Hikma Pharmaceuticals

Hikma Pharmaceuticals presentation delivered at the 43rd Annual J.P. Morgan Healthcare Conference on Monday, January 13, 2025 at 3:00 PM

James Gordon: Great. Good afternoon. I'm James Gordon, JPMorgan European Healthcare Analyst and I've got the pleasure of introducing this Hikma presentation today. We're going to hear from Hikma CEO, Riad Mishlawi. We've got 20 minutes for the presentation, 20 minutes for the Q&A.

As always, you could do your questions via the app or you can also raise your hand. That said, thanks a lot for joining us today, Riad.

Riad Mishlawi: Thank you very much. Is it on? Good afternoon. I'm Riad Mishlawi, the CEO of Hikma Pharmaceuticals. I've been in the CEO role for now a year, and I'm very excited to be here for the second time.

I have few things that I have to say. The legal team had put together that I have to say, so excuse me. Before I begin, I need to note that statements or comments made during this presentation may include forward looking statements.

Forward looking statements may include statements of the company plans, objectives, expectations, or intentions. These matters involve risks and uncertainties that the company actual results may differ significantly from those projected or suggested due to variety of factors.

With this out of the way, I'm going to start the presentation. I'll read through the presentation and open it for Q&A at the end. In this presentation, I will provide a brief overview of the business and update you on the strategic progress to date. Hikma is a diversified global generic pharmaceutical company with an impressive track record of revenue and profit growth.

Over the last five years, our revenue has grown at a CAGR of seven percent and EBITDA at a CAGR of eight percent. Over this time, we have consistently maintained an EBITDA margins over 28 percent, one of the highest margins amongst our peers.

We have achieved this while delivering strong cash generation and maintaining a solid balance

sheet. This impressive performance is a result of our unique business model, our extensive manufacturing footprint and our differentiated and growing portfolio.

We have four pillars supporting our strong investment case. These provide us with significant opportunities to drive growth and deliver value. Firstly, we benefit from our strong commercial teams and our high quality manufacturing operations, which truly differentiate us from competitors and deepen our growth.

At the same time, we are significantly increasing our investment in R&D and business development to expand our portfolio and build a differentiated pipeline. All of this provides us with the confidence in the future prospects for the group.

We have a proven record, proven track record of growth and value creation as well as a clear and ambitious strategy leading us forward. This is supported by our strong balance sheet, excellent cash generation, and history of impressive returns, which provides us with optionality to accelerate growth.

Let me take you through each of those pillars individually, highlighting some of the key accomplishments. Let's start with our unique business model and strong platform for growth. Today, Hikma is delivering annual revenue of close to $3 billion with strong EBITDA margins.

We have three world class businesses with leading market positions. We are the seventh largest generic pharma company in the US and the second largest in MENA. Injectables is our largest business, generating nearly half of our core operating profits.

This business manufactures and supplies sterile injectables across North America, MENA, and Europe, generating well over $1 billion in revenue and consistently delivering core operating margins of around mid-30s and above.

Branded is our MENA based business, which manufactures and sells branded generic and in licensed innovative products across the MENA region. We have operated in the region for over 45 years. We are uniquely positioned amongst our peers.

We have both a broad global footprint and a strong local history and presence. Recently, we have expanded branded core operating margins to the mid-20s. The demographics and the economics of MENA region offer a lot of growth potential, and we are well positioned to capture these opportunities and improve access to medicine across the region. Generics is our US non-

injectable business.

We supply a broad range of products to the US market and have expertise in more complex technologies, such as inhalation and nasal sprays. We are one of the largest suppliers of nasal sprays in the US, supplying all of that from Columbus, Ohio facility.

Across these three divisions, we have a broad and growing portfolio of products tailored to the needs of our markets supported by our extensive manufacturing footprint of 29 plants.

Over the years, Hikma had achieved its leading market position through both organic and inorganic growth. We have a track record of making value enhancing acquisitions that both complement and enhance our base business.

