

Dermapharm Holding SE
Q2 2023 Results Webcast
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Transcript

Speakers:

Britta Hamberger

Christof Dreibholz

Britta Hamberger

Ladies and gentlemen, welcome to Dermapharm's Half Year Financial Report Webcast 2023. Thank you for joining us this afternoon. Today's speaker is our CFO and Chief Compliance Officer, Christof Dreibholz. Christof will guide you through the presentation, and afterwards, there will be time for Q&A. Christof, the floor is yours.

Christof Dreibholz

Thank you very much, Britta. Good afternoon also from me. My name is Christof Dreibholz. As Britta mentioned, I'll guide you through our H1 results. And I start on page four, where you see the highlights which you will find across this presentation.

We have seen a continued growth in our branded pharmaceuticals segment, but most of all, the first six months have been influenced by the strengthening of our now renamed other healthcare products segment, with the introduction of Arkopharma to the numbers.

And mentioning Arkopharma shows also our successful M&A strategy, which we further continued with the acquisition of Montavit, a transaction that was closed on 28 June. It will be introduced in our numbers and consolidated from July 2023 onwards. We will show more details towards the end of the presentation.

Coming to our financial figures and going to page six shows the performance, the trading in the first six months, with a remarkable revenue increase by roughly 24% to approximately €580 million, and there's also a large contribution obviously from Arkopharma. We have further seen an increase in adjusted EBITDA to €170 million approximately, which is a slight margin deterioration by 2.7 percentage points, which is mainly attributable to increased labour cost.

Coming to the next slide shows the main drivers behind the revenue and EBITDA increase. That is obviously, first of all, the initial consolidation of Arkopharma. Arkopharma managed to generate revenues of €113 million in the first six months, at an EBITDA margin of approximately 25%, translating to €28 million in the first six months.

This is a very nice margin that Arkopharma managed to generate in the first six months, but I think I mentioned before that this is partly impacted also by a shift of certain costs that will rather be in the second half of the year. So we expect the margin to come down a little bit closer to 20% to 23% of revenues.

Trading has further been impacted by organic growth, approximately €22 million in revenues at an EBITDA result

of €9 million, translating to a margin of approximately 40%. And this is attributable to the branded pharmaceuticals products in there, with the high margin of nearly 50%.

These two positive effects have been partly offset by a reduction in our business, our vaccine business with BioNTech. We've mentioned that before. We had revenues and results in Q1 23 that these are basically the last revenues that we expect and that we have planned for. And the difference between revenues generated in the first six months 22 versus 23 is approximately €24 million in revenues, and at a margin of 70%, translating to an EBITDA impact of €17 million.

Coming to the next slide shows a summary of our EBITDA adjustments. We've introduced this slide this time, I think for the first time, because the six months in 23 have been impacted by significant adjustments. And in order to give you a clear picture of these adjustments, which are all either acquisition or restructuring related, we've prepared this breakdown, showing the comparable numbers for 22.

The largest impact comes again from the Arkopharma acquisition. We have performed the purchase price allocation, and part of the hidden reserves that were identified are reserves in inventories. These have been recorded in our opening balance and are released, expensed over time.

The €8.7 million is half of the hidden reserves that are shown in inventories as the assumption is that these hidden reserves are realised over the first 12 months on a straight-line basis. So basically, four-point-something, €4.3 million per quarter. And you can expect the same amount for H2 in 23.

Secondly, and the majority of that was already recorded in Q1, are the acquisition costs related to the Arkopharma acquisition, which is again the majority of the amount. So this is related to expenses charged by M&A advisors, legal advisors largely and also our financial advisors.

Then we have two more impacts, firstly from the deconsolidation of fitvia, bellavia, and mibe UK. This amount is largely attributable to fitvia, and results from the fact that we increased our share in fitvia from 70% to 100%. And this remaining acquisition of the remaining 30% was based on IFRS directly recorded in equity, and now the deconsolidation leads to an expense which is adjusted here.

And the fourth-largest impact is the impairment of Corat. We have reduced the amount, and Corat is now recorded at

zero or €1 in our books. And we took a prudent approach and expensed the remaining book value, but adjusted this for purposes of our normal EBITDA view.

Next slide, slide nine, shows another general impact that we had in connection with the end of Q1, where we slightly amended our definition of segments, and going with that, the legal entities included in each segment. The driver behind that is that we had again, with the acquisition of Arkopharma, a close look at the underlying sales and marketing drivers and tried to better focus on the underlying customers.

