

# Glenmark Pharmaceuticals

## Business Model

- Forge partnerships and sell licensed drugs.
- Focus on Respiratory, Derma and Onco products. Respiratory and Onco division started lately hence the revenues are lower.
- Company's global focus is on Respiratory and Onco Products & a few Derma products. Newer product launches are also focused on Respiratory & Onco.
- Approx 8% of total revenues are spent on ICHNOSS. Total R&D is 13% of revenues.

Question – What is the nature of licensing deal? Can the company from which we have in-licensed the product cancel the license? If yes, that can be a big loss. Eg- Glenmark spends time and effort to build the brand and the licensee just cancels the license or tries to armtwist.

## US Business (Formulations)

- Company's revenue has plateaued and not growing from last 3 years. \$443.69M in FY20, \$498M in FY19, \$450M in FY18
- 14 ANDA approvals but only 8 filed throughout the year. Pipeline looks very less for Glenmark.
- Only 1 filed in Q4FY20 and 5 expected to be filed in Q1FY21. (Company was planning to file 5 in Q4FY20).
- 3 key products like Mupirocin, atomoxetine and calcipotriene cream have consistently lost market share and have undergone price erosion. Mupirocin used to give \$75M dollar revenues a year now it gives less than \$25M. This loss is due to therapy changes and competition. The effect will remain till Q1 FY21 and partly in Q2FY21 and then base effect will go away.
- Other products launch tries to cover the revenue loss however it hasn't been able to completely cover the revenue loss.
- They have launched products like Hydrocortisone Valerate Oint (180 day exclusivity but market is less than \$30M), Colesevelam HCl susp ( High Value but too much competition), Estradiol Vaginal insert (very high comp.), Azelaic Acid, Sevelamar, Tacrolimus Oint, **Pimecrolimus** Ranolazine ER, **Fulvestrant** ( big market but a lot of competition), **Deferasirox** Tab, Adapelene & Benzoyl Peroxide, Glumetza, Solifenacin Succinate etc.
- The company doesn't release new product launches in Pipeline.
- New Monroe Facility in US is for inhalation and injectables. Lupin CFO says that inhalation is the fastest growing therapy in US. Company plans to file 6-7 products every year from this facility along with site transfer of some existing ANDA's approved or tentatively approved.
- New ANDA filings have dried up. Management has now said they want to file just 10-15 ANDA's every year and expect similar number of approvals every year.

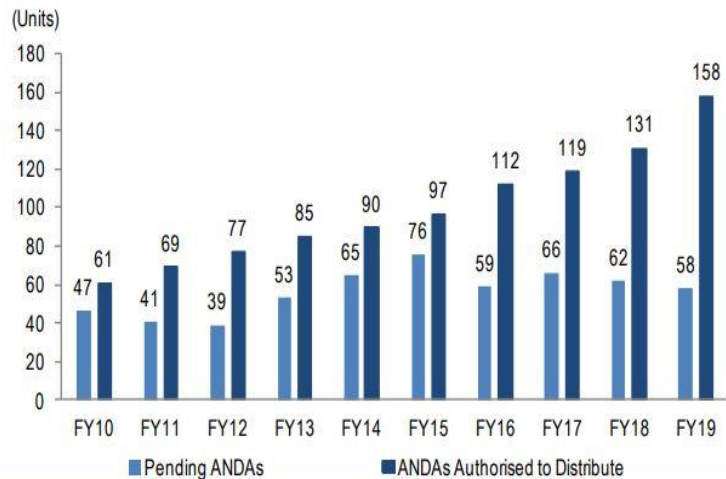
- The company has consistently gained market share in Naproxen, Mupirocin, Omeprazole, Olmesartan, Verapamil ER and Clobetasol propionate.
- We will have to trust the management to do the right thing.
- Management always guided for 10-15% growth however it has not happened. I guess they always over promise and under deliver or maybe US business is unpredictable.
- In 2017, company signed an agreement with Cyndea Pharma for developing generic soft gelatin formulations of certain pharma products. Under this agreement, Glenmark receives exclusive rights to the US and Canada markets for these soft-gelatin formulations in exchange for sharing development costs and profits from future sales. In addition, the agreement provides for the companies to add further soft-gelatin product candidates for dev. and commercialisation, as new branded, soft-gelatin, capsule-based drug products become available in the marketplace.
- Agreement with Sam Chung Dang Pharma to commercialize 6 ANDA's for ophthalmic products. Read that there wasn't much traction received for these products.

