Hikma 2022 preliminary results presentation – transcript

Said Darwazah – Executive Chairman and CEO

- Hello everyone, I'm Said Darwazah, CEO and executive chairman of Hikma and I'm here with Khalid Nabilsi, our CFO
- Thank you for joining our 2022 full year results presentation. I will kick off by providing a quick summary of our results and an update on our strategic progress. Then I will hand over to Khalid to take you through the financials.

Resilient core performance driven by diversified business model

- I am pleased to report that the Group delivered a resilient set of results in 2022. This was achieved despite a challenging backdrop, demonstrating the strength of our diversified business model
- During the year, we were impacted by severe competitive pressures in our Generics business, higher costs due to inflation, foreign exchange headwinds and rising interest rates
- Through all of this, we remained focused on executing against our strategy while maintaining a good supply of our medicines to customers and patients across our markets
- Our Injectables and Branded businesses delivered good growth. This helped to mostly offset the decline we saw in Generics
- As a result, Group revenue for the year was down 1%, core operating profit down 6% and core EBITDA down 5%
- We continued to generate a good level of cashflow from operations and our balance sheet remains strong
- Our results are testament to the dedication and hard work of our people that has enabled us to achieve these very solid results

Strong foundation and operational strength to support sustainable growth

- In 2022 we clearly demonstrated the benefits of our unique and diversified business model – our commercial and operational strength, our extensive portfolio and high-quality manufacturing operations enabled us to manage the challenges we faced this year
- At the same time, we continued to execute strategically across all three of our businesses and our teams have made excellent progress investing for the future
- In Injectables, we successfully completed and integrated two acquisitions. We have a growing portfolio of differentiated products and are investing for growth. We are expanding our presence in Europe and we are making good progress with our US-based compounding business
- In Branded, we are now the third largest pharmaceutical company in MENA. We are launching new products in higher-value chronic disease areas and we are investing extensively across our manufacturing sites
- And we continue to see good potential for our Generics business. We delivered over $100m operating profit in 2022, despite the strong industry-wide competitive headwinds and we are focused on building our specialty and CMO businesses

- The actions we took across the Group last year position us well to achieve good growth in 2023, details of which I will share with you shortly. But first, let's review our 2022 performance by business

Injectables

Benefitting from broad portfolio and flexible manufacturing

- Starting with Injectables which makes up over 60% of our operating profit
- As we have said many times, this business is differentiated – our broad portfolio, high-quality and flexible manufacturing operations and strong commercial relationships enable us to be responsive to customer needs and to benefit from opportunities as they arise
- The chart on the left highlights the benefits of having a broad portfolio of more than 130 products in the US and our ability to compete by managing it well
- 18% of our US injectables revenue is generated by products with 1 or 2 other competitors on the market and a further 37% from products that have between 3 and 5 competitors
- For the products where we see the most competition – those with 6 or more competitors – we are in the top 3 in terms of market share for over 40% of these. This demonstrates our commercial strength as a top three supplier of generic injectable products
- Of course we need to execute on our pipeline and launch new products to continue growing. We consistently launch between 10 to 15 products each year and in 2022, launched 12 new injectable products. On their own, many of these launches are small opportunities but together they have made a nice contribution over the years. It is also interesting to note that these products deliver steady growth over time and we've seen contribution grow in year 2 or 3 of being launched, as demonstrated in the chart on the right
- The products we launched since 2016 are now contributing over 30% of US injectables revenue
- We have strengthened our R&D teams for Injectables, and they are focused on continuing to drive growth by adding differentiated products with higher complexity to our portfolio.
- We are also making a great start with our compounding business in the US. 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

Strengthening foothold in Europe, leveraging our best-in-class manufacturing facilities

- Our European business has been growing nicely over recent years, contributing to the overall performance of the division
- Today, we are the 7th largest company by sales in the region, and we have an ambition to achieve more
- We are gradually expanding our presence in the region to cover the EU5, which make up 83% of the market's volume. In 2022, we entered France and are currently setting up operations in Spain

