

# Hikma Pharmaceuticals PLC

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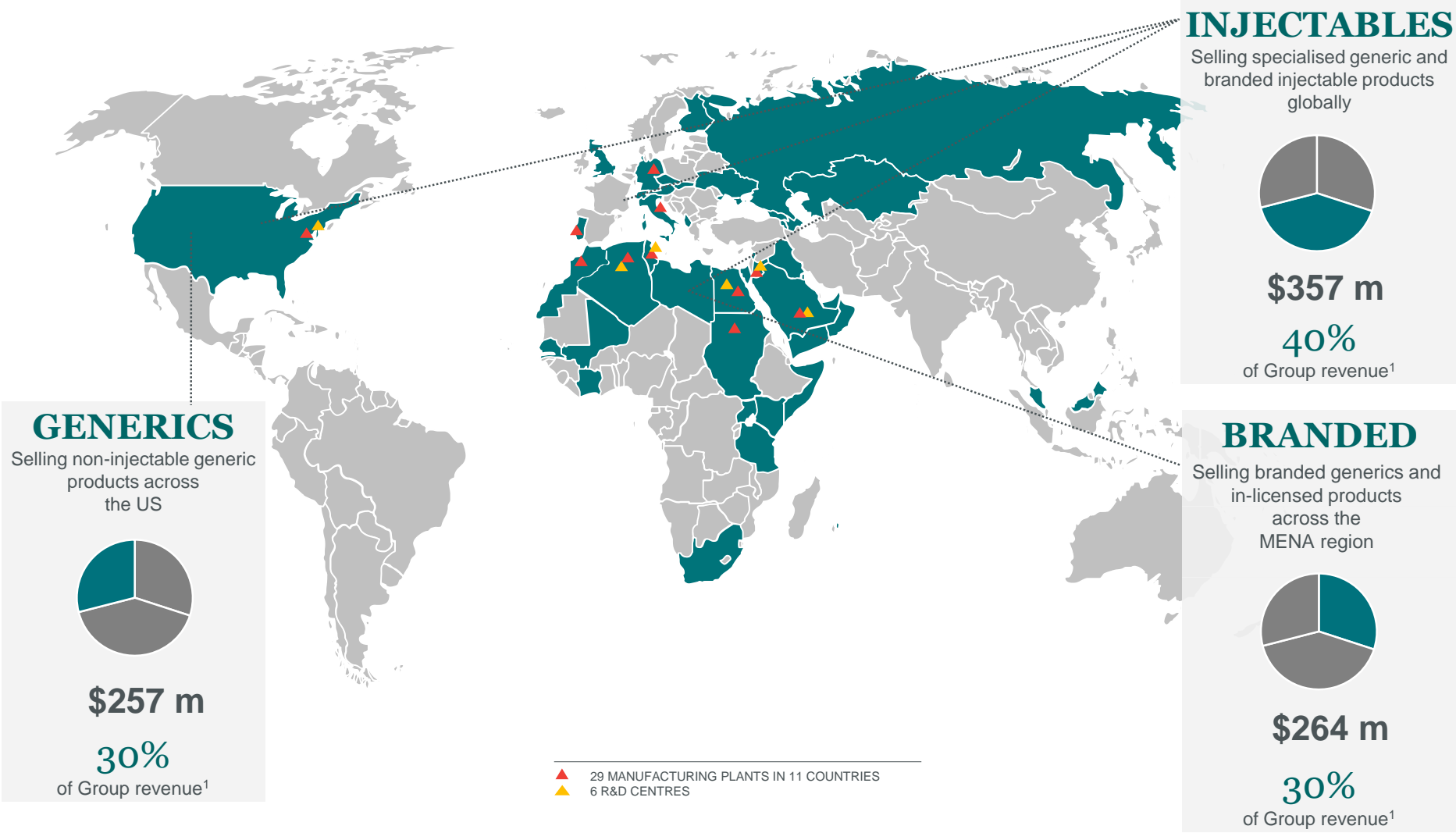
H1 2016 Interim Results

24 August 2016



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# A solid financial performance in H1 2016 and excellent strategic progress



<sup>1</sup> As of 30 June 2016

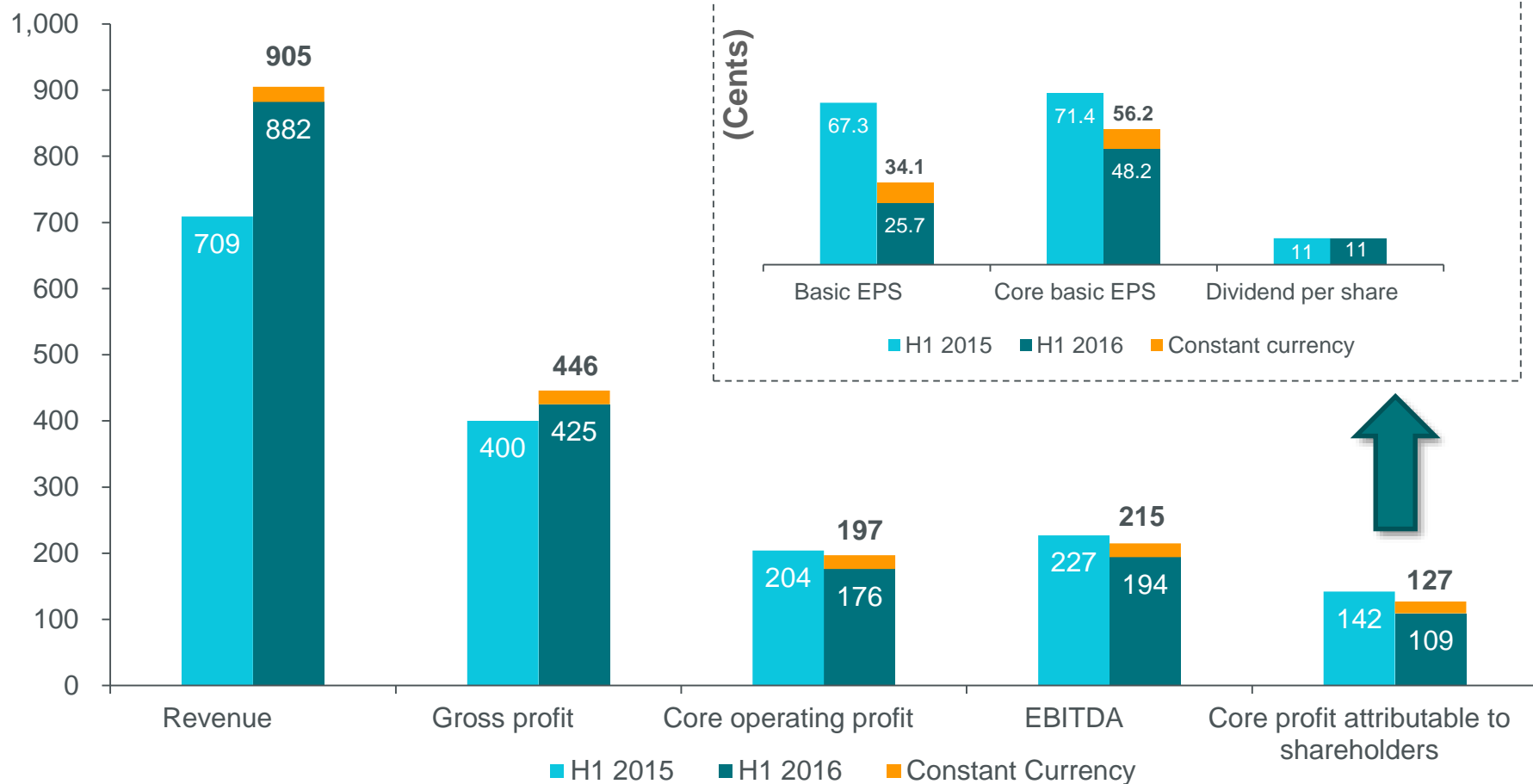
# Financial performance



# Group financial highlights

## Solid first half performance

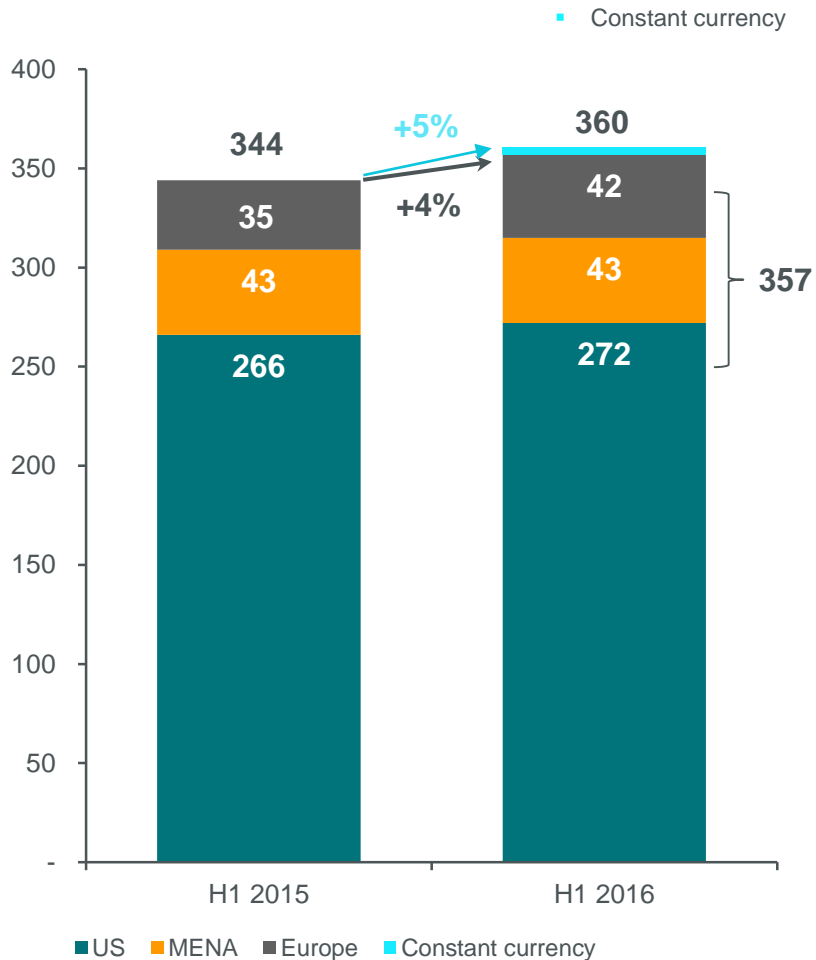
(\$ millions)



