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2023 Preliminary Krka Business Performance Results Webcast



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HOST:

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BUSINESS PERFORMANCE PRESENTATION:



Gregor Gavranič

Dear ladies and gentlemen, welcome to today's webcast on preliminary business results of the Krka Group. My name is Gregor Gavranič and I am hosting this event today, together with Mr. David Bratož, Member of the Management Board, and Mr. Brane Kastelec, Finance Director. Krka once again delivered robust top line growth and operating profitability. Detailed interpretation of our performance and highlights will be provided by Mr. Bratož and Mr. Kastelec. Both will be available during the Q&A session that will follow. We invite you to address your questions live. May I remind you that this webcast is intended for professional audience only, not media representatives and is being recorded. Mr. Bratož, the word is yours.

David Bratož

Good afternoon, ladies and gentlemen, it's my great pleasure to welcome you at today's webcast. I'm David Bratož, member of the Management Board, and today I'd like to share with you the preliminary business results for the year 2023. The business operations of the Krka Group in 2023 were successful. We recorded the highest revenue since incorporation and sales increased in most sales markets. Despite inflation pressures, our operating profit was the highest to date, according to estimates totalling almost EUR 400 million, which is up 4% year over year. The volatility of rouble impacted the net financial result, and net income of EUR 311 million exceeded the planned figure. However, this is 14% lower than in 2022, when we recorded significant exchange rate gains. In 2023, we obtained 14 new marketing authorizations and 698 marketing approvals. On 24 November 2023, Krka received S&P Global CSA score in the corporate sustainability assessment. This score ranked Krka among top 10% companies in the pharmaceutical industry. Investments amounted to 131 million euro and I would also add that we have established new Joint Venture Company, Krka Pharma Private Limited in Hyderabad, India with our long-term partner, Laurus Labs. Krka will hold 51% share, and Laurus 49% in the joint venture. The newly formed company will enable production and sales of finished products for the new markets, including Indian market and other markets outside the EU, where neither party is currently present.

Krka has well diversified activities, and every day we offer our high quality and affordable medicines. In over 70 markets worldwide, we deliver 18 billion tablets annually, and more than 100 million people use Krka's medicines worldwide. In 2023, we sold 5% more tablets than in the previous year. We also operate in many low to middle income countries and therefore we are actually implementing savings for patients and healthcare systems. We are implementing the highest level of our social responsibility of providing access to medicines, which is also one of important ESG topics for Krka.

On the slide number four, you can see our performance from 2005 to 2023, and the green bars in this chart shows revenues, and the blue dots represent the volume of tablets produced & sold every year. During this period our revenues and volumes more than tripled, and, you can see, as production volume continues to grow also the sales revenues and net profit is growing. The compound growth rate for sales revenue is above 7% and net income growth is higher. It amounts to 8.6%. During this period, we outperformed the market growth, which is also an important fact. Another important fact is that the volume growth is important for the long-term stable growth of Krka.



Here you can see, on slide number five, our sales which increased in 5 sales regions out of 6. We increased the sales by 90 million euro or by 5% and we reached 1.8 billion euro in sales revenue. Region East Europe recorded the highest sales, representing 33% of Krka's overall sales. Sales in the largest individual market in the region, which is Russian Federation, reached almost 350 million euro. This is a decrease by 10% compared to 2022 in euros, however, expressed in roubles, sales increased significantly, by 15% over 2022 with a 7% volume growth. Our growth in this big market outperformed market growth. The discrepancy between the euro and rouble sales growth is due to significant depreciation of the rouble. We see good growth in sales of cardiovascular products and high growth in sales of Animal Health products, especially products for companion animals. Products launched in the last 12 months in Russia, contributed significantly to the good sales results. Competition is strong, especially from domestic manufacturers, but Krka is growing much faster than the market in terms of value and volume. This is far the most important thing. We have also a production site there, which covers around 76% of all Russian needs. This production site is intended only for Russian market. We hold the first position in the pharmacy segment and the leading position in the previously mentioned cardiovascular segment.

