

**Dermapharm Holding SE**  
2023 Full Year Results Call  
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**Transcript**

**Speakers:**

Christof Dreibholz

Britta Hamberger



Christof Dreibholz

Thank you, Britta. Good afternoon also from me. My name is Christof Dreibholz, I'm the CFO of Dermapharm Group, and will guide you through the 23 results of our group. Can you start the slide presentation, please, Britta?

Britta Hamberger

Sure.

Christof Dreibholz

That's the overview, the agenda comparable to our other calls that you've listened to, over the past month. We will comment on the highlights, then go deeper into the financials for 23, and at the end, also show the outlook for the current year 24.

Our highlights in 23 were, especially in this challenging market environment, a successful growth in especially our branded pharmaceuticals segment, where we have shown strong organic growth at approximately 6% in 23.

We have launched new products and also saw special M&A, especially in this segment, also with the acquisition of a smaller target, but the acquisition of Montavit, which also was successful and has shown a positive result in 23.

With these drivers, we managed to partially compensate for the decline in the vaccine business that we had anticipated, but only partially compensated for that.

A step change was achieved in the other healthcare products segment, where we integrated Arkopharma from January onwards, and which raised initial synergies by driving the international organisation in Western and Southern Europe and thereby creating further growth.

And with Arkopharma, and we'll see that in more detail, we managed to compensate for the decline in the vaccine business, at least at revenue level. Going forward, we will further execute on our growth strategy, especially the levers that are international growth, or increase in our international business, and also through new products. Next slide, please.

These are the highlights in terms of numbers, where we compare our actual results to our guidance. And we overachieved our revenue target with 1.135 billion in revenues, and met our upper end of our target range for our adjusted EBITDA of 310.2 million.



The dividend proposal by Management and Supervisory Boards is 88 cents per share, thereby returning to a level that we had prior to the COVID period. Next slide, please.

Britta Hamberger

Online.

Christof Dreibholz

We've spoken about the vaccine business, and here we show the achievements that we had in 23, excluding the vaccine business.

So, if we normalise 22 and 23 for any impact from the vaccine business, we achieved in 23 an increase in our businesses, other than the vaccine business, of nearly 250 million EUR in revenues, at nearly 70 million EUR adjusted EBITDA, which represents an EBITDA margin of 28%.

And this 28% is approximately 1.1% higher than the comparable margin in the prior year, thereby showing the positive trend, despite all the difficulties that we faced in 23. Next slide, please.

And this continues, so this is a detail on Dermapharm Group, where we compare revenue, EBITDA, and the earnings after tax for the three businesses. You see the numbers I just mentioned, with a revenue increase of approximately 11% as a result of the Arkopharma integration, where we managed to overcompensate for the vaccine business decline.

And on the other hand, EBITDA declined by approximately 13%, 14%, to 310 million, and the margin declined, since although we compensated at revenue level, we were not able to compensate the exceptionally profitable vaccine business at EBITDA level.

And this translates to earnings after tax of 60.5 million, and we will bridge this difference between the 132 million in 22 to the 60 million on one of the next slides. Next slide, please.

On this slide, we've broken out two of our three growth levers, which are M&A-related growth, growth of the international business, and growth driven by our own products and development, and here we show our focus on the latter two.

We managed, over the last two years, to increase our international business, our revenues, by a CAGR of approximately 9% to 205 million, which represents a growth of 30 million in 23 alone.



And at the same time, our revenue from own developments, from own product developments, increased by 11.3% in the same period, the majority of that in 23.

Particularly successful were our subsidiaries in Poland, some in the Ukraine, particularly the Ukraine and Italy and Spain. And in terms of products, Myditin and various dosage forms of Dekristol and Dekristolvit, contributed to the revenue growth from own product developments. Next slide, please.

This is the profitability by segment. The overall profitability declined, as mentioned before, to 27.3%. If we adjust that for the vaccine business, it is actually an increase by plus 1.1%.

And again, notable to mention that the branded pharmaceutical segment still, despite the decline in the vaccine business, shows a very nice EBITDA margin of 45% in 23. And also, other healthcare products, with the acquisition and integration of Arkopharma, also notably increases by more than 4% to nearly 21%. Next slide, please.

This slide shows the earnings-after-tax bridge, I mentioned before, starting with 133 million in 22, and the largest column there is the decline from the phasing out of the vaccine production, which we've netted with the growth in the remaining business.

This alone reduces our earnings after tax by approximately a hundred million. Half of that was compensated by the contribution that we see from Arkopharma and Montavit, the majority of that generated obviously by Arkopharma.

