

Navigating Change

Budgeting in an Era of Uncertainty

November 2023

Erna Slana

The leading commercialization partner for CEE

60+ pharma & biotech partners

200+ pharmaceutical products in our portfolio

Great employer to 400 employees

Sustainable growth

17% average annual revenue growth over the last 5 years

€138M annual sales in 2023

Our growth is driven by our **in-depth knowledge of local markets, highly skilled teams and operational excellence**



Our Expertise

Undisputed pharma expert for CEE markets

We are a **trusted partner to global pharmaceutical companies**, supporting them in establishing and maintaining a strong presence in complex and very diverse region of **Central and Eastern Europe**.

With our **expertise** we ensure that our partners' products reach patients.



Agenda

Topics Covered

Introduction

Uncertainty is a constant.

Economic Cycle

The 4 seasons of business activity.

Budgeting in an Era of Uncertainty

Volatility and uncertainty are the name of the game now.

Inflation Challenges

The Good and the Bad.

Leveraging Modern Technology

Automated process and better decision making.

Agile Financial Architecture

Pivotal role in budgeting for driving success.

Case 1: Managing PnL Budget

Case 2: Managing WC Budget

Introduction

Uncertainty is a constant.



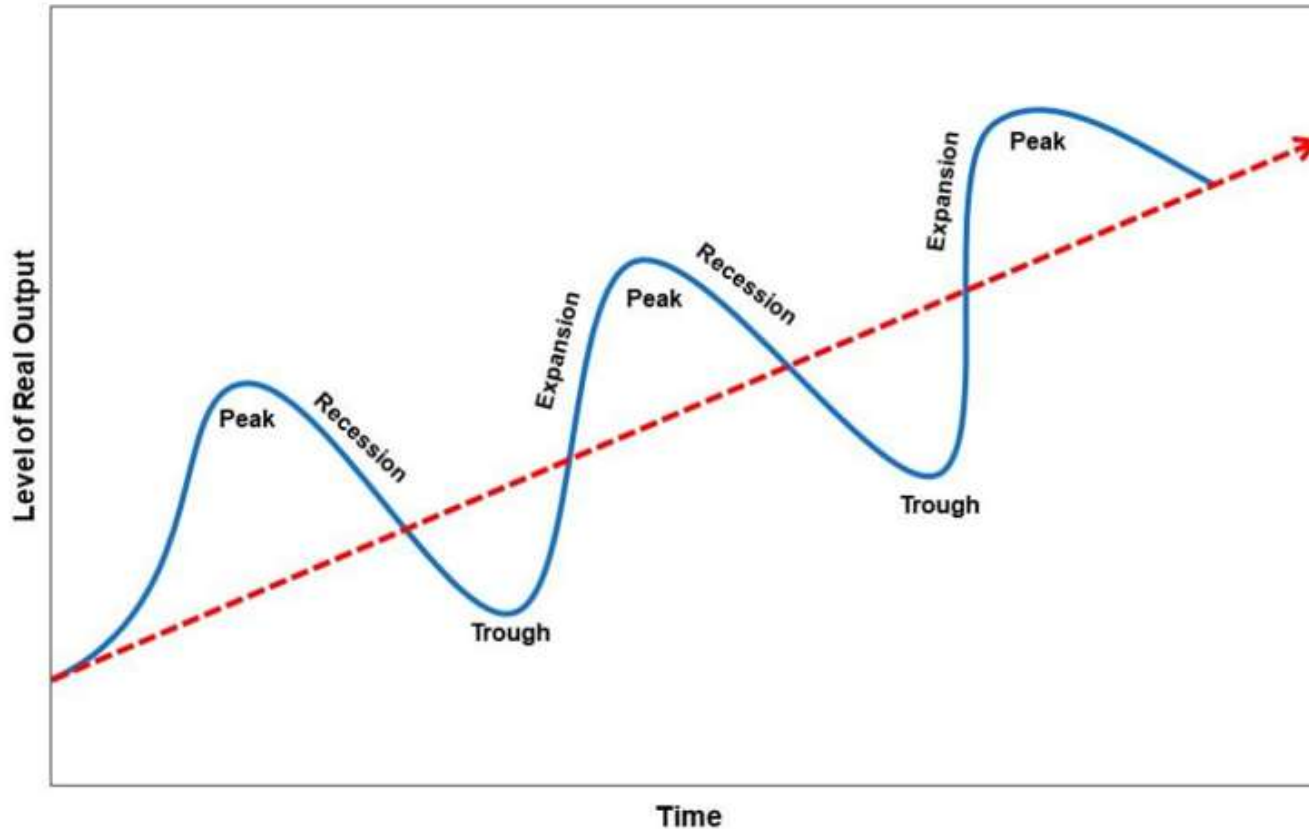
The phrase "**the certainty of uncertainty**" often refers to the paradoxical or inherent certainty that comes with acknowledging the uncertainty of a situation or outcome. It suggests an acceptance or understanding that **uncertainty is a constant in life**, and by acknowledging it, one can approach decisions or situations with a certain level of certainty about the unpredictability.

We worry all the time because **something new and unexpected is always happening**. But we need to stop worrying about it. Like our young colleagues who are just starting out, we have to accept this situation as normal, as the norm. **This is our normality now.**

Economic Cycle

Understanding stages of cycle.

Factors such as **gross domestic product (GDP)**, **interest rates**, **inflation rate**, **total employment**, and **consumer spending** can help determine the current stage of the economic cycle.



