



JSC OLAINFARM

WEBINAR PRESENTATION
1st HALF 2020

www.olainfarm.com

Agenda

01

Financial performance
H1 2020

02

Outlook 2020

03

Strategy 2020-2025

04

Latest **developments**

05

Q&A session

Representatives of Management Board



CEO Jeroen Hidde Weites



CFO Zane Kotāne

Global Trends

The Covid-19 impact is slowing down economics



OlainFarm

Group operations

Group continued safety measures initiated during the first quarter

Decrease in purchasing power has impact on affordability to buy medical products

Group companies have received Latvian Government financial support amounting to EUR 295 thousand

Vertical integration is a major advantage in the ability to ensure the production of both chemical components and FDF*

Compression products segment experienced the fluctuations in demand

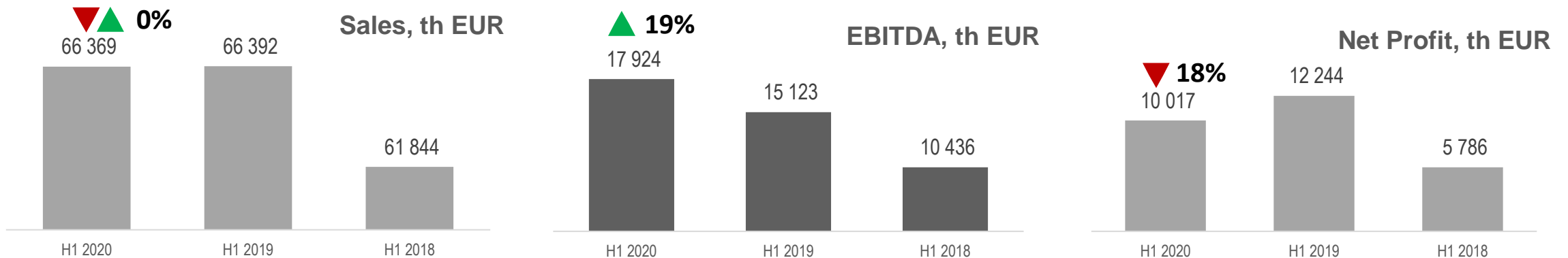
Number of markets did not carry out the necessary marketing activities (face to face meetings) which are now scheduled to resume in the second half of the year

Taking into account guidelines issued by the European Medicines Agency some clinical trials were deferred to 2021

* *Final Dosage Forms*

Key Measures

Half year results for 2020 show **stable sales** with **improved profitability** while **net profit** is **volatile** due to currency fluctuation



Main business factors

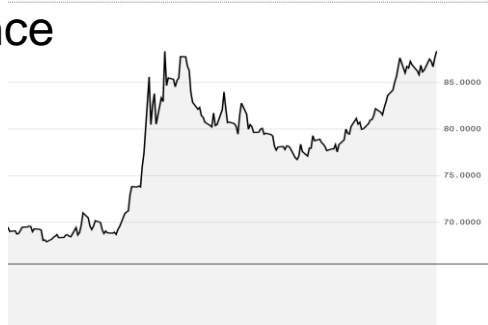
Review of cooperation partners in major markets. New **subsidiary in Russia**, fully operational August 2020. Focused marketing activities with improved governance

Introduction of **traceability*** requirements for medicinal products in Russia have significant impact on sales fluctuations in 2020

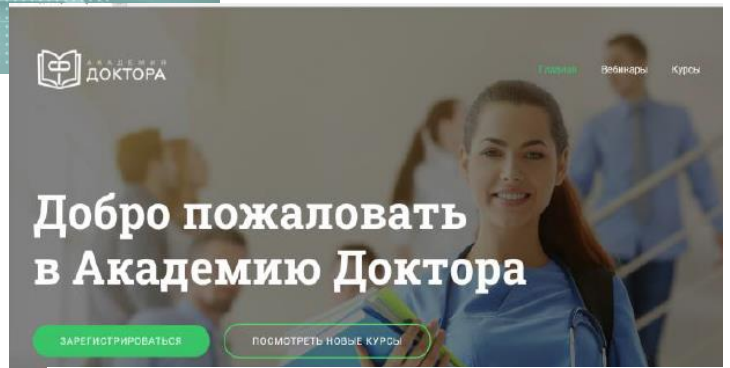
Currencies of developing countries lost their value against EUR in first six months of 2020 – value of the **Russian Ruble** dropped by 15%



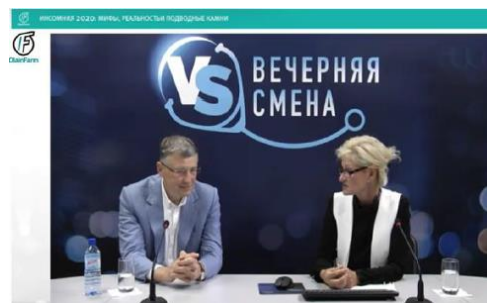
Russia



* Source: Bloomberg Markets



Educational platform “Doc Academy” is intended for **young healthcare professionals** and <http://docacademy.ru/> contains courses on medical conditions and includes video with KOL – speakers, interactive clinical cases, articles on the subject.



