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# Dr. Reddy's Laboratories Ltd

*Dr. Reddy's Laboratories Ltd presentation delivered at the 40th Annual J.P. Morgan Healthcare Conference on Wednesday, January 12, 2022 at 7:30 AM*

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**Sanjay Mookim:** Hello, ladies and gentlemen. My name is Sanjay Mookim. I am the Head of Research and Equity Strategist for J.P. Morgan in India. It gives me great pleasure to introduce our speaker for the session, Mr. Erez Israeli.

Erez is the Chief Executive Officer at Dr. Reddy's, having joined the company in April 2018 as COO, and he was later elevated to CEO in 2019. Prior to joining Dr. Reddy's, Erez has competed 23 years with Teva Pharmaceuticals, where he held several positions of responsibility, including Vice-President, Marketing and Sales, for North America.

Erez, welcome. Thank you very much for your time to do this session. Let me jump straight in and ask you your outlook for the pharma sector in India. 2020 was very challenging to start with, as COVID hit the world. 2021 has seen further pressure, with second wave in India. As we enter the New Year, the Omicron variant has started to spread across the country as well.

How do you see the pharmaceutical business in itself through 2022? What do you see, the implications and challenges, for Dr. Reddy's through the year?

**Erez Israeli:** Thank you so much for having me, and always a pleasure to be in this conference. We have a tradition to do this. Thank you for that.

COVID is a challenge for everybody. Naturally, starting for, like everybody else, we want to keep our people safe, and we want to make sure that the patients will get what they need at this point of time. The main challenges that are relatively new, is first of all, is the access to commodities, commodities product. Not necessarily because of COVID, but COVID has certain impacts on those.

The second piece is that we, as Dr. Reddy's, very busy in enlarging and also increasing capacity of the various COVID products that we have. We have quite a few of them by now, actually 15

products, ranging from prevention, like Sputnik, and products for prevention, all the way to treatment in various stages of disease. Right now, we are very concentrated on that.

As long as a various initiative to ensure that the lesson learned from the wave two, especially in India, which we were very much involved, and for all people in India, you know how tough was the period, that it will never happen again.

In terms of hospitalization, supply to the hospitals, and to ensure that the people around us are safe. It's a combination of, if you wish, safety, ensuring supply chain, COVID products, and activities with our environment, our public, especially in India.

**Sanjay:** Thank you for that. Erez, if I may jump to the outlook on the US business, the generics business, as for everybody, has seen very elevated price erosion for quite some time. It's continued in the recent quarters. How do you see that involved? Do you expect the price erosion pressures to continue, or do you see pricing stabilize in the US market in the near future?

**Erez:** Price erosion is part of the business model of work in United States in the generic sector. It's part of the game. There are relatively fewer customers. There are many people that are supplying them, and the customers can choose between people. As long as there is a margin in system, they will negotiate those. It's part of the game.

If you were successful to get one of the customers and the competitor is coming, the only way for the competitor to take your is by lowering the price. The only way for you to react is if you match that price or give up.

That's the business model. Price erosion is a function of how many products have been in these situations. It's not a macro trend, it's a part of the business model. Therefore, I believe will continue.

The stabilization versus accelerating is a function of how many products were introduced, and how important is for the people to fight on the share. This year, it's more than it used to be, maybe in the year before. We are one of the fortunate company that is still growing. Also, I believe that we will continue to grow in the United States, in that respect, because our portfolio is relatively new.

We are building a portfolio of 25 to 30 products a year, and continue to do that. Some of them are like Icosapent next year, like Revlimid next year, and other products, are promising, in terms of

the value. This is the business we are and that's the nature of the market.

**Sanjay:** That brings me to my next question, Erez, which is the product approval rate from the US FDA. That remains very strong for you compared to other peers, especially. You briefly touched upon the launches that you are expecting the coming year. Do you think that, on a adjusted for pricing basis, the business has enough opportunities to grow at a healthy pace over the next several quarters?

**Erez:** I believe so. I believe that we have the opportunity to grow, and I believe that we will do that. In parallel to that, like I mentioned in many times, we are not building on that. We are working toward that. United States is an important market for us, but we are not building on that to grow. We are growing the Ex-US even faster than we are growing in the United States.

We are taking the US portfolio to other countries, in order also to create additional opportunities for these products outside of the United States.

The company growth in the United States will continue, because I believe that we have a very good portfolio to do that. We will see, as a company, that much more growth outside of the US. This was also in the last few years. This will continue also in the future.

**Sanjay:** If I may follow up on the complex approvals where we've seen a few delays, Erez, and you've also possibly had some product-related write-offs. What were the learnings for you on that process? How would you adjust, if at all, the capital allocation, going forward?

**Erez:** First, the write-off was on NuvaRing, primarily. This is because of situation that we had in this product at the time. This was a deal that required a product in the biz development deal at the time. The main learning, that we'll not have such a deal in the future, that's for sure. [laughs]. This we decided already four years ago, when I joined.

