



## ASX Announcement

Monday 30<sup>th</sup> April 2018

### Investor Update

TPI Enterprises Limited (TPE) provides the following update for both its Norwegian and Australian operations and the consolidated business, six months after acquiring the Norwegian-based Opiates Active Pharmaceutical Ingredient (“API”) and Contract Manufacturing Organisation (“CMO”) business of Vistin Pharma ASA

The Norwegian acquisition was an important strategic step for TPE. The acquisition provided TPE with the immediate ability to value add the Narcotic Raw Material (“NRM”) produced in Australia into API in Norway and replaced the need for the planned greenfield development of an API facility in Portugal. The benefits of this acquired downstream capability are:

- Broaden the customer universe from a small number of NRM customers to a wide range of API customers, many of whom contract on shorter term bases and hence are immediately contestable;
- Provide the capability to directly enter the finished dosage end market via the CMO business infrastructure;
- Capture increased margin from the further processing of NRM, thereby maximising the value of our low-cost NRM manufacturing capability.

TPE is pleased to confirm that the API division is already growing rapidly and performing in line with expectations.

### Norway Operations

As identified in the Acquisition Update (dated 1 November, 2017), the Norwegian operations are comprised of two businesses, the API Division, which is responsible for the conversion of morphine into either codeine phosphate or pholcodine, and the CMO division, which is responsible for the supply of finished dosage products to third parties (e.g. packaged tablets).

#### a. API Division

The principal strategic benefit of acquiring the Norwegian business was it enabled TPE to fast track access to the API market for Codeine Phosphate and Pholcodine. Given approx. 80% of the cost to produce Codeine Phosphate resides in the Morphine NRM, TPE’s NRM production cost advantage will enable it to become the low-cost supplier of Codeine Phosphate.

We are pleased to report that we are on track to produce and sell the equivalent volume of Codeine Phosphate in the first 6 months of 2018 as the previous owners sold annually in each of the prior 3 years. We expect sales volumes in the second half of 2018 to continue to increase on a quarter by quarter basis. While pricing across the industry is at cyclical lows, we are attracting new business at commercially attractive margins, demonstrating TPE’s advantageous cost of production.

We are adding staff within the API division to allow for 7 day a week operation (previously 5 days a week) and, with further investment in drying capacity, the API Division will continue to deliver the



volume growth for the medium term we have previously forecast. We have also added two new staff in the Product Development area to focus on developing and registering new API products such as Morphine Sulphate, Dihydrocodeine and the anti-addiction narcotic Naloxone.

#### **b. CMO Division**

The CMO division provides manufacturing services for third parties under long term contracts. These services include compounding, tableting, packaging and warehousing. This part of the business requires high levels of labour and working capital and generates lower margins than the core business of TPE, NRM production and its downstream processing.

At the time of acquisition, the CMO Division had two main customers together contributing revenue of approx. A\$28 million per annum. The major customer supply contract with Karo Pharmaceutical (previously Weifa) continues until May 2020 unless otherwise mutually agreed and provides about 55% of the CMO volume and 65% of CMO Revenue. The other CMO contract was with an Indian pharmaceutical company producing Codeine Phosphate tablets for the UK generic market.

After careful review of the operational cost of servicing the smaller supply contract, TPE management has decided to cease supply of tablets to the smaller of the CMO customers after May 2018. TPE will now focus its attention on both the API Division and efficiently supplying its largest CMO customer, Karo Pharma. This streamlining of the CMO business will allow TPE to activate a significant cost out program, thereby enhancing the profitability of the CMO business into the future. However, the CMO Division's profitability will be impacted in the short term by the loss of revenue from the terminated CMO customer contract until the associated costs in the business are removed.

Importantly, TPE will be able to utilise the assets of the CMO Division for tableting and packaging its own product rather than just for the benefit of third parties. To realise this opportunity to extend the downstream processing of the NRM and associated API, TPE will need to make a modest investment in the acquisition of product dossiers. These dossiers will allow TPE to market and sell directly into regional generic markets, giving TPE access to additional markets and allow for additional margin accretion in the range of 5-10%.