Most recently in September, we closed Xellia acquisition. This adds significant scale to our US injectable operations and, importantly, will support the long-term growth of the injectable business. It adds 8 approved and marketed products, including the ready-to-use Vanco Ready and 11 pipeline products.

It also enhances our R&D capabilities with the addition of an R&D center in Zagreb, Croatia, which brings a large team with expertise in complex products. Finally, it will significantly expand our high quality injectable manufacturing capacity with the addition of Cleveland, Ohio facility to our network.

This brings with it complex manufacturing technologies, including aseptic premix bag filling capabilities and a significant increase in lyophilisation capacity, which will further differentiate our business.

Turning to the second pillar of value creation, our portfolio and pipeline. Across the group, we have dialed up our focus on pipeline execution. We have strengthened our team in all three businesses and have been working on improving our R&D efficiency to ensure we are adding a sufficient number of new products to our pipeline.

We are working to increase the number of complex product submissions, such as specialty products, 505(b)(2), inhalation products, and nasal sprays. Across the group, we're increasingly leveraging our API manufacturing facility in Jordan to introduce vertically-integrated niche products, particularly for our oncology portfolio in MENA.

Today, we have more than 300 products in our pipeline and have a target of spending between six percent to seven percent of revenue on R&D. Looking at our R&D priorities by business segment, in the injectables, we will continue to expand our portfolio of conventional products, enhancing the breadth of our portfolio while also adding dosage forms that bring value to our customers, such as ready-to-use products.

Beyond this, we're also looking to add more products with higher complexity, such as long-acting injectables, suspensions, on products that use complex devices.

In the branded division, we are investing to grow our pipeline of oncology products and medicines used to treat chronic diseases, reflecting the high unmet needs across the region. We're also focusing on introducing first-to-market and first generic products. 75 percent of our top projects in MENA over the next five years are planned as first-to-market or first generic opportunities.

In the generic division, we continue to focus on building a balanced portfolio between simple and complex formulation to drive resilience and growth. We've had a record number of product submissions in 2024, and we continue to work on further enhancing our pipeline and building differentiation, including increasing the number of 505(b)(2) and other complex filings.

As I've highlighted in the previous slides, we have a strong platform with an expansive portfolio and increasingly differentiated pipeline. Underpinning this is our manufacturing strength, which enables us to consistently and reliably supply the growing needs of our customers and patients.

With all this in mind, I see great potential and differentiation for Hikma. We have a clear vision for the future in which we strive to continue to expand and deliver sustainable, profitable growth.

We've been successfully executing against our strategy, and I'm very pleased with the progress made since I took over in the CEO role. We're building momentum across all three businesses. We raised our group guidance in 2024 and are confident in continuing the growth beyond this.

Finally, we have strong financial position which underpins our confidence in the future. Our deep understanding of the industry, our portfolio breadth, and our operational expertise has enabled us to consistently deliver EBITDA margins around 28 percent over the last five years.

We also have strong balance sheet and excellent cash generation with firepower of around $1.5 billion giving us the optionality to accelerate our growth through inorganic opportunities.

We've also consistently delivered high returns with an average return on investment of about 17 percent over the last five years. We're well-positioned for the future and have a positive outlook for 2025. Thank you for listening, and now let's move to Q&A.

[applause]

James: Does anyone have a question they'd like to start with? I warn you, the app, it doesn't seem to be working. If you could raise your hand if you do have a question.

Maybe I'll start off with one then. I've had questions on a couple of divisions. If we could start with the injectables, I think it was in 2023 you hosted an injectables event and suggested injectables could actually now be a high single-digit revenue growth business.

My question would be, are we there now? Is there still more that needs to be done to get injectables to that sort of growth? How quickly is injectables growing at the moment, and where is that acceleration happening?

Riad: As we speak, it is a high single-digit, and I think we continue consistently to be -- especially after the acquisition of Xellia -- it's really giving us a lot, helping us to continue with that growth consistently and accelerate it.

