SPIMACO Announces 85% year-on-year net income growth to SAR 57 million in 1Q 2023

- SPIMACO's revenue in 1Q23 increased 37% year-on-year from an improvement in the client mix, sales growth across all channels and a higher sales volume backed by robust demand for the Company's products.
- Gross profit margin amounted to 48.3% in 1Q23 (+0.6 percentage points year-on-year), reflecting strong double-digit growth of revenue.
- Share of operating expenses in revenue in 1Q23 totaled 35.2%, down from 37.6% in 1Q22, on revenue growing ahead of expenses and a cautious approach to spending.
- The Company improved 1Q23 EBITDA margin to 17.0% (+1.1 percentage points year-on-year); net income for the quarter was up 85% year-on-year to SAR 57 million.
- The Company registered 38 SKUs in Saudi Arabia and internationally during 1Q23 with 26 SKUs currently under registration in KSA to further develop the product pipeline.
- R&D expenses as a percentage of revenue amounted to 2.4% 1Q23, driven by greater management emphasis on continuous innovation and the quality of in-house development.
- SPIMACO is reiterating its guidance and expecting top-line growth and improved profitability in FY23 from progress on the strategic transformation initiated in 2022.

Riyadh, 16 May 2023 – SPIMACO's 1Q23 top line grew by 37%, fueled by increased pharmaceutical revenue due to a favorable client mix change, sales growth across all channels, and a higher sales volume linked to strong product demand. The revenue increase, which outpaced the costs growth, drove margin expansion and profitability improvement, with the EBITDA margin increasing to 17.0% in 1Q23 (+1.1 percentage points vs 1Q22). Net income totaled SAR 57 million (+85% year-on-year) driven by seasonal effects in the first quarter, which is historically one of the strongest quarters of the year for Generics-producing pharmaceutical companies in Saudi Arabia due to market-related structural factors. The Company reiterated its guidance for FY23, noting that subsequent quarters will see additional spending as management rolls out the new strategy in full.

Khaled Al-Khattaf, Chief Executive Officer of SPIMACO, said: "As we close out the first quarter of 2023, it is with a sense of measured optimism that we report the early results of our strategic refocus, initiated back in 2022. Our quarterly results highlight a healthy trend: double-digit growth in revenue, supported by an improved sales mix and increased productivity across our facilities, outstripping the expansion of costs. This underscores our commitment to maintaining stringent control over our expenditures.

The positive start in 1Q23 is not an isolated success. Rather, it signifies a foundational shift in our trajectory. The management team and I view these results as a solid affirmation of our strategy's effectiveness.

Despite the initial pressures on our financial performance during the transformation process, the first quarter of 2023 serves as evidence that our concerted efforts and strategic investments are laying a robust groundwork for future success. We remain confident that with our strong management team, focused strategy, and enhanced resources, we are well-positioned to realize our ambitious goals and secure our place as a National Champion within the Saudi pharma industry. As we forge ahead, our commitment to steering the organization towards sustained growth and success is unwavering."

Dr. Michael Baum, Chief Financial Officer of SPIMACO, said: "The first quarter of 2023 marks a significant milestone as we start seeing the fruits of our efforts from the previous year. This period was dedicated to recalibrating our core business and rejuvenating our 5-year strategy, and the outcomes are indeed encouraging. The quarter's results are solid, with a notable uptick in revenue trends and stringent cost control mechanisms driving an improvement in profitability.

Additionally, the results were lifted by seasonality trends, as the first quarter historically stands out as one of the strongest periods of the year. Our cautious approach to spending has further reinforced the quarter's performance, maintaining operating expenses at manageable levels. However, we anticipate a rise in these expenses in the forthcoming quarters as we realign our expenditure with our strategic vision. This includes a planned increase in marketing spending to maximize the sales potential of select products and to successfully roll out new product launches.

As we move forward into 2023, our optimism remains intact, and we reaffirm our projections for the year. We anticipate an annual revenue growth within the 12-14% range, an enhancement in gross profit margin driven by a positive shift in our sales mix, portfolio composition, and cost optimization strategies, and a projected increase in EBITDA margin to the tune of 9-10%."

