Business and financial review

A strong 2023 performance, with growth in all three businesses, and a positive 2024 outlook.

Khalid Nabilsi
Chief Financial Officer

“I am delighted with the performance of the Group in 2023, with all our teams working hard to deliver excellent growth.”

Reported results (statutory)

	2023 $ million	2022 $ million	Change	Constant currency[1] change
Revenue	**2,875**	2,517	14%	15%
Operating profit	**367**	282	30%	34%
Profit attributable to shareholders	**190**	188	1%	7%
Cashflow from operating activities	**608**	530	15%	–
Basic earnings per share (cents)	**86**	84	2%	8%
Total dividend per share (cents)	**72**	56	29%	–

Core results[2] (underlying)

	2023 $ million	2022 $ million	Change	Constant currency[1] change
Core revenue	**2,875**	2,517	14%	15%
Core operating profit	**707**	596	19%	20%
Core EBITDA[3]	**811**	695	17%	17%
Core profit attributable to shareholders	**492**	406	21%	23%
Core basic earnings per share (cents)	**223**	181	23%	25%

Double digit revenue and profit growth

- Group revenue up 14% reflecting growth across all three businesses
- Core operating profit up 19% at a margin of 24.6%, driven by improving profitability in our Branded and Generics businesses. Reported operating profit up 30%, reflecting higher 2022 impairment charges, but after including the 2023 impact of a $129 million provision to cover the expected settlement amount for all opioid related cases in North America
- Group core EBITDA up 17% to $811 million at a margin of 28.2%
- Core profit attributable to shareholders up 21% and reported profit attributable to shareholders up 1%
- Cashflow from operating activities up 15% to $608 million primarily reflecting growth in operating profit
- $149 million invested in R&D (2022: $144 million), growing our pipeline of complex and specialty products
- Strong balance sheet with low leverage at 1.2x net debt to core EBITDA (31 December 2022: 1.5x)
- Full-year dividend of 72 cents per share, up from 56 cents per share in 2022. The Board intends to progressively increase Hikma's dividend, with a payout ratio in the range of 30% to 40% reflecting confidence in the long-term growth prospects for the Group

Growth in all three businesses

- **Injectables[4]:** revenue up 6% reflecting growth in all three geographies. Injectables core operating profit increased by 2% with a core operating margin of 36.9% (2022: 38.3%). Revenue and operating losses in our 503B compounding business are now reported in our Others segment[4]
- **Branded:** revenue up 3% (up 6% in constant currency) reflecting a good performance across the majority of our markets, offsetting the impact of halting our operations in Sudan. Core operating profit growth of 16% and a core operating margin of 23.8% (2022: 21.1%)
- **Generics:** revenue up 39% and core operating profit up 86% with a core operating margin of 20.5% (2022: 15.3%), reflecting good recovery in the base business and strong contribution from the authorised generic of sodium oxybate

Strategic updates

- Riad Mishlawi appointed CEO in September 2023, with Dr Bill Larkins appointed President of Injectables
- Added differentiated products to our MENA portfolio and enhanced our pipeline through a series of exclusive licensing agreements
- Expanded our Injectables capacity, adding new lines and technology
- Strengthened our contract manufacturing pipeline in Generics with several new contract wins
- Completed the acquisition of part of the Akorn business through a bankruptcy process for $98 million, including manufacturing equipment and portfolio and pipeline products that will support our US businesses
- Halted operations in Sudan, which represented less than 3% of Group revenue in 2022, as a result of the ongoing conflict in the country. This resulted in $83 million of impairment and costs

2024 Group outlook

- Group revenue growth in the range of 4% to 6%
- Group core operating profit in the range of $660 million to $700 million

Group

Group revenue was up 14% reflecting growth in all three business. Group gross margin declined slightly primarily driven by shifting product and geographic mix in the Injectables business.

