

# **Dermapharm Holding SE**

16th November, 2022 | 14:00 CET

Q3 2022 Results

Transcript

## **Speakers:**

Britta Hamberger

Dr Andreas Eberhorn

Christof Dreibholz

Karin Samusch

Britta Hamberger

Ladies and gentlemen, a warm welcome from my side to our webcast on Dermapharm's nine months result. Thank you for joining us this afternoon. Please let me introduce today's speakers, starting with our Chief Marketing Officer, Dr Andreas Eberhorn, followed by our CFO, Christof Dreibholz, and Karin Samusch, our Chief Business Development Officer. They will guide you through the presentation and afterwards, there will be time for Q&A. Now I have the pleasure to hand it over to Andreas. Please go ahead.

Dr Andreas Eberhorn

Thanks a lot, Britta, and welcome from my side. I will give you a deeper look into three parts today. First, shed light on the drivers of our ongoing growth of the branded pharmaceuticals. Then second, how we move on with our cannabis business, to strengthen the segment of herbal extracts. And then, on the third piece, the status quo of how we prepare the integration of Arkopharma, in order to maximise the execution of our growth strategy.

Let me start with the first part and have a look into the growth driver of the branded pharmaceutical business. Important for me, the key message is really we are growing where we focus on. As you know, we decided some time ago to streamline the amount of products we detail with physicians and pharmacists and focus on the biggest products with the biggest growth potential and, for sure, also products with high margin. And exactly, this pays off and we are growing in all these brands above our comparable market, in prescription driven pharmaceuticals and OTC or in food supplements. If you look at the market, we achieved in the total pharmaceutical markets the number nine position in the German market. Which is, given the size and the big pharma, which is in there as well, quite a nice result.

Let me give you a few examples of these three parts. If you look in the prescription driven pharmaceutical business, one of our stars I would say is Myditin<sup>®</sup>, which is in the segment of pain. This year we reached market leadership position in September and outgrowing the market five times, which is a really great result. If I look on the other hand, for example at one of our launches from last year, Calcipotriol gel, we reached within less than one year number two market position and about 30% of market share, so this is a really great success in short time and shows us our ability to win in generic niche markets. As well, as one of the examples is Dekristol<sup>®</sup>. This is, as many of you know, one of our core brands. The situation here is a little bit different because so far, we are the market, it's us and parallel traders. But there are new entrants coming, already approaching this market, but we will still be able to defend our position. We hold above 80% market share, which is quite above the expectation, so also here there's a great success, how we sustain leadership and high market share to very competitive

markets.

If I look a little bit on this OTC page, as well as Dekristol, we have a big portfolio of Dekristol in OTC. This is continuing with excellent growth month by month and we are holding here a strong number two market position, growing as well far above market. Keltican<sup>®</sup> and Tromcardin<sup>®</sup>, one of our brands from the Trommsdorff acquisition. Both have very strong number one positions, around 50% market share, and still we are growing above market and defend this position against any competition to come. In my eyes, really great success.

Even if you look at the food supplements piece. As you might know, Silicea is one of our key products here. This one is really nicely growing in Germany, but as well growing even more in markets outside Germany, for example Sweden and specifically in China. Also, here the China-Oel reboots after COVID, so this is really liked by tourists and specifically in China, and here sales are growing, so also this has quite a nice track record.

If you look overall, this has just a few examples, and we know competition is growing in all these markets we're in. You know as well price pressure is there from various authorities, but we have quite a positive outlook of the performance we have right now. Our focus brands still have a lot of room to grow, so we are not grown to the maximum which is possible. We have to set up to further maximise the growth path. We have market opportunities, as well, in the field allergology and we have some, I would call hidden gems, in our portfolio with big potential to grow further, like the vaccination against urinary tract infections. On top, we have quite a nice development pipeline, which allows us to have launches in 2023 and onwards, which further boosts this field of branded pharmaceuticals.

