

## Press Release

### Strides Arcolab announces Q2 FY16 Results Q2 FY16 Pharma Revenues up 28% YoY at INR 3,740 Mn Q2 FY16 Pharma EBITDA at INR 802 Mn, EBITDA Margins at 21%

**Mumbai, October 27, 2015:** Strides (BSE: 532531, NSE: STAR) today announced its financial results for the quarter ending September 30, 2015 (Q2 FY16)

#### Consolidated Financial & Performance Highlights (Pharma & Biotech)

	INR Mn					
	Q2 FY15	Q2 FY16	YoY Growth %	H1 FY15	H1 FY16	YoY Growth %
Revenues	2,929	<b>3,740</b>	28%	5,524	<b>6,501</b>	18%
EBITDA	628	<b>753</b>	20%	1,152	<b>1,286</b>	12%
EBITDA %	21%	<b>20%</b>		21%	<b>20%</b>	
Adj PAT*		<b>234</b>			<b>696</b>	
Adj EPS*		<b>3.92</b>			<b>11.67</b>	
Adj Pharma EPS*		<b>5.04</b>			<b>13.80</b>	

# Arrow acquisition consolidated starting September 2015

\*PAT & EPS excluding merger related expenses of INR 37 Mn in Q2 FY16 and INR 77 Mn in H1 FY16

Arun Kumar, Founder and Group CEO, stated “It has been a strong comeback quarter for the company after a subdued first quarter with growth across businesses. Our performance during the quarter was further bolstered by a quick closure and integration of the acquired Arrow pharmaceuticals business in Australia.”

#### Performance Highlights – Q2 FY16 & H1 FY16

##### Global Pharma

	INR Mn					
	Q2 FY15	Q2 FY16	YoY Growth %	H1 FY15	H1 FY16	YoY Growth %
Revenues	2,929	<b>3,740</b>	28%	5,524	<b>6,501</b>	18%
EBITDA	651	<b>802</b>	23%	1,195	<b>1,374</b>	15%
EBITDA %	22%	<b>21%</b>		22%	<b>21%</b>	

# Arrow acquisition consolidated starting September 2015

## Revenue Composition by Business - Global Pharma

INR Mn

	Q2 FY15	Q2 FY16	YoY Growth %	1H FY15	1H FY16	YoY Growth %
Regulated Markets	977	1,440	47%	1,862	2,339	26%
Institutional Business	813	1,192	47%	1,600	2,178	36%
Emerging Markets	1,138	1,108	(3%)	2,062	1,985	(4%)
<b>Total Revenues</b>	<b>2,929</b>	<b>3,740</b>	<b>28%</b>	<b>5,524</b>	<b>6,501</b>	<b>18%</b>

### Regulated Markets Business

- Revenues at INR 1,440 Mn in Q2 FY16, representing 38% of total revenues
- Revenues grew 47% YoY to INR 1,440 Mn against INR 977 Mn in Q2 FY15
- Includes revenues from Arrow pharmaceuticals business for September 2015
- Operations in North America continue to gain momentum driven by strong performance of key products and ramp up of new products introduced during the last few quarters
- Received USFDA approval for Benzonatate Softgel Capsules and launched the product immediately (Market value ~ USD 41 Million)

### Institutional Business

- Revenues at INR 1,192 Mn in Q2 FY16, representing 32% of total revenues
- Revenues grew 47% YoY to INR 1,192 Mn against INR 813 Mn in Q2 FY15
- Growth driven by ramp up in Anti-malarial portfolio
- Commenced international sales of Virso (HCV drug Sofosbuvir) to emerging markets

### Emerging Markets Business

- Revenues at INR1,108 Mn in Q2 FY16, representing 30% of total revenues
- Revenues flat at INR 1,108 Mn in Q2 FY16 against INR 1,138 Mn in Q2 FY15 and up 26% against INR 877 Mn in Q1 FY 2016
- Growth driven by ramp-up in the Brands business with a strong secondary sales, offset by delays in generic sales in a few countries
- Focus on improving the business mix in Africa towards brands, delivered superior margin performance and helped offset margin headwinds from a volatile exchange rate environment

### Pharma R&D and Regulatory Update

- R&D spend for Q2 FY16 at INR 112 Mn, against INR 57 Mn in Q2 FY15
- 34 cumulative ANDA filings (non-PEPFAR) with USFDA
- 16 ANDA filings pending approval from USFDA, 1 product approval received during the quarter
- 18 cumulative PEPFAR filings with 17 tentative approvals

## **Biotech**

- R&D spend during the quarter at INR 49 Mn, against INR 23 Mn in Q2 FY15
- Obtained regulatory consent for conducting Phase 1 clinical trial in Australia for our first Biosimilar molecule
- Initiated developmental activities for third biosimilar program based on a patented technology
- Construction of bio-pharmaceutical facility at Doddaballapur, Bangalore to commence shortly.

