Business and financial review

Highlights

- Injectables core revenue up 7% driven by strong demand for our broad portfolio and recent launches
- Generics core operating profit up 33% reflecting excellent commercial execution and reduced costs
- Branded core revenue up 8% driven by strong demand across most of our MENA markets
- 108 new products launched across all markets, expanding our global product portfolio
- 18 licensing agreements signed for the US and MENA
- Completed a repeat clinical endpoint study for our generic version of Advair Diskus®
- Entered into a long-term supply agreement with Civica Rx to assist in the delivery of essential medicines in short supply to US hospitals

Summary financial results

Core[1] results	2019 $ million	2018 $ million	Change	Constant currency[2] change
Core revenue	**2,203**	2,076	6%	6%
Core operating profit	**508**	460	10%	9%
Core EBITDA[3]	**593**	549	8%	6%
Core profit attributable to shareholders	**364**	332	10%	7%
Core basic earnings per share (cents)	**150.4**	137.8	9%	7%

Reported results	2019 $ million	2018 $ million	Change	Constant currency[2] change
Revenue	**2,207**	2,070	7%	6%
Operating profit	**493**	371	33%	31%
EBITDA	**592**	492	20%	19%
Profit attributable to shareholders	**486**	282	72%	70%
Basic earnings per share (cents)	**200.8**	117.0	72%	69%

1. Core results throughout the document are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in Note 5. Core results are a non-IFRS measure and a reconciliation to reported IFRS measures is provided on page 29
2. Constant currency numbers in 2019 throughout the document represent 2019 numbers re-stated using 2018 exchange rates, excluding price increases in the business which resulted from the devaluation of currencies
3. EBITDA is earnings before interest, tax, depreciation, amortisation and impairment charges. EBITDA is a non-IFRS measure, see page 30 for a reconciliation to reported IFRS results

"I am very pleased with the performance of each of our businesses this year. We are delivering good growth from our broad product portfolio and benefitting from our improved cost base."

Khalid Nabilsi
Chief Financial Officer

Group revenue was $2,207 million in 2019. Group core revenue grew 6% to $2,203 million (2018: $2,076 million), reflecting good growth in each of our three businesses. Group core gross profit grew 7% to $1,144 million (2018: $1,072 million), reflecting the growth in revenue across all business segments and a significant reduction in overhead costs arising from the closure of our Eatontown facility in 2018. Group core gross margin was 51.9% (2018: 51.6%).

Group operating expenses were $655 million (2018: $679 million). Excluding adjustments related to the amortisation of intangible assets (other than software) of $34 million (2018: $30 million) and net income from exceptional items of $15 million (2018: net expense $37 million), Group core operating expenses were $636 million (2018: $612 million).

Selling, general and administrative (SG&A) expenses were $494 million (2018: $470 million). Excluding the amortisation of intangible assets (other than software) and exceptional items, core SG&A expenses were $453 million (2018: $437 million), up 4%. This increase primarily reflects higher employee benefits as a result of strengthening our teams across the Group. Net impairment reversals on financial assets were zero, versus $11 million in the comparator period, which related to the release of doubtful debt provisions.

Research and development (R&D) expenses were $150 million (2018: $147 million). Excluding exceptional items,[1] core R&D expenses were $126 million (2018: $118 million). This reflects increased investment in our Injectables and Generics R&D programmes, as we build our pipeline of complex products. Core R&D was 6% of Group core revenue, in line with 2018.

Other net operating expenses were $11 million (2018: $73 million). Excluding exceptional items,[2] core other net operating expenses were $57 million (2018: $68 million), primarily due to better management of inventory, resulting in lower inventory provisions in 2019.

The Group reported operating profit of $493 million (2018: $371 million). Excluding the impact of amortisation (other than software) and exceptional items, core operating profit increased by 10% to $508 million (2018: $460 million) and core operating margin was 23.1% (2018: 22.2%).

