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# EDITED TRANSCRIPT

Full Year 2023 Hikma Pharmaceuticals PLC Earnings Call

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**Brian Hoffmann** *Hikma Pharmaceuticals PLC - President, Generics*

**Khalid Nabils** *Hikma Pharmaceuticals PLC - Chief Financial Officer, Member of the Executive Committee*

**Mazen Darwazah** *Hikma Pharmaceuticals PLC - Executive Vice Chairman, President of Mena, Member of the Board, Member of the Executive Committee*

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**James Gordon** *JPMorgan - Analyst*

**Alistair Campbell** *RBC - Analyst*

**Emily Field** *Barclays - Analyst*

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## PRESENTATION

**Susan Ringdal** *Hikma Pharmaceuticals PLC - EVP, Strategic Planning And Global Affairs, Member of the Executive Committee*

Good morning, and good afternoon, everyone. Thank you very much for joining Hikma's 2023 full-year Results Q&A. I'm very happy to have Riad Mishlawi, Hikma's CEO, on the call today, along with our CFO, Khalid Nabils; Bill Larkins, the Head of our Injectables business; Mazen Darwazah, the Head of our Branded business; and Brian Hoffmann, who heads up our Generics business. Mazen Darwazah is on the phone, and the rest of us should be on your screen.

We are going to have Riad give some introductory comments, and then we will open up for Q&A. So I'll hand over now to Riad. Thanks, Riad.

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**Riad Mishlawi** *Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO*

Thank you, Susan, and thank you, everyone, for joining us to discuss the 2023 results. Before we get to the Q&A, I would like to give you a few high-level thoughts on our 2023 performance and go a little bit on the 2024 outlook.

Let me start by saying I'm extremely pleased with our performance in 2023. We have delivered strong growth in both revenue and core operating profits and core profitability. All three of our businesses contributed to our growth this year.

Let me start with the injectables. Injectables continues to deliver. The revenue was up 6% into 2023 with an impressive and consistent core operating margin to close to 37%, probably one of the highest in the market. We've been busy expanding our portfolio by launching new products and expanding our manufacturing capacity, which is really allowing us to build our presence in the new markets and enhancing our existing market position in both the EU and MENA.

It's worth noting that our 503B compounding business is progressing well. Month on month and year on year we see growth, as we build our customer base and portfolio. But we did decide to relocate it to our other segment this year, which will help us ensure a clear focus on its development and investment going forward.

The branded division, on the other hand, had a standout performance in 2023, particularly given the headwinds faced from Sudan and the difficulties with Egyptian currency. This division continues to prove to be resilient. Despite all that, we have continued to build momentum, and I'm excited to report that we are now the second largest pharmaceutical company in MENA region by sales. We continue to focus on high-value products used to treat chronic illnesses, which really was a great contributor to bringing our margin above 23% this year.

And finally is the generics division coming from a very tough year in in 2022, had an exceptionally strong 2023 year, both in terms of revenue and profitability growth. Our base business saw an easing of the significant price erosion that this business is used to that especially experienced in 2022, and we have been winning new business across our differentiated portfolio.

We also benefited 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 8-milligram naloxone nasal spray.

Finally, to move on to the outlook of 2024, we're confident that 2024 will be another year of progress. And we're guiding to 4% to 6% group revenue growth and \$660 million to \$700 million group core EBIT. This introduction of a simplified group guidance is new for this year.

As a CEO, I'll focus more than ever on collaborations between the three businesses, sharing best practices, and leveraging our commercial strengths, R&D capabilities, engineering expertise, and everything that we can really collaborate on for the benefit of the group overall. As a leadership team, we are focused on group performance. And by adding this to our guidance, we are highlighting the strengths of Hikma as a group rather than a sum of its three parts.

So with that, let's get started with Q&A.

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## QUESTIONS AND ANSWERS

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**Operator**

(Operator Instructions) Peter Verdult, Citi.

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**Peter Verdult Citi - Analyst**

Thanks. Peter Verdult, Citi. Thanks for doing the call. Just two questions. Riad, firstly, on the compounding business. In terms of making -- it's a big driver of future growth, a lot of investment going in. But can you just help us understand how we should be thinking about that business this year. I mean, in my mind, I'm thinking \$25 million to \$30 million of revenues, similar loss. And am I right in thinking that this will be the peak investment year?

So can I push you, I know that longer term, you talked about \$300 million, you're not going to get there next year, but can you just give us a sense when -- what you're doing with that compounding business this year and what the priorities are, when we might see breakeven? So that's question number one.

