FARMAFORCE LTD (FFC)

Leveraged to the Outsourcing of Pharmaceutical Sales

SPECULATIVE

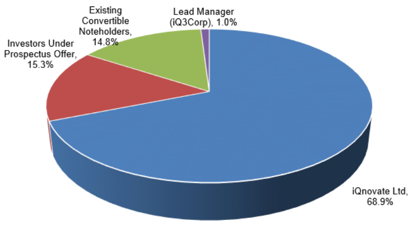
22 September 2015

Share Trading Info	
ASX Code	FFC
Sector:	Pharmaceutical Contract Sales
IPO Price - 27 Oct 2015 ASX Listing (cps)	30
Ordinary Shares on Issue (m)	**130.6**
Unlisted Options (m)	19.3
Mkt Capitalisation ($m)	**39.2**
Raising under Prospectus ($m)*	6.0

** Assuming Maximum Subscription*

Board of Directors	
George Elias	Non Executive Chairman
Daniel Morato	Executive Director
Stamatia Tolia	Non Executive Director
Con Tsigounis	Non Executive Director

Share Structure (m) following Completion of IPO	
Existing Shareholders	90.0
Prospectus Offer	20.0
Convertible Noteholders	19.3
Lead Manager (iQ3Corp)	1.3
Total Shares on Issue	**130.6**



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INVESTMENT HIGHLIGHTS

FarmaForce ('FFC' or 'Company') is a Contract Sales Organisation (CSO) focused on providing an outsourced integrated service offering to participants within the pharmaceutical industry, which include:

- **i) Multinational pharmaceutical companies with patent-protected prescription pharmaceutical products and OTC,**
- **ii) Biotechnology companies,**
- **iii) Generic pharmaceutical companies,**
- **iv) Pharmaceutical companies from overseas that do not have a sales presence in Australia, but fulfil the regulatory requirements to sell in Australia, and**
- **v) Medical devices and diagnostic companies.**

GBI Research estimates the global contract sales outsourcing market was worth $3.7 billion in 2009 and expects it to witness a healthy double-digit growth rate of 13.9% to reach $9.2 billion in 2016[1].

The Company is seeking to raise a maximum of $6 million via an Initial Public Offering (IPO) of up to 20 million ordinary shares at 30 cents each.

The IPO is expected to close on 9 October 2015 and the Company's shares are expected to commence trading on the ASX on 27 October 2015, under the ASX code of FFC. The IPO is underwritten by iQX Limited up to the minimum subscription of $5 million.

Following the completion of the IPO, the Company will be well funded (with a debt-free balance sheet) to pursue its growth strategy, which includes the further development of its infrastructure, and implementing its business development plan in order to grow its client base.

Upon listing, FarmaForce will be the first listed pharmaceutical CSO in Australia.

[1] Source: GBI Research*, 'Pharmaceutical Contract Sales Organizations (CSO) - Emerging Markets to Drive Growth but Talent Acquisition in Specialty Secondary Care Remains a Challenge – 2010')*

Alpha Securities Pty Ltd
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The Key Industry Trends Globally Underpinning the Shift to Biopharmaceutical CSOs

There are a number of key industry trends leading to a shift towards greater outsourcing of sales in the pharmaceutical industry.

These include:

i) The need for pharmaceutical companies to reduce costs,
ii) A lengthy, expensive and heavily regulated pathway to commercialisation (with increasingly lower rates of success in progressing a drug from pre-clinical stage into clinical trials, and then regulatory approval), and
iii) Increased competition from generic drugs.

As a result of the above, pharmaceutical companies are trying to recuperate profits, hence the industry is consolidating through restructuring.

This constitutes a major driver for outsourcing the sales function and reducing operational expenses.

