"SeQuent Scientific Limited Corporate Update Conference Call"

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MANAGEMENT: MR. MANISH GUPTA– MANAGING DIRECTOR, SEQUENT SCIENTIFIC LIMITED
MR. TUSHAR MISTRY – CHIEF FINANCIAL OFFICER, SEQUENT SCIENTIFIC LIMITED

Moderator: Ladies and gentlemen, good day, and a welcome to SeQuent Scientific Limited Corporate Update Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please not that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you, sir.

Abhishek Singhal: A very good morning. And thank you for joining us today for SeQuent Scientific's Corporate Update Conference Call. Today we have with us Manish, SeQuent's Managing Director, and Tushar, CFO, to discuss the topic update around transition of promoter shareholder to Carlyle, and reconstitution of the new board. I hope you have gone through our investor communication, which has been uploaded on the stock exchanges. We request you to restrict the questions around the corporate presentation shared with you.

Please know that today's discussion will be forward-looking in nature and must be viewed in relation to the risk pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the investor relations team. I now hand over the call to Manish to make the opening comments.

Manish Gupta: Thank you, Abhishek. And Good morning friends and a warm welcome to you all. Joining me on the call today, I have with me Tushar Mistry, CFO.

I am sure all of you are in receipt of the Postal Ballot notice and the corporate update deck which is available at our website as well. The purpose of this call was to update you on some of initiatives undertaken by the new promoter's Carlyle to align the interests of all the stakeholders in this journey of creating a valuable global animal health business.

Carlyle has been on board since September and these have been exciting times for the whole organization as the management along with the board have been deliberating extensively to prepare a blueprint for providing the strategic direction and execution tools to drive the company into the next Orbit.

As announced earlier Dr. Kamal Sharma and Mr. Milind Sarwate both corporate luminaries have joined us as Independent Directors. Further, Mr. Neeraj Bharadwaj, Mr. Rahul Mukim, Mr. Gregory Andrews and Dr. Fabian Kausche have also joined the Board as Carlyle nominees. While Mr. Neeraj Baharadwaj and Mr. Rahul Mukim bring in the financial and scale-up expertise, Mr. Gregory Andrews has been the Business Development Head in one of the leading global animal health companies and has both technical and commercial expertise in the developed markets. Dr. Fabian Kausche on the other hand has several decades of experience in biological and pharmaceutical research and development as R&D head in leading animal health companies. I am sure that their insights and expertise would bring tremendous value to the shareholders of SeQuent.

Investors who have been following the trajectory of the Company since 2014 when the idea for a pure play animal health was conceived will agree that the transformation of the Company from a diversified pharmaceutical business to a formulation led animal health company has been strategically calibrated one.

Today, SeQuent prides itself on being amongst the top 20 global animal health companies. And the recent entry of Carlyle as majority shareholders provides us the confidence to move to the next orbit which may propel us to be counted among the top 10 animal health companies in the world.

Some of the actions are already in place to move towards this goal including consolidating our minority interest in Turkey and Netherlands, engaging StoneHaven consulting, a specialised animal health consultant who will help us define the overall strategy for the Company from a product portfolio and market entry perspectives, as well as using PwC to further focus on operational excellence including supply chain and key plants in India and Spain.

Given the track-record of performance, Carlyle Group and the Board has mandated the existing management team to continue to drive SeQuent 2.0.

Keeping in mind several key factors including continuity of the current management team, attracting new talent as well as aligning employee interests with the long-term goals of the Company, the Board has approved a new ESOP scheme to replace the existing one. The ESOP's are expected to be rolled out by February 2021, post shareholder approval. The accounting impact of the said ESOP issuance would range between ₹1.6 billion to ₹1.85 billion depending upon the then prevailing stock price, time value and the vesting period.

The Board of Directors have also approved payment of commission to the Non-Executive Directors, not exceeding 2% of the net profits of the Company, subject to shareholders' approval.

I now request the moderator to open the door for Q&A. Finally, we would also request the participants to restrict questions on the initiatives outlined in the presentation available with you as we won't be in a position to comment on the financials or operational performance of the current quarter. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Neelam Punjabi, an investor. Please go ahead.

