# Mayne Pharma Group Limited

## Acquisition of Metrics, Inc.

4 October 2012

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# Agenda

# 1. Transaction overview

# Transaction overview

## Agreement to acquire Metrics, Inc. ("Metrics") for US$105 million up-front + up to US$15 million earn out

**Metrics overview**

- US based provider of contract development services to the pharma industry and also develops and manufactures niche generic products which it distributes directly or through 3rd parties in the US
- Particular expertise in formulating complex oral dose forms including highly potent compounds, opiates (Schedule II – V controlled substances), modified release products and inherently unstable compounds
- Customer base exceeds 100 pharma clients including blue chip companies such as Mylan, Perrigo, Eli Lilly, Roche, Abbott and Amgen
- Seasoned management team with an average of 25 years experience in the US and global pharma industry

**Compelling strategic rationale**

- Strong fit with Mayne Pharma's existing business
  - Provides direct access to the world's largest pharma market, Mayne Pharma's principal market for its development pipeline
  - Combined entity will have strong and diversified revenue streams across contract services, generic and proprietary products
  - Expands and diversifies new product pipeline utilising complementary formulation and drug delivery technologies
- Material upside is expected in the medium to long term from cross selling opportunities
- Senior Metrics management well known to Mayne Pharma and have a strong track record of success in the US generic industry

**Acquisition snapshot**

- Agreement to acquire Metrics for up to US$120.0 million, comprising an up-front payment of US$105 million plus earn out payments of up to US$15 million based on FY2013 financial performance
  - Metrics had FY12 sales of US$51.6 million and EBITDA(1) of US$16.1 million
  - Earn-out "Tranche 1" calculated as 6.0x incremental EBITDA to 30 June 2013, capped at US$10 million
  - Earn-out "Tranche 2" calculated as 2.0x EBITDA in excess of US$19.8 million(2) to 30 June 2013, capped at US$5 million
- Up-front payment of US$105.0 million represents 6.5x LTM EBITDA (to 30 June 2012)
- Full acquisition price of US$120.0 million will be payable if Metrics achieves US$22.3 million representing 5.4x FY2013 EBITDA
- Completion of the transaction remains subject to finalisation of funding arrangements (debt and equity), there being no material adverse event in relation to Metrics and certain other customary conditions. Completion is also subject to Metrics shareholders approving the transaction (however, voting agreements have been executed with the necessary majority of Metrics shareholders). A break fee of US$1.3 million is payable by either party if certain conditions are not satisfied

**Acquisition funding**

- A$65.0 million equity raising
- US$48.5 million debt funding commitment(3) with additional US$15 million 'upsize' feature with preferred financier
  - Detailed commitment letter subject to customary conditions executed. Remains subject to full documentation (in progress)

(1) Refer to page 25 for adjustments
(2) Determined on an A-IFRS basis
(3) Includes US$4.0 million revolving credit facility and US$44.5 million term loan

# 2. Overview of Mayne Pharma (pre acquisition)

# Overview of Mayne Pharma

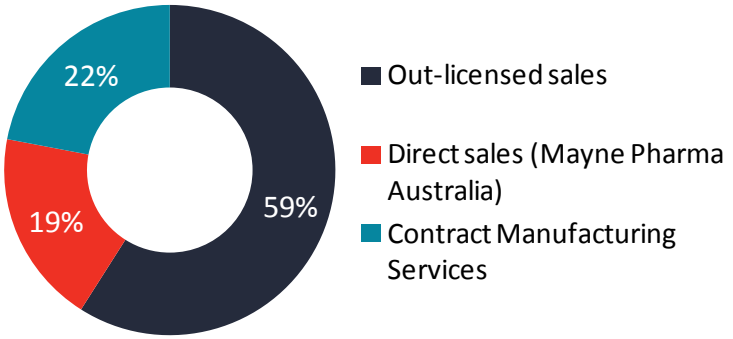
## Executive summary

- Mayne Pharma is an ASX-listed specialty pharmaceutical company
  - Originally the drug delivery technology arm of FH Faulding & Co
- In-market global sales today of developed products of ~US$500 million[(1)] pa
- Three core growth drivers:

| | |
|---|---|
| Exploitation of world-class oral drug delivery platform | Proprietary products - SUBACAP®<br>Generic targets - US market focus |
| Exploitation of Mayne Pharma brand and product portfolio | Domestic-branded portfolio<br>International out-licensing of product portfolio |
| Partnering services to global pharma | Collaborative development with global pharma<br>Contract manufacturing |

- Mayne Pharma operates from its 32 acre facility located in Salisbury (Adelaide), South Australia (FDA and TGA approved), where it undertakes drug development and manufacturing supported by approximately 160 staff

## FY12 sales revenue by channel




## Summary financials

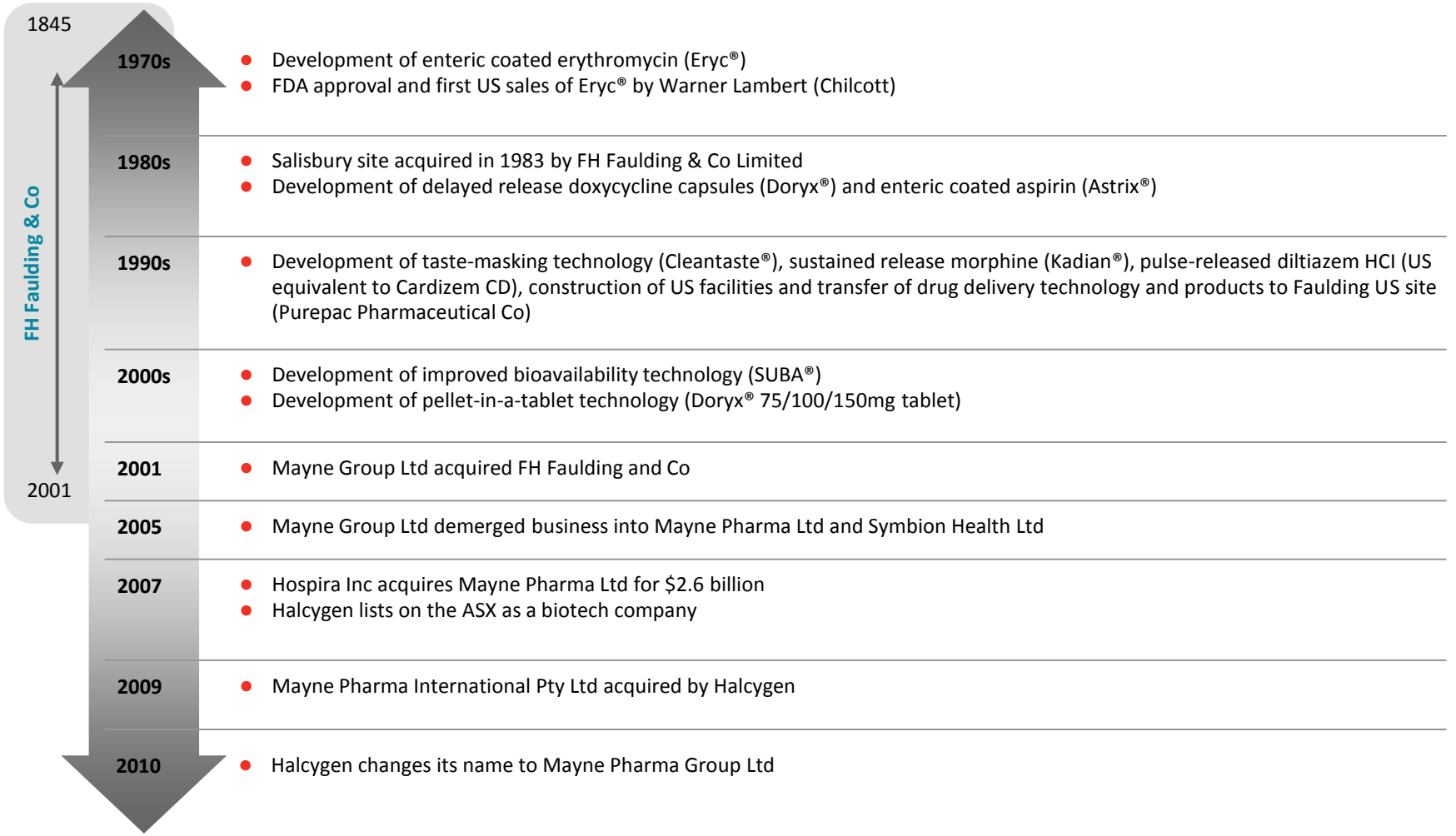
| A$m, FYE 30 Jun | FY11 | FY12 |
|---|---|---|
| Revenue | 47.0 | 51.9 |
| EBITDA | 7.9 | 14.3 |
| *EBITDA margin %* | *16.8%* | *27.6%* |

