

Building a leading fully integrated CDMO player:

Siegfried with robust sales growth and higher margins in 2019

Media and analyst conference on full year 2019

Zurich – 04 March 2020

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# Agenda

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## **Executive summary: Status & outlook**

Looking back: 2019 in facts & figures

Looking ahead: 2020 and beyond

- > The playing field
- > Size matters
- > Outlook

Q&A

## Successful as a global team: Higher sales and Core EBITDA in 2019 – still positive outlook for 2020 despite uncertain macro environment

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- > Robust growth of net sales to CHF 833.5m (+4.9% and +6.9% in LC)
  - > Increased Core EBITDA of CHF 140.7m (+11.3%) at a margin of 16.9%; core net profit CHF 65.7m
  - > BoD proposal to the AGM in April 2020: Cash distribution of CHF 2.80 per share to shareholders
- 
- > Investments in technology and capacity: Multi-purpose train in Zofingen, micronization facility in Evionnaz, R&D labs in Hameln to strengthen biologics DP business
  - > Siegfried Academy: Substantial investments in skills of employees of all levels
  - > Successful US-FDA inspections in Minden, Irvine, Evionnaz and Zofingen – also Nantong successfully audited by the US-FDA in August 2019 with “no action indicated”; import permit for the US
  - > New revolving credit facility signed: Further expansion of financial headroom at better terms
- 
- > Outlook 2020: Despite uncertain macro environment (COVID-19), low single-digit percentage growth of sales (at local currencies) and modest improvement of the Core EBITDA margin
  - > Mid-term outlook confirmed: Profitable organic growth in line with market – with the ambition to outgrow including selective and value accretive M&A

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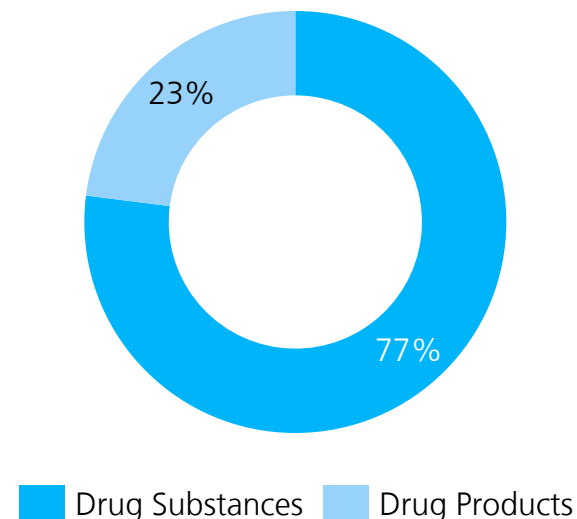
Q&A

# Robust growth in net sales

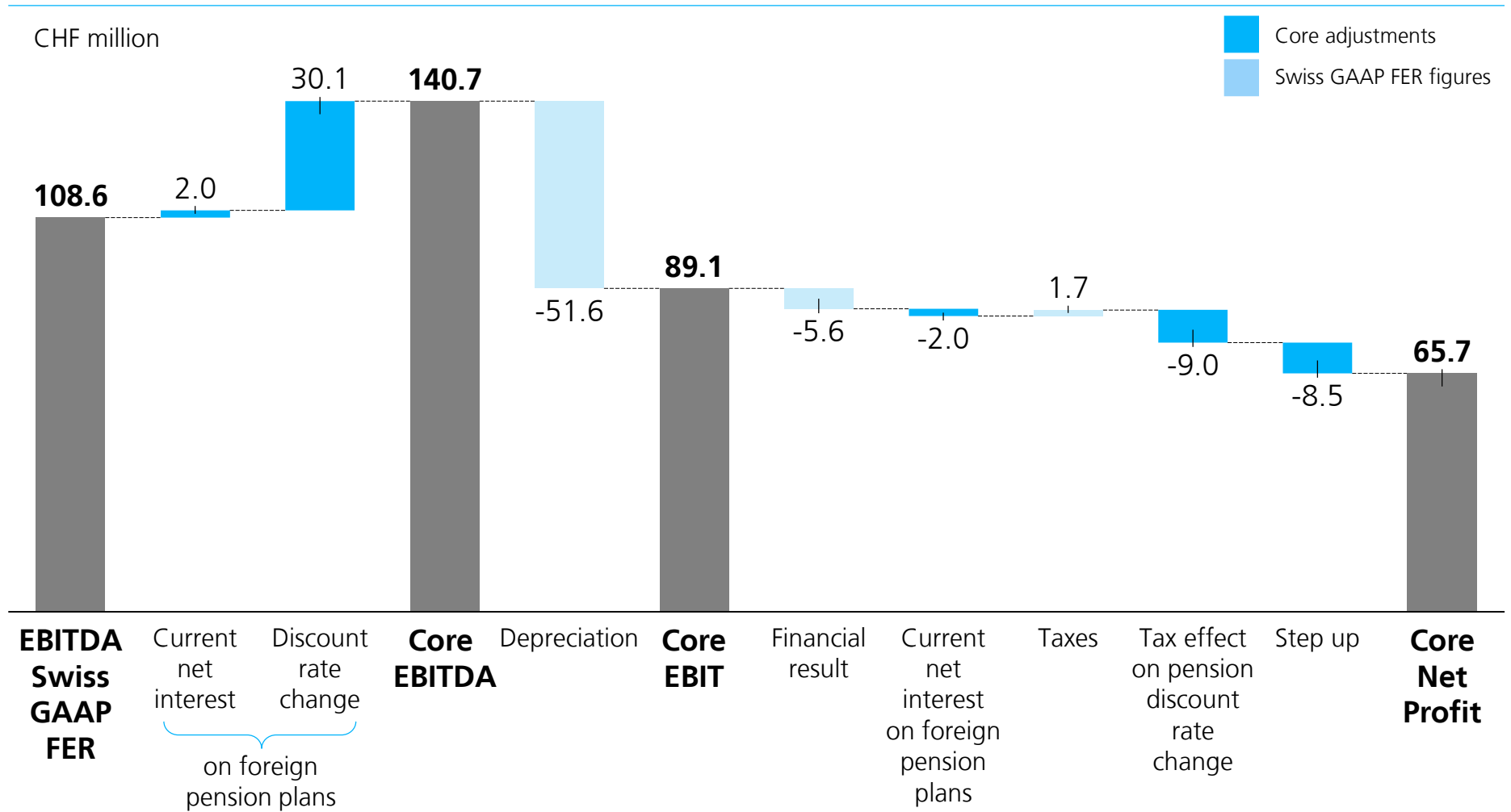
CHF million	2019	2018	Change
Drug Substances	638.6	595.5	+7.2% (+9.0 in LC)
Drug Products	194.9	198.8	-2.0% (+0.5% in LC)
Total	833.5	794.3	+4.9% (+6.9% in LC)

