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<<James Vane-Tempest, Analyst, Jefferies European>>

Good afternoon, everybody. My name is James Vane-Tempest. I'm Jefferies European Specialty Pharma Analyst. Welcome to this afternoon's session at our Healthcare Conference. I'm today delighted to be with Hikma Pharmaceuticals, got the CEO, Riad Mishlawi; and Khalid Nabilsi, the CFO on stage. And the format will just be a fireside conversation.

So thanks so much for joining us. Maybe perhaps in case there's some people in the room who aren't as familiar with the business, quick update on sort of nine months and we'll jump straight into the Q&A.

<<Riad Mishlawi, Chief Executive Officer>>

Sure. Thank you very much, James. Just before I start, I just want to give you a little glimpse on our business. We have three very strong businesses. We have the Injectables and we have the Branded business and also the Rx business. All three businesses are performing well. Margins are extremely healthy. Two of the businesses actually from the last three years had accelerated in their growth significantly and their margins significantly.

And we're executing the strategy to the [indiscernible] (0:01:04) successfully and we're doing the same thing with the Injectables. I just wanted to point out that if you look at this company from as a whole and you look at all our financial indicators, we have one of the highest return on investment. We have one of the big EBITDA margins. Our leverage is 1.7, just below 2. We have the – our balance sheet is very, very healthy, going up to almost 3% if you want to. And all of our strategy and all the divisions that we have are performing really well. So we see this as a very strong company and going forward, the growth is definitely assured.

<<James Vane-Tempest, Analyst, Jefferies European>>

Thank you. Maybe to start off with on the Injectables business just because it is a big focus for investors at the moment. You recently revised the Injectables midterm margin. Things are floor to kind of around 30%. We understand this is the delay of the ramp of the Bedford site. What are the push and pull factors here for the margin? So that if it is a flaw to give confidence that perhaps it can be higher than that.

<<Riad Mishlawi, Chief Executive Officer>>

Yes. We contributed this to several things. The softness in the injectables, there are four things that are contributing to it. The first one is geographical mix. So today, we are growing in Europe and in MENA significantly more than the U.S. with lower margins, especially in Europe, actually, we're – the first half we had grown about 26%. And in MENA, we are very significantly also growing and that's really affecting the mix of the margins.

Second one is our commitment to increase our R&D spend. We had realized that we have now such a big mouth to feed. We need to have a lot more for us to cover the gap that we have from price erosions and for the ambition of our growth. We needed to add more interesting product, more hardware to make product into our portfolio. And we committed to spend more into a reorganized R&D department.

Also – we also recognized in the last few years that we can't make everything ourselves. We have to have partnerships. We have to depend on third-party. And as we increase our dependency and as we increase our collaboration with third-party, of course, that comes at lower margins than we're used to of the mid-30s.

And lastly, and as you pointed out, James is the Bedford facility. Our Bedford facility was designed for us to start manufacturing in middle of 2027. We were going to the plan was to start recruiting at in early 2027 to start manufacturing in middle of 2027. As we have some delays in equipment about six months that would shift the whole plan that we will be hiring middle of 2027 and we will be manufacture in 2028.

So as the mid-term guidance ends at 2027, which would mean that we are incurring the cost in 2027, but not reaping really the benefit until 2028. So since this is going to be affected now, this is what we went back to the market to be adjust the numbers.

<<James Vane-Tempest, Analyst, Jefferies European>>

Thank you. We'll come to the U.S. Rx business in a minute, but we're still focusing on Injectables. People do often ask about the opportunities in contract manufacturing in this business. Because I do know you kind of do somewhat at the moment because you do have a lot of high quality facilities. So the target I think you gave for CMO is more sort of in U.S. Rx. But how should we think about the CMO opportunities for Injectables specifically?