(1) IMS Health (ex-wholesale) 2011

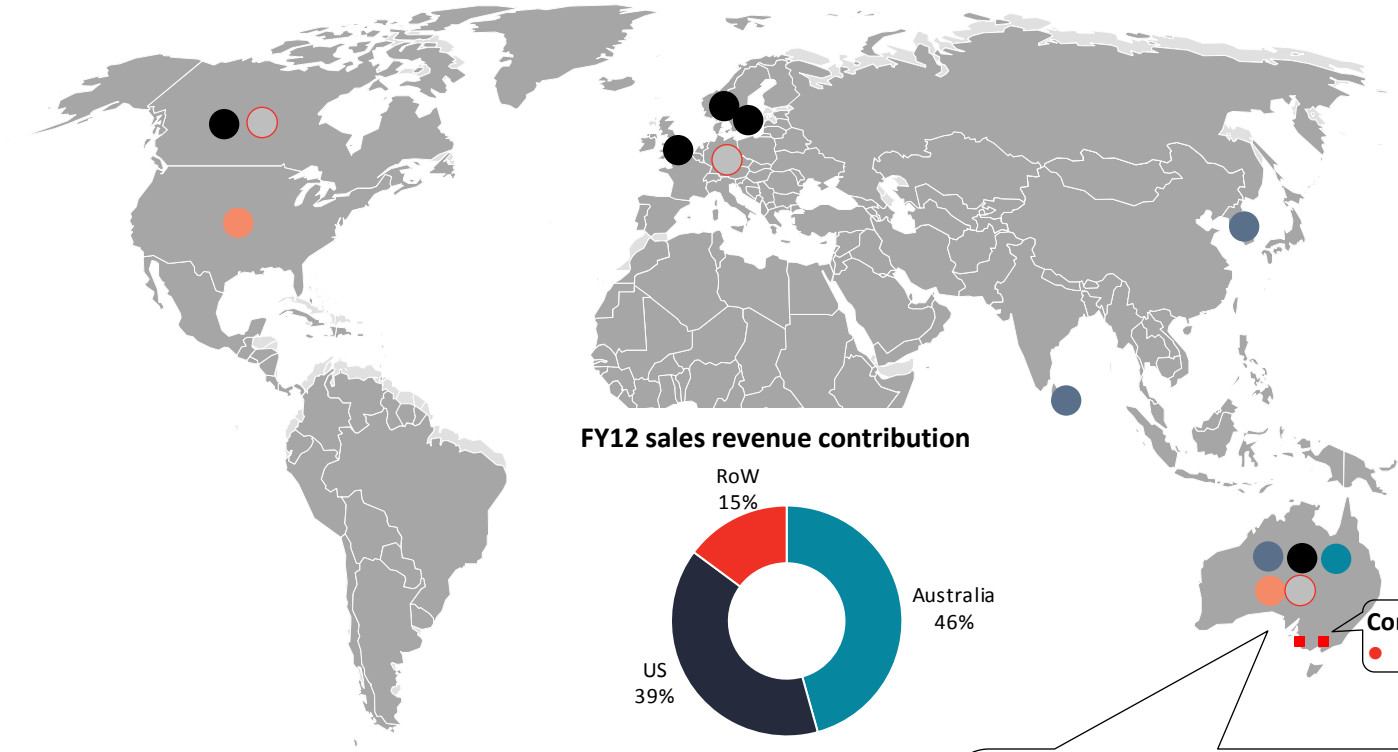
# Mayne Pharma operations

| | Develop and manufacture proprietary and generic products using oral drug delivery technologies | | | |
|---|---|---|---|---|
| | **For out-licence** | **For domestic sale** *Mayne Pharma Australia* | **Research and development** | **Contract services** |
| **FY12 Sales revenue** | **A$30.7m** | **A$9.8m** | **na** | **A$11.4m** |
| **Key products** | • Doryx®<br>• Kadian®/Kapanol®<br>• Eryc®<br>• Astrix® | • Doryx®<br>• Astrix®<br>• Eryc®<br>• Magnoplasm® | • SUBACAP®<br>• Extended release (ER) Pain capsule<br>• ER Hypertension tablet | • Liquid<br>• Cream |
| **Key territories** | • US<br>• Australia<br>• Canada<br>• Korea<br>• Japan<br>• European Union | • Australia | • **US** – development of generic and proprietary complex modified-release products<br>• **Global** – development of SUBACAP® | • **Australia** – contract manufacturing services<br>• **Global** – contract development services |

# Evolution of Mayne Pharma



# Mayne Pharma international footprint



**FY12 sales revenue contribution**




**Corporate registered office**
- Melbourne, Victoria

| Product | Distribution Partners (outside Australia only) |
|---|---|
| Astrix® | Boryung (Korea), Akbar Pharma (Sri Lanka) |
| Doryx® | Warner Chilcott (US) |
| Eryc® | Teva (UK), Pfizer (Canada), Meda (Sweden, Norway) |
| Kadian®/Kapanol® | Abbott (Canada), GSK (ROW ex. UK, Ireland, Japan & US) |
| Magnoplasm® | |

**Head office and manufacturing facility**
- 32 acre facility at Salisbury, South Australia has 12,000m$^2$ of manufacturing space with FDA and TGA approval. Annual production capacity of:
  - ~2.5 billion capsules/tablets
  - 100 tonnes of bulk product
  - 16 million units of liquids and creams

# R&D pipeline

**Current Tier 1 product candidate pool representing US$5.8 billion in annual sales(1)**

- R&D program focused on the development of generic and proprietary complex modified release oral products
- SUBACAP®
  - Improved formulation of itraconazole
  - Time to market < 1yr in Europe
- ER pain capsule
  - AB-rated ANDA(2)
  - Collaborative program with US drug delivery company
  - Preparing for pivotal biostudy
  - Expected file date 2013
- ER anti-hypertensive tablet
  - AB-rated ANDA(2)
  - Pellet-in-a-tablet
  - Prototype formulation identified
  - Expected file date 2014

| | Product | Indication | Size of market US$m(1) | Key patent expiry |
|---|---|---|---|---|
| Under development | SUBACAP® | Fungal infection | 500 | MPG patent 2020 |
| | ER capsule | Pain | 270 | Expired |
| | ER tablet | Hypertension | 1,100 | Expired |
| Identified projects (US ANDAs) | Film coated tablet | Antidepressant/ antischizophrenia | 1,000 | 2017 |
| | ER capsule | Gastric reflux | 640 | Expired |
| | Capsule | Alzheimer's | 600 | 2015 |
| | Capsule | Stroke reduction | 450 | 2017 |
| | Capsule | Crohns / IBS | 390 | 2015 |
| | ER tablet | Overactive bladder | 250 | 2016 |
| | ER capsule | Hypertension | 250 | Expired |
| | ER capsule | ADHD | 140 | 2020 |
| | ER capsule | Psychostimulant /ADHD | 110 | Expired |
| | ER capsule | Hypertension | 60 | Expired |
| | | **Total** | **5,760** | |

(1) IMS Health (ex-wholesaler) US sales MAT Dec 2011, except SUBACAP® which is the global (ex-wholesaler) sales MAT Dec 2011 of itraconazole
(2) Abbreviated new drug application

# SUBACAP® – An Improved Anti-Fungal

**Overview of SUBACAP®**

- Significantly improved formulation of itraconazole (anti-fungal) based on SUBA® technology (improved bioavailability)
- Conventional itraconazole hampered by erratic/unpredictable clinical response (poorly controlled absorption) and safety issues
- SUBACAP® formulation delivers significantly less variable drug absorption (fed/fasted state)
- Less intra/inter patient variability, more predictable clinical response and potential for reduced toxicity (half dose)
- Itraconazole is one of the broadest spectrum antifungal drugs on the market and can be used to treat both:
  - Superficial infections—onychomycosis (nail infection)
  - Systemic infections—histoplasmosis, aspergillosis, blastomycosis and candidiasis
- Potential opportunity to create two brands

**Market potential**

**Targeting the global itraconazole market**

- >US$500 million ex-wholesaler sales in 2011 and stable(1)

**Broader systemic antifungal application**

- US systemic anti-fungal market (excluding itraconazole) valued at US$650 million in 2011(1)

**Regulatory update**

**Europe**

- MHRA recently announced SUBACAP® approvable in the UK
- Dossier filed in UK, Germany, Spain and Sweden and approval anticipated in the next 6-12 months
- Total European market sales US$85 million in 2011(1)

**US**

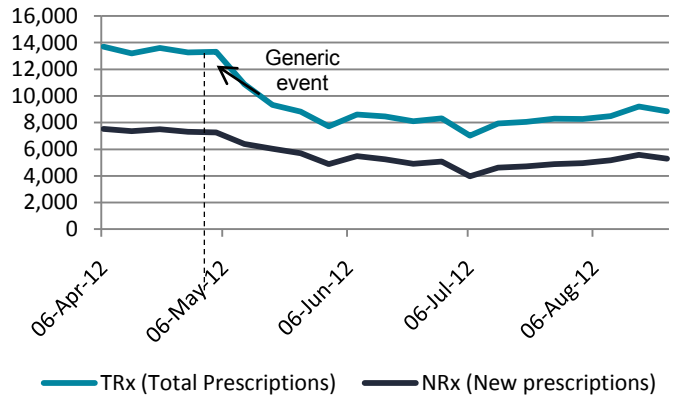
- Currently refining the proposed US regulatory pathway
- Positive Phase II onychomycosis study completed in 2011

(1) IMS Health (ex-wholesaler) sales MAT Dec 2011

# US Doryx®

- Mayne Pharma FY13 US Doryx® sales are expected to be significantly below FY12 sales due to timing of generic launch and destocking of the pipeline in line with the new underlying demand profile
  - Supply expected to normalise in 2H13
- US Doryx® prescriptions not following typical generic substitution curve
  - Doryx® 150mg tablet prescriptions have fallen ~35% since the entry of generic competition
  - Prescriptions have since stabilised across June, July and August
- Warner Chilcott maintaining its Doryx® national sales force and its customer loyalty card
- A new formulation of Doryx®, supported by a Phase 3 clinical trial, is pending approval at FDA

**Warner Chilcott Doryx® 150mg tablet (Weekly prescription volume)**




Source: Broker research

**Litigation update**

- Warner Chilcott and Mayne Pharma continue to defend the Doryx® anti-trust law suits
  - Mayne Pharma does not foresee incurring any material financial liabilities in relation to these actions based on pre-existing contractual rights with Warner Chilcott

# 3. Overview of Metrics

# Overview of Metrics

- Founded in 1994 with head office and principal 99,200 $ft^2$ facility located in Greenville, North Carolina
- US based provider of contract development services to the pharma industry and also develops and manufactures niche generic products which it distributes directly or through third parties in the US
- Approximately 300 employees, with more than 150 analytical and formulation scientists and technicians dedicated to proprietary product pipeline and third party services
- Particular expertise in formulating complex oral dose forms including highly potent compounds (eg. cytotoxics), Schedule II-V controlled substances (eg. opiates), inherently unstable compounds and products with poor bioequivalence
- Ability to manufacture opiates and other controlled substances which cannot be imported into the US

Metrics INC.

