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STADA Conference Call

May 3, 2018 | 10:00 a.m. CEST

Transcript

Speakers:

Claudio Albrecht
Mark Keatley
Leslie Iltgen
Christopher Anderson

Leslie Iltgen

Welcome. Good morning, everybody, to our conference call on the first quarter 2018 results. My name is Leslie Iltgen, I'm head of the Investor Relations department, and with us today is our CEO, Dr Claudio Albrecht, our CFO, Mark Keatley, as representative for corporate communications, Christian Goertz, on behalf of Bain Capital, Maria Andrisani, and on behalf of Civen, Christopher Anderson.

In the following presentation, our management board will give a short update on the business and point you to the key highlights of our Q1 results. As always, we will be happy to answer any questions you may have in our Q&A session at the end of this call.

Also, let me remind you that this call will be recorded. A replay and a transcript will be available on our investor relations website after this call. Before I hand over, I would like to mention that this conference call is limited to a max of one hour, due to timing constraints. Please also pay attention to our usual disclaimer that you will find in the presentation. It is now my pleasure to hand over to Claudio and Mark.

Claudio Albrecht

Thank you, Leslie, and good morning, everybody. Welcome to the presentation of Q1/2018 results. I'm Claudio Albrecht and with me is Mark Keatley. I would like to hand over to Mark to present the results of the first quarter 2018. Please, Mark?

Mark Keatley

Good morning, ladies and gentlemen. It's a pleasure to speak with you again. We are going to be referring to the presentation, which has been uploaded to our website this morning. We are presenting the results to you of the first quarter of 2018. The highlights are mentioned on slide three: STADA has made a good start to the year. There has been an increase in Group sales, on a like-for-like basis, and we see this in both our reporting segments. Also, there is a strong increase in EBITDA. There has been an improvement in the EBITDA margin and, again, we see this both in generics and in the branded segments.

One contributory factor to this was the ongoing transformation programme, where we made progress in achieving savings in our cost of purchase materials, and also efficiencies in administration. These results have translated into an increase in net income. In addition, we have achieved further improvements with efficiency and working capital management, particularly accounts receivable and inventory, and this had generated a significant improvement in cash flow.

In terms of significant corporate events that occurred during the quarter, the DPLTA was entered into the commercial register of the company following its approval at the extraordinary general meeting. This entry in the register occurred just before the end of the quarter, on 20th March. We're now in the acceptance period for the severance offer, which will run its normal course.

Moving on to some more figures, I'm now referring to slide four of the presentation on the website, you'll see that our sales for the quarter were 558 million euros. This was a record number for STADA. On a reported basis, the sales were slightly lower than the corresponding number of the previous year.

However, in order to give you a like-for-like comparison, we follow our normal convention: we adjust for two things, one is currency and the other one is portfolio changes. On that basis, the growth in sales, on a like-for-like basis was 4% positive.

And the two significant adjustments between reported sales and adjusted sales, one was currency, as there was some evolution, year to year, in some of our key non-euro currencies, particularly the Russian rouble. The other significant adjustment was in Vietnam, as we committed, at the end of last year, to exit our joint venture in Vietnam.

Therefore, we have deconsolidated that entity, as we previously announced, and that is the cause of an adjustment. So on a like-for-like basis, an increase of 4% in net sales, which is good, an indeed higher than what we understand is the average in the European generics industry.

EBITDA has increased at a higher rate and, again, on a like-for-like basis, it has increased by 9%, by roughly 10 million euros. Part of the reason for this was the margin on the increased sales.

Another contributory factor to this was efficiencies in administration. G&A specifically, and you'll see this if you look at the income statement in the results we published today, G&A has fallen as a percent of sales, from 9.4% a year ago, to just over 8% in the last quarter, and this contributed to the growth in EBITDA.

Taking into account the financial result, in other words interest expense and income taxes, our net income, on an adjusted basis, has grown at a higher rate than EBITDA. It's grown by 14%.

On the next two slides, you see the breakout of our business according to the reporting segments. Again, we have the sales on an adjusted basis, a like-for-like basis, and the EBITDA.

