

Dermapharm Holding SE
Q1 Results 2023
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Transcript

Speakers:

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Britta Hamberger

Ladies and gentlemen, a warm welcome from my side to our call on Dermapharm's Q1 results for 2023. Thank you for joining us this afternoon. Please let me introduce today's speakers, starting with our CFO and Chief Compliance Officer, Christof Dreibholz. And after, for Q&A, there will also be available our Chief Marketing Officer, Andreas Eberhorn, and our Chief Business Development Officer, Karin Samusch.

Christof 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 Christof. Please go ahead.

Christof Dreibholz

Thank you, Britta. Good afternoon also from me. My name is Christof Dreibholz. I will start the presentation, starting with our first slide, the financial figures overview for Q1 2023. Can you please further?

We have finished Q1 2023 with I think impressive results, increasing our total revenues to €319 million and reaching an EBITDA margin adjusted of 33%, or €106 million in adjusted EBITDA result. This was driven mainly by our latest acquisition, Arkopharma, acquired in January, and we will touch upon this also later again, and organic growth across all businesses between 5% in herbal extracts, 7% roughly in our branded pharmaceuticals, and an impressive 10% in the parallel import business.

All these drivers have also had a positive impact at adjusted EBITDA level, of course, with Arkopharma's contribution, or initial contribution, representing the main driver, but also the organic growth. And last but not least, and maybe or hopefully for the last time, the results from BioNTech.

Coming to the next slide, and there showing the branded pharmaceuticals and other healthcare products segment. That has been impacted by organic growth and the aforementioned impact from BioNTech. And those two drivers evenly contributed to the increase in revenues of approximately €16 million in Q1 23 compared to Q1 22.

Of course, and I just mention it so that it is understood, I have mentioned that before, but the BioNTech revenues were allocated over five quarters. The estimates were between €180 and €200 million. And just for the ease of numbers, if we take 20% of €200 million, approximately €40 million in revenues were recorded in Q1 23. And the margin of the BioNTech revenues have been estimated by analysts between 60% and 80%, and we have not objected against these estimates. So, the BioNTech revenues were a large driver of the increase in EBITDA in Q1 23.

We will have BioNTech revenues in the future, but at a significantly lower level. There is the pandemic preparedness contract for Germany, where we act as subcontractors to BioNTech, but revenues are in no way comparable to what we've seen in the past. There are no other revenues budgeted in 23 or beyond. Anything in addition would be an upside.

Coming to the herbal extracts segment, that is the segment where we have currently allocated Arkopharma to. And Arkopharma have revenues in Q1 23 of €63 million, at an adjusted EBITDA of €19 million, or 30%. This is significantly higher than the full year margin of Arkopharma. It has been impacted by a higher production in Q1, leading to lower unit costs, and cheaper purchases, plus a certain impact from phasing. We believe, together with Arkopharma management, that the margin will come down towards the margin of the segment over the coming quarters.

That said, the existing business had an EBITDA of approximately €5 million, and hence slightly lower than in Q1 22, mainly driven by higher energy costs in euro mid, which was significantly impacted by that.

Coming to the PI segment, that traded nicely, with a revenue increase of 10%. That translated to an EBITDA increase of €600,000, half of that coming from gross profit, where we saw the ferro [?] impact from a reduction of purchase prices in connection with increased manufacturer rebate, and the new building that the business relocated to in April 22, so post Q1 22, led to a favourable trend in personnel and other opex, with a reduction of another €300,000.

The EBITDA result and the increase of €27 million as reported level translated also to a favourable earnings before tax number of approximately €70 million. The EBITDA increase was partly compensated by increased interest expenses of €13 million in connection with our new syndicated loan.

And in order to give you some more insights regarding this new syndicated loan agreement, we have summarised some key facts. We are speaking about a €1.05 billion loan facility, breaking down to two term loans, Term Loan A in an amount of €650 million, and Term Loan B, €200 million. The difference between the two term loans is that we decided to agree on a facility where that is partly amortised on a regular basis. So Term Loan B has annual amortisations of €50 million, you can see that in the maturity slide at the lower left of the page, whilst the €650 Term Loan A is a bullet repayment in 2027.