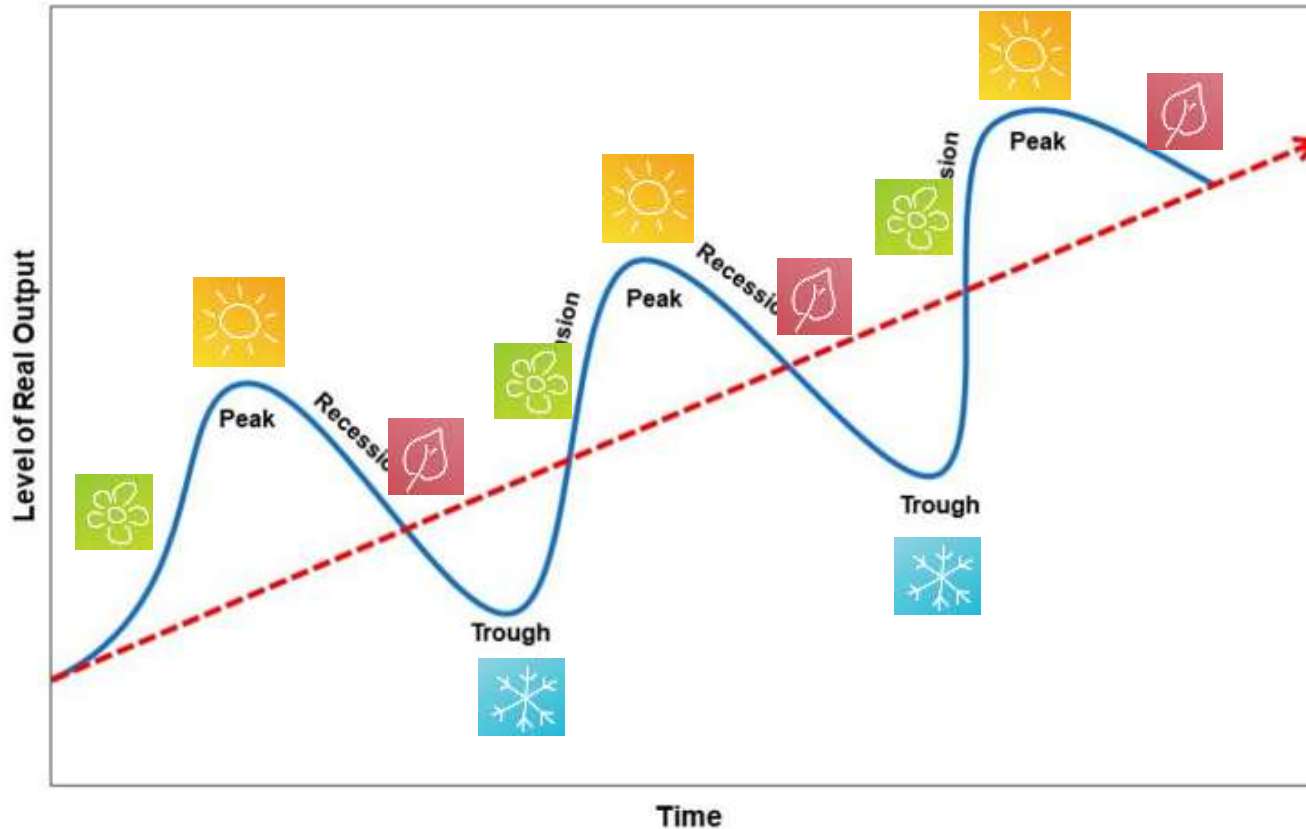
The peak of a cycle is when growth hits its maximum rate, it is the highest point between the end of an economic expansion and the start of a contraction in a business cycle.

The trough of a cycle is when a recession ends and economic recovery or expansion begins. It is the lowest point between the end of a contraction and the start of economic expansion in a business cycle.

The Ups and Downs of Cycles

The 4 seasons of business activity.

Economic cycles are like the **financial equivalent of seasons**.



Just like the weather, we have our peaks when everyone's feeling on top of the world – think **summer vacation**.

Then, of course, there are the troughs, the **financial winters**, where we all huddle for warmth and wonder if we should have invested in that metaphorical economic sweater.

Budgeting in an Era of Uncertainty

Volatility and uncertainty are the name of the game now.



For most businesses, **the days of steady, predictable revenue and earnings growth are long gone**. Volatility and uncertainty are the name of the game now.

