Hikma April 2025 Trading Update – Q&A Transcript

Unidentified Company Representative: Morning, everyone. Just before I hand to Riad, we'd just like to remind you that any forward-looking statements or projections made by Hikma during this call are made in good faith, based on information currently available and are subject to risks and uncertainties that may cause actual results to differ materially from those projected. For further information, please see the Principal Risks and Uncertainties section in Hikma's latest annual report. With that, I'll hand over to our CEO, Riad Mishlawi.

Riad Mishlawi: Thank you very much. Good morning, everyone. Just for the very start, I would like to read a couple of paragraphs here. I think all of that was included in our announcement this morning.

Despite what's happening in the world and despite some of the uncertainties that we have, we have a really - we feel that we have an encouraging start of the year in all of our businesses. Injectables, we delivered a solid revenue performance, with good demand of our products. We see it all across our geographies, in Europe, MENA and North America, and we do see also, like usual, competition in some of our products. In this case, in this, we are facing some competition on the higher [marginal] products in the US.

The branded business is doing well, performing according to expectations. We're benefitting from the growth of our portfolio, especially in oncology and lifestyle disease products. Generic has a good start of the year, solid demand on our nasal and inhalation products, as you know - a significant increase there.

I think the best news here is we're happy to reiterate our Group guidance for 2025, reflecting our confidence in our strategic executions. We continue to expect the Group revenue to grow in the range of 4% to 6% for core operating profits, to be in the range of $730 million to $770 million in 2025. Due to some of the phasing of our sales and the timing of the contract manufacturing opportunity, as we had last year - contract manufacturing comes later in the year. One of the - they are probably the highest marginal products that we produce. We expect the core operating profit growth to be weighted to the second half of the year, particularly in our injectable business.

From the strategic point of view, we have been launching new products across all of our markets. We're making excellent progress in enhancing our Bedford facility. As you know, Bedford facility, we wanted to revamp it. We've done a great progress. We're accelerating. In fact, we're accelerating the construction - the reconstruction of this facility and the [media fills] and what we need to do to get it in production.

We're progressing well in our Columbus facility. As you know, Columbus facility, with the CMO partnership that we've had, we're required to do a lot of expansions, equipment - installation of equipment. In fact, that had increased to the originally agreed on scope, and we think that there would be a lot more than we thought at this relationship, so we're very happy that this is progressing well.

We continue to strengthen our pipeline and R&D and looking at investment in BD. This, we really have been concentrating on. As you know, we got the Croatia facility from our last Xellia acquisition. We feel that this facility will offer us a lot. We see that the competencies that we've had - inherited here, and we are now looking at enhancing this, adding to it a lot of people and trying to benefit from not only the injectable side, but also from other divisions, like the specialty from the injectable side.

Last paragraph, I wanted to talk about tariffs. I know you'll have a lot of questions about tariffs, but I will start with telling you that we don't know what you don't know, so - however, though, I think one thing interesting about our Company, and thanks to the Founder of the Company, we - he believed that when we expand into any territory, we expand as locals. So if you see the number of plants that we have - in MENA alone, we have 23 plants. Across the world, we have - the high 30s. I don't know how many we have now, but close to 40 plants across the world.

We - the philosophy was always you hire from within the country. You create the work from within the country. You create the relationship with the regulatory, with the government, and that eventually will give you an advantage. So we happen to be acting like this for a long, long time, so in the US, when we came to the US, I think we started buying facilities, significant facilities in the US, back in 2010 when we acquired the Cherry Hill facility.

Everybody thought that we are really against the current. Everybody was going to India while we're coming to the US. We did the same when we bought Bedford. We did the same when we bought Columbus, and we did just now Xellia. So our presence in the US has been always the philosophy of the Company. It's not a reaction to what's happening today, but it is definitely a benefit of what's happening today.

If you say, I want to go back to the US - we're seeing all these articles right now, all these companies are saying, yes, I'm moving this many billion dollars in the US. We know how long it takes to build a plant, especially a pharmaceutical plant, get it approved, get it validated, transfer all your products - it won't be less than seven years. It's a lot. It's taking us three, four years to refurbish a plant, so this is not an easy task.

However, we are sitting on an advantage here, because all - most of our plants are in the US, and we are building. Bedford facility right now will hire 500, 600 people, and at its peak, it has 1000 employees. It has technologies. It has robotics. It has all you need, and when we are building something now, we are of course using the latest technology that is available.

So that is on-going. We accelerated that due to what's happening today. We think we can probably get it a little bit faster. There's a demand on a lot of contract manufacturing that I think we can capitalise on right now. People are knocking on our doors for the Columbus facility, for the Cherry Hill facility and for the facilities. So we feel that this is a great advantage in the future.

But again, it didn't come as a reaction. It has been there for a while, and that's why we have an advantage of the timing, if you compare it to a lot of our peers. So from the tariff point of view, we do have very low, very small amount of API and finished goods that comes from China. It has always been US - a lot of it is US based. All of our materials come from the US. Some come from Europe. Some come from China, but very little. We think maybe less than 5% of the Group [unclear] come from China, so dependency on China is not much.

However, the situation that's happening right now, it's not only about how much money you are paying for the tariff. It's this uncertainty makes the supply chain, makes your inventory management, makes your vendors, everybody, uneasy and not very smooth in forecasting. You know this business is all about forecasting. If you're good in the supply chain here, you are a winner. It's not only about how much you pay. It's about how fast you can get it. You have the material when you need it. Are you delivering the product at the right time?

