Hikma 2024 interim results presentation – transcript

Riad Mishlawi – CEO

- Thank you for joining our 2024 half 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 first half results and an update on our strategic progress. I will then hand over to Khalid to take you through the financials in more detail

Delivering a strong first half performance

- I am extremely pleased with our first half performance, both financially and in terms of strategic progress. All three of our businesses have grown the top line, resulting in a 10% increase in Group revenue
- We delivered a core operating profit of $402 million, in line with last year. This is a great result. It reflects the very strong performance, especially in our Branded business
- We also generated a good level of cashflow from operations in the first half and our balance sheet remains strong
- These impressive results are a testament to our unique business model, supported by our extensive manufacturing footprint and growing differentiated portfolio
- Importantly, we continue to strengthen our platform for future growth. In June we announced the Xellia acquisition, which remains subject to US FTC approval, but I am really excited about its potential, which I will provide more detail on later in the presentation

Executing on four pillars of value creation

- As demonstrated on this slide, we have four pillars supporting our strong investment case. These provide us with significant opportunities to continue to drive growth and deliver value
- Our commercial and operational strength coupled with our high-quality manufacturing operations provide a strong platform, which allows us to differentiate from competitors and drive growth
- We are investing in R&D and business development, which enable us to expand our portfolio and build a differentiated pipeline
- We have a clear strategy that we are executing against and a proven track record of growth and value creation
- On top of this, we have a strong balance sheet and excellent cash generation, which provide us with the optionality to accelerate growth
- We have made excellent strategic progress against each of these pillars in the first half. In the following slides, I will focus on each pillar individually, highlighting some of our key accomplishments over the last 6 months.

A solid platform with a unique business model

- Today, Hikma has annual revenue of close to $3 billion and we delivered an impressive 29% EBITDA margin this half
- We have three world class businesses, with leading market positions – we are the 5th largest in the US and the 2nd largest in MENA
- 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
- Looking at some of our achievement this half by business segment:
- In Injectables, we are the third largest supplier of generic injectables in the US by volume, we are continuing to launch new products, including our first specialty product, Combogesic. We are also gaining market share in Europe through entry into Spain and the UK earlier this year
- In Generics, where we are a key supplier of non-injectable generic medicines in the US, we were able to capture market opportunities and additional volumes across our differentiated portfolio
- In Branded, we are benefitting from the strength of our market position as the second largest pharmaceutical company in the region, as well as our ongoing investment in oncology and chronic disease treatments.
- For example, we are a top 10 supplier of diabetes medicines, which is a high growth disease area in MENA. In the first half of the year, we delivered a 50% increase in revenue from our diabetes products
- We have also strengthened our position as a leading supplier of oncology products through new launches and market access campaigns. In the first half, revenue from oncology products in our Branded business grew 43%
- We continue to expand our differentiated portfolio and launched a total of 59 new products across our three businesses during the first half of the year
- Of course, to support our growing portfolio, we are investing in expanding and enhancing our manufacturing capabilities, further strengthening our position as a local supplier with global expertise. For example, in Europe, we are expanding our lyophilisation capacity in Portugal and our filling capacity in Italy. In MENA, we are enhancing our general formulations facilities in Tunisia and Algeria and are strengthening our local Injectables manufacturing capabilities in the region

A solid platform with a unique business model

- Over the years, Hikma has achieved its leading market positions through both organic and inorganic growth opportunities. We have a track record of making value enhancing acquisitions that both complement and enhance our base business
- Most recently, in June, we agreed to acquire parts of the business of Xellia Pharmaceuticals. This will add significant scale to our US injectables operations, and importantly, will support the long-term growth of the Injectables business
- Once finalised, it will add 8 approved and marketed products in ready-to-use formats, including Vanco Ready, and 11 pipeline products
- It will also enhance our R&D capabilities with the addition of the R&D centre in Zagreb, Croatia, which brings a large team with expertise in complex finished dosage forms

