



**OVERCOMING
SUPPLIER
CONSOLIDATION
& TECH
TRANSFER
CHALLENGES**

SANDOZ

Agenda

1. Why ENCORE
2. Where we play
3. What are the benefits
4. What are main enabler
5. How to overcome challenges
6. After ~2 years

What makes us different - Why we started the ENCORE journey



Richard Saynor

Chief Executive Officer



Sandoz is the only global generics and biosimilars company that actually wants to be a generics and biosimilars company.”

speaking at Sandoz Capital Markets Day, June 2023

Core EBITDA improvement target from 18.1% in 2023 to ~24-26% in 2028

Sandoz Technical Operations is using four levers to meet this goal

Focused vertical integration particularly in biosimilars and anti-infectives, where we have industry-leading scale and know-how. We're investing more than USD 400 million to build a state-of-the-art biologics production plant in Slovenia and more than EUR 250 million to expand our antibiotics capacity in Austria and Spain.

Network design to ensure optimal capacity utilization. By 2025 we'll reduce our number of internal manufacturing facilities from 18 to 15, and by 2028 we'll reduce external manufacturing sites for finished products by half. These measures are helping us to increase asset efficiency, improve capital allocation, optimize our make-or-buy decisions and support our launches.



Operational excellence will help us drive higher manufacturing productivity and better asset utilization. We'll make our manufacturing processes more robust, with end-to-end planning optimization, throughput time reduction as well as digitalization and robotization.

Procurement optimization will focus on reducing complexity in our supply chain while building long-term strategic partnerships, by leveraging our scale through consolidation of suppliers and leveraging strategic partnerships. We will also reduce complexity through portfolio harmonization and simplification.

Source: 2023-Integrated-Annual-Report info



Where we play

On track to deliver on our commitments



Driving top line

- >USD 10 billion in net sales for the first time
- 30%¹ biosimilar growth
- All regions contributing to growth

Expanding margin

- Delivering on strong expansion in 2024
- Favorable mix-shift and operating leverage
- Progress on transformation and simplification

Advancing on pipeline

- Three regulatory approvals and three launches
- Pipeline expanded to 28 biosimilars
- Numerous opportunities to increase coverage

Creating value

- Core ROIC up 2.5%pts to 12.3%
- Dividend increase to CHF 0.60 per share²
- Investing in growth opportunities

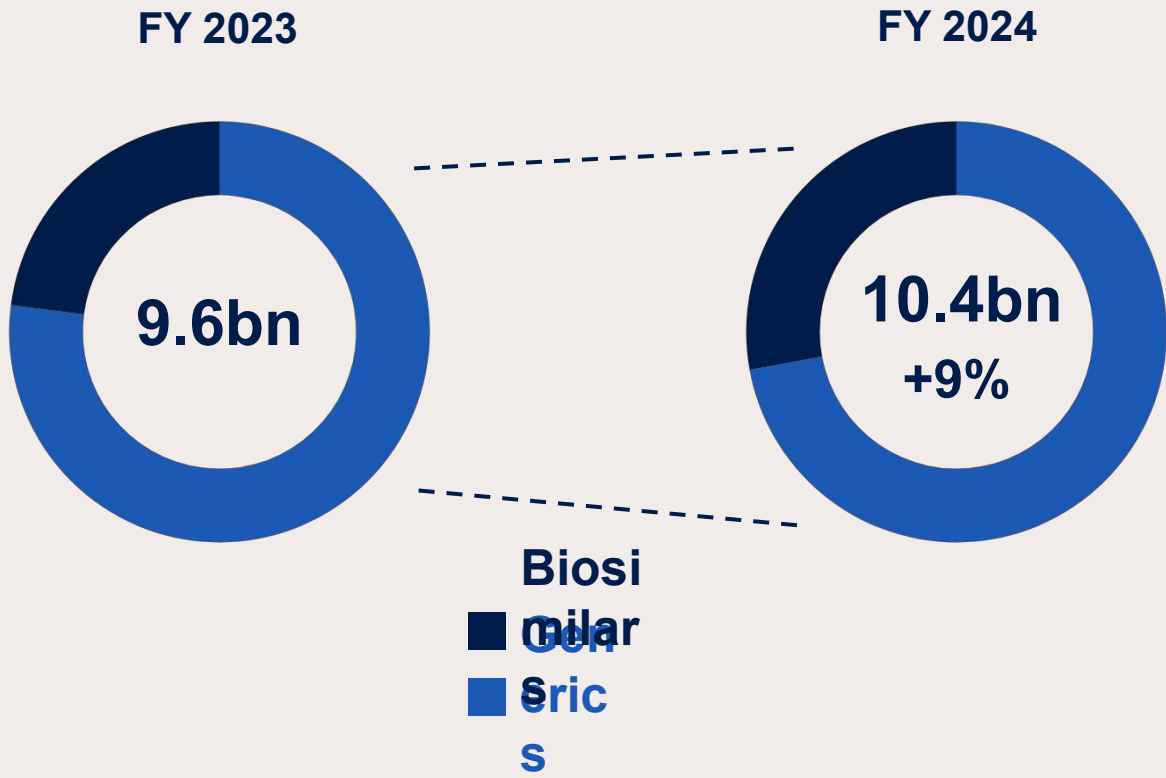
Note: Net sales in this document refer systematically to net sales to third parties / %pt = percentage point

