

Hikma 2023 full year result presentation – transcripts

Riad Mishlawi – CEO

- Hello everyone, thank you for joining our 2023 full year results presentation
- I'm Riad Mishlawi, CEO of Hikma, joined here with Khalid Nabils, our CFO
- I am really excited to present our results today. I have worked at Hikma for over 30 years and I am hugely passionate about what we do. I look forward to continuing to contribute to our future success and growth

Our strategy for growth

- I officially started the CEO role in September and since then, I have spent my time traveling around our sites, meeting with our people and working with the leadership team on our growth plans.
- The strategy we have been operating to for many years is a good one, and we aren't changing it, but instead dialling it up in certain areas, focusing in on execution and ensuring we are going for all opportunities that can bring us sustainable, profitable growth
- As shown here, we have three key strategic pillars: Strive for excellence, Diversify and Differentiate and People and responsibility
- We are already hard at work delivering this strategy and our full year results demonstrates the strength of each of our businesses and the strong platform from which we can grow going forward

Hikma today

- I am extremely pleased with Hikma's performance in 2023, delivering strong growth in both revenue and core profitability
- Today, we are a diversified, global generic pharmaceutical company with revenue of \$2.9 billion and an impressive 28% EBITDA margin. We also have a strong balance sheet and excellent cash generation, which enables us to invest for both organic and inorganic growth opportunities
- We have three world class businesses, with leading market positions – we are the 8th largest generic company in the US and recently grew to become the second largest pharmaceutical company in MENA
- Underpinning each of our businesses are our broad product portfolios, our manufacturing strength and our unrelenting commitment to quality. This culture of quality is embedded in all we do and really sets us apart.
- Our 29 manufacturing plants across the US, MENA and Europe, with more under construction to accommodate our growing business and portfolio, further differentiate us from our peers

A well diversified, global generic pharmaceutical business with strong platform for growth

- We have three impressive businesses that bring their individual strengths, broad portfolios and diverse revenue streams to the Group overall

- Injectables is our largest business today, representing 42% of Group revenue and 55% of Group core operating profit. It has the highest margin of our three businesses, achieving close to 37% core operating margin in 2023
- Branded, is our MENA based business, where we have been operating for more than 45 years. We have been delivering a steady performance and recently momentum is picking up in this business, thanks to our strategy of focusing on building a portfolio of chronic medications
- Our Generics business, which experienced some volatility in 2022 due to market dynamics, is our top performer this year, supported by a broad portfolio, new launches and our expertise in complex manufacturing technologies
- We are committed to investing across all three businesses and are confident in our positioning for growth over the longer term
- Let's take a deeper look at the performance of each business segment

Injectables

Injectables – benefitting from a growing portfolio in the US and investing for the future

- Starting with Injectables
- This business continues to offer great potential
- In the US, we benefit from a broad and growing portfolio, where we consistently launch between 10 to 15 products each year. In 2023, we exceeded this and had a record number of 17 launches
- As you can see, we have an impressive track record of launches. This means our portfolio is growing, with more than 150 products, and becoming increasingly diversified
- On their own, many of these launches are small opportunities but together they have made a nice contribution over the years. As demonstrated on the chart on the left, these products deliver steady growth over time and in fact products launched since 2016 now contribute around 40% of US Injectables revenue
- Of course, to accommodate our growing portfolio we need to continue investing in enhancing and expanding our manufacturing capacity. In 2023, we spent around \$61 million in capex across our sites to support our growth plans for the Injectables business. This includes expanding manufacturing capacity, upgrading capabilities, increasing automation, and adding quality control lines.
- We also completed the installation of two new high speed filling lines in our Portugal and Cherry Hill facilities. These are now fully operational and have increased our filling capacity by 15% to 20%, strengthening our ability to capture growth opportunities going forward
- And finally, we continue to invest in R&D to add to our portfolio breadth and increase differentiation. We're focusing on products with barriers to entry

Injectables – strengthening foothold in Europe and expanding into new markets

- Our European business has been growing nicely over recent years, contributing to the overall performance of the division
- We have an agile supply chain, a growing product portfolio and flexible manufacturing capabilities which are enabling us to capture market opportunities and respond to shortages

