

CSD/BSE&NSE/CC/2024-25
June 21, 2024

To
The Manager
Department of Corporate Services
BSE Limited
25th Floor, P. J. Towers,
Dalal Street, Mumbai - 400 001

To
The Manager
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E), Mumbai – 400 051

Scrip Code: 543064

Scrip Symbol: SUVENPHAR

Dear Sir/Madam,

Sub: Transcript of the conference call for acquisition of a majority stake in Sapala Organics

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Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the conference call for acquisition of a majority stake in Sapala Organics conducted on 19th June, 2024.

The above information has been uploaded on the Company's website at <https://suvенpharm.com/financial-info/>

This is for your information and record.

Thanking You,
Yours faithfully,
For **Suven Pharmaceuticals Limited**

K. Hanumantha Rao
Company Secretary

Encl: as above

Suven Pharmaceuticals Limited

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Suven Pharmaceuticals Limited
Update on the Acquisition of a Strategic Controlling Stake in
Sapala Organics
June 19, 2024

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Suven Pharmaceuticals Limited Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Cyndrella Carvalho, Head of Investor Relations at Suven Pharmaceuticals Limited. Thank you, and over to you, ma'am.

Cyndrella Carvalho: Thank you. Good evening, everyone. I welcome you all to today's conference call to "Update on the Acquisition of a Strategic Controlling Stake in Sapala Organics."

Our management team present here with us today includes Mr. Annaswamy Vaidheesh, Executive Chairman, Dr. V. Prasada Raju, Managing Director, and Mr. Himanshu Agarwal, Chief Financial Officer.

Let's delve into the Key Highlights of the Transaction and then open the floor for Q&A.

Now, I will invite Mr. Annaswamy Vaidheesh, our Executive Chairman, to Share his Thoughts on this Acquisition.

A. Vaidheesh: Thank you, Cyndrella. Good evening, everyone.

We are pleased to announce that Suven has entered into a Definitive Agreement for the Acquisition of a Controlling Stake in Sapala Organics.

To give you some background, Sapala is a Hyderabad-based CDMO that specializes in oligonucleotide drugs and nucleic acid building blocks.

Dr. P. Yella, the Promoter and CEO of Sapala has a deep domain expertise in the space and 20-plus years of working experience in Japan, has built this company into a unique CDMO player over the last two decades. I feel



extremely delighted to welcome Dr. P. Yella Reddy and the Sapala's team to the Suven family.

We are very much delighted to partner with Sapala as it represents a strategic fit for Suven. Oligonucleotide space is a niche yet rapidly growing space with immense potential. As you may be aware, nucleic acid-based therapies target diseases at the genetic level, offering hope for condition that were previously deemed incurable. With Sapala's acquisition, we are enhancing our technology platforms which now include ADCs, oligonucleotides, and more. This aligned with our strategy of investing in high growth, high impact areas, both organically and inorganically and marks another stride in our journey towards establishing a deep domain-led integrated CDMO platform from India.

I will now request Dr. Prasada to say a few words and explain to you more about the rationale. Thank you.

Dr. V. Prasada Raju: Thank you, Mr. Vaidheesh. A very good evening to all of you.

It's quite an exciting time for us. Sapala has actually built unique capabilities in the oligonucleotide building block segment. This market is currently valued at approximately Rs. 750 million and it is expected to grow at an impressive 20%-plus of CAGR.

The segment has seen increasingly interest and investments from large pharma's and also oligo-focused BioPharma companies with many of our customers are also looking to expand in this space.

The segment currently has 17 approved drugs, with a very healthy pipeline that is expected to quadruple the approved drugs by 2030, which is supported by the fact that a very interesting number on both P4-to-P3 stage which is in Phase-III as well as similar or double the number in a preclinical to clinical as well.

Sapala capabilities in locked and bridged nucleic acid, Tricyclo DNA, GalNAC positions it as one of the few players globally capable of delivering such specialized solution, which the market is looking for.

Combining Sapala's R&D depth and experienced team with our customer access and expanded manufacturing capabilities will certainly drive meaningful synergies across our platform.

I will now hand over to Himanshu to discuss the financial and structure-related aspects of the deal. Thank you. Over to you, Himanshu.

