Strides

Moving ahead with conviction

Q2FY23 Earnings Update

Strides Pharma Science Limited
November 14, 2022

Strides reports improved Q2FY23 results led by 690bps gross margin expansion; returns to positive adjusted PAT

Quarterly Performance (₹m)

Particulars	Q2 FY23	Q1 FY23	Q2 FY22	QoQ	YoY
Revenues	8,995	9,457	7,360	-5%	22%
Gross Margin	5,125	4,741	4,113	8%	25%
Gross Margin %	57.0%	50.1%	55.9%	690bps	110bps
EBITDA	1,006	657	10	53%	100%+
EBITDA %	11.2%	6.9%	0.1%	430bps	1,110bps

Half Yearly Performance (₹m)

Particulars	H1 FY23	H1 FY22	YoY
Revenues	18,452	14,279	29%
Gross Margin	9,865	7,541	31%
Gross Margin %	53.5%	52.8%	70bps
EBITDA	1,663	-458	100%+
EBITDA %	9.0%	-3.2%	1,220bps

We continue to make good strategic progress across all our key businesses with a sharper focus on execution and cost competitiveness. We have delivered an improved sequential performance led by gross margin expansion. Our cost control measures have started yielding results and have enabled strong operating leverage during the quarter.

Our US business has reported its best ever quarterly performance, driven by improved market share for the base portfolio, an uptick in the acquired portfolio at Chestnut Ridge, and contribution from new launches. We expect the new launch momentum to pick up in the coming quarters as we leverage a vast portfolio of over 100 approved products undergoing cost improvements and manufacturing site changes in the near term.

We have completed the strategic review of the Other Regulated Markets (ORM) business and have decided to exit several low-margin product lines resulting in a lower topline during the quarter. The long-term outlook for the ORM business continues to be robust, and we expect to get to the historical levels of revenues with superior gross margins as early as Q3FY23.

With all the levers in place, we expect to continue our growth momentum in coming quarters with a focus on improved margins, free cash flow generation, and significant deleveraging of our balance sheet, targeting a net debt to EBITDA of less than three times.

Arun Kumar
Founder, Executive Chairperson & Managing Director

Q2FY23 reported revenues up 22% YoY with the US business reporting its best ever quarterly performance

Market Wise Performance- Quarter on Quarter (₹m)

Particulars	Q2 FY23	Q1 FY23	Q2 FY22	QoQ	YoY
US	4,726	3,552	2,502	33%	89%
Other Reg Mkt	2,414	3,047	2,825	-21%	-15%
Total Reg Mkt	**7,140**	**6,599**	**5,327**	**8%**	**34%**
Inst. Biz	1,035	2,013	1,113	-49%	-7%
Africa	820	845	920	-3%	-11%
Total EM	**1,855**	**2,858**	**2,033**	**-35%**	**-9%**
Total	**8,995**	**9,457**	**7,360**	**-5%**	**22%**

Market Wise Performance – Half Yearly (₹m)

Particulars	H1 FY23	H1 FY22	YoY
US	8,278	5,518	50%
Other Reg Mkt	5,461	5,057	8%
Total Reg Mkt	**13,739**	**10,575**	**30%**
Inst. Biz	3,048	2,083	46%
Africa	1,665	1,621	3%
Total EM	**4,713**	**3,704**	**27%**
Total	**18,452**	**14,279**	**29%**

US business reports its best-ever quarterly performance

- US revenues at ₹4,726m ($60m) for Q2FY23, up from ₹3,552m ($46m) in Q1FY23 and ₹2,502m ($34m) in Q2FY22.
- US business contributed 52% of consolidated revenues in Q2FY23.
- Scale up in the US business driven by improved market share and volume traction across key molecules in our portfolio

Focus on profitable outcome for the Other regulated markets

- Other regulated markets revenues at ₹2,414m ($31m) for Q2FY23, versus ₹3,047m ($39m) in Q1FY23 and ₹2,825m ($38m) in Q2FY22. Other regulated markets businesses contributed 27% of consolidated revenues in Q2FY23.
- A strategic review of the business has led to exiting low-margin P&Ls which do not add strategic value and a change in the operating model for certain B2C-led small regions to a B2B model.
- The business is expected to return to historical levels with superior margins starting Q3FY23.

