STADA
Arzneimittel

# Corporate News

## STADA 2007: twelfth year of growth in sales and earnings – positive outlook

### Important items at a glance

- 2007: Sales and earnings grew to new record highs for the twelfth year in a row
- All preliminary financial figures confirmed (ad hoc release of March 6, 2008)
- STADA Group sales: EUR 1.57 billion (+26%); strong growing international business (+30%)
- Operating profit: EUR 215.5 million (+19%), adjusted for special effects EUR 248.8 million (+33%)
- Operating profit margin: 13.7% (previous year: 14.5%), adjusted 15.8% (previous year: 15.0%)
- Net income: EUR 105.1 million (+14%), adjusted EUR 146.8 million (+44%)
- Dividend increase by 15% to EUR 0.71 per STADA share proposed by Executive Board and Supervisory Board
- Executive Board confirms once again positive outlook

The final financial results for the fiscal year 2007, presented by STADA Arzneimittel AG today, on March 27, 2008, confirm all of the preliminary results published on March 6, 2008. "2007 was the twelfth year in a row for STADA in which we achieved new record highs in sales and earnings. STADA thereby showed once again that our business model is sustainable and shows strong growth, also under challenging conditions", was the comment of STADA's Chairman of the Executive Board Hartmut Retzlaff on the successful business development in front of press and analysts.

## Development of sales

In fiscal year 2007, STADA recorded an increase in **sales** of 26% to EUR 1,570.5 million (previous year: EUR 1,245.1 million). Thus, the average growth rate of Group sales for the last five years is 21%. Organic growth adjusted for acquisitions and disposals on an accrual basis was 14% in fiscal year 2007.

"With an international business that, with 30%, continues to grow at an even higher rate than the Group overall, we have also further advanced with the Group's internationalization. Almost two thirds of our sales, namely approx. 63%, are now generated internationally" commented Retzlaff the STADA Group's regional sales development in fiscal year 2007.

Once again the Group's two core segments contributed to the sales plus. Thus, STADA was able to increase sales in what is still by far the bigger of the two core segments, **Generics** (share in sales 73.5%), by 27% to EUR 1,154.4 million in fiscal year 2007 (previous year: EUR 911.2 million). In the **Branded Products** core segment (share in sales 19.4%), STADA increased sales by 17% to EUR 304.0 million in 2007 (previous year: EUR 259.1 million).

## Regional development

In **Germany**, which continues to be the largest national market for STADA, the Group achieved sales growth of 20% to EUR 579.8 million in fiscal year 2007

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(previous year: EUR 481.9 million). The German business, which continues to report an operating profitability approximately in the scope of Group average, thus contributes a share of 36.9% (previous year: 38.7%) to Group sales.

Also in 2007, growth in Germany was significantly driven by the increase in the German Generics business, which, in the reporting year, grew to EUR 483.8 million (previous year: EUR 386.2 million) and thus went up by 25%. Sales in Germany in the Group's second core segment, Branded Products, with a plus of 3% were at EUR 92.9 million in fiscal year 2007 (previous year: EUR 89.8 million).

According to data from IMS Health the STADA Group thus increased the overall market share in the German generics market to 10.9% in 2007 (previous year: 9.3%), thereby reaching a peak market share of 11.2% in the fourth quarter of 2007 (fourth quarter of 2006: 9.8%).

The strong growth in STADA's German Generics business and the associated clear gain in market share were thereby achieved under the challenging conditions of a German generics market which declined by 3% in 2007. In addition, as is known, the Act for strengthening competition in public health insurance (GKV-WSG), which took effect on April 1, 2007, sustainably changed the market structures of the German generics market through the stimulation of the regulation instrument discount agreements between suppliers and health insurance organizations.