- > Net sales grew by +6.9% in local currencies (LC)
- > Drug Substances accounted for approx. 77% of net sales, Drug Products for approx. 23%
- > Drug Substances grew by +9.0% in LC year-on-year
- > Drug Products recorded a slight increase of +0.5% in LC year-on-year

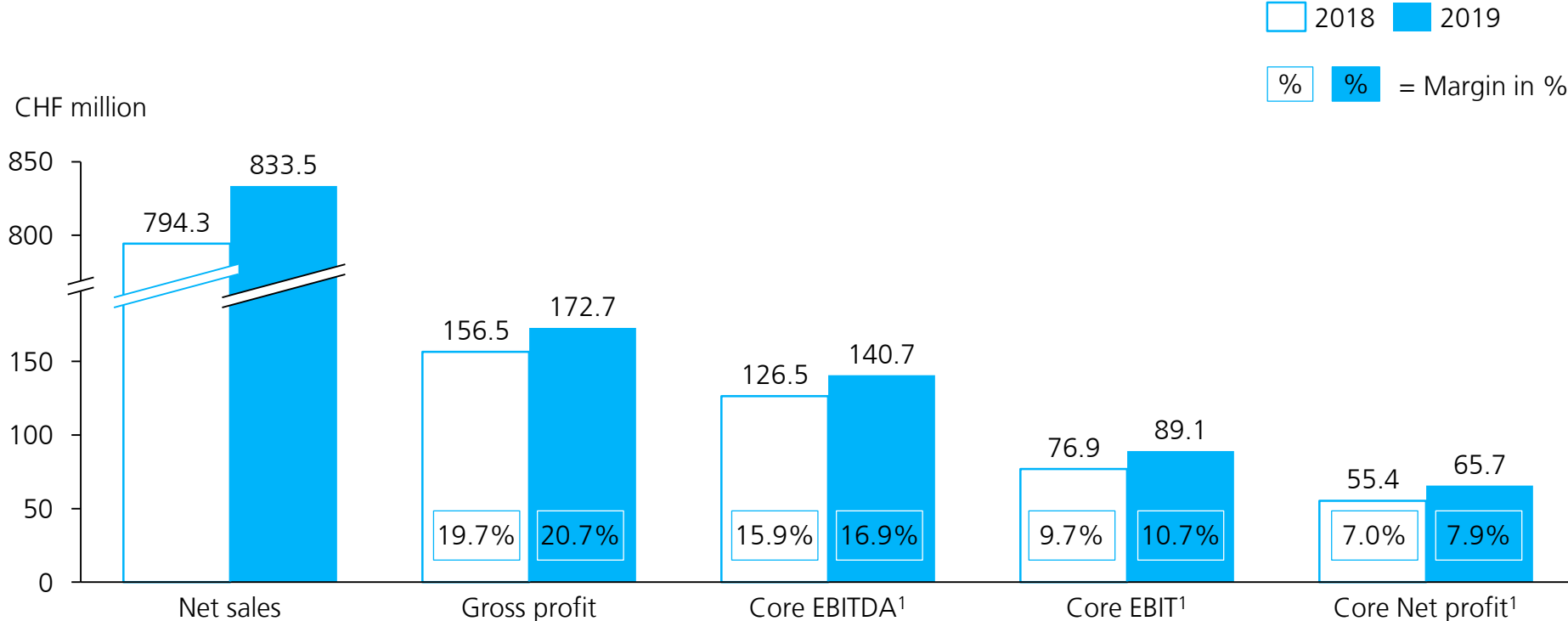
Net sales split 2019



# Swiss GAAP FER to core results: Reconciliation for 2019



# Another year of profitable growth: Increased sales and profits, on all levels



Increase of Core EBITDA margin to 16.9%, from 15.9% in 2018

1. Numbers for 2018 are restated



# Robust profitable growth in 2019: Increased sales, core EBITDA, core EBIT and core net profit

CHF million	2019	2018
<b>Core results</b>		
Net sales	833.5	794.3
Cost of goods sold	-660.8	-637.8
<b>Gross profit</b>	<b>172.7</b>	<b>156.5</b>
Marketing and sales costs	-16.6	-16.1
Research and development costs	-33.3	-27.5
Core administration and general overhead costs	-38.1	-42.8
Other operating income	4.5	6.7
<b>Core EBIT</b>	<b>89.1</b>	<b>76.9</b>
Core financial expenses	-5.2	-5.7
Exchange rate differences	-2.5	-2.5
<b>Core profit before income taxes</b>	<b>81.5</b>	<b>68.7</b>
Core income taxes	-15.8	-13.3
<b>Core net profit</b>	<b>65.7</b>	<b>55.4</b>
Depreciation	51.6	49.6
<b>Core EBITDA</b>	<b>140.7</b>	<b>126.5</b>

R&D cost higher due to continued investments

Each number is rounded individually

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# Continued high operating cash flow of CHF 135.6m before changes in NWC

CHF million	2019	2018
Operating cash flow before changes in NWC	135.6	134.9
Change in NWC	-70.0	-28.9
Operating cash flow	65.6	106.0
Purchase of PPE and intangibles (net)	-61.9	-60.0
Other investing activities, acquisitions	-	-1.8
Cash flow from investing activities	-61.9	-61.8
Free cash flow	3.8	45.9
Cash flow from financing activities	-17.8	-37.9
Net change in cash	-14.0	6.2

Stable operating cash flow generation, however, affected by short-term increase of inventory of semi-finished goods (“work in progress”)

