Strides

Moving ahead with conviction

Q1FY23 Earnings Update

Strides Pharma Science Limited
July 29, 2022

Strides reports an improved Q1FY23 with visible growth momentum

Quarterly Performance (₹m)

Particulars	Q1 FY23	Q4 FY22	Q1 FY22	QoQ	YoY
Revenues	9,457	8,699	6,919	9% ▲	37% ▲
Gross Margin	4,741	4,425	3,428	7% ▲	38% ▲
Gross Margin %	50%	51%	50%	80 bps ▼	60 bps ▲
EBITDA	657	461	-468	43% ▲	100%+ ▲
EBITDA %	7%	5%	-7%	170 bps ▲	1380 bps ▲

Market Wise Performance (₹m)

Particulars	Q1 FY23	Q4 FY22	Q1 FY22	QoQ	YoY
US	3,552	3,301	3,016	8% ▲	18% ▲
Other Reg Mkt	3,047	3,133	2,232	-3% ▼	37% ▲
Total Reg Mkt	**6,599**	**6,434**	**5,248**	**3%** ▲	**26%** ▲
Inst. Biz	2,013	1,436	970	40% ▲	108% ▲
Africa	845	829	701	2% ▲	21% ▲
Total EM	**2,858**	**2,265**	**1,671**	26% ▲	71% ▲
Total	**9,457**	**8,699**	**6,919**	**9%** ▲	**37%** ▲

We have started the new fiscal on a healthy note. Our strategy is now gaining traction across the front-end and partner-led businesses. Our customer engagement and strong order inflows give us confidence for even a more robust near-term performance as we progress forward.

The US business has maintained growth during the quarter. However, Chestnut Ridge portfolio customer transition led to a spill of $5m to the current quarter. Adjusted for the same, the revenues in the US were at $51m with the adjusted consolidated EBITDA at ~ ₹820m. The transition completed on 21st July and we are confident of a healthy ramp-up for the US business driven by improved performance in the base business and new launches from the combined portfolio of approved products to meet our stated growth outlook in the US. Although the Other Regulated markets witnessed a sequential decline due to currency headwinds, the long term outlook for the business remains steady. Our Emerging markets maintained the business trend, and we remain invested in the opportunity.

One of the key drivers for performance this year will be our focus on cost controls. I am pleased to share that we are tracking to the plan on our control programs, and some of the major decisions taken over the last few months have started to yield savings. We remain aggressive on cost curtailment, including a significant focus around our manufacturing network optimization.

With all levers in place, we are confident to deliver a strong performance in FY23 with significantly improved profitability and a stronger balance sheet.

Arun Kumar
Founder, Executive Chairperson & Managing Director

While the key businesses deliver steady performance, our cost control measures are yielding results

US business continues its growth momentum

- US revenues at ₹3,552m ($46m) for Q1FY23, up from ₹3,301m ($44m) in Q4FY22 and ₹3,016m ($41m) in Q1FY22
- US business contributed 38% of consolidated revenues in Q1FY23
- Chestnut ridge portfolio customer transition led to a spill of $5m to the current quarter; Q1 adjusted revenues in the US were at $51m
- During the quarter, launched three new products; Plan to launch 20 new products in current fiscal
- Key frontend molecules maintained their market share during the quarter and are now witnessing improved volume traction

Focus on portfolio expansion in Other Regulated markets

- Revenues at ₹3,047m ($39m) for Q1FY23 versus ₹3,133m ($42m) in Q4FY22 and ₹2,232m ($30m) in Q1FY22
- Other Regulated markets contributed 32% of consolidated revenues in Q1FY23
- The sequential decline in revenues was attributed to currency headwinds in AUD, EUR, ZAR and GBP during the quarter
- Continue to have a strong order book visibility for the business
- Scale up in business to be driven through portfolio expansion and strategic tie-ups in key geographies

