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EUROAPI
2022 Full-Year Results

Wednesday, 8th March 2023

Transcript produced by Global Lingo – Edited
London – 020 7870 7100
www.global-lingo.com

EUROAPI 2022 Full-Year Results

Operator: Hello, and welcome to EUROAPI 2022 Full-Year Results Conference Call. My name is Priscilla, and I'll be your coordinator for today's event. Please note this call is being recorded and your lines will be on listen-only. If you require assistance at any point, please press star zero, and you'll be connected to an operator.

I will now hand it over to your host, Ms Sophie Palliez, Head of Investor Relations, to begin today's conference. Please go ahead, ma'am.

Sophie Palliez-Capian: Thank you, and thank you all for joining us for EUROAPI's full-year 2022 results presentation. My name is Sophie Palliez, Head of Investor Relations. With me, today to comment on these results are Karl Rotthier, Chief Executive Officer; Antoine Delcour, Chief Financial Officer; Cécile Maupas, Chief CDMO Officer.

We will discuss the following points: first, the key highlights, then our financial performance; then, a focus on the CDMO business, followed by the 2023 outlook and midterm perspective. This conference will be recorded, and a replay will be available on our Investor Relations website. The presentation slides are available to download.

Please note that today's conference contains forward-looking statements. Future results may differ materially from statements or projections made on today's call. This presentation will be followed by a Q&A session.

With that, I would like to hand it over to Karl Rotthier, our Chief Executive Officer.

Karl Rotthier: Thank you very much, Sophie. Also, good morning and good afternoon, everybody. Thanks for joining us on this call. It's really my pleasure to host our first full-year results today.

In our first year, as an independent company, we delivered a solid performance in line with our revised guidance and continued to execute our growth strategy successfully. We achieved a solid net sales performance, driven by double-digit growth in CDMO and a solid contribution from API Solutions. And we are most excited about the progress made in the Large Molecule strategic segments with our peptides and oligonucleotides segments.

We recorded an improvement in gross profits driven by higher volumes at a positive price mix impact. While the temporary suspension of our prostaglandin production at Budapest negatively impacted our core EBITDA margin, as we already indicated to you last December. Excluding this impact, we would have reached both our net sales and core EBITDA margin objectives, which is really proof of our ability to achieve our commitments.

We also advanced major projects this year to sustain future profitable growth, with strategic investments announced in France for vitamin B12 and also in Germany for our peptides and oligonucleotides segments.

We accelerated our ESG trajectory with key milestones achieved during the year in accordance with the commitments to environmental sustainability, best-in-class corporate governance, and a safe, multicultural workplace.

Finally, in a volatile macroeconomic environment, while evolving our culture to be more agile, responsive, and customer-centric, we are moving into the next chapter of our strategy by

accelerating our transformation with a €50 million additional value creation expected to be delivered by 2026 on annual rate. This will be achieved through the simplification of processes, commercial excellence initiatives, improved efficiencies, and the acceleration of the CDMO roadmap.

Our 2022 results, as well as our 2023 objectives and midterm perspectives, demonstrate our resilience and our ability to navigate in a challenging environment. Our fundamentals are strong, and we are committed to maximizing the business we have in hand to become the leading fast growing CDMO company.

that said, let's start now our detailed analysis with the 2022 key operational figures on slide seven.

As you can see on this slide, we recorded a solid performance in ’22. Net sales stood at €976.6 million, up 8.5% compared to 2021, driven by a solid performance in both CDMO up 18.3%, and API Solutions, up 5.3%. Large Molecules’ net sales grew almost 80% to €98.4 million.

Our core EBITDA reached €120 million, increasing also by coincidence with 8.5% versus ’21 with a core EBITDA margin of 12.3%. CapEx stood at €138.3 million at 14.2% of our net sales, of which 45% were dedicated to growth projects with major strategic investments to support our growth and our performance. Antoine will provide more details on these consolidated results in a few minutes.

