ASX Release

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TFS to acquire US pharmaceutical partners to capture downstream revenues from product sales

Highlights:

- TFS to acquire its US-based pharmaceutical partners ViroXis Corporation and Santalis Pharmaceuticals for a combined minimum price of US$23.4 million, comprising US$1.5 million in cash and US$21.9 million in TFS shares.

- The acquisitions will extend TFS's vertically integrated strategy from "soil to oil" to "soil to oil to shelf" as ViroXis and Santalis are well advanced in the formulation, testing and commercialisation of various dermatology products containing TFS pharmaceutical grade Indian sandalwood oil, including the Benzac® products which were successfully launched by Nestle-owned Galderma earlier this year.

- TFS will now directly control and benefit from the distribution of a number of value-added Indian sandalwood products in the high-value global pharmaceutical market by:

    - Securing 100% of the royalty and licence fees generated from the development and sale of existing and new pharmaceutical products containing Indian sandalwood oil;

    - Accelerating the development of numerous Indian sandalwood-based products with increased control of the product formulation; and

    - Expanding the end markets for TFS's Indian sandalwood oil and provide greater downstream exposure.

- Total consideration over time is linked directly to the achievement of key milestones and earn out targets that are value accretive for TFS, such as the generation of significant net cash-flows and/ or successful product development.

Overview

TFS Corporation Limited ("TFS", "Company", ASX: TFC), the world's largest owner and manager of commercial Indian sandalwood plantations, is pleased to announce it has entered into share purchase agreements to acquire US-based pharmaceutical partners ViroXis Corporation ("ViroXis") and Santalis Pharmaceuticals ("Santalis", together "the Acquisitions").

TFS Chief Executive Officer Frank Wilson said, "The Acquisitions will extend TFS's soil to oil strategy by expanding the Company's vertically integrated business model. TFS will benefit from direct ownership of the pharmaceutical companies which exclusively develop and sell products containing TFS-grown and processed Indian sandalwood oil to the high-value pharmaceutical sector."

"While TFS previously benefited from pharmaceutical product development through oil sales, with these Acquisitions we will also capture all of the future product earnings, including product royalties and licence fees, generated by ViroXis and Santalis, thereby significantly enhancing our own earnings," Mr Wilson said.

"We have been directly involved over the last five years in successfully building the first mover advantage established by ViroXis and Santalis. These transactions will allow us to work even closer with the product development teams and accelerate the establishment of a range of sandalwood-based dermatological products. With increased control of the formulation we also expect to generate additional revenue from our oil sales."

Santalis has already licensed a range of dermatological products that contain TFS-grown Indian sandalwood oil to Nestle-owned Galderma, a global dermatological company. The acne product Benzac® Acne Solutions, which is the first to have been commercialised by Santalis, successfully debuted on US shelves earlier this year and is already available in around 25,000 stores through major US retail chains. Following these Acquisitions, each sale of the Benzac® Acne Solutions range will directly generate royalty revenues for TFS in addition to existing oil sales.

"Over time we expect a series of products containing TFS's Indian sandalwood oil to be distributed by pharmaceutical companies to worldwide markets," Mr Wilson said.

Transaction summary

Subject to certain conditions to completion, TFS will pay minimum consideration of US$23.4 million for the issued shares in ViroXis and Santalis it does not already own (100% and 50% respectively), payable by US$1.5 million in cash and US$21.9 million in TFS shares.

The scrip component of the minimum consideration will involve the issuance of around 15.3 million TFS shares at a price of AU$1.85 per share. TFS anticipates issuing around 12.6 million shares in July 2015 and the remaining 2.7 million shares in the period between 10 September 2015 and 31 July 2016. Around 9.1 million of the 12.6 million shares expected to be issued in July 2015 will be subject to lock up provisions (which range between six and thirty months).

The shares issued pursuant to the Acquisitions will be made utilising the Company's available placement capacity under ASX listing rule 7.1.

The total maximum consideration payable by TFS consists of fixed minimum payments of US$23.4 million and contingent payments over time of up to US$221.5 million. The contingent consideration only becomes payable when the acquired companies achieve significant operating and commercial milestones (from the launch or approval of new pharmaceutical products containing Indian sandalwood oil) and significant operating cash inflows.

The structure of the Acquisitions is designed to ensure that the founders of ViroXis and Santalis, who will continue to operate the businesses, are closely aligned to the ongoing and long-term success of the companies and their products. Both founders will sign new employment contracts on completion.

