



“Announcement on Proposed Merger of Australian
Business with Apotex's Australian Business”

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FINANCE

Moderator: Ladies and gentlemen, good day and welcome to the Conference Call organized by Strides to discuss today's announcement on proposed merger of Australian Business with Apotex's Australian Business. From the management of Strides, we have on the call, Mr. Arun Kumar, Executive Chairman, Mr. Shashank Sinha, Managing Director, and Mr. Badree Komandur, Executive Director. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arun Kumar. Thank you and over to you Sir!

Arun Kumar: Thank you for hosting us. Good evening ladies and gentlemen, and my apologies for starting a couple of minutes late. We had some difficulties connecting. Thank you for taking out time today as we discuss in brief the announcement that we made earlier in the day. Just as a reminder that we will be speaking specifically only the transaction considering that our results are due in a couple of days and we are in a silent period so much appreciate if the questions on the call are directed towards the announcement on the details around that.

So in terms of a background , all of you know that Arrow which we operate in Australia is a leading generic player in the market where top four players have a little over 80% of the generic markets. Clearly, it is a market, which has got a very differentiated strategy from most of the other regulated markets. It is a very pharmacy oriented market with several independent pharmacies.

In Australia, we have build in a fairly short time a successful business, which we think is performing to target and today's announcement with Apotex, which is the market leader in Australia in terms of generics will make this combination a very powerful player and hopefully a very successful company.

The reason why this announcement is made today with all of vagueness as we could see is simply because of the process with Australian competition which goes to a public hearing in terms of transactions of that size that has been announced today. So we are not in the position to give you specifics on the transaction, but the highlights of the transaction would be that under any circumstance, Strides will have a controlling interest in this potential new partnership.

We have lots of good news around running the Australia business very successfully. Obviously under the platform that we would create in the combination will deliver significant synergies that you are already seeing coming out of our Arrow operations in

terms of both manufacturing synergies and our ability to service significantly larger number of pharmacies and customers thereof.

We do have a very strong relationship with one of the leading distributors and Apotex has with another one, so this combination adds further for the synergies around that capacity and our ability to service

We think this is an interesting and important transaction that we announced today. Obviously several elements of the transaction have to still be discovered through the process of diligence. The combination will make us the number one player both in terms of volume and value in the Australian market. This has been the stated intent. We could have done this organically over the several years that we would have taken to get there, but this obviously accelerates the process, enables us to focus better as we continue to focus on markets, which are difficult to operate.

I think in all this is a very important step in the right direction as far as Strides is concerned for its Australian operations. So obviously the synergies are EPS accretive in the first year itself. There would be some more announcements, so the process will take three to four months and during this time we will have to hear more from the competition commission and cross other milestones in terms of the diligence process. We will keep our investors and the investor community updated. With that I am very happy to take any questions that any of you may have specific to this transaction. Thank you.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

Kunal Randeria:

Good afternoon. Thank you for taking my questions. Firstly, how confident are you that the competition commission will allow the number one and the number three players to merge and I mean have you given undertaking of the sort that you will be passing on some of the benefits to your customer or do you have to divest some compounds or brands in Australia, it is my first question? And second is respect to synergy, in a press release you have mentioned that all of that a lot of it will come from COGS, so does your plan include that given there will be a lot of overlap between yours and Apotex's compounds? Will it come from manufacturing that you plan to do in the next of couple of years? Thank you.

Arun Kumar:

Yes. So we cannot comment, on your first question, as this is not in our hand. It is for us to hear from the competition commission, as I said earlier we will keep you updated. At this stage, the whole process is at a very early stage in terms of what the competition commission would expect us to do for this approval to be in place and like I said at this stage we have no information on that. Coming to your second question, which is

predominantly on COGS, yes we do not need a significant corporate cost, which currently the two companies incur to run the business combined, which obviously would result in synergies. We currently have a lot of products where we own IPs and Apotex has several products, but we do not have, for which they have IP, so this kind of takes care of the portfolio maximization strategy that we have been working on for the last several years. We have been very successful in the last six months to bring a lot of products to our Indian manufacturing sites since we announced the acquisition of Arrow and this will continue and this momentum apart from continuing will also have one benefit for us to be able to serve additional demand. So, we are obviously very optimistic of those possibilities and like I said these are very, very early days, so I cannot give very specific to your questions simply because I do not have answers to that.

Kunal Randeria: Sure, but just regards to the manufacturing, so for common molecules, will you manufacture and supply to Apotex?

Arun Kumar: Yes, we will.

