

Dermapharm Holding SE
Q3 2024 Results Webcast
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Transcript

Speakers:

Britta Hamberger

Christof Dreibholz

Dr Andreas Eberhorn

Britta Hamberger

Ladies and Gentlemen, welcome to Dermapharm's Q3 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.

Christof Dreibholz

Thank you, Britta. Good afternoon, also from me. My name is Christof Dreibholz. I will start the presentation. So, looking at the agenda, we will guide you through the financial numbers for year to date, and for the first time, also the quarter itself, individually, and look at the outlook for the entire year, 2024, and end with a Q&A session.

So, starting with the financial numbers, giving you an overview over the year to date, September 2024 numbers compared to prior year, excluding the vaccine business, where we show a tremendous revenue growth of approximately 52 million EURO, largely coming from the branded pharmaceutical segment, both inorganically to a lower part, and mainly from organic growth, both in Germany, from the core business and from the international business.

And with that being a high-margin business, this also translates to a notable EBITDA, in this case, adjusted growth of approximately 25 million EURO. And through this high-margin growth, the EBITDA-margin improves (excluding the vaccine business) by 1.4 percentage points.

If we look at the income statement with revenue, EBITDA, and earnings after tax, we see an approximately 3% growth to 890 million EURO revenue.

That, as said before, is coming from the branded pharmaceuticals business in Germany and abroad, and from Montavit. And to remind you, Montavit was initially consolidated in July 2023. Last year only one quarter was included, whilst, in 2024, we show three quarters of Montavit revenue and results.

And this positive development compensates for the decline, of especially Arkopharma and the expiring vaccine business. Our results are, in absolute terms, approximately, at prior year level. We see a slight decline by 1.4%, which is mainly driven by higher labour cost and inflation-related increases and other expenses, which are only partly compensated by an improved gross margin.

Our normalisation adjustments, which we will look at in more detail later, significantly declined from 36 million EUR in

prior year to only 6 million EURO. So, the adjusted result that we show here is nearly identical with our reported EBITDA. That is also the main reason for our increase of earnings after tax, which increased by an impressive number, 45% to nearly 93 million EURO.

We are now coming to our quarterly development on slide number 6, and I think this would be a good time to hand over to Andreas, who will say a few words, give you more detail, more colour around our revenue development in the different segments.

Dr Andreas Eberhorn

Thank you, Christof, and welcome from my side. So, yes, let's have a look a little bit more deeply into the revenues in the third quarter. And starting with the branded pharmaceuticals, we see a really tremendous growth fuelled by all the businesses we are doing in this segment. So, as Christof already mentioned, Germany is doing quite well. So, the physician pharmacies business shows constant growth over more or less all products. We are focusing on our focus products, which are all growing in line with or even above market, be it our vitamin D portfolio, our products in cardiology vascular diseases or in pain & inflammation. So, it's a really good development, as we show, and it's continuous, growing steadily above our markets.

Second, as we shared a couple of times, we are really nicely growing in the hospital segment with our corticoids. The allergology business, as well, adds to significant growth. So, at the moment, the company's showing the biggest growth in volume, and our core product, Acaroid, is growing double-digit, which is a great support here of these numbers.

And, as we mentioned a couple of times, our international Dermapharm affiliates show a double-digit growth in total, a continuous growth trend, on the one hand, by the in-market brand, but also by new brands launched from our broad portfolio. So, be it Poland, Croatia, Austria, Switzerland, or Spain, all affiliates are showing a very nice growth, which, in the end, leads to this really significant upside we see here.

On the other healthcare segment, also as shared in our communication, Arkopharma is coming back to the level of last year. The measures we communicated last time start showing effects, and after two weaker quarters, we now have, in sum, a real nice, positive signal, which is the start for continuous growth in the future.

A little bit on other companies of the other healthcare segment: Anton Hübner. Here we have a slight shift in the third quarter, compared to last year, from the international part of the business. So, there are bigger orders, which are

now happening, or happened in Q4, which leads to a little bit lower numbers. Christof will share, also, the impact on the EBITDA here. But the goal for the full year will be achieved.

And the rest of the business: the Euromed B2B business is in terms of revenues on plan, as well as we see here.

Also the Axicorp business is developing nicely in line with the overall market trend, which also, under the parallel trade, is growing in the German market, and Axicorp is capturing this growth as well.

So, this, in short, from my side, and handover back to Christof.