There are two formats of interactivity: Night Shift (talk-show with KOLs and facilitator to discuss acute questions) and DOOC (discussion club with interaction with participants on the live cases)



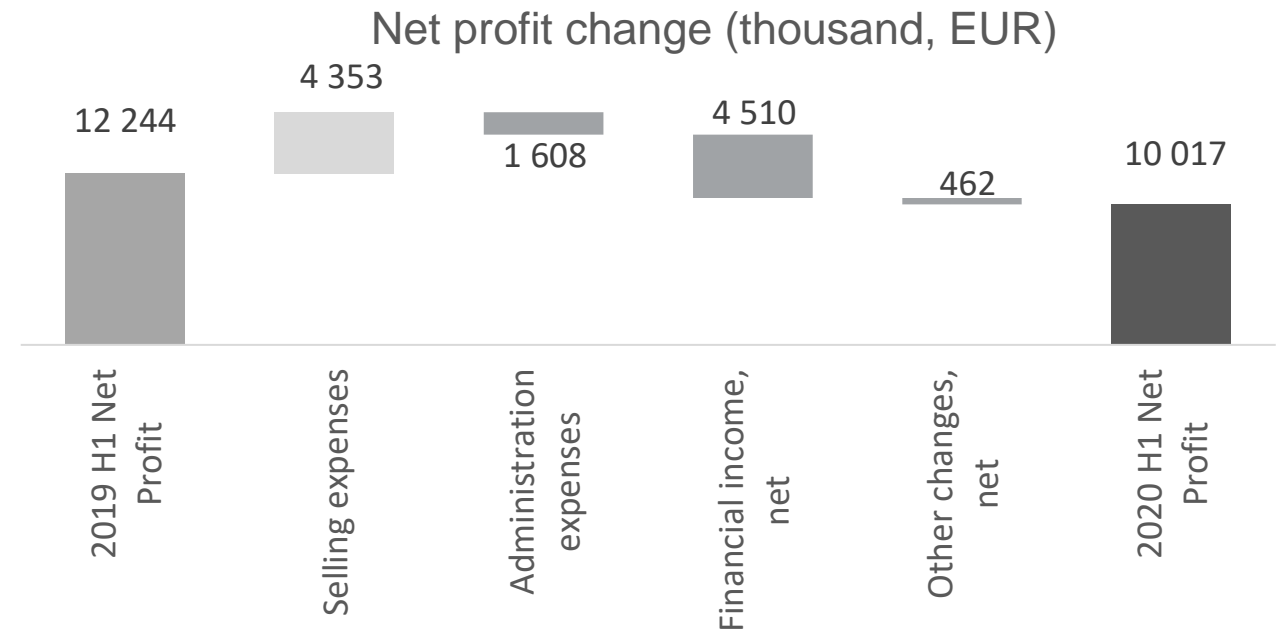
* Serialization

Net Profit

Selling expenses – timing delay due to marketing model change in major markets and there were physical limitations for performing marketing activities

Financial – exchange rate fluctuations (Russian Ruble)

Administration – changes in the accounting of personnel costs



Sales

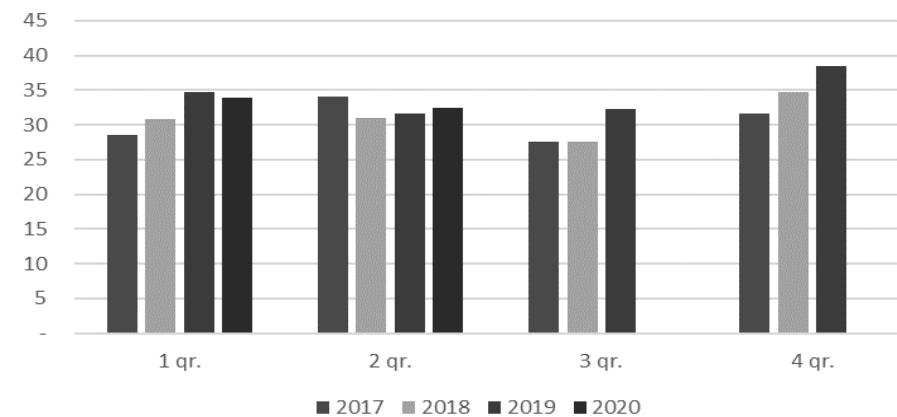
Group's Medicine Production segment reports primary sales – shipment to distributors, thus sales does not reflect final consumption