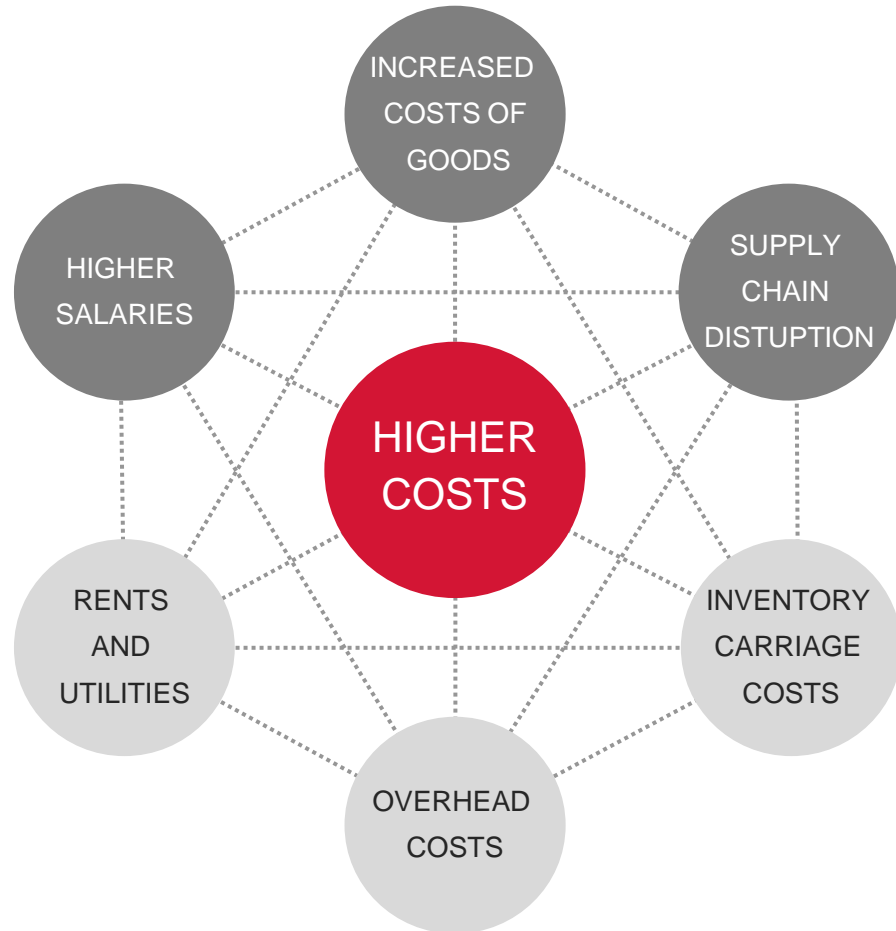
To succeed, companies **must react more quickly** to rapidly changing conditions. Flexibility and agility are in, bureaucratic hierarchies and long-term planning cycles are out.

To win in this new age of uncertainty, finance must **do away with long budgeting cycles and rigid, overly detailed budgets**. Even if a fundamental rethink of budgeting is not possible right now, **several practical improvements can bring relief to the finance organization**—and, by extension, to the entire business.

Effects of Inflation on Business

The Good and The Bad.

How Does Inflation Affect Businesses **Negatively**?

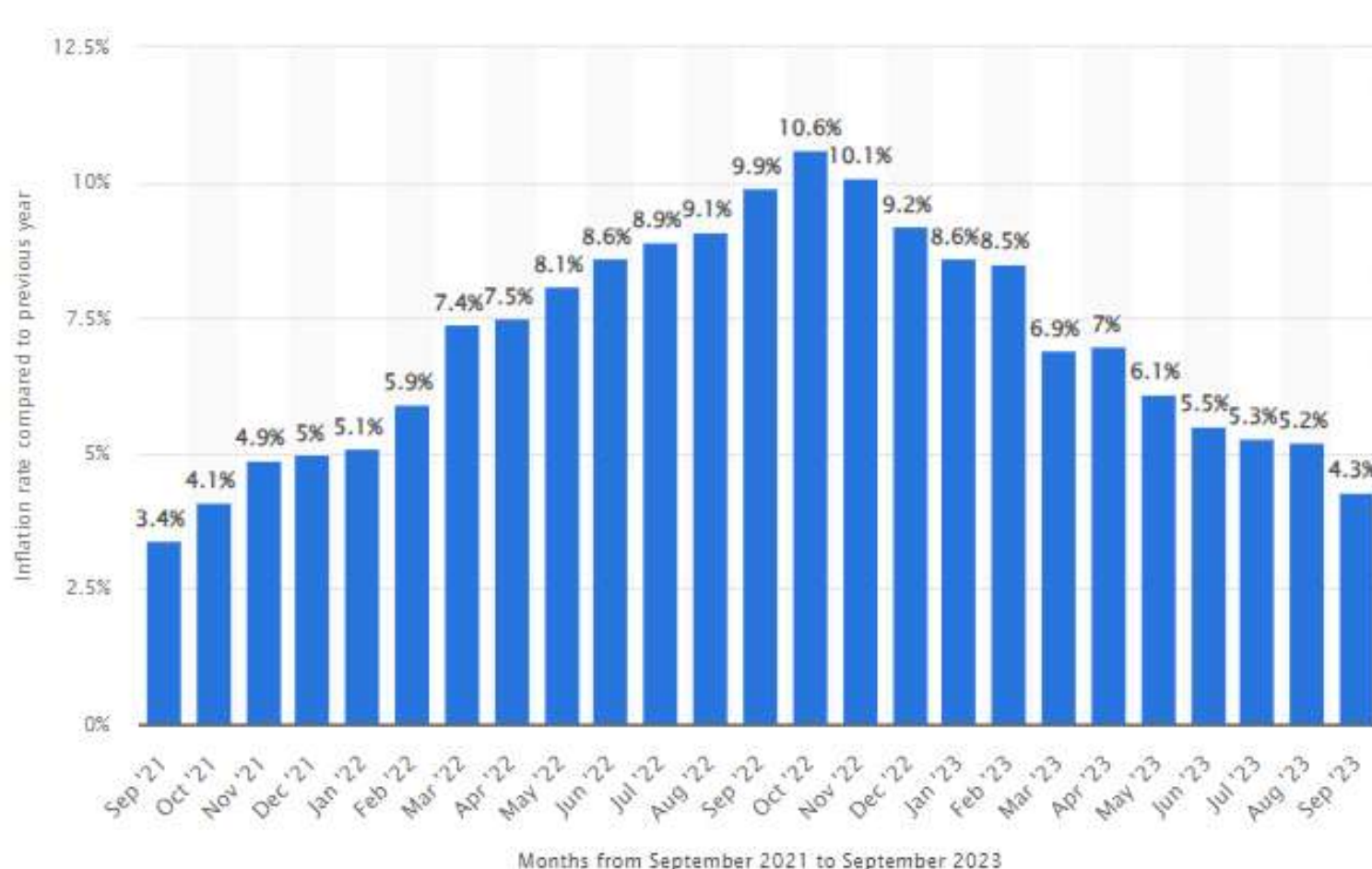


How Does Inflation Affect Businesses **Positively**?

