Strides announces Q4FY22 & FY22 results

- *Reports improved growth in Q4 with a modest EBITDA pick up*
- *Guides for an encouraging FY23 outlook*

Q4 and FY22 Earnings Update | May 24, 2022

Strides reports an improved Q4FY22 after nine months of tepid performance

Strides

Quarterly Performance (₹m)

Particulars	Q4 FY22	Q3 FY22	Q4 FY21	QoQ	YoY
Revenues	8,699	7,968	9,115	9% ▲	-5%▼
Gross Margin	4,425	3,957	5,400	12%▲	-18%▼
Gross Margin %	***50.9%***	***49.7%***	***59.2%***	***120bps▲***	***- 830bps▼***
EBITDA	461	40	1,602	100%+▲	-71%▼
EBITDA %	***5.3%***	***0.5%***	***17.6%***		

Yearly Performance (₹m)

Particulars	FY22	FY21	YoY
Revenues	**30,946**	33,308	-7% ▼
Gross Margin	15,923	19,980	-20% ▼
Gross Margin %	***51.5%***	***60.0%***	***- 850bps▼***
EBITDA	**43**	6,497	-99%▼
EBITDA %	***0.1%***	***19.5%***	

FY22 has been a challenging year for the pharma industry and, particularly for Strides, given the significant headwinds. We have witnessed unusual price erosion and volume drops in the US, leading to significant compression in our gross margins. The other regulated markets delivered a tepid growth as the business was impacted in H1FY22 due to covid led disruptions.

In light of the evolving business environment, we have made several changes to our businesses with a focus on growth, better cash flows and a significant debt reduction. Our growth across the market will be driven by portfolio expansion leveraging our approved portfolio and new customer acquisition for our IP- led B2B businesses. We will aggressively focus on the cost reduction, while one of the key actions planned for the year is to reduce our gross debt by over ₹10b in FY23, which will bring our Net Debt to EBITDA below 3x.

While the operating environment continues to evolve and is ambiguous, we stay confident of a bounce-back in FY23 to deliver significant value for our stakeholders in the coming years.

Arun Kumar
Founder, Executive Chairperson & Managing Director

Key changes in management team

The Evolving global environment & strategic priorities	Given the challenging business environment post-Covid and for Strides in particular, we have made several management and operational changes to adapt to the evolving environment

Arun Kumar, Founder, returns in an executive role at Strides

- Arun Kumar has returned to the Company in an Executive position; he assumed the role of Executive Chairperson and Managing Director effective April 7, 2022.
- Arun to steer Strides with a clear direction from the Board to institutionalize the course correction and ensure the sustainability of its operating model.
- FY23's focus on growth, global expansion of markets, and significant emphasis on gross debt reduction
- The Board acknowledges the contribution of Dr. R. Ananthanarayanan during his tenure as the Managing Director and CEO of Strides.

Venkatesh Srinivasan to head US sales and marketing operations

- Consequent to the transaction with Endo (acquisition of Chestnut Ridge facility and 150+ ANDAs), the US business has now been de-risked from its acute-only strategy to become a well-diversified player in the US.
- Our Portfolio adds new capabilities in hormones, controlled substances, and nasal sprays; it comprises 274 ANDAs (of which 249 are approved and only ~60 are commercialized), significantly improving the opportunity for Strides to expand its US business in the medium term.
- The Company reaffirms its previously guided revenues of $250m+ for the US market in FY23 and expects to launch ~20 products every year from its approved portfolio basket to enable sustainability.
- The Endo transaction's complete transition will be achieved in the end of June 2022. Consequently, Terrance Coughlin (Terry), Former COO of Endo and incumbent CEO of US business for Strides, will move on from Strides. The management is thankful to Terry for his contribution and for successfully concluding the Endo transaction.
- Venkatesh Srinivasan, a seasoned professional in the pharmaceutical space, will lead the US sales and marketing Operations as President. Previously, Venkatesh was the CEO of US business of Alkem and Micro Labs. He has extensive global experience and has worked with Pfizer, Dr. Reddys in the past.