1st half of 2020 – Group's sales EUR 66 369 thousand, 0% change y-o-y

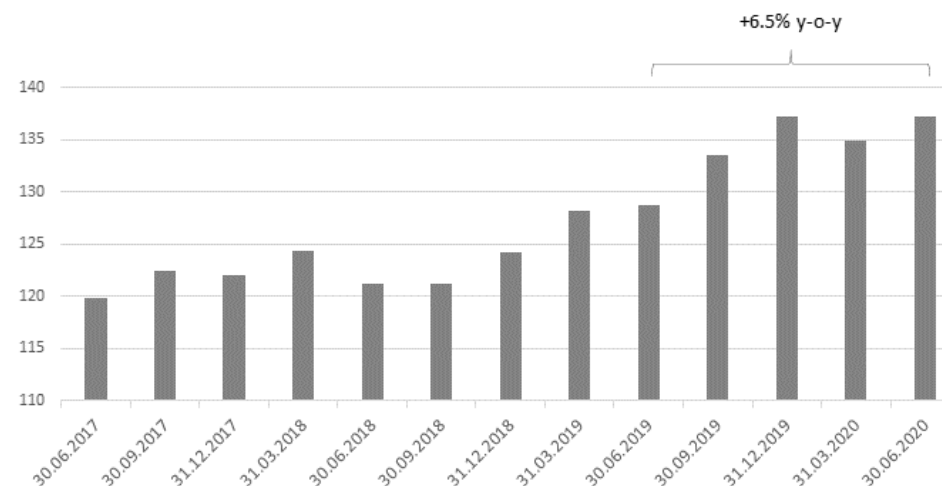
Trailing 12 months Sales (1 July 2019 – 30 June 2020) totalled up to EUR 137 million: 6.5% increase y-o-y

One off items – Q4 2019 – sale of 6mEUR to Russia for use in Q1 2020; Q2 2020 – sale of 8mEUR to Russia for use in Q3 2020 (impact of traceability regulation)

Quarterly revenue distribution, m EUR



Trailing 12 months sales, m EUR



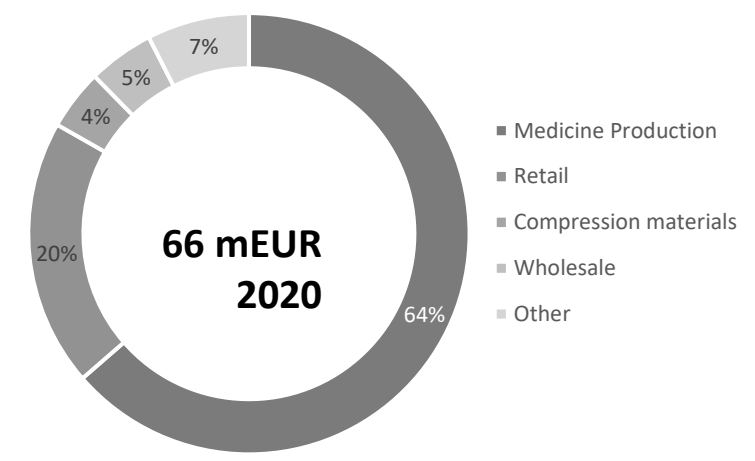
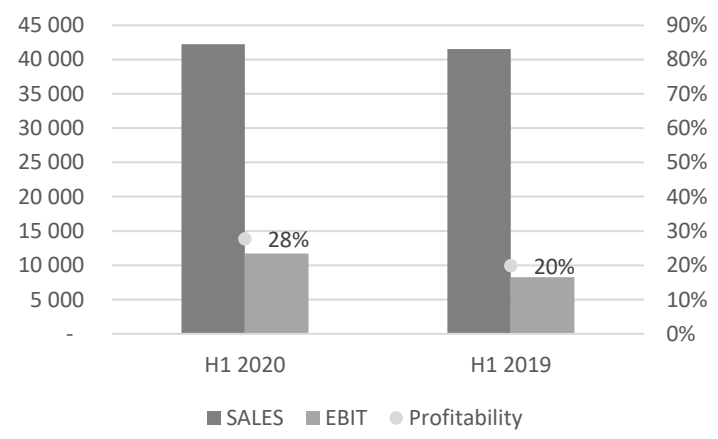
Business Segments

Group's Medicine Production segment constitutes 64% of revenues and delivers stable sales performance (+2%; y-o-y)