<<Riad Mishlawi, Chief Executive Officer>>

The CMO idea started in Injectables. When we started CMO was – it was in Injectables. CMO is important for us to continue expansion, building new facilities. As you know, capacity costs money. So the faster you can fill this capacity, the better it would be. So you can use your own product to do it. But if you want to do it faster, you also can use contract manufacturing, as we had done very well in contract manufacturing.

Now we started thinking of we can do this well, it is a very good margin, very high margin business. So we need to focus on it and maybe we can get more and more business. So we expanded it to other parts of the business such as the Rx. So Rx today is doing contract manufacturing, a good contract with a reliable and large company. And we feel that this contract would help in the growth of this business. But contract manufacturing is still a priority for us and we want to grow it as the business grows and as our capacity grows.

<<James Vane-Tempest, Analyst, Jefferies European>>

Some investors we speak to are kind of worried that we've had this sort of six months delay. There's not going to be another six-month delay. So what gives you the confidence that's not going to happen? So how much of that is sort of within your control? And then related to that, if you are then going to have to potentially use more CMOs until that site's ready, what does that mean for profitability?

<<Riad Mishlawi, Chief Executive Officer>>

How confident we are? I mean, we are realistically confident. Of course, not everything is within our control. As you saw what happened last year, there were a lot of things that has happened outside of our control that affects the business. But being in this business, knowing what the average, what it takes for us to build a facility, this is not the first facility we had built. This is probably six, seven greenfield facilities that we had made.

Our engineers are very, very experienced. We know timelines. We know what it takes for us to validate that equipment. But there is an element of outside of our control. Regulatory is another element that we have to wait for regulatory approvals. FDA need to visit you, they need to give you the green light. All of those things are outside of our control. However, as I said, we've been in the business for quite some time. We're very experienced in building facilities and I think we have to rely on that experience to estimate the right timelines.

<<James Vane-Tempest, Analyst, Jefferies European>>

Thanks. You've got a very diverse portfolio and I know you don't sort of specifically talk about products, but I guess, you have sort of highlighted a couple over the last sort of six months to nine months. I would like to ask a couple of questions if I can. And that is when I think about some of the larger products, I guess, you flagged testosterone and calcitonin historically being products with good profitability and are seeing more competition. So was that a surprise or which products now would you say are more material to growth?

<<Khalid Nabilsi, Chief Financial Officer>>

Yeah. When we gave our guidance early in the year, we were anticipating some price erosion on these two products. And this is why we said it's going to be on the low end of our mid-term guidance. So it was anticipated, but this is part of our business. So you always see that there will be competition coming into some of your products, but you offset that with new product launches.

So this is part of our business. We anticipated that. But as Riad mentioned there were some – when we gave the guidance back in mid-year, there was some, I would say things out of our control related to currency, related to shipping costs that are small affected our guidance to be softened to 32%, 33%.

<<James Vane-Tempest, Analyst, Jefferies European>>

Thanks. One question on biosimilars, I guess, you received FDA approval for ustekinumab with your partner Bio-Thera. Given as they develop manufacturer, how material is this to the business? There's potential profit sharing. It's obviously very competitive. And how should we view sort of biosimilars in general? Are there any other opportunities you can point us towards?

<<Riad Mishlawi, Chief Executive Officer>>

I think what we did with biosimilars and the way that we dealt with biosimilars was the right way. We did not put all our money into biosimilars. We did anticipate that we're coming late into this market. We are not the originator or the manufacturer of the raw materials where the technology resides. So we can't do it on our own. So we knew that this is good to get into. But at the end of the day, this is not going to be competitive and we don't have really the breadth to be able to compete against other companies. So when we did do these deals we did it based on the fact that we will not be the top three or four entering this market.

We will be probably six and seven which we came in at eight, so we weren't very far off. And when you do come in at eight, you need to compete with prices. You're not going to compete with a basket of products. You're not going to compete, because you're very experienced in biosimilars or you have anything superior. It's going to be based on what price you are going to give and is this better price than they have it from another company. The good thing about it is we anticipate that this will happen and we have a good deal or a good contract with our partner how to deal with the situation. So I think it's going to be a decent product. I think it's going to be a contributor to our profits. But it's not going to be the earth shattering product. It is going to be basically a good specialty product to be considered as one.

