

Dermapharm Holding SE
Q2 2024 Results
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Transcript

Speakers:

Britta Hamberger

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Britta Hamberger

Ladies and gentlemen, welcome to Dermapharm's half year 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 and Andreas 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. Coming to our presentation, the agenda, on the second slide, as always, financial figures for the first six months, our outlook on one page and, in the end, as Britta mentioned already, time for Q&A.

To start with the financial figures in H1, giving an overview on slide four, I think, of the like-for-like performance, like-for-like in this case meaning excluding our vaccine business which is phasing out, as several times mentioned, but including the Montavit contribution. That is in the footnote, Montavit contributed 18 million to our revenues in H1, and this is important to mention as it was initially consolidated as of July last year. So the first six months of our prior year are excluding Montavit.

Without the vaccine business, our revenues increased by approximately 24 million, mainly driven by the branded pharmaceuticals segment, translating to a growth on a like-for-like basis to approximately 5%. And even if we exclude Montavit, revenue growth is still between 1% and 2%, 1.5%. And that always in light of the weaker-than-expected performance of Arkopharma, which in these numbers has been covered entirely by the very strong performance of the branded pharmaceutical segment. And Andreas will come later to a more detailed slide and give us some background on the reasons and what we've done to improve the situation at Arkopharma.

Our EBITDA on a like-for-like basis improves at approximately 13 million, and this higher profitability is, again, especially driven by the branded product segment which, as such, has a strong profitability of between 40% and 50% EBITDA margin. And the increase compared to prior year is approximately 10%. This translates to an adjusted margin improvement of approximately 1.3 percentage points.

Coming to the next slide, giving some more details on revenues and EBITDA, we've done that somewhat different compared to the last time. We've shown revenues comparable to our last presentations. Adjusted EBITDA is not split by segment, which you can see on the latest slides in this deck. Here, we also show our unadjusted EBITDA, which for us is also an important result line, which improves by 7% to 147 million.

And what is notable this year is that our adjustments significantly

decline compared to last year. We have a slide later in the presentation where we go in detail into the individual adjustments. Here, just to mention that adjustments are 25 million lower than last year. Our adjusted result declined by approximately 9% to 153 million. This, again, as these are not like-for-like numbers but including the vaccine business, this is primarily driven by the decline in revenues and results coming from this vaccine business.

Also notable is that, compared to last year, our earnings after tax improved by 50%, roundabout, to approximately 60 million. And to give you also an EBITDA number, excluding BioNTech, this improves by approximately 11%, if we exclude BioNTech from these numbers at adjusted EBITDA level. Andreas, may I hand over to you that you give us some more insights on the situation at Arkopharma? Plus, although this is not on the slide, if I may kindly ask you to also maybe shed some light on the positive performance in the branded pharmaceutical segment for our audience, please?

Andreas Eberhorn

Thank you, I'm happy to do so and welcome from my side to our webcast. Looking at Arkopharma and the situation we are currently facing, there are some challenges, obviously, but when I'm coming to the outlook, it's also clear that we see some positive signs, and we are positive in the outlook that the situation at Arkopharma is improving, overall.

And still, if you look at the reluctance in the French market, the reluctance is still there if you ask customers on the rounds, so still we are not on a level which was compared a couple of years ago in terms of spending on food supplements or spending for non-prescribed brands like we have with Arkopharma. As well, we have a situation also in the pharmacy side, there is less cash for pharmacists, at least complaining, and which means also could translate in less stock levels when cash is rather low in this segment.

On the other hand, and this was specifically intensifying, is the competition. So we see kind of new players entering the market, as well as having existing players really forcing, bringing a couple of launches faster than we saw before. As well, price competition on, let's say, interchangeable brands is really fierce, and it's growing, as well as rebates which come to the market to support the sell-in and sell-out.

If you compare to H2 2023, we had some significant price increases, which led to a specific dynamic, as there was the opportunity for customers to buy before price increases have been set into place, hence driving increased sales during this period, which we obviously do not have in H1 2024. As we got into the details with Arkopharma, we started to initiate several

commercial excellence initiatives, where we saw there is room for improvement, hence these take time, and were not yet as impactful as expected, which means that we are still working on those to get better in the day-to-day work. Which is not bad, but there is still room for growth, and especially when competition is challenging you need to be excellent in everything you're doing in the market.