Factors Differentiating FarmaForce

i) The Company is the only biopharmaceutical CSO in Australia that is a member of the peak pharmaceutical industry body, Medicines Australia.

ii) FarmaForce is establishing itself as a thought leader through education via the proposed Centre of Excellence (CoE).

iii) FarmaForce is in the process of becoming ISO accredited (International Organization for Standardization).

iv) The Company is the only CSO in Australia that has the capability to offer an integrated sales solution as opposed to labour for hire, which reflects on the FarmaForce revenue model.

v) FarmaForce is uniquely positioned to offer premium value to pharmaceutical clients through additional offerings such as clinical research, medical affairs and pharmacovigilance services via its relationship with Clinical Research Corporation.

These factors underpin FFC's capability to provide an integrated service offering. These capabilities mean FarmaForce is considered by existing and potential clients as a long-term strategic partner.

Value Proposition of CSOs To The Pharmaceutical Industry

- Ability to optimise value and return on investment through capability to scale operations.

- The pharmaceutical industry can now hedge risk of delayed launch and/or early patent expiry challenges as well as decreasing infrastructure costs of maintaining in-house sales teams.

- The CSO further improves operational efficiencies and business outcomes by ensuring cross-therapeutic delivery by sales teams, engagement of innovative technology to the clients' advantage, as well as risk and profit sharing by delivering beyond pre-determined objectives.

- Creating economies of scale by decreasing the costs of call to every healthcare professional.

The above value proposition directly correlates to the client's bottom line by increasing their profitability.

1. COMPANY OVERVIEW

1.1 Background

FarmaForce commenced operations in January 2014 and in a relatively short period of time, has developed the sales and marketing infrastructure required to be a biopharmaceutical CSO. The Company has also assembled a high calibre management team, formed a strong national sales force, and secured contracts servicing multinational clients.

FarmaForce is one of two wholly-owned subsidiaries of iQnovate Ltd (iQnovate), a company listed on the National Stock Exchange (NSX: IQN) and OTCQB in the US. The other wholly-owned subsidiary of iQnovate is Clinical Research Corporation (CRC), the clinical research and medical affairs arm that provides medical affairs and clinical research services to global pharmaceutical and biotech companies.

iQnovate is an existing shareholder of FFC and at the completion of the IPO, will be the the majority shareholder, with a holding of 90 million ordinary shares (68.9% of the total shares on issue assuming the maximum subscription). iQnovate is part of iQ Group Global, which includes iQX Ltd (NSX:IQX) and iQ3Corp Ltd (ASX: IQ3).

The Board comprises individuals who have held partnership and key management positions in businesses across the retail pharmacy, healthcare, accounting and finance industries.

Figure 1:* Overview of iQ Group Global *(Source: FarmaForce)

1.2 Capital Structure

FFC will have a total of 130.6 million ordinary shares on issue at the completion of the capital raising under the IPO[2]. The next major shareholder group after iQnovate will be new investors and Convertible Noteholders.

FFC currently has on issue 3.86 million Convertible Notes to 73 individual Convertible Noteholders, for the issue of 19.3 million ordinary shares at 20 cents per share upon completion of the offer. The Convertible Notes were issued in order to provide initial capital for FFC, assist in the Company's initial development (including the development of its infrastructure) and as pre-IPO capital.

The share structure also includes a total of 19.3 million unlisted options to be issued, exercisable at $0.20 at any time between 24 months and 36 months from the date the Company has been approved to the Official List.

***Table 1:* FarmaForce Capital Structure on Completion of IPO**

Shares/Options on Issue	Million	Escrow Period
Ordinary Shares:		
Held by Existing Shareholders	90.0	24 months (100%)
Issued under Prospectus	20.0	N/A
Issued to Convertible Noteholders^	19.3	See Note (#)
Issued to Lead Manager	1.3	24 months (100%)
Total Ordinary Shares on Completion	**130.6**	
Unlisted Options (exercisable @ 20c)*	19.3	

