

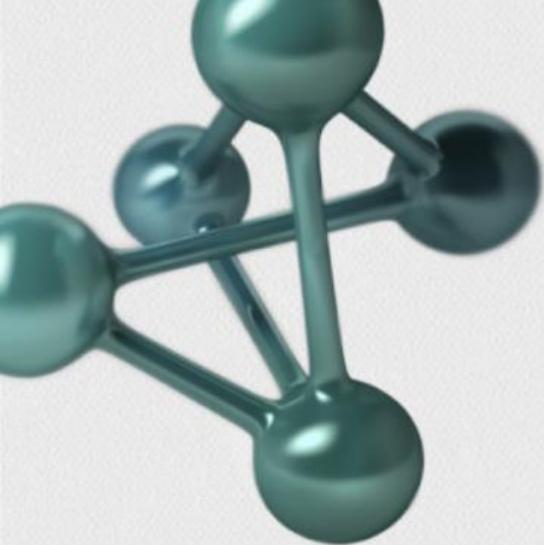
# Baltic – Nordic Roadshow presentation

October, 2015

# In This Presentation

- Olainfarm – the background and the key facts;
- The Group
- Company's recent performance;
- Ukraine and Russia: present and prospects;
- Future plans and possibilities;
- Financial update.





# Key Facts

# What is Olainfarm? 1/2

- OlainFarm, established in 1972, is one of the leading pharmaceutical companies in Baltic States employing more than 1000 highly qualified professionals;
- Produces both Finished Dosage Forms (FDFs) and full cycle Active Pharmaceutical Ingredients (APIs)
  - Primarily branded and historically unique “generics”;
  - Almost 90% of FDFs produced from captive APIs;
- A mother company of one of the biggest Latvian pharmacy chains and the leading Latvian food supplement producer.

## Mission

**To manufacture reliable and effective high quality pharmaceutical products to the whole world in an environmentally friendly way and in a fair and effective cooperation with customers.**

## Vision

**To become the leading manufacturer of finished dosage forms and chemical-pharmaceutical products in the Baltic States.**



# What is Olainfarm? 2/2

- Certified in accordance with the requirements of the EU Good Manufacturing Practice (GMP), U.S. Food and Drug Administration GMP in API manufacturing, and environmental management systems standard ISO 14001;
- Privatised in 1997, majority by Valerijs Maligins. Now he owns about 70% of the company. Remaining 30% is free float listed on Nasdaq Riga. Market capitalisation over 100 million euros;
- The company that has demonstrated stable sales growth every year since 2002, despite any local, regional or global crises, CAGR during this period being almost 20%.



# Corporate Milestones

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- 2013** ← OlainFarm acquires controlling stake in leading Latvian food supplement company “Silvanols”
  - 2011** ← OlainFarm starts building its own chain of pharmacies, dividends paid for the first time.
  - 2008** ← More aggressive approach to marketing taken, bringing the company to significant loss in 2008, but record sales and profits ever since.
  - 2006** ← Moved to the Official list of Riga Stock Exchange.
  - 2004** ← A major reconstruction of the production plant completed and EU Good Manufacturing Practice certificate obtained.
  - 2002** ← Obtained a certificate of conformity to the requirements of U.S. Food and Drug Administration in API manufacturing.
  - 2001** ← A certificate of conformity to the requirements of environmental management systems standard ISO 14001 obtained.
  - 1997** ← The state enterprise Olaine Chemical-Pharmaceutical Plant privatized and reorganized to the joint-stock company OlainFarm and subsequently listed on the stock exchange.
  - 1991** ← After collapse of Soviet Union refocuses to selling specialty synthesis (Adamantane, Quinuclidone and other derivatives) to the western countries.
  - 1980** ← Commenced production of finished dosage forms.
  - 1972** ← Foundation of OlainFarm (at that time Olaine Chemical-Pharmaceutical Plant).