Then we come to the challenges which are defined and clear, and we're working on that one, and then we come to the outlook. So, first of all, I think you've got noticed that we have a new CEO at Arkopharma, who started in May, and we really had very strong and positive feedback for the whole organisation. And he's the one who really helps us to clearly align also the local leadership and give direction needed to fix the actual challenges, and as well brings also, from his side, insights into the business, helping us to evolve Arkopharma to the journey we are in for more sustainability and improved margin, as we said.

And also for the France business, we will have a new general manager starting in November this year. We have strong launches, which we expect in H2, stronger than in H1 2024. So we're especially focusing on one of our key brand launches, Forcapil, and we will have a new formulation, which is called Age Protect, which we launched in France, which has very good feedback from the testing of the campaign. So it helps hair strength and vitality for the middle-to-old-aged people, and as well reduces grey hair. So we expect a lot from that one.

And as well, for example, we bring into the market collagen powder. This is a growing market in France, where we see we are exceptionally well set up to sell these brands and this product in the French market, and further launches as well to come.

As said, commercial excellence is one part where we can do always better, and we identified a couple of things where we could get better, which we started working on last year, and we are really rigid on getting them implemented. And then in the months to come which, on the one hand, is on targeting segmentation or increasing coverage and acquisition of new customers to boost and foster sell-out focus of the field for us, and as well, and this is what Dermapharm proved concept being very strong and also looking and shifting investment there, where we see that we have the biggest growth opportunities, specifically also in parts where competition is rather limited.

And we identified a couple of parts where we have good traction and in a nicely big market with limited competition, so this is something we are we are fostering here. And as well in this segment, where we also hear some price competition is, we are eager, really, to beat also on competition, have some nice

bundling to support the sale of our brands.

Looking a little bit outside of France as well, which is also great that we see really growing traction in Italy. For those who have been on more calls and know about the story, Italy is one of the biggest markets, actually, for food supplements in Europe. And Arkopharma had, in history, not really a good setup, a good start in the Italian market, with many changes. And the last changes obviously look quite better when we have very good sell-out data and really get traction in this market, which gives us very positive signs also here. And not from the size yet, but from entering the Chinese market, as well as one step also for Arkopharma, we are building here on the synergies we have with Anton Hübner, the company from Germany, where we have a Chinese distributor. So we tested Arkopharma brands over the last couple of months in this Chinese online market, and we will launch these brands now and enter also this very interesting and growing market for that one.

So overall, as well as the recent market trends we see in France specifically that give us positive signs that also the spending is increasing, and there's more traction in the market, we see that there's a positive outlook for us and obviously aim for better numbers for Arkopharma in the second half of 2024.

As my colleague Christof Dreibholz said, maybe a very brief, it's not on the slide but a very brief, point on our branded segments. So, definitely we see a very strong organic growth across the board. For example, in the German pharmacy and physician market, all the brands we are focusing our investments on are growing with or even above the market. Brands like Tromcardin, Myditin, Myopridin, Ketozolin, the Dekristol family is doing very good, which supports, obviously, the growth as well in the hospital market. We mentioned this, I think, some time ago.

Also, here we are one of the remaining suppliers for corticoids. and we managed to also negotiate reasonable prices with good margins for us. And this segment is really growing nicely and supports the growth specifically in the German market.

As well, our company Allergopharma, in the allergy business, is doing great. Also, for the first time in market data in June, we are a market leader in this, in our segment, in our market segment, the SCIT market, in the 12-month period. Year to date, we are also the market leader from turnover, and we see very nice traction of the biggest brand "Allergovit" in this market.

If we go outside Germany, we see that more or less all our affiliates in the countries show strong growth across the board, driven by different commercial activities with it. When I started, as well as bringing step-by-step new products in these markets to increase the portfolio and also have not a short-term but also

long-term trend of growth.

And last but not least, as Christof Dreibholz said, we are very proud that we turned the business of Montavit in, I would say, a reasonably short time to be profitable and having nice growth in the specific markets, improving on all terms and also contributing to positive EBITDA already. This was it from my side, a short overview also on the branded segment, and happy to give back to Christof Dreibholz.