Lumpiness during the quarter driven by institutional business

- Emerging markets revenues at ₹1,855m ($23m) for Q2FY23, versus ₹2,858m ($37m) in Q1FY23 and ₹2,033m ($28m) in Q2FY22
- Emerging markets business contributed 21% of consolidated revenues in Q2FY23.
- While the branded business is tracking to plan, the institutional business was lumpy as the long-term institutional contracts have come to a close. The new awards are expected to be announced in Q3FY23, with potential supplies starting Q1FY24. Consequently, the business will remain soft for H2FY23

Healthy expansion in operating margins driven by operating leverage

- Margin expansion in Q2FY23 was driven by healthy operating leverage versus 7% in Q1FY23 and 0.1% in Q2FY22.
- Significant actions around manufacturing network optimization, operating cost reduction, and aggressive right sizing across P&Ls have been completed, and the same has started contributing to the operating margins.
- Softening of the freight cost and better supply chain management led to a reduction in logistics cost to ₹569m (6% of revenues) in Q2FY23 from ₹897m (12% of revenues) in Q2FY22

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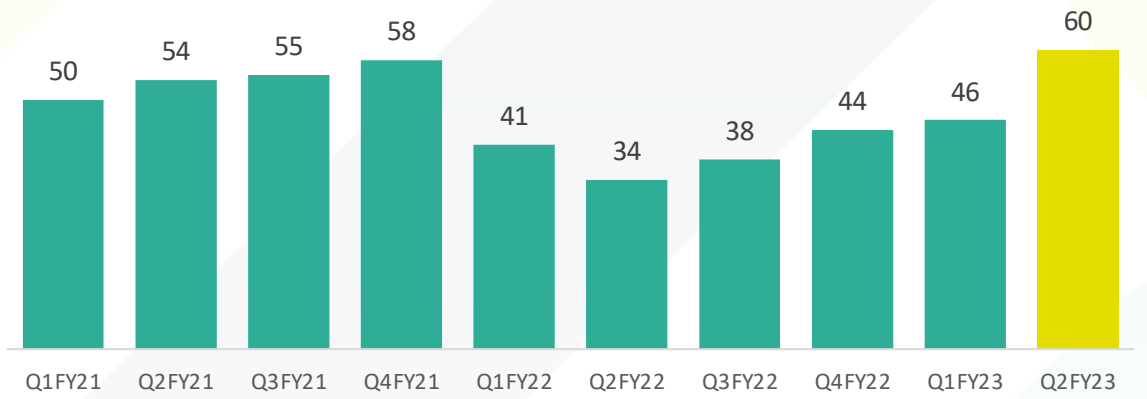
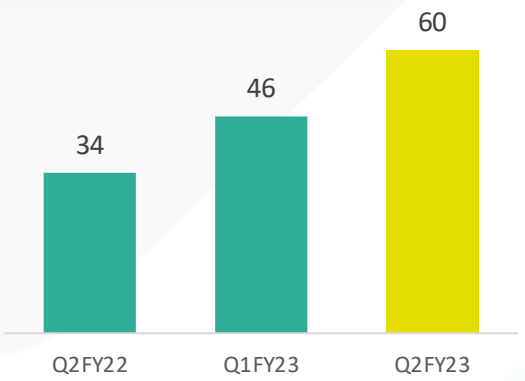
Market Wise Outlook

US Business reports its best-ever quarterly performance at $60m revenues

US Revenues - Quarterly Trend ($m)