** Expiry Date not determined but expected to be 2-3 years from listing*

^ FarmaForce intends to convert all existing Convertible Notes on issue into shares on the same date it issues shares under the Replacement Prospectus, which also entitles the Convertible Noteholder to one option for each ordinary share issued under the conversion

[#] Escrow period will be mostly 12 months for 33%; and 24 months for related parties

Source: Alpha Securities, FarmaForce Replacement Prospectus

Aside from the share register being tightly held, the overwhelming majority of shares that are not issued to new investors in the IPO, namely the shares issued to iQnovate and the Lead Manager, who are to be held in escrow (i.e. restricted) for a period of 24 months from the date of listing, plus the Convertible Noteholders, who are be held 33% in escrow for a period 12 months from the date of listing and related parties who are held in escrow for a period of 24 months.

1.3 Funding and Balance Sheet

FFC intends to use funds raised under the IPO in order to:

- Further develop the Company's infrastructure and processes, including education and training of in-field sales professionals;
- Implement business development strategies to increase its profile within the pharmaceutical industry and position itself to grow its existing client base;

[2] Based on the maximum subscription of 20 million ordinary shares to be offered to the public under the IPO.

- Establish a Centre of Excellence in Sydney and state offices in Melbourne and Brisbane (the Company's Head Office is in Sydney); and

- Develop a proprietary sales planning and online market stratification platform.

The Pro Forma Balance Sheet for 31 December 2014 shows a cash balance of $7.47 million, reflecting proceeds from the IPO (at the maximum subscription) as well as the issue of additional convertible notes, net of the costs of the IPO and pre-IPO capital raising.

The balance sheet will be debt free on a Pro Forma basis, as the Company has the right (and intends to) exercise the right to convert all existing Convertible Notes into ordinary shares on the same day that the Company issues shares under the Replacement Prospectus. The Convertible Notes are currently treated as short-term debt on the balance sheet.

***Table 2:* FarmaForce Proforma Balance Sheet as at 31 December 2014**

as at 31 December 2014 ($)	Reviewed Initial	Proforma Minimum Subscription	Proforma Maximum Subscription
Assets			
Cash	244,681	6,570,012	7,470,012
Trade and Other Receivables	14,430	14,430	14,430
Total Current Assets	**259,111**	**6,584,442**	**7,484,442**
Property, Plant & Equipment	112,190	112,190	112,190
Total Non Current Assets	**112,190**	**112,190**	**112,190**
TOTAL ASSETS	**371,301**	**6,696,632**	**7,596,632**
Liabilities			
Trade and Other Payables	93,315	93,315	93,315
Borrowings	1,033,110	-	-
Total Current Liabilities	**1,126,425**	**93,315**	**93,315**
TOTAL LIABILITIES	**1,126,425**	**93,315**	**93,315**
NET ASSETS	**-755,124**	**6,603,317**	**7,503,317**

Source: Alpha Securities, FarmaForce Replacement Prospectus

2. KEY INDUSTRY TRENDS DRIVING THE SHIFT TO BIOPHARMACEUTICAL CSOs

2.1 The Need for Pharmaceutical Companies to Reduce Costs

The decreasing return on investment for pharmaceutical companies, as a result of the combined impact of patent protection expiry and generic drug increase correlated to the decreasing pipeline of novel drugs has led the industry to consolidation and subsequent reduction of expenditure.

In May 2014, IMS Market Research estimated that Global Pharmaceutical companies will need to save US$36 billion to maintain their profit margin of 25.7% (US$142 billion) in 2017, with 58% of the companies surveyed identifying increased outsourcing as their preferred method to recoup their profits[3].

Recent examples of pharmaceutical companies cutting costs include:

- **Merck** announced a global restructuring program in 2013 (The "2013 Restructuring Program"). As part of the program the company reduced its total workforce by 8,500 positions. These workforce reductions primarily came from the elimination of positions in sales, administrative and headquarter organisations, as well as research and development[4].

