

**Gedeon Richter
Announcement Conference Call
August 4, 2023**

Presenters

Gabor Orban, CEO

Istvan Hamecz, CFO

Erik Bogsch, Chairman

Katalin Ordog, Head of IR Department

Laszlo Kovacs, Chief Controller

Q&A Participants

James Vane-Tempest – Jefferies

Victoria Lambert – Berenberg

Alistair Campbell – World Bank of Canada

Operator

Greetings. Welcome to Richter's earnings report H1. At this time, all participants are in listen only mode. A question and answer session will follow the following presentation. If anyone should require operator assistance during the conference, please press star zero from your telephone keypad. Please note that this conference is being recorded. I will now turn the conference over to Gabor Orban.

Gabor, you may begin.

Gabor Orban

Thank you very much. Good morning, everyone. Thank you for joining this call. It's the 4th of August. And I understand that many people who follow Gedeon Richter are already on holiday and so there are fewer people joining this call this morning than usual. But I see some very familiar names and thank you for being a loyal listener and for your interest in the company. I will begin -- I have Chairman Erik Bogsch in the room; as well as Istvan Hamecz, our CFO; Laszlo Kovacs, Chief Controller; and Katalin Ordog, the Head of Investor Relations.

We have prepared a slide deck for you. 30 slides. I will not go through all of the slides. You will find them on our website. And as usual, feel free to reach out to Katalin for further details. I'll do as usual a small, short introduction, help you interpret the data that we published this morning, and then we'll move on to Q&A and we'll be ready for questions.

So without further ado, let me show you the summary slide, which I think is very instructive. This time, there's a lot to be read into these numbers. On the bottom part of the slide you see consolidated sales

grown by 14.5% while pharma sales grew in the first half compared to same period last year 23.7%. How is that possible? Well, we did a great job growing the business in the first half and we divested the Romanian operation. Also, in Q2, we closed the deal on Q2, which means that about half of the quarter the Romanian figures were missing from our revenues. This explains the difference between pharma sales and consolidated sales dynamics.

I would now like to call your attention to the center of the slide clean EBIT, which came in at HUF 111 billion, which I think is a number that is to everybody's satisfaction, certainly is to mine. It's a very strong first half earnings, up by 23% compared to same period last year.

You look to the left, we have a lower figure, and unfortunately this has to do with certain one off special items including the extraordinary tax that I will discuss it in a bit more detail on the next slides. If you move on to the top left square or field of this slide, you will find an even lower number. And this has to do with the impact of revaluations in the financial account; Istvan Hamecz will provide details on this shortly.

Before that, I would like to reflect briefly on some of the special items that affected the financials in the first half. There were four of them altogether, and three of those four are described on the slide in front of you. First of all, the impact of the windfall tax was recognized in the first half, almost entirely. We estimate the full year impact to be close to 29 billion, the first half would be affected 50% of that which is 14.5. Our accounts were -- how to say this -- 12.5 billion of the 14.5 time proportional windfall tax was recognized in our books in the first half now. That is a bigger number than what you saw in Q1. So you will see the EBIT going down affected more negatively by the windfall tax than it was affected in Q1 because remember, in Q1, we did not recognize the full quarter of the windfall tax that is due this year.

Secondly, we had a milestone income in the base period, which doesn't -- which is missing from the reported period. This milestone income came in on the back of the reinforced collaboration between AbbVie and our original research team that we announced last spring. Since then, that collaboration has only become tighter and more intense, but sadly, there have been no milestone payments up to this point resulting from that collaboration. I will not rule out those milestone payments for the future, but so far, in the first half this year, we haven't had any. So that is a detractor of 8 billion, also affecting other income, just like the windfall tax.

Third, G&A increased by an unusually large amount in the first half. And this has to do with three factors. One is the increase in G&A resulting from a reallocation of costs from sales and marketing to G&A, where it really belongs. We continue this process of reclassifying costs to reflect their true nature more closely.

The second reason G&A went up is we had to pay fees on the sale of the Romanian holds in retail operation. Instead of being netted out in the sale price or the proceeds, they show up among the financial gains, and the costs show up among other expenses.

