Euroapi H1 2023 Results

Tuesday, 1st August 2023

Operator

Hello and welcome to Euroapi 2023 Half-Year Results call. My name is Alicia and I will be your coordinator for today's event.

Please note this call is being recorded and for the duration of the call your line will be on listen only. However you will have the opportunity to ask questions at the end of the call. This can be done by pressing *1 on your telephone keypad to register your question. If you require assistance at any point, please press *0 and you will be connected to an operator.

I will now hand you over to your host Sophie Palliez, Head of Investor Relations to begin today's conference. Thank you.

Sophie Palliez

Thank you, operator, and thank you all for joining us for EUROAPI's H1 2023 results presentation.

I am Sophie Palliez, Head of Investor Relations. With me today to comment on these results are:
- Karl Rotthier, Chief Executive Officer
- Antoine Delcour, Chief Financial Officer
- Cécile Maupas, Chief CDMO Officer

We will discuss the following points:
1. Highlights
2. Financial performance
3. CDMO
4. 2023 outlook and mid-term perspectives

This conference will be recorded, and a replay will be available on Euroapi Investor Relations website. The presentation slides are available to download.

Please note that today's conference call contains forward-looking statements. Future results may differ materially from statements or projections made on today's call.
This presentation will be followed by a Q&A session. With that, I would like to hand it over to Karl Rotthier, our CEO.

Karl Rotthier

Good morning, good afternoon, everybody,
Thank you for joining us on this call. It is my pleasure to host our 2023 half-year results today.

First-Half results were solid, driven by the continued roll-out of EUROAPI's strategy, including a robust commercial execution, the launch of key growth initiatives in both API Solutions and CDMO to sustain future profitable growth, and the ongoing transformation into a "best-in-class," customer-centric company.

Net Sales performance was driven by a solid contribution from API solutions and high single-digit growth in CDMO, with a strong 18.5% increase in sales to Other clients.

Gross Profit and Core EBITDA margin were negatively impacted by the suspension of prostaglandin production at the Budapest site. Price increases, product mix, and the improvement of our industrial performance almost compensated for inflation headwinds.

We advanced major projects this first half, including strategic investments in France, in prostaglandin at the Budapest site, and the reinforcement of our R&D organization.

Finally, we continued to change our culture to become more agile, responsive, and customer-centric with the gradual ramp-up of our ambitious 50 million euros value creation plan announced in March 2023.

We have launched 3 transversal workstreams during the first half of the year.
• Value Creation to improve overall competitiveness, and reduce costs, with a focus on procurement, energy, and the internalization of key intermediates
• End-to-end processes to adapt EUROAPI's operational process to a best-in-class CDMO company
• People and culture to engage and empower employees to be more customer-centric.

Tangible results are expected by 2024.

The last few months have been shaped by several economic and social challenges. The confirmation of our financial objectives demonstrates our resilience in an uncertain economic environment.

Our fundamentals are strong, and we are committed to accelerating our transformation and maximizing the business we have in hand to become a leading fast-growing company.

That said, let's start our detailed analysis with the 2023 half-year key operational figures on slide 7.

Net sales stood at 496.6 million euros, up +2.6% compared to H1 2022, driven by a strong increase of +9.8% in CDMO, and a slight increase of +0.2% in API Solutions. Net sales from Sanofi stood at 244.1 million euros, decreasing by -1.3% compared to H1 2022 while Net sales from Other Clients stood at 252.5 million euros, up +6.8% compared to the same period last year.

Core EBITDA reached 62.5 million euros, down -11.1% versus H1 2022, with a Core EBITDA margin of 12.6%.

And Capex stood at 69.3 million euros, representing 14.0% of Net Sales, of which 51% were dedicated to growth projects.

Antoine will provide more details on these consolidated results in a few minutes.

Let's now come back to Net Sales growth on slide 8.

- API Solutions activities experienced a +0.2% growth in Net Sales, amounting to 362.4 million euros.
    - Sales to Other clients were up +1.9%, impacted by the temporary suspension of prostaglandin production over the period. Throughout the semester, we continued to deploy our commercial roadmap, with 35 new clients added in both small and large molecules, the acceleration of our cross-selling commercial strategy, and pricing optimization.
    - Sales to Sanofi were down -1.2%. The Global Manufacturing and Supply Agreement raw material pass-through and energy compensation clauses were activated, and a 6 million euros additional payment from Sanofi was agreed upon on top of the contractual clauses.