And then secondly, for Bill, I think this is the first time I've got to -- get to interact with you and the wider audience on the Zoom. So I'd just love to hear when you would be taking over from the CEO now, it's been a jewel of the crown for Hikma for a number of years. So what are you busying yourself with? What are your top priorities in terms of running the strategy and driving the business going forward at injectables? Thank you.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Thank you, Peter. Let me start with the compounding business. In the last two years, we have been really focusing on the operational and the regulatory side of this business. So a lot of equipment had to be installed. We really invested a lot in automation for that business. We put water systems in the business. We created a lot of -- very, very similar. We took our core business, and we really did a pilot, a smaller size of it. So we mimic exactly what we do, which allowed us to really assure a lot of the quality -- potential quality problems. We created clean rooms and we created -- we invested a lot into the automation of filling.

That was really done. Everything that we had to automate with it. The last one was our water system, which was installed a couple of months ago, so that's online. Now what we wanted to concentrate on is the commercial part of it. So we have big plans to do that. We have hired new people. We have a new strategy of how to go about it, and we are very optimistic that this is going to really do well in the future.

Let me just point out one thing that is important for this business. It's very important to start and build this business slowly, because it is a business that's requires some manual -- you need a lot of employees. You definitely need a lot of labor. You need to do it right.

You need -- you can't -- you need to build your portfolio slowly. You can't just come in with a lot of products. You have to little by little build it up. We are doing exactly that. And we are very -- we've been growing month on month, year on year, and I think the future is going to be big for this business.

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**Operator**

James Gordon, JPMorgan.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

I think, Bill, you have a part to that question that's

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**Bill Larkins Hikma Pharmaceuticals PLC - President - Injectables**

Yeah, I did. I had part 2. So thanks, Peter. So pretty much it's much the same as what Riad was doing. I think the twist that I bring to the business is I'm a scientist by academic training and most of the early part of my career I was in R&D. So the only thing probably fundamentally different from Riad in the past is really looking globally at our portfolio and pipeline, enhancing it by adding more complex products into our internal development programs, enhancing the expertise internal to our already great R&D teams. And then also making sure that we're collaborating outside with the best business partners on opportunities and products that we choose to not do in-house ourselves.

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**Operator**

James Gordon, JPMorgan.

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**James Gordon JPMorgan - Analyst**

Hello, can you hear me?

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Yes.

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**James Gordon JPMorgan - Analyst**

Lovely. Great. I had some audio issues earlier. So apologies if this was missed while I had the audio issues. It was two questions, please. So one was about the generics outlook. So you said that generics is going to guide -- is going to grow 3% to 5%. But if I look at what Jazz have already effectively guided what they think is going to happen with generic Xyrem and the royalties they receive, it looks like that will be driving all of the generics growth that you're going to have this year. So is that right that the guidance for this year for generics doesn't include any significant new launch contribution?

And as a follow-up to that question, what does the guidance assume for Korlym? Could that be a product that would make a significant contribution this year? Because you have publicly stated that you had a settlement on that product with an accelerator clause. And I believe Teva is now launched. So that would seem to be something that would attribute your accelerator clause. So just where are we on that? Is that upside to the guidance if it happens? Or have you actually baked something into that?

And then the other question was also around top line outlook. So just for injectables. So the 6% to 8%, which is a strong growth outlook, but it's still a little bit slower than the high single-digit growth that you talked about at the injectables event two years ago. So are there any particular headwinds that you'd call out for injectables? Or is it actually possible that you would do a bit better than that if no headwinds pop

up?

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Brian, why don't you take the first question? And Bill and I will take the second one. We'll collaborate on the second one.

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**Brian Hoffmann Hikma Pharmaceuticals PLC - President, Generics**

It sounds good. Thanks for the questions, James. First off, in terms of our guidance for 2024, we are expecting 3% to 5% growth. Sodium oxybate, we expect still to be a significant contributor in terms of revenue, albeit that based on our settlement agreement, the margins will be lower in 2024 than it was in 2023.

In terms of Korlym or generic mifepristone, we don't have product-specific guidance for that product. We do have a settlement agreement that's public for October 1, 2034, but we do have accelerators. All I can say for that product is that our guidance reflects all of our revenues that we expect for this year. And so I can't comment on that product specifically as we haven't commented on a specific launch date.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

James, I will try to answer your second part of the question about the injectables, and then maybe I'll give it to Bill also to comment on that one. I just wanted to say that we have everything in the injectables that is -- that has potential to grow. So as far as capacity, as you know, we had added lines middle to end of last year that I think will contribute greatly for the 2024 goals. We are building facilities that also will be online sometime also in 2024 in both North Africa and also we're expanding Italy. And we have some interesting products that we're introducing.