- **GlaxoSmithKline (GSK)**, Britain's largest drugmaker, set out plans in October 2014 to "fundamentally re-shape" the business, which included job cuts, as GSK aims to cut costs by £1 billion over five years[5].

- **Pfizer** stated in their 2013 Annual Report that from 2005 to 31 December 2013, they had reduced their workforce through 56,500 employee terminations, mainly in manufacturing, sales and research[6].

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[3] IMS Institute for Healthcare Informatics, *'Riding The Information Technology Wave In Life Sciences: Priorities, Pitfalls And Promise'* Parsippany, NJ: 2014.
[4] Source: Merck
[5] Source: http://www.independent.co.uk/news/business/news/gsk-jobs-on-the-line-as-pharma-giant-announces-1bn-costcutting-plan-9810702.html
[6] Source: Pfizer Annual Report 2013

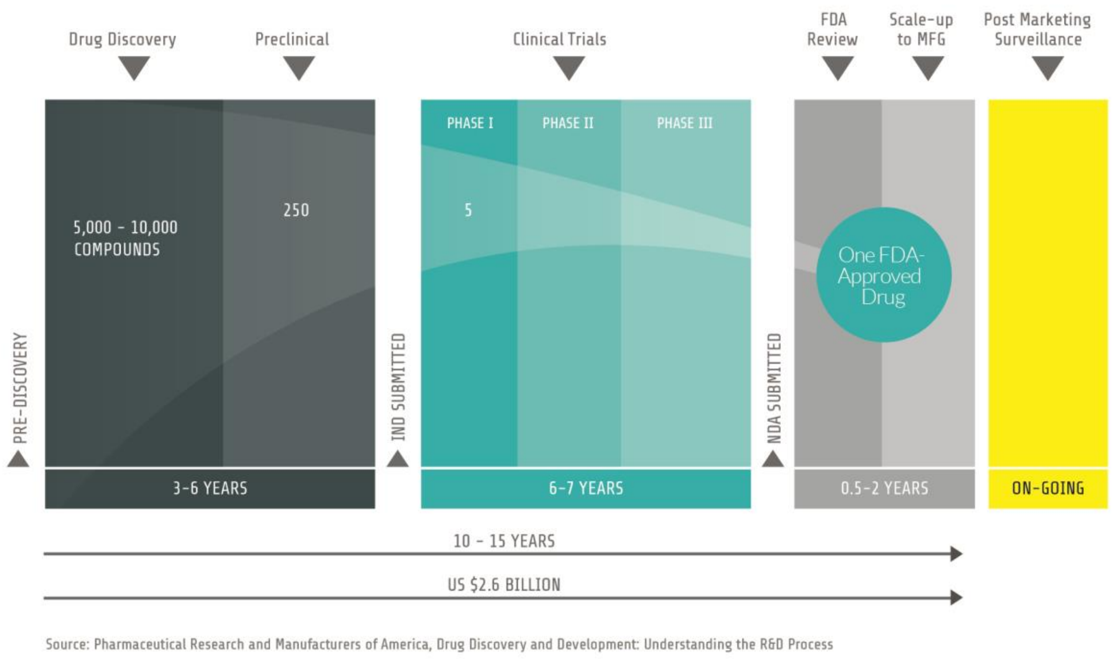
2.2 The Drug Development Pathway to Commercialisation is Lengthy, Expensive and Heavily Regulated

The clinical development timeline for a compound under development:

i) Can be between 10 and 15 years.
ii) Costs approximately $2.56 billion.
iii) The probability of transitioning the compound from the lab to the regulator for approval is approximately 20%
iv) Currently, there are around 3,000 compounds undergoing development.

As illustrated in Figure 2, of the estimated 5,000 to 10,000 test compounds, 250 make progress to the pre-clinical research stage. Of these, five progress from pre-clinical stage into clinical trials, with only one becoming an approved drug.