## Contract Services

### Analytical Services

- Includes method development and validation, QC testing, stability services, raw materials and trace metal analysis and microbiologic testing

### Formulation Development

- Involves the preparation of formulations of tablets and capsules and clinical trial material manufacturing

LTM(1) revenue: US$24.1 million
LTM(1) gross profit: US$14.9 million

## Products

### Generic Drug Development

- Develops own generic drugs
- Development pipeline of 11 products
  - Total end market value of $1.7 billion

### Commercial Manufacturing

- Current portfolio of 9 Metrics developed products
- Production capacity of 1 billion tablets per year
- Manufactures own and third party products

### Drug Distribution

- Distribution of own and third party products to pharma wholesalers and drug stores through dedicated sales team or distribution partners

LTM(1) revenue: US$27.5 million
LTM(1) gross profit: US$16.8 million

(1) LTM refers to the twelve months ending June 2012

# Metrics investment highlights

1. A leading provider of contract pharmaceutical development services in the US
2. World class product development capability
3. Substantial existing product portfolio and pipeline
4. Flexible channel to market via own sales capability or third parties
5. Diversified US market footprint
6. Strong financial track record with a growing generics portfolio driving significant future EBITDA growth

# A leading provider of contract pharmaceutical development services in the US



## Value proposition: Valuable integrated service partner saving clients time and money

- Vertically integrated model offering analytical services, formulation and commercial manufacturing
- Services over 100 customers in the pharmaceutical and biotechnology sectors, with approximately 75% being repeat customers
- Driven by a dedicated national sales team, generating more than 700 quotes per year and closed more than 55% successfully in 2012
- Largest customer accounts for around 12% of contract services revenue
- Specialises in the development and manufacturing of unique drug products that require non-traditional handling and testing, a niche that requires a high level of scientific expertise
- Metrics capabilities and services allow clients to meet their clinical production schedules and FDA filing milestones in a timely manner while avoiding or delaying capital and fixed manufacturing costs
- Formulation development is focused on oral solid dosage forms (tablets and capsules) but also includes oral liquids and topical powders
- Expertise in first time in human (FTIH), phase I, II, III clinical trial manufacturing having conducted 75 FTIH projects over the last 5 years for new chemical entities

**Major customers**

Lilly, Roche, Ardea Biosciences, Shire, Amgen, Salix Pharmaceuticals, Inc., Millennium, Abbott

# World class product development capability

| | |
|---|---|
| People | • 150 analytical chemists, including management and support staff<br>• 15 experienced formulation scientists supported by 10 technicians<br>• 25 formulation scientists and analytical chemists dedicated to the development of own product pipeline |
| Analytical equipment | • 118 high performance liquid chromotographs, including an Agilent LC/MS<br>• 15 gas chromotographs, many with headspace samplers<br>• 29 dissolution baths<br>• State-of-the-art stability chamber systems<br>• Sophisticated data management and regression analysis capability |
| Development and manufacturing capabilities | • Capabilities include direct compression, roller compaction, high shear wet granulation, micronisation, top spray granulation, fluid bed and tray drying, extrusion and spheronisation, encapsulation, and tablet compression |
| Infrastructure | • Supported by an infrastructure that includes<br>– A segregated potent and cytotoxic facility<br>– Five analytical laboratories<br>– Seven large scale manufacturing and packaging rooms<br>– Twelve manufacturing rooms for development activity, stability storage and a microbiology laboratory |

# Substantial existing product portfolio...

**Overview**

- Large scale manufacturing facility with production capacity of 1 billion tablets per year with batch sizes typically ranging between < 1kg to 400kg
- FDA and QP inspected, registered and cGMP compliant, equipped to handle DEA Schedule II through V compounds
- Focuses on solid dosage drugs (tablets, capsules) as well as solutions, suspensions, parenterals and topicals of small molecule APIs, DEA regulated compounds, insoluble and unstable APIs, and potent and cytotoxic APIs
- Currently manufactures drugs developed by Metrics however can also provide stand-alone manufacturing to Services clients
- Bromfenac sodium, Liothyronine, Methamphetamine and Oxycodone capsules were each the first generic approvals in the US market
- Current no. 1 market position for Liothyronine and Methamphetamine
- Oxycodone capsules currently only generic in market

| Product | Indication | Market Size(1) |
|---|---|---|
| Oxycodone HCl / APAP tablet | Pain | US$490 million |
| Oxycodone HCl tablet | Pain | US$420 million |
| Bromfenac sodium solution(2) | Ophthalmology (non-steroidal anti-inflammatory) | US$116 million |
| Liothyronine Sodium tablet | Hypothyroidism | US$68 million |
| Nystatin topical powder | Fungal infection | US$21 million |
| Methamphetamine HCl tablet | Attention deficit hyperactivity disorder | US$9 million |
| Oxycodone HCl capsule | Pain (approved July 2012) | US$8 million |
| Oxycodone HCl / Aspirin tablet | Pain | US$5 million |

(1) IMS Health (ex-wholesaler) US sales and management estimates
(2) Manufactured externally

# ... and pipeline

- Metrics develops and brings generic drugs to market typically focussing on products which meet the following criteria:
  - Schedule II-V products
  - Difficult to formulate products with limited competition
  - Low IP litigation risk
  - Products that enable the company to leverage its existing expertise
  - Products whose APIs can be sourced on an exclusive or semi-exclusive basis
- Metrics has 11 pipeline products of which 2 have been filed with the FDA and a further 4 to be filed during CY12
  - All pipeline products targeting FDA approval by the end of CY14 with 2 approvals expected in CY13
- R&D investment has increased significantly over the last two years to support this pipeline

| Product | Indication | Size of market[1] US$m | Estimated target filing |
|---|---|---|---|
| Syrup | Pain | 19 | Filed |
| Capsule | Headache and migraine | 16 | Filed |
| Tablet | Pain | 183 | 1H13 |
| Topical solution[2] | Osteoarthritis | 28 | 1H13 |
| Oral solution[2] | Cough & nasal congestion | 17 | 1H13 |
| Oral solution[2] | Cough & nasal congestion | 2 | 1H13 |
| Tablet | Opioid dependence | 687 | 2H13 |
| Solution[2] | Glaucoma | 466 | 2H13 |
| Ointment[2] | Cold sores | 219 | 2H13 |
| Tablet | Breast cancer (adjuvant treatment) | 95 | 2H13 |
| Oral solution | Cough suppresant | 39 | 2H13 |

**Metrics has a development pipeline targeting over US$1.8 billion in annual sales**

(1) IMS Health (ex-wholesaler) US sales and management estimates
(2) Product will be manufactured externally

# Flexible channel to market via own sales capability or third parties



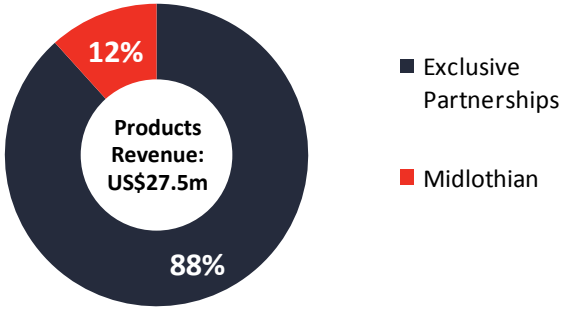
## Midlothian Laboratories ("Midlothian")

- In 2011 Metrics acquired Midlothian, a wholesale distributor of generic drugs
- Acquisition created a more flexible business model by providing alternative to existing partnership agreements
- Licensed as a wholesale pharmaceutical distributor to over 30 drugstore chains, retail merchandisers, pharmaceutical distributors and hospitals
- State-of-the-art 11,600 $ft^2$ warehouse in Montgomery, Alabama
- Going forward, Metrics plans to distribute newly developed products through Midlothian which is expected to materially change the future channel mix

## Exclusive Partnerships

- Metrics also sells products developed in-house through long-term (up to 10 year) exclusive distribution agreements generating royalties
- Metrics typically receives ~50% share of the profits on generic products sold
- Key products distributed through partnerships are Oxycodone, Liothyronine, Bromfenac and Methamphetamine HCL

## Product revenue by distribution channel (LTM Jun 12)

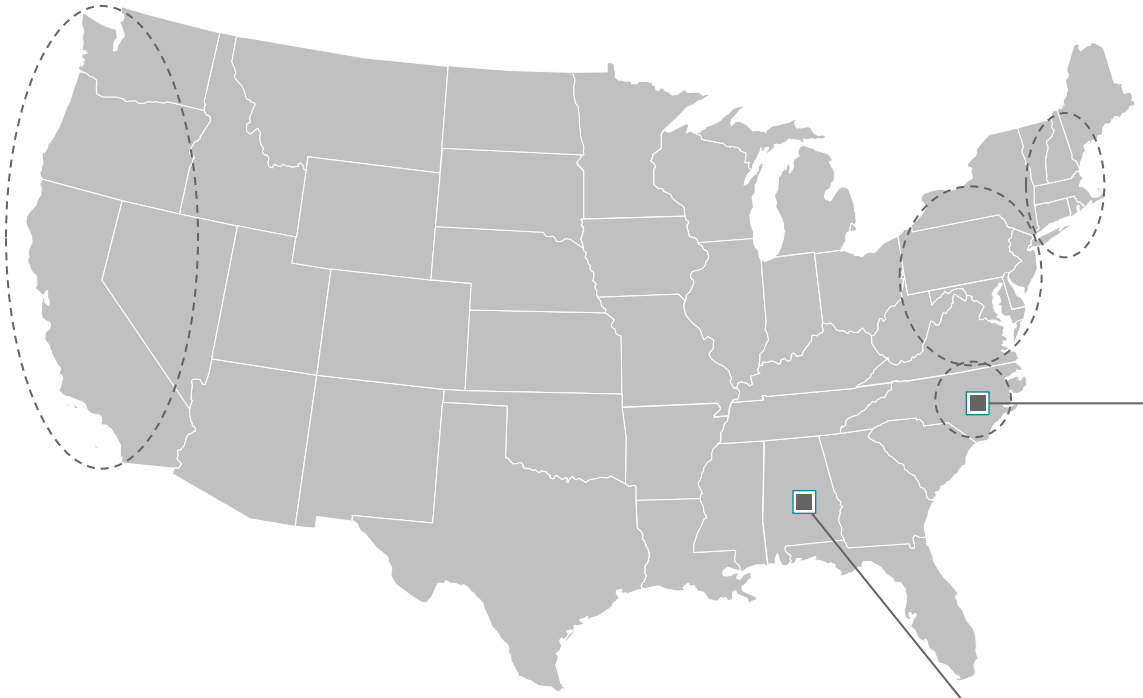



## Metrics distribution partners


**Metrics is moving to an in-house distribution model to capture a greater share of profit**

# Diversified US market footprint

## Metrics sales regions and office locations



**Metrics contract services market coverage**
- Each region is covered by a dedicated territory manager
- Coverage based on density of pharmaceutical companies in the region

