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Krka Group 1-9 2024 Business Performance Results Webcast

CORPORATE PARTICIPANTS

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Brane Kastelec, *Finance Director, Krka d. d.*

HOST:

Gregor Gavranič, *Associate, Capital Markets, Krka d. d.*

BUSINESS PERFORMANCE PRESENTATION:

Gregor Gavranič

Dear ladies and gentlemen, welcome to today's webcast on first nine months 2024 business performance 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. They will provide detailed insight in Krka's latest performance figures, provide estimates for this year and explain guidance for the next year. After the presentation both will be available for the Q&A session. 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 present unaudited consolidated financial statements of the Krka Group for the first nine months of 2024.

This year, we are very proud because we are celebrating our 70 years anniversary. Krka was founded back in 1954 from a small pharmacy with only 9 employees at that time. Today we are one of the world's leading manufacturers of generic medicines with almost 13,000 employees. We rely on our vertically integrated business model which provides us resilience and flexibility.

Krka has well diversified activities. We offer high quality, affordable medicines in over 70 markets worldwide. More than 100 million people use our medicines on daily level in different therapeutic groups. Last year we manufactured and distributed 17.5 billion finished dosage forms, mostly tablets and capsules. This year we plan increase of 1 billion. We operate in many low to middle income countries, generating significant savings for patients and healthcare systems. In this way we maximize our social responsibility by providing access to medicines, which is also an important part of our sustainable approach.

Krka is ranked 16th in the global ranking among all generic manufactures. Moreover, we are in top 10 looking at wider-Europe region.

Here we come to the most important highlights related to first nine months of the year. Krka Group continued to record good business results. We increased sales in 5 of our 6 sales regions, and in most of our key markets, and in all product and service groups. We delivered strong 9 months. Sales increased by 7% and net profit by 19%. Margins remained high. We achieved a strong EBITDA margin of 28%, which is well above our strategic target. We also obtained 14 new products' registrations and completed more than 850 marketing authorisation procedures in various markets. Based on good results we raised our full year 2024 top and bottom-line estimates. We expect 1,819 million euro of sales. This is plus 5.1%, and we expect net profit of 339 million euro, which is 8% increase year over year.

Sales of goods and services in the first 9 months amounted to 1,427 million euro. This is plus 7%, or this is 93 million euro more than in the same period last year. Volume growth was 2%. Based on this we can say that we improved our product mix towards more single pill combinations.

The left part of the slide shows a pie chart with sales by region and the right part shows the 5 largest and the most important markets for Krka.

The region East Europe recorded the highest sales, accounting for 34% of total sales and growing by 12%. Sales in the largest individual market for Krka, this is Russian Federation, reached 282 million, an increase of 9% compared to first 9 months of 2023. Sales in local currency increased significantly by 23%. The discrepancy between the euro and rouble sales index is due to the decrease of the rouble value against euro. The average value of the rouble expressed in euros fell by 8.3% in the first 9 months of the year compared to the same period of the last year. In Russia, we saw a good growth in sales of Rx, especially of cardio medicines and also combinations. We launched many interesting products in the last 12 months, for example combination of Telmisartan and Amlodipine and Indapamide or Dabigatran, what contributed significantly to the good sales results. Competition is very strong, especially from domestic manufacturers. They receive support in terms of subsidies, favourable loans, fast approvals, priority in tenders. But nevertheless, Krka is growing faster than the market in terms of both volume and value, and we hold the 1st position among foreign generic producers. We are also 1st in the pharmacy segment and the leading producer of cardio medicines. In Russia we have a production facility that covers approximately 80% of Russian sales. We produce there 3 billion tablets and capsules that are intended only for this market because we do not manufacture products in the Russian Federation for export to other countries.

As far as collection of receivables are concerned, they are running smoothly, and also the repatriation of euro from Russia has not been a problem for us. Our goal for the future is to continue to outperform the average market growth, although the market is growing steadily.

Growth was also recorded in most other regional markets with Ukraine and Uzbekistan experiencing the highest growth. In Ukraine, according to the latest available data, we rank second among foreign suppliers of generics in the pharmacy segment. We are recording above average market sales growth in Uzbekistan, where sales grew by 15%.

The second largest region in terms of sales is the region Central Europe. Sales generated in this region account for 23% of Krka's total sales, an increase of 8% compared to the first 9 months of 2023. Poland remained the leading regional market, and the second largest single market for Krka with impressive growth of 17%. In this highly competitive market, we are in third place among foreign suppliers of generics. Sales also increased in Hungary, Latvia, and Lithuania.