**Exhibit 3: US business revenue growth**



Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 5: US ANDAs pending and authorised to distribute



Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Products where Glenmark has above 10% market share

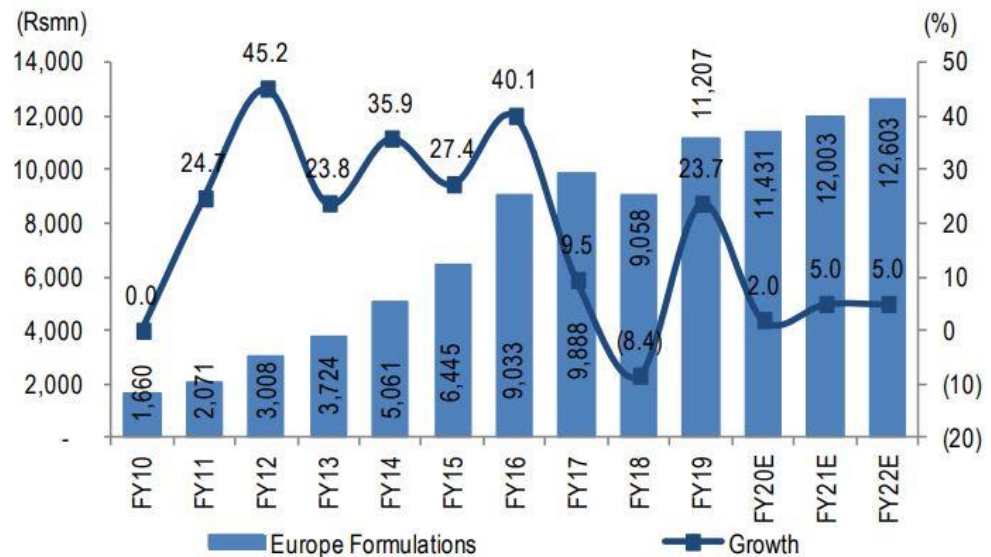
Glenmark Market Share (%)	2014	2015	2016	2017	2018	2019
Omeprazole	0.0	3.6	10.7	12.8	16.9	16.5
Pravastatin Sodium	23.7	24.5	23.1	19.2	15.8	15.9
Fluconazole	21.6	20.3	22.1	17.6	13.4	16.7
Ondansetron Odt	25.4	34.4	22.7	14.3	11.5	13.1
Naproxen	6.3	18.9	39.6	40.5	44.3	45.3
Ondansetron Hcl	34.1	35.0	36.4	31.2	25.4	24.2
Topiramate	12.9	14.4	16.6	17.7	14.9	11.7
Mupirocin	13.3	15.0	35.0	36.2	34.6	33.8
Clobetasol Propionate	0.0	0.0	0.0	0.2	7.5	12.5
Ropinirole Hcl	22.9	21.6	20.7	19.0	18.4	22.8
Olmesartan Medoxomil	0.0	0.0	0.0	0.0	5.2	19.1
Levocetirizine Dihydrochloride	17.5	33.2	36.4	33.9	24.6	29.3
Oxcarbazepine	34.4	31.7	28.1	29.1	27.5	26.7
Pramipexole Dihydrochloride	43.3	48.2	45.2	40.6	42.3	47.6
Verapamil Er	25.2	41.6	40.6	45.2	45.6	80.2
Drospirenone-Ethinyl Estradiol	0.0	6.6	48.5	46.3	36.4	49.6
Norgestimate-Ethinyl Estradiol	100.0	100.0	70.4	62.8	60.9	71.4

Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Europe (Formulations)