Net sales – let's now comment on the net sales on slide eight. We recorded a strong acceleration in CDMO activities, with CDMO sales increasing by 18.3% to €267.5 million, mainly driven: first by sales to Sanofi, which were up 33.8%. This was notably fuelled by certain Sanofi’s late-stage projects that will be discontinued in 2023. We will come back to that. Second by sales to other clients, which were up 10.7%, driven by commercial batches for US biotech. Cécile will come back on the deployment of our CDMO strategy. However, Let me emphasise here already how proud I am of what has been achieved by the CDMO team over the last 18 months. Thanks notably to an expanded awareness of the EUROAPI brand in the markets, we more than doubled the number of incoming requests for proposals in ’22 from 120 in ’21 to 230, with 30% related to the strategic fast-growing Large Molecules segments and 45% to Complex Chemistry, our legacy business.

API Solutions activities experienced a solid 5.3% growth in net sales, amounting to €709.1 million. This was driven by the very good performance in sales to other customers, that were up plus 9.6%, thanks to both higher volumes and price increases. Throughout the year, the EUROAPI team focused on executing the strategy to unlock the sales of API Solutions to other clients. And we gained more than 30 new customers in one year, hence the growth of 9.1%, way above market growth.

Sales to Sanofi increased by 1.6% with price adjustment clauses activated over the year, including raw material pass-through, partial energy price sharing and performance sharing. Throughout the year, we accelerated our cross-selling commercial strategy, which is a foundation for future growth.

Let's now analyze our net sales performance per type of molecule on slide nine. The Large Molecules business delivered a very strong, almost 80% increase to €98.4 million, driven by

continued customer demand for both peptides and oligonucleotides, including commercial a contract with US biotech and a solid contribution from Sanofi's products.

Highly potent molecules were down 90% to €82.2 million, impacted, of course, by the temporary suspension of the prostaglandin production in Q4 last year in Budapest and the downsizing of a contract for APIs for veterinary hormones, which was predicted. To support the future growth of this promising segment, we are investing in a dedicated high-potency API development unit at our Budapest site.

Biochemistry molecules derived from fermentation decreased by 3.9% €148.3 million, impacted by the transformation of the Brindisi site from an API Solutions anti-infective production site to a CDMO fermentation activity to compensate for the decrease in the Sanofi volumes.

Finally, complex chemical synthesis molecules delivered a strong 9.9% sales growth to €647.7 billion, reflecting solid growth both in API Solutions and CDMO as well as the positive impact of price adjustments in the second half of 2022.

Let's now move to slide 10 on the CapEx investments. To support our growth performance, we initiated several significant CapEx investments in '22. We announced in July an investment of €24 million for the construction of a new generation biomass boiler at Elbeuf with 140,000 tonnes annual steam generation. While enabling us to reduce our CO2 emissions by 20%, the boiler will also be a key enabler to increase the site's vitamin B12 production capacity and will support our strategy towards greater energy autonomy.

We announced also last October an initial €80 million investment for the installation of new state-of-the-art manufacturing equipment in Frankfurt, with the objective to increase our peptide and oligonucleotide outputs to circa 500 kilogrammes per year by 2025. This investment is really key to meeting the growing CDMO demand.

In January '23 this year, we announced a €40 million investment for the implementation of a more efficient and sustainable production process for vitamin B12 in Elbeuf. This new fermentation generation will enable us to increase our manufacturing capacity by '25 while reducing our environmental footprint.

ESG, slide 11. We place ESG ambitions and goals at the heart of our development strategy and company culture. Based on this ambition, we accelerated also here the trajectory with major milestones achieved during the year in accordance with our commitments. For example, in our efforts to create a safe and multicultural workplace, we have already achieved in '22 our '25 target of 30% women in leadership positions.

We also decreased our Scope 1 and 2 CO2 emissions by 30%. And we are actively working on assessing our Scope 3, which will be key to participating to the overall fight against climate change.