In order to finance the Arkopharma acquisition, we have taken on a syndicated loan of a little bit more than a billion, and the resulting increase in the tax incentives, 43 million, reduced our earnings after tax. But we have agreed on an interest hedge, and the mark-to-market value of the interest hedges accounted for a negative expense of a little bit more than 30 million.

Positive impact came from reduced income taxes, due to especially the phasing out or the reduced income that we've seen from the vaccine production, which, compared to 22, less expenses of nearly 40 million, and depreciation more or less remained at the same level of 22. Next slide, please.



On this slide, we've broken out personnel expenses also for a long period, 21 to 23, average number of employees and average personnel cost per employee.

And during that period, our overall personnel expenses increased by nearly 26% CAGR, which is obviously attributable to the additional headcount that came with the acquisitions of Arkopharma and Montavit, as can be seen if you look at the CAGR number of the average number of employees, where 21% of the 26% are driven just by headcount increases.

And then, the average personnel cost increased at a CAGR of 4.4%, largely attributable to the inflationary increases that we've seen over the last two years. Next slide, please.

This slide shows a breakdown of our normalisation adjustment, which also at the total level remained more or less unchanged compared to 22, with roughly 30 million normalisation and net normalisation adjustment.

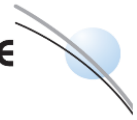
The largest part of that attributable to the Arkopharma acquisition, where we've adjusted for PPA effects of in total nearly 18 million, which represent the hidden reserves that we have released, relating to the inventories.

And the related expenses in the course of the years, in the course of 23, have been adjusted. The same is the case for the acquisition cost, nearly nine million, a large part of that also attributable to Arkopharma.

We have seen impairments, for CORAT, of seven million, which we've also adjusted, and a lower amount of two million in connection with further deconsolidation, especially of Fitvia, Bellavia, Mibe UK, CORAT, and Cernelle. A smaller amount also attributable to restructuring expenses in 23, mainly related to on our FX.

And the acquisition of Montavit led to the recognition of a badwill, which, in accordance with IFRS, was released income in 23, and we have correspondingly adjusted also this positive impact. So, the net adjustments are 30 million, and roughly compared to the 28.4 million in 22. Next slide, please.

This is the highlight that we also bridge on the following slides, of our cash flow and cash conversion. Our operational cash flow declined to 290 million, and the cash conversion also declined to approximately 71%, largely attributable to higher tax payments, not expenses, tax payments that we had in 23.



And if we look at the light blue columns, there is again the investments that we had in 23, mostly related to Arkopharma, so that the free cash flow turns negative if we consider the entire investments to roughly 200 million. And if you go to the next slide, please, we can also see the details.

We're coming from 190 million free cash flow in 22. We show a slightly lower reported EBITDA of 280 million, so a decline of approximately 50 million in the reported EBITDA.

Our working capital is a little lower, 40 million, which leads to a cash inflow in 23, and as mentioned before, we had slightly higher income tax payments in 23, or roughly 25 million. And the largest impact is from our investments, where we had, compared to 22, 320 million higher investments, and this is mainly related to our pharma investments.

The remaining columns are more or less unchanged, so investments in intangibles and tangible assets, more or less unchanged to 22, and others account for approximately two million. Next slide, please.

This slide gives an overview of our balance sheet, and again, most important impact in 23, as mentioned several times before, also on our balance sheet, is the Arkopharma acquisition, where we basically see an increase in our total, in our net asset and liabilities, to 2.2 billion.

And this is driven by an increase in non-current assets, where we record the Arkopharma goodwill of 307 million, and related product brands of approximately 170 million. This is financed through the syndicated loan of approximately a billion, which is shown in our current and non-current liabilities, and details are also on the coming slides. If you go to the next slide, please.

Here's a breakdown of our key KPIs of our working capital, where two important things to mention. The absolute amount of receivables and liabilities, or trade-related receivables and liabilities, are approximately the same.

However, our DSO of approximately 30 days is significantly shorter than our DPO of approximately 60 days, so we are in the very comfortable position that the cash inflow of our receivables is faster than the payout to our creditors.



In the end, those two basically net out, and we need to focus on our inventories and our DIO, which is at approximately a hundred days, slightly increased also with the acquisition of Arkopharma.

However, one very important point in our industry, as mentioned several times before, is that we are always able to deliver our products, or need to be able to deliver our products, to not open the doors for our competitors to enter in our relations with our clients. And therefore, we tend to increase and to have a higher stock, to be able to deliver our products on time and in full. Next slide, please.