1. FY 2024, in constant currencies 2. Subject to approval at the Annual General Meeting on April 15, 2025

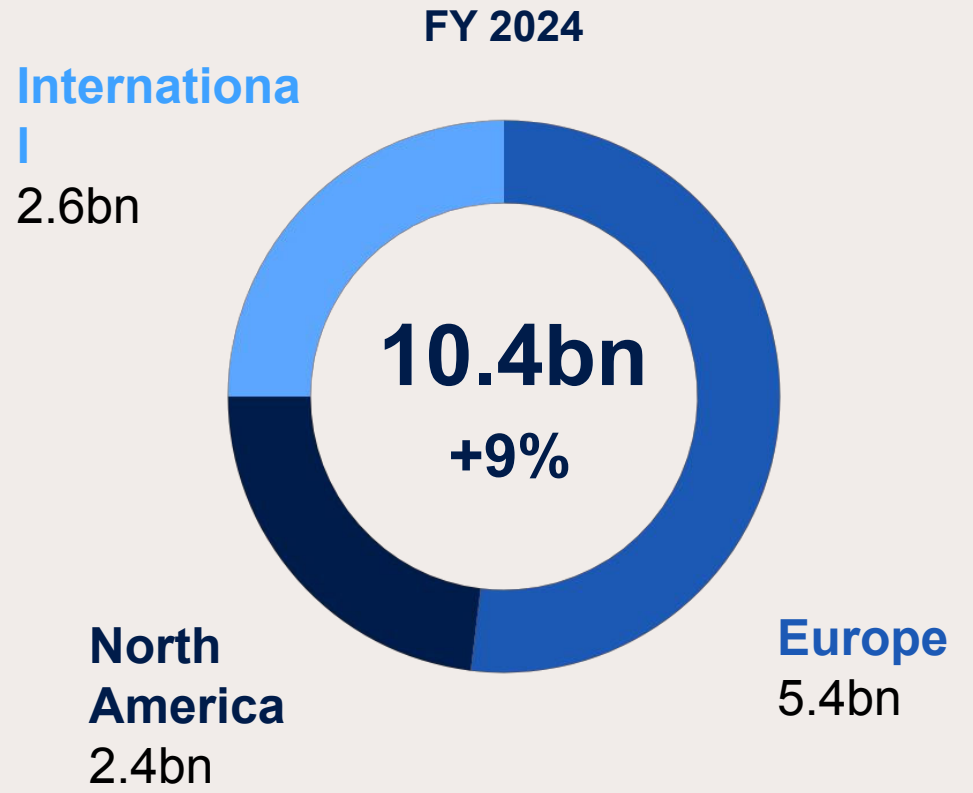
Shift towards value-accretive products continuing with 30%¹ biosimilar-sales growth in 2024

