SPIMACO announces SAR 79 million net income in 1H 2023 and raises FY 2023 guidance

- SPIMACO's revenue in 1H23 increased 34% year-on-year fueled by a beneficial change in the client mix, expansion of sales across the private and government channels, and a rise in sales volume due to high demand for the Company's products.
- The gross profit margin for 1H23 stood at 46.8%, reflecting an increase of 3.1 percentage points from the same period last year, largely owing to robust double-digit revenue growth and operating leverage benefits.
- Operating expenses as a percentage of revenue in 1H23 fell to 35.7%, down from 44.0% in 1H22, primarily due to revenue outpacing expenses and a prudent approach to expenditure.
- SPIMACO's EBITDA margin for 1H23 expanded by 9.3 percentage points year-on-year to reach 15.5%, and the net income for the period amounted to SAR 79 million.
- Throughout 1H23, the Company registered 55 Stock Keeping Units (SKUs) both domestically and internationally. As of June 30 2023, 144 SKUs are under global registration, signaling an ongoing effort to enhance the product pipeline.
- Research and Development (R&D) expenses constituted 2.5% of the 1H23 revenue, underscored by an increased focus on fostering innovation and enhancing the quality of in-house development.
- Following its robust performance in 1H23, SPIMACO has updated its FY23 guidance to project a higher growth in top-line now expected in the range of 19-21% and improved profitability with FY23 EBITDA margin in the range of 10-11%, driven by the strategic transformation commenced in 2022.

Riyadh, 8 August 2023 – The first half of 2023 showcased a notable uptick of 34% in SPIMACO's top line, fueled by growth in the pharmaceutical revenue. This growth was propelled by a favorable shift in the Company's client mix, sales upturn across the private and government channels, and an enhanced sales volume driven by robust product demand. The surge in revenue surpassed the growth in costs, which translated into an increase in profitability, with the EBITDA margin expanding to 15.5% in 1H23 – an increase of 9.3 percentage points compared to 1H22. The net income for 1H23 amounted to SAR 79 million, marking a significant turnaround from the SAR 21 million loss reported in 1H22. This substantial improvement was spearheaded by the Company's robust revenue growth, a measured approach to expenditure, and the successful revamping of SPIMACO's business model.

In light of the encouraging performance in the first half of 2023, SPIMACO has revised its full-year outlook for FY23, demonstrating confidence in maintaining the growth momentum for the remainder of the year, albeit at a slower rate than the first half.

Khaled Al-Khattaf, Chief Executive Officer of SPIMACO, said: "I am pleased to present our 1H23 results, reflecting a promising trajectory set in motion by our strategic refocus initiated last year. Our endeavors to transform the business are showing encouraging signs of success, as demonstrated by the strong numbers in the first half of the year.

We saw a continuation of our positive momentum from 1Q23 with sustained double-digit growth in revenue extending into the second quarter. This performance was underpinned by an optimized sales mix and enhanced productivity across our facilities, outperforming cost expansion. Our position is bolstered by a robust generics market and accelerated growth largely attributed to the private and government channels. The Saudi private market remains a pivotal contributor to achieving our ambitious growth plans.

The strong results of the first half of 2023 stand as further testament to the effectiveness of our 'fix the core' initiatives launched in 2022. As we continue to fortify our fundamentals, SPIMACO remains poised to achieve its ambitious goals for FY23, further cementing its position as a National Champion within the Saudi pharma industry."

Dr. Michael Baum, Chief Financial Officer of SPIMACO, said: "We're pleased to report a solid financial performance in the first half of 2023, demonstrating the efficacy of our tactical and strategic initiatives. Following the first quarter's positive momentum, we've seen continued progress in the second quarter, and consequently, revised our full-year guidance for 2023.

SPIMACO's anticipated revenue growth for full year 2023 has been upgraded to 19-21% from 12-14% previously, a reflection of our focused efforts to revitalize our core business and implement our 5-year strategy. Furthermore, we now project our EBITDA margin to be around 10-11%, up from our previous forecast of 9-10%. These dynamics will be supported by a combination of cost optimization measures and improvements in the Company's sales mix and portfolio composition.

In the first half of 2023, we managed to keep operating expenses at a controlled level, but we anticipate a rise in these costs as we adjust our expenditure in line with our strategic vision.