CDMO sales increased by +9.8% to 134.2 million euros, mainly driven by:
- Sales to Other clients, with strong growth of +18.5%, driven by phase 3 and commercial projects, while including approximately 3 million euros negative impact from the discontinuation of a late-stage COVID-19-related project.
- Sales to Sanofi were down -1.8%, due to the discontinuation of two of Sanofi's late-stage projects, which impacted H1 Net Sales performance by around 6 million euros. The impact for the full year should be around 15 million euros

Cécile will come back on the deployment of our CDMO strategy. However, let me tell you how proud I am of what has been achieved by our CDMO team over the last two years, particularly in the more challenging business environment. We received 106 RFPs in H1 2023, with an 18.1% increase in average value per proposal, fueled by an increased proportion of proposals for late-stage projects. 27% of the total RFPs were related to the strategic and fast-growing Large Molecules segment and 58% to Complex Chemistry, our core business. More importantly, RFPs received from large pharmaceutical companies increased by 10.5% year-on-year.

Let's now analyze our net sales performance per type of molecule on slide 9.
- Large molecules were down 26.9% to 35.0 million euros, impacted by the discontinuation of a CDMO Phase 3 project with Sanofi, and a phasing impact.
- Highly potent molecules were down -7.3% to 43.7 million euros, impacted by the temporary suspension of prostaglandins production in Q4 2022 at the Budapest site. The production has been fully resumed in mid-April 2023. Excluding this impact, net sales would have grown double-digit.
- Biochemistry molecules derived from fermentation delivered a strong +30.7% to 85.5 million euros, benefiting notably from price increases, the stock replenishment of certain anti-infective products by Sanofi in Elbeuf.
- Finally, complex chemical synthesis molecules were up +2.8% sales growth to 332.4 million euros, reflecting the positive impact of price adjustments, partially offset by the discontinuation of a Phase 3 CDMO project with Sanofi, and a COVID-19 project.

Let's now move to slide 10 on Capex investments.
To support EUROAPI's growth and performance, we are pursuing major investments.
In H1 2023, Capex investments reached 69.3 million euros versus 51.4 million euros in H1 2022 and represented 14% of Net Sales of which 51% were dedicated to growth projects. This includes notably investments in increased capacities for peptides and oligonucleotides in Frankfurt.

We expect FY 2023 Capex between 120 million euros and 130 million euros.

Let's now turn to slide 11, which shows the key initiatives launched during the first half of the year to sustain future profitable growth.

As just mentioned, we announced a 50 million euros Capex investment at the Budapest site.

Furthermore, we announced the reinforcement of the R&D organization to support CDMO operations in a more agile and flexible way.

Mobilizing to contribute to French and European health sovereignty, we announced R&D investments at our Vertolaye site, to develop innovative and sustainable processes and technologies that will increase the productivity of the production of morphine and its derivatives by 2027.

As part of the Important Project of Common European Interest (IPCEI) currently under review by the European Commission, we also submitted innovative projects to help cover the need for currently imported critical medicines such as macrolide antibiotics and corticosteroids, by 2030.

Finally, in order to leverage EUROAPI's innovative production processes and asset diversity, we enhanced our offer in Regulatory Starting Materials, called "RSM", and Intermediates, with a positive impact on revenues expected in a couple of years.

With that, let me hand it over to Antoine, who will discuss half-year financial performance.

Antoine Delcour

Thank you, Karl,
Moving now to slide 13.

As mentioned by Karl earlier, net sales were up 2.6% to 496.6 million euros in H1 2023.

Gross profit stood at 97 million euros, a slight decrease compared to H1 2022 due to the impact of the suspension of prostaglandin production and of inflation headwinds, partially offset by price increases, product mix, and operational efficiencies.