The STADA Group reacted quickly and successfully to these structural market challenges in 2007. In particular STADA's generics sales label ALIUD PHARMA, which has always operated in the market without a sales force, based on mailing

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concepts and which thus, due to low-price cost structures, is able to pursue more price-aggressive sales strategies, concluded discount agreements early to great extent, achieving a strong sales increase of 69% to EUR 204.5 million in fiscal year 2007 through this strategy (previous year: EUR 120.7 million).

The STADA label, which, as is known, eliminated its own doctors-related sales force through a restructuring in the fourth quarter of 2007 as a reaction to the GKV-WSG, achieved growth with Generics sales supported by it of a total of 4% to EUR 255.1 million in the reporting year (previous year: EUR 245.5 million).

The far-reaching changes in the structure of the German generics market in 2007 have not and will not, from today's perspective, lastingly burden STADA's position in the German generics market. For 2008, the Executive Board rather expects further growth and a further improvement of the Group's market share in the Generics market segment.

With sales in the amount of EUR 145.1 million (previous year: EUR 46.1 million with consolidation as of August 1, 2006), **Serbia** was the second largest national market for STADA in 2007 after local sales were, for the first time, consolidated in the Group over a whole year.

In **Russia** overall sales generated by the Group there increased – partly also due to the initial inclusion of acquired sales – by 53% to EUR 133.8 million (previous year: EUR 87.5 million).

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In **Italy**, STADA recorded sales growth of 8% to EUR 117.2 million in fiscal year 2007 (previous year: EUR 109.0 million). Adjusted for disposals, sales in Italy increased by 10%.

In **France**, the Group achieved a sales plus of 9% to EUR 87.0 million in the reporting year (previous year: EUR 79.6 million).

In **Spain**, sales grew, regardless of significant price reductions due to regulatory measures in the local generics market as of March 1, 2007, by 3% to EUR 62.7 million in fiscal year 2007 (previous year: EUR 61.1 million). Adjusted for sales disposals of non continued licensed products sales in STADA's Spanish business rose by 7% in the reporting year.

In other European countries too, the Group generated very pleasing sales growth in fiscal year 2007, such as in the **United Kingdom** (of 89% to EUR 75.7 million – partly acquisition-related), in **Ireland** (of 40% to EUR 23.5 million – partly acquisition-related), in **Austria** (of 16% to EUR 13.1 million) and in **Portugal** (of 19% to EUR 12.3 million).

In **Poland**, **Bulgaria** and **Slovakia** the STADA Group operated only in the scope of export activities in fiscal year 2007. In the first half of the current fiscal year 2008 the Group will also start sales activities in these national markets through its own subsidiaries.

In the **Asian markets**, sales grew by 4% to EUR 44.7 million in the reporting year (previous year: EUR 42.9 million). Here it must be considered that in Asia STADA

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had an unusually high sales basis in fiscal year 2006 due to a one-time tender business in **Vietnam**. Without this tender business, sales in Asia in fiscal year 2007 rose by 40% as compared to the previous year.

**Development of earnings**

Overall, the STADA Group's earnings situation also developed once again pleasingly in fiscal year 2007.

**Net income** recorded growth of 14% to EUR 105.1 million in 2007 (previous year: EUR 91.8 million). By deducting one-time special effects, **adjusted net income** increased by 44% to EUR 146.8 million in the reporting year (previous year: EUR 102.1 million).

**Earnings per share** rose – taking into account an increased average number of shares by 8% to 58,315,643 shares due to the exercise of warrants in 2007 (previous year: 53,983,327 shares) – by 6% to EUR 1.80 (previous year: EUR 1.70), **adjusted earnings per share** went up to EUR 2.52 (previous year: EUR 1.89). **Diluted earnings per share** in 2007 thereby recorded a plus to EUR 1.74 (previous year: EUR 1.62), **adjusted diluted earnings per share** rose to EUR 2.42 (previous year: EUR 1.81).

