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Hikma 2024 preliminary results presentation transcript

Riad Mishlawi – CEO

- Thank you for joining our 2024 full year results presentation
- I'm Riad Mishlawi, CEO of Hikma, and I am joined here with Khalid Nabilsi, our CFO
- I will kick off by providing a quick summary of our results and an update on our strategic progress. I will then hand over to Khalid to take us through the financials in more detail

Strong 2024 financial performance

- I've been in the CEO role now for just over a year and I am pleased with the progress we've made to date
- We delivered an excellent financial performance, ahead of our initial expectations, and I'm very confident that we have the right strategy in place to deliver growth for many years to come
- We achieved Group core revenue growth of 10% for 2024, ahead of our upgraded guidance of 6% to 8% for the year, demonstrating the strength of our three business segments, each unique, but together providing differentiation, diversification and exciting potential
- We also delivered core operating profit of $719 million, in line with our guidance. This is a great result, particularly in a year where we had a profit headwind in our Generics business
- Importantly, we've continued to strengthen our platform for future growth, supported by our ability to consistently deliver high levels of returns on invested capital

A year of excellent strategic progress to drive future growth

- Last year, I set out our refreshed strategy, which focuses on three key pillars for growth, which are: strive for excellence, diversify and differentiate, and people and responsibility
- 2024 has been a year of great strategic progress and I'm pleased with how we are putting our plans into action
- Going through this in turn, starting with strive for excellence:
    - We've been strengthening our teams across the organisation, with a focus on our R&D function.

  - We bolstered Injectables R&D with the addition of the Zagreb, Croatia centre through the Xellia acquisition. This brings a team with a proven track record in developing complex products, particularly in ready to use formats. Since closing the acquisition, we've identified optimisation opportunities for the Injectables pipeline
  - We appointed a new head of R&D for our Generics business. He brings in a wealth of experience and leadership, particularly in respiratory.
  - We continue to improve our operating efficiencies and productivity. In 2024, we increased our manufacturing output, particularly in our EU sites, which achieved a record year for productivity
  - We have also agreed to acquire 17 Takeda brands licensed to Hikma. Bringing these products in-house will result in improved efficiency, helping enhance future Branded profitability
  - And we are extracting synergies across the Group. We started a centre of excellence initiative for operations and manufacturing, focusing on our FDA approved sites, to leverage expertise and share knowledge across our manufacturing footprint
- Turning to the second strategic pillar, diversify and differentiate:
  - We have a good pipeline of opportunities, enabling us to successfully and consistently launch products each year. In 2024 we launched 132 products across the business, including liraglutide injection in the US, the first approved ANDA for a GLP-1 referencing Victoza. I am excited that the team were able to leverage Hikma's commercial strengths to partner on our first product in this important category.
  - However, we recognise the need to do more. This year we have dialled up our focus on pipeline execution, making sure we are investing today in the right opportunities to drive medium to long-term growth. We are pursuing this both organically and inorganically. For example, to support our internal capabilities and improve our differentiation, we acquired parts of Xellia's business, which brought with it a range of portfolio and pipeline products, a US manufacturing site and the Zagreb R&D site as I mentioned earlier
  - In addition to our pipeline, we have been executing on our strategy to expand selectively into adjacent markets and businesses. For example, we have had great wins in building our CMO business. We signed a significant long-term agreement with a global pharma company for the Generics business, which we expect to start contributing meaningfully in 2027
- Finally, our last pillar, people and responsibility:
  - Having a culture that empowers our people is essential to achieving long-term success. This year, I have travelled to many of our locations around

the world, and spoken with hundreds of our people and I continue to be humbled by their commitment, diligence and experience. We have put in place a number of initiatives aimed at enhancing employees career progression, recognition and wellbeing

- We also continue to advance our sustainability strategy. Improving access to medicine is at the heart of everything that we do and through our product launches and access campaigns, we continue to improve patients access to the essential medicines they need.
- In addition, we conducted a double materiality assessment this year, as we work to understand better our most material sustainability areas.

Our strategic priorities – 2025 to 2026

- We are investing across our markets, building out our infrastructure, launching new products and deploying our healthy balance sheet on value-enhancing acquisitions
- I am very proud of our strong performance to date, and our ambition is to achieve even more. We have exciting opportunities coming over the next 5 years and over the next two slides I will provide more detail on some of the key milestones we expect to achieve
- Over the short-term – 2025 and 2026 - our focus will be on continued investment across the business to ensure we are set-up for future success
- Starting with our Injectables business, we are focused on 3 areas
    - This business is at an exciting time of its development, with a range of new initiatives underway across all geographies, including new market entries, multiple capacity expansion projects, and the recent acquisition of Xellia's US assets and R&D centre in Zagreb.
    - Over 2025 to 2026, a key focus for this business is on the integration of Xellia, including the R&D centre in Zagreb, and completing the buildout and optimization of the Bedford manufacturing facility. In 2025, we will have a full year contribution from the Xellia marketed portfolio, and we will continue to work on maximising and growing contribution from these products
    - When it comes to our R&D priorities, and through the experienced Zagreb team, we will be enhancing our efficiency and adding more complex projects for internal development, focusing on dosage forms that bring value to our customers, such as ready-to-use products. We will invest in developing the Zagreb site to become the centre of excellence for RTU and convenience products for hospitals and patients
    - Some key launch opportunities include a reformulated vancomycin RTU product, which offers great potential, as well as long-acting injectable suspensions in the US. We also expect to launch our US biosimilar products over this period