- FY19 revenues were \$160Mn (1121 Cr.) on the back of licensing of Generic Seretide Accuhaler and Titropium Bromide dry powder. FY20 revenues were \$176.4Mn (1248 Cr.).
- The company is heavily focused on Inhalation products. They have also obtained approvals for a few respiratory products in DPI (Dry Powder Inhalation) & MDI (Metered Dose Inhaler, Aerosoles). Still to figure out the products.
- Company spends yearly 120-150 Cr. In licensing deals in Europe.
- Management mentioned that this biz is EBIDTA positive however this might imply that they are not making EBIT profits from Europe. Also we need to keep in mind that Amortisation of License is not a book entry but a real spend.
- In Central and Easter Europe, 40% of revenues are from OTC products. They are supposed to be high margin because main products are sold on tender basis.

**Exhibit 13: Europe business revenue growth**



Source: Company, Nirmal Bang Institutional Equities Research

## LATAM (Formulations)

- In-Licensed 3 key products from Novartis for Brazilian subsidiary. They are doing well from revenue point of view. The products are in respiratory division.
- The sales have grown 28% from FY19, 418 cr. to FY20, 536 cr.
- Company doesn't disclose the profitability of that division. We may need to dig in deeper.
- Momate cream is driving revenues for non-licensed part. However, licensed part is now big part of the revenues.

**Exhibit 15: LATAM business revenue growth**



Source: Company, Nirmal Bang Institutional Equities Research

## ROW

- FY20 vs FY19 ROW revenues were flattish 1285 v/s 1276 crore
- SA and Kenya has grown in excess of 30% for 9M. The company has launched 56 products in those markets.
- Asia growth has been muted by just 1%.
- CIS region has grown by 4-5%. They are in top 15 in Derma segment in Russia and closer to 40 overall.
- Management has consistently reiterated that the company can grow at 15% CAGR. However the company hasn't been able to glow at this pace consistently.
- Main Focus is Derma and Respiratory.

**Exhibit 14: RoW business revenue growth**



Source: Company, Nirmal Bang Institutional Equities Research

## India Business

- FY19 vs FY20 India business grew from 2777 cr to 3202 cr. with growth of 15.31%.
- OTC segment grew from 190 cr to 203 cr. Will have to check if Q4FY20 numbers include VWASH because all other segments grew 30% plus however overall growth is muted. (Need to ask Management).
- Remogliflozin is doing 5.3 cr per month and Remo + Metformin doing 1 Cr. per month.
- How was the growth for Nourkin , AKYNEZO, Nebzmart G, Bye Ilergy and Other new products?
- Respiratory mkt share 4.8 to 5.1. Cardiac 4.5 to 4.7. Derma – 9.1 to 8.9. Diabetes – 1.61 to 1.78
- Q - What drove this growth in India business? Question to answer is that how much of the growth is due to in-licensed products and how much is from own stable.
- Q - Margin profile for India business and especially in-licensed products.
- Q – Why company is losing market share in Derma? Have we lost focus there?

## India business

Exhibit 7: India business revenue growth



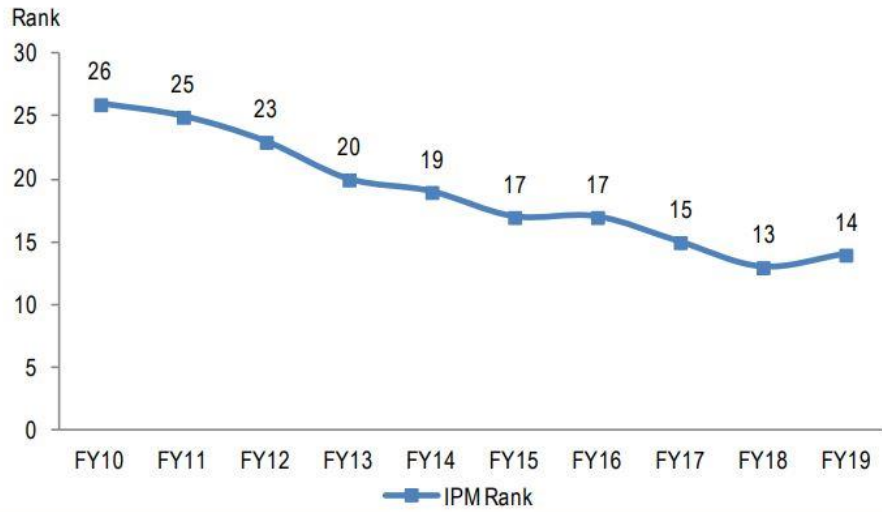
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Glenmark's market share in IPM