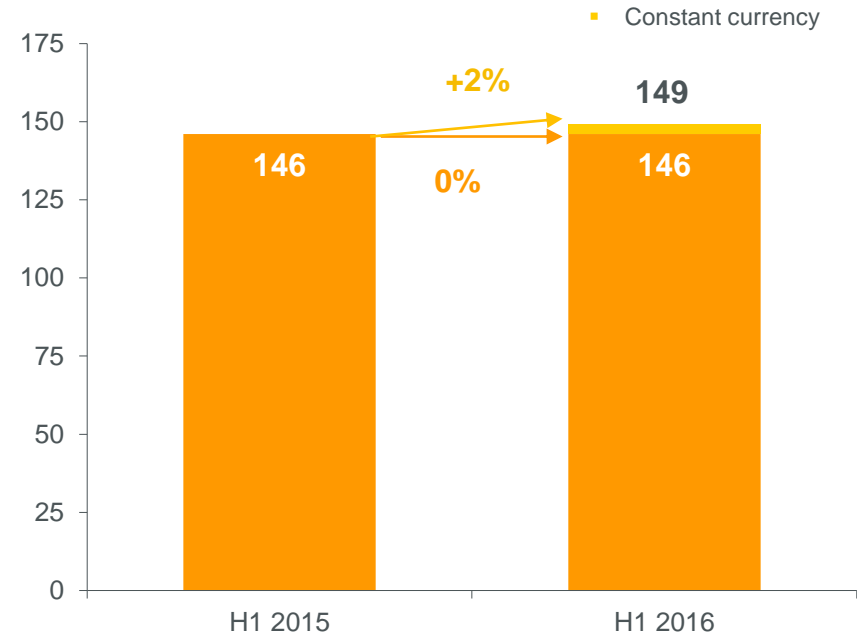
# Injectables

## Maintaining excellent profitability

Revenue (\$ million)



Core<sup>1</sup> operating profit (\$ million)



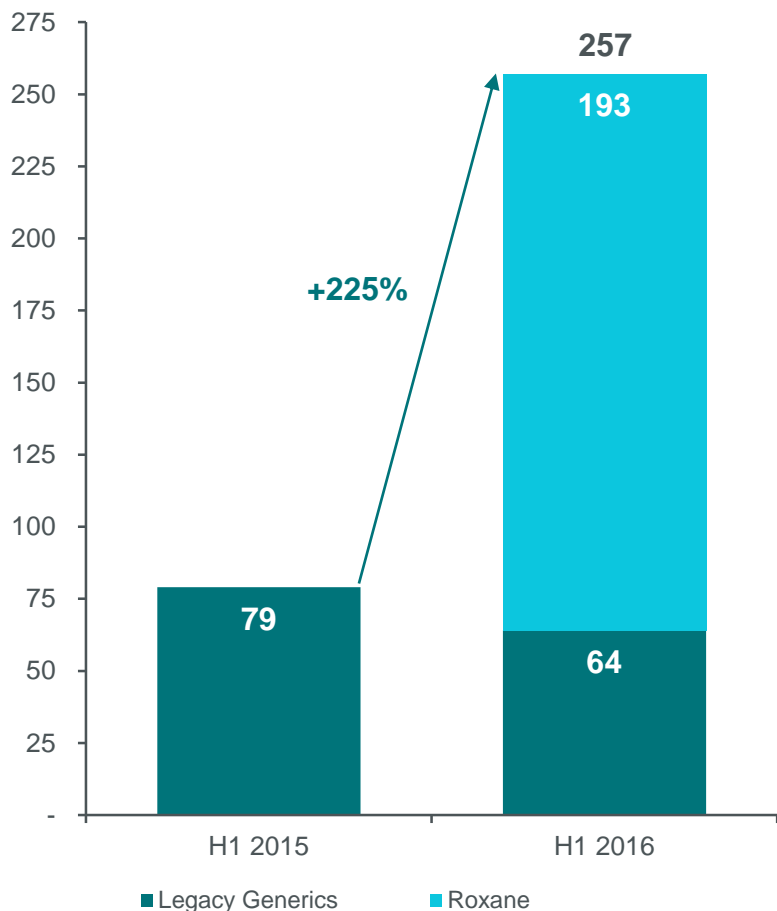
Operating margin

	H1 2015	H1 2016	Change	2016 Constant Currency	Change
Reported	42.4%	40.3%	-2.1pp	40.8%	-1.6pp
Core <sup>1</sup>	42.4%	40.9%	-1.5pp	41.4%	-1.0pp

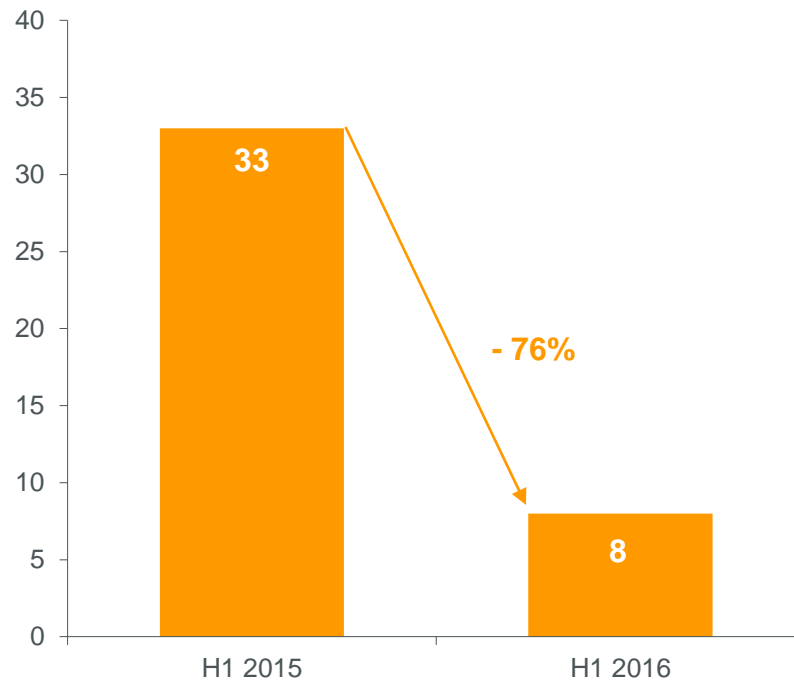
# Generics

Consolidation of West-Ward Columbus and a decline in specific market opportunities, as expected

Revenue (\$ million)



Core<sup>1</sup> operating profit (\$ million)



Operating margin

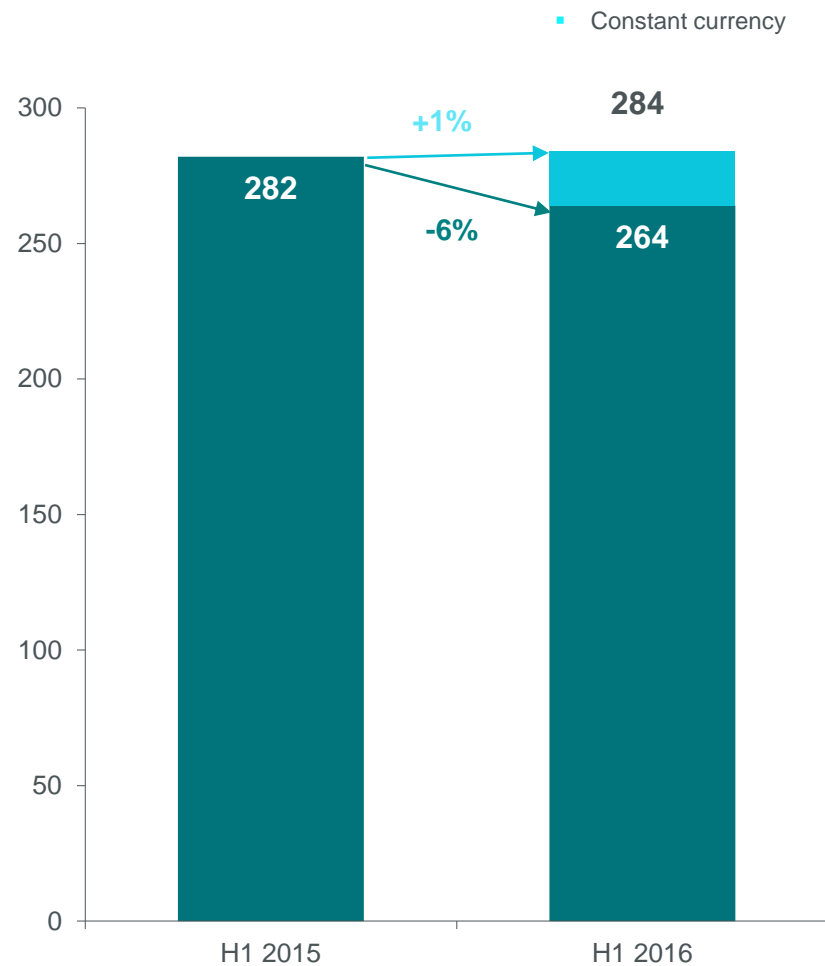
	H1 2015	H1 2016	Change
Reported	41.8%	-3.5%	-45.3pp
Core <sup>1</sup>	41.8%	3.1%	-38.7pp

<sup>1</sup> Before the amortisation of intangible assets other than software and exceptional items

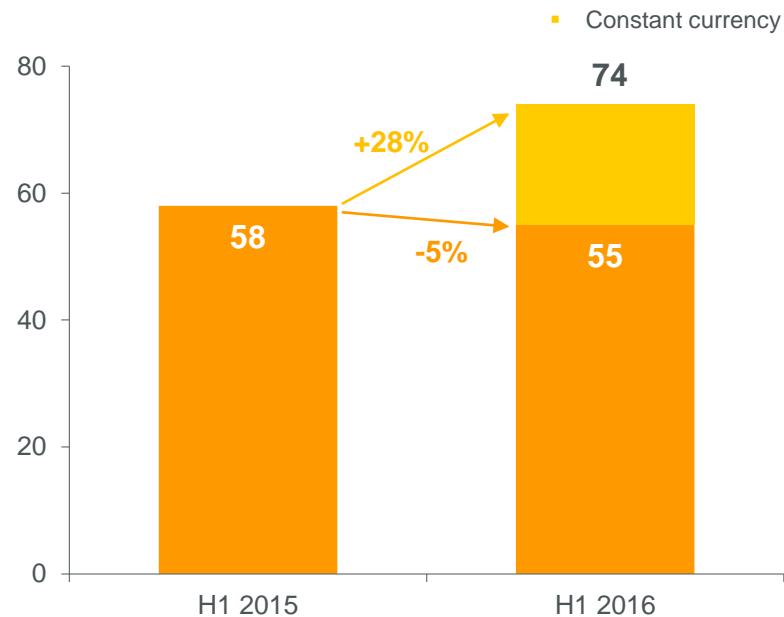
# Branded

## A strong improvement in underlying profitability

Revenue(\$ million)



