Biocon Biologics’ acquisition of Biosimilars Business of Viatris Call Transcript

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Speakers and Participants from Biocon Limited and Biocon Biologics Limited

- 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. Indranil Sen – Chief Financial Officer, Biocon Limited
- Mr. Shreehas Tambe – Deputy Chief Executive Officer, Biocon Biologics Limited
- Mr. M.B. Chinappa – Chief Financial Officer, Biocon Biologics Limited
- Ms. Aishwarya Sitharam – 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
- Nithya Balasubramanian – Sanford Bernstein
- Shyam Srinivasan – Goldman Sachs
- Sameer Baisiwala – Morgan Stanley
- Prakash Agarwal – Axis Capital
- Tushar Manudhane – Motilal Oswal
- Charulata Gaidhani – Dalal and Broacha
- Harith Ahamed – Spark Capital
- Cyndrella Carvalho – Centrum
- Ankush Agarwal – Surge Capital
- Yash Tanna – iThought Advisory
- Masira Vasanwala – FSSA Investment Managers
- Dhaval Bhalodia – Investor
- Tarang Agarwal – Old Bridge Capital
- Bharat Sheth – Quest Investment Advisors Pvt Ltd
Prepared Remarks Session

Aishwarya Sitharam:
Good morning everyone, I am Aishwarya Sitharam from the Biocon Investor Relations team and I would like to welcome you to Biocon's Analyst and Investors call regarding recent announcement of the acquisition of the Viatris’ Biosimilars business by Biocon Biologics. I would like to indicate that all participants will be in the listen-only mode, and there will be an opportunity for you to ask questions after the opening remarks conclude. Should you need to ask a question, please select the ‘Raise Hand’ option under the ‘Reactions’ tab of your Zoom application. We will call out your name and unmute your line to enable you to ask the question. While asking, please begin with your name and your organization. Please note that 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. I would also like to bring to your attention that this conference is being recorded.

To discuss the recent acquisition, we have with us today with us the Biocon leadership team comprising of Dr. Kiran Mazumdar-Shaw, our Executive Chairperson and other senior management colleagues.

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

Now, I would like to turn the call over to Dr. Kiran Mazumdar-Shaw. Over to you, Ma’am.

Kiran Mazumdar Shaw:
Good morning, everyone, thank you for accommodating this video conference at such short notice. I’m absolutely excited to share the breaking news of Biocon Biologics’ acquisition of the Viatris’ Biosimilars business and very keen to provide you with some key insights of the deal.

Today happens to be National Science Day and as a science led company, I do believe this is an auspicious day on which to announce this big news. Let me start by reflecting on Biocon’s journey over the last four decades. Since its foundation in 1978, we have witnessed a transformational event every decade, enabling us to expand our business and unlock value across segments. However, if I were to point to two key inflection points, I would say the first was in 1998 when we bought out Unilever’s stake in Biocon to truly become an independent company and chart our own future. And the second is certainly today, as we script a new path at Biocon Biologics as a vertically integrated, world leading biosimilars enterprise both in terms of size and portfolio. Throughout our eventful journey, we have been creating new business opportunities and reinventing our businesses to spur our pioneering spirit. From our founding business of enzymes, we have moved to research services at Syngene, fermentation-based biopharmaceuticals at Biocon and biosimilars at Biocon Biologics.

Our hallmarks of value unlocking for our shareholders began in 1989 when Unilever bought out our VC investors at a 4x multiple. In 2004, Biocon became the first biotech company to be publicly listed in India crossing the $1 billion mark on the first day of its listing. In 2007, we unlocked the value in our enzymes business through its sale to Novozymes at a very rich multiple, providing us the capital to fuel our biopharmaceutical business. We also witnessed a very successful IPO of Syngene in 2015 with a $1 billion listing, thereby creating accretive value for our shareholders.
Our biosimilars partnership with Viatris’ has been an incredible journey wherein we embarked on a path which was unchartered, given that the biosimilar regulatory pathway was not even formed in most markets. Despite this, we were able to achieve many firsts in the biosimilars space setting new benchmarks for the industry. The complimentary investments made by both the companies in R&D manufacturing and commercialization ahead of its peers has allowed us to develop strong know-how in each of these verticals. We are ready to advance our biosimilars journey to the next level, and this acquisition of Viatris’ biosimilars business is an important step to create a leading fully integrated global biosimilars company setting us up for the next decade of value creation for all our shareholders.

We have consistently focused on the importance of vertical integration in the biosimilars industry to be both agile and competitive. Thus far, we relied on the complementary capabilities of Viatris and Biocon Biologics to provide vertical integration. This acquisition now enables a standalone vertically integrated structure and fills the gaps in our missing capabilities in developed markets and around supply chain and commercialization. Our long-standing relationship with Viatris, positions us well to seamlessly and rapidly integrate and thereby maximize value from this transaction. Additionally, it accelerates our readiness for the next wave of biosimilars under development.

Viatris’ biosimilars business comprises of its rights in Biocon Biologics partnered programs, it's in-licensed assets of Adalimumab and Etanercept and its advanced development program – biosimilar Aflibercept or Eylea. Post closure of the deal, Biocon Biologics will realize the full revenue and associated profits from its partner products. This is a step up from its existing arrangement of realizing a smaller fraction of the economic benefit. Biocon Biologics has estimated the Viatris’ biosimilars business to generate approximately $1.1 billion in revenue and an EBITDA of about $250 million in CY2023. The deal will expand Biocon Biologics’ EBITDA base and strengthen its overall financials enabling investments for a long-term sustained growth.