- We continue to strengthen our commercial presence in the region and establish infrastructure in new markets as we launch new products
- We are expanding our portfolio for the region and have a good pipeline of approvals which we will be launching over the coming years, enabling us to continue gaining market share

Injectables – growing our market share in MENA and improving access to important medicines

- Turning to our MENA Injectables business, we achieved strong growth in 2023 despite the impact from currency headwinds in Egypt and halting our operations in Sudan, thanks to our broad portfolio and strong market position, enabling us to capture higher volumes in most of our markets
- We continue to expand our portfolio and in 2023 new launches contributed 9% of MENA Injectable's revenue. These include anti-infective, oncology and blood management products
- Our biosimilar portfolio also continues to drive growth – we are increasing patients' access to these important medicines as we launch them across our MENA markets

Branded

Branded – strong market position and growing portfolio of chronic medications

- Our Branded business had a stand-out performance in 2023. We have continued to build momentum, supported by a growing portfolio and our commercial and operational strength in the region. I am very excited to report that we are now the second largest pharmaceutical company in the MENA region by sales
- The investment we have been making in R&D to build a portfolio of higher value medicines, such as those used to treat chronic illnesses, is paying off and is driving the growth we see today
- In 2023, growth was driven by new launches as well as increased demand in our base business, particularly for oncology, also for cardiovascular, immunology and CNS products as demonstrated on this slide
- Supporting our growing portfolio is our extensive local manufacturing footprint. Manufacturing strength is one of our greatest assets and a key differentiator for us compared to our competitors. We continuously invest in expanding and enhancing our manufacturing capabilities, strengthening our position as a local supplier with global expertise

Branded – delivering growth supported by our strong commercial capabilities and new launches

- On this slide we are highlighting the strength of our underlying business. In a year where we unfortunately had to halt operations in Sudan, and faced ongoing currency headwinds in Egypt, we were still able to deliver good revenue growth at a very strong operating margin.
- As I mentioned on the previous slide, this strong performance is thanks to our increasingly diverse portfolio of high value products, which is translating into both

revenue and more importantly profit growth. Khalid will take you through the financial performance in more detail later on in this presentation

Generics

Generics – strong commercial and operational capabilities enabling us to capture market opportunities

- Finally, turning to our Generics business
- This business has been a top performer this year, delivering exceptional growth in both revenue and profit levels
- Our base business saw an easing of the significant price erosion experienced in 2022 – our strong commercial and operational capabilities as well as our manufacturing flexibility has enabled us to win new business across our differentiated portfolio
- We also benefitted from the launch of our authorized generic of sodium oxybate, which we launched at the start of the year
- In addition, we continue to invest in building our specialty business and saw good momentum for Kloxxado, our 8mg naloxone nasal spray

Generics – world-class infrastructure supporting development and manufacturing

- We have a state-of-the-art facility in Columbus, Ohio that offers a range of differentiated and more complex manufacturing technologies, including for nasals, liquids and high containment dosage forms
- We are well positioned when compared to our competitors, being a local US manufacturer with close proximity to customers, enabling us to easily flex our operations to capture market opportunities and meet customer needs
- Supporting our manufacturing capabilities, we have onsite product and analytical development as well as quality control laboratories, ensuring a seamless process while maintaining our high quality levels
- We have the capacity to manufacture our own products as well as for contract manufacturing
- We are increasingly looking to leverage our facility for contract manufacturing opportunities and have already made a great start. In 2023 we signed new contracts, which will provide a steady revenue contribution and help us better utilize our capacity and reduce our overhead costs, enabling us to remain as cost-competitive as possible

Generics – building a diversified portfolio while leveraging manufacturing strength to improve business resilience

- We have lots of opportunities for this business
- We have a broad portfolio with some excellent products. Our strong commercial team is working hard to maximise the potential of our product portfolio, which has proved to be more resilient than those of our peers. But the market is competitive and we expect to increasingly see new entrants erode pricing and market share. We are investing to develop more differentiated generic products to offset this natural erosion of our base.
- We are investing into R&D to build our pipeline for the outer years. We are adding more complex generics to complement our core expertise, such as nasal sprays and respiratory products. We are working on improving our R&D output and have the ability

to leverage our capabilities in MENA as well as our API plant in Jordan to make the most of what we have.