1. In 2019, Hikma incurred $24 million of R&D costs related to a repeat clinical endpoint study for generic Advair Diskus® (2018: $29 million). Refer to Note 6 for further information
2. In 2019, exceptional items comprised proceeds from a legal claim of $32 million, costs related to a warehouse fire at one of our facilities in Jordan of $13 million, a contingent consideration adjustment of $7 million and net $20 million related to impairment reversal of product related intangibles related to Columbus business. Refer to Note 6 for further information

Injectables

STRATEGIC REPORT

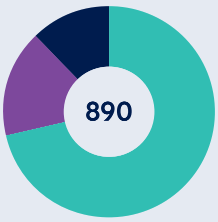
Overview

Financial highlights

$ million	2019	2018	Change	Constant currency change
Revenue	**894**	826	8%	9%
Core revenue	**890**	832	7%	8%
Gross profit	**523**	497	5%	6%
Core gross profit	**519**	503	3%	4%
Core gross margin	***58.3%***	*60.5%*	*(2.2)pp*	*(2.3)pp*
Operating profit	**320**	305	5%	5%
Core operating profit	**338**	335	1%	1%
Core operating margin	***38.0%***	*40.3%*	*(2.3)pp*	*(2.4)pp*

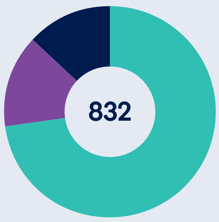
Injectables core revenue by region ($m)

2019



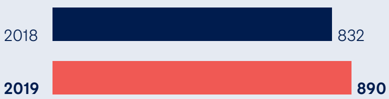
US	**636 (71.4%)**
MENA	**146 (16.4%)**
Europe and ROW	**108 (12.2%)**

2018

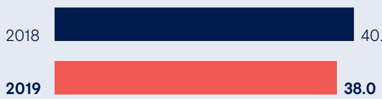


US	**607 (72.9%)**
MENA	**120 (14.5%)**
Europe and ROW	**105 (12.6%)**

Core revenue ($m)



Core operating margin (%)



Outlook

We expect Injectables revenue to grow in the low to mid-single digits in 2020. We expect core operating margin to be in the range of 35% to 37%.

1. Exceptional items comprised integration costs of $4 million. Amortisation of intangible assets (other than software) was $22 million. Refer to Note 6 for further information

Injectables core revenue increased by 7% to $890 million (2018: $832 million). In constant currency, Injectables core revenue grew by 8%.

US Injectables core revenue grew 5% to $636 million (2018: $607 million), reflecting the breadth and resilience of our portfolio. Strong sales of our in-market products and growth from recent launches more than offset increased competition on certain products.

MENA Injectables revenue was $146 million, up 22% (2018: $120 million). In constant currency, MENA Injectables revenue increased by 20%, reflecting good growth across our markets, including Saudi Arabia and Egypt, as well as strong demand for Remsima® and a further contribution from newly launched Herzuma®.

European Injectables revenue was $108 million, up 3% (2018: $105 million). In constant currency, European Injectables revenue increased by 9% to $114 million, reflecting a good performance from our contract manufacturing business.

Injectables core gross profit increased by 3% to $519 million (2018: $503 million) and core gross margin reduced to 58.3% (2018: 60.5%), primarily reflecting a change in the product mix in the US.

Injectables core operating profit, which excludes the amortisation of intangible assets (other than software) and exceptional items, was $338 million (2018: $335 million).[1] Core operating margin was 38.0% (2018: 40.3%), due to the lower gross margin.

During the year, the Injectables business launched 14 products in the US, 40 in MENA and 15 in Europe. We submitted 183 filings to regulatory authorities across all markets and signed six licensing agreements to add more complex products to our pipeline.

In 2020, we expect Injectables revenue to grow in the low to mid-single digits, driven by new product launches and demand for our broad product portfolio across all of our markets, which should more than offset continued price erosion. We expect core operating margin to be in the range of 35% to 37%.

