



PALLA PHARMA

PAL:ASX ANNOUNCEMENT

18 December 2019

PALLA PHARMA EXITS UNPROFITABLE NON-OPIATE BASED CMO MANUFACTURING AGREEMENT AND EXTENDS CODEINE PHOSPHATE (CPO) TABLET AGREEMENT WITH KARO PHARMA

- Early exit from legacy CMO contract has significant positive benefits for PAL by reducing the unprofitable non-opiate production releasing processing and tableting capacity for more profitable CPO tableting production in 2020
- Two-year extension for codeine phosphate-based tablets generating a minimum of \$3 million Revenue and reconfirming our competitive advantage in opiate based tablets
- The CMO Contract now ends early February instead of 1 June releasing approximately A\$3 million in working capital in 1H 2020 which was previously required as part of the contract
- Accelerates right sizing of CMO business FTEs in-line with focus on higher margin opiate products, reducing indirect costs by \$1 million on an annualised basis

Palla Pharma Limited (ASX:PAL), the only growing manufacturer and supplier of opiate-based pain relief in the global pain relief market, has negotiated an early exit of its legacy manufacturing agreement with a major non-opiate based Contract Manufacturing Organisation (CMO) by February 2020. The supply agreement was inherited as part of the acquisition of Palla Pharma's downstream Norway operations in October 2017 and was due to run until June 2020.

The early termination releases approximately A\$3 million of working capital used as safety stock and allows Palla to pursue more profitable opioid-based tablet manufacturing contracts, freeing up over 1 Billion tablets of tableting capacity which can generate additional revenue from higher margin opiate-based tablets.

Jarrold Ritchie, Palla Pharma Chief Executive Officer, said this was in line with Palla's longer-term manufacturing strategy.

"Changes like this allow us to free up production to harness our competitive advantage as the lowest-cost, high-quality, vertically-integrated NRM producer servicing the world's legal narcotics market," he said. "It also allows Palla to explore more favourable contracts with opioid-based products on healthier margins."

"The bespoke nature of the legacy CMO contract acquired in the acquisition and the range of extensive requirements needed to meet customer obligations had an adverse financial impact on Norway operations and overall profit margins."

"The early termination allows Palla to reduce direct labour costs associated with the Norway plant and improve manufacturing efficiencies."

In addition to the early contract termination, Palla has entered into a new contract with the same customer to continue to provide its codeine phosphate-based tablets on favourable terms for a further period of two years.

This announcement has been authorised for release by the Board.

Palla Pharma Limited

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About Palla Pharma Limited:

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

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