We are afraid that these are the things that will be impacted the most, not only by us but also by our vendors, by our people that we buy from. Vendors don't know, are they going to get the order? How much is the order going to be? Is it going to be 20%, is it going to be 30%, is it going to be 100%, 145%? We heard yesterday that the administration now is changing their mind on China altogether, so how is that going to affect us?

So we really don't know. However, we do know that we are not the only ones that are affected, and we are sitting on an advantage compared to a lot of the people that are in the same industry. So that's what I have to say, and we'll open to questions.

Operator: For those on the phone lines, if you have a question, please press star, followed by one, on your telephone keypad now.

James Gordon: (JP Morgan, Analyst) Thank you. James Gordon from JP Morgan. Maybe one on tariffs and one on injectables, before we get bogged down on tariffs. So on injectables, you're calling out more H2 versus H1, weighted, on both revenues and EBIT for the year. But was that anticipated as much at the beginning of the year? I don't think it was as anticipated, and assuming not, what is it that's made it become more H2 weighted? Is it more the competition, and which products particularly are you seeing more competition on? Maybe I'll pause there and then ask a tariff question.

Riad Mishlawi: Sure, so I think it was anticipated, but you're right, it wasn't as much anticipated as now. We have two big products with very high margins, namely testosterone and calcitonin. Those, we found two entries in each, actually added to the market, and as you know, in the US market, you have to make a decision when a new entry comes and cuts your price. You either match that price or you get out.

There's a lot of - these are very hard decisions, and I give it to the commercial team that they have to make those decisions day in, day out, because you can destroy the product and destroy that profitability, or you can decrease your market share. Every decision had to be weighed, depending on where we are, who the customer is and how much money are we talking about, but we had seen competition, and we are reacting to this competition. Of course, this happens daily. It just happened to be two at the same time, at the same - two at the same time, with the biggest products that we - margin products that we have.

So of course, we react. We look at other products. We see how we are going to smooth it out. We have a plan of what we need to do, so we feel that our reaction is not - it is going to be something that we have to do something about, but it's nothing outside of the usual competition that comes in and comes out.

Khalid Nabilsi: At the same time, the contract manufacturing, it was anticipated that it's going to be more second half weighted, so it's part of - high margin contract manufacturing will come in the second half, so it was demand from our customer that, okay, if you can push and delay the contract manufacturing to the second half.

Riad Mishlawi: We're usually like that. If you look at last year, it is always - contract manufacturing is always put to the last thing. You need to get our products out, put it in the warehouse, so you have to manage the demand. So you use your facility early on for your own products. You let the contract manufacturing at the time when you are really very - your warehouses and your supply chain is all stable. As you know, in December of last year, we had a very big month, so that empties a lot of inventory.

So when you come in the next year, you really want to fill that inventory, so you put your contract manufacturing later on. You concentrate on your own products, so that's also why contract manufacturing usually is pushed later in the year. But, of course, contract manufacturing order [does that]. It's take or pay. We're not worried about losing them. It's just a matter of when we are producing them, but that comes with the coordination with our customers, of course.

James Gordon: (JP Morgan, Analyst) Do you have a view, roughly, what the phasing will be on revenues and EBIT for the year, as in what proportion could be first half, second half?

Khalid Nabilsi: We are not yet giving any guidance on that, but it's going to be second half weighted, probably similar to last year.

James Gordon: (JP Morgan, Analyst) Thank you. The tariff question was just - so you helpfully made comments about your high level of US manufacturing, which seems like a big competitive advantage. But when you talk about manufacturing, there's raw materials, then there's API, then there's fill-finish, and so I think you'd use - maybe if you could elaborate what you mean by manufacturing, and how much of, say, your overall US COGS is attributable to the bit that you do versus the bit that you buy from someone else. Because people are struggling a bit to say, is all of the API like the COGS, or is actually most of the COGS cost actually the other stuff that you are doing in the US?

Riad Mishlawi: Yes, so to be honest with you, we're still trying to put these numbers together, but what we can tell you, that it's not a big number. So COGS usually includes API. It excludes your RPM, basically, raw and packaging materials, which is your excipients, your API, your packaging materials, your glass, your stoppers, your bottles. All of that is included in your RPM.

A lot of it comes from the US. The key here - more like 85% of the $2 billion, just about, of revenue that we have in the US, comes from the US. The thing that we have to go a little bit deeper now, so what is really - comes from the US, we buy it from brokers from the US, but it comes eventually from China. So how is the broker going to react? This is all unclear right now.

But we know that, directly, what we get from China directly and resource is less than 5% of the Group of our COGS, which is very, very minimal. We have finished goods like liraglutide, for example, that is coming from China, and that's also I would say - do we have a percentage? Is that what…

Khalid Nabilsi: [Unclear] raw material is very little. But you have some finished goods that you buy, liraglutide and some other products from China, but it's not going to be like - it's not significant out of the total. So it's like 5% of the total cost of goods sold of the Group, which is - let's say it's $100-something million.