Core<sup>1</sup> operating profit (\$ million)

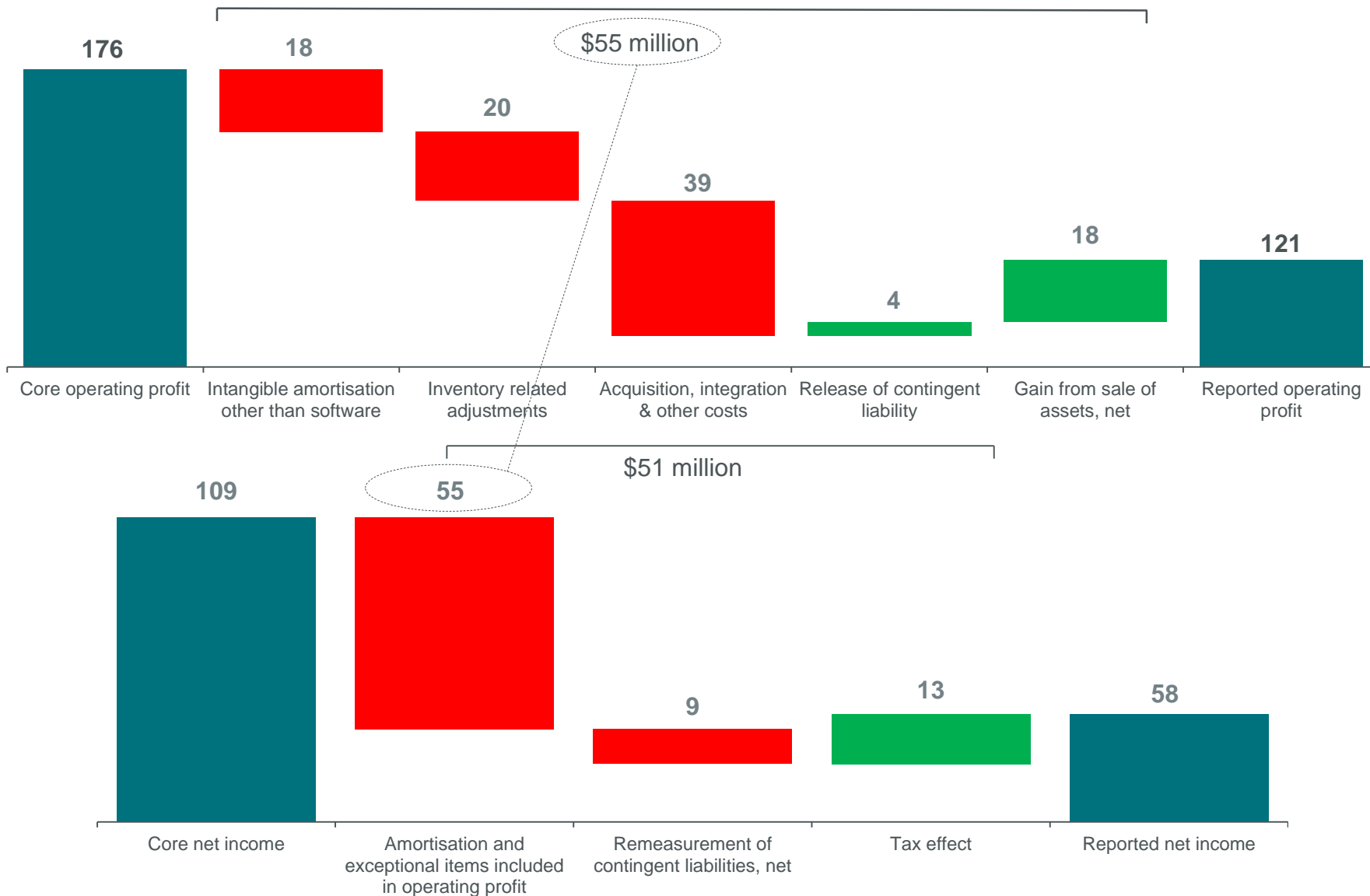


Operating margin

	H1 2015	H1 2016	Change	2016 Constant Currency	Change
Reported	17.4%	19.3%	+1.9pp	24.6%	+7.2pp
Core <sup>1</sup>	20.6%	20.8%	+0.2pp	26.1%	+5.5pp



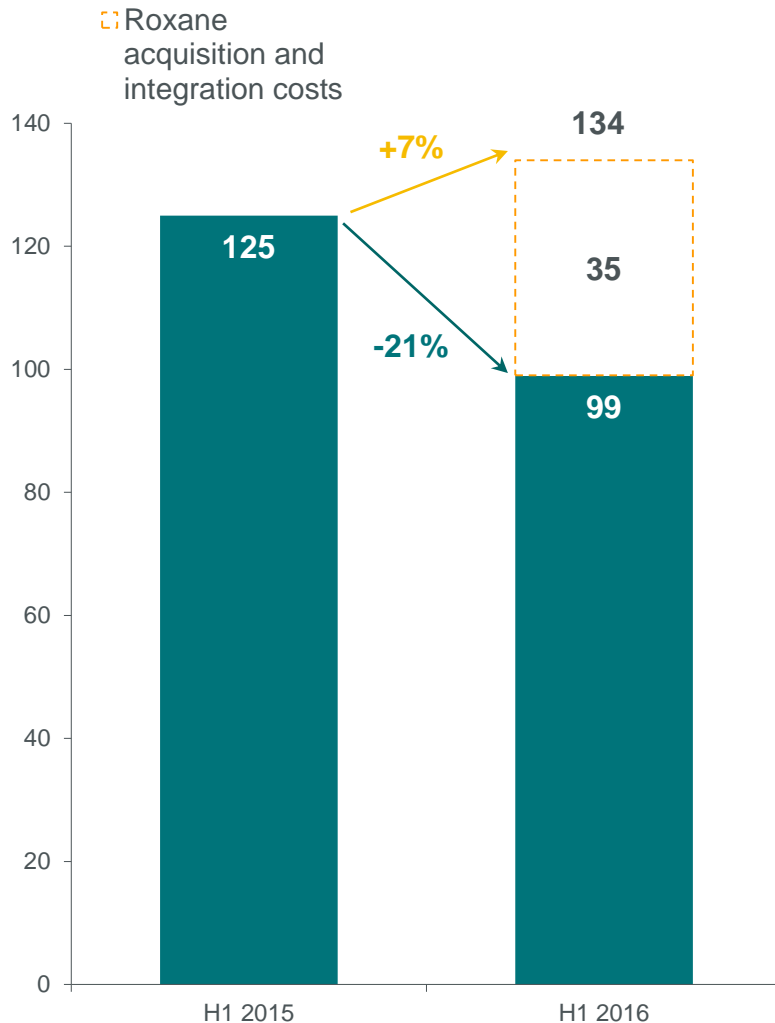
# Amortisation and exceptional items primarily related to West-Ward Columbus impacted Group operating profit and net income in H1



# Cash flow

## Strong underlying cash flow excluding the impact of acquisition and integration costs

### Operating cash flow (\$ million)



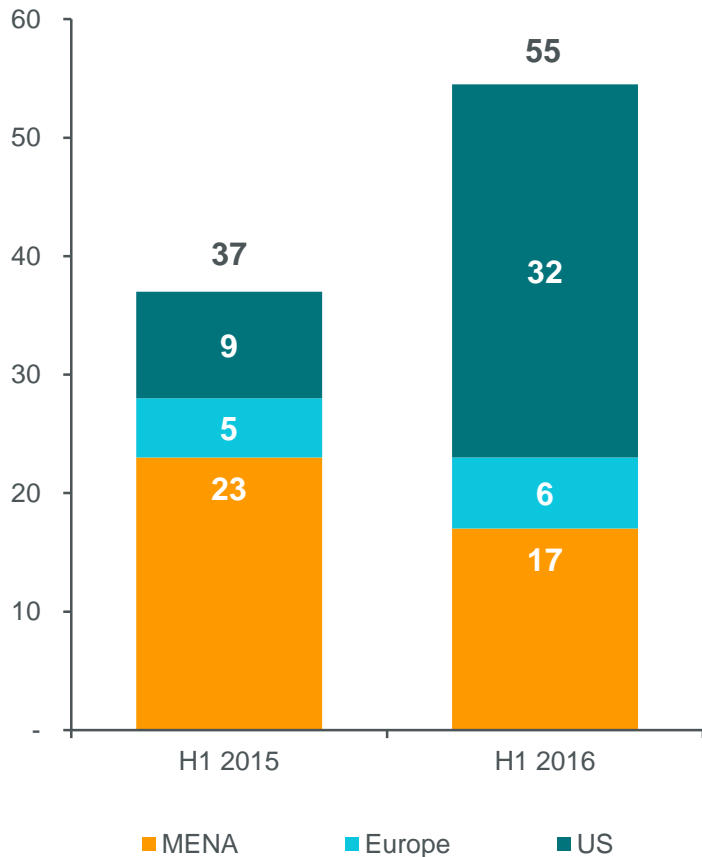
- ▶ Operating cash flow was \$99 million, down from \$125 million in H1 2015 reflecting West-Ward Columbus acquisition and integration and acquisition related costs of around \$35 million
- ▶ Improved cash collection in MENA more than offset the lower contribution from specific market opportunities
- ▶ Primary uses of cash were capex and product-related investments

	H1 2015	H1 2016	Change
Working capital days	192	211	+19
Operating cash flow / revenue	18%	11%	- 7pp

# Capital expenditure

Continued investment in capacity and capabilities to support future growth

Capital expenditure (\$ million)

