OlainFarm

Webinar Presentation

December 2011

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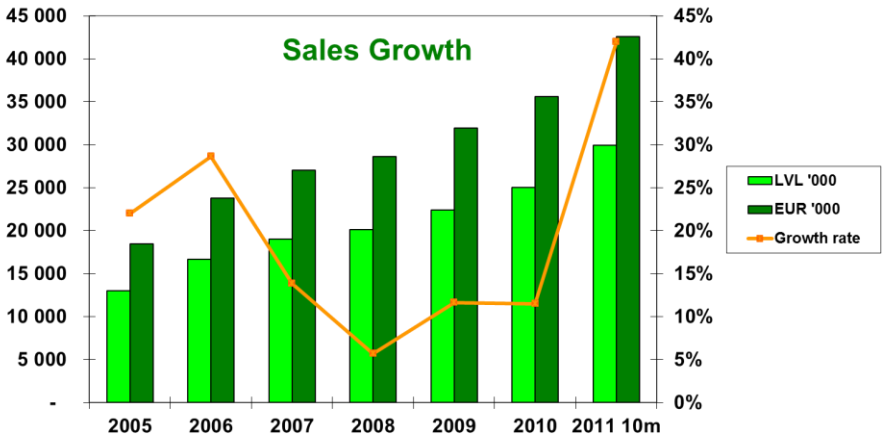
Olainfarm at a glance…

What is Olainfarm?

One of the leading pharmaceutical companies in the Baltic States

- Olainfarm, established in 1972, is one of the leading pharmaceutical companies in Baltic States employing more than 800 highly qualified professionals;
- Produces both Finished Dosage Forms (FDFs) and full cycle Active Pharmaceutical Ingredients (APIs)
  - Primarily branded and historically unique "generics";
  - About 75% of FDFs produced from own APIs;
- 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;
- After privatization in 1997 were listed on the Baltic Secondary List
  - Since 2006 in NASDAQ OMX Baltic Main List;
  - Capitalization as of December 2011, – EUR 50 million;



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.

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Corporate milestones

39 years of growth

2011	Fourth year of increased marketing brings outstanding sales increases, as marketing effort continues to pay back.
2008	More aggressive approach to marketing taken, bringing the company to significant loss.
2006	New product and market strategy approved, planning launch of 5 potential bestsellers; Company 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.
1976	Olaine Chemical-Pharmaceutical Plant becomes one of the main suppliers of active chemical ingredients and intermediaries to all the existing factories-producers within the Eastern block.
1972	Foundation of OlainFarm (at that time Olaine Chemical-Pharmaceutical Plant).

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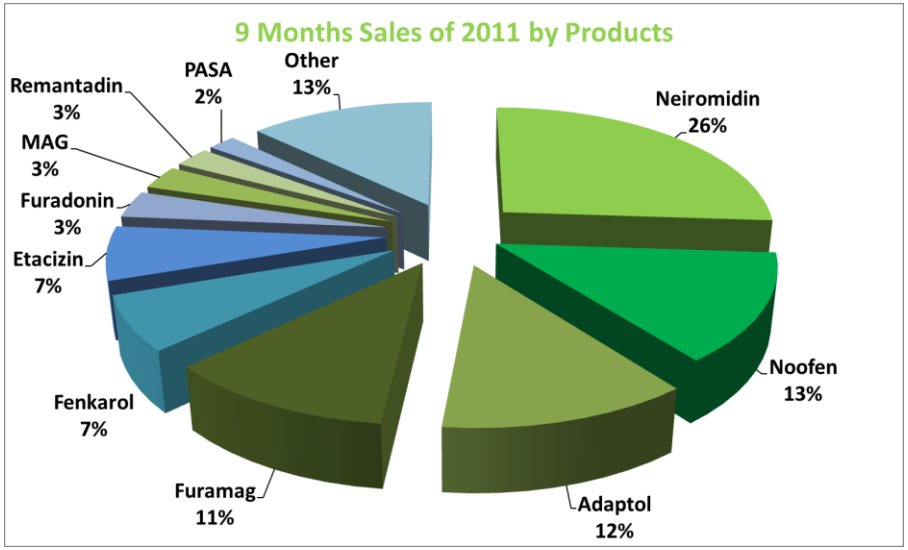
… and in a greater detail

