
THE WALL STREET TRANSCRIPT

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**TWST: Could we begin with an overview and summary of
Paladin Labs?**

Mr. Goodman: Paladin Labs Inc. is a specialty pharmaceutical company focused on acquiring or in-licensing innovative pharmaceutical products for sale to the Canadian market. Since our inception in 1996, our revenues have grown at a compounded annual growth rate of 237% and we remain one of Canada's most profitable publicly traded pharmaceutical companies.

Mark Beaudet and I founded Paladin Labs Inc. in 1996. He and I met while working at Procter & Gamble in the early 90's. He was the brand assistant for Pepto-Bismol Metamucil

and I was the brand assistant for Vicks Vaporub. While he continued at P&G in brand management, I obtained my law/MBA degree and worked as a consultant at Bain & Company.

Throughout that period of time, I maintained contact with Mark because he was and is the best marketing person I have ever known. It seemed logical to pool our resources and go into business together. So six years after our joint tenure at P&G, we decided to form Paladin and bring the successful emerging specialty pharmaceutical strategy to Canada.

From early on, Paladin proved its viability. In 1997, our first full year of operations, we recorded \$40,000 in revenue. From there, our revenues grew dramatically: \$6 million in 1998, \$11.2 million in 1999, \$12.6 million in 2000, and 17.8 million in 2001. Moreover, according to analysts' expectations, we're projected to record \$23 million in revenue this year.

Perhaps more importantly, we've grown the business profitably. In 1998 we earned \$836,000, \$2 million in 1999, and \$2.8 million in 2000. Last year, on an operating basis, we earned \$3.7 million, and this year consensus estimates are that we will earn \$5½ million, or \$0.44 a share.

Although we had no money or products when we founded Paladin in 1996, we did have a proven U.S. strategy and a commitment to excellence in its execution.

TWST: What is the customer base?

Mr. Goodman: Our customer base is the specialist physician. We are interested in markets that have a small number of physicians who drive a large volume of sales. We are focused on serving these physicians' needs by providing them with established products as well as by informing them of new products they might find beneficial.

TWST: What is the competitive landscape?

Mr. Goodman: While there are dozens of great companies in the U.S. involved in the emerging specialty pharmaceutical market (King Pharmaceuticals, Forest Labs, First Horizon, and Watson to name a few), there is virtually no one other than Paladin who is working in the field in Canada. To that end, over the last four years, we have become the most prolific acquirer of innovative pharmaceutical technology in Canada. We've signed more than 20 licensing agreements over the last 30 months and have, within the last 14 months, signed deals with Merck, Lilly, Novartis, and, Pharmacia.

TWST: What are the growth plans for that channel? What are you focused on in your strategy as far as what fits in to the channels that you've already developed, and where might those channels now lead?

Mr. Goodman: As stated earlier, we are interested in markets that are comprised of a small number of physicians who drive a large volume in sales. These markets have included urology, endocrinology, and women's health. As examples, there are only 555 urologists and 324 endocrinologists across Canada. Among the advantages of serving such concentrated markets, we do not need to a huge sales force to distribute our products. In addition, our smaller, more focused sales force can more effectively compete against the multi-nationals in terms of sales coverage and sales call frequency.

Moreover, we can and have leveraged these strong customer relationships to negotiate partnerships with other pharmaceutical companies. For instance, through the sales of Urispas, a product used for the treatment of urinary incontinence, we have built a strong relationship with Canadian urologists. Meanwhile, we had identified bladder cancer as an under-served therapeutic area. (It is the sixth most prevalent cancer in Canada). The market leading product in Canada for the treatment of bladder cancer is a

product called Pacis, developed by Biochem Pharma which was recently bought by Shire. Because of our successful franchise with Canadian urologists, we were able to approach Biochem and demonstrate how we were already set up to sell more Pacis throughout Canada than they or any other Canadian distributor were. We are now the exclusive distribution agent for Pacis in Canada.

Pacis is a wonderful product. Approximately 70% of patients who present with bladder cancer are effectively treated. 30% are refractory to the product - meaning it doesn't work for them and, in those cases, there is cystectomy. Patients then have to have their bladder removed. To provide another alternative to these patients, we in-licensed Valtaxin, a successfully-launched product in the U.S. designated specifically for those patients who had failed Pacis or BCG therapy. While Valtaxin is not a wonder drug, it only saves one in three bladders, we think that \$7,000 for a course of therapy for a one-in-three chance to save a bladder offers a significant option and value to patients and to the healthcare system.

TWST: What's on the agenda as you look at growth opportunities? What over the next year would specifically make that time frame a success?

Mr. Goodman: Paladin has a robust product pipeline. We currently have the exclusive Canadian rights to five products that are in Phase II trials and four products that are in Phase III trials. We are also in the process of launching nine new products which have led directly to our sales increase from \$12.6 million two years ago to \$17.8 million last year. As well, these products are the drivers behind this year's projected sales growth of \$5 million to \$23 million and to next year's projections of \$28 million.