And number three, we had consultant fees that were higher this quarter than previous quarters. So, those are three reasons that EBIT was negatively affected by special items in the first half of 2023. Now, there is a fourth set of special items, or item, which is which reflect -- which affected after tax profits negatively after tax earnings negatively and that has to do with the movement of exchange rates.

Istvan Hamecz will explain this in more detail.

Istvan Hamecz

Good morning. So, as you saw, we had 24.9 billion loss on the financial accounts or financial performance, but that hides the big movements within the alliance. So, if you look at page six, you can see that we had even larger than 24.9 billion in our realized losses plus 22 in realized losses. So, exchange rate movements alone accounted for close to 49 billion HUF loss which was partially offset by, A, the hedging activities, which is 6.3 billion, showed up in this line. That additional 4.4 -- around 4 billion HUF hedging gain showed up in the revenues because that's those -- sales revenues because those hedging activities were made under IFRS hedge accounting, so that increased our revenues and did not count here. So overall, hedging contributed more than 10 billion HUF in gains.

Unfortunately, we were not able to hedge our Russian ruble positions. We did, as you may remember, we did hedge those position last year, but given Russian capital control measures, we no longer can hedge Russia ruble positions and that's contributed very much to the short term negative realized and unrealized losses.

Going forward, we won't be able to hedge our Russian ruble position with financial instruments, so we initiated several measures. We start to give sconto to our buyers to pay earlier, which means that our Russian ruble positions are open for shorter period of time and a smaller amount. But we do believe that Russian ruble volatility will be around with us. Long term profitability impact can be dealt with strategic pricing in the Russian market.

On top of that, we had, as you can see, more than 4 billion HUF interest income and the gains, so this is not the proceeds, the gains from the Romanian subsidiary sales at the tune of 12 billion HUF showed up here. That's basically about the financial results.

Gabor Orban

Thank you, Hamecz. Moving on to the factors that were under our control. I'd like to make this general point that all of those things have gone remarkably well in the first half. All of the things that were outside our control, not so much. This is what we have discussed so far. The ones that were under our control look broadly like this.

On slide seven, the pharma revenues went up to 360 billion, which is close to a billion euros in this period. And there was a corresponding increase in the cost of goods produced. So the gross profit came in at 256. Ratios improved with the exception of G&A that was affected in the way I just discussed. And also our R&D spending, even though it's gone up, ratios improved. We landed with a clean EBIT of 111, which is a higher percentage of revenue close to 27 than it was in the previous year, 25. At the consolidated level, we have those two sets of factors that affected EBIT and net profit, which is down as a consequence to 68 billion.

Now, this slide is meant to explain to you that EBIT was barely affected by exchange rate movements in this period. We usually like to show it to you to explain how exchange rates distorted the figures. In this case, rather counterintuitively, they didn't, not very much. EBIT was affected by exchange rate effects only moderately and clean EBIT also went up by 18% even if we net out the impacts of the exchange rate.

Moving on to explain exchange rate movements in a bit more detail. You'll see that in the first half, we actually had positive effects coming from the US dollar, especially taking into account hedging. What detracted from performance was the ruble, whose value expressed in half terms, fell to almost 50% of its value in the previous year. This has to do with lower energy prices and generalized weaker macro situation in Russia, which is by the way, not reflected in anything else, but the exchange rate of the ruble.

So in any case, exchange rate impacts on these P&L items were not similarly large as they were in the case of the financial account, which was presented by our CFO. When it comes to operating costs, they grew according to plan. Combined G&A and sales and marketing grew on par with the improvement in the increase in gross profits. And R&D went up on the back of larger expenses connected with the AbbVie collaboration. Come back to that shortly.

I'll jump through this slide and come to this one, the breakdown by business units. There isn't much to see here at the moment compared to what we showed you in the first quarter. Generally speaking, the quarter-to-quarter change in this view of our performance is probably not worth investigating in very much detail. The important thing is that the combined impact on profitability of women's health and general medicines is close to 50 billion.

Here's a slide to show you our geographical -- our revenue dynamics in geographic terms. You'll see that in most markets, even netting out the exchange rate effect, the company managed to grow the business. And this is true across business units. So we have a broad based solid growth dynamic in the first half of the year.