Our businesses have witnessed green shoots with modest EBITDA pickup & we will build strongly from here

Strides

Quarterly Performance (₹m)

Particulars	Q4 FY22	Q3 FY22	Q4 FY21	QoQ	YoY
US	3,301	2,831	4,273	17%▲	-23%▼
Other Reg Mkt	3,133	2,990	2,722	5%▲	15%▲
Total Reg Mkt	**6,434**	**5,821**	**6,995**	**11%▲**	**-8%▼**
Inst. Biz	1,436	1,388	1,448	3%▲	-1%▼
Africa	829	760	671	9%▲	24%▲
Total EM	**2,265**	**2,148**	**2,119**	**5%▲**	**7%▲**
Total	**8,699**	**7,968**	**9,115**	**7%▲**	**- 5%▼**

Yearly Performance (₹m)

Particulars	FY22	FY21	YoY
US	11,650	15,936	-27%▼
Other Reg Mkt	11,180	10,700	4%▲
Total Reg Mkt	**22,830**	**26,636**	**-14%▼**
Inst. Biz	4,906	3,894	26%▲
Africa	3,210	2,778	16%▲
Total EM	**8,116**	**6,672**	**22%▲**
Total	**30,946**	**33,308**	**-7%▼**

US returns to sequential growth with 17% QoQ improvement

- Revenues at ₹3,301m ($44m) for Q4FY22, up from ₹2,831m ($38m) in Q3FY22; US contributed 38% of consolidated revenues in Q4FY22
- Revenues from US business down 27% YoY in FY22 to ₹11,650m ($157m) with significant competitive intensity and volume drops for the overall market
- Maintained volume market share for key products albeit on a lower base, witnessing momentum in new order wins

Other regulated markets (ORM) exits with a higher base for FY23

- In Q4FY22, the ORM business achieves its highest quarterly run rate of ₹3,133m ($42m)
- Revenues at ₹3,133m ($42m) for Q4FY22 versus ₹2,990m ($40m) in Q3FY22, Markets contributed 36% of consolidated revenues in Q4FY22
- Despite challenges due to Covid-19, revenues from ORM went up 4% YoY to ₹11,180m ($150 m)
- Strong order book visibility driven by focused customer advocacy

Steady performance in Emerging Markets (EM)

- Emerging markets revenues at ₹2,265m ($30m) for Q4FY22 versus ₹2,148m ($29m) in Q3FY22, business contributed 26% of consolidated revenues in Q4FY22.
- Revenues from EM up 22 %YoY in FY22 to ₹8,116m ($109m)
- Steady performance in emerging markets with both Africa and Institutional business contributing to growth in Q4

Cost improvement programs have started yielding results

- Cost structures ex-logistics trending steady sequentially driven by CIPs
- Logistics cost during the quarter was at ₹751m versus ₹606m in Q3FY22 as we witnessed significant increases with sea and air freights.
- R&D investment in Q4FY22 at ₹200m, full-year R&D investments at ₹970m

FY22 has been a difficult year with Strides reporting its lowest ever EBITDA performance

Strides

Challenging business environment

- Significant fall in US revenues due to covid-related headwinds leading to drop in volumes and margin compression due to the heightened competitive intensity and higher channel inventory.
- ORM had a tepid growth impacted by Covid for two quarters; however, Q4 witnessed a strong pull back with the business surpassing its previous quarterly peak.

Supply Chain headwinds

- Increase in raw material prices with disruption in the global supply chain
- Significant increase in the cost of operations during the year
- Strides logistics and warehousing cost at 10% of sales in FY22 versus 6% in FY21
- A substantial fall in volume in the US-led to over-stocking in the channel, and consequently, lack of demand led to under-recoveries at manufacturing sites

Puducherry inspection delay

- Due to the lack of field inspections by the USFDA witnessed in FY22, we are still unable to resolve our OAI Status in Puducherry.
- However, the third-party status of compliance has been submitted to the FDA.

Financial performance

- Strides reports a weak financial performance in FY22
- Increase in the working capital cycle due to inventory build-up owing to lower offtake
- Increase in financial leverage on the balance sheet
- Strides' credit rating downgraded during the year

7%

7% drop in revenues with a 20% decline in absolute gross margins

850 bps

compression in gross margins

16%

increase in operating cost (employee and other expenses)

Strides guides for an encouraging FY23 with focus on growth, higher cashflows & reduction in debt