Kunal Randeria: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: Thanks for taking my question, Arun. My first question is that if you look at market share data – the Apotex entity is around 600 basis points higher than what we do in Australia, so in that context how are we to read in the prospect of we getting a controlling stake in the combined entity, which is something that you mentioned in the press release or are we to read the controlling stake or majority stake differently?

Arun Kumar: Your question was that you talked about 600 basis points. I am not very sure that where do you get that from?

Anmol Ganjoo: I think it is in the presentation, which we had after Australia days that Apotex has probably 30% market share, we are at 24, so Apotex is being...?

Arun Kumar: You refer to the market share.

Anmol Ganjoo: Yes, so Apotex being a bigger entity, how does Strides get the controlling stake in the combined entity?

Arun Kumar: Well, it is the function of various things. It is predominant in the function of margins. We obviously after our acquisitions have improved our cost base quite significantly, I think our margin expansion has happened in the last one year, so that has benefited this whole

conversion and predominantly from that perspective, it is obviously to do what kind of margins that the companies make.

Anmol Ganjoo: Okay, so basically if I understand you correctly, you say that while they might be have market share, but profit share we would be higher and that probably skews the conversion in our favour?

Arun Kumar: Correct. That is the thesis, which will go through the diligence

Anmol Ganjoo: My second question Arun is that in the past you looked at Australia and you have also spoken about there is some kind of bottoming out, but the number one and number three players coming together would prima facie seem to suggest that the PBS cut induced stressed Indian market is not overreact, so how are we to read this transaction from an Austrian market commentary standpoint by the two larger, first and third?

Arun Kumar: To answer your first question, the PBS impacts have got bottomed out and that is there for everybody to see. It is there in the public domain and it is available for you to analyze from the data that we have. What is more important here is customer acquisition. It is very hard for you to acquire new pharmacies and it is a process, it takes time. This brings about almost 2000 pharmacies on the table overnight for us and that is where we can do our cross selling and portfolio maximization, so that is the larger term benefit. It has got nothing to do with PBS impact and nothing to read within the lines that the PBS impact is the reason why this combination happens. I do not think so. I think market reach in a market where there are 5250 pharmacies that even with this combination we will only be servicing just about half of them or a little more than that, but still it means that there is a lot more growth opportunities, which we can do with our individual platforms

Anmol Ganjoo: I have more questions. I will get back in the queue. Thanks.

Arun Kumar: Yes. I just wanted to moderator to restrict this call for about 30 to 35 minutes, and I will be available after the call to take calls if anybody would like to speak with me.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity and congratulations on the announcement. I am just trying to understand the size of the two assets in dollar terms, so my understanding is the Strides Australia piece would be about \$150 to \$200 million, so that correct, what is the size of the Apotex asset and how would this share swap deal work?

Arun Kumar: Prakash like I said, I mean if you do the math they have probably about 30% to 35% more market share than us. So that math will probably get you to that number on a thumb rule

basis, but like I said it is very early days for specific numbers. So if they do have a market share, which is greater than us, so the sale number would be higher obviously by that extent, but there is a margin profile, which could be in our favor, so that is why these share swaps work in our favor and it has been agreed and discussed with others.

Prakash Agarwal: So, we would give Strides shares against the consumer dealing?

Arun Kumar: Prakash we are combining the Australian entities where there is a share swap within the Australian entities.

Prakash Agarwal: Okay, I understood. And just one question on the duplication, there was a question asked, so would you have an assessment, we had about 150 to 170 products and they also had similar kind of products, so I am sure they are all not mutually exclusive, right?

Arun Kumar: They may not be mutually exclusive. This is what will be discovered through the process, but what is important is that the IP ownership between the combination increases from that.

Prakash Agarwal: Okay and the synergy largely you are saying is COGS and manufacturing, I mean manufacturing would be the major portion of margin improvement?

Arun Kumar: That is right and we would not need large capex structures around this operation.

Prakash Agarwal: Okay. I understood. Thank you.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan P: Thank you for taking my questions. Sir, can you give a bit more colour on how the structure of this business would operate because now I think the Apotex coming in then I mean have we have worked out with respect to how the overall structure who is going to lead what and what is the kind of business that we can do?

Arun Kumar: Well that has been announced in the transaction document. So Roger who runs Apotex for several years in Australia where he build this business from scratch would continue to lead the combination with Dennis Bastas who is current Executive Chairman, Arrow will continue to be the Executive Chairman of the combined entity. The board will have representations with several members from the Strides team and it will continue on those basis and Andrew Burgess, is a current CFO at Arrow will be the combined entity CFO.