To add to this one, we had added 17 -- launched 17 products last year. It was a record of 17 products that had been launched last year. And as you know, those products will start contributing more and more as time goes. So once you launch the product, you have to wait until you have the opportunity for a new tender to come or open up before you participate in it.

So all of that, I think, will contribute to the growth in 2024. So we're very confident that the growth will be good and will be healthy. Whether we are going to break it or not, I think it will depend on how the new products are going to be and how are we going to -- but I think we are in the right direction. Growth is -- we are confident with the growth. And let's hope that we break all the records.

Bill, you want to add to this?

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**Bill Larkins Hikma Pharmaceuticals PLC - President - Injectables**

Yeah. Maybe just a couple of things just to add on to that, Riad. So in addition to just the US, so just globally, and again, the same concept that Riad's talking about, about growth into 2024 with these products. We launched over 100 products globally in 2023. So we're going to start to see the benefits of those in 2024. We have a robust pipeline. We have quite a number of products pending approval at FDA

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that we're expecting to get a number of those approvals in '24, and we'll launch in '24 and beyond. And so, I would say the feedback from my perspective is we think the 6% to 8% revenue growth is achievable for us.

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**Khalid Nabils Hikma Pharmaceuticals PLC - Chief Financial Officer, Member of the Executive Committee**

I just want to add to Brian comment on the generic business, James. So in addition to what Brian just mentioned as well, the other base business continues to grow. So specialty business is growing. CMO business, we are focusing on that, and it's growing. Advair as well, generic Advair is going. So it's not just the growth in the sodium oxybate. Sodium oxybate will continue, as Brian said, is a significant contributor to the revenues. But at the same time, the base business is delivering as well and growing.

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**James Gordon JPMorgan - Analyst**

Thank you.

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**Operator**

Alistair Campbell, RBC.

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**Alistair Campbell RBC - Analyst**

Great. Thanks very much. I actually got a couple of questions. One is following on from Pete, just on the compounding business. I'm sort of chanting my arm a bit, but obviously, now we're going to have to think more carefully about what that business could look like over the next three to five years. If you're successful with it and it sort of grows the way you anticipate, can you give us a sense of what the margin structure of that business might look like? Should I be thinking something more akin to the generics division or more akin to the injectables division?

And then as a follow-on, just on injectables. Obviously, compounding was a part of the growth story there. So having moved that outside of the injectables division, are you still comfortable you've got the levers in place and injectables that remains a high single-digit growth business in the medium term? Thanks.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

All right. I'll take the first part, and maybe Bill, you can comment on the second part. So as far as the compounding -- the FDA estimates the compounding business is between \$2 billion to \$3 billion. A lot of that compounding business today is being performed by hospitals themselves. So there's a lot of credibility that you have to build in order for you to get that business, because it's very important for hospitals to continue getting the product in a quality way.

So as you know, some of the compounders, a lot of the compounder companies have gotten in trouble by the FDA. And that really troubles hospitals. They want a product that they can rely on, they want deliveries that they can rely on. They want quality that they want to rely on.

So we are coming in and saying, look, we can offer you all of those three. And it's important for us to deliver. It's important for us to build this business slowly. It's important for us to build the quality and the very strong base to this business. We still believe that we are very -- we have the advantage of creating such a business because we're backward integrated.

We know those products. We make them in the core business, and we are -- we sell a lot of it, millions of those vials that we sell in the market. And thankfully, we do have a very good quality systems and quality control and good quality record. So we believe we are the right candidates. But at the same time, we don't want to jump into this business in a very irresponsible way. We have to build it step by step.

Where would it get to? I think it can get to a very high number. They're really depending on -- at this point, it depending on how much we want to grow it and how fast can we grow it. I think we think that the potential is there. We now are working on building credibilities. We are now working with the hospitals to believe that we are the right partner for them.

But as soon as we do that, it's going to be, for us, another step in what we do with this business, should we expand more, should we build more of those units. But we still believe in it, and we still think that we will have a very potential -- potentially a very significant funding business.

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**Bill Larkins Hikma Pharmaceuticals PLC - President - Injectables**

So then on the second part of that question. So taking the compounding out of the base injectables business, I think it does two things. One, that Riad was talking about with the necessary investments and focus on that business. But I think it also allows us to show year-over-year growth in just the base injectables business as well. So it's kind of a twofold benefit there.