# Olainfarm Today: Production

- Own capacities for chemical synthesis, tablet, capsule, sachet production;
- Existing capacity of chemical equipment approx. 200 tons p.a.; capacity of final dosage forms approx. 1 bn units p.a.;
- New investment of 4 million EUR in small batch final forms and brand new production unit for nitrofurane derivatives has significantly increased overall capacity;
- New investment of 2 mln in synthesis scheme has significantly raised capacity of synthesis of Noofen, Fenkarol and Bikarfen

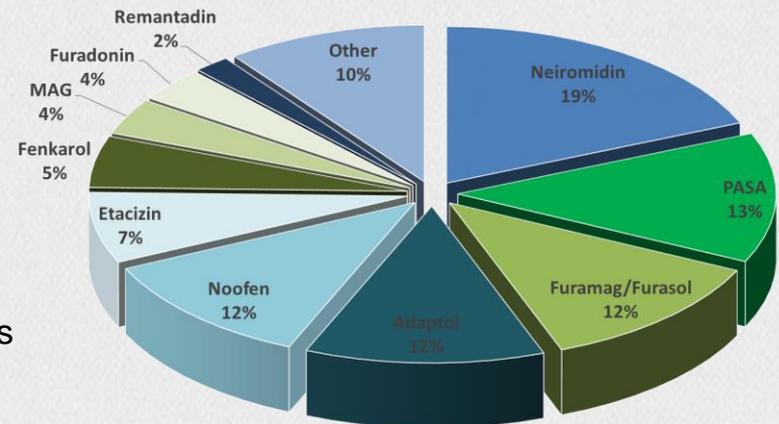


OlainFarm

# Products

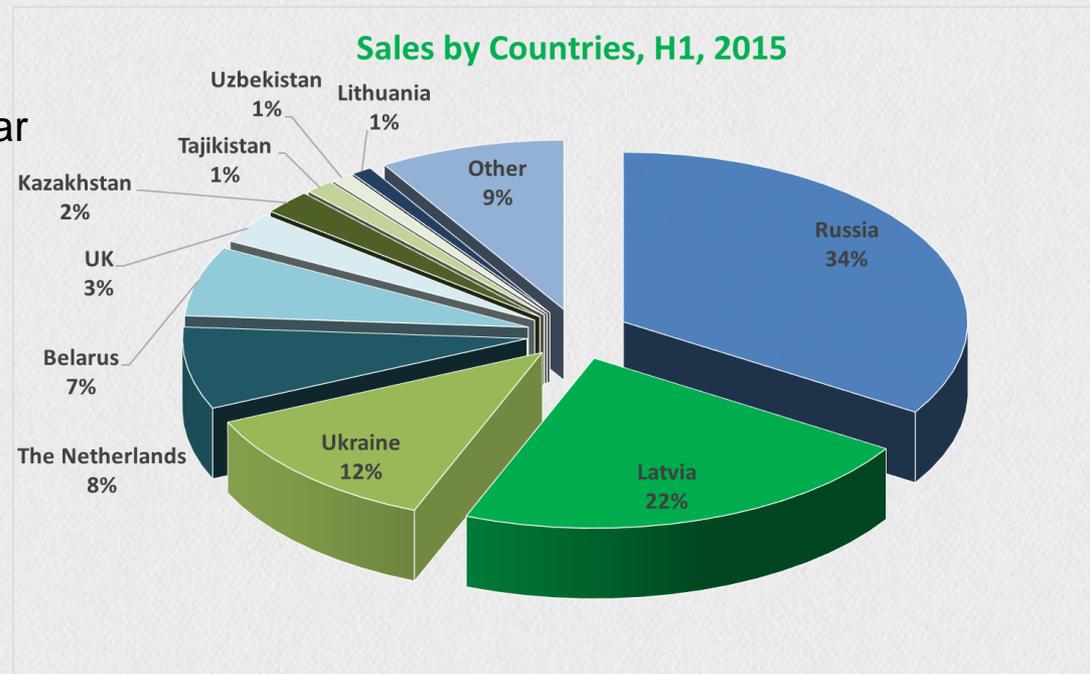
- Product portfolio is well diversified with main emphasis on branded generics, historically unique to or originated in Olainfarm:
  - In total more than 70 names;
  - 10 best-selling products account for less than 90% of sales.
- The main products are:
  - Neiromidin: Cholinesterase inhibitor, stimulant of neuromuscular transmission;
  - PASA – Anti-tuberculosis products, extensive shipments to WHO;
  - Noofen: mood elevator, tranquilizer; Olainfarm owns cost efficient synthesis;
  - Etacizin: antiarrhythmic;
  - Furamag: one of original nitrofurantoin derivatives, applied to treat urinary infections;
  - Adaptol: adaptogenic product, daytime tranquilizer.
- Main trends of product distribution in pie-chart relatively unchanged for several years.