The other key earnings figures also showed a partially very clear plus in fiscal year 2007. In detail the following items grew in the reporting year as compared to the previous year: **operating profit** by 19% to EUR 215.5 million (previous year: EUR 180.5 million), **adjusted operating profit** by 33% to EUR 248.8 million (previous year: EUR 186.4 million), **earnings before interest, taxes, depreciation and**

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**amortization** (EBITDA) by 24% to EUR 289.5 million (previous year: EUR 232.6 million), **adjusted earnings before interest, taxes, depreciation and amortization** by 35% to EUR 315.7 million (previous year: EUR 233.0 million), **earnings before interest and taxes** (EBIT) by 11% to EUR 187.8 million (previous year: EUR 168.7 million), **adjusted earnings before interest and taxes** by 34% to EUR 249.2 million (previous year: EUR 186.7 million), **earnings before taxes** (EBT) by 4% to EUR 150.7 million (previous year: EUR 145.2 million), **adjusted earnings before taxes** by 30% to EUR 212.1 million (previous year: EUR 163.2 million).

The **sales-related profit margins** for fiscal year 2007 thus were as follows: **operating profit margin of the Group** 13.7% (previous year: 14.5%), **adjusted operating profit margin of the Group** 15.8% (previous year: 15.0%), **operating profit margin of Generics** 17.9% (previous year: 16.4%), **adjusted operating profit margin of Generics** 18.4% (previous year: 16.6%), **operating profit margin of Branded Products** 16.7% (previous year: 19.3%), **adjusted operating profit margin of Branded Products** 17.2% (previous year: 17.3%).

The key earnings figures as well as the sales-related profit margins were burdened through clearly higher **one-time special effects** in the reporting year as compared to the previous year. Overall, the one-time special effects in fiscal year 2007 resulted in a net burden of EUR 61.5 million before taxes or EUR 41.6 million after taxes; the one-time special effects in fiscal year 2006 had resulted at the time

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in a net burden in the total amount of EUR 18.0 million before taxes or EUR 10.3 million after taxes.

**Development of costs**

The sum of all **operative costs** in the STADA Group without depreciation or amortization increased, with 24%, at a lower rate than sales in 2007. “Through our continuous cost optimization we have once again been able in 2007 to absorb the price erosion inherently linked to our business model for which we estimate a total loss of sales equal to approx. 4% of Group sales in fiscal year 2007 as a result of price reductions”, says Wolfgang Jeblonski, STADA’s Chief Financial Officer with regard to STADA’s positive cost development in the reporting year.

**Gross profit** rose to EUR 755.3 million in fiscal year 2007 (previous year: EUR 626.2 million). The cost of sales ratio was 51.9% in 2007 (previous year: 49.7%); thus the sales-related **gross margin**, which is reciprocal to the cost of sales ratio, was 48.1% in the reporting year (previous year: 50.3%).

**Selling expenses as a percentage of sales** improved to 22.8% in 2007 (previous year: 26.0%) due to the expected lower increase of selling expenses as compared to sales growth.

**General and administrative expenses** had a share in Group sales of 7.3% in the reporting year (previous year: 7.3%). The acquisition-related increase of general and administrative expenses in 2006 was successfully counteracted in 2007. **Personnel expenses** rose to EUR 272.4 million in the reporting year (previous year: EUR 187.7 million). This includes expenses for restructuring

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measures of the German generics sales in the amount of EUR 28.1 million before taxes. The **ratio of personnel expenses to sales** thus amounted to 17.3% or adjusted for these restructuring measures 15.6% (previous year: 15.1%).

**Research and development costs**, which due to the business model are only development costs, increased to EUR 39.0 million in 2007 (previous year: EUR 32.2 million). The sales-related ratio of research and development costs amounted to 2.5% in fiscal year 2007 (previous year: 2.6%).

**Taxes on income** decreased to EUR 44.0 million in fiscal year 2007 (previous year: EUR 52.7 million). The **tax rate** thereby decreased in the reporting year to 29.2% (previous year: 36.3%). Here, STADA increasingly benefits from the fact that the Group is generating earnings in countries with national tax rates that are significantly lower than the Group tax rate. In 2007, in particular the tax effects in connection with the Serbian Hemofarm Group acquired in 2006 also contributed to this.