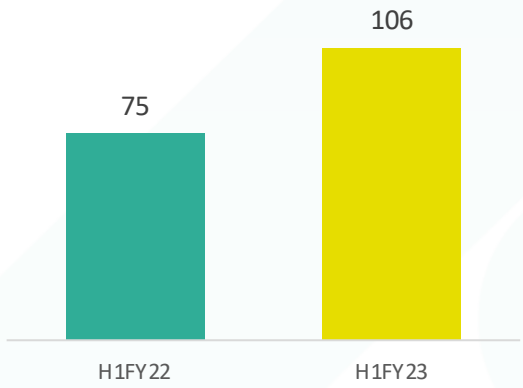


Quarterly Performance ($m)



QoQ%	YoY%
33%	89%

Six Months Performance ($m)



YoY%
50%

QoQ and YoY growth comparison in ₹ reported

Quarterly Updates and Business Outlook

- Revenues from the US for Q2FY23 stood at ₹4,726 ($60m), up 33% QoQ and 89% YoY, representing 52% of consolidated revenues for Q2FY23.
- Witnessing improvement in base business driven by pick up in volumes for key molecules that are now mean reverting to pre – covid levels.
- The uptick in the acquired portfolio at Chestnut Ridge further contributed to the growth momentum in the US during the quarter.
- Over the last two quarters, we have exited several contracts that did not meet our margin criteria as we continue to build our business with a focus on profitability
- Our portfolio is now seeing a stable pricing environment
- Launched 7 products in FY 23 and new launch momentum will pick up in the coming quarters.
- We are confident of meeting our revenue outlook of US$250m run rate in FY23 for the US business.

Portfolio Overview

- US business has a basket of 280 ANDAs, including the acquired portfolio through the Endo transaction. The portfolio comprises a healthy mix of acute and chronic products, including domains of Controlled Substances, Hormones, and Nasal Sprays.
- Of the total ANDAs, 260 are approved, 20 products are pending approval with the USFDA, and over 65+ products have been launched.
- A large basket of approved products will ensure lower dependency on new ANDA filings and approvals in the near term; this will enable more focused R&D initiatives around narrow niches.
- Target to launch ~ 20 new products every year & 60+ launches over three years with a relentless focus on cost competitiveness through alternate vendor developments, site changes, and process improvements

Exit of low margin businesses led to sequential decline in Other Regulated Markets (ORM) revenues
Expect the business to attain its historical levels with superior margins starting Q3FY23

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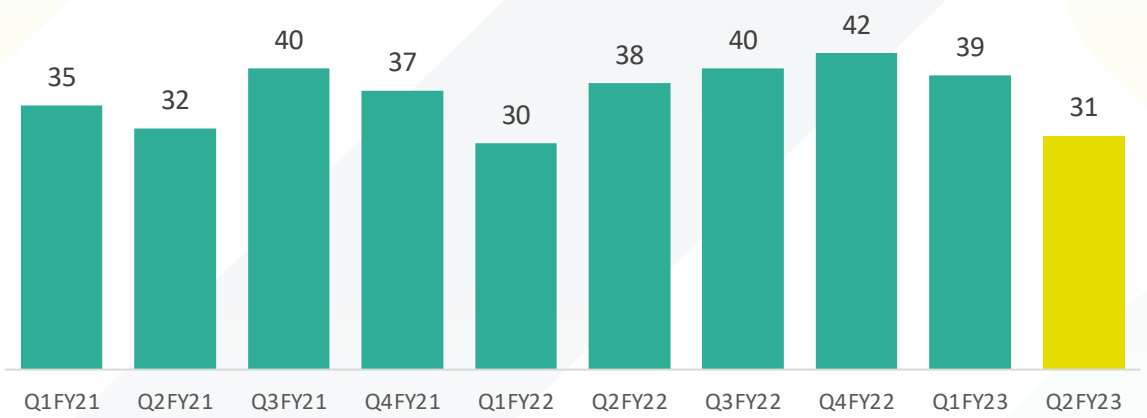
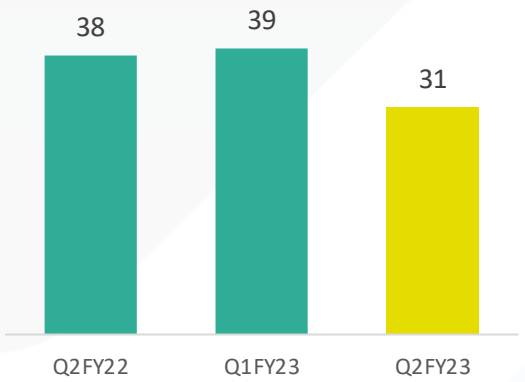
ORM Revenues - Quarterly Trend ($m)