- We have excellent local manufacturing facilities in Portugal, Italy and Germany and have been investing in expanding capacity to support these growth plans
- Having local manufacturing capacity helps reduce supply chain complexities and enables us to supply hospitals with direct and more rapid access to essential injectable medicines
- Beyond Europe, the acquisition of Teligent's Canadian assets, which we closed early this year, gave us an entry into the highly attractive Canadian Injectables market, a side of the business we will look to grow over time

Growing our market share in MENA and improving access to important medicines

- In our MENA injectables business we continue to see good demand across our portfolio and we are making excellent strategic progress
- Our portfolio continues to grow and we have an exciting pipeline of new products.
- A key pillar of our strategy is working with partners to bring specialised products to market, such as our biosimilar portfolio
- Our biosimilar products, which we license from Celltrion Healthcare, have and continue to be key to our growth, as shown on the chart on the left
- We started rolling out these products back in 2016 and they have grown in share, contributing to the overall performance of the business. Most importantly, we have been able to expand the market and increase patients' access to these important medications
- We added three new products to our biosimilar portfolio in 2022 alone, which we will be gradually launching in MENA in the coming years
- We also continue to expand our portfolio through internal R&D, focusing on adding more differentiated products in key therapeutic areas including immunology, oncology, anti-infectives, and hematology products to address the different market needs
- This strategy is paying off and in 2022, we achieved a 15% revenue contribution from new launches
- To support growth going forward, we are investing in our local manufacturing footprint and adding technologies. We are currently working on new Injectables plants in Algeria and Morocco and are working on plans for a new plant in Saudi Arabia. These investments will position us for continued growth and enable us to increase access to medicines, bring more products to patients, address unique market needs and capture localization benefits
- Beyond this, our unparalleled knowledge of the region and presence across the MENA region gives us the unique ability to capture opportunities in smaller markets where other players don't have the capabilities, enabling us to make medicines accessible to those that need them most.

Building our differentiated pipeline through internal R&D and partnerships

- As with all our businesses, we need to keep investing in our pipeline, adding products through internal R&D and business development.
- We have more than 100 R&D projects across our Injectable markets
- We have been working on improving our R&D efficiency, the quality of our filings and strengthening our R&D centers
- 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

- Through BD, we are filling pipeline gaps and adding complex products where we do not have the capabilities to manufacture them in-house. Our biosimilar portfolio is a great example of this.
- We have some niche, high barrier to entry products in our pipeline
- Many of these are sizable opportunities, with some having an addressable market of over a $100 million and a few have an addressable market closer to a billion
- So you can see that we have good momentum in terms of building our Injectables pipeline

Branded

Delivering growth across our markets supported by our strong commercial capabilities and new launches

- 2022 was an excellent year for the Branded business in terms of strategic progress. We have continued to take market share and as I've said in my opening remarks, I am very excited that we are now the third largest pharmaceutical company in the MENA region by sales, a testament to our commercial and operational strength in the region.
- We continues to benefit from our established presence in the region, with our 23 manufacturing plants, 2,000 strong experienced salesforce and a broad portfolio of our own and in-licensed products
- As we all know, MENA is a very complex operating environment and is highly fragmented. Our team are experienced in navigating these complexities and growing in the region, having operated there for more than 40 years
- Our ability to leverage our global capabilities and operate locally across the MENA markets has been key to our success. Having a local presence and flexible manufacturing facilities, enables us to quickly respond to changing market dynamics
- Manufacturing strength is one of our greatest assets and a key differentiator for us compared to our competitors. We continuously invest in our manufacturing capabilities to ensure quality and reliability
- Thanks to our strong infrastructure and growing portfolio of chronic treatments, this business achieved good growth while absorbing currency headwinds in our North African markets
- The investments we have been making to build a more differentiated portfolio focusing on higher value medicines to treat chronic illnesses is paying off.
- In 2022, approximately 50% of our growth in the region was driven by our products in higher value therapeutic areas, such as our growing oral oncology portfolio.
- New launches have also contributed to 6% of Branded revenue

