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Q4 2019 Taro Pharmaceutical Industries Ltd Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Taro Pharmaceuticals Year-End 2018/'19 Earnings Call. (Operator Instructions) As a reminder, this call is being recorded.

I would now like to turn the call over to William Coote. You may begin

William J. Coote *Taro Pharmaceutical Industries Ltd. - Assistant VP of Business Finance & IR and Treasurer*

Thank you. Good morning, everyone, and welcome to our 2018/'19 year-end earnings conference call. Joining me today on the call are Mr. Dilip Shanghvi, Chairman of the Board of Directors; Mr. Uday Baldota, Taro's CEO; and Mariano Balaguer, CFO. We hope you received the copy of the earnings press release, which can be found on our website at taro.com.

We anticipate that many of you may have questions concerning not only this quarter's and full year financial performance, but also other markets, operations, strategies and other matters. While we try to respond to most of your queries, we will not be able to share product specific and commercially sensitive information, including pipeline details.

As a reminder, this call is being recorded and a replay can be -- and call transcript will be made available on our website.

Before we proceed, I must remind you that today's discussion may include certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Although the company believes the expectations reflected in such forward-looking statements to be based on reasonable assumptions, it can give no assurances that its expectations will be attained and should be viewed in conjunction with the risks that our business faces as detailed from time to time in the company's SEC reports.

I will now turn the call over to Mr. Dilip Shanghvi.

Dilip Shantilal Shanghvi *Taro Pharmaceutical Industries Ltd. - Chairman of the Board*

Thank you, Bill. Welcome all of you, and thank you for joining us today for Taro's earning call after the announcement of the fourth quarter and full year of '18/'19 financial results.

As I have stated in the past, given the headwinds in the generic industry environment that Taro has been operating in for some time, I believe the results for the quarter and full year results are in line with our expectations. However, while the full year reflects an uptick from last year, we believe that the U.S. generic market will continue to be competitive.

I will now hand over the call to Uday Baldota



Uday V. Baldota Taro Pharmaceutical Industries Ltd. - CEO & Director

Thank you, Mr. Shanghvi. Welcome, everyone, and thank you for joining us today. As Mr. Shanghvi indicated, the generic landscape to a large extent remains very much the same, a very dynamic and competitive industry. We are encouraged by the year's results and some of the accomplishments and trends we are seeing.

Our full year net sales increased marginally over last year, and our sequential quarter-over-quarter sales and gross profit have increased each quarter throughout the year. Our volumes for the year increased 7% over last year, 4% in the fourth quarter. This is our third consecutive year of volume growth.

Our products ranked #1 and #2 in our 75% of our portfolio in the U.S. generic market. From a quality and compliance standpoint, we continue to maintain a strong record with the FDA and all other regulatory agencies. We continue to invest in our business. In R&D, we have reported 6 filings and 12 approvals this year, the most approvals we have had in 1 year in the last 10 years. We maintain a healthy pipeline of 26 ANDAs awaiting FDA approval, with 8 tentative approvals.

Regarding our investment. The full year spend is lower than prior year, principally, due to the continuous evaluation of our portfolio. We invest only in those products, which are viable and have a strong business scale. We have also made significant technology investments in manufacturing, operations, quality and financial system, and we will continue to do so in the future.

Regarding shareholder value. In December, we paid \$500 million special dividend or \$12.86 per share to shareholders. And in January 2019, we completed a \$250 million share repurchase program.

Finally, we have a healthy balance sheet with \$1.35 billion in cash and no debt.

With this, I will now hand over the call to Mariano to discuss the financial performance.

Mariano Balaguer Taro Pharmaceutical Industries Ltd. - CFO, CAO & VP

Thank you, Uday. Hello, everyone, and welcome. Let me discuss some of the key financial highlights, which are in comparison with the comparable prior year period. First, Q4 highlights followed by the full year comparisons.

Net sales were \$180 million, an increase of \$5 million as our overall volume for the quarter increased 4%. Gross profit of \$120 million is marginally higher than last year as a percentage of net sales was 66% compared to 68% for the same quarter last year. Research and development expenses of \$21 million is in line with the prior year quarter. Selling, marketing, general and administrative expenses decreased marginally. Operating income of \$75 million remain in line with the prior year and as a percentage of net sales were 42% compared to 43% in the prior year quarter.