So branded pharmaceuticals is now even more aligned to prescription products, with doctors our primary point of contact. The now renamed other healthcare products segment is then a segment which includes customers like pharmacies, drug stores and our B2B business.

And the parallel import business comprises axicorp, which is largely unchanged, except for a transfer of remedix, which is also a drug-related business that has been merged with Candoro ethics. And Candoro ethics is the renamed former C3 business. This business, together with remedix, is now shown in other healthcare products, like mibeTec, MELASAN and Hübner.

In terms of numbers, this shift does not materially change the picture. The branded pharmaceuticals segment loses approximately €24 million in revenue transferred to our other healthcare segment, and remedix leads to a shift of a further €4 million in revenues, also to the other healthcare segment.

Page 11 shows the impact that comes along with that on adjusted EBITDA. And the only notable thing that I would like to mention is that if you add the numbers, minus €2.7 million plus €1.7 million and €2.7 million, sorry, minus €2.0 million, they don't add up to zero, which the reason for that being that €3 million are transferred to a reconciliation difference that we continuously have at EBITDA result.

And these €3 million comprise €1.5 million, a gain that we have from the remedix transfer, and in the remaining €1.5 million is the largest impact, €0.7 million, from the deconsolidation of mibe UK. So you have to consider also the variance between the minus €4.5 million and the minus €1.5 million reconciliation difference.

Coming to the development in the different segments, I will be brief this time and not basically read what is written there, because I think the drivers have been outlined before. The only thing that I would like to mention here on page 12 is

that also after the reduction in the vaccine business, our EBITDA margin is still at a remarkable 48.2% of our revenues, which is only slightly below the number that we've achieved in the year before.

The same is also the case in our other healthcare product segment, where we managed to increase the margin slightly to 21.3%, which is also attributable to the slightly above average margin that Arkopharma generates. I mentioned the 25% generated in the first six months in 23 before.

And parallel import business typically has a low margin, which has slightly declined. This is partly influenced by the costs associated with the relocation of the Candoro ethics business from Neumarkt to Friedrichsdorf that have not been adjusted for.

And in order to also have the space available for the C3 business or Candoro ethics business in Friedrichsdorf, we transferred certain services from Friedrichsdorf to mibe in Brehna, which are related to the OTC business. And the margin from these logistical services is now also generated with mibe, i.e. in the branded pharmaceuticals segment. And these are two drivers reducing the margin, both in absolute and relative terms.

If we look further below EBITDA, our earnings before tax decreased by approximately €20 million, which is attributable to our increased financial expenses in connection with our new syndicated loan.

And from that earnings before tax, we come to our cash flow. And earnings before tax is our starting point for calculating our indirect cash flow statement. We've seen the starting point, earnings before tax, minus approximately €20 million before. Or to say it the other way around, our working capital in the first six months increased, but slower as compared to the trend in the first six months in 22. So we have a positive effect from a slower working capital increase.

And as I mentioned before, we have especially two non-cash effective impacts. That's the Corat impairment and the fitvia, bellavia, mibe UK deconsolidation, which are also not in... Which don't impact our operating cash flow and drive the increase that we see in our operating cash flow to €88 million in H1 23.

And our investing cash flow is nearly exclusively impacted by our investment in Arkopharma. This is accompanied by normal R&D and replacement capex plus, as I said, we acquired Montavit, closing with end of June, 28 June. And we paid one single-digit million amount for a majority

investment in Montavit. This is also included in there.

Next slide, 17, shows a summary of our balance sheet, again also impacted by Arkopharma. And of that, maybe as one information, of the increase in non-current assets, approximately €300 million are goodwill related to the Arkopharma acquisition.

On page 19, we show our outlook for the full year. Numbers are unchanged to what we've communicated before. Based on the performance that we have seen in the first six months, we confirm this outlook, and we believe that we can achieve our outlook closer to the higher end of the range.

Montavit will be consolidated from July onwards, but we don't see a notable or material impact on our revenue and also on our EBITDA from the initial consolidation of Montavit. We do feel that Montavit will achieve a positive EBITDA.

And finally, as I mentioned Montavit already several times, there is a brief overview. Montavit is based in Absam in Austria. That is approximately 90 minutes' drive by car from Grünwald, our headquarters, to Absam, so actually now one of our closest subsidiaries. It has an administrative building and also production related there in Absam and is also, from the origin, close to our business as it is a family-owned business.

And Montavit is a leader or has one very strong product in a niche market. They produce a catheter gel, Cathejell called, have a very high market share in Austria and also selected other countries and are, through distributors, represented in more than 80 countries. We believe that there is a lot of potential, A, in also combining this product with the Dermapharm organisation, and vice versa, with products again transferred from Dermapharm to Montavit.