**Greenville, North Carolina**

**Base Facility**
- 99,200 ft²

Services
- Analytical services
- Formulation development
- Commercial manufacturing
- Generic drug development
- Drug distribution

Manufacturing capabilities
- 2 granulating rooms and 3 compressing rooms
- 12 rooms for cGMP manufacturing
- Highly potent and cytotoxic drug development facility

Analytical laboratory
- 4,200 ft²
- 5 laboratories

GMP warehouse
- 44,600 ft² cGMP warehouse

**Montgomery, Alabama**

Laboratory & warehouse
- 11,600 ft²
- Midlothian

# Strong financial track record

## Metrics Financials[2]

| (US$ millions) | Dec-10 | Dec-11 | LTM[1] |
|---|---|---|---|
| Contract services | 25.6 | 23.9 | 24.1 |
| Products | 13.7 | 25.7 | 27.5 |
| **Total revenue** | **39.3** | **49.6** | **51.6** |
| | | | |
| Contract services | 15.2 | 14.5 | 14.9 |
| Products | 6.9 | 15.8 | 16.8 |
| **Total Gross Profit** | **22.1** | **30.2** | **31.8** |
| *Margin (%)* | *56.3%* | *60.9%* | *61.6%* |
| | | | |
| R&D expense | 1.6 | 2.4 | 2.8 |
| Operating expenses | 9.1 | 11.3 | 12.9 |
| **EBITDA** | **11.5** | **16.5** | **16.1** |
| *Margin (%)* | *29.1%* | *33.2%* | *31.2%* |
| **Capitalised R&D** | **1.8** | **2.7** | **3.2** |
| **Capital Expenditure** | **1.2** | **1.8** | **NA** |

## Observations

Revenue

- 2011 growth primarily driven by increased sales of existing products as well as the acquisition of Midlothian
- LTM growth reflects the full year effect of the Midlothian acquisition in addition to continued growth in existing products

Gross Profit

- Metrics achieved higher margins in 2011 and LTM due to strong growth of sales in the Products division and improving margins in Contract Services

Total R&D investment

- Significant investment in R&D, at over 20% of Products LTM revenue
  - In mid 2011, management increased R&D spend on generic product development to drive the development of new generic drugs

Operating expenses

- Includes general and administration expenses
  - Increase from Dec 11 to LTM reflects full year impact of Midlothian acquisition and additional insurance expenses

(1) LTM refers to the twelve months ending Jun 2012
(2) Metrics US GAAP results adjusted for restatement of capitalised lease expenses - Dec-10: US$2.3 million; Dec-11: US$2.1 million; and LTM: US$1.8 million (equipment purchased prior to transaction close) and a proportion of R&D has been capitalised in accordance with IFRS & Mayne Pharma policy

# 4. Strategic rationale

# Acquisition highlights

## 1 Direct access to the world's largest pharmaceutical market and participants

- ✓ Mayne Pharma's US centric pipeline can be distributed directly through Metrics' established wholesale channels
- ✓ Established and complementary relationships with a diverse array of pharma and biotech companies

## 2 Strengthens and diversifies revenue streams

- ✓ Diversified revenues across proprietary products, generic products and contract services
- ✓ Complementary exposure and capabilities across European, Asia Pacific and North American markets

## 3 Expands and diversifies the new product pipeline

- ✓ No pipeline overlap – combined business will have 17 products in development targeting markets with annual sales of US$4.5 billion
- ✓ Pipeline contains both proprietary and generic products

## 4 Strong and complementary management team

- ✓ Senior management well known to each other with history of success in the US generic market
- ✓ Metrics management team committed to the business

## 5 Complementary business to Mayne Pharma with significant combination opportunities

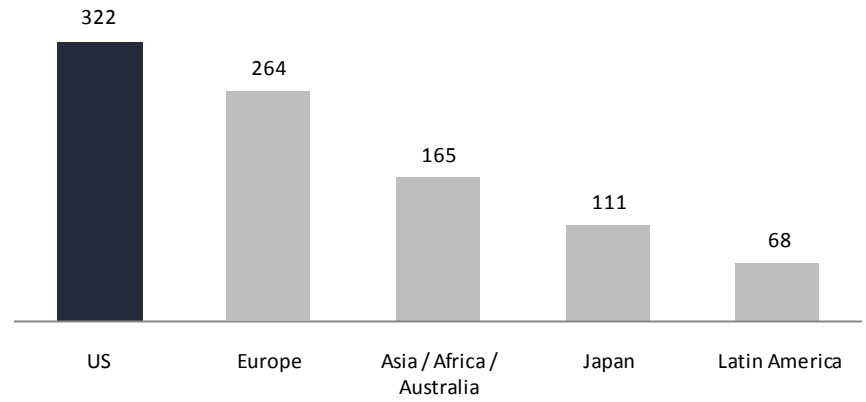
- ✓ Material upside is expected in the medium to long term from cross selling opportunities
- ✓ Strengthens and builds upon existing Mayne Pharma capabilities
- ✓ Distribution of Metrics products and potential in-licensing of Metrics customer products in Australia and select international markets
- ✓ Modified release technology capabilities – solid dose and multi-particulate
- ✓ Handling and experience formulating controlled substances

# Direct access to the world's largest pharmaceutical market and participants



## Global pharmaceutical market by region

(US$ billions)




Source: IMS World Review Executive 2012

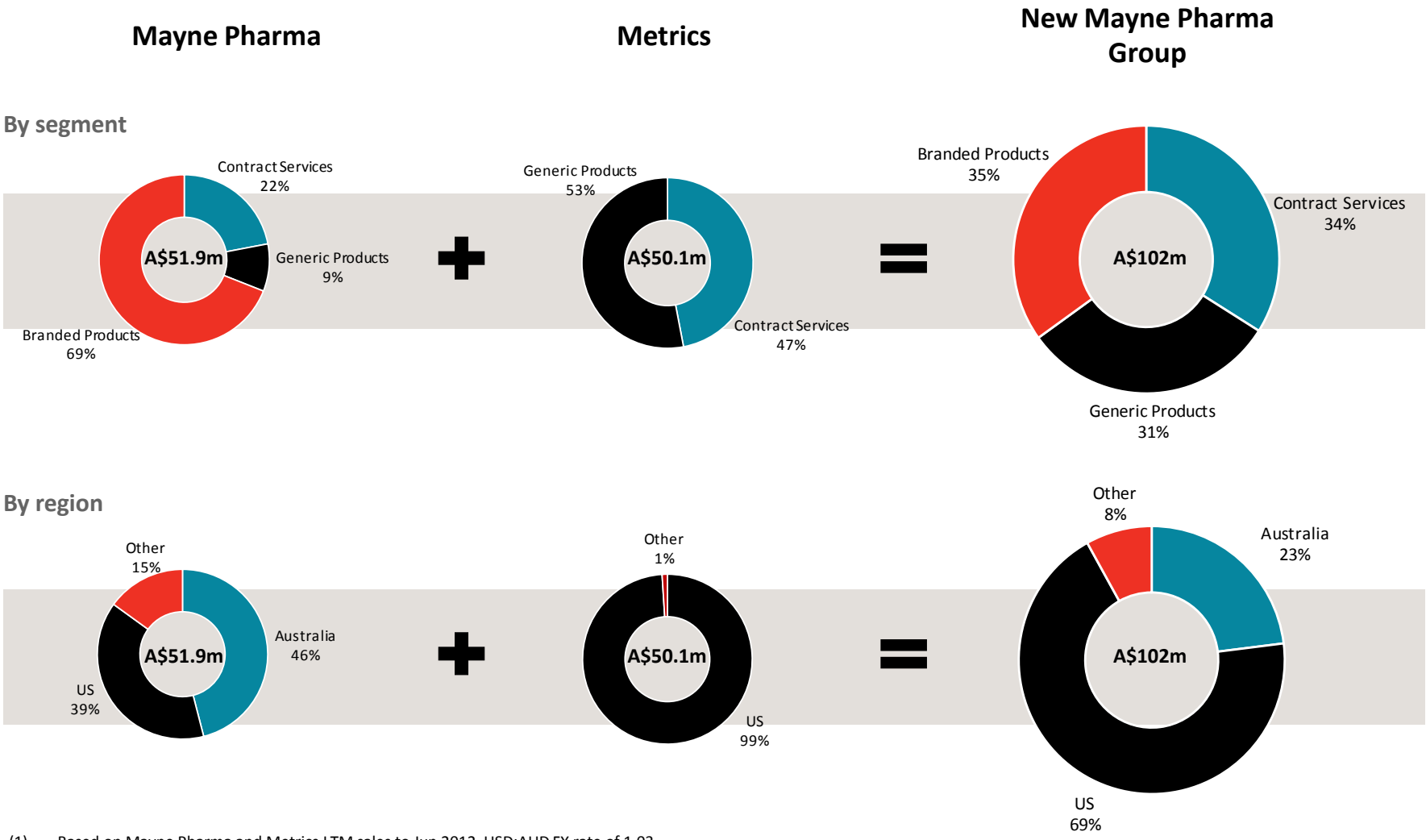
- Provides direct access for Mayne Pharma's existing products to the US market which accounts for ~40% of the global pharmaceutical market
- Strengthens channels to market in other key regions such as Europe and Asia
- Strengthens product offering to existing and new international distributors

## Metrics representative partners and clients

- Metrics blue chip client base of > 100 large and mid-sized pharma companies creates an opportunity for Mayne Pharma to in-license Metrics' customers products in Australia
- Mayne Pharma development pipeline products are able to be distributed in the US by Midlothian (wholesale distributor)

