Stefan Doboczky, Member of the Managing Board
Pharma: Leveraging partnerships for growth
DSM Capital Markets Day 2013
Overview

- DSM Sinochem Pharmaceuticals
- DSM Pharmaceutical Products
Leveraging partnerships for growth

**Strategy for DSM Anti-Infectives**
- Building a world-scale 6-APA plant in China
- Launch of several new APIs
- Development of special grades for existing products
- Forward integration into Finished Dosage & Dossiers in selected regions

**Aspirations (2015)**
- Pharma EBITDA margin (back) towards 15% - 20% range

**DSM**
- Market leader in β-lactam APIs
- Technology leader
- Global reach and production
- Price premium
- Leading the industry consolidation

**Partner**
- China/India based
- Leading industry player
- Strong local presence with global growth ambition

Source: DSM CMDs 2010
Accomplishments

- Partnership with Sinochem established
  - 50% stake sold for €210m
  - Created strategically much stronger set up

- Solid sales growth achieved despite a challenging environment and lower prices

- Core business has been strengthened
  - New 6-APA plant in China
    - Local production in largest anti-infectives market
    - Lowest cost facility, sustainable green process
    - Ramp-up of plant slower than planned
  - New plant for second generation cephalosporins in China
  - Profit improvement programs successfully implemented

- Portfolio attractiveness has been improved:
  - New APIs commercialized: Successful entrance in new generation Statins
  - First successes in Finished Dosages & Dossiers
Markets remain challenging

- Overcapacities are still the main issue in all parts of the chain
- Continuous price pressure is resulting in poor financial returns in the industry
- 2015 sales and margins aspirations are currently out of reach
Portfolio attractiveness improved: Statins

Brighter Living
• Statins are used by > 200m people in maintaining an active lifestyle and to fight against high cholesterol and cardiovascular diseases. This number is increasing fast, driven by an ageing population and lifestyle

Bright Science
• Our unique biotechnology is a solid and sustainable foundation for new generation Statins with significantly lower carbon footprint compared to industry standards
• Multi-Purpose API plant is under construction in India in which Statins will be manufactured starting 2014.

Unique opportunity for DSM:
• Strong projected growth for Statins
• Lower generic prices, improving accessibility
• DSP’s Statins represent future industry standard

New generation Statins by DSM Sinochem Pharmaceuticals
### Portfolio attractiveness improved: Finished Dosages

**Market attractiveness**
- **Intermediates**: Low
- **API**: Medium
- **Finished Dosages**: High

#### Success factors

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#### Market dynamics

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- Finished dosages is most attractive part of the value chain
- Development and approval time is > 3 years
- First sales in 2013

**First successes in Finished Dosages & Dossiers**
Strategy

- Strategy of DSM Sinochem Pharmaceuticals:
  - Continue to strengthen the core business
  - Continue to upgrade the portfolio attractiveness
  - Downstream integration into formulations and finished dosages
- Gradual recovery of financial results expected
- Activities will be fully deconsolidated as from 1 January 2014, following IFRS rules
Overview

- DSM Sinochem Pharmaceuticals
- DSM Pharmaceutical Products
DSM Pharmaceutical Products: CSD aspirations 2010

Leveraging partnerships for growth

Strategy for DSM Pharma Products

- Establish operating position in India/China
- Integrate offering of APIs & FD
- Obtain own product positions for generic APIs/FDs
- Offer total supply chain solutions
- Build on biologics technology position in CMO & bio-similars

Aspirations (2015)

- Pharma EBITDA margin (back) towards 15% - 20% range

DSM
- Strong western customer network
- Cutting edge technology
- US formulation business
- "Gold standard" cGMP

Partner
- Asset base in low cost country
- Generic product portfolio
- Product development
- Sales channels

Accelerated growth through partnerships

Source: DSM CMDs 2010
Accomplishments

- **Healthy sales growth** in challenging environment

- Strengthened **DSM Pharmaceuticals, Inc. (DPI):**
  - Investments in finished dosages
  - Strengthened account management
  - High growth rates, such as in cytotoxic

- Strengthened **Biologics:**
  - New bio-pharma plant in Brisbane (Australia)
  - US patents granted for high density technology (XD™)

- **PIP** resulting in improved cost position, especially in chemical CMO
Chemical CMO markets most challenging

- Chemical CMO confronted with overcapacities:
  - Reduced new product approvals during the last decade; recently signs of improvement
  - Reduced healthcare spending
  - Patent cliff in regulated market
  - Strong competition from Far East players

- => Resulting in continued cost pressure
Finished dosages becoming more attractive

- Increased regulatory scrutiny / increased barriers which favors high quality industry leaders such as DSM

- DPI in Greenville is a worldwide leader in finished dosages:
  - Commercial scale services for aseptic filling and lyophilization
  - Restricted Access Barrier Systems
  - Flexible scheduling and batch sizes
  - Global compliance systems
  - Options for expanded development and analytical services

- Cytotoxics is attractive market for DSM:
  - Number of antibody-drug conjugate submissions is surging
  - DPI is currently supplying 4 commercial products and has recently received numerous regulatory approvals for a new breast cancer treatment ADC in conjunction with one of our customers
DSM’s position in biologics strengthened

- DSM technologies such as XD® and Rhobust® present a new paradigm in biomanufacturing: small footprint, modular, flexible, low capex and low cost
- Evidenced by the uptake of some industry majors
  - US patents granted for high density technology, XD™, licensed to several clients including Amgen
  - Rhobust® patents granted around the World
  - High uptake of both technologies in biosimilar developers where cost position is critical
- New mammalian facility in Brisbane, Australia opened in 2013, with future benefits:
  - support global client commercial needs
  - Asia-Pacific hub
  - Showcase for DSM technologies
The new paradigm in biologics manufacturing