Himanshu Agarwal: Thank you, Dr. Prasada. So, from a financial perspective, this acquisition is structured to deliver long-term value. In FY'24 Sapala's revenues were over Rs. 670 million and the adjusted EBITDA margins being at 45%-plus. As shared in the investor deck, the adjusted revenue has been growing at a CAGR of 18% for the last three years.

Subject to the customary adjustments for net cash and working capital, the initial consideration is Rs. 2,295 million for an acquisition of 51% stake on a fully diluted basis. We expect the 100% acquisition to be valued at 13x to 15x times EBITDA multiple, contingent on the financial performance, primarily EBITDA, over the next three years, which ensures alignment of interest and sustainable growth. Therefore, the overall EBITDA multiple for the 100%



business will likely be 13x to 15x EBITDA multiple range. This is expected to be financed through cash reserves or internal accruals of Suven Pharma and the initial acquisition is expected in Q2 of the current year, while the balance stake acquisition is expected to be in three years, subject to the necessary regulatory approvals.

We plan to operate this business collaboratively with the current promoter, working as the CEO of Sapala Organics for the next few years as well as the strategic advisor for Japan region before we fully acquire 100% of Sapala. The transaction is expected to be EPS-accretive from the first year of acquisition and we do not expect this acquisition to affect the current merger scheme with Cohance.

We will now open the floor for any questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Amey Chalke from JM Financial. Please go ahead.

Amey Chalke: So, the first question I have is, considering the market is growing by 20% CAGR, what would be the expectation from Sapala's business going ahead for the segment?

Dr. V. Prasada Raju: Amey, thank you for your question. In a mid-term-to-long-term. It will match or exceed the current market growth. That's the internal view that we have, because the base is lower and smaller.

Amey Chalke: Sir, is it possible for us to give some color or apart from the oligonucleotide, any other segment currently are they working on any other projects or segments they are present in?

Dr. V. Prasada Raju: So, the predominant area for focus is on oligonucleotides only, but as you understand, within the oligonucleotides there are multiple varieties of compounds that they have. One is specialized building blocks which includes tricyclo DNA. Number of projects are also getting used, using that as a core and bridged nucleic acid is one more type of compounds, GaINAC compounds are another division. So, there are variants and designer level oligonucleotides which Sapala is able to build the competency within the segment of oligonucleotides and nucleosides.

Amey Chalke: And is it possible for us to give us some color on the number of projects currently we are working in specifically Phase-III or any commercial project in the future?

Dr. V. Prasada Raju: So, as you understand, currently, most of the Sapala projects are in early-to-mid-stage development and there are a couple of projects in Phase-I as well. But again, as we go deeper and deeper, we should be able to really get more color on it. As we get to know, definitely, we'll communicate back to you.

Amey Chalke: How does this acquisition gel with the Suven's capability if you can explain?

Dr. V. Prasada Raju: So, yes, we also have communicated in our previous earning calls, one of the key drivers of our strategic intent is to invest in niche and unique technologies which are evolving as emerging trends in the small molecule space, which helps us to stay relevant and close to our customers. ADC warheads has proven it right and therefore we thought we should invest in additional adjacencies including oligonucleotides, thereby, it will also help us to be a



preferred partner of choice for our existing customers and also for the new customers.

Moderator: The next question is from the line of Surya Narayan Patra from Phillip Capital (India) Private Limited. Please go ahead.

Surya N Patra: Since it looks like it is a targeted acquisition, there was some sense of acquisition that was there, so is there any target in terms of the opportunity that has also been there, so that's why it was a targeted acquisition or how is it, sir?

Dr. V. Prasada Raju: As I partially explained to Amey, it's a part of our strategic assessment to accelerate our Suven growth we have decided to invest in niche and newer technologies which are unique and emerging as future trends. With this intent, we have been scouting for opportunities and very few and limited are available, and it has so happened that Sapala is found to be one. So, that is the primary driver of what we are today.

Surya N Patra: So, given the understanding that both the oligonucleotides as well as the ADC, these are like very complex areas, so what would be the kind of the formula for success here, whether it is to closer to the customer kind of means that is one condition and what we are not having the operation here in India, or what could be the formula for success in these two areas?