# Strengthens and diversifies revenue streams(1)

**Metrics provides Mayne Pharma with significant leverage into a large and growing US market**

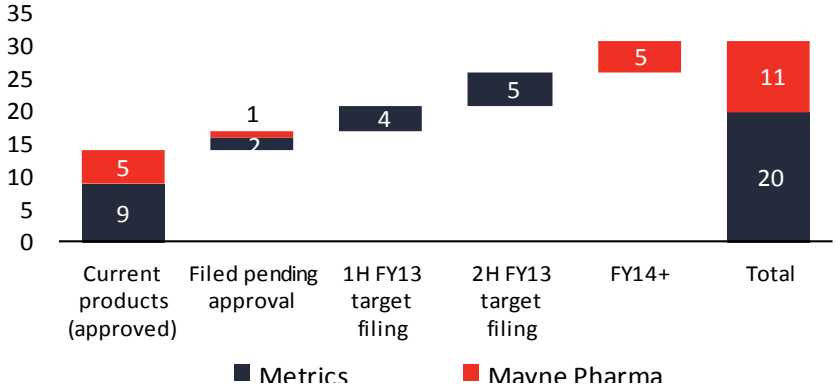



(1) Based on Mayne Pharma and Metrics LTM sales to Jun 2012. USD:AUD FX rate of 1.03

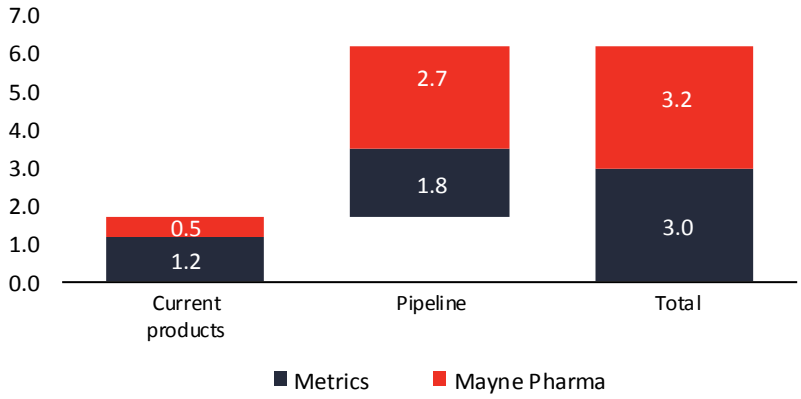
# Expands and diversifies the new product pipeline



## Combined portfolio (number of products)




## Combined portfolio (market size) – US$bn(1)




## Observations

- Metrics has 9 current products with a further 11 in development; 2 of which are pending approval with the FDA and 9 others to be filed in FY13
- Mayne Pharma has 5 existing proprietary products with 3 in development and an additional 3 will be put into development as a result of the acquisition
- Combined business will have 14 marketed products plus 17 new products in various stages of development
- Combined product portfolio and pipeline is targeting a total end market size of ~US$6 billion
- Complementary R&D capabilities and technologies will enable the combined entity to accelerate the development pipeline
  - Three further Mayne Pharma products will be put into development with a target market of ~US$0.8 billion

(1) IMS Health and management estimates

# Strong and complementary management team



## Key employees

**William Phillip (Phil) Hodges, President Metrics, Inc.**
- Founded the Metrics business in 1994
- 30+ years experience in the pharmaceutical industry
- Prior experience includes Burroughs Wellcome (GlaxoSmithKline)

**Richard Moldin, Executive VP Products**
- Commenced with Metrics in 2004
- 40+ years experience in the pharmaceutical industry
- Prior experience includes Burroughs Wellcome, Purepac and Mylan

**Gerald Sakowski, VP Products**
- Commenced with Metrics in 1997
- 20+ years pharmaceutical experience
- Prior experience includes Oneida and Applied Analytical Industries

**Steve Taylor, CFO, VP Finance & HR**
- Commenced with Metrics in 1998
- 30+ years experience in accounting / finance
- Prior experience includes Consolidated Diesel

**Michael D. Ruff, PharmD, CPIP, Vice President, Pharmaceutical Development**
- Commenced with Metrics in 1997
- 25+ years experience in the pharmaceutical industry
- Prior experience includes Burroughs Wellcome

**Jeff Basham, VP Business Development**
- Commenced with Metrics in 2003
- 30+ years experience in the pharmaceutical industry
- Prior experience includes LCM Pharmaceutical

- **Established and experienced leadership team** will remain with business delivering stability at Metrics
- **Expanded management capacity with global experience** which will allow acceleration of new business development opportunities
- **Phil Hodges will remain President of Metrics** and will become a member of Mayne Pharma's Board
- **Richard Moldin will continue to lead the Products business** possessing an outstanding track record in the US generic industry, and is well known to Mayne Pharma management
- **Senior management of Metrics supported by a strong team of direct reports** averaging 19+ years experience
- **Senior management LTI option package** with both tenure and share price hurdles to be finalised

# Complementary business to Mayne Pharma with significant combination opportunities



## Revenue synergies

**Material upside is expected from cross selling opportunities: no synergy benefits are assumed in FY13 guidance**

### Mayne Pharma cross selling opportunities

- Select current and pipeline Mayne Pharma products to be distributed directly in the US by Metrics which will lead to significant revenue and margin uplift
  - Acceleration of the commercialisation of Mayne Pharma's product portfolio utilising Metrics R&D capability and supply chain infrastructure
  - Access to Metrics' DEA license will de-risk Mayne Pharma's extended release pain generic opportunity by providing on the ground critical project management support

### Metrics cross selling opportunities

- Distribution of Metrics' product portfolio and pipeline in Australia and other international markets
  - Select Metrics approved and pipeline products to be launched in Australia: Target market size: US$45 million (IMS Health)
- Ability to attract new in-licensing opportunities in Australia through harvesting opportunities across Metrics' 100+ client base
- Leverage Metrics' customers into Mayne Pharma's Australian R&D contract services
  - Metrics introduces a deeper pool of leading US pharma candidates to provide R&D contract services

### Acceleration of Mayne Pharma pipeline

- Metrics' business development network will enhance access to the Japanese market for SUBACAP® and accelerate partnering and commercialisation

## Cost synergies

**Metrics will expand the geographic and functional footprint of Mayne Pharma with some cost synergies expected across the combined entity**

### Operational efficiencies across combined entity

- US R&D footprint offers a cheaper R&D cost base with an estimated 25% cost saving per FTE by deploying in the US market
- Merged entity will minimise duplication of business development resources in US market
- No cost synergies have been assumed in FY13 guidance

# 5. The new Mayne Pharma Group

# The new Mayne Pharma Group

mayne pharma

## Contract Services

Develops pharma formulations and testing methodologies and provides contract manufacturing

**Major clients:**

Lilly, ArQule, AMGEN, Ardea Biosciences, DSM, sanofi aventis, Salix Pharmaceuticals, Inc., Genentech IN BUSINESS FOR LIFE, MILLENNIUM, Shire

**PF FY12 Revenue of A$34.8m**

## Products

Manufactures and develops proprietary and generic drugs, sold through distribution partners or own wholesale distribution

**Pharmaceutical partners:**

PERRIGO, Abbott A Promise for Life, gsk GlaxoSmithKline, Mylan, Warner Chilcott, Pfizer

**PF FY12 Revenue of A$67.2m**

# Opportunity to drive growth

## Immediate priorities (<12 months)

- Commence integration immediately following completion
- Key focus areas:
  - Synergy extraction
  - Finance and IT
  - Research & development
  - Business development
  - Regulatory affairs
  - Project management
- Relevant Metrics US approved and filed products to be filed in Australia
  - Dossiers to be reviewed and modified for lodgement with the TGA
- Mayne Pharma approved products
  - Confirm business case for launch of select products in the US
- Mayne Pharma pipeline products
  - Begin technology transfer for controlled substance products
  - Utilise formulation expertise and on the ground regulatory knowledge to accelerate development and filing of dossiers
- Leverage Metrics client base and business development capabilities in the US market to fast track in-licensing opportunities

## Ongoing initiatives (>12 months)

- SUBACAP® commercialisation in the US and Japan
- Launch of Mayne Pharma pipeline products in the US through Metrics distribution capability
- Launch of Metrics approved & pipeline products in Australia and select international markets

# Pro forma capitalisation

## Sources & uses

A$m[1]

| Sources | | Uses | |
|---|---|---|---|
| Equity | 65.0 | Up front payment to vendors | 102.6 |
| Debt facility[2] | 43.2 | Transaction fees | 7.0 |
| Existing cash | 1.4 | | |
| **Total** | 109.6 | **Total** | 109.6 |

## Pro forma summary balance sheet at 30 June 2012

A$m

| | Mayne | Pro forma Metrics[3] | Pro forma adjust | Pro-forma as at 30 June 2012 |
|---|---|---|---|---|
| Cash | 11.6 | - | (1.4) | 10.2 |
| Receivables | 3.8 | 12.1 | - | 15.9 |
| Inventory | 7.2 | 4.9 | - | 12.2 |
| PPE | 22.2 | 37.3 | - | 59.5 |
| Intangibles | 4.2 | 0.7 | 62.1[4] | 67.0 |
| Other | 4.9 | 2.6 | - | 7.4 |
| **Total assets** | **53.9** | **57.5** | **60.7** | **172.2** |
| Trade and other payables | 4.2 | 1.5 | - | 5.8 |
| Borrowings | - | - | 41.6[2] | 41.6 |
| Other financial liabilities | 9.3[5] | - | 10.2[6] | 19.5 |
| Other | 9.8 | 5.3 | - | 15.1 |
| **Total liabilities** | **23.4** | **6.9** | **51.8** | **82.0** |
| **Net Assets** | **30.6** | **50.7** | **8.9** | **90.2** |

(1) US amounts converted at a USD:AUD foreign exchange rate of 1.03.

(2) Debt facility of US$48.5 million inclusive of a US$4.0 million revolving credit line, with the capacity to increase it by a further US$15.0 million (Upsize Feature) to support a payment of the maximum earn-out should it be required. Drawdown on the Upsize Feature is subject to satisfying customary conditions. The facility is subject to a maximum leverage of 3.5x LTM EBITDA (US only, US GAAP basis), with an effective interest rate of 7.0%. It has a term of five years. The current portion of the committed debt facility is US$2.2 million. The borrowings are reported net of capitalised borrowing costs of A$1.6m.