The business will come with a robust commercial team, including relevant field force, account managers and sales support functions in the developed markets of North America, Europe, Japan, Australia, New Zealand and of course, several emerging markets that Viatris’ supplies biosimilars to. Along with this comes supply chain and regulatory capabilities in developed markets, which will also contribute to this deal. We are looking forward to the launch of biosimilar Bevacizumab, Aspart, and Adalimumab in the US, driving near-term growth. We also have the option to acquire Viatris’ rights in its biosimilars Aflibercept, which is an advanced asset and has the status of ‘first to file’ with the potential of being first to market. To ensure a seamless transition and continued service to patients and customers, we will enter into a transition service agreement with Viatris for an expected 2-year period, encompassing commercialization and other services at a cost, plus $44 million per annum payment.

Now let me turn to the financial consideration of this deal.

Viatris will receive an upfront cash consideration of $2 billion on closing of the transaction, to which there will be an adjustment of $50 million on account of certain capex-related funding. Upon closing of the transaction, Biocon Biologics will issue 1 billion of compulsory convertible preference shares to Viatris equivalent to a fully diluted equity stake of at least 12.9% with a cap to the total number of shares being issued. There is additional deferred consideration of $335 million due in FY25 of which $175 million is linked to the option to acquire biosimilar Aflibercept. Viatris will designate Rajeev Malik to serve on the Biocon Biologics’ board.

Turning to financing the acquisition, the cash payment of $2 billion will be funded through a combination of equity infusion and debt. We have already received commitments of $800 million of equity investments and $1.8 billion of debt financing, allowing us to comfortably fund the transaction. The quantum of debt to be used this transaction will be
determined between signing and closing. The future considerations will be primarily funded from the cash generated in the business. The debt assumed in this transaction will be supported by larger EBITDA base, a combination of Biocon Biologics, Viatris and vaccines income streams and future equity infusions in Biocon Biologics. Merging the Viatris’ business with Biocon Biologics accelerates the build out of our commercial capabilities in developed markets in order to become a strong global brand. Vertical integration will drive operational efficiencies and business agility thereby underpinning cost competitiveness.

We have a portfolio of 20 biosimilars to back the fully integrated business model. Full ownership of the assets partnered with Viatris significantly strengthens our business. We will have higher economic interest in some of our near-term growth drivers, which include biosimilar Bevacizumab, Aspart and, of course Adalimumab in the US, the vaccines alliance with Serum Institute will supplement our revenue and profitability imminently. Viatris’ biosimilars Aflibercept will augment our two undisclosed programs shortly entering the clinic. The three programs have combined originator revenue of about $20 billion annually. The long-term growth drivers will be further strengthened by the acquisition of full rights to biosimilars Pertuzumab and Glargine 300 IU.

Finally, I do believe that we are building an organization, for the future, for the next decade. We are confident that this deal will drive immense value for our shareholders and patients globally as

- We create one of the world’s leading and largest fully integrated biosimilars company taking our products from lab to market globally
- Solidify our commercial presence in global markets
- Build a comprehensive portfolio of biosimilars and vaccines
- Continue to further expand our global manufacturing capacity
- We have an experienced management team that will focus on strong execution capabilities, and
- We will build an organization with strong financials enabling long term sustained growth

We are indeed pleased with the outcome of our long-standing relationship with Viatris and as we build the organization for the next decade we are confident to be creating value for all our stakeholders, underpinned by this deal.

With this, I will now open it up for questions.
Q&A Session

Nikunj Mall: Thank you ma’am. As we can wait for the questions queue up, I’d like to remind everyone, you can ask questions by using the ‘Raise hand’ option in your Zoom application. We request you to ask two questions at a time and get back in the queue so that everyone has an opportunity to ask the question. The first question is from a Damayanti Kerai from HSBC.

Damayanti Kerai: Hi good morning, I’m Damayanti from HSBC Securities and thanks a lot for giving this opportunity and congratulations on this deal. So, ma’am my first question is in terms of incremental pipeline addition, I’m surprised that Eylea is not part of in-license portfolio, rather we have an option to acquire it later. So, what was the thought process behind it, because if we look at other incremental product, including Botox most are in early stage of development, which might come three years or later in market. So, in my very broad understanding in terms of the gain which will be immediately seen from the deal is not more on the product addition, but more on the commercial infrastructure which you highlighted. Can you give your thoughts here on Eylea and some of other points?

Kiran Mazumdar Shaw: I will start by saying that Eylea is very much a part of this transaction, but I will defer to Arun to give you more responses to the rest of your questions.

Arun Chandavarkar: So Damayanti as Kiran mentioned, we do have an option to acquire Aflibercept as part of this transaction, and the reason it is not acquired today but it’s structured as an option, because there are certain elements of due diligence, that we need to complete over the next month or so as to evaluate this asset. Because some of the confidential data that Viatris has, as part of this asset will be shared with us only post signing of the deal. So going forward now, we will have access to certain data which we will assess and we have no reason to believe that the data will not justify us proceeding with the acquisition.

Damayanti Kerai: So Arun, yes, I agree, Eylea will be part of our portfolio, but it will commit incremental payment around $175 million which you indicated. So I think we will wait for your deal signing and then this product to come on, because other products, if I look in the nine month presentation, as I mentioned mostly are in early stage of development and these product may not be.

Kiran Mazumdar Shaw: Damayanti, I just want to interrupt you I think you’re missing out on a huge opportunity of Adalimumab.

Damayanti Kerai: Ma’am, but that was already part of our portfolio even if this deal hasn’t gone through, right?

Kiran Mazumdar Shaw: But, as I explained Aflibercept is very much part of this deal and, as Arun mentioned it is a question of just a short time before we exercise our option.
Damayanti Kerai: Okay ma’am. My last question will be on the cost or the initial cost which we will be adding on to our books, because of this deal. So, if I look at the numbers disclosed Viatsu’s biosimilars EBITDA margins were somewhere in 22-23% compared to 30% plus margin for Biocon. So due to this should we expect dilution in profitability in near term?