Generics

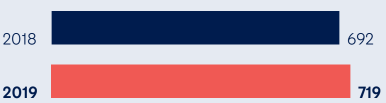
STRATEGIC REPORT

Overview

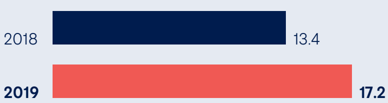
Financial highlights

$ million	2019	2018	Change
Revenue	**719**	692	4%
Gross profit	**326**	279	17%
Core gross profit	**326**	295	11%
Core gross margin	***45.3%***	*42.6%*	*2.7pp*
Operating profit	**151**	40	278%
Core operating profit	**124**	93	33%
Core operating margin	***17.2%***	*13.4%*	*3.8pp*

Revenue ($m)



Core operating margin (%)



Outlook

We expect Generics revenue to be in the range of $700 million to $750 million and core operating margin to be around 20%. Our guidance assumes that we will launch generic Advair Diskus® in the second half of the year and we have included revenue of $20 million to $40 million from generic Advair Diskus® in this range. If we do not launch generic Advair Diskus® in 2020, we would expect the core operating margin for the Generics business to be between 16% and 18%.

1. Exceptional items comprised $24 million of expenses related to a repeat clinical endpoint study for generic Advair Diskus®, $6 million of costs related to a warehouse fire at one of our facilities in Jordan, $32 million of proceeds from a legal claim, $7 million from a contingent consideration readjustment and net $20 million related to impairment reversal of product related intangibles related to the Columbus business. Amortisation of intangible assets (other than software) was $2 million. Refer to Note 6 for further information

Generics revenue grew 4% to $719 million in 2019 (2018: $692 million). While the US retail generics market environment remained challenging, we more than offset continued price erosion by driving strong demand for our differentiated product portfolio, including our leading nasal sprays, and by launching new products.

Generics core gross profit grew 11% to $326 million (2018: $295 million) and core gross margin increased to 45.3% (2018: 42.6%). This reflected volume growth and an improvement in the product mix, as well as the benefit of lower overhead costs resulting from the consolidation of our manufacturing facilities in 2018 and other efficiency gains.

Generics core operating profit, which excludes the amortisation of intangible assets (other than software) and exceptional items,[1] increased by 33% to $124 million (2018: $93 million). Core operating margin increased to 17.2% (2018: 13.4%). This significant improvement in profitability reflects the increase in core gross profit and better management of inventory related expenses, which more than offset an increase in marketing and R&D expenses.

During the year, the Generics business launched four products and submitted three filings to regulatory authorities, as well as adding 12 products through the signing of six business development agreements. As previously announced, we also completed a repeat clinical study for generic Advair Diskus® and have submitted the results to the US FDA for review.

In 2020, we expect Generics revenue to be in the range of $700 million to $750 million and core operating margin to be around 20%. Our guidance assumes that we will launch generic Advair Diskus® in the second half of the year and we have included revenue of $20 million to $40 million from generic Advair Diskus® in this range. If we do not launch generic Advair Diskus® in 2020, we would expect the core operating margin for the Generics business to be between 16% and 18%.

Branded

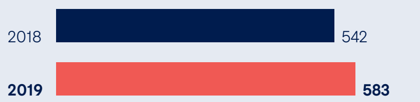

After reconstitution
Après reconstitution
hikma.
hikma.
Onlefit®
Orlistat

Overview

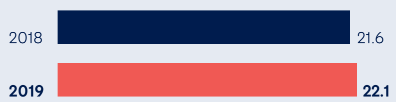
Financial highlights

$ million	2019	2018	Change	Constant currency change
Revenue	**583**	542	8%	6%
Gross profit	**296**	271	9%	5%
Gross margin	***50.8%***	*50.0%*	*0.8pp*	*(0.2)pp*
Operating profit	**105**	111	(5)%	(13)%
Core operating profit	**129**	117	10%	3%
Core operating margin	***22.1%***	*21.6%*	*0.5pp*	*(0.4)pp*

Revenue ($m)



Core operating margin (%)



Outlook

We expect Branded revenue to grow in the mid-single digits in constant currency in 2020.

