

Riad Mishlawi – Hikma – Chief Executive Officer

Okay, good morning, everyone. It's always great to sit in front of you when we have good results. It makes the day much more pleasing. Anyways, I just wanted to go over some, maybe, overall messages. We had, as you all know, we had an excellent performance in H1. Revenue was increased by about 10%, with the three businesses performing well, underpinned by our strong commercial and operational capabilities. We continued to invest in the businesses and deliver on our corporate strategy. In the first half, we had grown our portfolio, launching 59 products across our businesses, and continued to strengthen our pipeline with more than 300 products currently in the pipeline.

We further strengthened our leadership team. As you know, we had some additions, we had some shuffling around and some changes in responsibilities. We announced strategic acquisitions of Xellia products. The Xellia acquisition included products, manufacturing facility and R&D assets. Of course, as you know, we're still waiting for the final FTC approvals. We expanded into other territory, especially in Europe, in both the UK and Spain, doing exceptionally well there. We're well-positioned for sustainable long-term growth and have upgraded our guidance for this year. Group revenue is expected to grow in the range of 6% to 8%, up from 4% to 6%.

Group core operating profits to be in the range of \$700 million to \$730 million, up from \$660 million to \$700 million. Injectables, a very positive first half, revenue growth of about 4%. Good strategic progress with the launch of 39 products across all of our markets. The Xellia acquisitions, as we have announced, position us very well for the medium and long term. Europe, officially entered into the UK and Spain. We continue to expand - excuse me. We continue to expand our portfolio with new launches, and we're seeing some good demand on our products.

We had a low CMO revenue in the first half, but this is only due to timing. MENA, solid growth. We continue with the momentum, supported in both our own products and the biosimilar franchise. Good progress with our new plants in Algeria and Morocco, which will open in 2025. Guidance maintained for the year, with revenue growth expected in the range of 6% and 8%, and for core operating margins to be in the range of 36% and 37%. The branded, again, excellent performance, with the revenue up 12%, 13% in constant currency.

The timing of the tenders in the first half means that the revenue and the operating profit is strongly weighted towards the first half. Momentum continues to be driven by oral oncology portfolio and focused on the medication used to treat chronic illnesses. As with the last year, the timing of tenders will result in a skew of revenue and profit to the first half. Operating costs to be expected second-half weighted. Upgraded the revenue guidance, which is now expected to grow in high single digits in constant currency or 6% to 8% on a reported basis.

Previously, it was low single digits on a reported basis. We expect core operating margins to be close to 25%. 2023 margins were 23.9%. Generics also had a strong half, with volumes growth driving revenue up to 15%. Appointment of Hafrun as the President of the Generics business, who brings extensive R&D experience, will help further expand Hikma's products, portfolio and pipeline. Our authorised generic of sodium oxybate continues to perform well, on the revenue basis, albeit at a reduced margin due to the expected increase in royalties payable.

Increase in guidance for both revenue and core operating margins, revenue to grow in the range of 5% to 7% for the full year '24, up from 3% to 5%. We expect 2024 core operating margins to be between 16% and 17%, up from previous guidance of mid teens. Expect increase in competition on certain products and higher R&D costs in the second half. I'll open it now for any more questions. Thank you.

Emily Field – Barclays

Hi, Emily Field from Barclays. Maybe just a question on R&D in the generic segment. I know that this is expected to step up in the second half, with obviously some changes in leadership. Are there any fundamental changes to the R&D strategy in generics or changing any prioritisation of any projects as a result?

Riad Mishlawi – Hikma – Chief Executive Officer

Yes, all of the above, actually. You know Hafrun's strong experiences in R&D, and the first thing that she had done, she evaluated our R&D strategy, our R&D pipeline, and our R&D team, and she has done changes in all of those three. So, we have a different pipeline than we had before. Some products were discontinued, some products were recontinued that we had discontinued in the past. She had shuffled the teams around. She had added some key members to the team, and she has a strategy of expanding the R&D, expanding the number of projects, and expanding and collaborating with other divisions and making it more efficient to deliver more with less.