Good strategic progress in our top markets

- Let's zoom in on our top markets
- We are a top 10 company in each of our Tier 1 markets
- Our Algerian business continues to perform strongly and we have been outgrowing the market. This strong performance is driven by our increasingly differentiated portfolio of high-value value treatments, such as oncology and diabetes products, as well as our local

manufacturing capabilities. We are also leveraging our API manufacturing capabilities in Jordan, which is helping improve our competitiveness in the Algerian oncology market
- In Saudi Arabia, we continue to grow our market share and have improved the management of our commercial strategy. We've been focusing on strategic therapeutic areas such as oncology, diabetes and CNS, and we are benefitting from our local presence, particularly in the government sector
- In Egypt, our underlying business continues to perform strongly, supported by our strong commercial capabilities and new launches. We have been introducing first generics in the market, helping to improve access to vital medicines.

A differentiated portfolio with pipeline focused on high value chronic medications

- Key to future growth for this business is pipeline development and execution. We have a high quality pipeline that has been and will continue to deliver a steady stream of attractive products
- We have a total of 119 products in our pipeline. These products are higher value and focus on differentiated products to treat chronic disease areas such as oncology cardiovascular, respiratory and central nervous system.
- We are also focusing on introducing first to market and first generic products in our tier 1 markets, whilst also investing in our R&D capabilities to continue to expand our pipeline and drive growth.
- We will also continue to sign new partnerships for innovative products that leverage our extensive sales force and complement our internal pipeline
- The growth prospects for this business are very strong, supported by our commercial and operational strength as well as a differentiated portfolio of chronic treatments. We are expecting the momentum we are currently seeing to continue into 2023 and beyond.

Generics

Proactively managing through industry headwinds whilst ensuring business is on a stronger footing for the future

- Turning to our Generics business
- This was a tough year for this business, especially when compared with the very good year we had last year
- We were impacted by severe competitive pressures, which drove both price and volume erosion
- To manage these pressures, we focused on controlling our costs. We looked for savings across all aspects of our business, to make sure our cost base was proportionate to our revenue expectations. These efforts enabled us to achieve a solid core operating margin of 15%, and core operating profit of $103 million, in line with our latest guidance
- Importantly, we will continue to invest in this business to put it on a stronger footing for the future.
- We are working on improving our portfolio composition to achieve a better balance between traditional generics and more durable, higher barrier-to-entry products, such as Ryaltris nasal spray, which we launched in December, and we are investing in our commercial capabilities to support our specialty products

- We are adding more differentiated and specialty products to our pipeline through both internal R&D and business development
- We are also focusing on contract manufacturing to bring additional growth, leveraging Columbus' state-of-the-art manufacturing and high-quality capabilities.
- This is something we already do well. We have strong customer relationships, which we will look build on, and we are adding new partners. By growing this business, it will help us better utilize our capacity and reduce our overhead costs, enabling us to remain as cost-competitive as possible
- We are confident that Generics will grow again in 2023. The headwinds we saw are cyclical and I am confident that the measures we have taken mean the business is more resilient and on a stronger footing for the future.

Investing in a differentiated and speciality portfolio of higher barrier-to-entry products

- We will continue to look at increasing the complexity of our pipeline by focusing on higher barrier to entry and complex products that leverage our differentiated, US-based manufacturing capabilities, and of course on building our specialty portfolio.
- In 2022, we reviewed our pipeline and reprioritized our projects. This led us to rationalize our pipeline and to put some projects on hold.
- Following this, our Generics R&D pipeline is now very focused on the opportunities where we have the most conviction and includes a total of 22 respiratory, nasal spray and oral solid products.
- Around 80% of our submissions in 2023 and beyond will either be paragraph 4, NDA or competitive generic therapy eligible filings