The local currency rouble is volatile, so we use natural hedging to reduce the currency risk exposure. Therefore, a lot of operating costs are nominated in roubles. Growth was also recorded in most other regional markets of this region, except in Ukraine. In Uzbekistan, for instance, which is the third largest market in this region, sales index was about 120. Sales in Ukraine amounted to 83 million euro, a decrease by 12% compared to 2022. In Ukraine, the emergency situation, in which many people have left the country, has caused the pharmaceutical market to shrink to a certain extent. Nevertheless, Krka remains the second largest foreign supplier of generics in the pharmacy segment, according to the latest independent secondary sales data. Our volume sales in Ukraine exceeded volume dynamics of the market by 5 percentage points. Market had minus 2, and Krka plus 3% growth.

Our second largest region is the region Central Europe, which represents 22% of the total sales and with sales increase of 9%. Poland remained the largest market in this region, and the second market overall with the decent growth of 8%. We ranked third among foreign generics. Sales increased in all other regional markets of this region: Czech Republic, Slovak Republic, Hungary, Lithuania, Latvia, and Estonia.

In our third largest region, West Europe, which represents 20.5% of total Krka sales, sales also increased nicely, by 13%. Especially in Germany we were very successful with the sales of 106 million euro, and with the sales growth of 20%. The newly launched products significantly contributed to the growth and to the sales on this market, but also some other products, such as candesartan, pantoprazole and some others, contributed. The success was partially also due to lack of competitors products on the market which we successfully used in our favour. We also had good and decent sales growth in some other markets, for instance in Scandinavian markets, then Portugal, Italy, and the United Kingdom.

The sales in the region Southeast Europe with Slovenia, which I put together, represent together around 20% of the total sales, similar to the proportion of the West European or Central European sales. Romania, Croatia, Slovenia, and Serbia contributed the most to the sales growth



of these both regions. Krka holds a 7.4% market share on the domestic market and we are the leading supplier in terms of volumes holding more than 30% of the market share.

The region Overseas Markets is the smallest for Krka, but with the highest growth of 14% in the previous year. Decent growth was noted in Far East and Africa, Middle East and China, as well..

On slide number six we have the structure of sales by product groups. Prescription pharmaceuticals remain the most important group of products for Krka, because they generate 82% of the total sales and this is our core business. Sales of non-prescription pharmaceuticals, representing 10% of total sales, decreased slightly by 3%. However, sales are compared to a high base as previous period sales growth of non-prescription products was good. Sales of animal health products, representing almost 6%, increased sharply by 12%. More than 2/3 of animal health product sales are products for companion animals, and this segment is growing.

We have diversified Rx portfolio where cardiovascular products represent more than a half, followed by medicines for central nervous systems and medicines for gastrointestinal system. Moreover, we have many other important therapeutic areas, such as pain curers, antidiabetics, oncology, anticoagulants, etc. We are leading manufacturer of sartans, statins and proton pump inhibitors on many markets. We are also pioneers in single pill combinations which are more and more important for Krka.

As far as research and development is concerned, we are currently working on 170 products in our pipeline. Our goal is to be among the first on the market when the patent expires. This is important goal which will enable us to increase our market share also and even more in the future. We invest up to 10% of our revenues into research and development activities, and more than 800 experts are engaged in new products development. In 2023, we added 14 new products. This is a lot, especially in the last quarter. If you remember, in the first 9 months we had 7 new products launched. Now we have 14, but even more important that we have got 698 marketing approvals procedures finalized. So, we are constantly enlarging our product portfolio in many markets. We registered three combinations and then several generics products for treating diabetes. We also received many new marketing authorisations for new products in China.

We are innovative branded generics producer with own research and development. We are proud that Krka was the first generic to introduce many single pill combinations. Currently we have more than 150 single pill combinations in our portfolio, and we are number one generic in terms of number of single pill combinations. We believe that this is our strength and our competitive advantage for the future.

About investments. We are adding and technologically upgrading the production facilities and capacities for research and development and quality control. In 2023 we invested 131 million euro, planned Capex for this year is even higher, 150 million euro. On the slide number nine we listed some important investments. Let me mention one important for the future. This is new facility for the development and production of the APIs here in Slovenia. The investment will be approx. 160 million euro, and this will provide additional capacities for APIs which is important for us.

