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EUROAPI

Update on FOCUS-27

Financing & Operational Roadmap

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EUROAPI – Update on FOCUS-27 Financing & Operational Roadmap

Operator: Hello and welcome to FOCUS-27 Financing and Operational Roadmap. My name is Melissa, and I will be your coordinator for today's event. Please note this conference is being recorded, and for the duration of the call, your lines will be in a listen-only mode. However, you will have the opportunity to ask questions at the end of the presentation. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I'll now turn the call over to Sophie Palliez, Head of Investor Relations. Please go ahead.

Sophie Palliez: Thank you. Good evening, everyone, and thank you for joining us. Our presenters today will be Ludwig de Mot, EUROAPI Chief Executive Officer, and Evelyne Nguyen, Chief Financial Officer. We will start by a usual short presentation followed by a Q&A session. Just one thing, you can – for those connecting on a website, you can type your question, and then we will convey them to the webcast. So don't hesitate to send us your question through the webcast.

Now, let me leave the floor to Ludwig de Mot for the presentation. Ludwig.

Ludwig de Mot: Thank you Sophie. So good day, everyone, and welcome. So, as mentioned by Sophie, the purpose of this call is to present our FOCUS-27 plan, operational roadmap and financing. And Evelyne, our Chief Financial Officer, is also, together with me, presenting.

So the first slide is the forward-looking statements on slide two. I would like to emphasise that some of the information we will share with you today is looking forward and not historical, but the information is based on projections and assumptions concerning EUROAPI's current and future strategy, future financial results and the environment in which we operate. These forward-looking statements and information do not constitute guarantees of future performances. They may be subject to certain risks and uncertainties, which are difficult to predict and generally outside the control of the group, and could cause actual results, performance or achievements to differ materially from those described or suggested.

Then on the next slide. On the next slide, I would like to begin this presentation with a short summary of our core strengths on which FOCUS-27 has been designed. As you can see on this slide, first of all, EUROAPI has a unique API and CDMO portfolio offer, including leading positions in fast-growing markets.

On the next slide. Secondly, EUROAPI can rely on a very wide range of state-of-the-art technologies, from complex chemistry to large molecules, bio fermentation, and highly potent APIs.

And thirdly, these innovative and differentiated technologies allow us to be aligned with the needs of our more than 550 customers that we have outside of Sanofi.

Building on these core strengths, FOCUS-27 spans the entire organisation and addresses all of our challenges. It comprises four pillars. First of all, the optimisation of our API portfolio. Secondly, the strengthening of our CDMO business. Thirdly, the rationalisation of our industrial footprint. And last but not least, the transformation of our organisation. And in addition, this project has been designed based on revised contractual terms with Sanofi.

Moving to slide number six. The first pillar is about portfolio optimisation. As we have announced in February 2024, we will discontinue 13 non-differentiated APIs, with a phase-out for most of them starting in 2026. These 13 APIs accounted for about €80 million of net sales last year, and -€15 million of gross margin, so these are really loss-making APIs. In parallel, we will invest heavily in the highly profitable and fast-growing product categories on which EUROAPI has strong competitive positions. And thanks to the discontinuation of these 13 non-differentiated APIs, the share of profitable, differentiated APIs should present 70% of EUROAPI's net sales in 2027, and that you should compare to 57% in 2023.

The second pillar is a more focused CDMO business. Based on our broad customer base, which enables us to target from large established biotech to big pharma, and our innovative technology platforms, we are able to realise more than one-third of EUROAPI's net sales with the CDMO activity by 2027. And to remember we are one of the few CDMOs that offer a one-stop shop for large molecules and very large volumes for small and highly potent molecules production.

The third pillar is a rationalised footprint. As we have announced in February, Haverhill and Brindisi are the most impacted by the portfolio optimisation we just talked about. Today, I can therefore announce that these two sites are planned to be divested before the end of the plan, before the end of 2027, and that we have already received serious expressions of interest. In addition, two small, complex chemistry workshops will be mothballed in Frankfurt.

Focusing on the remaining four core, what I would call flagship sites, we will invest between €350 million and €400 million in CAPEX to pave the way for future growth. These CAPEX will be focused on strategic initiatives, including: increased capacities for large molecules, vitamin B12 and prostaglandins; new capabilities for corticosteroids, hormones and opiates; and an investment in Elbeuf to reduce CO2 emissions and to achieve our 2030 decarbonisation plan. And around 60% of these CAPEX should be growth oriented.