Transformation, slide 12. As an independent company, we really started to evolve our culture to become more agile, responsive and customer-centric. In an increasingly volatile environment, we are also accelerating our transformation by initiating an ambitious programme aimed at improving our competitiveness. This programme is fully embedded in our adjusted midterm perspectives and will bring €50 million annual value by '26 with a progressive ramp-up.

It will focus on: first, streamlining and simplifying processes and tools; secondly, accelerating the operational and commercial excellence strategy; and thirdly, accelerating also the CDMO roadmap.

Several transversal initiatives have already been launched across the company, including enhancing procurement agility to better manage input costs, and mitigate purchasing risks, increasing the use of alternative energy sources to turn the energy transition into a competitive advantage, improving the supply chain to better serve our clients and adapting our operating model to support best-in-class CDMO strategy.

With that, I think it's now time to go to the financial performance. And I would like to hand it over to Antoine. Antoine, please go ahead.

Antoine Delcour: Thank you, Karl. Moving now to slide 14 on 2022 key financial metrics. As mentioned by Karl earlier, we delivered a solid performance with net sales up 8.5% to €977 million, benefiting from both API Solutions and CDMO growth. Gross profit stood at €177 million, an increase of 15.3% versus 2021. And gross profit margin improved by 110 basis points to 18.1%.

Core EBITDA amounted to €120 million, an increase of 8.5% versus 2021, benefiting from growth from gross profit improvement and negatively impacted by the temporary suspension of the production of prostaglandin at our Budapest site. The core EBITDA ratio was flat versus 2021 at 12.3%.

Moving now to slide 15 to provide more details on the core EBITDA margin. As mentioned in the previous slide, core EBITDA emerging was flat at 12.3% of revenue, reflecting the 406 – 460 basis points improvement from volume increase, reflecting the better absorption of cost structure; 210 basis points positive impact from price increases and mix; 150 basis points improvement from industrial efficiencies and negative 810 basis points impact from energy and raw materials cost increase; and a negative 140 basis points impact in OpEx reflecting the normalized cost structure required to run our business independently, and R&D ramp up to support the company's future growth in CDMO.

The temporary suspension of prostaglandin production impacted the core EBITDA margin by 150 basis points. Excluding this issue and the unforeseen new tax implemented by the Hungarian government in late December, our core EBITDA margin will have reached 14%, in line with our initial objectives.

Moving now to slide 16, which explains the evolution of our net cash position over the period. Operating cash flow reached €111 million, and net cash from operation was negatively impacted by €67 million negative working capital variation, driven by minus €32 million change in inventories due to input cost inflation. However, month on hand decreased to 7.3 months on hand versus 7.6 months on hand last year, minus €30 million changes in trade receivable resulting from a strong level of activity at the end of 2022; and €21 million change in payable.

Capex reached €138 million or 14.2% of net sales, in line with our growth strategy. Our balance sheet remains solid, with €26 million in net debt, as well as our strong financial flexibility provided by our revolving credit facility.

With that, let me hand it over to Cécile, who will focus on CDMO results.

Cécile Maupas: Thank you, Antoine, and good morning and good afternoon, everyone. Moving now to 2022 CDMO performance. Let's start with the commercial activity on slide 18.

As Karl mentioned, in 2022, we doubled the number of our CDMO request for proposals received compared to 2021 from 120 to 230, thanks to the acceleration of our robust commercial activity and the increased EUROAPI's brand awareness on the market.

Among the 230 RFPs received in 2022, 35% came from big pharma, 50 from biotech, and 15 from midsized companies. 30% were related to Large Molecules and 45% to Complex Chemistry. 70% came from Europe and 23% from the USA.

The robust commercial activity in CDMO translated into 79 projects at the end of 2022, up 75% compared to 45 in 2021, notably Complex Chemistry with 45 projects and in Large Molecules with 19 projects, a strong increase compared to 2021, both our priority areas of development for EUROAPI.