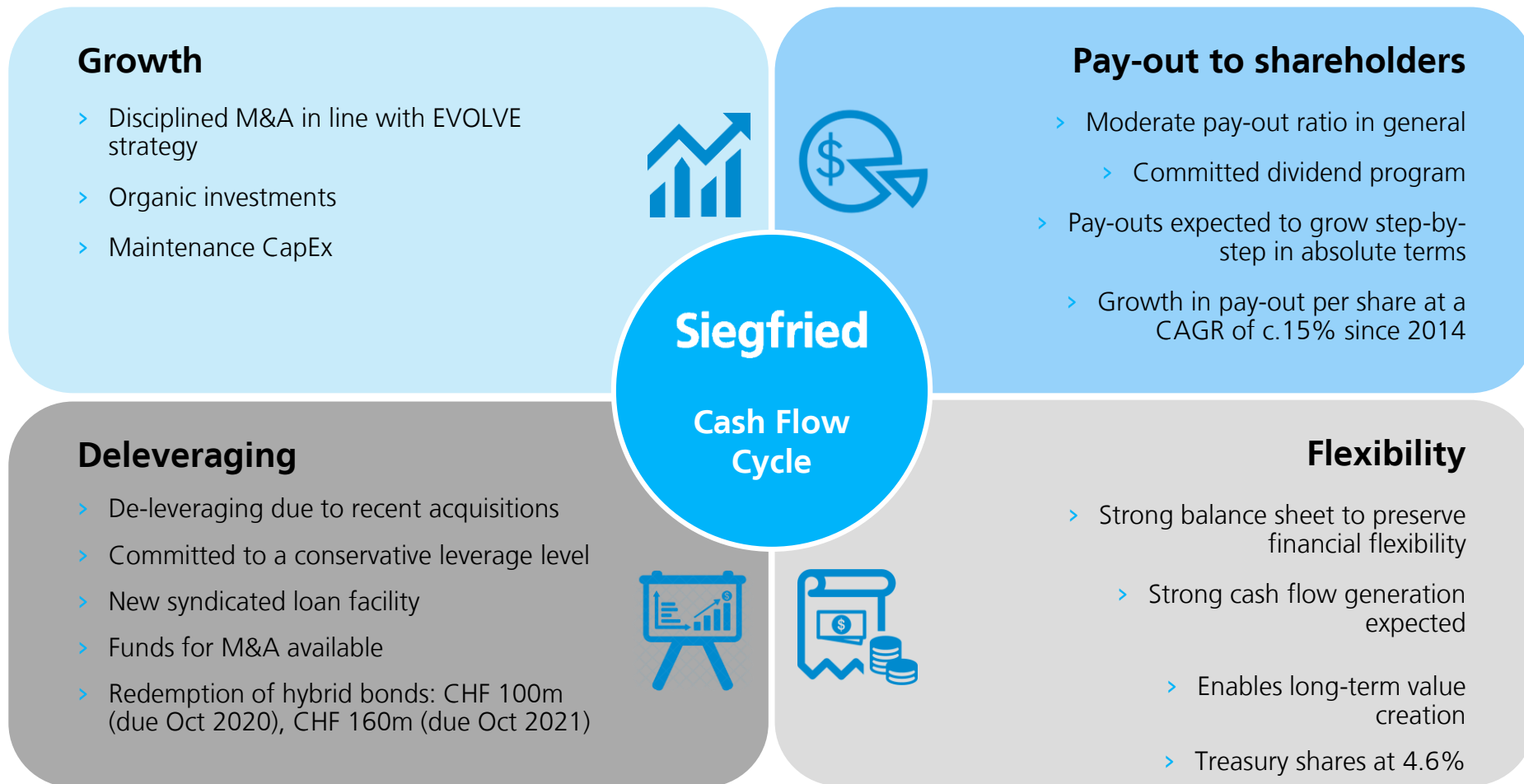
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Siegfried

# Siegfried's capital allocation follows a clear set of priorities to provide funds for strategy execution



# Pay-out proposal to the AGM on 17 April 2020: Increase by 20 cent to CHF 2.80 per share

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- › Siegfried's Board of Directors proposes to the Annual General Meeting in April 2020:
  - » Reduction of the par value from CHF 27.00 per share by CHF 2.80 to CHF 24.20 per share
  - » Distribution of the amount of the par value reduction of CHF 2.80 per share to shareholders (instead of a dividend)

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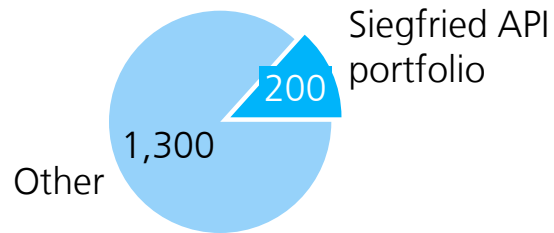
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- > The playing field
- > Size matters
- > Outlook

Q&A

# Siegfried does matter to customers, patients and society – every day, everywhere



- > Approx. 1.500 APIs are contained in pharma products approved by the US-FDA
- > Thereof Siegfried supplies approx. 200 APIs – acting as a significant source ensuring patients' therapy continuity
- > Based on our current portfolio, Siegfried serves approx. 40 million patients annually
- > This is equal to five times the Suisse population or twice the population of New York City
- > Significant share of the annual global caffeine supply
- > Many caffeinated beverages we consume contain a Siegfried product
- > Up to 1bn people get in contact with Siegfried products each year

# A global team working for a joint goal: A strong mission supported by a shared vision and a strong set of values as basis for our success

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## Mission

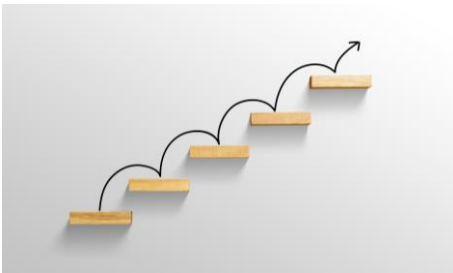
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“With mastery of science and technology, we take the precious innovations of our pharmaceutical customers to industrial scale and manufacture safe drugs for patients worldwide”

## Vision

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“Siegfried is the most trusted partner of the pharmaceutical industry and the global leader in the CDMO space – because we are the strongest team running the most competitive network”

## Values

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Excellence — Passion — Integrity — Quality — Sustainability

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# CDMO market: Key highlights



## CDMO market

1

### Low cyclicality

- > Non-discretionary nature of pharmaceutical industry
- > Stable in changing economic environments

*Spending on pharma remains stable at c.1.4% of global GDP over 20 years*

2

### Low volatility

- > Long investment cycles and lifetime of pharmaceutical products
- > Long term contracts and sticky customers due to pharma companies desire to reduce complexity by establishing strategic partnerships

*c.20-30 years typical drug lifetime*

3

### Resilient growth

- > Sustainable end market drivers
- > Strong outsourcing trends including pharma companies moving towards R&D focused, asset-light business models