Sales by Olainfarm Products, 6 Months of 2015



# Markets

- About 1/2 are sales to CIS countries, significant reduction from 2/3 one year ago;
- Latvia's share has recently grown significantly due to acquisition of pharmacies and Silvanols;
- Share of The Netherlands of 8% and growing represents shipments to the WHO of qualified anti-tuberculosis product PASA;



# The Group: Silvanols

- In 2014 Olainfarm acquired a controlling stake in leading Latvian food supplement company Silvanols;
- Silvanols has 20 years of experience in development and production of innovative natural ingredients based foods supplements, medical devices and medicines;
- Its portfolio includes almost 70 different products in different forms, including capsules, gels, syrups, ointments, drops, tablets, balsams and sprays;
- Silvanols has been exporting its products to 10 countries in Europe and Asia, in cooperation with Olainfarm number of countries and sales volumes are expected to grow significantly.
- Sales expectations is 2015 approx. 3.6 mln.



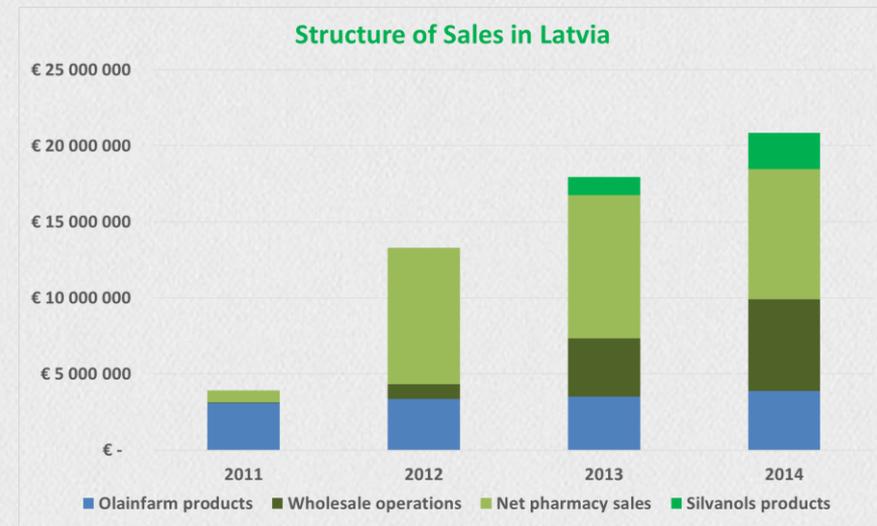
# The Group: Latvijas Aptieka

- In order to strengthen positions on Latvian market, since 2011 Olainfarm is building its own chain of pharmacies in Latvia;
- It is a 4<sup>th</sup> biggest pharmacy chain in Latvia in 2015;
- Currently 60 pharmacies are operating throughout Latvia, and the number continues growing;
- Expected sales in 2015 approx. 15 mln EUR, contribution to consolidates sales approx 8 mln;
- No expansion to other countries with retail business expected any time soon.



# Impact of Being The Group

- Since acquisitions of pharmacies consolidated Latvian sales have grown significantly;
- Only small part of that growth caused by increase in sales of Olainfarm products;
- Retail activity also gave a boost to wholesale operations;
- Since 2013 sales made in Latvia by Silvanols also were being consolidated in.



# Olainfarm Today: Management

- Independent Supervisory Council, consisting of 5 members, professionals in pharma marketing, regulatory, financial and administrative matters, headed by Dr. Valentina Andrejeva;
- Professional Management Board, consisting of 5 members, each of members having at least 10 years of experience in respective fields of production, finance, marketing, sales and investor relations;
- Management Board headed by Dr. Valerijs Maligins, who also is the main shareholder of the company;
- Independent Auditing Committee, headed by Mr. Viesturs Gurtlavs.



