

# Paladin Labs Inc. (PLB:TSX)



**JONATHAN GOODMAN** is the Founder, President and CEO of Paladin Labs Inc., an emerging, Toronto Stock Exchanged-listed pharmaceutical company. Mr. Goodman has raised over \$50 million of financing for Paladin. Since its founding, Paladin has been ranked by the *National Post* as one of Canada's 50 Best Managed Companies and by *Profit Magazine* as one of Canada's fastest growing technology companies. Mr. Goodman is a recipient of the *Globe and Mail's* Top 40 Under 40 award, Federation CJA's Sam Steinberg Award for entrepreneurial excellence and was named Quebec Entrepreneur of the Year in the Life Sciences by Ernst & Young. Mr. Goodman is the youngest member of the Board of Directors of Canada's Research Based Pharmaceutical Companies and teaches an MBA course at McGill University on pharmaceutical entrepreneurship. Mr. Goodman holds a BA with Great Distinction from McGill University and the London School of Economics with First Class Honors. Additionally, Mr. Goodman holds an LLB and MBA from McGill. Mr. Goodman is a member of the bars of New York and Massachusetts.

## SECTOR: PHARMACEUTICALS

(ADD600) TWST: What is Paladin Labs?

**Mr. Goodman:** Paladin Labs is a specialty pharmaceutical company focused on acquiring and in-licensing innovative pharmaceuticals for the Canadian market. We are just about to close our 10th year in existence and we are pleased to say that we are on track to complete our 10th consecutive year of record revenues.

**TWST:** Give us some idea of what the product line looks like and how you've developed it.

**Mr. Goodman:** We go out and scour the world looking for innovative pharmaceuticals to bring to the Canadian market. People often think that the Canadian market must be small because we are a small country of 30 million people. It is actually the seventh largest pharmaceutical market in the world. The Canadian market is a \$14 billion pharmaceutical market. So we have been very successful at bringing in some very interesting and very important products to the Canadian market.

One is a product called Plan B. Plan B is the only emergency contraceptive approved for sale in Canada. Many of your readers may be familiar with the Plan B saga in the United States where Barr, which is the licensor to Paladin, has been trying to convince the FDA to switch Plan B from prescription to OTC status. In Canada, we were successful in doing that, and our business has taken off since then. Our Plan B sales are up 60% versus last year.

Another product that we are very excited about is called Oxytrol. Oxytrol is licensed to us by a company called Watson, a very successful US specialty pharmaceutical company. Oxytrol is used for overactive bladder. Overactive bladder is about a \$50 million industry in Canada. It has been growing at a compounded annual growth rate of 20% over the last five years. Our product is the only approved patch for this growing and important area.

Lastly, we launched another product about a month ago called Twinject. Twinject is the first improvement to the EpiPen in over 20 years. What makes Twinject unique is that it has two sepa-

rate doses of epinephrine. According to the Canadian Anaphylactic Society, patients should carry two doses of epinephrine with them at all times. So before Twinject, they had to carry around EpiPens. With two separate doses in the same unit, patients will only have to carry around one Twinject. The other advantage is that our product is priced comparable to one EpiPen. So you are getting two doses for the price of one, and you get the added assurance of having both doses with you at the same time. The market in Canada is very attractive. EpiPen does about \$25 million worth of sales in Canada, and we are the first improvement to the EpiPen. We are superior in many ways, and we have only been in the market for about a month. So we are very excited about Twinject's prospects in Canada.

**TWST:** What are your priorities for the next 12 to 24 months?

**Mr. Goodman:** We are very fortunate. We are net income positive and EBITDA positive. After the first nine months of this year, for every dollar that we sold, we generated about \$0.26 of EBITDA. So this is a very healthy, robust business. We have about \$3 a share or about \$40 million of cash. We have no liabilities on our balance sheet. Our focus is to continue to go out and bring in innovative pharmaceuticals for the Canadian market.

To give an example, just a couple of weeks ago, we in-licensed a product called Seasonale. Seasonale is a product from Barr Pharmaceuticals. It was one of the most successful oral-contraceptive launches in US history. In its first year in sales, Barr recorded about \$58 million worth of sales. What makes this product unique is that it is the only extended regimen oral contraceptive on the market. With the current oral contraceptives, a woman will have 13 menstruations a year. With Seasonale, as the name indicates, a woman would only have four menses a year. So for those women where a menstruation is painful or problematic, this is a product that addresses their needs. We are very excited. Again, this was a very successful launch in the US. We have submitted it for regulatory approval in Canada.

**TWST:** What has been the financing history with Paladin Labs? At this point, do you need additional resources to meet your goals?

**Mr. Goodman:** Our constraint is not financial. We have \$40 million of cash and we have generated \$6.5 million of cash in the first nine months of this year. Our constraint is really people and products, and that is really what we are focused on. I am focused on building the best possible team that I can and feeding them with the best possible products that I can find.

**TWST:** Introduce us to two or three of the key individuals in your top-level management team.

**Mr. Goodman:** Mark Beaudet is a co-Founder of the business. Our cubicles were next to each other when we both worked at Procter & Gamble in healthcare marketing. He is by far the best marketer I've ever met, and we have been working together since the company's founding. It has been a great ride. We have had 10 consecutive years of record revenues, with a business that is very profitable. We have given guidance that next year our business is going to grow by a third. In terms of revenues, we are going to go from \$30 million in 2005 to \$40 million in 2006 behind some of the products that I have mentioned here.