*CDMO market expected to grow at a CAGR of c.6% between 2014 - 2024*

4

### Structural profitability

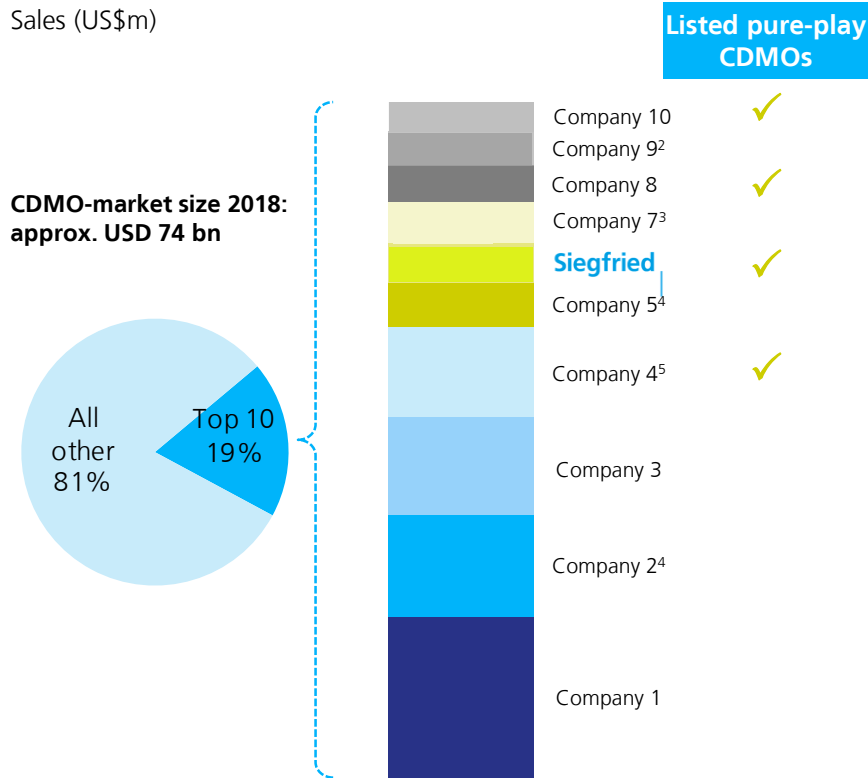
- > Strong pipeline for complex, innovative drugs and demand for high margin advanced drug delivery solutions (e.g. sterile and aseptic filling)

*High structural profitability across CDMO segments between 15 - 30%*

The CDMO market offers attractive growth dynamics

# Siegfried today is among the few leading CDMO that are recognised as strategic partners to the pharmaceutical industry

## Market share of top players<sup>1</sup>



## Key facts

- > Despite a considerable number of transactions, the **CDMO market remains very fragmented**
  - » The top 10 players generate approx. 20% of the total CDMO market
  - » There is a long list of medium-sized and smaller companies offering CDMO services
  - » Significant room for consolidation left, especially in the small molecule segment of the CDMO market
  - » Siegfried is amongst the top 10 CDMO players
- > There is **strong bias especially by 'Big Pharma' for large CDMOs**
  - » Big Pharma prefers few, long-term, reliable relationships and favor large CDMOs over smaller ones

Siegfried is well positioned to further advance within the top tier CDMO by organic growth as well as consolidation of smaller players through M&A

Source: Company information, press research

1. Based on 2018 sales (if not stated otherwise)

2. Estimate based on sales 2017A increased by average CDMO market growth rate (6.1%)

3. Estimate based on management projections (as of Jul-2017)

4. Estimate based on sales 2017A increased by average 2-year historical growth rate

5. Sales 2017A shown due to change in reporting in 2018A

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- > **Size matters**
- > The investment case

Q&A

# Siegfried's strategy: The pharmaceutical industry is changing, leading to a convergence of favourable trends for CDMOs



## Focus on R&D and marketing & distribution

- > Focus of investments on key value drivers: Innovation, marketing / distribution
- > Increasingly less focus on in-house process development and production as pharma companies are changing their business model towards more asset light manufacturing set-up



## Increased cost awareness

- > Pharma companies are reducing the complexity of their supply chains driven by an increasing cost pressure within the industry
- > Outsourcing can serve as "insurance" against R&D failure and fixed asset write-offs



## Break-through innovations

- > Innovations often come from small pharma which do not have in-house process development or manufacturing capabilities



## Increasing complexity

- > New pharmaceutical entities and medicinal therapies benefit from integrated offering of drug substances and drug products to reduce "time-to-market"



## Proactive life cycle management

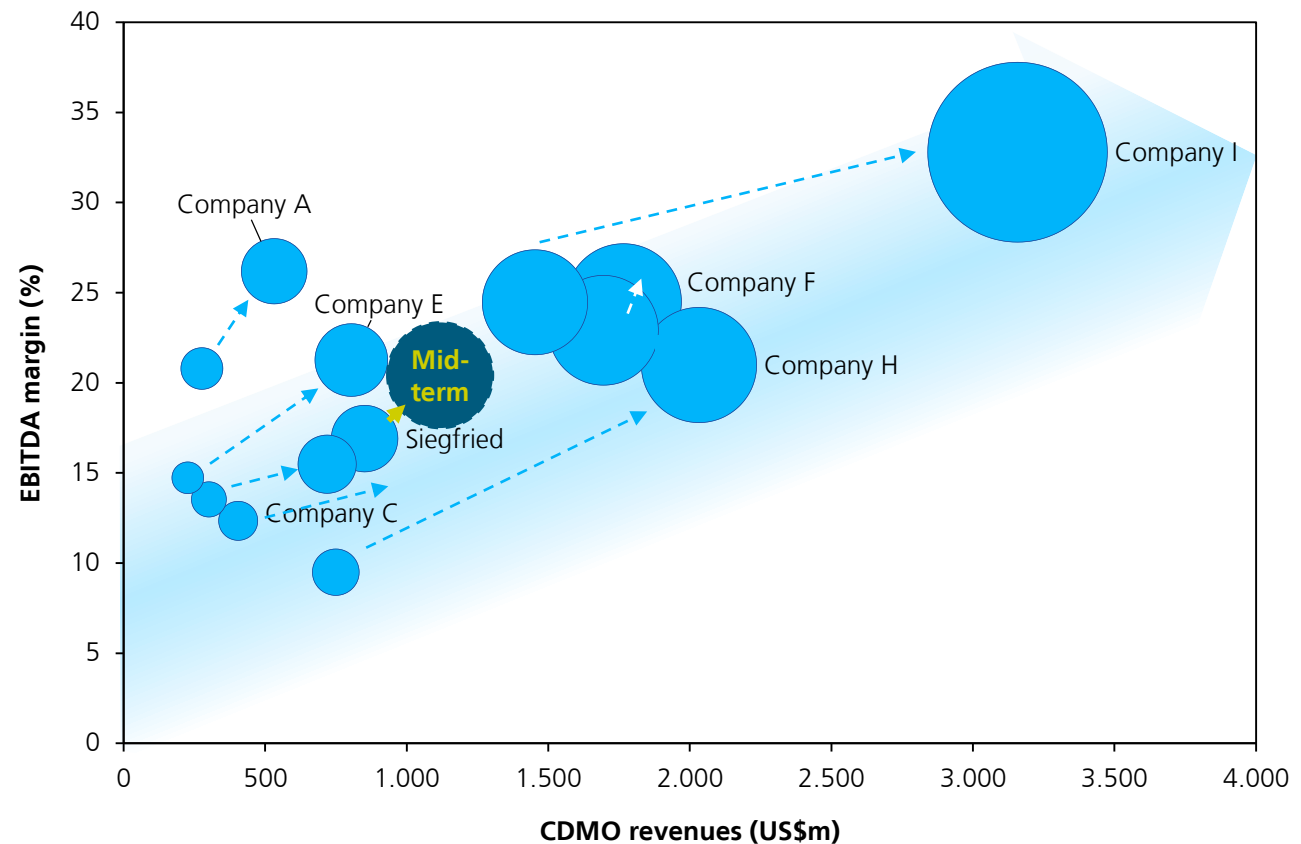
- > Loss of exclusivity requires pharma companies to lower production cost in order to maintain profitability and maximize value of innovative drugs after patent expiry