Core EBITDA amounted to 62.5 million euros, down 11.1% compared to 70.3 million euros in H1 2022. Core EBITDA margin was at 12.6%, versus 14.5% in H1 2022, negatively impacted by:
• the suspension of prostaglandin production at the Budapest site until mid-January, with full production resumed in mid-April. The impact on H1 Core EBITDA was approximately 200 bps;
• and the extra-profit tax in Hungary, which amounted to €1.4 million, or cc. (30) bps, based on H1 net sales.

On the other hand, it was positively impacted by the €2.5 million provision reversal from the pharma tax in Hungary accrued in 2022.

To clarify, following a change in the tax decree published in late December 2022, EUROAPI Hungary filed a request to the Hungarian authorities to confirm that EUROAPI did not fall within the scope in 2022. The tax authorities confirmed in June 2023 that our analysis was correct and that EUROAPI was not concerned by this tax in 2022.

Therefore, the provision accrued in 2022 was reversed at the end of June 2023.

The company remains eligible for the tax in 2023, with a 30-bps estimated impact.

The tax has been prolonged for the 2024 fiscal year, with rates halved.

Moving now to slide 14 to provide more details on Core EBITDA margin.

As mentioned in the previous slide, Core EBITDA margin was 12.6% compared to 14.5% in H1 2022. The decrease reflects:
• a -1.8 pts negative impact from volumes due to the suspension of prostaglandin production, and the discontinuation of two CDMO contracts from Sanofi in 2022, which impacted fixed cost absorption
• a 4.8 pts positive impact from price increases and mix
• a 1.6 pts improvement from industrial efficiencies
• - 8.6 pts negative impact from energy and raw materials costs increases
• -0.9 pts negative impact in Opex,

Excluding the positive impact of the reversal of the provision accounted for the pharma tax in Hungary, our H1 23 Core EBITDA margin would have been 12.1%.

Operating Income was €16 million compared to €26.1 million in H1 2022, impacted by the decrease in EBITDA.

Financial income was €(3.3) million, compared with €(2.3) million in H1 2022.

Income tax was positive €50.1 million, of which €46.8 million was related to deferred taxes from the revaluation of EUROAPI Hungary assets.

The revaluation was triggered by the tax treatment applied by Sanofi in 2023 to the transfer of the Hungarian business to EUROAPI as part of the carve-out in 2021 and the subsequent exit of EUROAPI from Sanofi.
Net income was €62.8 million in H1 2023. Excluding the impact of the €46.8 million deferred tax asset from the revaluation of EUROAPI Hungary assets, H1 2023 net income would have been €16 million.

Moving now to slide 16 on working capital.

We recorded 741 million euros in working capital in H1 2023, versus 659.7 million euros in H1 2022.
- Inventory Months on hold increased to 8.1 vs. 7.6 last year, impacted by input cost inflation, and the impact of the suspension of prostaglandin production on net sales
- DSO improved to 70 days compared to 79 in H1 2022

Moving now to slide 17 which explains the evolution of our net cash position in the last 6 months.

Core Free Cash Flow was -90.6 million euros in H1 2023 versus -40.2 million euros in H1 2022.

Net Cash from Operations was negatively impacted by 95.2 negative Working Capital driven by:
- 30.1 million euros change in trade receivables
- minus 66 million euros change in inventories due to the business seasonality and input cost inflation.
- Minus 49 million euros change in payables.

Capex reached 69.3 million euros, or 14% of Net Sales, in line with our growth strategy.

Net debt at the end of June of 143.2 million euros compared to 25.6 million euros at the end of December 2022. The increase was driven by the financing of working capital.

With that, let me hand it over to Cécile who will focus on CDMO results.

Cécile Maupas

Thank you Antoine and good morning, good afternoon, everyone. Moving now to H1 2023 CDMO performance.

Let's start with commercial activity on slide 19.

As Karl mentioned, in H1 2023, we received 106 CDMO requests for proposal
Among these, we recorded 42 RFPs from big Pharma, up 10.5% versus last year. The number of RFP received from biotech companies decreased by 7%, as a consequence of the current challenges faced by these companies to secure financing.

More importantly, the average value per RFP grew 18.1% on average, fueled by an increased proportion of proposals for late-stage projects. Since the beginning of this year, 40% of the RFPs we received were for commercial phase projects.

Let's now comment on the dynamic of our CDMO portfolio during the last 6 months on slide 20.