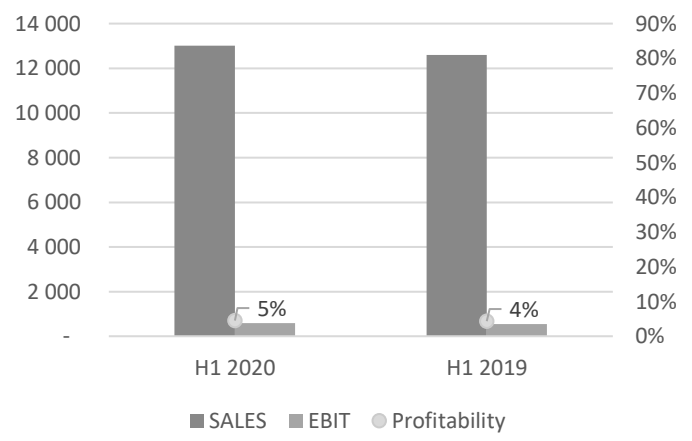
Retail segment has increased its share in Group revenues by 1%, EBIT profitability 5% (increase of 1% compared to 2019)

Compression materials segment is most impacted by COVID-19 and has negative sales growth, resulting in negative EBIT of 298 th. EUR

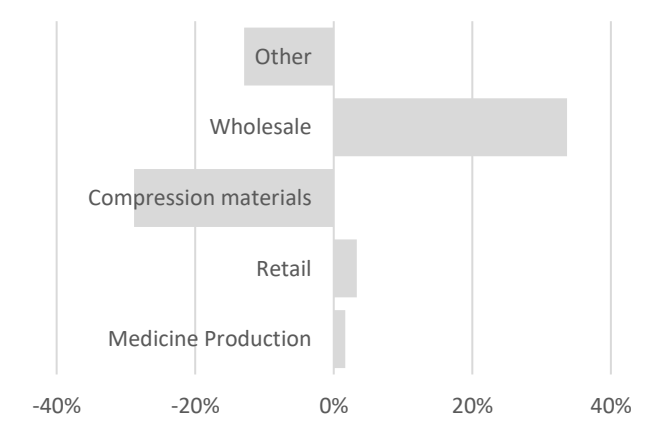
Medicine Production segment (th. EUR)



Retail segment (th. EUR)