Finally, I would like to give you a few insights on what we managed to achieve in our four business units. And then last, but not least, I'll discuss the upgrade in our guidance for the rest of the year. In women's health, I'd like to highlight three important developments -- maybe four important developments. The first one has to do with EVRA, where we completed the transition of the marketing authorization from the Janssen. This has been an important process for us. Very complicated and delicate matter that we have successfully managed in the past two and a half years. I'm very proud of the team for making that happen.

One consequence of the Evra takeover was the decline in the gross margin. You remember that initially, we recorded net economic benefits of net profits from Janssen, and now we have incorporated the entire amount of the EVRA sales and also the costs. So, in absolute terms, this improved our figures, but in relative terms, the gross margin contribution was negative. The process is now completed, so we don't have to expect similar effects in the future from EVRA.

Secondly, Drovelis and Ryego are our two products that were recently launched. We're very successful in launching these products and making them available to patients in Europe. However, in Ryego, in particular, the ramp up takes longer than previously expected. For that reason, compared to the previously expected 20 million sales figure in 2023, my expectation for Ryego this year is no more than 15 million. Also, one contributing factor to this is the delay in acquiring the endometriosis indication for this product. We expected to have it in early autumn. The most likely date is later in the year.

The third point I'd like to make in connection with women's health is that oral contraceptives were -- demand for oral contraceptives was strong in the first half of 2023 coming from all sides, basically, also Russia, but equally from other geographies. This has led to -- or this has contributed to stronger growth and the higher pressure on our operations in the first half of the year than we expected previously.

And the fourth point I'd like to make is still connected with women's health is that although large transactions have not been announced for the past two and a half years or so, in the meantime, we have accumulated relatively large number of smaller deals, license deals, or acquisition deals in Europe and Latin America that will contribute to a significant boost in earnings and revenue growth in the future. Taken one by one, they don't amount to much, but added up, they are quite significant M&A pipeline that we have covered in the past couple of months or rather quarters.

Finally -- not finally, next, I would like to discuss our Neuropsychiatry business in which there are three points that are worth emphasizing. The first one is that Vraylar is growing much stronger on the back of MDD than anybody had expected. AbbVie has just increased guidance for this year and so we have incorporated that guidance into our outlook.

Vraylar is up by close to 50%. Scripts are growing very strongly. It has, by now -- by 2022 actually become the 34th bestselling product in the United States if you consider only small molecule drugs. That is a big deal. We told you when Vraylar appeared on the top 200 list, we were already very proud of that. Now to be number 34, among small molecule drugs, of which there are tens of thousands out there in the world, that is really a big deal, and reflects and validates once again our world class capability in neuropsychiatry original research. What's also, to me, very important feedback is the way that the collaboration with AbbVie has intensified over the past couple of months in terms of new projects, new targets, new joint work streams in the field of neuropsychiatry.

And the third point I'd like to make is that cost money. And the first signs have been seen already in Q2, and we expect to see more of those in the second half of the year. Original research, R&D will cost more than it did, and the first invoices have arrived already. That's what you see in R&D numbers going up.

Biotechnology was very successful in the first half. It's supported in equal measure by Terrosa sales and revenues, royalties, and our CDMO activities, which despite the slowdown in the global biotech scene, small company development projects scene, we see strong demand for our CDMO services. The biotechnology business unit is also well on track in fulfilling the milestones connected with building the proprietary biosimilar pipeline.

Fourth, I'd like to give you a sense of what's going on in general medicines. Namely, we have lower, but very steady and very broad based growth in general medicines across markets, across product categories. I'd like to especially highlight Russia as being a strong source of orders, payments, and demand generally is healthy despite everything that's going on over there. Distributors have even increased stock in the last few months, well, in the past couple of months, which is a bit counterintuitive. Again, it just means that we have to be careful when we extrapolate those dynamics into the future indefinitely. We expect the Russian business to hold up well in the second half, but certainly not expect June or May to repeat on and on indefinitely into the future in terms of the sales numbers. So that's what I would like to tell you about business units.