Peter Verdult – Citi

Peter Verdult of Citi. Just a few topics, Riad. Just firstly, the balance sheet gets stronger. I know you've got some litigation going on, but just from a BD environment, you've done the Xellia, but just - I imagine you're not going to call out assets, but just the environment to do deals. Is that improving versus three to six months ago? I'd be interested in whether you feel that you can utilise balance sheet further to complement the strategy. Separately, a quick return to the compounding business.

I know you're building it out. It's a slow burn. But is there anything material to update us on, or - and is break-even at some point next year still on the table? Then lastly, the obligatory pricing environment question. You seem to be calling out business as usual, Sandoz is the same. You did talk about pockets of competition in US generics in the second half. Anything you're willing to call out there? But it does seem - I just wanted to clarify, it does seem that the pricing environment in US generics and injectables is nothing untoward. I just wanted you to confirm that. Thank you.

Riad Mishlawi – Hikma – Chief Executive Officer

Okay, I think for the first part, for the M&A part, we've been very active, actually. I've been in the Company for quite some time, and I don't think I've seen the Company so active in M&A. So, we are looking everywhere, and there are potential prospects. We're talking to a lot of different companies for M&A, for partnership. So, BD is very, very active. We know that we have our balance sheet, and part of our strategy is to use that. We've done Xellia, but I think the potential of doing more is really on our radar and we've been talking to a lot of companies, and hopefully we can see some results out of that. In terms of - your second question was related to the generics, I believe?

Peter Verdult – Citi

US compounding.

Riad Mishlawi – Hikma – Chief Executive Officer

US compounding. So, I don't think this has been anything new for US compounding, except I think we are learning more as we go. I think we are really, purposely trying to make that growth to be slow. We know that this is a very delicate business. We don't want to make any mistakes. I think the potential of growth is there, but we're not very desperate to grab it right away. I think the foundation is very

important in this business. We're buying equipment, we're validating more equipment. We automated a lot of equipment. We have now water for injection systems.

We have automatic labelling, automatic filling, and I think this is important. I think the foundation, as we did in the injectables, building the foundation first before you start pushing everybody to produce more. You really don't want to produce more and get in trouble for some reason or another. So, we're happy with the progress. We could have done, I think, we could have maybe grown faster, but I think we're happy where we are today, and I think we can look at the future and see that the growth is going to continue.

Peter Verdult – Citi

And is a break-even at some point next year still on the cards, or is that too [unclear]?

Riad Mishlawi – Hikma – Chief Executive Officer

I think it's fair to say some time next year should be reasonable. Lastly, for the generics business, as far as the pricing is, I don't think there is a dramatic change from where we were as a single digit. We see some increase, I would say, increased competition to some key products that we have in the second half. We know that some of the contracts are going to be due for the second half, and we think that maybe the competition - we have tried to be very careful about going after the business that we have.

So, I don't think there has been a lot of change. I think the momentum for the first half was very, very big, and we accelerated some of the shipping. We did a lot, and some of the big products, we did a lot of shipping there. But that would be progressing. I think the reason of the - I think your question is why we have a lower second half than the first half, and we tried to explain it by, the product mix, spending on R&D, and some of the increased competition on some of the key products that we have.

Paul Cuddon – Deutsche Numis

Paul Cuddon from Deutsche Numis. Just firstly digging into visibility on CMO recovery in injectables into the second half of the year, particularly within Europe, and just a slight niggles on the margins. My understanding is CMO would be lower margin, your own product is higher margin, and yet you're tracking toward the lower end of the range. So, if you could just flesh out those dynamics, that would be appreciated.

Riad Mishlawi – Hikma – Chief Executive Officer

Sure. The demand - we still have a demand that is very healthy. It's a good problem to have. So, you have demand and you have CMO and you have to shuffle between them and you have to prioritise. In some cases, we do prioritise our products, depending on the tenders, depending on looking at failure to supply. We continue talking to our CMO clients to see when they need the products. This year, I think the CMO is heavily weighted on the second half. So, we have a lot to do in the second half. As far as the margins, yes, CMO is usually higher margins than our products.

But I think what happens is, when you have CMO, you will have to take the space and the capacity for your own products. So, you have to be very careful how to balance this out. We've been doing a good job with this, and the CMO can grow if we have capacity. Our capacities are being built today. So, we have a lot of expansions happening in the injectables in all areas - in Europe, in the US. Also, as you know, hopefully if Zagreb comes online too, that would be an additional capacity. So, we feel that the CMO business has a tendency or has all the future to increase when our capacity increases. Do you want to add anything, Khalid, on the margins?