Our 3rd largest region, Western Europe, accounts for nearly 19% of the Krka group total sales. In Germany, Krka's largest market in this region, and the 4th largest single market, sales fell by 14% in the first 9 months compared to the previous year. However, it should not be forgotten that we increased our sales in Germany last year by 20%. The situation on German market is still highly competitive. Competitors are pursuing very aggressive pricing policy. Prices fall particularly sharply when new products are launched on the market, and when the tenders are announced. Nevertheless, according to the latest available data, we are among the leading generic suppliers of Gliptin products. These are products for treatment of diabetes. We are also one of the leading suppliers of ramipril in combination with amlodipine, and also of candesartan containing medicines in combination with amlodipine, and also of tramadol containing medicines in combination with paracetamol, on the German market. We have also achieved sales growth in most other regional markets, the highest growth of 62% in the United Kingdom and growth of 16% in the Scandinavian countries.

Sales in the South-East Europe and Slovenia together account for a shy 20% of Krka total sales, which is comparable to the West Europe's share. Romania, Slovenia, and Croatia contributed the most of the sales of these 2 regions. Krka has a 7.4% share of the Slovenian market by value, and we are the leading supplier of the pharmaceuticals in the country. Of all pharmaceuticals sold in Slovenia, one in five was manufactured by Krka.

The Overseas Markets region is the smallest region for Krka and it achieved growth of 2%. In China, for instance, our growth amounted to 6%. But in the Middle Eastern markets we recorded a slight decline of sales by 10% due to tensions that affected business activities in certain markets. Nevertheless, we recorded growth in 3 out of 4 sales offices in these region.

Top 30 countries by sales represent around 90% of group sales. On the slide number 7, we can see the most important markets for Krka.

In terms of sales structure, prescription drugs remain the most important product group for Krka, accounting for 83% of Krka sales. We are proud that this is our core business, because this part of sales is not seasonal, or it's very much under our control. We have increased sales of prescription medicines by 8%. Sales of non-prescription pharmaceuticals account for 8.5%. Sales of animal health medicines account for 6.1% and increased by 5%. It is important to add that more than 60% of animal health sales are for companion animals, and this part is growing very well.

We have a diverse product portfolio. Cardio segment represents more than half of it. The second largest therapeutic group are CNS products, and then also gastrointestinal and pain medicines. Besides that, we are very focused on anti-diabetes, anticoagulants and oncology.

On the slide number nine, you can see our leading prescription pharmaceuticals in sales terms. Here you can observe our key brands. We are the leading generic producer of sartans, statins, and ACE inhibitors on many markets. These therapeutic groups are important because in many Krka markets there are many people who are not yet being treated properly. Our sartans are available in 60 markets across the world. We are the only pharmaceutical supplier in Europe to offer a combination of sartan and a statin in a single tablet. Here we are showing you also diabetes products, where we are becoming the leading generic producer of gliptins. Despite having decent market shares in all these therapeutic groups, in some cases market shares can be up 30 to 40%, we still see many possibilities for further growth in these therapeutic areas. Sales were driven in particular by product groups containing perindopril, rosuvastatin, valsartan and sitagliptine. Product groups contain mono tablets and combinations.

As far as research and development is concerned, we are currently working on 170 new products in our pipeline. Our goal is to be among the first generic suppliers on the market when the patent expires. We invest up to 10% of our revenues in R&D activities and more than 800 internal experts are involved in research and development activities. In the first nine months of 2024, we added 14 new products to our portfolio. For instance, we added one new single pill combination in cardio segment, then we also added the products for Chinese market and oncology products. In addition, we received more than 850 new approvals for products which are already established but they will be launched in new markets.

We are innovative branded generics producer with own research and development activities. We are proud that Krka was the first generic to introduce many single pill combinations. Today

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, majority for cardio segment but also for other therapeutic groups. We believe that this is our strength and our competitive advantage. We are prolonging lifecycle of our existing brands. In this way we offer doctors, and above all, patients access to high quality medicines by combining 2 or even 3 APIs in a single tablet, simplifying the administration of prescribed medicines and achieving better adherence to treatment, which is very much welcomed and accepted by patients, patient societies, and doctors as well. Beside that our medicines are available in different forms in nonconventional dosage forms, such as orodispersible tablets and bi-layer tablets. It's important to outline that we have more than 1,000 products in our portfolio.

We invest in additional production facilities, technological upgrade of production facilities, capacities for research and development and quality control capacities. Estimated CapEx for this year is on the level of 130 million euro, and are predominantly for strengthening and optimizing our vertical integration at all levels. In the 5-year period we plan to invest 700 million euro. On this slide, we have listed some upcoming investment projects.