While we're satisfied with the first half's results, we remain focused on the road ahead. As we move into the second half of 2023, we are committed to our strategic goals, ready to seize opportunities and address any challenges that we may encounter."

Financial Review

Income Statement and Cash Flow Highlights

SAR million	2Q2023	2Q2022	Δ%	1H2023	1H2022	Δ%
Revenue	409	311	+32%	941	700	+34%
Cost of revenue	(225)	(190)	+18%	(500)	(394)	+27%
Gross profit	**183**	**120**	**+53%**	**440**	**306**	**+44%**
Selling & marketing expenses	(80)	(98)	-18%	(179)	(178)	+1%
General & administrative expenses	(58)	(66)	-13%	(121)	(118)	+2%
Research & development expenses	(11)	(8)	+47%	(24)	(16)	+52%
Other operating expenses	1	10	-94%	(12)	4	NA
Total operating expenses	**(148)**	**(161)**	**-8%**	**(336)**	**(308)**	**+9%**
Operating profit / (loss) (EBIT)	**35**	**(41)**	**NA**	**105**	**(2)**	**NA**
EBITDA	**56**	**(18)**	**NA**	**146**	**44**	**+235%**
Net profit / (loss) for the period	**22**	**(52)**	**NA**	**79**	**(21)**	**NA**
Gross Profit Margin	44.9%	38.7%	+6.2%	46.8%	43.7%	+3.1%
EBIT Margin	8.6%	-13.2%	+21.8%	11.1%	-0.3%	+11.4%
EBITDA Margin	13.6%	-5.9%	+19.5%	15.5%	6.2%	+9.3%
Net profit Margin	5.4%	-16.7%	+22.0%	8.4%	-3.0%	+11.4%
Net cash from operations	(54)	(206)	-74%	(215)	(321)	-33%
Capital expenditure	(15)	(25)	-40%	(38)	(50)	-23%
Free Cash Flow	(71)	(227)	-69%	(257)	(370)	-31%

The encouraging trends observed in 1Q23 sustained their momentum into the 2Q23, bolstering the results of the first half of the year. In 2Q23 the Company reported revenues of SAR 409 million, an uplift of 32% from the previous year, which coupled with strong performance in 1Q23, allowed for a 34% increase in the top-line year-on year in 1H23 to SAR 941 million. This rise is attributed to an advantageous shift in the client mix, growth in the private and government sales channels, and a surge in sales volumes, which increased by c. 49% in 1H23 compared to last year, owing to the high demand for the Company's products.

In 1H23, the gross profit margin rose to 46.8%, marking a year-on-year increase of 3.1 percentage points. This improvement is primarily attributable to the operating leverage benefits gained from the 34% year-on-year revenue growth in 1H23, surpassing the rise in cost of revenue, which expanded by 27% compared to the same period last year. 2Q23 gross profit margin improved by 6.2 percentage points and amounted to 44.9%.

In 1H23, selling and marketing expenses registered a nominal increase of 1% year-on-year, totaling SAR 179 million. This subtle increase can be attributed to the adjustment in employee salaries and benefits in line with the revised compensation structure, which was implemented during the restructuring and optimization of our commercial teams in FY22. However, this increase was largely offset by reductions in sales promotion expenses in 2Q23. Consequently, the proportion of selling and marketing expenses to revenue for the first half of 2023 stood at 19.1%.

During the first half of 2023, general and administrative expenses reached SAR 121 million, reflecting a modest 2% increase on a year-on-year basis. This rise in general and administrative expenses lagged revenue growth, underlining the management's responsible approach to spending. Key factors contributing to the increase in general and administrative expenses were professional fees associated with SPIMACO's ongoing acquisition strategy, as well as our sustained investment in IT infrastructure. The proportion of general and administrative expenses to revenue in 1H23 was recorded at 12.8%. A rise in the percentage of general and administrative expenses relative to revenue is anticipated in the upcoming quarters as the Company continues to invest in its growth strategy.