There is a further €200 million revolving credit facility, of which currently €80 million are drawn. We further agreed basically on a Euribor-based variable financing, but hedged off the total loan agreement, hedged €800 million beginning of March in order to have the security of fixed interest payments in our P&L. The last point, the only security that has been agreed is a leverage ratio, full stop.

Our cashflow and cash conversion is at 70%, and again, driven by our reported EBITDA of €98 million, less €10 million in taxes, and €40 million in cash-effective changes in our working capital.

The investment capex was strongly impacted, of course, by the Arkopharma acquisition, where of the €398 million, €389 million can be allocated to Arkopharma, which is the net purchase price of €448 million less the cash that we've acquired. The remainder is our normal level of R&D and replacement investments.

The balance sheet is also increases basically in all individual line items, through the acquisition of Arkopharma. Our equity number is 581 post the acquisition, which is still an impressive equity ratio of 27%. And despite the loan agreement that I detailed before of €1 billion, our net debt/adjusted EBITDA leverage ratio is 2.4.

Bearing in mind the impacts that I mentioned before from the BioNTech revenues that have been for the last time recorded in Q1 23, you cannot simply multiply the Q1 23 result times four to estimate the numbers for the full year. Hence our full year guidance of between €1,080 million and €1,110 million in revenues, and between €300 and €310 million adjusted EBITDA, is still valid.

Thank you very much. And I hand it over to Britta.

Britta Hamberger

Thank you, Christof. And now we can pick up the Q&A directly.

Operator

Ladies and gentlemen, at this time we begin the question-and-answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selection. Anyone who has a question may press star followed by one at this time. One moment for the first question please.

And the first question comes from Alexander Thiel from Jefferies. Please go ahead, sir.

Alexander Thiel

Hi, good afternoon. I hope you can hear me. A couple of questions from my side. Firstly, on your revenue growth. That was significantly higher than what we expected. How much of the underlying driver was coming from a strong seasonality in Allergopharma? How should we think about the seasonality at the Arkopharma level? And also, could you give us some detail how much was the contribution coming from Arkopharma into the herbal segment? And then as a follow-up, basically, should we take the D&A runway for the full year, and could you explain the other operating income of €10 million? Thank you.

Dr Andreas Eberhorn

So then I jump in, Andreas Eberhorn. Also, welcome from my side. A couple of questions, so hopefully we got them all. Maybe the first one, the Allergologie [?]. So, the strength [?] is all the year the same. So, yes, new patient acquisitions coming normally when the allergy season ends. So that's the acquisition of new patients, but for sure, you grow also from the patients from your core portfolio, means the number of patients you already have.

So, while, as everyone knows, allergy season is fully running, means there are no further new patients, but we are growing and building on the patients we have. And the next season will start depending on this year, whether there's a good start in Q4.

So the full focus, as you might have known, in Germany, and specifically Germany is one part of the growth, and on our Allergovit year for the Allergology portfolio, this is due that there's a new regulation in place that after 2025 a couple of brands will not be able to be reimbursed on the market, which is called Therapieallergenverordnung (TAV, in English: Therapy Allergen Prescription).

So, we are at the moment proactively trying to get also patients from competition, due to the fact that these patients, if they start now, cannot finish their treatment, which is normally three years. So there's dynamic in the market, and we are, let's say, setting all, trying to capture this in the market part of the Allergologie field we are in. So I can say there's no seasonality in these terms. It is a business seasonality, but it's every year the same, so you can compare like for like.

On the Arkopharma, I would say more or less the same. So, a good start in the year. Important to say the first quarter is a strong quarter, so you cannot multiply the first quarter times four. Arkopharma's growing nicely in the core segments, so double digit in the part of the natural health, which is one of, let's say, the key drivers, as well as nice

growth also on the base portfolio, which is the plants, the fluid plants, and as well on the beauty segments. Forcapil is the star brand, and this is also growing double digits. So, I would say a good start, and this is across geographies of Arkopharma, not specifically I would say boosted in any direction by seasonality. Maybe even the contrary.

So, as you might know, there was a strong season in the field of cough and cold, which is not a strong part of the portfolio. So, despite that Arkopharma has no big portfolio in cough and cold, they showed nice and strong growth even in this season where cough and cold was very important. Then I hand over to Christof.

