

STVN Investor Relations Fourth Quarter and Year End 2022 Prepared Comments

Lisa Miles, SVP IR

Good morning, and thanks for joining us. With me today is Franco Stevanato, Executive Chairman, Franco Moro, CEO; and Marco Dal Lago, CFO. A presentation illustrating today's results can be found on the IR section of our website.

Some statements being made today will be forward-looking in nature. Such statements are only predictions. Actual events and results may differ materially as a result of risks we face, including those discussed in Item 3D entitled "Risk Factors" in the Company's more recent Annual Report on Form 20-F filed with SEC.

We encourage you to review the information contained in our earnings release in conjunction with our SEC filings and our latest Form 20-F. The Company does not assume any obligation to revise or update these forward-looking statements to reflect subsequent events or circumstances, except as required by law.

Today's presentation may contain non-GAAP financial information. Management uses this information in its internal analyses of results and believes this information may be informative to investors in:

- gauging the quality of our financial performance,
- identifying trends in our results,
- and providing meaningful period-to-period comparisons.

For a reconciliation of the non-GAAP measures, please see the Company's most recent earnings press release.

I will now hand the call to Franco Stevanato for opening remarks.

Franco Stevanato:

Thank you for joining us as we close out another year of strong financial results. The collective efforts of our employees worldwide led to outstanding execution in 2022.

We are building a track record of consistent delivery on our financial and operational objectives. We are well positioned against a backdrop of favorable demand, and the fundamentals of our business remain strong.

As we enter 2023, we expect to benefit from the secular tailwinds in high growth end markets such as biologics. We currently see important opportunities in front of us to support customers across a broad range of therapeutic areas such as GLP1s, monoclonal antibodies and mRNA applications. We are currently seeing trends toward sustained, robust demand for high-performance drug containment, and we have modified our investment plans to maximize this opportunity.

Notably, these opportunities are enabling us to exploit our unique value proposition of end-to-end integrated capabilities. We are gaining more traction in supporting customers' needs in multiple product categories across both Segments.

Lastly, our management team and board of directors are fully aligned on capitalizing on our future growth prospects. We are laser-focused on fulfilling the needs of our customers, and cementing our leadership position as a key partner in the pharmaceutical supply chain worldwide. We are

investing in the business, our people, our products, our communities, and scientific innovation, which we believe in turn should deliver durable organic growth to drive long-term shareholder value.

I will now hand the call over to Franco.

Franco Moro, CEO

Thank, you Franco. Starting on slide 7, our fourth quarter results led to a strong finish in 2022, with double digit growth, expanding margins and a growing mix of high value solutions. We finished the year with record revenue from high value solutions which represented approximately 30% of revenue for fiscal 2022.

For the fourth quarter, new order intake totaled €237 million and we ended 2022 with backlog increasing 9% to €957 million. As expected, growth in backlog was partially offset by a lower level of orders to support Covid-19. Excluding Covid, our backlog increased 21% compared with last year, reflecting favorable demand for new customer programs.

On slide 8, our first-rate execution in 2022 enabled meaningful progress against our four strategic pillars:

1. First, we advanced the buildout of our industrial footprint to add capacity in premium products to meet demand and drive growth. We also signed an agreement with BARDA to further expand vial capacity in Fishers.

2. Second, we continued to grow our mix of high value solutions in 2022. The shift to high-performance, high-value products has been led by pharmaceutical innovation. New classes of treatments require specialized drug containment to ensure the highest integrity of the treatment and we remain ideally positioned to capitalize on this trend.
3. Third, we continue to fuel innovation by investing in R&D and partnering with best-in-class players to fortify our market-leading position. In 2022, we launched our next generation EZ-fill Smart™ platform, and advanced our portfolio of drug delivery systems. Most recently, we entered into a partnership with Transcoject to expand our portfolio with COC and COP syringes. This allows us to offer the broadest available suite of market-leading glass and plastic syringes.
4. And lastly, we continue to build our pipeline of multi-year opportunities in high growth end markets like biologics.

As we further advance these strategic imperatives in 2023, we expect that our efforts will yield sustainable organic growth in the years to come.

Industrial plan progress / capex

On page 9, we are refining our capital spending plans to optimize our global footprint amid rising demand. In the U.S. and Europe, future demand has outpaced our expectations since our IPO, and our modular approach gives us the flexibility to adjust our plans accordingly.

Over the last 18 months, we have worked alongside customers to better address their needs. With this added visibility, we are accelerating investments in Fishers to capitalize on the elevated demand outlook led by the expected growth in biologics. Concurrently, we are tapping the brakes on the phasing of our China expansion so that we can prioritize our projects in the U.S. and Italy.