We want to be more than high single-digit. We're striving to be double digits. We have a lot to do, but I think we are doing a lot. We have increased our R&D spend. The Croatian R&D center is going to play a big role in enhancing our R&D. We're willing to spend more money on R&D. We have a lot in the pipeline right now.

We, I think, struggled in capacity on the injectables. Every time we built a facility, we outgrew it right away. Today, we are building many facilities. We had just finished a Moroccan facility. We're building in Algeria, a facility for MENA and we broke ground for also a facility in Saudi Arabia.

Also similarly, we are building a huge facility in Portugal adding to our big campus that we already have there. We doubled our capacity in Italy that services mainly Europe.

In the US, as you know, with the Xellia's acquisition, we're getting a big facility in Cleveland, Ohio. The campus has two facilities. One has the aseptic bag filling, which is a very unique technology that we will add to our technologies that we have, and six lyos at a 300 square foot each lyo, and this will be a tremendous increase to the already large capacity of lyos that we have.

We are looking at it from two different point of view. The growth is going to happen by increasing R&D, spending more money in R&D, creating a team that really understands the 505(b)(2) and the development of differentiated products.

At the same time, we're building our capacity to make sure that our current products continue supplying the market and with the addition of the products that are coming from the pipeline to be able to supply all of that.

James: How dependent is the business on one or two big products that have come from the pipeline or that you've acquired versus being differentiated or diversified growth across lots of products? How would that growth compare to the overall injectables market, for instance?

Riad: The good thing about it is we're not concentrated. In the injectables, I think the largest product that we have is about six or seven percent of the total revenue. It is truly a very flat, we have a lot of products, about a 160 between a 150 to a 160 products in the US alone. We have almost every generic product that you can think of.

You have to remember that between us, Fresenius, and Pfizer, we have 60 percent of the injectable market, which covers a lot. This is the largest market in the world, and for three companies to have 60 percent of the volume is tremendous.

So, yeah, we have been adding about 15 products every year to the portfolio, and we continue to develop and adding more and more. Right now, we're concentrating more on differentiation, so more valuable product than just a simple generic product that we have been doing in the last few years.

James: One other injectables question would be obesity and GLP-1s were a big theme. Almost every company is trying to have an angle there. I think you guys recently announced that you're launching a Victoza, which is an injectable product.

Firstly, how material a product could that be? And what about more generally, if you're a company that's got the ability to do fill and finish for injectable products, could you go into other GLP-1s? Could that be a big growth area for the company?

Riad: Yes. First of all, the liraglutide that you're mentioning, we launched on 25th. There was a Christmas present that we launched on the 25th December. So far, it's doing very well because I

think there's only one approved company, which is us.

We have authorized generic. Teva had launched the authorized generic about six months ago. So it's still concentrated amongst two companies. It depends how good it is.

We've done well in only the first two weeks of launch, but it's really depending on how many competitors go into the market. Many had applied to...they had applied for this product. They haven't gotten approval yet, but it depends. If we're still one or two it's very different than if we're seven and eight. There are over 10, I think, that had applied for the product.

Can we do other products? I think the GLP-1s, they're not as difficult as other products. I mean, of course, every product is difficult, and it's got unique characteristics, but compounders do it.

I think the difficulty would be with the device but what prevents people like us, generic companies, of getting into this is more of the patent and the legal situation. I would imagine that after patents are expired, that there will be a lot of people in this business.

Today, it's only liraglutide, and we're in it. Semaglutide, I think it has few years before the patent is expired. But soon after, there will be a lot of products expiring and a lot of people will be in it.

James: Thank you. In another area, I think that injectables could have growth would be compounding. So where are you in compounding both in terms of injectables having that as a revenue opportunity, but also that becoming a profitable part of the company?

Riad: Yes. We recognize that compounding is a great opportunity for us because it's very similar to the core business but on a smaller scale.

When we first started a few years back, I think it's been now two and a half years since we started the compounding, it was, slam dunk straightforward. We do this one, so why can't we do it at a smaller scale? We got into it, and we really started very, very slow, which I think we wanted to make sure that it's done right.