Main products

Emphasis on branded generics

- Product portfolio is well diversified with main emphasis on branded generics, historically unique to OlainFarm:
  - In total more than 70 names;
  - 10 best-selling products account for 87% of sales.
- The main products are:
  - Neiromidin: Cholinesterase inhibitor, stimulant of neuromuscular transmission;
  - Noofen: mood elevator, tranquilizer; OlainFarm owns cost efficient synthesis;
  - Etacizin - antiarrthytmic ;
  - Furamag: one of original nitrofurantoine derivatives, applied to treat urinary infections;
  - Adaptol: adaptogenic product, daytime tranquilizer.
- Optimization of product portfolio under way, three potential best-sellers to be added in the upcoming years, memantine and meldonium already among top 12.



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Main markets

Focus on home market and the CIS

- Sales to 36 countries, but main focus on home market and the CIS;
- Sales to the UK mainly are sales to Novartis, sales to Canada mainly are sales of memantine, sales to The Netherlands are shipments of PASA to the system of the WHO;
- More than 90% of sales is export. Newly acquireded chain of pharmacies, among other benefits, will improve local market presence
- Over 400 medical representatives in key markets;
- Representative offices in Russia, Ukraine, Kazakhstan, Belarus, Poland, Azerbaijan, Vietnam, Serbia, Tajikistan, contracted agents in USA and Sweden;
- Significant investments in marketing in Russia started in 2008;
- Considerable growth in Belarus, Ukraine, Latvia and Russia, all top markets grow;
- Registration and opening of rep-offices under way in countries of SE Asia, Central Asia and SE Europe, first shipments made to Albania.
- 4 more products registered in the system of WHO, Remavir registered in Serbia.

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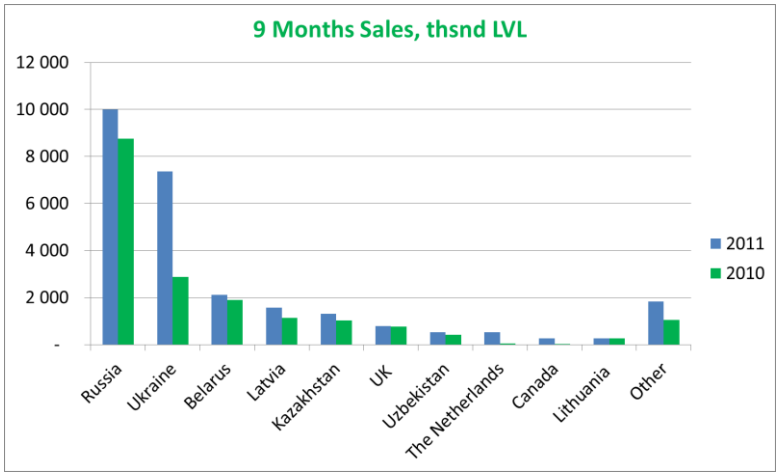
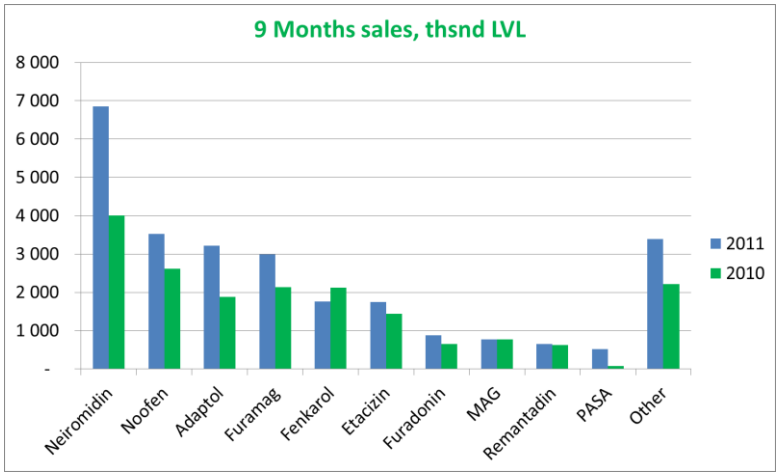
Growth drivers