Group operating expenses were $1,023 million (2022: $956 million). Excluding adjustments related to the amortisation of intangible assets (other than software) of $88 million (2022: $92 million) and exceptional items and other adjustments of $235 million (2022: $195 million), Group core operating expenses were $700 million (2022: $669 million).

Selling, general and administrative (SG&A) expenses were $767 million (2022: $615 million). This includes a provision of $129 million related to an agreement in principle and provisions to resolve outstanding opioid-related cases in North America, which is considered an exceptional item. Core SG&A expenses were $544 million (2022: $509 million), up 7%, primarily reflecting investment in sales and marketing in the US and MENA.

Research and development (R&D) expenses were $149 million (2022: $144 million), representing 5% of Group core revenue (2022: 6%), as we continue to invest in adding more complex and differentiated products to our pipeline and expanding our portfolios across our markets.

Other net operating expenses were $75 million (2022: $192 million) primarily reflecting the impairment charge related to halting our operations in Sudan. Core other net operating expenses were $4 million (2022: $11 million), primarily comprising foreign exchange-related costs.

The increase in core operating profit by 19% and core operating margin to 24.6% were driven by the strong performance of both Generics and Branded. Reported operating profit grew 30%, reflecting lower reported operating profit in 2022 resulting from higher 2022 impairment charges, but after including the 2023 impact of a $129 million provision to cover the expected settlement amount for all opioid related cases in North America.

1. Constant currency numbers in 2023 represent reported 2023 numbers translated using 2022 exchange rates, excluding price increases in the business resulting from the devaluation of the Egyptian and Sudanese pound and excluding the impact from hyperinflation accounting.
2. Core results throughout the document are presented to show the underlying performance of the Group, excluding the exceptional items and other adjustments set out in Note 6 of this report. Core results are a non-IFRS measure and a reconciliation to reported IFRS measures is provided on page 35.
3. Core EBTIDA is earnings before interest, tax, depreciation, amortisation, impairment charges and unwinding of acquisition related inventory step-up, adjusted for exceptional items and other adjustments. Core EBITDA is a non-IFRS measure, see page 36 for a reconciliation to reported IFRS results.
4. During 2023, the Group has revised its injectables operating segment. Previously, the 503B compounding business was reported under the Injectables segment and is now included within the Others segment. 503B compounding business' 2022 revenue of $1 million and operating loss of $9 million have therefore been reclassified to the Others segment. 2023 Others revenue was $21 million (2022: $14 million) with an operating loss of $9 million (2022: $6 million loss).

Injectables

We supply hospitals across our markets with generic injectable products, supported by our manufacturing facilities in the US, Europe and MENA.

Financial highlights

	2023 $ million	2022[1] $ million	Change	Constant currency change
Revenue	**1,203**	1,140	6%	6%
Gross profit	**655**	625	5%	5%
Gross margin	***54.4%***	*54.8%*	*(0.4)pp*	*(0.3)pp*
Core gross profit	**657**	651	1%	1%
Core gross margin	***54.6%***	*57.1%*	*(2.5)pp*	*(2.4)pp*
Operating profit	**358**	354	1%	2%
Operating margin	***29.8%***	*31.1%*	*(1.3)pp*	*(1.0)pp*
Core operating profit	**444**	437	2%	2%
Core operating margin	***36.9%***	*38.3%*	*(1.4)pp*	*(1.2)pp*

Injectables revenue grew 6% in 2023, reflecting good growth in all three geographies, benefitting from the breadth of our global portfolio and advanced manufacturing capabilities. This helped to fully offset loss of sales from halting our operations in Sudan.

In North America[2] we are benefiting from good demand for our broad product portfolio, including for products in short supply, recent launches and a full contribution from the acquisitions of Custopharm and Teligent's Canadian assets. This more than offset increased competition on certain products.

In Europe and rest of the world (ROW) we are delivering good growth across all of our markets, benefitting from our growing portfolio of products as well as our short supply chain and lead times, enabling us to respond to shortages in Germany. We continue to make progress in new markets including France, Spain and the UK.