# Olainfarm Today: R&D

- R&D effort is mainly focused on the following areas:
  - Development and improvements of synthesis;
  - Synthesis of optic isomers of known molecules;
  - Finding promising combinations of known molecules;
  - Finding new indications for existing or related products;
- Nearly 100 people are involved in different R&D related activities, on average OlainFarm annually spends from 5 to 10 % of sales on R&D;
- Post marketing studies and trials are also important part of company's R&D effort. Several such studies and trials have been conducted for all of OlainFarm's best selling products



# Existing Production

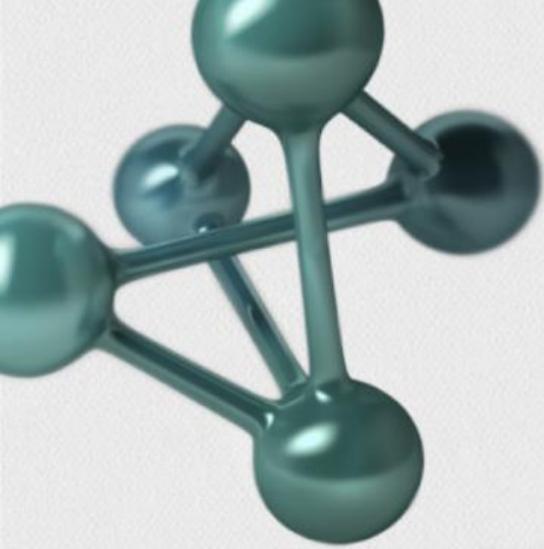
- Own capacities for chemical synthesis, tablet, capsule, sachet production;
- Up to very recently the capacity of chemical equipment approx. 200 tons p.a.; capacity of final dosage forms approx. 1 bln. units p.a.;
- New investment of nearly 10 mln EUR in small batch final forms and brand new production unit for nitrofurane derivatives, co-funded by ERDF has significantly increase overall capacity;
- New own investment of 2 mln. EUR in synthesis scheme will significantly raise capacity of synthesis of Noofen, Fenkarol and Bikarfen.



# CAPEX Programme

- In May 2013, Government of Latvia approved corporate tax rebate for Olainfarm if a CAPEX programme of more than 33 million EUR is implemented over five years;
- Because of other investment needs, the total 5 year CAPEX programme of Olainfarm was increased to 40 million EUR, but since more careful approach was taken due to Russia – Ukraine situation, it was again scaled down to 36 million;
- Small batch, nitrofurane and Noofen synthesis units nearly completed, total investment made is approx. 6 mln. EUR;
- Main items in the remainder of the programme include:
  - capacities for Adaptol, Etacizin and PASA and chemical products;
  - improved energy efficiency, with particular emphasis on cooling systems;
  - wastewater treatment capacity;
  - Quality assurance and R&D capacities.



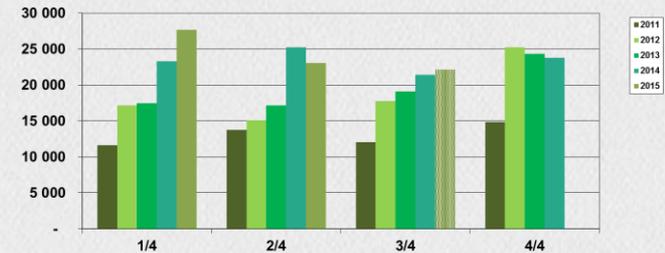


# Recent Performance

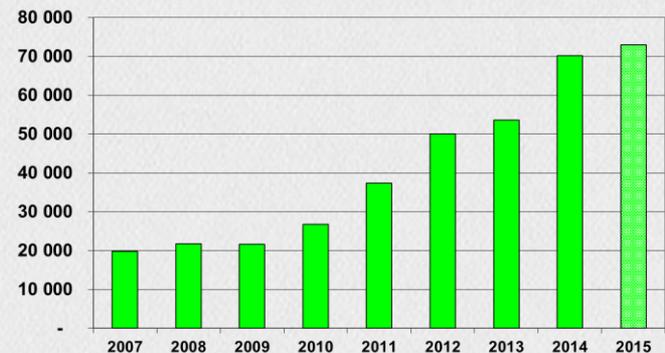
# Sales

- All quarters reasonably good, more impressive growth «prevented» by outstanding Q2 of last year;
- Has been achieved despite very volatile situation in two main markets of Russia and Ukraine;
- Annual sales growth slightly above 4% after 9 months;
- Annual target of 100 mln. EUR followed almost precisely as 73% met in 3 quarters;