## **Corporate Actions - Update**

### **Strategic acquisitions to bolster emerging markets presence:**

- Acquisition of CNS divisions of erstwhile Ranbaxy from Sun Pharma in India
- Acquisition of brands portfolio from Johnson & Johnson in India
- Acquisition of majority stake in domestic branded business of Medispan in India

These strategic acquisitions in India create a portfolio of niche brands in fast growth therapeutics segments of CNS, Probiotics and women wellness, complementing the base business. The acquisitions provide the company access to brands including Desval - ER, Levroxa, Serlift, Otogesic, Ethnorub, Stugile, Lactogut, Lactovit. The transactions will strengthen company's geographical reach towards being a pan India player and provide an annual revenue potential of at least INR 1,000 million. The announced corporate actions are subject to statutory approvals and other customary closing conditions with an expected closure in Q3/Q4 FY 2016.

### **Other Updates**

#### **Merger with Shasun Pharmaceuticals**

- Received approvals from Hon'ble High Court of Bombay.
- Awaiting approval from FIPB
- The appointed date for the Scheme of Amalgamation is April 1, 2015.

#### **Acquisition of Arrow Pharmaceutical**

- The company achieved the closure of Arrow Pharmaceutical acquisition on 31<sup>st</sup> August 2015.
- Financials for Arrow pharmaceuticals consolidated starting 1<sup>st</sup> September 2015.

#### **Fund raising**

- The board of directors of the company have approved the proposal to raise long term funds by way of issue of GDRs/ADRs/FCCBs/QIP or such other equity linked instrument for an amount up to INR 15,000 Mn including the green shoe option.
- The fund raising is subject to shareholder's approval and other statutory approvals as may be required



### **Biotech Spin off**

The board approved the company's plans to spin off the Biotech business into a separate listed entity. The company intends to retain up to 20% treasury ownership in the demerged entity. The timing of the proposed corporate action is subject to various regulatory approvals.

### **Business structure for specialization and focus on key growth drivers**

Recent corporate actions transform the combined entity into a fully integrated global pharmaceutical company with capabilities across the value chain. The company is now focused on building a global B2C business driven by its own product pipeline. With this focus, the company has realigned the businesses to better reflect the operating performance of the combined entity. The pharmaceutical business segment will evolve in the following four key business divisions

- **Regulated markets Business** - Build a global portfolio with sustainable margins by leveraging on the front end presence in Australia, US and UK.
- **Emerging Markets Business** – *'In Market, for Market'* strategy to drive the Branded Generics focus in markets across Africa, India, Russia CIS and South East Asia.
- **Institutional Business** – Scale up Institutional business through backward integration. Focus on domains of Anti- retroviral, Anti - Malarial and Hepatitis C.
- **Pharmaceutical services and Active ingredients (PSAI) Business** – To provide source security for formulations and focus on attaining cost leadership in APIs. CRAMs to focus on early stage engagement on NCEs to become a preferred launch partner.

### **Outlook for H2 FY 2016**

With the closure of Arrow acquisition and expected FIPB approval for Shasun merger, the quarterly results of Strides will henceforth be of the combined entity. To provide a better understanding of the scale of the combined business, the company has taken an exception and is giving a guidance for H2 FY 2016. The guidance is for the Pharmaceutical business (excludes Biotech) and is based on the current operating environment.

- Expected Revenues between INR 18,500 Mn to INR 20,000 Mn for H2 FY16
- Expected EBITDA between INR 3,500 Mn to INR 3,800 Mn for H2 FY16
- Expected ANDA filings between 10 to 12 in H2 FY 2016

The guidance does not include recently announced acquisitions of CNS divisions from Sun Pharma, brands portfolio from Johnson & Johnson and majority stake in domestic branded business from Medispan pending regulatory approvals.



Disclaimer: This press release may include statements of future expectations and other forward-looking statements that are based on the management’s current views and involve known or unknown risks and uncertainties that could cause actual results, performance to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to without limitation, (i) general economic conditions such as performance, currency exchange rates, interest rates, (ii) changing levels of competition and general competitive factors, (iii) changes in laws and regulations and in the policies of central banks and/or governments, (iv) the impact of acquisitions or reorganisation, including related integration issues. The term ‘combined’ used in the press release refers to the combination of Strides Arcolab, Shasun Pharmaceuticals and the business acquired by Strides in Australia (Arrow Pharmaceutical). While the acquisition of the Arrow business has been completed, the approvals for the Merger with Shasun Pharmaceuticals is pending FIPB approval.

## Annexure:

### EBITDA Computation:

	Q2 FY15	Q1 FY16	Q2 FY16
Profit from ordinary activities before finance cost& Exceptional Items as per SEBI reporting	529	780	<b>647</b>
Less: Interest and Dividend income	48	430	<b>105</b>
<i>Add : Depreciation and Amortization</i>	<i>147</i>	<i>182</i>	<b><i>211</i></b>
Consolidated EBITDA as per press release	628	532	<b>753</b>
<i>Add: Biotech R&amp;D Spend</i>	<i>23</i>	<i>40</i>	<b><i>49</i></b>
Global Pharma EBITDA as per press release	651	572	<b>802</b>



**About Strides**

Strides Arcolab, listed on the Bombay Stock Exchange Limited (532531) and National Stock Exchange of India Limited (STAR), is a global pharmaceutical company headquartered in Bangalore, India that develops and manufactures a wide range of IP-led niche pharmaceutical products. The Company has 8 manufacturing facilities and presence in more than 85 countries in developed and emerging markets. Additional information is available at the Company's website at [www.stridesarco.com](http://www.stridesarco.com).

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