Let me then move to the second part, the cannabis business. With the acquisition we made, we are playing in this field of medical prescription-driven cannabis. What we did after integrating is, as we always do, we're creating synergies with existing setups we have. We're improving commercial and operational excellence and ensure that we have a profitable top and bottom line growth. This work is now finalised. The field force runs in improved territories, as well as new targeting of customers we implemented and focus and go-to-market is clear. I still also need to say that this environment is at the moment a quite challenging one. Drivers for prescription are lowest price and ease of use, so the question for sure is for us how to win in this field and further accelerate. On the one hand, we own price leadership, so we have a clear position here. And we will launch further improved, easy to use solutions for the medical cannabis in the beginning of 2023, which will help us to grow further. Most important, this is just the beginning because, as you know, we

have quite a strong in-house R&D capability with fast go-to-market, and we will drive life cycle on, on the one hand, of existing products and launch further products in this field. There's a lot more to come and growth to be seen for next year and onwards.

Maybe on the third part, on the integration of Arkopharma. This is not a new topic for you, I expect, so many of you already know. Arkopharma is a leading company in the natural supplement business. They hold number one position in France, number two position in Spain, but as well have meaningful presence mainly in Western and South Europe, like Portugal and Italy. With this acquisition, it will boost for sure our footprint in the food supplement business and also help us to step up regarding our geographic expansion and strengthening footprints in countries outside Germany. The clear ambition for us for the integration is that we really hit the ground running when the deal is closed.

At the moment, in terms of what's possible, preparation goes into three core fields. The one is that we create and leverage ad hoc synergies we see from the local footprint in the setup. To give you just an example, we will launch these hypothermia products in France and Spain, where we leverage the existing structure of Arkopharma with a strong presence in the field and go-to-market in both countries.

The second piece is that we're working on defining the portfolio and go-to-market strategies between existing portfolios both sides have, in specific therapeutic areas and selected markets. Also here, an example for you. We will enter the German market with the hair and nails/beauty part of the portfolio for Arkopharma, as well as the sleep and anti-stress portfolio, which we see here clearly an opportunity to achieve short-term growth opportunities.

The last piece is that we see jointly there is some geographic footprint and growth opportunities we want to boost. For example, Italy, where we both have room to grow and still a lot of untapped potential, this we want to leverage together, but this accounts if you look from Dermapharm perspective in France and for Arkopharma perspective in Germany, obviously. Just a few examples of what we're doing and preparing the best possible setup and execute with speed once the deal has been closed.

If I sum it up, I'm really, really confident that we can continue our growth journey in 2023 and onwards. On the one hand, building on the growth opportunities as just mentioned within the existing portfolios and the launches to come. Secondly, maximising the acquisition of Arkopharma, which will, for sure, improve our footprint in this natural food supplement part. And, as said,

boosting our geographic footprint and internationalisations, and the synergies we will create from that. Thank you from my side and over then to Christof Dreibholz, our CFO.

Christof Dreibholz

Thank you, Andreas. My name is Christof Dreibholz. I am Dermapharm's new CFO. I've joined the business beginning of November. I've worked with Dermapharm for years. I am a former Deloitte partner and have supported the business for the last eight or nine years in connection with the acquisitions and done financial due diligence projects. How does what Andreas told you before translate into the profitability of the group? Next slide, please.

We've grown our total group revenues compared to the comparable period in 2021, nearly double-digit to EUR 734 million and all of our three segments contributed to this growth. There were obviously also revenue contributions coming from our vaccine production with BioNTech, but also our new acquisition, Cernelle and C3 Group contributed to growth, and the parallel import business traded nicely. EBITDA increased as well, under-proportionately compared to revenue growth, to EUR 239 million adjusted. That was driven also by product mix, as the favourable revenue trend in herbal extracts and parallel imports with lower average margins could not be completely compensated by our core business. Hence, the margin slightly decreased by 1.4 percentage points to 32.6%.

If we look at the individual segments, first of all the branded pharmaceuticals. With a revenue increase of roughly 8% to EUR 474 million, with strong contributions from our vitamins and minerals and also the Trommsdorff portfolio traded nicely with its core products, Keltican® and Tromcardin®. As I already mentioned before, there was obviously also again favourable contribution from the vaccine production.