<<James Vane-Tempest, Analyst, Jefferies European>>

Thank you. Many investors also focus on the GLP-1 opportunity. I mean, you've got liraglutide. But can you outline the scope and scale of this opportunity for Hikma, whether candidates on the roadmap? Because I know that's an interest to people at the moment.

<<Khalid Nabilsi, Chief Financial Officer>>

Yes. I'll say a couple words and have finished with this one. Liraglutide is a very good example of how we deal with competition. So as much as you know this market and as much as you can deal with competition, there are unpredictable things. Liraglutide is one of those unpredictable things that we have. We were the first to be approved in the market in the U.S. We had an authorized generic, and we came in second. So the market was pretty much us and the originator.

But just a month later, maybe a 1.5 month later, we saw a big deterioration in pricing. As the third company came into the market, the pricing went down 60%, 70%. Because you don't control this product, because the product is based on partnership with another company, then you have to deal with pricing, with the transfer costs, with predictability. It came in also at a time when there was a big race on tariffs between China and the U.S. and everybody was jumping to take as much inventory as possible into the U.S. before the tariffs get implemented.

So all that had to be taken place and considered. And it affected our forecast into this product. This product today sells at a fraction of a price that used to be only six months ago. And as good of a product it is, it's just something that we have to deal with, this is the type of competition sometimes, it's very brutal and sometimes a lot more responsible. In this case, we kind of – the product had been definitely affected, the margins had been affected dramatically. As far as the GLP-1, we're looking at semaglutide right now to introduce it in our MENA countries, we're very hopeful that we will be one of the first and that will give us significant benefit. Do you want to add anything to this?

<<Riad Mishlawi, Chief Executive Officer>>

Nothing.

<<James Vane-Tempest, Analyst, Jefferies European>>

Just one question on mix in the essence of time. So you sort of talked about Europe and MENA perhaps going faster historically, which has maybe had an impact. But I also kind of understand that the European business is now kind of more profitable maybe than it used to be. And so there's less of a kind of a mixed headwind if Europe does grow faster than the U.S. So just wondering why that was and if that's basically sustainable. And when we think about the MENA piece as well, I know FX is, well, maybe it's kind of helped you this year, whereas in historical years it hasn't. So how we should think about the mean as well, in the context of mixed development.

<<Khalid Nabilsi, Chief Financial Officer>>

Yes. In terms of Europe, as Riad mentioned, we've been growing at a double-digit. So on H1 we grew at 26% and we've been opening up some markets like we got into Spain, we got into France and all our markets are growing, even in the UK. So we have a good, I would say, pipeline to continue that growth trajectory. As said, the European market has a margin lower than the U.S., lower than the injectable in general. But at the same time, we believe that will continue to grow and we've capitalized on certain opportunities and there are certain shortages that we are as well benefiting from.

Now for the branded, for the MENA market, it's lower than Europe, the margins there are lower than the European market. Again, we are growing. We have the biosimilar as well. So it's part of our growth. We've signed recently an agreement with Celltrion for additional six products and biosimilars. At the same time, we are growing in the market. So we set up manufacturing plants in Morocco, in Algeria and now we are building the ground in Saudi Arabia. So we are investing in the MENA region. So in order that we see the potential for growth for this division. Regarding currency, it has not moved significantly or there was some little improvement in currency versus lab, but it's nothing I would say would impact the result as we speak today.

<<Riad Mishlawi, Chief Executive Officer>>

Before we move on to other divisions and I think this is probably what you want to get to, I just wanted to say a couple of things about the injectables. We are in investment mode. In injectables, there's a lot of money that being put for this division in order for us to sustain very healthy margins later on. We are not in a private equity, we're not there in five years, we need to exit. We know that we are going to sustain these margins. We are going to grow this business significantly and continue delivering good margins. This is why we're investing so much.