Our refined capex plan for Fishers focuses investment in the U.S. market, where demand has been climbing for high-performance drug containment to meet the needs of sensitive drug classes such as GLP-1s, monoclonal antibodies, and mRNA applications.

We have updated our industrial plan to adapt to these favorable market trends.

- First, we continue to see surging demand for syringes. To capitalize on this, we are adding approximately 60% more syringe capacity in Fishers compared with our initial plan. This includes Alba syringes which are purpose-built for biologics.
- Turning to vials, we expect to double the capacity in the U.S. for ready to use vials, as we prepare the commercial launch of our next generation EZ-fill Smart™ platform.

Let me crosswalk the changes to our expected CapEx for Fishers, starting with our initial planned investment.

1. At the time of the IPO, we assumed CapEx for Fishers of approximately €150 million.

2. In March of 2022, we entered into an agreement with Barda to expand vial capacity for both EZ-fill and bulk vials. This is estimated at approximately €175 million.
3. Most recently, we decided to invest an additional €175 million to further expand much-needed capacity for Nexa and Alba syringes.

When you add it all up, the total CapEx for Fishers is approximately €500 million. This includes the portion of CapEx that is supported by Barda. We remain on track to launch validation activities in Fishers in the fourth quarter of 2023, and we expect that revenue will begin to ramp in a meaningful way in 2024.

Moving to slide 10. In Piombino Dese, the new building is complete, validation activities are well underway, and we started our commercial batch production. In Latina, we completed the largest cycle of CapEx. The site is on track for validation activities over the summer with commercial production beginning in the fall. We anticipate temporary inefficiencies through the natural progression of start-up activities as volumes and revenue grow over time.

With the favorable demand in the U.S. and Europe, we are slowing down our expansion in China. China is strategically important, but our existing operations are currently sufficient. We are prioritizing our CapEx projects in the U.S. and Europe where our customers have the most pressing needs, and we can provide the greatest value.

With that, I'll now hand the call over to Marco.

Marco Dal Lago, CFO

Thanks Franco. On slide 12, We ended 2022 with strong financial results.

For the fourth quarter, revenue increased 26% to €292.1 million - (or 23% on a constant currency basis) driven by growth in both segments, the shift to high value solutions and currency. Our top-line results for the fourth quarter were better than expected due to the recognition (timing) of revenue that was previously forecasted in Q1 2023. This includes revenue from certain Engineering projects and Covid-19. As a result, revenue from Covid-19 was higher than our forecast and represented 12% of total revenue.

We are making relevant progress growing our mix of high value solutions which increased 31% to €87.2 million in the fourth quarter.

For the fourth quarter, gross profit margin increased by 290 basis points to 34.3%, due to higher revenue, a favorable mix, better leverage of fixed costs and the recovery of inflationary costs.

Operating profit margin in the quarter increased to 21.6%, and included a benefit of €3 million in other income, related to a joint development project. Excluding start-up costs on the new plants, adjusted operating profit margin was 22.2% compared with 18.8% in the same period last year.

On the bottom line, this resulted in:

- A better-than-expected net profit of €48.3 million, or 18 cents of diluted earnings per share,
- Adjusted net profit of €49.6 million, or adjusted diluted EPS 0.19 cents,
- And adjusted EBITDA totaling €81.9 million, reflecting an adjusted EBITDA margin of 28%, which was up 270 basis points over last year.

Turning to slide 13. On a full year basis, revenue increased 17% to €983.7 million driven by growth in both segments, the mix shift to high value solutions and currency. On a constant currency basis, revenue grew 13% over last year.

As expected, full year revenue growth was partially offset by lower revenue from Covid-19 which represented 11% of total revenue in 2022, compared to 15% in 2021. As revenue from Covid-19 rolls off, we have been successfully backfilling this decrease with new projects across a broad range of therapeutic areas.

For 2022, high value solutions grew 41% to a record €293.2 million and represented approximately 30% of revenue.

Our solid growth, favorable mix shift, and operational efficiencies led to expanding margins for the full year. As a result, gross profit margin for 2022 increased 110 basis points to 32.5%, despite inflation. While we recovered

nearly all of the inflationary costs through price adjustments, it had a dilutive effect to gross profit margin in 2022.

For the full year, operating profit margin for fiscal 2022 was up 40 basis points to 19.6%. Excluding start-up costs on the new plants, adjusted operating profit margin increased to 20.2%, compared to 19.2% last year.

This led to solid delivery on the bottom line with net profit of €143 million, or diluted earnings per share of 54 cents for 2022. On an adjusted basis diluted EPS increased 17% to 56 cents.

For 2022, adjusted EBITDA increased 21% to €263.6 million resulting in an adjusted EBITDA margin of 26.8%.