In 2022, we doubled the number of our customers. What you can also see on the slide is the dynamic of our portfolio. With the majority of the projects won, we also have some projects which are completed as a normal course of business and others that are stopped or discontinued by our partners.

EUROAPI is a young CDMO company, and we are currently building our pipeline. This is what you can see on slide 20. We started 18 months ago. We have a legacy portfolio of 22 products, mostly in mature phase. In 2021, we succeeded in 20 projects in Phases 1, 2, and 3 and accelerated in 2022. So reached 17 projects in Pre-clinical and Phase 1; 17 in Phase 2; 11 in Phase 3, in addition to 34 in the commercial phase.

Our objective is to grow our exposure to Phases 1, 2, and 3, to be able to accompany our customers throughout the entire life science of their project.

Thank you for your attention, and let me hand it over to Karl, who will present the 2023 outlook and guidance.

Karl Rotthier: Thank you, Cécile. And perhaps now the most interesting part. Let's move now, indeed to our '23 guidance on slide 22.

Assuming no major changes in the overall macroeconomic environment, we expect to grow net sales between 7% and 8%. This will be driven by high single-digit growth in API Solutions and double-digit growth in CDMO sales with other clients. CDMO sales with Sanofi will be impacted by the discontinuation of some late-stage projects due to the natural attrition of this business. The core EBITDA margin is between 12% and 14%.

What are the main drivers here? Two non-recurring items. First, the residual impact of the suspension of the prostaglandin production, which will weigh approximately 110 basis points in '23. Secondly, the new Hungarian tax, which is there in principle for '22 and '23, which should weigh approximately 30 basis points. But also two business topics that explain the margin between 12% and 14%.

First of all, limited pricing power to Sanofi in the current macroeconomic environment, which is actually based on the disclosed contractual terms of the MSA. And secondly, as already mentioned now a couple of times, a continuation in '22 of two late-stage phase products from Sanofi, which represented approximately €15 million in sales in '22. It has an impact in '23,

due to the current evolution of our portfolio, as Cécile just indicated, to include more late-stage projects in line with the initial strategy.

Most of the large innovators and biotech companies test new CDMOs with early-stage projects, Phase 1, Phase 2. And here, we have been very successful in '22. As a result, we have seen a significant increase in late-stage RFPs in '22, late '22 coming in, and early '23, which we hope we could capture.

Finally, we plan to invest between €120 million and €130 million in CapEx to fuel our growth strategy.

The midterm perspective on slide 23 more in detail. As we are investing in accelerating long-term growth and reducing our dependency from Sanofi, we adjust our midterm perspectives as follows. We now expect to deliver between 7% and 8% net sales growth on average over the '23-'26 period. This is slightly higher than our previous forecast and will be driven by double-digit growth of sales to other clients, including CDMO and API Solutions.

Core EBITDA margin should exceed 20% in '26, a year later than initially expected. This is driven by lower volumes from Sanofi compared to the initial business plan, and it will be partially compensated by the acceleration of our transformation plan, which I already talked about, increased volumes from other clients, and a positive mix fuelled by the deployment of the CDMO business.

'25 core EBITDA margin should be above 18%. The CapEx and the core free cash flow conversion objectives remain unchanged. As I said in my introduction, and despite additional headwinds, we are fully executing our strategy and delivering what we committed to for growth and increased profitability.

To succeed, we will rely on our strong fundamentals, and we remain fully committed to becoming a leading fast-growing CDMO company.

So actually, this concludes our presentation. Thank you very, very much for your attention. And Antoine, Cécile, and myself are now very happy to take whatever question that you might have. Sophie, back to you or operator

Questions and Answers

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. We will now take our first question from Simon Baker from Redburn. Please go-ahead sir. Your line is open. Please go-ahead sir. Your line is open, Mr Simon Baker from Redburn.

Sophie Palliez-Capian: Can we move to the other questions and then we can take Simon back after?

Operator: Okay, sure. We will now move on to our next participant, Richard Vosser from JP Morgan.