Financial Review

Income Statement and Cash Flow Highlights

SAR million	1Q2023	1Q2022	Δ%
Revenue	532	389	+37%
Cost of revenue	(275)	(204)	+35%
Gross profit	**257**	**186**	**+38%**
Selling & marketing expenses	(99)	(79)	+25%
General & administrative expenses	(63)	(52)	+21%
Research & development expenses	(13)	(8)	+57%
Other operating expenses	(13)	(7)	+93%
Total operating expenses	**(188)**	**(146)**	**+28%**
Operating profit / (loss) (EBIT)	**69**	**39**	**+77%**
EBITDA	**90**	**62**	**+46%**
Net profit / (loss) for the period	**57**	**31**	**+85%**
Gross Profit Margin	48.3%	47.7%	+0.6%
EBIT Margin	13.0%	10.1%	+3.0%
EBITDA Margin	17.0%	15.9%	+1.1%
Net profit Margin	10.7%	7.9%	+2.8%
Net cash from operations	(161)	(115)	+40%
Capital expenditure	(23)	(25)	-8%
Free Cash Flow	(186)	(143)	+30%

The Company's revenue in 1Q23 amounted to SAR 532 million, up 37% year-on-year reflecting a favorable change in the client mix, sales growth across all channels, and a higher sales volume (+35%) linked to strong demand for the Company's products.

Gross profit margin increased 0.6 percentage points year-on-year to 48.3% in 1Q23, reflecting strong double-digit growth of revenue of 37% year-on-year, outpacing the higher cost of revenue, which increased 35% year-on-year.

Selling & marketing expenses increased in 1Q23 by 25% year-on-year to SAR 99 million reflecting the revised compensation scheme associated with the restructuring and optimization of commercial teams in FY22 and the growth in sales promotion expenses driven by higher quarterly sales. The share of selling & marketing expenses from revenue in 1Q23 amounted to 18.6%.

As the commercial team continues their analysis of the market landscape, selling and marketing expenses are anticipated to further increase in subsequent quarters, both in value and as a percentage of revenue. This will involve ramping up investments in marketing to capitalize on the full sales potential of select SPIMACO products, including newly launched offerings, in line with the strategy.

General and administrative expenses totaled SAR 63 million in 1Q23, marking a 21% increase year-on-year. Growth of general and administrative expenses during 1Q23 was lagging the revenue dynamics, reflecting a prudent spending approach. The major drivers of the general and administrative expenses increase in 1Q23 included the additional professional fees tied to the Company's acquisition strategy and continued investments in IT platforms. The share of general and administrative expenses from revenue in 1Q23 amounted to 11.9%. In the upcoming quarters of 2023, general and administrative expenses are projected to rise as a percentage of revenue as spending increases further.

Research and development (R&D) expenses experienced a 57% increase in 1Q23, driven by additional investments in innovation and product development and the non-capitalization of the R&D-related salaries cost during 1Q23, compared to same quarter last year. In this quarter, the Company registered 3 Stock Keeping Units (SKUs) in Saudi Arabia within Oncology, with 26 SKUs currently under registration. Furthermore, the Company secured registrations for 35 SKUs in international markets. As a result of greater management emphasis on continuous innovation and the quality of in-house development, the proportion of R&D expenses in revenue amounted to 2.4%, in 1Q23 (1Q22: 2.1%).

As a result of the aforementioned factors, 1Q23 operating expenses rose by 28% year-on-year, amounting to SAR 188 million. Revenue increasing at a faster pace than costs led to a 46% year-on-year improvement in 1Q23 EBITDA, which reached SAR 90 million. Consequently, the EBITDA margin expanded by 1.1 percentage points to 17.0%.