Research and development (R&D) expenses experienced a 52% increase in 1H23, driven by additional investments in product innovation and development. In the first half of 2023 the Company registered 7 Stock Keeping Units (SKUs) in Saudi Arabia within Oncology, Anti-infectives and CVS, with 31 SKUs under registration as of 30 June 2023. Internationally, the Company secured registrations for 48 SKUs, with 113 SKUs engaged in the process of registration as of 30 June 2023. With an emphasis on promoting continuous innovation and enhancing the quality of in-house development, the proportion of R&D expenses to revenue amounted to 2.5% in 1H23, marking an increase from 2.2% in the equivalent period of the preceding year.

With only a 9% year-on-year increase in operating expenses to SAR 336 million in 1H23, revenue substantially outpaced costs, resulting in a 3.4 times year-on-year improvement in 1H23 EBITDA to SAR 146 million. These dynamics contributed to an expansion of EBITDA margin by 9.3 percentage points to 15.5% in 1H23. EBITDA in 2Q23 also saw a considerable improvement totaling SAR 56 million (up from a negative SAR 18 million in 2Q22) with the EBITDA margin printing 13.6% in the quarter.

Several factors have influenced growth trends in the first half of 2023. First, the structural modifications and transformation of the business model, following the investments executed in 2022 under the revised strategy, continue to yield favorable outcomes. Second, the measured approach to expenditure in the first half of the year gives an additional boost to margins. However, the latter is a transitory factor, which is expected to alter in the second half of 2023 as expenditure is further recalibrated in alignment with the strategic objectives. These factors, in combination, are setting the course for the Company towards sustained growth and enhanced financial performance. Considering this, the Company is readjusting its earlier issued guidance upwards, delineating fresh financial objectives for factors including revenue growth and EBITDA margin. More information on the upgraded guidance is available in "FY23 Outlook" section.

The 1H23 operating income amounted to SAR 105 million, a significant improvement vs an operating loss of SAR 2 million in 1H22. The EBIT margin in 1H23 registered 11.1%.

In the first half of 2023, net finance and other expenses amounted to SAR 14 million, primarily due to a rise in finance costs brought about by the current trend of escalating interest rates on an overall higher net debt balance. These costs were partially offset by profits contributed by associates.

The net income for the first half of 2023 was SAR 79 million, contrasting with a net loss of SAR 21 million experienced during the corresponding period in 2022. This change led to a net profit margin of 8.4% in 1H23. The net income in 1H23 was supported by a solid 1Q, which posted a net income of SAR 57 million, and a stark improvement in profitability in 2Q, which recorded a net income of SAR 22 million compared to a net loss of SAR 52 million in 2Q22.

Despite the better results from the Company's core operations in 1H23 compared to the same period of 2022, the net cash used in operating activities amounted to SAR 215 million. This was driven by increase in working capital, which was primarily due to a rise in trade receivables aligned with the growing sales, and an increase in payables. However, these were somewhat offset by a reduction in inventories. This pattern of negative cash flow in the first half of the year aligns with historical seasonal trends, and an improvement in cash flow during the second half of 2023 is expected.

SPIMACO's capital expenditure in the first half of 2023 saw a reduction of 23% year-on-year, amounting to SAR 38 million.

Revenue Trends

By Channel[1]

	Channel contribution, %			Channel sales, SAR million	
SAR million	**1H2023**	**FY2022**	**Δ%**	**1H2023**	**FY2022**
Private	58.8%	55.9%	2.8%	468	691
International	11.9%	16.2%	-4.3%	94	200
Government	18.4%	14.4%	4.0%	146	178
CMO	1.8%	1.9%	-0.1%	15	24
Other	9.2%	11.6%	-2.4%	73	143
Total pharmaceutical revenue[2]	**100%**	**100%**	**-**	**797**	**1,236**

Throughout the 1H23, SPIMACO consistently reinforced its dominant position in the Saudi private market, recording a market share of 7.5% by the end of June. Total sales from this channel reached SAR 468 million, contributing 58.8% to the total pharmaceutical revenue. This showcases an advancement of 2.8 percentage points when juxtaposed with FY22. The elevation in private channel revenue was catalyzed by an effectively

[1] Based on pharmaceutical revenue.