In MENA we achieved strong growth driven by good demand for our portfolio across most of our markets, including for our biosimilar products as we continue to launch into new markets.

Core gross profit grew 1% to $657 million and core gross margin was 54.6%, reflecting changes in geographic and product mix and some inflationary pressure.

Injectables operating profit, which includes a $14 million impairment charge and costs related to halting our operations in Sudan, grew 1%. Injectables core operating profit grew 2% and core operating margin was 36.9%. This reflects the change in gross profit, offset by good control of costs.

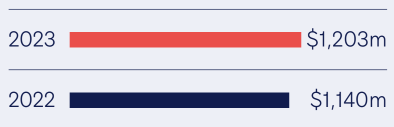
During the year, the Injectables business had 28 launches in North America, 25 in MENA and 67 in Europe and ROW. We submitted 55 filings to regulatory authorities across all markets. We further developed our portfolio through new licensing agreements.

Outlook for 2024

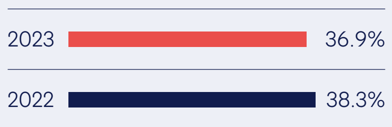
In 2024, we expect Injectables revenue to grow in the range of 6% to 8%. We expect core operating margin to be in the range of 36% to 37%.

"Strong positioning across our three geographies is helping drive consistent growth."

Core revenue



Core operating margin



1. During 2023, the Group has revised its Injectables operating segment. Previously, the 503B compounding business was reported under the Injectables segment and is now included within the Others segment. 503B compounding business' 2022 revenue of $1 million and operating loss of $9 million have therefore been reclassified to the Others segment.
2. Canada is now included in North America (previously in Europe and ROW). Canada's 2022 sales of $18 million have therefore been reclassified to North America.

Branded

We supply branded generics and in-licensed patented products from our local manufacturing facilities to retail and hospital customers across the MENA region.

Financial highlights

	2023 $ million	2022 $ million	Change	Constant currency change
Revenue	**714**	691	3%	6%
Gross profit	**351**	350	0%	2%
Gross margin	***49.2%***	*50.7%*	*(1.5)pp*	*(1.8)pp*
Core gross profit	**366**	350	5%	8%
Core gross margin	***51.3%***	*50.7%*	*0.6pp*	*0.6pp*
Operating profit	**95**	136	(30)%	(24)%
Operating margin	***13.3%***	*19.7%*	*(6.4)pp*	*(5.7)pp*
Core operating profit	**170**	146	16%	19%
Core operating margin	***23.8%***	*21.1%*	*2.7pp*	*2.6pp*

Our Branded business grew revenue 3% on a reported basis and 6% in constant currency. This reflects a good performance across most of our markets, enabling us to fully offset the loss of sales resulting from halting our operations in Sudan. We also saw strong demand for medicines focused on chronic illnesses, particularly our growing oral oncology portfolio.

Core gross profit grew and core gross margin improved to 51.3%, reflecting an improvement in product mix, driven by our focus on building a portfolio of treatments for chronic illnesses.

Reported operating profit, which includes a $69 million impairment charge and cost in relation to halting our operations in Sudan, declined 30%. Core operating profit grew 16% and core operating margin expanded to 23.8%. This reflects the improvement in core gross profit, which more than offset the negative foreign exchange impact related to the currency devaluation in Egypt. On a reported basis, operating profit was down due to the impairment we took on our Sudanese business where we are unable to operate due to the ongoing conflict.

During the year, the Branded business had 32 launches and submitted 47 filings to regulatory authorities. Revenue from in-licensed products represented 29% of Branded revenue (2022: 29%)[1].

Outlook for 2024

We expect Branded revenue in 2024 to grow in the mid to high single-digits in constant currency, or low-single digits on a reported basis, and for reported core operating profit to be broadly in line with 2023.

> We are launching new products and signing new partnerships, and this is driving increasingly profitable growth."