Neelam Punjabi: I just wanted to know how much are we going to spend in total for the consulting by PwC and stone Stonehaven?

Manish Gupta: Thank you, Neelam. Basically, our total investment envisaged in these consulting assignments between PwC and Stonehaven should be around ₹10-12 crores spread over a period of two quarters, because the segments are spread over between four and six months.

Moderator: Thank you. We have next question from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Manish, I mean, you said that total ESOP cost is roughly between Rs. 160 crores to Rs. 185 crores, depending on the sale price at the time of granting. And which will be spread over seven years. Is that a correct understanding?

Manish Gupta: Largely speaking, yes, it will be. And I will have Tushar to explain it more, but there is a fundamentally Black Scholes model that is adopted. So Tushar, if you can explain that.

Tushar Mistry: Yes. So this will be amortized over the vesting period of the options. And as you can see that there are three kinds of options, Class A will be amortized over five years on a diminishing value basis. Class B and Class C will be amortized over seven years equally. So what we expect is, roughly around 29% of the cost should come in the year one itself for all of the three classes put together.

Bharat Sheth: That is FY 2021, correct?

Tushar Mistry: FY 2022. I mean, the grant will happen in February. So for FY 2021 the hit will be only for two months. Significant part of this should come in FY 2022.

Bharat Sheth: And on the second, so it will be then spread over five years evenly or it will be more in, say, 29% when we are saying, then we have stated that 7% in remaining year, so how spread will be over…?

Tushar Mistry: It will taper down from 29%.

Manish Gupta: So, I think 29% will be the first 12 month hit, which will be potentially two months for FY 2021. And so just from a mathematical perspective, suppose the hit is say Rs. 150 crores and 30% of that is to be taken over 12 months, so Rs. 45 crores over 12 months, so that way you can do the math.

Bharat Sheth: Okay. And then in addition to that also whatever will be there, this is for the Plan A, Plan B and C again some additional amounts may come in?

Tushar Mistry: No, this is all put together.

Bharat Sheth: And Manish, this PwC and Stonehaven, what will be exactly, I mean, can you give some kind of a colour, one is a growth and which are the other area they are going to help us?

Manish Gupta: Yes. I think the roadmap for both the consultant firms are totally separate. One is chasing growth and other is chasing efficiency. So as far as Stonehaven is concerned, while we are having our own business plan, obviously, under the new shareholders the objective is to be a lot larger than that. So Stonehaven's mandate is to look at newer growth opportunities outside of the business plan that we already have. While PwC's mandate is more inward looking, it is to make the organization potentially more scalable to deliver those objectives. Because any scale up brings in complexity in execution. So their perspective would be supply chain and operations-led efficiency and scale up to deliver those scaled up business plans.

Bharat Sheth: Okay, great. So is it fair understanding that whatever new growth opportunity, but the cost escalation, I mean, apart from COGS will not be a significant, I mean, is that fair, I mean, where PwC will help us?

Manish Gupta: See, PwC's efforts will be more towards making us cost efficient as we deliver that. So certainly, at a conceptual level, your framework or question is right, that the idea is how do we scale-up our margins even more than what we had originally envisaged as part of this initiative.

Moderator: Thank you. We have next question from the line of Ujwal Shah from Quest Invest. Please go ahead.

Ujwal Shah: Taking ahead the question from the last participant, so sir, can you point out some timelines given to that strategy that you have outlined in the presentation? By when do we plan to achieve the same? And even in terms of the services which has been taken from Stonehaven and PwC, you said it's ranging spread over four to six months. But looking at the chart, it seems these are long-term plans. So will the services be rendered again on a yearly basis to overlook the progress that they have outlined or how this will eventually pan out? Thanks.

