Certified manufacturing facility. MGC Pharma has a number of research collaborations with world renowned academic institutions, and recent research conducted in collaboration with the National Institute of Biology and University Medical Centre Ljubljana, highlighted the positive impact of using specific phytocannabinoid formulations in the treatment of glioblastoma, the most aggressive and so far therapeutically resistant primary brain tumour.

MGC Pharma has a growing patient base in Australia, the UK, Brazil and Ireland and has a global distribution footprint via an extensive network of commercial partners meaning that it is poised to supply the global market. In order to meet the demands of becoming a key global supplier the company is constructing a 15,720m² GMP state of the art facility in Malta.

Follow us through our social media channels    

About ONIX Empreendimentos e Participações

Onix is a Brazilian based company that assists companies in conducting business within the region. Its subsidiary company OnixCann is an established distributor of phytocannabinoid based products in Brazil connecting doctors and patients. OnixCann has an innovative digital platform called CANTERA that connects potential patients with the relevant medical professionals. CANTERA is a complete digital health platform that facilitates safe and legal access to phytocannabinoid products and to provide guidance to doctors and patients about the available treatments. The platform will collate results from patient's treatments creating a database of information to be used by medical professionals. ONIX was founded by Marcelo Galvão with a vision to create a main distribution channel for phytocannabinoid based products across Latin America. Marcelo is experienced in the sector having been involved in the development of Entourage Phytolab which partnered with Canopy Growth Corporation.