

H 1 2019 Results Conference Call

Mihaela Obreja

- Good morning again! Thank you for participating in this conference call. My name is Mihaela Obreja and I am a Management Financial Control & Risk Analysis Manager. We meet today to present the H1 2019 financial results that have been published in accordance with the capital market legislation. Today's meeting is attended by Ioan Nani – General Director and President of the Management Board, Paula Coman – Financial Director, Cerasela Moraru – Capital Market Officer. Paula Coman, our Financial Director will present the H1 2019 comprehensive income statement and financial indicators.

Paula Coman

- Good morning! Thank you for participating in this first conference call. It's a start ... I hope it's a good start for us, it's the first time we organize this kind of audio conference. I hope you hear us.

Ioan Nani

- Please, confirm that you hear us to conduct a dialogue. Hello?

Andrei Șandor

- We can hear you well.

Ioan Nani

- Ok, I'm glad! I am Ioan Nani. Good morning! Hello?

Andrei Șandor

- Good morning! My name is Andrei Șandor and represent BT Capital Partners.

Ioan Nani

- I'm glad, Mr. Șandor. Good morning! And Mr. Andrei Nedelcu. At the other end of the telephone line, we have two persons with the name of Andrei. I am Ioan, you can call me Ioan, or Ioan Nani, as you wish. Do you want to start ... do you want a certain format of our discussions or do we just start reading our management report as during the meetings of the Management Board? Maybe you can guide us, let's say, in our discussions toward the topics of interest for you, you want to know certain things or you want to consolidate an impression, an image ... Please, proceed!

Andrei Șandor

- I would like to ask you if you want to present us an overview and afterwards I would have three questions to ask you.

Ioan Nani

- An overview. Well, Antibiotice Iași is in a broad process of reorganizing its business concepts, we currently have a special focus on developing internationally our business, we have been elaborating an originalization concept targeted to identify and originalize the ATB territories in which we want to expand our presence, the territories somehow comparable to the Romanian market, using about the same mechanisms, with the same products, same programs for the hospital segment and same programs for the retail segment. Hence the need to find a common expression in these territories and not necessarily in line with the Romanian market. The ATB territories concept comprises the areas where Antibiotice opened its representative offices: Hanoi (Vietnam), Kiev (Ukraine), Novisad (Croatia), Chișinău (Bessarabia). From here, experimenting with this concept, we will see to what extent we can expand the ATB territories in the future. We have also been working hard and trying to define a comprehensive business development program, a team coordinated by a manager with sufficient experience in our company to develop regional projects in connection with certain product from our portfolio, to develop projects for new markets in days to come. Internally, Antibiotice has been consolidating a working procedure with the domestic distributors that, we must say, they have strengthened their presence also in the retail market through their large pharmacy circuits. Here is a certain problem, let's say, in achieving a sales concept for harmonizing our business interest with their interest. So, achieving a compliance between our business interest and distributors' interest is one of our great concerns, nowadays. The third major concern is the need for a reset of the human resources concept adapted to the perspective of the next decade in which, I would say, and we strongly believe this, if we do not have a support in the payroll and motivational systems, we risk in the future to remain without competent personnel in creative activities such as research, innovation, business development, all of these areas which support the business foundation. If you wish, we can build our discussions around these concepts. Of course, by the end of the year we intend to carry out our missions. You know our missions, they can be found on our website, both in the annual and multi-annual business plan for the next two years. Currently, we have been elaborating a business plan, kind of a strategic planning, a concept of strategic planning of our development in the next decade. Maybe it is too much to say, but we have already focusing from conceptual viewpoint on the next decade which starts in 2020. Please, proceed!

Andrei Șandor

- Thank you very much! Next question ... About the clawback tax.

Ioan Nani

- Yes, there is. We are not happy at all about this situation.

Andrei Șandor

- Compared to the end of 2018. I would like to know how this tax is calculated more precisely and why it varies from quarter to quarter. What impact do you expect to have on your company?