Kiran Mazumdar Shaw: No, I think, if you look at the combined revenue and EBITDA base that we’re looking at I don’t think we will expect the dilution of this at the Biocon Biologics level.

Damayanti Kerai: So, ma’am 30% margin is still doable after we get Viatris’ assets on board?

Kiran Mazumdar Shaw: Well, we look at core EBITDA margins of around 30-35% which we still believe we can sustain.

Damayanti Kerai: Okay, thank you I’ll get back in the queue.

Nikunj Mall: Thanks, Damayanti. Next question is Surya Patra from Phillip capital.

Surya Patra: Congratulations for the great deal. My first question on the let's say the portfolio and all that we have mentioned, the kind of an asset that we are acquiring from Viatris, through this transaction. So, we have talked about all asset and rights that Viatris has on biosimilars that would be acquired, so here are we considering even the portfolio what they had in licensed from Momenta for biosimilars? If that is so than think that is around, 15 more products that were there. So, whether that is part of the deal, or it is outside of that deal because sure the Fujifilm and Lupin kind of alliance, all that is there, but there is no mention about Momenta.

Arun Chandavarkar: So, let me answer the question in two parts. Your question in terms of what exactly are we are acquiring. So you’re right that we are acquiring a greater economic interest in our current partnership, so the big part of this all is, one is the new assets which are not currently part of our portfolio which, as you know, biosimilar Aflibercept is one of them. You’re right that historically when Viatris signed the partnership with Momenta, there was a portfolio of assets, but what is the most promising asset in that portfolio in our view, is biosimilar Aflibercept, as you know it represents an $8 billion opportunity in terms of innovator sales. Viatris has a first to file position and we believe that first to file position may translate into a first to launch position, and that is the value that we are ascribing to the biosimilar Aflibercept asset. But if you look at the entire transaction it’s not only done for the sake of the biosimilar Aflibercept asset, so it is done to get the entire profit and revenues that up until now Viatris’ was booking in terms of our collaboration agreement. It also gives us the commercial infrastructure globally, that Viatris’ has created to sell biosimilars and this commercial infrastructure in the near term will service the collaboration assets that are in market, but this commercial infrastructure will also be leveraged going forward once the integration is complete to drive our commercial engine for our future pipeline itself. So, you know that we have a long pipeline of 20 biosimilars and only about half of them were partnered with the Viatris and other partners. So, if you really look at it from the opportunity that we have, to commercialize a future pipeline this
provides the commercial foundation for that opportunity, as well. So there is much more to this acquisition than just the biosimilar Aflibercept. On top of this, we have a two year transition services agreement with Viatris which Kiran talked about in her opening comments and this transition services agreement for up to two years is again an important part of the collaboration, because it gives us that two year window to basically transition and integrate the commercial services and other support services that Viatris currently executes in the developed countries. So, that headroom also provides us what I would call like a smooth transition and allow us to hit the ground running say within two years. There are multiple aspects to the deal that are value accretive to us.

**Surya Patra:**

Sir thank you for that detailed explanation, but a related question again. So, I think the key thing that is getting obviously added through this acquisition is the commercial footprint across the world, more importantly, regulated market and also very few or tough market like China also possibly. We were excited about this Upjohn acquisition or merger and the commercial capability that added to the overall alliance Biocon Viatris Pfizer and all that. So, if you can give some more clarity about the commercial strength that we are adding across the board.

**Arun Chandavarkar:**

Sure, I’ll answer it in two parts. As far as we’re concerned, we are looking at a commercial infrastructure to support the biosimilars business. You know your allusion to Upjohn is not extremely relevant to this transaction, because the Upjohn infrastructure to my understanding was to support the Upjohn products which are established products of the erstwhile Pfizer entity. Whereas, if you look at the biosimilars infrastructure that Viatris has created in some markets, they have created a dedicated infrastructure to support their biosimilars ventures. In some markets currently it’s a shared infrastructure which is shared between their biosimilars and small molecule business and other established products. So over the next two years there will be a clear segregation of this infrastructure that supports the biosimilars business and it’s only that part of the commercial infrastructure that’s supporting the biosimilars business that will transition and migrate to Biocon Biologics. And this is global, this is US, Europe, other advanced markets and select emerging markets as well.

**Nikunj Mall:**

Thanks Surya. I think we will move on to the next question, and if you have further questions please get in the queue. Next question is from Dhaval Bhalodia.

**Dhaval Bhalodia:**

Hello good morning myself its Dhaval Bhalodia, I’m from the US. I have a question regarding the overall current competition in the US market. So how we will overcome the challenge of competing against the innovator which have long-term customer relationships. And even in the biosimilars market if we see the biosimilars product from the Amgen and the Pfizer has the highest market share and smaller company like us will have a very tough time competing against them and gaining the market share. So, what will be our long-term strategy, since we are in the driving seat now for the commercialization front?
Arun Chandavarkar: So, if you look at a commercial infrastructure, even though, as you said, I think Kiran in her opening comments displayed a slide, which talked about the complementarity of capabilities. You're right that Biocon Biologics as of today lack that direct presence in advanced markets of the US and Europe and we were partnered with Viatris. As part of this transaction, I've already mentioned that the experienced commercial infrastructure in place at Viatris would transition over to Biocon Biologics, so we don't need to create organically an commercial infrastructure and we will be able to leverage Viatris' commercial infrastructure. I also mentioned that there is a two-year transition period to come up with these kinds of commercial strategic plans that you are talking about in terms of how we drive our future growth collectively. You're right that going forward Biocon will be taking the commercial decisions once we are at the end of the transition services period. But that two-year headroom is we believe more than adequate time for us to get comfortable driving the advanced markets. We have also been, as you know, hiring senior leadership, in the US. We've already announced some time ago about hiring Matthew Erick as our Chief Commercial Officer in Advanced Markets, who has a great deal of experience, for example driving biosimilars business in the US market. You have already seen, for example, the success we've had with that interchangeable Glargine where in a very short period of time the interchangeable status and the preferred status on formularies have increased market share significantly. So, there will be such commercial opportunity I cannot of course past spell out each of our strategic commercial initiatives for competitive reasons. I mean the whole idea of doing this deal is to drive the commercial success in advanced markets on top of the success that we've already currently enjoying in many emerging markets.