As far as the sustained growth, I think we feel comfortable with the achievability of that 6% to 8% going forward. We have a robust pipeline globally. We have quite a number of products that are sitting with regulators today, pending approvals, and a robust launch plan for 2024 and beyond. So we feel very comfortable with that growth range going forward.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Let me just add a small -- you did ask about the margins. And let me just add a couple of sentences about that. So the margin depends on your volume. The more volume we have in the facility, the more -- the better the margins are. But if you think of this business, we are backward integrated. So we make the products that we are starting up in compounding.

We are forward integrated. We have the sales team that in our core business that we can use to promote this business and have the customer service that needed -- that is needed to support this business. So we are in the best position of any of our competitors to be -- to have and deliver better margins

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**Alistair Campbell RBC - Analyst**

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Thank you.

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**Operator**

Emily Field, Barclays.

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**Emily Field Barclays - Analyst**

Hi. Thanks for taking my questions. I'll just ask two on injectables. One, I believe this is kind of the first time that you guys have talked about shortages in Europe. I know that you're sort of building out injectables in Europe as well. But I was just wondering if you could maybe go into just a little bit more detail on characterizing the shortage is in Europe and sort of how they differ from the US. Is this something that you expect to continue to benefit from in the years ahead?

And then just on injectables segment margin, ex compounding is kind of what I'm asking about. And you're guiding for a very similar margin in '24 that you had in '23. Do you expect to get any operating leverage from the two new high-speed production lines that you have ongoing? Or maybe if you could just give any color on sort of why perhaps we wouldn't expect to see a little bit of margin expansion this year potentially. Thank you.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Well, I'll take the first part and Bill, you take the second part. It seems like it's going in that. So for Europe, yes, we have been seeing shortages in Europe, more than ever. And it is really contributed to some of the companies that have gotten in trouble in Europe. And when you get in trouble, of course, and you are a big producer and supplier of medicine in Europe that creates a lot of shortages. So we've seen it. The problem, was the thing that we historically were concentrated on putting all our capabilities, our capacities to support the US market.

In the last few years, we expanded a lot in capacities. And I think we are a little bit now have enough capacity to support also, as we said in my introduction, we have now capacity to support other markets and Europe and MENA, as you see, they've been growing, and a lot of products have being approved there. We've seen now a lot of companies coming to us to supply the -- as we get to know -- to be known more, we are now present in France, which we weren't in the last two years. We are present in Spain. We are present in the UK. So we're seeing more and more demand to products that we have that we sell in the US.

In fact, just a couple of days ago, I got an e-mail from a company in the UK asking for a product that they get from the US because of shortages, it's made in Portugal. They want to see how can we make it a shorter supply chain and go straight to them.

And so we see that a lot, and we had benefited that from supplying not only from a financial point of view, but also from patient point of view, we had done a lot in France and a lot in Germany actually last year to really respond to some of the need for shortage products. So we're seeing it more than ever, and we're trying as much as we can to. Bill?

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**Bill Larkins Hikma Pharmaceuticals PLC - President - Injectables**

Yes. So the question on the margin expansion with the lines in Cherry Hill and Portugal, it's really about product mix. So as you know, these -- with these new lines, it's for existing commercial products and existing commercial batch sizes. So it's more about filling the demand with the same product mix. So we're not expecting to see any margin expansion at this point with those new lines.

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**Khalid Nabils Hikma Pharmaceuticals PLC - Chief Financial Officer, Member of the Executive Committee**

Maybe just adding to what Bill mentioned, [NOI] is still a margin of around 36% to 37% is one of the highest in the industry. And as Bill mentioned, it all depends on product mix. Sometimes you have CMO opportunities. The more we grow in MENA and Europe, their margins will contract slightly because we are growing in these countries, in these regions. And these regions have a lower margin than the US.

So we have as well to absorb, it's inflation, it's a global issue, you have to absorb it, and we are managing that. So with all of that, we are maintaining our margin at 36% to 37%, which is one of the highest. And we've always said in the past that in the medium term, we'll go maybe to the mid-30s margin in the medium term. So -- but this is still a very strong margin.

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**Operator**

Thibault Bouterin, Morgan Stanley.

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**Thibault Bouterin Morgan Stanley - Analyst**

Thank you. So I just have three questions. The first one on branded. So you delivered on the portfolio mix improvement that you have been talking about for some time, and this was a driver of the margin improvement in '23. Just wondering how much room do you think you have to continue to improve that product mix? Or is it already in a good place and how to do better?