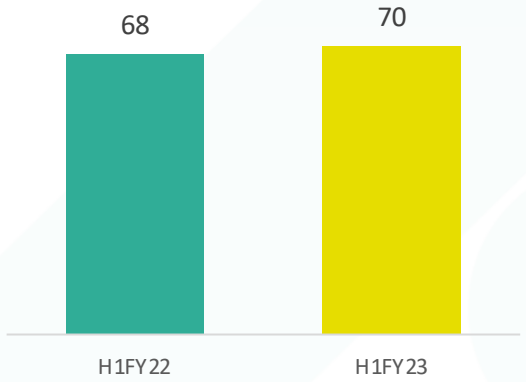


Quarterly Performance ($m)



QoQ%	YoY%
-21%	-15%

Six Months Performance ($m)



YoY%
8%

QoQ and YoY growth comparison in ₹ reported

Business updates

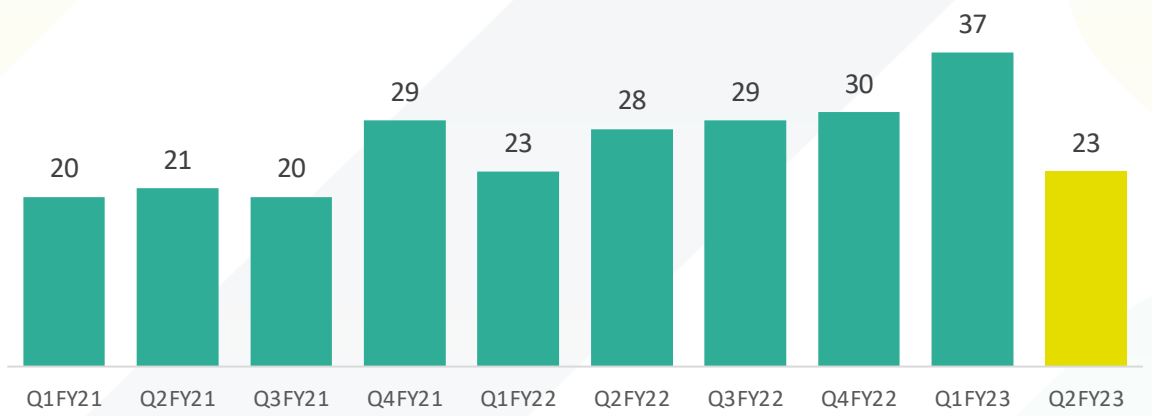
- Revenues from the ORM for Q2FY23 stood at ₹2,414 m ($31m), versus $3,047 m($39m) in Q1FY23 and ₹2,825 m ($40m) in Q3FY22.
- ORM business contributed 27% of consolidated revenues for Q2FY23
- Adverse currency movement for EUR, GBP, and AUD continues to impact reported numbers
- A strategic review of the business has led to exiting low-margin P&Ls which do not add strategic value and a change in the operating model for certain B2C-led small regions to a B2B model.
- Business expected to return to its historical levels with superior margins starting Q3FY23 driven by strong order book visibility.