- Price increase **grow revenue**
- **Reduction in unemployment** (in some cases)
- **Margins improve** on existing inventory
- Can make **old debt cheaper**
- **Increased employee costs**

Inflation statistics

The euro area annual inflation rate 4.3% in sep23.



The euro area annual inflation rate was 4.3% in September 2023, down from 5.2% in August. A year earlier, the rate was 9.9%. European Union annual inflation was 4.9% in September 2023, down from 5.9% in August. A year earlier, the rate was 10.9%. 18. okt. 2023

Inflation Challenges

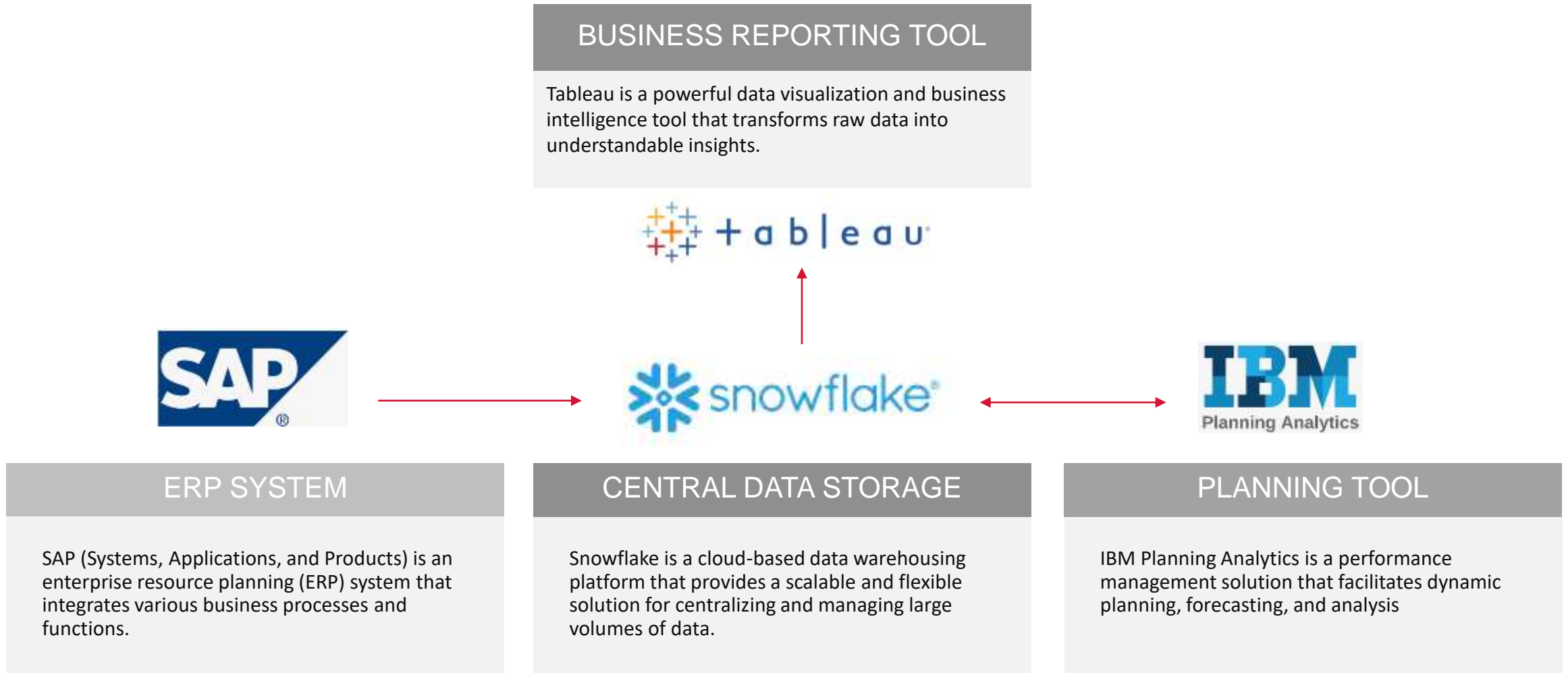
Key strategies to Counter Rising Costs.



- Implementing **cost-effective measures**
- negotiating **favorable contracts with suppliers**
- optimizing **operational efficiency to control costs**
- exploring **alternative sourcing options**
- regularly reviewing and adjusting **pricing models**
- Exploring **financial hedging strategies** to mitigate the impact of inflation on the company's bottom line

Leveraging Modern Technology

Automated process and better decision making.