- And finally, it will significantly expand Hikma's high-quality Injectables manufacturing capacity with the addition of the Cleveland, Ohio facility to our network. This brings with it complex manufacturing technologies, including aseptic premix bag filling capabilities and a significant increase in lyophilization capacity, which will further differentiate our business

Increasingly diverse portfolio and pipeline

- Turning to the second pillar of growth, our portfolio and pipeline
- Across the Group, we have dialled up our focus on pipeline execution. We have strengthened our teams across the three businesses and have been working on improving our R&D efficiency to ensure we continue to consistently add new products to our pipeline to enhance the breadth and complexity of our portfolio
- We aim to have a portfolio and pipeline that is tailored to our market needs, with an increasing number of complex products with high barriers to entry, such as specialty, 505(b)(2)s, inhalation and nasal sprays
- Across the Group, we are 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 6% to 7% of revenue on R&D
- Looking at our R&D priorities by business segment:
- In Injectables, we will continue to expand our portfolio of conventional products, enhancing the breadth of the portfolio, while also adding dosage forms that bring value to our customers, such as ready-to-use products. Beyond this, we are also looking to add more products with higher complexity, such as long acting injectables, suspensions, and products that use complex devices
- In Branded, we are investing to grow our pipeline of oncology products and treatments used to treat chronic illnesses to meet the high unmet needs across the region. We are also focusing on introducing first to market and first generic products, which make up 57% of our pipeline
- In Generics, we continue to focus on building a balanced portfolio between simple and complex formulations to drive resilience and growth. In the first half, we added 7 new products for internal development and have signed a number of new business development programmes to further enhance our pipeline

A proven track record and clear strategy for the future

- Taking a step back to look at Hikma's strong track record of delivering revenue and profit growth
- Since 2019, Group revenue has grown at a CAGR of 5% and core operating profit at a CAGR of 7%
- 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 of 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 have been successfully executing against our strategy as demonstrated by the progress made so far this year
- We are building momentum across our three businesses and are guiding for even higher growth than initially forecast at a Group level in 2024, and are confident in continued growth beyond this

Strong financial position underpins growth potential

- And finally, we have a 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% over the last 5 years
- We also have a 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, as we are doing this year through the announced Xellia acquisition

I will now hand it over to Khalid to take us through the financials

Khalid Nabilsi – CFO

Financials

Group

- Thank you Riad and hello everyone
- The Group delivered strong results in the first half of the year, with revenue growth across all three businesses, resulting in a 10% increase in Group revenue
- We delivered Group core operating profit of $402 million, in line with last year. This is an excellent result given the expected reduction in Generics profitability resulting from increased royalties on our authorised generic of sodium oxybate, which was offset by the very strong performance in our Branded business
- As a result, core EPS for the first half of the year was 128 cents
- Finally, the Board is recommending an interim dividend of 32 cents, up from 25 cents. As stated last year, our interim dividend will be calculated at approximately 45% of the prior year's total dividend. We also intend to progressively increase our total dividend, with a payout ratio in the range of 30% to 40%, reflecting the Board's confidence in the long-term growth prospects for the Group
- Now let's take a look at the financial performance of each business segment

Injectables

- Starting with Injectables, this business has delivered excellent growth over the years while maintaining industry leading operating margins in the mid-30s or above
- This business benefits from a broad and growing portfolio, consistent new launches across our markets and strong manufacturing capabilities
- In North America, we are seeing growth across the base business, benefitting from our strong commercial team, broad portfolio of over 160 products and recent launches, which are enabling us to fulfil the good market demand
- In Europe and rest of the world, revenue declined due to the timing of CMO business, which will be weighted towards the second half of the year. We are delivering good growth from our own products, with revenue up 17%, with a strong performance across all our established and new European markets.
- In MENA, we are seeing good growth across most of our markets, driven by our biosimilar and broader portfolio, as well as new launches
- Injectables core operating profit was in line with last year, and core operating margin was 36.3%, down from 37.8% in the first half of 2023. This decline was primarily due to change in product mix and an increase in employee costs