Kiran Mazumdar Shaw: I would also like to add to that Mr. Bhalodia by saying that the adoption of biosimilars in these developed markets is really increasing and rising very rapidly. I think, from a point of view of healthcare spends, biosimilars are going to be a very important component of the drug spends in advance markets. And, if you see the adoption of biosimilars and generic medicines in the advanced markets, we believe that we will be a very significant player in these two segments, and I therefore believe that your concerns around innovators/brands is not going to be relevant in the short to medium term as these brands lose patent protection and we're clearly seeing that biosimilars are really gaining a lot of traction in terms of adoption both in USA and Europe.

Dhaval Bhalodia: Yes, you are absolutely right, and I am just proud to say I’m a Biocon shareholder for last 10 years and I’m in the pharmaceutical field as well. So, you are absolutely right, but my main question about the biosimilars portfolio like Pfizer has biosimilars portfolio, Amgen has a biosimilars portfolio. So their product has a higher market share compared to other smaller companies, including the Viatris’ has a very smaller market share compared to the Amgen biosimilars portfolio or Pfizer biosimilars portfolio. My main concern is around that.

Kiran Mazumdar Shaw: I don’t think we should go by current market share. I’m sure we have the capabilities and the potential of really being a significant player in this business.
Dhaval Bhalodia: Okay, so that's all from my side, thank you so much.

Nikunj Mall: Thank you Dhaval. The next question is from Nithya Balasubramanian from Bernstein.

Nithya Balasubramanian: Thank you for the opportunity, just a clarity required on the commercial infrastructure that you're getting from Mylan. I'm assuming this will include the entire diabetes, oncology and immunology infrastructure. And if yes, given that Mylan seems to be retaining options for some of the biosimilars like Orencia and Botox that they've spoken about. Will Mylan be competing with the Biocon let's say in immunology, for example, because Orencia is also immunology?

Arun Chandavarkar: Nithya I don't believe that Viatris' will be competing with us on the biosimilars franchise for the next few years.

Nithya Balasubramanian: Got it and is my first assumption correct you're getting the entire diabetes, oncology and immunology infrastructure?

Arun Chandavarkar: Whatever infrastructure relevant for our partner programs, you know across oncology, diabetes and autoimmune diseases will transition to Biocon Biologics.

Nithya Balasubramanian: Understood. You have talked to us about the CY23 numbers, can you also let us know what the trailing 12 months numbers were for revenue and EBITDA for the acquired business?

Arun Chandavarkar: I just want to clarify that the CY23 numbers are our estimates of Viatris' business. Chinni would you have any color, on the other question?

Chinappa M B: I'm not sure.

Kiran Mazumdar Shaw: There is a forecast of I think she's talking about 2022 numbers, so I think the 2022 numbers.

Nithya Balasubramanian: I think we have seen the CY23 numbers on your slides, my question is, can you tell us the trailing so CY2021 numbers. So, trailing revenues and EBITDA of the acquired business.

Chinappa M B: I'm not sure whether we can reveal it because Viatris' is announcing that today morning along with the Q4 and full year result 2021 numbers. I'm not sure whether we can reveal that to you at this stage.

Nithya Balasubramanian: Alright. Thank you so much.

Nikunj Mall: Thanks, Nithya. The next question is from Ankush Agrawal from Surge Capital.
Ankush Agrawal: Kiran ma’am just a clarification, post this transaction like the issuance of preference share to Viatris and our equity infusion of around $800 million, how much would Biocon hold in Biocon Biologics?

Kiran Mazumdar Shaw: We estimate that Biocon shareholding after or this transaction is complete will be around 65% i.e., roughly two third.

Ankush Agrawal: On the commercialization, till now in our case that was the weakest link compared to R&D and manufacturing footprint that we have. Based on what we have shaped till now it would be Viatris’ that would be engaging on the commercialization for next two years. But till now with 65-70% of the interest in this assets, we have seen how the commercialization was there now, given that they don’t have any specific interest, apart from the cost plus current $44 million that you’re going to give them for the next two years. Don’t you think that interest is not aligned for Viatris’ to push the commercialization that much?

Kiran Mazumdar Shaw: I think there’s a lot of compelling interest for them to partner us and extend this collaboration, because they will have an equity stake in the company, they have a board representative on this company, and I think the plan is that we will continue to work together to basically grow this business. So, I don’t think that, the next two years are going to be extremely important for both partners.

Ankush Agrawal: That gives the clarification. And is there any kind of non-compete that we will have with Viatris’ if you can highlight?

Kiran Mazumdar Shaw: There is as Arun just alluded to, there is a non-compete for a few years. So, we do not expect any competition from the Viatris.

Ankush Agrawal: So is this blanket non-compete for the Biologics front or across some specific therapeutic areas?

Kiran Mazumdar Shaw: Biosimilars.

Ankush Agrawal: Okay, that was very helpful. Thank you.

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

Shyam Srinivasan: Hi good morning and thank you for taking my question. Just the first one is on the valuations that we have paid. Just doing very simple math just dividing $3.3b by $200 million is 16.7x. Mylan or Viatris does not trade at that, it trades at 6x. So understand, they may have their macro issues but what are some of the considerations for us to pay higher relative to where some of these assets are trading?