Christof Dreibholz

Thank you very much, Andreas. And just two comments in addition from me, if I may. We have seen the July numbers and, regarding Arkopharma, July was very favourable, i.e. we were above prior year and only slightly behind budget, which also underlines what Andreas has explained on slide six, that the measures we've introduced, that we are on track and Arkopharma is improving and will catch up in the remaining six months.

And second comment regarding Arkopharma, not regarding the revenue but regarding the cost side, we have, of course, very early started working with the team on reducing costs. So this is something that happens in parallel, that we will also try to secure part of the EBITDA through reduced cost in the remaining months of 2024.

Now, resuming with the presentation and coming to slide six, which is the earnings, seven, sorry, the earnings after tax bridge, where you see, in the first two columns, the reported EBITDA of the remaining business, including the vaccine business, which improves at a reported level, because we are, here, at earnings after tax, so reported, by 22.6 million, and Arkopharma, or the net of Arkopharma and Montavit, and you've seen the Montavit number on an earlier slide, 1.2 million positive EBITDA coming from Montavit. So the addition of these two numbers, 12.6 plus 1.2, is Arkopharma, the decline in Arkopharma, and the net of that, the 10 million increase in our unadjusted EBITDA.

Then, further in this bridge, to earnings after tax of 2024, we have the financial result. The net financial result is plus 8.1 million. And a large part of that is coming from the valuation of our swap or our two swaps, which reflects the slight increase in interest rates which we've seen in the market compared to last year.

Our interest cost slightly increased, which is the result of, in the end, the contract, which includes a margin grid. And as our EBITDA ratio is, as we will also show later, above 3, margins slightly increased, which in turn increases our interest cost.

Income taxes compared to the first six months last year are more or less unchanged. A slight increase of 3.5 million. And depreciation charges decreased, which is driven by PPA

depreciation from Arkopharma which were recorded, or part of that, i.e. here the customer contracts which have been capitalised ended at the end of the first six months of 2023, so are not included anymore in the 2024 results. And this amount was partly offset by the first-time recognition of Montavit depreciation charges.

Slide eight, the aforementioned EBITDA adjustments, which have notably decreased, as mentioned before, by 25 million, and we are happy about that. The first impact, and I am focusing on 2024, the first impact is from the sale of a property in Berlin, which was recorded in the branded pharmaceutical segment. This was partly used by MibeTec in the past, they have relocated to rented offices, and we had no need for this property anymore. It formerly belonged to Bio-Diät, an entity we acquired a few years ago. We sold that property and also made a PPA adjustment for that. And from that PPA adjustment, we recorded a loss of 700,000 in connection with the sale of this property, and this has been adjusted at the EBITDA level.

Second adjustment, 1.8 million Arkopharma, is also referring to a provision in the SPA, the purchase contract regarding Arkopharma, where one property was classified as non-operational, but due to various operational reasons, we decided that we could do better with this property and did not sell this property, which was the right of the former owner to sell this property, and then we cashed out from any proceeds we would receive from the sale of this property, and instead made a payment of 1.8 million in order to not acquire but be able to keep this plot of land. And also the related expenses were also adjusted, as they refer to a purchase price, an additional purchase price, payment.

The highest adjustment, 2.2 million, is related to Wellster. I think we mentioned that already in our Q1 results. We did not participate in a capital increase at Wellster, which was in January of this year, and thereby our share in Wellster declined from, I think, 45% to approximately 33% of the Wellster stock capital. And from that decline, we had to reduce the goodwill which was recorded as this is an At Equity entity.

And this expense from the goodwill amortisation is partly offset by our share in the increased capital. Although our relative share declines, the absolute capital increases through the capital injection of the new shareholder, and thereby this positive effect reduced the first amortisation expense. So the net amount is 2.2, which we have also adjusted for. And the remaining larger amount of 1 million refers to cost in connection with the relocation of the Candoro Ethics business to Friedrichsdorf, where Axicorp is based.

Slide nine, and now coming more towards the balance sheet, shows our net debt, and especially our net debt reduction over the last year, which in turn also shows the underlying cash-generativeness of the business. We have made a first repayment of our term loan B of 25 million, and we have also reduced, always compared to June 2023, our revolving credit facility by the same amount, 25 million. This is offset, partially offset, by the initial recognition of Montavit bank liabilities.