Strong performance across emerging markets

- Emerging markets revenues at ₹2,858m ($37m) for Q1FY23 versus ₹2,265m ($30m) in Q4FY22 and ₹1,671m ($22m) in Q1FY22,
- Emerging markets business contributed 30% of consolidated revenues in Q1FY23.
- Institutional business revenues at ₹2,013m ($26m), up 108 %YoY in Q1FY23 vs. ₹970m ($13m) in Q1FY22, driven by improved offtake from partners
- Africa revenues at ₹845m ($11m) up 21 %YoY in Q1FY23 vs. ₹701m ($9m) in Q1FY22 with steady growth across key countries and improved productivity

Cost control programs enabling operating leverage

- Reported stable cost structures during the quarter led by cost control programs implemented over the last few months
- Logistics cost reduction led by superior supply chain execution that enabled a favorable sea-to-air shipments ratio
- Efficiency and optimization measures have started yielding results at key manufacturing sites with improved utilization levels. However, we continue to witness under-recoveries at certain manufacturing sites, given the current business mix.
- Expect to see significant improvement in operating leverage in coming quarters with an uptick in key regions and improved cost absorptions.

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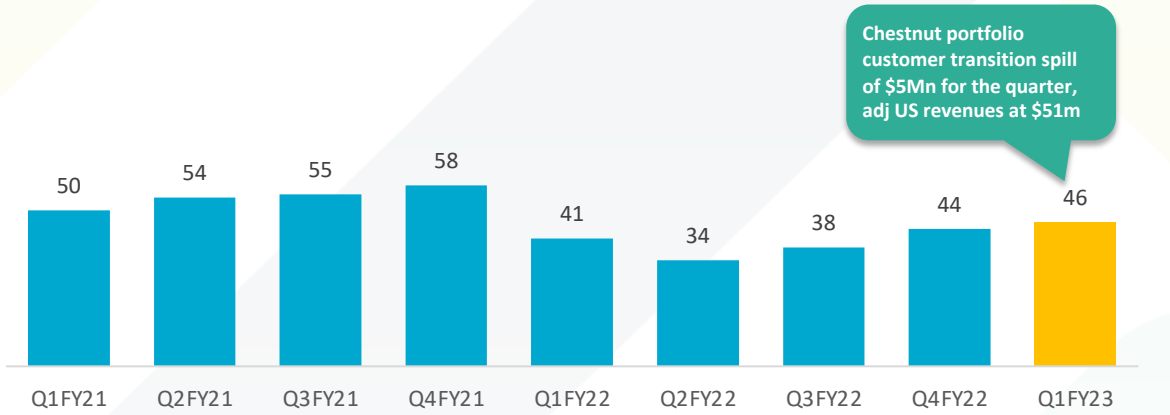
Market Wise Outlook

US business continued the growth momentum during the quarter; Customer transition of Chestnut Ridge portfolio led to spill in revenues, transition now completed with visible ramp up in Q2FY23

US Revenues - Quarterly Trend ($m)

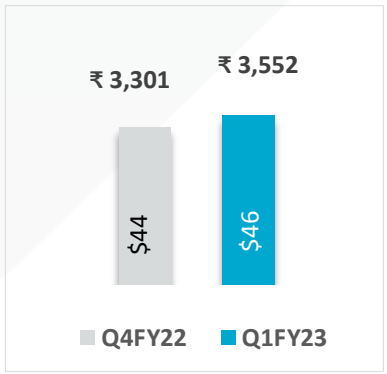


Quarterly Updates

- Revenues from the US for Q1FY23 stood at ₹3,552 ($46m), up 8% QoQ and 18% YoY, representing 38% of consolidated revenues for Q1FY23.
- US business delivered sequential growth benefitting from three new product launches.
- Customer transition of the acquired portfolio at Chestnut Ridge led to a revenue spill of $5m during the quarter (Adj US revenues at $51m). Transition exercise completed on 21st July, and the portfolio will start delivering growth from Q2 FY23 as we ramp up the order book
- Base business is now tracking well with improved volumes and steady market share.
- Experiencing a stable pricing environment for most of the products in our portfolio

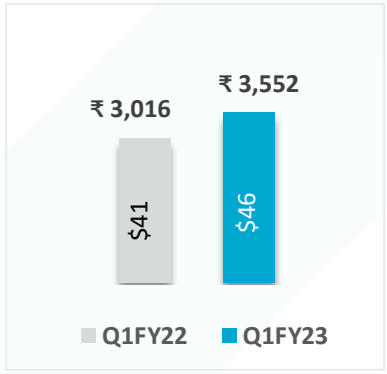
Financial Performance (₹ /$m)

