Ironbridge

iNova pharmaceuticals

RECREATIONAL TOURISM GROUP
Investment Report

1. Summary of the Deal

On 30 November 2006, Ironbridge and partner Archer Capital completed the acquisition of the Asia Pacific and South African pharmaceutical operations of 3M which will be renamed iNova Pharmaceuticals ("iNova"). Ironbridge and Archer each invested $100m to fund the $450m buyout.

iNova is headquartered at Thornleigh, Australia on a site that also houses integrated manufacturing and laboratory facilities. The acquisition includes leading products in both over-the-counter (OTC) and prescription medicines, including Difflam, Duro-Tuss, Aldara, Tambocor and Duromine. iNova owns or exclusively licenses the intellectual property associated with the vast majority of its products.

Ironbridge views iNova as an attractive investment opportunity because of the strength of its existing market positions and its robust organic growth profile. It has the potential to accelerate growth through increased sales and marketing support, new product acquisitions and in-licencing and leveraging an established regional sales and distribution platform.

"Ironbridge saw in iNova a business that had performed well while competing with other 3M business units for investment support, but also that there was a significant opportunity to increase this momentum by investing in the business as a standalone operation. We continue to see significant growth opportunities for the business"
- John Russell, Investment Director

2. Background

In April 2006 3M announced a strategic review of its global branded pharmaceutical business. Goldman Sachs New York were appointed to advise on the process. Ironbridge and Archer believed the Asia Pacific and Africa ("APACA") business to be a strong buyout candidate, with standalone manufacturing, R&D and laboratory facilities located on a single site at Thornleigh, NSW. The business offered an established sales and marketing infrastructure throughout the region and a number of meaningful growth opportunities. Market work undertaken by L.E.K. Consulting confirmed our positive view of the business and led to detailed accounting and legal due diligence by KPMG and Clayton Utz.

As the sale process developed it became apparent that a regional breakup was the most likely outcome. This led a number of local and regional trade buyers to re-engage aggressively in the process. However, a combination of the early work undertaken by Ironbridge and Archer and the vendor's need to align regional buyers on a common timeline delivered a competitive advantage and led to a period of exclusive negotiation. Contracts for the business were exchanged on 8 November 2006 and completion occurred on 30 November 2006.

3. The Business

iNova manufactures and distributes a range of prescription and OTC medicines in Australia, New Zealand, South Africa, Malaysia, Philippines, Thailand, Singapore, Japan, South Korea, China, Taiwan, and Hong Kong.

The business owns or exclusively licenses the intellectual property underlying the vast majority of its product range. The bulk of iNova's product portfolio is off-patent and as such the business is less susceptible to generic drug competition than many pharmaceutical companies. The value of the products lies in excellent brand and product recognition among both consumers and healthcare professionals.

The product range is built around 7strategic brands that contribute the bulk of revenue and gross profit. These brands are the primary growth drivers of the business:

- **Difflam**, an OTC brand family focused on sore throat relief
- **Duro-Tuss**, an OTC brand family focused on cough relief
- **Aldara**, a prescription cream used for the treatment of genital warts and some types of skin cancer.
- **Duromine**, a prescription weight loss drug
- **Tambocor**, a prescription heart medication
- **Durofram XR**, a prescription pain medication
- The **Zep** range of OTC allergy relief products

The balance of the product portfolio is highly varied and received no marketing support under 3M ownership. Management and Ironbridge believe there is potential to ignite growth in this tail through targeted sales and marketing support.

In Australia the sales force is split into prescription and OTC groups. The prescription group targets GPs and dermatologists. The OTC sales force targets pharmacies, and to a lesser extent GPs. The sales and marketing / distribution models outside Australia vary significantly, ranging from entirely company owned to entirely outsourced.

4. The Management Team

iNova's successful transition away from 3M was led by Tony Martin, former head of 3M Australia's Healthcare division. Tony retired in August 2008 and was succeeded as CEO by Andrew Howden, former head of Asia Pacific for Astra Zeneca. Andrew's leadership team includes COO, Chris van Niekerk and CFO Norbert Walther. Both have extensive experience in the Australian pharmaceutical market and other geographies in which iNova operates.

"With a successful transaction from 3M behind it, iNova has now made a significant investment in first rate management talent. We are excited about what they will bring to the business".
- Paul Evans, Managing Partner

5. Transaction Rationale

Ironbridge believes iNova is an attractive investment opportunity for several key reasons:

Strong market positions across the core product range, with excellent brand and product recognition among both consumers and healthcare professionals

Organic growth prospects by virtue of market segments (e.g., skin cancer, weight control) and/or geographic exposure (e.g., Asia, South Africa)

Diversified earnings provide a stable cash flow base to allow investment in growth

Established sales and marketing infrastructure creates a significant and attractive opportunity to expand the product range through in-licensing and/or product acquisitions

Good exit prospects through an IPO or trade sale as the business continues to exploit its substantial growth opportunities.