Moving out on slide 11 with our fourth and last pillar. We are building a more efficient and leaner operating model in order to be more agile and to reduce our cost base. Among the initiatives, we can name: the reorganisation of the commercial and R&D teams; the transformation of the procurement organisation; and the implementation of more efficient end-to-end processes.

Overall, this organisational transformation will reduce approximately 550 headcounts across all functions by 2027, excluding Haverhill and Brindisi sites, which are planned to be divested. At this point, I want to ensure that the company will actively and responsibly support its employees during this transformation.

So focusing on a value-added API and CDMO offering, EUROAPI would be able to reach 70% of net sales with profitable, differentiated APIs in 2027, with more than one-third of its net sales coming from the CDMO business.

The streamlined industrial footprint, as explained before, will enable EUROAPI to have an average capacity utilisation rate, which is in line with the industry, and we will also focus the future CAPEX on strategic initiatives. And finally, thanks to a more efficient organisation, EUROAPI will reduce its cost base and become more agile in a fast-moving environment.

At the end of 2027, the sales to Sanofi are expected to reach approximately 30% of EUROAPI's net sales, compared to 47% in 2023. And as mentioned earlier, the CDMO business is expected to reach more than one-third of EUROAPI's total net sales in 2027, when it amounted to 28% in 2023.

Moving now to slide 14 to review the FOCUS-27 project impact on EUROAPI's profitability. We target to generate €75-80 million annual run rate incremental core EBITDA by 2027. Two-thirds of this annual incremental core EBITDA is expected to come from the streamlining of the portfolio, a focused CDMO offer, and the rationalisation of the industrial footprint. The rest one-third will come from the organisational transformation.

Restructuring costs are estimated in the range of €110-120 million between 2024 and 2027. And this excludes the potential costs related to divestment of Haverhill and Brindisi.

The execution of the FOCUS-27 plan will not be even. Most of the costs and the benefits will be materialised between 2026 and 2027. And regarding the CAPEX plan, approximately 60% will be done between 2024 and 2025.

The implementation of FOCUS-27 will be funded by a combination of financial resources. First of all, the cash flow management. Between 2024 and 2027, our total working capital should improve by approximately €140 million, mainly thanks to strong inventory reductions. Secondly, the revolving credit facility, with the support of the company's mandataire ad hoc, EUROAPI is in very advanced discussions with its banks to adapt and to extend the duration of the €451 million revolving credit facility that was signed back in 2022.

Thirdly, there is a hybrid bond. Upon the completion of discussions with the banks regarding the RCF, Sanofi has agreed to support the financing of FOCUS-27 through a €200 million perpetual, subordinated hybrid bond, a non-dilutive instrument.

And the fourth element is the capacity reservation by Sanofi. To support the execution of FOCUS-27, Sanofi has also agreed in principle to reserve minimum available capacities for selected products manufactured by EUROAPI through a €54 million payment over the plan.

Some of these agreements are still work in process. However, I'm very fully confident we will finalise them in the coming weeks.

Back in March, we committed to provide a revised full-year 2024 guidance once the Brindisi issue will be clarified. I'm very pleased to confirm today that the investigations launched at the company's initiative have confirmed the existence of malpractices at the local level in Brindisi. Following very effective and reliable remediation deployed by the site and the results of the Italian Health Authorities' (AIFA) site inspection of last week, we expect to gradually resume API shipments and production during the third quarter of 2024.

Consequently, we have updated our forecasts to include the estimated impact on 2024 performance.

For the full year, we now expect net sales to decrease between 8 and 11% compared to 2023, on a comparable basis, and core EBITDA to be between 4 and 7%.

The outlook has been built on the following underlying business assumptions. First of all, the net sales will be negatively impacted by the downsizing of two large CMO contracts; secondly, the strong decrease in sales to Sanofi; and the impact of the temporary suspension of the

production in Brindisi. The second half performance should exceed that of the first half due to the phasing impact of the CDMO activity.

Overall profitability will be impacted by the company's transformation and early restructuring costs, including industrial underactivity resulting from the execution of the FOCUS-27 project. The core EBITDA margin estimates include the impact of the suspension of API production in Brindisi.

Focusing on cash, we expect an improvement in working capital driven by a significant reduction in inventories, and that mainly in the second half.

So before leaving the floor to you for your questions, I would like to conclude with my vision of EUROAPI in 2027. I am convinced that we are moving towards a more independent, more agile, more efficient and more innovative company, refocused and reinvented to deliver long-term, profitable growth to meet the needs of our customers and patients worldwide in a more sustainable way.