Yesterday
- Large stainless steel bioreactors
- DSP bottlenecks
- Large fixed footprint / high CAPEX

Today at DSM Biologics
- Disposable systems
- Efficient processes
- Small footprint / low CAPEX
- Fast and flexible
- Meeting product quality demands

20,000L Stainless Steel Fed-Batch Bioreactor

Single Use Bioreactor w/ XD® Technology
Strategy

• Form a partnership that creates a CMO industry leader
  ✓ Combine businesses and capabilities leading to full portfolio and scale
    » Enabling growth while offering opportunities for cost synergies

• Meanwhile, continue own strength business improvement
  ✓ Continuing improvement of results
  ✓ CMO business remains inherently lumpy
Stefan Doboczky, Member of the Managing Board

High Growth Economies: geared for accelerated growth

DSM Capital Markets Day 2013
CSD aspirations in 2010

- Increased international presence
- Truly global approach

2010

- High Growth Economies: sales from 32% towards 50%
- China sales to > US$ 3bn
- Set up Innovation Centers China/India
- Presence in India, LATAM, Russia
- Fully align organization with growth ambitions (strengthening regions)

2015

- ~ 70% of DSM growth from High Growth Economies

From reaching out to becoming truly global
Major step-up in sales to High Growth Economies

- Acquisitions in HGE significantly added to presence, whereas acquisitions with sales predominantly in NA (incl. Martek, Ocean Nutrition) diluted HGE sales ratio (%)
- Deconsolidation of anti-infectives business (DSP) has had a negative effect
- Fast growing private consumption is important driver, as DSM’s sales to HGE are predominantly for domestic/regional application
China: towards US$ 3bn

**Business**
- Sales increased from US$1.5bn (CSD 2010) to US$1.7bn in 2012
- New plants for 6-APA, SSC and Composite Resins
- Acquisitions: ICD (HPPE), AGI (UV-curable resins), André Pectin (Hydrocolloids) and premix facilities

**Organizational**
- Organization strengthened including shift towards local executives
- HQ of DSM Fibre Intermediates moved to Shanghai
- Science & Technology Center opened in Shanghai
- Around 3,300 employees (June 2013)

**Next steps**
- Leverage global products and acquisitions via strong network in China (e.g. infant nutrition)
- Strengthen R&D/innovations for local/regional markets including new ANH R&D center
- Start up 2nd caprolactam line
- Investments: e.g. vitamin B6 facility

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**Sales to China (US$ m)**

- Deconsolidation of anti-infectives and lower prices for caprolactam impacted growth

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DSM
BRIGHT SCIENCE. BRIGHTER LIVING.
India: establish a foothold

Business
- Strong double-digit sales growth in local currencies, however flat in Euro
- Sales growth driven by Nutrition, Pharma and PM
- Shared service center for Finance in Hyderabad

Organizational
- Innovation center fully operational, focusing on high potential markets such as Nutrition and biofuels
- Full utilization of the power of ‘ONE DSM’ by leveraging cross-Business opportunities
- Almost 800 employees (June 2013)

Next steps
- Continue to invest in nutrition platform:
  - Leverage recent acquisitions for cross selling
  - New HNH premix plant (2014)
- Focused investments in local innovation:
  - Application development center for HNH
  - Pilot facility for Biogas
- Further expanding shared service center activities

![Graph showing sales to India from 2010 to 2013](image)
Latin America: Strong position in Brazil

Business
- Acquisitions in nutrition (Tortuga and Fortitech)
- Sales growth in Latin American has been exceeding GDP growth in last four years, driven by Nutrition
- Very attractive second-generation bioethanol potential

Organizational
- Regional presidency Latin America in place, country organization moving forward
- Full focus at this moment on integration of acquisitions
- More than 2,000 employees (June 2013)

Next steps
- Use network in the region for cross-selling opportunities
- Commercialize second generation bioethanol and sustainable chemistry activities
- Focus on localized products and application development for regional markets

Sales to Latin America (€ m)
Progress in Russia & C/E Europe

Business
• Steady sales growth driven by Nutrition
• Two production partnerships: Nutrition (Tatarstan) and Engineering Plastics (Togliatty)
• Licensing deal with KuibyshevAzot

Organizational
• Full time President in place for Russia
• Almost 150 employees (June 2013)

Next steps
• Further business growth targeted in Nutrition, life protection, functional materials and 2nd generation biotechnology
• Use cross-selling opportunities offered by recent Nutrition acquisitions
• Selective investments
Southeast Asia: fast gaining significance

Business
- Strong sales growth, with major step-up in 2013 following the acquisition of Unitech
- Premix network enlarged
- Application lab for DSM Dyneema in Singapore

Organizational
- HQ of DSM Engineering Plastics and DSM Sinochem Pharmaceuticals moved to Singapore
- Increased footprint in Singapore helps to gain significance for DSM in the region
- Almost 900 employees (June 2013)

Next steps
- Leverage DSM businesses and acquisitions for cross-selling in the region
- Expand premix footprint
- Establish Nutrition innovation center in Singapore
- Further strengthen regional hubs (e.g. Indonesia)
Move forward

High Growth Economies sales about 45%
China sales towards US$ 3bn

2010
Reaching out

2013
Truly Global

2015
Next horizon

- Relevant Business Group headquarters relocated to Asia
- Continued investments
- Innovation Centers set up in China/India
- Regional organizations established in China, India, LATAM, Russia
- More than 30% of DSM employees live and work in High Growth Economies

- Continue to strengthening local innovation and application development
- Cultivate synergies of acquisitions with enlarged product/service network
- Strengthen regional power base (organization and staffing)
- Experiment with new business models
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