Net sales in USD billion
% cc¹

Business mix



Regional mix





What are the benefits

Consolidating supplier will enable the deployment of levers to optimize Manufacturing, Supply Chain, QA/RA and Administration (1/2)

Cost reduction levers

Lever







Timeline

Impact







Production cost	Reduce CMO mark-up through renegotiation and volume consolidation by achieving economies of scale		
	Reduce manufacturing loss and inefficiencies through consolidation, volume increase, and decreased process variation across a smaller number of manufacturers		
	Reduce material and equipment spend through consolidated purchasing of raw material (inch excipients)		
	Optimize CMO mark-up through the minimization of the portion attributed to equipment and project CAPEX that needs to be invested by CMOS (for start-up, maintenance, upgrades)		
QA cost	Reduce quality oversight requirements and number of required audits, including associated fees and FTEs for audit preparation and CAPA activities/coordination		
	Reduce cost of quality through harmonized processes over a reduced network of CMOS		
PLM costs	Optimize implementation of Product Life Cycle management changes (transfers, filings/variations, new regulatory requirements, etc.) via reduction of manufacturing sites associated to SKUs/licenses		
Inventory	Reduce working capital by decreasing overall amount of inventory and safety stock required (proliferated across a smaller number of suppliers)		
SRM	Reduce Supplier Relationship Management costs by consolidating the number of suppliers		

Consolidating supplier will enable the deployment of levers to optimize Manufacturing, Supply Chain, QA/RA and Administration (2/2)

Risk management levers

Lever		Timeline	Impact
<i>Quality</i>	Reduce quality deviations via increased consistency, control and standardization over a smaller number of CMOS		
<i>SC resilience</i>	Achieve balance between increased supply chain resilience and efficiency at scale		
<i>Stock outs</i>	Reduce stock-out risk and obsolescence by providing flexibility in planning with shorter horizon (i.e. larger scope per supplier allow for more flexibility vs. fragmented scope across various CMOS)		

Opportunity creation levers

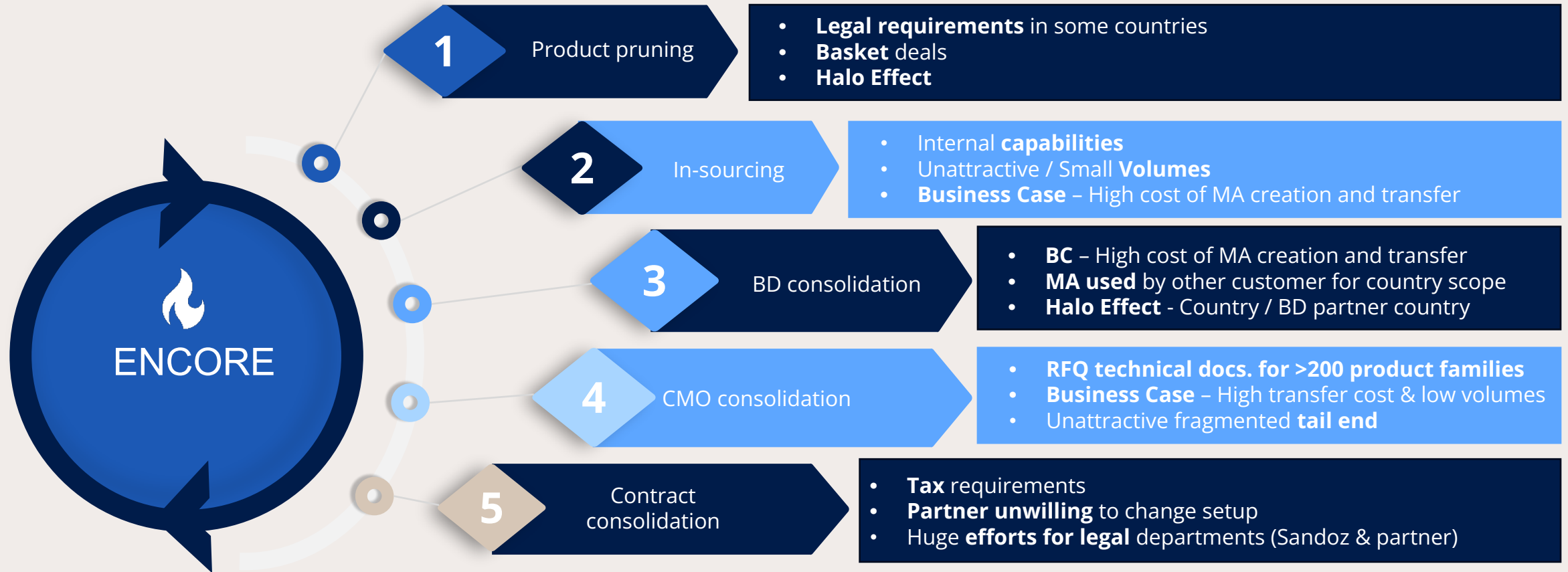
Lever		Timeline	Impact
<i>Market Dynamics</i>	Increased responsiveness to shifting demands through higher volumes supplied by CMO and reprioritization of SKU		
<i>Supplier integration</i>	Enabled Technology Integration at lower cost and higher speed with CMOS to jointly work on optimization and to enable data transparency		
<i>Supplier maturity</i>	Improved supplier maturity enabling increases in optimization levers (e.g. vendor-managed inventory, consignment stock arrangements, etc.)		



