COMPANY WEBCAST
A EURONEXT COMPANY

EUROAPI
First Half 2024 Results

Wednesday, 31st July 2024

Transcript produced by Global Lingo
London – 020 7870 7100
www.global-lingo.com

EUROAPI First Half 2024 Results

Operator: Hello, and welcome to the EUROAPI 2024 Half Year results Call. My name is Saskia, and I will be your coordinator for today's event. Today's call is being recorded, and for the duration, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end. This can be done by pressing star one on your telephone keypad. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to Sophie Palliez, Head of IR, to begin today's conference. Please go ahead.

Sophie Palliez: Thank you. Good morning, everyone. And welcome to EUROAPI first half ’24 results conference call. This call will be hosted by Ludwig de Mot, EUROAPI Chief Executive Officer, and Evelyne Nguyen, Chief Financial Officer. Ludwig and Evelyne will go through a rapid presentation of our H1 results, and we will open the floor to your questions.

However, before we start, I would like to emphasise that some of the information we will share with you today is looking forward and not historical. This information is based on projections, and assumptions concerning EUROAPI 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 company, and could cause actual results, performances or achievements, to differ materially from those described or suggested.

That said, let me leave the floor to Ludwig

Ludwig de Mot: Thank you, Sophie. I want to start to this presentation by a quick introduction on our FOCUS-27 plan, and highlight that our execution is absolutely on track, with several initiatives launched during the first half, and also that the discussions with the Revolving Credit Facility banking syndicate to complete the financing are in very advanced stage. I am fully confident we will finalise the funding of the plan in the coming weeks.

Let me reiterate that these discussions cover the financing of the plan in ’25 and onward, and that the company is fully financed for 2024.

The operational deployment of FOCUS-27 is in full motion, and significant progress has been made since February ’24, on each of the four strategic pillars. For example, the list of the 13 discontinued APIs was communicated to our clients, and the phase-out roadmap is almost completed.

And from a commercial perspective, we are accelerating in opiates, thanks to improved competitive positions. We registered a solid and qualitative momentum in CDMO, with 14 new projects in H1, of which three marketed small molecules for large and mid-size pharma and food companies, in line with our strategy to de-risk our portfolio and five for large molecules in early-stage, mainly from large pharma companies.

From an industrial standpoint, the ramp down of workshops was launched in Frankfurt, where nine APIs will be discontinued, and in Vertolaye, where two APIs will be discontinued. Our

inventory reduction programme is on track, and Haverhill divestment process is well advanced. We aim to complete a transaction in 2025.

Finally, on the fourth pillar, we are adapting our organisation, including headcount reduction plan and the continued enhancement of the management teams across the Group, including the reorganization of the executive leadership team

Moving to H1 results, a few highlights. First of all, as expected, we registered a decrease in consolidated net sales. The decrease was driven by strong decline in the demand of volumes manufactured for Sanofi, which was amplified by the suspension of shipments and production in Brindisi in mid-March. These headwinds overshadowed the good momentum in sales to other clients. We will come back on this later.

Beyond sales, I want to emphasise our solid commercial activity in H1, which is paving the way for the company's long-term growth.

In API Solutions, we continued to execute our strategy, gaining new customers, and accelerate cross-selling, which represented more than 9% of API Solutions sales to other clients than Sanofi.

We also signed an important CMO contract in animal health with a large player, which is a proof point our customers continue to trust EUROAPI and are ready to partner with us for the long term. We also signed an important Development and Manufacturing agreement with a biotech specialising in oncology.

I am pleased to confirm that the restart of shipments and production in Brindisi is progressing as expected, and that our GMP license was reinstalled in mid-July.

Moving to profitability, our core EBITDA margin was positively impacted by increase in prices and better product mix, and the improvement of industrial performance, which were driven by the early execution of FOCUS-27. We also benefited from the effect of the revised contractual clauses with Sanofi. These positive items partially offset unfavourable fixed-cost absorption, and an increase in OPEX.

And finally, consistent with FOCUS-27, we significantly improved the financial discipline while investing in future growth

That said, let's start our detailed analysis with a snapshot of 2024 half-year key operational figures on slide number seven.

So net sales stood at €448.7 million, down 9.6% compared to H1 23. Sales to Sanofi dropped by 14.9%, and sales to other clients by 4.6%.

Core EBITDA reached €47.6 million, with a core EBITDA margin of 10.6% compared to 12.6% last year. CAPEX stood at €61.3 million, representing 13.7% of net sales, of which 56% were dedicated to growth projects.

Taking a closer look at the evolution of net sales on page number eight.