The main learnings are the following. First of all, we decided that when we take capital allocation decisions, we are taking it first to the markets, which will go faster, that will have the best growth of EBITDA and the best growth of RoCE. This allowed us, in the last four years, to grow from a single-digit of RoCE and very low double-digit of EBITDA, and now to the area of 25/25.

We actually accelerated and got it much faster than originally anticipated. We are already playing in those areas. How did we achieve that? By taking the same development for more than one market. Again, like we said, I would to love to sell in United States, but we'll not be dependent on

the United States, in that respect.

I would love to, and we would love to invest in all location, but it has to have merit, so we are not dependent on one particular situation, whether it's a legal case, approval case, customer decision, or any one event, single event to do, but that to increase the opportunity and to decrease the risk for the company. That's what we are planning to continue to.

The specific capital allocation for the United States moved from about 90-percent-plus in FY16 to about 15 percent in FY22.

What we do is, about 30 or 40 percent...actually, close to 40 percent of the capital allocation that we have for products that will eventually end up in the United States, including those complex product, will end up in other countries, and will justify itself even if we'll not get market share in United States. This is the one key decision.

The other is that much more investment in those areas in which we can have higher growth, higher EBITDA, and higher RoCE. The primary market for us, in that respect, is India. Happened to be, being Indian-origin company, that we have the vast capabilities in that market. This was a big shift that we did.

There is a good chance that India, as a market for us, will be bigger than United States in three to four years to come.

**Sanjay:** That's a good segue, Erez, into my next question, which was on the growth plans for the India-branded business, especially your recent acquisition of the Wockhardt portfolio. How has that integrated? What are the synergies that you've been able to recognize? Beyond that, what are your medium-term growth plans for the India part of the business?

**Erez:** India is the country in which we have utmost capabilities. We have a very good brand, as a company brand. We have a legacy of work. Most of our employees are from this country. We are working in many segments -- specialty, innovative, generic, OTC, nutraceutical, etc.

The growth in India will be consistent on the following elements. One, we will grow big brands, especially the acute will grow, but much more, we will grow the one that are chronic. Second, we are enhancing, either by BD or by organic growth, or by certain activities that we are doing to combine innovation with products, the leadership, in each one of the spaces that we are working in India.

Number three, Wockhardt worked very well for us. We had great synergy on both the cost and the sales side. We actually exceeded expectation of what we set to do on the local deal. Last but not least, in India, we will go even outside of our comfort zone to area of nutraceutical, digital therapeutics, immune oncology, and many other segments, because we have the ability to do that.

Most of our, what we call Horizon 2, the future of the company, the activities that will generate growth for the company, post-2026, post-2027, will derive from innovation that will be initiated in India, with partners in India and outside of it.

**Sanjay:** A follow-up question on the India market, Erez. There is a sense, amongst investors at least, that the volume growth for the industry in India has been a little disappointing, especially given the income levels and the demographics of the country itself.

What would you attribute the recent weakness in volumes to? Do you see any of that changing? Do you see acceleration in top-line or volumes for pharma, as an industry?

**Erez:** As I said, the last two years were naturally, with the pandemic waves, and also at the beginning, there were certain lockdown situations and disruptions like that, it is hard to tell, what you call core growth, in terms of a growth that will be really be served for many years, and what is the situation that is coming.

I can tell you that, in our case, I am very happy with the growth that we are doing. What is required is, of course, to focus on those elements that are relevant for the people at that point of time.

Now, what does it mean? For example, we knew that, for example, there are certain products that are more relevant at time of pandemic. Not just for COVID, also product that, let's call it, are related to the COVID. For example, certain antibiotics, certain steroids, certain products like that.

It will be less relevant in a place that the people will not have the interactions with the pharmacy store, with physicians. Product like dermatology, or some of these products have less demand. Part of it is what you called COVID-related. The other part is that you're combining, let's say, innovation that comes with the product. We are very much looking to do about that.

Basically, to do life cycle management, it will involve much more closer, if you wish, added value to the patients, which very much describe our purpose. Those kind of activities will go faster than

the normal product.

The third is that, we had to adjust ourselves to a different model of how do you actually market those products. The traditional way of sending army of people to meet many physicians is changing, as we speak. Much more digital, much of different tools, different content sharing.

We are maybe not yet a top-five company in India, in terms of sales, but for sure, we are top five, if not more than that, in terms of digital and in terms of, let's call it, futuristic products and futuristic tool in that respect. This will play a huge value in a country that is so high-tech-savvy like India.

I'm very much believe in the growth of the country, because the people are there, and the need is there. The people know that they need and deserve better health. We need to adjust to this ever-changing need, especially during the pandemic and post-pandemic.

**Sanjay:** Let me pick up on a comment you made earlier, Erez, which was on the nutraceuticals and the OTC products that you are looking to launch in the market. Can you talk about your plans on those lines? How far do you see them grow? What percentage of the business would that eventually be? A little bit more detail on that would be appreciated.

**Erez:** It is very important segment for us because we very much believe in prevention, and very much believe in the understanding and the knowledge, or increasing knowledge of the people, and they need to take care of themselves, as well as, of course, be consulted by others. Nutraceutical, as well as some of disease, very much related to either prevention or a life care, of that kind of stuff.

