EUROAPI Conference Call

Friday, 14th March 2024

Conference Call

Operator: Hello and welcome to EUROAPI Conference Call. My name is Allen and I'll be your coordinator for today's event. Please note, this call has been recorded, and for the duration your lines will be on listen-only. However you have the opportunity to ask questions at the end. This can be done by pressing star one on your telephone keypad. If you require assistance at any time, please press star zero and be connected to an operator.

I'll now hand you over to your host, Sophie Palliez to begin today's conference. Thank you.

Sophie Palliez: Thank you. And good evening everyone. Welcome. And first of all, thanks for joining so late. Together with me, tonight we have Ludwig de Mot, EUROAPI Chief Executive Officer, and Antoine Delcour, EUROAPI Chief Financial Officer. We will go through a short presentation by Ludwig on press release that we just issued, and then we are open to your questions. Ludwig?

Ludwig de Mot: Thank you, Sophie. So, good evening everyone, and thank you for joining on this call on such a short notice. Our objective today is to go through the information that we just released and to answer your questions. As you may have read, we have decided to suspend the release and production of all APIs and intermediates in our Italian site in Brindisi. This decision follows an internal audit that has identified quality control deficiencies, including integrity deficiencies, and documentation and quality data related to API quality control. These deficiencies could result from potential misconduct, and further investigations are ongoing. The production will remain suspended until further notice, and the company has initiated a forensic audit to delve deeper into the matter. Of course, the relevant health authorities have been informed, and we will inform our customers.

In Brindisi, we produce 11 APIs and intermediates mostly, and interactives for a total €63 million sales in 2023, of which 43% is sold to Sanofi.

This situation is expected to impact the group's operational and financial performance. So consequently, we have decided to suspend our full year 2024 guidance. The revised outlook will be provided in Q2 2024, along with the planned communication on the implementation and financing of the FOCUS-27 project. I want to stress here that there is no correlation between the strategic review disclosed at the end of February 2024 and the current situation in Brindisi.

Having said, that we are ready to answer your questions, of course, keeping in mind that some elements are still being assessed and not finalised.

Questions and Answers

Operator: If you like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. You'll be advised when to ask your question.

Our first question come from the line of Zaynah Ebrahim, JP Morgan, your line is open. Please go ahead.

Zain Ebrahim (JP Morgan): Hi, everyone. Thanks for taking my questions. I've got three if possible. So my first question is just on the expected timelines for the shutdown in production. When could we expect to see resolution and restart in API supply? I think the prostaglandins

took about five months, but you didn't need further inspection by the health authority. So if you could use that as benchmark to steer us, that would be really helpful.

My second question is just on – you've helpfully put in the release the revenue contribution for the Brindisi site in 2023, but could you give us a sense of how to think about the impact on core EBITDA? Presumably these are relatively low margin products, but then there's a significant fixed cost base in Brindisi. So how should we think about that for when we're trying to think about the impacts on 2024?

And then my third and final question is just on the covenant – on the revolving credit facility. Are you comfortable after taking into account this disruption that you're still comfortably below the covenant for this year?

Ludwig de Mot: Okay. So I think – thank you for that. So I'll take the first question and then Antoine will take the two other questions. So on the time of the suspension, that was the first question, again, we are still doing the investigation. We hope to be able to get the investigation report as soon as we can, but this will take an amount of time. So the timeline of suspension, we can't give a definite answer yet, but we are talking in terms of months.

Antoine Delcour: Regarding the question on the impact on the core EBITDA and the RCF covenant. At this stage, we are still currently assessing the operational and financial impacts on the stop of productions and potential impacts, not knowing yet the number of months where during which the plant will be stopped and the time it will take to remediate. We'll then provide more information in upcoming communication on the FOCUS-27 project.

Zain Ebrahim: Thank you.

Operator: Our next line of question come from Deutsche Bank. Your line is open. Please go ahead.

Fynn Scherzler (Deutsche Bank): Yeah, hi, Fynn Scherzler from Deutsche Bank. Thanks for taking my questions. If I can maybe follow up on the margin question asked before, so is it correct that these products are rather lower margin compared to other APIs that you provide?

And then on the quality issues themselves, can you comment on the nature of those issues? So last time it was on documentation. Is it this time related to the actual final API formulation? So to the actual product?

And then one more question. Why were the non-current assets in the site already fully impaired last year? So have you had any knowledge of these potentially existing issues at the site beforehand? That would be my questions. Thank you.

Ludwig de Mot: So maybe Antoine you can comment on the impairment question and on the margin question.