Ioan Nani

- Yes How is this tax calculated? It would be great if we knew. We don't know how it is calculated. We know that it is a formula, a concept explained in a normative act. How things happen in reality, let's say on a monthly basis, is quite complicated because we can't identify if the National Health Insurance House has a regulated mechanism to structurally identify the sales structure for all the players in the market, especially for the products included on subsidized health programs. Unfortunately, it is totally unpredictable, if you give a simple search on my statements from the last two years, you will see that, I constantly and effectively persist in my statements that this tax is unpredictable, so there is no transparent information on the website of the Health Insurance House, to find out if all players in the market pay the same tax under the same conditions. What we expect, what our forecasts are unfortunately not the best ones and I can not be optimistic because, so far, nothing good has happened in terms of legislative concepts in order to allow me to tell you now that this tax will decrease. Sadly, now when we talk, we get to pay around 25% of the value of our sales in the market which, for us, means a lot, throughout a year the tax amounts to 32 million LEI and can easily reach this year somewhere to 35 – 36 million LEI. What does it mean? It means that, in fact, our company loses half of its profitability. Now when we talk, the company should make a gross profit before paying taxes somewhere at 70 million LEI annually. Half of this profit is charged by the state as clawback tax. Where does this profitability come from? Especially from the foreign markets, where we manage to negotiate more efficiently than in the Romanian market which is a market oversaturated by legislative changes. The Ministry of Health is highly involved in setting the prices. It seems to be a difficult period in which the authorities want to complete the lack of funds to the national health budget by putting very tight selling prices and special conditions on the players who participate in the market. However, our presence in certain foreign markets creates the premise of making profitable sales, redistributing this profit for covering the gap in domestic market and for paying the clawback tax. Please!

Andrei Șandor

- Thank you very much! And given that you focus on the external market, what are the business opportunities you identify? More precisely, in terms of export or distribution. And depending on their related territories.

Ioan Nani

- Thank you for your question! Of course, Antibiotice has to invest in its traditional foreign markets. When I first discuss business in an area, no matter where in this world, the main questions or projects are those related to the hospital market, injectable products, betalactam antibiotics, some of them with penicillin and our product portfolio evolved nowadays towards carbapenems and cephalosporins. So, let's say that the first business projects that I can discuss anywhere are those related to the hospital market and here we talk about participating in tenders. We have been developing these projects especially in our ATB territories, as I have already said. Namely, our main market today is the Vietnamese market and we have been preparing to enter countries, territories adjacent to Vietnam. I would ... well, it is not a secret now that we are ready for Philippines and the neighboring territories. Today, when we discuss, I

estimate for this year an increased total export in Vietnam from 6 million USD to 10 million USD by the end of the year, especially in the hospital market. Metaphorically speaking, we wait for the first flowers to burgeon out, our first sales in the Vietnamese retail market. Vietnam does not have a developed retail market, the pharmacies are included in the premises of hospitals and they practically behave exactly like the hospital market participating periodically in tenders. Another market carefully monitored by us is the North America with all its peculiarities. We can not develop more than three or four products, it is quite difficult for us, it is a highly competitive market, far away from us. We say that distances are no longer an impediment but certainly there are another impediments: higher prices, an extremely strong and slightly more sophisticated competitors, through the systems they put into practice. Northern Europe is a favorite market for us in the future, countries with developed health systems, with a strong hospital market. Ukraine is a strong potential market similar to the Romanian pharmaceutical market in the years '94,'95,'98, with the same types of regulations and mechanisms we had some twenty years ago. However, taking into account the speed with which things change, 10, 20 year stages may be skipped in a year or two, considering that now there is a tendency towards legislative reforms. Implementation of these reforms and creation of transparent mechanisms will be lasting but for us it will be a favorite market in perspective. So far, we have talked about injectables, sterile products, hospital market, the areas in which Antibiotice has a rich tradition. Of course, we have been developing a product program for the retail market, we have been working on a concept called women's health and quality life and we try to export it in all the ATB territories in an organized manner and we will synergistically work for determining the correct sales mechanism for a future high profitability. Nystatin remains by far the best experience for us. We are, as you know, the company that covers 60-70% of the world consumption, we know that we are the largest manufacturer and a highly internationalized company on this product. Practically, in each country where there is a consumer or a manufacturer of pharmaceuticals, our product is present. Now we have been working on a plan to reshape the concept of specialization of Nystatin in the international market. There are three types of Nystatin. We manufacture a micronized Nystatin specific to the cosmetic and pharmaceutical industry, an assortment that has a double price compared to the standard Nystatin which is only for the pharmaceutical companies but which is sold with preference in non-EU countries. North America is the main consumer of this product as well as the European Community. In China we sell about 30 % from all the quantity of Nystatin but I make no secret of the fact that we reorient towards other territories – if you hear me, please confirm, because some interferences occurred, we reorient our Nystatin market because it is difficult to negotiate with China, although we cover more than 50% from their internal consumption and I refer here in particular to the oral medication and for certain gastrointestinal disorders. To sum up, the Chinese market does not comply with our business concept although we cover more than 50 % from their market. We tend to translate this production from China towards other territories, especially in the United States and Western Europe. As regards the export, we have also been developing the human resource structure, we are in an ample process of reorganizing, recruiting and hiring new staff. Of course, it is a large process, we cannot do it all at once, but Antibiotice is an entity in continuous evolution, in a very sophisticated market. Please, proceed!