Dr. V. Prasada Raju: So, the confidence on antibody drug conjugates has actually taught us several aspects. One is you have to travel along with innovator firm and be a partner along with the development. As you understand, it's not just a service sale, it is a more of a technology and design the molecule in line with what they expect. So, definitely your chemistry skill and abilities to scale up and provide the material on time are the three important drivers for us to be able to partner with the innovator companies, which we feel strong about Sapala as well. We would be able to replicate the same model. That's how success looks like.

Surya N Patra: Having operation outside of the advanced world is not a kind of impediment, that is what one should think, is that right, sir?

Dr. V. Prasada Raju: It's not definitely, because what happens is majority of our customers are taking either inorganic approach of getting into this space or they are also looking for a product level selected deals or they are looking for a complete in-licensing of the molecule. They are also wanting somebody to be a part of their GMP manufacturing which we secure a highest chance because for the last two decades we are with most of the innovator companies. That's how our strength is going to be really helpful for us to really accelerate the qualifications with some of these customers, while we try and work with some of the Biopharma firms which are active in this space as pioneers in oligonucleotides.

Surya N Patra: Sir, given the complexity that is there about customer acquisition for such complex areas and the timeline required also to get or to progress the molecule to the commercialization levels, so what is the timeline that you are thinking when you think that the synergetic benefits from these acquisitions will really be supplementing the combined business of the win going ahead, whether it is FY'27 onwards or it is even beyond that, when should we really see the benefit of these assets really contributing to the overall earnings for the company?

Dr. V. Prasada Raju: So, what we actually decided was to really go deeper on the existing customers and also start looking for new customers. More importantly, some of our Suven customers are extremely critical for having this competency. But, as you understand, our success is depending on the clinical success of a pipeline,



which means anywhere visible case studies can be built with synergies at least within two to four years' timeframe is what we see so which comes back to the same time period or which can be a little early also. Two to four years is the timeframe that we see to have the synergies coming in.

Surya N Patra: The kind of the size of the business what it has been acquired now, so is it fair to believe that now the oligo is larger than the ADCs what we have been having?

Dr. V. Prasada Raju: Our wish is to grow both to highest level and that comparison might be a little difficult to comment right now, and oligo is relatively at an early stage because we don't have any commercial products, but in case of antibody drug conjugates, as you understand, two warheads are being supplied for commercial pipeline molecules, so which is different than what we are in Sapala. And to your first question, two to four years down the line, probably oligo also will start seeing the similar kind of a texture, but not right now, it's an evolving field at this stage.

Moderator: The next question is from the line of Ritu Kumari from LK Investment. Please go ahead.

Ritu Kumari: So, I have a couple of questions. My first question is what is the contribution from the top-five products or maybe customers if you could just help with that?

Dr. V. Prasada Raju: It's a fairly diversified in terms of product as the products are customized for specific customers and requirements and today, top five customers contribute for less than 50% of the revenue on an average in the last few years.

Ritu Kumari: And what are the current market growth drivers and how do we see it evolve?

Dr. V. Prasada Raju: So, as we have explained, definitely, we have to travel along with existing customers, and also, I was answering Surya Narayan's question, while the synergies are relatively mid-term-to-long term, but immediate onboarding of the existing customers of Suven is one of the important priorities that we kept it for us and most of the customers are actually asking for the new technologies and capacities coming in. So, that is one of the growth drivers. However, we also try to continue with the existing relationship of Sapala between US, Europe and Japan also, they have over 20%-plus of revenue exposure, we try to grow existing with the leverage of Suven customers as well. These are all the two priorities which can drive the growth.

Moderator: The next question is from the line of Hrishikesh Patole from B&K Securities. Please go ahead.

Hrishikesh Patole: Just on the customer profile front, when you give see the highlights what is the customer profile like what are the key customers or emerging biotech firms, well-established big pharma player, like, can you go abroad that would be helpful?

Dr. V. Prasada Raju: Today, Sapala has innovator customer base across US, Europe and Japan. Broad geography, average sale split, the last few years between US, Europe and Japan is around 40, 30 and 20, which also means is a good mix of big biofirms, which includes oligo-focused CDMO players and that's how the current business mix is around the companies.