# The big picture: Well executed growth strategies translate into higher profitability for CDMO

## Key facts

- > **CDMO business model offers significant economies of scale**
  - » Larger players generate higher EBITDA margins
  - » Sales growth often translates into increasing EBITDA margins
- > **Self-amplifying process**
  - » Larger players generate more EBITDA (absolute and relative) than smaller peers, which can then be invested in further growth and margin expansion
- > **Strategic optionality**
  - » Pursuing growth strategies via either internal development or M&A – or both

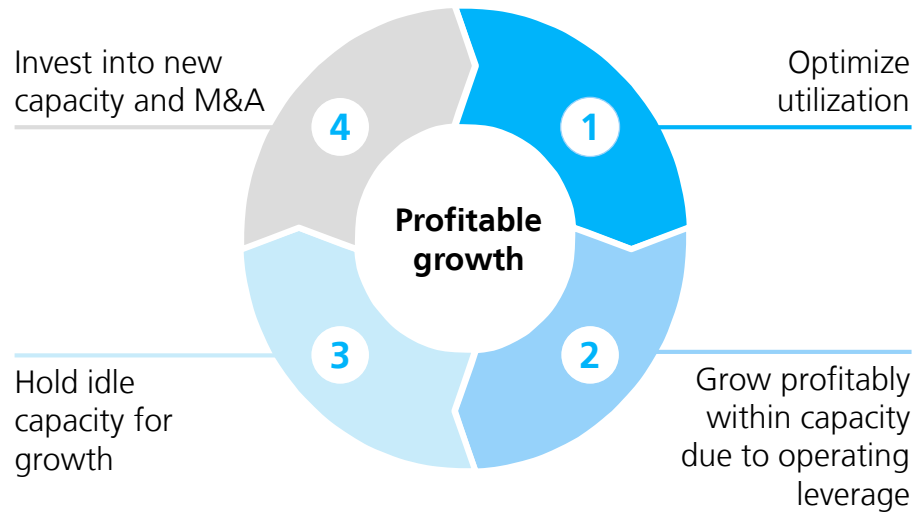
## Scale and profitability



1. Siegfried 2019 figures, 2017 data for peers  
Source: Company information

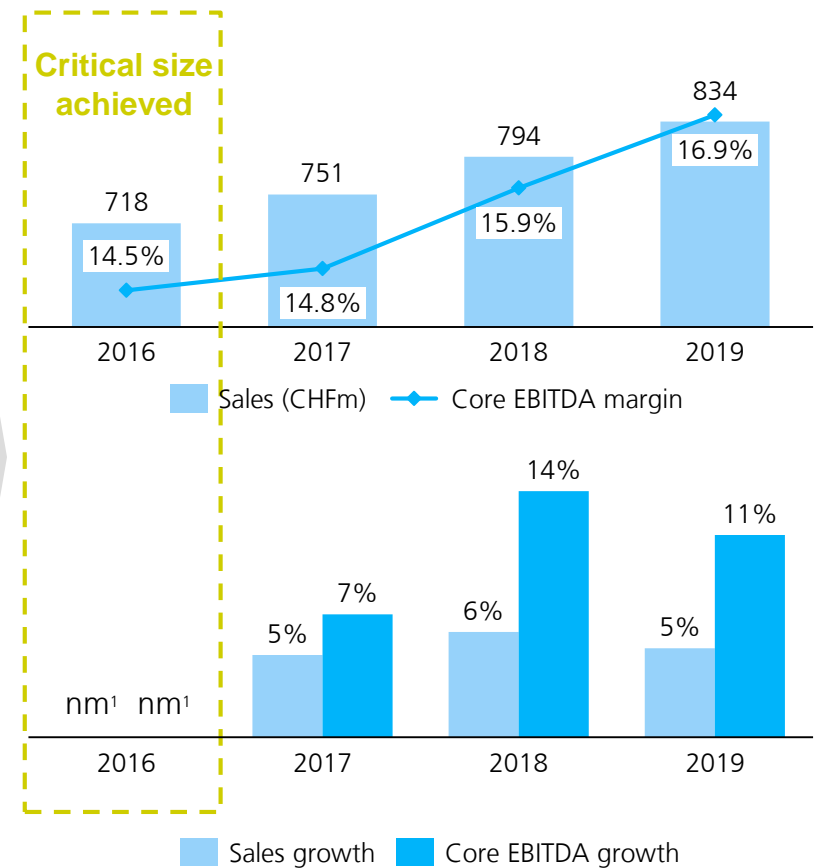
# Critical size: Actively managed operations and product portfolio allows for new business intake and continued investments into growth

Critical size allows for margin expansion via growth ...



