

# Parnell

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## Parnell Pharmaceuticals Holdings Ltd Announces Business Results for the Quarter Ended 31 March 2019

Parnell delivers 9% revenue growth in Quarter 1 of 2019 compared to 2018, and confirms provisional 2019 guidance for a 17 - 25% increase over 2018 revenue to \$31 - \$33 million and an EBITDA range of \$7.5 - \$8.5 million subject to winning at least one new Contract Manufacturing agreement in 2019.

SYDNEY, June 7, 2019 (Newswire.com) - Parnell

Pharmaceuticals Holdings Ltd (OTC: PARNF) today announced financial results for the quarter ended 31 March 2019



comprising; revenue growth of 9% over the corresponding period in 2018 to \$5.6 million, and a 13% (or \$0.5 million) increase in operating expenses via strategic investments in the key US Production and Manufacturing businesses, combining to deliver a \$0.1 million reduction in Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) to \$0.1 million over the same period in 2018.

Brad McCarthy, CEO and Executive Director, said, "In the first quarter of 2019 we maintained our strong momentum across the business. After returning to profitability in 2018, our focus on delivering further profitable growth across all our operations in 2019 is foremost in our strategic decisions and operational efforts."

### Business Segment Performance

*Unless otherwise specified, all amounts are presented in Australian Dollars (AUD).*

"Our sales in Quarter 1 grew 9% over the corresponding period in 2018," Mr. McCarthy stated. "This achievement puts us on track to meet our 2019 revenue and earnings expectations from our existing sales base, while still requiring us to win at least one new CMO agreement to meet our 2019 guidance overall."

Mr. McCarthy continued, "Turning to our Contract Manufacturing (or CMO) business, progress on our opportunities has been slower than anticipated and we have not yet achieved a new agreement in this segment. We continue to work with multiple parties to bring growth to our CMO business so we can meet our guidance for 2019. In our established CMO business, customer revisions to product configuration, while minor in nature, required regulatory review. As a consequence deliveries of affected batches initially ordered for Quarter 1 were deferred into Quarter 2, impacting both segment performance and our operating cash flow for the Quarter.

"In US Production Animal, sales to March 31, 2019, increased 4% over 2018 to \$3.3 million and Global Production Animal sales increased by 7% over the same period in 2018. Strong performances in manned territories continued within the Quarter as we started to on-board incoming territory managers in newly established or vacant territories," Mr. McCarthy said.

"Our Australia-New Zealand businesses continued their strong trajectory with 10% growth in our ANZ Production Animal business and 11% in our Australian Companion Animal business in the quarter," Mr. McCarthy said. "We also experienced growth of 9% in our US Companion Animal business. US Companion is now solidly on track to meet our full year performance targets under its reduced cost base after conversion to an inside sales and digital marketing model."

"Earlier this year our Board issued provisional full-year 2019 guidance at 17-25% revenue growth to \$31 - \$33 million, and an EBITDA range of \$7.5 - \$8.5 million, over our 2018 results of \$26.5 million revenue and \$6.1 million EBITDAOI," Mr. McCarthy said. "We are pleased to report that operationally we remain on track to deliver those results, subject to us winning at least one new Contract Manufacturing agreement of which several remain in discussion with potential customers."

### **Capital Management, Business Development and Legal**

Dr. Alan Bell, Executive Director and Chairman of the Board, said, "In Quarter 1, delivery delays in ordered CMO batches and the lack of technology transfer revenue from a new CMO agreement resulted in revenue delays within the quarter. This necessitated a short term cash loan of \$700,000 being made to the Company from the inside shareholder group. The loan was made on terms favorable to the Company with the consent of the senior lender Marathon, to whose debt facility the new loan is subordinated. Further such loans will be necessary during Quarter 2 to accommodate ongoing cash-flow needs given the later delivery dates for CMO batches on order from customers."

Dr. Bell said, "In Quarter 1 of 2019 we continued to identify and work with a range of pharmaceutical companies seeking sterile injectable contract manufacturing (or CMO) services. Some of the inquiries have included a product development component, and we have brought to bear our wider capabilities in product design, regulatory experience and market knowledge to those potential projects. While numerous discussions are ongoing and remain promising, none of the identified opportunities had progressed to contract by the end of Quarter 1. As communicated in our public release of April 11, 2019, our financial results would be adversely affected and impact our 2019 Guidance should at least one such project not proceed to contract."

"As previously announced, we have ceased investment in the global Zydax Canine project, which will not be restarted unless and until a suitable partner can be found to take it forward. Development of the human generic opportunity for our proprietary Pentosan Polysulfate (or PPS) molecule continues to progress on several fronts seeking to satisfy the technical requirements for the next milestone payment under the agreement with our multinational collaborator. Further public announcements are subject to confidentiality under the agreement," Dr. Bell stated.

"Litigation begun by a former CEO against the Company is being defended, and a countersuit has been filed to recover substantial shareholder funds which we allege were lost as a consequence of that individual's acts and omissions while in office," Dr. Bell said.