QUARTER ON QUARTER



8% QoQ

YEAR ON YEAR



18% YoY

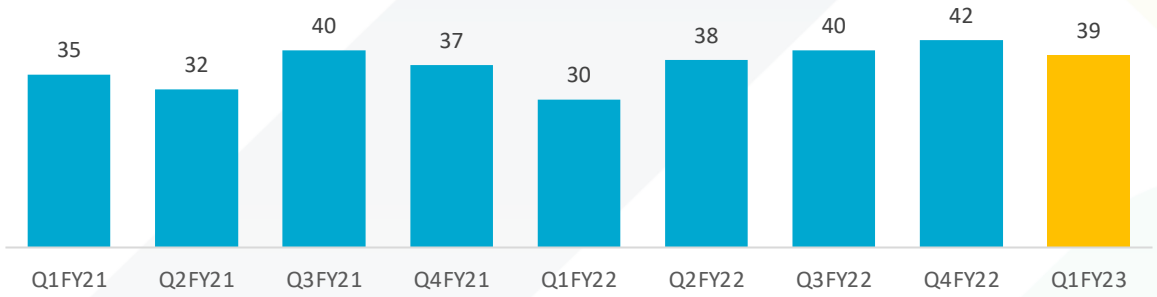
Business Outlook

- US business has a basket of 279 ANDAs, of which 258 are approved and we have only commercialized ~55 products .
- The portfolio comprises a healthy mix of acute and chronic products, including new domains of Controlled Substances, Hormones, Nasal Sprays
- Plan to significantly ramp up product offering through a faster launch velocity between Strides and Chestnut Ridge portfolio, plan to launch 20 new products in FY23
- Working towards cost competitiveness through alternate vendor developments and process improvement for a better market share for existing products
- Pivots in place to deliver robust and sustainable growth for the US business in coming quarters
- Confident of meeting our growth outlook of US$250m in FY23 for the US business

QoQ and YoY growth comparison in ₹ reported

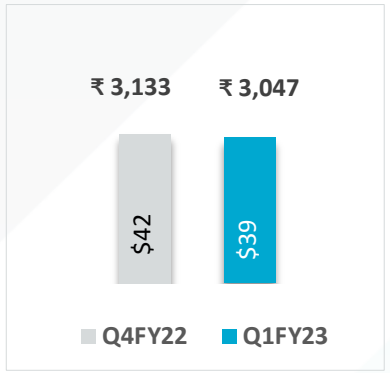
Other Regulated Markets (ORM) revenues at $39m in Q2FY23
Order book visibility remains healthy, business witnesses' currency headwinds during the quarter

ORM Revenues - Quarterly Trend ($m)



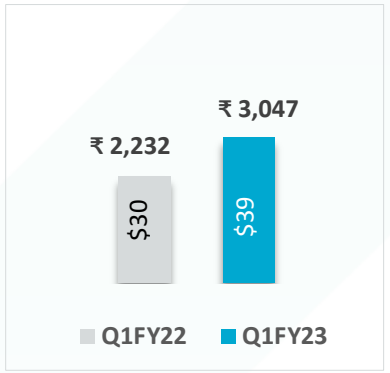
Financial Performance (₹ /$m)