“Total consideration is directly linked to ViroXis and Santalis successfully developing and selling additional pharmaceutical products to the healthcare market, as has been achieved with the Benzac® range. We have structured the transaction with minimal upfront cash outlay, flexibility with cash and scrip payments, incentives to generate additional revenue and profit, and lock-up provisions, to provide maximum value to TFS shareholders,” Mr Wilson said.

Since 2010, ViroXis and Santalis have invested over US$17 million in the development and commercialisation of pharmaceutical products containing Indian sandalwood oil.

The Acquisitions do not impact TFS’s previous guidance for FY15 of NPAT of at least $90 million. After absorbing transaction costs, TFS continues to expect cash EBITDA to increase year-on-year by approximately 10%. On a stand-alone basis, and excluding any benefit from higher Indian sandalwood oil sales, the Acquisitions are expected to be EPS dilutive in FY16.

Further details on the key terms of the transactions are provided in Appendix One.

Background on ViroXis and Santalis

ViroXis is a bio-pharmaceutical company focused on developing and commercialising innovative, proprietary, botanical pharmaceuticals derived from sandalwood oil, exclusively for viral conditions. ViroXis was co-founded by its Chief Executive Officer Ian Clements, who has more than 20 years of experience in the pharmaceutical and biotechnology industries.

Santalis is focused on developing and commercialising sandalwood products targeting all possible conditions outside of viral skin diseases (dermatological conditions such as acne, eczema, psoriasis, redness and sensitive skin). Santalis was founded in 2010 and is a 50-50 joint venture with TFS. Santalis is led by Chief Executive Officer Paul Castella, who co-founded Santalis with Mr Clements and was also a co-founder of ViroXis. Dr Castella has a Ph.D. in molecular biology and has founded and managed numerous biotechnology companies with a successful record of product development, regulatory approval and commercialisation.

ViroXis CEO Ian Clements said: “I am delighted we have reached this agreement with TFS, with their ongoing support enabling us to extend and accelerate development of products using Indian sandalwood oil to treat viral skin infections, such as common skin warts and Molluscum contagiosum.”

Santalis CEO Paul Castella added: “We have achieved great success to date through our landmark agreements with Galderma and we will be able to build on this by working even more closely with TFS in developing and marketing our pipeline of dermatological products containing Indian sandalwood oil. Santalis successfully developed the Benzac® acne products, which have now launched across the US, and is well advanced with numerous other products, including for eczema.”

Further details on ViroXis and Santalis are provided in Appendix Two.

APPENDIX ONE – TRANSACTION DETAILS

Transaction details

The minimum purchase price is US$23.4 million (ViroXis: US$18.4 million, Santalis: US$5.0 million).

The maximum purchase price over time is US$244.9 million (ViroXis: US$154.9 million, Santalis: US$90.0 million) if all milestones, base earn out thresholds and incentive and final earn out thresholds are met through to the eight year anniversary of completion.

The contingent consideration has been structured as follows:

ViroXis Corporation	Contingent Consideration US$m
Milestone payments if achieved < 5-8 years Maximum Milestone payments	$26.0
Base earn out payments - aggregate NCF thresholds over a 5 year period Maximum Base earn out payments	$50.0
Incentive earn out payments if NCF thresholds achieved for each year ending on the 6,7,8 anniversaries Total Incentive earn out payment capped	$60.7
Final earn out payment, 20% NCF > US$111.9m, 8 yr period Cap for all consideration payments	$154.9

Santalis Pharmaceuticals	Contingent Consideration US$m
Milestone payments if achieved < 5-8 years Maximum Milestone payments	$20.0
Base earn out payments - aggregate NCF thresholds over a 5 year period Maximum Base earn out payments	$31.0
Incentive earn out payments if NCF thresholds achieved for each year ending on the 6,7,8 anniversaries Total Incentive earn out payment capped	$37.5
Final earn out payment, 20% NCF > US$111.7m, 8 yr period Cap for all consideration payments	$90.0

Refer to Appendix for detailed breakdown of all milestone and earn out thresholds
Note : All milestone and earn out consideration payments payable in stock or cash, TFS's election
NCF = aggregate net cash flow generated by the business

Minimum purchase price

The fixed minimum purchase price for ViroXis is US$18.4 million, comprising cash of US$1.5 million and stock of US$16.9 million.

The fixed minimum purchase price for Santalis is US$5.0 million comprised fully of stock.

