

# Dr. Reddy's Laboratories Limited

## Annual General Meeting, FY2016

### Address of the Co-Chairman and CEO

#### Introduction

Good morning ladies and gentlemen.

I would like to add my personal welcome to all of you on the occasion of the 32<sup>nd</sup> Annual General Meeting. Thank you all for being here today, and for your continued support to Dr. Reddy's over the years.

The last few quarters have been a difficult period for your company.

As you would all know, two major events – the Warning Letter from the USFDA and the macroeconomic situation in Venezuela – have had an impact on our performance.

The Warning Letter has resulted in a delay of some of our important product launches this year. It has also necessitated a significant cost towards the remediation efforts. We have invested a tremendous amount of time and resources in addressing the fundamental issues stemming from the concerns. I have no doubt that these efforts will create a lasting positive impact on your company. I will dwell upon these efforts a little later in my address.

The other major event was the macro economic situation in Venezuela. The situation there is quite grim, with the country facing an acute shortage of food and medicines. To address the steep fall in the currency and the exchange restrictions of the country, we wrote down the value of the un repatriated monetary assets of our Venezuela business. Though we are taking a more cautious view of the market, we are trying to continue serving people there.

These two events have had the dual impact of constraining the topline while eroding profits.

## Central Theme

But the recent period of adversity notwithstanding, let there be no doubt about the resilience of your company, or its ability to emerge stronger from this phase.

As I speak to you today, steps are underway in your company to strengthen its position as a global player of significance.

I would like to use this opportunity to tell you more about them.

### **Firstly I'd like to talk about our renewed focus on Operational Excellence.**

An area we are intensifying our attention is our drive towards developing and sustaining a culture of Operational Excellence through a comprehensive program spanning our **Systems & Processes, Technology, People** and the **Environment**.

The warning letter last year, in an unexpected way, served as an inspiration for us to reassess our Quality Management System. The setback to our business notwithstanding, this development required us to go back to the drawing board to diagnose and address fundamental issues stemming from the concerns.

We set out to rewire our quality systems from grounds-up. This has involved overhauling our Standard Operating Procedures by removing redundancies, simplifying, creating better and more complete procedures, and harmonizing the entire system. We made structural changes for ensuring the quality of our products throughout their life cycle, while also providing vital integration between product development, quality and manufacturing on an ongoing basis.

In parallel, we have commenced a well-defined journey of Mechanization, Automation and using Information Technology to move towards greater assurance and efficiency in our manufacturing systems. Several initiatives are underway that aim to enable electronic records for manufacturing, capture all data at source, review by exception

and complete error-proofing. These initiatives will also prepare the ground for leveraging analytics to help drive improved product quality, efficiencies and improvements.

Dr. Reddy's as an organization has always been known for the depth and quality of its human capital, and for providing an environment that empowers people to do their fullest. Our efforts on harnessing our people have been directed towards reinforcing a Culture of Quality in all that we do, across all levels.

We firmly believe that as a result of our efforts we will not only address the immediate remediation requirements of the Warning Letter, but also set ourselves for a much stronger quality system by the end of this year.

As we continue our journey towards excellence, we are also ensuring that the way we develop, manufacture, and ship our products ensures that we minimize our impact on the environment.

At Dr Reddy's, we take sustainability very seriously. To us it means protecting the future by making the right choices today – particularly in an environment where water is increasingly scarce, natural resources are constrained, and there is increase in hazardous waste generation.

We are refining all our processes to do things more resource efficiently. Every year, we are improving our carbon footprint. Our energy consumption per dollar sale has consistently been on a decline. The same goes for water, an already stretched natural resource. We ensure that we consistently reduce the water we use – by recycling, harvesting and making our operations much more sustainable. We have started using more solar power and are in the process of setting up solar plants in our vacant lands. We have increased the use of biomass in our facilities. All this makes me very happy that we are on the right path. And we are committed to this journey.

## **The next key area of focus is Accelerating Business Growth**

Your company today already has a strong core business with a valuable product portfolio and a position of relevance in several markets including the **US**, where we are a billion-dollar business, **Russia** and **India**. Our current efforts are directed towards building on this strong foundation and preparing for our next phase of growth.

