

Hikma H1 2022 Interim Results Presentation - Transcript

Said Darwazah – Executive Chairman and CEO:

- Hello everyone, thank you for joining our 2022 interim results presentation
- I'm Said Darwazah, CEO and executive chairman of Hikma, joined here with Khalid Nabils, our CFO
- I am really excited to be back with you today – to take you through our results for the first half of the year and update you on our strategic progress.
- I will kick things off and then hand over to Khalid to run you through our financials in detail

Resilient H1 performance supported by our strong foundation and strategic execution

- We are presenting really solid results today. Clearly, the first half of the year has been challenging – with the impact of COVID lingering, competition increasing and the effects of inflation beginning to be felt across the business. But I am very pleased that, despite this, we are reporting a set of results that demonstrate the resilience of the Group.
- In a tough environment, the differentiation of our business, our commercial and operational strength and the hard work of our people have enabled us to maintain a good supply of our medicines to customers and patients across our markets
- Group revenue in the first half was flat on last year and Group core operating profit was down by 4%. This slight decline in core operating profit reflects lower profits in Generics, which were mostly offset by double digit profit growth in both our Injectables and Branded businesses
- We continued to generate a good level of cashflow from operations in the first half and our balance sheet remains strong, even after closing the Custopharm and Teligent acquisitions and completing a \$300m share buy back

Diversification of business enabling us to manage market headwinds

- This slide highlights the diversification of our Group revenue and profit.
- We are committed to investing across our three businesses. When one business is facing headwinds, the others always compensate.
- As is the case this year, with strong growth in Injectables and Branded helping to offset the tough environment in Generics.
- Our Injectables business is our largest business today – representing 44% of Group revenue and 61% of Group core operating profit. It continues to have the highest

margins of our three businesses, achieving close to 39% core operating margin in the first half

- Injectables and Branded make up more than 70% of Group revenue and more than 80% of Group operating profit
- These two businesses are performing well and have a very positive outlook for the future
- Of course, we continue to see good potential for our Generics business, but today, in this tough environment, it is the smallest part of our business.
- I think it is worth pointing out here – that while our Generics team is having a tough year, they are doing a great job managing the challenging operating environment that is impacting companies across the entire sector.
- They have remained focused on operating efficiency and cost reduction in order to minimize the impact of the broader market conditions
- I believe the team's extensive industry experience and our world-class manufacturing facility in Columbus, are amongst the best in the industry. So while Generics profitability is lower than we would like – and today we are revising our outlook for Generic margins to be around mid-teens for the full year- this is still a good margin for the industry

Our clear path for delivering future growth

- Our business is not only well-diversified business across revenue and profit, but it is also diversified in terms of capabilities and geographies, which provides us with a very strong platform for growth
- The Group strategy that we have been delivering for the past four-plus years remains unchanged – to focus on the foundation, develop our product pipeline and inspire and enable our people
- As we look forward, we need to continue to 'focus on the foundation' in each of our businesses – this means leveraging the investments we've made – in products and manufacturing – to make sure we are getting the most out of the very high-quality assets we have
- Pipeline of course is also critical and key to our future success.
- We will also continue to leverage our high-quality R&D and manufacturing operations to tap into growing markets
- And of course, we have the financial flexibility and firepower to accelerate growth by leveraging our strong balance sheet
- Let's take a look at each of our businesses in a little more detail

Driving strong medium-term growth in Injectables through a broad portfolio and high-quality manufacturing capabilities