Christof Dreibholz

Thank you, Andreas. And as Andreas said, the EBITDA basically shows an overproportionate increase, compared to our revenue trend in Q3. Again, coming from the branded pharmaceutical segment with a decline in other healthcare products. That is largely, as Andreas mentioned, attributable to a shift in revenues from Q3 to Q4, i.e. revenues last year were recorded in Q3, and this year's revenues, especially in the export business of Hübner and Euromed business, are expected beginning of Q4 2024. And we expect that a large part of this difference will be closed in the remaining months of the year.

Our earnings after tax also notably increased by 35% to 33 million EURO. And I would like to point out that Arkopharma is in Q3 2024 at the same level, in terms of revenues, as in Q3 2023, and at adjusted EBITDA level ahead of prior year.

Next slide, slide 7, shows the earnings after tax bridge. If we look at the first bridge element, showing that the remaining business, ie. other than the acquired entities, or the last acquired entities, Montavit and Arkopharma, compensates for the decline caused by the phasing out of the vaccine production. Just to remind you, the difference in the year-to-date numbers is approximately nearly 30 million EURO that we have compensated through our remaining business.

A large part of that, of course, as mentioned before, comes from the branded pharmaceutical segment. And looking at Arkopharma and Montavit, the net decline is 7 million EURO. So, Montavit compensates for a part of the decline caused by Arkopharma at adjusted EBITDA level. The third bridge element is the reconciliation to reported EBITDA. The first two elements are adjusted, but we see that the reported EBITDA notably increased. Let's say, half of that is

attributable to branded pharmaceuticals segment, half of that is attributable to the other healthcare segment.

Then we see a favourable impact from our financial result, in total, 4.4 million EURO. The large part of that is coming from a change in the valuation of our two swaps due to the development of the interest rate.

Income taxes slightly increased, compared to the comparable quarter, by 7 million EURO. Depreciation charges slightly declined. A reason for that is that we saw PPA-related depreciation charges in 2023 from Arkopharma, which are partly offset by higher depreciation charges due to the consolidation of Montavit.

The normalisation adjustments in more detail on slide eight. Most important information, I think, is, and I would like to repeat that, that our adjustment significantly declined. Reported is close to adjusted EBITDA, and the increase is 6.2 million EURO, an increase in the relocation cost caused by the relocation of the Candoro ethics business. Other than that, unchanged. Currently, we don't expect a major increase in Q4, based on our current knowledge.

Coming to slide 9, showing our net financial debt, which is at 919 million EURO, as of September. We expect a further decline in the last quarter, largely coming from a scheduled repayment of a promissory note, approximately 40 million EURO in total with another loan repayment. We will reduce, based on these repayments, our net debt number by 50 million EURO. Our covenant, or the ratio of net debt and adjusted EBITDA, is at 3.0, and in line with the provision that we have agreed in our syndicated loan.

The underlying interest cover ratio is nearly 6, which we consider as comfortable. And our equity ratio is, again, after a decline, as of June, at nearly 28%. The equity ratio, as of June, declined due to the payment of the dividend and the corresponding decline in equity. And as a result, we compensated for this decline through the earnings that we generated, which increased our equity.

Our balance sheet itself, which you see on the next slide, total, slightly declined, which, of course, also had an effect. But the major effect comes from the increase in the absolute equity number. I think there is not much to say on this one.

I think it's more interesting to look at slide 11, where we show a detail of net working capital, which slightly increased, primarily driven by inventories and in terms of absolute numbers, but this is driven by our underlying growth and revenues. We still see inflationary production cost increases and hence, higher inventory recorded on balance.

And we still see the need of buffer stocks to secure the ability to deliver our products in light of the crisis we are currently facing. However, if we look at relative numbers, i.e., the days and inventory days, sales outstanding, and days in payables outstanding, these relative numbers develop favourably. Our DIO declines by three days to 107, i.e., although the absolute number of inventory increases, in terms of days, the relative number declines.

Same is the case for our DSO, which declines also by three days to 38, and our days in payables slightly increases. The net, our cash cycle, develops favourably by eight days.

A few highlights on our cash flow from operating activities. Our operational cash flow declines. Our cash conversion slightly declines to 130 million EURO. The reason for that is on slide 13, where we show the bridge of earnings before tax to our cash flow from operating activities. Main reasons for the change, i.e., whilst our earnings before tax is increasing by 36 million EURO, our operating cash flow is declining by 23, is the increase in net working capital, which is, here, exactly 20 million EURO and higher income tax payments.