Khalid Nabilsa – Hikma – Chief Financial Officer

No, I think it's [unclear]. It's just the timing of the CMO business. But we reiterated our guidance. We are comfortable with our guidance today, and even on the medium term going forward for the injectable. I think Xellia is going to add a lot of capacity. So, I think this will as well drive future growth.

Paul Cuddon – Deutsche Numis

Thank you, and then secondly on the branded business. So, I hear the message about the tender orders and phasing in that business. But I'm just wondering if you could talk to any market share dynamics that you're seeing in any particular areas where Hikma is performing exceptionally well.

Riad Mishlawi – Hikma – Chief Executive Officer

Well, one of the big - the two biggest markets that we have, both Saudi Arabia and Algeria, are performing really well. Our growth in Saudi Arabia is notable. We are now the top, number one pharmaceutical company in Saudi Arabia. In Algeria, we're one of the top five. We had invested a lot in both of those countries, and now we're seeing the results. In Algeria, we had built oncology operations. We also had - are just closing out our construction on the injectable operations.

We also are in construction to build distribution centre offices and a few, also, plants there. So, there's a lot of investment. There was a lot of investment in those two. As you know, Saudi Arabia, we are also planning to construct - we're at the design stage now. We're planning to construct a very impressive facility there. So, we believe in those two markets. We're leaders in those two markets. Very respected, very good reputation, and we'll capitalise on this and continue to grow it. So, yes, we were very happy where we are with those two markets.

Khalid Nabilsa – Hikma – Chief Financial Officer

At the same time, we've been growing across all of our markets, and due to the product launches that we have - we have, as well, very strong growth in Iraq. We have strong growth in the UAE. So, Morocco. So, all markets are growing in a very healthy, I would say, trend.

Victoria Lambert – Berenberg

Hi, Victoria Lambert from Berenberg. My question is just on your biosimilar strategy in the US. I know Gedeon Richter's now filed their denosumab in Europe, and they were saying they think you guys together will be filing soon in the US, with the launch possible next year. So, I just wanted to get, maybe, some update on timing and how you expect to compete with some of the larger biosimilar companies in the US, and maybe if you'd look to do private label strategy with the PBMs.

Riad Mishlawi – Hikma – Chief Executive Officer

Yes, it's too early to decide on the exact strategy. We know that this market has not been stable. A lot of - you can see how there was a lot of acquisitions and a lot of approvals. It's still not settled yet. We know that we're coming in not number one, number two or number three. So, we'll be maybe, I don't know, six, seven, depending when we land. So, our strategy of how to sell is going to be key. I think we will have to depend on the costs and the prices rather than on having a big - like Sandoz, having a big basket of products and going to be the leader of the biosimilars. We just have very few, and the good thing about it is our partners. They make this product very efficiently.

Our transfer prices are very competitive, and we think we can get some market share, albeit a small one, but based on these parameters. Good costs, and good transfer prices. But we really don't know when we're going to land. We know that we will be filing soon. We know that there will be legal - also some legal implications for that. We just - we're not relying on a big time. We'd like to have it. We will be ready as soon as we know when we're going to land and when we're going to launch. I think the commercial side needs to be ready, and at that point we decide how - private label or no private label, we'll decide how we're going to sell it. But definitely it's not going to be an easy market.

Victoria Lambert – Berenberg

Thanks, and then just on the biosimilar strategy and the Middle East, are you guys looking to - I don't think you have a Humira biosimilar in the portfolio yet. Are you looking to maybe branch out more into the immunology and doing deals in those sort of big products that have come to market or are coming to market soon?

Riad Mishlawi – Hikma – Chief Executive Officer

Yes, I think this is our strength, and so our biosimilar portfolio is as big as Celltrion's. So, our agreement with Celltrion that any product that they have approved, we can introduce it to MENA. So, we're a verified partner with them, and we're planning to transfer all their portfolio to MENA and get it in all countries. It's been doing well, growing significantly. We're not only growing in - we're actually growing the market itself, because now it's more affordable for a lot of people. So, we're growing the market, and we're taking a big market share.