- Starting with Injectables
- Our Injectables business, with its extensive portfolio, high quality and flexible manufacturing operations and strong commercial relationships, is truly differentiated
- I'd like to point out that it is also our first business to reach \$1 billion in revenue, which it did last year
- We're the second largest supplier of generic injectables by volume in the US and have grown our portfolio over the last decade from around 50 products to more than 130.
- In addition to products, we have been making significant investments in recent years in all aspects of this business in order to ensure we can achieve strong future growth
- I've just mentioned the acquisition of Custopharm, which is already contributing to the strong injectables performance in the first half. Through this acquisition, we have added further expertise in the development of complex and first-to-market generics which will help us build a more differentiated pipeline
- The acquisition of Teligent's assets gave us an entry into the highly attractive Canadian Injectables market, a side of the business we will look to grow over time
- We are also entering new markets organically – as we have done in France in the first half
- Continued investment in manufacturing capacity has earned us a reputation as a high-quality and reliable supplier, helping us to form strong partnerships with customers and enabling us to step into shortage situations, to ensure continuity of supply of important medicines to patients
- Investment in manufacturing is also crucial to support our growing portfolio and we are regularly adding new lines and capabilities across our global operations. This also helps us take on strategic CMO business, which has proven to be a successful strategy to date
- We are also making a great start with our compounding business and have recently completed successful FDA inspections at our Dayton and Cherry Hill sites, which will help in obtaining the remaining required state licenses. While this business will be a small contributor in 2022, we have an ambition to become one of the leading suppliers of compounded products in the US, and we will work to build this business gradually over time
- And I haven't yet touched on all of the investments we have been making in the MENA region, where we are building local injectables manufacturing facilities in Egypt, Algeria and Morocco, expanding our product portfolio, and making good market share gains, especially for our biosimilar products
- So as you can see, we have a lot going on in this business and the prospects for continued growth are excellent

Building strong momentum in Branded through commercial strength, our local presence and portfolio expansion

- Our Branded also offers some very exciting growth opportunities
- We are well established in MENA, having operated there for over 40 years, and are now the fourth largest pharmaceutical company in the region
- We are present across 18 markets with an extensive local manufacturing footprint. We also have a strong and experienced salesforce of approximately 2,000 people marketing our products throughout the region
- In 2018, we tiered our markets to focus on those with the largest potential. This strategy has been paying off and our Tier 1 markets, Saudi Arabia, Egypt and Algeria, are performing well. We've also been working on strengthening our Tier 2 and 3 markets, which have been good contributors to growth recently. And I'm pleased to report that Morocco, previously a Tier 3 market has now become Tier 2 as we see good growth and great potential in this important market
- 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, that positions us as a partner of choice in the region.
- Key to future growth for this business is pipeline development and execution. We expect to continue to sign new partnerships for innovative products and we have also strengthened our R&D capabilities in the MENA region. Today we have a high quality pipeline that we expect will deliver a steady stream of attractive products in the coming years.
- For some time now, we have said that we are shifting concentration away from anti-infectives - historically our top performing products - towards more differentiated products, including treatments for chronic illnesses. Today, I'm happy to say that the investments we have made in building a pipeline of more differentiated products is paying off. In the first half of this year, approximately 80% of our growth was driven by medicines used for chronic illnesses, with chronic medications making up around 56% of our portfolio today, up from 43% in 2016.
- Like the Injectables business, the growth prospects for the Branded business are very strong and we are expecting the momentum we are currently seeing to continue into 2023 and beyond.

Shift towards differentiated and speciality products in Generics to return to growth in a competitive market

- Now let's look at Generics
- I know that the performance of the Generics business in the first half, as well as the outlook for the full year, is disappointing. The market is very challenging, price

erosion continues to be severe and we are increasingly seeing volume erosion, which we expect to continue into the second half. So this year is going to be a tough year, especially when compared to the very good year we had last year.

- But thankfully, our business is strong enough to weather this 'bad storm'. We have a state of the art facility in Columbus and an experienced management team that has been focusing on increasing efficiencies and reducing our cost base in order to manage the industry headwinds
- We are now guiding to solid mid-teen margins for the full year, which is very respectable in this industry. More importantly, we expect the business to return to growth next year.
- Key to this – and to growth beyond 2023 – is the launch of more differentiated products and the development of our speciality business
- We continue to add more differentiated and specialty products to our portfolio through both internal R&D and business development, and we are investing in our commercial capabilities to support these efforts.
- Our specialty products are attractive because they have higher barriers for competition and they command higher margins, which will make us less susceptible to competition and price erosion
- In the near-term, we have exciting launch opportunities which will support Generics return to growth. These include generic Xyrem, with a date certain launch of 1 January 2023, and Ryaltris, which we expect to launch in time for the Spring allergy season in the US
- We will also look to leverage our state-of-the-art Columbus manufacturing facility to bring additional growth through strategic contract manufacturing, a strategy that has proven to be successful for our Injectables business. We have sufficient capacity to support both our own and third party business. This is a great way for us to maximise returns on our invested capital and the higher volumes will help us to remain as cost-competitive as possible.