Business Outlook

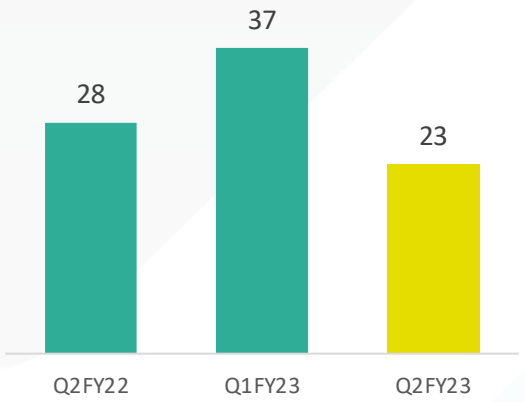
- ORM business is a significant part of our growth strategy driven by geographical reach and portfolio opportunities
- Growth to be driven by our front-end in key markets and IP-led B2B partnerships in Europe, Australia, and other key regulated markets
- Fast-tracking portfolio maximization opportunities for Rx and OTC products through focused R&D investments
- Scaling up partnership business through strategic tie-ups and portfolio expansion in key regulated markets, including Europe
- Expansion of product portfolio, entry into new markets, and new customer acquisitions to drive sustainable growth in Other Regulated Markets

Emerging and Access markets impacted by lower off take for the tender business, branded business delivers steady performance

EM Revenues - Quarterly Trend ($m)

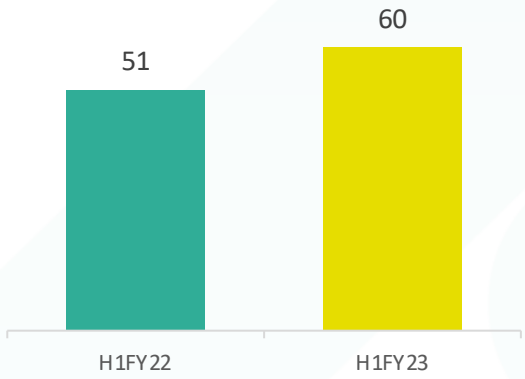


Quarterly Performance ($m)



QoQ%	YoY%
-35%	-9%

Six Months Performance ($m)



YoY%
27%

QoQ and YoY growth comparison in ₹ reported

Business updates

- Revenues from the Emerging and Access Markets for Q2FY23 stood at ₹1,855 m ($23m), versus $2,858 m($37m) in Q1FY23 and ₹2,033 m ($28m) in Q2FY22.
- Revenues from the Africa business for Q2FY23 stood at ₹820 m ($10.3m), versus $845 m ($11m) in Q1FY23 and ₹920 m ($13m) in Q2FY22 with steady performance in branded business.
- Branded business in Africa is tracking to plan with healthy primary and secondary sales trend.
- Revenues from the Institutional business for Q2FY23 stood at ₹1,035 m ($13m), versus $2,013 m($26m) in Q1FY23 and ₹1,113 m ($16m) in Q2FY22.
- The institutional business was lumpy as the long-term institutional contracts have come to a close. The new awards are expected to be announced in Q3FY23, with potential supplies starting Q1FY24. Consequently, the business will remain soft for H2FY23.

Business Outlook

- Given the ramp-up in regulated markets business and network optimizations decision, dependencies on Institutional business have come down significantly from an under-recovery standpoint.
- Focus on cost competitiveness for an improved wallet share for the institutional business.
- Growth in African business will be driven by improved market footprint and portfolio expansion in key countries with a focus on field force productivity to enable better operating leverage.

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Financial Performance

Key P&L Highlights – Q2 FY23

Income statement (₹m)					
Particulars	**Q2 FY23**	**Q1 FY23**	**Q2 FY22**	**QoQ**	**YoY**
Revenues	8,995	9,457	7,360	-5%	22%
EBITDA	1,006	657	10	53%	100+%
EBITDA %	11.2%	6.9%	0.1%	430bps	1,110bps