A lot of the compounders, the compounding regulations are changing. FDA are becoming stricter, and FDA are expecting that the same regulations that applies to the core business should apply to the compounders.

Before, I think about, I would say, 7, 8, maybe 10 years ago, there wasn't really regulations to

oblige the compounders to do the extensive testing that we usually do in our core business. Now they do. Even for impurities, of course, the raw materials have to be DMF now.

You're required to do the same environmental monitoring, the same studies exactly the same way as our core business. Things are changing. That's why some of the compounders are getting in trouble because that's something new the FDA is expecting all of us to do.

We actually are experts in this business. We have a big core business, and we think that we can migrate into those requirements easier. We're doing it. We're doing it slowly. We're not expecting.

We don't want to do it at a time when we get reckless, particularly because we don't want the reputation of a compounding or a mistake in compounding to reflect on our core business. Our core business is extremely important for us, and we really want to do it more as a service to the patients and the service to the hospitals more than anything else.

Of course, as you grow it, it might be a big stream of revenue and growth, but we're taking our time, but we're doing good. I think we are assigning more and more hospitals into this business. Again, this business, we thought it would be very similar to what we do, but it's not.

It's a business that you first of all, you need to send it to the end user. You cannot store it. You cannot do an inventory. You cannot go to a wholesaler. You have to go straight into the end user. Your batch is...in our core business, our batch is a million.

In this business, the batch is 200, 300, 400. You really have to get used to a different mentality. You have to make sure that you keep the testing that you expect for a million batch for the 500 unit batch. It's very different than the way that we do it.

The hospitals, in our core business, the wholesalers that does most of the interaction between the end user and between us. In this case, we do it. Hospitals have to sign up directly to us. There's no wholesaler in between.

Before, if we have 10 customers or 20 customers, now we have 4,000 customers because there are about four or five thousand hospitals out there. We have to vet every hospital, and we have to go through, especially with a controlled substance, you have to go through a very detailed vetting of all the hospitals. It took a lot of time to sign hospitals in.

What we see right now is hospitals are getting used to seeing our name in the compounding.

We're adding more and more clients, and we're shipping more and more products. The business is growing slowly but surely. We feel that it will definitely be a substantial business in the next few years.

James: Apologies. If you wouldn't mind just waiting for the microphone and then everyone can hear you better. Thank you.

Audience Member: How do you see the drug shortages situation in the US, especially on the injectable side? Is there any improvement in the last two years? And how has the pricing behaved, especially on the generic injectables portfolio for you?

Riad: What's the second part? I'm sorry.

James: The pricing...

[crosstalk]

Riad: The pricing. OK. The shortages in the US for injectable products, I feel maybe a little improvement, but not that much improvement. Would it be eliminated? I don't think so.

As long as we have the model that we have today in the health and the way that we sell the product, I don't think there'll be much improvement and I'll tell you why, especially in the injectables, because capacity costs money. In the injectables -- in the oral, let's just say the oral, you can have a spare tablet machine in that room, and you will use it when you need it.

In the injectables, the lines that you have, have to be monitored. You have to test the water. You have to test the environment. You have to sample the air. You have to do daily cleaning, whether you're using this machine or you're not using this machine. It costs a lot of money to have a spare capacity. In case you get it, you will use it. You need to use the capacity that you have.

It's expensive, plus a line of an injectable can cost you between $15 and $20 million, that's besides the facility that you need to house it in. It's very expensive to buy, very expensive to invest in, and very expensive to run. When it comes to a point where your margins for a specific product are low enough, you just stop making it and go make another product that is better.

You can't just continue making products that don't have the healthy margins. That's what happens. Those products become on the shortage. If you go into a tender business or if you go

into a GPO and you can't get the price that you want or the margins that you want, you are going to exit that product.

All of the other players will do the same, and it will create a shortage. If this particular one, that won that tender, cannot supply the whole market, it becomes a shortage product and this continuously is happening. What to do about it? I don't know.