This growth trajectory can be attributed to several factors, some of which are transitory or cyclical in nature. Among these are a disciplined approach to spending during the quarter - a trend which is expected to shift in the coming quarters as we realign our expenditure with our strategic vision. Additionally, the first quarter's seasonality, historically a strong period for the Generics-producing industry in Saudi Arabia, provided a supportive backdrop. Nevertheless, the structural enhancements and transformation of the business model, following the investments made in 2022 under the refreshed strategy, also began to yield positive effects. These collective factors are driving the Company towards a path of continued growth and improved financial performance.

The 1Q23 operating income amounted to SAR 69 million, up 77% year-on-year, with the EBIT margin registering 13.0% (+3.0 percentage points year-on-year).

In 1Q23, net finance and other expenses totaled SAR 4 million. This figure resulted from profits generated by associates, which were more than offset by increased finance costs due to the prevailing environment of rising interest rates.

The net income in 1Q23 totaled SAR 57 million, up 85% year-on-year. Net profit margin in the quarter amounted to 10.7%, an improvement of 2.8 percentage points year-on-year.

Despite increasingly positive results from core operations in 1Q23 compared to the respective period of 2022, net cash used in operating activities amounted to SAR 161 million, driven by the cyclical increase in working capital usually witnessed in Q1 due to higher trade receivables, associated with the higher sales, which was partially offset by higher payables. The negative net cash flow from operating activities observed in the first quarter aligns with historical seasonal trends. SPIMACO anticipates a typical seasonal progression with an improvement in cash flow in the following quarters of 2023.

Capital expenditure in 1Q23 slightly decreased by 8% year-on-year to SAR 23 million.

Revenue Trends

By Channel[1]

	Channel contribution, %			Channel sales, SAR million	
SAR million	**1Q2023**	**FY2022**	**Δ%**	**1Q2023**	**FY2022**
Private	57.6%	55.9%	1.7%	264	691
International	12.6%	16.2%	-3.6%	58	200
Government	19.2%	14.4%	4.8%	88	178
CMO	1.8%	1.9%	-0.2%	8	24
Other	8.8%	11.6%	-2.8%	40	143
Total pharmaceutical revenue[2]	**100%**	**100%**	**-**	**459**	**1,236**

In 1Q23, SPIMACO reinforced its leadership position in the Saudi private market, gaining 11 basis points compared to FY22, and achieving a 7.6% market share. This accomplishment allowed the Company to maintain its top ranking among peers in the segment. Total sales from this channel reached SAR 264 million, accounting for 57.6% of total pharmaceutical revenue, which represented an improvement of 1.7 percentage points compared to FY22. The growth in private channel revenue was driven by a strategic transition towards direct selling and enhancing the marketable portfolio with a focus on higher profitability SKUs.

[1] Based on pharmaceutical revenue.

[2] Non-IFRS measure. Pharmaceutical revenue excludes other types of revenue such as revenue from hospital business, etc. Pharma revenue represents 86.2% of Total revenue in 1Q23 (86.4% in FY22).

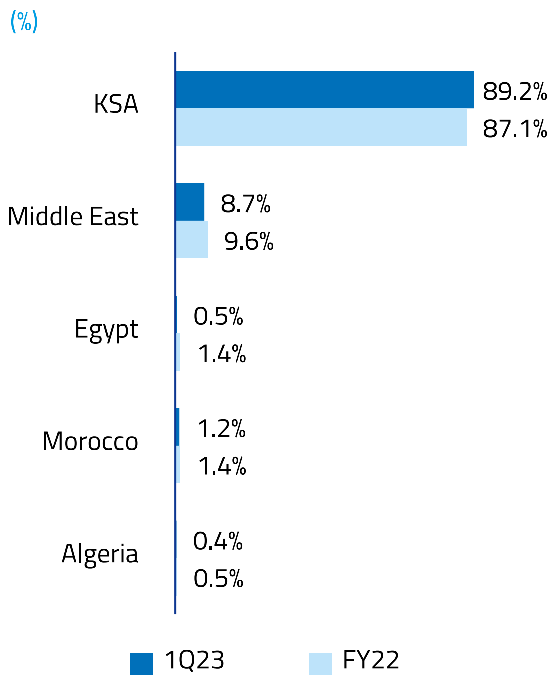
In 1Q23, the Government channel accounted for 19.2% of total pharmaceutical revenue, channel revenue contribution grew by 4.8 percentage points compared to FY22. The strong performance was driven by higher sales volumes, particularly for high-margin products, and further amplified by the low base set in 1Q22.