As far as the chronic diseases and those critical diseases, we're doing very well with that. I think our BD team have done very well. We're going into interesting chronic diseases medicines. We're going into diagnostics. We're going into a lot more than just being a medicine provider. We're really going into becoming a partner with the physicians, more of a healthcare solutions provider, and we're expanding. I think we have a lot of partnerships with the hospitals, with doctors, a lot more than just provider of medicines. So, yes, I think if you look at our history in the last few months in BD, you can see that we're getting very much into interesting products like that.

Khalid Nabilsa – Hikma – Chief Financial Officer

But just to answer your question about Humira, yes, we do have Humira and it's launched in [unclear] markets.

Victoria Lambert – Berenberg

Thank you. In which markets?

Khalid Nabilsa – Hikma – Chief Financial Officer

One market, yes.

Guy Featherstone – Hikma – Investor Relations

It was announced on our website. If you go to July '22, you'll find it.

Christian Glennie – Stifel

Hi, Christian Glennie from Stifel. On branded, maybe just add a bit of context. Obviously, a 30% margin, first half. You're guiding 25% for the full year. Those are multiple, multi-year highs for that business. You're obviously reflecting some of the investments you've been making, but what should be the mid-term expectations for branded in terms of margins? Does 25 [set the new base], and then [route] from there, or how do you think about that?

Khalid Nabilsa – Hikma – Chief Financial Officer

Although we are not guiding to next year or - for 2025, but we see very good momentum going on in the branded business, especially with the new launches that we have and the growth that we are seeing in different markets. I think we are becoming, really, the partner of choice, as Riad mentioned. You've seen many of - like the BDs that we have signed over the past - just this year. So, this is driving, continues to drive growth. We see very positive momentum, and that trend will continue, hopefully.

Riad Mishlawi – Hikma – Chief Executive Officer

So I think, just to add to this, I think there are many parameters - many variables that are making us strong. So, we have been increasing our local presence. So, we have been investing in oncology. We have been investing in building new plants, and that really takes us a long way, as you know. You get preferential treatment if you are local. The second thing is the situation in the Middle East, as you know. Made a lot of the people that probably intended to go themselves to the Middle East go and partner with somebody like us, you know? It's just, the currency in Egypt, the wars that are happening all around, and this is being repeated every other year.

So, I think a lot of people look at us, they know that we cover all the area, we know it very well, we have local teams in all the areas, we understand what's happening locally, and we can manoeuvre around that. So, it's easier for us to make deals with those companies and take the products ourselves and distribute it. Lastly, I think the business itself, the leadership, is motivated. A lot's happening, and as you know, success brings success, and if you're motivated with the success, teams are very motivated, and adding more and more talent, and the results are - and it's not - it's been going for the last three years, to know? You can see that gradually it's going up and up.

Christian Glennie – Stifel

Thanks, and then on generics, the US generics, you've called out a few competition things, but just to understand the margin impact that you're implying for the second half to get you to your 16%, 17%, the second half, and then related to that, you tried to reset, rebase expectations for operating profit for that \$100 million to \$120 million. You're obviously well north of that this year, but even if you look into consensus it's around \$140 million, right? So, it's well above that. So, is there something we're missing on the consensus side, or is that \$100 million to \$120 million just too low?

Khalid Nabilsa – Hikma – Chief Financial Officer

No, in terms - as Riad mentioned previously, it's a matter of timing of sales for this year. So, some sales were - occurred more on the first half versus the second half. So, it's not like we are exiting with such a margin for next year, and we always said that we are confident with \$100 million to \$120 million, as you've mentioned. So, and now Hafrun is on board, so there will be much more focus on the R&D, on the launches, on BD. So, there's a lot as well to come for next year. So, maybe, all I can say, that 2025 consensus, it would be a good base for where we are, although we are not guiding, but I would assume so.

Riad Mishlawi – Hikma – Chief Executive Officer

Look, I think, just to add to this one, it's a tough business. It's the toughest out of all the divisions that we have, and we have to tread very carefully. So, although the branded and the injectables, the strategy was set, and we were just following the strategy, it was clear to us, the generics, we had to redraw the strategy. Hafrun came in because we really needed to have R&D. We needed to have our own pipeline. We knew we cannot survive from one year to another year without new pipeline. We knew that we have to increase our contract manufacturing.