Growth

- Bounce back in the US markets led by new product launches from the approved portfolio to achieve $250m+ guidance
- Continued growth momentum in ORM aided by new product approval and new customer acquisition in territories that we do not operate through an IP-led B2B model.
- With a significant US portfolio, which allows us early or easy access to several countries in GCC and LATAM, we have identified organic growth expansion into these regions
- Increasing portfolio in our Brands Africa division and focusing on productivity improvement of our field force to drive growth with improved flow through to EBITDA
- Exiting businesses where we do not control cashflows or will not add significantly to the long-range reset plan of the Company

Cost Improvement Plan (CIPs)

- A significant reduction in investments in R&D for the US, considering we have over 150+ ANDAs to be launched
- Focusing on CIPs through alternative API vendors and manufacturing network optimization to achieve improved COGS
- Shifting R&D focus to ORM and other geographies by leveraging vast regulated markets portfolio already approved
- Reduced operating cost by austerity measures without impacting business continuity
- Enhance Sales and Operational Planning (S&OP) processes to reduce our logistics cost by 300 basis point (% to sales)

Debt Reduction target of ~ ₹10bn in FY23

- Target to reduce the gross debt of INR 28b by INR 10b, targeting Net Debt to EBITDA under 3x *(Details on Slide 13)*
- Superior free cash flow generation from operations and optimizing Cash to Cash cycles
- Deliver performance to enable re-instatement of previous credit rating for Strides

> While the operating environment continues to be challenging and ambiguous, we are confident of a bounce-back starting from Q1 FY23 through a disciplined and focused execution

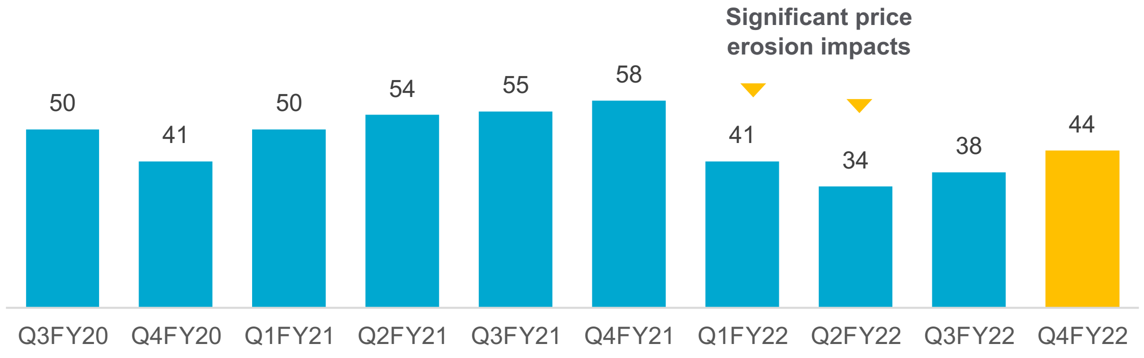
FY22 Highlights and FY23 Outlook

*Please refers to investor deck on Stelis for update on biotech business

While the market remains competitive, the US business for Strides will linearly grow to $250m+ in FY23

Strides

US Revenues - Quarterly Trend ($m)

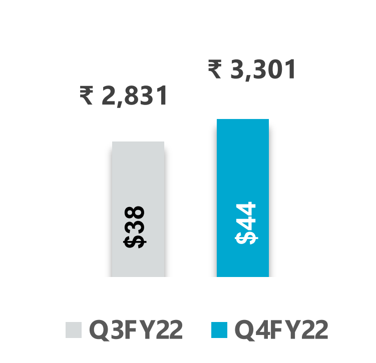


Business updates

- Revenues from the US for Q4FY22 stood at ₹3,301 ($44m), up 17% QoQ, representing 38% of consolidated revenues for Q4FY22.
- US revenues for FY 22 at ₹11,650 ($157m) representing 38% of consolidated revenues for FY22 (FY21 revenues of ₹15,936)
- In Q4, US business delivered a sequential growth led by incremental contribution from Chestnut Ridge portfolio.