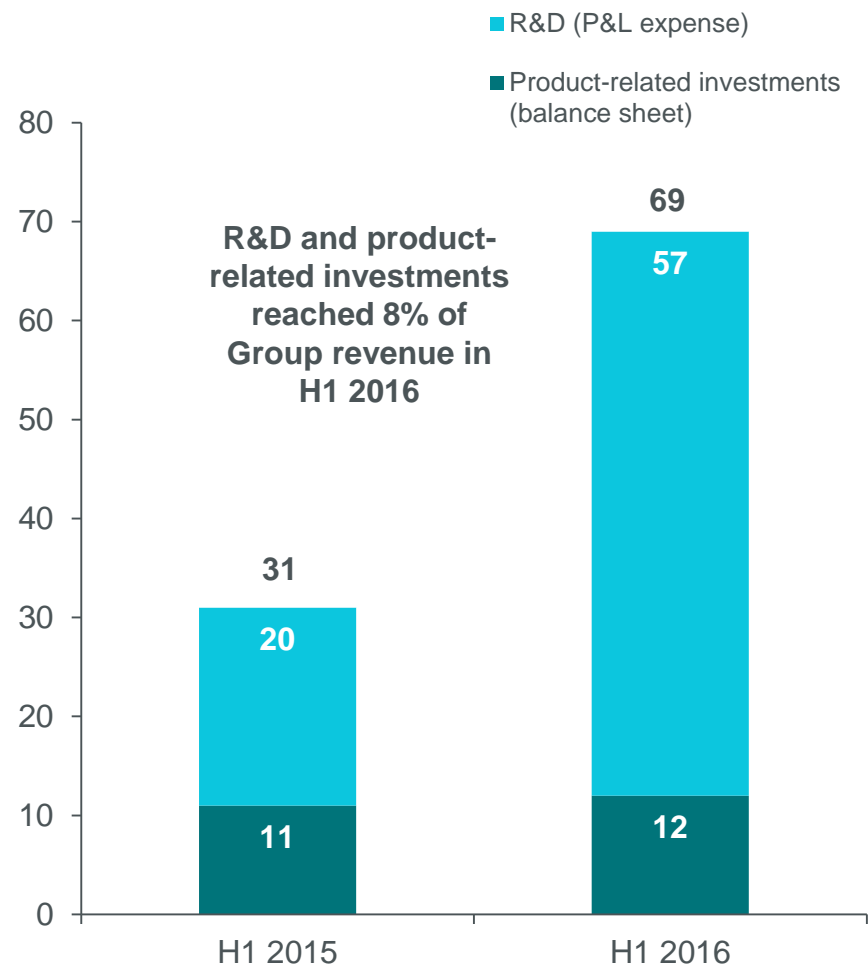


- ▶ Expanding Injectables capacity and capabilities in the US – including pre-filled syringes and ophthalmics
- ▶ Investing in the West-Ward Columbus facility
- ▶ Continued expansion of Injectables manufacturing capacity in Europe – including lyophilisation and oncology lines in Portugal
- ▶ Maintaining our operating facilities across the MENA including Jordan, Saudi Arabia, Egypt and Sudan.

# Product-related investments

## Expanding and enhancing our product portfolio

### Product-related investments<sup>1</sup> (\$ million)

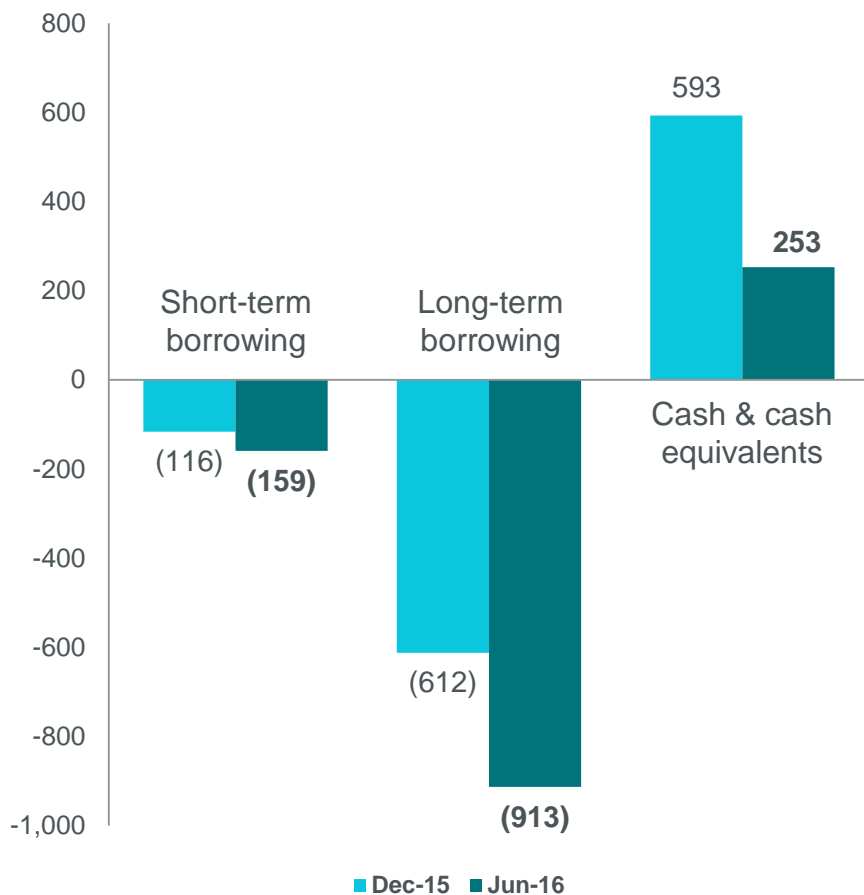


- ▶ Significant increase in R&D investment:
  - ▶ Consolidation of West-Ward Columbus – investing in the development of their differentiated product pipeline
  - ▶ New product development for US Injectables
- ▶ Continued investment in product development through partnerships
- ▶ Continue to expect full year R&D expense of around \$150 million, before any additional product-related investment

# Balance sheet

## Financing position remains strong following West-Ward Columbus acquisition

Net debt position at 30 June 2016 (\$ million)



- ▶ Net debt of \$819 million, up from \$135 million
- ▶ Reflects completion of West-Ward Columbus acquisition in February 2016
- ▶ Financing position remains strong – Net debt/EBITDA of 1.8x

	Dec 2015	Jun 2016
Net debt	135	<b>819</b>
Net debt/EBITDA	0.30x	<b>1.76x</b>
Debt/EBITDA	1.60x	<b>2.30x</b>