We have beautiful facility, great compliance. It's in the US. It's not fully utilised. When we started with this, we got a lot of takers. So, this is something that we're focusing on right now. We have good technologies. We have the respiratory. We have inhalations. So, this is something that we're also looking at. How can we increase that pipeline? How can we get more products like this? So, I think the way that we're looking at the generics right now, we're looking at it with a different eye. We're really focusing on it to stabilise it. We stabilise it by the team that we put there, by the focus that we have, by the money that we're spending to support it, by how we're doing R&D.

In the past, R&D was, should we be spending money on this unit or not? Now we're saying, let's spend money on this unit, because we can't just leave it like that. We can't leave it up one day and down one day. I think the strategy is paying off, I think, and it hadn't been for a long time. So, this is why we're very careful with [guidance]. But we're comfortable. We're comfortable to be a little more - for everybody to expect a little more than we're giving, and we're hopeful that this is - it will take a few years, but it will become as stable as the other divisions.

Christian Glennie – Stifel

Thank you, and then maybe finally, if I can, on injectables, the 4%, the first half, 6% to 8%, maintain that full guide, but are we looking - are you still comfortable, confident in getting - you could still end up at the top end of that full year range, because that implies a very strong second half. Then just a reminder of Xellia, timings of completing that deal, and then the potential impact, if any, on margin?

Riad Mishlawi – Hikma – Chief Executive Officer

Well, for the injectables, the trend is always the same, you know? Last year is the same. Always, the second half is stronger than the first, for many reasons. CMO in this case is a big reason. So, we're comfortable to be where we are. We didn't want to push more. This is why we kept the numbers the same way. There's a lot of focus on making sure that we meet those numbers and we're comfortable that we would meet them. The injectable business has a very strong foundation and I don't believe that - I believe that we have a lot of the elements to continue with the growth, and as we're always telling you, we're spending a lot of money.

We're spending an incredible amount of capital to feed it. We keep feeding it with new equipment, new automation, new portfolio, new products. Technologies, we're adding technology. This is why Xellia is so important, because Xellia can give us a lot more, you know? It can give us more products, a very interesting portfolio. Most importantly, also, new technology with the bag filling that we have. That's really - it's very, very unique. Bags are made differently, and one of the difficult ones, if you can have IV bags that are filled in an aseptic way - it's a very difficult technology and very unique and we will be getting that.

Of course, six lyos, large lyos, will add to our already big lyo capacity that we have. But we see - we know it well now. We know this space well. We know the demand well, and we're excited about adding all this capacity. I think we can use it, and I think we have a lot of clients for contract manufacturing that are trusting us right now and want to add more business towards us. So, all in all I think it's a strong business and we believe that it will deliver what we said for the future.

Khalid Nablisi – Hikma – Chief Financial Officer

And in terms of margins, as we highlighted when we announced the transaction, that it would be neutral to Group earnings. So, that implies that it will be slightly below the margins for the injectable business, but at the same time, once we get the products from the CMO to our manufacturing plants - so, this is the medium term impact. But going forwards with all the portfolio, with the R&D, I think we are very much, I would say, comfortable with the medium term guidance for the injectable business, which is in the mid-30s. But at the same time, we are growing in Europe, we are growing in MENA, and these have much less margin than the US. So, all in all, mid-30s guidance is a very comfortable assumption for this business.

Riad Mishlawi – Hikma – Chief Executive Officer

As far as the FTC, we're following the rules. You send it to the FTC, and you answer all the questions that they need, and you wait for approval. So, we are confident that there is not that - it's not that complicated. We don't have any - we don't have big problems between us. But FTC have to bless it before we go.

Emily Field – Barclays

Hi, Emily Field from Barclays. Maybe just going back to generics, now that we've seen Victoza generics launched in the US, any updated thoughts on generic GLP-1 strategy?

Riad Mishlawi – Hikma – Chief Executive Officer

The generic launch is an authorised generic by Teva, I believe. As you all know, I think they launched June 24 and they have six months' exclusivity. So, we're the only one that is approved. A lot of applicants there, but we are the only one that is conditionally approved for this. We're excited about it. I think it is a good opportunity for 2025, since we're only going to be able to sell it very, very, the last few - for a Christmas gift, I think it will come, on 25 December. So, yes, we're excited about it.