At the end of June 2023, we had 79 active projects, with 18 projects in Preclinical or phase 1, 14 in phase 2, 10 in phase 3, in addition to 37 in the commercial phase.

During the semester, 18 new projects were signed, of which 9 were in the commercial phase. This was fueled by the increasing demand for Regulatory Starting Material and API re-shoring, as well as the trend for dual sourcing with European players. 5 projects won were in large molecules, which is consistent with our strategy to increase our exposure to this growing market.

Since the beginning of the year, we have signed two promising contracts at a commercial phase, including
- a four-year agreement with Novéal, part of L'Oréal Group, to industrialize the manufacturing process of innovative cosmetic ingredients
- and a Master Services Agreement with a US Biotech to repatriate one of their Regulatory Starting Material currently produced in Asia.

12 projects were put on hold by customers, including the 2 in late-stage with Sanofi announced in March, 1 project related to Covid-19, and 8 projects in early-stage, of which 3 were stopped due to financial constraints.

Let's now move to our CDMO pipeline on slide 21.

Among the 79 projects currently in portfolio, 18 are in Large Molecules versus 14 in H1 2022, and 47 in Complex chemistry, a strong increase compared to 37 last year. Both are priority areas of development for EUROAPI.

We continue to gradually de-risk our portfolio towards commercial phase projects, which represented 47% of the total number of projects in H1 2023 compared to 45%[1] in H1 2022, while building the pipe in the early-stage phases, particularly in Large Molecules.

Thank you for your attention and let me hand it over to Karl who will present the 2023 outlook and perspectives.

Karl Rotthier

Thank you, Cécile,

Let's move now to our Full year 2023 guidance on slide 23.

In light of H1 2023 results, we expect:
• 2023 Net Sales to increase between +7% and +8%, with both API Solutions and CDMO growing double-digit in H2
• A Core EBITDA margin between 12.5% and 13.5%, compared to 12% to 14% initially communicated
• Capex between €120 million to €130 million

Our Mid-term perspectives are also confirmed, with the following:
• +7% to +8% Net Sales increase on average between 2023 and 2026, driven by double-digit growth of Sales to Other Clients (including API Solutions and CDMO).
• A Core EBITDA margin above 20% in 2026 and above 18% in 2025.

[1] Edited on 2nd of August at 2:00 pm CET

• €510 million Capex investments for the period 2022-2025, 50% to 53% Core Free Cash conversion by 2025.

Antoine, Cécile and I are now happy to take your questions.

Questions and Answers

Operator: As a reminder, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. We'll take now our first question from Gary Steventon from Exane BNP Paribas. You can go ahead now. Your line is open. Thank you.

Gary Steventon (Exane BNP Paribas): Great. Thanks for taking my questions. Good morning, everyone. So firstly, just on the CDMO RFPs. You've seen kind of a slight slowdown, you called out the decline in biotech customers, but then also that increase in the average value was linked to the stage. So it'll be interesting to get your thoughts here on how you expect those numbers to trend over the rest of the year. And really what you're seeing in terms of biotech demands and any signs of recovery there?

And then I guess, given the weakness in biotech funding, how do you think about the conversion of those RFPs into revenue-generating products? Just wondering here, perhaps, if that's taking a bit longer and how we should think about the conversion rates?

Karl Rotthier: Okay.

Gary Steventon: And then second question – go on. I can come back.

Karl Rotthier: No, Gary, please go on the list your questions, and I will take it from there.

Gary Steventon: Thanks, Karl. So second was just on the margin outlook and the narrowed range. You've got a small benefit in there from the provision reversal, but then also the additional €6 million payment from Sanofi, which I assume likely has quite a high drop-through. So the question is really on what gives you confidence in the narrow range as we look into the second half? Kind of do you see the pressures of energy raw material prices easing? And then also, given some of the molecules you manufacture do have long cycle times? Just wondering to what extent you have good visibility on the costs and sales over the second half, as we stand today?