The TFS shares will be issued at AU$1.85 per share, being the volume weighted average price for TFS shares for the 30 trading days to 17 June 2015.

In relation to the fixed minimum purchase price, a total of 15.3 million shares is expected to be issued within the following time-frames and be subject to the following lock up periods:

- Stock issued in July 2015 and subject to no lock up period: 3.5 million
- Stock issued in July 2015 and subject to lock up period of between 6 and 30 months: 9.1 million
- Stock issued between September 2015 and July 2016 and subject to no lock up period: 2.7 million

Milestone payments

The purchase price for ViroXis will increase by a maximum of US$26.0 million if the following milestones are achieved within certain periods in up to five years after completion:

1. US$2.0 million on the launch of an over-the-counter ("OTC") product
2. US$4.0 million on the enrolment of the first patient in a Phase 3 FDA trial for a skin indication

3. US$4.0 million on the enrolment of the first patient in a Phase 3 FDA trial for a second skin indication
4. US$8.0 million on FDA approval of a prescription product for a skin indication
5. US$8.0 million on FDA approval of a prescription product for a second skin indication

The purchase price for Santalis will increase by a maximum of US$20.0 million if the following milestones are achieved in the five years after completion:

1. US$5.0 million on the launch of a new OTC product
2. US$2.5 million on the enrolment of the first patient in a Phase 3 FDA trial for a skin indication
3. US$2.5 million on the enrolment of the first patient in a Phase 3 FDA trial for a second skin indication
4. US$5.0 million on FDA approval of a prescription product for a skin indication
5. US$5.0 million on FDA approval of a prescription product for a second skin indication

If FDA approval of a prescription product (milestones 4 and 5 above) is granted between five and eight years post completion then 50% of the relevant milestone payment will be payable.

All milestone payments are payable in stock and/ or cash, at TFS's election and in such proportions as TFS determines.

Base earn out payments

The purchase price for ViroXis will increase by a maximum of US$50.0 million based on the level of aggregate net cash flow ("NCF") generated by the business in the five years post completion. The base earn out payment thresholds are:

No earn out payment	Less than US$4.3 million
US$5.0 million	NCF equal to or greater than US$4.3 million and less than US$8.6 million
US$15.0 million	NCF equal to or greater than US$8.6 million and less than US$12.8 million
US$35.0 million	NCF equal to or greater than US$12.8 million and less than US$17.1 million
US$50.0 million	NCF equal to or greater than US$17.1 million

The purchase price for Santalis will increase by a maximum of US$31.0 million based on the level of aggregate net cash flow ("NCF") generated by the business in the five years post completion. The base earn out payment thresholds are:

No earn out payment	Less than US$2.5 million
US$5.0 million	NCF equal to or greater than US$2.5 million and less than US$5.0 million
US$10.0 million	NCF equal to or greater than US$5.0 million and less than US$7.4 million
US$20.0 million	NCF equal to or greater than US$7.4 million and less than US$9.9 million
US$31.0 million	NCF equal to or greater than US$9.9 million

All base earn out payments are payable in stock and/ or cash, at TFS's election and in such proportions as TFS determines.

Incentive earn out payments

The purchase price for ViroXis will increase by an incentive earn out payment equal to 20% of the NCF in excess of US$10.0 million for each of the three years ending on the six, seven and eight year anniversaries of completion. The incentive earn out payment is capped at US$60.7 million.

The purchase price for Santalis will increase by an incentive earn out payment equal to 20% of the NCF in excess of US$10.0 million for each of the three years ending on the six, seven and eight year anniversaries of completion. The incentive earn out payment is capped at US$37.5 million.

All incentive earn out payments are payable in stock and/ or cash, at TFS's election and in such proportions as TFS determines.

Final earn out payments

The purchase price for ViroXis will increase by a final earn out payment equal to 20% of the amount, if any, that aggregate NCF for the 8 year period after completion exceeds US$111.9 million, subject to the maximum purchase price cap for all purchase payments of US$154.9 million.

The purchase price for Santalis will increase by a final earn out payment equal to 20% of the amount, if any, that aggregate NCF for the 8 year period after completion exceeds US$111.7 million, subject to the maximum purchase price cap for all payments of US$90.0 million.

All final payments are payable in stock or cash, at TFS's election and in such proportions as TFS determines.