Christof Dreibholz

Yes. And I think, Alexander, one of your questions was the Arkopharma contribution, and I think I mentioned revenues of €63 million in Q1, and an EBITDA of €19 million, translating to approximately 30% margin.

And your last question was the other operating income of approximately €10 million. That is largely FX gains, and those have to be seen in connection with the other operating expenses, where we have a similar increase. There is an €11 million increase within the increase of other operating expenses coming also from foreign exchange, and this is as there is no contractual arrangement between the two. They have to be shown or disclosed separately in the P&L within other operating income and other operating expenses. But from an economic standpoint, or an analysis standpoint, they could be netted with then only showing a minor impact. Does this answer your questions?

Alexander Thiel

Yes, that's perfect. I have two follow-ups, if I may. The first one is on the pandemic preparedness. I'm estimating roughly €12 million for the full year, but we don't know in which quarter this will be booked. Can you elaborate on this one? And the second one is on the interest rate that you're now paying for your financing, for the syndicated loan, for the €800 million and the fixed rate. Could you give us some kind of guidance what the rate is at the moment?

Christof Dreibholz

We have budgeted the income from the pandemic preparedness programme in Q4. And we estimate or we calculate interest expenses of between €50 and €60 million per year.

Alexander Thiel

Okay, that's very clear. Thank you.

Operator

And the next question comes from Stephan Wulf from ODDO BHF. Please go ahead.

Stephan Wulf

Yes, thank you. Good afternoon. First of all, Bion [?] Axicorp. My understanding so far was that Axicorp's product portfolio

will be more selective in the future, that we should expect here a lower top line at healthy margins. However, it looked a bit different here in Q1. So, what could we expect here looking forwards? What's your strategy on that division?

Secondly, I would appreciate your brief update on your cannabis business. Obviously, C³ performed pretty badly in 22, so you did some changes to your formula, and I would like to know how the performance looked like in the first quarter.

And maybe a final one on your net leverage. So, I guess your previous guidance for the expected net leverage after the acquisition of Arkopharma was more three times EBITDA. Now, obviously, you are substantially lower, with 2.4 times EBITDA. So, is that a level where you feel comfortable, or do you still have consolidation on top of your agenda? And connected to that, what are your targets for net leverage for the end of 23 and maybe 24, and how do you see some headroom for external growth under this situation? Thank you.

Dr Andreas Eberhorn

Good. Andreas Eberhorn. Let me start with the Axicorp. It is true that we have, and as Christof Dreibholz mentioned, this year, that we have increased the mandatory rebates we need to pay. On the other hand, there's still a good dynamic in the market and good, let's say, overall growth, which we try to capitalise on, which is part of the nice growth which Axicorp has seen and showing specifically in the PI segment. Yes, you are right.

So, step by step we will have a look on the product mix and the mix of these products which are part or not part of these mandatory rebates, but this is a process which will take for the longer-term, not immediately. So, ideally, we will capture the good trend in the market and prolong the nice growth we have at the moment on Axicorp.

The second, on the cannabis business. As you know, the market underwent a couple of changes. On the one hand, we see strong price war, driven by the request of the SHI on the second part in the market. Let's say ease of use is getting more and more prominent of product opportunities. So we had a good start, I would say, based on the level we ended in 2022.

To boost our business, on the hand we will bring a product innovation soon, which is a more easy to use way of the core [?] dronabinol, answering on the growing request of pharmacists on this more comfortable use, and easier to manufacture. And the second part is that we are also working on entering the extract market. Not clear when the

timing is, but this will as well help us to expand our portfolio and for sure grow the revenues. So, this is the short plan on C³. So we expect that we continuously increase the momentum here. And then I think it's again over to you, Christof.

Christof Dreibholz

Yes, regarding the leverage ratio. And this is calculated on an LTM basis. And the reason for the comparably low leverage ratio or lower ratio than we've initially mentioned earlier is that this is calculated beginning Q2 22 to Q1 23, so including the BioNTech business of course, among other. That is then over the time gradually replaced by Arkopharma revenues and results, reflecting the same size or magnitude in terms of the revenue number, but obviously not in terms of profitability. Hence we still confirm that our leverage will be or will move over the coming quarters towards three times EBITDA. And this is also still something that we feel comfortable with. Does this answer your question?