- We have also been steadily growing our specialty business. Our naloxone nasal spray, Kloxxado, has made great traction and our Ryaltris nasal spray also has strong momentum as we head towards the 2024 spring allergy season. These products will help insulate us from price erosion and we will focus on growing them, as well as adding to the portfolio through our own R&D as well as partnership.
- And finally as I mentioned on the previous slide, we will be increasingly leveraging our Columbus site for contract manufacturing

Khalid Nabils – CFO

Financials

Group

- Thank you Riad and hello everyone
- We had another record year in 2023, with strong growth in all of our three businesses, putting us ahead of market expectations
- The Group achieved impressive levels of growth in both revenue and core operating profit, supported by the strength of our underlying business, broad product portfolio and our global manufacturing footprint
- As a result, Group revenue was up 14% at \$2.9 billion and core operating profit was up by 19%
- The Group also delivered strong EBITDA margins of 28% and increased EPS by 23%
- We also continued to generate a good level of cash flow, with operating cash flow up 15%
- As a result of the strong overall performance of 2023, the Board is recommending a full year dividend of 72 cents per share, up from 56 cents. This equates to a payout ratio of around 32%, which is above our historical range of 20% to 30%. We intend to progressively increase our dividend, with a payout ratio in the range of 30% to 40%, reflecting the Board's confidence in the long-term growth prospects for the Group.

2023 exceptional items and other adjustments

- On a reported basis, operating profit grew 30%, reflecting higher impairment charges in 2022 than in 2023
- For 2023, we took an impairment charge of \$83 million relating to halting our operations in Sudan, where we are unable to operate due to the ongoing conflict
- In addition, in February 2024, the Group reached an agreement in principle to resolve the vast majority of opioid related cases brought against Hikma. As a result, the Group booked a total provision of \$129 million to cover the expected settlement amount for all related cases in North America. The provision is considered an adjusting post balance sheet event and is recognised in the consolidated financial statements for the year ended December 31st 2023. This agreement helps remove uncertainty around the outcome of litigation
- Now let's take a look at the financial performance of each business segment

Injectables

- Starting with our Injectables business. This is our largest business, generating \$1.2 billion in revenue in 2023. This business has grown at an impressive 8% revenue CAGR over the past 10 years, supported by a growing product portfolio, new launches across our markets and strong manufacturing capabilities
- In North America, we are benefiting from good demand for our broad product portfolio, including for products in short supply, recent launches and a full contribution from the acquisitions of Custopharm and Teligent's Canadian assets. This more than offset increased competition on certain products.
- In Europe and rest of the world (ROW) we are delivering good growth across all of our markets, benefitting from our growing portfolio of products as well as our short supply chain and lead times, which enabled us to respond to shortages in Germany. We continue to make progress in new markets including France, Spain and the UK.
- In MENA we achieved strong growth driven by good demand for our portfolio across most of our markets, including for our biosimilar products as we continue to launch into new markets. This strong performance has helped to more than offset the loss of sales due to halting our operations in Sudan.
- In terms of profitability, we have consistently delivered core operating margins in the mid-30s and above in our Injectables business
- In 2023 core operating profit grew by 2% and core operating margin was 36.9%. This reflects a change in geographic and product mix and some inflationary pressures, which were offset by a good contribution from recent acquisitions.
- It is also worth noting that we have reallocated our 503B compounding business to the 'Others' segment, previously reported in Injectables. This reallocation will help to ensure a clear focus on its development as we continue to invest to grow this business.

Branded

- Turning to our Branded business
- This business has also consistently delivered over time and, in the last few years in particular, we have delivered a steady improvement in revenue, with even stronger growth in constant currency. Operating margins have been steady in the low 20s, despite facing currency headwinds and volatility in some markets over the years
- Consistent execution of our strategy to increase our focus on medicines used to treat chronic illness is paying off and in 2023 the Branded business achieved an excellent performance, with revenue growing by 3% (6% in constant currency) and an impressive core operating margin over 23%.
- This performance was achieved despite the headwinds from halting our Sudan operations and absorbing adverse currency impact in Egypt. Removing the Sudan impact, Branded revenue would have grown over 10%, on a reported basis.