Riad Mishlawi: We have paid tariffs on some products that we get. We started already paid, and the last shipment that we had, we had paid some tariffs. The thing about it and the thing that is uneasy, is we don't know how much it is. We wait until our broker bills us. So the last one was 20%, so…

Khalid Nabilsi: You don’t know, and this is still in the negotiation, how much you could pass to your supplier, how much you could pass to your customer, so the situation is very evolving. It will have an impact on the short term, but long term, as Riad mentioned, we are much better positioned than many of our peers, because we can benefit from that.

But it's not going to be the total impact on tariffs on just the manufacturers, because many companies, they are going to increase prices. You can share the costs with your supplier. Still, it's an evolving situation.

Riad Mishlawi: Yes, but manufacturing in the US is an important factor, because if you think about it, usually, your COGS, your RPM, is maybe - in an injectable, it's less than the generics, but I would say between 17% and 25% to 30%, depending of course on the product. So if there's tariffs that you are going to pay for that, that would be affected, of course, but this would be very, very different than paying for the 100% of what you're getting as a finished goods. We know a lot of competition in the US, a lot of our competitors, they get a lot more - they don't manufacture in the US. They get a lot more than just the 17% or the 20% of the RPM with that.

I think there would be chaos at the beginning, right, as we say, as we see it now. But would that be an opportunity for us? I think this is something that we are - we think that it would be, because in contracts of the GPO, you can say, look, there is a situation that I could not control and I want to get out of that contract, and you can. It's something that's out of your control, you can say, I want to - you can't come and say, I want to raise the price. Many of the GPOs will not accept you just go raising the price.

What they will say is, we'll rebid it. You can get out, we'll rebid this item, and all your competitors will come in. With that, you have opportunity for you to raise the price, and everybody else would raise the price, because would they - would that be an opportunity for them to pass that tariff to the [supplier]? It's something that we're watching very closely. I don't know.

But I think we are - we would probably have some opportunities there that we would be able to be sitting in a better situation than others.

James Gordon: (JP Morgan, Analyst) I'll pass the mic on, but just a final one, can generics companies in the US pass on most or all of the tariff impact as price, or is that…

Riad Mishlawi: If they all act together. In the beginning, it's going to be chaos. It's going to depend now, how much inventory do you have? I might not have any inventory, so the tariff is going to start now, when I'm bringing some products in. Another person would have two years of inventory, can afford it without having it, so in the beginning, until it settles and stabilises, it's just going to be chaotic. But eventually, it will settle and things will become more clear.

Seb Jantet: (Panmure Liberum, Analyst) Hi. Good morning. Seb Jantet with Panmure Liberum. Two questions. If I can just go back to injectables and the two products that you talked, where you've seen some new entrants come in, so what have you actually done with those products? Have you lowered the price, or have you reduced your volumes? I'm just trying to understand the impact, and linked into that, what are you planning in the second half to recover the lost margins, then, from those products?

Riad Mishlawi: So what you do is different from one contract to the other. Some, you might, depending on the volume, depending on the importance of the customer, depending on if you want to lose it, depending on how much are they asking you to lower, in some cases, you do lower. In some cases, you choose not to lower and lose some market share. At the end, the result might be the same, but you have a product. You might sometimes destroy the product at a point where there's no margins at all, or you can preserve some of that margin but have to give up some of your market share.

This happens every day in our industry. We have 175 products in the US. We are the second or the third largest portfolio in the US, and we see this competition come and go. You have to hold your breath to see what happens. You will learn more about your competition. You'll learn about their costs. You'll learn about what they can afford, how aggressive they are. All these factors are going to determine how you act at the end, so there's not really a set formula. It's just something that you will have to assess and see and, in the meantime, you have other products that you have to work on.

You might increase your volumes to make up some of the margins. You might concentrate on some of the higher marginal products and see if you can push for more market share. It's not unusual that this thing happens.

The only thing I would say is, testosterone in particular, we have been operating with six other competitors in the same market, and we have been - we stabilised our price for that - the margins on that product for a while now, for I would say 12, 13 years. This is unusual. But then, when we come eight, and somebody is a lot more anxious, then you can lose control, but it's still a product that is holding value, because it's a difficult product. It's an oil-based product. It's hard to manufacture. It's a hormonal product, so you have to have a special part, special way of doing it.

Although there's a lot of competition there, but it is not an easy one where you really can just set it forward, a lot less - the margins are always high on that one.

Seb Jantet: (Panmure Liberum, Analyst) Then more of a strategic question, so you're long US manufacturing facilities, which is clearly a good thing right now. You've got a choice here as to whether you make those facilities available to others for contract manufacturing or whether you try and use your strength in terms of US manufacturing facilities to go and win market share. So where, strategically, are you thinking you're going to go in that [situation]?

Riad Mishlawi: We will do both. I think our capacity that we're bringing online - well, first of all, I think this is a very important question, because you have to go beyond the first quarter and the first half and look a little bit beyond the future, what we have. We have a lot of confidence in the injectables, especially in the injectables, and I'll tell you why. The first thing is, we are bringing in not only more capacity but very needed capacity. We have six facilities that will have six huge lyos and three injectable [lines] that will be feeding those lyos that will be online. The lyos usually are used for very high value product, delicate products. Biosimilars are used - most of them are lyophilised. A lot of the delicate products use lyophilisation. Lyophilisation is a very capital intensive - a lyo, a typical lyo cost has been $5 million to $7 million, but it's not only the money that we need. It's also the installation, the validation, which takes a long time.