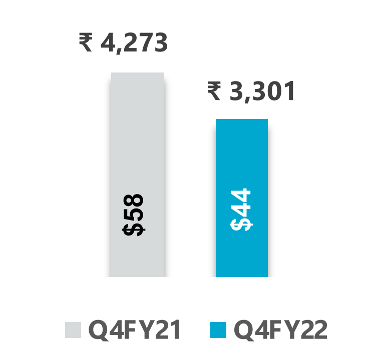
FY22 Performance impacted by industry headwinds - (₹ /$m)

QUARTER ON QUARTER



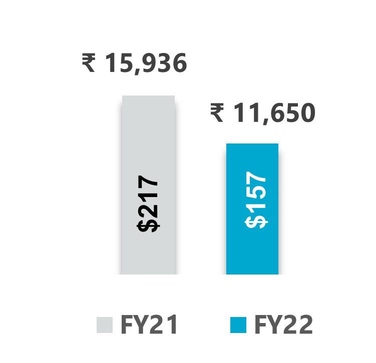
17% QoQ

YEAR ON YEAR



- 23% YoY

FY22 ON FY21



- 27% YoY

FY23 Revenue outlook for the US

Approved ANDAs	Strides Comm. ANDA	Annual Target Launches
249	~ 60	~ 20

$250m +

Targeting FY23 revenues for the US Market

YoY comparison in ₹ reported

US will continue to be a focus market for Strides with growth driven by portfolio

Strides

Business environment

- The business environment is constantly evolving post-Covid, with select products recouping both volume and price while several other products continue to face price intensity and lower volume pick up.
- Most competitors have resolved for overstocking, and the same is contributing to pick in RFQs
- We believe the ambiguity will continue in the near term, given that Covid's future impact is unknown.
- Despite this ambiguity, the US will continue to be a market of importance for Strides and will be a key growth driver.
- We stay confident to navigate the evolving environment and meet our growth outlook of $250m+ in FY23

Approved portfolio Opportunity

- Strides has a basket of 274 ANDAs, including 249 approved ANDAs, providing substantial growth visibility in the near term as only ~60 ANDA are currently commercialized.
- New domain additions comprising Controlled Substances, Hormones, Nasal Sprays to further accelerate portfolio differentiation

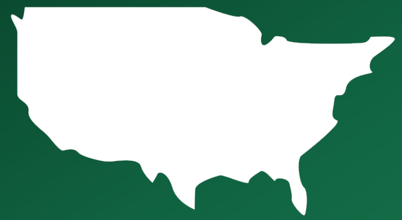
Chestnut ridge acquisition resolves for previous narrow portfolio

- Strides ANDA basket now has a mix of acute and chronic products that will help diversify product offerings and render stability to the portfolio.
- 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 between Strides and Chestnut Ridge portfolio in FY23 & 60+ launches over three years
- Focus on stronger customer advocacy and superior supply execution to be a reliable partner for our channel partners

Tech transfers and cost improvement programs for higher market share

- A vast portfolio of approved products will enable Strides to mitigate market headwinds of pricing and increased competitive intensity with a faster launch velocity.
- Tech transfer of Chestnut Ridge products to India for better cost arbitrage, institutionalization of alternate vendor development programs, and cost improvement programs are key focus areas to stay competitive.
- Focus on increasing market share for existing products through cost competitiveness and supply reliability for partners

Pivots in place to deliver sustainable growth for the US business beyond FY23

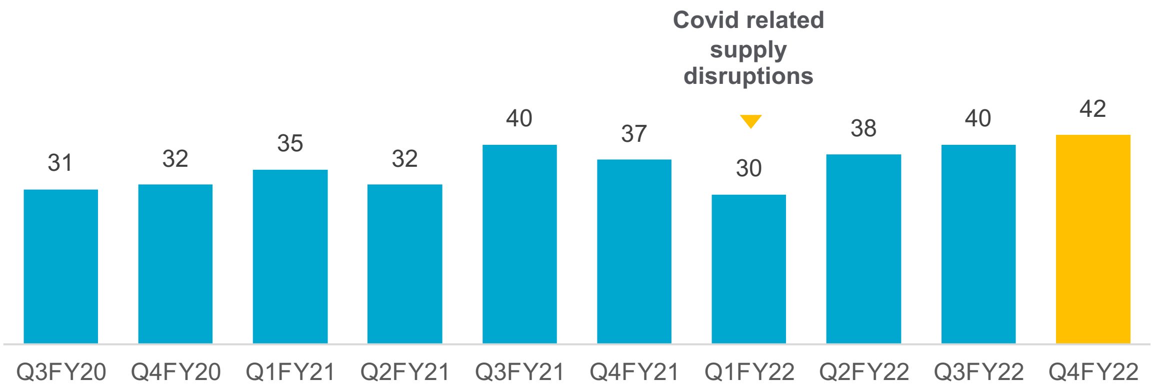


$250m+

Targeting FY23 revenues for the US Market

ORMs delivers its best quarterly performance with Q4FY22 revenues at $42m

ORM Revenues - Quarterly Trend ($m)