QUARTER ON QUARTER



-3% QoQ

YEAR ON YEAR



37% YoY

QoQ and YoY growth comparison in ₹ reported

Business updates

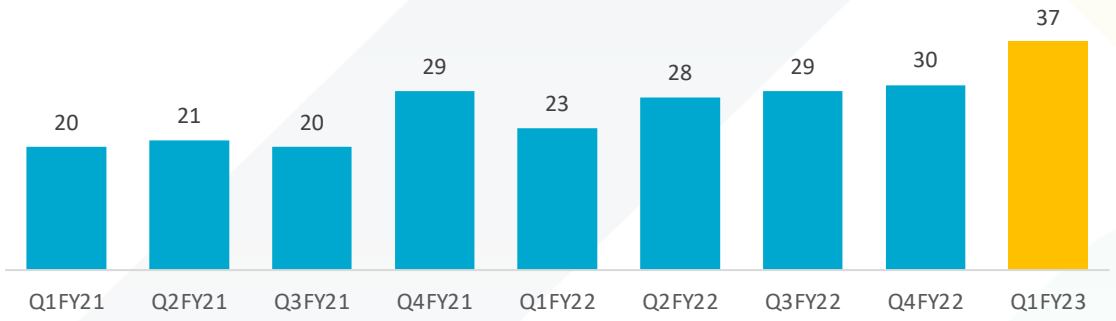
- Revenues from the ORM for Q1FY23 stood at ₹3,047 ($39m), up 37% YoY,
- ORM business contributed 32% of consolidated revenues for Q1FY23
- Revenues during the quarter were also impacted by adverse currency movements for EUR, GBP, and AUD. The constant currency revenues during the quarter were steady.
- Order book visibility continues to be healthy across key markets, business to witness strong traction in H2FY23.

Business Outlook

- ORM business is a significant part of our growth strategy driven by our frontend in key markets and IP-led B2B partnerships in Europe, Australia, and other parts of the world
- Fast-tracking portfolio maximization opportunities for Rx and OTC products with focused R&D programs to expand the product offering
- Growth in front-end business to be driven by new product introductions and improved market share for existing products
- Scaling up partnership business through strategic tie-ups and portfolio expansion in Europe and other key regulated markets
- Focus on right-sizing business for margin-led growth across key markets
- Expansion of product portfolio, entry into new markets, and new customer acquisitions to drive sustainable growth in Other Regulated Markets

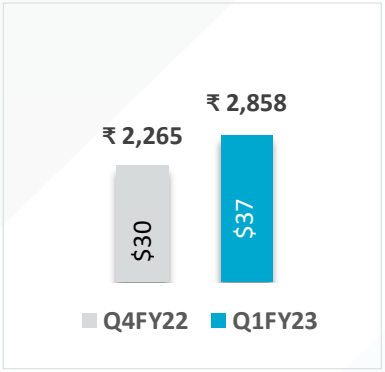
Emerging and Access markets continue to deliver strong performance with 71% YoY growth

EM Revenues - Quarterly Trend ($m)



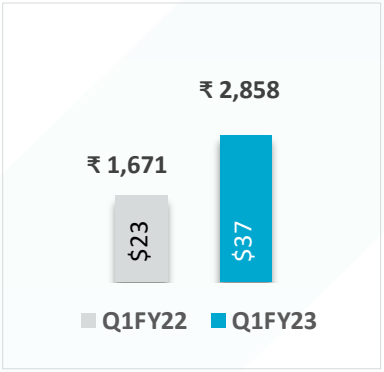
FY22 Performance (₹/$m)

QUARTER ON QUARTER



26% QoQ

YEAR ON YEAR



71% YoY

QoQ and YoY growth comparison in ₹ reported

Business updates

- Revenues from emerging markets for Q1FY23 stood at ₹2,858m ($37m), up 26% QoQ and 71% YoY.
- The institutional business reported revenues of ₹2,013m in Q1FY23, up 40% QoQ, with improved partner offtake during the quarter.
- Africa business reported revenues of ₹845m in Q1FY23, up 2% YoY, driven by improved field force productivity and new product introductions in key markets.

Business Outlook

- Plans in place for selective expansion of product portfolio in line with evolving treatment regimens through committed R&D investments
- Growth in institutional business will also be driven by improved wallet share through cost leadership.
- The Access markets business will continue to be critical for reducing under-recoveries at our manufacturing sites while the regulated markets volumes ramp up.
- Our Africa business will continue its growth trajectory led by improved market penetration and portfolio expansion in key countries.
- A stable cost base and an improved field force productivity to enable operating leverage for the business
- Emerging markets will continue to deliver a steady performance, we will remain invested in the opportunity

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Financial Performance

Key P&L Highlights – Q1 FY23

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Income statement (₹m)					
Particulars	**Q1 FY23**	**Q4 FY22**	**Q1 FY22**	**QoQ**	**YoY**
Revenues	9,457	8,699	6,919	9%	37%
EBITDA	657	461	-468	43%	100%+
EBITDA %	7%	5%	-7%	170 bps	1,380 bps