**Balance sheet**

In the Executive Board's view, the STADA Group's financial position continues to be stable.

The rise in **total assets** to EUR 2,553.9 million as of the reporting date December 31, 2007 (December 31, 2006: EUR 2,150.2 million) was based on the further expansion of the STADA Group's operating business including the acquisitions of fiscal year 2007, in particular the additions of the MAKIZ group and the Forum Bioscience group. **Shareholders' equity** rose to EUR 933.8 million as of December

31, 2007 (December 31, 2006: EUR 863.1 million). The **equity-to-assets ratio** was 36.6% at the balance sheet date (December 31, 2006: 40.1%). Thus – regardless of the acquisitions of the year 2007 again financed with outside capital – it continues to be clearly in a, from the Executive Board's perspective, satisfying area of over approx. 30%. The Group therefore also continues to have sufficient financial means available for further growth.

The STADA Group's **net debt** further grew in the course of the year 2007 – in particular in the course of the credit-financed acquisitions of the MAKIZ group and the Forum Bioscience group – and reached EUR 958.5 million as of December 31, 2007 (December 31, 2006: EUR 773.0 million) and thus amounting to approx. 3.0 times adjusted EBITDA of the previous fiscal year. The weighted average interest rate for all of the STADA Group's financial liabilities thereby amounted to approx. 4.8% p.a. on the balance sheet date, with the major part of the STADA Group's financial liabilities subject to long-term financing.

## Cash flow

**Gross cash flow** was clearly increased to EUR 201.2 million (previous year: EUR 153.2 million) in the reporting year due to the improved earnings situation and higher depreciation and amortization. Reported **cash flow from operating activities** amounted to EUR 100.5 million in 2007 (previous year: EUR -13.0 million), thus showing a clear increase. When assessing this increase, special effects from payments made and still outstanding from acquisitions and disposals are to be considered: **Operating cash flow adjusted** for these special effects from payments made or still outstanding from acquisitions and disposals amounted

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to EUR 92.9 million in the reporting year (previous year: EUR 61.8 million) and thus also clearly improved.

## Product development

2007, too, was again a very successful year for STADA in terms of annual product launches. Thus, Group-wide, 424 individual products were launched in individual national markets worldwide in fiscal year 2007 (previous year: 331 products) – more than ever before within one year in STADA's company history.

The Group's product pipeline remains well-filled so that, from the Executive Board's view, STADA should continue to have a comprehensive and up-to-date product portfolio in the individual national markets – with a focus on generics in the EU.

## Dividend proposal

Already on March 6, 2008, the STADA Executive Board proposed that a dividend for fiscal year 2007 in the amount of EUR 0.71 per common share be distributed. This represents a 15% increase compared to the previous year. The Supervisory Board supported this proposal. Should the Annual Shareholders' Meeting follow this proposal on June 10, 2008, it would represent, with total dividend payments of EUR 41.6 million, a dividend ratio of approx. 40% of net earnings.

## Acquisition policy

STADA plans to accelerate the long-term growth course by making appropriate acquisitions in the future as well and continuously examines suitable takeover projects. To create a sufficient financial framework, appropriate capital measures

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continue to be imaginable for corresponding acquisition projects if such acquisitions too strongly burdened the equity-to-assets ratio.

## Positive outlook confirmed

In the Annual Report published today the Executive Board confirms the positive outlook. It reads: “Indeed, significant regulatory measures, intensive competition and significant pressure on margins can always occur in individual national markets. However, in view of the strategic focusing on growth markets and the Group’s proven operative strengths, the Executive Board assumes, from today’s perspective, that STADA will be able to achieve sustainable operative growth under challenging conditions in the future, too, and thus will be able to continue the Group’s successful growth course in the years to come.”

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