This is the overview of our net debt, where we show 937 million net financial debt, the majority of that related to the syndicated loan, which then adds approximately 960 million at year end.

It is netted with cash of approximately 160 million, and the resulting leverage ratio, if we compare that to our adjusted EBITDA, is 3.0. Our equity ratio is still at a healthy 25%, and the absolute figure even increased compared to 22.

We are now coming to the outlook for 24. 23 was, as I mentioned before, driven by the decline in vaccine production, but also by the integration of especially Arkopharma. And this first-time consolidation and integration will not be something influencing 24. 24 will be more driven by continuing the integration and raising synergies that we have with Arkopharma, but also Montavit.

We will focus on our international business and continue our successful own development, thereby we see again a slight increase in our revenues, to a range between 1,170,000,000, and 1,210,000,000, and an adjusted EBITDA of between 305 and 350 million. And that's the end of my presentation, and I hand over to Britta.

Britta Hamberger

Yes, thank you. I would like to hand over to the Operator, to open the Q&A session.

Operator

Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. You will hear a tone to confirm that you have entered the queue.

If you wish to remove yourself from the question queue, you may press star, then two. Participants are requested to use only handsets while asking questions. Anyone who has a question may press star and one at this time. The first question's from Gerhard Orgonas, Berenberg. Please go



ahead.

Gerhard Orgonas

Yes, good afternoon, and thanks very much. I have a question. My first question is on the organic growth in branded pharmaceuticals, ex the COVID business.

Could you give us an idea how much that was, breaking down in 23, and what your expectation is for organic growth in 2024, in the branded pharmaceuticals business, again ex COVID?

Christof Dreibholz

Thank you, Gerhard. That's the 6%, approximately 6% I mentioned before, that's excluding that. This number was excluding the vaccine business. And we expect approximately to continue this growth at approximately the same level in 24.

Gerhard Orgonas

Okay. And then, I've seen that you took a 15 million impairment on the Bite Away product. Could you explain why that happened?

Christof Dreibholz

It's basically a comparison, as you know, of the acquisition cost compared to the planned performance, and that was, we had some adjustments to the plan, amendments, over the last years. And that obviously reduced the expectations for the business and led, in the end, to this adjustment.

Gerhard Orgonas

Okay, thank you.

Operator

The next question from Marietta Miemietz, Pareto. Please go ahead.

Marietta Miemietz

Yes, good afternoon. Thanks for taking my questions. I've got two, please. The first is on synergies and profitability growth in the mid to long term.

You laid out your expectations in quite a lot of detail at the Capital Markets Day, and I was just wondering, does everything you said there still stand? Do you maybe even see any scope to accelerate or increase the synergy targets in the longer term?

And the second question is on the dividend. You said this is a return to pre-pandemic dividend policy. Could you just remind us of the entire dividend policy? And in particular, should we read that as an expectation of progressive dividends going forward? Thank you.

Christof Dreibholz

Thank you, Marietta. In terms of synergies, there's nothing changed, what we said on our Capital Markets Day. We have, in 23, synergies in the middle one-digit-million range, and we expect approximately double this amount for 24.





And we've also, and this is why we included this in this presentation, we've also shown, I would say, our successful track record in our international business, and over the last years.

And this is also even now, even more supported by the Arkopharma acquisition. So, that's also especially 23, where we were quite successful in increasing our revenues from our own development, where we see a significant, or where we see proof for further growth of our revenue and also our results line, of course.

And in terms of dividend, yes, you are right, there is, we have a dividend policy, and it is something that we've followed over the last years. And that is, that we normally tend to distribute a number of between 50% and 60% of our earnings after tax.

We have deviated from this in 23, as we have seen, and we explained that, a lower earnings after tax. However, after now the more or less, the ending of the vaccine business, we want to at least distribute the figure that we distributed before COVID, where we showed notably lower EBITDA than we do now.

And if I may say that, this is also something which if you look at our share price currently, which is at approximately, let's say, €32, €33, at an EBITDA of 310 million, and if you then remember that the initial offering was at €28 with an EBITDA of 100 million, I think this also shows the significant undervaluation of our share price.

Marietta Miemietz

Thank you very much.

Christof Dreibholz

Thank you, Marietta.

Operator

As a reminder, if you wish to register for questions, please press star and one on your telephone. Star and one. Mr Dreibholz, at the moment there are no more questions.

Christof Dreibholz

Thank you, Vicky. Thank you for listening.

Britta Hamberger

Okay, 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.