As a result of the above, Q4 EBITDA of \$80 million increased \$1 million, with EBITDA margins of 45% in both periods. Interest and other financial income increased \$2 million to \$8 million for the quarter. Foreign exchange expenses of \$9 million compared to FX income of \$16 million in last year's Q4, a \$25 million of unfavorable impact on earnings. This impact is principally the result of the weakening of U.S. dollar versus Canadian dollar. And we remind you the FX is mainly balance sheet driven by U.S. dollar-denominated bank accounts and intercompany AR balances on our Canadian subsidiary books.

Tax expenses increased \$5 million to \$16 million, resulting in an effective tax rate of 21% compared to 11% in Q4 last year. The prior year quarter includes a favorable geographical mix as well as some one-time item of nonrecurring benefits.

Net income attributable to Taro was \$58 million as compared to \$86 million, as the increases in operating income and interest revenue were more than offset by the unfavorable FX impact and increase in tax expenses, resulting in a diluted earnings per share of \$1.52 compared to \$2.17 for the fourth quarter last year.

Let me now discuss the full year performance and comparison to last year. Net sales of \$670 million, increased \$8 million, principally the

result of 7.5% increase in overall volumes. Gross profit of \$446 million, decreased \$18 million and as a percentage of net sales was 67% compared to 70%, primarily the result of higher volumes and product mix throughout the year.

R&D expenses of \$63 million decreased \$7 million, mainly due to a continuous evaluation of our portfolio's product. SG&A expenses of \$90 million increased \$2 million versus prior year.

Operating income of \$296 million decreased \$7 million, and as a percentage of net sales was 44% as compared to 46% in the prior year. EBITDA was \$315 million with a slight decrease in margin from 48% to 47%. Interest and other financial income increased \$14 million to \$34 million as we continue to optimize our return on cash through active management.

FX income in 2018/'19 of \$25 million compared to FX expenses of \$33 million, a favorable impact on earnings of \$58 million. This again is principally driven by the strengthening of U.S. dollar versus Canadian dollar and this -- FX is mainly on the -- balance sheet driven. Tax expenses decreased \$7 million to \$75 million, with an effective tax rate of 21% compared to 28% last year.

During the third quarter of 2018, the company recorded a \$38 million expense for the impact of the re-measurement of the company's estimated net deferred tax asset, as a result of the U.S. Tax Cuts and Jobs Act. Excluding the impact from the one-time re-measurement, tax expenses would have been \$44 million, with an effective tax rate of 15%.

Net income attributable to Taro was \$282 million compared to \$211 million, resulting in a diluted earnings per share of \$7.23 compared to \$5.26. Excluding the impact of the one-time tax re-measurement in 2018, net income attributable to Taro would have been \$248 million or diluted earnings per share of \$6.18.

As Uday said, our cash flow and balance sheet remained strong. Cash and cash equivalents, including short-term and long-term marketable securities and bank deposits, decreased \$295 million to \$1.35 billion from March 31, 2018. This decrease reflects the impact from the \$500 million special dividend paid in December 2018 and \$89 million from the completion of the company share buyback program completed in January 2019.

Cash provided by operations for the years' end March 31, 2019 and 2018 was \$324 million for both periods.

As Uday highlighted, in addition to payment of the special dividend, we completed our \$250 million share repurchase program.

During the current fiscal year, the company repurchased 889,000 shares at an average price of \$95.05 or \$89 million.

In total, the company bought back 2.5 million shares at an average price of \$100.28 per share under this program.

With this, I would like to thank everybody, and now I will hand the floor back to Uday.

Uday V. Baldota Taro Pharmaceutical Industries Ltd. - CEO & Director

Thank you, Mariano. Concerning the Department of Justice and related State Attorney General's investigations, we continue to work with our counsel to cooperate with the Department of Justice and the investigating states.

On Friday, May 10, a new complaint was filed by various states and such suits names Taro U.S.A. and one of its formal members of management. We continue to believe these suits are without merit and continue to defend against them vigorously.