Figure 2:* Clinical Development Timeline *(Source: FarmaForce)



2.3 Increased Competition in Generic Drugs

Patent expiration allows for immediate and aggressive competition from generic drug manufacturers. Patent expirations have the greatest impact on a pharmaceutical company's revenue, particularly when patents on blockbusters (drug that sells over $1 billion per annum) expire.

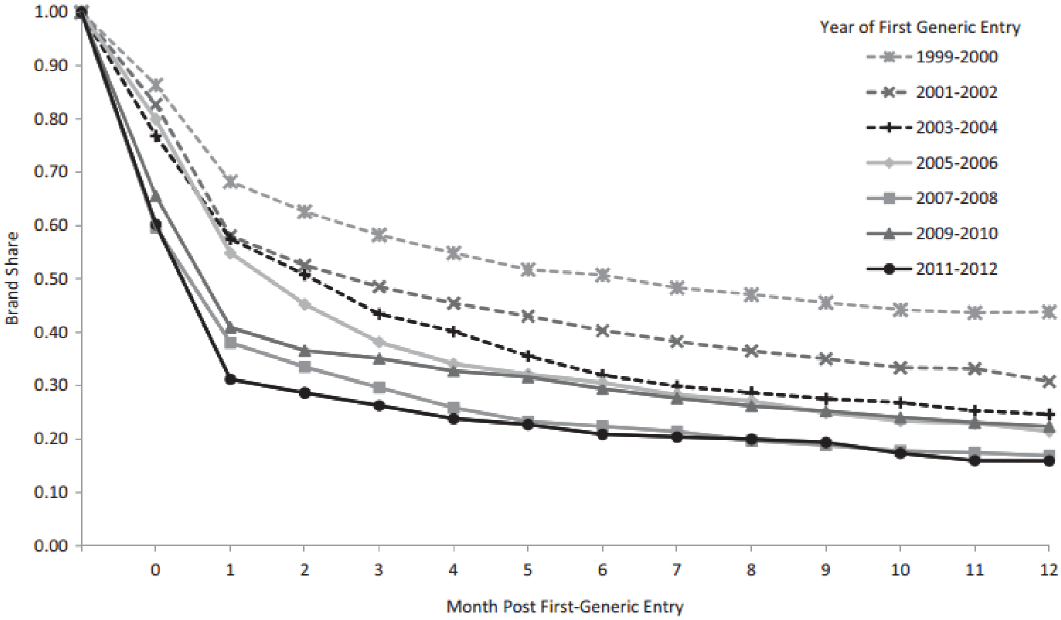
As a result of key drug patent expiries over the last 10-15 years, the global generic sales reached US$269 billion in 2012, and is predicted to further grow to US$518 billion by 2018, according to the FDA.

Research indicates that novel drugs rapidly lost sales after the introduction of generic competition. In particular:

- Drugs with sales (in 2008) greater than US$250 million prior to first generic entry, retained an average of only 11% of sales (in units) in the first 12 months after generic competition was introduced.

- Over 80% of novel drugs experiencing initial generic entry in 2011 to 2012 had faced at least one Paragraph IV challenge from a generic manufacturer. These challenges were filed relatively early in the brand-name drug life cycle, on average, within seven years after brand launch[7].

***Figure 3:* Average Monthly Brand Share of Standard Units Following First Generic Entry**



Source: Journal of Medical Economics, 'Recent trends in brand-name and generic drug competition', 23 December 2013

[7] Journal of Medical Economics, *'Recent trends in brand-name and generic drug competition'*, 23 December 2013