In the generic segment, our sales increased also by 4%, and the EBITDA by 19%, and our EBITDA margin, therefore increased significantly, by almost 4 percentage points, and it was 25% for the quarter.

Our branded segment, shown on slide six, recorded also a good increase in sales, of 3% on a like-for-like basis, and the EBITDA increase was 11%. Therefore, the EBITDA margin was 27%, which was, again, an increase of almost 4 percentage points, compared with the same quarter of the previous year.

Moving on to cash flow, you see this on page seven of our slides, our operating cash flow was very healthy in the quarter. It increased by more than 20 million euros, which was an increase of 35%. The main ingredient to this increase was improvement in working capital, and that's mentioned at the bottom of the slide: Working capital reduced by 30 million euros.

The contributory factors to this were improvement in collections, that was the single-largest improvement. In addition, we have recorded some improvements in inventory management, and you can see details in our financial statements.

In terms of investment in the business, R&D and intangibles, which is of course mainly R&D, was on track with our expectations, at 18 million in the quarter. Our rate of investment in R&D altogether was roughly 5% in the quarter.

In terms of Capex, investment in the factories, it was slightly over 10 million, in line with plan. There were no acquisitions in the quarter. So, therefore, the free cash flow, before dividends, was slightly less than 52 million euros.

You'll find all the details in our financial statements which we have published today on the website. Thank you very much, that concludes the formal presentation. I'll hand you back to Leslie.

Leslie Iltgen

Thank you. I think we can open the Q&A session then, for everybody. Operator?

Operator

Ladies and gentlemen, at this time, we'll begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star followed by two.

If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. And one moment for the first question, please. The first question comes from the line of Naveed Mukhtar of PGIM. Please, go ahead.

Naveed Mukhtar

Hi, guys, thanks for the presentation. A few questions from me: Mark, you mentioned about the transformational programme, maybe you could just give us a bit more detail? How much internal savings have you guys achieved, in terms of euros, on a run-rate basis and in the quarter, versus what you were expecting, and the total expectations?

Also, in terms of the underlying trading, which has been pretty good in both divisions, if you can just explain a bit more about the geographies or the product groups which are driving that growth, and any possible offsetting areas where you are a bit concerned about at the moment or working more on?

And the third question to the shareholders, really, if you can just confirm how much shareholding Nidda currently has, and what the intention is on potentially increasing that shareholding at the current share price? Thank you.

Mark Keatley

Thank you for the question. First of all, regarding the transformation programme: The areas we're addressing in the programme, as we have mentioned before, there is a major focus on purchase materials. The activities focus on consolidation of supply contracts, achieving efficiencies through consolidation, negotiation on a group scale, eliminating duplicate suppliers and, where it makes sense, transferring products in-house.

The programme is on track. In addition, there is a focus on G&A efficiency and more standardised processes, where this makes sense in the back office areas such IT, such as finance, accounting, administration. We are not disclosing details of the cost savings, but we can tell you that the programme is on track.

The second question, in terms of the geographical breakdown, the data in the presentation and in the investor news is what we are releasing. This is in line with our legal obligations, under the DAX, and the decision of the board is not to give further details in terms of the geographical breakdown of the performance within the segments on this occasion.

In terms of the other question, I think I would ask Chris and Maria, who are present from the investors and from Nidda, to answer your question about the shareholding.

Christopher Anderson

This is Christopher Anderson from Cinven. The position on shareholding has not changed in the last few months, so it is as