Our global manufacturing capabilities differentiate us from peers and provide flexibility to capture opportunities

- Of course, to support our growth plans and accommodate an expanding portfolio, we must continue to invest in high quality manufacturing capabilities
- We are very good at this. Year in and year out, we have consistently invested around 6% of revenue on capex
- This spend is split between maintenance capex, which is crucial for ensuring we maintain our high-quality standards, and expansionary capex, which is used on upgrading our capabilities, increasing automation, as well as expanding our manufacturing and warehousing capacity
- These investments have enabled us to build a broad manufacturing network of 32 plants across 11 countries

- This includes world-class facilities in the US – in Columbus for our Generics business and in Cherry Hill for Injectables. These US based sites differentiate us from some of our competition and allow us to respond extremely quickly to US demand fluctuations
- We also have a rapidly expanding Injectables facility in Portugal that we believe to be one of the largest sites for the production of lyophilised products in the industry – this type of specialised capacity is in high demand.
- At our Columbus site, where we are the number one supplier of nasal sprays in the US, we also have two dedicated lines for dry powder inhalers and a dedicated facility for high potency products.
- In MENA, we have advanced capsule filling machines, bilayer machines and the capability to produce high-potency and oncology products. Importantly, we have local facilities in all of our key MENA markets, each with a range of capabilities
- These are just a few examples of what our investments have brought for us to date
- I believe that our manufacturing strength is one of our greatest assets and a key differentiator for us compared to our peers.

Our focus on building a differentiated and specialty portfolio through R&D and BD will drive future growth

- Switching gears – I now want to focus a bit on another lever of future growth – our pipeline.
- To drive further growth, we need to make sure we constantly have new products in our pipeline. We have been working on improving our R&D efficiency, the quality of our filings and strengthening our R&D centers.
- Across the Group, we are increasing the complexity of our pipeline through the introduction of new technologies. We aim to have a portfolio and pipeline with an increasing number of more complex products, such as specialty 505(b)(2)s, patent protected products, inhalation, nasal and biosimilars, which all have a higher barrier to entry.
- We are also utilizing our internal API capabilities to introduce vertically integrated niche products, and are leveraging IPRC, an extremely high-quality and world class contract research organisation, to support all our businesses in their R&D, bioequivalence and clinical studies
- If we look at our priorities for each business:
- In Injectables, we will continue to expand our conventional product portfolio. We are also focusing on New Therapeutic Equivalents, looking at new dosage strengths, forms and ready-to-use products. We are working to develop differentiated products with higher complexity, such as long acting injectables, suspensions, and products that use complex devices
- In Branded, we will continue to focus on growing our potent product portfolio with higher barriers to entry, such as oncology products. We are also focusing on

introducing first to market and first generic products in our tier 1 markets, and introducing lean practices within our R&D labs to increase output

- In Generics, we will continue to look at increasing the complexity of our pipeline by focusing on higher barrier to entry products, complex products that leverage our nasal spray, inhalation and high containment manufacturing capabilities, and of course on building our specialty portfolio. Around 75% of our submissions in 2023 and beyond will either be paragraph IV, NDA or competitive generic therapy eligible filings

Pipeline breakdown by segment

- This slide provides a snapshot of what we currently have in our pipeline
- For US Injectables, we have a total of 93 products in our pipeline, 45 of which are already filed with the FDA. These products are across different forms and include bags, prefilled syringes, powder fill and pens.
- For Branded, we have a total of 142 products in our pipeline, 79 of which are filed. These products are high value and focus on oncology and chronic therapeutic categories, such as cardiovascular, respiratory and central nervous system
- For Generics, we have a total of 31 products, 11 of which are filed. These include nasal sprays, respiratory and oral solid products
- As you can see, our pipeline is becoming increasingly interesting and we have a clear plan for further product development.

