

Hikma 2023 interim results presentation – transcript

Said Darwazah – Executive Chairman and CEO

- Hello everyone, I'm Said Darwazah, CEO and executive chairman of Hikma and I'm here with Khalid Nabils, our CFO
- Thank you for joining our 2023 interim results presentation. I will kick off by providing a quick summary of our strong first-half results and an update on our strategic progress. Then I will hand over to Khalid to take you through the financials.

Delivering a strong first half performance with growth in all three businesses

- I am extremely pleased with Hikma's performance in the first half of the year. All three of our businesses have grown, resulting in an impressive 18% increase in revenue and a 35% uplift in Group core operating profit
- We're very encouraged by the recovery in our Generics business following last year's challenging market conditions, with the base business improving significantly, supported by a good performance from our recently launched authorized generic of xyrem
- Alongside this, our Injectables and Branded businesses have delivered another half of good growth
- We continued to generate a good level of cashflow from operations and our balance sheet remains strong
- From an operational perspective, we are enhancing our manufacturing capabilities and processes, further strengthening our platform for future growth.
- In July, as part of the Akorn bankruptcy process, we acquired assets that have helped to expand our manufacturing capabilities and portfolio of products. This has extended our nasal spray capacity, and added new ANDAs for both Injectables and Generics
- So excellent progress at a Group level, now let me build on that a bit more by reviewing each of our divisions

Injectables

Benefitting from a growing portfolio in the US while investing for the future

- Starting with Injectables
- This business continues to thrive
- In the US, our scale and broad portfolio means that we are well positioned to capture new opportunities for growth. Approximately 46% of all generic injectables used in the US are supplied by the top 3 players – Pfizer, Fresenius and Hikma.
- During the first half of the year, our US portfolio grew to over 150 products, a key competitive strength. Having announced our 100th product in 2019, this important milestone demonstrates both the pace at which we are bringing products to market and the increased scale of our portfolio, which we are delivering through R&D, partnerships and acquisitions.
- This breadth of portfolio, along with our flexible manufacturing capabilities underpin our ability to supply products when our competitors cannot, helping to address shortages where we can and ensure our customers and patients' needs are met

- Since 2020, we have launched 11 products into shortage situations
- We also continue to invest in adding to and enhancing our manufacturing capacity. We have added a new high-speed filling line in Cherry Hill, which has started production, and another one in Portugal, which is expected to be operational by the end of the year. This will expand our filling capacity by 15% to 20%, helping us to meet growing demand
- And of course, to sustain our growth, we need to keep investing in our pipeline. We have been working on improving our R&D efficiency, the quality of our new product filings and strengthening our R&D centers
- 19% of our pipeline comprises new therapeutic equivalents and 505(b)(2) filings, where we are introducing new products that do not exist on the market, and 28% is complex products with higher barriers to entry. Contribution from these products will gradually build over time, further strengthening the overall resilience of this business
- We have also recently leveraged our strong US presence and capabilities into the Canadian market, where we have launched 3 products in the first half of the year

Strengthening foothold in Europe and expanding into new markets

- Our Injectables business in Europe continues to grow, contributing to the overall performance of the division
- We have excellent local manufacturing facilities in Portugal, Italy and Germany and have expanded our capacity during the half to support our growth plans in these markets
- We have an agile supply chain which is enabling us to respond to market shortages, particularly in Germany
- We are also strengthening our commercial presence in the region and diversifying our customer base to bring in additional growth
- I am encouraged by the progress we are making in our new EU markets. In France, we now have 31 products approved and a growing portfolio of 22 products. In Spain, we have 32 products approved and a portfolio of 12 products

Leveraging established presence and strong commercial capabilities in MENA

- Our MENA injectables business has seen impressive growth in the first half
- Our broad portfolio and well established presence across MENA gives us the unique ability to capture market opportunities and be a partner of choice to customers
- While we have been impacted by currency headwinds in Egypt and the halting of our operations in Sudan due to the ongoing conflict, our teams have done an excellent job at finding opportunities to help offset these market challenges
- Our biosimilar products have and continue to be key to our growth. Through our strong commercial efforts on the ground, we continue to increase patients' access to these important medicines and have grown our market share in immunology and oncology in some of our largest markets
- We also continue to expand our portfolio through new launches. In the first half of the year, we launched Herzuma and Truxima, two biosimilar products through our partnership with Celltrion, in Algeria. We have also introduced new oncology and anti-infectives products

across MENA. And we participated in a successful tender bidding process in North Africa, which has driven good demand for recent launches.