The EBITDA adjusted in the branded pharmaceuticals segment increased by 4.2% to EUR 224 million. It was slightly negatively impacted by businesses with a lower performance, especially Fitvia. We also have to consider that 2021 had a favourable impact from a revaluation at Allergopharma. Our herbal extracts business increased its revenue compared to 2021 to EUR 74 million. That was driven by the exiting Euromed business, which had a favourable impact especially in the US, but also the integration of the newly acquired businesses, Cernelle and C3. EBITDA margin was also favourably impacted from the first-time consolidation of these businesses. The FYTA was deconsolidated last year, so had no impact in this adjusted view.

The parallel import business trended nicely with an increase of roughly 6% to EUR 185 million, also both an absolute and a relative margin increase to EUR 4 million and 2.2%. We see

especially in the margin development favourable impact from the new building, with process optimisations both resulting in lower OpEx and also streamlining in personnel expenses. That translates to earnings before tax of EUR 160 million, which is year-on-year roughly 17% lower, driven by higher depreciation charges, especially in connection with goodwill amortisation of Fitvia, contributing approximately EUR 25 million to that lower EBIT contribution. Financial result was approximately at prior-year level.

Cash flow. Cash conversion increased nice to 68% of our group EBITDA. We see slower increase in working capital, which contributed to the operational cash flow increase. Cash flow from investing activities is approximately at prior-year level, both in terms of cash out for M&A activity, as well as ongoing replacement investments or R&D related investments, translating to a free cash flow of approximately EUR 74 million.

Our balance sheet is then on the next slide. Total assets increased only minor, I would say, same is the case for our non-current assets. We see an increase in our current assets, that is however, in line with our increased revenue. The slight increase of working capital related items included in this bracket is driven in line with our revenue increase. Equity is slightly higher at EUR 505 million and our current and non-current liabilities increased to in total approximately EUR 900 million. That again is driven by higher tax liabilities, income tax liabilities, in connection with the increased profit. Thank you.

Britta Hamberger

Thank you very much. I guess we can now kick it off for Q&A.

Operator

Thank you. Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may press star and then one on their tough-tone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you're using speaker equipment today, please lift the handset before making these selections. Anyone who has a question please press star followed by one at this time. We will pause to see if we do have questions. The first question comes from Marietta Miemietz from Pareto. Please proceed with your question, Marietta.

Marietta Miemietz

Good afternoon. Thank you very much for taking my questions. I really only have two. The first question is on the COVID contract for 2023. I was just wondering if you could give us a bit of an update. I think the negotiations with BioNTech were supposed to start from late fall onwards. When do you think you might be able to let us know the outcome? When do you expect to hear from the European tender for spare capacity and how much sales volume from the existing contract to you expect to book in 2023?

My second question is just a very brief update on the German

energy situation. I do appreciate it is a minor part of your cost base and you are well prepared and well shielded, but could you please flag any bottlenecks that could theoretically arise in 2023 due to any gas shortages overall in Germany? Thank you.

Karin Samusch

Hello, Marietta, this is Karin Samusch speaking. I will take the question regarding the vaccine production and negotiations. What we can say right now is that the negotiations with BioNTech are still ongoing. We expect to have a result by end of the year. What we can already say is that we expect there still to be some revenues, but on a significantly lower level, as already the market is expecting it. As you also mentioned, there are currently ongoing tenders regarding the pandemic preparedness.

On the one hand's side, BioNTech has already won the German tender and here Dermapharm is also involved in terms of the fill and finish. On the other hand's side, there's another tender ongoing on European Union level and here we also are applying, together with another company. But as mentioned before, this tender is still ongoing, so without any result yet. Regarding the other question, I would like to hand over to Christof.

Christof Dreibholz

Thank you, Karin. As you know, our plant in Brehna is part of the German critical infrastructure. Therefore, we do not expect that there will be any gas shortages applying to this plant. Hence, we currently feel in a comfortable position in this case, that we are not negatively impacted by any gas shortages.

Marietta Miemietz

Thank you.

Christof Dreibholz

May I just apologise, my colleagues made me aware that I forgot to touch upon slide ten, with our outlook for 2022. Just to make it short, we confirm the outlook that we have given before on revenues, with a growth between 10 and 13% and an EBITDA adjusted growth of 3 to 7% for the full year. Apologies for missing that earlier.