Second on Kloxxado, you mentioned it as a driver in terms of specialty contribution. We are seeing a competitor launching another differentiated product on the opioid overdose segment with (inaudible). Just wanted to know if you see anything on the market because I think they're targeting the same channel as you. So if you're seeing anything here and how you think about the impact on growth?

And then last quick question to update, as usual, on US generic pricing, if you can just give us an indication of what you're seeing. Is it still kind of low single to mid-single deflation? Or is it normalizing towards something a bit higher? Thank you.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Brian, do you want to kick start at this?

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**Brian Hoffmann Hikma Pharmaceuticals PLC - President, Generics**

Sure. Happy to start. So Kloxxado, we saw some really good momentum in 2023, and we expect that to

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continue in 2024. We think it's a unique product in that we see that 78% of overdoses require more than one 4-milligram nasal spray to revive patients. So, that's kind of the value proposition that we have with our 8 milligram, and it's been very well received in the market. We're more focused on working with -- working in the government channel than the retail channel. So it takes some time to build your brand in that channel. So we did see some very good progress in 2023 and expect that to continue in 2024.

In terms of generic pricing, we did see an ease in price erosion in 2023 versus 2022. I think we saw low-double digits in 2022, and we saw mid- to high-single digits for the industry overall in 2023. So we're expecting that, that rate of price erosion to continue into 2024.

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**Susan Ringdal Hikma Pharmaceuticals PLC - EVP, Strategic Planning And Global Affairs, Member of the Executive Committee**

I think Mazen was trying to unmute to answer the branded question. Are you there, Mazen?

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**Mazen Darwazah Hikma Pharmaceuticals PLC - Executive Vice Chairman, President of Mena, Member of the Board, Member of the Executive Committee**

Hello? Hi. Sorry, technology. For the branded business, basically, as you know, we have invested greatly in the MENA markets. And we are still seeing growth in these MENA markets, but we are facing some headwinds, especially on the issue of the currency. And this is one of the things that we are facing and trying to sustain our margins. So for next year, we will have a single mid- to single high growth in the MENA market, and our profitability will also increase in constant currency. But on a reported basis, we will be flat as we have been this year.

Was there another part of the question, please? Hello?

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

I think you're on mute. Okay. I think we can move on, I guess.

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**Thibault Bouterin Morgan Stanley - Analyst**

Sorry. That was it. Thank you very much.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Okay.

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**Operator**

Max Herrmann, Stifel.

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**Max Herrmann Stifel Nicolaus and Co, Inc - Analyst**

Great. Thanks for taking my questions.

Great. Actually really just looking given you've kind of answered the branded margin expansion or reasons for lack of this year. The question on the injectables and biosimilars and where you are, what

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your kind of attitude is to biosimilars in the US now. I think next year was kind of the year from which you'd start to potentially see launches. So just looking ahead, how are you seeing that develop? And what are your thoughts on that?

And then maybe just on -- again, on the injectables. What are you doing with Combogesic in terms of sales force because you obviously haven't had an injectable promoted product in the past. So just interested in how you're going about the launch of that.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

All right. Maybe Mazen, you can continue with the branded and then Bill and I, maybe we can put some couple of comments on the injectables.

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**Mazen Darwazah Hikma Pharmaceuticals PLC - Executive Vice Chairman, President of Mena, Member of the Board, Member of the Executive Committee**

Yeah. Thank you. As you also see that this year, our branded business had standout performance in 2023. But as unfortunately, we have to halt operations in Sudan and face -- we still have headwind currencies in Egypt, but we were still able to deliver good revenue growth at a very strong operating margin. We are still supported and building momentum by supporting our portfolio.

And I'm very excited to report that now we are the second largest company in the MENA region by sales. So if you look at all of these, we have a strong base in the MENA. We continue to invest in the R&D to bring higher-value medicines and especially we're going into chronic disease medicines. And this is paying off and driving the growth that we see today.

Supporting our grown portfolio, we have extensive local manufacturing footprints, as you know, in the MENA. We have more than '23 manufacturing sites. And this is one of our greatest assets. And this differentiates us from our competitors because in every country, we are a local manufacturer, and this gives us more flexibility in the market and meeting the demands and the shortages in these markets.