1. In 2019, exceptional items comprised expenses of $7 million related to a warehouse fire in one of our facilities in Jordan and $7 million of severance and restructuring costs. Amortisation of intangible assets (other than software) was $10 million. Refer to Note 6 for further information

On a reported basis, Branded revenue grew 8% to $583 million (2018: $542 million). On a constant currency basis, Branded revenue increased 6% to $572 million.

Our largest markets, Saudi Arabia and Egypt, performed well, reflecting our strong market positions, good demand for our marketed products and new launches. We also delivered a good performance across most of our other MENA markets, which more than offset significantly lower sales in Algeria resulting primarily from political and economic disruptions.

During the year, the Branded business launched 35 products and submitted 171 filings to regulatory authorities. We further developed our portfolio through new licensing agreements. These included agreements with Gedeon Richter for their novel antipsychotic, cariprazine, with Faes Farma for their Bilaxten®, and with Chiesi for a portfolio of their respiratory and neo-natal products for the Egyptian market. Revenue from in-licensed products represented 37% of Branded revenue (2018: 36%).

Branded gross profit was $296 million, up 9% (2018: $271 million) and gross margin was 50.8% (2018: 50.0%). In constant currency, gross profit increased by 5% and gross margin was stable at 49.8% (2018: 50.0%). The improvement in gross profit largely reflects the increase in revenue over the period.

Core operating profit, which excludes the amortisation of intangibles (other than software) and exceptional items,[1] was $129 million, up 10% (2018: $117 million), and core operating margin was 22.1% (2018: 21.6%). In constant currency, core operating profit grew 3% and core operating margin was 21.2% (2018: 21.6%).

We expect Branded revenue to grow in the mid-single digits in constant currency in 2020.

Group performance

Other businesses

Other businesses, which is primarily comprised of Arab Medical Containers, a manufacturer of plastic specialised medicinal sterile containers, International Pharmaceuticals Research Centre, which conducts bio-equivalency studies, Hikma Emerging Markets and Asia Pacific FZ LLC, and the chemicals division of Hikma Pharmaceuticals LLC (Jordan) contributed revenue of $11 million in 2019 (2018: $10 million) and broke even (2018: loss of $5 million). This improvement in profitability is primarily due to the closure of our emerging markets division as we focus on our core markets, in line with our strategy.

Research and development

Our investment in R&D and business development enables us to continue expanding the Group's product portfolio. During 2019, we had 108 new launches and received 169 approvals.

To ensure the continuous development of our product pipeline, we submitted 357 regulatory filings.

Net finance expense

Core net finance expense was $45 million (2018: $51 million) due to increased cash deposits and reflecting lower debt utilisation. After recognising non-cash net interest income of $45 million resulting from the remeasurement of the contingent consideration related to the Columbus business acquisition, reported net finance expense was zero.

We expect core net finance expense to be around $47 million in 2020.

Profit before tax

Core profit before tax was $465 million (2018: $408 million), reflecting the strong performance of our three business segments. Reported profit before tax was $491 million (2018: $293 million). Reported profit before tax in the comparator period was impacted by exceptional costs relating to the restructuring of our Generics facilities.

Tax

The Group incurred a reported tax expense of $4 million (2018: $8 million) and an effective tax rate of 0.8% (2018: 2.7%), primarily due to the utilisation of previously unrecognised tax losses and deferred tax benefits recognised upon the internal reorganisation of intangible assets. Excluding exceptional items, Group core tax expense was $100 million (2018: $73 million). The core effective tax rate increased to 21.5% (2018: 17.9%), primarily due to a change in the earnings mix.