R&D has increased investment significantly there. We're building in Morocco, we're building in Algeria, we're building in Saudi Arabia, we're expanding in Italy, we're expanding in Portugal, brand new building in Portugal. We have also in Cherry Hill, new lines and we have the Cleveland facility, 1 million square foot facility with a lot of technology there. So investment is definitely being put into this business in order for us to be able to continue with the steep growth and very impressive margins that have been delivering in the last 10 years.

<<James Vane-Tempest, Analyst, Jefferies European>>

Thank you. Switching gears then to the U.S. Rx business. Many investors are concerned about potential P&L volatility on your strategy for Xyrem or sodium oxybate and the impact of 2027 guidance. So how should we think about the – I guess, the pros and cons of continuing to pay Jazz a royalty? We do understand according to their Q3 statement that that's recently been renegotiated in your favor. But the thinking about what, I guess, a long-term strategy for that product could be.

<<Khalid Nabilsi, Chief Financial Officer>>

So I would say, the Rx business now is much more stable. If you recall, few years ago we were setting like, okay, the floor for this business is to generate around a bit of $100 million to $120 million. And we've been saying that we are going to stabilize this business and the way to stabilize it going into contract manufacturing business execute on our specialty product.

So now the business is doing very well. Not just because of the sodium oxybate opportunity or renegotiating the royalties. It's part of the contribution to improvement. But our base business is as well [ph] doing well. And now we are focusing more inhalation, nasal and there are some demand for our products. The – we have second-line that is going to be up and running for the adverse. So this will satisfy more demand. So it's a continuation and bringing in new products as well. There are some products, although they are small, but they are going to contribute for the whole business. So between all of these, it’s – we see that this is going to be a solid business. And this is the reason why we've upgraded the margin expectation to close to 20% and hopefully going forward it will continue to improve.

<<James Vane-Tempest, Analyst, Jefferies European>>

Thank you. Earlier this year you kindly hosted an Investor Day at the Columbus, Ohio site which I was able to attend. And we saw obviously the dedicated sort of CMO building which is kind of being built there kind of like as a wing. Some core investors also kind of wonder, you've announced an undisclosed big kind of CMO contract of 2026 annualizing in 2027. But if there's any delays to that kind of ramp up, what does that mean to 2027? Just trying to understand the materiality of that as a contractor guidance?

<<Riad Mishlawi, Chief Executive Officer>>

We don't see any delays. We are working very, very hard into implementing everything that we needed to do. I think we did say that 2027 is going to be the year when we do commercial manufacturing. But 2026 we are doing a lot in executing some parts of that contract which we get paid for those services. So we do have an income coming in at 2026 for that. But the actual commercial manufacturing comes in 2027. All indications shows that this product would be on its way for approval very soon and the commercialization as we anticipated it would be – there wouldn't be any delays so far. Again, it's not our product, but we are paying a lot of attention to this product.

But let me just say one thing about I know we don't have much time, so I'll say just a few things about this division. We came out and we looked at this division a couple of years ago at a time when everybody thought that this division is a burden on us rather than a division that would help us. We tried to reset the expectation. We went and we looked at the strategy of what we need to do to get this division to produce and to grow and to produce better margins. And a part of it is identifying that contract manufacturing is one of the arms that we can focus on. We have a beautiful facility with ample capacity that we can use. So we did exactly that. We went after contact manufacturing, we went after our core business, we looked our R&D and now we are producing – we are creating or converting this business into a very lucrative business.

<<James Vane-Tempest, Analyst, Jefferies European>>

Thank you. Mindful of time, maybe one question on the branded business. You've been able to maintain around 30% operating margins despite gross margin compression. Now how should we think about the sustainability of EBIT margins given a tender weighted first half? Or is it more because dollar depreciation has lowered input costs?

