

30 October 2017

ASX Code: MXC

First Binding Sale Agreement with Varm Cosmo Signed for \$8m, Additional Contracts to Follow

- MGC Pharmaceuticals' MGC Derma division signs the first binding sales agreement with Varm Cosmo, for a minimum contracted volume of \$8,000,000 of product
- This binding sales contract is only the first to be executed and based on minimum volume, with 2 additional binding Varm Cosmo contracts expected to be closed in coming weeks
- The additional 2 binding sales agreements currently being finalised are structured to deliver the full \$40,000,000 Terms and Conditions Supply Agreement signed on 20 October 2017
- The Company expects Varm Cosmo's first purchase order and the initial deposit payment of \$1m under this \$8m binding agreement, to be received in November
- Under this \$8m binding sales agreement, MGC Pharmaceuticals' Pharma division will supply approximately 30kg of pure CBD per annum to MGC Derma – material new direct income stream for MXC
- Varm Cosmo is backed by well-funded private investment group, parent entity has a strong cash balance with established global online and retail sales channels
- Potential to increase total contracted supply volumes in 2018, with MGC Derma having excess production capacity at the Slovenian cosmetics facility of partner Dr Burstein Ltd
- MGC Derma products to be sold under a new premium Varm Cosmo brand, into the very large global cosmetics industry which was worth US\$460 billion in 2014 and is estimated to reach US\$675 billion by 2020 growing at a rate of 6.4%¹
- MGC Pharmaceuticals has loan funded MGC Derma to date approximately \$3m, to be repaid by as priority from first revenues materially increasing MXC's cash at bank by ~\$3m

MGC Pharmaceuticals Ltd (ASX: MXC or "the Company") is pleased to announce that its MGC Derma division (MXC 51%) has today signed the first out of three, exclusive binding sale agreements with Varm Cosmo Inc. (Varm Cosmo) for the supply of five of its cannabidiol (CBD) cosmetic products in bulk to Varm Cosmo, to be sold to consumers as part of Varm Cosmo's cosmetics range.

Following execution of the first binding sales agreements, MGC Derma division now expects to receive the first purchase order from Varm Cosmo and the first deposit payment of \$1m on the binding minimum \$8m supply agreement, during November 2017.

¹ Source: [Research and Markets](#)

Negotiations are well advanced with Varm Cosmo with 2 further binding contracts for additional Varm Cosmo markets expected to be closed in coming weeks to complete the full \$40,000,000 Terms and Conditions Supply Agreement signed on 20 October 2017.

The cosmetics will be sold by Varm Cosmo under a new premium brand which is expected to be launched in the coming months. The cosmetics industry presents a very large opportunity for the distribution of MGC Derma products. The global cosmetic market was worth US\$460 billion in 2014 and is estimated to reach US\$675 billion by 2020 growing at a rate of 6.4%. Of the cosmetic products, skin care has the highest market share according to Research and Markets.²

Varm Cosmo is an emerging Korean health care and beauty cosmetics company that has a global distribution network. With a growing customer base, its aim is to provide lifestyle cannabidiol products via online and retail stores globally. It has already established distribution channels for its mass market product range under the brand, CavaLabs, which is being sold throughout well-known retail chain stores.

Importantly, South Korea is among the top 10 global beauty markets and is estimated to be worth over US\$13 billion in 2017. Facial skincare products account for more than half (51%) of the total market share, with \$6.5 billion in retail sales and a projected 5.8% cumulative average growth rate (CAGR) over the next five years to reach \$7.2 billion by 2020.³

Under this first binding sales agreement with Varm Cosmo, MGC Derma will supply 7,500kg per quarter of bulk materials for its CBD cosmetic products, valuing the deal at approximately \$8M in annual revenue to MGC Derma, which is the first supply component of the total deal announced on 20 October 2017. MGC Pharmaceuticals' Pharma division will supply approximately 30kg of pure CBD per annum to MGC Derma at wholesale price of \$30,000/kg, as part of the bulk materials to be provided to Varm Cosmo under this first \$8m binding sales agreement alone.

The agreement is the first out of three sales agreements which will cover the terms and conditions recently signed between the parties and includes scope for expansion to include additional proprietary CBD cosmetic products and extension beyond the initial three-year term.

The MGC Derma division is a joint venture with well-credentialed cosmetic manufacturer, Dr. M. Burstein Ltd, of which MGC Pharmaceuticals owns 51% and holds management control. Importantly, the Dr Burstein Ltd cosmetics production facility in Slovenia has excess production capacity to supply increased sale order volumes in the future which are part of the operational negotiations currently underway between the parties.

Roby Zomer, Co-founder and CEO, MGC Pharmaceuticals commented:

“We are delighted to be moving swiftly forward with this transformation deal for our MGC Derma division, and for the Company as a whole. Having signed the first exclusive sale agreement and soon issuing the invoice for the first \$1m payment for our CBD cosmetic products, MGC Pharmaceuticals set to become Australia’s first listed Medical Cannabis Company to generate significant revenues through this deal which on execution of all 3 binding contracts is valued at a minimum \$40m in total annual revenue to MGC Derma.”

² Source: [Research and Markets](#)

³ Source: [A Bright Future: South Korea Ranks Among the Top 10 Beauty Markets Globally](#)

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About MXC

MGC Pharmaceuticals Ltd (ASX: MXC) is an EU based specialist medical cannabis company with many years of technical clinical and commercial experience in the medical cannabis industry. The Company's founders were key figures in the Israeli medical cannabis industry and the core business strategy is to develop and supply high quality Cannabinoids based pharmaceuticals products for the growing demand the medical markets in Europe, North America and Australasia.

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About Varm Cosmo

Varm Cosmo is an emerging Korean health care and beauty cosmetics company, with a global distribution network. With a growing customer base, its aim is to provide lifestyle cannabidiol products via online and retail stores globally. Varm Cosmo's goal is to provide aid in both healthcare and beauty. Through cannabidiol it can access a whole new world of better and more beautiful way of living.

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