

Dermapharm Holding SE
Investors' and Analysts' Conference Call
Q1 2024
15th May, 2024 | 14:00 CEST

Transcript

Speakers:

Christof Dreibholz

Dr Andreas Eberhorn

Britta Hamberger

Britta Hamberger

Ladies and gentlemen, welcome to Dermapharm's Q1 2024 webcast. Thank you for joining us this afternoon. Our speakers today are our CFO and Chief Compliance Officer, Christof Dreibholz and our Chief Marketing Officer, Andreas Eberhorn. Christof will guide you through the presentation and afterwards there will be time for Q&A. Christof, the floor is yours. Please, go ahead.

Christof Dreibholz

Thank you very much, Britta. Good afternoon, also from me. My name is Christof Dreibholz and I will start with the financial slides. I have been informed that there will be a slight delay when you the slides are moved forward. I see now slide number three. Yes. This is short and hopefully for the last time a summary of our development of key financial indicators, revenue and EBITDA, adjusted EBITDA, plus the relevant margin excluding the vaccine business.

The last time because we had in both quarters, especially in Q1 '23, the last significant revenues that were related to the vaccine business. Hence, this shows the trend without the corresponding results, i.e., we had a revenue increase across all three segments of €12.1 million, an above average EBITDA adjusted increase of €15.6 million. The reason for that is that is that the main driver of the increase was in the branded segment which, as such, has an above average profitability. And the corresponding impact on the margin was a notable 4.4 percentage points.

Next slide, please. These are the numbers now including the difference or the variance from the vaccine operations and I think I don't need to tell you that with this difference you can calculate, based on the slide before, the magnitude of the change in the vaccine business.

So, our revenues came down by approximately €20 million. The majority of that, two thirds of that driven by the vaccine business. And, correspondingly, also we had a decline in our adjusted EBITDA and due to the very high margin of the vaccine business the change at EBIDA level was higher, so approximately half of that coming from the vaccine business. The impact at earnings after tax is a decline of approximately €6 million and we see the corresponding bridge with the main drivers of this change on one of the following slides.

Next slide, please. This is a summary of our margin development where, again, we see an impact of course, of the vaccine business, with the decline in the branded pharmaceutical margin but we also see a declining in trend in other health products. The reason for that is that especially Arkopharma has been negatively hit by consumer sentiment in France with lower purchases, which we've encountered now in Q1, declining

Arkopharma's revenue and results with a corresponding impact also on margin.

What we currently see is that the consumer sentiment is changing and we believe that this trend will reverse in the course of financial year '24. If we, again, eliminate the vaccine business from these numbers, we see the increase I mentioned before, 4.4 percentage points, to approximately 28% of net sales.

Next slide, please. This is the earnings after tax bridge that I mentioned before. The two operating drivers of this, the decline, are the phasing out of the vaccine production and this netted against the growth of the remaining business, which leaves a decline of only €6 million, so the majority of the decline in the vaccine business could be compensated by our existing business.

Secondly, the aforementioned decline in Arkopharma netted against a small increase coming from Montavit, which was initially consolidated mid of last year, so is not included in our Q1 figures. But Montavit only contributed below €1 million in EBITDA in Q1 '24, so the net impact from those two effects is minus €6.4 million in Q1 compared to prior year, Q1 '23.

We see a favourable impact at earnings after tax level from our financial result, with plus €11.1 million, part of that coming from the swap. Our two hedges, we agreed, had a negative impact at year end of approximately €13 million in total, based on the mark-to-market valuation of the two hedging instruments. And due to the development of the underlying interest rates, especially the Euribor, we were able to release part of that provision that was necessary at year end, amounting to €6.1 million.

And then, based in the interest development, that is interest income, especially on our cash amounts, we increased the net financial result by another €5 million. Depreciation charges increased by also roughly €5 million, this coming from Montavit which was, as I mentioned before, not in the numbers Q1 '23, and also Arkopharma, as the Arkopharma PPA was only included in the numbers first in the half year results '23. And those two amount to approximately 50% each of the number you see there.

Next slide, please. This is a summary of net debt and our equity ratio. Since mid of last year, we managed to decrease our net debt figure by approximately €70 million. We will do further repayments of another €50 million on term loan B in '24, plus the scheduled repayment of the promissory note of roughly €40 million also in the coming months. Our net debt/adjusted EBITDA ratio as of March was €3.1 million and well below the covenant agreed with the banks. Our equity ratio, as can be seen

on this slide, correspondingly increased by two percentage points compared to June '23, to 27%.

