



**Unwavering
Purpose**

**Biocon Biologics – Serum Institute Life Sciences
Collaboration Conference Call Transcript**

September 17, 2021

Speakers and Participants from Biocon Limited and Biocon Biologics

- # **Dr. Kiran Mazumdar-Shaw** – Executive Chairperson, Biocon Limited
- # **Mr. Siddharth Mittal** – CEO & Managing Director, Biocon Limited
- # **Dr Arun Chandavarkar** – Managing Director, Biocon Biologics Limited
- # **Mr. Shreehas P Tambe** – Deputy Chief Executive Officer, Biocon Biologics Limited
- # **Mr. Indranil Sen** – Chief Financial Officer, Biocon Limited
- # **Mr. M.B. Chinappa** – Chief Financial Officer, Biocon Biologics Limited
- # **Mr. Chirag Dalal** – Head-Investor Relations, Biocon Limited
- # **Mr. Nikunj Mall** – Head-Investor Relations, Biocon Biologics Limited

External Participants during Q&A session

- # **Damayanti Kerai** – HSBC
- # **Surya Patra** – Phillip Capital
- # **Shyam Srinivasan** – Goldman Sachs
- # **Nithya Balasubramanian** – Sanford Bernstein
- # **Charulata Gaidhani** – Dalal & Broacha
- # **Alok Malpani** – DAM Capital
- # **Kunal Dhamesha** – Emkay Capital
- # **Tushar Manudhane** – Motilal Oswal

Prepared Remarks Session

Chirag Dalal:

Good morning, everyone I'm Chirag Dalal from the Biocon Investor Relations team and welcome you to Biocon Limited's analyst and investor call on our announced collaboration with Serum Institute Life Sciences. All participants in this call, will be on listen only mode and there will be an opportunity for you to ask questions after the opening remark concludes.

Should you need to raise questions, please select the raise hand option under the Reactions tab of your Zoom application, we will call up your name and enable you to unmute your line to ask the question. While asking please begin with your name and organization. Please note, we will not be monitoring any questions on the chat box, but you can raise any technical concerns that you may be facing for our support team to help. This call is being recorded.

To speak on our announced collaboration, we have today with us the Biocon leadership team comprising Dr. Kiran Mazumdar-Shaw, our executive chairperson and other senior management colleagues.

I would also want to take this opportunity to remind everyone about Safe Harbor. Today's discussion maybe forward looking in nature and based on the Management's current beliefs and expectations. It must be viewed in concurrence with the risk that our business faces that could cause our future results, performance, or achievements to differ significantly from what is expressed or implied on by such forward looking statements. After the end of the call, if you need any further information or clarifications, please get in touch with Nikunj Mall or me.

Now I would like to turn the call over to Dr Kiran Mazumdar-Shaw. Over to you ma'am.

Kiran Mazumdar-Shaw:

Thank you, Chirag and Good Morning everyone, I would like to welcome you to this very important conference call to discuss Biocon Biologics' strategic alliance with Serum Institute Life Sciences. Let me start by saying that Biocon Biologics has been focused on a vision to deliver affordable, innovative and inclusive healthcare solutions for global health. Thus far, its mission has been primarily focused on bio-therapeutics for non-communicable diseases. However, we do believe that a strong presence in communicable diseases is an essential element to have a holistic impact on patient lives.

In the last couple of decades, we have seen a rapid increase in the frequency of viral outbreaks. Besides COVID-19, there have been several other viral outbreaks in different parts of the world, such as dengue, Zika, Ebola, etc. which have had a devastating impact on human life. We actually expect this trend to continue in terms of future and emerging pandemics.

As we have seen during COVID-19 pharma companies globally have been channeling their resources to come up with vaccines, as well as antibody therapies. However, we have also observed that there remains a meaningful gap in getting these therapies to a large section of society, especially in low- and middle- income-countries. We believe that Biocon Biologics can contribute to this effort in bridging this gap, through this partnership.

Bio-therapeutics have been an important tool to fight against infectious diseases. It is no secret that Biocon's achievements are underpinned by its robust bio-manufacturing platform. Over the years, as you can see from this slide, we have developed expertise, starting with enzymes which was our founding phase, to fermentation derived APIs followed by insulin, monoclonal antibodies, fusion proteins and therefore vaccines are a natural adjacency to our existing capabilities, especially with the emerging impact of viral diseases on human health. I think this is something which is only now being visible and apparent to the industry as a whole. In the past, we used to focus largely on non-communicable diseases, but it is very clear that the future is about both non-communicable and infectious diseases.