1. Hikma now owns the rights for three products that were previously under-licensed. Revenue from these products have been excluded from this calculation.

Generics

We supply oral and other non-injectable generic and specialty branded products in the US retail market, leveraging our state-of-the-art manufacturing facility in Columbus, Ohio.

Financial highlights

	2023 $ million	2022 $ million	Change
Revenue	**937**	672	39%
Gross profit	**387**	265	46%
Gross margin	***41.3%***	*39.4%*	*1.9pp*
Core gross profit	**387**	266	45%
Core gross margin	***41.3%***	*39.6%*	*1.7pp*
Operating profit	**147**	(117)	226%
Operating margin	***15.7%***	*(17.4)%*	*33.1pp*
Core operating profit	**192**	103	86%
Core operating margin	***20.5%***	*15.3%*	*5.2pp*

Revenue in our Generics business grew 39% in 2023, driven by good volume growth in our base business, an improved pricing environment, and an exceptionally strong contribution from the launch of the authorised generic of sodium oxybate.

The increase in Generics core gross profit and margin expansion to 41.3% was primarily a result of improved product mix and the strong profitability of the authorised generic of sodium oxybate in the first six months of the year. Royalties payable on this product increased in the second half due to the terms of our settlement agreement.

Generics core operating profit was up 86%, reflecting growth in gross profit. This strong profit contribution enabled us to invest back into this business, particularly in sales and marketing, as we continue to build our specialty business, and in R&D. Core operating margin was 20.5%.

In 2023, the Generics business launched five products and submitted five filings to regulatory authorities.

Outlook for 2024

In 2024, we expect Generics revenue to grow in the range of 3% to 5%. We expect core operating margin to be in the mid-teens.

"An exceptionally strong year, with a key new launch as well as strong performance across the base business."

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Other businesses

Other businesses, which now includes our 503B compounding business, as well as Arab Medical Containers (AMC), a manufacturer of plastic specialised medicinal sterile containers, and International Pharmaceuticals Research Centre (IPRC), which conducts bio-equivalency studies, contributed revenue of $21 million in 2023 (2022: $14 million[1]) with an operating loss of $9 million (2022: $6 million loss). The loss reflects our ongoing investment into developing our compounding business. We are making good progress in growing our compounding business and continue to invest in building our manufacturing and commercial capabilities.

Research and development

Our investment in R&D and business development enables us to continue expanding the Group's product portfolio. During 2023, we had 157 new launches and received 128 approvals. To ensure the continuous development of our product pipeline, we submitted 107 regulatory filings.

	2023 submissions[2]	2023 approvals[2]	2023 launches[2]
Injectables	55	87	120
North America	27	31	28
MENA	21	23	25
Europe & ROW	7	33	67
Branded	47	37	32
Generics	5	4	5
Total	**107**	**128**	**157**

Net finance expense

	2023 $ million	2022 $ million	Change	Constant currency change
Finance income	**7**	29	(76)%	(76)%
Finance expense	**95**	81	17%	18%
Net finance expense	**88**	52	69%	70%
Core finance income	**7**	3	133%	133%
Core finance expense	**90**	77	17%	17%
Core net finance expense	**83**	74	12%	12%

Core net finance expense increased to $83 million (2022: $74 million), reflecting the increase in interest rates during 2023.

We expect core net finance expense to be around $91 million in 2024[3].

Profit before tax

Reported profit before tax increased to $281 million (2022: $233 million), primarily due to the good growth in all three businesses, partially offset by the opioid legal settlement provision. Excluding exceptional items and other adjustments, core profit before tax was $626 million (2022: $520 million), up 20%.

Tax

The Group incurred a reported tax expense of $89 million (2022: $42 million) and a reported effective tax rate of 31.7% (2022: 18.0%). Excluding exceptional items and other adjustments, Group core tax expense was $131 million (2022: $111 million). The core effective tax rate was 20.9% (2022: 21.3%).

We expect the Group core effective tax rate to be in the range of 22% to 23% in 2024.