Branded

Benefitting from a strong market position and growing contribution from chronic medications

- The Branded segment delivered strong results in the first half of the year, with double digit revenue growth and improved margins
- We are the 3rd largest supplier of medicines in the MENA region, with a growing market share.
- We have a broad product portfolio comprised of products that we develop in-house (our branded generics) and innovative brands that we license from global partners. It is the strength and breadth of our commercial and manufacturing capabilities, combined with our local market knowledge and global expertise, that give us the unique position in this region, allowing us to continue capturing new opportunities and grow.
- This progress has enabled us to absorb currency headwinds in Egypt and loss of sales from Sudan in the first half
- Over the last few years, we have been investing in building a portfolio of more differentiated, high-value medicines, such as those used to treat chronic illnesses. I am pleased to say this strategy is working well and that we are seeing the fruits of these efforts, with strong revenue and margin performance in the first half
- The contribution from chronic medications, as a percentage of Branded sales, has grown from 47% in 2016 to 60% in 2023. While anti-infectives still remain an important part of our portfolio, chronic medications are less susceptible to demand cyclicalities and provide steady growth

Case study: increasing access to oncology medications in the MENA region

- I wanted to take a closer look at our oncology portfolio to demonstrate the success we've had in capturing market share
- Over the years we've been investing in building dedicated manufacturing capacity for oncology products in MENA, particularly in countries that do not have direct access to these medications. In Algeria, we remain the only local manufacturer of oral oncology medications. We also have the only oral oncology plant in Egypt
- This, coupled with continuous investment in our pipeline and successful commercial campaigns, has enabled us to grow the contribution from oncology products from 6% of Branded revenue in 2022 to 12% today. In Algeria, the contribution from oncology products increased from 10% in 2022 to 26% today
- As one of the leading pharmaceutical companies in MENA, we also act as partner to healthcare professionals and facilitate knowledge and information exchange to help improve patient care
- As part of our commercial activities, this year we hosted our 5th annual MENA cancer forum, the Hikma Cancer Network, in collaboration with the MD Anderson Cancer Center. This

forum brings together leading regional experts in the field of hematology-oncology from all over the world to present keynote speeches and address updates in clinical practice and cutting-edge cancer research.

- This year, 170 key opinion leaders joined our conference from across the MENA region, where they had the opportunity to network with leading global experts, ask questions and share experiences, which they can take back to their patients to help in their treatment journey in the fight against cancer

Generics

Improving industry dynamics after a challenging 2022

- Our Generics business has had an excellent first half of the year
- The challenging market conditions we experienced in 2022 are starting to ease with an improvement in retail generics volumes and pricing levels
- What's interesting to also note is that we are seeing a decline in US based manufacturers – volumes have nearly halved over the last six years
- Our Generics business, with its broad portfolio and US based state-of-the-art manufacturing facility, is well positioned to capture these market opportunities. We have seen a reduction in the level of price erosion and we have been able to increase volumes across our portfolio, thanks to the strength of our commercial and operational teams

Strong commercial and operational capabilities enabling us to capture market opportunities

- Our business has proven to be strong enough to weather the bad storm we saw in 2022
- By working closely with our customers, enhancing our internal processes, and leveraging our manufacturing flexibility, we were able to drive demand for our marketed products and fill market gaps caused by competitor issues
- The strength of our commercial and operational capabilities as well as our manufacturing flexibility are enabling us to win new business and achieve a better-than-expected performance across our differentiated portfolio. We are also making good progress growing our contract manufacturing business, leveraging our Columbus facility's state-of-the-art manufacturing capabilities to secure additional partnership opportunities
- We are also benefitting from the launch of our authorised generic of sodium oxybate
- We continue to work on improving our portfolio composition to achieve a better balance between traditional generics and more durable, higher barrier-to-entry products, such as our Kloxxado nasal spray, where we are gradually gaining market share
- And now I would like to hand it over to Khalid to deliver his presentation

Khalid Nabils – CFO

Financials

Group

- Thank you Said and hello everyone
- The Group has delivered strong results in the first half of the year, with growth in all three business segments, led by a stronger-than-expected performance in our Generics business
- Supported by the strength of our underlying business, the breadth of our product portfolio and our unique manufacturing footprint, the Group achieved impressive levels of growth in both revenue and profit
- Group revenue was up by 18% at \$1.4 billion, and core operating profit was up by 35%
- Core EPS was 128.5 cents per share, up 40% from last year
- In order to rebalance the distribution of dividends more evenly over the course of the year, our interim dividend, on an ongoing basis, will be calculated at approximately 45% of the prior year's full-year dividend. The Board is, therefore, recommending an interim dividend of 25 cents per share, up from 19 cents
- Now let's have a deeper look at the financial performance of each business segment