So getting into the lyo industry is a very long termer and a huge capital investment. We are going to put a huge number of lyos, and we are in the process of doing it. The lyos are in place. We are now installing automatic loading, so all robotics, the product will go into the lyo and out of the lyo without any human intervention. That's what we're doing today. That's what we're changing from what we have bought.

We bought manual operations, but we cannot - we don't like manual operation for reasons for quality - of course, quality reasons. Machines don't make mistakes. Humans do, so we try to concentrate on robotics, and because of the efficiency. So that's one, and the second one is an aseptic bag filling plant, and this is a technology that is very, very unique. It's usually the likes of Baxter and Brauna are the ones that have this technology. We think we have - or this technology is going to help us, especially with the new product that we acquired from Xellia, which is the Vanco Ready. Vanco Ready is a product that we're also looking for the future to be a big product.

We believe that the black box will be removed, and we will have a big branded product that is needed. Right now, vancomycin that is being used in a lot of the hospitals is being compounded. The compounded product is only good for a very short time, expiration date. We will have a long time, NDA-approved product that will be done. So we're excited about this product.

So I think what's coming to the injectables in the medium term, there's a lot more opportunities for us to continue with the growth, to giving good, high margins and to feed the injectables exactly what it needs. We will have some contract manufacturing, of course, but we will have also a lot of our own unique products manufactured in those facilities. Does that answer your question?

Seb Jantet: (Panmure Liberum, Analyst) Yes, it does. Thanks.

Alistair Campbell: (RBC, Analyst) Thanks. [Al] Campbell from RBC. Just a couple, please. Just on inventory, ahead of the potential chaos ahead, are you working towards increasing your inventory levels of intermediates across the business, and should we be thinking about that in terms of working capital? Then, maybe just a top-level view on broad capacity in the US. Can you just really give us a feel for if you were to pull levers, how much additional capacity you could get in the US to manufacture both generics and injectables over maybe a one to two-year horizon?

Riad Mishlawi: Yes, I will - that part of the question, I'll leave to Khalid to talk about inventory, but I will say that Khalid has been always trying to control the inventory, despite our businesspeople that try to be a lot more generous than he wants us to be.

Khalid Nabilsi: Adding to this, if you look into our inventory, it's - inventory dates that we have today that had higher than our peers, and this is why I always push with the management, you have to reduce. You have to reduce.

Riad Mishlawi: However, during COVID…

Khalid Nabilsi: However, now…

Riad Mishlawi: We always remind him, during COVID times, we had one of the best years that we've had, and it is because of the inventory. It is because of inventory management. So there's a cost of carrying more inventory than you need, but there are advantages. Especially, we pride ourselves and we are very careful and being - delivering on time, trying to not - try to be a very reliable supplier, and that sometimes has to do with the costs, and the cost is mainly in the inventory.

So we do have healthy inventory in most items that we have, so I think we'll ride that uncertainty for a while before we start restocking our inventory. But again, you still need, of course, buying inventory daily. But for the important items, a lot of it is already in our warehouse.

Khalid Nabilsi: Times like this time, COVID time, having higher inventory is beneficial as well.

Alistair Campbell: (RBC, Analyst) Then just on capacity, [on overall capacity]?

Riad Mishlawi: Yes, on capacity, we have a huge amount of capacity. So we are very happy, and I hope that all of you will come to see our plants in Columbus, and you should, if you're trying to - still thinking about it - because we want to show you what we have. Columbus is a good example of the facilities that we've had.

We have - so Hikma, the reason why I think Hikma has been successful and has been making margins the way that we were making margins is starting with the plant. We manufacture a lot of our products ourselves. Our plants are always - we spend 6% of our revenue in capital expenditure - a lot of it has to do with always renovating our facilities, adding more and more equipment, investing in robotics and automation. This is something that we'd like to show you, because these are very, very important for you to see how we are able to increase capacities the way we are, what our plants are made of and automation, the level of automation that we have.

So to answer your question, in the last 40 years, we - since we bought Cherry Hill from Baxter Healthcare, and I personally was there for a while. I was living and managing that plant. We had built a plant within that plant, and now we are decommissioning the old plants, so we have completely all new ones. The lines that we have are lines that run at 600 a minute, and they are all robotic. They have automatic weighing systems where you weigh the vial before you - 100% verification of weight.

So we have a lot of sophistication when it comes to our equipment. We invested a lot in the Cherry Hill facility. So the Cherry Hill facility, I would say has the capacity anywhere between 250 million vials to 400 million vials, depending on if you want to work overtime, if you want to work seven days a week, if you want to work seven shifts, if you are doing the small vials, the big vials, all of that, really depending on what capacity you have. But you have huge capacity in that facility.

We have 12 lines, and seven of those lines are very, very new and runs at extremely fast - and we have one line that is on order that is also coming to Cherry Hill facilities. The facility that we're building right now, the Xellia facility, we have three lines of 600 a minute, six lyos, two lines of aseptic bags, fully automated. Everything is robotic, all the bags and automatic loading and all of that. So this, I would say, you would be able to make maybe 30 to 50 million of lyophilised products, depending on the size of the vial.

Our Columbus facility, this is something also you would have a chance to see if you're coming, there's a lot of investment, I would say around $300 million investment that we're doing today of expanding the facility, a lot of it directly related to our contract manufacturing clients that we have. We are preparing a big part of the facility for the contract that we have, and we are adding also new lines, especially in liquid and in nasal.