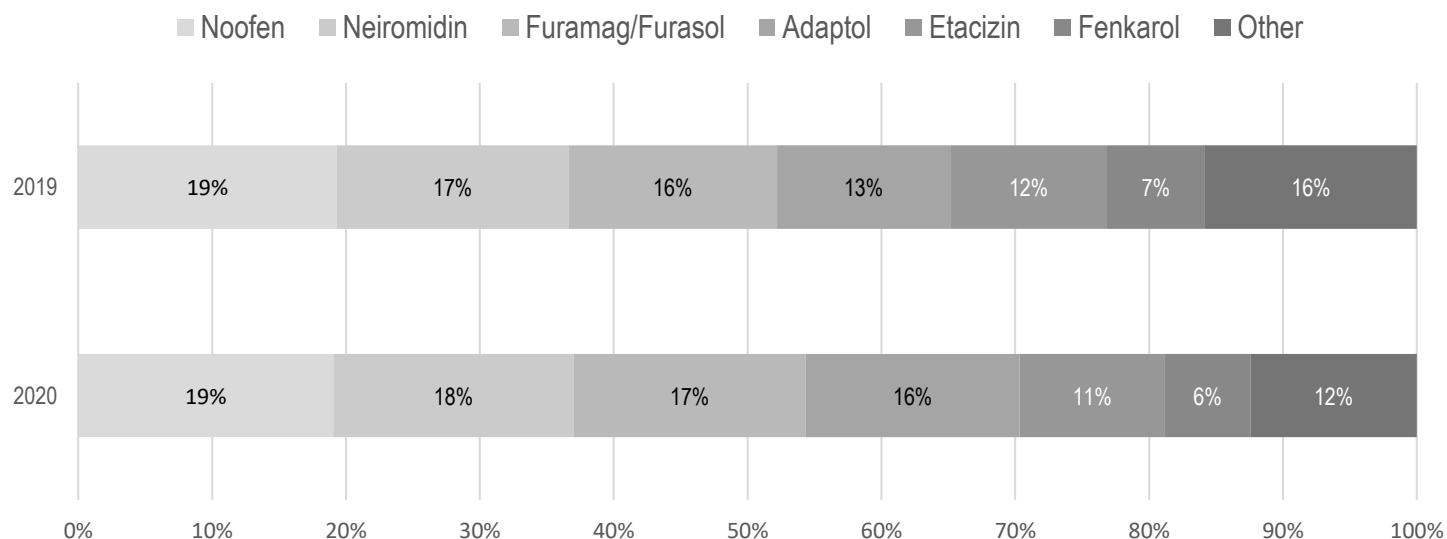
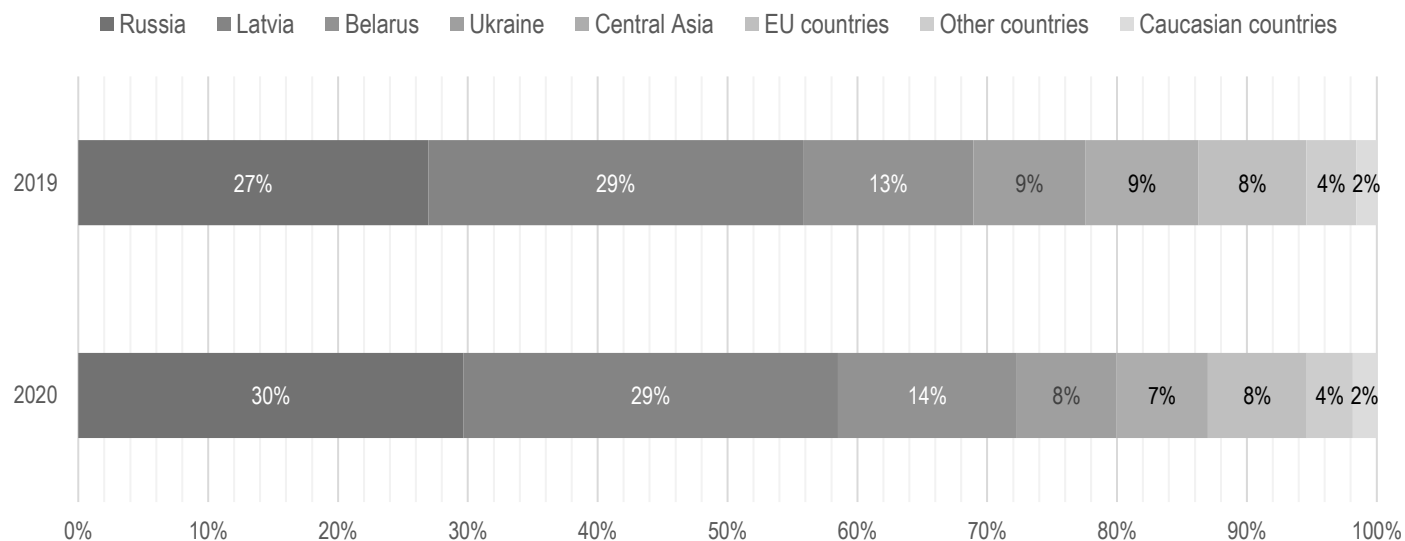
Sales growth (%; y-o-y)



Medicine segment

Group's core markets remained stable – 73% of sales delivered to three markets – Russia, Latvia and Belarus

Sales of medicine for health of nervous system reached 53% of product sales (+3% y-o-y)



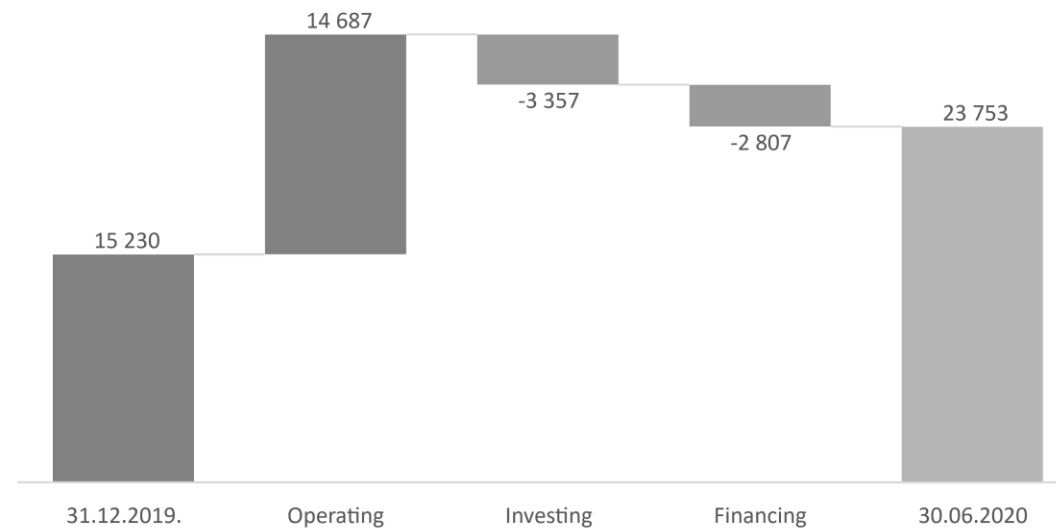
Financial Stability

Cash accumulated during reporting period is **24 million EUR**

The Group's Debt service coverage ratio (**DSCR**) in the first half of the year in 2020 continued to improve and was 5.6 due to higher EBITDA in the last twelve months