We expect the Group core effective tax rate to be around 22% to 23% in 2020.

Profit attributable to shareholders

Profit attributable to shareholders was $486 million (2018: $282 million). Core profit attributable to shareholders increased by 10% to $364 million (2018: $332 million).

Earnings per share

Basic earnings per share was 200.8 cents (2018: 117.0 cents). Core basic earnings per share increased by 9% to 150.4 cents (2018: 137.8 cents) and core diluted earnings per share increased by 9% to 149.8 cents (2018: 137.2 cents).

	2019 submissions[1]	2019 approvals[1]	2019 launches[1]
Injectables			
US	14	7	14
MENA	78	40	40
Europe	91	26	15
Generics	3	4	4
Branded	171	92	35
Total	**357**	**169**	**108**

1. New products submitted, approved and launched by country in 2019

Dividend
The Board is recommending a final dividend of 30 cents per share (approximately 23 pence per share) (2018: 26 cents per share) bringing the total dividend for the full year to 44 cents per share (approximately 34 pence per share) (2018: 38 cents per share). The proposed dividend will be paid on 7 May 2020 to eligible shareholders on the register at the close of business on 20 March 2020, subject to approval at the Annual General Meeting on 30 April 2020.

Net cash flow, working capital and net debt
The Group generated strong operating cash flow of $472 million (2018: $430 million). Group working capital days were down 8 days to 202 days, primarily driven by improved cash collection.

Capital expenditure was $119 million (2018: $107 million). In the US, $36 million was spent upgrading equipment and adding new technologies for our Generics and Injectables businesses. In MENA, $63 million was spent strengthening and expanding manufacturing capabilities. In Europe, we spent $20 million, expanding our facilities in Portugal, where we recently completed construction of our new high containment operation (HCO), which has begun commercial production. We expect Group capital expenditure to be in the range of $120 million to $140 million in 2020.

The Group's total debt increased to $685 million at 31 December 2019 (31 December 2018: $637 million), reflecting the adoption of IFRS 16, which required the recognition of lease liabilities of $45 million at 31 December 2019. The Group's cash balance improved significantly over the year to $443m (2018: $276 million). The Group's net debt (excluding co-development agreements and contingent liabilities) was $242 million at 31 December 2019 (31 December 2018: $361 million).[1] We continue to have a very strong balance sheet with a net debt to core EBITDA ratio of 0.41x. As part of our long-term financing requirements, we are exploring refinancing options for our $500 million Eurobond, which is due to be repaid in April 2020, including alternatives in the fixed income markets. The Group may also utilise its cash and unutilised revolving credit facility of $1,000 million to repay the Eurobond.

Balance sheet
Net assets at 31 December 2019 were $2,129 million (31 December 2018: $1,697 million). Net current assets reduced to $377 million (31 December 2018: $775 million) due to the reclassification of the Eurobond of $500 million from long-term liabilities to current liabilities.

Definitions
We use a number of non-IFRS measures to report and monitor the performance of our business. Management uses these adjusted numbers internally to measure our progress and for setting performance targets. We also present these numbers, alongside our reported results, to external audiences to help them understand the underlying performance of our business. Our core numbers may be calculated differently to other companies.

Adjusted measures are not substitutable for IFRS results and should not be considered superior to results presented in accordance with IFRS.

Core results
Reported results represent the Group's overall performance. However, these results can include one-off or non-cash items which are excluded when assessing the underlying performance of the Group. To provide a more complete picture of the Group's performance to external audiences, we provide, alongside our reported results, core results, which are a non-IFRS measure. Our core results exclude the exceptional items and other adjustments set out in Note 5.