Main enabler

Eso Network COmplexity REduction (ENCORE)

Main enabler for network consolidation & Challenges of supplier consolidation

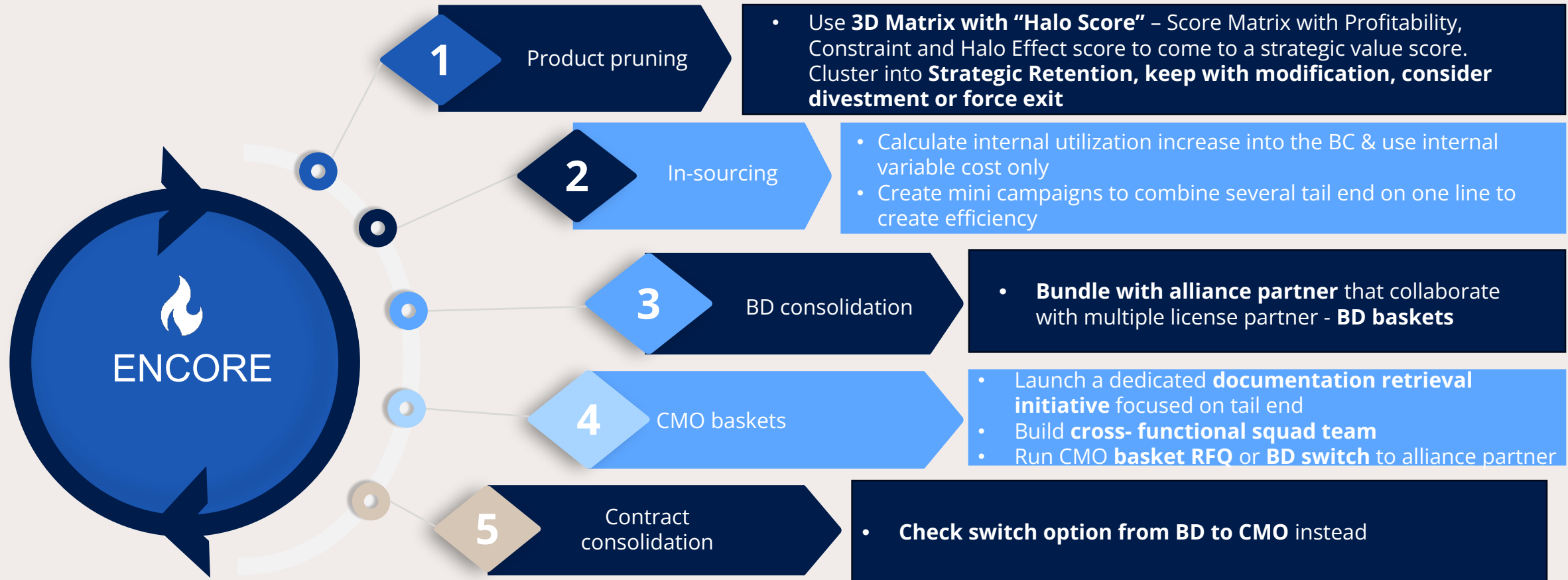




How to overcome challenges

Eso Network COmplexity REduction (ENCORE)