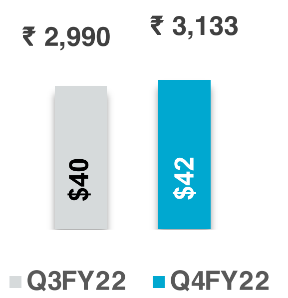


Business updates

- Revenues from the ORM for Q4FY22 stood at ₹3,133m ($42m), up 5% QoQ and up 15% YoY, representing 36% of consolidated revenues for Q4FY22.
- ORM revenues for FY 22 at ₹11,180 ($150m), representing 36% of consolidated revenues for FY22 (FY21 - ₹10,700)
- ORM business delivered a steady performance; however, the performance was impacted by Covid-led disruption for 3-4 months during the year.
- Focus on several new launches and new customer acquisitions to deliver improved outcomes

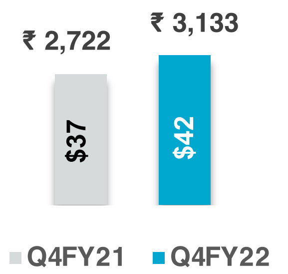
FY22 Performance in ORM (₹/$m)

QUARTER ON QUARTER



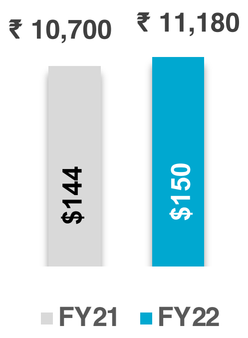
5% QoQ

YEAR ON YEAR



15% YoY

FY22 ON FY21



4% YoY

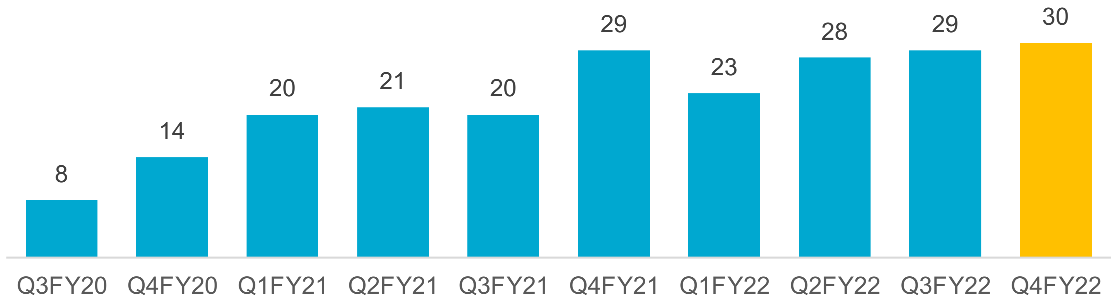
YoY comparison in ₹ reported

Near term outlook and drivers

- 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
- R&D investments are committed to fast-track portfolio maximization opportunities for Rx and OTC portfolio, several new products to be launched in FY23
- Prioritizing scaling up of partnership franchise in Europe and other geographies through strategic tie-ups and portfolio expansion
- Overall growth momentum to continue for ORM with solid order book visibility across focus markets
- Expect to exit FY23 on a significant revenue base in ORM.

Emerging and access markets business delivers a robust 22% YoY growth in FY22

EM Revenues - Quarterly Trend ($m)

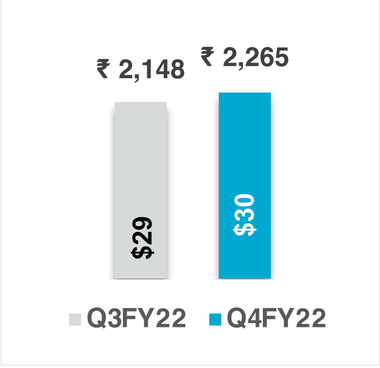


Business updates

- Revenues from emerging markets for Q4FY22 stood at ₹2,265m ($30m), up 5% QoQ and up 7% YoY.
- Emerging markets revenues for FY 22 at ₹8,116 ($109m) representing 26% of consolidated revenues for FY22 (FY21 - ₹6,672m)
- The institutional business reported revenues of ₹1,436m in Q4FY22, up 3% QoQ, with steady offtake from partners.
- Africa business reported revenues of ₹829m in Q4FY22, up 9% QoQ and up 24% YoY.