Group operating profit $ million	**2019**	2018
Core operating profit	**508**	460
R&D costs	(24)	(29)
Jordan warehouse fire incident	(13)	–
Proceeds from legal claim	32	–
Contingent consideration adjustment	7	–
MENA severance and restructuring costs	(7)	–
Integration costs	4	(30)
Net impairment reversal of product related intangibles	20	–
Intangible assets amortisation other than software	(34)	(30)
Reported operating profit	**493**	371

1. Group net debt is calculated as Group total debt less Group total cash. Group net debt is a non-IFRS measure, see page 30 for a reconciliation of Group net debt to reported IFRS results

Group performance continued

Constant currency

As the majority of our business is conducted in the US, we present our results in US dollars. For both our Branded and Injectable businesses, a proportion of their sales are denominated in a currency other than the US dollar. In order to illustrate the underlying performance of these businesses, we include information on our results in constant currency.

Constant currency numbers in 2019 represent reported 2019 numbers re-stated using 2018 exchange rates, excluding price increases in the business which resulted from the devaluation of currencies.

EBITDA

EBITDA is earnings before interest, tax, depreciation, amortisation and impairment charges/reversals.

EBITDA $ million	**2019**	2018
Reported operating profit	**493**	371
Depreciation, amortisation and impairment charges/reversals	99	121
Reported EBITDA	**592**	492
Exceptional items:		
Research and development costs	24	29
Jordan warehouse fire incident	13	–
Proceeds from legal claim	(32)	–
Contingent consideration adjustment	(7)	–
MENA severance and restructuring costs	7	
Integration costs	(4)	28
Core EBITDA	**593**	549

Working capital days

We believe Group working capital days provides a useful measure of the Group's working capital management and liquidity. Group working capital days are calculated as Group receivable days plus Group inventory days, less Group payable days. Group receivable days are calculated as Group trade receivables x 365, divided by trailing 12 months Group revenue.

Group net debt

We believe Group net debt is a useful measure of the strength of the Group's financing position. Group net debt is calculated as Group total debt less Group total cash. Group total debt excludes co-development agreements and contingent liabilities.

Group net debt $ million	**Dec-19**	Dec-18
Short-term financial debts	(569)	(74)
Short-term leases liabilities	(9)	(1)
Long-term financial debts	(48)	(539)
Long-term leases liabilities	(59)	(23)
Total debt	**(685)**	(637)
Cash, cash equivalents and restricted cash	443	276
Net debt	**(242)**	(361)

ROIC
ROIC is calculated as core operating profit after interest and tax divided by invested capital (calculated as total equity plus net debt). This measures our efficiency in allocating capital to profitable investments.

ROIC $ million	2019	2018
Core operating profit	508	460
Interest income	6	3
Total tax	(105)	(81)
Core operating profit after tax	**409**	382
Net debt	242	360
Equity	2,129	1,697
Invested capital	**2,371**	2,057
ROIC	**17.3%**	18.6%

Outlook

Group
We expect to benefit from our continued investment in R&D across our businesses and we will look to fill pipeline gaps through business development.

Injectables
We expect Injectables revenue to grow in the low to mid-single digits in 2020. We expect core operating margin to be in the range of 35% to 37%.

Generics
We expect Generics revenue to be in the range of $700 million to $750 million and core operating margin to be around 20%. Our guidance assumes that we will launch generic Advair Diskus® in the second half of the year and we have included revenue of $20 million to $40 million from generic Advair Diskus® in this range. If we do not launch generic Advair Diskus® in 2020, we would expect the core operating margin for the Generics business to be between 16% and 18%.

Branded
We expect Branded revenue to grow in the mid-single digits in constant currency in 2020.

Net finance expense, tax and capital expenditure
We expect Group net finance expense to be around $46 million in 2020 and the core effective tax rate to be around 22% to 23%. We expect Group capital expenditure to be in the range of $120 million to $140 million.

Other matters
Following the recent outbreak of coronavirus disease (COVID-19), we have assessed the potential exposure of our business to related disruptions. As we do not have extensive operations or manufacturing in China, nor are we directly dependent on Chinese-manufactured goods or services, we do not currently anticipate any material impact. This is a complex situation that we are continually monitoring.