Kiran Mazumdar Shaw: We believe that this is a very fair value that we’re paying for the kind of business we are acquiring and we believe that obviously the multiples reflected in Viatris’ business was at a different level, but we believe that at this level we are still extremely value accretive in
terms of our own realization. So, we are very comfortable with this valuation we believe it's a win-win. I think both companies have basically done a fair deal.

Shyam Srinivasan: Okay, thank Kiran ma’am. Second question, historically, we have had an aversion to taking debt on our balance sheet. So, we are now going to be like at least let’s assume $800 million is only the equity part and $1.2 billion comes from debt, I’m just making that assumption. So, you know just in terms of what has changed from a philosophy, and when you talk about value accretion in the press release, what are we referring to is it EPS, EBITDA? If you can share us anything in terms of what financial metrics are keeping in mind as we look forward?

Kiran Mazumdar Shaw: As I mentioned in my opening remarks, this is an inflection point for us, you have to be bold and you have to basically take these kind of decisions at such important and critical points in one’s journey. You are right that we've been very debt averse, but I think this was too big a deal to overlook and we believe that we have everything that it takes to basically support and finance the debt. So, as I mentioned in my remarks I think we will have the EBITDA bandwidth, we will have the opportunity to basically seek more infusion of equity at higher valuations and, of course, the business itself in the long term will actually support this debt very comfortably.

Shyam Srinivasan: Thank you and all the best.

Nikunj Mall: Thanks, Shyam. The next question is from Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala: Thanks a lot, and congratulations on a major milestone for the company. Kiran you mentioned that the Biocon’s holding would be 65%. I thought the number would be around 52-53%. I mean, are you, including this $800 million dilution as well as the Serum Institute dilution?

Kiran Mazumdar Shaw: Yes. If you know the equity holding of Viatris at the conclusion of this deal is expected to be at least 12.9%. So, if you then factor in all the other investors, we believe Biocon will be at that level.

Sameer Baisiwala: Okay. Just it's important so bear with me from where I’m coming from. So, 10% is already with the private equity, 15% goes to Serum - so 25% and then 13% from here and plus $800 million, so where am I wrong?

Kiran Mazumdar Shaw: I think the way it will work is very different in terms of these things. We will have to take it offline and explain it to you.

Sameer Baisiwala: Okay, no worries and the second question is at what valuation would this private equity $800 million infusion be? Would it be same as CCPS valuation or different?

Kiran Mazumdar Shaw: At this point in time, I don't think we can really give you much optics, but at the time of closing, we will be able to share all these details with you.
Sameer Baisiwala: Okay, and post this deal, what would be the total net debt with this entity?

Kiran Mazumdar Shaw: I think we are still assessing the debt that we would like to finally end up with, but, as you just heard $1.2 billion is the debt component of this particular transaction, and we believe that we currently have about $300 million of overall debt. So, it's about 1.5 billion in the overall context, if I'm right Chini.

Chinappa M B: That's right Kiran. So, our net debt to EBITDA will remain below 4x and we look to progressively bring it down below 3x towards 2x.

Sameer Baisiwala: Okay, with your permission, one final question the projection that you have given for 2022 - $875 million sales. Any color can you share and what I'm looking here is how much would be from Biocon partner products and non-partner products, US and non-US, broad ballpark would be fine.

Arun Chandavarkar: No, Sameer we cannot give the breakup of that by geography or by product at this stage, and I just want to clarify those are Viatris' business. How much of that actually accrues to us depends on the date of closing.

Sameer Baisiwala: Okay great. Thank you that's it from my side.

Nikunj Mall: Thanks, Sameer. The next question is from Prakash Agarwal from Axis Capital.

Prakash Agarwal: Hi good morning to all and congrats on the deal. Just wanted to understand or you know if I got this right, I think, the couple of questions already asked, so Mylan typically for first few years will not be in any of the biosimilars in development, in research or in marketing is that right understanding?

Kiran Mazumdar Shaw: Right.

Prakash Agarwal: Okay perfect and secondly for our vaccine business, I mean, given the footprint that we are getting with this deal, is it anyway adding more synergy to sell it in ROW and maybe developed market in future?

Kiran Mazumdar Shaw: Yes, you're right in assuming that.

Prakash Agarwal: Okay, and, lastly, I mean second wave we have been talking about and you mentioned it gives a commercial foundation for this kind of deal with coming into experience in the next two years. The second wave if I’m not wrong would be hitting, I mean if all goes well 2025-26 right. So, we have a four-year window, as I understand, and before that we would be reaping benefits from the sales and profits of the existing portfolio that Mylan and you have. So you get the full rights of that P&L and you also have one product in the pipeline with Mylan which you have an option to buy and the synergies comes for the commercial
footprint for the next. So, these are the three key milestones or three key takeaways from this deal, is that right understanding?

Kiran Mazumdar Shaw: Yeah that's a fair understanding.

Prakash Agarwal: Okay perfect and, lastly, on the debt side, so CCPS is obviously will have its own structure, equity I understand but debt if you could just give us some color given its a foreign asset, it would be a forex debt and is the debt closed at a particular percentage, it would be helpful for our modeling purpose?

Chinappa M B: As we indicated already, the current debt levels are at $300 million and we're looking at immediately $1.2 billion of debt, which would look to progressively reduced to additional equity infusion beyond $800 million by just adding $300 million plus $1.2 billion we are at $1.5 billion now debt. We have already debt commitments and we believe that the costs are in line with the cost we currently have.

Prakash Agarwal: Around 4% or 4.5%.

Chinappa M B: Would say under that but we're not giving specifics.

Prakash Agarwal: Okay perfect great. Thank you and all the best.

Nikunj Mall: The next question is from Masira Vasanwala from FSSA Investment Managers.