As I just mentioned, total sales reached €448.7 million, which is down 9.6% compared to the same period last year, and minus 4.1% if we exclude Brindisi. API Solutions sales decreased by 8.3% to €332.4 million. In that, sales to Sanofi decreased by 15.0% due to strong volume decline, notably in Sevelamer, and the suspension of production in Brindisi. This was partially

offset by the revision of the contractual commercial clauses agreed with Sanofi in February 2024.

Out of the €38 million expected for the full year, €29 million were accounted in H1, mostly driven by stock clearance of Buserelin, a large molecule used primarily in the treatment of prostate cancer and endometriosis.

API Solutions sales to other clients were almost stable, despite the temporary suspension of API production in Brindisi. Excluding Brindisi's site, net sales would have grown 3.4%, driven by the cross-selling strategy. An increased customer base with 22 new clients added in H1, and an accelerated momentum in opiates, consistent with the FOCUS-27 plan.

CDMO sales decreased by 13.3% to €116.4 million. In that, sales to Sanofi decreased by 14.2%, on the back of a challenging comparison base, with H1 '23 performance boosted by stock replenishment of Pristinamycin following COVID-19. And sales in H1 '24 benefited from the ramp-up of a commercial phase contract in large molecules.

CDMO sales to other clients decreased by 12.7% due to the temporary suspension of production in Brindisi, which affected a commercial phase contract. H1 '24 performance was also penalised by the downsizing of two large historical commercial phase contracts, which weighted for approximately €10 million. Excluding the impact of Brindisi, total CDMO sales to other clients would have increased by 1.8%

As you can see on slide nine, we had 73 CDMO projects in portfolio at the end of June, compared to 69 at the end of December 2023. Throughout the semester, 14 new contracts were signed, six of which were for large molecules. Eight projects were completed, including two late-stage with Sanofi, and two projects were put on hold.

Moving to CAPEX on slide ten. In H1 2024, CAPEX investments reached €61.3 million versus €69.3 million in H1 '23 and represented 13.6% of net sales, and of that, 56% were dedicated to growth projects. These growth investments were consistent with our FOCUS-27 strategic roadmap, with increased capacities for peptides and oligonucleotides in Frankfurt, prostaglandins in Budapest, and improved processes for Vitamin B12 in Elbeuf.

Now, with that, let me hand over to Evelyne, who will discuss in more details our H1 consolidated financial performance.

Evelyne Nguyen: Thank you, Ludwig. So I'm on page 12. And as mentioned earlier, our H1 net sales were down 9.6% to €449 million compared to the H1 of 2023. Our gross profit stood at €98 million, almost comparable to H1 '23, and despite this sales shortfall with the gross profit margin up by 231 bps year-on-year to 21.8%.

Our core EBITDA amounted to €47.6 million, down 23.8% compared to the €62.5 million in H1 last year. And our core EBITDA margin was 10.6% compared to 12.6% of last year. EBITDA was minus €1.4 million compared to €52.1 million in H1 '23. The €49.0 million non-recurring costs that you see on this slide, include €47.2 million in exceptional items, of which €33.8 million of idle costs or under-activity, resulting from the implementation of FOCUS-27, including the ramping down of two workshops in Frankfurt started in H1 '24 and the reduced inventories mainly in Vertolaye, our plant in Vertolaye.

€9 million of internal and external costs related to the transformation of the company were also accounted in the €49 million. And also a €4.4 million of employee-related expenses, mostly redundancy plans.

On slide 13, I want to comment the changes of the core EBITDA margin between H1 '23 andH1 '24. So on the left of the slide, starting from H1 '23, core EBITDA at 12.6%. As you can see, the impact of volume decline, the first column, was almost neutral from a margin perspective as most of the losses were on API with lower level of profitability.

Positive pricing, product mix and lower energy and raw materials prices helped us to improve the core EBITDA margin, as well as the exceptional impact of Buserelin's stock clearance which will not repeat in the second half of this year. These tailwinds were more than offset by unfavourable fixed-cost absorption that we accounted in H1 '24 on products manufactured in '22 and '23 with a higher cost base, and the negative impact of Brindisi over the period. The increase of OPEX was mostly driven by the reinforcement of support functions.

Coming to slide 14. Operating income was negative by €33.4 million compared to a positive €16 million in H1 last year. The financial result was a negative €8.1 million, compared with a negative €3.3 million last year, due mainly to the increase in interest rates, and the full drawdown of the RCF.

Income before tax was minus €41.5 million. And you may remember that H1 '23 income tax last year included €46.8 million of deferred tax income related to the revaluation of EUROAPI's Hungarian assets. Finally, we registered €34.8 million of net losses for the period.