Stephan Wulf

Yes. Makes sense on the leverage side. So, three is the target for the end of 23, and what do you have in mind for end of 24?

Christof Dreibholz

Also three.

Stephan Wulf

Okay. Understood. Thanks a lot.

Christof Dreibholz

You're welcome.

Operator

And the next question comes from Marietta Miemietz from Pareto. Please go ahead.

Marietta Miemietz

Yes. Good afternoon. Thanks for taking my questions. They actually all relate to your full year guidance. So, you had a very strong Q1. Now, if the dynamics of the base basis, excluding COVID and Arkopharma, were to continue on a similar trajectory in Q2, would there then be scope for a guidance upgrade, or would you say the base business in Q1 really performed exactly as you had expected when you gave that initial guidance at the start of the year, and the bead [?] is really entirely due to the COVID boost and maybe some Arkopharma that you had in Q1?

And also, you based almost no Arkopharma synergies into your guidance, but this is something that already seems to be coming through. So, I was just wondering if that leaves scope for a guidance upgrade as your visibility increases. And then I also wanted to see whether there's still any chance this year for a positive surprise from COVID contracts. Obviously, the pandemic has slowed down quite a bit, but I was wondering whether the contract that you were in the process of negotiating in the fall of last year, so BioNTech and also the tender at the European level, has

that been completely paused or is there a chance that that could be revived if case numbers go up again? Thank you very much.

Christof Dreibholz

Starting maybe with the synergies. That is something that we've started already last year, the discussions with the Arkopharma management. And we have our first projects, and I think I mentioned it before, especially the bite away that we have transferred from Germany to France, and that is successfully marketed currently in France and Spain especially. And that is performing well, also in terms of reorders that we have received from Arkopharma.

And we are now in the process of discussing and working on projects to transfer certain products from Arkopharma to Germany, but maybe that is something where, Andreas, can you add some more flavour to that?

Dr Andreas Eberhorn

Yes, I can do so. For sure, because you have some regulatory barriers as well, things will not be at the spot. But as Christof said, we are leveraging on the one hand the country synergies across the portfolios, and second, also what we call exporter distributor business, where we define the best of twos. Obviously, we have contracts, so things will then be more in place looking out for 2024.

But yes, we have analysed a couple of brands which we're trying to get still in market this year from Arkopharma, for example, to Germany in the different segments we have, but as well we are exchanging and bringing some of the Dermapharm portfolio, excluding Arkopharma, to the new geographies, specifically in France and Spain, which will happen most likely the end of this year or beginning next year, depending on status and setup, and for sure the ability to market them as well. So, there's a lot of work at the moment done in the background, and the biggest part will be then effective rather in 2024 onwards.

Christof Dreibholz

Yes. And in terms of performance of the different businesses compared to budget, I would say they are more or less all on budget. If we look at adjusted EBITDA, the branded pharmaceuticals are approximately €1 million behind budget. The same is the case for herbal extracts. PI is exactly on budget. And this difference of €2 million is compensated by Arkopharma. So, all in all, on budget. And hence we currently see no reason to deviate from our budget. Marietta, does this help you?

Marietta Miemietz

Yes, thank you. And just about the final question on the additional COVID contracts that we had still been thinking about in the latter part of last year. Would you say that that's off the table now because the pandemic has slowed so

much, or could there still be a positive surprise, or when would we maybe know this year?

Christof Dreibholz Do you mean the European pandemic preparedness programme?

Marietta Miemietz Yes, exactly. And I think you were also working on a completely new dedicated contract with BioNTech, and I think that for the time being has been downgraded to simply being part of their partnering with Germany on the pandemic preparedness front. But I was wondering if there's still any chance of that coming back, basically a completely new contract for significant volumes with BioNTech.

Dr Andreas Eberhorn We are looking here at each other. There is no other contract with BioNTech, and also there is no, at least, based on us three, our knowledge, any contract currently in preparation. The European pandemic preparedness programme was I think awarded to someone different. There's no relation to us, so we were not successful in that. The only regular revenue inflow will be from the German pandemic preparedness in connection with BioNTech.