Furthermore, we remain committed to strong corporate governance and fostering a culture of compliance at Taro.

Regarding our strategy. We are always looking at opportunities to strengthen our generic and OTC revenue streams, either through organic growth or strategic acquisition and alliances. We will continue to be disciplined in our evaluation of all opportunities in order to ensure that they meet both our business and financial criteria. As part our strategy, we continue to look for various ways to strengthen our position in Canada and Israel. And while we announced in February our decision to discontinue the promotion of U.S. branded

products, this will not preclude us from considering the business in the future should the right opportunity under the right circumstances present itself.

I am confident that Taro is well positioned. We will continue to evaluate opportunities to ensure that we continue to grow the business and to look at initiatives and opportunities that can put our business in an even stronger position. We will need to continue to tweak and evaluate our strategy and asset portfolio as market conditions dictate.

Finally, I would like to thank the entire Taro team and all our employees for their continuing outstanding effort and total commitment to our primary objective: delivering quality products to those who need these.

With this, I would like to open the floor up for your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ram Selvaraju of H.C. Wainwright.

Raghuram Selvaraju H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Healthcare Analyst

Just 3 very quick ones. Firstly, can you comment on whether or not you expect to potentially initiate a new stock repurchase program during the course of the current fiscal year? Secondly, wanted to ask about your current and future directions in R&D? And how that dovetails with your decision to pull back from the promotion of U.S. branded products? And lastly, with respect to the new DOJ filed complaint, could you give us a sense of what the relative scope of the number of drugs that Taro is responsible for marketing or was responsible for marketing in the past that are specifically named in this new complaint? And also if you can just confirm, I believe, I heard in your prepared remarks that the only individual who was affiliated with Taro who is named in this new complaint is no longer an employee of the company.

Uday V. Baldota Taro Pharmaceutical Industries Ltd. - CEO & Director

Thank you for your question. So let me start with the first. Currently, there is no proposal that we are considering. So I think I hope that sort of answers your first question. Second, on the R&D, I think there are certain strengths that we as an organization have certain capabilities, both from a development perspective, from a manufacturing perspective and clearly, the market and the customers that we have and what we work with. So there is a certain strength in the portfolio that we have developed. I think we continue to ensure that we leverage our strengths for our future product developments. As I mentioned in my remarks that our effort is to ensure that we continue to support all the businesses that we have, so we continue to develop products for the generic business, for the OTC and for different markets that we are present in. So that supported well.

As far as, let's say, the branded business is concerned, I did mention that while we've discontinued our promotion last March or this March, March '19, but we continue to look for opportunities by which we can sort of re-enter or start a branded business given the right mix of product and the right opportunities. As far as internal efforts are concerned, we do continue to spend, I would say, some amount of money on building NDA kind of a portfolio, but most of the products for us are a few years out. We would not be able to sort of discuss specific or product specific details at this stage.

As far as the third question is concerned, I think, we've sort of given whatever we had to say. As far as the remarks are concerned, at this stage, I don't think we will be able to add anything specific and respond to the specific question that you are asking on the DOJ front. I hope that answers all the 3 questions that you asked?

Raghuram Selvaraju H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research & Senior Healthcare Analyst

Yes.

Operator

Our next question comes from Sayantan Maji of Crédit Suisse.



Anubhav Aggarwal *Crédit Suisse AG, Research Division - Associate*

Uday, this is Anubhav here. Question is on this discontinuation of these branded products. What kind of savings it will result in SG&A and R&D, in particular?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

So I think the way we've looked at this business, Anubhav, clearly, that's a business that we are interested in. But given where we are, I think, it was probably most appropriate for us to not continue the business in the shape and form it was today. I think it does result or I would say, the decision was based on the overall strategic and financial evaluations. So there is some benefit, which will come to the business. Again, I think giving out specifics by business is something that we haven't done, so it constrains me from giving any numbers here. But there is, I would say, a marginal benefit to sort of having taken this decision.