Over the past 18 months, we have efficiently mobilized our capabilities to develop a solid portfolio for the treatment of COVID-19 thereby impacting more than 50,000 lives. I would like to mention that our repurposed drug ALZUMAb-L has been instrumental in treating moderate to severe COVID-19 patients in India, who have basically suffered from Cytokines Release Syndrome.

Most recently, we have announced a collaboration with Adagio Therapeutics for their novel CD19 antibody therapy, ADG20. We believe that, once approved this would be a very important therapeutic option for patients to win against COVID-19.

The collaboration we have forged with Serum Institute enables our entry into the vaccines market. We consider this to be an augmentation of our current efforts in COVID-19 and a major milestone for Biocon Biologics aspiration to build its presence in the infectious disease space.

BBL and SILS have entered into a strategic alliance for vaccines and infectious disease antibodies. Under the terms of the agreement Biocon Biologics will offer approximately 15% stake to SILS, for which it will get a committed access to 100 million doses of vaccines per annum from SILS's upcoming vaccine facility in Pune. It will also get commercialization rights to a large vaccine portfolio of SILS, which also includes COVID-19 vaccines. This commercialization rights will be for global markets. The two companies will enter into Service Level Agreements for manufacturing and distribution of the vaccines, as well as antibodies that are likely to come into this partnership. We expect this collaboration to start generating revenue and related margins from second half of FY23. There is an earlier opportunity for Biocon Biologics to book revenues from vaccines for other opportunities that we are looking at, in terms of commercialization and manufacturing.

As mentioned earlier, the growth in our communicable disease portfolio through in-house products and collaborations augment our existing biosimilar business. Both antibody therapies and vaccines, we believe are synergistic to our biosimilar platform across R&D, manufacturing and commercialization. It has been agreed between the two partners that we will establish a vaccine R&D division to develop both vaccines and biologics for communicable diseases. While expanding into adjacencies would further boost the growth of Biocon Biologics, we of course continue to remain bullish on the overall biosimilar opportunity. We are continuing to invest in our biosimilar franchise leading to expansion of our current product portfolio, manufacturing capacity and commercial strength. The recent interchangeability label of insulin Glargine in the US clearly positions us for renewed growth of our biosimilars business.

We are excited to see the investment made over the last decade, which has allowed us to quickly weave multiple avenues of growth for Biocon Biologics. Each of them is strategically important for Biocon Biologics' long-term growth. And this partnership, we believe is definitely value accretive and asset light in addition to the fact that it gives us a huge new opportunity which will augment our biosimilars growth and put us in a very strong position as we move into the future with both products and focus on non-communicable diseases and now infectious diseases, largely viral diseases.

So, with that, I would like to open the floor to questions.

Question and Answers

Nikunj Mall: Thank you ma'am. I would like to remind everyone that to ask a question, you can raise your hand in the Reaction tab of the Zoom application. We will call out your name and enable you to unmute your line to ask the question. Please note that we wouldn't be monitoring questions on the chat box, but you can raise any technical concerns over there. The first question is from the Damayanti Kerai from HSBC.

Damayanti Kerai: Ma'am, congratulations on the deal. So, two questions from my side, first this 15-year agreement with SILS, what kind of revenue potential you see over this time period? And my second question, is for global distribution of vaccines, will you be utilizing your existing infrastructure or you need to put some investments from your side, and if yes, what is your expectation on that investment? So, these are my questions.

Kiran Mazumdar-Shaw: So Damayanti, obviously you can understand that 100 million doses of vaccines have a very large revenue potential, I mean the margins are also very attractive because they are in-line with our core EBITDA margins in the mid-30s, and we believe that this is going to be a long-term opportunity. You can assess what the opportunity is from the fact that the pricing of vaccines is anywhere between three \$3-\$10 depending on which market you serve. So, we are very excited with this opportunity and, of course right now as I said, it will start largely with COVID vaccines but in the future, there will be many other vaccines, and you know it's difficult to project the exact revenues over a 15-year horizon. Now, in terms of leveraging our existing infrastructure, of course, we are going to be doing that. Obviously, we will not invest in new infrastructure, but we will wait to see what the demand is because as you know Serum Institute itself has a very large manufacturing infrastructure. We will basically support that, and, if need be, we will expand our existing infrastructure dedicated to perhaps vaccines, as we move into this partnership. I hope, I've answered the questions.