Branded

- Turning to Branded, this business has also consistently delivered over time and has been recently picking up momentum, with good revenue and profit growth, thanks to our ongoing investments to expand our portfolio of high value products, particularly those used to treat chronic illnesses
- In the first half of the year, Branded delivered a strong performance, with revenue up 12% and core operating profit up 24%, with core operating margin expanding to an impressive 30.8%
- These results reflect the strong demand across our markets, driven by our growing and differentiated product portfolio, as well as a pull-forward of tenders in certain markets, primarily for our oncology products.
- The positive change in product mix helped to more than offset the negative impact of foreign exchange related to the currency devaluation in Egypt

Generics

- Finally, Generics. This business continues to deliver good topline growth, with revenue up 15% in the first half, reflecting a good performance across our differentiated portfolio
- Core operating profit declined 15% due to the higher royalties payable on our authorised generic of sodium oxybate, when compared to the same period last year. This was partially offset by good product mix across the rest of the base business
- This mix effect, combined with an expected weighting of R&D spend towards the second half, resulted in a strong core operating margin for the half of 19.7%

Expanding and enhancing our product pipeline

- To ensure continued growth, we need to keep investing in building our pipeline of differentiated products
- In the first half of the year, we continued to progress with our pipeline projects and invested $61 million in R&D, representing 4% of revenue, with increased spend expected in the second half

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 $19 million on upgrades and capacity expansion across our Cherry Hill, Dayton, and Columbus sites.
- In MENA, $32 million was spent strengthening and expanding our local manufacturing capabilities, including general formulations in both Tunisia and Algeria, as well as finalising our two new Injectables production sites in Algeria and Morocco.
- In Europe, we spent $18 million enhancing and expanding our manufacturing capabilities in Portugal and Italy.

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 $198 million in the first half of the year. The decrease compared to the previous year reflects an increase in investment in working capital primarily related to growth across the Group
- The Group total debt increased slightly to $1.3 billion
- We continue to have a healthy balance sheet, with net debt to core EBITDA ratio of 1.3x

2024 full year guidance

- Finally, the outlook for 2024
- I am very pleased to upgrade Group revenue and profit guidance, a testament to the strength of our underlying business
- We now expect Group revenue to grow in the range of 6% to 8% and for core operating profit to be in the range of $700 million to $730 million
- In Injectables, we continue to expect revenue to grow in the range of 6% to 8% and for core operating margin to be in the range of 36% to 37%. We expect for revenue and profit growth to be weighted towards the second half of the year primarily due to the timing of fulfilling CMO business.
- In Branded, we now expect revenue to grow in the high single-digits in constant currency, or in the range of 6% to 8% on a reported basis. We expect reported core operating margin to be around 25%. Given the timing of tender deliveries, particularly for our high-value

oncology products, and an expected second half weighting of operating costs, Branded revenue and core operating profit will be weighted towards the first half.

- Given the strong performance in the Generics business in the first half, we now expect Generics revenue to grow in the range of 5% to 7%, and for core operating margin to be between 16% to 17%. We expect increased competition on certain products and higher R&D costs in the second half.
- We continue to expect Group core net finance expense to be around $91 million and the core effective tax rate to be in the range of 22% to 23%.
- We now expect Group capital expenditure to be in the range of $140 million to $160 million.
- Thank you, I will now hand back over to Riad for some closing remarks.

Riad Mishlawi – CEO

Six months of strong growth and significant progress

- Thank you, Khalid. I would like to close by saying that I am very pleased with our strong performance this half
- We are making excellent progress across our three businesses, underpinning my confidence for the future
- Thank you for listening and I look forward to keeping you updated throughout the remainder of the year