I will now hand it over to Khalid to take you through our financials

Khalid Nabilsa – CFO:

Group financial highlights

- Thank you Said and hello everyone
- The Group has shown a resilient first half performance, which is a testament to the strength of our underlying business, supported by the breadth of our product portfolio, unique manufacturing footprint and recent acquisitions
- We saw a strong performance in Injectables and Branded business, which have helped to partially offset the decline in Generics
- As a result, in the first half of the year Group revenues were flat at \$1.2 billion, and Group core operating profit was down 4%
- Core EPS was 92.1 cents per share, down from 96.5 in the first half of 2021
- The Board is recommending an interim dividend of 19 cents per share, up from 18 cents
- Now let's have a deeper look at the financial performance of each business

Injectables

- Starting with Injectables
- The Injectables business delivered strong growth in the first half of 2022, with revenue up 9%, driven by our own products and by the recent acquisitions of Custopharm and Teligent Canadian assets
- In terms of organic growth, Injectables revenue grew 5%
- Looking at each of our regions, in the US revenue grew by 14%:
 - Following the impact of the pandemic, we are seeing normalised demand with elective surgeries gradually returning
 - We are benefiting from our broad portfolio of more than 130 products, as well as our extensive and flexible manufacturing capabilities, both of which are helping us to respond to market demand and address shortages
 - We are also benefitting from the contribution of Custopharm, which we closed in April
- In Europe and rest of the world, revenue was up by 4%, reflecting good demand across our portfolio of own products, including recent launches, and a contribution from the Canadian Teligent acquisition
- In MENA, revenue was down by 1% on a reported basis, and up by 1% on a constant currency basis. This was primarily due to weaker sales in Lebanon and Iraq, which were partially offset by successful new launches, as well as good performance of our biosimilar products as we continue to launch into new markets and grow our existing market share. We expect performance to be weighted towards the second half of the year.
- Injectables core operating margin continues to be the highest of our three businesses, with a margin of 38.8% in the first half of the year. This reflects an improvement in product mix and the contribution from recent acquisitions, which more than offset an increase in R&D and sales and marketing spend as we invest for future growth and enter new markets and adjacencies, such as France, Canada and our new sterile compounding business

Branded

- In our Branded business, where we continue to benefit from our established presence in the MENA region, we achieved strong performance in the first half, with revenue up 6% on a reported basis and 9% on a constant currency basis
- This was driven by good performance across most of our markets, benefitting from our increasingly diversified portfolio of high-value treatments
- For example, we saw good demand for chronic medications in Algeria, Morocco and Iraq, which performed particularly well in the first half
- We also saw a good performance in the private sector in Saudi Arabia, driven by demand for products used to treat diabetes and MS. We expect government tenders in this market to increase in the second half due to timing

- Branded core operating margin was 21.8%, up from 20.1%. This reflects an improvement in product mix which more than offset the negative impact of foreign exchange related to currency devaluation in North Africa
- As a result of this strong performance, we expect profit to be more evenly spread out this year when compared to previous years

Generics

- Turning to our Generics business
- Revenue was down by 18% in the first half due to the challenging competitive environment in the US. We experienced low double-digit price erosion and mid single digit volume erosion through the first half, and a slower than expected ramp up in recent launches
- Generics core operating profit decreased by 42% and margin reduced to 17.6% as a result of the erosion, as well as higher sales and marketing costs as we continued to develop our commercial capabilities to support a growing speciality portfolio

Expanding and enhancing our product pipeline

- We need to ensure we are building a pipeline of differentiated products in order to deliver long-term sustainable growth
- In the first half of the year, we continued progress with our pipeline projects and invested \$69 million in core R&D
- This represents 6% of revenue and is inline with our strategy of spending between 6% to 7% of revenue on R&D each year

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

- Of course, we also need to make sure we are investing in the infrastructure to support a growing portfolio
- As you can see on the slide here, we consistently invest between 5% to 7% of revenue on capex and we are guiding to a similar level for 2022
- In the first half of this year, our capex spend was \$63 million
- In the US, \$23 million was spent upgrading equipment, expanding packaging areas and adding new technologies at our Cherry Hill, Dayton and Columbus sites.
- In MENA, \$29 million was spent primarily on adding new injectables manufacturing capabilities in Morocco and Algeria.