Richard Vosser (JP Morgan): Just a little bit more detail around those lost Sanofi volumes or lower than expected Sanofi volumes. And give us some insight in terms of the mix changes in terms of – because I would have anticipated maybe CDMO – you've raised your top line guidance that's potentially coming from CDMO, which might be higher margin. So, I'm just

trying to understand the differences around the margin impact of those Sanofi volumes. So, if you could give some colour there, that would be great.

Second question. Also, on the 20 – the midterm targets. Just how have you treated the inflationary headwinds and raw material headwinds there, particularly energy. Clearly, a big headwind in '22, going to be a similar, given hedging impact in '23, maybe – or similar weighing on the margin. But how should we think about that reversing and how have you treated that in your midterm guidance?

And then third question, obviously, great development on the CDMO projects. How should we think about those developing in '23, both in sort of a mix to later stage projects, but also in terms of like the number. If you can give some colour there, that'd be great. Thanks very much.

Karl Rotthier: Thanks, Richard. We missed a bit the first part of your question, because –

Sophie Palliez-Capian: Beginning of the question.

Karl Rotthier: Yeah.

Richard Vosser: The beginning of the question was really to understand how the Sanofi lost volume weighs on the margin relative to the fact that you've raised the top line - midterm top line guidance and the mix changes there. Thanks.

Karl Rotthier: All right. Thank you very much, Richard. I think, Antoine, it's excellent for you to tackle the first question on the volumes, and then I will come back on the inflation part. And I will also come back and give the floor to Cécile on the CDMO part.

Antoine Delcour: Yes. So, return on the lower volume to Sanofi. These are mostly lower volumes on API Solutions and CDMO products, which are currently produced in our plants. And so this is why it has a negative impact on our margin because of the lower absorption of our fixed cost baseline. Even if we're able to grow the CDMO and the business to other clients, it's not fully compensated, and this is the reason why it impacts negatively our margin.

Karl Rotthier: That is also why, Richard, we have indeed initiated this transformation programme as well, so that we are indeed able to safeguard some of the marginal loss with a €50 million run rate that is going to come as of '26.

The second question on inflation, Richard, it's a very interesting one. So I think we have, perhaps in the past not given exact figures. But I really want to do that right now. If you look at the total inflation, they include raw materials, energy, wages,. You talk about the difference from '21 to '22 of €60 million. The same, you see in '22 to '23. So, what we talk about, that is total effect of €90 million.

So in two years' time, we have here €150 million extra cost to really tackle in the market, and you see that we done – have done that quite successfully.

Going further, of course, with the hedging policy that we have in place because don't forget that six months ago, everybody was asking, well, do you have the energy? Will the energy be available? We hedged, and of course we are certain of the supply but also certain of the price. We see that indeed going further '24 and '25 that that will gradually come down again, and that's where we also, in our business model, took that into account.

I think that is really essential to state these absolute figures as well, because they really speak for themselves, I would say. Antoine?

Antoine Delcour: Yeah, just to compete what Karl has just said. So in our midterm guidance, what we took into consideration is a gradual reduction in energy prices and raw material, but also adjusting our pricing for clients also accordingly to this decrease in order to make sure that we remain competitive. And so this is the reason why meaning we are still able to grow our core EBITDA margin but reflecting that with market to remain competitive.

Karl Rotthier: Indeed, we do have a margin business. And then the third question, Richard, the development of the CDMO business. It's all about now building the pipeline and we are 18 months at it. Cécile can you give them a little bit more flavour on the midterm vision that you have on the pipeline?

Cécile Maupas: Yes, sure. So you know, Richard, that we always said that the ideal mix of project is 50-50 between early-stage project, pre-clinical, Phase 1, Phase 2 and late-stage project or product, clinical Phase 3 validation and marketed products. And what we have today in our pipeline is 35 projects in Phase 1 and 2, and 45 projects are products in late stage, including these 22 product which are mature phase.