One of the things that could be done...If you look at Canada, for example, they don't evaluate you when you win a tender, only on cost and price. They evaluate you on other parameters like delivery, reliability, quality, like being local or not supply chain. There are other aspects to this. When you win a tender, there is a lot more than just price. In the US, unfortunately, it's only price.

The second thing is when you win a tender, you're guaranteed for the duration of that tender. If you win a tender over two or three years, then you're guaranteed to still continue with the tender over that.

In the US, if somebody comes under your price, even if it is a contracted price, you have the right to match it, but if you don't, you're out. All of these variables, affect the shortages in the business. As far as the pricing, I don't think it's any different than last year.

James: Does anyone have any other injectables questions? Otherwise, I may ask something about branded. A few years ago, your branded business was more like a mid-single digit business, but then at the event you hosted in Morocco, it sounded like it could be a six to eight percent business.

Has the market picked up in its growth or have you invested more or you changed your exposure? Why will this business accelerate?

Riad: All of the above. We have been spending a lot of money in this business and investing in this business. We build facilities.

In MENA, it's very important for you to be local because once you are local some of the governments, some of the countries, if you are local, you get one advantage, and in some cases, you block imports into the country.

For example, in Algeria, if you manufacture a product in Algeria and you can prove that you can satisfy the whole market, then no imports to that country of that product will be allowed, so you

get protection. This is why we have a plant in every country that we have, and we have been investing in this.

We have a plant in Morocco. We just built another plant in Morocco now. In Algeria, we have three plants. In Tunisia, we have plants. In Egypt, we have in Saudi Arabia and Jordan. We've been investing to be a local company. We are a branded. We have a great reputation.

This is the oldest business that we have. Any investment, any new products that we bring in, it just makes a big...you know, can we turn it into a big value. We've been very active in the BD side.

Some of the companies that decided some years ago to stay on their own and come to Dubai and establish a company in Dubai, they decided that -- with the currency going up and down, fluctuations of the currency, with the geopolitical situations, wars coming in Sudan and in Lebanon and all of those -- they decided that it's better to give that to somebody like us where we cover all that area, and we can operate at a local level.

We can manage a little bit better than somebody coming from outside. We were able to get a lot of that BD, business development happening and in-licensing a lot of those products for the big companies.

Of course, from our point of view, we've had a lot of R&D done. We've done a lot of introduction of products, and especially in oncology, we have a situation where we can manufacture our own API in oncology. In some cases, we can manufacture our product even if the patents in some countries are active.

We have our manufacturing facility in Jordan, and sometimes there wouldn't be patents in Jordan for that API. We were able to manufacture our API in Jordan and introduce the product's first generic on the market. We're able to grow our oncology business significantly that way.

The growth of MENA has come from all different angles. Also, the team is managing significantly better, and we've been spending money investing in the market, introducing a lot of new products, and that allowed that the margins to improve significantly.

Under that momentum continues, and this year is not an exception. We had announced that we are going to do better than projection in the middle of the year, and I think this momentum continues.

James: Then last but, well, probably not least, for generics. You talked about high single-digit injectables and six to eight percent branded, but what's the outlook for generics? Because I think at one point you said it was more like a stable business, but then I think you've also been investing a bit more in R&D for this business. Is it a stable business, or could it be a business with some growth?

Riad: It's a business for growth. I think two years ago, when we were here, we were talking about, I think the question was, are you going to keep this business or divest this business? And the answer wasn't convincing to a lot of people because we weren't convinced ourselves.

Today, we are. Last year, we decided that this business is a business that we need to keep and if we do need to keep it, then we need to invest in it. We did exactly that. We identified that investment has to do first in R&D.

We never had the pipeline for this business because when the business is not doing well, it's hard to spend money on R&D if your margins are already struggling. It becomes more of a vicious circle. You spend more, people are going to say, well, it's losing. Why are you keeping it? Why are you spending money on it?

You don't spend, and you will be losing. You have to make a decision, and you have to go with it. We made that decision last year, and we committed to this business. We said, OK. Well, what do we need to do for this business to grow? The first thing is R&D. Then how do we finance the R&D? We need a team for R&D.