Khalid Nabilsi: But we are not paying for it.

Riad Mishlawi: No, we're not paying for it. But it's our part to our contracts, but of course, it's our facilities. So the capacity that we have, I think we are doing now about 7 billion units, and our capacity is already double that. Of course, you always can increase the capacity if you're running seven days a week, if you're depending on the volume of the products.

Khalid Nabilsi: I just want to add to what Riad just mentioned. We've been always investing around 5% to 6%, almost 6% of our revenue, in CapEx, and half of it is replacement, maintenance, and half of it is expansion, so this is across wherever in the Group or in the US - in the MENA, US or Europe. So always, we are expanding. Every year, you have something that we are expanding the capacity, so it's an on-going process.

James Vane-Tempest: (Jefferies, Analyst) Thank you. James Vane-Tempest from Jefferies. Two questions. I think you said 85% of your US business is sourced - 85% of your business is sourced within the US. Are you able to help us understand perhaps between injectables and orals? Because I know a few years ago, I think you realigned various capacities between Portugal and Cherry Hill to hit scale, and there's maybe some supply coming out of MENA into the US, so that would be helpful to understand. I've got a question on R&D, as well. Thank you.

Riad Mishlawi: We can give you estimates. We are still trying to sort things out and trying to get accurate numbers, but we'll give you somehow - I would say 75% of our total revenue that comes, that we make in the US, is made in the US. It's manufactured in the US.

The rest of it is manufactured outside of the US, but it could be in our own facilities that - Portugal, for example, does a lot of complicated products, lyo products, oil products, antibiotics, all of that, for the injectable unit. Some we get from third party - very little. We did talk about that number, but a lot of it I think is in intracompany, made outside of the US but into the US.

Today, it's tariff free. It will not be impacted. It's coming from Europe. Some small number is coming from Jordan, but most of it is what Portugal sends to the US in injectables. Most of the generics, over 90% I would say, even 95% - we'll try to find that exact number - is made in the US and sold in the US, so it's not sourced from anywhere outside. Some of the products, the antibiotics that we have, come from Jordan for the generics, and in the injectables, a lot of the Portuguese products go to the injectables.

James Vane-Tempest: (Jefferies, Analyst) Thank you. That's helpful. Then my second question, just on R&D, you've had various questions about - maybe some clarification, the 20% increase this year, how much of that is in injectables? How much of that is in the US business? Is there a bit of unallocated R&D if there's a building which has been using - being used for both the segments? Are you able to break down the overall increase of R&D by segment for us, or at least qualitatively?

Khalid Nabilsi: It's mostly going to be for both segments, but more on the generic side. I would say that probably the level of investment that we have today on the injectables, maybe it is intensive, but because we have right now the Croatia facility, is at lower cost than what we have in the US, is maybe you would not see the level of investment in [cost] is high relative to the US. But as well, as Riad mentioned, we are as well benefitting and leveraging from as well the Croatia centre for the generics, and this is our plant.

Riad Mishlawi: I think we've been talking about our R&D for a while, and I think we want to make the point that we really think R&D is important, and we want to invest in R&D, and we want to be a super-R&D company. However, we cannot do it all at once. We have to do it smartly. It's not about how much you spend. It's about the effectiveness of spending. It's about the output that you put, and that's what we need to concentrate on.

We had been visiting a lot of companies that we think we can have do partnerships that we don't have to start R&D from zero. We can start R&D from maybe 50 and take it to 100. There is a lot - there are a lot of those opportunities, but as Khalid said, the fact that we have also a big R&D centre in Croatia, and the fact that we have good talent in Croatia and we can recruit more, I think we can do more with less. That's the idea. The idea is not only spending more, which we will be, but also being more effective and increase our output.

In generics particularly, we have to do studies that we cannot avoid the costs, so you can do it in India or you can do in Canada. You can do it anywhere in between. The cost is going to significant. Especially we talked about epinephrine for example, nasal epinephrine. It requires three studies that each one is really expensive. So you need to spend money no matter what you need to do.

In the injectables, less studies. A lot more has to do with completing the projects, with the API price of the project, of what you're doing, and the success rate that you have. But we really feel that we are just starting to accelerate our R&D and focus on our R&D. I think we will see that result in the next - in the coming year. But we are more and more believers that to survive, we need to add interesting products. To keep the margins up, we need to make them ourselves. We need to manufacture them ourselves. We can always go and buy, but you'll see - we will show you some of the - the reason why we have some of the lower margins that we have is because we have products that are very interesting and very good, but we have to share the margins with a partner.

We are not going to keep the 30%, 35% that we usually keep in injectables, if you are going to share your margins. So you have to make that choice. You have to do both. You cannot only rely on partnerships with interesting products. You have to do it yourself, as well.

James Vane-Tempest: (Jefferies, Analyst) Thank you. Just to clarify then, just to make sure I've understood, the 20% increase, more in generics than injectables, and not in corporate? Okay, thanks.

Unidentified Participant: Thank you. I've got three questions, please. Firstly, do you know where the competitors are manufacturing their testosterone and calcitonin, and could this be a fairly temporary competitive impact? Similar question, really, but on biosimilars. Where are most of biosimilars made, and is that a real opportunity for your new Bedford site? Then, I've got one follow up.