The remaining delta to the 72 million is the increase in cash, which we've also recorded at the same time. The resulting, and already before mentioned, ratio of net debt to adjusted EBITDA is 3.1. And here, the important thing is that this 3.1 is notably below the corresponding ratio, which we've agreed with the bank in our syndicated loan agreement. And based on a comparison of interest expenses, and interest expenses only referring to long and short-term loans and adjusted EBITDA, the resulting interest cover ratio is 5.4 times the interest cost, which we see as very comfortable for us. Our equity ratio is stable at 25.2%, and this 25.2% excludes the dividend, which has been paid, as you remember, beginning of July, and is not included in equity, but shown as a liability.

And with this sentence, I'm coming to slide ten, an overview of the balance sheet, which is more or less unchanged compared to December 2023. Changes are minor. The only remark I will make is regarding the dividend, which I've mentioned before, which is shown here separately, between equity and non-current liabilities. It is not included in the 25.2% equity ratio.

And, we come on the next slide to working capital, which I think is also important in addition to net debt, which we've detailed before. What we've seen in working capital, or in net working capital, and here only referring to inventories, trade payables and trade receivables, we've seen an increase net of approximately 10 million, largely coming from our inventories.

And these higher inventory levels are driven, among others, by the underlying growth in revenues, which we've discussed before, but we've also, of course, inflationary impact as our production cost increased due to labour cost increases we had before, and also higher prices for cost of materials.

And then we are still in a situation where we need buffer stock, where we have multiple crises, to mention Ukraine and the Middle East, affecting our deliveries, so we still tend to hold buffer stock in raw materials, to be able to deliver our products on time, which is important in our business.

If we look at the days, we see that our DIO, and the basis for calculation is excluding BioNTech in here in revenues, is more or less unchanged, or only slightly increases, which underlines

the explanation before that the growth in revenues is a driver also of the inventory increase. And DSO are unchanged to last year, and DPO slightly increased. And this is driven by normal, ordinary working capital management, which we do at quarter-end on a regular basis. Nothing specific, just ordinary working capital management. And our cash cycle resulting from these three numbers slightly improves compared to last year.

From that, I would like to come to our cash flow and cash conversion, and our operating cash flow slightly increases, and the resulting cash conversion as well. And maybe just one comment quickly regarding the investing CapEx, before coming to the next slide where I will give some more insights on the cash flow from operating activities. The first half, obviously, includes the purchase price payment for Arkopharma, hence it's not comparable. Our invest in CapEx in the first six months of this year is reflecting normal investing activities again.

And coming to the cash flow from operating activities, we've shown some more details, because what we do see is a notable increase in our earnings before tax. As we can see here, and as you have seen before, the same as is the case at earnings after tax level, which we've bridged before, but we don't see that in our cash flow. And to give you more insight on why this is the case, we've broken out the cash flow statement here. And the major effect is, again, as shown before, coming from our working capital, where we've seen a build-up in working capital, which translates, obviously, in higher cash outflows.

I've explained the drivers of the net working capital before, I think I don't need to repeat that. There was one additional impact, which is phasing-related as Euromed stocks were this year already in our inventories as of June 2024, whilst last year this was later in Q3. So we see from this a phasing impact also here, and working capital impacting our cash flow in the first six months of 2024.

Then in this bridge, the next point is a summary of different positions. The main effect is coming from other non-cash items. The 3.5 million here, which we are adjusting, is non-cash and mainly including the impact from Wellster that we've seen before, and the non-cash loss from the disposal of the property in Berlin.

Then, we also include in this bridge to operating activities cash flow, the profit-sharing, which is the results of Hasan and Wellster in this case. And we've also excluded or reclassified to financing cash flow our interest expenses. Hence, they are added to earnings before tax.

And last point, our increased income tax payments, as we see the impact from the periods, especially 2021 and 2022, where we had favourable impacts from our vaccine business with the

resulting tax payments now in 2023, but especially in 2024, increasing the underlying tax payments.