In 1Q23, international sales constituted 12.6% of total pharmaceutical revenue, representing a 3.6 percentage points decline vs FY22 due to Private and Government channels revenue growth outpacing International segment. UAE market showed improved performance, sustaining the revenue share from FY22 backed by adjustments in the market's commercial strategy. Sales in the International channel were also affected by evolving regulations in the Company's international markets.

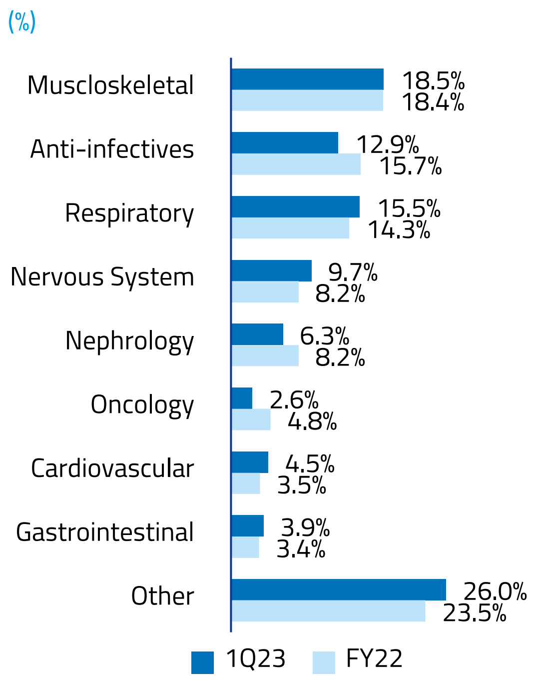
Softer partner demand and surging private and government channel revenues led to a slightly reduced share of contract manufacturing operations (CMO) revenue in 1Q23.

The Others channel contribution, which includes the sale of non-SPIMACO products, cosmetics, and APIs, to total pharmaceutical revenue decreased to 8.8% in 1Q23, driven by lower sales of certain licensor products.

By Geography[3]



By Therapeutic Area[4]



KSA continued to lead in 1Q23, generating 89.2% of the Company's total revenue. International revenue in 1Q23 saw a reduced share due to slower growth compared to our local market. Sales in some international

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[3] Based on Total revenue

[4] Based on pharmaceutical revenue.

markets were also impacted by shifting regulations, such as Iraq, and continued devaluation of local currency, namely Egypt.

1Q23 saw notable sales growth in key therapeutic areas, extending the positive trend from 2022. This growth was especially evident in the respiratory, nervous system, cardiovascular, and gastrointestinal segments, propelled by solid market demand. The nervous system segment revenue share expanded by 1.5 percentage points to reach 9.7% of total pharmaceutical revenue, thanks to a surge in demand for central nervous system medications. Meanwhile, the revenue share of the respiratory therapeutic area rose to 15.5% in the quarter, up from 14.3% in FY22, due to seasonality effects. The cardiovascular and gastrointestinal segments also saw improvements in sales share, reinforcing the Company's strategic emphasis on specialized therapeutic areas. These developments in 1Q23 illustrate the ongoing resilience of the overall portfolio, as focus continues to be placed on high-potential segments to drive further growth and profitability.