Two of these products we are especially excited about are Androderm and Dostinex. Androderm is currently the market-leading testosterone patch for sale in the United States. It is used for both hypogonadism, and increasingly, for andropause, the male equivalent of female menopause. Over the last four years, in Canada, this market has grown at a compounded annual growth rate of over 31%. Paladin has the only approved patch for sale in Canada. (As a vague indicator of potential, the female hormone replacement market in Canada is \$150 million).

We are also eager to realize the Canadian potential for Dostinex, which is poised to become the preferred treatment for hyperprolactemia, which leads to the excessive production of breast milk. Unlike the competitive product, which must be used 2-3 times a day, Dostinex needs

to be used only once a week. It also produces significantly less resistance and intolerance to itself. Pharmacia has the U.S. rights to Dostinex and has done over U.S.\$40 million in sales thus far. It chose to partner with Paladin in Canada because of our strong, established relationship with Canadian endocrinologists. We anticipate a successful enterprise.

TWST: Is this a company that needs capital or are you able to live off of cash flow?

Mr. Goodman: Our balance sheet is quite healthy. We have \$23 million worth of cash, virtually no debt, and a business that generated over \$5 million worth of free cash flow last year. This year, we are projected to earn over \$6 million worth of cash from operations. As a result of the strength of our balance sheet and operations, we are well positioned to acquire or in-license innovative pharmaceuticals for the Canadian market.

Last year we spent close to \$20 million on acquisitions and expect to spend another \$20 million this year. We will continue on strategy and acquire promotion-sensitive products that are too small to be of interest to big pharmaceutical companies, but would respond well to the focused sales force that we have put together. We also

intend to acquire three products that are in late stage clinical development.

We've been very successful at partnering with big pharmaceutical companies. In the last 14 months, we've signed deals with Merck, Lilly, Novartis, and most recently with Pharmacia. Through our focused sales efforts, we have been able to take old brands and breathe new life into them.

TWST: Being sort of the market maker, does that rule out M&A activity for a growth strategy or a growth component?

Mr. Goodman: Canada is a healthy pharmaceutical market of \$9.5 billion that has experienced double-digit growth over the last five years. Also, bear in mind that for every dollar that we sell at Paladin, we drop close to \$0.20 to the bottom line after tax, so there is significant room for us to grow within Canada. We feel that we have just begun to tap the Canadian market.

That said, we do feel that there will come a time to stretch geographically. Most likely, we will not move into the United States as there are many great companies in the U.S. market that do what we do and do it well. We will probably look to other under-served markets, which, like Canada, are complicated but have been overlooked by big

pharmaceutical companies. For example, Australia, New Zealand, Taiwan, or Ireland.

TWST: In dealing with the analyst community, are there any misperceptions that you encounter?

Mr. Goodman: We have 4 analysts who currently cover Paladin - CIBC World Markets, HSBC, Yorkton and Desjardins - who all have 12 month share price targets between \$13 and \$14 and have pretty much uniformly recommended strong buys for our stock. Canadian analysts are just beginning to appreciate the steady growth that Paladin has achieved and maintained. We've had our sixth record year of improved financial results and our sixth year of exceeding analyst expectations.

At the moment, we are too small to attract notice from most U.S. analysts. However, as with Canadian analysts, at a certain point, U.S. analysts will have to recognize that Paladin is going to become one of North America's premier specialty pharmaceutical companies.

TWST: Where do you fit into an investor's philosophy or portfolio strategy at this point?

Mr. Goodman: We think we are an ideal investment for those investors who want to be exposed to the life science sector without having to deal with the biotechnology risks. Paladin is not a biotech company and as such, does not

share the same binary type risk profile. We don't burn cash, we make it. We are basically a distribution company of high value added products in a complex market. Our gross margins have exceeded 66% for the past three years and for every dollar we sell, we drop close to 20 cents to the bottom line after-tax. We are a healthy and profitable business.

TWST: What are the three or four key points in summary that would convince an investor today to buy in?

Mr. Goodman: Paladin has a track record of profitable growth. It was founded in 1996 with no money and no products and we are now at the point where analysts expect us to achieve \$23 million in revenue and earn \$5½ million of net income, or \$0.44 a share. Importantly, we have the financial strength to execute our strategy. With virtually no debt, \$23 million worth of cash and business that generated over \$5 million in cash from operations last year, there is no one better positioned in Canada to execute the emerging specialty pharmaceutical strategy than Paladin.

Moreover, we have demonstrated our ability to fill a product pipeline. We currently have five products in Phase II trials, four products in Phase III trials, and are in the process of launching nine new products, which accounts

for our increase in revenue from \$12.6 million to \$17.8 million, and to analysts' projections of revenue growth in 2002 to \$23 million and to \$28 million in 2003.

Also, Paladin has proven to be a strategically advantageous partner for entry into the Canadian pharmaceutical market. We have signed over 20 licensing agreements over the past 30 months and have strong associations with companies like Merck, Lilly, Novartis, Pharmacia, and Watson.

Finally, we have a solid, effective management team and have been acknowledged by The National Post, the Canadian equivalent of The Wall Street Journal, as one of the 50 best-managed companies in Canada. We are a young, energetic organization, proud of our past achievements and committed to our future, to building Paladin into Canada's premier specialty pharmaceutical company.

TWST: Thank you. (DWA)

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