Anubhav Aggarwal *Crédit Suisse AG, Research Division - Associate*

So just trying to understand, so you had sales team of certain sites, that sales team will remain or that you will not have any team? And on the R&D side, you are spending 20% on the proprietary products so that's on the -- so will you continue with the 20% of R&D investment? And you still have sales stream? Or sales team has gone?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

So the sales team is gone as of March. I don't know if we've ever shared in the past the proportion that you are talking about. But as I mentioned in the response to the earlier -- so in the earlier question -- to the earlier question, we do spend some amount of money on developing NDA products, but some of these products are sort of likely to hit the market over the longer term, nothing immediate. And that sort of effort continues for us.

Operator

(Operator Instructions) Our next question comes from Shyam Srinivasan of Goldman Sachs.

Shyam Srinivasan *Goldman Sachs Group Inc., Research Division - Equity Analyst*

This is Shyam from Goldman. Just quick question on the competitive landscape. We have seen a number of the Indian players starting to now get enter the derm part of the market. So can you just throw a little bit of light on what are you seeing in terms of the competitive intensity? You have still done pretty good in terms of volume growth for the last 3 years, like you said. So what's the outlook as we look forward into the next fiscal?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

Sorry, there was -- I missed first part of -- first half of your question. Can you repeat that, please?

Shyam Srinivasan *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Yes. So Uday, I was just talking about Indian competitors. You have seen a lot of them starting to get approvals for derm products and starting to launch in the space over the last 6, 12 months. So I just wanted to understand from you, how the competitive landscape is? Is it getting worse? Better? And you have -- despite that you seem to be growing volumes, so what's the plan for the growth as we look forward?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

So as I think, Mr. Shanghvi also indicated in his comments and I also indicated in my comments, I think, the market remains extremely competitive, and what you're saying is absolutely correct. There are companies who are continuing to look for opportunities and get approvals for a lot of topical products. And I think that's what we are seeing in the marketplace. The competition for market share as well as price declines, it sort of continues. There is sort of no respite the way we are seeing the data and we are seeing the things happen. For me to give you a specific indication of, let's say, what the growth or volume growth will be for the next year or out, I think, it's difficult. I have to say that we've done well. But how things will shape out in the future, given all of this competition that continues, is difficult for me to sort of say clearly.

Shyam Srinivasan *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Got it. And my second question is on R&D. So with kind of re-basing of R&D that has happened, do you think this is the level like 9% of sales is the right level that we need to think forward? Or you think it will be more dependent on the product specifics?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

Yes, I think -- I wouldn't look at R&D as sort of a re-basing. I have to say that all projects that we find worthwhile are funded. And to the extent that there is, at the end, let's say, for a deterioration in the overall economics of the industry, there are obviously lesser number of products that we find justifiable. And to that extent, we continue to adjust the portfolio that is under development. I wouldn't give a specific number either in absolute terms or relative to sales which is right or a wrong number. I think we continue to ensure that we have a good pipeline for bringing products to market in the future.

Shyam Srinivasan *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Got it. And my last question is to Mariano on the effective tax rate. I think we have seen fiscal -- the '18/'19 at a specific rate. Just want to understand how we should be modeling it for the next fiscal?

Mariano Balaguer *Taro Pharmaceutical Industries Ltd. - CFO, CAO & VP*

I think when you look at our tax, last year was a very complex year with all the new regulations in place. I will take probably a longer view on the history of Taro and understanding that our taxes affected sometime because of a geographical mix where our growth is coming from. As you know, we don't give a specific guidance of any indicator either on the financial or growth perspective, but definitely important to see a longer perspective on how our tax rate has been performing.

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

Adding to what Mariano is saying, I think, Mariano and team continue to ensure that we look at all the tax optimization. I think in the current world, I think, there are lot of challenges, a lot of changes that keep happening on the tax laws. And I think his team continues to ensure that we remain on top of all of these developments and ensure that the organization is best placed. So I think looking at a specific number or a guidance would be difficult for us, but I think the team is continuing to evaluate all opportunities available.

Operator

Our next question comes from Neha Manpuria of JPMorgan.