#### **c. Cost out Program**

As discussed above, TPE management has initiated a significant reduction in headcount at the Norway facility (approximately 33 FTEs or a one third reduction) related largely to the decision to terminate the non-core CMO Division customer contract. The headcount reduction will mostly affect the CMO Division, with additional headcount being added to the API Division.

One of the benefits of the termination of the smaller CMO customer contract is the reduction in associated working capital requirements. This working capital reduction, combined with the removal of the high levels of overtime and additional headcount required to service the non-core contract, will result in a significant improvement in the economics of the CMO Division.

#### **UK Supply Agreement**

We are pleased to announce that our first sales of Codeine Phosphate into the UK market are on track for May and June 2018 after TPE successfully acquired the necessary UK import quota. In addition to the import quota related API sales, we expect to generate further UK sales from NRM product converted from Morphine to Codeine in Norway, which will subsequently be converted to Codeine



Phosphate by our partner in the UK, Sterling Pharma Services Limited (SPSL). Our goal is to obtain UK market share of approx. 10% (5-6 tonne) in our first year selling into the market.

## **Australia**

Australian operations are continuing to improve, with mainland straw growing demonstrating the major cost benefits of large scale and streamlined transportation operations, and our Northern Hemisphere sourcing capability growing. The associated improvements in consistency of supply are reflected in continuing production cost reduction with the \$/kg reduction in COGS margin ahead of plan, enabling our Australian NRM business to efficiently produce the various alkaloids required by the business.

### **a. External sales of NRM**

External sales of morphine (NRM) have reduced as we continue to focus on supplying the downstream API business because of its more attractive margins. We have harvested our first large scale Thebaine and Oripavine variety crops which are used for manufacture of Oxycodone and Naloxone respectively. Despite the reduction in Thebaine demand from the USA, we are currently in discussions with customers for supply of Thebaine NRM and intend to supply small commercial volumes in 2018.

### **b. Toll production**

In 2017, only approximately 40% of the 2000 tonnes of straw that was planned to be imported from the northern hemisphere for toll processing at the Australian operations was delivered, due to delays in shipping/licencing. TPE is currently considering whether toll NRM production at low margin is a justifiable distraction from its core business; however, the toll production last year illustrated TPE's superior processing cost to the international market and has spurred discussions of broader supply arrangements for both NRM and API.

### **c. Poppy seed sales**

Poppy Seed pricing is holding at normalised levels €1,300-1,500 per metric tonne with an expectation of sales of approximately A\$2 million for 2018.

## **Conclusion**

Total NRM production is expected to be approximately 50 tonnes in 2018. This is lower than previously indicated in the 2017 Results and 2018 Outlook Investor Presentation (dated 28 February 2018) due to the decision to focus TPE on the growth of its API business and to reduce the volumes of toll NRM production and external NRM sales, both of which generate significantly lower margins than the API business.

TPE continues to expect revenue of approximately A\$50 million and to generate a positive EBITDA in 2018. The strategic decisions around CMO contract renegotiations, costs associated with large scale headcount reduction in Norway, reduced external NRM sales and toll NRM processing volumes in order to focus on API growth is expected to result in the annual EBITDA all being generated in the second half of 2018.



## Board Succession

Finally, I would like to announce the decision of TPE's Chairman, Peter Robinson, to retire from the Board of Directors effective May 1, 2018. Peter has served on the Board for seven years and his contributions will be missed. His position as Chairman will be taken by Simon Moore.

Jarrold Ritchie

### For more information please contact:

**Jarrold Ritchie**

Managing Director/CEO  
TPI Enterprises Limited  
+613 93010800

**Brendan Middleton**

Chief Financial Officer (CFO)  
TPI Enterprises Limited  
+613 93010800

### About TPI Enterprises Limited

TPI Enterprises Ltd (ASX:TPE) is one of three licenced poppy processors in Australia, and the only Australian-owned company. It is one of only three companies globally that is vertically integrated from poppy growing through to tableting production. TPI Enterprises has developed an innovative, efficient and environmentally-sustainable extraction and purification manufacturing process which allows the company to deliver a highly competitive pricing platform. The company's strategy is to secure access to regulated downstream narcotics markets to leverage its reliable, cost-competitive upstream raw material capability.