Next slide, please. A summary of our cash flow development showing our operational cash flow and this investment, the capex we've made, which is obviously impacted in Q1 '23 by the acquisition of Arkopharma. If we eliminate that and only see the recurring capex, that is approximately the same number that we see in Q1 '24.

And, again, the operating cash flow, the decline by approximately €40 million driven by the vaccine business again, as the revenue that we recorded in Q1 '23 was already cash settled by BioNTech, by 31st March '23, therefore we had a notable increase due to this, the recognition not only of earnings but also of cash in Q1 '23 and thereby increasing the operational capex compared to Q1 '24.

And I think the next slide is then our outlook. Our outlook is unchanged compared to what we have communicated in our last webcast. As I mentioned before, we believe that the trend that we currently see in Arkopharma will change in the course of the financial year, so that we see an improvement of Arkopharma and that the segments will continue to develop in line with our underlying plan and hence leave our outlook for the full financial year at the same level as before. I think that's it and Andreas and myself are now open for questions. Thank you.

Operator

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 and two. Participants are requested to use only handsets when asking a question. Anyone who has a question may press star and one at this time. The first question comes from Marietta Miemietz, from Pareto. Please, go ahead.

Marietta Miemietz

Good afternoon. Thanks for taking my questions. I've two, really. One is was there a meaningful amount of corona revenue and profit still included in Q1 that would not repeat over the course of 2024? And related to that, if the underlying dynamics continue strong, as they were in Q1, do you see a possibility that your full year EBITDA will actually exceed your guidance?

And then the second question is around the consumer reticence that you mentioned. Would you mind just sharing a bit more detail, in terms of when that started, what the dynamics are now that we're in May. What actually triggered it, including how bad is it outside of France? I'm just a bit puzzled because, to me, all of the economic and geopolitical issues that Europe faces are really not new, so why suddenly and what gives you confidence

that it will reverse over the course of the year? Thank you so much.

Christof Dreibholz

Andreas, I will start with maybe the first two questions and if you could comment on the consumer trend. The first question was corona related and, no, there is no significant amount of corona-related, vaccine-related revenue in the underlying numbers. The main income stream, and also going forward, is going to be from the German pandemic preparedness programme that we are part of as a subcontractor to BioNTech.

The second question was whether we believe that if the dynamics continue, that we will exceed our guidance? Currently, as we confirm our guidance, we believe on what we currently see based on Q1, which is only three months, that we will meet our guidance and not exceed it. And, Andreas, if you can share any insights regarding the consumer revenue development, that would be appreciated.

Dr Andreas Eberhorn

Hello from my side and thanks for the question. Actually, we saw it in the last couple of months in '23 that the market growth of the comparable market or addressable market of Arkopharma was slowing down leading in the end to even a decline and Arkopharma, as one strong part in this market, obviously is affected by that one.

Reasons for decline, I would say, is a follow-up of inflation and also the more reluctance to spend higher prices in the food supplement business, as we see. And Arkopharma is positioned, I would say, mid to premium priced.

We see this specifically in a couple of brands where we are comparing with competition where the price gets more into focus and, for sure, also we analyse and act if needed to stay competitive. But we see, majorly in the higher price beauty segment, that customers are really eager to spend less or more on the value-for-price offer, on that one, in their mind at least.

Why do we think trends should reverse? From the last months we saw, beginning of the year, that the negative market trend stopped and is a very slight but still positive trend evolution, growing a little bit above 2%. And based also from individual customer feedbacks, consumer feedbacks we do, we see that obviously this kind of thing is slightly reversing, as well as Arkopharma will continue to use the synergies we have and we are working on, which will add additional growth and, as well, launches coming for the second half of the year.

So, we are confident that this, on the one hand the better market trend, which is now again into the positive edge, as well as the own operational business will, let's say, allow us to reach the goals we expected.

Mariette Miemietz Thank you.

Operator As a reminder, if you wish to register for a question, please press star followed by one. The next question comes from Stephan Wulf, from ODDO. Please, go ahead.

