Strides Shasun

Press Release

Strides announces Q3 FY18 results
Continuing adjusted EBITDA at INR 1,441 Mn
Revenues* at INR 7,536 Mn
Adjusted PAT* at INR 630 Mn

(* for continuing business)

Bengaluru, February 9, 2018: Strides Shasun Limited (BSE: 532531, NSE: STAR) today announced its Q3 FY18 results.

Highlights

- Continuing formulations business, post API de-merger and Indian branded generics divestment, is benefitting from the strategy to focus on regulated markets and delivering sequential earnings growth.
- Regulated market revenues at INR 5,849 Mn grew 16% over last quarter and are up 29% over last year; driven by new product momentum in the US and solid growth in Australia.
- Base US portfolio is well positioned against price erosion, while new product launches are contending with aggressive price challenge from incumbents.
- New product pipeline is strong and sustained R&D investment (INR 420 Mn in Q3) is on track to deliver 15-20 new product applications during the year, of which 12 have already been filed.
- Emerging & Institutional market revenues at INR 1,688 Mn were down 38% over last quarter and 39% below last year due to timing of orders in the institutional business, where tender awards have been won and orders are expected to follow in the coming quarters.
- Operating leverage and scale benefits delivered 27% growth in EBITDA over last quarter to INR 1,321, with margin expanding 400 bps despite a volatile pricing environment in the US market and the sharp drop in the institutional business.
- Impact of investment in the consumer healthcare business was lower compared to last quarter at INR 120 Mn and will continue to taper down. Adjusted for this, Q3 EBITDA for the continuing business was INR 1,441 Mn. Corresponding adjusted PAT at INR 630 Mn and EPS at 7.
- Consequent to the shareholders' approval for the demerger of the commodity API business, the financials have been restated and performance of the API business for the quarter and 9M FY 18 has been classified as part of discontinued operation.

Formulations Performance Highlights – Q3 FY18 INR Mn

	Q1 FY 18	Q2 FY18	Q3 FY18	QoQ	Q3 FY17	YoY
Revenues*	6,549	7,730	**7,536**	**-3%**	**7,332**	**3%**
EBITDA*	750	1,049	**1,321**	**27%**	**1,450**	**-9%**
EBITDA %	*11%*	*14%*	***18%***	*+400 bps*	*20%*	*-230 bps*
Adj PAT**	19	243	**541**	100% +		
Adj EPS**	0.2	2.7	**6.0**			

*Formulation revenue and EBITDA excludes India brands business ; ** Excluding Merger & restructuring costs of INR 143 Mn and loss on biotech investment INR 22 Mn

Shashank Sinha, Managing Director, remarked "*Topline in the US and Australia is growing ahead of industry and peers, driven by the strength of our base portfolio and new product momentum. Our strategy to focus on regulated markets is delivering margin expansion and sustained earnings growth despite pricing challenges and drop in the institutional business*."

Revenue Composition **INR Mn**

	Q1 FY18	Q2 FY18	Q3 FY18	QoQ	Q3 FY17	YoY
Regulated Markets	4,153	5,025	5,849	16 %	4,549	29%
Emerging & Institutional Markets	2,396	2,705	1,688	-38 %	2,782	-39%
Total Formulations	6,549	7,730	**7,536**	**-3 %**	**7,332**	3%

*Formulation revenue excludes India brands business

Regulated Markets Business

- Regulated markets revenues were INR 5,849 Mn up 16 % QoQ and up 29 % YoY.
- Regulated markets now constitute 78 % of total revenues, compared to 62% last year.

North America

- Growth in North America was driven by a new product launches riding on steady performance in the base portfolio, which continues to be largely well-defended against pricing competition.
- The base portfolio continued to hold strong market share, with Ranitidine at 33% up 6pts, Dutasteride 31%, Ergocalciferol 42%, Buspirone 31%, Methoxsalen 31%, Benzonatate 20% and PEG Rx 28%.
- Potassium Citrate Extended Release tablets and Omega3 Ethyl Ester soft gel capsules launched in the last quarter are now distributed with key customers and are tracking well to achieve their market share objective of over 20%, despite aggressive price competition from incumbents.
- New product momentum is strong with 12 new product approvals received to date in FY18. Key products approved are Tenofovir Disoproxil Fumarate tablets, Acetazolamide tablets, Potassium Citrate Extended-Release tablets, Omega-3-Acid Ethyl Esters softgel capsules, Cetirizine softgel capsules and Ibuprofen tablets among others.
- Our US business has grown strongly over last year. The new product pipeline is healthy, filing momentum has increased and approvals are coming through much quicker. We anticipate important product approvals in the coming months. Despite market volatility, we remain confident of getting close to our stated exit run rate by the end of the year.

Australia

- Australia business delivered a strong quarter, driven by portfolio expansion, enhanced pharmacy coverage and continued momentum in the *Chemists' Own* OTC portfolio.
- Integration of the Amneal acquisition is ahead of plan. Synergies are being driven with integration of customer base, COGS savings, integration of marketing and corporate overheads.
- Distribution footprint continues to expand with first line pharmacy coverage of 1,200 + stores.

- In addition to the acquired portfolio from the Amneal acquisition, 23 new products have been launched in Australia this year.
- Backward integration of the Australian product portfolio has ramped up with 13 products approved by TGA for site transfer from third party manufacturers to Strides' in-house facilities in India. Supply for several products have already commenced from India and more site transfer approvals are in the pipeline with the aim to bring 50% of the Australian portfolio in-house within the next year.