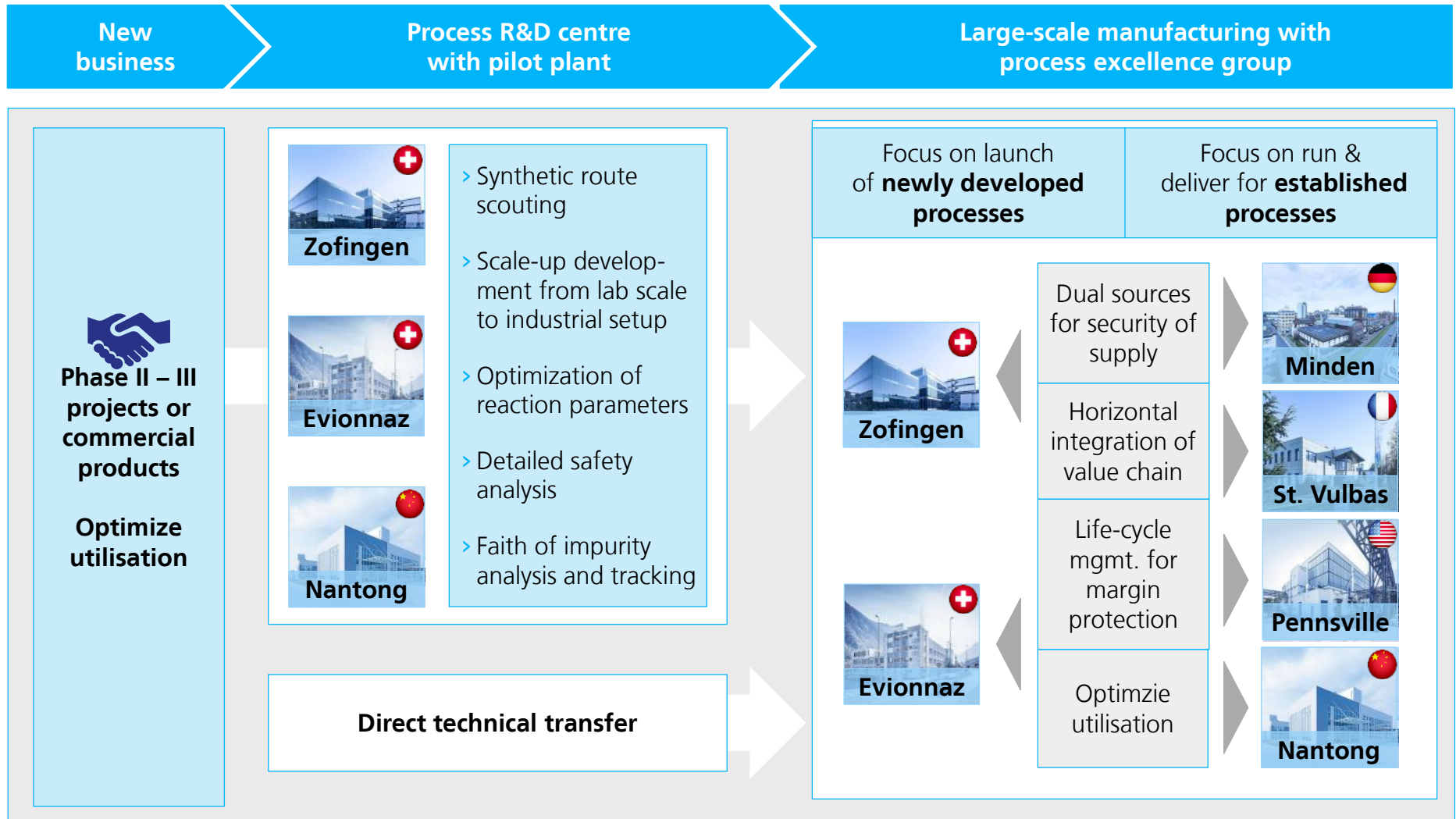
- > Siegfried continuously optimizes the utilization of its network
- > Free capacity allows to grow organically within the existing structure and to harvest market opportunities
- > Due to the operating leverage of an optimized network, incremental growth increases profitability
- > In order to hold idle capacity, new capacity needs to be added
- > New capacity can be added via organic investments and via acquisition of new assets

... and Siegfried has proven to grow profitably in the past



1. Not meaningful due to integration effects of BASF acquisition  
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# DS network setup: Efficient division of competences along all sites to best address customer needs and process requirements



# Strategy EVOLVE drives Siegfried's organic and external growth agenda based on a set of independent strategic options

Investments in technology base and existing network



- > Strengthening technology base in small molecule manufacturing
- > Organic expansion into large molecules: Aseptic fill & finish as well as formulation development for large molecules ("biologics")
- > Investments to de-bottleneck and release hidden capacity as well as addition of new capacity on existing sites

Acquisitions in Drug Products



- > Acquisitive growth in oral solid dosage form and sterile/aseptic filling capacities in Europe and the US to reach critical size in DP space

Acquisitions in Drug Substances



- > Continued acquisitive growth in small molecule DS
- > Depending on opportunity, acquisition of small-scale biologics DS manufacturing assets



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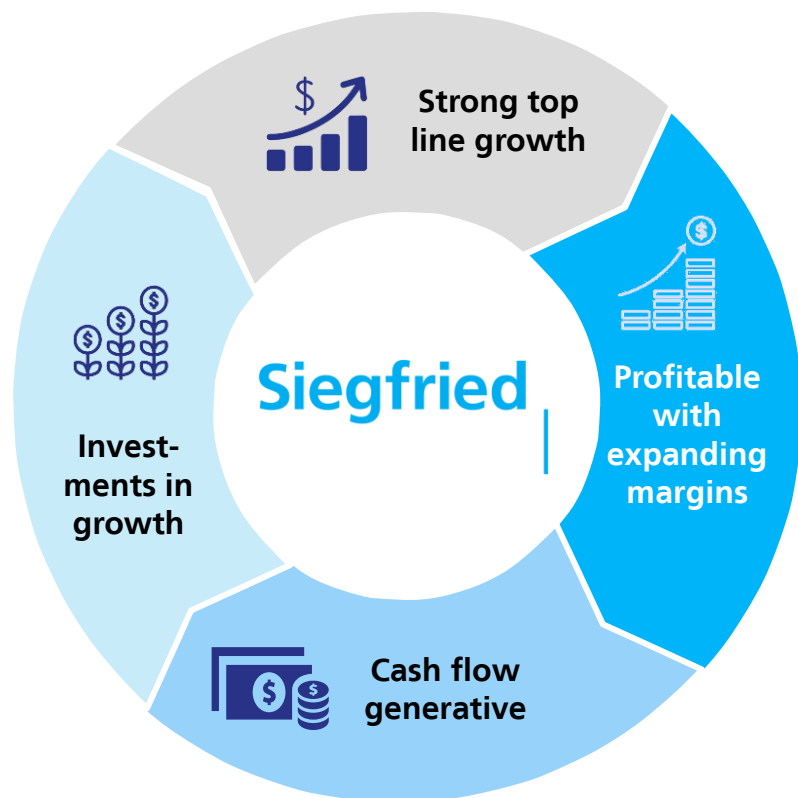
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Q&A