And finally, my last comment would be about our expectations for the rest of the year. Initially we gave you a 10% increase as being the most probable outcome for this year across the P&L in constant currencies. Since then, we see that we have performed on par or even outperformed in the business in

general, and we have Vraylar growing stronger than expected. So we need to move that guidance upward.

However, we cannot repeat the performance of the first half in the second half just like that. And for the simple reason that the base effect in the first half was very, very important, and it will be minimal in the second half. So, we have to look for the most probable scenario somewhere between the strong dynamic seen in the first half and the initial guidance of 10%. My best estimate for the growth -- constant currency growth in revenues and earnings is somewhere between 15% and 20%. When it comes to products, we maintain our expectation for all products, except for the one that I have mentioned already, which is Ryego, down from 20 at 15, in a most likely scenario.

And with that, I would like to stop the presentation and move on to Q&A.

Operator

Thank you. We'll now be conducting the question and answer session. If you'd like to ask a question today, please press star one from your telephone keypad and a confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we pull for questions. Thank you.

Thank you. And the first question comes from James Vane-Tempest with Jefferies. Please proceed with your questions.

James Vane-Tempest

Hi, good morning. Thanks for taking my questions. To the first one, please, on your guidance. I think early this year you'd signaled the dollar number you'd included, which was perhaps lower than what AbbVie was looking for. Can you just confirm to us in terms of the number which, you know, you've kind of put into your guidance? That'd be very helpful.

And my second question is just regarding the windfall tax. I know there was some possibility of perhaps that not being in 2024. I was just sort of wondering where we are with all of that. And I guess what's your latest thoughts on the outlook?

And then the third question is just on inventories and sort of stocking levels. Just wondered if you can talk a little bit about any kind of potential supply constraints and how you're looking at working capital and cash flow management. Thank you.

Gabor Orban

Those are very good questions, James. Thank you. I'll take them one by one. On the dollar number, forgive me for not giving you a number. And the only reason is we would stick to our principle of not ever second guessing AbbVie. Suffice it to say that we are taking the same approach, just indexing the previous number by the amount with which AbbVie had increased their guidance. That's what we did. And the rest is all sorts of technical factors, which I think is the right way to approach this problem. So what we did was multiply the initial number by 2.7 over 2.5. And that's what you should do too. Thank you for understanding I would not like to go into more detail about how we see AbbVie's performance, except to say that it's tremendously professional, tremendously strong, and much more than satisfactory.

On your second question, windfall tax 2024. Well, two announcements have been made. The first one was that it will be cut in half compared to this year as opposed to get -- being phased out completely. That's bad news, clearly. The second announcement was that some tax breaks will be applicable to that tax in 2024, which have to do with R&D spending and cutbacks and all those things. We have a good chance of being able to reduce the tax to one quarter of its value this year, but the complicating factor is the global minimum tax, which is unfortunately, interfering with this tax obligation. And the exact nature of this interference is, for now, unknown. There's more legislation that needs to be put in place in order to have clarity on what kind of tax we'll be paying next year. But it's somewhere in that zone, in that range. We'll be paying more tax than we did in 2021, but we're paying less than we did in '22 or '23. That's the scoop at the moment.

Inventory, stocking, and supply. Well, this is a highly relevant question. And thank you for giving me the opportunity to address that. We have seen increased demand on our operations in the past almost 12 months now than in previous quarters, which is good news. The commercial organization is doing a good job. And despite all the macro volatility around us, our business is still steady and growing.

The operations teams are coping with the increased pressure. But I would lie if I told you that we have been able to serve all customers in full, on time. We've generated some lost business in this past couple of months, but we are working very hard on making that go away. And it has now declined for the past three or four months. That said, we have learned that higher inventory levels are required to make sure that we can serve all of our patients in a timely manner, which is I think, something that you may notice in our balance sheet, inventories are higher than previously.

All in all, we have redoubled our efforts to make our operations more efficient, reduce cycle times, to eliminate bottlenecks. This is partly the reason that we had to increase to some degree our consultancy firm expenses in Q2. So higher stock levels, higher efficiency, somewhat higher headcount. And we're doing everything to reduce the business that we lose to competitors, be able to serve patients, and to be able to unlock the full potential of our cost competitive location in Central Eastern Europe. That's

what we want to do to capture the full advantage of being located in low cost -- relatively low-cost countries. That's what we're doing in 2023. Much of the work of management is aimed at that.