Group

Acting responsibly

- Before I hand over to Khalid, I would like to draw your attention to our commitment to operate responsibly in all aspects of what we do. Like you, all of us at Hikma are focused on the areas where we can drive a positive impact. We have identified four material areas:
- First, we are focused on enhancing health and wellbeing. We manufacture and supply affordable generic medicines and we are launching more products each year, to improve the lives of patients worldwide.
- We also support our communities – providing education opportunities, making food donations and of course donating medicines to those most in need
- Second, we strive to empower our people by shaping a diverse and inclusive culture where everyone can thrive. We consider education and training a major tool for retaining high-achieving talent and ensuring their advancement within the organisation. We also continue to advance diversity and inclusion . In 2022, we welcomed three new independent non-executive directors to the Board and I am pleased to report that we now have 45% female representation on the Board
- Third, we strive to minimize our environmental impact. We carefully manage how we consume energy as well as water and waste; and we encourage our suppliers to do the

same. We have an emissions target in place, and I'm pleased with the excellent progress we are making.

- Finally, we want to build trust through quality in all that we do. This covers our commitments to product quality and safety, acting with integrity and upholding high ethical standards. We have a global quality council, quality teams at all our sites, and of course undergo stringent appraisals by regulators such as the FDA. Through all of this, we can maintain the trust of our customers, and their patients.
- Across all four of these areas, there is always more to do, and we will keep working hard to ensure that for all our stakeholders, everyone at Hikma is Acting Responsibly.
- I will now hand over to Khalid to take you through the financials

Khalid Nabilsi – CFO

Group financial highlights

- Thank you Said and hello everyone
- The Group has delivered a resilient performance this year, successfully navigated through a challenging macro-economic environment. Thanks to the strength of our underlying business, we were able to absorb much of the increase in costs related to inflation, higher interest rates and foreign exchange headwinds in our MENA markets
- In 2022, we saw a good performance in our Injectables and Branded businesses, which helped to partially offset the decline in Generics resulting from industry-wide competitive pressures
- As a result, Group revenues were slightly down at $2.5 billion for the year, and Group core operating profit was down 6%
- Core EPS was 181.3 cents per share, down from 194.8 cents in 2021
- The Board is recommending a full year dividend of 56 cents per share, up from 54 cents
- Now let's have a deeper look at the financial performance of each business

Injectables

- Starting with Injectables
- This business delivered revenue growth of 8% in 2022, supported by our broad portfolio, new launches and good contribution from the acquisitions of Custopharm and Teligent's Canadian assets
- In terms of organic growth, revenue grew 2% on a reported basis and 4% on a constant currency basis
- Looking at each of our regions: In the US revenue grew by 10%:
    - Here, we benefited from our broad portfolio of more than 130 products, new launches, as well as our extensive and flexible manufacturing capabilities, helping us to respond to evolving market demand
    - We also had a good contribution from the Custopharm acquisition, which added $53 million to our sales in the US

- In Europe and rest of the world, revenue grew 11%, reflecting good demand across most of our markets, particularly in Germany, and a $17 million contribution from the acquisition of Teligent's Canadian assets
- In MENA, revenue was down 1% on a reported basis, primarily due to the impact of foreign exchange headwinds in our North African markets. On a constant currency basis, revenue grew 2%, reflecting the impact of hyperinflation on 2021 revenue. Excluding this impact, we saw good underlying growth driven by demand across our portfolio, particularly our growing biosimilar portfolio, as we continue to launch into new markets
- Injectables core operating profit grew 8% and core operating margin was 37.5%. This reflects the improvement in product mix, which more than offset an increase in R&D and sales and marketing costs as we invest for future growth and enter new markets and adjacencies, as well as spend related to the consolidation of recent acquisitions. We also saw an increase in costs due to inflation, including for shipping and utilities

Branded

- Turning to our Branded business, revenue grew 3% in 2022, which includes the impact of hyperinflation and foreign exchange headwinds. In constant currency, revenue grew 7%, with a good performance across most of our markets, particularly Algeria, Saudi Arabia and Iraq.