Usual suspects





- In terms of countries, the biggest contributors to sales growth are Ukraine, Russia, The Netherlands, and other countries;
- In terms of products, the biggest contributors are Neiromidin, Noofen, Adaptol, Furamag and others; four major contributors are all promoted products;
- New countries, like Albania, Tajikistan, and new products, like memantine and meldonium are not yet big enough to be seen in tops, but are contributing to «others».

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Management team

Independent, reliable and experienced

- **Supervisory Council**
  - Supervisory Council with 5 members, 4 independent
    - Valentina Andrejeva;
    - Olena Dudko;
    - Aleksandrs Raicis;
    - Volodymir Kryvozubov;
    - Signe Baldere- Sildedze;

- **Maganement Board**
  - 5 members
    - Dr. Valerijs Maligins, CEO
      - In pharmaceutical business since late 80s;
    - Jelena Borcova, Production
      - More than 15 years of experience in regulatory; and production affairs of pharmaceurical business;
    - Inga Liscika, CFO
      - 15 years of experience in taxation, auditing, financial management;
    - Veranika Dubitskaya, Marketing
      - In pharma marketing for 6 years; behind outstanding performance in Belarus;
    - Salvis Lapins, Investor Relations
      - 15 years of corporate finance and investor relations experience.

Manufacturing facilities

Modern and sufficient

- All the laboratories of the company conform with the requirements of GMP standards and are fitted with modern equipment complying with international standards: spectrophotometers, gas and liquid chromatographs,etc.
- Warehousing units are fitted with the latest registration systems and climate control facilities;
- Modern equipment used in production of final dosage forms;
- Production flow is organized to prevent any critical bottlenecks from appearing;
- Current capacity at about 1 billion pills/capsules per annum.
- Most fixed asset investments made during 2011 are related to energy efficiency improvements.

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Research & Development

Combinations, fine-tuning and scale-up

- Research and development effort in the company is mainly focused on the work at tests and trials necessary for existing products in pipeline, identification and testing of potentially promising combinations of known molecules, fine – tuning of existing technologies and scale-up of acquired laboratory proven ones;
- 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.

Key Investment Highlights

Equipped and experienced for growth

Well diversified product portfolio

- Product portfolio is well diversified with main emphasis on branded generics, historically unique to OlainFarm;
- In total more than 70 names;
- 10 best-selling products account for less than 90% of sales.

Strong regional presence

- Among top 100 pharma producers of the world represented in Russia, and growing;
- One of the leaders in Ukraine, Latvia and Belarus;
- Over 400 medical representatives operating in 10 countries.

Experienced and well equipped

- All members of management Board have significant experience in their respective fields;
- Good growth record in recent years, even despite shrinking of almost all pharmaceutical markets;
- Significant investments in construction and equipment have been done during the last 5 years.

Clear growth drivers

- Pipeline of 5 promising products in process, 2 already commercialized close to top sellers;
- Plan of development into new markets in place, shipments to Albania made already, first shipments to SE Asia/Europe to be made in 2012/2013;
- Aggressive approach to pharmaceutical marketing in existing and new markets, expansion into Latvian retail market started.

What is next generation OlainFarm?

Olainfarm future growth drivers

- Products
  - Finalize the launch of group of five new products;
  - Continue work on identification of improved versions, combinations or optic isomers of known molecules with particular focus on antivirals and CNS medicines;
  - Continue efforts to identify cooperation opportunities regarding production of APIs, with emphasis on multinational partners.
- Countries
  - Strengthening the existing positions in Central Asian countries of the former Soviet Union;
  - Expansion into South East Asian and South East European countries;
  - Involvement in marketing for multinational companies in CIS countries.
- Marketing
  - Conduct post-marketing studies to strengthen the sales of existing products and existing markets;
  - Establish networks of medical representatives in new markets;
  - Conduct post-marketing studies and trials on new products.
- Outcomes
  - Stable two digit organic sales growth per annum;
  - Diversity of products and markets keeps company safe from major product/country failures;
  - OlainFarm remains independent while exporing and exploiting industry consolidation opportunities.