We will continuously invest in expanding and enhancing our manufacturing experience and our strengthening our portfolio as a local supplier with global expertise using the synergies of the group as Riad has explained from the three businesses. Thank you.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Thank you, Mazen. Let me just say a couple of words about the biosimilars and then I'll hand it over to Bill to just continue with that and talk about Combogesic. So for the biosimilars, as you all know, we have a deal with two partners to bring into biosimilars to the market. And as you all know, the biosimilar market is -- everybody is watching it right now. I think that's something that some people had doubled in on it. Some people have stayed away from it. It's a little unpredictable in the way of how it's going to pan out to be.

But in my opinion, it all depends on which ranking do you come in at? Are you the first, second, third to

the market? Or are you 7, 8, 9, 10 to the market? So that depends. It's going to really depend on how you're going to design your strategy, your commercial strategy to the market.

And we don't know exactly where we have an idea, but we don't know exactly where we're going to land. But the more precise information that we have that where we are going to be ranked, I think it will be more good information for us to help us design how we are going to approach the market.

One thing good about our partnership is we have it, our partners are good and other cost structure is very good and very competitive. So if we had to go in and compete based on only the commercial side based on pricing and cost and all that, I think we still can do that. But I think we really need to see where we're going to land and how this is going to end up with the biosimilar market and then we'll design a strategy of how we are going to market our own.

Bill, do you want to take the Combogesic question? Or you want to add to the biosimilar please feel free.

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**Bill Larkins Hikma Pharmaceuticals PLC - President - Injectables**

Well, I just think on the biosimilar, just to add on to that real quickly. Like for our particular two products, we're not expecting launching these products until sometime in the -- at least the latter half of 2025, just to be clear, it's not a 2024 launch of either of these products.

And then on Combogesic on the sales strategy, the quick easy answer is it's a combination. So we have some internal resources. We just hired a brand manager for -- before the launch for Combogesic. And then we also are using a contracted outside sales team to support the detailing of that product.

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**Max Herrmann Stifel Nicolaus and Co, Inc - Analyst**

And is that product sort of -- sort of a leader into how you see the branded -- sorry, the biosimilar products and sort of following into that same infrastructure that you're building around Combogesic?

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**Bill Larkins Hikma Pharmaceuticals PLC - President - Injectables**

No, two different infrastructures. So what we're doing in Combogesic isn't translatable to what we're doing -- what we would be doing with our biosimilar strategy. So those go-to-market plans are distinctly different.

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**Max Herrmann Stifel Nicolaus and Co, Inc - Analyst**

Thank you.

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**Operator**

Victoria Lambert, Berenberg.

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**Victoria Lambert Berenberg - Analyst**

Sorry, some mute difficulties going on there. My first question is just on the injectable IQVIA data that came out in December. It looks like Fresenius SE, well Kabi did well, taking some share from Pfizer. Just

wondering how December was for you guys, are you also taking share from Pfizer? And if so, what do you think is going sort of wrong at Pfizer?

And then are you seeing any geopolitical impacts on the branded division from what's going on there at the moment? And then could you just confirm that you have all your licenses in the US now for sterile drug compounding? Thank you.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Well, I guess it's also for me and you, Bill. I'll do just a couple of things. As far as -- I'll start with the last one, as far as for the licenses, the only major license that we have left is for California. I think the other one was New York, and we got that a couple of months ago. So I think as far as licenses, we're pretty set from the compounding point of view, it's the other things that we talked about earlier that we have -- we're building right now.

As far as the injectables, Bill, do you want to take this -- you want to take this part?

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**Bill Larkins Hikma Pharmaceuticals PLC - President - Injectables**

So what specifically was that around Fresenius? Is that --

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, President, Injectables**

Around the volumes in December. Maybe I could say a couple of things. We had a great December.

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**Bill Larkins Hikma Pharmaceuticals PLC - President - Injectables**

Let me just --

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Yeah, go ahead.

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**Bill Larkins Hikma Pharmaceuticals PLC - President - Injectables**

I was going to say the same thing. I mean we had a very strong -- we had a very strong December. I haven't looked at the data relative to taking share from Pfizer and Fresenius, but we had a very strong December.

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**Mazen Darwazah Hikma Pharmaceuticals PLC - Executive Vice Chairman, President of Mena, Member of the Board, Member of the Executive Committee**

I think there was a question about the geopolitical risk. And as you know, the MENA is 18 different markets. And our largest markets are Saudi Arabia, Algeria, and North Africa. Jordan is a major market also for us. But we do not do any business in Gaza. So we have no sales in that part.

The only thing I would say is costing us a little bit more on the logistics side because due to the issue in the Red Sea for shipment, but this is insignificant compared to the volume of the business. So no, we do

not have any impact from the Board that's going on concerning the business that we have in the Middle East.