Those are one of the many products that we have done in BD in injectables in the last few years that are coming out now, and we hope that this will - this is still a big one. It's a declining market, but it's still a big one, and then we hope we can capitalise on the remaining part of it.

Guy Featherstone – Hikma – Investor Relations

[Unclear], we're going to just go to the line first, and then we'll get back to you, if that's okay.

Moderator

Thank you very much. If you'd like to ask an audio question, please press star followed by one on your telephone keypad, and if you'd like to remove yourself from that question queue, it is star followed by two. Our first question comes from James Gordon of J.P. Morgan. James, your line is now open.

James Gordon – J.P. Morgan

Hello, James of J.P. Morgan. Thanks for taking the question. Two questions, please. One of them was - the guidance implies quite a sequential contraction in generics margin in the second half. I heard part of it is higher R&D, so how much is it higher R&D versus other factors, and of that R&D, can you talk a little bit about where it is going in terms of what is going to be the focus in terms of where you're going to try and move into for generics? The other question's been touched on a bit already, but in terms of GLP-1s, so you've got Victoza next to you.

So, you can make GLP-1s. You've got [fill finish]. You've got spare manufacturing capacity for injectables, because you're even doing manufacturing for other people. I was just on the Sandoz call and they're talking about going for Ozempic. So, are you going to have a go at that? It'll be the world's - probably the biggest opportunity for generic companies, and it looks like you'd be well placed to do it. So, would you also have a go at doing Ozempic, or are there reasons it doesn't make sense to do it?

Khalid Nabilsa – Hikma – Chief Financial Officer

Yes. If I heard you well, in terms of the generic, we said the second half is going to be maybe more weighted for the R&D and one of the reasons - we are not giving exactly how much it's going to be, but one of the reasons we were expecting Hafrun to come - so, some of the R&Ds were put on hold until Hafrun came and evaluated the projects. So, and as Riad mentioned, there were some R&D projects that were put on hold, some of them that we resumed, and some of them were introduced.

So, it's going to be more second-half weighted. On average, usually we spend around 6% to 7% as a percentage of sales on R&D for the generic business. So, in the first half you saw in our financials, that spend in total for the Group was not that high, which is around 4%. So, we should expect more to come in the second half.

Riad Mishlawi – Hikma – Chief Executive Officer

Yes, and going to the R&D, you're right. Everybody is now - the craze is to be biosimilars, biosimilars, now GLP-1s. So, everybody is going the same way. I remember 10 years ago, it was oncology, oncology, oncology. So, it just changes and everybody goes in the same direction, and so would we. We are looking at the market. A lot of people are going for the generic Ozempic. It's still a few years before it's off patent. As you can see, we are in the liraglutide. There are a lot of other products, as you know, with Lillie coming in, in a lot of different ways.

So, we will be part of it, in one way or another. It could be in our own development, it could be by partnership, or it could be by contract manufacturing. But it's something that is going to be a big part of this industry, and we are a big player in the industry. So, definitely we should be a part of it.

James Gordon – J.P. Morgan

Thank you.

Moderator

Thank you. Our next question comes from Sebastien Jantet of Panmure Liberum. Sebastien, your line is now open.

Sebastien Jantet – Panmure Liberum

Hi, everyone. Good morning. Thanks for taking my questions. So, just a couple of questions, and I'm not sure whether you're going to answer these or not, but I'll try them anyway. So, obviously, you have outperformed the revenue level in generics. I'm just trying to get a sense of where that outperformance came from. Was it solely from sodium oxybate, or were there other products contributing? Then the second question is just wondering whether you can give us an update on where you are with generic Korlym.

Khalid Nablisi – Hikma – Chief Financial Officer

So, the first one is across all products. It's not like one specific. So, it's sodium oxybate, of course contributed to the growth, but at the same time, Advair contributes. So, we have other products as well. They contributed well. So, it's not like just one direction where we had such a strong performance. But as we mentioned, it's more of a timing of certain sales and some contracts that we had.