Profit attributable to shareholders

Profit attributable to shareholders was $190 million (2022: $188 million). Core profit attributable to shareholders increased by 21% to $492 million (2022: $406 million).

Earnings per share

	2023	2022	Change	Constant currency change
Basic earnings per share (cents)	**86**	84	2%	8%
Core basic earnings per share (cents)	**223**	181	23%	25%
Diluted earnings per share (cents)	**85**	84	2%	8%
Core diluted earnings per share (cents)	**221**	180	23%	25%
Weighted average number of Ordinary Shares for the purposes of basic earnings	**220,862,103**	223,728,472	–	–
Weighted average number of Ordinary Shares for the purposes of diluted earnings	**222,368,714**	224,908,809	–	–

The increase in core earnings per share reflects the increase in profit attributable to shareholders as a result of the strong performance in all three businesses.

1. During 2023, the Group has revised its Others operating segment. Previously, the 503B compounding business was reported under the Injectables segment and is now included within the Others segment. 503B compounding business' 2022 revenue of $1 million and operating loss of $9 million have therefore been reclassified to the Others segment.
2. Pipeline projects submitted, approved and launched by country in 2023.
3. Based on the composition of the Group's net debt portfolio as at 31 December 2023, a one percentage point increase/decrease in interest rates would result in $3 million decrease/increase in net finance cost per year (2022: $4 million increase/decrease).

Dividend

The Board is recommending a final dividend of 47 cents per share (2022: 37 cents per share) bringing the total dividend for the full year to 72 cents per share (2022: 56 cents per share). This equates to a payout ratio of around 32%, which is above our historical range of 20% to 30%. We intend to progressively increase our dividend, with a payout ratio in the range of 30% to 40%, reflecting the Board's confidence in the long-term growth prospects for the Group. The proposed dividend will be paid on 3 May 2024 to eligible shareholders on the register at the close of business on 22 March 2024, subject to approval at the Annual General Meeting on 25 April 2024.

Net cash flow, working capital and net debt

The Group generated operating cash flow of $608 million (2022: $530 million). This change primarily reflects the increase in operating profit.

Group working capital days were 243 at 31 December 2023. Compared to the position on 31 December 2022, Group working capital days decreased by 8 days from 251 days, due primarily to an improvement in receivable days.

Capital expenditure was $169 million (2022: $138 million). In the US, $46 million was spent on upgrades, new technologies and capacity expansion across our Cherry Hill, Dayton, and Columbus sites. In MENA, $96 million was spent strengthening and expanding manufacturing capabilities, including two ongoing greenfield Injectables production sites in Algeria and Morocco, expanding our site in Algeria and a new land purchase in Saudi Arabia. In Europe, we spent $27 million enhancing our manufacturing capabilities, including new filling lines in Portugal and Italy and adding lyophilisation capacity in Portugal. We expect Group capital expenditure to be in the range of $160 million to $180 million in 2024.

The Group's total debt was $1,191 million at 31 December 2023 (31 December 2022: $1,283 million).

The Group's cash balance at 31 December 2023 was $215 million (31 December 2022: $270 million).

The Group's net debt (excluding co-development agreements and contingent liabilities) was $976 million at 31 December 2023 (31 December 2022: $1,013 million). We continue to have a healthy balance sheet, with a net debt to core EBITDA ratio of 1.2x (31 December 2022: 1.5x).

Balance sheet

Net assets at 31 December 2023 were $2,209 million (31 December 2022: $2,148 million). Net current assets were $761 million (31 December 2022: $922 million).

Definitions

We use a number of non-IFRS measures to report and monitor the performance of our business. Management uses these adjusted numbers internally to measure our progress and for setting performance targets. We also present these numbers, alongside our reported results, to external audiences to help them understand the underlying performance of our business. Our core numbers may be calculated differently to other companies.

Adjusted measures are not substitutable for IFRS results and should not be considered superior to results presented in accordance with IFRS.