Moving to slide 15 on working capital. As you can see, we improved total working capital in June '24 by €69 million compared to June '23, where working capital was deteriorating last year. The significant improvement was notably driven by a lower level of inventories, and particularly of finished goods, which is not reflected in the number of months on hand due to the sharp decrease in net sales this year.

The reduction of inventories is a key component of our FOCUS-27 plan and will accelerate during the second half of this year. Thanks to a better cash collection, we also reduced the level of trade receivables compared to June '23 and improved significantly our DSO compared to both June and December '23.

The slide 16, the slight decrease in net debt position to €170.2 million compared to €171.1 million at the end of December '23, was driven by both operating cash flow and working capital. And as Ludwig commented, the cash flow used for CAPEX with €61.3 million or 13.7% of net sales.

Free cash flow before financing activities was €10 million, compared to minus €111.2 million at the end of June '23

Finaly, net debt to core EBITDA restated for IFRS 16 was 2.38, below the RCF covenant of 4.

This ends the review of our first half. And let me hand it over back to Ludwig.

Ludwig de Mot: Thank you, Evelyne. Let's now move to our full year '24 guidance and before opening the floor to your questions.

So in light of the H1 '24 performance, the full-year 2024 outlook is confirmed. Net Sales are expected to decrease between 8% and 11% in '24 on a comparable basis. The second half

performance that should exceed slightly that of the first half due to a phasing impact in CDMO. This net sales guidance includes a negative impact of the downsizing of two large CMO contracts, a continued decrease in sales to Sanofi, and the impact of the temporary suspension of production in Brindisi.

In terms of EBITDA, core EBITDA should be between 4% and 7%. Overall profitability will continue to be impacted by the company's transformation and restructuring costs, including industrial under-activity resulting from the execution of the FOCUS-27 project. In addition, the positive impact of the revised contractual commercial clauses with Sanofi will be much lower in the second half of 2024.

That said, Evelyne and myself are now ready to answer your questions. Thank you.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question today, please signal by pressing star one. That is star one for your questions today. And our first question comes from Zain Ebrahim from JP Morgan. Please go ahead.

Zain Ebrahim (JP Morgan): Hi there. Thank you for taking my questions. Two, if I may please. The first question which would be on the 2024 guidance. You've reiterated the guidance despite the strong set of first half numbers, at least on the margin side. So maybe could you talk through some of the factors influencing the second half, particularly on core EBITDA margin that we should be thinking about? And maybe as we look into 2025, I think you mentioned in the FOCUS-27 call that you expect more of the cost benefit to come through in 2026-'27. So how should we think about sort of margin progression in '25, just given the sort of puts and takes around the Haverhill divestment potentially as a headwind and also the MSA adjustment benefit that you saw in the first half this year not at least in 2025?

And then my second question is more on just the RCF financing. So it sounds like that's a very advanced discussion. Can we sort of take that to mean that we've got agreement from sort of all the stakeholders involved? Are there any other stakeholders beyond the banks on the RCF that are sort of involved in those discussions? And it sounds like we should get an update on that in the next few weeks. Is that right?

Evelyne Nguyen: Yes.

Ludwig de Mot: So okay. Thank you for your questions. I'm going to try to answer them in the right sequence. First on 2025, again, I'm not going to make comments on gross margin today. However, I can make a number of comments on 2024 and specifically on the second half of 2024.

So as said in the presentation, the second half will be lower in profitability because we have a number of elements there. The first element is that we expect our gross margin in the second half of the year to be lower than the first half of the year. It's not because we are lowering our prices, but it's just because we have a different volume mix, different mix in the second half of the year, which is simply lower in gross margin. That's the first effect.

The second effect is that we have – as said, we have renegotiated a number of terms with Sanofi, and three quarters of that improvement has been taken in H1 because they came in H1. That means we will only have one quarter of the improvement in H2. That means we have lower because it increases H1 and it lowers H2, so that's a bit of a double effect.

And then the third element is, of course, Brindisi, because Brindisi we are now restarting and again everything goes well. We got our GMP certificate back in the middle of July, but again we are starting up the plant and we are a bit cautious in our predictions there.

And then my last comment is that, of course, as a company, we don't have a super good reputation in respecting guidance. So that's why as we say in French, as a bon père de famille, as a good father, we want to be cautious and we want to make sure that we deliver on what we commit to. So that is on your first question.