Reconciliation of EBITDA (₹m)			
As per SEBI results	**Q1 FY23**	**Q4 FY22**	**Q1 FY22**
Profit before exceptional items & tax	**-412**	**181**	**-1,330**
Less: Interest, Dividend income	*80*	*821*	*100*
Add : Depreciation and Amortization	*604*	*607*	*549*
Add : Finance costs	*545*[1]	*495*	*415*
Consolidated EBITDA as per press note	**657**	**461**	**-468**

1. Increase in finance cost due to adverse movement in USD/ INR and increase in interest rates globally

Details on Non-operational items in Q1FY23

Exceptional items in P&L for Q1 FY23 (₹m)		
Particulars	**Description**	**Q1FY23**
Exchange Gain / (Loss)	Relating to long term loans and deferred consideration	-498
Product recall and inventory provision	Past recall and other inventory provisions	-53
Business combination, restructuring	One-time payouts for employee and other cost as part of cost rationalization program	-85
Others	Unwinding of gross obligation and Contingent consideration	-22
Total		**-658**

JV /Associate share of losses(₹m)		
Particulars	**Description**	**Q1FY23**
Stelis	Stelis equity pick up	-499
CHC	Non-Strategic business for Strides, expected to breakeven in FY24	-64
Strides - Sihuan JV	Cost related to registration of products for China	-1
Total Loss from JV& associates		**-564**

Reduction in gross debt through free cash flow generation and corporate actions a key focus area in FY23

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Q1FY23 Debt book

Particulars	March'22 Value in ₹ m	June'22 Value in ₹ m
Gross Debt for Strides	**27,920**	**28,978**
Less: Deferred Consideration receivable	-5,763	-5,609
Less: Cash and Cash equivalents	-1,886	-1,539
Reported Net Debt	**20,271**	**21,830**
Less: Treasury investment in Biotech and CHC	-6,937	-7,337
Total Pharma Net Debt	**13,335**	**14,493**

Currency impact on gross debt during the quarter at ₹689 m due to adverse movements in INR / USD
Arrow transaction related deferred consideration impacted by ₹229 m due to weakness in AUD /INR pair
Cumulative currency impact on the net debt due to above at ₹918m

Debt reduction initiatives planned for FY23

- Realization of deferred from Arrow transaction to be used for repayment of debt resulting in an immediate reduction of gross debt
- Normalization of inventory across business to enable superior free cash flow generation
- Exiting certain low margin non- core P&L' s
- Manufacturing network optimization to enable further debt reduction
- By FY23 end large part of the debt book will be working capital debt required for supporting growth across markets

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Update on Stelis Biopharma

Promising beginning for Stelis as we received EUGMP certification for two of our biopharmaceutical facilities

A high capital long gestation investment now ready for significant growth and operational profitability

- Stelis has emerged as a biopharmaceutical company with integrated capabilities in developing, scale-up, and commercial manufacturing biologics, bio betters, biosimilars, and vaccines.
- Stelis today operates two independent divisions- a global pure-play biological CDMO and a product division with a pipeline of biosimilars and vaccines (Being carved out separately).
- The CDMO business has started generating revenues nearing the operational break even. However, Stelis would achieve the cash break even after ramping up revenue from the phase 2 investments.
- As of March 31, 2022, Stelis has over $300 million of capital invested, of which $225 million has been invested as equity from Strides, promoters, and global marquee investors such as TPG Growth, Think Investment, Route One, GMS, and the family office of S Mankekar.