(3) Pro forma Metrics 30 June 2012 balance sheet converted from US GAAP to A-IFRS and at a USD:AUD foreign exchange rate of 1.03.

(4) The formal determination of 'fair value' adjustments arising as part of the acquisition has not yet been finalised, and therefore, the acquisition accounting is 'preliminary'.

(5) Hospira earn-out of which A$2.8 million is due by June 2013

(6) The pro forma adjustment of A$10.2 million represents the 30 June 2013 earn-out payment assuming Metrics 12 month ending 30 June 2013 EBITDA of US$20.1 million (A$19.5 million).

# The new Mayne Pharma Group FY13 guidance[1]

| A$m | 1H13[2] | 2H13 | FY13[3] | FY13 outlook |
|---|---|---|---|---|
| **Revenue** | **$25–30m** | **$44–52m** | **$69–82m** | • Mayne Pharma forecast revenue growth (ex US Doryx®) of 6% on pcp driven by expected price increases and volume growth in select products<br>• US Doryx® sales forecast to be substantially lower than FY12 due to introduction of competing generic product and destocking<br>• Metrics' forecast revenue up 10% on pcp driven by the launch of oxycodone caps (approved 26 July 2012) and growth trajectory of existing generic products portfolio |
| - Mayne Pharma | $19–22m | $19–23m | $38–45m | |
| - Metrics | $6–8m | $25–29m | $31–37m | |
| **EBITDA[4][5]** | **$4.2–5.2m** | **$11.9–13.5m** | **$16.1–18.7m** | • Mayne Pharma 1H13 EBITDA impacted by reduced Doryx® volumes partially offset by growth in MPA and MP Global<br>• Metrics' EBITDA forecast to grow by approximately 18% in FY13 on pcp reflecting the scalability of the business<br>• Margin improvement in 2H13 with greater contribution from US Doryx® and full 6 month contribution from Metrics |
| - Mayne Pharma | $1.8–2.0m | $2.7–3.1m | $4.5–5.1m | |
| - Metrics[6] | $2.4–3.2m | $9.2–10.4m | $11.6–13.6m | |
| **NPAT[4][5][6]** | **$0.7–1.0m** | **$3.6–4.2m** | **$4.3–5.2m** | • 7.0% interest on US$43 million acquisition debt<br>• Assumed tax rate of 30% for Mayne Pharma and 39% for Metrics |
| **Adjusted NPAT[4][5]** | **$2.0– 2.7m** | **$6.1–7.1m** | **$8.1–9.8m** | • Excludes non-cash amortisation of intangibles recognised on acquisition of Metrics (FY13: $2.2 million) and Mayne Pharma Intl (FY13: $1.4 million); notional interest on earn-out to Hospira (FY13: $0.7 million); and non-cash LTI charge (est. FY13: $0.2 million) for proposed Metrics Senior Mgmt option plan<br>• The company expects to finalise acquisition accounting by 30 June 2013 |
| **CAPEX** | | | **$4.0–4.5m** | • Further investment in equipment and infrastructure to commercialise the combined new product portfolio |
| **Capitalised R&D[4]** | | | **$4.3–4.8m** | • Investment in R&D across the combined business of almost $10 million in FY13, of which ~50% is capitalised and the other 50% included in EBITDA |

(1) USD:AUD FX rate of 1.03. A 5 cent movement in the USD:AUD FX rate impacts EBITDA by ±$0.6m.
(2) Assumes 1.5 month contribution from Metrics, based on transaction close date of 15 Nov 2012.
(3) Assumes 7.5 month contribution from Metrics , based on transaction close date of 15 Nov 2012.
(4) Metrics' forecast R&D investment has been treated in accordance with the Mayne Pharma accounting policy.
(5) Excludes transaction costs.
(6) Includes non-cash LTI charge estimated at $0.2 million for proposed Metrics Senior Management option plan.

# The new Mayne Pharma Group outlook beyond FY13

## Revenue

**Solid revenue and margin growth expected across all business segments of the combined entity**

**Mayne Pharma**

- Mayne Pharma revenue expected to exhibit strong growth in FY14 (over FY13) through
  - Improved sales and marketing of existing products and in-licensing of new products into MPA
  - Targeted out-licensing into new international territories
  - Full year of supply of US Doryx® following generic event in May 2012 and destocking impact in FY13
  - First full year revenues from SUBACAP® in Europe (expected launch in 2H FY13) and potential upfront fee from partnering SUBACAP® in the US

**Metrics**

- Metrics' revenue expected to grow in FY14 and FY15 driven by the expected approval and launch of a further 11 products in the US with current ex-manufacturer sales greater than US$1.8 billion
- US$16 million total investment in R&D over CY10, CY11 and CY12 driving continued expansion of product pipeline and growth in the short to medium term

## R&D

- Ongoing investment in R&D across the merged business of around 12-15% of sales will drive delivery of substantial future growth from new pipeline products

## EBITDA

- The new Mayne Pharma Group has a highly scalable platform from which to grow
  - Large portion of the revenue growth across the business will be achievable off the existing SG&A base
  - Move to increasing direct distribution model for pipeline products will enhance margins and profitability
- Accordingly EBITDA margins are expected to increase in FY14

## CAPEX

- Combined capex of approximately $4.5 million per year expected

# 6. Acquisition funding

# Acquisition funding

## Equity raising

**Equity raising offer structure**

- A$65.0m total equity raising, comprising:
  - A$30.4m underwritten 1-for-1 pro-rata accelerated non-renounceable entitlement offer[1] (**Entitlement Offer**)
    - Approximately A$5.7 million institutional tranche (**Institutional Entitlement Offer**)
    - Approximately A$24.7 million to retail tranche (**Retail Entitlement Offer**)
  - A$9.1m underwritten unconditional placement to institutional investors (**Unconditional Placement**)
  - A$19.0m underwritten conditional placement to institutional investors (**Conditional Placement**)
  - A$2.6m conditional placement to certain Metrics shareholders, with the ability to upsize to A$3.1m (**Metrics Placement**)[2] – subscription agreements have been entered into in relation to the minimum amount
  - A$3.0m conditional placement to Mr Bruce Mathieson and related investment entities (**Mathieson Placement**)
  - A$0.3m conditional placement to Mayne Pharma Chairman, Roger Corbett AO (**Corbett Placement**)
  - A$0.5m conditional placement to Mayne Pharma CEO, Scott Richards (**Richards Placement**)
- Underwritten components are underwritten by Credit Suisse (Australia) Limited and UBS AG, Australia Branch

**Director support for the equity raising**

- All Mayne Pharma Directors have committed to take up their full entitlement in the Entitlement Offer
- Mr Bruce Mathieson and related investment entities have committed to take up the Mathieson Placement,
- Mr Roger Corbett AO has committed to take up the Corbett Placement
- Mr Scott Richards has committed to take up the Richards Placement
- Bruce Mathieson has also agreed to sub-underwrite A$5.4m of the Retail Entitlement Offer on customary terms and for a fee of 1.5% of the sub-underwritten amount (consistent with the fee payable to institutional sub-underwriters)
  - Bruce Mathieson's obligations to sub-underwrite will cease if the Underwriting Agreement is terminated
  - depending on the amount of New Shares allotted to Bruce Mathieson under the sub-underwriting agreement (if any), he and related investment entities will have a post raising[3] shareholding of between 8.8% and 14.5%

(1) The underwriting obligations do not extend to Bruce Mathieson's (and related investment entities) entitlement shares
(2) Metrics Placement denominated in US$. These amounts represent the A$ equivalent based on an AUD:USD rate of 1.03
(3) Based on the A$65.0m equity raising, and excluding any Additional Retail Offer

# Acquisition funding

## Equity raising (continued)

**Offer pricing**

- Issue price of A$0.20 per new share issued under the equity raising (**New Share**)
  - 20.3% discount to theoretical ex-raising price (TERP)(1), with TERP calculated to reflect all offer components
- New Shares issued will rank equally with existing Mayne Pharma shares in all respects

**Shareholder approval for conditional placements**

- Settlement of each conditional placement is subject to Mayne Pharma shareholder approval of that conditional placement by ordinary resolutions at Mayne Pharma's Annual General Meeting to be held on 9 November 2012
  - separate, independent resolutions will be put forward to approve (i) the Conditional Placement and Metrics Placement, (ii) the Mathieson Placement, (iii) the Corbett Placement and (iv) the Richards Placement
- The Board of Mayne Pharma has been advised:
  - by Mr Bruce Mathieson that his current intention is to vote his shareholding (8.8%) in favour of all conditional placements that he is eligible to vote on, including the Conditional Placement;
  - by Dr Roger Aston that his current intention is to vote his shareholding (5.9%) in favour of all conditional placements that he is eligible to vote on, including the Conditional Placement; and
  - by Mr Richard Smith that his current intention is to vote his shareholding (4.0%) in favour of all conditional placements that he is eligible to vote on, including the Conditional Placement

(1) TERP is the theoretical price at which Mayne Pharma shares should trade immediately after the ex-date for the equity raising (including the impact of New Shares to be issued under the equity raising including all placement components, and excluding any Additional Retail Offer), holding all else constant. TERP is a theoretical calculation only and the actual price at which Mayne Pharma shares trade will depend on many factors and may not be equal to the TERP.