- And in Europe, we spent \$10 million, adding new high speed liquid filling lines in Portugal as well as upgrading equipment in Italy and expanding warehousing in Germany

Cash flow and balance sheet

- The group continues to generate a healthy level of cash flow, with operating cash flow of \$169 million. The reduction compared to the first half of last year reflects the decline in operating profit and an increase in inventories levels to ensure continuity of supply
- The Group's total debt increased to \$1.6 billion, reflecting an increase in our financing as a result of our recent acquisitions of Custopharm and Teligent's Canadian Injectable assets as well as the share buyback

Guidance

- Before I turn to our guidance for the full year, I just want to touch on the impact of inflation
- In the first half, we started to see the effects of the global inflationary environment in certain parts of our business. While we have been managing this where we can by keeping a tight control on costs and looking at operating efficiencies, we expect to see a further increase in costs due to inflation in the second half of the year. At the moment, I estimate that the impact of inflation on the Group for the full year will be around \$20 million – and this has been factored in to the following guidance:
- For Injectables, we continue to expect revenue growth to be in the mid to high-single digits and core operating margin to be between 36% to 37%. This reflects the strength of our underlying business, supported by our broad product portfolio and flexible manufacturing capabilities, as well as the contribution from recent acquisitions, which will help us more than offset an expected increase in costs in the second half due to inflation.
- For Branded, given the strong performance in the first half, we now expect revenue to grow in the low single-digits on a reported basis. On a constant currency basis, we expect Branded revenue to grow in the mid single digits. We expect core operating profit to be more evenly split across the year. This is an upgrade from our previous guidance
- For Generics, given the persistent challenges of the US generics market, we now expect revenue to be in the range of \$650 million to \$675 million, down from \$710 million to \$750 million, and core operating margin to be between 15% to 16%, down from around 20%.
- We expect Group core net finance expense to be around \$68 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.
- This wraps up the financial section. I will now hand it over to Said for some closing remarks

Said Darwazah – Executive Chairman and CEO:

Consistent long-term performance driving confidence for the future

- Before I close, I want to take a step back and look at Hikma's strong track record of revenue and profit growth
- I have been with Hikma since the beginning and it has been a pleasure to see the company grow from a small local player in MENA to the multinational company we are today, with over \$2 billion in revenues
- Since 2017, our revenue has grown at a CAGR of 7% and core operating profit at a CAGR of 13%. We have also delivered an average return on investment of around 17%, demonstrating our ability to allocate capital and generate value, and we have consistently returned cash to shareholders through regular dividends
- Today we have a solid foundation with an expansive product portfolio and broad pipeline of new products
- Our manufacturing footprint provides us with the capabilities and flexibilities to meet the growing needs of our customers and patients
- And we have an excellent quality track record making us a reliable provider of critical injectable, branded and generic medicines globally
- With all this, we see a great amount of differentiation and potential for Hikma and our ambition is to continue expanding to meet the growth trends you see here across all three of our businesses

A strong investment case

- While we are seeing some industry headwinds in one division, we must not lose sight of the high-quality business Hikma has become. I'm hugely excited by our potential and I'm confident in our outlook for the future
- I want to give you an idea of how we see the business developing over the medium term:
 - We expect Injectables revenue growth to accelerate, driven by our investment into adjacent growth areas such as compounding, our entry into new markets and our ongoing commercial, R&D and manufacturing strength
 - We are confident that revenue growth in our Branded business will also accelerate, driven by our expanding portfolio and focus on chronic

- medications, combined with our manufacturing, R&D and commercial expertise in the MENA region
- Finally, our Generics business will return to growth in 2023, driven by new launches including Ryaltris and generic Xyrem
 - By executing on our strategic priorities, we will further diversify and transform our business in order to achieve long-term, sustainable growth
 - Thank you.