[2] Non-IFRS measure. Pharmaceutical revenue excludes other types of revenue such as revenue from hospital business, etc. Pharmaceutical revenue represents 84.7% of Total revenue in 1H23 (86.4% in FY22).

revamped go-to-market model, prioritizing active key account management, and supported by a proficient sales team. This strategic initiative allowed SPIMACO to capitalize on the overall favorable market momentum during H1. Further improvement was achieved by enriching the marketable portfolio, with an emphasis on SKUs offering higher profitability.

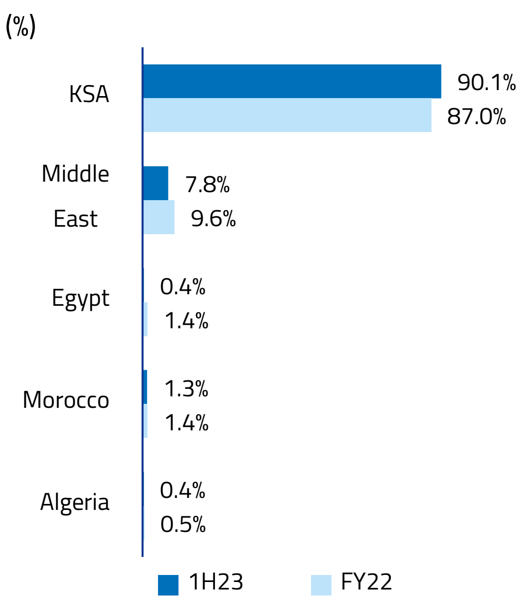
In 1H23, the government channel constituted 18.4% of the total pharmaceutical revenue, marking a growth of 4.0 percentage points over FY22. This performance was fueled by an increase in sales volumes, notably of high-margin products, and the continued strategic push to become a leader in the market segment and a key partner for the government entities.

In the same period, international sales made up 11.9% of total pharmaceutical revenue, reflecting a 4.3 percentage points decline versus FY22. This occurred as revenue growth in the private and government channels outperformed the international segment. The international channel was further impacted by both geopolitical and economic instability in several countries where SPIMACO operates.

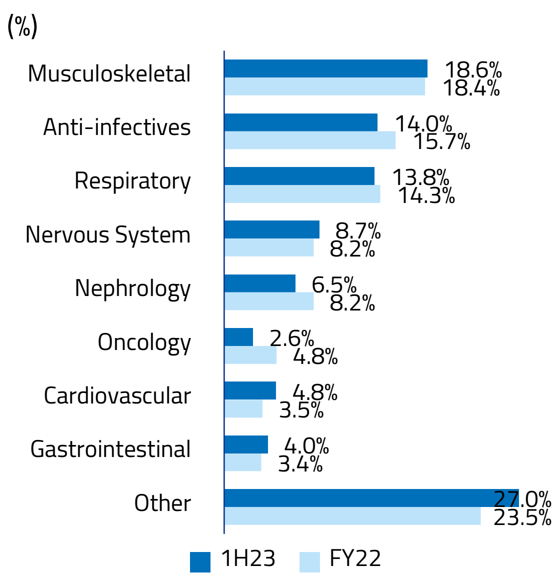
A mild decrease in partner demand, accompanied by a surge in private and government channel revenues, resulted in a slightly diminished share of revenue from contract manufacturing operations (CMO) in 1H23.

Lastly, the contribution from the other channel, which includes the sales of non-SPIMACO products, cosmetics, and APIs, to the total pharmaceutical revenue declined to 9.2% in 1H23.

By Geography[3]



By Therapeutic Area[4]



[3] Based on Total revenue.

[4] Based on pharmaceutical revenue.

KSA accelerated the lead in 1H23, generating 90.1% of the Company's total revenue. International revenue in 1H23 saw a reduced share due to slower growth compared to our local market. Sales in some international markets were also impacted by external factors including the conflict in Sudan and currency turmoil in Egypt.

Despite witnessing an upward trajectory in 1Q23, certain therapeutic sectors encountered a downturn in 2Q23, triggered by diminished sales in several international markets, coupled with seasonal fluctuations.

A contraction in the respiratory and anti-infectives segments in 1H23 was largely attributed to seasonal tendencies, leading to a reduced demand for these medications during 2Q, which subsequently impacted the overall performance for the first half of the year. Furthermore, the nephrology sector experienced a downturn, largely due to underperformance in Egypt, as the Company halted shipments to the country.