Neha Manpuria *JP Morgan Chase & Co, Research Division - Analyst*

Sir, you mentioned we are open to reconsidering opportunities on the branded side, despite the recent discontinuation of selling branded products in the U.S. What according to you would be the sort of the right product mix that you mentioned? Or a few criteria that would make you reconsider the decision of entering branded market again? Just wanting to understand what's changed -- what would require for you to look at that market again?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

So -- and nothing has changed. So I think this has been our thinking for some time and sort of that continues. And just let me try and give you some pointers the way we are thinking about it. So I think being in the branded business and Taro, historically, has been in the branded business and, clearly, we have an interest there. So that's something that we would want to continue to explore, evaluate, invest. I think that doesn't change. This specific decision that we've taken on the branded business was given the situation we were in where we didn't have, let's say, new products or products that we can bring to the market immediately on the branded side and that, I would say, was sort of the overall evaluation that we did. But I think our interest in the branded business continues. So I think we would look at opportunities that leverage our core, our core development capabilities, the markets that we are present in as well as therapeutic area or segments where I think we would be able to make an impact with a limited kind of presence, limited kind of a sales force. I think some of those opportunities will continue to interest us. So we will continue to evaluate what opportunities we can sort of participate in going forward, and this thinking has not changed.

Operator

Our next question is a follow-up from Sayantan Maji of Crédit Suisse.



Anubhav Aggarwal *Crédit Suisse AG, Research Division - Associate*

Just one question. Can you just for the full fiscal '19 give indication about ex U.S. sales out of \$670 million?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

So I think, we do some disclosure as part of our 20-F. So I think, it would be appropriate for you and others to refer to the 20-F when it gets filed.

Anubhav Aggarwal *Crédit Suisse AG, Research Division - Associate*

But about an indication, has that business grown versus last year? Or gone down? Or gone up?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

Let's wait for 20-F.

Operator

Our next question comes from Girish Bakhru of Bank of America.

Girish Bakhru *BofA Merrill Lynch, Research Division - VP*

This is Girish. Just on the overall derm and topical contribution. Last year, I think, it was 65%. Can you share what would be the number right now?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

Again, I think there has been no dramatic change in our product portfolio, but I think, specific numbers to the extent that we disclose as part of our subsequent filing of the 20-F. I would sort of recommend you to refer that whenever it gets filed.

Girish Bakhru *BofA Merrill Lynch, Research Division - VP*

Okay. And in terms of the pressure like you have said, pipeline pressure is still very intense. Just -- I mean looking at your business, let's say, last year versus this year, from the concentration point of view, do you think the product concentration has significantly come down and perhaps the pressure to new competition type is lesser as before? Or is it like the same?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

No, I didn't understand the first part of your question. You said something about concentration? Can you help me understand that better?

Girish Bakhru *BofA Merrill Lynch, Research Division - VP*

Yes, yes. I mean, broadly, what I'm trying to echo is, has product concentration led the top 5 products from the U.S. come down for Taro from FY '18 to '19?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

I don't have specific numbers in front of me, but I don't think there has been any material change on that. That's the way I would look at it. I mean the growth that we have, let's say, or the performance that we have in the U.S. is pretty broad-based. It's not hinged on, let's say, any 1 or 2 products. I think it's pretty broad-based, whatever is the performance that we have delivered. And this is across all markets, including U.S.

Girish Bakhru *BofA Merrill Lynch, Research Division - VP*

Right. And in terms of the R&D, would you be able to share number of projects that are in R&D right now? Number of products?

Uday V. Baldota *Taro Pharmaceutical Industries Ltd. - CEO & Director*

That is something that would be difficult for us to share because you also understand that the portfolio is under constant evaluation. And to that extent, I think, there are additions that we do, but there are also probably some products that we drop. So I think, that's sort of always a number that keeps moving.

Operator

Our next question comes from Sameer Baisiwala of Morgan Stanley.

Sameer Baisiwala Morgan Stanley, Research Division - Executive Director

Uday, quick question on geographic diversification. Are you looking out of U.S., Canada and Israel?

Uday V. Baldota Taro Pharmaceutical Industries Ltd. - CEO & Director

So we have, I would say, a small presence even outside of these 3 territories. We continue to evaluate opportunities of sort of how do we increase our presence there. But I have to admit that given the product portfolio that we have and, let's say, things on our plate as far as these 3 markets are concerned, I wouldn't expect any dramatic shift or change in terms of the proportion of revenues very soon.

