

## Press Release

### Strides Shasun announces Q2 FY18 results Revenues grew 20% QoQ to INR 10,006 Mn, EBITDA grew 35% to INR 1,363 Mn

Bengaluru, October 31, 2017: Strides Shasun Limited (BSE: 532531, NSE: STAR) today announced its Q2 FY18 results

#### Consolidated Financial & Performance Highlights

INR Mn

|          | Q2 FY17 | Q1 FY18 | Q2 FY18       | QoQ            | YoY              |
|----------|---------|---------|---------------|----------------|------------------|
| Revenues | 8,455   | 8,358   | <b>10,006</b> | <b>20%</b>     | <b>18%</b>       |
| EBITDA   | 1,633   | 1,010   | <b>1,363</b>  | <b>35%</b>     | <b>-17%</b>      |
| EBITDA % | 19%     | 12%     | <b>14%</b>    | <b>150 bps</b> | <b>(570) bps</b> |
| Adj PAT* |         | 60      | <b>238</b>    |                |                  |

\*Excluding Merger & restructuring costs of INR 79 Mn and loss on biotech investment INR 51 Mn

- Q2 FY18 revenues at INR 10,006 Mn were up 20% QoQ.
- Growth during the quarter was driven by a strong performance in regulated markets on the back of new product launches in the US and continued growth in Australia. Rebound in the branded business across emerging markets also contributed to a strong sequential improvement in performance.
- We are investing behind brands in our newly created consumer healthcare business in US and India. We have commenced media and marketing investment behind our consumer brands. Due to this EBITDA in the quarter was down by INR 161 Mn. As brand sales gather momentum this impact will taper off. Adjusted for these investments, EBITDA for the quarter was INR 1,524 Mn.
- Sustained R&D investments in Q2 FY18 at INR 380 Mn.

**Shashank Sinha**, Managing Director, remarked “We are pleased that our business has rebounded strongly driven by regulated markets growth. We had successful new product launches in the US and strong store additions in Australia. We expect continued growth driven by our focus on executing new product launches as approval momentum has picked up and operating leverage is kicking in.”

#### Performance Highlights – Q2 FY18

##### Revenue Composition by Business

INR Mn

|                           | Q2 FY17      | Q1 FY18      | Q2 FY18       | QoQ        | YoY        |
|---------------------------|--------------|--------------|---------------|------------|------------|
| Regulated Markets         | 4,453        | 4,147        | 5,025         | 21%        | 13%        |
| Emerging Markets          | 3,167        | 2,697        | 3,152         | 17%        | -          |
| <b>Total Formulations</b> | <b>7,620</b> | <b>6,844</b> | <b>8,176</b>  | <b>19%</b> | <b>7%</b>  |
| API                       | 835          | 1,514        | 1,830         | 21%        | 100% +     |
| <b>Total Revenues</b>     | <b>8,455</b> | <b>8,358</b> | <b>10,006</b> | <b>20%</b> | <b>18%</b> |

## Regulated Markets Business

- Strong revenue growth of 21% QoQ to INR 5,025 Mn (50 % of total). Good all-round growth driven by new product launches in North America and expansion of the product portfolio and distribution reach in Australia.

### North America

- We received approval for Omega-3-Acid Ethyl Esters softgel capsules during the quarter. The product under Strides label has been launched in a marketing arrangement with Par Pharmaceutical, where the economics are significantly higher in favour of Strides. On full roll out, this marketing arrangement will provide Strides exclusive access to over 25% market share in the US.
- We also received approval for our first modified release product, Potassium Citrate extended release tablets. We have successfully commercialised the product and the supplies have commenced at full scale with major customers being signed up. We expect to achieve a strong share of the market, based on initial indications.
- Revenues were also driven by organic growth in our US portfolio where significant market share has been sustained – Ranitidine 27%, Dutasteride 34%, Ergocalciferol 44%, Lamivudine Zidovudine 19% and Methoxsalen 34%.
- In FY18 we have received 8 new product approvals to date - Potassium Citrate Extended-Release Tablets, Omega-3-Acid Ethyl Esters softgel capsules, Cetirizine Softgel Capsules, Promethazine Hydrochloride Tablets, Amantadine Hydrochloride Tablets, Amantadine Hydrochloride Capsules, Ibuprofen Tablets and Memantine Hydrochloride Tablets.
- During the quarter, Strides received a customer award, the Cardinal Health Supply Chain Excellence Award for 2017. Strides was also recognised for having the eighth most prescribed Rx product (Ergocalciferol) in the US, making it to the top ten for the first time.

### Australia

- Australia operations witnessed a strong quarter with low double digit growth in value and volume terms. Growth was driven by launch of 7 new products, expansion of distribution footprint by 50 stores and healthy momentum in our consumer healthcare “Chemists’ Own” portfolio.
- During the quarter Arrow Pharmaceuticals, a subsidiary of Strides Pharma Global Pte Ltd, Singapore, acquired the Australian operations of Amneal Pharmaceuticals as previously announced.
- The acquisition is expected to add annual revenues of ~AUD 25 Million, improve our generics market share to ~22%, add ~200 new first-line stores, thereby expanding the first-line pharmacy coverage to more than 1,200+ stores. This acquisition further bolsters the product portfolio with the addition of 13 molecules to the Arrow range. The acquisition also provides for significant synergy opportunities with 100+ molecules being common with the Arrow portfolio.
- Backward integration of the Australian product portfolio is now gaining momentum with 12 site transfer applications made to the TGA, of which 10 have been approved. We expect the

backward integration programme to accelerate and start contributing cost savings through supply chain efficiency.