Sales by Quarters, Thsnd. EUR



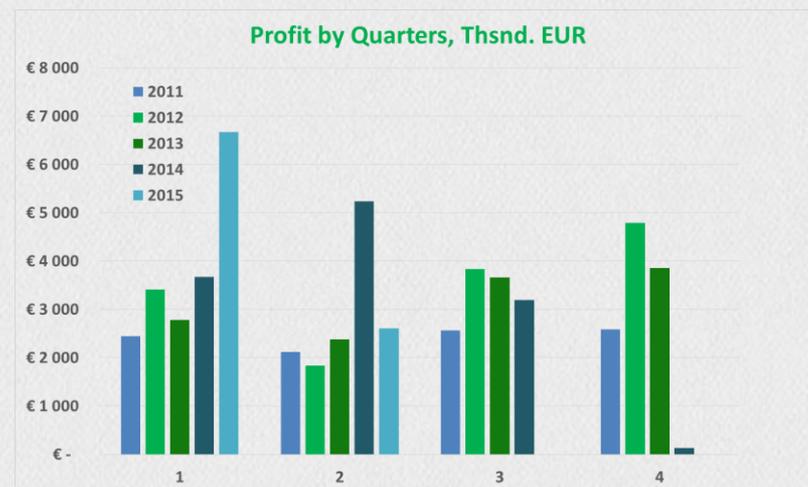
Sales in Nine Months, Thsnd. Euro



\* Q3 of 2015 and 9 months of 2015 are preliminary data

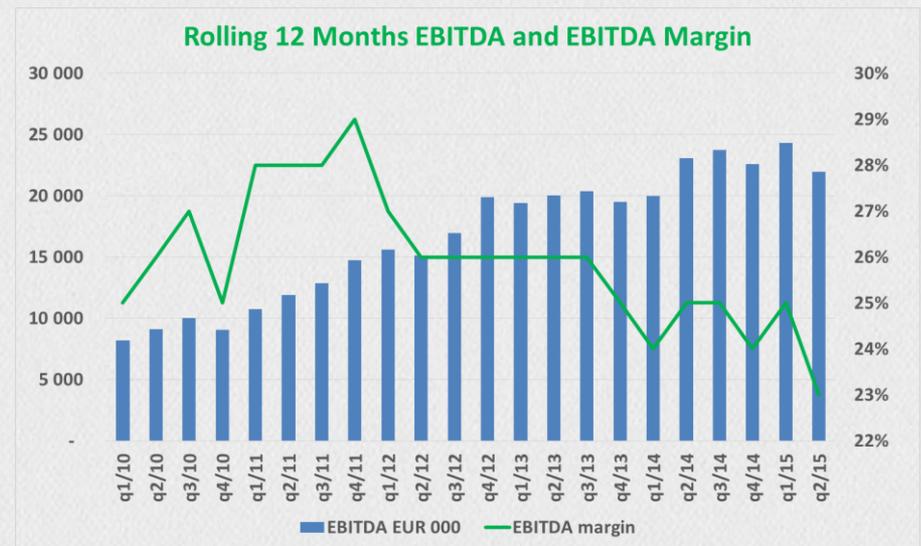
# Profit

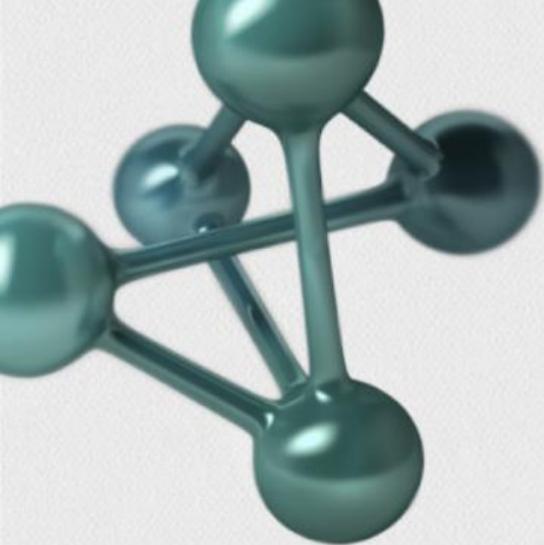
- First quarter of 2015 was record high due to 2.5 mln forex gain, as Russian Rouble gained strength;
- 2.6 million made in Q2 alone, despite more than 1 mln EUR provisions for expected forex loss in Q3 and potential issues with receivables;
- YoY growth of 4%;
- 62% of annual target of 15 mln. EUR met in 6 months.