Andrei Șandor

- Thank you very much for your response! Considering all the previously mentioned I have the following question: What are the main risks identified in these markets?

Ioan Nani

- Well, there are a lot of risks that are in front of a small company, we are not a multinational and we are not a large company, we are not a ship with a huge leap, we are a small company, we have to be careful at all the important fluctuations in the market, at all the legislative changes, unfortunately our greatest risk is represented by these legislative changes and by the very in-depth regulations established by the bodies that regulate the pharmaceutical market. For example, the last change at the end of last year was the serialization of products. Of course, in this way we ensure ourselves that the processes are very rigorously monitored, blocking the possibility of counterfeiting, but for a producer this means very big investments, it means reduced production times and increased costs. It is also true that all of these are challenges for producers. Who manages to solve remains, who fails, disappears. Just like that. We did not foresee this risk because we could not conceive that an authority would come over with such a decision overnight. So, there are risks that you can foresee: financing risks, risks of exposure in difficult markets, with low prices, less fair competition risks in unregulated markets, as there are a lot of these markets, we do not only operate in Romania or Europe. Of course, there are many risks, we have a well-managed risk management, we do periodic risk analyzes, we meet, we make decisions on this topic, we make plans, we follow a system we solve quite professionally these things. Again, the biggest risk today remains the excessive regulation, both the tax and business-related legislation but especially the excessive regulation imposed by the bodies that regulate the activities in the pharmaceutical markets. Regular business risks are related to the exposure in difficult markets but if you manage the risks, you succeed and there are also risks related to the fast reaction of the competition in our traditional market segments. If you do not carefully monitor them, you will have for sure less pleasant surprises in the next period. Please proceed!

Andrei Șandor

- Thank you a lot! That would be one last question. If you can tell me more in detail about the investment in the Ointment & Suppository Plant which is mentioned in your report. How do you think it will be at the end of the year?

Ioan Nani

- At the end of this year our investment will be, for the most part, performed, I could not say that there will be a commissioning this year. This commissioning will take place in mid-2020. For certain, we will start the production in this new plant starting with September-October 2020. At the time of our discussions we have already taken the main decisions, we concluded the main contracts for supplying the necessary equipment and we clarified all the construction stages. We have been working hard to create the production site and identify the technical solutions in the perspective of the following works. Why the need for this investment? We talked earlier about tradition, for example our tradition in producing sterile injectable powders. Since the 1960-

1962, Antibiotice have had as a main activity, the production of these topical products. In the past we used to call them galenic products, preparations made by pharmacists in pharmaceutical laboratories. This tradition of over 60 years ... and almost 60 years in the dermatological market, with a focus on dermato-cosmetics has forced us to increase the capacity from 270 tons to 500 tons, in various dosage forms. This production capacity should allow the company sufficient flexibility in the years ahead to develop a carefully planned market in foreign territories. In parallel, Antibiotice has been conducting clinical studies, because these trials prove the therapeutic efficacy of our products. For the years to come, no product from this therapeutic class will be registered and sold in a territory unless it has a therapeutic efficacy study. This study must prove that each product is effective in terms of therapeutic administration. From my viewpoint, Nystatin, sterile injectables and topicals (ointments, creams, gels), pessaries and suppositories will be the main strengths of this company in a foreseeable period of 10-20 years.

Paula Coman

- Please, proceed!

Andrei Şandor

- Thank you very much for everything! For me, these are the questions.

Ioan Nani

- If I understand well, do you represent...

Andrei Şandor

- BD Kapital Partners. Good. Your work implies a lot of English. I can feel that your work involves a significant international experience. Ok, sir! What about your colleague? Hello, Andrei! Do we hear each other?
- Yes, we can hear you.
- There was a moment. We have also had an Andrei connected with us. He declares himself satisfied with our discussion. He has no more questions. Do you have some other questions, Andrei?
- For my part, it's okay. Thank you very much!
- Goodbye! A good day!
- And we thank you! All the best!
- Same to you. A good day!