Sameer Baisiwala Morgan Stanley, Research Division - Executive Director

Okay. On R&D slide, Uday, when you are evaluating the projects and the products, is it the new patent expiries that you see over next, say, 3, 5, 7 years that makes you excited? Or are we going after drugs which are already generic and there already is some competition?

Uday V. Baldota Taro Pharmaceutical Industries Ltd. - CEO & Director

I think it's a mix, Sameer. There are products that clearly have a patent expiry in the future. And to that extent, our team sort of finds value in pursuing some of those opportunities. But there would be probably some products in our development pipeline, which are sort of opportunities even if they had patent expiry in the past. So it will be a mix.

Sameer Baisiwala Morgan Stanley, Research Division - Executive Director

Okay. Uday, 7.5% volume gains that you've reported for the full year, are you seeing exits by the incumbents? I guess this is more about market share gains? Or is it about the product -- the category expansion?

Uday V. Baldota Taro Pharmaceutical Industries Ltd. - CEO & Director

It's probably both and also probably a third component, let's say, new product that we would have launched, products that we would have got from parties and we would have brought to market. So it's a mix of all of this.

Sameer Baisiwala Morgan Stanley, Research Division - Executive Director

But Uday, specifically, are you seeing any material exits from the incumbents? I mean you obviously know that some companies are selling down their portfolios or shutting down their manufacturing sites. So have you started to see on the ground impact of that?

Uday V. Baldota Taro Pharmaceutical Industries Ltd. - CEO & Director

I would say part of the performance that we see during the year is also on account of some of the opportunities that we've got when, let's say, there is a supply disruption in the marketplace on account of -- it could be several factors. But ultimately, if there is a supply disruption and if we have, let's say, an opportunity to ensure that we can sort of take that or supply to our customers to ensure that they overcome that kind of a challenge, there have been those benefits also. In terms of the overall exits, if there has been a volume impact? I don't have the data for me to share, but the volume growth as far as the overall market is concerned has not been sort of anything to really talk about.

Sameer Baisiwala Morgan Stanley, Research Division - Executive Director

Got it. So it's not about the category or the molecule expansion, it's more about taking someone's share? If I've understood correctly.

Uday V. Baldota Taro Pharmaceutical Industries Ltd. - CEO & Director

At least -- No, yes, at least, as far as the overall market is concerned. For the set of products that we have, the behavior may have been a bit different. But as far as the overall market is concerned, I don't see any dramatic volume growth.

Sameer Baisiwala Morgan Stanley, Research Division - Executive Director

One final question from my side. When we talk about -- when you talk about the price erosion and you expect that to continue, does it necessarily happen when there is a new approval for the same product? Or put it other way, more approval per product sort of a situation, but even without that, the customers demand some sort of price cut on the portfolio.

Uday V. Baldota Taro Pharmaceutical Industries Ltd. - CEO & Director

I think, clearly, when there is a new entrant, there is an impact. But I think what we've seen over the last 3, 4 years, there has been a dramatic decline in prices and that trend continues. What is the key driver? It's sometimes not very clear to us as well, but there is a continued pressure for sure.

Operator

Our next question comes from Rahul Deshmukh.

Rahul Deshmukh

Again, Rahul Deshmukh, I had been on the call in the past couple of times and asked a few questions, a private investor here. So actually, I have 2 questions. One around value creation and the second around DOJ investigation. So let me first ask the DOJ question and follow-up on a question that was previously asked. Do we know that the employee that was implicated in that filing still works for Taro? I mean that should be a simple question to answer. And my second part of the question is, unfortunately, as a private investor, with Sun having a lot of corporate governance issues back in India for various reasons, why should we feel that the litigation that has been brought forward by the DOJ should be considered without merit and it should be -- it will be vigorously defended because most often than not, majority of the companies that I know in U.S. have settled with DOJ or SEC around are such similar situations. So why should we feel that way and, especially, as a private investor, it is important for me to know that. That's one question.