# Siegfried has a clear agenda for value creation

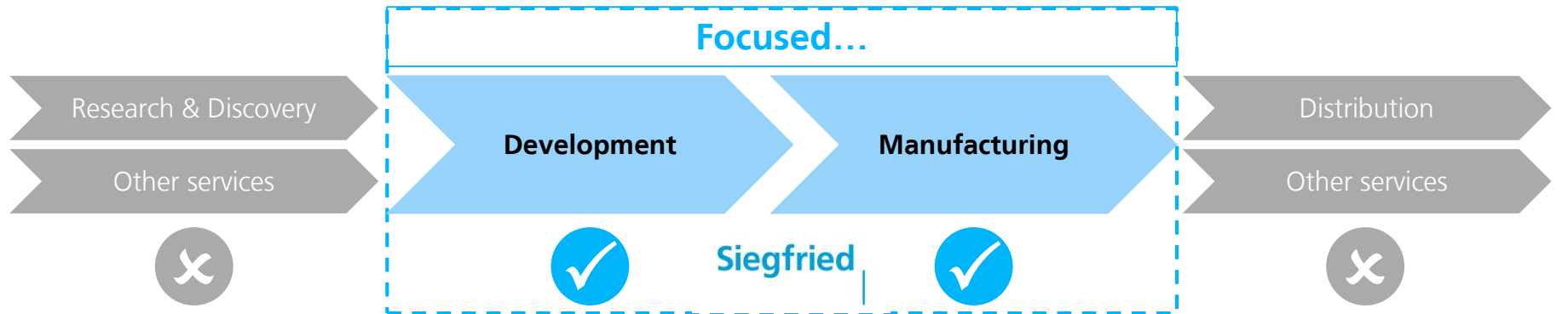
## Siegfried's agenda for value creation



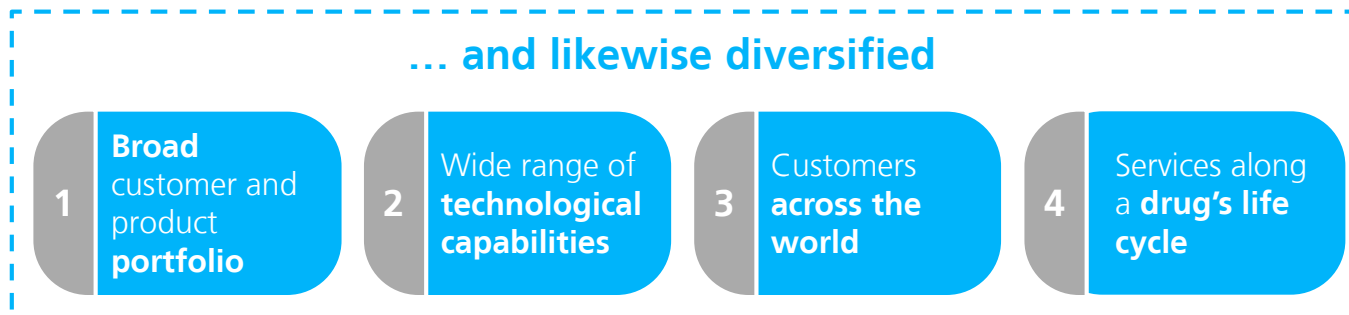
- > Well positioned to **capitalize on the growth dynamics of the CDMO market** based on its unique value proposition to customers as well as organic and inorganic growth opportunities
- > **Expanding margins** supported by a number of robust drivers including economies of scale, critical size, portfolio mix effects and optimization of utilization rates
- > **Cash generation** as basis for attractive shareholder returns and continued investment into growth
- > **Broad range of strategic options** to further drive growth including M&A

Siegfried steadily compounds attractive profits and thereby is well prepared to continuously invest in growth, organic as well as M&A – and to actively participate in the consolidation of the CDMO industry

# Siegfried's pure-play CDMO model is diversified across different layers

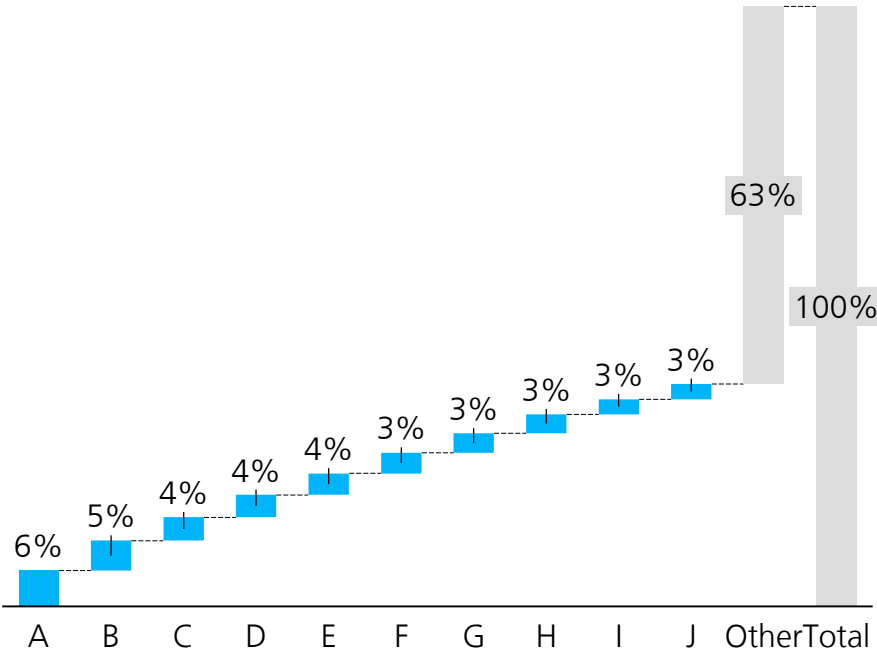


- > Challenging business model
- > Less attractive CDMO services
- > Not perceived by customers as essential part of one-stop-shop offering
- > Development and manufacturing is the DNA of Siegfried
- > Integrated offering of development and manufacturing services is at the core of what customers demand today
- > Focused approach ensures maximum management attention
- > Multiple growth opportunities (organic and through M&A)
- > Core competence of pharma companies