So now our ambition is to grow the early stage number of projects to be sure that with the attrition, we will reach this long-term growth and to enter into new business late-stage and late, it will become a mature portfolio.

Karl Rotthier: Yeah, indeed, but we mentioned also – I think, it is essential that we really aim for the Phase 3 and also the late-stage, which we do. But we also still need to really bring our brands to the market and be on the shortlist of all the innovators and biotech companies. We are getting there. And that's where we also mentioned it in the presentation itself. We now focus much more on the one and the two in order to really go for the winners who could also go to Phase 3, and hopefully also commercial.

But indeed, to reflect some of the natural attrition, and certainly to products which have been discontinued right now, we need to aim for that and we are very confident that we will get that. Thanks, Richard.

Richard Vosser: Thank you.

Operator: Thank you. We'll now take our next question from Simon Baker at Redburn. Your line is open. Please go ahead.

Simon Baker (Redburn): Thank you. Hopefully you can hear me now.

Karl Rotthier: Yeah. Hi, Simon.

Simon Baker: Perfect. Thank you very much for bearing with me. A few questions, if I may, please. Firstly, you gave us some helpful colour on the number of projects by modalities and technologies. But I just wonder if you could give us an idea on the trends and the average project value?

Second question is on margin. You've given us ’23 margin guidance. You have given us an expectation of where the margin will be in ’25 and ’26. So I know you're not giving ’24 guidance, but I just wonder if you could give us some more insight into the pushes and pulls on the margin now because on the face of it, if one looks at the midpoint of consensus, what are your

expectations for ’25, that is suggesting significant margin accretion over the period. I just wonder if you could give us at this stage any insights into that?

And then the final question is on the discontinued Sanofi products. Firstly, is there anything unusual about that project in terms of profitability or costs or assumed capacity that we should be aware of when looking at the – looking at internationally, it doesn't appear that way. And then as a general question, if you are focusing more on Phase 1, Phase 2 projects, as you say then, you have the ability to capture considerable value going forward, but you also have the attendant risk of pre-allocated capacity, which has an opportunity cost being not used if a product dies early on. So I just wonder if you could give us a feel for how we should think about the risk profile of the order book as the focus to Phase 1, 2 increases? Thanks so much.

Karl Rotthier: All right. Thank you for your questions, Simon. So, I think first and foremost, Antoine, can you give an idea on the margin development that was asked by Simon for ’24?

Antoine Delcour: So what I can say is that so, firstly, we do not provide guidance on to 2024 as such. What I can say is that the starting points that you've just mentioned, which was 2023 was including some non-recurring items, as mentioned earlier. So this, the starting point should be restated from the non-recurring items.

Then secondly, as we mentioned, since the beginning is that our progression top line and core EBITDA margin will not be linear. So you cannot say that that meaning 2024 performance should be expected to be between 2023 and 2025. Yeah.

Karl Rotthier: Thank you very much, Antoine. And then three questions more in the CDMO sphere. Could you give an idea, Cécile, on the value that we normally have for projects? And then we were discussing that in Phase 1, Phase 2 more likely. Secondly, was there anything unusual on the discontinued products from Sanofi there? The answer is no, actually.

And then, third question, can you give a little bit of that risk chapter? Do we really reserve our capacity, eventually, also already going into Phase 3, if you're focusing on the Phase 1 and 2?

Cécile Maupas: Yes, sure. Yes, probably the amount of projects, it's really depending on the project, the phase of the project, the technology used, the difficulty to develop the processes. So it's really difficult to do an average.

Related to the Phase 1 and 2 projects, they are currently in our capacity in R&D, in our pilots, which are not dedicated lines. That means that if there is a failure, or if there is an attrition, a normal attrition, we will reuse the same capacity for other clients for other projects. So it's absolutely not an issue to have some stop in Phase 1 and 2, and it's very unusual that clients really booked a Phase 3 programme at the early stage in Phase 1, because there is this structural risk taken.

Karl Rotthier: All right. Excellent. Thanks.