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**Victoria Lambert Berenberg - Analyst**

Great. Thank you.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Thank you.

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**Operator**

Peter Verdult, Citi.

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**Peter Verdult Citi - Analyst**

Yeah, thanks. Just two follow-ups, please. Just Bill, on just your level of involvement or not on this compounding business. Does it still come under your remit? Or is there a completely separate management team? And then Khalid and Riad or maybe you Bill as well. But if you execute and get -- and get the compounding business to where you want to be, \$300 million peak good margins, would the idea be that that would then come back into injectables? Or should we always think that now on you're going to separate the businesses?

And then just for Mazen, just a couple on MENA. Is there any way back in Sudan? Or is that just -- have you written that off basically? And could you maybe just delve a bit more into the key markets, anything of interest going on in Saudi, in Algeria, or Egypt, apart from FX that you want to comment on your key markets? Thank you.

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**Bill Larkins Hikma Pharmaceuticals PLC - President - Injectables**

So I'll take the first part of the question, Riad and Khalid, and I'll leave it to you on the financials of whether it's in or out or when it comes back. So from a compounding business perspective, it is under -- still under my organizational structure. I think as Riad touched on at the beginning, there's a tremendous amount of synergies with our base business.

So it makes sense from a management perspective to have it linked to the base business. Again, from a sales perspective, view similar types of product selection for the products for that business, the competitive intelligence we find from detailing our base products into that business.

We also, as Riad also mentioned, many of the products that are utilizing compounding. We are actually the producer of the vials that go into those compounded products as well. So staying connected with our base business and all of that is immensely helpful.

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**Peter Verdult Citi - Analyst**

Is the idea to bring it back to inject -- is the idea to bring it back to injectables?

**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Sorry -- sure. I will answer, and maybe Khalid can continue with that. I think for me, just to add to what Bill is saying, this business doesn't only provide us a good opportunity for growth, but also intelligence. We know now what doctors want. We know what a formulation they rather have. We know how they want the product to be -- the delivery system of the product. And not only it helps us in creating the compounding portfolio, but also help us in our core business. So it does make sense for this business to continue to be in the injectables.

I believe that it probably would be -- depending on what happens and how we run it. Today, we're running it very much together under Bill. And if it continues to produce more and grow, there's no reason why we -- we don't continue managing it that way, whether it is in the financials to be added to the injectables or not. Khalid, what's your -- what do you think about that?

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**Khalid Nabilsa Hikma Pharmaceuticals PLC - Chief Financial Officer, Member of the Executive Committee**

I think it's -- as we said, this is like a start-up business for us. And so it requires some investments at the beginning, and it's diluted on the injectable business, and this is where you have more clarity on the performance of the injectable and the performance of the compounding business. Now once it becomes fully integrated into the injectable business and there's a rationale that we bring it back to the injectable down the road, still early to judge at the moment, but it could be.

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**Peter Verdult Citi - Analyst**

Khalid, can I be a bit cheeky? Sorry, Mazen, just -- can I be a bit cheeky? When you come back to your long-term outlook for injectables guidance on margins, it's like mid-30s. Would getting -- would the compounding business be dilutive longer term, even if it hits those growth targets? Or what margins?

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**Khalid Nabilsa Hikma Pharmaceuticals PLC - Chief Financial Officer, Member of the Executive Committee**

No, no, we are not talking. We are talking now separately. We haven't considered that we are including or excluding it. I'm saying if it's going to be fully integrated into the business going forward, which we still don't have a visibility, how it's going to be managed and as Riad and Bill mentioned, it's managed by Bill, under Bill.

Now going forward, if we see that there's a lot of rationale integration, and then we might consider and, of course, will be upfront to the market on this. So far, there are no plans. The plans is to get it separated into others. And then you will be able to see the performance of the compounding business going forward. And then of course, we'll start giving you guidance on this.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Well, Peter, as you want to, I think, ask is would this have the same margins as our injectable business today. We can't really say exactly what. But I can tell you that you -- probably if you look at our competitors, we have the ability to do much better. We are -- we have a lot of synergies for this



business. We have it backwards and forward.

We make the products that they buy from others and from including us. We have our same sales force that we use for our core business. So our synergies are great. So I would believe our cost structure will be even greater, and the volume is very important. But I believe if we get all that things done -- these things done and execute well, there's no reason why we shouldn't have very healthy margins.