Put and call mechanism: Santalis

In accordance with the terms of the Santalis share purchase agreement, Mr Clements and Dr Castella will initially retain some of their Santalis shares following completion of the Acquisitions (which is expected to be in July 2015).

There are put and call options in place between TFS and Mr Clements and Dr Castella which are exercisable prior to 31 July 2016. These options require TFS to acquire the retained shares on the same terms as TFS acquired the balance of the shares at completion and TFS expects to exercise its call option within this timeframe.

Additional requirements

Further to the purchase prices, TFS will provide minimum funding support to ViroXis and Santalis for product development and other costs. The costs to TFS will be US$2.5 million per year for five years for each of ViroXis and Santalis (total of US$25 million over 5 years).

APPENDIX TWO – ABOUT VIROXIS AND SANTALIS

About ViroXis

ViroXis is a bio-pharmaceutical company focused on developing and commercialising innovative, proprietary, botanical anti-viral pharmaceuticals derived from sandalwood oil. The hardwood oils of East Indian sandalwood trees have a long and extensive history of traditional use for a variety of conditions, including the successful treatment of various skin disorders, including skin viral infections. ViroXis's first patented prescription drug candidate is a novel botanical ointment containing a "defined mixture" derived from the oil of Santalum album, the East Indian Sandalwood tree, to treat HPV infections of the skin (common skin warts) and Molluscum contagiosum.

ViroXis was co-founded by its Chief Executive Officer Ian Clements, who has more than 20 years of experience in the pharmaceutical and biotechnology industries including sales and marketing, medical affairs, product and clinical development, project and product management as well as commercial, corporate and business development. Prior to founding ViroXis, Mr Clements was Head of Commercial Operations at ILEX Oncology and Head of US Oncology Marketing at Novartis.

About Santalis

Santalis Pharmaceuticals, Inc is developing scientifically and clinically validated (non-viral) healthcare products that utilise TFS-cultivated, sustainable, pharmaceutical-grade East Indian Sandalwood Oil. Santalis's initial product offerings are focused in dermatology, where EISO's well documented anti-microbial, anti-inflammatory and non-irritating properties are expected to be particularly well suited to a number of prevalent and under-served conditions (such as acne, eczema, redness and sensitive skin).

In February 2014, Santalis entered into a licence agreement with Galderma, a global pharmaceutical company, for the marketing of certain dermatology products, including a long-term exclusive supply agreement. These dermatology products will contain TFS's Indian Sandalwood oil through a new long-term supply agreement.

TFS previously obtained a 50 per cent joint venture interest in Santalis when it was founded in 2010.

-ENDS-

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ABOUT TFS

TFS Corporation Ltd ("TFS", ASX: TFC) is an owner and manager of Indian sandalwood plantations in northern Australia. As part of its vision to be a vertically integrated producer of sandalwood products, TFS owns a significant proportion of the plantations in its own right. TFS also operates sandalwood processing and oil distribution facilities from Albany, Western Australia.

TFS was originally founded to exploit the success of government trials into the plantation growth of Indian sandalwood in the Ord River Irrigation Area (ORIA) of north-east Western Australia.

TFS now manages the largest area of Indian sandalwood plantations in the world, with over 10,000 hectares planted of which TFS owns directly and indirectly nearly 3,200 hectares. TFS plantations are managed on behalf of both institutional, high net worth and MIS investors.

In 2014, TFS completed its first commercial harvest of its Indian sandalwood plantations and, via its 50% subsidiary Santalis Pharmaceuticals Inc., entered into a supply agreement for pharmaceutical grade oil with Galderma, a leading global dermatology company.

The company listed on the Australian Stock Exchange in December 2004. Since March 2014, TFS has been an ASX300 company.

TFS is committed to adopting and maintaining the highest environmental and ethical standards in all aspects of its business.

ABOUT INDIAN SANDALWOOD

Indian sandalwood has a history as a tradeable commodity spanning thousands of years, but is now endangered due to the illegal harvest of wild trees throughout the world. As a result, Indian sandalwood is the world's most expensive tropical hardwood and continues to increase in price each year.

Indian sandalwood oil is a globally important ingredient in fine fragrances, cosmetics and toiletries, Indian consumer products and for medicinal purposes (Ayurvedic and Chinese medicine) and the wood is used for high quality carvings and artefacts and religious worship in the Hindu and Buddhist faiths. The efficacy of Indian sandalwood is being tested by US dermatology companies and the global pharmaceutical market has the potential to be a significant consumer of Indian sandalwood oil.