Damayanti Kerai: Yes ma'am, just a clarification - this investment on manufacturing, as you mentioned, might not be required in initial stage. I was asking more from your commercial infrastructure, which is required for distribution.

Kiran Mazumdar-Shaw: While I think the commercial infrastructure right now that we have in terms of Access, our commercial team is going to be adequate initially. But we will add to it because we are obviously very familiar with the Access markets around the world, and so I think this is something which will obviously serve us well to expand it.

Damayanti Kerai: Thank you ma'am I will get back in the queue.

Nikunj Mall: Thanks, Damayanti. Next question is from Nithya Balasubramanian from Bernstein.

Nithya Balasubramanian: If you can talk to us a little bit about what would be your target markets- there are certain markets where you're likely to focus more early on. And if you can also talk to us about other than COVID, what other disease areas and what other vaccines we might see come out of this partnership in the early days.

Kiran Mazumdar-Shaw: It's too early to comment on all the markets, but obviously we will look at developing world markets at the beginning, and then of course we will also look at developed world markets in the interim-later stage. So, it's very early to basically talk about that.

Nithya Balasubramanian: Second question was on the target the disease areas

Kiran Mazumdar-Shaw: I think they have already mentioned in a press release that obviously it goes beyond COVID-19. There are some very interesting opportunities in many of the viral disease areas, as you know dengue, chikungunya, malaria and many others. As you know, Serum Institute has already shared in the public domain, that their malaria vaccine trial is going very well, that could also be part of this partnership. There are many other opportunities that we are discussing. At this point in time, I can't say much more.

Nithya Balasubramanian: If I might just follow it up with a quick question. So, I am assuming that you will not be competing with the SII in the GAVI space right, so they will exclusively participate in tenders and you will be targeting the private market. Is that right?

Kiran Mazumdar-Shaw: I cannot share such details with you but suffice to say that obviously it's a partnership and the way we carve out the business between us will obviously be optimal to both.

Nithya Balasubramanian: Thank you.

Nikunj Mall: Thanks, Nithya. The next question is from Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Good Morning and thank you for taking my question. The first one is in terms of the valuation for this. Just trying to understand how we should look at it. I think you said 100 million doses and 400 million revenue, mid-30s margins are 120 million. I am just coming up with these numbers and then I look at the 750 million, which is what the incremental number has come, so it seems to be seven times EV/EBITDA. You're trading much higher. So just trying to understand how we should look at this? And then again, going back to Serum Institute's own capacities, I think its 1.5 billion -if you were to annualize August production from them, so you're getting 100 million out of 1.5 billion, which is 6-7% but you're partaking 15% of Biocon Biologics. So, just if you could run us through some of the economics, what could I be missing in terms of this?

Kiran Mazumdar-Shaw: Shyam, you're not comparing apples with apples, if I may say. So, you are cherry-picking different numbers and I don't think that's the way you go about valuation, if I may say so. I would defer to Chinni to add to that.

M.B. Chinappa: Shyam, pricing will change over time, but yes current pricing around the COVID vaccines is in the \$4 range, average pricing and, yes if you roll the math over, it comes to \$140-150 million of EBITDA. Now that is the starting, how would we play over time and what are the new opportunities that will come out of this whole collaboration, I think it will really open up new doors or new avenues for growth, and you have to look at it from that angle. From a valuation angle, the value of share being issued is in the \$735 million range. The benefits that will accrue we believe will be more than this, but will accrue over time.

Shyam Srinivasan: Got it, very helpful. My second and last question - just in terms of the rationale for the deal, I know you have outlined few things at the start, but was vaccine an area that we were always looking at, and you know how did this kind of deal materialize? if you could just tell us and the culture, between the two companies if there is any softer aspects you could highlight?

Kiran Mazumdar-Shaw: Yeah, that's a very good question Shyam. I will answer it in three ways, obviously with what was happening with the pandemic, it became very apparent that there was a large opportunity in vaccines and we did consider various options, from greenfield to brownfield but we felt that this was the best entry that we could have into vaccines, and the fastest entry we could have in the vaccines. It was asset-light, and as I said it was hugely value accretive for us. And we felt that this would actually help us to focus on new vaccine platforms in terms of R&D, and work together with Serum Institute, which is such an experienced company when it comes to vaccine development and vaccine production. So, we just felt that this was a very unique partnership, rather than us having to reinvent the wheel, or even to basically acquire a facility and then rely on expertise coming from the acquired facility. We felt this was a much better model. And, in terms of the cultural fit, I think there's a very good cultural fit between the two companies, starting with me and Adar Poonawalla. And, of course, right down to the leadership, I think we found that the cultural fit was very very good, so I think, overall, we felt this was the way to go forward in vaccines.