Riad Mishlawi – Hikma – Chief Executive Officer

Yes. You see, with what's happening in the US, the market share of GSK and on some of the products that we have in common with them. We picked up some of that volume, some of the contracts that we have. So, we've been very active, pushing the team. The team has been very motivated. They've had a tough year the year before. So, it's just natural that - we have good products. We're introducing more products, and they've done very well with the products that we already have in the market, so just [natural]. Do you want to comment on the...

Susan Ringdal – Hikma – Investor Relations

We don't really say much about the products in our pipeline. So, all we can say is that we have settled. We have a settlement date that's out in 2034, yes, and beyond that, we can't comment.

Riad Mishlawi – Hikma – Chief Executive Officer

I just want to maybe generally talk about R&D a little bit. As you can see - we don't have to spell it out, but as you can see, we have two Presidents that have joined us in the last year, and both of them with an R&D background. So, obviously, we are looking at R&D as something that is very important. We believe in organic R&D. We believe having our products made by us, developed by us. Of course, it's not always possible, but we would like that arm of the businesses to continue to be strong.

We've benefited in our other divisions in the history that we have with organic R&D, you know? As you know, and people who have been following us for a while, the injectables, strong - the strength that we have in the injectables is based on the products and the portfolio that we have, and maybe a lot of it we did not develop, but a lot of it we bought, as you know. The Bedford deal had brought many products there that we re-engineered, we transferred into our own facilities, and we introduced them back to the market, and that really helped the growth.

So, we believe in - organically be in control of the product as much as we can, in development, in manufacturing, and in distribution. Sometimes it's possible and sometimes it [isn't]. Then the problem happens is, well, how much are you going to spend on R&D? You still have a budget, so how much is your budget? We wanted to - our goal is, how can we get more for less? So, we want to do more R&D, but we also don't want to spend all our money on R&D. So, there's going to have to be a limit. We did say between 6% and 7% of revenue.

So, how can we continue with these numbers and still get what we need? And as you know, of course, having Hafrun coming from a big company and a billion dollar budget there, [to limit her]. The same thing with Bill. These guys, they want to develop, they want to grow, and bring more products. So, this is where the attraction of Xellia came about, because it does bring in a very good centre of development in Zagreb, where it is relatively less expensive or, I would say, costly than other areas, and we're going to capitalise on that one.

So, we will make more in R&D for less. The same thing with Jordan. Hafrun was in Jordan a couple of weeks ago and she saw a lot of potential in how can we get the two units, the branded units and the generic units, collaborating on R&D? Typically, we run our Company - very much independent units. But we are finding that there is some collaboration that we can do that will allow us to do more for less, and this is one of the things that we are doing. So, we are doing a lot in R&D, and our ambition is to do a lot in R&D, but we also need to do it for less.

There is a lot of potential that we can do that, especially the fact that we are in Jordan, we have a lot of people in Jordan, a lot of educated chemists. We have laboratories, we have several plants, and we have space to grow. Add to that Zagreb, which is a very well-known area, actually, and have a lot of competent people that know this business very, very well - came from a long history, some of them from [Pliva] before that. So, I think we're excited about this. We're excited that - and the Presidents of those units are very excited - excited that they can do a lot and still be careful about what you promised the market and the budgets that we spend on R&D.

Sebastien Jantet – Panmure Liberum

Brilliant, thank you.

Moderator

We currently have no further questions. So, I would like to hand back to Riad Mishlawi for closing remarks.

Peter Verdult – Citi

No, no. Sorry, Riad, I think those closing remarks will have to wait a bit. Peter Verdult with Citi, three questions. Just on Egypt, if we take the currency away, what's going on in that market on an underlying basis? Two, I think the answer's - I think I know what the answer's going to be, but the compounding efforts you're doing in the US seem to be very much hospital-focused, but obviously GLP-1 compounding is a hot topic. So, any interest there? I don't think you have, but just to confirm that.

Then just, I want to come back to the US generics strategy, because it's clear what you do on R&D, but the message before was, we have a CMO business that does \$80 million, \$90 million. We want to grow that. I think Said in the past said that could be a \$300 million opportunity. We've got this specialty business that you're building as well with a sales force. Just touch - put it all together in terms of, are we now to believe that they're going to be de-emphasised or is that - is the strategy there to stay the same? Just want to know how it all fits together.