As I have mentioned at the very beginning, exchange rates, especially EUR/RUB, have had an impact on the financial result in recent quarters. After a significant rouble appreciation in the



first half of 2022, as you can see from the slide 10, rouble value reversed downward and this trend continued from end of the second quarter 2022 also into the whole 2023. Although this decline was somehow modest during the second half of the year 2023. Nevertheless, the rouble fell by 21.5% against euro during the whole 2023. As a result, the net financial result in 2023 was minus 32 million euro. Thus, the net financial result was 84 million euro lower than in 2022 when we had +52 million euro. We cannot use forwards or futures anymore for hedging the rouble FX risk. We use natural hedging by purchasing goods and services in roubles as much as possible.

On slide number eleven, we show operating results and margins. We have reached about half a billion-euro EBITDA and around 400 million euro of EBIT. Both absolute figures are the highest since incorporation. On the right-hand side we have margins development. All margins are high. This is primarily due to sales growth, volume growth, improved product mix, well controlled costs and increased productivity. EBITDA margin is 27.8%. This is above the strategic goal of 25%, which is, we believe, high and decent for a generic drug maker like Krka. Margins are expected to further decrease slightly due to obvious reasons, including inflationary pressures, rise of salaries and other costs. Nevertheless, we believe that we shall keep it well above our strategic goal also in the quarters to come.

The slide number twelve shows continuous and healthy growth of revenue for the last 5 years. Here we can see that the compound growth rate of revenues is 6.4%, EBIT growth is even higher, at 11% for the last 5 years. We can summarize that the growth in sales and profits over the last 5 years has also resulted in significant growth in earnings per share.

On slide number thirteen, we show that Krka remains committed to the long-term, stable dividend policy, allocating every year at least 50% of the profit for dividends. You can observe that every year we increased dividends. This has resulted in a dividend per share compound growth rate of over 15% over the past 10 years. We are also continuing our share buyback program. Currently, we have 5.9% of all shares in treasury.

We are listed on 2 stock exchanges, on Ljubljana and Warsaw Stock Exchange. Krka has over 47,000 shareholders. The shareholder structure is rather stable. The largest group of shareholders are Slovenian retail investors, holding 41% of shares, followed by the state, that owns 27% of our shares. On the third first place we have international investors holding 20.4% of our shares. The current market cap as of 23 January 2024 is 3.8 billion euro.

Next, we have two slides about our key strategic objectives. Let me just repeat the most important ones. We will generate the further growth of at least 5% average annual sales in terms of volume and/or value. We will keep focus on long term profitability and we work intensively on this. Krka will allocate 10% of revenue to research and development activities, and 140 million annually on average over the next 5 years to investments. We will maintain a stable dividend policy. We will ensure further business growth also through mergers and acquisitions, and also joint venture projects. We will maintain existing and introduce new therapeutic product groups, and we will enter new markets. Krka will upgrade the culture of sustainability, and also remain independent.

Our strategy pursues sustainability aspects and objectives. We strive to preserve economic, social, and environmental responsibility towards the environment in which we operate. We are



proud to announce that on 24 November 2023 Krka received S&P Global CSA score. In the global corporate sustainability assessment, we got 50 out of 100 points, which ranks Krka among top 10% companies in the pharmaceutical industry. This is something that is important to highlight. This excellent ESG rating is for us an encouragement and commitment to further develop sustainability in the operations of the Krka group. Currently we are working to implement all the requirements of the corporate sustainability reporting directive and of European sustainability reporting standards. We will further upgrade sustainability reporting and management approaches in the most material sustainability areas. As you all are well aware, sustainability reporting will be subject to external audit in 2024.