Nikunj Mall: Thanks. The next question is from Surya Patra, Phillip Capital.

Surya Patra: Congratulations for the great deal ma'am. One thing, you have also mentioned that the step-down subsidiary of Serum Institute is going to be merged. So, what assets will be added with that merger, or is it just a kind of vehicle through which you are doing this deal?

Kiran Mazumdar-Shaw: Well, the subsidiary actually owns all the rights to everything that we have discussed, and that is what will be merged with the Biocon Biologics.

Surya Patra: Okay, no tangible asset or anything that we at this juncture can talk about, right?

Kiran Mazumdar-Shaw: Well, as you know, the deal is really about access to the 100 million vaccines which have to be produced in a certain facility, and so we have made sure that all the aspects of the vaccines that we will have access to, will be contained in that subsidiary.

Surya Patra: And about the vaccines, ma'am access for vaccines as you mentioned is 10 crores vaccines annually for 15 years and you also mentioned about your access to other portfolio vaccines of Serum Institute, so that means all put together there are 10 crore vaccines or it is 10 crores plus?

Kiran Mazumdar-Shaw: Right now, the understanding is it will be a minimum of 10 crores which will cover all these portfolio vaccines that they have, but you know, as we said in due course, we will see what we can do in augmenting the partnership.

Surya Patra: Okay. Just last question on the valuation side. So, while we are at this juncture, talking about the COVID vaccine which possibly could be priced at let's say \$4 but the average pricing of all the vaccines of Serum that are selling, would be around \$2 or something like that. So, keeping that in mind, what is the incremental business that you're considering while valuing Biocon Biologics from the alliance? Apart from the vaccine, are you considering any kind of meaningful chunk of incremental revenue from other initiatives or alliances?

Kiran Mazumdar-Shaw: Yeah. First and foremost, I think you're talking about old vaccines- we are talking about new generation vaccines, which I think will not be at a \$2 range. Secondly, I think there are other products like I mentioned, biologics, that is, antibodies for viral diseases, these are also being developed between the two partners. As you know Biocon has very strong capabilities in that, and that is why we said, we are going to cross-leverage each other's capabilities and infrastructure. So, I think you should look at that as also being value accretive.

Surya Patra: Sure, thank you ma'am. Wish you all the best.

Nikunj Mall: Thanks. Next question from Charulata Gaidhani from Dalal & Broacha.

Charulata Gaidhani: Congrats on the great deal. My question pertains to the recent 10 Valent vaccine that was commercialized by Serum. Is that vaccine also a part of this commercialization?

Kiran Mazumdar-Shaw: Well at this point in time, but we will look at many vaccines, as I mentioned to you over time.

Charulata Gaidhani: Okay, and the deal also mentions the commercialization of our new facility at Pune, so by when does Serum expect to commercialize the plant?

Kiran Mazumdar-Shaw: I already mentioned Charulata, that the commercial agreement is that the vaccine contribution to Biologics would actually start from October next year, so I think that's when the actual commercial agreement is going to start, but even in advance of that we are actually looking at other possible opportunities that Biocon can actually leverage in terms of some of the Serum vaccines.

Charulata Gaidhani: Okay, and lastly, does the deal also include tenders or is tenders going to be treated separately by Serum?

Kiran Mazumdar-Shaw: No, there is no such a hard and fast understanding. We are going to be looking at it in an optimal way and an equitable way and we will proceed as and what we think is appropriate.

Charulata Gaidhani: Okay, and there will be a profit sharing.

Kiran Mazumdar-Shaw: Yes.

Charulata Gaidhani: Okay, fine. Thank you, all the best.

Nikunj Mall: Thank you. Next is Alok from DAM Capital.

Alok M: Good morning, madam and congratulations, this is one of the wonderful deals of its kind, never heard of since the COVID came into play, so great! So, I have just one question. While you are acquiring all the intangibles in this subsidiary, from here on, any improvisation on these vaccines is led by Biocon or it is led by Serum?