Riad Mishlawi: I'll start with the second one. I think the second one is a good point. We have some already had asked us if we have - if we will have some capacity to do [unclear] manufacturing of biosimilars in our site in the US. So this is a very good possibility. Of course, we'll have to weigh it out and see which is the best partner. Today, we already have a partner that we manufacture biosimilars for in Portugal, but I think whoever sells in the US would like to be manufactured in the US if the opportunity is there. So definitely, I think we'll have some.

Where our partners or where our competitors manufacture the drugs, it's hard to tell. We can guess, because we know them, so we can guess. I don't think the R&D was, but again, it's hard to say. It's just a guess, like anybody else.

Unidentified Participant: Okay, and then finally, if more of your competitors have got to raise their manufacturing again in the US, are you expecting there might be shortage opportunities, market share opportunities, in ex-US markets?

Riad Mishlawi: Because they're manufacturing in the US now?

Unidentified Participant: If others have got to focus more on the US with their manufacturing capacity, could opportunities present elsewhere?

Riad Mishlawi: Of course, there are always opportunities. We are a global company, and if you look at our MENA and you look at our European sales, they're increasing significantly. So we do have injectables globally are doing very well. Of course, our MENA business, our branded business, is doing really good. I think the thinking right now is whether generic - some of the products that we're making in the generics can go to Europe. I think that's an evaluation that we're doing, especially with the interesting products that are coming soon. Should we expand our presence outside of the US? It's always a possibility, and we're weighing it and evaluating it every day.

Unidentified Participant: Thank you.

Riad Mishlawi: Yes, opportunity, there's always opportunities.

Christian Glennie: (Stifel, Analyst) Thanks. Christian Glennie with Stifel. Maybe just one on liraglutide and how you think that's performed according to expectations. I think you're still the only generic in the market, got about a 30% share, unless are there new ones coming?

Riad Mishlawi: Yes. Somebody came in a couple of weeks ago.

Christian Glennie: (Stifel, Analyst) A couple of weeks ago, okay. Has there - has that largely performed - would there not potentially have been some benefit? I don't know what the economics are, particularly in what I assume, that it's a decent margin product that may have helped offset some of the other margin issues you were calling out in the first half, just some commentary around…

Riad Mishlawi: Yes, I think liraglutide has been a great surprise for us that we were the only ones for two, three months. Somebody had entered the market. The product is made in China for the Company. We know that for sure, so it's a similar situation that we have. However, we did negotiate the RPM, the finished goods, significantly in the last three weeks. We think it still will be a healthy product.

But I can tell you why we are optimistic still for liraglutide. In the last month, in the last few weeks, the FDA and the regulatory bodies of the US, they are prohibiting compounding of semaglutide. Semaglutide, many, many people had had semaglutide compounded. Because of the shortages, you can compound the product, as per the law in the US. Well, now, Novo is saying there is no shortage anymore, so you cannot compound the product, and they're really trying to regulate right now, so they are not compounding - from what I understand, the compounding of semaglutide had been very much decreased to the level it used to be just two, three months ago, which means that the people that are - that have been used to paying low cost for this drug, now they're going to pay the full price coming from Novo, especially that a lot of the insurance companies don't cover the weight loss indications.

So that's what we think that a lot will probably switch to the liraglutide, which is a lot cheaper, especially now with the competition that are coming in. This is even cheaper than it was just a month ago, so we believe that although the price might be less, the fact that we negotiated significantly a reduction in what we already buy, plus we think that the market share - the market is going to expand, we think we still have a good chance of keeping this product as a very valuable one.

Christian Glennie: (Stifel, Analyst) Potentially, therefore, some of your confidence around that margin improving in the second half, is that a relevant factor?

Riad Mishlawi: It really depends. Right now, you have one competitor. There are eight applicants, so we have three on the market today, so how many is - by the time it gets to six, it will be very, very difficult now to be a high-margin product, especially if you are sharing some of the margins with a third party. But if it stays, I would say, four or five, manageable and you can still extract a lot of value. But we believe it's not - it's still an important product.

Christian Glennie: (Stifel, Analyst) Thanks. Then, maybe just we talked about the phasing in injectables - maybe just confirm what you're thinking at the moment in terms of phasing on both branded, normally typically first half weighted, and then generics, I'm not sure where the phasing sits in generics.

Riad Mishlawi: It's last year, branded, was first half I would say weighted. This year, it's probably I would say 50/50, like some of the oncology will come in the second half, rather than in the first half, oncology sales. Generics, it depends, but I would say similar trend that we have seen last year.

Unidentified Company Representative: More evenly distributed [unclear].

Riad Mishlawi: More evenly distributed.

Unidentified Company Representative: Lots of [unclear].

Riad Mishlawi: Yes.

Susan Ringdal: Effectively, for the Group overall, it's going to be more [unclear] across each of the three divisions, and then because of the [unclear] on each one, across all three divisions [unclear].

Christian Glennie: (Stifel, Analyst) Maybe one final one, if I can. Last time we sat here, you seemed reasonably - not on some of these topics, but you seemed pretty confident around getting some new CMO, some contract, winning some new business. You got a lot of people - more people out there doing BD. Just maybe a sense of obviously things should be moving in your favour in terms of demand for your capacity. What should we be expecting in terms of potential BD?