Emerging & Institutional Markets Business

- Emerging & Institutional markets now constitute 22 % of total revenues compared to 38% last year.
- Revenues were INR 1,688 Mn down more than 30% against INR 2,705 Mn in Q2 FY 18 and INR 2,782 Mn in Q3 FY 17.
- The Africa Brands business delivered a steady quarterly performance. Key brands in Africa continue to maintain their market share: Renerve (30.4%), Combiart (7.4%), Solcer (8.5%), Vitafer (6.3%).
- Sequential decline in Institutional business was due to timing of procurement orders by global donor agencies and API supply chain disruption in the ARV portfolio. Contribution from the anti-malarial portfolio was significantly lower during the quarter due to the tendering process that concluded towards the end of the quarter. The new anti-malaria tender for the next three years has now been announced and Strides has maintained its share of the total business. We expect ramp up of Anti-malaria sales in the new fiscal.
- Universal Corporation received certification of GMP status for its Kenyan facility from World Health Organization (WHO) last quarter and has now received approval for the first site transferred product, Lamivudine /Nevirapine / Zidovudine 150/200/300mg tablets. We expect the approval momentum to continue as we transfer more products to the Kenyan site.
- During the quarter the company divested the Indian branded generics business for an aggregate cash consideration of INR 5,000 Mn of which INR 4,000 Mn were used to pare debt.

R&D momentum

- The in-house R&D programme is largely focused on the US business. Despite changing market environment, new product momentum is the key business driver and recent success demonstrates the value of our niche strategy.
- R&D investments have been sustained and stood at INR 420 Mn during the quarter, up 11% QoQ. Cumulative R&D investment is INR 1,173 Mn during nine months of FY 18, up 13% YoY.
- 12 new products (ANDA) have already been filed this fiscal and we're on track to ramp up our filing momentum to 15-20 applications for the fiscal year.
- We continue to benefit from faster approval trajectory under GDUFA regime. Year to date 12 new ANDA approvals have been received and 30 ANDA filings are in the approval pipeline of which almost all are under the time-bound GDUFA regime.
- While we are receiving quick approvals, new products are being launched selectively based on the market opportunity. For other approved products, we prefer to wait for the right time to launch as there is significant competitive shakeout in the market.

- We have 74 cumulative ANDA filings (Non-PEPFAR) with USFDA of which 44 have been approved and 30 are pending approval.

Demerger of commodity API business

- The shareholders of the Company at the National Company Law Tribunal (NCLT) meeting held on December 27, 2017 approved the Scheme of arrangement between Strides Shasun Limited, SeQuent Scientific Limited and Solara Active Pharma Sciences. The shareholders of Sequent Scientific Limited and Solara Active Pharma Sciences also have approved the scheme of arrangement during the quarter.
- Company had filed a petition with NCLT for their final orders on the Scheme. The petition was admitted and NCLT has fixed March 9, 2018 as the date of hearing of the petition filed by the Company
- The scheme of demerger has already been approved by Competition Commission of India, stock exchanges, SEBI and secured creditors.
- The appointed date for the demerger is 1st October 2017 as announced previously.

API Performance – Q3 FY18

- Q3 FY18 revenues were INR 1,907 Mn and EBITDA was INR 175 Mn.
- The API division launched Sevelamer Carbonate during the quarter. Initial launch quantities were shipped in Q3 and volumes will ramp up in the subsequent quarters.
- New products were also launched for the Japanese market during Q3.
- Input material prices from Chinese suppliers increased sharply during the quarter, which will be passed on to customers in the coming quarters.
- The demerged commodity API business has a net asset base of INR 2,200 Mn and a net debt of INR 4,560 Mn.

Other Corporate Update

Divestment of Indian branded generics business

- During the quarter the company divested the India branded generics business for an aggregate cash consideration of INR 5,000 Mn.
- Strides' India branded generics business comprised of a portfolio of 130+ brands in the domains of Neurology, Psychiatry, Nutraceuticals, Gastro etc. along with the employees forming part of the business.
- Net proceeds from this transaction have been used to pay down debt to the tune of INR 4,000 Mn.
- The transaction achieved closure in December 2017.

Acquisition of controlling stake in Trinity Pharma, South Africa

- During the quarter Strides Pharma Asia Pte Ltd., Singapore, a wholly owned subsidiary of Strides Shasun Limited acquired 55% stake in Trinity Pharma Proprietary Limited, South Africa (Trinity) for a cash consideration of South African Rand ZAR 55 Mn.

- The transaction allows Strides to establish a presence in the high entry barrier market of South Africa where product dossier approval takes more than 5 years. The acquisition provides access to a pipeline of more than 110 product dossiers already submitted.
- The transaction achieved closure in January 2018.

Annexure:

EBITDA Computation: Formulations **INR Mn**

	Q3FY18	9M FY18
SEBI Results	**Column 1**	**Column 4**
Profit/(loss) before exceptional items and tax as per SEBI reporting	**497**	**940**
Less: Interest, Dividend income, Gain on sale of securities	**65**	**459**
Add : Depreciation and Amortization and Finance costs	**889**	**2,638**
Consolidated EBITDA as per press release	**1,321**	**3,119**

About Strides Shasun

Strides Shasun, listed on the BSE Limited (532531) and National Stock Exchange of India Limited (STAR), is a vertically integrated global pharmaceutical Company headquartered in Bangalore. The Company has two business verticals, viz., Regulated Markets and Emerging Markets.

The Company has global manufacturing foot print with 7 manufacturing facilities spread across three continents including 5 US FDA approved facilities and 2 facilities for the emerging markets. The Company has two dedicated R&D facilities in India with global filing capabilities and a strong commercial footprint across 100 countries. Additional information is available at the Company's website at www.stridesarco.com

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