Contrastingly, the nervous system segment displayed promising growth, with its revenue share escalating by 0.6 percentage points to account for 8.7% of the total pharmaceutical revenue. This was spurred by a significant increase in demand for central nervous system medications.

Balance Sheet Highlights

SAR million	2Q 2023	4Q 2022	Δ%	2Q 2022	Δ%
Total Non-Current Assets	1,951	1,951	-0%	1,946	+0%
Total Current Assets	2,254	1,880	+20%	2,591	-13%
Total Assets	**4,206**	**3,832**	**+10%**	**4,540**	**-7%**
Total Equity	**1,761**	**1,693**	**+4%**	**1,892**	**-7%**
Total Non-Current Liabilities	1,121	790	+42%	791	+42%
Total Current Liabilities	1,324	1,349	-2%	1,856	-29%
Total Liabilities	**2,445**	**2,139**	**+14%**	**2,648**	**-8%**
Cash & cash equivalents	174	335	-48%	633	-73%
Net Debt	1,031	721	+43%	870	+18%

Total assets as of 30 June 2023 amounted to SAR 4,206 million, a 10% growth from the previous year-end driven by growth in time deposits and higher trade and other receivables driven by significantly improved sales volumes in the first half of 2023.

Total liabilities as of 30 June 2023 totaled SAR 2,445 million, a 14% increase from 31 December 2022 which was mostly driven by additional long-term debt acquisition coupled with increasing the debt maturity profile, and higher trade payables.

Days sales outstanding decreased from 323 days in 2Q22 to 272 days in 2Q23 (on an LTM basis) reflecting the effects of the revised commercial contract terms. 2Q23 print was higher than the 237 days reported in 4Q22 due to cyclical nature of trade receivables dynamics and accelerated collections in 4Q22. Compared to 2Q22, the improvement in receivables turnover in 2Q23 was supported by lower inventory turnover days and counterbalanced by faster payables turnover, which led to a 295-day cash conversion cycle in 2Q23 (-12% vs 334 days in 2Q22, on a trailing basis).

As of June 30, 2023, the net debt stood at SAR 1,031 million, marking a 43% increase from the prior year-end. This jump was primarily due to a 14% rise in total debt coupled with a 48% reduction in cash and cash equivalents on rapid turnover of payables.

FY23 Outlook

Following SPIMACO's robust performance in 1H23, the Company is revising its previously issued guidance upwards, setting new financial targets for FY23 enabled by a positive shift in the portfolio mix and cost optimization. The Company's top line performance for the remainder of the year is expected to be maintained, yet at a slower rate than the first half in line with the overall market growth expectations. However, this will be counterbalanced by a rise in operating costs as the Company continues to invest in its growth strategy.

New FY23 targets are as follows:

- Revenue growth of 19-21% (previously: 12-14%).
- Improvement in the gross profit margin.
- Lower selling & marketing costs as percentage of revenue (previously: stable).
- Lower general & administrative costs as percentage of revenue.
- Research & development costs up to 3.3% of revenue vs 3.0% of FY22 revenue.
- An improvement in EBITDA margin to 10-11% (previously: 9-10%).
- Growth in net debt/EBITDA from increased leverage in case of concluding an acquisition.

Earnings Call

The Company is holding an earnings call to discuss 1H23 financial results with analysts and investors on Wednesday, 9 August 2023, at 3:30 pm Riyadh time (1:30 pm London, 4:30 pm Dubai, 8:30 am New York). For further details about the call, including dial-in details, please contact Investor Relations.

For more information, please get in touch with us:

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Appendix

Balance Sheet

SAR million	2Q 2023	4Q 2022	Δ%	2Q 2022	Δ%
Property, plant & equipment	1,206	1,040	+16%	1,068	+13%
Assets under construction	622	790	-21%	760	-18%
Other non-current assets	122	120	+1%	118	+3%
Total Non-Current Assets	**1,951**	**1,951**	**-0%**	**1,946**	**+0%**
Inventories	503	495	+2%	531	-5%
Trade & other receivables	1,295	834	+55%	1,191	+9%
Cash & cash equivalents	174	335	-48%	633	-73%
Other current assets	283	216	+31%	236	+20%
Total Current Assets	**2,254**	**1,880**	**+20%**	**2,591**	**-13%**
Assets from discontinued operations	1	1	+0%	3	-57%
Total Assets	**4,206**	**3,832**	**+10%**	**4,540**	**-7%**
Share capital	1,200	1,200	+0%	1,200	+0%
Retained earnings	(102)	(179)	-43%	19	NA
Reserves	505	519	-3%	526	-4%
Equity attr. to shareholders of the parent	1,603	1,540	+4%	1,745	-8%
Non-controlling interest	158	154	+3%	148	+7%
Total Equity	**1,761**	**1,693**	**+4%**	**1,892**	**-7%**
Loans & borrowings	722	380	+90%	401	+80%
Employees' end-of-service benefit obligations	301	313	-4%	296	+2%
Other non-current liabilities	99	97	+2%	95	+4%
Total Non-Current Liabilities	**1,121**	**790**	**+42%**	**791**	**+42%**
Loans & borrowings	483	677	-29%	1,102	-56%
Trade payables & other liabilities	487	403	+21%	427	+14%
Dividends payable	159	159	-0%	160	-1%
Other current liabilities	196	110	+78%	167	+17%
Total Current Liabilities	**1,324**	**1,349**	**-2%**	**1,856**	**-29%**
Liabilities from discontinued operations	0	0	+0%	0	-28%
Total Liabilities	**2,445**	**2,139**	**+14%**	**2,648**	**-8%**

Income Statement

SAR million	2Q2023	2Q2022	Δ%	1H2023	1H2022	Δ%
Revenue	409	311	+32%	941	700	+34%
Cost of revenue	(225)	(190)	+18%	(500)	(394)	+27%
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Selling & marketing expenses	(80)	(98)	-18%	(179)	(178)	+1%
General & administrative expenses	(58)	(66)	-13%	(121)	(118)	+2%
Research & development expenses	(11)	(8)	+47%	(24)	(16)	+52%
Other operating expenses	1	10	-94%	(12)	4	NA
Total operating expenses	**(148)**	**(161)**	**-8%**	**(336)**	**(308)**	**+9%**
Operating profit / (loss) (EBIT)	**35**	**(41)**	**NA**	**105**	**(2)**	**NA**
Depreciation & amortization	21	23	-10%	42	45	-9%
EBITDA	**56**	**(18)**	**NA**	**146**	**44**	**+235%**
Total finance & other income / (cost), net	(10)	(2)	+328%	(14)	(3)	+357%
Profit / (loss) before zakat, income tax & discontinued operations	**25**	**(43)**	**NA**	**91**	**(5)**	**NA**
Zakat & income tax	(3)	(8)	-63%	(12)	(15)	-22%
Net profit / (loss) for the period before discontinued operations	**22**	**(52)**	**NA**	**79**	**(20)**	**NA**
Loss from discontinued operations	0	0	-100%	0	(1)	-100%
Net profit / (loss) for the period	**22**	**(52)**	**NA**	**79**	**(21)**	**NA**

Cash Flow Statement

SAR million	1H2023	1H2022	Δ%
Profit before zakat & income tax	91	(6)	NA
Adjustments	182	93	+97%
Net Income before zakat & after adjustments	**273**	**87**	**+215%**
Working capital changes	(402)	(346)	+16%
Cash flows generated from / (used in) operating activities	**(129)**	**(259)**	**-50%**
Finance cost paid	(20)	(15)	+31%
Zakat & income tax paid	(28)	(24)	+17%
Employees' end-of-service benefit obligations paid	(38)	(22)	+74%
Net cash generated from / (used in) operating activities	**(215)**	**(321)**	**-33%**
Net cash generated from / (used in) investing activities	**(81)**	**479**	**NA**
Net cash (used in) / generated from financing activities	**144**	**148**	**-2%**
Net changes in cash & cash equivalents during the period	(152)	306	NA
Cash & cash equivalents at the beginning of the period[5]	**335**	**330**	**+2%**
Foreign exchange translation	(10)	(1)	+640%
Cash & cash equivalents at the end of the period[5]	**174**	**634**	**-73%**

Disclaimer

[5] Including cash from discontinued operations where applicable.