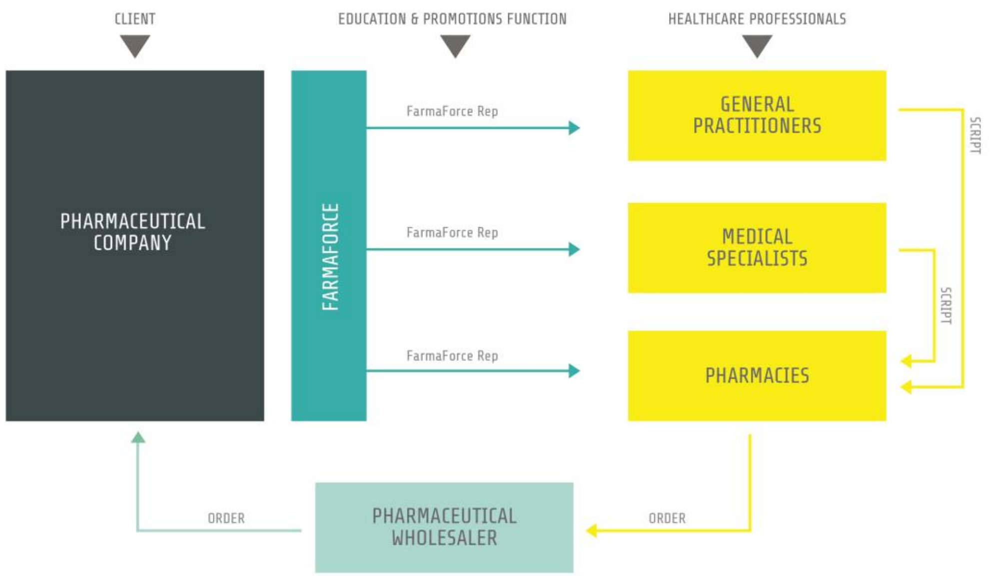
3. OPERATIONAL OVERVIEW OF FARMAFORCE

3.1 Business Model and Core Service Offering

As illustrated in Figure 4, FFC undertakes the role of educating and promoting to healthcare professionals, the products of its pharmaceutical clients. This role is aligned to the traditional practice of pharmaceutical clients employing in-house sales professionals.

The Company's core service offering consists of two sales force models: Syndicated teams and Dedicated teams and extends to include Pharmacy teams and Nurse teams.

Figure 4:* FarmaForce's Role as an Outsourced CSO *(Source: FarmaForce Replacement Prospectus)



3.1.1 Syndicated Sales Teams

Syndicated sales teams promote typically between two and four non-competing products on behalf of multiple pharmaceutical company clients on a single visit to healthcare professionals, in an assigned order of priority. Each product represents a different revenue stream for FarmaForce.

The Company understands the limitations that may arise from promoting competing products; hence it has a process in place whereby competing products are never assigned to the same team.

In an event where the Company is conflicted by promoting competing products (products labelled to be used for the same therapeutic indications), the Company will assign these products to a seperate syndicated/dedicated team to ensure that the clients' interests are best served.

3.1.2 Dedicated Sales Teams

Dedicated sales teams are structured to service the needs of one pharmaceutical company client, and may promote up to four products for any one client.

These strategic client engagements exhibit the potential for higher profitability as the operational expense of maintaining this team is lower.

3.2 Revenue Model

The scope of each service agreement entered into between the Company and the pharmaceutical client is negotiated and varies according to factors such as the type of service (i.e. a syndicated sales team or dedicated sales team), the size and number of the teams, the promotional model to be used and the geographical coverage under the service agreement.

The pricing structure, which reflects these factors, typically consists of:

i) Fee for service for agreed performance targets;
ii) Fee for service for agreed performance targets and corresponding service schemes bonus; and
iii) Profit sharing.

3.3 Existing Clients and Forward Revenue Expectations

At present, the Company has a number of existing clients, and has successfully established the required infrastructure to attract further clients. Existing clients consist of large multinational pharmaceutical companies or their local subsidiary operations, where FFC is contracted to promote biopharmaceuticals and over-the-counter (OTC) products.

These client engagements typically range from between six and twelve months in duration, and contain options to rollover the contract for the same duration as the original contract term.