- We continue to benefit from our increasingly diversified portfolio of high-value treatments, including medicines used to treat chronic illnesses such as diabetes, cardiovascular disease and oncology products.

- We also saw a normalisation in demand for anti-infectives, following some reductions in prior years due to the COVID-19 pandemic

- Branded core operating profit grew 17% and core operating margin expanded to 21.1%, compared with an operating margin of 18.7% in 2021. This reflects the improvement in product mix and good control of sales and marketing costs, which more than offset an increase in R&D and G&A costs, as well as the negative impact of currency devaluation in our North African markets

Generics

- Our Generics business was impacted by the intense competitive environment in the US, which drove low-double digit price erosion and mid-single digit volume erosion. We also had a limited introduction of new products and a slower than expected ramp-up of recently launched products. These factors resulted in a reduction in revenue of 18% compared with 2021 and a decline in core operating profit of 49%
- Despite these challenges, our team has worked hard to make the best of a challenging environment. Through tight control in costs and our focus on improving efficiencies, we

delivered core operating profit of $103 million and a margin of 15.3%, in line with our guidance

- We continue to invest in sales and marketing as we build our commercial capabilities to support an expanding specialty portfolio

Expanding and enhancing our product pipeline

- One of our strategic pillars is to build a portfolio that anticipates future health needs. It is important we invest in building a pipeline of differentiated products to ensure long-term sustainable growth
- In 2022, we invested $144 million in R&D
- This represents 6% of revenue and is in line 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

- We continue to invest in our manufacturing capacity to support a growing portfolio
- Our capital expenditure goes towards both maintenance and the upgrading of our equipment as well as on expanding our footprint.
- As you can see on the slide here, we consistently invest between 5% to 7% of revenue on capex
- In 2022, our capex spend was $138 million
- In the US, $46 million was spent upgrading equipment and adding new lines and technologies for our Injectables business, including enhancing our new compounding facility in Dayton, NJ. In our Generics business, we focused on maintenance and necessary upgrades.
- In MENA, $72 million was spent strengthening and expanding manufacturing capabilities, including two ongoing greenfield Injectables production sites in Algeria and Morocco.
- And in Europe, we spent $20 million enhancing our manufacturing capabilities, including the installation of new filling lines in Portugal and Italy.

Cash flow and balance sheet

- The Group continues to generate a healthy level of cash flow, with operating cash flow of $530 million in 2022. The reduction compared to the previous year primarily reflects the lower operating profit from our Generics business, as well as an increase in inventories to ensure continuity of supply.

- The Group's total debt increased to $1.3 billion, reflecting an increase in our financing as a result of the acquisitions of Custopharm and Teligent's Canadian Injectable assets

- We continue to have a healthy balance sheet, with a net debt to core EBITDA ratio of 1.5x

2023 full year guidance

- Finally, the outlook for 2023
- Our strategy continues to deliver results and we are pleased with the progress made to date. Looking at 2023, we expect to continue the strong growth seen in Injectables and Branded this year, and for Generics to return to growth in 2023.
- For Injectables, we expect revenue to grow between 7% and 9% and for core operating margin to be between 36% and 37%. This reflects our broad portfolio and flexible manufacturing capabilities across our geographies, supported by new product launches.
- For Branded, we expect mid to high single digit constant currency revenue growth, driven by our expanding portfolio and focus on chronic medications.
- For Generics, we expect to grow in the low double digits and for core operating margin to be between 16% and 18%. This reflects new products launches supported by our commercial strength.
- We expect Group core net finance expense to be around $78 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.
- Thank you. I will now hand it back over to Said.

Said Darwazah – Executive Chairman and CEO

A strong investment case

- Thank you Khalid
- I would just like to say that I am proud of our achievements today. We have a high-quality business and I am excited by our potential and outlook for the future
- Thank you