**TWST:** What is the competitive landscape? What do you see as the marketing needs? What will differentiate Paladin in these markets?

**Mr. Goodman:** We are not a big pharma; we can't be. If we try to become Big Pharma, they will be better at it than we are. We are a specialty pharma, and we do things a little bit differently than they do, which is what makes our job so much fun. We are constantly trying to figure out more efficient ways to sell and detail our products to physicians across Canada. It is a competitive market, but at Paladin, we have been successful at carving out a space for ourselves in this \$14 billion market. As I said, we have had 10 consecutive years of record revenues, with our revenues projected to grow by a third next year.

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***"We have a proven business model. We have been generating positive cash flow since our second year of operations. Our business is poised to grow by a third next year behind products like Plan B as an OTC, Twinject, Oxytrol, Trelstar and VANTAS. These are all products that are going to catapult our growth."***

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**TWST:** What is the process to bring in new products to grow your own pipeline? How do you grow the numbers and types of products that you have?

**Mr. Goodman:** We have a business development group. In fact, our business development team represents about 10% of our company in terms of the number of people. They go out and look for the best products or the products that are going to make the most significant difference to the health of Canadians. Then we try and acquire the Canadian license to those products. We then take those licenses and data that we submitted to our regulatory authorities, get

the products approved, and then we launch them. That is our business model. We are looking for products in Japan, Europe and in the States. So we are looking for products that are going to make a difference to a lot of Canadians. We want to bring those products to Canada and get them approved so that we can sell them.

**TWST:** What is the market size? When does it make sense for Big Pharma to participate with a particular product?

**Mr. Goodman:** We have had many deals with Big Pharma, specifically targeting products that are below their radar screen. We have a co-promotion agreement with Pfizer. We took two of their products, Dostinex and Estring, which were doing about \$1.5 million within Pfizer, and we have grown both of those products. We have grown Dostinex by 144% and Estring by 85% since 2002. Pfizer is going to do about \$850 million for the sales of Lipitor. It doesn't pay them to spend time or resources to take a product that does \$1.5 million and grow it to \$3 or \$4 million. That is where we come in. We have done deals with Pfizer, Lilly, Merck and Novartis, where we either acquire or license products from them that are just too small to be of interest to them. We have a healthy business as a result of that.

**TWST:** As you review bench strengths and skill sets throughout your organization, are there any particular areas or positions to fill or add?

**Mr. Goodman:** We are in a huge growth spurt now. We have an embarrassment of riches in terms of how many products we are launching. So we are looking for more marketing and sales people.

**TWST:** What role is consolidation playing in your market's growth strategies? What role does it play in your own growth strategy?

**Mr. Goodman:** Our expectation is that the more consolidation that happens among Big Pharma, the more products that they are likely going to want to shed. That is an opportunity for us because one company's trash is another company's treasure.

**TWST:** What is it that you find attractive about the products, or the breadth and depth of the markets that you are addressing with them?

**Mr. Goodman:** I'll talk about some products that I haven't talked about yet. One is a product called Trelstar and another is a product called VANTAS. Trelstar is a product approved in Canada for the treatment of prostate cancer. It comes in a one-month and three-month depo injection format. VANTAS is a product that is also for the treatment of prostate cancer, but it comes as a one-year implant.

The total prostate cancer market in Canada is \$126 million. It has been growing by about 8% per year, and it is a market that we know very well; we've been calling on urologists for about 10 years. There are 410 physicians in Canada who write \$100 million worth of business. So we love this market because, with a targeted sales force, we are able to call on these physicians as often as anybody else. We can compete against Pfizer, Astra and Avid in this market because there are only 410 physicians. These are physicians that we know and that we have been developing relationships with for the past 10 years. So it is very exciting for us.

**TWST:** What historically does the shareholder base look like? Has that base itself undergone any changes or transitions?

**Mr. Goodman:** It has pretty much remained stable. About 15% of our stock is held retail and the balance is held by various institutions.

**TWST:** In your discussions with the financial community, are there any disconnects or misperceptions you encountered?

**Mr. Goodman:** I think one of the issues that we have with the investment community is that our stock is not the most liquid stock in that we don't have a lot of trading activity. For a value investor that is a plus, but for other investors that is a minus. For those people who look at the intrinsic value of our business and are ready to stick it out, I think it is a major plus because markets tend not to be the most efficient when it comes to liquid stocks. If you look at the valuation and the multiple of sales or EBITDA of our company, we are certainly trading at a discount to our peers.

**TWST:** What compels investors to include PLB in their current portfolios as well as part of their longer-term investment strategy?

**Mr. Goodman:** This is our 10th consecutive year of record revenues. The same people who were there at the beginning are still there. We are still doing the same business that we have always done. We have a proven business model. We have been generating positive cash flow since our second year of operations. Our

business is poised to grow by a third next year behind some of the products that I've mentioned, like Plan B as an OTC, Twinject, Oxytrol, Trelstar and VANTAS. These are all products that are going to catapult our growth.

We are not a typical pharmaceutical company, in that the risks that you are taking with us are mostly related to marketing and selling, as opposed to regulatory affairs. All the products that I've mentioned are approved in the US market. We have \$40 million of cash in the bank. We have no liabilities. So we have a healthy balance sheet from which we continue to acquire new innovative products. The business is on a solid foundation and is poised for growth.

**TWST:** Thank you. (DWA)

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