Agile Financial Architecture

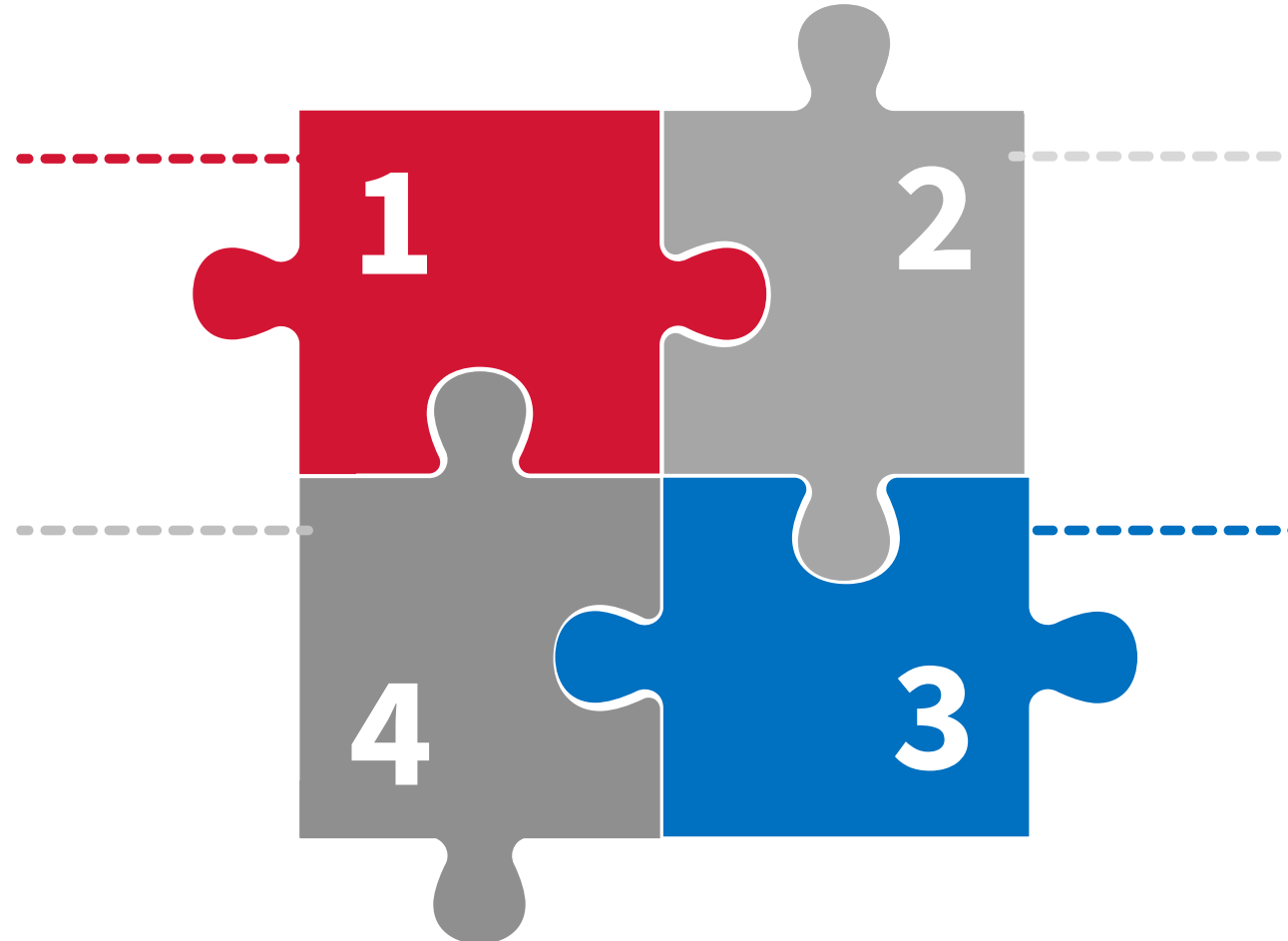
Pivotal role in budgeting for driving success.

Sales and Purchase

Sales and Purchase conditions (prices, discounts, bonus, quantities etc.).

Working capital

Managing working capital with current asset/ current debts and retained profits to healthy support company's growth.



OPEX

Setup of variable and fix Opex recognized as important for the company.

Profit and Loss

View of Sales Margin with Opex give us picture of company's profit

Structure of Sales and Purchase Price

Prices as the most important part of Margin.

M01 - Net Sales (P1000)
Net Sales (P1001)
Gross Sales (P1689)
Discount (P1004)
Bonuses in Sales (P1006)
Customs Deviation (P1022)
Costs of Goods Sold (P1011)
Cost of Goods Sold (COGS) (P1012)
COGS Distributor (P1569)
COGS Distributor_Natural Rebates (P1121)
COGS Deviation (P1013)
Inventory Deviation (P1014)
Transport Purchase (P1020)
Clawback Tax (P1025)
Deviation in Purchasing Goods (P1028)
Price Reconciliation (P1513)
FOC Reimbursement (P1908)
Tax Reimbursement (P1910)
Inventory Nivelation (P1030)
Commission (P1033)
Bonus in Purchase (P1036)
FX Compensation (P1042)
Inventory Write-off (P1290)
M02 - SM - Sales Margin Value (P1010)
M02 - SM - Sales Margin % (P1010)

Sales Price is connected with the **Customer and Sales Contract Conditions**. Purchase Price is connected with the **Supplier and Purchase's Contract conditions**. Revenues and Costs as the most important part of Margin are shown in the structure of PnL.

Structure of Profit and Loss

OPEX as very important part of Profit.

Net Sales
Costs of Goods Sold
Sales Margin
OPEX - Total
OPEX_VAR_Net Total
SBU Marketing Investments Total
SBU Market Access & Medical& Promotion & Business Dev.
SBU Staff SBU Local
SBU Staff SBU Global
BO Business Operations/Areas Total
BO SC_Supply Chain
BO RA_Regulatory Affairs
BO QA_Quality Assurance
BO CM_Corpo Marketing and Public Relations
BO EC_Ethics and Compliance
OPEX_FIX_Net Total
BO HM_Human Resources
BO ID_Information Systems and Digitalization
BO AP_Asset Protection and Administration
BO FA_Finance and Controlling
BO MB_Management and Organization
Financing
Gross Profit
Net Profit

Alignment with a business is crucial for PnL budget. Company is **balancing between Sales Margin and Opex**, from registration of product to sales.

Case 1: Managing PnL Budget

Current Data Overview - from Sales to Profit.