We are currently in very close contact, as we normally do, as we do with Arkopharma, from the financial side, where we have a team that is closely working at integrating Montavit from a financial standpoint and also from a production perspective, where our CFO, Dr Feldmeier, CEO, sorry, Dr Feldmeier, is in close contact, as he is responsible for production, working and supporting the team in Absam. And that is our presentation of our first six month results, and I am more than happy to take questions.

Operator

Ladies and gentlemen, at this time, we will 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 selections. Anyone who has a question may press star followed by one at this time. One moment for the first question, please. Our first question comes from the line of Alexander Thiel from Jefferies. Please go ahead.

Alexander Thiel

Hi. Good afternoon. It's Alex from Jefferies. I have a couple, starting with the first one on your adjustments on page number eight. If I understood you currently, you basically said that for the PPA adjustment of €8.7 million in the first half 23, we should also expect that for the second half. Could you also give us some guidance on the rest of the adjustments?

The second one would be on your cannabis business. Could you give us some more colour on basically the market development that you're seeing there? The third one is on your split per new segments that you're showing on page number ten. Could you also provide us with the 1Q figures for that?

And my last one would be on your seasonality for the newly formed group without the vaccine. How should we think about this third and fourth quarter in terms of group revenue and margin seasonality? And also, on Arkopharma, if you could remind us again. In the first half, you're now at roughly €112 million with a margin of 25%. What is the driver that you basically guide down the margin to a level of, let's say, mid-20s, 22%? That would be helpful. Thank you.

Christof Dreibholz

Thank you, Alex. So first question, the €8.7 million. I said the same amount approximately in the second half. Acquisition cost, the only thing we acquired in H2, or we acquired in H1 which may impact H2 is Montavit. But I don't think... There will be some legal costs, so there will be costs, but I wouldn't say it's material. So the amount will not materially change. There will be something, but it's not in the millions.

Then deconsolidation, that is also something that is done. As of now, we don't expect any further deconsolidation, so I would expect also this amount to be more or less unchanged. And finally, impairment is the same. Corat has been reduced to zero, so there is no further impairment. The €8.7 million will be the same amount, but only in 23. There will be nothing beyond, in 24. So basically, it's this amount times two. Full year will then be 17-something, €17.4 million or so.

Then you asked for page ten for Q1. We will check that. We could, for example, do maybe this as we presumably do something comparable for... No, I think this is actually not

something that we plan to report on a regular basis, because then we basically have two definitions which we follow, which is actually not what we want to do. We would do this maybe for Q1, and I think that is what you requested, and then stop these reconciliations. The idea was to give you a picture of what we did and what the impact is.

The only thing is, and we have to check that, if we do this separately, i.e. provide this over our website or maybe as an appendix to the Q3 report. But this would mean that you have to wait until November, and I assume you would prefer to have this rather sooner than later. So presumably the website.

Arkopharma, the main reason for Arkopharma with their reduced profitability for the full year is, as I said, a shift in cost, and especially marketing and sales expenses, which are in Arkopharma significantly higher than as they have in, well, different products other than our branded pharmaceuticals products, which are more depending on more expensive advertising campaigns, media campaigns, television spots, and they do not occur on a straight-line basis, but are in this case slightly shifted towards the second half of the year. And therefore, we expect a lower EBITDA in the second half.

In terms of revenue, I think you make no mistake if you simply double the revenue figure for the full year, so approximately €225 million to €230 million for the full year, as there is a seasonality, but we have two stronger quarters and two weaker quarters, and they are allocated over the year on the same basis. So if you look at the two half years, they are more or less identical.

Then there was a question on the branded. What was that?

Britta Hamberger

On the total seasonality for Q3 and Q4 to be expected.

Christof Dreibholz

Just...

Britta Hamberger

But this is mainly answered by your answer regarding Arkopharma.

Christof Dreibholz

Arkopharma. Yes.

Britta Hamberger

And then there's one left.

Christof Dreibholz

Yes. Maybe cannabis, I must say, normally this would be a question for Andreas Eberhorn, who is unfortunately not here. If okay, we would shift that and maybe answer that in writing afterwards. Or is there something...? I'm looking at Britta. Is there something that you...?

Britta Hamberger

There's nothing new than we have said before.

Christof Dreibholz Yes. I think what we can say...

Britta Hamberger So there is still strong competition ongoing.