<<Riad Mishlawi, Chief Executive Officer>>

Well, the branded business is one of those businesses that we had started investment early on and now you can see the benefit of it. So we had increased this business, this margins of this business around 500 basis point in the last three, four years. And that's because of all the investment and all the strategies that we are implementing in this division. It's also this division is the highest return on investment that it had been. And if you're following some of our announcement, you can see how many BD deals we have announcing with this one. And then I think we're growing our portfolio. We're focusing on rare diseases. We're changing our identity from just being a vanilla generic company to being a much more important than this and being a very important part of the health sector in that region. We're number two in that region and growing, number one in Saudi Arabia, the fastest growing country. And I think there's a lot of potential to do even better. And that's why we're continuing to invest in it. We continue expanding our facilities, we continue expanding and adding to our portfolio.

<<James Vane-Tempest, Analyst, Jefferies European>>

Thank you. Quick question on M&A has been a big part of the company's history. I mean, following the acquisition of the Bedford site, what are the M&A priorities at the moment? Or is it really just about execution in terms of what you've got or until leverage is a bit lower?

<<Riad Mishlawi, Chief Executive Officer>>

Yeah. The acquisition of Bedford is not really the site. I think the most exciting part of the acquisition that we had. It was more of the product that we have. Tyzavan is an important product that we acquired as part of this acquisition. Of course the plant is a big contributor, but R&D and the pipeline is I think more value than anything else.

M&A is something that we are looking at day in, day out. It's on our mind. We're looking at all opportunities. We're looking at increasing our BD, our M&A. Of course, as I said before, we knew that we need to continue adding to our portfolio and that could be done through R&D, organic R&D, which we focused on, committed to pay more – put more money into it, reorganize our R&D to make it a lot more, giving us better output than historically it had been. At the same time, we recognize that we continue to do BD with products that we can't make ourselves with technologies that others are better doing than us. So M&A of course is always on our mind. We have a very healthy balance sheet. We have very sizable firing power. And this is something that is continuously to be on our mind.

<<James Vane-Tempest, Analyst, Jefferies European>>

Thank you. Maybe just one final question because then I'm sure some people might have to get the traffic back to the other building. But you've also given guidance for 2025, you've given guidance for 2027. So it's almost like a guidance sandwich looking what 2026 is basically look like. I'm not looking for guidance today because I'm only going to get that in sort of the New Year. But we definitely going to hear things from investors. This 30% of the floor, given the amount of investments, how much of a kind of a declining curve is that in 2026 before it comes back, there's the volatility potentially with new sodium oxybate entrants coming in 2026 in terms of what that might mean to what is people believe is quite a big product in your portfolio. So can you help us sort of frame the parameters of some of the risk rewards around those elements which I know some people are awaiting visibility on?

<<Khalid Nabilsi, Chief Financial Officer>>

I don't think that what we have given is like not giving kind of the medium-term target. So we've said that the generic or the Rx business is going to improve to close to 20% on the medium term. At the same time, we said we want to set the floor for 30% on the medium term for the injectable business. And the branded business we all know it's close to 25%. So all in all, you are having all the guidance kind of for the – for 2026 and kind 2027, although we are not giving specific guidance, but you would be able to get that into your model.

<<Riad Mishlawi, Chief Executive Officer>>

I think we have a long term and short term future. I think both of those are very bright. We do have something that we have to finish in the injectable business before we see significant, significant benefits. At the same time, what we are promising now in the shorter term, around 30% is still one of the highest amongst our peers and very, very healthy for any company. The other divisions are doing extremely well. And as a company, if you look at all our financial indicators, this is a company that has financial indicators much healthier than a lot of our peers. So we are very confident in the short and the long term. Of course, in the short term, there will be more investment, but in the longer term you're going to be reaping all these benefits.

<<James Vane-Tempest, Analyst, Jefferies European>>

Thank you. With that, we're out of time, so Riad, Khalid thank you very much.

<<Riad Mishlawi, Chief Executive Officer>>

Thank you.

<<Khalid Nabilsi, Chief Financial Officer>>

Thank you.