ASX Announcement

26 February 2018

STRATEGIC AND OPERATIONAL REVIEW UPDATE

IDT Australia Limited (IDT) provides the following market update:

Having assumed executive roles following the departure of the IDT's Chief Executive Officer in July 2017, Company Directors Ms. Mary Sontrop and Mr. Graeme Kaufman performed a strategic and operational review of the business. Summarised below is the outcome of this review, which will form the basis of IDT's operational plan and strategic focus going forward.

A key component of the review was an evaluation of the sustainability of the organisational structure and operational issues currently being faced by the Company. These issues included a cumbersome organizational structure, poor operational execution (including the generics portfolio roll-out), manufacturing and operational inefficiencies, along with underutilised facilities.

The Company's strategic and business model was challenged in order to establish a sustainable business model that would drive and grow shareholder value. This review involved evaluating the current plan against a number of alternative scenarios with a view to developing a robust and sustainable five-year business model for IDT. One of the main drivers of this review has been the accelerating deterioration in generics pricing in the US resulting in the broader non-specialised generics market becoming increasingly unattractive. Since acquiring the ANDA portfolio in late 2014, IDT has experienced pricing erosion across its range of generic products of between 5% and 60% and this price deterioration continues. Niche opportunities still exist, in areas such as high potency/high containment cytotoxics, an area where IDT does have the capabilities to develop its own products in-house or in conjunction with a contract manufacturer/partner.

Four scenarios were evaluated as part of this strategic review, namely:

1. Exiting generics and building on IDT's existing Contract API and Development businesses – a total exit of generics was viewed as value destructive, as the Company would effectively forego any opportunity to access potential upside from its generics portfolio, and negate any facility utilisation gains in the process.

2. Advancing a selected generics portfolio and building on IDT's existing Contract API and Development businesses along with monetising surplus assets – refer below for the way forward.

3. A trade sale – this option could potentially deliver a return similar to a selected generics scenario, however with IDT's highly specialized businesses and assets, the number of potential buyers for a suite of assets such as IDT's was seen as very limited. The trade sale scenario also lacks the potential upside advantage associated with the selected generics option.

4. An orderly realisation of assets – this scenario was assessed as producing poor potential returns (effectively land value only) due to the limited market for used pharmaceutical equipment, along with the inability to realise any value from IDT's intangibles such as facility licenses, quality systems and accreditations.

<u>Strategic review – the way forward</u>

Following the strategic and business model review and having critically assessed a number of alternative scenarios, the way forward is for IDT to advance a selected generics portfolio and to build on the Company's existing Contract API and Development businesses. IDT will build on its selected generics strategy by developing acquired and in-house generic products which play to our niche strengths (eg. Thiotepa and other cytotoxics) and cease spend on those generic products in the

portfolio which have now become unprofitable due to changed market conditions in the US. Surplus assets such as facilities, plant, equipment and non-core generic assets will also be assessed for potential sale. The Company has a strong forward order book of Contract API and Development work and the intention is to drive and expand these revenue streams, strengthen its sales channels and increase capacity utilisation.

Operational review outcomes

Several key outcomes were identified and implemented following the operational review. The Company's organisational structure has now been streamlined with the amalgamation of the VP manufacturing and VP infrastructure roles, eliminating one VP position. The executive leadership team has also been strengthened with the recent appointments of Mr Jim Sosic (CSL, Hospira, Mayne) assuming the VP manufacturing/infrastructure role and Mr Gordon Brien (Novartis, Sigma, Mayne, GSK) assuming the VP quality position. In addition, improvements to IDT's production planning and scheduling, operating processes and systems and site-wide efficiencies (continuous improvement projects) have resulted in improved execution with the Company now meeting the industry standard of ≥90% schedule adherence, and ≥90% DIFOT. Several costs saving initiatives have also been identified and implemented, such as the ANDA consolidation project, thereby reducing the Company's overall costs. The new leadership team under the direction of the interim CEO, Dr David Sparling, has a track record of effecting change and IDT's Board brings relevant local and global industry experience along with restructuring experience to help manage this change.

ENDS

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About IDT

IDT (ASX:IDT) is a public Australian pharmaceutical manufacturing company based in Boronia, Victoria, Australia. It has extensive experience in the development and production of high potency and high containment pharmaceutical products for local and international clients. IDT's facilities are fully cGMP compliant and are regularly audited by the US FDA and Australian TGA. With an experienced team of specialists within world-class facilities, IDT provides a full-scale service for new drug development and scale-up, commercial active drug manufacture as well as a variety of oral and injectable finished drug dose forms.