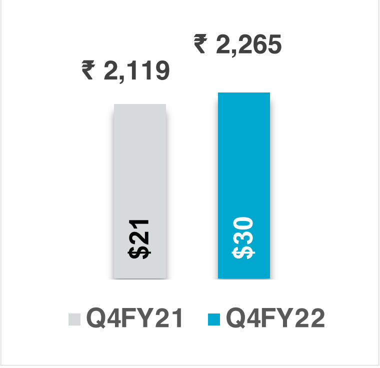
FY22 Performance in Emerging Markets (₹/$m)

QUARTER ON QUARTER



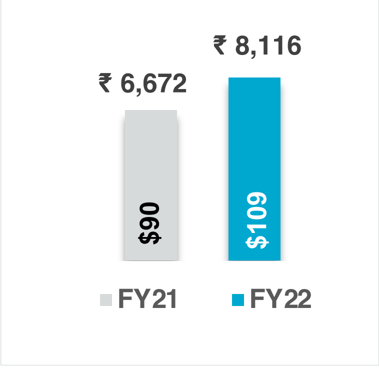
5% QoQ

YEAR ON YEAR



7% YoY

FY22 ON FY21



22% YoY

Near term outlook and drivers

- The institutional business (Access markets) is a low-margin business but is critical to reducing under-recoveries while the regulated markets volumes ramp up.
- Growth in institutional business to be driven by improved wallet share in the business through cost leadership and selective expansion of product portfolio
- Africa business scale-up will be driven by expanding geographical footprint in the region and better penetration of existing markets through portfolio expansion.
- Focusing on improving MR productivity for the Africa business for a strong operating leverage

YoY comparison in ₹ reported

Besides targeting growth, our aggressive focus in FY23 will be on optimizing operating costs

Strides

R&D Reset

- Optimization of R&D investment for the US as we unlock value from the large basket of approved products
- R&D investment will now be targeted towards select narrow niches
- R&D focus towards fast-tracking portfolio maximization initiatives for ORM

Aggressive CIPs

- Alternate Vendor Development (AVD) programs to drive cost optimization and supply continuity
- Cost Improvement Programs (CIPs) to be a key focus area to stay competitive
- Institutionalization of the above programs is a key focus area for staying competitive.

Network Optimization

- Significant fall in volume in the US led to over-stocking in the channel and consequently lack of demand led to under-recoveries at manufacturing sites
- Focus on increasing volumes driven by IP-led partnership business in ORM, high velocity of launches and improved market share for current products in the US

High Logistics cost

- Logistics cost continues to stay elevated given the disruption in the global supply chain and increased crude pricing.
- While the logistics cost in FY22 was 10% of revenues, expect the same to settle in mid single-digit for FY23 (3-4 % lower than FY22) with better S&OP controls

Reduction in Operating cost

- Focus on optimization of all cost line items across P&L
- Global Manpower cost optimization exercise completed and will yield results in FY23
- Network optimization to reduce under-recoveries at manufacturing sites
- Building an efficient and a more cost competitive supply chain with a sharper focus on compliance

Volatile input cost

- Expect volatility in the pricing of raw materials given the surge in global commodity pricing.
- Standardization of global sourcing practice to enable stronger negotiations with vendors and help mitigate the volatile environment

Focus on free cash generation and balance sheet initiatives for significant debt reduction in FY23

FY22 Debt book

Particulars	Value in ₹ m
Gross Debt for Strides	**27,920**
Less: Deferred Consideration receivable	*-5,763*
Less: Cash and Cash equivalents	*-1,886*
Reported Net Debt	**20,271**
Less: Treasury investment in Biotech and CHC	*-6,937*
Total Pharma Net Debt	**13,335**

FY23 Outlook

Targeted Gross debt reduction by end of FY23

~ ₹10bn

H1 FY23

- Realization of deferred consideration of ₹5,763m in H1FY23 to be used for repayment of debt resulting in immediate reduction of gross debt
- Reduction in finance cost with the repayments in gross debt

H2 FY23

- Further reduction of ₹4,500m + in gross debt planned through:
- Normalization of inventory levels in US through the year leading to superior free cash flow generation
- Exiting certain low margin non- core P&L's