And then, of course, what may be is that BioNTech will order additional doses of vaccines. That could be, but this is not something that we've planned for. And if they do that, we think that this will not be huge.

Marietta Miemietz Okay, very clear. Thank you so much.

Dr Andreas Eberhorn You're welcome.

Operator We have a follow-up question from Alexander Thiel from Jefferies. Please go ahead.

Alexander Thiel Yes, thank you. Just a quick follow-up from my side. Last year we've seen asset write-downs on CORAT. What is your estimate basically for the rest of the year, will this also be written down this year? If you could comment on CORAT, that would be helpful.

Christof Dreibholz Just a second please. Sorry. We wrote down I think the majority of the investment already in 2022, so we don't expect any material impact from that in 23.

Alexander Thiel Okay, thank you.

Operator And the next question comes from Miro Zuzak from JMS Invest. Please go ahead.

Miro Zuzak Yes, hi. Thanks for taking my question. First one would be on the BioNTech revenues. Either I've missed it in the call or you haven't said it, but could you please confirm, probably you cannot give us the exact number, right, but maybe you

can give us an idea, is it rather what it was in Q4 or is it rather what it was in Q1 and Q2 last year, in terms of revenues?

Christof Dreibholz

It is approximately Q4. And it is higher than Q1 22. And I said that the increase of €60 million in revenues in the segment was evenly distributed between organic growth and the growth in BioNTech revenues.

Miro Zuzak

Okay, thank you. The next one would be on Arkopharma. Obviously, a very strong result. When I was modelling according to what you've said in the past about this acquisition, my numbers were much lower, frankly speaking. Now can you please confirm again there is, A, no seasonality, and B, there is no special effect in Q1? Or to put the question the other way around, is this a flight level that we can expect now for the future, around €19 or €20 million per quarter in terms of EBITDA?

Christof Dreibholz

No. I mentioned earlier that the 30% is not something that is sustainable, but also, the plan is a number of approximately 20%, 22% for the full year. And the reason for the higher profitability in Q1 is that Arkopharma produced more than they initially planned in Q1. And they are working with standard cost, and through this higher output, the average unit cost decreased, which had a favourable impact at EBITDA.

Then the purchase prices for raw materials were cheaper. That is something that may be sustainable, but that is only part of it. And there is a phasing of cost, where, for example, marketing costs will be actually expensed later in the year, but we still stick to the budgeted amount. So there is very little or no room for an EBITDA improvement, and you should not change your calculation if you worked with the lower profitability.

Miro Zuzak

Okay. Thank you. Then the next one would be on depreciation and amortisation. The €50 million, is this now the flight level going forward, or is there any unusual effect that was booked in Q1?

Christof Dreibholz

Yes, I think that should be a normal level. I'm not aware, from the top of my... Just a second. Yes. My colleague reminds me of one point. The purchase price allocation of Arkopharma is not final. Our advisors are working on that. So we have not the precise allocation of the purchase price to the individual assets and liabilities, of course. And that can have an impact on the depreciation, yes.

Miro Zuzak

Okay. So this will come on top at some point in time, going forward?

Christof Dreibholz Yes, depending on where it actually allocated to and whether this asset is stand appreciable or not. But the aim is to finalise that until June, but I'm not sure if we can show this already in H2.

Miro Zuzak Okay. And another one, if I may. You mentioned the interest expense of €50 to €60 million. Was this gross or net? Does this still sit on a €250 million, roundabout, cash position, like against your...?

Christof Dreibholz No. This is just the interest expense, not the interest result.

Miro Zuzak Okay. So the interest result is going to be a bit lower than that.

Christof Dreibholz Yes. We don't calculate with huge interest gains.

Miro Zuzak Okay, good. Thank you very much.

Christof Dreibholz You're welcome.

Operator There are no further questions at this time, and I hand back to Britta Hamberger for closing comments.

Britta Hamberger Thank you very much for your attention this afternoon. In case of any further questions after the call or questions that are not answered, please get back to me afterwards. Thank you very much for attending the call.

Christof Dreibholz Thank you. Goodbye.

Dr Andreas Eberhorn Thank you. Bye.