And we are now ready to take your questions. So please can I give the floor to the operator?

Questions and Answers

Operator: Thank you very much. As a reminder, if you would like to ask a question on today's call, please press star one on your telephone keypad to register your question. To withdraw your question for any reason, you may press star two. You will be advised when to ask your question.

Our first question is from Gary Stevenson with BNP Paribas. Please go ahead.

Gary Stevenson (BNP Paribas): Hi there. Hopefully you can hear me okay. And just firstly on visibility, we know this was very limited towards the end of last year at your October update. So how would you characterise your forward visibility today? And has anything changed between now and then which gives you confidence in, particularly, the second half weighted phasing for the year? Just looking at the 2024 guidance, you still have quite a wide range there, even though we're pretty much halfway through the year now. Some additional colour there would be helpful.

And then secondly, just thinking about profitability, you've outlined the incremental EBITDA you expect to generate by 2027 and appreciate that's more 2026/2027 weighted. And then we've also got the level of sales that are being divested from some of those negative margin APIs. But how should we think about the revenue growth profile of the remaining business, just so we can get a sense of the level of profitability? The EBITDA margin you're targeting in 2027, would 7 to 8% sales growth in that continuing business be achievable?

Ludwig de Mot: Yeah. Okay. I'll take your first and your second question. So the first question on the second part of this year, we are very confident that we can catch up in the second part of the year. The second – the phasing for the second part looks really good. We are analysing that in detail. So I feel comfortable in the numbers we present.

To your second question, we have a certain visibility. But on the other hand, it's clear that 2024 and 2025 are transition years, because, as such, we are phasing out a number of APIs.

We are reducing the sales of Sanofi. But at the same time, we are growing the sales with our non-Sanofi customers, our other 550 customers. But again, it's not extremely visible in the guidance because we have, of course, the adverse effects that go against that. I'm not sure Evelyne or Sophie, you want to make an additional comment on this or not?

Evelyne Nguyen: Yes. So, good morning, Evelyne speaking. Yes, so regarding your question about the 2027 perspective for our top line, currently, effectively, the company is not going to give any guidance over that period. But just as a general remark, as you could understand that, this is more a transformation case where we're trying to gain efficiency and work much more on productivity than a growth plan. So I guess the assumption of a 7 or 8% annual average growth is something that is quite, I would say strong and maybe overstated for us.

As a reminder, you know that we have – I would acknowledge some losses of ourselves vis-à-vis Sanofi. So this is something that, of course, doesn't allow us to envisage very strong growth over the period. And of course, plus, as we mentioned, also the stop of some of the 13 APIs. So this is more about rationalisation, transformation, cost savings than organic growth I would say. And by doing that we're setting the way for our – any growth beyond 2027.

Sophie Palliez: Maybe – this is Sophie speaking. So maybe before I leave the floor to another question, we have two questions from the website, which are related to the hybrid and the financing. The first one is on the interest rate of the hybrid bond, and Evelyne can answer that one. So there are two questions related to this hybrid. And the other one is about the credit revolving facility and whether there is an ambition to transform it into a permanent solution, or what should we expect on the RCF.

Evelyne Nguyen: So as regards to the interest rate, as Ludwig has mentioned, our discussions are progressing very well, but they are still ongoing. So we're not in a situation to communicate on that specific information today. But of course, we'll get back to the market as soon as we have the info, and we will disclose that.

As regards to the RCF, what we negotiating today with the banks is an extension of this facility up to 2029. So that's the key – I would say key transformation plus some other, I would say adaptation to the instrument or the facility.

Sophie Palliez: Thank you. Any questions from people connected by phone?

Operator: As a reminder, if you would like to ask a question, you may press star one on your telephone keypad to register your question.

We currently have no phone line questions coming through. I'll turn it back over to Ms Palliez.

Sophie Palliez: Okay, so we don't have any questions neither on the website.

Last call.

Okay then. So everything is clear. Thank you. Again, one point, I mean, of course, the Investor Relations team and the management team remains at your disposal for any follow-up questions you may have following this call. Thank you again for connecting late in the evening for people in Europe. And looking forward to speaking with you or – and presenting our H1 results by the end of July. Thank you very much.

Ludwig de Mot: Thank you very much.

Evelyne Nguyen: Thank you.

Sophie Palliez: Bye bye.

Operator: Thank you very much. That concludes today's conference. You may now disconnect.

[END OF TRANSCRIPT]