On the slide number thirteen, you can see our profit and loss statement for the first nine months of the year. Revenues went up by 7%. Cost of goods increased by 8%. Then gross profit went up by 6%. Research and development expenses and marketing and sales costs increased by 7%. We achieved 332.6 million euro of operating profit, up 4%. Profit before tax, 337 million euro, and net profit 281 million Euro with index 119.

The development of the rouble, US dollar and polish zloty exchange rates have a significant impact on the group's net financial result as you know, while the effects of other exchange rates are marginal. We have long position in RUB and short position in USD. In the nine months of 2024, the rouble weakened by 3.5% against the euro but the average value of the rouble expressed in euros weakened even more, it was 8.3% lower than in the same period of the previous year. Hedging rouble was not possible in the last 2 years or is just too expensive. Therefore, we predominantly use natural hedging as far as rouble is concerned. We have reduced the risk by having supplier contracts in roubles as much as possible. Then sales prices in roubles can be slightly adjusted upwards if rouble weakens, but this is very limited by the competition and other restrictions. The impact of the rouble on the Krka's group net financial result was negative, but it was unfavourable also for the upper part of the income statement. Net FX losses amounted to minus 6.6 million euro. However, net financial result including FX result, interest income and expenses, the impact of financial instruments and others was positive and totalled 4.7 million euro.

We have a strong financial position without debt. Trade receivables increased by 8%, which is due to the growth in sales and also due to the fact that we no longer use factoring to the same extent than in previous period because it is expensive. More than 95% of receivables are insured by the credit insurance company.

All margins are very stable. They are high. Predominantly due to sales growth and good product mix with many single pill combinations. And also, thanks to recently launched new products, including brand new products and products introduced to the new markets. In addition, due to increased productivity and well controlled costs. So based on this our EBITDA margin is 28% and is on the level of 5-year average and we believe this is a good result for generic drug maker. We have strategic goal of maintaining the EBITDA margin above 25%.

The slide number seventeen shows continued and healthy growth of revenue and EBITDA for the last 5 years. The compound annual growth rate of revenue has been 6.4% over the last 5 years, and the growth rate of EBIT has been 11.4% annually over the last 5 years. We can summarize that the growth in sales and profitability over the last 5 years has also contributed to significant growth in earnings per share. The compound annual growth rate of EPS has been 13% over the last 5 years.

We remain committed to our long-term stable dividend policy, allocating every year at least 50% of profit for dividends, taking into account also all the financial needs for investments and potential acquisitions. This has led to a dividend CAGR of almost 14% over the last 10 years, which also applies to this year's dividend pay-out. More than 1.3 billion euro was allocated for dividends in the past 10 years. At the same time, we are continuing with our share buyback programme and currently, treasury shares represent 6.3% of share capital.

We are listed on 2 stock exchanges, on the Ljubljana and the Warsaw Stock Exchange. Krka has over 47,000 shareholders. The shareholder structure is stable. The largest group of shareholders are Slovenian retail investors, holding more than 41% of shares, followed by the state, that owns 27% of our shares directly and indirectly. On the third place we have international investors holding around 20% of our shares. The current market cap is on the level of 4.2 billion euro without treasury shares.

Our strategy pursues sustainability aspects and objectives of operations. We strive to preserve economic, social, and environmental responsibility towards the environment in which we operate. The important thing is that at the end of 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. We are proud on that because there are more than 350 pharmaceutical companies included in rankings. This excellent ESG rating is for us an encouragement and commitment to further develop sustainability in the operations of the Krka group. As you all are well aware, sustainability reporting will be subject to external audit in 2024. We have started already with pre-audit in regards of sustainability. The activities are ongoing and we are working to implement all the requirements of the corporate sustainability reporting directive and of European sustainability reporting standards.

Based on good results for 9 months of this year, we raised our full year 2024 top and bottom-line estimates. We expect 1,890 million euro of sales. This is plus 5.1%. A net profit of 339 million euro. This is plus 8%. We plan to allocate 130 million euro to investments. We believe that, with a help of our vertically integrated business model, our flexibility, our good product portfolio, with many single pill combinations, and our highly motivated employees, we will be able to achieve these good results in 2024, and also margins, which will be above our strategic targets. Based on this we also prepared our plan for 2025. For the 1st time in Krka's history, we plan to exceed 2 billion euro of sales in next year and full year net profit is estimated at 354 million euro. At the same time, we plan 150 million euro of investments, primarily for expansion and upgrade of production facilities and infrastructure.