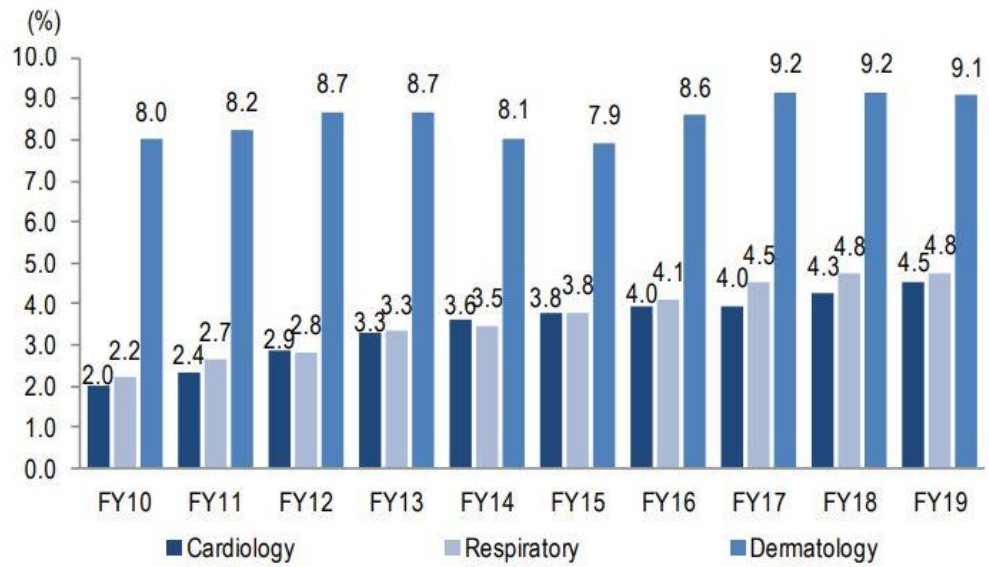
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: India business rank in IPM



Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: India business mix trend



Source: Company, Nirmal Bang Institutional Equities Research

Mr Robert Crockart is the new Glenmark Formulations Head.



## API (Glenmark Life Sciences)

- FY19 vs FY20 revenues grew from 949.3 to 1023.9 registering growth of 7.86%.
- US and EM grew above 30% this year and UK and Japan were quiet. Management was bullish from Japan in previous conference calls.
- Company filed 2 DMFs in Q4FY20
- Key molecules are Olmesartan, Etoricoxib, Perindopril, Aprepitant (Lead growth in FY20), Amiodarone, Atovaquone, Lercanidipine (Google shows that each molecule has many manufacturers)
- Top 10 molecules contribute 60% of the revenues.
- Company can produce 135 different molecules.
- 103 USDMF's as of FY18. 1 DMF filed in Q1FY20 (Atomoxetine), 2 DMF in Q4FY20
- As per management, EBITDA margin in the range of 30%.

**Exhibit 16: API business revenue growth**



Source: Company, Nirmal Bang Institutional Equities Research

## INCHOSS

- 820 cr spent on R&D in FY20.
- Now only 4 products are in trial stage.
- ISB 830 Phase 2B Part 2 results are expected in 1HCY21. It got delayed due to Coronavirus.
- The entire management is now headed by Ex-Gilead guys specializing in Onco & Cell Therapy. Hopefully we may start to see results.
- So if in future Glenmark closes this division or sells it off, we are looking for some 820 cr delta in EBIDTA.