# EBITDA

- 12 months rolling EBITDA fluctuates around 23 mln, recent EBITDA margin around 25%;
- Prior to acquisition of pharmacies EBITDA margin fluctuated around 28%;
- Q2 provisions of more than 1 mln EUR and «outdating» of last year's Q2 led to reduction of EBITDA by 2.3 million to 23% margin.





# Ukraine and Russia

# Ukraine

- Usually either 2<sup>nd</sup> or 3<sup>rd</sup> biggest market of Olainfarm, depending on a year;
- Olainfarm has a representation in Ukraine since late 1990s;
- Overshipments due to regulatory issues caused sales peaks in 2011 and especially in 2012;
- Sales made to one exclusive local partner;
- Sales made in EUR, local partner sells on in UAH, with a few days payment terms, conversion is an issue further limiting sales;
- Local partner almost fully covers the country in terms of marketing;



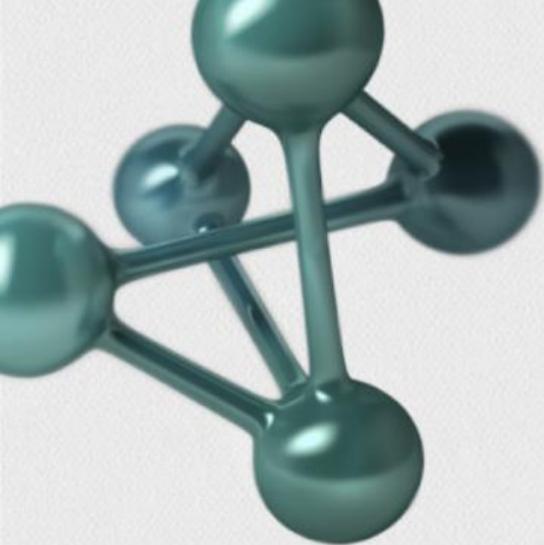
# Russia

- Most important market since Olainfarm was established;
- Russia's share down from 80% in late 1990s;
- Representation ever since privatisation;
- Wholesalers hit by sanctions to major Russian banks as they start lacking liquidity;
- Since 2008, marketing outsourced to Trade Technologies, and recent peak of 48% share in sales is due to their success;
- Sales made in rubles with currency exchange rate risks being priced in;
- Gradual dilution of Russia's share achieved because of acquisitions and some success in new markets.



# Success and the Risks

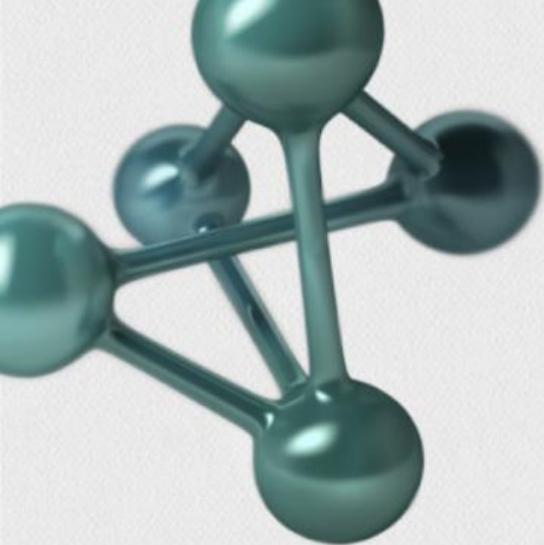
- Olainfarm is one of the very few pharma companies, performing reasonably well in two troubled markets;
- About 90% of sales made from selling RX medicines, that are much less subjected to influence of economic situation than food supplements and OTC medicines;
- Since very few (if any) sales are made to public sector, purchasing power of population remains the key risk, though from all the sub sectors of pharma it is the least felt with RX products;
- Performance of Russian Rouble in early 2015 have created certain currency gains, which are now being reversed.