Reconciliation of EBITDA (₹m)			
As per SEBI results	**Q2 FY23**	**Q1 FY23**	**Q2 FY22**
Profit before exceptional items & tax	**-78**	**-412**	**-915**
Less: Interest, Dividend income	*210*	*80*	*77*
Add : Depreciation and Amortization	*617*	*604*	*565*
Add : Finance costs	*676*	*545*	*436*
Consolidated EBITDA as per press note	**1,006**	**657**	**10**

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

Details on Non-operational items in Q2FY23

Exceptional items in P&L for Q1 FY23 (₹m)		
Particulars	**Description**	**Q2FY23**
Exchange Gain / (Loss)	Relating to long term loans and deferred consideration	-463
Product recall & Inventory provision	Past recall and Inventory provisions	-151
Severance	Severance and Retrenchment costs	-6
Unwinding	Unwinding of gross obligation and contingent consideration	151
Gain on Sale of Investment	CHC	465
Gain on divestment*	Loss of control in UCL*	149
		145

JV /Associate share of losses(₹m)		
Particulars	**Description**	**Q2FY23**
Stelis	Stelis equity pickup	-426
CHC	Non-Strategic business for Strides, expected breakeven in FY24	-22
JV/Associate share of losses		**-448**

**Universal Corporation, Kenya (UCL) would have a favorable opportunity to participate and win certain local tenders if the company is a local company, i.e, Kenyan shareholders own at least 51% ownership. To maximize the opportunities for UCL, the shareholders have jointly agreed to take the necessary steps that enables the company to be eligible and win such businesses enabling its future growth. During the current quarter, the Group decided to reduce its equity shareholding below majority in UCL. Consequently, the Group ceded away the control over the board of UCL to the existing shareholders but continues to have board representation to exercise significant influence. As per Ind AS 110 - Consolidated Financial Statements, the resulting gain of Rs. 149 million, the excess of the fair value of consideration over the carrying value of net assets in UCL, has been disclosed under exceptional items. As on September 30, 2022, the fair value of investment in UCL has been disclosed under investment in associates and joint ventures.*

Arrow deferred consideration to be received ahead of contractual obligation; H2 focus will be on free cash generation for right-sizing working capital; On target to bring down Net Debt to exit FY23 EBITDA under 3

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Debt book

Particulars	₹m*
Term Loans	13,599#
Less: Cash and Cash Equivalents	-1,298
Less: Deferred Consideration	-5,454
Net Term Loans	**6,848**
- Long Term – Revolver (US)	3,467
- Other Net Term Loan	3,381
Short Term Loans	**15,365**
Net Debt at End of Sep'22	**22,212**
Net Debt at End of Jun'22	**21,830**

** Currency impact on Net debt during the 1HFY23 at ₹ 1,434m due to adverse movement in INR / USD and AUD /USD pair.*
 # Long Term Loans with the original tenor of >1 year

Outlook

Debt reduction initiatives planned for FY23

- Arrow deferred consideration to be received ahead of contractual obligation
- Normalization of inventory across business to enable superior free cash flow generation
- Manufacturing network optimization to enable further debt reduction
- With the above actions we remain on track to achieve Net Debt to Exit FY23 EBITDA of <3x

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Update on Stelis Biopharma

With regulatory approvals from USFDA and EMA, Stelis CDMO business is moving forward positively

A high capital long gestation investment ready to achieve growth and 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 (Stelis) and a product division with a pipeline of biosimilars and vaccines (Biolexis). Biolexis is in the process of being carved out as a separate company.
- 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 commercial supplies of its partner products under the approval process.
- As of March 31, 2022, Stelis has over $300 million of capital invested, of which $225 million has been funded as equity from Strides, promoters, and global marquee institutional investors such as TPG Growth, Think Investment, and Route One investment group, 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.
- State-of-the-art facilities with Process Development(PD) and manufacturing space for mammalian, microbial, and other modalities
- Amongst the highest CDMO capacity in APAC with most modern Single Use Bioreactor reactors.