	it was late last year. Nothing has moved there. Going forward, it's hard to know what the future holds. I think we aspire to issue 100% but we're equally happy to sit at this level, if minorities don't want to tender. It's hard to know at this point, and we can't give you any more… it's not really in our hands, so there's not much more I can comment on.
Mark Keatley	Let me come back to your other question, which I overlooked. In terms of potential areas of risk that is mentioned in the management report, two countries which, obviously, we keep a close eye on. One is Ukraine, because there is still, unfortunately, a conflict ongoing, and also Russia, because of the recently-announced increase in sanctions. So those are two areas of potential uncertainty.
Naveed Mukhtar	Thank you. In terms of Russia: risk you just mentioned there. How much are you providing in terms of products into Russia from outside of Russia?
Mark Keatley	We are not disclosing data at that level of detail, but I can say that a significant part of our Russian business is manufactured in our Russian factories, and we always look for opportunities to increase that where it makes sense in business terms.
Naveed Mukhtar	Okay, thank you.
Operator	The next question comes from the line of Ulrich Huwald of Warburg Research. Please, go ahead.
Ulrich Huwald	Thanks for taking my question. Can you hear me?
Mark Keatley	Yes.
Ulrich Huwald	First of all, regarding the acceptance period, was there any petition made for a court ruling on the severance or the compensation, the so-called Spruchverfahren? And two further questions in regards to the operating business. One, can you, perhaps, quantify the impact of a strong flu season on your business and, secondly, perhaps give us a short update in your biosimilar projects? Thanks.
Mark Keatley	Your first question, yes, there were some petitions filed, and the process is following the normal course in Germany. Second question, regarding the flu season, I want to underline we're not disclosing details of individual product sales or categories of sales. What I can say is, in general, our sales in quarter one do include a number of those winter products in key markets. Thirdly, in terms of the biosimilar programme, there is no news to report on that subject.

Ulrich Huwald	Great, thank you.
Operator	The next question comes from the line of Nikita Fedyuk of CVC. Please, go ahead.
Nikita Fedyuk	Hi, thank you. Can I just, please, clarify on the leverage? When there was a consent process, I understand there was 1.3 at opco alone and then 3.5 for the senior secureds at Nidda level, and then 4.2 at total level. And now, in the report, I see that the leverage is, including the net debt, at the Nidda level, at 2.3. So could you please help me to reconcile those numbers?
Mark Keatley	Thank you for the question. I can confirm, for Nidda, not STADA, the net debt at the end of March was 2.3 leverage. I don't think I recognise the other numbers that you said, but we'll make a note of the question and see if we can come back to you with the explanation.[1]
Nikita Fedyuk	To get to this 2.3, you're using a total net debt of 1 billion, and then what's the EBITDA you're using for that?
Mark Keatley	In terms of Nidda, in terms of the consolidation of Nidda, is that your question, or is it a question about STADA?
Nikita Fedyuk	The question is to understand, as of March, what's the leverage at the Nidda level.
Mark Keatley	What I'd like to do is take some other questions and we'll come back with that answer in the course of the call.
Nikita Fedyuk	Sure, thank you.
Operator	The next question comes from the line of Philippe Lanone of Natixis. Please, go ahead.
Philippe Lanone	Hello, gentlemen. Trying to get some more details on generics. You have organic growth of 4%, which is significant, and it might imply that the German business is now in good shape, so I wonder whether you can make a comment on that. And also, you're disclosing less granularity than in the past, at that stage, so do you intend to give more flavour on geographic/different products and businesses at the mid-year level? Hello?
Claudio Albrecht	Sorry, we just had a problem with the line. In Germany, we're doing really well. Nothing changes here and I guess we grow as the market does, slightly better than the market. We also have launched a few big products, very successfully, and this basically makes the success.

Mark Keatley	In terms of your second question, we're not disclosing specific geographical breakdown of segment performance, just to repeat that.
Philippe Lanone	Okay, thank you.
Operator	As a reminder, to ask a question, please press star then one. And there are no further questions at this time.
Mark Keatley	I would like to come back to the question about the net debt. The net debt of STADA group, at the end of March, was just over 1 billion. The net debt of the Nidda group, together, at the end of March, was roughly 3.2[1] billion euros, just to confirm those numbers. So I hope that answers the question from the gentleman earlier.
Operator	There are still no further questions at this time.
Leslie Iltgen	Thank you. And thank you for attending our Q1 call. Our next report will be released August 9th. Should you have any questions, follow-ups, after this call, Investor Relations is happy to help out. Have a great day. Bye-bye.
Claudio Albrecht	Bye.

[1]Clarification by Company: The number for the consolidated net debt for Nidda Bondco GmbH is approx. €2.2 bn as of end of March 2018.