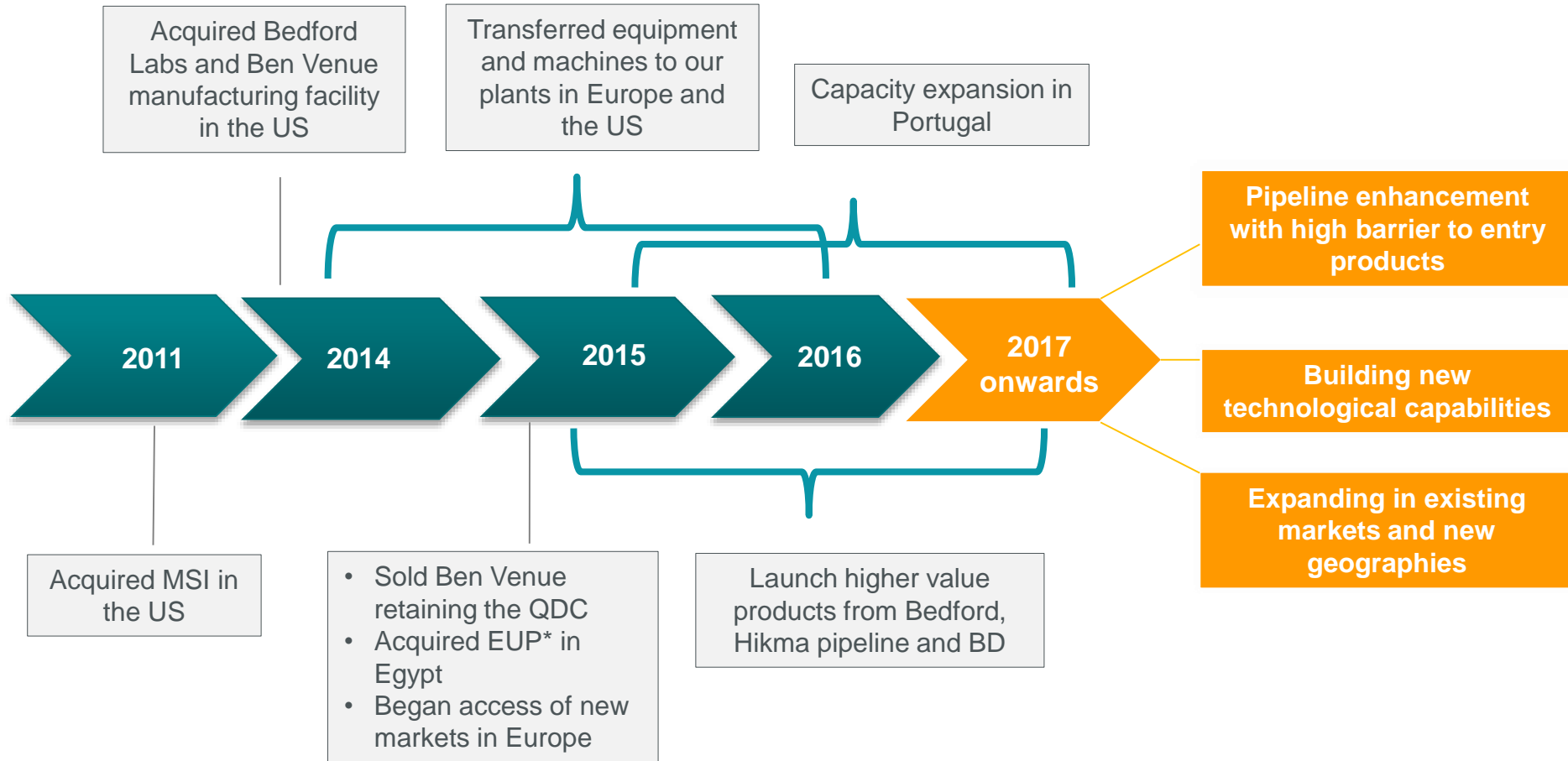
# Outlook for 2016

<b>Group revenue</b>	<ul style="list-style-type: none"><li>• In the range of \$2.0 billion to \$2.1 billion in constant currency</li></ul>
<b>Injectables</b>	<ul style="list-style-type: none"><li>• Revenue growth in the mid to high-single digits</li><li>• Core operating margin of around 38%</li></ul>
<b>Generics</b>	<ul style="list-style-type: none"><li>• Revenue in the range of \$640 million to \$670 million - includes ten months of West-Ward Columbus and product divestitures</li><li>• Core operating profit in the range of \$30 million to \$40 million</li></ul>
<b>Branded</b>	<ul style="list-style-type: none"><li>• Revenue in line with historical trends, on a constant currency basis</li><li>• Core operating margin improvement</li></ul>
<b>Net finance expense</b>	<ul style="list-style-type: none"><li>• Around \$62 million</li><li>• A further \$17 million of non-cash expenses related to the unwinding of the discount for future royalty and contingent consideration payments</li></ul>
<b>R&amp;D expense</b>	<ul style="list-style-type: none"><li>• Around \$150 million before any additional product-related investments</li></ul>
<b>Capital expenditure</b>	<ul style="list-style-type: none"><li>• Around \$150 million including West-Ward Columbus</li></ul>
<b>Effective tax rate</b>	<ul style="list-style-type: none"><li>• Core ETR of around 25%</li><li>• Decreasing to 2014 levels over the medium-term</li></ul>
<b>One-off and acquisition related expenses</b>	<ul style="list-style-type: none"><li>• Group operating profit will include around \$88 million of exceptional and non-cash items in 2016. After the tax effect, the impact on Group profit attributable to shareholders will be around \$83 million</li></ul>

# Injectables



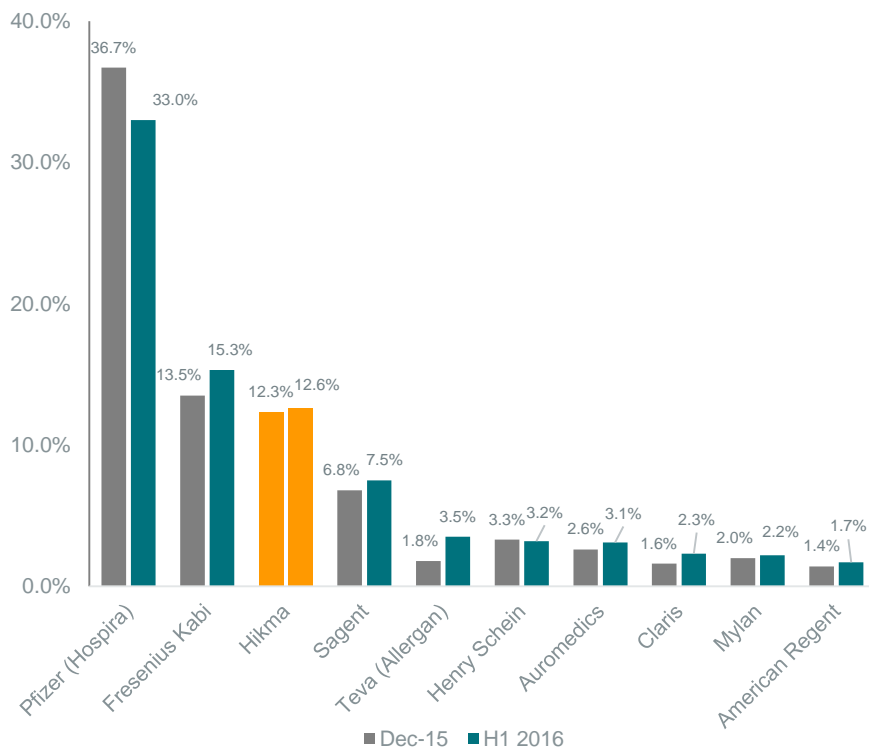
# Positioning our global injectables business for long-term sustainable growth



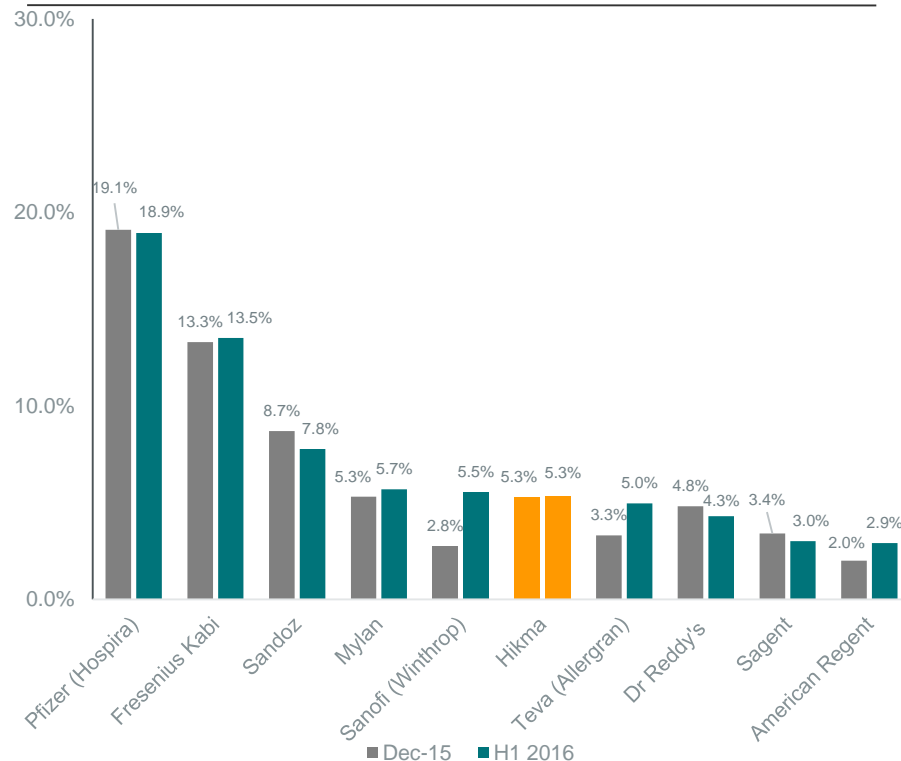


# Maintaining strong market share in US injectables

US generic Injectables market share (million eaches)



US generic injectables market share (\$ million)



## Market share

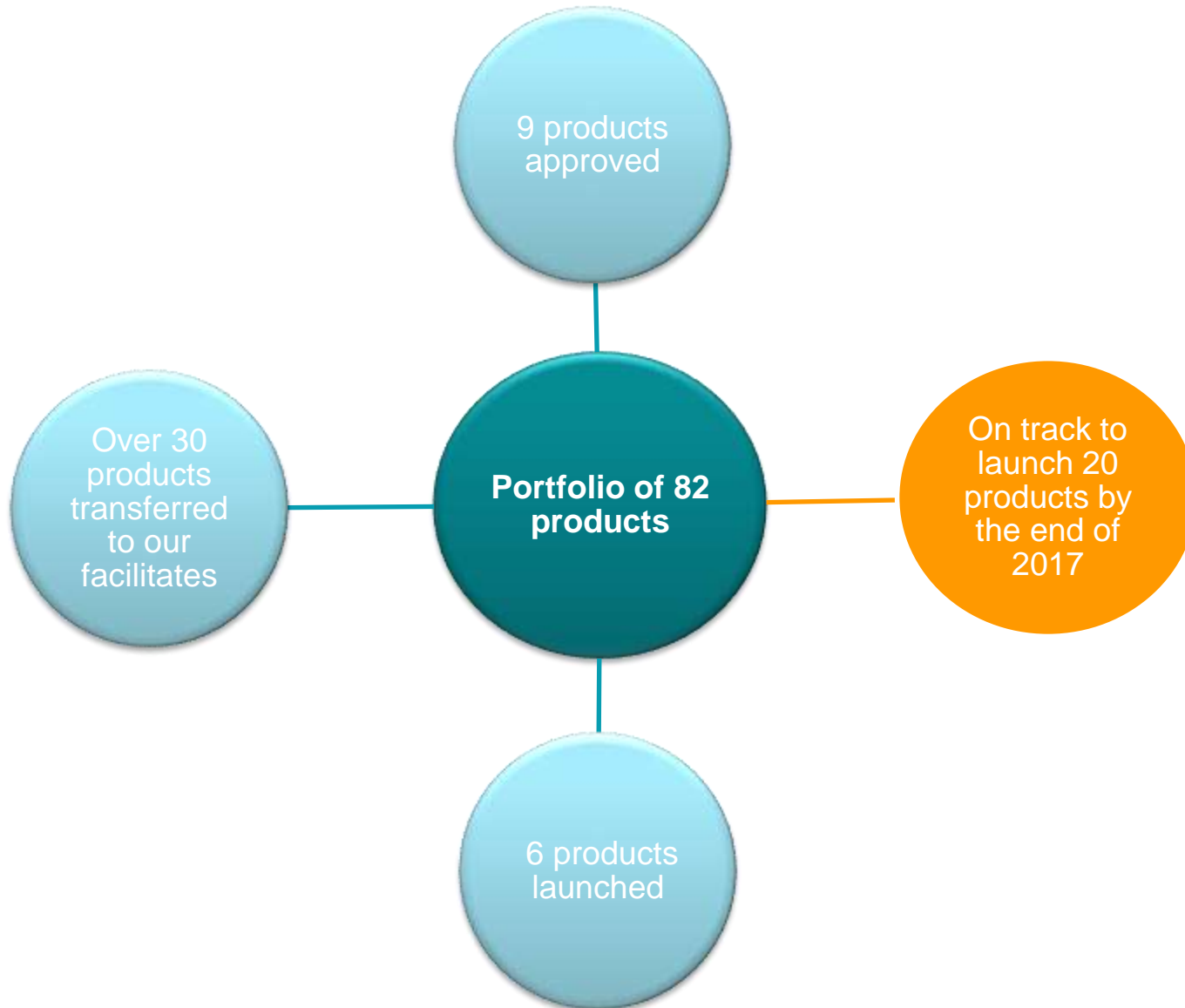
	Dec 2015	H1 2016	Change
Volume	12.3%	12.6%	+0.3 pp