Slide number eighteen is about our recent JV. I mentioned before that one of our strategic objectives is also to ensure growth through joint ventures and different kinds of long-term co-operations. Therefore, we have reached an agreement with Laurus Labs from India to establish a joint venture company Krka Pharma Private Limited in Hyderabad, India. Krka will hold 51% and Laurus Labs will hold 49% ownership share in the joint venture. Krka and Laurus have been working together contractually for many years, and our businesses complement each other. With joint venture we want to strengthen this cooperation and create additional synergies by combining knowledge and resources that both companies have. The registered capital of the newly founded company amounts up to 50 million euros. We have agreed on a step-by-step development of this joint venture company and the newly formed company will develop a plan to enter the Indian market and other markets outside the European Union, where neither party is currently present with its finished products. We believe that the joint company will have synergistic effects for both companies, and would enable us to explore opportunities, enter new markets, and remain among leading suppliers of pharmaceutical products on the international markets.

At the end of today's presentation, I would like to underline that we believe that our guidance for 2024 is realistic, especially on the back of strong 2023 results and the challenges we are all facing, especially inflation and rising costs. The revenue should reach 1,850 million euro on the back of the volume growth and new launches. At the bottom line we expect net income to be somewhat more than 310 million euro. Capex for 2024 is higher. We plan to build facilities for production and development of APIs and we will also upgrade existing production lines. The planned CAPEX is 150 million euro, which is 15% higher compared to 2023. We also plan to increase the number of employees.

Ladies and gentlemen with this we have reached the end of the first part of today's webcast. I hope you have gained clear insight into our preliminary results for 2023, and the impact of the current developments on our business activities. So now we can start with Q&A session. Thank you very much.



Q&A SESSION:

Gregor Gavranič

Thank you Mr. Bratož. We are now starting with the Q&A session. You are most welcome to address your questions live by raising your virtual hand, and you will be given a word.

Gregor Gavranič (Question from the chat by Bram Buring)

Can you please comment on the gross margin in fourth quarter 2023, or for the full year 2023? You mentioned inflationary pressure. Can you please comment on where the pressure was most visible in fourth quarter 2023, where it will be most visible in the full year 2024?

David Bratož

Thank you for the question. I will start and then ask Mr. Kastelec to provide some additional details. . If we analyse only the fourth quarter separately, we can see that there was an increase in certain costs. These are rather one-off and we can say that the additional costs should not be repeated to this extent in the future. At this point in time, we can assume that the average margins in 2023 are more realistic from today's perspective.

Brane Kastelec

Last year, inflation was mainly seen in some materials and services used in production, such as packaging materials, as well as in wages, much less in pharmaceutical raw materials. In 2024, we expect a lower increase in the prices of materials and services due to the decline in energy prices and the slowdown in inflation in general. The same applies to wages.

Gregor Gavranič (Question from the chat by Bram Buring)

Can you please comment on the difficulty/ease of importing manufacturing equipment/spare parts to the Russian facility? Will this be a headwind for Russia sales volumes this year?

Brane Kastelec

The import of some equipment into the Russian Federation is currently difficult. That is correct. However, we are not currently making any significant investments in the Russian Federation anyway. The supply of necessary spare parts and consumables is not jeopardised. It is running fairly smoothly. We have no problems with this part of our business.

Stephan Howaldt:

I have 2 questions. One is in relation to the India joint venture. Firstly, whether the Capex that you're expecting to spend in India is part of the Capex guidance that you gave for the group. And then I'm wondering if you capitalize the joint venture with 50 million euros. What is the capital employed? Why do you expect so much capital to be required? And is this 50 million, your share, or is that the entire? And then I have a last one, which is as ever, the repatriation of cash from Russia just wanted to know if it continues without any problems? Thank you.

David Bratož

Thank you for your questions. So let me start with the last one, the repatriation of roubles. There is still nothing new, we have no difficulty in receiving payments from Russia. So, the answer is that the situation is still the same as when we last spoke. Then we come to another topic: 50 million euros as start-up capital for the newly established joint venture. The 50 million is intended for both parties. This means that 51% will be paid by Krka and 49% by Laurus Labs. Of course, this will happen step by step.



Brane Kastelec

We are not talking about investing 50 million euro at once. Joint venture will invest in R&D and production facilities, that's why it needs this high equity. The first question was whether the joint venture capital expenditures are included in our Capex plan of 150 million euro for 2024. The answer is, no. That is not part of the capital expenditures that we planned for 2024.