Simon Baker: Thank you very much.

Karl Rotthier: Thank you, Simon.

Operator: Thank you. We will now take our next question from Falko Friedrichs at Deutsche Bank. Your line is open. Please go ahead.

Falko Friedrichs (Deutsche Bank): Thank you. Can you hear me?

Karl Rotthier: Yeah, we can hear you.

Falko Friedrichs: Perfect. Thank you, and good afternoon. So my first question. So we're now aware of the near-term headwinds. So thanks for laying those out. But can you summarise for us again, why the margin should still be 200 basis points lower in 2025, which is obviously quite a meaningful shortfall. So a quick summary on that would be helpful.

And then secondly, we are a bit surprised that you don't seem to be able to compensate for these headwinds with Sanofi over the next two years with business with other clients. So can you maybe speak a bit about this dynamic between Sanofi impacts and then what you can and can't compensate with other clients?

And then my third question is this – on the prostaglandin business, this 110 bps negative impact on EBITDA that you mentioned earlier. Is that coming on top of the 150 bps in 2022? Or is that the remaining impact, i.e., it would actually turn into a bit of a tailwind this year, given the lower comp? Thank you.

Karl Rotthier: Yeah. The last question, I can answer straight away. Indeed, the 110 basis points effect that you see in '23 is because of the progressive startup of the production that we have now initiated as of January, which will be available by mid-April. Then you miss, of course, a couple of months, and this gives indeed the 11 basis points extra on top of the 150 basis points of '22. That's why we also mentioned in the beginning that it is non-recurring, because this is now limited to these two years. As of next year, that will be back to normal again.

Antoine, may I ask you why still the difference of 200 basis points, 2%. So 18% in '25 instead of a 20% that we shouted out. And can you explain a little bit indeed more on the MSA that we have in place where we initiated also in difficult macroeconomic circumstances that we are not having the same pricing power as we have with third parties?

Antoine Delcour: So, first thing regarding the 2025 core EBITDA margin at 18% versus what we were initially contemplating at 20%. As mentioned, so what we foresee today is to have a decrease of Sanofi volume at a faster pace than what was initially contemplated when the project was announced, and as mentioned in the manufacturing supply agreements.

In the manufacturing supply agreement, we have a few mechanisms in place in order to protect us in case of such decrease, but there is a price/volume corridor, but today with decrease from Sanofi is within this corridor, so which mean that there no compensation from Sanofi on the lower volume, hence low assumption of our fixed cost and resulting in a lower margin by 2025.

So we are doing – as mentioned by Karl, we have initiated the acceleration of a transformation programme in order to compensate for it – partially compensate for it. And also to try to increase our growth with other clients on CDMO and API Solutions. All of this takes times. So this is the reason why we're not able to fully compensate for lower volumes from Sanofi by 2025. But we confirm our capacity to deliver 20% by 2025.

Karl Rotthier: Indeed, that growth potential that we currently see happening in the market, both in API Solutions and also the CDMO to other clients is really, in my opinion, way above market growth, as we also indicated, and that will also enhance and fasten up the – or make it more fast to reduce the dependency on Sanofi. And I think that's also one of the main reasons that we have started also with the spin-off to, indeed, stand on our own two feet, be

independent and deploy the current technology that we have in-house, both in the API Solutions and in CDMO business. Okay?

Falko Friedrichs: Thank you. And a quick follow-up. Do you have a new guidance for the share of Sanofi sales in '25 or '26?

Karl Rotthier: No, we have not guided for that in the past, nor shall we do that right now.

Falko Friedrichs: Okay. Thank you.

Karl Rotthier: We have no update at this stage.

Falko Friedrichs: Thank you.

Operator: Thank you. We'll now take our next question from Gary Steventon at BNP Paribas Exane. Your line is open. Please go ahead.