Net Debt-to-EBITDA ratio was -0.1 due to cash balance exceeding net debt

Cash flow - H1 2020, thousand EUR

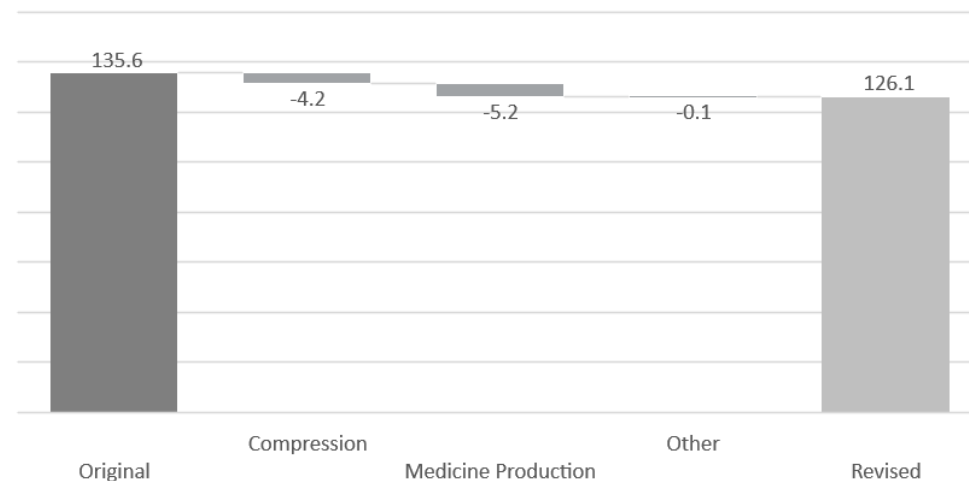


2020 Outlook

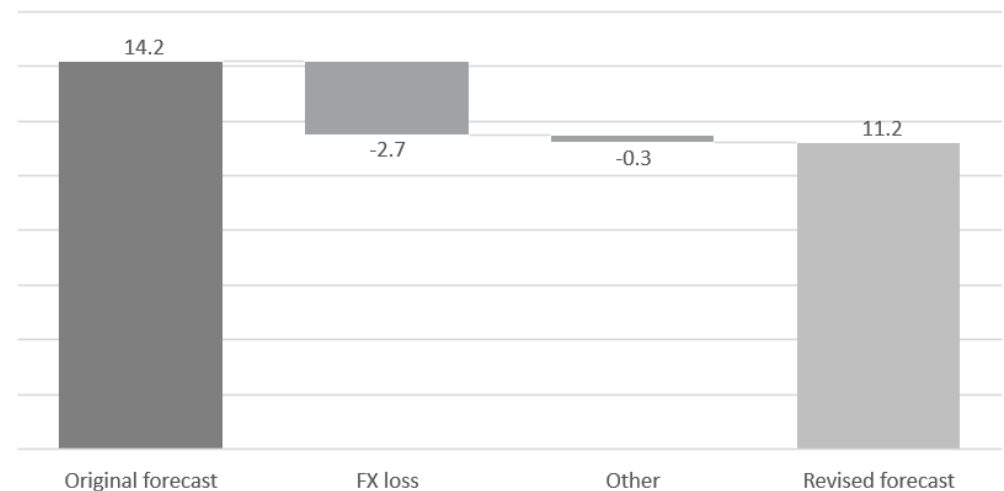
Group management revised the annual forecasts by reducing the Group's forecast annual sales to 126 million EUR, or 7% down, compared to the initial forecast. The reduction in revenue of the Parent company against the initial forecast is 5% and amounts to 92 million EUR.

The exchange rate changes in the first half of the year, as well as the postponing of marketing costs to the second half of the year in several operating markets, led to reduction in the estimation of annual profit of the Group to 11.2 million EUR, compared to the 14.2 million in prior forecast. The profits of the Parent company are expected to be 12.5 million EUR, what represents a reduction of 6.6% against the original envisaged.

Sales outlook, m EUR



Net Profit outlook, m EUR





JSC OLAINFARM

FORWARD

COMPANY'S STRATEGY 2020–2025

www.olainfarm.com

Executive summary

The new Olainfarm Strategy is addressing current global challenges by utilising the strengths of the company: vertical integration and the full control of the production cycle.

New culture where courage is fostered, a can-do-mindset is rewarded, and people are empowered to make decisions to respond fast on changing dynamics.