- Hrishikesh Patole:** Just to add on that, have we been adding clients regularly, what has been the trend on that?
- Dr. V. Prasada Raju:** The question is a bit unclear. Can you just elaborate?
- Hrishikesh Patole:** What I wanted to ask is, have you been adding clients regularly for the past few years?
- Dr. V. Prasada Raju:** Yes. Addition of the customers is happening, on top of it addition of molecules for the same line of customers is also happening. Finally, product progress is actually seen and Sapala is along with the product progress as well.
- Hrishikesh Patole:** And now with Suven you expect that to be faster going ahead?
- Dr. V. Prasada Raju:** That's right. Because we have a long relationship with the top innovator companies and majority of them are extremely active on oligonucleotide basis. And because we are actually qualified suppliers for them, our existing relationship can be properly leveraged with Sapala's competencies.
- Moderator:** We have the next question from the line of Jainil Shah from JM Financial. Please go ahead.
- Jainil Shah:** I have two questions. One is what is the current capacity utilization? And second one is, if you can elaborate a little bit more on how the current competitive landscape is and who are we competing with in India and outside India?
- Dr. V. Prasada Raju:** From a capacity standpoint, I just wanted to clarify. This is predominantly R&D-led activity and today, the basic amidites or some of the compounds that we do manufacturing are in kilolitres capacity. Otherwise, from a capacity standpoint, it is predominantly on R&D side of it; however, when the molecule grows into the clinical phase from preclinical into commercial, what we need is GMP facilities. And one of the important elements as a part of the deal is, we end up supporting the growth of the organization by creating a GMP manufacturing facility. Hence, we don't have any capacity constraint right now, and as it is a predominantly R&D, we have enough capacities; however, in view of the future growth, we have plans to create a GMP manufacturing site in one of our expanded platform sites. Second question is on the competition landscape. As you understand, there is a very unique combination of having bridged nucleotides and galvanic compounds and tricyclic compounds. So, it's very hard to decide; however, there are some companies who are closely related, but not exactly comparable. Hence, we won't be able to exactly define who is our right competition, because that's a struggle for us itself, which we are not able to come to a conclusion. They are closely related but no way comparable, because the extent of competency Sapala has built, all the competencies are not existed as one-roof solution in any of the farms that what we have assessed.
- Moderator:** We have the next question from the line of Surya Narayan Patra from PhillipCapital (India) Private Limited. Please go ahead.
- Surya N Patra:** Sir, if you can just add something about Mr. Yella Reddy's strength and his likely contribution to Suven?
- Dr. V. Prasada Raju:** As our Chairman, Mr. Vaideesh, has briefly touched upon in the opening remarks, he has close to four decades of technical experience, worked in



Japan and lived in Japan, and he speaks Japanese language and he has a very strong connect and he is a product of Toyota, also by training he did his entire science in sugar-based chemistry. As you understand, oligonucleotides comes with organic chemistry, inorganic chemistry, physical chemistry, combination of all only somebody can really isolate. So, he has a blend of technical experience and expertise and a deeper understanding about the science of oligonucleotide, coupled with exposure in Japan, while he runs Sapala business as the CEO of the company. What we have also decided is we wanted to leverage his network in Japan and he will serve as advisor for Japan market entry at an overall Suven and Cohance platform. That's the view that we have today, Surya Narayan.

Surya N Patra: Whether that association will be a kind of be a beneficial aspect so far as CDMO chemicals, specialty chemicals and all that also?

Himanshu Agarwal: That's right, because his strength is on that CDMO space only predominantly.

Surya N Patra: Sir, in fact, in the opening remarks, you have alluded about kind of acquisition cost. There are some disturbances, I could not catch. If you can share your view, can you repeat it please?

Himanshu Agarwal: I will just kind of repeat what we had articulated. Essentially, as you would have read, we've acquired it at an initial consideration of INR229 crore and that's 51% stake on the fully diluted basis. We're expecting to acquire 100% in a period of three to four years which again would be valued at 13 to 15 EBITDA multiple in the next three to four years, does that help you?

Surya N Patra: Yes. So, that means 13x to 15x you said for the EBITDA whatever that you will be getting in the time on a future date?

Dr. V. Prasada Raju: That is correct.

Moderator: We have no further questions, ladies and gentlemen. I would now like to hand the conference over to the management for closing comments. Over to you.

Cyndrella Carvalho: Thank you, Dorwin, and thank you everyone for your time, and we look forward to sharing more updates with you all. Thanks a lot.

Moderator: On behalf of Suven Pharmaceuticals Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.