Khalid Nabilsa – Hikma – Chief Financial Officer

So, I'll take Egypt. Egypt is a very strong market, and it's one of our largest markets. Now, due to the currency, of course, sales went down by almost 50%. But still, we have so many product launches in the market. We are one of the largest players. Even the impact of currency, [government] would help companies in increasing pricing in order to continue to sustain a good profit. So, although last year -

or this year - we had a significant decline, but the impact when you see it's not significant on the assets on absolute terms. So, it's one of the large - Algeria, Saudi Arabia and Egypt are our top markets. So, we will continue, committed to the Egyptian market, and continue to launch products.

Riad Mishlawi – Hikma – Chief Executive Officer

For the compounding - I was told not to talk much about compounding. They told me, be careful. So, and I don't want to talk much about compounding. All I want to say is, compounding is a good business and continues to be a good business, and it is complementary to what we're doing. So, we do have ready to use bags. We're adding more now with the Xellia position. So, it's very complementary to the compounding business. How fast can we grow compounding business is going to be key. Because the compounding business, and as we learned after two years now being in the compounding business, it does need a different focus than our core business.

You sell differently, you promote differently, and you get orders differently than the core business. So, it has to be, really, a lot of focus on it. We wanted - in the beginning saying, well, we have the clients at the hospitals. So, the same clients that we have. We have the knowledge. We have the systems. We have the products. It should be a piece of cake. But I think we learned, and I did communicate that last time we met, that it does need a different focus on it. So, we have a finite number of resources. Should we just take our resources, throw them on this one, or should we concentrate on our core business and let this one grow slowly?

I think the decision was to do exactly that. We don't want people to take the focus off the core business. It's very important to continue with the momentum that we have with the injectables, and with all the injectables, continue focusing on this while we grow this one as a separate, and we did take it out of the injectables and put it on the side, and we're doing exactly that. So, we know that this business has potential today, and will be for the future. But I think it's just a matter of how much energy are you going to put in with that, take away from the other more important arms that you have, and I think we want to do that one slowly and we want to focus on the core business while this one grows very slowly.

So, and this is exactly what's happening. There's a lot happening within it, but not to take off your attention from what is important today. Then lastly, about the generics. No, it's exactly the same strategy, it's just doing that strategy faster and bigger and have the right resources to implement it. Everybody can have a great strategy, but I think the key here is in implementation. How fast can you implement it? How successful in your implementation can you be? Contract manufacturing, we think, can be great, can be big.

But again, you can't take on more than you can - you can't bite off more than you can chew, basically. So, you can't just take all the customers all at once. Contract manufacture requires you to transfer the products. Many of them require some new machinery, maybe, and we like to go with big - with one big customer that has a lot of products, rather than having to grow small ones here and there. It seems like it's working and we have a lot of people knocking on our doors, and we're being selective now.

Who do we want to deal with in the beginning? But I think this looks good and I think hopefully we can have more and more of this one. The strategy is increasing R&D, the strategy is concentrating on your technology, and bringing new technology. Spend your money on growing that technology rather than on other things. So, this is exactly what we're doing, and I think Hafrun is really helping a lot in implementing this strategy.

Peter Verdult – Citi

Just one clarification. When you talk about contract manufacturing and US generics today, is that basically the BI business, or is there a lot - do you have many more customers? But how should we - I know you probably don't want to talk about individual customers, but is it fair to assume that...

Riad Mishlawi – Hikma – Chief Executive Officer

No, it's other than BI. It's other than BI. So, BI was one that actually got us started when we acquired Roxane at the 2014-15 timeframe, and that continues, although it's been declining as their product's becoming generic. But no, we have a lot of other ones, big ones that are knocking on our doors. Okay, well, I think, again, just to repeat my first sentence when I walked into the room, it's just very, very nice to come in with good results, great achievements. The team have done a fantastic job.

We've added very interesting and capable resources. The future seems to be laid out. We know exactly where we're going. We know what we need to concentrate on, and we're happy that we have the resources and the money, and are financially strong that we can apply all these resources into implementing this strategy, and we're confident that this will continue. The momentum is there, and we want to make sure that the momentum continues. So, thank you very much.