Uday V. Baldota Taro Pharmaceutical Industries Ltd. - CEO & Director

Thank you. I think continuing, sort of, on the response that I gave to a similar question earlier on the entire DOJ matter and specific questions that you are raising in context of the parent entity, I think, whatever we had to say is contained in my comments that I gave out earlier. At this stage, I think it's difficult for me to sort of share anything more. And I understand your situation, but for us, I think all investors are equally important. And to the extent that we haven't shared this information, I think to that extent, it will be difficult for me to sort of share this information on the call.

Rahul Deshmukh

Okay. I appreciate. A valid from your -- second question is regarding value creation that Taro has emphasized and looked at. I'm a long-term investor, but not super long, not the 2009, 2010 period, but '13, '14 period. And Taro throughout has emphasized value creation and talking about when the opportunities are right, we will acquire companies and so on and so forth. You look for the right opportunity. Right now the pharma market seems to be really in -- with the headwinds, in a relatively poor shape overall. And I'm just not understanding -- again, this is in comparison to the parent company, which also is on Taro management and, in fact, is managing Taro, that the parent company has been successful in finding acquisitions, getting something. And Taro with \$1.4 billion in cash on their hand today and building and getting 0% interest, has not managed to find anything after so many years. And to add to the value component, when we look at the Taro's stock price, again from a private investor perspective who has very little say in this, stock price compared to S&P, Taro from 2013, 2014 is relatively flat or in fact negative, despite having \$1.4 billion in cash, whereas S&P, Dow and other things, have at least, I mean, with all the volatility, has at least risen 50%, 70%. So if you look at Taro from 2014 as a long-term investor, 5 years for a private investor is long term when we have absolutely no say. Taro really hasn't added any significant value for its shareholders, especially when you look at it from a very broad perspective. So I would like your thought on what exactly do you mean by value creation and how exactly is Taro going to create value for all investors, for the parent company for sure, but for private investors whose only value creation happens when the share price appreciates at some point. It should appreciate on and on, but that hasn't happened with Taro over the long period of time.

Uday V. Baldota Taro Pharmaceutical Industries Ltd. - CEO & Director

Thank you for your question. First of all, let me admit that the strategy that the parent follows and what it executes, I think, that's difficult for me to respond too. I think that's something that Sun Pharma and its, sort of, call or communication will need to address. So I won't be able to address that part. As far as Taro is concerned, I think over the years and this is not only since the time that I have joined, but I can assure you that over the years, I think, Taro has evaluated several opportunities, small and big. And the only reason why Taro hasn't executed a deal of, let's say, a meaningful value or too many deals is probably because there has been very little strategic or financial justification for whatever it has evaluated. So I think we continue to remain disciplined. We continue to ensure that there has to be a

strong strategic and business and value financial justification. So we continue to work on that. We're not giving up. As I said that we are very much interested in, while developing our own portfolio of products, but also working for in licensing, acquisitions, out licensing, whatever way that we can expand Taro's present portfolio segment, geographies, I think we will continue to work for that. As far as, let's say, your own personal portfolio is concerned, I think, it's difficult for me to, again, say anything as to how and why people or where they should invest. I think that's more of individual or a fund decision as to where they put their money in. I have to without sort of sounding arrogant or anything, I have to certainly point out that part of the discipline that the Taro board has emphasized for the Taro management team to ensure how the capital is used and allocated. I have to say that while your comparison was the S&P, the general index, but clearly, I think, if you look at maybe the health care index for comparable peers, I think, Taro continues to do reasonably well. It hasn't -- I think that will probably be the more appropriate comparison. Again, this is not to say anything, I think, we continue to look for opportunities. We want to ensure that we put the \$1.35 billion to good use. It's just that we haven't found the right use. Just a point of correction on the 0 interest rate comment that you made. I think, Mariano and team, the entire finance team, ensures that all the money that we have earns the highest possible rate of interest, ensuring capital safety, capital preservation. And I think that's something that you see in our P&L quarter-over-quarter, even in the full year, but I think there is a reasonable amount of earning that we have. Again, that's not the intent, that's not the long-term purpose. The idea is to invest this business -- invest this money in the business, but while we find the right opportunity, I think, the money is being put to the best possible use that sort of we can. I hope sort of that answers your question.

Operator

(Operator Instructions)

There are no further questions. Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone, have a great day.

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