  - In addition, we are expanding our manufacturing footprint in MENA, and expect the new plants in Morocco and Algeria to be fully operational from 2026 on. We will also continue to expand our market share across Europe
- Turning to the Branded business:
  - This business has been building excellent momentum over the past few years. Looking ahead, we will continue to invest in growing our pipeline of oncology products and treatments used to treat chronic illnesses to meet the high unmet needs across the region.
  - We are focusing on introducing first to market and first generic products and we expect to launch finasteride, a new generation alopecia medication, and Bismuth combination, as first to market opportunities over this period
  - We are also targeting new therapy areas, including GLP-1s and metastatic breast cancer, and we continue to expand our presence in other key areas such as multiple sclerosis
  - And finally, we are investing in enhancing our manufacturing capacity and capabilities, strengthening our position as a local manufacturer and supplier of high-quality medicines with industry-leading global expertise, such as enhancing our oncology capabilities in Saudi Arabia, Algeria and Egypt
- And then finally, Generics:
  - This business had an excellent year in 2024, achieving over $1 billion in revenue for the first time.
  - One of our key priorities for Generics over 2025 to 2026 is improving our pipeline. We have limited near-term pipeline opportunities, and this is why we will increase R&D spend in 2025. This will help us enhance the breadth and complexity of our portfolio, including adding more NCE-1 and first to file opportunities
  - We are also improving our R&D efficiency and structure, which we've already started in 2024. We are already increasingly leveraging synergy opportunities with our MENA R&D teams, including for the co-development of solid oral formulations. In addition, we are building an R&D team in Zagreb to broaden our pipeline
  - Beyond this, in 2025 we will start preparing our facility for the new CMO opportunity, and we are increasing our respiratory and nasal capacity by adding new manufacturing lines. This will help us meet growing demand and improve production efficiency
  - Lastly, we are expanding our geographic presence and will be launching our first product in Canada over this period

Our strategic priorities – 2027 to 2029

- As you can see, we have a lot of great initiatives in place that will drive and accelerate our growth. Over the medium to long term, from 2027 to 2029, we will start to see the return on these investments
- During this time:

  - We have an ambition for our Injectables to become the market leader in ready to use formulations
  - This will be supported by the new Bedford facility, which will be fully operational and ramping up production
  - Our pipeline and portfolio becomes increasingly specialised and differentiated across the Group, with the launch of epinephrine nasal spray and additional inhalation products in Generics for example
  - We will see an increase in contribution from our CMO business as the Generics contract kicks off and we add new opportunities in both the Generics and Injectables businesses
  - We will have more capacity across MENA for the Branded business, notably in Saudi Arabia. We will also start to benefit from improved efficiencies as a result of the Takeda product acquisition, supporting the Branded profitability
  - And finally, we will have more momentum in our 503B compounding business and increased scale across our European business
- All of this positions the Group for growth and I am excited for 2025 and beyond
- I will now hand it over to Khalid to take us through the financials

Khalid Nabilsi – CFO

Group

- Thank you Riad and hello everyone

- I am pleased to share that Hikma had a fantastic year in 2024. We saw double-digit core revenue growth, ahead of our expectations, as well as profit growth, with Group core operating profit of $719 million, in line with our guidance, which we upgraded during the year

- This is an excellent result. Good growth in profit in Branded and Injectables helped to offset the expected reduction in Generics profitability that resulted from increased royalties on our authorised generic of sodium oxybate

- The Board is recommending a full year dividend of 80 cents per share, up from 72 cents

- Looking ahead, we are confident about our future. As Riad highlighted, we've been making strategic investments in 2024, including bolt-on acquisitions and partnerships, which support our growth plans