Moving on to the last slide of today's presentation. We can observe our long-term stable business operations from 2005 to 2023 and estimations for this year and forecast for the next year. The green bars in this chart represent revenues, and the blue dots the volume of tablets sold annually. We can see that our revenues and volumes more than tripled from year 2005 to 2023. The compound annual growth rate of revenues for this period is above 7%, and for the

volume as well, while the compound annual growth rate of net profit for this period is close to 9%. This is a decent result. But the most important fact is that during this period we have outperformed the market growth, which is important to know, and we would like to continue with this trend also in the future.

We have reached the end of today's presentation. I hope that you have gained a clear insight into our results for the first nine months of 2024 and the impact of the current situation and developments on our business activities as well as our estimates and forecasts. Thank you for your attention and we can now begin with a Q&A session.

Q&A SESSION:

Gregor Gavranič

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

Tea Pevec (Question from the chat)

How do you think sales will develop in Germany in 2025? Do you expect new drugs to come onto the market so that pricing is not jeopardised by competition?

David Bratož

This year, the situation is quite challenging. We have less new products launched as a year before and at the same time we work very much to improve profitability. That's why we apply on less tenders as we did in the past. As I said before, the situation there is very competitive. Prices fall very sharply when new products are launched on the market. However, we are very optimistic for the next year when we plan to launch new products. We also plan to apply on some tenders where we can also have acceptable margins. Next year will be for sure better than this year. At the same time, please, do not forget that there is also a base effect, as our sales in Germany last year increased by 20%.

Tea Pevec (Question from the chat)

Are you doing R&D with Semaglutid or similar agonist? And are you looking to potentially enter with it in other bigger markets, like China or India?

David Bratož

I think that a lot of generic producers work on this opportunity. We don't disclose more on this for the time being. You also mentioned some important markets and Mr. Kastelec can add something which we can disclose on this for the time being.

Brane Kastelec

These two markets were mentioned in connection with the same product. I think your answer was clear enough. We are a major supplier of generics and this product is an attractive opportunity for many manufacturers. That's all we can say at the moment. There are still a few years to go before the product patent expires. We are always fair and open when it comes to new products we bring to market. We never disclose details about our product pipeline so that our competitors could know what products we are working on, what partners we are involving, what our timetable is and what our goals are in terms of market share. But when the patent for a particular product expires, we publicise our intentions and the subsequent sales results.

Tea Pevec (Question from the chat)

Who are your main competitors in Uzbekistan? How is market structured there?

Brane Kastelec

Uzbekistan is one of our 10 key markets, in the first nine months of this year it was market number 9, to be precise. Our sales in Uzbekistan totalled just under 40 million euros in the January-September period, which corresponds to 2.8% of the Group's total sales. We have increased our sales by 15% compared to the previous year. We are proud of our position in this market, as we are the leading supplier of pharmaceuticals in Uzbekistan and our growth is generally faster than that of the market. In September, the VAT in Uzbekistan was changed.

This will most likely affect OTC sales to some extent. However, we believe that the impact of this additional VAT will diminish in the coming months. We have seen some devaluation of the local currency and have increased our prices in local currency. Internally, we have some data on which competitors are weak in certain products because some products are missing from the market. We also know some other data about our competitors in this market, but this data is not publicly available.

Gregor Gavranič (question from the chat)

What will be the key growth drivers in order to achieve your 2025 plans, volume and price?

David Bratož

We will focus very strongly on our key markets in order to generate sales above market growth in all important regional markets. We will also focus strongly on the long-term profitability of all products, from development and production to marketing and sales, including all other functions. We must emphasise that Krka will remain in the small molecule area, where we are constantly launching new single pills combinations. We are also developing complex drugs, such as combinations, multi-layered tablets, gliptins and some others. In addition, our priority is the effective management of products that need to be developed, produced and sold in large quantities. We have a very strong marketing and sales team with around 4,000 pharmaceutical sales representatives. And that is something that is important for continued success in the markets. Our most important goal will be to achieve higher sales growth. We will focus on the most important therapeutic areas, namely cardio, followed by CNS, gastro, diabetes and pain. We will launch several new products. We will also work to increase sales in some overseas markets where Krka has only recently established a presence. We will work on outsourcing certain functions within the vertically integrated business.

Gregor Gavranič (question from the chat)

If there are no other questions, we will end today's session. I believe we have answered the most important questions. With this I shall conclude this webinar today. So, thank you again for attending. In case you have further questions, you can easily reach out to our investor relations team. The transcript of today's webcast will be available on our website in the following days. Thank you for participation and have a nice rest of the day. Goodbye.

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