## **Commercial Highlights to 31 March 2019**

*Unless otherwise specified, all amounts are presented in Australian Dollars (AUD).*

Regarding the Company's financial performance at the end of Quarter 1 2019, your directors report the following achievements:

Total revenue was \$5.6 million for the three months ended March 31, 2019, being \$0.5 million (9%) up over the same period in 2018.

Our operating segments performed as follows:

- Production Animal sales of \$3.6 million globally representing an increase of \$0.3 million

(7%) over the same period in 2018, comprised of: 4% growth in US Production; 10% growth in Australia and New Zealand Production; and 155% growth in Rest of World Production. The performance in our direct markets (USA, Australia and New Zealand) continues to support our market positioning and value proposition, especially in those regions in which we have an established presence. As we recruit and on-board sales staff in additional territories we will look to replicate this performance as we progress through the year.

- Companion Animal sales of \$0.7 million for the quarter ended March 31, 2019, were up by 9%, \$0.1 million, compared to the same period in 2018. US Companion animal growth of 9% for the quarter, in conjunction with the reduction in cost base of this business segment previously delivered, was especially pleasing. The Australian Companion Animal business continues to outgrow the market, posting a further 11% year on year revenue growth in Quarter 1 2019, after recording 11% full-year growth in 2018.
- Contract Manufacturing revenues for the three months ended March 31, 2019, were \$1.4 million, an increase of 16% over revenues of \$1.2 million for the same period in 2018. No technology transfer revenues were recorded in Quarter 1, 2019, compared to \$0.2 million for the same period in 2018, and batch delivery revenues were \$1.4 million, compared to \$0.9 million in Quarter 1 of 2018.
- Operating expenditure across the business increased by \$0.4 million in the quarter to \$3.2 million, compared to \$2.8 million for the same period in 2018.

As a result, EBITDAOI decreased slightly for the quarter to \$0.1 million compared to \$0.2 million for the same period in 2018.

## **2019 Guidance**

*Unless otherwise specified, all amounts are presented in Australian Dollars (AUD).*

Mr. McCarthy said, "Our 2019 full year guidance of a revenue range of \$31.0 to \$33.0 million and an EBITDAOI range of \$7.5 to \$8.5 million is subject to us securing certain third-party manufacturing contracts that are currently provisional. This guidance represents a 17% to 25% increase in revenues and EBITDA over 2018."

## Financial Results for the three months ended 31 March 2019:

*Unless otherwise specified, all amounts are presented in Australian Dollars (AUD).*

Total revenue was \$5.6 million for the three months ended March 31, 2019, a 9% increase compared to \$5.1 million for the same period in 2018. A detailed description of the revenue performance by business unit is provided above.

### Expenses:

- Cost of Sales for the quarter ended March 31, 2019, were \$2.3 million, compared to \$2.2 million for the comparable period in 2018. Gross margin as a percentage of revenue, using a Cost of Goods Sold - Product basis, was 83% in 2019 compared to 86% in 2018, due to higher technology transfer revenues recorded in Quarter 1, 2018.
- Selling and Marketing expenses increased by \$0.1 million, or 6%, to \$1.4 million for the quarter compared to the same period in 2018, primarily from the increase in US Production Animal sales and marketing presence as we commence the establishment of new territories in this region.
- Regulatory and R&D spending for the quarter was \$0.4 million, an increase of \$0.2 million over the same period in 2018, primarily due to increased government regulatory fees year on year.
- Administration expenses increased \$0.2 million to \$1.5 million in 2019 compared to \$1.3 million for the same period in 2018 due to slight timing differences in year on year administration expenses.
- Finance costs of \$2.2 million for the three months ended March 31, 2019 increased by \$1.1 million over the same period in 2018, due to the difference in structure of our senior debt facility compared to the previous facility. The cash-flow component in Quarter 1 2019 was equal to the same period in 2018, under the previous facility; however the cost of the new facility is substantially lower over the term.
- Other Income/(expense) for the three months ended March 31, 2019, was an expense of \$0.2 million compared to income of \$0.8 million for the same period in 2018. This increase in expense was entirely due to foreign exchange movements between the Australian dollar and the US dollar for the period.

## **Earnings Before Interest, Tax, Depreciation, Amortization and Other Income/(Expense) (EBITDAOI) & Net Profit after Tax:**

- Earnings Before Interest, Tax, Depreciation, Amortization and Other Income/(Expense) for the three months ended March 31, 2019, decreased by \$0.1 million to \$0.1 million compared to \$0.2 million for the same period in 2018.
- Net loss after tax for the three month period ended March 31, 2019 was \$3.0 million compared to \$0.6 million in 2018.

The unaudited Financial Statements for the three months ended March 31, 2019, compared to prior year are presented below.

### **About Parnell**

Parnell (OTC: PARNF) is a fully integrated pharmaceutical company focused on developing, manufacturing and commercializing innovative animal and human health solutions. Parnell is a technology and clinical science leader in dairy reproduction, marketing its proprietary brands estroPLAN and GONAbreed via its dedicated sales force and digital technology mySYNCH in the USA and Australia-New Zealand, and via distributors in other markets. Parnell has a rapidly growing contract manufacturing business supplying industry majors with specialized sterile injectable products. Recently, Parnell leveraged its novel intellectual property position in the Pentosan Polysulfate drug class to address the human market through a new contract with a major global human health company. In companion animal, Parnell manufactures and markets its proprietary canine osteoarthritis brands Zydax and Glyde.