- Now let's take a look at the financial performance of each business segment

Injectables

- Starting with our Injectables business
- This segment had a strong year, with a 10% increase in core revenue driven by our broad portfolio, recent launches and contribution from the Xellia acquisition
- Organic core revenue growth – excluding Xellia - was 8%, which is at the top end of our guidance range
- In North America, we continue to broaden our portfolio by consistently launching new products. In 2024, we had 20 launches across both the US and Canada, including liraglutide injection
- In Europe and rest of world, we delivered good revenue growth across all our established and recently entered markets, driven by sales of our expanding portfolio of own products, which grew 20%. Our contract manufacturing business performed in line with expectations, accelerating in the second half
- In MENA we saw strong revenue growth across most of our markets, supported by new launches and good demand across our broad portfolio
- Injectables core operating profit grew by 5%, and core operating margin was 35.3%, compared to 36.9% in 2023. Excluding Xellia, Injectables core operating margin was 35.7%. The contraction in margin is primarily due to product mix, which includes the slightly dilutive impact of the Xellia acquisition and an increased contribution from partnered products

Branded

- Turning to Branded
- We are seeing momentum pick up in this business, thanks to our ongoing investments to expand our portfolio of oncology products and medicines used to treat chronic illnesses
- Our focus on launching more high-value and first to market products tailored to local needs drove growth and supported strong margins
- In 2024, Branded core revenue grew 8% and core operating profit was up by 11%, with core operating margin improving to 24.6%
- In constant currency, core operating profit grew an impressive 20%

Generics

- Finally Generics

- This business achieved over $1 billion in revenue for the first time, with core revenue up 11%, ahead of our upgraded guidance
- This excellent performance was driven by good demand across our differentiated portfolio, particularly for our respiratory products
- Core operating profit came in at $170 million - ahead of our expectations at the beginning of the year, but down 11% versus 2023. An improvement in product mix across our base business helped to offset the higher royalties on our authorised generic of sodium oxybate.

Expanding and enhancing our product pipeline

- To ensure continued growth, we need to keep investing in building our pipeline of differentiated products
- In 2024 we invested $141 million in R&D, representing 4.5% of revenue
- This spend contributed to us making over 200 submissions across the Group
- Going forward, we plan to increase our spend and expect a 20% increase in our R&D costs in 2025

Continuing to invest in the maintenance, upgrade and expansion of our facilities across the Group

- We continue to invest in our manufacturing capacity to support a growing portfolio
- In the US, we spent $49 million on upgrades, new technologies and capacity expansion across our Cherry Hill and Columbus sites.
- In MENA, $80 million was spent strengthening and expanding our local manufacturing capabilities, including general formulations in both Tunisia and Algeria, as well as strengthening our oral oncology capabilities in Algeria
- In Europe, we spent $36 million enhancing and expanding our manufacturing capabilities, including adding lyophilisation capacity in Portugal

Cash flow and balance sheet

- We have a robust balance sheet, and the Group continues to generate a healthy level of cash, with operating cash flow of $564 million in 2024
- The decrease compared to the previous year primarily reflects increased trade receivables due to strong sales towards the end of the year
- The Group total debt increased slightly to $1.3 billion due to the Xellia acquisition
- We continue to have a healthy balance sheet, with net debt to core EBITDA ratio of 1.4x

Guidance

- Finally, the outlook for 2025

- As Riad highlighted, 2024 was a year of excellent strategic progress, positioning us well for continued growth in 2025 and beyond

- We expect Group revenue to grow in the range of 4% to 6%.

- We expect core operating profit to be in the range of $730 million to $770 million. This is after an increase in investment in R&D of around 20% in 2025 across our three segments to support the development of our global pipeline, underpinning medium to long term growth.

- We expect Injectables revenue to grow in the range of 7% to 9% and for core operating margin to be in mid 30s, reflecting the full year impact of the Xellia acquisition and our evolving product and geographic mix. We will continue to launch new products, leverage our high-quality manufacturing capabilities and expand in recently entered markets.

- We expect Branded revenue to grow 6% to 7% in constant currency. We expect core operating margin to be close to 25%. We remain focused on growth across the MENA region and will continue to launch products and sign partnerships, bringing more chronic medications to patients.

- We expect Generics revenue to be broadly flat, with a good performance from some of our more differentiated products offsetting price erosion on the base business. We will be investing more into R&D during 2025 to ensure the pipeline is well placed to support medium to long term growth and are pleased to be able to guide to core operating margin for Generics to be around 16%.

- We expect Group core net finance expense to be in the range of $90 to $95 million, reflecting the current interest rate environment and an increase in borrowing related to the Xellia acquisition. We expect the core effective tax rate to be around 22%.

- We expect Group capital expenditure to be in the range of $170 million to $190 million

- Thank you and I will hand back to Riad

Riad Mishalwi – CEO

Solid foundation and operational strength to support continued growth and attractive returns

- To close, I am excited for how Hikma is positioned and all the plans we have in place to continue to deliver growth.
- We have three fantastic businesses, with strong market positions and unique strengths
- We are focused on harnessing the right opportunities for growth, through R&D, partnership and enhanced manufacturing
- And finally, our financial strength puts us in a perfect position to deliver on our goals, with low leverage, strong cash generation and the ability to consistently deliver high returns on invested capital.
- I look forward to keeping you updated on our progress. Thank you.