# Future Outlook

# Future Prospects

- Continue dilution of Russia, Ukraine and other CIS countries with Central Asian, South- East European countries, possibly with some countries of MENA, while keeping the momentum of growth in our current key markets. In this context, developments with authorisation in Turkey give certain optimism;
- Continue work on new products and co-marketing, started with Orion, Lyomark, Silvanols and others, to take maximum advantage of marketing and logistics networks established in key markets of Baltics and the CIS:
- Before products are authorized for Turkey or other bigger market, the company does not expect its organic growth to exceed 7-8% p.a. However, some bigger acquisitions are being considered, which might add significantly to the overall growth rate



# Financials

# Key Indicators of Recent Years

(EUR'000)	2005	2006	2007	2008	2009	2010	2011	2012	2013
Sales	18,476	23,768	26,982	28,580	31,931	35,605	52,179	75,288	77,956
EBITDA	3,766	4,832	4,660	2,302	7,985	9,066	14,734	19,917	19,407
EBIT	1,248	2,046	1,527	-1,334	4,765	6,442	12,238	17,000	16,202
Net profit	899	1,107	478	-2,045	3,362	5,017	9,838	13,834	12,596
Assets	27,353	36,098	40,824	45,047	43,482	46,356	59,106	71,231	95,828
<i>incl. cash</i>	149	122	1,535	53	260	704	1,525	2,550	2,097
Equity	13,596	19,119	23,043	20,986	24,348	29,365	38,723	51,322	61,987
Liabilities	13,757	16,979	17,781	24,061	19,134	16,992	20,383	19,909	33,841
<i>incl. interest-bearing liabilities</i>	7,353	10,118	11,925	12,544	8,505	6,873	9,925	10,162	17,078
Sales growth	21.6%	28.6%	13.5%	5.9%	11.2%	11.5%	47%	44%	4%
EBITDA margin	20.4%	20.3%	17.3%	8.1%	25.0%	25.0%	28.2%	26.5%	24.9%
EBIT margin	6.8%	8.6%	5.7%	(4.7%)	14.9%	18.1%	23.5%	22.6%	20.8%
Net profit margin	4.9%	4.7%	1.8%	(7.2%)	10.5%	14.1%	18.9%	18.4%	16.2%
Earnings per share	0.08	0.08	0.03	(0.14)	0.24	0.36	0.70	0.98	0.89
ROE	6.6%	5.8%	2.1%	(9.8%)	13.8%	17.1%	25.4%	27.0	20.3

# More Recent Figures

- Company has been increasingly paying dividends since the profits of 2010, but due to extensive CAPEX programme, dividend payment is put on hold for 2 years, and then will be restarted with payout ratio of 17.5% from the profits of 2015;
- Sales indications for 2015: standalone sales of 84 m EUR, consolidated sales 100 m EUR. In 8 months both met for 66 and 65% respectively. Profit targets are 14 and 15 million respectively, consolidated profit in 6 month met for 62%

(EUR'000)	H1 2015	H1 2014	% YoY
<b>Sales</b>	<b>50,069</b>	<b>48,563</b>	<b>103%</b>
COGS	-16,242	-15,271	106%
<b>Gross Profit</b>	<b>33,827</b>	<b>33,292</b>	<b>102%</b>
Selling expense	-13,552	-13,151	103%
Administrative expense	-8,218	-7,873	104%
Other items	-2,374	-1,020	233%
<b>EBITDA</b>	<b>12,711</b>	<b>13,295</b>	<b>96%</b>
<i>EBITDA margin</i>	25%	27%	
Financial items	2,147	-812	
<b>EBIT</b>	<b>9,778</b>	<b>11,341</b>	<b>86%</b>
<i>EBIT margin</i>	20%	23%	
Profit before tax	11,925	10,529	113%
Corporate income tax	-2,510	-1,679	149%
Net profit	9,276	8,926	104%
<i>Net margin</i>	19%	18%	

# Thank You!

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