	Budget	% in Sales
Net Sales	46.091.498	100,0%
Costs of Goods Sold	-33.728.595	-73,2%
Sales Margin	12.362.904	26,8%
OPEX - Total	-9.771.644	-21,2%
OPEX_VAR_Net Total	-7.909.189	-17,2%
SBU Sales and Marketing Investments Total	-6.233.303	-13,5%
SBU Mark.Access & Medical & Promotion & Bus.Dev.	-1.911.010	-4,1%
SBU Staff SBU Local	-2.654.591	-5,8%
SBU Staff SBU Global	-1.667.702	-3,6%
BO Business Operations/Areas Total	-1.675.886	-3,6%
BO SC_Supply Chain	-1.136.437	-2,5%
BO RA_Regulatory Affairs	-255.669	-0,6%
BO QA_Quality Assurance	-101.268	-0,2%
BO CM_Corpo Marketing and Public Relations	-106.828	-0,2%
BO EC_Ethics and Compliance	-75.684	-0,2%
OPEX_FIX_Net Total	-1.862.455	-4,0%
BO HM_Human Resources	-120.904	-0,3%
BO ID_Information Systems and Digitalization	-596.956	-1,3%
BO AP_Asset Protection and Administration	-670.883	-1,5%
BO FA_Finance and Controlling	-298.866	-0,6%
BO MB_Management and Organization	-174.846	-0,4%
Financing	-97.948	-0,2%
Gross Profit	2.493.312	5,4%
Net Profit	1.994.650	4,3%

Managing inflation and purchase prices

Effect of higher prices on COGS and Distribution.

	Budget	% in Sales	Budget	% in Sales	Changes %
Net Sales	46.091.498	100,0%	46.091.498	100,0%	0,0%
Costs of Goods Sold	-33.728.595	-73,2%	-34.740.453	-75,4%	3,0%
Sales Margin	12.362.904	26,8%	11.351.046	24,6%	-8,2%
OPEX - Total	-9.771.644	-21,2%	-9.822.783	-21,3%	0,5%
OPEX_VAR_Net Total	-7.909.189	-17,2%	-7.960.329	-17,3%	0,6%
SBU Sales and Marketing Investments Total	-6.233.303	-13,5%	-6.233.303	-13,5%	0,0%
SBU Mark.Access & Medical & Promotion & Bus.Dev.	-1.911.010	-4,1%	-1.911.010	-4,1%	0,0%
SBU Staff SBU Local	-2.654.591	-5,8%	-2.654.591	-5,8%	0,0%
SBU Staff SBU Global	-1.667.702	-3,6%	-1.667.702	-3,6%	0,0%
BO Business Operations/Areas Total	-1.675.886	-3,6%	-1.727.026	-3,7%	3,1%
BO SC_Supply Chain	-1.136.437	-2,5%	-1.187.577	-2,6%	4,5%
BO RA_Regulatory Affairs	-255.669	-0,6%	-255.669	-0,6%	0,0%
BO QA_Quality Assurance	-101.268	-0,2%	-101.268	-0,2%	0,0%
BO CM_Corpo Marketing and Public Relations	-106.828	-0,2%	-106.828	-0,2%	0,0%
BO EC_Ethics and Compliance	-75.684	-0,2%	-75.684	-0,2%	0,0%
OPEX_FIX_Net Total	-1.862.455	-4,0%	-1.862.455	-4,0%	0,0%
BO HM_Human Resources	-120.904	-0,3%	-120.904	-0,3%	0,0%
BO ID_Information Systems and Digitalization	-596.956	-1,3%	-596.956	-1,3%	0,0%
BO AP_Asset Protection and Administration	-670.883	-1,5%	-670.883	-1,5%	0,0%
BO FA_Finance and Controlling	-298.866	-0,6%	-298.866	-0,6%	0,0%
BO MB_Management and Organization	-174.846	-0,4%	-174.846	-0,4%	0,0%
Financing	-97.948	-0,2%	-97.948	-0,2%	0,0%
Gross Profit	2.493.312	5,4%	1.430.315	3,1%	-42,6%
Net Profit	1.994.650	4,3%	1.144.252	2,5%	-42,6%

← +1 M EUR, +3,0%, COGS

← +50 K EUR, +4,5%, OPEX

← -850 K EUR, -42,6%, PROFIT

Adapting to inflation

Opex for services and staff still growing.