Balance Sheet Highlights

SAR million	1Q 2023	4Q 2022	Δ%	1Q 2022	Δ%
Total Non-Current Assets	1,947	1,951	-0%	1,939	+0%
Total Current Assets	2,284	1,880	+22%	2,598	-12%
Total Assets	**4,232**	**3,832**	**+10%**	**4,540**	**-7%**
Total Equity	**1,750**	**1,693**	**+3%**	**2,017**	**-13%**
Total Non-Current Liabilities	684	790	-13%	896	-24%
Total Current Liabilities	1,798	1,349	+33%	1,626	+11%
Total Liabilities	**2,482**	**2,139**	**+16%**	**2,523**	**-2%**
Cash & cash equivalents	299	335	-11%	258	+16%
Net Debt	932	721	+29%	1,060	-12%

Total assets as of 31 March 2023 amounted to SAR 4,232 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 quarter.

Total liabilities as of 31 March 2023 totaled SAR 2,482 million, a 16% increase from 31 December 2022 which was mostly driven by additional short-term debt acquisition and higher trade payables.

Days sales outstanding increased from 237 days in 4Q22 to 281 days in 1Q23 (on a LTM basis) due to cyclical nature of trade receivables dynamics and accelerated collections in 4Q22. However, 1Q23 print was lower than the 322 days reported in 1Q22. This shift along with faster inventory turnover and increased days payable outstanding led to a 268-day cash conversion cycle in 1Q23 (-9% vs 294 days in 1Q22, on a trailing basis).

Net debt amounted to SAR 932 million as of 31 March 2023 and increased by 29% from the previous year-end due to a 17% growth in total debt and 11% decline in cash and cash equivalents on the first quarter seasonal effects and a high base for collections in 4Q22.

FY23 Outlook

The Company is reiterating the previous guidance towards the following financial results for FY23:

- Revenue growth of 12-14%, and an improvement in the gross profit margin enabled by a positive shift in the portfolio mix and cost optimization. In this respect, performance is expected to be further aided by an enhanced focus on the development of Government and Private channels, as well as growth of the CMO contribution from improved capacity utilization.
- Stable selling & marketing costs as percentage of revenue.
- 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 9-10%.
- Growth in net debt/EBITDA from increased leverage.

Strategic Review

SPIMACO revealed a revamped strategy in February 2023, which focuses on building the National Champion in the Saudi pharma industry by capitalizing on long-term opportunities offered by the conducive market environment while aiming to improve the well-being of patients and benefiting the Company's stakeholders in the long-term.

The Kingdom of Saudi Arabia is the largest pharmaceuticals market in MENA and is expected to expand at 5% per annum in 2022E-2026E[5]. This is driven by a favorable demographic structure, increasing incidences of chronic diseases, supportive government policies for localized production, growing acceptance of generics and biosimilar products, and a robust macroeconomic environment.

SPIMACO's strategy sets ambitious targets to grow revenue by a CAGR of 13-15% and achieve a 15-17% EBITDA margin by 2027 by adopting a new, improved business model built around a combination of organic growth, business development and M&A. The Company will focus on developing and acquiring a robust

[5] Source: IQVIA Market Prognosis 2021–26 (May 2022).

portfolio of innovative products centered around the needs of patients, growing faster than the market to solidify its leadership in KSA and become a regional player in key MENA markets.

These ambitions will be further fueled by effective product launching, rationalizing infrastructure, and building functional synergies, enhancing commercial success while fostering an aligned and innovative culture within the organization.

Delivering on these ambitious targets will require operational capabilities' upgrades and improvements in commercial efforts. The new capital allocation approach will ensure that prioritized areas receive the necessary resources. And a team of executives with extensive corporate and pharma experience are ready to steer the process.

Creating the National Champion in the pharma industry will benefit all SPIMACO's stakeholders by supporting the local and regional economies, better serving the needs of patients, fostering an aligned and innovative culture beneficial for employees and society, as well as improving profitability and shareholder returns in the long-term.