Antoine Delcour: So regarding the margin questions, you are totally right. The products which are made in Brindisi have lower margin than the average margin of the company. Regarding impairment, I want to make it clear that this issue was not known at the time of the impairment, it was based on the future cash, which will be generated by the company in the upcoming years which were negative. And also this is the reason why we announced as part of the strategic review a few weeks ago, our intention to divest Brindisi but also Haverhill for the same reason.

Ludwig de Mot: And then on your question, on the nature of the quality issues, I think it's important that we mention that we have a number of confirmed data integrity failure situations in the stability studies. As you could also read in the announcements, we will initiate as of tomorrow morning a forensic audit. So you all know what the forensic audit means, so that means that we're going to investigate misconduct, misconduct that has been happening in the site of Brindisi. But you will also understand that this is also very normal in forensic situations that we cannot disclose any information for which reasons on this audit until we have the results of the audit. But you also know that these audits go rather quick, and you have some forensic results over the next period of time. But we don't know yet when.

Antoine Delcour: Our commitment is to come back to you in the course of Q2 at the same time for the results and the timing on cost benefits and financing the strategic review on the financial consequences of the event, which just occurred in Brindisi.

Ludwig de Mot: Absolutely.

Operator: Ladies and gentlemen, please press star one to ask for a question. We'll take our next question from Marion Lefebvre from APM News. Your line is open. Please go ahead.

Marion Lefebvre (APM News): Hello. Thank you. I'm a journalist for APM News. I want to know which markets will be impacted by the suspension of the production. And do you know the impact on Sanofi? Also, you talked about anti-infectives, which are already under supply shortages in Europe, so will it be worse? And also, can you talk a little bit louder, because we can't hear you very well. Thank you very much.

Antoine Delcour: Okay. so, on your first point which is to understand exactly what are the geographies which are impacted. We are supplying this APIs to multiple clients in different geographies. So there isn't any specific geography which is impacted by this events.

Regarding Sanofi, as we mentioned in 2023, Sanofi net sales represented 43% of the net sales of the plant. So this is the ratio of the sales to Sanofi versus the other clients.

And the last question, yeah, shortages, what normally – so what I can tell you is that – so the shortages, so this site is currently underutilised. And so as a consequence on our side, we do not expect to have any shortages for the time being of this stop of production.

Operator: Our next line of question come from Zain Ebrahim, JP Morgan, your line is open. Please go ahead.

Zain Ebrahim: Great. Thank you for taking my follow-ups. I had two follow- ups. My first one was just, you mentioned that the cash flows for Brindisi were, you already assumed they were declining, and that's what triggered the impairment. So the €63 million revenues in 2023, could you give us the indication of what level of decline you assumed for when you were getting 2024 guidance, or your previous 24 guidance?

And then my second question is what – just to get a best understanding of what's triggered this internal audit. Was it just an annual routine audit? And then prior to that, have you now completed all the internal audit for all of your sites? Are you confident that these issues are sort of isolated to Brindisi?

Antoine Delcour: So what I can tell you is that if we do not provide 2024 guidance by site is that indeed the net sales for the site are declining. So, we have just mentioned the 60 – the 2023 net sales, so as a consequence in 2024, we expect it to be lower.

Regarding how this was discovered, this was discovered as part of our quality system. It didn't arrive through formal audit at site level, but through our regular procedure in terms of quality, internal controls during which the investigations were done which helped us to discover this quality issue. In order to ensure that we will not face such a problem in the oversight of the group, we will launch quality audit in all the sites to ensure that this problem that we discovered in Brindisi is not occurring anywhere else, and that we maintain the quality at the right level to meet the standard of our clients, and also because quality is our first priority as a pharma industry service provider.

Zain Ebrahim: A follow-up on that, so those quality audits that you will launch on the other sites, will that be complete by Q2 2024, when you provide the 2024 guide?

Antoine Delcour: No, these audits will not be yet fully finalised. They will be done by external, it won't be internal audit, but external audit and which are taking a few weeks. Unfortunately, we will not have the results, meaning for the other sites, when we will communicate more on the impact on 2024. However, today, meaning – we did already such an audit after the Budapest quality documentation issue. And we think that the other sites are – yes, are not really impacted by such, because this quality issue in Brindisi is due to potential local misconduct.

Zaynah Ebrahim: Understood. Thank you very much.

Operator: As a final reminder, if you'd like to ask a question, please press star one. There are no further questions on the line, so I will now hand you back to your host to conclude today's conference.

Sophie Palliez: Okay. Thank you. Thank you very much. And once again, thank you for joining in such a short notice and so late in the day, at least in Europe. We remain at your disposal. For any follow-up question, please don't hesitate to send us emails or give us a call tomorrow. Thank you very much. Bye.

Operator: Thank you for joining today's call. You may now disconnect.

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