Generics

- Finally our Generics business
- This business achieved an exceptionally strong performance this year in terms of revenue and profit growth, with revenue up 39% and core operating margin expanding to 20.5%
- This performance was achieved due to good volume growth in our base business, an improving pricing environment and an exceptionally strong contribution from the launch of the authorised generic of sodium oxybate, which had strong profitability in the first six

months of the year. The contribution from this AG reduced in the second half, as the royalties payable increased

- If we look at the performance of this business over the last few of years, since we fully integrated the Roxane acquisition, we have consistently delivered core operating profit of around or above \$100 million, despite some volatility in the US retail generic market
- We are confident that this business will continue to contribute an attractive level of profitability, with a floor of \$100 million to \$120 million in EBIT, or above that if we have certain opportunities in a given year. For 2024, we are guiding to revenue growth of 3% to 5% and operating margin in the mid-teens. While we have been clear that the higher royalties on the sodium oxybate AG will create a profit headwind in this business, we are very pleased with this outlook for Generics. It demonstrates the robustness of the base business.

Expanding and enhancing our product pipeline

- To ensure continued growth, we need to keep investing in building our pipeline of differentiated products
- In 2023, we continued to progress with our pipeline products and invested \$149 million in R&D

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
- In the US, we spent \$46 million on upgrades, new technologies and capacity expansion across our Cherry Hill, Dayton, and Columbus sites.
- In MENA, we spent \$96 million strengthening and expanding manufacturing capabilities, including two ongoing greenfield Injectable production sites in Algeria and Morocco and a new land purchase in Saudi Arabia.
- In Europe, we spent \$27 million enhancing our manufacturing capabilities, including new filling lines in Portugal and Italy and a lyophilisation plant in Portugal.

Cash flow and balance sheet

- We have a robust balance sheet and had another strong cashflow performance, with operating cash flow up 15% to \$608 million.
- Our balance sheet remains very healthy, with a net debt to core EBTIDA ratio of 1.2x.
- We are well capitalised to take advantage of growth opportunities, while continuing to invest in our capabilities.

2024 guidance

- Finally, the outlook for 2024

- We are confident that our strategy will continue to deliver growth in 2024 and this year we have introduced Group guidance
- We expect Group revenue to grow in the range of 4% to 6% and for core operating profit to be in the range of \$660 million to \$700 million. This is supported by all three of our businesses.
- In Injectables, we will leverage our increased capacity to capture growth opportunities, launch new products across our markets and continue to build momentum in new markets. We expect Injectables revenue to grow in the range of 6% to 8% and core operating margin to be in the range of 36% to 37%.
- In Branded, our focus on building our portfolio of medicines used for chronic illnesses will continue to drive profitable growth. We expect Branded revenue in 2024 to grow in the mid to high single-digits in constant currency, or low-single digits in reported, and for reported core operating profit to be broadly in line with 2023.
- In Generics, as I mentioned earlier, we expect to deliver a good performance from our base business, supported by new launches and the continued strong performance of the authorised generic of sodium oxybate, albeit at a reduced margin due to the royalties payable. Therefore, we expect Generics revenue to grow in the range of 3% to 5%. We expect core operating margin to be in the mid-teens.
- We expect Group core net finance expense to be around \$91 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 \$160 million to \$180 million.

Thank you. I will now hand it back to Riad for some closing remarks.

Riad Mishlawi – CEO

A year of strong growth and significant progress

- Thank you Khalid. I would like to close by saying that I am proud of our strong performance – we have delivered double digit revenue and operating profit growth and achieved an impressive core EBITDA margin of 28%
- We are making excellent strategic progress across all three businesses and I am excited about the many growth opportunities ahead of us, which underpin my confidence for the future.
- Thank you very much for listening and I'm looking forward to keeping you updated with our progress over the course of the year