The latter being caused by the impact or the effect that the tax declaration for the years impacted, especially 2021 and 2022, by the vaccine business, only lead to tax payments in last year, and especially in this year, hence causing higher cash outflows in 2024.

Based on that, our ongoing monitoring of the business and our reforecasts that we regularly do, we confirm our outlook for 2024, i.e., we expect that our revenues will be within the range of 1.17 to 1.21 billion. And our adjusted EBITDA is, based on the information that we currently have, within the range of 305 to 315 million. With that, I would pause and give you time for asking questions.

Operator

We will now begin the question-and-answer session. Anyone who wishes to question may press star and one on their telephone. You'll hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the

queue, you may press star and two. Participants are requested to only use headsets while 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

Yes, thank you very much. Just wondering about the dynamics over a 12- to 18-month horizon. Maybe if you could just give us some qualitative thoughts, please? One is, how should we think about the dynamics of Arkopharma going forward? Would you say you have stabilised the situation with the specific measures you took, and it will now stay at that level? Or should we look at an improvement in dynamics, as there is, maybe, the start of a recovery in demand, or maybe some of your newer products really cater to specific clients, for example, in the in the haircare space?

And similarly, for pharma margins what should we think of as a sort of longer term run rate? I think we were all just a little bit surprised how quickly you managed to offset the lost profit from the phase-out of the COVID business. So, would you say what we saw in nine months, Q3, is a run rate, or is there an element of cost phasing? And the EBITDA margin is structurally, longer term, a little bit lower than what we've seen in nine months? Thank you.

Christof Dreibholz

Let me, maybe, start with your second question. I think this is, or has been, in a way, covered already by Andreas describing what we did in branded pharmaceuticals, i.e., the focus in the German business on certain focus products, which, from my perspective, went very well. But also, the focus on international and bringing this more together and transferring products to other countries, and also supporting this with new colleagues we introduced, who focus only on the international business.

And, yes, as I said, bring the colleagues together. And that, I think, works very well. And currently, I see no reason that this should change, or that there are any one-time impacts included, that we would foresee a lower margin trend, for example. But maybe, Andreas, if there's anything to add to that...? No, it's not.

Then, regarding Arkopharma, yes, what we do see is that, in Q3, after a slow start to 2024, which was already perceivable during the last months in 2023, and this slow development of Arkopharma continuing in Q1 and Q2 2024, we now see that we are at prior year level and that, even in terms of EBITDA, we are ahead of prior year. This is certainly partly, of course, an impact by external factors,

competition and also the general cost situation. That, of course, has an impact.

But I think also, the measures we took, such as personnel measures with a new CEO we introduced as of May and a new colleague, the head of the BU for France, who started now, a few days ago in November. who, of course, has not had an impact now, but will have a continuous positive spin to the business.

And I think also, going forward, we see, based on the discussions we currently have, an improvement. To what extent, I think it's too early to mention that, to go on that now in detail, especially as our budget is still not finalised. But we are in the midst of working on that. But based on what has happened, what is ongoing, the professionalism that we see with our colleagues in France, we are optimistic that the business will further improve.

Marietta Miemietz

Very clear. Thank you very much.

Christof Dreibholz

You're welcome.

Operator

The next question comes from Stephan Wulf from ODDO BHF. Please, go ahead.

Stephan Wulf

Yes, hi. Good afternoon. My first question would be a follow-up to the previous one. Briefly, after you acquired Arkopharma, you had the target of an adjusted EBITDA margin of 30% within the next four to five years. Is this still valid, or is this not valid anymore? This would be my first, and I would like to ask the second, maybe after the answer.

Christof Dreibholz

The short answer is actually, no, it's not valid anymore. I think everything else would be a surprise. What we've seen, really experienced over the last month, is honestly something that changed the situation. And it is not like there was an external shock, and this is now away, and everything will return to normal and grow. We have to work on that.

We are optimistic that the business is returning to growth, but I currently doubt that we will within four or five years. And that was absolutely correct, what you said, but that we will compensate for the decline that we've seen, plus a further increase, unrealistic. That we return to a level where we have been, and maybe even beyond, that is something that is a must that we have to achieve and that the colleagues also have to achieve and work on. But 30% in this mid-term is currently not realistic.

Stephan Wulf

Okay. Second one would be regarding financial results. You mentioned that already in your presentation, significant lower financial expenses in the first nine months, 10 million

better than in 2023. Is that a run rate that we could expect also for the fourth quarter 24?