Riad Mishlawi: Yes, if we talk to - about the generics, we've had a lot that are coming our way. We are very careful, though. We need to be successful in what we're doing with this contract that we have. It's a significant contract. It's something that we need to be successful at, and we think the potential is going to be huge. So although we are weighing and we are evaluating other customers that are coming to us, which we we'll be very careful that our focus is going to be at completing what we have today. We still have a year to go of intensive construction and adding equipment. In the meantime, I think we are looking at two or three other potentials to add to what we have. So that's on the generic side.

From the injectable side, we can't take any more contract manufacturing until we have our Xellia facility. We are evaluating customers. The good thing about the Xellia acquisition is the lyos and the lines that are at Xellia that will be increased at Bedford are the same exact ones that we have in Portugal. So that is going to help, because if we are going to have a customer, for example, that wants contract manufacturing, we can start doing validation in Portugal, and it will be seamless in the transfer, because it's the same lyos, the same size, the same vat size, same lines, same [link], same automation, so it would be very easy for us to technically transfer from one end to the other.

So this is one of these options that we have, but yes, today, I would love to take more contract manufacturing customers, but we will hurt our business. If you hurt your business, it's hard to come back to it. We tried that in the past, where we said, oh, it's an opportunity. Let's get into contract manufacturing. But then when the contract manufacturing winds down, then it's very hard for you to pick your business, so you end up hurting your business.

So we need to balance, and we need to make sure when you do the one, when you do the other.

Victoria Lambert: (Berenberg, Analyst) Hi. [Vic] Lambert with Berenberg. I have several questions. One, on the announcement for the acquisition of the ANDA for trametinib. What does the drug effect contribute, and how should we expect this to be a [unclear] driver in the future?

Then the other one was just checking in again about the US biosimilars, wondering when you could provide an update on that, and yes, when should we - what sort of [unclear] should we expect for the product launch, once approved?

Riad Mishlawi: Yes, a couple of comments on the product. It's not until 2031 that will be out. We will be the - it's an opportunity to be the first in the market. We think there's a value to it. We don't know - it all depends. Just being first on the market, it's all depending on the strategy of the brand that you have. So some of the brands do authorised generic, like what they have happening with liraglutide. They try to stuff the inventory to try to prevent you from coming in. Some just leave it go. They give it up, knowing that the patent is off. They concentrate on something else and let you come in as the first generic and have the exclusivity.

It all depends on how it will happen. It's too early to say exactly what the forecast is going to be. All we can say is a good product. It's very healthy. Being on the market and having exclusivity of six months at the very beginning is something that would be very, very valuable. These are the type of opportunities - some will give you a lot more return than others, but we just need to do a lot of them and hopefully that - I think it's definitely a great opportunity. Anything you want to add, Susan, or…

Susan Ringdal: No, I think that's [perfect].

Riad Mishlawi: For the biosimilars, we expect - I think they are submitting this quarter, right? This quarter, next quarter, something like that. I think the expectation is…

Susan Ringdal: Shortly, yes.

Riad Mishlawi: Yes, shortly. The expectation is toward the end of next year that we should have approvals. Nobody online?

James Gordon: (JP Morgan, Analyst) Thanks. James again. A question, just you've got the [meet management] event for generics, I think [there was a bit] on injectables. I'm not asking you to give us any information before the event, but just to set expectations of what are you going to tell us later. Are you going to give us a generics guide, and could it be a revenue guide or an EBIT guide? How much visibility do you have now on generics to be able to give guidance on that division?

Riad Mishlawi: More than you have today, I think. I think we are trying to put things together, something that - we're trying to change certain things. I'll leave it to Susan to answer a little bit more, but I think we want to - first, we want you to trust the future, so we want to give you a lot more visibility to what we're doing and how the future - how we see the future. I think we want you to trust the medium term. We want you to - not only give you numbers, but we want you to see it, to see what we're doing. This is why we're inviting you also to go to Cleveland, to see what we're talking about that facility.

So I think with your own eyes, you can see how we're progressing, and that I think we will reinforce it with some numbers, some outlook that we see ourselves. We also have some strategic changes that we would like to also announce, and I'll leave the rest to Susan to talk about.

Susan Ringdal: I don't need to say more than that, because [unclear] similar to Morocco, so we had the management team from generics and injectables who will be there. As Riad said, the key is, too, to meet them to get the deeper understanding of what we're trying to achieve over the medium term, and we are very comfortable that you will be impressed with the team and the facilities that we have.

James Gordon: (JP Morgan, Analyst) Thanks. Maybe just as a follow up, could it be that you talk about the Group, or is it really just generics is the focus that you're going to be talking about [unclear].

Susan Ringdal: It's generics and injectables.

Riad Mishlawi: Injectables.

James Gordon: (JP Morgan, Analyst) Thank you.

Operator: For those on the phone lines, to ask a question, please press star, followed by one, on your telephone keypad now. We have a question from Miles Dixon of Peel Hunt. Miles, your line is now open. Please go ahead.

Miles Dixon: (Peel Hunt, Analyst) Thank you. Good morning, and forgive me. I couldn't hear all of the Q&A, so I hope I'm not going over old ground. But could I ask you more broadly about generics in particular in the US? So around tariffs, for instance, if there were to be more punitive tariffs that come down, especially given the lower margin, excepting the inventory build that you've already talked about, how long do you think it might be before the US patient or consumer feels any potential changes for those tariffs? Thank you.