## Market share

	Dec 2015	H1 2016	Change
Value	5.3%	5.3%	0.0 pp

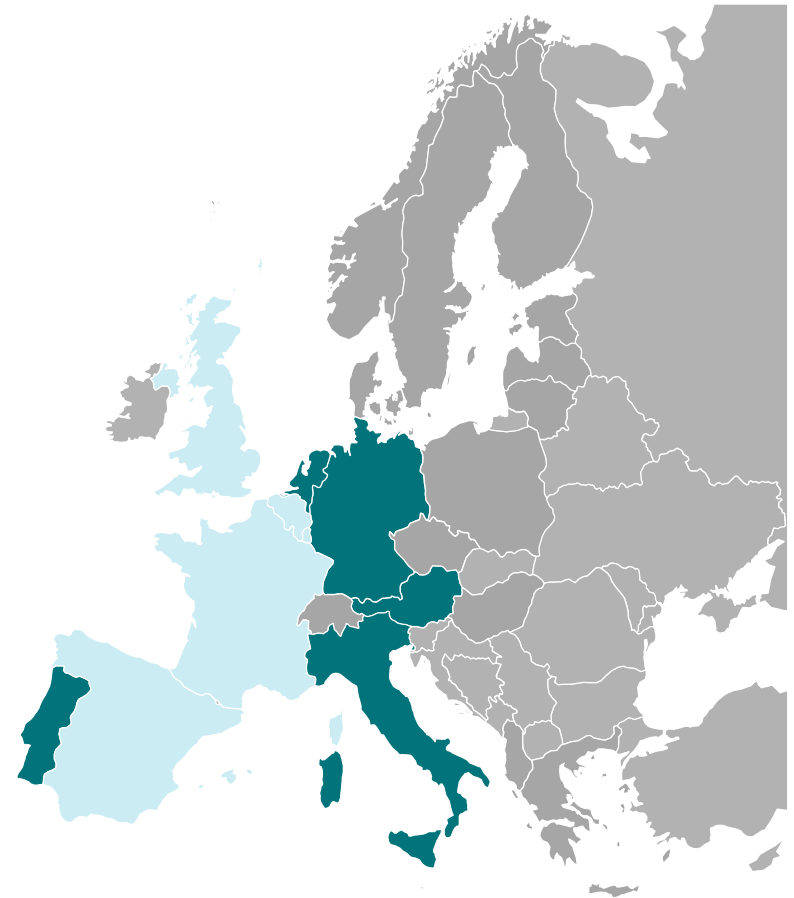
# Bedford's portfolio provides higher value growth potential

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# Strengthening our operations in Europe and building capacity for future growth

- ▶ Accessing new markets - through 23 product approvals and successful new product acquisition
- ▶ Launched 17 products in the EU in H1 2016
- ▶ Capacity expansion in Portugal will enable us to participate in more tenders across Europe and to access new markets
- ▶ Over 300 products pending approval across all markets including Spain, France and the UK
- ▶ 4 Bedford products identified for European markets

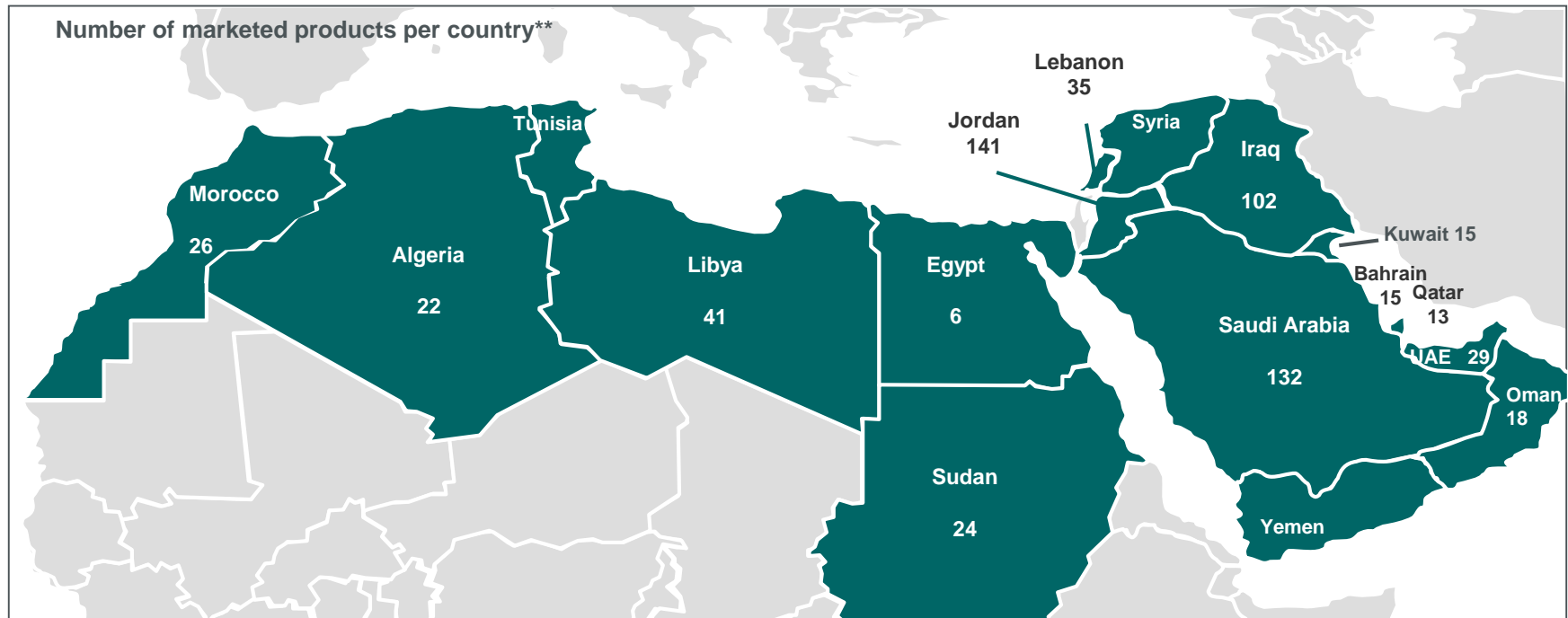


■ Hikma direct presence

■ New market opportunities

# Continued focus on building our injectables platform in MENA

- ▶ MENA injectables market size: approx. \$3.1 bn\*
- ▶ 190 dedicated sales and marketing reps
- ▶ Over 100 products\*\* on the market with 195 products\*\* pending approval across the region
- ▶ Launched 9 new products\*\* across all markets
- ▶ Began roll out of new products in Egypt – launched three products in H1 2016
- ▶ Increased focus on adding partnerships and licensing agreements
- ▶ Significant potential for future growth through new product launches



\* Hikma internal estimates

\*\* Total number of products including different dosage forms and strengths

# Generics



# Significantly enhancing our presence in non-injectables in the US

## Attractive market fundamentals

- ✓ Expected CAGR of around 6% between 2014 and 2019\*
- ✓ Rise in incidence of chronic diseases
- ✓ Aging population
- ✓ Patent cliffs
- ✓ Increase in demand for more affordable innovative medicines by both doctors and patients

## Larger scale and stronger presence

- ✓ Seventh largest generics player in the US
- ✓ Large portfolio of over 100 products on the market
- ✓ Strong sales and marketing capabilities – team of 11 dedicated employees
- ✓ Potential for stronger relationships with distributors and suppliers

## Advanced R&D capabilities

- ✓ Advanced laboratories with high containment development capabilities
- ✓ Highly experienced team focused on the development of more differentiated products
- ✓ Over 140\*\* pipeline products of which 65\*\* have been successfully filed

## State-of-the-art facilities

- ✓ Complex formulation and alternative dosage forms capabilities
- ✓ Strong compliance track record
- ✓ Approved by multiple global regulators

# Successfully progressing with the integration of West-Ward Columbus

## H1 2016

### Finance

- Function integrated
- Evaluated synergy opportunities

### Supply chain

- Sub-functions integrated
- Signed lease for new warehouse
- Identified opportunities for direct and indirect cost savings

### S&M

- West-Ward Columbus and legacy business teams combined

### IT

- Completed first design phase of SAP

### HR

- Function integrated including harmonisation of processes and policies

## H2 2016

### Finance

- Continue to evaluate synergy opportunities

### Supply chain

- Begin building out warehouse
- Continue to evaluate improved terms and savings

### S&M

- Continue to review contract terms and evaluate favourable opportunities

### IT

- Begin testing of SAP system

# Driving strong growth from West-Ward Columbus' differentiated pipeline

## West-Ward Columbus revenue guidance and drivers of future growth

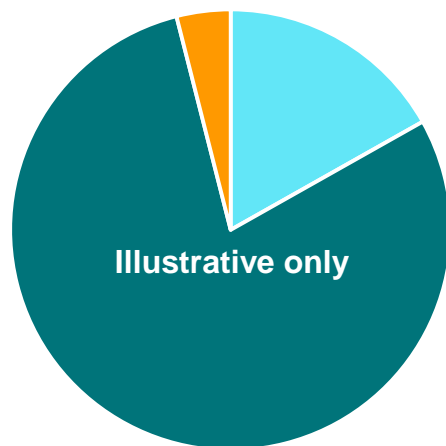
**2016\***

Revenue below \$650 million on a pro forma basis

**2017\*\***

Revenue between \$700 million and \$750 million

**2018 and beyond**



■ CM ■ Base business ■ New launches

Portfolio optimisation maximises potential of marketed portfolio

Launch of new higher-margin products improves product mix

Launch of generic Advair, assuming approval after May 2017 GDUFA date

Normal industry price erosion on marketed portfolio

Decreasing proportion of low margin contract manufacturing

High potential pipeline includes products such as Sodium Oxybate, Iloperidone and Everolimus