Masira Vasanwala: I think you've been asked a question on margins before, I just wanted to understand what happens to sort of return on capital for this business? Initially, these pipeline of molecules and the capex was done, the commercial infrastructure wasn't required to be expensed by us, and I wonder how that changes now?

Chinappa M B: Hi Masira. So, when we have given a forecast for the 2023 numbers, you can see that we are still getting a $250 million EBITDA after factoring in the commercial infrastructure costs in it and it is factored in $250 million. This is also, just clarifying Damayanti’s question earlier - Yes, on the first glance, you’d see our EBITDA margins actually are higher as a percentage of sales and Viatris' lower when you take $250 million on $1.1 billion, it appears, lower. But in that $1.1 billion, there is about a third or above towards 30-40% of intercompany revenues. When you strip that out you actually come back with kind of core EBITDA margins at the similar lines between them. But if look at Biocon today and the merged business both would have similar EBITDA margins, stripped of the intercompany eliminations. And you could do the math of $250 million growing to the payback and return on the new additional investments we're making for acquisition of this business.

Masira Vasanwala: I think we've heard a lot about the positives of this just what are the risks or what do you think could go wrong?
**Kiran Mazumdar Shaw:** When we think we have basically you know considered all the risks and they seem to be fairly manageable. Obviously, we believe that the risks are of some market dynamics changing but we don’t see that really happening in the near future, given that biosimilars are on the upward trajectory. Obviously, any patent related delays on some of the molecules could be some of the risk but that’s an inherent risk of this business. Everyone would be looking at an execution risk, but I think the execution risk is quite small, considering that we are getting into a transition services agreement with Viatris. So, overall, I think the risk mitigation is fairly well thought out and we don’t believe that we have huge unmanageable risks.

**Masira Vasanwala:** Alright, thank you.

**Nikunj Mall:** Thanks, Marisa. Next question is from Tushar Manudhane from Motilal Oswal.

**Tushar Manudhane:** Thanks for the opportunity. So just on the estimates of $1.1 billion of Viatris’ sales in terms of the products, would it be like insulin Glargine, Bevacizumab as well as Aspart into these estimates?

**Kiran Mazumdar Shaw:** Yes, all the existing products because, as you know, these approvals have been delayed, Bevacizumab for instance, is awaiting approval because of site inspection, which has been deferred because of the pandemic. Now that the pandemic is coming under control, we believe that many of these inspections will happen and we will be able to get approval soon.

**Tushar Manudhane:** And once this deal is through, so what could be the kind of incremental working capital requirement for this business?

**Chinappa M B:** The business comes with standard working capital. Overall, we would say a couple of months in which the business comes with standard working capital. And the incremental growth will require an incremental investment in working capital.

**Tushar Manudhane:** Got it and just lastly, in terms of the addition of commercial infrastructure so like roughly ballpark, how many like people are coming on board with this acquisition, the ones who will be dealing with the commercial aspect of biosimilars?

**Kiran Mazumdar Shaw:** We can’t give you exact numbers, but all we can say is that the present commercial salesforce that Viatris has, will be the ones that will transition to this business as a dedicated field force and, of course, the whole commercial infrastructure.

**Tushar Manudhane:** Thanks, and all the best.

**Nikunj Mall:** Thank you Tushar. I will first have everyone ask their first set of question and then come for follow ups. So next one is from Charulata Gaidhani from Dalal and Broacha.
Charulata Gaidhani: Hi, congrats on the deal. My question pertains to the earlier agreement with Mylan used to be for certain markets and certain with Biocon. So now, how do you plan to transition, do you look at US, Europe first and then move to other markets and how much will be the timeframe?

Arun Chandavarkar: Actually, from an economic perspective, this transition is not critical from a value accretion because the full revenue and EBITDA, irrespective of the region will flow into Biocon Biologics post the closing. So, I want to clarify that this sequence, which you are talking about has no bearing on our revenue recognition or on our EBITDA recognition from sale of products by the Viatris’ during the transition services. The second point is something that is work in progress. We’re estimating time required in different jurisdictions to transfer, for example, the marketing authorizations and other licenses to Biocon Biologics, and that is work in progress. So it’s too premature to give out you know sort of a sequence, at the same time. Let me also clarify that, one of the advantages that we’ve got is this transition services agreement, so we would not do something hastily especially considering that there is no economic disadvantage to keeping the transition services, since we get to book the revenue. So, we would ensure that there is a smooth transition over the next two years.

Charulata Gaidhani: Okay, and will you be required to pay royalty to Viatris?

Arun Chandavarkar: No, we’ve already mentioned that the transition services comes at a cost plus $44 million per year and that's the way, because the royalty is normally paid when you get rights to patents and all that. In biosimilars business that's really not the case. So, the rights we're getting are Viatris’ interest in collaboration products where we are already partnered with.

Charulata Gaidhani: Okay, thank you.

Nikunj Mall: Thank you Charulata. Next question is from Harith Ahmed from Spark Capital.

Harith Ahmed: Good morning, thanks for the opportunity. So, when I think of your partnership with Viatris over the years, apart from commercial capabilities and the commercial infrastructures, they also brought to the table significant R&D and regulatory capabilities. So, do you inherit some of these R&D and regulatory capabilities as part of the deal, and if not, how should we think of your ability to create some of the capabilities yourselves?