	Budget	% in Sales	Budget	% in Sales	Changes %
Net Sales	46.091.498	100,0%	46.091.498	100,0%	0,0%
Costs of Goods Sold	-33.728.595	-73,2%	-34.740.453	-75,4%	3,0%
Sales Margin	12.362.904	26,8%	11.351.046	24,6%	0,0%
OPEX - Total	-9.771.644	-21,2%	-9.885.694	-21,4%	0,6%
OPEX_VAR_Net Total	-7.909.189	-17,2%	-7.948.741	-17,2%	-0,1%
SBU Sales and Marketing Investments Total	-6.233.303	-13,5%	-6.215.093	-13,5%	-0,3%
SBU Mark.Access & Medical & Promotion & Bus.Dev.	-1.911.010	-4,1%	-1.719.909	-3,7%	-10,0%
SBU Staff SBU Local	-2.654.591	-5,8%	-2.760.774	-6,0%	4,0%
SBU Staff SBU Global	-1.667.702	-3,6%	-1.734.410	-3,8%	4,0%
BO Business Operations/Areas Total	-1.675.886	-3,6%	-1.733.648	-3,8%	0,4%
BO SC_Supply Chain	-1.136.437	-2,5%	-1.187.577	-2,6%	4,5%
BO RA_Regulatory Affairs	-255.669	-0,6%	-265.896	-0,6%	4,0%
BO QA_Quality Assurance	-101.268	-0,2%	-105.319	-0,2%	4,0%
BO CM_Corpo Marketing and Public Relations	-106.828	-0,2%	-96.145	-0,2%	-10,0%
BO EC_Ethics and Compliance	-75.684	-0,2%	-78.712	-0,2%	4,0%
OPEX_FIX_Net Total	-1.862.455	-4,0%	-1.936.953	-4,2%	4,0%
BO HM_Human Resources	-120.904	-0,3%	-125.741	-0,3%	4,0%
BO ID_Information Systems and Digitalization	-596.956	-1,3%	-620.834	-1,3%	4,0%
BO AP_Asset Protection and Administration	-670.883	-1,5%	-697.718	-1,5%	4,0%
BO FA_Finance and Controlling	-298.866	-0,6%	-310.820	-0,7%	4,0%
BO MB_Management and Organization	-174.846	-0,4%	-181.840	-0,4%	4,0%
Financing	-97.948	-0,2%	-97.948	-0,2%	0,0%
Gross Profit	2.493.312	5,4%	1.367.404	3,0%	-4,4%
Net Profit	1.994.650	4,3%	1.093.923	2,4%	-4,4%

← +1 M EUR, +3,0%, COGS
← +50 K EUR, +4,5%, OPEX

← -900 K EUR, -45,2%, PROFIT

Managing sales prices and quantity

Higher sales price +2,7% will cover COGS and Opex.

	Budget	% in Sales	Budget	% in Sales	Changes %
Net Sales	46.091.498	100,0%	47.335.969	100,0%	2,7%
Costs of Goods Sold	-33.728.595	-73,2%	-34.740.453	-73,4%	3,0%
Sales Margin	12.362.904	26,8%	12.595.516	26,6%	1,9%
OPEX - Total	-9.771.644	-21,2%	-9.885.694	-20,9%	1,2%
OPEX_VAR_Net Total	-7.909.189	-17,2%	-7.948.741	-16,8%	0,5%
SBU Sales and Marketing Investments Total	-6.233.303	-13,5%	-6.215.093	-13,1%	-0,3%
SBU Mark.Access & Medical & Promotion & Bus.Dev.	-1.911.010	-4,1%	-1.719.909	-3,6%	-10,0%
SBU Staff SBU Local	-2.654.591	-5,8%	-2.760.774	-5,8%	4,0%
SBU Staff SBU Global	-1.667.702	-3,6%	-1.734.410	-3,7%	4,0%
BO Business Operations/Areas Total	-1.675.886	-3,6%	-1.733.648	-3,7%	3,4%
BO SC_Supply Chain	-1.136.437	-2,5%	-1.187.577	-2,5%	4,5%
BO RA_Regulatory Affairs	-255.669	-0,6%	-265.896	-0,6%	4,0%
BO QA_Quality Assurance	-101.268	-0,2%	-105.319	-0,2%	4,0%
BO CM_Corpo Marketing and Public Relations	-106.828	-0,2%	-96.145	-0,2%	-10,0%
BO EC_Ethics and Compliance	-75.684	-0,2%	-78.712	-0,2%	4,0%
OPEX_FIX_Net Total	-1.862.455	-4,0%	-1.936.953	-4,1%	4,0%
BO HM_Human Resources	-120.904	-0,3%	-125.741	-0,3%	4,0%
BO ID_Information Systems and Digitalization	-596.956	-1,3%	-620.834	-1,3%	4,0%
BO AP_Asset Protection and Administration	-670.883	-1,5%	-697.718	-1,5%	4,0%
BO FA_Finance and Controlling	-298.866	-0,6%	-310.820	-0,7%	4,0%
BO MB_Management and Organization	-174.846	-0,4%	-181.840	-0,4%	4,0%
Financing	-97.948	-0,2%	-97.948	-0,2%	0,0%
Gross Profit	2.493.312	5,4%	2.611.874	5,5%	4,8%
Net Profit	1.994.650	4,3%	2.089.499	4,4%	4,8%

← +1 M EUR, +3,0%, COGS

← +50 K EUR, +4,5%, OPEX

← +100 K EUR, +4,8%, PROFIT

Structure of Working Capital

Managing Working capital for Cash flow assurance.

Working Capital (Value)

Inventory (Value)

Receivables (Value)

Payables (Value)

DWC - Days of Working capital Turnover

DIO - Days of Inventory Turnover

DRO - Days of Receivables Turnover

DPO - Days of Payables Turnover



Working capital is an indicator of the short-term financial position that measures **the overall efficiency of an organization**. Working capital represents **the money required to fund the annual operating cash flow**.

Managing Working Capital

Cash flow assurance from business.

Managing Receivables – Payables by Countries and Customers/Suppliers, as value and as days turnover

SALES	RECEIVABLES	Receivables in Sales	DRO Days Receivables Outstanding	Bank Insurance	Action Plan
2023 3,8 m€	31.10.2023 947 k€	24,8 %	31.10.2023 90 days	31.10.2023 630 k€	-retain the same conditions
5y CAGR 28,7 %	5y CAGR 15,4 %			66,5 %	

Managing Inventory by Suppliers and Business Units, as value and as days turnover