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**Mazen Darwazah Hikma Pharmaceuticals PLC - Executive Vice Chairman, President of Mena, Member of the Board, Member of the Executive Committee**

Coming back to the MENA. Sudan, as you know, still is an a war situation, and it's very fluid. Our assets have been impaired. The manufacturing sites have been vandalized. So we are out of manufacturing in Sudan. And most of our team also has been transferred to other markets in the region. We will try to continue serving Sudan by other means like now with some countries started buying donations for Sudan.

So we're having a very small business, but nothing as before. And we do not plan to go back. If we plan once the war is over, it will take at least one to two years to go back into manufacturing process because of the destruction that has happened. And we have impaired the whole Sudan loss as the market.

The other markets, as you know, Peter, this year, we're number one in Saudi Arabia. And this is a mild -- a great achievement. So if you look at all of the multinationals and the local Hikma being the number one company, this is quite an achievement. So we are expanding our presence in Saudi Arabia.

And as we have stated and Riad has stated that we are now on a long-term project of new CapEx in Saudi Arabia for new manufacturing sites. So Saudi Arabia will stay a major market for us. That market is growing, and we have a very good market share. And we continue to invest also in our technology, our new portfolio, and our pipeline in these markets.

The other major market is Algeria. And also, like Riad said, we have started a new plant of injectables there. We're upgrading our oncology plant in Algeria. We are investing in new lines in Algeria. And now we are also number three or four in the Algerian market in terms of market size. Morocco also is a growing market for us. And of course, Jordan will stay one of our markets as we have been demonstrating during the last couple of years.

So in a nutshell, we will continue seeing double growth in constant currency in the MENA, but we really don't know what's going to happen to the currency in Algeria -- sorry, in Egypt. And this is why we are guiding towards mid- to single growth in the reported. But the MENA is growing on a constant currency in double digits as we have demonstrated during the last couple of years.

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**Operator**

James Gordon, JPMorgan.

**James Gordon JPMorgan - Analyst**

Hello. Thanks for taking the follow-up question. And hopefully you can hear me. My question was on capital allocation. So just how to read the very significant increase in the dividend today. So it's quite a big jump in the dividend. Does this mean you're now not very likely to do a buyback anytime soon? And more so does it mean that significant M&A is now not very likely in 2024 and beyond, you'll have a bit less cash on buybacks, but also you wouldn't delever as quickly if you did do a big deal?

And is this also saying you're now a more mature business, it won't require as much investment. And there's also maybe just less outlet to buy and that's why you're returning more cash? So how to think about that, please?

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

I'm going to give the bulk of this question to Khalid and Khalid can explain that. But I want to take the M&A part. No, I think M&A is really something that we're looking at, seriously looking at. I think our growth and our aspiration to grow even more than what we want that cannot just happen organically.

We are going to focus on inorganic growth. We're looking at interesting assets out there and more and more are coming up. So no, I don't think the intention there is not to do any M&A. On the contrary, we are very active in [BD] and M&A.

Khalid, do you want to take the second part.

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**Khalid Nabils Hikma Pharmaceuticals PLC - Chief Financial Officer, Member of the Executive Committee**

Yeah. So given that the Board confidence and the long-term growth prospects for the business, we decided that we'll increase and change our dividend policy as we mentioned, from 20% to 30% payout to 30% to 40%. So in a way, we are going to progressively increase our dividends where we increase the growth of dividends either in line with the growth in net income or higher than that.

So it's going to be either stable or we are going to grow and to be capped at 40%. And we still have enough headroom and firepower today to do that. And at the same time, we have the firepower to do acquisition. As Riad mentioned, we have over \$1.6 billion available today to do acquisition.

Is the share buyback on the table, we do that, we consider this from time to time once we see the opportunities available in the market, if we have to invest in the market, of course, our preference is always to invest in growing our business. But at the same time, from time to time, the Board might consider to do a share buyback, but are not on the table today.

And this is why, just to give the confidence in the performance of the group, we are increasing the dividend. This is a good message. It's not going to have an impact or implication on our policy going forward in terms of M&A or in terms of any opportunity that we would see.

**James Gordon JPMorgan - Analyst**

Thank you.

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**Operator**

This concludes the Q&A. I will now hand over to Riad Mishlawi, for closing remarks.

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**Riad Mishlawi Hikma Pharmaceuticals PLC - Member of the Executive Committee, CEO**

Well, thank you very much. Thank you, everyone, for joining the call. We're really pleased, as I said earlier, with our 2023 performance and very excited for our outlook on 2024. We look forward to keeping you updated on our progress. Thank you very much.

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