Strong PIV litigation pipeline with 10 and 15 active litigation

Successful settlement of certain PIV litigation de-risks launch dates

Maintaining high level investment in R&D to support new product development

Decreasing proportion of low margin contract manufacturing

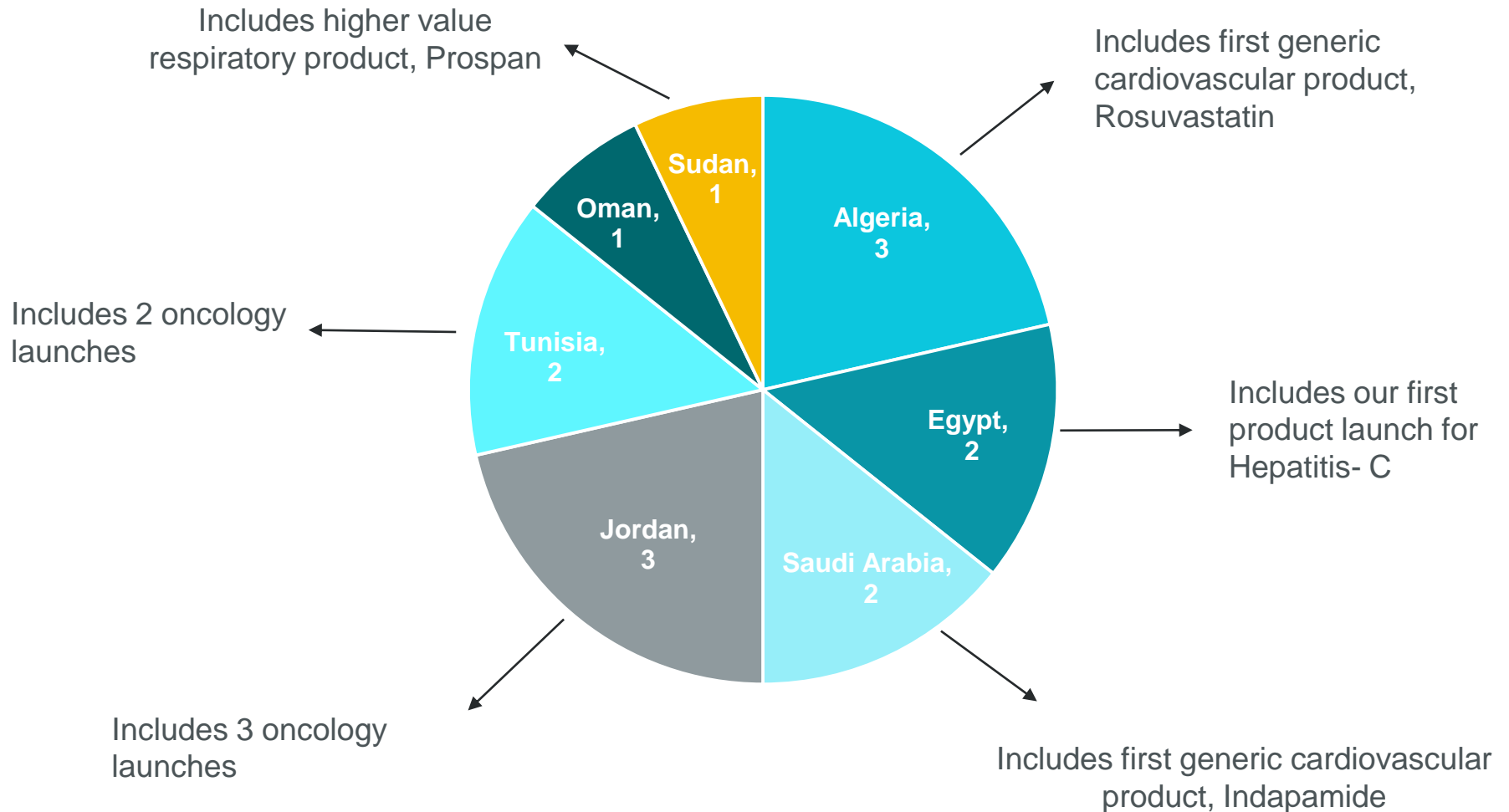


# Branded



# Continued focus on higher value product launches

Product launches per market (Number of products)



# Improving productivity and enhancing efficiencies across the region



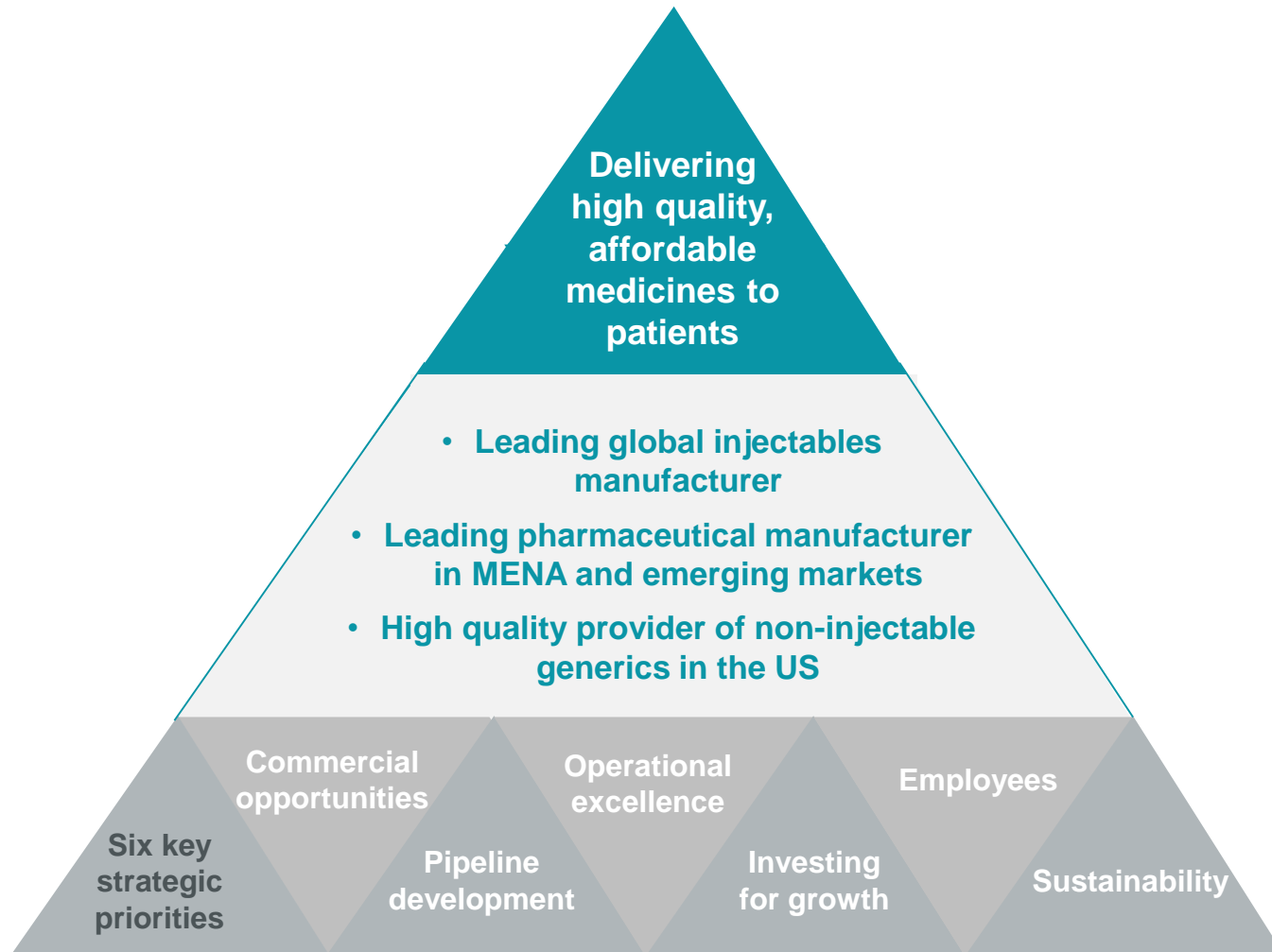
- Sales and distribution
- ▲ Manufacturing plants

# Summary



# Building a leading global provider of generic pharmaceuticals

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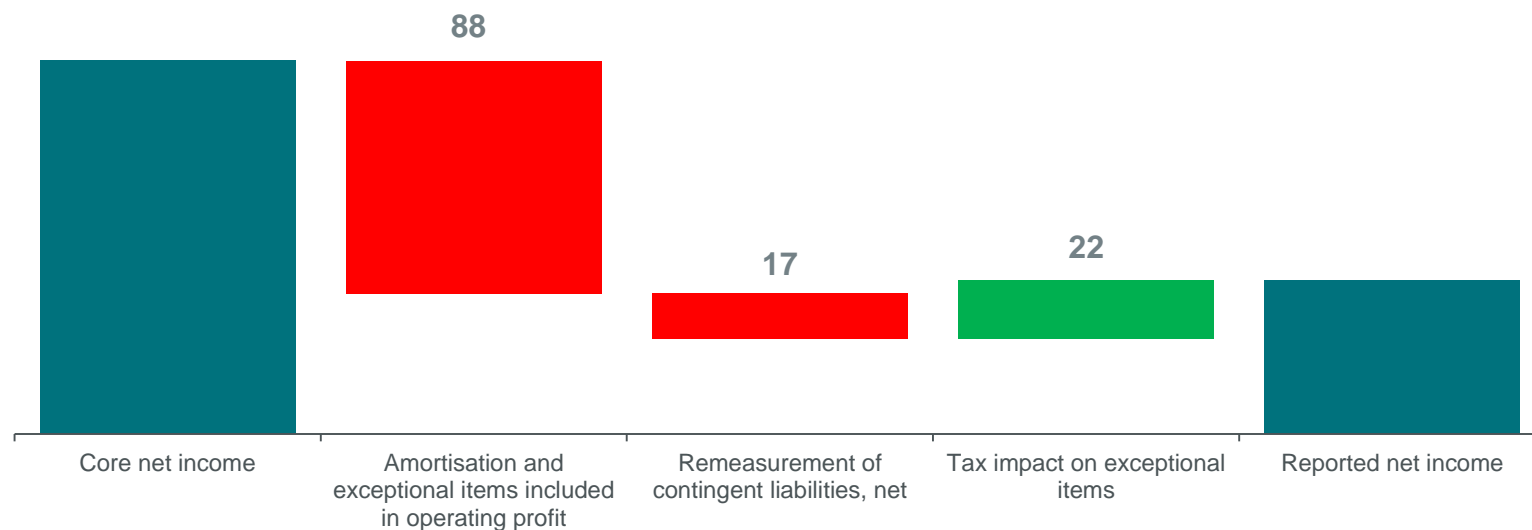
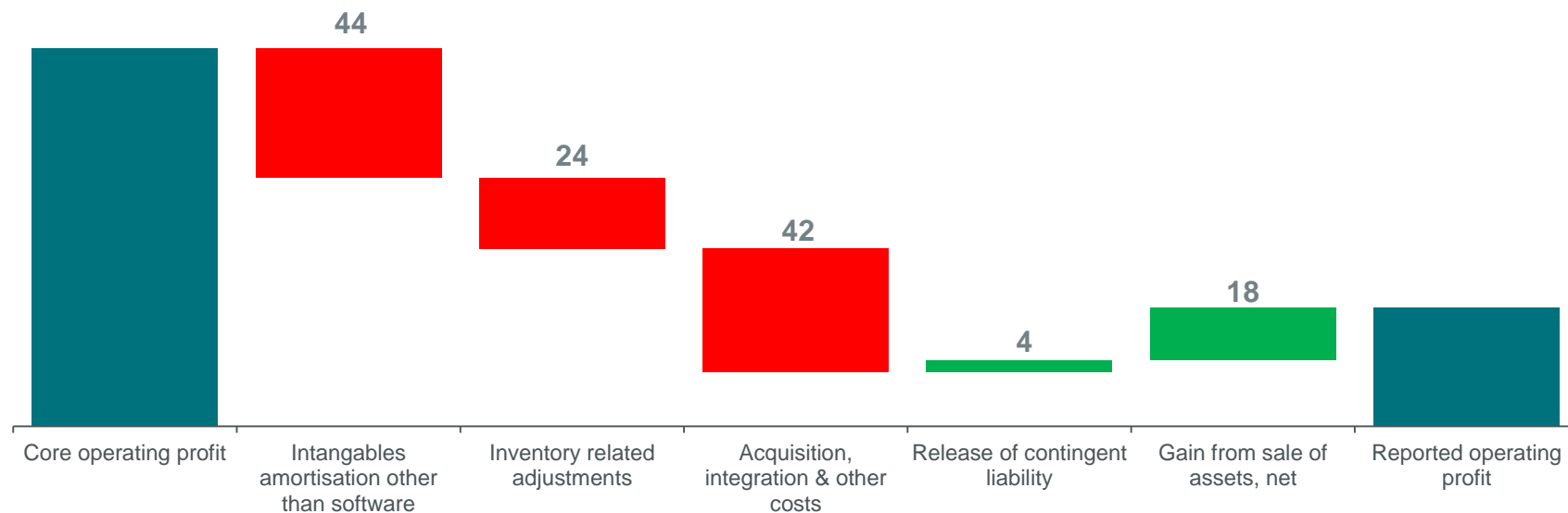