Segments:

Let's move to Segment results on slide 14.

Biopharmaceutical and Diagnostic Segment (BDS):

The Biopharmaceutical and Diagnostic Solutions Segment once again delivered strong results for the fourth quarter and full year.

For the fourth quarter, revenue increased 25% to €231.5 million, and 21% on a constant currency basis over the prior year. Revenue growth was mainly driven by a 31% increase in high value solutions and a 21% increase from other containment and delivery solutions. In Q4, gross profit margin increased to 37.3% due to strong revenue generation, the favorable mix, better leverage of fixed costs, and the recovery of inflationary costs. Operating profit margin for the Segment was 23.7% in the quarter.

For the full year, revenue grew 15% to €799.7 million, and 11% on a constant currency basis compared with fiscal 2021. Revenue from high value solutions grew 41%, while other containment and delivery was up 4% over the prior year. For the full year, gross profit margin for the BDS segment increased 120 basis points to 34.3%, and operating profit margin improved to 22.8%, despite inflationary headwinds.

Engineering Segment:

Financial results for the Engineering Segment were better than expected in the fourth quarter and revenue increased 30% to €60.6 million mostly due to the timing and progression of projects. For the full year, revenue increased 23% to €184.0 million driven by growth in all business lines.

For the fourth quarter of 2022, gross profit margin decreased 50 basis points to 21.2%, mostly due to project mix, and operating profit margin was 12.2%.

For the full year, gross profit margin improved 230 basis points to 21.6% mainly driven by contributions from more accretive business lines, as well as ongoing business optimization efforts. As a result, operating profit margin improved to 13.8%

Balance Sheet and Cash Flow Items

On slide 15. As of December 31st, 2022, we had a positive net financial position of €46 million, and cash and cash equivalents of €228.7 million.

For the full year, net cash generated from operating activities was €103.3 million, reflecting increased working capital to support growth and higher inventories to mitigate supply chain risk. Meanwhile, cash used for investing, totalled €243 million to support our expansion plans. This resulted in negative free cash flow of €137 million for fiscal 2022.

In February of 2023, we secured two loans totaling €130 million for our ongoing investments in growth platforms. The first five-year loan was financed through BNP Paribas for €70 million. The second loan for €60 million was financed through Cassa Depositi e Prestiti. Both loans have a two-year draw down so we can access the capital when needed.

The loans shore up our balance sheet, and provide us added flexibility for capital deployment. Our balance sheet is healthy, and we believe we have adequate liquidity to fund future growth.

CapEX:

Turning to CapEx, on slide 16. In 2022, capital expenditures were €302.6 million as we continued to invest in our strategic global expansion.

As Franco noted, we are focusing our efforts in the U.S. and Italy, to capitalize on rising demand. Consequently, we are forecasting capital expenditures of 35% to 40% of revenue in 2023, of which approximately €70 million is carry-over from fiscal 2022.

For 2023, approximately 90% of our expected capex is tied to growth, and the remaining balance for all other activities including R&D.

Guidance

Let's review guidance on page 17. For fiscal 2023, we expect

- Revenue in the range of €1.085 billion to €1.115 billion. This implies growth between 10% and 13%; Excluding Covid, growth is estimated to be greater than 20%
- Adjusted diluted EPS in the range of 58 cents to 62 cents,
- Adjusted EBITDA in the range of €290.5 million to €302.5 million,

Our 2023 guidance assumes headwinds and tailwinds, and considers the following:

- First, we expect that our second half results will be stronger than the first half, and growth will be linear throughout the year. Our model assumes double digit growth in the BDS Segment and high single digit growth in Engineering.
- Consistent with prior years, we expect a step down in revenue in the first quarter compared with Q4 2022.
- We have assumed that high value solutions will represent approximately 32-34% of 2023 forecasted revenue.
- Revenue from Covid-19 is expected to decrease by approximately €80 million in 2023 versus 2022. We estimate that it will represent about 2 to 3% of revenue.
- And lastly, we are estimating a currency headwind of approximately €13 million to €14 million.

Thank you, I will hand the call to Franco for closing comments.

Franco Moro Closing

Thanks Marco.

Our strong financial results in 2022, demonstrate that we have the right strategy in place. We are operating in an environment of strong demand, growing end markets, and multi-year secular drivers.

With a favorable demand landscape, our capital allocation priorities are designed to meet current and future customer demand trends. The timing of customer demand requires us to invest several years in advance of commercial production to seize the opportunities in front of us.

We have strong momentum entering 2023. With our unique integrated capabilities and market-leading portfolio, we are well positioned to drive durable organic growth, and in turn increase shareholder value.

And with that, let's open it up for questions.