Sudarshan P: Sir, I mean at this point of time I am sure that being I mean one is number one and one is three, there should be some kind of product overlap, I mean do we see some kind of products also being cut from brands being cut off once both the entities come in, so I am

just trying to understand whether when both entities come in the sales figure need not be exactly the same to start with but it might be something lesser than that and then probably the operating synergies can play on?

Arun Kumar: Yes, when there are hypothetical situations at this time typically if you know how the Australian market works. It is retail pharmacy market, which effectively means that there is a lot of cross selling that is already happening in the Australian market. Here, the rational is not to do with will the number come down by 5% or 10% before it goes up which is less relevant, then what the companies will do for margin expansion, what it does for market reach and those two objectives will be met if this goes true as I hope it will.

Sudarshan P: Thank you.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: Thanks. Arun, strategically apart from making you the number one player in Australia, what does this transaction do to Strides as a Strides business a whole, I mean Strides entity has an entity overall and corporate entity, I mean your assessment?

Arun Kumar: While we all agree that US continues to be an important part of any Indian pharma growth strategies, but diversity for our regulated model was a key focus for the company when we relaunched the company. Australia business is one key milestone towards that path. Our leadership in Australia comes with scale and scope and this announcement is another key development. Obviously once it concludes and there are still several things before we get there we would have reached a stage in Australia which would have taken four to five years to do on our own. With this we meet some of those endpoints as per our targets for Australia that allows us to focus on building the next big market, which obviously for us is US, since we have been a very late entrant in the market we still have a catch up to do.

Nitin Agarwal: Thanks.

Moderator: Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: Thank you very much. The question relates to this merger in terms of the broader context of the Australian generics industry. Has we have seen in the dispute between sigma and chemist warehouses, it looks like there has just been intense price competition where the manufactures are willing to cut prices to absurd levels to be able to gain share. Once this happens who are going to be the two to three sort of relevant competitors in terms of spokes and have large portfolios of approvals that you would be competing against and any outlook

on whether we should expect to see continued aggression here, is there any sign that we are seeing some level of rationality emerge in pricing, or are you guys still going to be sort of having thoughts?

Arun Kumar:

Well if you already do not know there are only four players who have 90% of the Australian market that included us. So there are no fringe players outside of that, between Mylan, Apotex, Arrow and Sandoz the market is 90% held by these companies. Large portfolio makes a big difference, retail reach makes a big difference, partnerships with wholesalers and also with retail pharmacies make a big difference. Chemist warehouse is a very unique situation. It is a very different scenario. They are not part of this retail pharmaceutical strategy. They are very large formats. I mean they are low cost, large player in the market, and been a very successful player. Their dispute with Sigma has got nothing to do with pricing or anything for that matter. It is basically a dispute, which is related to distribution and other matters. It has got nothing to do with that. What we do is engaging with pharmacies, converting them to banners that we own or control them and provide services and later that make their business more relevant working with us. This requires scale of portfolio, it requires strong leadership and this is the only reason that it is a slow process. It takes time and this could be one of the reasons why you will see no fifth player, which has got market share. I think it is important that you note that consolidation has already taken place in the market place and that has got nothing to do with pricing, pricing was the factor that one cannot ignore, but it is more to do with how the retail markets behave in Australia, that is very different from the rest of the world.

Nitin Agarwal:

Okay and what is the reason why someone would say join your banner pharmacy alliance versus someone like a chemist warehouse, so if you are saying your driving pharmacy is to convert you what would be that unique proposition you have this year chemist warehouse would not be able to offer them?

Arun Kumar:

Like I said that there are different types of formats, so it like Walgreen or Rite Aid so it is very different type of formats that pharmacies operate in Australia, so chemist warehouse is one of the Costco model for example, it is large volumes focused on pricing that is the retailed pharmacy in Australia is very, very community led. It is very focused on customer management and patient care. We handle a lot of those activities for a pharmacy through a banner. We provide them a lot of services that support these kinds of activities whereas in chemist warehouse it will be more about pricing. So that is the different segment that we operate in and that is the segment that we continue to gain leaderships and this transaction just takes us to another level.

Nitin Agarwal:

Thank you.

Arun Kumar:

Thank you. I think can we just take two more questions please? I have a flight to catch.

Moderator: Sir, that was the last question. Would you like to have any closing remarks?

Arun Kumar: Thank you all. Like I said, this is very early days for us from this transaction. So please feel free to connect back with me or any of my colleagues with Strides and we will give you a lot more questions and answers and then will provide you with information as this deal progresses. Much appreciate your time. Thank you and have a great day.

Moderator: Thank you. Ladies and gentlemen, on behalf of Strides that concludes today's conference. Thank you for joining us. You may disconnect your lines. Thank you.