With that, I will come to our last slide, the outlook, based on what we've discussed before, what we see until June 2024, plus our underlying analysis, including our internal re-forecasts, etc. We confirm that our revenue and EBITDA adjusted will be in the ranges that we've mentioned before, i.e. revenues between €1.17 billion and €1.21 billion, and EBITDA between 305 million and 315 million. And with that, I'm done with my presentation, and I would like to open the call for Q&A.

- 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 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 while asking a question. Anyone who has a question may press star and one at this time. The first question comes from the line of Gerhard Orgonas, Berenberg. Please, go ahead.
- Gerhard Orgonas Good afternoon, I have three questions, please. First, on Arkopharma, you said that July was up, year on year, and only slightly behind budget. Is the budget at the 7% annual growth that you were expecting?
- Christof Dreibholz Sorry, the last sentence, can you say that again?
- Gerhard Orgonas Am I correct to say that the budget was 7% year-on-year growth for Arkopharma?
- Britta Hamberger If we still have the 7% growth for Arkopharma, year on year. I would say that as we had a weaker H1, it's not that optimistic to see a 7% growth in this year, but...
- Christof Dreibholz But, Gerhard, you mean if we were in the remaining six months, catch up also the reduced revenues that we've seen in H1?
- Gerhard Orgonas I don't think that would be the case, but I was wondering whether you see 7% in July, at least?
- Christof Dreibholz No. Compared to July...
- Gerhard Orgonas Correct.
- Christof Dreibholz Let me look. I can check that. Just a second. It was below. It was below 7%, approximately half of that.
- Gerhard Orgonas And then my second question is do you expect any more adjustments in H2?
- Christof Dreibholz That is a good question. No adjustments which we currently know of, let me put it that way. What we normally do adjust for is restructuring, so Candoro has been more or less relocated, it's

in the final stages, so I wouldn't expect material amounts from that. Then, the other thing is M&A. There is nothing that we are currently planning to do there, so no adjustments expected from that. There could be some PPA impacts, yes, as we've seen, for example with Wellster, which also had an impact on the accounting, which led to an adjustment impact. So, yes, there may be some, but no amounts known yet, let me put it that way.

Gerhard Orgonas And maybe just on the tax rate, should we expect 34%, around this level, for the full year?

Christof Dreibholz Presumably, you relate this to the earnings before tax that we show in our numbers, and this is an IFRS number, and it is also, and this is more important, impacted by costs that are not the basis for tax reasons or tax purposes. Hence this artificial ratio will be above 30%, yes. If it's 34, maybe, yes, in this range, but our typical sustainable ratio is closer to 30.

Gerhard Orgonas All right.

Christof Dreibholz Does this help you?

Operator Once again, to ask a question, please press star and one. The next question comes from the line of Marietta Miemietz, Pareto, please go ahead.

Marietta Miemietz Thank you very much, and good afternoon. A question on Arkopharma and the cost base. By how much, roughly, do you expect to decrease it in the remaining months of the year? Can you give us a feel for how the cost base this year will compare to last year, or to what extent you think you can actually offset revenue shortfall by a cost reduction?

And somewhat related to that, would you say your plans for Arkopharma integration margin expansion outlined at the CMD last year are still on track? And then I will have a question on Montavit, but maybe I'll let you take the Arkopharma bit first. Thank you.

Christof Dreibholz Andreas, let me start, and please jump in if there's anything you'd like to mention. What we are able to do in terms of cost reduction is in the single-million-digit range, approximately in the middle of the single-million-digit range. That is what we think we can do and what we've planned for with individual measures that we can reduce. I must say I can't say what this means in terms of percentage-wise, but this is the absolute amount that we can do in terms of EBITDA reduction. Can you remind me of your second question, please, regarding Arkopharma?

Marietta Miemietz I was just wondering, if you look more on the midterm, obviously you have some moving parts at the moment, but at last year's CMD you spoke in quite a bit of detail about your midterm plans for Arkopharma and generally where you thought the margin was

going. So I was just wondering, does that mainly still stand, or is that something that you basically need to revise to adjust to a new environment? Are there any delays or actually any accelerations, because maybe Italy and China are going better than expected? So any colour there would just help.

Christof Dreibholz

Andreas, can you maybe start?

