

## Business review

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# Strong revenue growth and operating leverage amidst encouraging trends

## Revenue growth driven by late-stage custom projects

Reporting for the first time since its IPO on SIX Swiss Exchange on 29 April 2021, PolyPeptide's results underscore the company's position as a leader in the peptide CDMO industry, which is marked by increasing demand for peptide-based drugs and a continued trend towards outsourcing and specialization. In the first half of the year, the company responded to a continuously high and promising number of requests from customers, who kept their research and development activities at elevated levels.

PolyPeptide thus generated EUR 135.1 million of revenue for the first half of 2021, representing growth of 53.9% compared to the prior-year period. The increase, however, mirrors the base effect from a subdued first half of 2020, resulting from the uneven phasing of a few large orders as well as from customers reprioritizing their activities at the onset of the coronavirus pandemic.

First-half 2021 revenue was driven by the progress of PolyPeptide's late-stage projects, as evidenced by the Custom Projects segment more than doubling revenue to EUR 76.2 million. This included a substantial contribution from Novavax, which PolyPeptide supports with the large-scale GMP production of two key intermediates for its novel coronavirus vaccine NVX-CoV2373. During the first half of 2021, the custom projects pipeline of PolyPeptide continued to increase, reaching 181 projects as per mid-2021, of which 30 were in phase III of clinical development.

The Contract Manufacturing segment grew by 6.7% to EUR 45.8 million in the first half of 2021, reflecting a healthy product mix, partly offset by lower demand for certain maturing products.

The Generics and Cosmetics segment grew by 15.4% to EUR 13.2 million with higher volumes despite some pricing pressure. Certain initiatives incurred delays as a result of customers' and regulators' focus on coronavirus-related medications.

## Increased margins with operating leverage

EBITDA for the period more than doubled to EUR 39.9 million. Excluding one-off IPO costs of EUR 5.7 million, of which EUR 1.3 million related to a cash bonus awarded by the company to certain non-executive employees involved in the IPO process, and excluding the income from US government loans of EUR 2.4 million, which were waived in the context of the coronavirus pandemic, adjusted EBITDA was EUR 43.2 million for the first half of 2021. The adjusted EBITDA margin was 32.0%, up from 21.1% for the first half of 2020.

With the disproportionately lower increase of cost of sales and operating expenses, up by 35.0% and 46.6%, respectively, on a reported basis, PolyPeptide's operating result reached EUR 30.8 million, displaying operating leverage.

The result for the period was EUR 24.6 million, with basic earnings per share amounting to EUR 0.79.

### **Cash management and strengthened financial position**

The net cash flows from operating activities were EUR 41.0 million for the period and included an inflow from the changes in net working capital of EUR 3.2 million, whereby inventories were up by 11.3%, trade receivables down by 14.8% and contract liabilities up by 36.5%, the latter driven by the increase in customer commitments. With net cash flows from investing activities of EUR -35.2 million, the free cash flow amounted to EUR 5.8 million.

PolyPeptide continued to invest in its manufacturing network in the first half of 2021 to provide the additional capacities and technologies needed for the short to mid-term and to improve productivity. Capital expenditures reached EUR 25.0 million compared to EUR 9.5 million in the prior-year period with investments including the installation of large-scale capacities for solid phase synthesis, chromatography and freeze drying at several sites, the build-up of new capabilities, further digitalization efforts and the refurbishing of certain buildings.

Cash and cash equivalents as per mid-2021 reached EUR 187.4 million, including net inflows of EUR 172.0 million from the IPO, compared to EUR 17.2 million as per the end of 2020. With total financial debt of EUR 56.1 million, the net cash position of the company was EUR 131.3 million as per mid-2021, up from EUR -47.1 million at end-2020.

Following the IPO, PolyPeptide refinanced an existing EUR 25 million term loan and instead agreed to a money market loan, which it plans to repay during the second half of the year. Total equity increased to EUR 385.7 million, up from EUR 177.7 million as per the end of 2020, bringing the equity ratio to 67.4%.

The return on net operating assets for the period (based on the last twelve months' rolling numbers) reached 25.6%, compared to 12.2% in the first half of 2020, driven by the higher operating result and the disproportionately lower increase of the average net operating assets by 8.5% to EUR 253.9 million.

### **Organizational and strategic progress**

To support growth, PolyPeptide hired additional employees across sites, with average full-time equivalents in the first half of 2021 up by 14.5% to 1,026 compared to the prior-year period. With the IPO, a new Board of Directors was elected, along with the establishment of the Innovation & Technology, the Remuneration & Nomination and the Audit & Risk committees. The leadership transition to Raymond De Vré, who was appointed CEO as of the first trading day on SIX Swiss Exchange on 29 April 2021, was completed during the reporting

period. As already announced, the group's previous long-time CEO, Jane Salik, has now stepped down from the Executive Committee and will exclusively devote her time to her role as a member of the Board of Directors. In June 2021, PolyPeptide announced the creation of a General Counsel function at the Executive Committee level and appointed Christina Del Vecchio for the role, who will start on 1 September 2021.

Further efforts included the roll-out of an ESG roadmap to address environmental, social and governance topics in a more structured approach, building on the foundation laid over recent years, mostly at site level. As per the reporting date, four out of the six manufacturing sites have been assessed by EcoVadis and rated with silver or gold.

In terms of customer and staff satisfaction, both the annual customer survey and an inaugural employee engagement survey showed positive results, confirming PolyPeptide's strong customer orientation and corporate culture.

Given the business momentum, PolyPeptide reviewed its investment plans to meet enhanced mid-term capacity requirements. It maintained its efforts to also address the emerging market for oligonucleotides with current customers expanding their activities into this new area, which has an industrial logic very similar to the peptide market. The group has hired an expert team and plans to serve its first customers around end-2021 with lab space and a pilot GMP facility currently under construction at the site in Torrance, California.

### **Outlook**

PolyPeptide expects the market environment to remain favorable throughout the remainder of the year. Against the backdrop of its first-half 2021 performance and to meet the enhanced capacity requirements, it raises its full-year guidance for 2021 to revenue growth of around 25% (previously 16% to 18%), adjusted EBITDA margin of around 32% (around 28%) and capital expenditures as percent of revenue of slightly above 20% (around 17%).

Over the medium term, the group continues to expect revenue growth in the low teens with an adjusted EBITDA margin of around 30%. With the proceeds from the IPO, PolyPeptide believes that it is well positioned to grow through a strong focus on innovation, new state-of-the-art infrastructures and accelerated organic growth, complemented by bolt-on M&A, subject to suitable opportunities.