Arun Chandavarkar: So, I just want to step in and clarify here that all the R&D happened at the Bangalore Biocon Biologics facilities. So R&D is something actually we brought to the table, manufacturing is something we brought to the table and from a regulatory capabilities we had some regulatory capabilities, but we were not front facing in the sense that since the marketing authorizations were held by Viatris in the advanced markets they were having the direct interactions as far as, for example, the BLA was concerned. But as far as CGMP inspections and the CMC part of the regulatory interactions, we were certainly well equipped to deal with that. But you’re right that, to the extent that Viatris was managing global clinical trials that will transition to us, but we do have also complementary
capabilities on managing clinical trials, for example, for the non-partner assets. But there will be some capabilities across clinical operations and regulatory that will transition to us along with the commercial infrastructure. I just want to correct your impression that R&D was happening at Viatris. Almost all the R&D was happening at Biocon Biologics, except managing certain global clinical operations.

Kiran Mazumdar Shaw: I also want to add that I clearly talked about complementary capabilities and R&D and manufacturing, was certainly a Biocon Biologics capability and I think in terms of advanced market commercialization, it was certainly Viatris’ capability.

Harith Ahmed: Okay, that sounds good. The second question is on your comment that there are equity commitments from existing investors for this $800 million round. So, will this round be funded entirely by existing investors, or will there be new investors coming on board and will Biocon invest more capital into Biocon Biologics as part of this round?

Kiran Mazumdar Shaw: So, the answer to both is yes, and I think we will give you more clarity on this deal closer to the closure of this deal.

Harith Ahmed: So, my last one, if I may, is on the commercial side of things, and obviously you talked about acquiring the commercial infrastructures from Viatris as part of this deal. Is there something that you would do differently from what Viatris has done so far on the commercial front? If you could throw some color around this?

Kiran Mazumdar Shaw: I don't think it is a question that we can answer at this point in time, I think, right now, we will focus on transitioning the commercial capabilities of Viatris to Biocon Biologics and the next two years are going to be extremely important to ensure that we completely understand the commercial capabilities that we need to undertake.

Harith Ahmed: Thank you.

Nikunj Mall: Thank you Harith. Next, one is from Cyndrella from Centrum.

Cyndrella Carvalho: Ma’am you have created an integrated entity, we have this one of its kind in today’s world which is a great step in our journey, however, from a commercial point of view, how should we look at it, as you know, we have never been there, in terms of being in the front-end. What are the cost synergies that you are aiming for, or is there anything that you can highlight which you want to bring to the table to make this setup going ahead very strong, is there anything that you can highlight, as of now?

Kiran Mazumdar Shaw: Look as I said, this is a transformational step that we are taking and we will do all that it takes to basically make this acquisition a very successful one for Biocon Biologics because we really want to create a world leading organization, you know, which to me, is my legacy.
Cyndrella Carvalho: In terms of some clarifications, how should we look at any ex our portfolio or any commercial or any manufacturing assets that we will get along with this deal.

Kiran Mazumdar Shaw: I think you need to understand that Biocon has been the manufacturing and R&D partner for Viatris. So what we are really focusing on is the commercial engine in developed markets that was really missing for us, because we were not front facing and this deal actually brings to us that commercial engine in developed markets, along with the economic benefits of the entire assets that we have partnered with them. That's why this deal has been structured in a way, where it's a win-win value creation deal and value unlocking deal on both sides.

Cyndrella Carvalho: Thanks a lot. I'm trying to understand ex our basket of portfolio, ex our products is there any manufacturing that we get with the Viatris' deal?

Kiran Mazumdar Shaw: No, we don't and there is no need for that.

Cyndrella Carvalho: Okay, and so do we need to invest more in terms of any additional capacity creation for the upcoming portfolio.

Kiran Mazumdar Shaw: Look right now we've made all the investments that are necessary to support this portfolio, as you know, we have partnered with the Viatris for over 10 years, so I think we have been investing in creating those capacities for our partner programs. In the future, we will have to look at whether we need to you know invest more in capex depending on market demands and market opportunities.

Cyndrella Carvalho: Okay. Thank you so much ma'am that's helpful.

Nikunj Mall: Thanks, Cyndrella. Next one is from Yash Tanna from my iThought Advisory.

Yash Tanna: Firstly, congratulations on the deal and so Kiran ma'am mentioned that currently Biocon Biologics gets only a fraction of the profit and sales and now we get the full benefit of the profits and the sale. So, what is the additional benefit that we will get from acquiring or what was the previous economics that we had with Viatris, if you can get some more clarity on that?

Kiran Mazumdar Shaw: I don't think we'll be able to share the exact details but suffice to say that it is significantly higher.

Yash Tanna: Okay got it. That was it thank you many congratulations once again.

Nikunj Mall: Thank you Yash. The next question is from Surya Patra from Philip Capital.

Surya Patra: Thanks for the follow up. On the cost structure, we know that this acquisition is making us a fully integrated play, starting from the developmental capability to manufacture to commercialization across the world. But with that, what are the kinds of changes that we
should expect that to the overall cost structure that we will be having in respect to R&D particularly? Because I believe, even Viatris was kind of a contributor, because we are charging back then, so what is the R&D structure that will be seeing or R&D cost structure that we will be seeing going ahead, because we will be having more product in the pipeline and that could add to the overall cost? And sure, also the benefit of this full integration that will also flow in, so some clarity on the cost structure, although you've given some sense about the margin, but on the cost structure if you can add something?

Kiran Mazumdar Shaw: But I think you should look at the cost in the context of the overall business, I mean you know, please don't try and slice and dice things. I think you have to look at it holistically this is a business that is going to be a very large step-up for us. Obviously, as I mentioned the economic benefit that we're realizing from this deal is going to be much higher than what we have currently, and we believe we can support the business very comfortably. So, I don't think we need to get into nitty gritty of cost structure. Suffice to say that this is a business, we've broadly shared with you what Viatris' business brings to the table - $1.1 billion in revenue and $250 million of EBITDA next year. We believe that you know as we go forward, it is only going to be higher. We believe that the cost structure is well supported in this overall business. So, I think we would not be doing this deal if this business was not going to be an attractive business going forward.