We started by a few years ago. We put it as a startup. We started to develop our own products, also licensed from partners. In nutraceuticals, we started with diabetic products and a brand called Celevida. It's actually very good brand now.

Although very young, but very successful, growing very fast. We are going to add to this umbrella brand, many more products. We want to lead the areas of food and the nutraceuticals, in the area of diabetic, which, for all of you that know India well, it is a very serious issue in the country like India.

We are going to add more segments like mother and child, and other segments. We see that as a very important growth engine for the company in India. Not necessarily all of which will be happen in the next quarter, because it takes time to build those words, but if you will see three, four years

from now, this is going to be a very important segment for us in Dr. Reddy's.

**Sanjay:** If I may now swing back, again, back to your overseas business, Erez, and the non-US component that you highlighted earlier, Russia has been a very key market for you. What is your outlook for the Russian Market? What are your plans for your non-US overseas business in general?

**Erez:** Russia is a very good market for us, as we are working into different spaces in different way. One, we have a legacy activity from the early start of our work in Russia. We started there in the early '90s. These are the branding activity, working with the retail. Those big brands are growing very nicely. We are also buying brands and developing life cycle management of these brands.

It's a branded activity, combined of both Rx and OTC, that will continue to grow. It is growing very nicely and will continue to grow in the future. In parallel to that, we are working with partners in Russia on the hospital products.

As you people are probably very much aware, this is very important for the Russian authorities, to have those products made in Russia. We are transferring the knowledge to partners and getting those products made in Russia, both on the injectable side as well as the biologics and biosimilars.

For example, on the biosimilar business, Russia is very important market for us. Both segments on the retail, as well as in the hospital, is growing very well.

**Sanjay:** You have previously spoken about opportunities in China and, potentially, increasing investments in China. Where does that stand today? Do you still see that as an opportunity that you want to invest in?

**Erez:** Absolutely. The regulations that the Chinese put at the time that allowed people to be first to market, or among the first to market, and to have those country procurement or what you call GPOs type of tenders etc., this is a development that was not available for us. We are fully leveraged for it. Only this year we got the approvals. I believe that more will come.

This is going in accordance to the track. We are gearing up those product that has an opportunity to be first to market, or among the first to market. We leverage the fact that we are working in China since 1998. We are not new to China. We are, of course, originally Indian company, but we

have a very good relationship in China, in that respect, and it's paying off very nicely.

This is on track. First of all, it is growing as we speak. It is growing this year, is going to grow this year. Where it's going to be very significant, naturally, as time will come, when we will not launch 3, 4 products, we will launch 10 or fully 15 products a year. This will take a few years to come, as the pipeline will be mature, either because of patents or because of development criteria.

At the same time, we are continue to grow brand business in China, including the OTC. This part, we are doing through a partner, and it's also going very nicely.

**Sanjay:** If I may move to the inputs in the supply chain disruption that almost every industry seems to be facing now, there has been concern on the availability and even pricing of API for pharma companies. Is that something that you think is a concern? How do you see the availability, or even the manufacturing supply chain for APIs, progress?

This is, of course, Erez, in the context that the Indian government's been talking about onshoring API. They've launched this whole PLI scheme. Are you optimistic that availability and pricing is not really a concern? Do you think the API business in itself can grow in India?

**Erez:** First, we are part of the PLI and we are planning to participate in a way that will continue to grow the industry in India, and develop enough products for their PLI scheme. We are part of it, and it's a very good program that was put in place.

Yes, it is a challenge, because the combination of either COVID or the commodity or any other, created a pressure on some of those, either starting material or intermediate or elsewhere. There are few solutions for that. One, of course, is to have an alternative. This is, of course, create an opportunity for us, because we have also API business. I see it also as a risk, but also an opportunity.

The second is, of course, to qualify as much as possible capability in-house. In-house doesn't mean that you do it yourself. You can do it yourself, or you can do it with partners, and not to be dependent on a country or on a source.

This is very important to us. That's what we did. Therefore, we do see those expenses going up. Luckily for us, we are less impactful. We are impactful, but not as impactful, because of those measures that we started to put four years ago.

**Sanjay:** In the interest of time, Erez, as we have only about two minutes left, let me try and squeeze one last question on your R&D strategy, and how you see that as, going forward, what are the focus areas for your R&D, as a last question, Erez.

**Erez:** We will adjust the R&D to our growth areas. We are going to see more R&D in products that can have a chance to be big, especially big brands, with longevity of life, in many countries. This is on the generics side.

We'll allocate more and more resources for those products that will have differentiated, a brand, or either clinically differentiated or other differentiated for the patients. More and more, this is the direction we'll take. More and more allocations of R&D will come for those activities that, what we call Horizon II, that I mentioned before.

**Sanjay:** Erez, this has been a beautiful chat. Thank you a lot for your time today. I believe that participants of the webinar would have also learned a lot hearing you. Thank you again, Erez. Have a great day.

**Erez:** Thank you for having me. Thank you so much.

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