James Vane-Tempest

Thank you. Just a couple quick follow ups if I may, and just to clarify what you mentioned on the windfall tax. When you say it's going to be sort of cut in half rather than phased out, does that just relate to 2024? Or are you essentially saying that it's not being phased out so we might see some windfall tax from 2025 onwards or is this still a specific 2024 point?

Gabor Orban

My statement was on 2024 because your initial question was about '24. That said, we don't expect any continuation of the extra profit tax, as it has come to be known beyond '24. However, the question is, unfortunately, much less relevant, very unfortunately, than it used to be because the global minimum tax will permanently increase the level of taxation.

James Vane-Tempest

Thank you. My second clarification, if I may. I know you don't want to give a specific number for Vraylar, but just so I understand what you meant in terms of the ratio. Is a fair way to think about it that if they guided to 2.2 last year, and they did two, and then they've increased the guidance to 2.7 last quarter and a little bit higher this, if we were to take the same ratio, you get to roughly two and a half billion. Is that a fair way to think about it?

Gabor Orban

It's probably the best I can give you. Yes.

James Vane-Tempest

Wonderful. Thanks for taking the follow ups.

Operator

Thank you. As a reminder, you may press star one to ask a question at this time.

Our next question is from the line of Victoria Lambert with Berenberg. Please proceed with your questions.

Victoria Lambert

Hi. Thanks for taking my questions. I have three. The first one is if you could just remind us of your collaboration with AbbVie and what that entails? So is this just for Vraylar 2.0? What stage of clinical trials are you in for these projects? And then my second question is, if you could just talk us through the

motivation of your most recent acquisition in the fertility space. Are you still seeing a lot of acquisition targets out there at the moment? And then my last is just on the progress of your biosimilar candidate in clinical trial phase, is there any update there? Thank you.

Gabor Orban

Thank you, Victoria. The collaboration with AbbVie is all about Vraylar 2.0 in a manner of speaking. It is clear to me now that Abbvie has a very, very important priority in growing the neuropsychiatry business. It wasn't always the case, but since their acquisition of Allergan, it has emerged -- it has been elevated to a much more important role in their strategy than previously. So even though Vraylar is relatively less significant for them than it is for us, certainly one of the most important things for them to deal with the LOE in 2020 -- in 2029, 2030, which means that they have stepped up their efforts to bolster the psychiatry pipeline. And it turns out that we are one if not the main contributor to that effort. That's what I mean by Vraylar 2.0. The next drug candidate in that story after 2029.

Now, it doesn't mean we have we are working on one molecule together; it doesn't mean we're working on one target together, it's a much broader collaboration whose aim is to deal with LOE. What stage is it at? Well, some of them are in the discovery phase, others are in the preclinical phase. And there's one which you may think of as Vraylar 2.0, if you wish, in phase one. Now phase one is shown in clinicaltrials.gov. So you will find it there. But it's also indicated on the AbbVie website. This is as much as I can tell you about the collaboration. I hope this helps.

The second thing is the recent acquisition in women's health. And thank you for the opportunity to address that because it reflects a slight shift in the way we approach this space. Previously, our efforts were aimed at women's health defined as everything that the gynecologist would prescribe or recommend. Now we are a bit more open -- much more open to understanding patient's needs and focusing on the customer herself. Which means that everything that's connected with the quality of life of the patient or the healthy individual, everything that's connected to the patient's journey as such, would be of interest for us, which is why we are now looking beyond the pill. We're looking at medical devices, for example, that allow women to experience a less unpleasant intervention at the doctor -- at the doctor's office.

In this case, it's it has to do with a diagnostic procedure, which used to involve x-rays, which used to involve contrast material, and a lot more pain and time and discomfort than this novel procedure will. So in our effort to improve women's quality of life, we believe that one way to do that is to acquire this company and broaden our collaboration with gynecologists. Mr. Bogsch would like to add further details to this.