Surya Patra: That is correct. Just one more on the on the debt side, let's say for the consolidated business post this transaction what debt level is to be seen for Biocon as a whole?

Kiran Mazumdar Shaw: I think we've already talked enough about the debt structuring and I think we should basically look at what the company is planning to do over time, as I said, right now, the debt levels are in the 4x range and we're trying to bring it down below 3x and I think that's the way you have to look at over the next year or two.

Siddharth Mittal: Surya, if I may add that's specific to Biocon Biologics so Biocon generics and research both continues to be net cash positive. So, at a group level only debt that would be carried will be at biosimilars level.

Surya Patra: Sure, this is really useful, thank you.

Nikunj Mall: Thank you Surya. Next one is from Sameer Baisiwala from Morgan Stanley.

Sameer Baisiwala: Thanks for the follow up. Quick question, earlier BBL was planning to do IPO at some stage. Any thoughts on this? Does this deal change anything with regards to that?

Kiran Mazumdar Shaw: No, I think we continue to look at an IPO within 2 years.

Sameer Baisiwala: Okay, great and one more, for the two largest products in your portfolio Adali and Aflibercept, post this deal what would be our economic interest in both these products for the combined entity?
Kiran Mazumdar Shaw: Obviously, Adalimumab we would get the entire economic benefits that Viatris enjoys today and whatever Viatris enjoys in Aflibercept also will be transferred to us.

Sameer Baisiwala: No, I get that Kiran, but I guess what I’m saying is from a product point of view. So, if Viatris’ was 50:50 with the Fuji or you know. So, what we get as a combined is a 50% stake?

Kiran Mazumdar Shaw: Yes

Sameer Baisiwala: Okay, got it. Thank you.

Nikunj Mall: Thank you Sameer. Next one is Nithya Balasubramanian from Bernstein.

Nithya Balasubramanian: Thank you for the follow up. Two quick ones on Aflibercept, one is when are you expecting market formation and two what incremental commercial infrastructure investment will Biocon Biologics have to make to commercialize Aflibercept because it's in the ophthalmology category?

Arun Chandavarkar: Let me step in, that I would like to discuss Aflibercept only if and when we exercise our option, right now it is too premature to discuss market formation dates. All this about IP strategies and all is not something that we would be privy to in terms of Viatris’ strategy as of now. That is part of the exercise that we would all evaluate and I’m not very sure that we will be in a position to disclose publicly any of these IP strategies which talk about market formation dates.

Nithya Balasubramanian: Understood Arun. But if I may ask you this, that in case you're going ahead with exercising your option with Aflibercept, is the ophthalmology infrastructure something that would come as part of the deal, or something that you will have to invest in separately?

Arun Chandavarkar: Whatever exists in terms of commercial infrastructure with Viatris’ to support biosimilars comes to us if they have an existing infrastructure to support ophthalmology that would come to us.

Nithya Balasubramanian: They don't, so should we assume, then that Biocon will be investing.

Arun Chandavarkar: Obviously, because what comes to us is only what exists with them.

Nithya Balasubramanian: Understood, thank you.

Nikunj Mall: Thank you Nithya. The next question is from Tarang Agarwal.

Tarang Agrawal: Good morning this is Tarang from Old Bridge Capital, three questions from my side. One, given the two businesses will actually complimentary with minimal overlaps what kind of synergies do you really envisage and it's more about being able to compete more effectively, because now you'll have the entire value chain, instead of it being split?
**Kiran Mazumdar Shaw:** Yes, that’s really the way that the two partners have looked at it. There are some very strong synergies to vertically integrate this into one integrated entity and we believe that there are some synergies that can be hugely beneficial in terms of competitiveness.

**Tarang Agrawal:** Second, if I recall Biocon also had collaboration with Sandoz for its Wave 2 so what happens to that?

**Arun Chandavarkar:** That continues unchanged and this deal has no impact on that.

**Tarang Agrawal:** So, the commercialization of that will rest with Sandoz?

**Arun Chandavarkar:** That deal is not impacted by this.

**Tarang Agrawal:** Got it and third, by when do you expect this transaction to close?

**Kiran Mazumdar Shaw:** I think, by the second half of FY23 it should be complete, towards the end of this year. We’re hoping sooner than later, but we are providing for a date that is in the second half of this coming fiscal.

**Nikunj Mall:** Thanks, Tarang. The question is from Mr. Bharat Seth.

**Bharat Sheth:** Thanks for opportunity, just one question to Chini. When we are saying that potential revenue is $1.1 billion for FY23, but when we spoke about this EBITDA we strip off some of the sales Biocon is making to Viatris. So, post that how much of the sales do we expect from Viatris or that has been already factored in when giving a sales target of 1.1 billion?

**Chinappa M B:** We’ve presented the $1.1 billion and $250 million just to give you dimension of the size of the business that we are acquiring. $1.1 billion represents the end market sales of Viatris, and as I indicated earlier, if you want to add revenues of the two businesses, there would be the inter-company elimination and that would be towards the mid to high 30s or 40% mark. So, you would eliminate $400 odd million from this $1.1 billion.

**Bharat Sheth:** Same thing is applicable on the working capital side also.

**Chinappa M B:** Working capital, yes there will be minor adjustments for inventory that we have sold to Viatris that’s sitting on their books. But largely which will come within what we had indicated earlier, that the business comes with normalize working capital and will not require any additional investment at our end but, along with the business growth, we need to invest more into working capital.

**Bharat Sheth:** All the best.
Nikunj Mall: Thank you. That was the last question, and we thank you all again for joining us today, if you have any additional questions, please feel free to reach to Aishwarya or I. We look forward to seeing you in our earnings call.

Kiran Mazumdar Shaw: Thank you everyone and see you in the next investor call.