Karl Rotthier: Very good. Thank you very much, Gary, for these questions. Before I give also the floor to Cécile on the CDMO part and Antoine on the margin narrowing, one small comment also from me. So we, of course, focus on the quality of our pipeline. And definitely the 106 compared to the 117 is not a slowdown, but on the contrary, is actually an increase in the quality of the RFPs that come our way and where we respond to. So you also see that in the solid growth of the entire CDMO portfolio to other clients with 18.5%.

But Cécile, can you perhaps focus a little bit more on that particular area of interest of a lot of people on the biotech funding, how we respond to that? Please, Cécile, go ahead.

Cécile Maupas: Several point to answer. First, there is a slowdown and we cannot control this low. What we can is react on it and to adapt our strategy. It's what has been done. So we have seen this slowdown in the biotech funding. And we have a chance to be very well now connected with bigger pharmaceutical company, that can really have turned the number of RFP into this bigger company that for sure lead to bigger projects with higher value and that we – what you see in the average value per project that is really well on track and growing.

Secondly, I cannot predict what will be H2 2023 in terms of financing in biotech. But we are ready to advise this point, we are doing the right selection in the term of project we answer to, to select the biggest biotech, some of them are already on the market. They have products on the market. So they are almost secure in terms of financing. So it helps us to work with them. We have the credibility to work with bigger projects. We have the capacity. So it's the agility that we have in commercial phase to do it. In terms of margin, you have a question as well.

Karl Rotthier: I think the margin is for the CFO?
Cécile Maupas: Okay.
Karl Rotthier: No, I think, indeed, so on the CDMO part, we have focused a lot on developing the pipeline in large molecules, as we mentioned, for the early phases, but we also indeed focused a lot on getting phase III and commercialised products in late-stage projects from big pharma and from biotech companies.
Just also, Gary, to avoid the issues which eventually might arise on financing of biotech companies for very early phases. So the narrowing of the margin of 12.5% to 13.5%. Antoine, can you elaborate, please, on this one?
Antoine Delcour: Thank you, Karl. So just to clarify the €6 million additional payments we received from Sanofi was already embedded in our initial core EBITDA guidance. So it's not a new event. It's something which happened during the first semester, but it was already embedded in the guidance. We decided to narrow it down. First thing to take into consideration during the fall of the 2022 on the tax on the low range. And today, we are quite confident to deliver this margin by the end of the year. And there are three reasons for that.
First thing is that good visibility on purchase of the clients being today in July, most of our sales are covered by purchase orders. And in terms of cost baseline, as we mentioned a few times already, we are fully hedged at this stage on energy prices, so there is no further impact we could have on this one. As well also very good visibility on our purchasing price on raw material.
Karl Rotthier: Thanks a lot. Thanks a lot, Antoine. Is Gary, answering your questions?
Gary Steventon: Yes, perfect. Thanks a lot.
Karl Rotthier: All right. Cheers. Thanks, Gary.
Operator: We'll take now our next question from James Quigley from Morgan Stanley. You can go ahead now. Your line is open. Thank you.
James Quigley (Morgan Stanley): Great. Thanks for taking my question. So firstly, on the prostaglandin production investment, you highlight the market is growing at 5% to 7%. But to what extent do you already have contracts or commitments or indications in place from your current customers? And to what extent are competitors also adding capacity in this area? So how do you expect market share to develop in the period of you bringing capacity online? And then when you get to – when you reach full capacity?
And then secondly, in terms of the biochemistry molecules and fermentation, can you give us an idea of the great impact from the price increases you saw across the portfolio, as well as the positive impact from Sanofi restocking in its anti-infective products?
And if I can squeeze in a quick third one, of your projects – of the 79 projects you currently have, how many of those early stage projects could be at risk from biotech funding? I know you said you've made steps towards selecting the better bite or they've been more financially stable biotechs. But are there any in there that could be at risk? Thank you.
Karl Rotthier: Okay. Thanks a lot, James. So on the first question on the prostaglandin. Yeah, we indeed there announced a €50 million investment. And, of course, we do this just to be – and the remainder number one in this market as well. We see, indeed, coming from different customer contacts, and also contracts, the increased demands by a certain point in time in 2026 to 2027, coming to a maximum capacity. And that's where we, of course, now want to be already proactive in increasing that capacity that we have in Budapest, because this is, of course, a very lengthy process to produce. That's why we already now need to really be prepared for this.