Strategy measures 2025



Increase shareholder value with 5 points % (ROE)



Sales Growth
Double digit sales growth in segment Rx, OTC and API YoY 2020 – 2025



Rx / OTC / API
Ratio of revenue turnover 70%:20%:10%



Improved profitability
Net profit margin @18% in 2025



Products
3-6 new Rx, 2-4 new OTC products before 2025 and 1 new API Y-o-Y



Geographical diversification
Extended product presence in CEE region and beyond by 2025



15% of revenue
Investment in R&D in 2025

Mission

We improve **customers' lives** and **create value** to our organization by providing **sustainable health care products and services** leveraging on our **manufacturing and commercial expertise**.

Vision

By the **year 2025** we are the top **10 CEE manufacturing (*)** company sustainably delivering **healthcare products and services** in **specific therapeutic disease(**)** areas in **CIS, CEE** and beyond.



*Pharmaceutical manufacturing company with HQ in CEE region (**) niche areas in

**neurology/ psychiatry, cardiology, urinary and allergy/ alimentary

Major value growth driver for Olainfarm's future is pharma manufacturing

ANALYSIS ADDRESSED

Market Attractiveness (*): market size, market growth 5 yr horizon > 6%, sizeable untapped opportunity, competitors, pricing and Net Profit > 18%

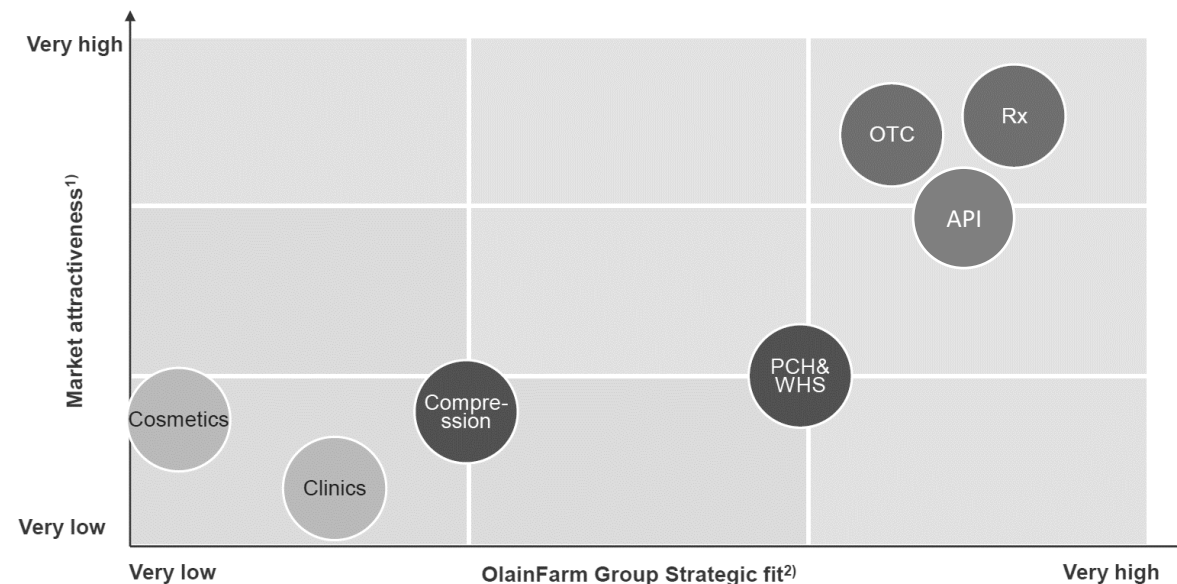
Strategic fit: treatment standards, regulatory proximity, Olainfarm (future) footprint, group synergies for economics of scale

SHIFT TO FOCUS AREAS

Primary segments

Priority growth areas for Olainfarm: Rx, OTC (including Silvanols) and API

- Core business activity of Olainfarm with legacy and competencies in product manufacturing
- Strong synergistic effect in operational model (channels) and customer characteristics
- Firstly securing strong position and prepare for expansion to Europe
- Net Profit > 18%



Secondary segments

Shift focus of Latvijas Aptiekas, Tonus Elast and Clinics to improved and customized commercial model driving sales revenue and margin

(*) Exercise was conducted for current markets and current products and on future markets new products

Roadmap of our strategic imperatives

Response to market challenges

Growing sustainably & profitably

Improving operating efficiencies of core business in our core markets in 2020 and in 2021 start building on top a future growth platform by generating a portfolio of differentiated products to meet the needs of our customers. New Go-to-market model.

Maximizing value

Making the right capital allocation decisions across the business portfolio enabling us to deliver improved shareholders value.
LEAN program to optimize processes and to reduce cost.