Christof Dreibholz

I must say, I'm not sure, regarding the part of the swap, because that depends certainly on the interest rate development. Regarding the interest cost, yes, I think that I don't expect material change in this respect. We have a margin grid, but the margin grid is impacted, presumably, only if we improve the ratio that I show, the 3.0. If we further improve that ratio, then, of course, there is a favourable impact on the margin, but that will only kick in next year.

Stephan Wulf

Okay, and last one would be on the need for buffer stocks, which are still there, obviously. Maybe you can share with us some more details here on that. Why is this required?

Christof Dreibholz

I think, for us, the largest issue we are facing, or a big issue, is when our sales force can generate revenue and doesn't get the products. And largely, this is caused by stockout situations. And in this case, normally, a competitor immediately enters the relationship with our customers. And it's then that it is even getting more difficult to generate these sales again.

Hence, we aim at avoiding, as far as possible, these potential stockout situations. And hence, we try to prepare. One measure to avoid this, to prepare for this is to have the underlying buffer stock. And then, of course, you have to have the production capacity and produce these products in time. But it all starts with having the raw materials you need for that. I think, Andreas, it's more on your part.

Andreas Eberhorn

No, nothing to add. Just to confirm, supply reliability, in all these discussions about issues on supply in the whole pharmaceutical industry is key for us. And as we have most in our own hands, it's rather good to have on the brands we see as key steady supply. Also given the fact that still, after COVID, lead times, even for simpler secondary packaging or blister package whatsoever, tremendously increased over the time before.

So, it's mandatory to have enough stocks here because in this, as also Christof mentioned, markets are competitive. If you are out, somebody steps in. So, reliability and having constant supply is key for us and makes also a difference on the market. So, it's more than reasonable to have enough stocks in place.

Stephan Wulf

Okay, yes, very clear. Thanks a lot.

Christof Dreibholz

Thank you.

- Operator
The next question comes from Fabian Piasta from Jefferies. Please, go ahead.
- Fabian Piasta
Hi. Good afternoon. Thanks for taking my questions. So, the first one would be whether you can give some granularity on the improved gross margin. Does that more come from price or input materials, and how sustainable those are?

A second one is also on Arkopharma. Maybe you can give some intel on 4Q trading? I understand, September is the most important month, so maybe you can give some flavour on how we are in the fourth quarter?

And the last one, also on Arkopharma, as I think there was envisaged 7% annual growth on average after the transaction, and whether you deem this target also as unrealistic, similarly to the margin targets? Thank you.
- Christof Dreibholz
Gross margin, so what I see is an increase to 67%, year to date. Now, approximately, roughly two percentage points over prior year. In the third quarter itself, a minor increase by 5%. Largely, this is mainly driven by product mix. Every time we have a slightly different composition of our revenues. This change in gross margin is not so much that it is driven by other than product mix.

I think the price, especially in branded pharmaceuticals, is typically not something that you adjust. OTC is impacted by price increases. However, due to our strategy, both, the focus on our focus products and generating more revenues in the international business, the reason is rather volume than price driven. And now you have to remind me, I'm sorry, of your second and third questions.
- Fabian Piasta
Yes, no worries. Also on Arkopharma, maybe a 4Q, some sort of trading indication, as, I guess, September is the most important month. So, whether you've seen a continuous positive development for the rest of the year? And the last one on Arkopharma is, I think, after the transaction, there were envisaged 7% growth per year. And whether you also deem this unrealistic, like the margin target?
- Christof Dreibholz
Yes, so what we see, basically, on the daily sales numbers that we get, is that our pharma business is ahead of prior year. So, based on that, I can confirm that this positive trend, based on these daily sales compared to last year, continues favourably. And, yes, a 7% increase in 25 of Arkopharma revenues currently rather will not happen. Growth will be lower. There will be an increase, but it won't be at 7%.
- Fabian Piasta
And somewhat in the longer term?

Christof Dreibholz

We are in initial, intense discussions with Management, but we haven't finalised the budget and also the next two years yet. But based on what we've seen and what we've discussed, is that that Management is very ambitious, but realistic, aiming at improving revenues also above the number that we've seen now in a low single-digit level to a higher growth rate again.

Fabian Piasta

Okay, thank you.

Operator

As a reminder, if you wish to register for a question, please, press star and one on your telephone. There are no more questions at this time. I would like to hand over the conference to Dermapharm for any closing remarks.

Britta Hamberger

Thank you for joining us this afternoon. In case there are any questions left open, please, feel free to give me a call afterwards. Thank you.