Stephan Wulf Thanks a lot. First one would be on the pandemic preparedness programme. Maybe you can share with us some details on that. Especially, if I'm not mistaken, a good part of the revenue streams in Q1 were still related to '23, so any more details on what amount this was in Q1 would be pretty helpful. And maybe what we can expect as an underlying revenue stream coming from that programme in the course of '24. This would be my first one and maybe I can ask my questions one by one.

Christof Dreibholz Of course. The total amount of pandemic preparedness-related revenues recorded in Q1 was between €5-10 million. If you work a number in the middle of this range, that is a very good starting point. And the pandemic preparedness, the contract was agreed mid of last year but effective, that's the correct, effective as of mid of year, the contract that BioNTech agreed with the German government.

Therefore, as this was effective mid of last year, we could only record this amount beginning of this year as the contract, itself, was not concluded by that time. Therefore, the amount that I mentioned before, this range, two thirds of that relate to last year. One third is an amount that actually applies to Q1 '24 and the same magnitude of this amount, of this one third of the total amount, will be recorded every quarter going forward until '27.

Stephan Wulf That's extremely helpful. Thanks.

Christof Dreibholz You're welcome.

Stephan Wulf Then, secondly, on Arkopharma. I think in the last year you shared also the top line and EBITDA number of Arkopharma with us.

Christof Dreibholz Yes, because we had to do this as part of the purchase price allocation. Let me see. You're now interested in Arkopharma?

Stephan Wulf Q1 2024, yes.

Christof Dreibholz Last year, revenue was between €60-70 million and this year I think you could calculate it if you take the change in revenue of the segment.

Stephan Wulf And my last question is also on Arkopharma predominantly. Given the headwinds and the consumer sentiment you mentioned, did you change your marketing efforts, mainly in France?

Christof Dreibholz This is a question, and I'm so happy that Andreas is here. Go,

ahead.

Dr Andreas Eberhorn Let's say marketing efforts. The strategy, how Arkopharma is positioned and the value it brings we leave it in place. We did not change, obviously, because that's the core of Arkopharma. What we, for sure, do is when headwinds are there, try to understand what is in the core brand. So, which brands are really growing, where we see, for example, less price aggressiveness.

Or if we decide, on the one hand, we need to adjust prices, not to lose a higher amount of shares, we obviously stop investment on these brands and move investments to others. So, I would say we keep our core but, for sure, we look where growth is possible, where consumer drive is there.

This shifted a little bit between the different SKUs of the brands but overall the strategy, per se, is not changing and I think it's not wise to use the competitors' strategy because there is a strategy there and normally you will not win if you just copy what the environment is doing. But we are confident that we are on the right track and, yes, headwinds are there but I think we are well prepared to deliver the results we plan to.

Stephan Wulf Thank you.

Dr Andreas Eberhard You're welcome.

Operator Once again, to ask a question please press star followed by one. The next question comes from Miro Zuzak, from JMS. Please, go ahead.

Miro Zuzak Good afternoon, gentlemen. Can you hear me?

Christof Dreibholz Yes.

Miro Zuzak Just one question left for me. Could you please give us an indication about Q2, how it started in your core business?

Christof Dreibholz Andreas, do you want to say something regarding? I think we can only mention revenue.

Dr Andreas Eberhard I think, overall, we had a good April, a good trend. If you definite, let's say, our core segment as the branded segment, which I assume you do.

Miro Zuzak Yes.

Dr Andreas Eberhard We continue the trend with nice growth, I would say, across businesses. A nice thing is that we at least got much market data. With Allergopharma, we are in Germany. In the injectable segment, which we only are a part of, we are now market leader, which is really nice. So, after a long time, we now reached the top. This is a good signal.

And all our drivers, RX or OTC, where we focus on we are nicely

growing. The corticoids as we mentioned a couple of times, where we are market leader and we're getting more and more unique in the market with that one. Vitamins are still on a good trend, both in Germany but specifically also in our affiliates.

So, I would say we can continue to write at least as we see it now, the trend we saw in the first quarter for the branded segment, with nice growth, as said, across geographies.

Miro Zuzak

Thank you.

Operator

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over the management for any closing remarks.

Christof Dreibholz

I think it's normally Britta who says goodbye. We are sitting not together. We are in different locations. Therefore, I take this time. Thank you for your interest and if there's anything I think, as always, we try to be helpful and please do reach out to Britta with any further questions.

Britta Hamberger

Yes. Thank you for joining this call this afternoon and in case of further questions, please do not hesitate to give me a call.