Gary Steventon (BNP Paribas Exane): Hi. Thanks for taking the questions. First of all, just look at the ongoing peptide and oligo expansion in Frankfurt. Could you just talk to how your conversations with potential customers are progressing here? Whether you have any visibility on securing some larger scale commercial contracts ahead of that capacity coming online in 2025? I guess we've seen one of the other peptides focused CDMOs announced some quite significant contract wins in this space over the last year ahead of a new site opening in 2024. So I'm just wondering how to think about the timeline for your expectations there.

And then looking at the midterm margin, you arguably have more confident language on the 2026 margin target, perhaps compared to the lower 2025 target. So just wanted to gauge your confidence that 18% represents an absolute floor for 2025. And then also perhaps to what extent you think that the level of profitability is supported by existing projects, rather than being reliant on winning new CDMO projects. Thank you.

Karl Rotthier: Thank you very much, Gary. Thank you for your questions. The P&L part, can you give a bit of flavour on the discussion that we have with the partners? Because Gary is I think referring to very big contracts that were announced in the market of players who have larger capacity that does not shy away from it, Cécile. Then Antoine, can you explain a little bit more on the 18% later.

Cécile Maupas: So we still believe that there is a strong momentum for us in oligonucleotide and peptide and especially oligonucleotide. We have seen larger projects won by our competitors. Some of the best competitors are in that field since a while, so they already build their pipeline from early stage and moved to late-stage. This is the same territory that we will have. So we are building our pipeline with Phase 1, 2, and moving to the late-stage programme. That's why we have this increase in capacity but you know that that requires more capacity than what we have now.

We have a lot of discussion, I will not disclose names now because this is not timed. But we have a lot of very interesting discussion, both in oligonucleotide and in peptide for a strong pipeline with our clients.

Karl Rotthier: There is a time for everything, Gary. So Antoine?

Antoine Delcour: Regarding our capacity to deliver the core EBITDA margin above 18% by 2025, as of today, we're confident that we are able to deliver it, otherwise we will not communicate it to you. And this will rely on the growth projects on which we have made

investments on both API Solutions, for example, with the B12 capacity expansion in Elbuef already covered by contacts, and also the expansion on the CDMO part of the business for which we have already capacity on hand and meaning we have already a clear track record since the project was announced in '20.

Karl Rotthier: And if I may add there, Antoine, also already the progressive ramp up of the transformation programme because we only mentioned the €50 million by 2026. But of course, also this year, next year, '25, there will be already contributions from the transformation programme that we have written. Okay, Gary?

Gary Steventon: Perfect. Thank you. Actually, can I just a quick follow-up or a quick clarification on that €50 million, or the definition of that value. How do you kind of define that value in terms of, well, maybe in relation to the P&L?

Karl Rotthier: In relation to the P&L, there is only one, my dear CFO, who can –

Antoine Delcour: So in relation to the P&L, so this is to be compared to 2023 cost structure, which embed a few initiatives, which could be either optimising our cost structure or improving the yield of our products, or meaning being less dependent in terms of energy moving. So for example, boiler biomass is part of it and so on. So something which is important to understand is that it is not in addition to the performance plan, which was announced at the time ofIPO.

Karl Rotthier: It's also, Gary, what we learned, of course, over the last two years, you have seen that we have been embarking on numerous energy reduction programmes on facilitating much more what we can do in the sourcing of raw materials, etc. Of course, this is now going to be deployed in this transformation plan

Operator: Once again, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. Thank you. I don't see anyone queuing in for questions anymore. So I'm handing it back to you if you have any closing remarks. Thank you so much.

Sophie Palliez-Capian:. Thank you, everyone. Thank you for your attention. As usual, we remain at your disposal for any follow-up questions. Anything you would like to follow-up on, please don't hesitate to call us. . And thank you Karl, Cécile and Antoine.

Karl Rotthier: Thank you, Sophie.

Cécile Maupas: Thank you.

Antoine Delcour: Thank you, everyone.

Operator: Thank you all so much. Ladies and gentlemen, this concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

[END OF TRANSCRIPT]