Gregor Gavranič (Question from the chat by Vladan Pavlović)

Why there was a drop in non-prescription sales in last year, and also in third and fourth quarter of last year. Second question, why fourth quarter 2023 EBITDA was down 40% year on year. Is that due to the normalization versus the previous year. The third question, how rouble rate affects gross profitability in general. The last question, what happens if Krka fails to receive final environmental approval for Sinteza 2? Will that affect volume expansion and Capex?

David Bratož

So, the first was about the drop in non-prescription sales in 2023. And this is basically due to rouble because the biggest proportion of OTC sales are generated in the Russian Federation. Due to 20% rouble depreciation in 2023, euro nominated OTC sales decreased. This is the main reason.

Then the second question is about EBITDA decrease in fourth quarter. This is due to some one-off costs that I mentioned earlier. If we compare it to the third quarter, the index is rather better, 92, so it is not such decrease.

The third question is, how the euro rouble rate affects gross profitability in general. We do not disclose profitability market by market. As I already mentioned, our increase of Russian sales invoiced in roubles was 15% and in sales volume increased by 7%. We are growing more than market. This all means that we compensated the lost revenue through increase of sales in roubles and volume.

The last question is, what happens if Krka fails to receive final environmental approval. Nothing will happen, because, as we are informing you all the time, we are increasing production capacities at our supply partners abroad. We are not relying only on Sinteza 2 in Slovenia for source of API. If we will not be able to start this project, we will pursue other projects. This would also mean that the Capex will be utilized on other projects.

Gregor Gavranič (Question from the chat by Bram Buring)

How are price prices of APIs and chemical intermediates developing in fourth quarter of 2023? What do you see for 2024?

Brane Kastelec

I have already pointed out that inflationary pressures have had a greater impact on some other costs, such as the cost of packaging materials, energy costs until the middle of last year and so on. On the other hand, prices for active pharmaceutical ingredients have not increased significantly and we do not expect this to change this year. We simply have reliable long-term partners on the supplier side. We always rely on two or even more suppliers, especially for the most key ingredients for our key products. We are therefore flexible and have a certain amount of negotiating power. As we have grown over a long period of time and are known for our financial discipline, we are valued buyers of active ingredients and our supply partners want to continue working with us.



Gregor Gavranič (Question from chat by Dawid Górczyński)

Could you go into a little more detail about the situation on the Russian market in the fourth quarter of 2023? How were the sales dynamics on the primary and secondary market compared to the previous year? Have you observed any destocking among wholesalers or increased competition? And the second question: given the lower net profit in the previous year, does the Management Board see any scope for increasing the dividend this year?

David Bratož

Thank you for your questions. Primary sales in the Russian Federation were higher in the fourth quarter than in the third quarter of 2023, both in euros and roubles and in volume. Compared to the previous quarter, sales in euros decreased due to the depreciation of the rouble, but increased in roubles and in volume. We see good sales in cardiovascular products and high sales growth in newly launched medicines and also in Animal Health. As I said at the presentation, the products launched in the last 12 months in particular have made a major contribution to the pleasing sales growth. Competition is strong, particularly from domestic manufacturers, but Krka is growing significantly faster than the market in terms of both volume and value. The market continues to have good momentum and good demand.

The second question concerned the dividend pay-out. The shareholders will decide on this at the Annual General Meeting in July. At this point, we cannot yet talk about the specific dividend proposal. This is because the proposal will be announced on 4 April. But as you have seen on the slides, the dividend has been increased every year. In the last 24 years, since Krka has been listed on the Ljubljana Stock Exchange, there has been a dividend increase every year.

Gregor Gavranič (Question from the chat by Valadan Pavlović)

Just one additional question. What was the gross margin in the fourth quarter of 2023? At least approximately, if you can provide that. Thank you very much.

David Bratož

Unfortunately, we cannot disclose this margin as it will only be announced in mid-March when we publish the full annual results. But you can estimate it based on the EBITDA and EBIT margins we published today.

Gregor Gavranič

We have reached the end of today's webcast. Thank you again for your participation.



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