Core results

Reported results represent the Group's overall performance. However, these results can include one-off or non-cash items which are excluded when assessing the underlying performance of the Group. Our core results exclude the exceptional items and other adjustments set out in Note 6 in this report.

Group gross profit	**2023 $ million**	2022 $ million
Core gross profit	**1,407**	**1,265**
Provision against inventory related to halted operations in Sudan	(17)	–
Unwinding of acquisition related inventory step-up	–	(27)
Reported gross profit	**1,390**	**1,238**

Group operating profit	**2023 $ million**	2022 $ million
Core operating profit	**707**	**596**
Provision related to expected North America opioid legal settlement	(129)	–
Impairment and cost related to halted operations in Sudan	(83)	–
Intangible assets amortisation other than software	(88)	(92)
Reorganisation costs	–	(14)
Impairment of property, plant and equipment and right-of-use-assets	(8)	(80)
Impairment of intangible assets	(32)	(101)
Unwinding of acquisition related inventory step-up	–	(27)
Reported operating profit	**367**	**282**

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Constant currency
As the majority of our business is conducted in the US, we present our results in US dollars. For both our Branded and Injectable businesses, a proportion of their sales are denominated in a currency other than the US dollar. In order to illustrate the underlying performance of these businesses, we include information on our results in constant currency.

Constant currency numbers in 2023 represent reported 2023 numbers translated using 2022 exchange rates, excluding price increases in the business resulting from the devaluation of the Egyptian and Sudanese pound and excluding the impact from hyperinflation accounting.

Core EBITDA
Core EBITDA is earnings before interest, tax, depreciation, amortisation, impairment charges and unwinding of acquisition related inventory step-up, adjusted for exceptional items and other adjustments.

	2023 $ million	2022 $ million
Reported operating profit	**367**	**282**
Depreciation and impairment charges/ reversals in relation to property, plant and equipment	110	157
Amortisation and impairment charges/ reversals in relation to intangible assets	131	202
Depreciation and impairment charges/ reversals in relation to right-of-use assets	18	13
Unwinding of acquisition related inventory step-up	–	27
Provision related to expected North America opioid legal settlement	129	–
Provision against inventory related to halted operations in Sudan	17	–
Impairment charge on financial assets	29	–
Impairment charge on other current assets	2	–
Cost from halted operations in Sudan	8	–
Reorganisation costs	–	14
Core EBITDA	**811**	**695**

Working capital days
We believe Group working capital days provides a useful measure of the Group's working capital management and liquidity. Group working capital days are calculated as Group receivable days plus Group inventory days, less Group payable days. Group receivable days are calculated as Group trade receivables x 365, divided by 12 months Group revenue. Group inventory days are calculated as Group inventory x 365, divided by 12 months Group cost of sales. Group payable days are calculated as Group trade payables x 365, divided by 12 months Group cost of sales.

Group net debt
We believe Group net debt is a useful measure of the strength of the Group's financing position. Group net debt is calculated as Group total debt less Group total cash. Group total debt excludes co-development agreements and contingent liabilities.

Group net debt	31 Dec 2023 $ million	31 Dec 2022 $ million
Short-term financial debts	(150)	(139)
Short-term leases liabilities	(11)	(9)
Long-term financial debts	(975)	(1,074)
Long-term leases liabilities	(55)	(61)
Total debt	**(1,191)**	**(1,283)**
Cash and cash equivalents	205	270
Restricted cash	10	–
Net debt	**(976)**	**(1,013)**

ROIC
ROIC is calculated as core operating profit after tax divided by invested capital (calculated as total equity plus net debt). This measures our efficiency in allocating capital to profitable investments.

ROIC	2023 $ million	2022 $ million
Core operating profit	707	596
Total tax	(144)	(124)
Core operating profit after tax	**563**	**472**
Net debt	976	1,013
Equity	2,209	2,148
Invested capital	**3,185**	**3,161**
ROIC	**17.7%**	**14.9%**