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Outlines for 2012

As careful as always

- It has already been agreed that purchases by one of our multinational partners will be increased by 67% or more than one million euros next year;
- Cooperation agreements are in place, providing that OlainFarm will be a marketing partner for a big European pharma producer. OlainFarm will be promoting and selling 23 of partner's products in Latvia and Belarus. First sales might take place late 2012.
- Draft budgets are being prepared and discussed, providing that non-consolidated sales will increase by 12% in 2012.
- It is planned that next year market making for OlainFarm shares will be arranged by one of Baltic stockmarket participants.

Key Financials

Financial summary

Way to stabilisation

(EUR'000)	2004	2005	2006	2007	2008	2009	2010
Sales	15,193	18,476	23,768	26,982	28,580	31,931	35,605
EBITDA	1,460	3,766	4,832	4,660	2,302	7,985	9,066
EBIT	-243	1,248	2,046	1,527	-1,334	4,765	6,442
Net profit	-1,134	899	1,107	478	-2,045	3,362	5,017
Assets	26,270	27,353	36,098	40,824	45,047	43,482	46,356
incl. cash	*50*	*149*	*122*	*1,535*	*53*	*260*	*704*
Equity	12,696	13,596	19,119	23,043	20,986	24,348	29,365
Liabilities	13,574	13,757	16,979	17,781	24,061	19,134	16,992
incl. interest-bearing liabilities	*7,820*	*7,353*	*10,118*	*11,925*	*12,544*	*8,505*	*6,873*
Sales growth	n.a.	21.6%	28.6%	13.5%	5.9%	11.2%	11.5%
EBITDA margin	9.6%	20.4%	20.3%	17.3%	8.1%	25.0%	25.0%
EBIT margin	(1.6%)	6.8%	8.6%	5.7%	(4.7%)	14.9%	18.1%
Net profit margin	(7.5%)	4.9%	4.7%	1.8%	(7.2%)	10.5%	14.1%
Earnings per share	(0.011)	0.08	0.08	0.03	(0.14)	0.24	0.36
ROE	(8.9%)	6.6%	5.8%	2.1%	(9.8%)	13.8%	17.1%

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Recent developments

Growth in falling markets

- Extensive marketing effort results in more than 2M EUR loss in 2008 as the increase in sales does not appear as instantly;
- End of 2008 shows increase in sales as a result of increased marketing;
- As marketing starts delivering, sales considerably higher throughout 2009, 2010 and 9M 2011 resulting in record sales combined with record profits;
- Target of 41.8 m EUR in sales and 7.3 m EUR in profits set by AGM on April 29. In 9 months of 2011 89% of sales and 98% of profit target already met, so they were lifted to 49.8 m EUR in sales and 9 m EUR in profit.
- First time ever dividends were paid of 3.56 EUR cents per share or slightly above 1% yield, Board intends to suggest dividends for future profitable years.

(EUR'000)	9M 2010	9M 2011	% to previous
Sales	**26,806**	**37,407**	**140%**
Changes in inventory and WIP	-960	-820	85%
Other operating income	256	965	377%
Cost of materials	3,693	5,439	147%
Staff costs	6,303	7,432	118%
Other operating expense	9,189	13,961	152%
EBITDA	***6,917***	***10,720***	**155%**
EBITDA margin	*26%*	*29%*	
Depreciation/amortisation	1,945	2,001	103%
EBIT	**4,972**	**8,719**	**175%**
EBIT margin	*19%*	*23%*	
Financial income	159	146	92%
Financial expense	339	362	107%
Profit before taxes	4,791	8,503	177%
Corporate income tax	756	1,370	181%
Net profit	4,035	7,133	177%
Net margin	*15%*	*19%*	

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Thank you!

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