# Appendix



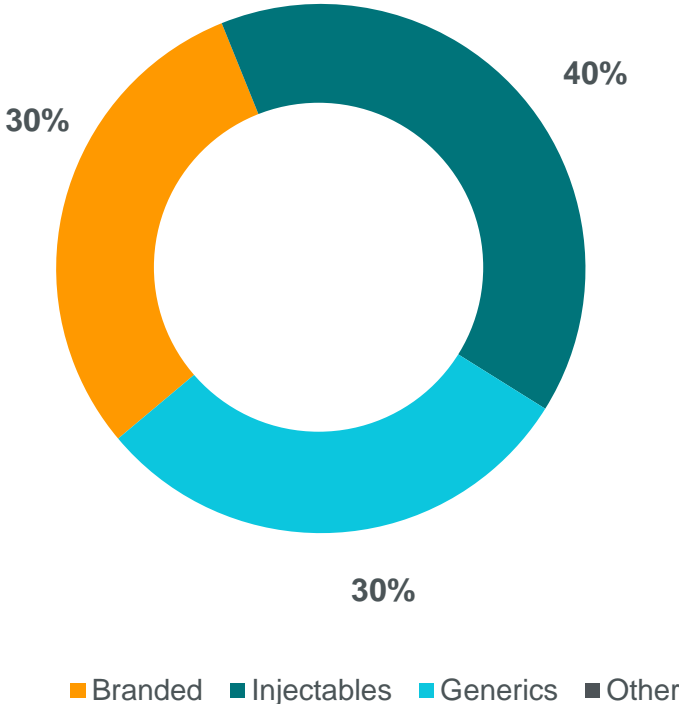
# Bridge between core and reported operating profit and net income in 2016

\*\*\* These figures are based on estimates and are subject to change \*\*\*

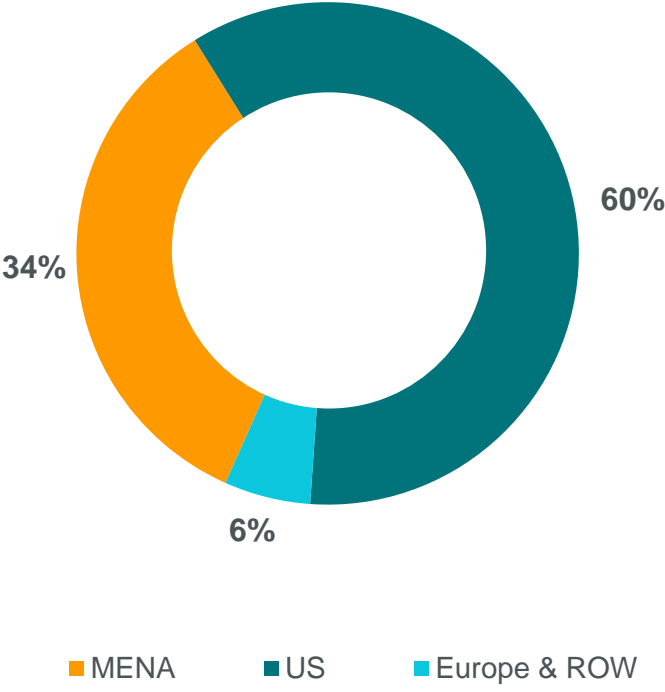


# Revenue by segment and region

H1 2016 revenue by segment



H1 2016 revenue by region





# Consolidated P&L

## Solid Group performance in 2016

\$ million	H1 2016	H1 2015	Change	Constant currency change
<b>Revenue</b>	<b>882</b>	709	<b>+24%</b>	<b>+28%</b>
<b>Gross profit</b>	<b>425</b>	400	<b>+6%</b>	<b>+12%</b>
<i>Gross margin</i>	48.2%	56.4%	<b>-8.2pp</b>	<b>-7.1pp</b>
<b>Operating profit</b>	<b>121</b>	194	<b>-38%</b>	<b>-27%</b>
<b>Core operating profit<sup>1</sup></b>	<b>176</b>	204	<b>-14%</b>	<b>-3%</b>
<i>Core operating margin</i>	20.0%	28.8%	<b>-8.8pp</b>	<b>-7.0pp</b>
<b>EBITDA<sup>2</sup></b>	<b>194</b>	227	<b>-15%</b>	<b>-5%</b>
<b>Profit attributable to shareholders</b>	<b>58</b>	134	<b>-57%</b>	<b>-43%</b>
<b>Core profit attributable to shareholders<sup>1</sup></b>	<b>109</b>	142	<b>-23%</b>	<b>-11%</b>
Basic EPS (cents)	<b>25.7</b>	67.3	<b>-41.6</b>	<b>-33.2</b>
Core basic EPS (cents)	<b>48.2</b>	71.4	<b>-23.2</b>	<b>-15.2</b>
Dividend per share (cents)	<b>[11.0]</b>	11.0	--	
<i>Effective tax rate</i>	<b>28.9%</b>	20.6%	<b>+8.3pp</b>	<b>+3.7pp</b>

<sup>1</sup> Before the amortisation of intangible assets other than software and exceptional items

<sup>2</sup> Before interest, tax, depreciation and amortisation. EBITDA is stated before impairment charges and share of results from associated companies

# Cash flow statement

\$ million	H1 2016	H1 2015
Profit before tax and minority interest	83	170
Adjustments for non-cash items	46	43
Change in working capital	(38)	(72)
Income tax paid	(30)	(38)
Other	38	22
<b>Net cash generated from operating activities</b>	<b>99</b>	<b>125</b>
Investment in property, plant and equipment	(55)	(37)
Purchase of intangible assets	(42)	(16)
Investments measured at fair value	-	(20)
Acquisition of business undertakings net of cash acquired	(597)	-
Proceeds from disposal of intangible assets	23	-
Interest received	1	1
Other	(11)	2
<b>Net cash used in investing activities</b>	<b>(681)</b>	<b>(70)</b>
Change in debt	357	218
Dividends paid	(51)	(44)
Interest paid	(30)	(18)
Payment for product co-development agreement	3	-
Other	1	3
<b>Net cash generated by financing activities</b>	<b>280</b>	<b>159</b>

# Balance sheet

\$ million	Jun-16	Dec-15	Growth \$	Growth %
Cash	253	593	(340)	-57%
Trade and other receivables	671	488	183	38%
Other current assets	147	28	119	425%
Inventories	496	251	245	98%
<b>Total current assets</b>	<b>1,567</b>	<b>1,360</b>	<b>207</b>	<b>15%</b>
Intangible assets	1,759	607	1,152	190%
Tangible fixed assets	982	507	475	94%
Investment in associated companies and joint ventures	7	7	-	0%
Other long-term assets	188	116	72	62%
<b>Total long-term assets</b>	<b>2,936</b>	<b>1,237</b>	<b>1,699</b>	<b>137%</b>
<b>Total assets</b>	<b>4,503</b>	<b>2,597</b>	<b>1,906</b>	<b>73%</b>
Financial debts and capital lease obligations	159	116	43	37%
Trade accounts payable	322	276	46	17%
Other current liabilities	385	200	185	93%
<b>Total current liabilities</b>	<b>866</b>	<b>592</b>	<b>274</b>	<b>46%</b>
Long-term financial debts and capital lease obligations	913	612	301	49%
Other long-term liabilities	324	41	283	690%
<b>Total long-term liabilities</b>	<b>1,237</b>	<b>653</b>	<b>584</b>	<b>89%</b>
<b>Total liabilities</b>	<b>2,103</b>	<b>1,245</b>	<b>858</b>	<b>69%</b>
Minority interest	15	15	-	0%
Total shareholder's equity	2,385	1,337	1,048	78%
<b>Total liabilities and equity</b>	<b>4,503</b>	<b>2,597</b>	<b>1,906</b>	<b>73%</b>

## Exchange rate movements impacting 2016 revenue and profit

Currency	2016	2015	Change%
	Average	Average	
USD/Algerian Dinar	108.0838	95.736	(11)%
USD/Egyptian Pound	8.4602	7.5700	(11)%
USD/Moroccan Dirham	9.786	9.391	(4)%
USD/Tunisian Dinar	2.053	1.938	(6)%
USD/Sudanese Pound	11.2740	6.3171	(44)%