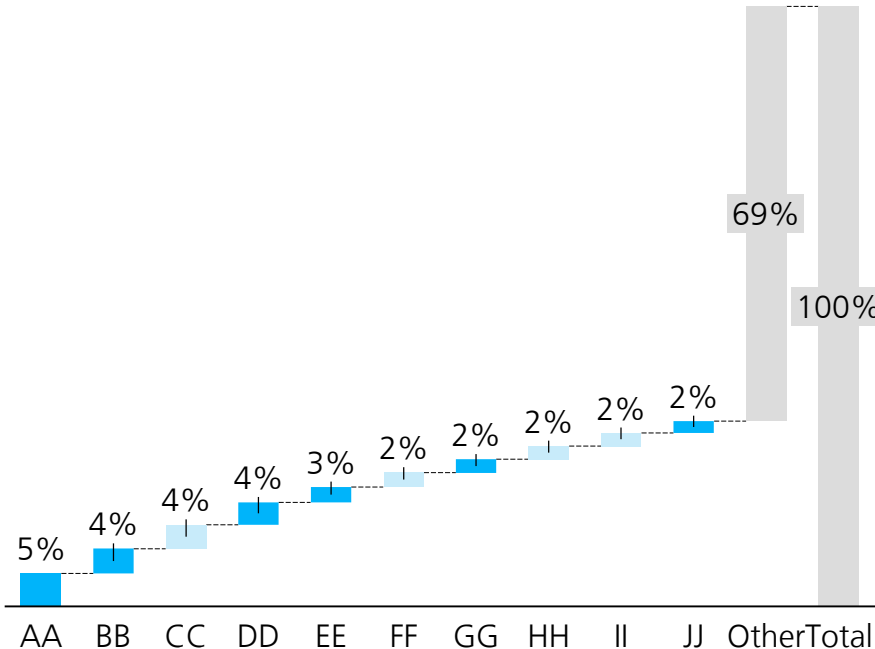


# Highly diversified business portfolio across products and customers with low dependency on a single customer or a single product

Customer concentration 2019



Product concentration 2019



Exclusive Multi-Client

# Cornerstones to expand EBITDA margin into 20% margin corridor



**EBITDA growth > Sales growth**

Profitability vs Size

- > **Growth** translates into **higher profitability**
- > **Operating leverage** and **improved utilization rates** lead to **profitable growth**
- > Continuous review and **optimization of cost structure**

**Fixed cost of free capacity: Small CDMO > Large CDMO**

Capacity vs CDMO Size

- > Critical size allows to **continuously take on margin-accretive business**
- > As one of the top CDMOs, **Siegfried is positioned as a strategic partner** to attract high-margin business

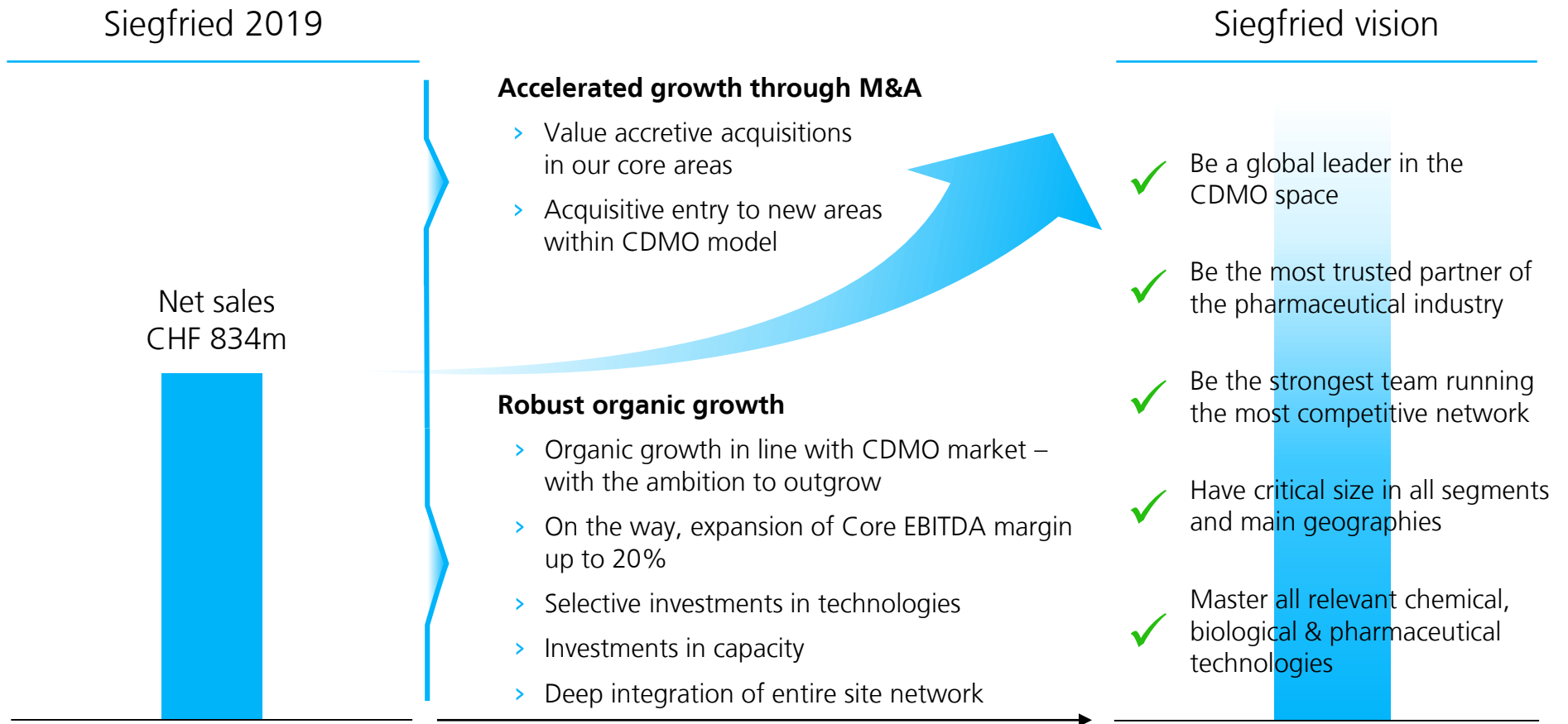
Year	DP (%)	DS (%)
2010	20%	80%
2019	23%	77%

- > **Margin expansion** due to **increasing share of DP** with higher-margin businesses as well as **portfolio mix effects within DS**
- > **Sterile and aseptic filling capabilities were expanded** through the acquisition of **AMP and Hameln Pharma** in 2012 and 2014, respectively

- > Optimize product allocation within network and **free up capacity** in high-technology / resource-intensive sites
- > **Product allocation based on best ownership concept**
- > **Leverage lower cost structure of Nantong**
  - » **Increase in utilization** will be accompanied by disproportionate profitability improvements
  - » Add. profitability impact from **shifting portfolio towards DP**

Siegfried's continued margin expansion is based on a number of robust drivers

# Siegfried's ambition: Consistently deliver robust organic growth and execute value accretive M&A to outgrow market and competition



Outlook for 2020: Despite macro uncertainty (COVID-19), low single-digit sales growth (in LC) with modest expansion of Core EBITDA margin – mid-term outlook confirmed

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