I believe your second question was on the financing. So on the financing, again, the discussions are really going very, very well. But again, it takes time. It takes time because don't forget we are working with a pool of seven banks, and of course it's not easy to synchronise and to coordinate these discussions with seven banks. But I can tell you we made significant progress over the last weeks and months.

The mandataire ad-hoc has done a fantastic job. So I'm really confident that we will conclude on the RCF in the next weeks. And then automatically then the support of Sanofi will kick in. So that means we have the full support of all of our shareholders, to fund entirely all the needs for the execution and implementation of FOCUS-27. I hope this answers more or less your questions.

Zain Ebrahim: Yeah, that's very helpful. Thank you.

Operator: Thank you. And as a quick reminder, that is star one for your questions today. And up next we have Fynn Scherzler from Deutsche Bank. Please go ahead.

Fynn Scherzler (Deutsche Bank): Yes, hi. And thanks for taking my question. So maybe can we go back to the margin bridge that you've provided also touching on the prior question. Can you maybe help us understand which of these are not meant to repeat in sort of the same order of magnitude in the second half, or is there any effect that should actually reverse in the second half? So I understood that the Sanofi fee will probably be softer. Can you maybe talk about the impact of price and mix? So if I understand correctly, you likely had a small tailwind from the prostaglandin suspension in the prior year come, that would be helpful.

And then maybe for the full year, can you help us with what sort of magnitude in restructuring costs we should expect there? And also, how much of that should be cash affected? I'm actually a bit surprised by the spacing of the one-offs. I thought this would be a bit further out. That would be helpful.

And then maybe lastly, on your inventory position. You said you are confident to reduce that in the second half of the year. I think the absolute number in inventory has barely fallen yet. So what gives you the confidence there that you're able to reduce that? I think you were aiming for about €100 million reduction this year. Yeah, so that would be super helpful.

Ludwig de Mot: Okay. So I will take question number one and question number three, and then I will hand over to Evelyne after that for question number two on restructuring.

So first of all, on the EBITDA bridge from first half to the end of this year. So as said, the Buserelin stock clearance, it's 2.1 points, that will not come back in H2, because I remind you, we sold all the stock of this product to Sanofi, because this is a product we are shopping and we shipped all the products in H1 that will not come back in H2.

The second element is the three points on price and mix. On price and mix, of course, as I told you, we don't have price decreases in H2, but we have a bit of a not-so-good product mix in the second half of the year, where in the first half of the year, we had a very good product mix. So that's where the big change comes from.

And I think all the other elements will be more or less in line. But I want to repeat myself, I agree, we are a bit cautious now. We are a bit more cautious, because looking at our reputation in the past, we want to deliver on what we commit to. So that's on the first question.

Then on the third question on the inventory, am I confident? I'm absolutely confident. And the reason I'm confident is that we have a Steering Committee on this topic of supply chain. I'm personally heading the Steering Committee, so we meet every second week to go in detail through all the plants and all the stock levels.

I can assure you, we have a really, really professional approach in doing that. Why is it faced to the second half of the year? It is – basically, it's related to the nature of our business, because if you take, for example, the plant in Vertolaye, where we have the biggest stock, the plant in Vertolaye typically has production lead times between 12 and 18 months. So that means before you see the drop in inventory, it takes you at least six to 12 months. And that's the reason why there is a sharper drop in the second half of this year. But again, I said before, I'm very confident that we will achieve these levels.

And what is even more important is that we will also improve the quality of our inventory, because in the inventory, we split it up in what we call the normal inventory, then we have the slow-moving inventory, and then we have a third group, which is what I would call the difficult inventory. And I can tell you that on the difficult and the slow-moving inventory, we are really making substantial progress. So I'm absolutely confident that we will reach the inventory reduction by the end of the year, because that's what I'm told every second week in the Steering Committee.

So I hope that answers your question – the question three. Then on the second question on the restructuring, I pass it over to Evelyne.

Evelyne Nguyen: Yes. So for restructuring costs, as you know, those don't reflect the normal course of our business. The vast majority of those costs are related to the execution of FOCUS-27. And a majority of that, again, is linked to the, what we call idle costs, which is underactivity.

And of course, we're – I mean, because we're executing and accelerating FOCUS-27, we'll find them again in H2, at least for idle costs. As for transformation costs, it's the same, because those costs are dedicated to the implementation of our new financing structures and the improvement of our, I would say, internal operational processes. So we'll continue to do that in the second half.

And also the last part of the restructuring cost is the expenses that we incurred for redundancy plan and for the – I mean, the streamlining of our organisation. And that will also continue for H2. So those costs will continue for H2.