Earnings Call

The Company is holding an earnings call to discuss 1Q23 financial results with analysts and investors on Wednesday, 17 May 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	1Q 2023	4Q 2022	Δ%	1Q 2022	Δ%
Property, plant & equipment	1,223	1,040	+18%	1,082	+13%
Assets under construction	609	790	-23%	741	-18%
Other non-current assets	115	120	-4%	116	-1%
Total Non-Current Assets	**1,947**	**1,951**	**-0%**	**1,939**	**+0%**
Inventories	507	495	+3%	430	+18%
Trade & other receivables	1,203	834	+44%	1,213	-1%
Cash & cash equivalents	299	335	-11%	258	+16%
Other current assets	275	216	+27%	697	-61%
Total Current Assets	**2,284**	**1,880**	**+22%**	**2,598**	**-12%**
Assets from discontinued operations	1	1	+0%	3	-61%
Total Assets	**4,232**	**3,832**	**+10%**	**4,540**	**-7%**
Share capital	1,200	1,200	+0%	1,200	+0%
Retained earnings	(124)	(179)	-31%	138	-190%
Reserves	519	519	+0%	526	-1%
Equity attr. to Shareholders of the Parent	1,595	1,540	+4%	1,864	-14%
Non-controlling interest	156	154	+1%	153	+2%
Total Equity	**1,750**	**1,693**	**+3%**	**2,017**	**-13%**
Loans & borrowings	282	380	-26%	512	-45%
Employees' end-of-service benefit obligations	302	313	-3%	297	+2%
Other non-current liabilities	100	97	+4%	87	+16%
Total Non-Current Liabilities	**684**	**790**	**-13%**	**896**	**-24%**
Loans & borrowings	950	677	+40%	806	+18%
Trade payables & other liabilities	523	403	+30%	481	+9%
Dividends payable	159	159	+0%	157	+1%
Other current liabilities	167	110	+52%	182	-8%
Total Current Liabilities	**1,798**	**1,349**	**+33%**	**1,626**	**+11%**
Liabilities from discontinued operations	0	0	+0%	2	-98%
Total Liabilities	**2,482**	**2,139**	**+16%**	**2,523**	**-2%**

Income Statement

SAR million	1Q2023	1Q2022	Δ%
Revenue	532	389	+37%
Cost of revenue	(275)	(204)	+35%
Gross profit	**257**	**186**	**+38%**
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General & administrative expenses	(63)	(52)	+21%
Research & development expenses	(13)	(8)	+57%
Other operating expenses	(13)	(7)	+93%
Total operating expenses	**(188)**	**(146)**	**+28%**
Operating profit / (loss) (EBIT)	**69**	**39**	**+77%**
Depreciation & amortization	21	23	-7%
EBITDA	**90**	**62**	**+46%**
Total finance & other income / (cost), net	(4)	(1)	+457%
Profit / (loss) before zakat, income tax & discontinued operations	**66**	**39**	**+70%**
Zakat & income tax	(9)	(7)	+29%
Net profit / (loss) for the period before discontinued operations	**57**	**32**	**+79%**
Loss from discontinued operations	0	(1)	NA
Net profit / (loss) for the period	**57**	**31**	**+85%**

Cash Flow Statement

SAR million	1Q2023	1Q2022	Δ%
Profit before zakat & income tax	66	38	+75%
Adjustments	87	51	+70%
Net Income before zakat & after adjustments	**153**	**89**	**+72%**
Working capital changes	(282)	(188)	+50%
Cash flows generated from / (used in) operating activities	**(130)**	**(99)**	**+31%**
Finance cost paid	(9)	(6)	+47%
Zakat & income tax paid	(0)	(0)	+56%
Employees' end-of-service benefit obligations paid	(23)	(10)	+126%
Net cash generated from / (used in) operating activities	**(161)**	**(115)**	**+40%**
Net cash generated from / (used in) investing activities	**(53)**	**13**	**NA**
Net cash (used in) / generated from financing activities	**174**	**34**	**+420%**
Net changes in cash & cash equivalents during the period	(40)	(68)	-42%
Cash & cash equivalents at the beginning of the period[6]	**335**	**330**	**+2%**
Foreign exchange translation	4	(2)	NA
Cash & cash equivalents at the end of the period[6]	**299**	**259**	**+15%**

Disclaimer

[6] Including cash from discontinued operations where applicable.