### **Emerging Markets Business**

- Revenues grew 17% QoQ to INR 3,152 Mn (32% of total).
- The Africa Brands business achieved healthy double-digit growth. This has boosted sales force effectiveness and the increase in productivity is driving margins. The sales footprint is now being expanded into East Africa, pivoting around the Kenyan (UCL) platform.
- The India Brands business witnessed a strong rebound in performance QoQ with pick up in channel stocking after disruption from implementation of GST in the earlier quarter. We continue to focus on improving productivity through various initiatives directed towards sales force effectiveness.
- The Institutional business had another soft quarter with weakness in the procurement by global donor agencies and postponement of Anti malaria tender. The new tender is only likely to be finalised in Q3 FY18. The product mix continued to be unfavourable for the quarter, with lower contribution of anti - malaria products.
- Universal Corporation has received the GMP status for its Kenyan facility from World Health Organization (WHO). Site transfer of our institutional products is on track with first set of filings done with WHO and supplies expected to commence from H2 FY18.

### **Consumer Healthcare (CHC) Business**

- We are investing in building a consumer healthcare franchise both in the US and India. In the recent past we have acquired CHC brands in the US including Jointflex, Fergon, Vanquish and PediaCare. We have also set up a greenfield business in India, supported by an independent sales force and launched the Nixit brand in the smoking cessation category.
- Branded consumer business requires upfront investment in marketing and media support in advance of sales. Due to this EBITDA in the quarter was down by INR 161 Mn. As brand sales gather momentum this impact will taper off.

### **R&D picking up momentum**

- We have continued our sustained R&D investments which stood at INR 380 Mn for Q2 FY18.
- To date 6 new product filings (ANDA) have been submitted and we are on track to file 15-20 new product applications during the year.
- Year to date 8 new ANDA approvals have been received and 28 ANDA filings are in the approval pipeline, of which almost all are under the time-bound GDUFA regime.
- Our strategy to invest in building a robust product pipeline is progressing well, with 68 cumulative ANDA filings (Non-PEPFAR) with USFDA.
- The new product approval momentum is expected to gather pace.

### **Active Pharmaceutical Ingredients (API)**

- Revenue grew 21% QoQ to INR 1,830 Mn (18 % of total).
- Adverse product mix during the quarter impacted margins for the business.
- Our partner has now received approval for Sevelamer Carbonate which will start contributing more meaningfully to API revenues and drive stronger growth in the business.



## Corporate Update

### Demerger of commodity API business

- As a part of the business restructuring already announced, Strides will retain the strategic API portfolio, for captive consumption in its B2C formulations business. These products will be transferred to its recently acquired captive API manufacturing facility at Ambarnath, Mumbai. Strides will also retain the API R&D facility in Chennai which is focussed on development of integrated products.
- The non-captive (commodity) API business being B2B in nature, is being demerged into a separate entity, Solara Active Sciences Limited.
- The scheme of demerger has now been approved by Competition Commission of India, stock exchanges and SEBI. The application with the National Company Law Tribunal (NCLT) is pending as of date
- Upon NCLT approval, shareholder and creditor approval will be obtained.
- There is no change in the appointed date for the demerger and it continues to be 1<sup>st</sup> October 2017 as announced previously.

### Regulatory update

- The flagship manufacturing facility at Bangalore inspected by the USFDA in May 2017 has now received the Establishment Inspection Report (EIR), thereby closing the form 483 with 3 procedural observations which had been issued earlier.
- Universal Corporation Ltd, Kenya, a subsidiary of the Company has received the GMP status for its Kenyan facility from World Health Organization (WHO). The company has initiated site transfer for its Anti-Retro Viral (ARV) portfolio to the facility and will participate in global donor funding and local government programs.

## Annexure:

### EBITDA Computation:

INR Mn

|  | Q2FY18   | H1 FY18  |
|--|----------|----------|
| SEBI Results   | Column 1 | Column 4 |
| Profit/(loss) before exceptional items and tax as per SEBI reporting | 373      | 455      |
| Less: Interest, Dividend income, Gain on sale of securities          | (172)    | (395)    |
| Add : Depreciation and Amortization and Finance costs                | 1,162    | 2,313    |
| Consolidated EBITDA as per press release                             | 1,363    | 2,373    |

### About Strides Shasun

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

The Company has global manufacturing foot print with 9 manufacturing facilities spread across three continents including 7 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](http://www.stridesarco.com)

### **For further information, please contact:**

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| <p><b><u>Strides</u></b></p> <p>Badree Komandur, Executive Director<br/>+91 80 6784 0747</p> <p><b><u>Investors:</u></b></p> <p>Kannan. N: +91 98450 54745<br/>Vikesh Kumar: +91 80 6784 0827<br/>Sandeep Baid : +91 80 6784 0791</p> | <p><b><u>PR Consultancy</u></b></p> <p><b>Fortuna PR</b><br/>K Srinivas Reddy: +91 9000527213<br/><a href="mailto:srinivas@fortunapr.in">srinivas@fortunapr.in</a></p> <p>K Priya: +91 9535425418<br/><a href="mailto:priya@fortunapr.in">priya@fortunapr.in</a></p> |
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