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 vaccines, including Sputnik Light's take-or-pay contract with Russian Direct Investment Fund(RDIF), Russia's sovereign fund

CDMO Business: The order traction is improving as new Global partners are being onboarded to Stelis

	Key updates for the quarter	Near Term Outlook
Business Growth and outlook	• Stelis **onboarded three new Global partners** with its first-ever external contract for the Drug Substance business.. • Cumulatively, Stelis has **more than ten partners across the drug substance and drug product programs.** • Stelis flagship facility (unit 2) received **EIR from the USFDA for the drug product capabilities,** a significant milestone for the Company. Unit 2 offers integrated microbial and mammalian platforms for biologics development and commercial manufacturing. • The **mammalian block with 8,000L capacity at our USFDA-approved site** is **fully commissioned and ready for onboarding** new business.	• Ongoing discussions with new major big pharma companies to offer development services for their novel biologic programs • As of the first six months, the **manufacturing services agreement (MSA)** concluded by Stelis translated into a **commercial sales agreement(CSA**) value of $120m for the peak year. • With the **USFDA approval in place** and the partners expecting their product approvals in due course, the CSA revenues will start from **FY24 and grow significantly in FY25.**
Financial Performance	• While **significant order wins have been concluded**, the **onboarding cycle takes longer for the CDMO business**. • The **new business would result in operating inflow** however the revenue recognition will follow the operational milestones and would be **steady only after the CSAs exceed the MSAs**. • Consequently, Stelis, like the FY22, will report a **modest operating revenue performance** with **negative PAT** in FY23.	• Stelis expects to **demonstrate a positive operating margin in 12 to 18 months.** • **As the CSA-led revenues kick in, Stelis will generate enough cash flow** to meet its obligations.

Biolexis: Our first biosimilar- rh-teriparatide has received positive recommendation from EMA

Key updates for the quarter

- STLP001 (PTH or brand name Kauliv™) has received a positive recommendation from the **European Medicine Agency(EMA)** on 11th November 2022
- Kauliv™ is a **biosimilar to Forteo® (innovator)**, indicated for both **men and postmenopausal women with osteoporosis** who are at high risk for having broken bones or fractures.
- Kauliv™ is developed on a **recombinant Escherichia coli host platform, similar to the innovator.**
- Kauliv™ provides **reusable and disposable pen (autoinjector)** device options to cater to the global market demand.
- **Forteo®** leads the **market among treatment options for bisphosphonates, Selective Estrogen Receptor Modulators (SERMs)**. It remains a gold standard for the treatment of osteoporosis, with **>$800 million in global sales.**

Near Term Outlook

- Stelis has already **licensed Kauliv™ across 20 countries** and the commercialization of the product will **generate incremental revenues with significant EBITDA** for Company starting FY24.
- While the products business is progressing well, we continue to have **challenges with selling the Sputnik Light Vaccine** (take-or-pay contract with RDIF).
- 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 shelf-life up to March 2023.
- Considering the **geopolitical challenges regarding exports to Russia**, Stelis could not sell the stock. While the management **continues to find solutions, it has not succeeded so far and expects to have firm updates in the next quarter.**

Updates on Capital raise/Equity for Stelis

- The promoters and investors are committed to investing INR 6,450.4m in the Company to ensure that Stelis meets its obligations and has enough growth capital for the future. Of this amount, Stelis has already received INR 4,167.8m of capital in FY23, and the remaining capital is being infused periodically.
- The company has engaged a global banker to raise additional capital of up to $100m, and the process has kicked off already. The company expects to have a solution for Sputnik Light-related matters and the new capital raise by the end of the FY23

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Earnings Call Details

Strides

invites you to interact with the senior management on Q2FY23

November 14, 2022

5:00pm IST / 12:30pm BST / 6:30am ET / 7:30pm HKT

Arun Kumar

Founder,
Executive Chairperson &
Managing Director

Badree Komandur

Executive Director - Finance
& Group CFO

Click on the icon above to pre-register and join without the operator

Join through an operator using dial in numbers

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Thank You

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