CDMO Division (Stelis)- $250m+ Investments

- Fully integrated CDMO, offering the complete spectrum of services, from cell line tech transfer to clinical and commercial manufacturing.
- Three state-of-the-art facilities with ~900,000 square feet of Process Development(PD) and manufacturing space for mammalian, microbial, and other modalities
- Amongst the highest CDMO capacity in APAC, including multi-modality bioreactor suites

Products Division (Biolexis) -$50m+ Investments

- Building a portfolio of leading products with cost leadership through efficient processes and low-cost devices
- Attaining strong partnerships in commercializing high-quality, affordable products with deep technical expertise
- Near-term opportunities with covid-19 vaccines, including AmbiVax-C™, a first-of-its-kind thermostable vaccine

CDMO Division Updates (Operated as Stelis)

CDMO Business Updates

- Significant progress was achieved during the first quarter as we onboarded six new Global partners for the business. The Drug Product facility continues to receive traction from the partners, with at least 10+ new products in the queue for different milestones.
- Stelis concluded its first major drug substance deal for a microbial program; the business would have significant near-term manufacturing services revenue with visibility of strong commercial revenues over the medium term.
- Ongoing discussions with at least three major big pharma companies to offer development services for their novel biologic programs.
- As of Quarter 1, the manufacturing services agreement (MSA) concluded by Stelis translated into a commercial sales agreement(CSA) value of $100m for the peak year. As more MSAs translate into CSAs, Stelis could scale up its business significantly, resulting in high profitability with no significant cost increase.
- While the new business would result in operating inflow, the revenue recognition will follow the operational milestones and would be steady after the CSAs exceed the MSAs

Operational Updates

- Stelis' two biologics manufacturing facilities received EU cGMP accreditation.
- GMP approval was received for the flagship facility (Unit 2) and small-scale commercial and clinical batch manufacturing facility (Unit 1).
- Unit 2 offers integrated microbial and mammalian platforms for biologics development and commercial manufacturing. The site is vertically integrated and can convert drug substances to stable formulations across all injectable formats.
- Unit 1 suits clinical trial material generation and commercial manufacturing, including technology transfer activities across multiple modalities and specialized products.

Product Division Updates (Operated as Biolexis)

Biosimilars Pipeline

- STLP001 (PTH) is nearing European Medicine Agency(EMA) approval as Stelis completes the facility inspection (EUGMP), which was one of the prerequisites for acceptance. The approval is expected within 2022, and Stelis has already partnered/licensed this product to different national champions across 20 countries.
- Insulin Programs continue to progress to plan as Stelis readies itself for a phase 3 study for Insulin Glargine in 2022.
- Development on track for the other pre-clinical programs

In-licensed AmbiVax-CTM Opportunity

- AmbiVax-C™ is a SARS-CoV-2-Fc fusion protein vaccine developed by Akston Biosciences, United States. The vaccine has been exclusively licensed to Stelis/Biolexis for 140+ Global countries, including India, South-East Asia, LATAM, GCC, and Africa. Stability studies conducted have demonstrated thermostability at room temperature (High Temperature stable, no cold chain requirements)
- The Vaccine was undergoing Emergency Use Authorization(EUA) determining Clinical trials in India. An interim analysis of this data shows no significant safety issues and a 91% seroconversion rate at Day 56. Volunteers in the bridging study had antibody titers that persisted at statistically-significant high levels through six months, with serum taken from them showing protection against variants of concern.
- The results are under submission for a prime vaccine in India, and clinical studies are planned to support approval for use as a booster shot to itself and other approved vaccines.

Update on Sputnik Light Vaccine

- Last year, Stelis completed the technology transfer of the Sputnik Light vaccine from the Russian Gamaleya National Center of Epidemiology and Microbiology (Gamaleya), the IP holder of the vaccine. In November 2021, Stelis received its first order of 50 million doses of the Sputnik light vaccine to be exported to Russia. Against the 50 million doses to be shipped, Stelis has produced approximately 23 million doses retained as inventory with a long shelf life.
- Considering the geopolitical challenges regarding exports to Russia, the management continues to discuss with Russian Direct Investment Fund (RDIF) to initiate exports to Russia and other markets where the vaccine could be exported.

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Earnings Call Details

Strides Pharma Science Ltd – Q1FY23 Earnings Call

Strides

invites you to interact with the senior management on Q1FY23

Friday, 29th July 2022

4:00pm IST / 11:30am BST / 6:30am EDT / 6:30pm HKT

Arun Kumar

Founder,
Executive Chairperson &
Managing Director

Badree Komandur

Executive Director - Finance
& Group CFO

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Thank You

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