Fynn Scherzler: Okay. That's very helpful. If I can maybe follow up on especially the idle costs. So is that something that we should expect for all the coming years, so essentially for the entirety of the plan? And then in the second half, so I imagine the ramp down of the APIs is ongoing. So should the effect actually become stronger in the second half?

And then I would expect that the costs related to the staff reduction would now really only start to pick up. So should we also expect them to accelerate in the second half?

Evelyne Nguyen: Yeah. So for idle costs. To be very precise, so those reflect the under-absorption of our fixed industrial costs, right, linked to the lower levels of activities versus what we call our normal activity. And with the execution of FOCUS-27, as Ludwig mentioned, we are ramping down some of our workshops, mostly in Frankfurt. And we are also decreasing our inventories, mostly in Vertolaye.

And so the effect of these is the lower level of activities, which results in under-activity costs. So this will continue. At a certain point in time, they will decrease because we'll be adjusting our structure. And this is the three-year plan until '27 related to FOCUS-27.

And same for the severance costs, our headcount reduction is planned over the period. So that will also continue over the period. And accelerating, I think, would be more in '25-'26.

Fynn Scherzler: Okay. Thank you very much.

Operator: Thank you. And we're now moving on to a question from Charles Weston from RBC. Please go ahead.

Charles Weston (RBC): Hello. Thanks for taking the question. Two, please. First of all, could you share some KPIs around capacity utilisation, perhaps split by molecule type and perhaps by late-stage or early-stage, however you think about this? And I specifically refer, obviously, to the half of the CAPEX that you invested in growth projects. So clearly, you're coming up to full capacity utilisation on some programmes.

And then my second question is on the BIOSECURE and whether you've noticed any change in the flow of RFPs from pharma companies perhaps looking to diversify their supply chain away from China? Thank you.

Sophie Palliez: So Charles, maybe I can take the question, if I understand correctly, your questions on the new projects by molecules and large molecules in the CDMO. You have a detail in our press release which explains the new contract that we gained. And you can see that we had 14 new CDMO contracts signed during the second half.

And you can see that we have 19 of them in Phase I of clinical phases, and 34 of them in the commercial phases. So a rather good balance between early stage and late-stage. And if we look at it for molecules and types of molecule, we have 17 new contracts – new projects, sorry, in large molecules and 14 complex chemical molecules. So once again, which we think is a pretty well-balanced portfolio momentum to try to focus on what we say during – on the plan, which is a de-risked portfolio, CDMO pipeline and CDMO portfolio.

Evelyne Nguyen: Yes. So for the – I think there was a question on capacity utilisation. Most of the under-activity are accounted for workshops that are dedicated to small molecules. And of course, the growth CAPEX are made to add incremental capacity. So once they are in operations, they will be fully operating. We're not expecting any under-capacity normally for

those, provided that demand still continue. But we are doing the growth CAPEX to extend or to expand our current capacity.

So we have new products with new CAPEX. They should be fully used at term. And then current capacities with molecules that are decreasing, which are subject to our under-absorption of fixed industrial cost.

Ludwig de Mot: And I said in a previous presentation, by doing this, we will ramp up the utilisation from about 60% now to about 80% in '27, which is, again, the industry standard. It's a combination of all these things.

Charles Weston: Thank you. And on BIOSECURE.

Sophie Palliez: Sorry, can you repeat?

Charles Weston: Sorry. Apologies if the sound isn't clear. The BIOSECURE Bill in the US, I was wondering whether you had noted any customer activity increase from people perhaps looking to diversify their supply chain from China.

Sophie Palliez: Yeah. So I guess there's – we can see some move, but it is too early for us to comment on potential concrete consequences of this at this stage.

Ludwig de Mot: But there is a positive momentum. And let's be clear on that. There is an increased interest for all the good reasons we know.

Sophie Palliez: More than interest.

Ludwig de Mot: Yeah, absolutely. Yeah. It's more than interest now. It's not concrete, I would say, in confidence.

Charles Weston: Thank you.

Operator: Thank you. And as a final reminder, that is star one for your questions today. We will pause for a brief moment. It appears there is no further telephone questions at this time. So I'd like to hand the call back over to you for any additional or closing remarks.

Sophie Palliez: Okay. Thank you. Thank you, everyone, for connecting today. Again, and as usual, the Investor Relations team is looking forward to answer any follow-up questions. And I guess we wish you a nice summer. Goodbye, everybody.

Evelyne Nguyen: Goodbye.

Ludwig de Mot: Thank you. Goodbye.

Operator: Thank you for joining today's call. Ladies and gentlemen, you may now disconnect.

[END OF TRANSCRIPT]