For more information on the company and its products, please visit [www.parnell.com](http://www.parnell.com).

### **Cautionary Note Regarding Forward-Looking Statements**

This press release contains forward-looking statements and information within the meaning of the U.S. Private Securities Reform Act of 1995. Words such as "may," "anticipate," "estimate," "expects," "projects," "intends," "plans," "develops," "believes," and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. Forward-looking statements represent management's present judgment

regarding future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These risks include, but are not limited to, risks and uncertainties regarding Parnell's research and development activities, its ability to conduct clinical trials of product candidates and the results of such trials, as well as risks and uncertainties relating to litigation, government regulation, economic conditions, markets, products, competition, intellectual property, services and prices, key employees, future capital needs (including the ability to progress its current debt refinancing discussions), dependence on third parties, and other factors, including those described in Parnell's Annual Report on Form 20-F filed with the Securities and Exchange Commission, or SEC, on March 31, 2017, along with its other reports filed with the SEC. In light of these assumptions, risks, and uncertainties, the results and events discussed in any forward-looking statements contained in this press release might not occur. Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this press release. Parnell is under no obligation, and expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise.

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### **Consolidated Statements of Comprehensive Loss (Unaudited)**

	<b>For the Three -Months Ended</b>	
	<b>March 31 ,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(\$AUD)</b>	<b>(\$AUD)</b>
Revenue	<b>5,639,543</b>	<b>5,159,999</b>
Cost of goods sold	<b>(2,279,811)</b>	<b>(2,159,446)</b>
Gross Margin	<b>3,359,732</b>	<b>3,000,552</b>
Selling and Marketing expenses	<b>(1,374,730)</b>	<b>(1,292,258)</b>
Regulatory, R&D expenses	<b>(397,261)</b>	<b>(241,534)</b>

Administration Expenses	(1,470,265)	(1,299,276)
<b>E.B.I.T.D.A.O.I.</b>	<b>117,475</b>	<b>167,484</b>
Depreciation and Amortisation expenses	(757,504)	(567,328)
Finance costs	(2,222,262)	(1,066,182)
Other income/(expense)	(187,171)	827,783
<b>(Loss)/profit before income tax</b>	<b>(3,049,461)</b>	<b>(638,243)</b>
Income tax expense	0	0
<b>(Loss)/profit for the year</b>	<b>(3,049,461)</b>	<b>(638,243)</b>
Foreign currency translation	230,255	(1,148,445)
<b>Total comprehensive loss for the year</b>	<b>(2,819,206)</b>	<b>(1,786,688)</b>

### Consolidated Balance Sheets (Unaudited)

	31 March 2019	31 December 2018
	AUD\$	AUD\$
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	4,179,404	4,400,647
Trade and other receivables	966,071	1,739,466
Inventories	3,253,150	3,194,154
Prepayments	293,211	444,313
<b>TOTAL CURRENT ASSETS</b>	<b>8,691,836</b>	<b>9,778,580</b>
NONCURRENT ASSETS		
Trade and other receivables	60,047	60,200
Property, plant and equipment	15,510,500	10,593,307
Intangible assets	13,279,420	13,052,325
<b>TOTAL NONCURRENT ASSETS</b>	<b>28,849,967</b>	<b>23,705,832</b>
<b>TOTAL ASSETS</b>	<b>37,541,803</b>	<b>33,484,412</b>
<b>LIABILITIES</b>		
CURRENT LIABILITIES		



Trade and other payables	<b>6,656,209</b>	5,974,086
Borrowings	<b>3,618</b>	9,718
Provision for employee benefits	<b>809,741</b>	780,970
<b>TOTAL CURRENT LIABILITIES</b>	<b>7,469,568</b>	6,764,774
<b>NONCURRENT LIABILITIES</b>		
Trade and other payables	<b>4,774,567</b>	62,319
Borrowings	<b>46,449,993</b>	45,032,806
Provision for employee benefits	<b>194,495</b>	152,127
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>51,419,055</b>	45,247,252
<b>TOTAL LIABILITIES</b>	<b>58,888,623</b>	52,012,026
<b>NET ASSETS</b>	<b>(21,346,820)</b>	(18,527,614)
<b>EQUITY</b>		
Ordinary shares	<b>63,515,902</b>	63,515,902
Sharebased compensation reserve	<b>3,251,515</b>	3,251,515
Reserves	<b>(6,792,081)</b>	(7,022,336)
Accumulated losses	<b>(81,322,156)</b>	(78,272,695)
<b>TOTAL EQUITY</b>	<b>(21,346,820)</b>	(18,527,614)

Source: Parnell Pharmaceuticals Holdings

Original Source: [www.newswire.com](http://www.newswire.com)