Injectables

- Starting with Injectables
- This business delivered revenue growth of 9% in the first half, supported by a growing product portfolio, new launches and strong manufacturing capabilities, which are enabling us to capture opportunities and ensure our customers' needs are met
- In North America, revenue grew by 5%, reflecting our broad portfolio of more than 150 products, new launches and full contribution from the acquisition of Custopharm and Teligent's Canadian assets, helping to more than offset an increase in competition
- In Europe and rest of world, revenue grew by 10%, reflecting good demand across most of our markets, particularly in Germany where we are helping to address market shortages
- In MENA, we saw a strong first half performance, with revenue up 24%. This reflects the continued good performance from our growing biosimilar portfolio, and new launches. We also benefitted from the early fulfillment of tenders. This strong performance has helped to more than offset the currency headwinds experienced in Egypt
- Injectables core operating profit grew 2% and core operating margin was 36.6%, down from 38.8%. The decline in margins is primarily due to higher costs due to inflation and increased competition in the US, which was partially offset by a good contribution from recent acquisitions. On a reported basis, the halting of operations in Sudan has resulted in an impairment charge of \$15 million related to the Injectables business

Branded

- Turning to our Branded business, revenue grew 11% driven by a good performance across our markets as well as the timing of some tenders in our larger markets.
- Our oncology products had a particularly good performance and the strategy of focusing on treatments for chronic illnesses continues to be a growth driver
- Core operating profit grew 41% and margin expanded to an impressive 27.7%, reflecting an improvement in product mix, driven by our growing oncology portfolio, the timing of tenders and the phasing of certain operating costs towards the second half
- On a reported basis, operating profit declined due to the ongoing conflict in Sudan, where we are unable to operate and have taken an impairment on this business

Generics

- Our Generics business delivered a better-than-expected performance in the first half, with strong growth in both revenue and profit
- Revenue was up 39% in the first half, driven by a strong performance from our base business, both in terms of improved volumes and a lower level of price erosion, as well as a good performance from the launch of the authorized generic of Xyrem
- Core operating profit increased to \$122 million and margins expanded to 26.5%. This is primarily due to the strong profitability of sodium oxybate in the first six months. We expect to continue to benefit from this new launch in the second half, however at a reduced margin due to the royalty payable structure. We also had lower R&D costs in the first half due to phasing. All of this helped more than offset higher sales and marketing costs as we continue to develop our commercial capabilities and build our specialty business

Expanding and enhancing our product pipeline

- One of our strategic pillars is to build a portfolio that anticipates future health needs. It is important we invest in building a pipeline of differentiated products to ensure long-term sustainable growth
- In the first half of the year, we continued to progress with our pipeline projects and invested \$64 million in R&D, representing 4.5% 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
- Our capital expenditure goes towards both maintenance and the upgrading of our equipment as well as on expanding our footprint.
- As you can see on the slide here, we consistently invest between 5% to 7% of revenue on capex

- In the first half of the year, our capex spend was \$84 million
- In the US, \$21 million was spent on upgrades, new technologies and capacity expansion across our Cherry Hill, Dayton and Columbus sites
- In MENA, \$49 million was spent strengthening and expanding manufacturing capabilities, including our two ongoing greenfield Injectables production sites in Algeria and Morocco and a new land purchase in Saudi Arabia.
- In Europe we spent \$14 million enhancing our manufacturing capabilities, including the installation of new filling lines in Portugal and Italy.

Cash flow and balance sheet

- The Group continues to generate a healthy level of cash flow, with operating cash flow of \$222 million in the first half of the year. The increase compared to the previous year reflects the growth in core operating profit, which was partially offset by higher investment in working capital related to strong growth in the MENA region
- The Group's 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

2023 full year guidance

- Finally, the outlook for 2023
- For Injectables, we continue to expect revenue to grow between 7% and 9% and for core operating margin to be between 36% and 37%. This reflects our broad portfolio and flexible manufacturing capabilities across our geographies, supported by new product launches.
- For Branded, we continue to expect Branded revenue growth to be in the mid to high-single digits in constant currency, reflecting strong growth across our markets, which should more than offset the halting of operations in Sudan. On a reported basis we expect revenue and core operating profit to be broadly in line with 2022. This assumes a headwind of approximately \$50 million resulting from the devaluation of the Egyptian pound. Revenue and core operating profit will be weighted towards H1 due to the early fulfilment of government tenders and the phasing of R&D and other operating expenses.
- For Generics – we now expect revenue growth of close to 30% and for core operating margin to be between 18% and 20%. This reflects continued strong performance from our base business as well as the expectation of a stronger second half contribution from the authorised generic Xyrem®. This also assumes an increase in R&D and sales and marketing expenses in the second half of the year
- We expect Group core net finance expense to be around \$83 million and the core effective tax rate to be in the range of 22% to 23%.
- We expect Group capital expenditure to be in the range of \$140 million to \$160 million.
- Thank you. I will now hand it back over to Said.

Said Darwazah – Executive Chairman and CEO

A strong investment case

- Thank you Khalid. I would like to close by saying I am proud of what our teams have achieved, which has enabled this strong first half performance
- I am especially delighted that Riad Mishlawi has been appointed as Hikma's new CEO, effective 1st September 2023. He has an excellent record of delivering business expansion and profitable growth. I'm looking forward to working closely with Riad as he leads our business from strength to strength
- Hikma is making good strategic progress and I am confident that we can continue on this trend for the rest of the year and beyond.