# Acquisition funding

## Equity raising (continued)

**Mechanisms for Mayne Pharma shareholders to participate in the equity raising**

- Under the Entitlement Offer all eligible shareholders are entitled to subscribe for up to their 1-for-1 entitlement
- In addition, eligible retail shareholders may apply for Additional New Shares in excess of their entitlement through the Top Up Offer, with such over-subscriptions to be satisfied out of shortfall shares, subject to Board discretion and potential scaleback
- To the extent that eligible retail shareholders apply for an amount of Additional New Shares in the Top Up Offer of up to an additional 1.13 times their entitlement (the **Pro Rata Participation Amount**) and have such application scaled back, the Mayne Pharma Board will seek to implement a subsequent offer to such shareholders to enable them to subscribe for their full Pro Rata Participation Amount (the **Additional Retail Offer**) at the issue price of A$0.20 per new share
  - the maximum size of any Additional Retail Offer is approximately A$22.5m
  - the conduct of any Additional Retail Offer is subject to obtaining any necessary shareholder and regulatory approvals

## Debt facility

**New Debt Facility**

- US$48.5m debt funding with additional US$15m ‘upsize’ feature with preferred financier
  - US$44.5m term loan with 5 year maturity plus a US$4.0m revolver
- Detailed commitment letter subject to customary conditions executed. Remains subject to full documentation (in progress)

# Transaction timetable[1]

| | |
|---|---|
| Institutional Entitlement Offer opens | Thursday 4th October |
| Institutional Entitlement Offer, Unconditional Placement and Conditional Placement bookbuild | Friday 5th October |
| MYX shares recommence trading | Monday 8th October |
| Notice of meeting dispatched to Shareholders | Tuesday 9th October |
| Entitlement Offer Record Date (7pm Sydney/Melbourne time) | Wednesday 10th October |
| Retail Offer Document and Application and Entitlement Forms dispatched to Eligible Retail Shareholders | Friday 12th October |
| Retail Entitlement Offer opens | Friday 12th October |
| Settlement of the Institutional Entitlement Offer and Unconditional Placement | Tuesday 16th October |
| Allotment and commencement of trading of New Shares issued under the Institutional Entitlement Offer and Unconditional Placement | Wednesday 17th October |
| Retail Entitlement Offer closes (5pm Sydney/Melbourne time) | Monday 29th October |
| Settlement of the Retail Entitlement Offer | Monday 5th November |
| Allotment of Retail Entitlement Offer Shares | Wednesday 7th November |
| Commencement of trading of Retail Entitlement Offer Shares | Thursday 8th November |
| Annual General Meeting of Mayne Pharma Shareholders to also approve the Conditional Placement, Metrics Placement, Mathieson Placement, Corbett Placement and Richards Placement | Friday 9th November |
| Settlement of the Conditional Placement, Mathieson Placement, Corbett Placement and Richards Placement | Monday 12th November |
| Allotment and commencement of trading of New Shares issued under the Conditional Placement, Mathieson Placement, Corbett Placement and Richards Placement | Tuesday 13th November |
| Completion of Metrics acquisition, and settlement and allotment of the Metrics Placement | Mid November |
| Additional Retail Offer (if required) | Late November – December |



(1) Indicative timetable, subject to change

# 7. Key risks

# Key risks

This section discusses some of the risks associated with an investment in Mayne Pharma. Mayne Pharma's business is subject to a number of risk factors both specific to its business and of a general nature which may impact on its future performance and forecasts. Before subscribing for Mayne Pharma shares, prospective investors should carefully consider and evaluate Mayne Pharma and its business and whether the shares are suitable to acquire having regard to their own investment objectives and financial circumstances and taking into consideration the material risk factors, as set out below. The risk factors set out below are not exhaustive. Prospective investors should consider publicly available information on Mayne Pharma, examine the full content of this presentation and consult their financial or other advisers before making an investment decision.

## Operational risks

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| **Economic conditions** | Mayne Pharma may be affected by general economic conditions (including, for example, interest rates, inflation, foreign exchange rates and the labour market environment). The changes in economic conditions may have an adverse effect on Mayne Pharma's activities, as well as on its ability to fund those activities. |
| **Industry regulatory risks** | Mayne Pharma operates within a highly regulated industry, relating to the manufacture as well as the distribution and supply of pharmaceutical products. As such, the business of Mayne Pharma is continually exposed to the risk of new government policies, regulations and legislation being introduced and changes to existing government policies, regulations and legislation which may impact or restrict its potential profitability. |
| **Pricing and reimbursement** | The commercial success of Mayne Pharma's approved products is substantially dependent on achieving acceptable pricing and whether acceptable third-party coverage and reimbursement is available from government bodies, private health insurers and other third-parties. This process of obtaining pricing for products is time consuming and the outcomes in certain jurisdictions may not be sufficient to warrant the marketing of products in that jurisdiction. Government bodies, national health authorities and other third-parties are increasingly seeking to contain healthcare costs by delaying reimbursement for, and limiting both the coverage and the level of reimbursement of new products and, as a result, they may not cover or provide adequate payment for Mayne Pharma's products. It is not uncommon in some jurisdictions for multiple applications to be required before pricing and reimbursement approvals are accepted. An inability to obtain or delays in obtaining satisfactory pricing and reimbursement in certain jurisdictions may impair Mayne Pharma's' ability to effectively commercialise products in those jurisdictions. Even if products receive acceptable pricing and reimbursement, pricing and reimbursement levels are subject to change. As a result, Mayne Pharma's products may not be considered cost effective and reimbursement may not be available to consumers or may not be sufficient to allow Mayne Pharma's products to be marketed on a competitive basis. |
| **Product registrations** | The ability of Mayne Pharma to offer its products for sale depends on licences and registrations being obtained and maintained by Mayne Pharma from regulatory agencies such as the TGA (Therapeutic Goods Administration of Australia) and the FDA (US Food and Drug Administration). Mayne Pharma can give no assurances that it will successfully register its new products or that the appropriate approvals will be granted for these products on a timely basis. Delays, or failure to obtain such registration and/or approval may have a material adverse effect on the financial performance of Mayne Pharma. |

# Key risks

## Operational risks (continued)

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| **Product liability and uninsured risks** | Mayne Pharma's business exposes it to potential product liability risks that are inherent in the marketing and use of its products and as such Mayne Pharma has secured insurance to cover various product liability risks in the course of maintaining its business. However, there can be no assurance that adequate or necessary insurance coverage will be available at an acceptable cost or in sufficient amounts, if at all, or that product liability or other claims would not materially and adversely affect the business or financial condition of Mayne Pharma. |
| **Competition risk** | Mayne Pharma conducts business in a highly competitive industry in which there are a number of well established competitors that have significantly greater financial resources, sales and marketing organisations, market penetration and development capabilities, as well as broader product offerings and greater market and brand presence. There can be no assurances given in respect of Mayne Pharma's ability to compete. Mayne Pharma's financial performance and the value of Mayne Pharma could be materially adversely affected if existing competitors increase market share or new competitors enter the market. |
| **Access to capital** | The Mayne Pharma business model requires ongoing re-investment into developing the underlying product portfolio for supply into key distribution channels, and for working capital to enable continued servicing of key customers. Mayne Pharma will continue to rely on existing finance facilities as well as reinvesting available profits as deemed appropriate. See Funding risk below |
| **Reduction in expected sales from Doryx®** | In May 2012, the US District Court upheld the validity of the US patent covering the Doryx® 150mg product. The Court also determined that the proposed generic versions of the Doryx® 150mg product to be launched by Mylan Pharmaceuticals Inc. ("Mylan") and Impax Pharmaceuticals Inc. ("Impax") did not infringe this patent. As a result, Mylan entered the market in May 2012 with a single-scored generic version of the Doryx® dual-scored 150mg tablets. The timing of entry of other generics into the market for the Doryx® 150mg product is currently unknown by Mayne Pharma. Mayne Pharma is unable to accurately determine the impact of these events on the market for Doryx®. |
| **Mylan litigation risk** | Mylan filed an antitrust suit against Warner Chilcott and Mayne Pharma (including its subsidiary Mayne Pharma International Pty Ltd) in the US District Court for the Eastern District of Pennsylvania on 9 July 2012. Mylan alleges that Mayne Pharma and Warner Chilcott have engaged in conduct that constrained generic competition for Doryx®, and seeks unspecified damages and attorney's fees. Mayne Pharma and Warner Chilcott are reviewing the complaint and intend to vigorously defend the litigation. Additionally, Mayne Pharma does not foresee incurring any material financial liabilities in relation to this action based on pre-existing contractual rights with Warner Chilcott. There is however a risk that Mayne Pharma may incur material financial liabilities if these contractual rights are deemed to be unenforceable or not broad enough to cover the liabilities. |

# Key risks

## Operational risks (continued)

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| **Relationships with customers** | Mayne Pharma remains exposed to competitor pressures in retaining and attracting customers. The loss of a key customer, the inability to renew contracts on similar terms, or the inability of the business to attract new customers may have a material impact on future profitability and efficient utilisation of fixed assets invested in the business. Mayne Pharma is exposed to the risk of its customers failing to honour payment obligations. |
| **Relationship with distributors** | Mayne uses 3rd parties to sell and / or distribute its products. These 3rd parties may choose to prioritise other products or may elect not to renew distribution agreements when they expire. Should this occur, Mayne Pharma may not be able to sell its products or may suffer delays in appointing new distributors or sales partners. |
| **Relationships with suppliers** | Mayne Pharma's performance may be negatively impacted if it cannot enter into reasonable commercial agreements with key third party suppliers. |
| **Reliance on key personnel** | Mayne Pharma is committed to providing an attractive employment environment, conditions and prospects to assist in retaining its key senior management personnel. However, there can be no assurance that Mayne Pharma will be able to retain these key personnel. The loss of key personnel or the inability to recruit and retain high calibre staff could have a material adverse effect on Mayne Pharma. The addition of new employees and the departure of existing employees, particularly in key positions, can be disruptive and could have an adverse effect on Mayne Pharma. |
| **Patents** | From time to time, patents on products expire, leading to the launch of less expensive generic branded products. The Australian Commonwealth Government regulates the maximum price that may be paid for these products when listed on the PBS schedule. Any changes to the PBS generally or in relation to Mayne Pharma's products may have a material impact on Mayne Pharma. |