So yes, we have indeed, that is also our strategy behind every investment, already quite a very, very good view on the future demands coming from our customers, which also will be placed in contracts as well.
We are not here, and that's something that we always mentioned in the past. We just do not create capacity and then go out in the market to sell. We want to be a little bit more secure on that.
The biochemistry part in Elbeuf is for one particular project – product that was – or is produced for Sanofi, where during the COVID crisis, there was actually little or no demand because nobody got sick. And so the restocking of this product took place actually right now in the first half of this year.
And then I think for the third part of the question on the 79 projects that we currently have on hand for the CDMO business, Cécile, how many projects in the early phase would eventually be at risk for biotech funding?
Cécile Maupas: In our current pipeline, I think we already said that. Eight project in early stage were stopped beginning of the year and we don't expect any sooner stop anymore for this year. But three of them were really having difficulty in financial – financially.
Karl Rotthier: Yeah. But these are already tailored in all the figures that we have.
Cécile Maupas: Yes, sure.
Karl Rotthier: Antoine, you still want to add something?
Antoine Delcour: And something I would like to add in terms of credit management. So today, we also secured the way we are contracting with biotechs to make sure that when we start a contract with them, that they will have enough financing also to pay the service we provide to them. So we say – so we also secured on that aspect.
Karl Rotthier: Very good point. Thank you, James.
James Quigley: Okay.
Operator: We'll take now our next question from Richard Vosser from JP Morgan. You can go ahead now. Your line is open. Thank you.
Richard Vosser (JP Morgan): Sorry. Hi. Thanks for taking my questions. So just on the prostaglandins, you called out a €15 million year-on-year headwind in the first half. Is that the sort of step up we should expect in the second half? Or is there a bigger step up?
And then secondly, or linked, beyond those prostaglandins. Could you give us a little bit more colour on what's driving the acceleration in both CDMOs and API in the second half to get to double-digit growth that's embedded in your guidance?
And maybe just one more thing, just in terms of those contracts that are stopped, do you get cancellation fees with those? And are they embedded in your '23 guidance? How should we think about that? Thanks very much.
Karl Rotthier: Okay. Thank you very much, Richard. So no, I think what we have announced in January, and also recently after the annual general meeting and also with the investment of prostaglandins, full production has been resumed by mid-April. So there was still this negative impact of just the production that we did not have since the beginning of this year to mid-April. But now, everything has been turned back to normal. And so also on half two, there is, of course, no negative impact. On the contrary, it will be business as usual for this one.
And that's why, of course, one of the major reasons that we also are quite confident for the second half of this year, the prostaglandin will be completely included again. But also you will remember from the earlier calls, we do not really have a seasonality in this business, but the first six months, of course, have a higher performance or activity level on our sites. That's also

given the fact that the stronger half year two that we are now expecting with the prostaglandin sales is really giving us a lot of confidence for the guidance that we have given of 7-8% for the full year as well.

The cancellation fees for eventually projects on hold. Cécile, can you comment on that one?

Cécile Maupas: Yes, sure. So cancellation fees mechanism that are included in our contract on a regular basis. For these type of very early stage development phase where they stop the project very well in advance, we are not allowed to get any cancellation fees.

Karl Rotthier: Okay, thank you very much. Antoine, you still want to add something?

Antoine Delcour: Nothing.

Karl Rotthier: Nothing. There you go. Richard, thank you very much for your questions. I hope to see you soon.

Richard Vosser: Thanks.

Operator: As a reminder, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. We'll take now our next question from Falko Friedrichs from Deutsche Bank. You can go ahead now. Your line is open. Thank you.

Falko Friedrichs (Deutsche Bank): Thank you. Hello, everyone. My first question is going back to the CDMO point on sort of focusing a bit more on large pharma versus early stage biotech. What's the implication for your margin of that shift? We always had the understanding that the early stage biotech work can be quite profitable. So a little bit more colour here would be helpful.

Then my second question is on your 2025 margin guidance of more than 18%. Can you just remind us of sort of why you're so confident to get there from current levels?

And my third question is on your €50 million value creation programme. Can you remind us of the phasing of the benefits here, and also is there any one-time cost involved? Thank you.