Note – Still CRL not replied back to USFDA for RYALTRIS

## LICENSING UPDATES

### India

Glenmark executed the following licensing agreements during FY18

- The Company in-licensed the biosimilar of Adalimumab from Cadila Healthcare Ltd.
- The Company exclusively in-licensed Nourkrin® Woman from Pharma Medico
- The Company exclusively in-licensed AKYNZEO® (containing netupitant 300 mg and palonosetron 0.5 mg) from Helsinn

### US

Glenmark executed the following licensing agreements during FY18

- The Company entered into an exclusive agreement with Cyndea Pharma S.L. for Generic Soft-Gelatin Capsule Drug Products
- The Company entered in to an exclusive agreement with Sam Chun Dang Pharm. Co. Ltd. (SCD) to develop, manufacture and market a portfolio of ophthalmic products

Glenmark also incurred milestone payments for the following deals during FY18

- Development milestone to Evestra Inc. for the ongoing development of Generic NuvaRing®

### EU

Glenmark incurred milestone payments for the following deals during FY18

- Approval milestone to Celon Pharma for the development of Generic Seretide® Accuhaler® —based on first approval received in Nordic Countries
- The Company entered in to an exclusive licensing agreement with a leading European company for a generic inhaler

### Glenmark executed the following licensing agreements during FY18

Molecule	For Country
Femarelle Food Supplement OTC	UK
Washdent Food supplement OTC	UK
Febuxostat	Germany and Spain
Erlotinib	Romania
Atomoxetine	Germany, UK, Netherlands, Sweden, Denmark, Czech Republic, Slovakia and Poland
Marimer range extensions	Poland
Bendamustine	Spain
Gefitinib	Germany, UK, Netherlands, Sweden, Denmark, Czech Republic, Poland and Romania
Esomeprazole AOK DE	Germany
Esomeprazole OLS	UK
Levetiracetam	Germany and Spain
Prasugrel	Germany
Abacavir+Lamivudine	Spain and Netherlands
Entecavir extension	Czech Republic and Slovakia
Dermikelp	UK
Darunavir	Denmark, Sweden, Germany, Netherlands, Romania and Poland
Fulvestrant	Czech Republic, Germany, Netherlands, Norway, Poland, Romania, Slovakia, Spain, Sweden, UK and Denmark
Quetiapine SR	Germany
Valganciclovir	Germany and UK
Galantamin	Germany
Posaconazole	Germany, UK, Netherlands, Denmark, Sweden, Romania, Czech Republic and Slovakia
Ranolazine	Germany and UK
Tenofovir+Emtricitabine+Efavirenz	Germany, UK, Netherlands, Spain, Denmark and Sweden

## Ex-Employee Feedback

- Company is probably one of the best Pharma Company to for work for in India. It is very generous in salary raises and targets are clearly defined for bonuses.
- HR department is so humble that one of the HR visited his house to congratulate his parents for the work the employee had done.
- Company takes star performing employees for conferences in foreign destinations which keep employees motivated.
- Company has R&D in its DNA even if they have got a few setbacks recently in NCE biz.

## Valuations

India Biz – Using 4X to sales number because all pure India based businesses sell at 6X to 8X sales. So at 3200 Cr sales, it comes out to be 12800 Cr.

API Biz – Using 4X multiple to sales because it's EBITDA margins are 30%, Divis trade at 12X and Granules trade at 3X. So value comes out to be  $4 * 1023 = 4092$  cr.

If we assign 2X sales to all other business the sales becomes –  $1285 + 1248 + 536 + 3140 = 6209$  and valuations  $6209 * 2 = 12412$  Cr.

Current market cap @466.70 is 13173 cr. Net Debt 3500 cr. Which implies  $EV = 13173 + 3500 = 16673$ .

Basically we are getting ROW, Europe and US biz for free along with Potential Ryaltris opportunity. Glenmark's business may not require discount to its peers if it sells INCHOS biz.

## Sources

For API manufacturers

<https://pharmaoffer.com/api-excipient-supplier/atomoxetine>

ANDA Database

<https://www.accessdata.fda.gov/scripts/cder/daf/>

Annual Reports, Conference Calls and Brokerage Reports