Accelerate Business Development

Delivering FDFs & APIs – at least 3 Rx products and at least 2 OTC products before 2025. Expanding in main therapeutic areas via product acquisition (short term) and R&D (mid - to long term) in low competitive niche disease areas. Establish strong OTC footprint in Allergy, Cough & Cold and Immune system categories.

Optimized R&D focus

As part of the vertical integration model of development, producing and commercialization (from idea to the market), to design and to maintain a competitive portfolio of products sustainably delivering 3-5 new products YoY after 2025.

Manufactory optimization & innovation

Modernize manufacturing process, increase capacity to meet demand forecast, from batch to continuous production of core brands and as Contract Manufacturer (CMO) for large customers in 2023 and onwards.

Align the organization

Support new strategy of the three core value drivers (Rx, OTC and API) as of 2021.
New culture and new competency building

Business transformation to reach growth ambition

Acquisition of new competencies

R&D and in Business development

Empowered board

Clear goals and competencies to deliver growth ambition

Culture of collaboration and new capabilities building

Continuous learning, improvement and readiness for change

Open dialogue

Openness with shareholders and other key stakeholders

Clear assignment

To set clear goals and competencies.
To take responsibility for strategic initiatives and foster measurable objectives

Positive culture

Investment in development of employees

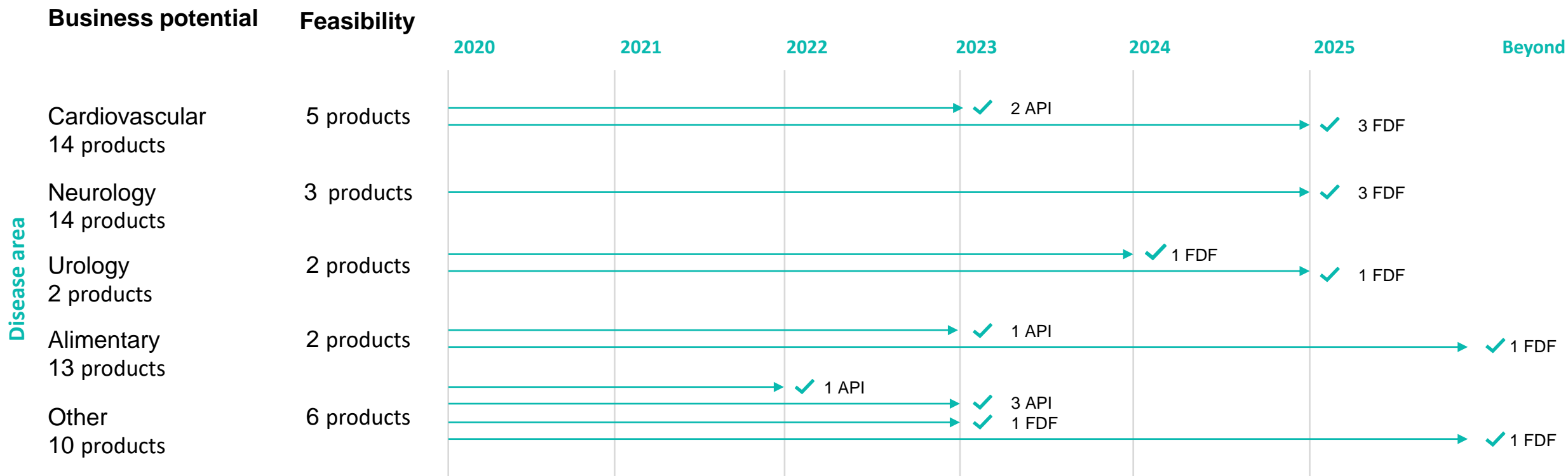
Empowered local and international team

Promote entrepreneurial and innovative mindset

Evidence based decisions

Supporting innovation and strategic initiatives

R&D: Current* product pipeline driving value



API = Active Pharmaceutical Ingredient
 FDF = Final Dose Form

✓ = commercially available

* August 2020

Ways of working



Customer focus

We are deeply committed to meet the needs of our customers, and we constantly focus on customer satisfaction



Scientific Excellence

We are dedicated to the highest level of scientific excellence. Our research is guided by a commitment to preserving human health and the quality of life



Innovation

Through continuous innovation we challenge ourselves to meet every customer need



Integrity

Integrity is the cornerstone of what makes us credible to everyone. We are holding ourselves and others to the highest ethical standards and our products and process will be of the highest quality



Transparency

We believe transparency makes mutual trust possible and will be achieved through openness with shareholders and other key stakeholders

Latest Development and next steps

01

Shareholder meeting on
September 22

02

Sales reporting in
Nasdaq

03

Changes in management

04

Cashflow – cash
accumulation and future
investments

05

**Political situation in
Belarus** – impact on
operations

Q&A session



Thank you!

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