Erik Bogsch

I would like to add that one is obviously the pipeline. The other is to the geographic spread that there is earlier we started only from the regions Central Eastern Europe, which we managed to expand to all the EU countries and Europe as such. We feel that is a very good potential in that in America in women's healthcare as you can see from the numbers, the sales are growing nicely. And adding step by step products in the market in Latin America means that we feel that this year we should be very close to the 60 million euros sales. And we are trying to add products in each of the key countries of Latin America. And obviously, we see it as an opportunity we would like to expand. So one is the pipeline that has the more flexible as we were earlier, as Gabor mentioned, the other is try to extend or strengthen our position in different markets.

Gabor Orban

Thank you. Finally on the biosimilar pipeline, I'm afraid there isn't that much to report here. We are progressing according to plan, and we have still not given up our objective to get there in first wave in 2025 and '26 with denosumab and tocilizumab. The good news for tocilizumab is the trial is actually going faster than expected. It turns out that a local company has a better chance of accelerating a local trial than a foreign one. At least this has been our experience in the past few years.

Anyway, for that reason, we are optimistic on tocilizumab. Also remember this is a project whose clinical phase takes place in Japan, but the registration, the data will be used for registration also in the European Union, so it's the Japanese trial -- for Japanese registration with a local partner, and that will be commercialized by Gedeon Richter. I hope that this answer helps to understand.

Victoria Lambert

It does. Thanks so much. Thanks for the detail.

Operator

Our next question comes from the line of Alistair Campbell with World Bank of Canada. Please proceed with your questions.

Alistair Campbell

Thanks very much. Yeah, sorry, I broke off the call so apologies if this has been asked and I missed it. But it's just a couple of ones, please. On the one off, obviously, (inaudible) one offs in the H1 rolling into H2 apart from the rest of the windfall tax, are there any other one offs you're expecting in second half we should be aware of? And then on -- I was hoping maybe give me insights into R&D costs and the degree to which they may go up in the second half. And then finally, just the women's healthcare, I think you called out Bemfola which has benefited from a temporary stock out from a competitor products. Is that still the case? And when that resolves, do you expect Bemfola to retreat or do you think you've sort of gained share perimeter that'd be useful? Thank you.

Gabor Orban

Yes, thank you, Alistair. Actually, these are questions that have not been addressed yet. So thank you for raising them. On the one offs, we don't expect additional one offs in the second half of the year, although the windfall tax will of course have to be factored in. The rest is not to be expected.

On R&D, yes, R&D spending is lower than 50% of the annual plan in the first half. So expect more R&D to show up in the second half, not least because of what I just said about AbbVie sending the invoices etc. Temporary stock out, thank you for bringing that up. In fact, this is one of the reasons why the operations here and in some other sites have seen stronger pressures, demand than in previous quarters. In fact, it seems to be a generalized phenomenon of the large incumbent, as we have discussed previously, in the women's health market to be much less dedicated to the women's health space than previously. And this shows in -- I don't think I'm disclosing anything that is not out there in the public domain. It shows in the number of people leaving the company, it shows the number of divestment opportunities that emerge from that side, it shows also in the activities of the field force and the promotional intensity of the promotional campaigns, also in the availability of products. So in that regard, I think it's part of the redistribution of market shares, I believe -- please allow me to be on the optimistic side here.

Erik Bogsch

As far as the Bemfola is concerned, yes, the opportunities additional because of the lack of supply of the other company.

Gabor Orban

Different product, different story, but an equally important one. That is a much more temporary phenomenon because supply has been re -- okay -- lenzetto, for example, another example of a temporary stock out in the UK, that situation has been resolved and it has turned out to be a temporary situation.

Alistair Campbell

Super. Very helpful. Thank you.

Operator

Thank you. There are no additional questions at this time. I'll turn the floor back to management for any closing remarks.

Gabor Orban

Well, thank you very much for joining this call in the holiday period. Thank you for your continued interest in the company and we look forward to further discussions, maybe not in August, but thereafter, please feel free to reach out anytime. I wish you a pleasant rest of the holiday season or period. Goodbye.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.