Manish Gupta: Thanks. So, fundamentally, these are between four to six months assignments wherein a roadmap will be created. It will not be a Stonehaven roadmap or a PwC roadmap, it would be a jointly created roadmap. So it will be something that is agreed by the shareholders and also the management team from an execution perspective. Also, simultaneously, an execution roadmap will also be agreed. Because while the strategies will be defined, execution can take couple of years. So there would be roadmaps agreed, as also a framework of monitoring those execution. So, going forward none of these firms will be continuously engaged. However, the execution plan will be monitored by the shareholders or the Board in this case, as also the management team. So it's a one-time engagement. But in terms of lasting impact, I believe at least three to four years will be the roadmap for execution.

Moderator: Thank you. We have next question from the line of Mithun Soni from GeeCee Investments. Please go ahead.

Mithun Soni: Just one question on this ESOP. You are saying your accounting first 30% will come starting from, say, you are saying February of 2021. So, like, how much of it will flow through your P&L?

Tushar Mistry: Okay. So this cost entirely will flow through the P&L of whatever Manish explained and this will all depend upon the fair value as of the date of grant. Once that fair value is determined, that is a cost that needs to be captured in the P&L over the vesting period of stock options. So we have estimated this cost to be in the range of Rs. 160 crores to Rs. 185 crores. And that will be amortized over seven years. And the year one, starting from February 2021, should have a hit of 29% tapering down or going down to 7% in year seven. So, it will gradually keep on coming down over a period of seven years.

Mithun Soni: It will sit with the employee cost, right?

Tushar Mistry: Yes.

Mithun Soni: Thanks.

Manish Gupta: I think just for the benefit of the entire team, let me just reiterate some of the things about this ESOP, because it's not something which is very common in Indian context. So one is, the vesting price of these ESOPs are aligned with the Carlyle entry price. So there is no discount to that, Rs.86 is the price at which Carlyle invested in the company and that would be the price for these ESOPs. While the ESOPs are split into three parts, the entire ESOP scheme is performance-linked. Class A ESOPs are linked to performance of retention or continuity in the organization, which is spread over five years. Class B is linked to shareholder outcomes. So, obviously there is an expectation of certain outcomes by the majority shareholder and linked to that only Class B shares will be granted over seven years, I mean, based on whenever the change of control takes effect or at the end of seven years. And the Class C is linked to individual performance, again, which will be board determined, or NRC will be conducting that. So, all are performance-linked is first message. Second is, the grant price is linked to Carlyle entry price. And the spread is between five and seven years, that will also give you the perspective of the time horizon of the new shareholders.

And one more thing which I wanted to clarify, while it is largely understood by all that this is a non-cash charge to P&L.

Moderator: Thank you, sir. We have next question from the line of Rajiv, an investor. Please go ahead.

Rajiv: Congratulation for launching the Europe product as planned in November. Just one small question, if you could just throw a light. In lieu of the fears of Europe situation, would there be any impact in terms of our launch which we have done and the logistics and related terms?

Manish Gupta: Rajiv, as we had clarified that we are nearing the end of the quarter, so it will not be possible for us to give a commentary or any update on the business aspect. I think that was fairly well covered in our previous conference. And we had guided to what we see for the rest of the year. So please bear with us. I will not be able to kind of clarify this aspect.

Rajiv: Okay, we can take this question separately. Thank you so much. All the best.

Moderator: Thank you. We have next question from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh: So my question is that, Manish, you mentioned in the opening remarks that the goal is to move from among the top 20 players to top 10 players. And I just wanted to know, what is the revenue differential between being in top 20 versus being a top 10? So 20th player versus 10th player, what is the delta in net revenue?

Manish Gupta: So currently, our revenue run rate is in the region of $200 million. And I think upwards of $600 million will get us in the top 10, as per current standing.

VP Rajesh: Okay.

Moderator: Thank you very much, sir. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Manish Gupta: Thank you all for taking time and hearing us so early in the morning. These are challenging times with the second wave or third wave of pandemic now on its way. So please take care of yourself and stay safe. And of course, enjoy carefully Christmas as also the New Year. Wishing you all a very happy New Year in advance and look forward to staying in touch. Thank you all.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of SeQuent Scientific Limited, that concludes this conference call. Thank you for joining with us. And you may now disconnect your lines.