FY23

Targeted Net debt to Exit FY 23 EBITDA

<3x

Strides

Financial Performance: Q4FY22 and FY22

Key P&L Highlights – Q4 and FY22

Strides

Income statement (₹m)

Particulars	Q4 FY22	Q3 FY22	Q4 FY21	QoQ	YoY	FY22	FY21	YoY
Revenues	**8,699**	**7,968**	9,115	9%	-5%	**30,946**	33,308	-7%
EBITDA	**461**	**40**	1,602	100%+	-71%	**43**	6,497	-99%
EBITDA %	**5.3%**	**0.5%**	17.6%			**0.1%**	19.5%	

Reconciliation of EBITDA (₹m)

As per SEBI results	**Q4 FY22**	**Q3 FY22**	**Q4 FY21**
Profit before exceptional items & tax	**181**	**-914**	**768**
Less: Interest, Dividend income	*821*	77	*101*
Add : Depreciation and Amortization	607	609	519
Add : Finance costs	*495*	423	*416*
Consolidated EBITDA as per press note	**461**	**40**	**1,602**

Details on Non-operational items in Q4 and FY22

Strides

One off gains in P&L for Q4 and FY22

Particulars	Description	Q4 FY22	FY22
Current Tax (Refunds)	Tax refund on account of certain tax credits for earlier years	1,605	1,605
Other Income (Interest on Tax Refunds)	Interest income on Tax on the said refund recorded as part of other income	748	748
Total		**2,353**	**2,353**

Exceptional items in P&L for Q4 and FY22

Particulars	Description	Q4 FY22	FY22
Exchange Gain / (Loss)	Relating to long term loans and deferred consideration	**165**	**-109**
Impairment	Florida plant related impairment consequent to acquisition of Chestnut Ridge facility	**-31**	**-1,727**
Product recall and inventory provision (Losartan)	Presence of Azide impurity(s) in Losartan, identified consequent to a letter issued by USFDA Voluntary recall of the corresponding batches and provision of inventories with impurity(s) Product relaunched in Q4 FY22 with optimized API process at the API manufacturer	**-353**	**-353**
Ranitidine Recall	Recall related expenses	**-39**	**-200**
Gain on sale/ dilution of Investment in Associate	Gain on Stelis investment on account of last fund raise. Strides investments valued at ~$117m basis post money valuation of Stelis at ~$350m (More details in Stelis Investor Deck)		**529**
Business combination and restructuring	One time cost on Chestnut Ridge acquisition and integration One time cost on account of employee severance and retrenchment expenses	**-289**	**-418**
Loss on sale of Business unit	Exit of loss-making Canadian operations	**-154**	**-125**
Others	Unwinding of gross obligation, Contingent consideration & write down of certain assets	**-68**	**-35**
Total		**-769**	**-2,438**

JV /Associate share of losses

Particulars	Description	Q4 FY22	FY22
Stelis	Stelis reported $17.2m Revenues with an Adj. EBITDA of $5.9m (More details in Stelis Investor Deck)	-400	-857
CHC	Non-Strategic business for Strides, expected to breakeven FY24	-32	-231
Strides - Sihuan JV	Cost related to registration of products for China	-4	-20
Total Loss from JV& associates		**-436**	**-1,108**

Strides

invites you to interact with the senior management on Q4 and FY22

Wednesday, 25th May 2022

8:30am IST / 04:00am BST / 11:00pm EDT / 11:00am HKT

Arun Kumar

Founder,
Executive Chairperson &
Managing Director

Badree Komandur

Executive Director -
Finance & Group CFO

Pre-register and join without operator

CLICK HERE

Join through an operator using dial in numbers

India Primary	+91 22 6280 1434 / +91 22 7115 8838		
USA	18667462133	Singapore	8001012045
UK	08081011573	Hongkong	800964448

THANK YOU

Strides

Strides Pharma Science Limited
CIN: L24230MH1990PLC057062

REGISTERED OFFICE
201, Devavrata,
Sector 17, Vashi,
Navi Mumbai - 400 703, India
Tel.: +91 22 2789 2924/2789 3199
Email: corpcomm@strides.com
Website: www.strides.com
CIN: L24230MH1990PLC057062

CORPORATE OFFICE
Bannerghatta Road,
Bengaluru - 560 076, India
Tel.: +91 80 6784 0000/ 6784 0290