Operator

Thank you. Ladies and gentlemen, just another reminder, if you'd like to ask a question, please press star followed by one on your telephone. We will pause to see if there are any further questions. The next question comes from Miro Zuzak from JMS Invest. Please proceed with your question, Miro.

Miro Zuzak

Hello, can you hear me?

Karin Samusch

Yes.

Miro Zuzak

One question. You're sticking with your guidance. From today's perspective, do you expect to end up rather on the upper end of the guidance or the lower end? I will take them one by one.

Christof Dreibholz

We'll be in the guidance, but I can't tell whether we're at the upper or lower end.



M&A might be put on hold going forward this year, the balance sheet capabilities, because I imagine there is quite a lot to do to leverage across synergies. The last question to Arkopharma, can you provide us an update how that you keep performing like Q3 expectation? Thank you. I'll keep the rest of the questions for next week.

Karin Samusch This is Karin speaking. Unfortunately we really didn't get your questions loud and clear. The first question was regarding axicorp and you are asking why axicorp performed better now in Q3, is that right?

Sebastien Lemonnier Why the parallel business is getting better, is it axicorp or are there a specific reason behind it and it seems like it accelerated by Q4? So, that's why I'm interested in it.

Dr Andreas Eberhorn Maybe, Andreas here, I can answer. It depends for sure on demand we have on improved product mix at the moment, which helps us. There are different margins across the products, which will be parallel imported and obviously there's demand in the market. While we expect that this should continue in Q4. But Q4 is not yet over and, as said, December is always a great month, but generally, parallel import business is on a good track. If this somehow helps you, but December we cannot clearly tell, but it should not be less.

Karin Samusch On the other hand's side, if I may add this, we also see now the positive effect from moving to the new facility in terms of dealing with all this product in- and outflow in a more efficient way.

Sebastien Lemonnier The second question, I don't know if you got it, was acquisition. Given that the focus will probably be in the coming months on the Arkopharma integration, will that mean that you will put additional M&A on hold or are you still up to acquire some additional businesses?

Karin Samusch At the moment I have to confirm that we put all our focus on the integration, on a very successful integration of the Arkopharma business. Because this is really one of the important and most extensive acquisitions in the history of Dermapharm. We already put now, with the permission of Montagu, the current owner, a lot of attention also in terms of discussions through calls with the management and starting with the integration process already right now. Also, the closing is only expected for January 2023. In terms of additional M&A, I really have to say that you can also imagine that our leverage will come to a level for a certain period, which we don't want to increase anymore. First we have to work on reducing the net debt again, and again, the integration is in our focus. I would say that until middle or end of next year, no additional M&A is intended to be made.

Sebastien Lemonnier Great. And are you allowed and can you share that/the

performance of Arkopharma more recently? Is it going according to plan, diligence up and down?

Dr Andreas Eberhorn      Andreas again here. Arkopharma at the moment is on plan, delivering their results plus minus a few single digits, but eventually even over-exceed their plan for 2022. Also here, still one and a half months to go.

Sebastien Lemonnier      Okay, thank you. See you next week.

Karin Samusch              Okay, we're looking forward to seeing you.

Operator                      Thank you. The next question comes from Catharina Claes from Berenberg. Please proceed with your question, Catharina.

Catharina Claes              Hi. Thank you, everyone, for taking my questions. I just have a few. First of all, can you comment on what was organic growth in Q3 or what kind of ballpark was it? Then the vaccine in Q3, was that roughly a similar impact as in Q2 or has that actually picked up? Then lastly, on current trading, what can you say so far on Q4? A few more descriptive words maybe, I know that you have that in your results already as well. Thank you.

Christof Dreibholz            Thank you for your question. The organic growth, we looked at that and our aim is between 3 and 5% and we were at the upper end of this range. Your second question was the vaccine contribution in Q3 versus Q2, I can't comment on that.