Andreas Eberhorn

Yes, I will do, I'm happy to. Regarding what we shared last year and the way to add specifically more sustainable brands to the very, I would say, fast-turning food supplement segment is still ongoing. So we keep our plans as shared. Also last year, we are opening OTC files to be able to register also, if not yet already registered, in the Arkopharma geographies. And this is what we are doing. And, when ready, step by step, adding, to the market as well. We are evaluating to bring first our experience in the one or other geography of Arkopharma, where it suits to set-up, and as well the capabilities of the organisation.

So having said this, these brands as well will need some investment, but on a more sustainable and long-term view, so there's no change to our plans, compared to what we shared last year. So this is ongoing.

And the second thing you ask about, China is part of the synergies. So as I mentioned, briefly, China, we have a nicely growing business, online business, in China with Anton Hübner products. And as Arkopharma products kind of go in the same category of food supplements, we did with various brands testing and picked a couple of brands to enter this market in China, and let's see how good the traction is. But for us, it's a first step of also Arkopharma expanding in this overall quite significant and big market. And as well we are also starting Slim Now in Germany with Arkopharma brands, first online, and if we see traction and good response, we will plan next steps. So the plans, as shared, are ongoing and there's no revision of that one.

Marietta Miemietz

Okay, great. Thank you very much. And just one question on Montavit, I wonder if you could share roughly what the profitability of that business is now and could it actually increase further? I'm just asking because I thought that it would be making a positive contribution from the get-go, so I was a little bit surprised that, basically, the measures you took seemed to make a very meaningful contribution to your EBITDA in the first half, that would be helpful. Thank you.

Christof Dreibholz

I must say, you have a very bad line. Regarding Montavit profitability, it's 1.2 million in H1 based on revenues of 18 million. And when we bought it, it was loss-making, also at EBITDA. So we see this improvement, but I am not sure if I understood your question correctly.

Marietta Miemietz Okay. No, that's great. Thank you so much.

Christof Dreibholz Okay. Very good.

Operator The next question comes from the line of Miro Zuzak, from JMS Invest. Please, go ahead.

Miro Zuzak Can you hear me?

Christof Dreibholz Yes, we can.

Miro Zuzak Okay. I see there are still school holidays in Bayern, right? Very nice. Happens to me as well. One question. The organic growth in the Markenarzneimittel segment. Just to reconcile, we have 8.1 million coming from Montavit in H1, as you write in your presentation. The corresponding figure for Q1 was 8.6, so the inorganic contribution. So that would mean roughly 10 million was basically the inorganic contribution, the number.

Christof Dreibholz You mean Q1 and Q2 separately?

Miro Zuzak Yes.

Christof Dreibholz I don't have the 8 million here currently in front of me, but, yes, it may well be. Yes.

Miro Zuzak Okay. And the same question regarding BioNTech. Is it fair to assume that the profit 10 million in H1, which you still had in revenue this year, roughly?

Christof Dreibholz Yes, that is fair to assume. Yes.

Miro Zuzak Okay. Thank you.

Operator Once again, to ask a question, please press star and one. We have a follow-up question from Miro Zuzak. Please, go ahead.

Miro Zuzak So, these are minor questions, which I still have, housekeeping questions. In the depreciation and amortisation line, there was a noticeable increase versus Q1, from roughly 20 million to roughly 24 million. Is the 24 million a run rate we should assume, quarterly depreciation and amortisation, going forward?

Christof Dreibholz Shuffle my notes. Just looking. No, I don't see currently the Q1 result, separately. But I am not aware of any significant items that are not recurring in Q2, so I would say that if we double the amount of Q2, I think that's a fair estimate of our annual depreciation charges.

Miro Zuzak Okay. And a similar question on your personnel cost, there was also a relatively noticeable increase from 69.3 million to now almost 74 million, so 4.5 million more in Q2 versus Q1. Was there any special effect, or is this just the normal salary increases that you had?

Christof Dreibholz I looked at my figures regarding depreciation, and I would just

briefly like to come back to that. There are approximately 2.5 million which are indeed only affecting Q2, and they will not recur. So if you reduce the amount of, what do we have, 44 million by these 2.5 million and double this amount, then this is the better amount. Maybe not meaningful, but there were two items which are indeed not recurring.

Miro Zuzak Okay, perfect. Thank you. And for the personnel costs?