In the financial year to 30 June 2015 (FY15), being the Company's first full financial year of operation, the Company invoiced clients a total of ~$0.5 million from the provision of its services under the client service agreements, reflecting the commencement of these client contracts in the second half of FY15.

The operating costs incurred over the six month period to 31 December 2014 (~$0.7 million) included costs associated with establishing the Company's sales staff and supporting infrastructure, as well as costs associated with securing the contracts that have contributed to revenue in the second half of FY15.

In addition to current contracts, FarmaForce is currently negotiating with other potential clients who are looking to secure the Company's services. Any new contracts executed after June 2015 will become public at its first reporting obligation.

Moving forward, the Company expects to eliminate its 2014-15 cash burn rate as economies of scale are increased by every client it engages.

4. RESEARCH REPORT SUMMARY

- FarmaForce is well positioned to take advantage of the numerous macro factors that are driving global pharmaceutical companies to consolidate and restructure which in turn has led these companies to increase the outsourcing of the sales function.

- According to GBI Research, the global CSO market was worth $US3.7 billion in 2009 and is expected to grow to $US9.2 billion in 2016. FarmaForce, being an innovative early starter in this industry, is seeking its share of this projected $US9.2 billion market.

- The Company's business model has been well received by the industry as evidenced by FarmaForce's success in securing a number of contracts with multinational pharmaceutical companies. Furthermore, FarmaForce is in advanced negotiations to secure further contracts.

5. BOARD OF DIRECTORS

DIRECTOR	BACKGROUND
George Elias *Non Executive Chairman* **Interest in FFC:** *(On Completion of IPO)* 125,000 ordinary shares; 125,000 unlisted options @ 20c expiring 2-3 years from date of ASX listing	Mr Elias has over 30 years' experience in providing accounting and business advisory services. During this period, he has been involved in providing taxation and business advice to small and medium sized enterprises, including business structuring, cash-flow forecasting, taxation and superannuation structure support and advice. Mr Elias is currently the principal at Elias Financial Services and has been providing financial and accounting advice as principal since July 1991.
Daniel Morato *Executive Director & General Manager* **Interest in FFC:** *(On Completion of IPO)* 500,000 ordinary shares; 500,000 unlisted options @ 20c expiring 2-3 years from date of ASX listing	Mr Morato is responsible for all aspects of daily operations of the Company, including providing leadership of the FarmaForce management team and ensuring business development, sales and general operations are tracking as forecasted. Mr Morato's experience in the pharmaceutical industry, prior to joining the FarmaForce, spanned over 20 years, where he spent most of this time as a pharmacy proprietor and advisor and also advised a number of pharmaceutical organisations on the management of changing market conditions. He has consulted on effective market penetration for new products and advised on managing competition, and forming defence strategies, against generic products. Establishing and managing numerous pharmacies during his career has provided Mr Morato with an in-depth understanding of the market challenges and drivers facing the pharmacy industry, medical services industry and pharmaceutical industry as a whole.
Stamatia Tolia *Non Executive Director* **Interest in FFC:** NIL	Ms Tolia is a qualified nurse, currently working as a nurse in a mental health organisation, having studied in the mental health field at a Masters and completing undergraduate studies in nursing. She has a strong understanding of the practice of nursing and the quality use of medicines and quality medical care within the healthcare industry.
Con Tsigounis *Non Executive Director* **Interest in FFC:** Indirect Interest of 26.82 million shares *(Is a 29.8% shareholder of parent company iQnovate Ltd and the latter will 68.9% of the total FFC shares on completion of offer and assuming maximum subscription)*	Mr Tsigounis has over 20 years of experience in business and investor relations, specifically in the wholesale and retail sectors. His experience is in Shareholder relationship management. Mr Tsigounis is a current Executive Director and Head of Investor relations at iQnovate Ltd, the major shareholder of FarmaForce. He has been a member of the IQnovate board since its inception, where he is responsible for executing IQnovate's investor relations and capital raising strategy.

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