# Key risks

## Acquisition risks

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| **Completion risk** | Completion of the transaction is expected mid November 2012. Material conditions precedent are Mayne Pharma obtaining committed debt and equity funding by 12 December 2012 (Funding Condition), Metrics obtaining stockholder approval (which is expected given the receipt of necessary proxies in favour of the resolution) and there being no material adverse effect (MAE) in relation to Metrics. If Mayne Pharma shareholder approval for the Conditional Placement, Metrics Placement, Mathieson Placement, Corbett Placement and Richards Placement are not obtained, Mayne Pharma may need to consider alternatives to fund the balance of the purchase price for the acquisition. A break fee of US$1,300,000 is payable by Mayne Pharma if the Funding Condition is not satisfied or Mayne Pharma funding is not available at completion of the acquisition (unless as a result of a MAE in relation to Metrics). A break fee of US$1,300,000 is payable by Metrics if the merger agreement is terminated because Metrics does not obtain stockholder approval or there is a Metrics MAE, or as a result of Metrics exercising a fiduciary out. If the acquisition does not complete for any reason, Mayne Pharma will consider options in relation to the use of the funds raised under the equity raising, including use of the funds for general corporate purposes, or return of the funds to shareholders. |
| **Funding risk** | There can be no guarantees that funds raised through the capital raising will be sufficient to successfully achieve all the objectives of the Company's overall business strategy. The Mayne Pharma business model requires ongoing additional capital to fund its product portfolio. If Mayne Pharma is unable to use debt or equity to fund expansion after the substantial exhaustion of the proceeds of the capital raising there can be no assurances that Mayne Pharma will have sufficient capital resources for that purposes, or other purposes, or that it will be able to obtain additional resources on terms acceptable to Mayne Pharma or at all. Mayne Pharma may seek to obtain funding by issuing additional shares or borrowing money. Any additional equity financing may be dilutive to shareholders and any debt financing, if available, may involve restrictive covenants, which may limit Mayne Pharma's operations and business strategy. Mayne Pharma's failure to raise capital if and when needed could delay or suspend its business strategy and could have a material adverse effect on Mayne Pharma's activities. In the event that the preferred debt-financier for the deal cannot achieve successful syndication within 30 days after closing, modifications to the debt package may occur: eg. pricing of the Term Loan may be increased by up to 100 basis points and / or amortization of the Term Loan may be increased by up to 25% per annum. There is a risk that the debt funding documents may not be executed or the conditions enabling the drawing down of that facility are not satisfied in which case Mayne Pharma may not be able to complete the acquisition and will need to pay the US1,300,000 break fee to Metrics, unless it obtains alternative funding (debt and/or equity). |
| **Reliance on information provided** | Mayne Pharma undertook a due diligence process in respect of Metrics, which relied in part on the review of financial and other information provided by the vendors of Metrics. Despite taking reasonable efforts, Mayne Pharma has not been able to verify the accuracy, reliability or completeness of all the information which was provided to it against independent data. Similarly, Mayne Pharma has prepared (and made assumptions in the preparation of) the financial information relating to Metrics on a stand-alone basis and also to Mayne Pharma post-acquisition ("Mayne Pharma Group") included in this Presentation in reliance on limited financial information and other information provided by the vendors of Metrics. Mayne Pharma is unable to verify the accuracy or completeness of all of that information. If any of the data or information provided to and relied upon by Mayne Pharma in its due diligence process and its preparation of this Presentation proves to be incomplete, incorrect, inaccurate or misleading, there is a risk that the actual financial position and performance of Metrics and the Mayne Pharma Group may be materially different to the financial position and performance expected by Mayne Pharma and reflected in this Presentation. Investors should also note that there is no assurance that the due diligence conducted was conclusive and that all material issues and risks in respect of the acquisition have been identified. Therefore, there is a risk that unforseen issues and risks may arise, which may also have a material impact on Mayne Pharma. |

# Key risks

## Acquisition risks (continued)

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| **Analysis of acquisition opportunity** | Mayne Pharma has undertaken financial, business and other analyses of Metrics in order to determine its attractiveness to Mayne Pharma and whether to pursue the acquisition. It is possible that such analyses, and the best estimate assumptions made by Mayne Pharma, draws conclusions and forecasts that are inaccurate or which are not realised in due course. To the extent that the actual results achieved by Metrics are different than those indicated by Mayne Pharma's analysis, there is a risk that the profitability and future earnings of the operations of the Mayne Pharma Group may be materially different from the profitability and earnings expected as reflected in this Presentation. |
| **Integration risk** | The acquisition involves the integration of the Metrics business, which has previously operated independently to Mayne Pharma. As a result, there is a risk that the integration of Metrics may be more complex than currently anticipated, encounter unexpected challenges or issues and takes longer than expected, diverts management attention or does not deliver the expected benefits and this may affect Mayne Pharma Group's operating and financial performance. Further, the integration of Metrics' accounting functions may lead to revisions, which may impact on the Mayne Pharma Group's reported financial results. |
| **Historical liability** | If the acquisition of Metrics completes, Mayne Pharma may become directly or indirectly liable for any liabilities that Metrics has incurred in the past, which were not identified during its due diligence or which are greater than expected, and for which the market standard protection (in the form of representations and warranties and indemnities) negotiated by Mayne Pharma prior to its agreement to acquire Metrics turns out to be inadequate in the circumstances. Such liability may adversely affect the financial performance or position of Mayne Pharma Group post acquisition. |
| **Acquisition accounting** | In accounting for the acquisition in the pro-forma combined balance sheet, Mayne Pharma has performed a preliminary fair value assessment of all of the assets, liabilities and contingent liabilities of Metrics. Mayne Pharma will undertake a formal fair value assessment of all of the assets, liabilities and contingent liabilities of Metrics post-acquisition, which may give rise to a materially different fair value allocation to that used for purposes of the pro-forma financial information set out in this Presentation. Such a scenario will result in a reallocation of the fair value of assets and liabilities acquired to or from goodwill (included in the intangibles line in the pro-forma summary balance sheet) and may lead to an increase or decrease in depreciation and amortisation charges in the Mayne Pharma Group's income statement (and a respective increase or decrease in net profit after tax). |
| **Change of control** | The acquisition may trigger change of control clauses in a number of material contracts to which Metrics is a party. If triggered, the change of control clauses may require counterparty consent. If the consent of a counterparty cannot be obtained and a material contract containing a change of control clause is terminated or renegotiated on less favourable terms, it may have an adverse impact on Mayne Pharma Group's financial performance and prospects. |

# Key risks

## General risks

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| **Share price fluctuations** | The market price of Mayne Pharma Group shares will fluctuate due to various factors, many of which are non-specific to Mayne Pharma Group, including recommendations by brokers and analysts, Australian and international general economic conditions, inflation rates, interest rates, changes in government, fiscal, monetary and regulatory policies, global geo-political events and hostilities and acts of terrorism, and investor perceptions. Fluctuations such as these may adversely affect the market price of Mayne Pharma Group shares. |
| **Economic risks** | Mayne Pharma Group is exposed to economic factors in the ordinary course of business. Factors such as changes in fiscal, monetary and regulatory policies can adversely impact Mayne Pharma Group's earnings.<br><br>Businesses such as Mayne Pharma Group that borrow money are potentially exposed to adverse interest rate movements that may affect the cost of borrowing, which in turn would impact on earnings and increase the financial risk inherent in those businesses. |
| **Foreign exchange risk** | A substantial proportion of Mayne Pharma Group's revenues and costs are denominated in currencies other than Australian dollars and, post the acquisition, its debt will be denominated in United States dollars. Exchange rate movements affecting these currencies may impact the income statement or assets and liabilities of Mayne Pharma Group, to the extent the foreign exchange rate risk is not hedged or not appropriately hedged. It is Mayne Pharma Group's policy to enter into simple Forward Exchange Contracts or Participating Forward Exchange Contracts over a set percentage of the forecast net receipts of US dollars. The percentages used vary depending on the length of the forecast period. Mayne Pharma Group also holds assets and liabilities in United States dollars (USD), British pounds (GBP), Japanese yen (JPY) and Euro (EUR). The existence of both assets and liabilities denominated in USD provides a limited natural hedge against adverse currency movements. |
| **Government policies and legislation** | Mayne Pharma Group operates in highly regulated industry segments. Mayne Pharma Group may be affected by changes to government policies and legislation, including those relating to the pharmaceutical industry, property, the environment, taxation, the regulation of trade practices and competition. Mayne Pharma Group is also subject to the regulatory requirements of the Corporations Act, the ASX Listing Rules and ASIC policy. Changes to legislation or to these regulatory requirements or other policy and procedures may affect Mayne Pharma Group, its business operations and financial performance, or have other unforeseen implications. |
| **Litigation** | There has been substantial litigation and other proceedings in the pharmaceutical industry. Defending against litigation and other third party claims would be costly and time consuming and would divert management's attention from the business, which could have a significant financial effect on Mayne Pharma's business. |

# Key risks

## General risks (continued)

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| **Change in accounting policy** | Mayne Pharma Group is subject to the usual business risk that there may be changes in accounting policies which impact Mayne Pharma Group. |
| **Asset impairment** | As a consequence of the global financial crisis, ASIC has specifically identified impairment of assets as an issue for Australian companies. The Board regularly monitors impairment risk. Consistent with Australian Accounting Standard AASB 136 Impairment of Assets, Mayne Pharma Group is periodically required to assess the carrying value of its non-current assets, including its brands and goodwill. Where the recoverable amount of an asset is assessed to be less than its carrying value, Mayne Pharma Group is obliged to recognise an impairment charge in its income statement. Impairment charges can be significant and can reduce the level of a company's profits and, potentially, its capacity to pay dividends. Impairment charges are a non-cash item. |
| **Dividends** | The payment of any future dividends will be at the discretion of the Board and will depend, amongst other things, on the performance and financial circumstances of the Company at the relevant time. However, the Board's general policy will be to distribute cash flows generated by the Company's operating activities which are surplus to the Company's ongoing requirements for maintaining and growing the business. There can be no guarantee as to the likelihood, timing, franking or quantum of future dividends from Mayne Pharma Group. |
| **Taxation** | Future changes in Australian taxation law, including changes in interpretation or application of the law by the courts or taxation authorities in Australia, may affect taxation treatment of an investment in Mayne Pharma Group shares, or the holding and disposal of those shares.<br><br>Further, changes in tax law, or changes in the way tax law is expected to be interpreted, in the various jurisdictions in which Mayne Pharma Group operates, may impact the future tax liabilities of Mayne Pharma Group. |