Kiran Mazumdar-Shaw: It is led by the partnership, as I mentioned, you know we are going to be getting into an R&D partnership, we are going to also cross leverage each other's infrastructure. So, while we keep talking about the intangibles, let me also say that Biocon also brings infrastructure to this partnership for leveraging. As I mentioned biologics for infectious diseases is another big area where antibodies are moving to be very effective. So, I think you know this opportunity to bundle antibodies, and vaccines is a very unique partnership. So, we will cross-leverage each other's infrastructure and capabilities to address these large opportunities that are emerging in infectious and viral diseases.

Alok M: Great. One last question on this, on the biologics you have great ambitions, we have a huge product pipeline. With this partnership, is there any sort of non-compete agreed with them?

Kiran Mazumdar-Shaw: No, because biosimilars is something which is our main core business and that of course, is something that we are pursuing with a lot of global leadership. I mean in the sense, Serum is focusing really on vaccines and as I mentioned biologics for infectious diseases and, of course, there is no need for a non-compete because we are global leaders in what we do.

Alok M: So, it is restricted only for COVID vaccine, that's it.

Kiran Mazumdar-Shaw: No, this partnership is about vaccines. Largely about the COVID vaccines, to begin with, but it includes other vaccines as well.

Alok M: So, if you decide to get into any new vaccine to treat any...

Kiran Mazumdar-Shaw: That would be in partnership with Serum.

Alok M: Okay, it has to be necessarily in partnership. Okay, thank you madam, that answers my question.

Nikunj Mall: Thanks, Alok. Next question from Kunal, Emkay Capital.

Kunal Dhamesha: Hi, Good Morning. When we say we are eligible to get around 100 million vaccines every year, will we have to pay, let's say some of the cost of production to Serum when we acquire those kinds of vaccines?

Kiran Mazumdar-Shaw: No, as I said, there is an understanding in terms of how we access the vaccines and the profit shares, so I think that model is very clear how we go about it. It's a very simple structure.

Kunal Dhamesha: Okay sure, and the second question is whether this deal would require minority shareholders' approval?

Kiran Mazumdar-Shaw: I don't believe so, because it's a private company, as you know, as yet.

Siddharth Mittal: Minority shareholders of BBL have agreed for the deal.

Kiran Mazumdar-Shaw: The private equity investors, yes, that they have agreed to.

Kunal Dhamesha: Ok and the last question on when we say that we will be setting up the R&D facility and whatever research and development that we do, whether those costs will also be shared with Serum?

Kiran Mazumdar-Shaw: That is something that we will share between the two partners.

Kunal Dhamesha: Sure, thank you.

Nikunj Mall: Thanks. Next is Tushar Manudhane from Motilal Oswal.

Tushar Manudhane: If I look back on the previous deals of Biocon with Mylan or Sandoz, there has been a gradual shift towards getting into commercial aspect as well, and even now this deal is more of getting completely into commercialization and getting the manufacturing or development part. So, if you could elaborate on how this commercial strength has improved over past years and how it can be in the coming time for Biocon across global markets?

Kiran Mazumdar-Shaw: So, you will see that Biocon actually has been focusing on emerging and ROW markets, whilst, Viartis has been really focused on the developed world markets. We believe that we have made significant advancement in our markets, and I think we are beginning to get very strong and well-entrenched in many of the global markets, which we have begun to understand very well. We have a huge reputation in these markets, and we believe we can leverage these markets for products like vaccines and antibodies for infectious diseases.

Tushar Manudhane: So, getting the regulatory approval for these vaccines that will be Biocon's efforts?

Kiran Mazumdar-Shaw: Well, it will be a combined effort but wherever required obviously Biocon will also seek regulatory approvals, if required in certain markets.

Tushar Manudhane: Alright, thanks. That answers my question.

Nikunj Mall: Thanks, Tushar. Next, one is from Nithya from Bernstein.

Nithya Balasubramanian: I just have one quick question, so you had mentioned that this opportunity will likely have EBITDA in the range of mid 30s. Is this pre or post the profit share?

Kiran Mazumdar-Shaw: It is post profit share.

Nithya Balasubramanian: Its post profit share, alright. Thank you.

Nikunj Mall: I think that was the last question. We thank you everyone for joining the call today, if you have any additional questions, please feel free to reach out to Chirag or myself. We look forward to seeing you in our quarterly results. Thank you everyone.