Karl Rotthier: Very good questions, Falko. Thank you very much. The margin questions, Antoine, I would like to revert to you. How is that visible if we indeed see that some of the CDMO projects that we have now coming in are going more into the late-stage projects? Is that an influence on the margin, yes or no? The confidence on the margin to get to 2025. And then, of course, Falko, you mentioned already a very important contributor to that, which is, of course, our value creation plan, which we indeed said it would contribute €50 million by 2026 as well. Antoine, can you comment a bit on the margins, please?

Antoine Delcour: Yeah. So, as we explained, so what is important, so in the early stage, the level of margin is higher than probably on commercial, but the level of sales is lower. So for me, in absolute value it is, I will say, relative on the core EBITDA margin of the company. However, when you move to commercial, the level of margin is slightly decreasing, but the level of sale is higher because you produce commercial quantities.

But that being said, what is very important to understand is that all CDMO activity has a positive mix impact on our core EBITDA margin. So it's important for us anyway to de risk also our CDMO activity moving to commercial products and projects.

Karl Rotthier: Cécile, you want to add?

Cécile Maupas: Yes, I just want to add that when we are talking about a late-stage project, marketed project, this is still a new, complex chemical entities. We are not talking about generics.

Karl Rotthier: Yeah.

Cécile Maupas: Margin is very interesting.

Karl Rotthier: Indeed. So Falko, if you are referring to the projects in the early phases, you, indeed, in absolute numbers, talk about lower amounts, yet the percentage is higher. If you go to the late-stage projects, certainly for the new chemical entities, the margin is still pretty respectable. Plus, of course, it has a higher turnover. And of course, also an higher activity level on the sides as well, absorption of cost is also very important one.
Antoine, can you also comment on the phasing of our value creation plan that was also a question that Falko raised?
Antoine Delcour: So the phasing of this performance plan will be casual. I won't say that it won't be linear. So as it was for a core EBITDA trajectory effect. So it's underlined by a lot of, I would say, projects at site level, which attract on the monthly business to make sure that we deliver them on time to secure, I would say, our internal guidance.
Karl Rotthier: And it's of course focused on a lot of items that we have mentioned already on procurement, on energy, on efficiencies, yield improvements, on cost improvements as well, but also on a lot of improvements in the ways that we are going to work, tailor-made to company that is indeed in need of simplified processes as well.
Okay, Falko?
Antoine Delcour: And the mid-term guidance?
Cécile Maupas: The confidence on –
Antoine Delcour: Mid-term guidance.
Karl Rotthier: The '25. Yeah, I thought that was already answered. But you can comment on how confident are we for the midterm guidance, Antoine?
Antoine Delcour: For me, we are confident on delivering it based on the strategy which was developed and that we're deploying on a daily basis with the drivers we explained already, which is to increase the volumes and the capacity utilisations offsite. The mix are being developing also our CDMO offer and sharing net sales but also on the API solutions, adding – increasing our market share on the highly differentiated API, plus the performance plan and the €50 million value creation will deliver by 2026.
Karl Rotthier: Indeed, Falko, the investments that we have planned and that we also have announced to the market, they are now fully on track and we, of course, have them or need them also in order to translate what we have written in our strategy also into the markets. So the investments in prostaglandins, the investments in the B12 processes in the peptides in oligonucleotides will make sure that, indeed, the margin improvement is also there with the increased business that's coming our way.
And that, mixed together with the value creation plan, is giving us full confidence on reaching the midterm guidance. Okay?
Falko Friedrichs: Perfect. Thank you.
Operator: As a final reminder, if you would like to ask a question, you can press star one now. We've got no further questions coming through. So I will hand you back to your host now to conclude today's conference. Thank you.
Sophie Palliez: Thank you, Alicia. Thank you all. We – as usual, we stay at your disposal for any follow up question. And may I wish you a nice summer. Thank you, everybody. Thank you, Karl. Thank you, Antoine. Thank you, Cécile.
Karl Rotthier: Thank you very much.
Antoine Delcour: Thank you. Bye.
Cécile Maupas: Bye-bye.
Operator: Thank you for joining today's call and you may disconnect now.

[END OF TRANSCRIPT]