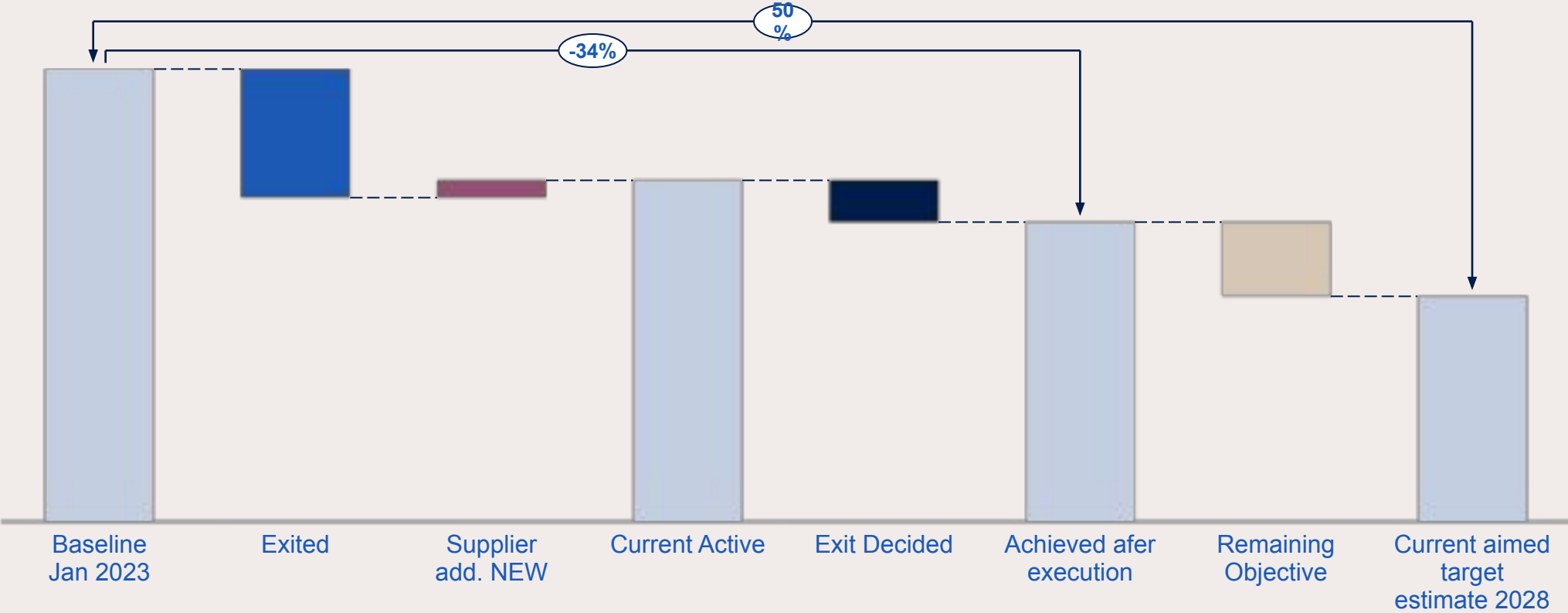
How to overcome challenges – Some real-life examples





After ~2 years

After ~2 years we are here





**The Journey to Transform our
Pharma Supplier Footprint**

Obstacles don't have to stop you. If
you run into a wall don't turn
around and give up. Figure out how
to

**CLIMB IT,
GO THROUGH IT,
OR WORK AROUND IT.**

- Michael Jordan -

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