Karin Samusch              We regularly don't comment on the single vaccine production for each and every quarter. You already are aware that we had a rather poor first half-year regarding the vaccine production compared to prior year because there we had a very strong Q1 and Q2. However, we have a contract in place with BioNTech and we expect that we will fulfil this contract, so we offer the capacity for the production of the vaccine and BioNTech also agreed to make use of this available capacity. Therefore, we are pretty sure that we are on the safe side. With our H1 call, we already disclosed that we will maybe expand the contract on five quarters, so that we can see revenues in the first quarter of 2023. But this is a moving target, so we are currently in discussion with BioNTech and we will see how things will work out for this year.

Christof Dreibholz            The numbers for October, which we have seen went well and we are on budget in October.

Catharina Claes              Great, thank you very much. And also see you next week.

Christof Dreibholz            Thank you.

Operator                      Thank you. The next question comes from Alexander Thiel from Jefferies. Please proceed with your question, Alexander.

Alexander Thiel              Good afternoon. I hope you can hear me. To be fair, on my side the line is very bad, so pardon me if I repeat some of the

questions from the others. Following up on the previous comment that you just made during the H1 call, basically saying that part of the core vaccine business might go into Q1 23. Obviously you don't have the visibility right now, but would that put pressure on the lower end of your guidance, if that happens, basically if you push revenue into Q1? Or is the rest of the business sufficient enough to reach the lower end? That's my first one and I would like to take them one by one. Thank you.

Christof Dreibholz

We will reach our lower end, even if there is a shift to Q1 2023.

Alexander Thiel

Okay, very clear. My second one is basically in the cannabis legalisation that we have seen in Germany. Have you already calculated some kind of impact for your C3 business?

Dr Andreas Eberhorn

Andreas here, I may answer. Yes, there are attempts to legalise, but I would say these are at the moment really attempts. We have a paper from the government, which was in their contract when they started working after the election to legalise cannabis in Germany, but there's a UN agreement and this cannabis legalisation is part of it, which would prevent Germany from having it legalised. Obviously there's a political dimension to be discussed. If this would be legalised, it would not directly influence our medical cannabis business because this is purely prescription driven, rather severe status of patients, like in end stages of oncology and other parts. But it would open up, for sure, a new market, where we are starting to explore our opportunities, but this, as I said, is in the very beginning and the political framework is far away from being clear in any direction.

Alexander Thiel

Maybe following up, when do you expect that this will be clear? Already attaching my second-last question, we have seen some regulatory changes with the so-called "Hilfntaxe" in Germany, also your CEO was quite vocal about it. Is there any negative impact in 2023 and, if so, have you already calculated some kind of the impact? Lastly, remind me again, do you have the approval to actually produce BioNTech vaccine for China, for example, given the rumors of lawsuits. Thank you.

Britta Hamberger

Hi, Alex, this is Britta speaking. It was quite difficult to understand your first question. The second question was on the vaccine and how we can proceed with the vaccine production and if we will be able to export it to China, I guess. I can answer the last question. Regarding the vaccine production, we are manufacturer for BioNTech and they decide where we have to ship, if we do the fill and finish, the produced vaccines. However, it's absolutely in the decision of BioNTech and we cannot decide and I cannot quantify how much we will ship to each and every destination.

Alexander Thiel

Okay, that's clear. My first question was on the health, the kind of saving measure that was implemented by the government.

Britta Hamberger	Sorry, Alex, could you please repeat?
Alexander Thiel	It's called "Hilfstaxe".
Karin Samusch	We do not know what...
Britta Hamberger	Can you explain another word?
Alexander Thiel	Then it's obviously not affecting you guys. Thank you very much and see you next week. Thank you.
Christof Dreibholz	Thank you.
Operator	Thank you. There are no further questions at this time. I would like to hand back to Britta Hamberger for closing remarks. Thank you, ma'am.
Britta Hamberger	Thank you for joining our call this afternoon. In case there are any questions left open, please feel free to give me a call after the webcast. And I hope to see a lot of you next week at our Capital Markets Day on 22 November in Brehna at our main production site. Thank you very much. Bye-bye.
Karin Samusch	Thanks a lot, bye.
Dr Andreas Eberhorn	Thank you, bye.
Operator	Thank you, ladies and gentlemen. The conference is now concluded and you may disconnect your telephone. Thank you for joining and have a pleasant day. Goodbye.