Riad Mishlawi: Very hard to say. Well, thanks for your questions, first of all, but I think you're touching on the uncertainty that we're all feeling today. So some are predictable, some I think wouldn't be predictable. You know that if the manufacturers or if the brokers, distributors, are affected, then there's two choices. They can either take that extra cost themselves, or they are going to pass it to the customers. That happens in different mechanisms - rebidding the contracts, getting out of contracts and being aggressively after contracts. So what I'm trying to say is that a lot that is going to happen until things are settled, based - the base price or the base cost of certain products might change. Eventually, somebody has to absorb it. Whether the customer is going to absorb it or the manufacturer is going to absorb it, it really depends on the level of margins that you have, on the product that you have, on the number of competitors that are out there and where the product is sourced from.

We know that China is - manufacturers a lot of the starting material, if not the API itself, so you could get the materials from India, but the sourcing and starting material is from China. We could get material that is made and we buy it from the US, but the source is also somewhere else. All that is not clear right now.

The other thing that is not clear that is really making us a little bit - I wouldn't say uneasy, but I would say curious to see how is it going to be calculated, is the fact that if we have made a product in Portugal, using Chinese materials, is that going to be subject to tariffs or not? Today, we've heard some consultants that we've been contacting a lot and talking to a lot of experts in the area, they are all confused themselves. But they told us that you have to transform the product significantly for you not to consider it as a Chinese, if you use their material.

But what does transformation mean? At what level? What is significant? All these are subjective words that, until now, there's no definition to.

Khalid Nabilsi: Adding to what just Riad said, some advisers are saying the expectation that there will be inflation on the products even that you buy in the US, so they've started with 1.8%, then 2.2%, then now 2.7%. So it's still every week you see different kinds of news coming. What kind of impact it's going to have on the - but these are all expectation estimates.

Riad Mishlawi: So there are I think two impacts. There's the direct cost impact that's going to be, and there's the disruption impact that is going to happen. I think today we are in the disruption impact, where all - I would imagine everybody in this industry or any industry is looking at, should I increase my inventories? Should I not wait until - see, maybe they change their minds, and maybe things will be zero. Maybe things will be more. There's a lot of those questions that are on everybody's mind, and that disruption, that creates uncertainty that creates a disruption, and that eventually becomes cost.

If you don't have inventory, and you have to fly your inventory instead of having to ship it by ship, you pay 10 times more than the usual shipping cost. So all of that is disruptions, and all of that will eventually become costs. How much of it will be passed to the consumer is still unknown. Definitely, somebody is going to have to pay for it.

Miles Dixon: (Peel Hunt, Analyst) Yes, so I was just wondering the alternative, as to whether some of the products are just withdrawn, and the patients and consumer suffer materially, particularly over the withdrawal of some generic products, given that the majority of prescriptions written in the US are for generics. But thank you.

Riad Mishlawi: Yes, that will be also another possibility. As I said, some people will just say, look, I cannot afford it anymore, because half of what I'm going to make, I'm going to be paying my partner, and at this point, it's just - it's not worth the effort, and they will pull out, and shortages will happen. This is a big possibility, and this is why there has been a lot of hesitation on should we be - put tariffs on the finished goods or on the API or on anything?

It's still not clear, I think, because they are thinking, is this going to be an impact that would eventually impact the patients? A lot of people say it might.

Alistair Haywood: (Bank of America, Analyst) One quick one. Thanks. [Alistair Haywood], Bank of America. A quick question on the use of [transfer] pricing, so if you're importing your finished good on [unclear] from Portugal, what - how much [unclear] would you use when you transfer that to US? Or another way of looking at it, in terms of your tax base, have you disclosed how much US corporate tax you pay or where you are there?

Khalid Nabilsi: I don't think we can go into this level of detail. This is very sensitive information.

Alistair Haywood: (Bank of America, Analyst) Okay.

Khalid Nabilsi: The one that we are also confused about is some of the - so you have agreements, usually, with partners, where you share royalties. Right now, we think that royalties will also be tariffed, so it's not only you'll be tariffed when you bring the product in, but the tariff will apply to anything later on that you have an agreement to pass some of the profits back to your partner. It's not clear, but we have been told that if there is tariffs, that would be also - if there is royalties, that would also be tariffed. That will impact a lot of - I could say a lot of manufacturers. We don't have that much, luckily, but I think a lot of our partners, a lot of our competitors.

Alistair Haywood: (Bank of America, Analyst) [Unclear] or not?

Riad Mishlawi: Yes, what - it's a very - we spent a lot of time talking about the uncertainty, but it's not only for Hikma. We all know that there are going to be a time where a lot of changes are going to happen. How much of an impact it's going to be, we don't know. We think that we will be, though, in a better situation than a lot of our competitors, having the philosophy of manufacturing locally, which we are now doing it and we have been doing it, so I think the impact will be less.

I think our business is strong. We look forward for you to come and see it on your own eyes, to see how our factories, our investments, our products, our R&D centre, and even if you happen to also join us to Cleveland, our new factories that we are refurbishing and expanding. There is a lot that is happening in this Company, and we are really looking very happy with how we see the future coming.

There are hiccups. There are changes. There are surprises, of course, in any business, but it's how you smooth things out and how you react to it is what counts, and I think we do this very well, so thank you very much.

Operator: This concludes today's call. Thank you for joining. You may now disconnect your lines.

[END OF TRANSCRIPT]