Our current portfolio of complex generics is very valuable to patients across the world, because of the affordability and access to expensive medicines that we provide. Our effort will be to strengthen this rich portfolio on one hand, while globalizing these assets to maximize the reach of our medicines to patients who need it around the world.

Our research efforts are directed towards accelerating the development of complex generics, particularly in areas where the need for affordable medicines is the highest. There are many products that have been off-patent for several years and even decades, but due to their inherent complexity, there still are no affordable options available. We will pursue these opportunities. We will go beyond oral solids and injectibles and explore the entire range dosage forms through our internal research organization and our extended network.

Earlier this year, we received approval for our biosimilar Rituximab in Russia. Our efforts will ensure better access to this critical medicine, apart from providing significant savings to their healthcare systems. We have seen evidence of such impact in several markets around the world such as Vietnam, Sri Lanka and Ukraine. Affordability in most markets not only provides savings to the healthcare systems but also expands the number of patients who can be treated. This is of immeasurable value, as patients who otherwise would never have access to the medicine can now have a chance of better health.

We are one of the few companies taking such products to several markets across continents and are uniquely placed to contribute in a major way to patients across the globe. We have built strong capabilities and a deeper understanding of various

geographies, both through our direct presence and also through partners who have a very sound local understanding. This year will witness the further unfolding of our complex generics and biosimilar journey with many exciting product filings, geographic expansion into LATAM, North Africa and Asia Pacific.

The other dimension of our growth strategy is our focus on creating our own portfolio of internally conceptualized and developed novel products.

In March this year, we launched our first novel product Zembrace in the US, which was quickly followed with our second one, Sernivo. This twin success with developing our own original products is a dedication to our Founder Dr. Anji Reddy whose passion for developing our own innovative patent protected products is well-known to all of you. I believe that that this success also balances our zeal for innovation with a pragmatic market-focused approach. This is a validation of a path we chose in 2009 when we began refocusing our research efforts on creating novel products developed based on a better understanding of the unmet needs of patients.

We now have a strong pipeline of novel products in various stages of development. I am confident of our progress on this important journey making novel products a key driver of our growth in the next 5-7 years.

In addition to this, we will continue to explore suitable opportunities for inorganic growth in the future as well.

### **The third major thrust is our preparation for change.**

The future of healthcare will be very different from what we know it as today. The industry is changing at a rapid pace, and it is reasonable to expect that the traditional models as we know them today will get disrupted. We are already seeing evidence of this in various parts of the value chain - be it in the shift from products to services, or the advancements in technology and the rise of 'digital health' or the changing expectations of patients from the healthcare system. Every aspect of how we have been doing our business is bound to change.

Your company is preparing for this new world by exploring and piloting concepts based on deep insights at both ends of the spectrum - from the Science to the patient experience. We are exploring use of the full spectrum of cutting-edge technologies and approaches available today and are already conducting pilots and small experiments around various concepts. We have adopted the 'Design Thinking' approach to problem solving from a patient perspective, and addressing their needs in a holistic way. These are early days yet, but we expect that our focus on this area will yield business impact in the medium term. Dr. Reddy's has always prided itself in being a pioneer in the pharmaceutical industry. We will continue to explore the frontiers of our industry.

## **Finally...**

This year marks my completion of 25 years at Dr. Reddy's. It has been a very fascinating journey for me over all these years, being an integral part of a team that has built such an incredible organization. But 25 years is a short time in the context of larger role we have set out to play.

Even today, as I reflect on all the work we do, I am inspired by the importance of our work in the lives of people around the world...of the potential we have to create a difference in the lives of patients. The chance to restore the health of an ailing person, the ability to reach large numbers of people through greater affordability, and the power to listen and respond to unmet needs of patients: these are really the opportunities we have in our everyday work!

Our purpose of accelerating access to affordable and innovative medicines remains as relevant as it has ever been, guiding all our actions, helping provide objectivity to our decisions, and keep our moral compass firmly pointed in the right direction.

Our immediate priorities would be to complete the revamp of our Quality Management System and create a strong execution engine that will ensure that we create a richer and more innovative portfolio while getting us firmly back on the growth trajectory. We are very excited with the direction in which we are headed and firmly believe that our best lies ahead of us.

**Thank You, ladies and gentlemen, for your continued support and trust in Dr. Reddy's.**