Christof Dreibholz Yes. I think prices are flat nowadays. We haven't seen a further decline in prices. That is definitely something. And I think volumes are more or less in line with what we budgeted. So no significant surprises. What our most important task currently is what we mentioned before, the shift of the production from Neumarkt to Friedrichsdorf. And that is a very important project, and we need a motivated axicorp team for that. That is important currently, that we are able to have or make this, build this new home, this new production home for the C3 business in Friedrichsdorf.

Alexander Thiel Okay, that's very clear. Maybe a quick follow-up from my side. The pandemic preparedness.

Christof Dreibholz Yes.

Alexander Thiel Has this already been booked in the first half now, or do you expect something to come in the second one? And from a seasonality perspective, is it fair to assume that the second quarter, in terms of revenue, is the lowest revenue quarter that we are seeing this year?

Christof Dreibholz The pandemic preparedness has not been booked in H1. So basically, there is nothing material that has been booked in Q2. That will be booked, I think from the plan, in December 23, pandemic preparedness. And in terms of seasonality, yes, I don't know if it's... In Arkopharma, there is a seasonality. I think, overall, there is no major seasonality now in our entire group.

Alexander Thiel Okay. Thank you.

Operator The next question comes from the line of Gerhard Orgonas with Berenberg. Please go ahead.

Gerhard Orgonas Yes, good afternoon. Just one question maybe on the organic growth in branded pharma, excluding the COVID business. Could you give us a number there in percentage?

Christof Dreibholz Approximately half of the amount that you see there.

Gerhard Orgonas Okay. That's for H1, yes?

Christof Dreibholz Yes.

Gerhard Orgonas Okay, thank you.

Operator As a reminder, if you wish to register for a question, please press star followed by one on your telephone. Star followed by one. The next question comes from the line of Marietta Miemietz with Pareto. Please go ahead.

Marietta Miemietz

Yes, thank you very much. A couple of questions, please. One is around inflation and the impact on your cost base going forward. So you mentioned changes in labour costs, and I know the pharma industry has really tried to hold off as much as possible on salary increases for highly paid employees in R&D and marketing.

So it would be just really helpful to understand what types of workers got a raise, when this was implemented, whether you expect any more inflation-related wage and labour cost adjustments going forward. And maybe also quickly on energy, is the energy bill still only about 1% of profits? And is it fair to say you don't really expect a material profit impact there from cost inflation?

My second question is around M&A strategy over the next couple of years. It's quite rare to come across a niche opportunity like Montavit that is immediately accretive, but do you expect more opportunities like that to crop up in the current unfavourable market conditions? And what is the earliest you think you would be able to do an acquisition of similar scale as Arkopharma from both an operational and a financial perspective? Thank you very much.

Christof Dreibholz

So maybe starting with the last point, M&A, we have... As you know, I think the limiting factor here is definitely the financing. Our new syndicated loan is closely related to the Arkopharma acquisition, and you see the absolute amounts. We have leverage agreed in this in our contract, and that is definitely something that we have to consider and monitor. And therefore, I currently don't see an acquisition in the size of Arkopharma in the short or even medium term that would then imply a change in our financing and would maybe also have an impact on equity and shares listed.

However, we do have our network, and Montavit came through our network, also our internal network. And we are, I would say, regularly approached with M&A projects to look at, which we do. We have a dedicated team that looks at M&A projects on a regular basis and assesses them, and we either continue, or really, it's a normal process. If it's interesting, we continue, but there is a regular flow also in the current market environment.

And in terms of inflation, the most significant impact that we currently see is our impact on our labour cost. We had a regular increase in H1, which is normal and performed every year as ordinary course of business. We had a premium that we paid, which is with tax incentives on, if you... Up to, I think, in total, €3,000 over a two-year period, which we do not fully pay. So the amount that we pay to our employees

is below these €3,000 over two years, but part of that was already paid in Q1 23. And we will have a second increase in our labour cost in 23 in July, impacting H2.

And other than that, if you look at our gross margin, for example, this is, I would say, more or less unchanged, even slightly increased. So we don't see any impact currently on that, or to say it the other way around, we managed to increase prices. And that is something that we had a focus on also in our first six months, trying to increase prices wherever possible to compensate for cost increases.

Marietta Miemietz

Thank you. Very clear.

Christof Dreibholz

Welcome.

Operator

Once again, to ask a question, please press star and one on your telephones. Star followed by one. There are no further questions at this time. I hand back to Britta Hamberger for closing comments.

Britta Hamberger

Thank you for joining us in this call this afternoon. If there are any questions left open, please feel free to give me a call afterwards. Thank you very much for your attention.

Christof Dreibholz

Thank you. Bye-bye.