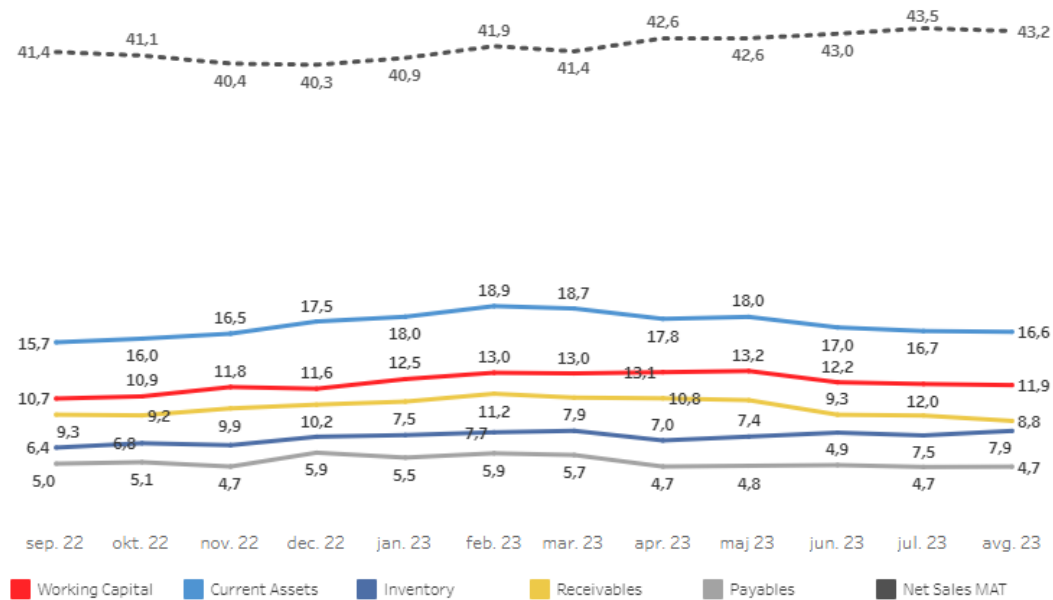
H3_L1	ED 0M - 6M	ED 6M - 12M	ED 12M - 24M	ED 24M+	No Expiry Date	Grand Total
Supplier1	4.868	51.061	319.512	775.563	288.630	1.439.634
Supplier2	0	0	3.623	17.589	0	21.211
Supplier3	12.219	174.742	1.468.643	820.073	1.397	2.477.074
Supplier4	1.384	92.570	1.400.877	1.982.626	18.414	3.495.872
Supplier5	1.052	170.333	221.544	0	45.048	437.977
Total	19.523	488.707	3.416.724	3.595.851	353.489	7.874.294

Case 2: Managing WC Budget

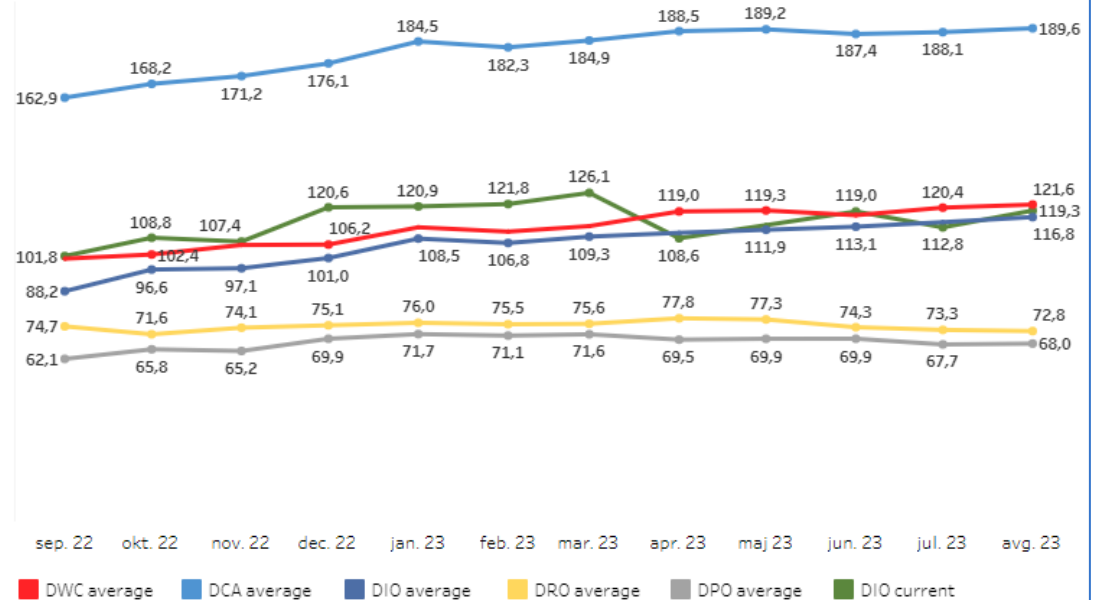
Challenges with the Working capital.

	MTD BDG	MTD ACT	MTD PY	MTD ACT / MTD BDG %	MTD ACT / MTD PY %
Working Capital current	11.306.290,4	11.919.872,4	9.749.275,3	5.43%	22.26%
Inventory current	6.730.029,2	7.874.294,2	6.362.416,2	17,00%	23,76%
Receivables current	10.874.349,6	8.755.631,6	8.517.211,3	-19,48%	2,80%
Payables current	6.298.088,4	4.710.053,5	5.130.352,2	-25,21%	-8,19%
DWC average	90,3	121,6	95,9	28,4%	24,2%
DIO average	82,1	116,8	85,0	42,33%	37,32%
DRO average	70,2	72,8	71,6	3,73%	1,75%
DPO average	62,0	68,0	60,7	9,68%	11,98%

Liquidity Value for SI11 - Medis d.o.o.



Liquidity Days for SI11 - Medis d.o.o.



Navigating Change into Budget with Confidence