Christof Dreibholz Yes, can you repeat that? Because I was still thinking over the depreciation and, I'm sorry, didn't really follow your question.

Miro Zuzak Sure. There was a noticeable increase also in Q2 versus Q1 from 69.3 in Q1 to 73.9 in Q2. So 4.5 million more. Is this just the normal salary increases that you have because of inflation adjustments?

Christof Dreibholz Yes. In this case, yes, but we had indeed, last year and this year, we had exceptional additional labour cost increases due to compensating our employees for inflationary impacts that we see. And this is something that is presumably, based on now, not recurring. But this second increase was in Q2 this year.

Miro Zuzak So the personnel cost, there was a one-off charge in Q2, basically?

Christof Dreibholz No, higher cost increases, and I think this is even more material, we recorded Montavit, but this was also recorded in Q1 2024. So if you compare Q1 to Q2, this may not be the driver. So presumably the major driver is indeed the additional cost increase through inflationary increases that we had in Q2. But this will not recur in the remaining six months.

Miro Zuzak So the run rate will basically decline again from Q3 on.

Christof Dreibholz Yes.

Miro Zuzak Okay, cool. Thank you.

Christof Dreibholz You're welcome.

Operator The next question comes from the line of James Chapman, Kabouter. Please, go ahead.

James Chapman Hi, thanks for taking the question. Can I just ask about, and get some clarity, sorry, you've already been asked about Arkopharma's performance in July, on the call earlier, you talked about sales as very favourable, above prior year and only slightly below budget, and then the questioner obviously said, well, you were originally projecting 7% growth for Arkopharma this year, and July it's actually tracking, you implied, at 3.5%. So were you expecting that sort of 3.5% performance in July?

 And when you talk about it's only tracking slightly below budget, just clarification there, and I think you kind of implied this, you're

saying that's for current months, you're not only tracking slightly below the year budget now? I just wondered if you could elaborate on that.

Christof Dreibholz Yes. Regarding, to start with, your last point, I only spoke about July and only the July budget. Yes, full stop.

James Chapman So, you were expecting around 3.5% in July, which is what has been delivered?

Christof Dreibholz No, we expected more, because we were below budget, but we were 3.5% above prior year. But budget was slightly higher.

James Chapman Thank you.

Christof Dreibholz You're welcome. And could you remind me of the first part of your question again?

James Chapman I think you've answered it. I just wanted to clarify that you were talking about current month's trading, you weren't talking about trading speeding up, so we're only slightly below budget for the year. Obviously, you're well below your initial expectations there still. But you've clarified that, thank you very much.

Christof Dreibholz You're welcome. But as Andreas mentioned before, there are some impacts which will come in the second half of the year, and hence we believe that the trading will pick up, hopefully, of Arkopharma.

James Chapman Understood. Thank you.

Christof Dreibholz You're welcome.

Operator We have a follow-up question from Miro Zuzak. Please, go ahead.

Miro Zuzak Hi, thank you again for taking another question. Regarding your sales guidance, if we look at the Axicorp business, there was this 15% increase versus last year. Obviously, it has a big impact on your sales, let's say 10 million, more or less, per quarter. The two more quarters left, do you expect these sales numbers again to go down in the Axicorp business, or is 65 a good assumption for the remainder of the year?

Christof Dreibholz It was actually in Q2 we saw a catch-up of the shortfall in Q1. So this is not something that, or maybe hopefully indeed, they are able to do even more. But based on that, we see that they are now on track again. And hence, going forward, I wouldn't anticipate that this additional 10%, or 10 million, you mentioned, that we saw in Q2 will continue in the remaining quarters, but basically, as we are now on track, work with, what do we have, 122 million as a basis. So that's double the amount, to make it simple.

Miro Zuzak Okay. So that means basically from the 620, which you need to

have the 1.2 billion, which is a bit above the midpoint of the guidance, 240 will be the parallel, and the rest will come from the other business lines. That's basically how we should model...?

Christof Dreibholz

In ball-park numbers, yes.

Miro Zuzak

Okay. Good, thank you.

Christof Dreibholz

You're welcome.

Operator

We have no more questions at this time.

Britta Hamberger

Okay. Thank you very much for your interest in our H1 figures. If there are any questions left open, please give me a call afterwards. Thank you very much.