We brought a good team. The president of the generics that we had appointed is an R&D person that came from a big company with extensive R&D expertise. That was the first, and she brought a good team.

The second was, how do we finance the R&D? One of the strategy was, well, you know, we have a beautiful facility, very, very big competent team, good capacity, good technology in the United States. Why don't we see if we can attract contract manufacturers?

We went after the branded companies, the big branded companies, and we offered our services. We were lucky that a lot of those branded companies, they really liked what we're offering. They came and visited, and one in particular gave us a huge contract, material contract, as we all said, that we would maybe manufacturing an important product.

This is very important because for a big company to give you a big product of theirs, that means they trust you. They trust your competence. They trust your facility. They trust your quality record.

That's what we have. Now we have a team with a good R&D background, extremely expertise, good expertise. We have the financial means to support an extra spending, significantly more spending on R&D.

At the same time, our base business, we concentrated to make it do better. We have now our respiratory and inhalation business doing very, very well. We're one of the biggest in fluticasone. At Advair, we doubled our sales.

The core business is doing well. The contract manufacturing deal eventually will be very lucrative and good to finance a lot of the spending that we're planning to do in R&D. We identified a lot of projects.

Last year, as I said in my presentation, we had submitted the most in the last few years in this segment. I feel the dark days of this division are gone, and we're only going to see growth from time, from now on. Of course, it takes time for this to become to fruition but I would expect '26 on to be much, much, much better days than we've experienced before.

James: Does the contract manufacturing you're doing help the margins? Before you suggested, like a few years ago, you had super normal margins for generics because there were some shortage products and things like that.

Some products have also like Xyrem as well such that you're paying a bigger royalty. But if you're doing more contract manufacturing, is that a headwind or a tailwind on margins for this business?

Riad: Yeah. I mean, contract manufacturing, you have to think about it that it pays your bills. After the bills are paid, then anything else you make is profit, and you're able to compete. You're not struggling with low margins.

As long as you can make it, as long as you have capacity to make it, and as long as it's over your RPM, then it's profits. You have your overhead that's been already paid for. Everything else becomes easier.

It's the same strategy that we did in injectables, and it was proven to really work well. If your

contract manufacturing pays your bills, then you can compete better. You feel a lot more secure in how you are utilizing your capacity, and you can translate modest products into profitable ones.

James: You have three divisions that we've talked about, the top line outlook and the margins for them. In terms of capital allocation, and so you're going to invest a bit more in CapEx, but what are you going to do with the rest of the money?

Riad: R&D. There is a lot that we're talking about R&D, so we're increasing our R&D spend. Typically, we spend between four to five percent. Now we're saying six to seven percent.

Of course, this is going to be a key for us. We want to grow, our R&D has to be a lot more effective, not by spending, but also by the output. The fact that we have the Croatian facility right now, I think we're betting on it and we're enlarging it, and I think that would be a big R&D contributor. This is one.

Of course, capital expansions. Capital is going to be spent on a lot of expansions, facilities, technologies. When you do R&D, you need to also make sure that you have the manufacturing to manufacture the new technologies that we have. It's not enough that you just develop it and then you go somebody else to make it for you.

Our unique position and the reason why our margins have been high is because we manufacture everything ourselves. I wouldn't say a 100 percent ourselves, but largely, most of the products that we sell -- except for the in-licensing product -- is made in our own facilities.

When you're doing it or making it in your own facilities, you have a lot more say in it. You have margins that you can control. Most importantly, you can turn on a dime if you decide to make this, if you decide to increase this, if you decide to change the manufacturing plan. It's all within your control, and that really counts for a lot, especially if you have a big portfolio.

We spend a lot of money on upgrading our facilities and increasing our capacity, and that's what we'll continue to do. Of course, if the time permits that we can buy back some of our shares and we have the right pricing for our shares and the right formula, I think this is also an option that we have always on the table.

James: Great. Do we have any other audience questions? Thank you very much for joining us.

Riad: Thank you.

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