

SPIMACO Announces FY 2022 Financial Results

- SPIMACO's revenue in FY22 declined 2% year-on-year to SAR 1,426 million from pricing pressure, a changing sales mix, and decrease in sales of one of our licensor products.
- Operating expenses grew by 23% year-on-year to implement the refreshed strategy and drive future growth.
- Driven by higher operating expenses, the Company's FY22 EBITDA declined to SAR -36 million, net loss totaled SAR 171 million.
- The Company submitted registrations for over 140 SKUs during FY22 to further develop the product pipeline.
- R&D expenses as a percentage of revenue increased from 2% in FY21 to 3% in FY22, moving closer to the industry benchmarks.
- Net debt decreased by 23% in FY22, supported by the decline in total debt and the Company's expanding cash position.
- In 2022 the Company focused on fixing the core as a first step of the strategic transformation, which included improving the science organization, streamlining commercial and manufacturing operations, fixing logistics and distribution, and hiring the top talent.
- SPIMACO is expecting top-line growth and improved profitability in 2023 from progress on the strategic transformation initiated in 2022.

Riyadh, 23 March 2023 – Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO, Tadawul: 2070) today announces its consolidated financial results for the year ended 31 December 2022.

The financial results of 2022 were impacted by a series of capability upgrades and investments to “fix the core” of the Company. These efforts were necessary to jump-start the business recalibration process, which serves as a foundation for achieving the ambitious goals of the Company's 2027-Strategy. Key areas for “fixing the core”, which prompted incremental investments, included streamlining operations, improving internal alignment and right-sizing various teams, upgrading the R&D division and deploying a new organizational structure and revised incentive schemes.

SPIMACO's FY22 top line has declined by a modest 2%, driven by lower pharmaceutical revenue resulting from pricing pressure and a shift in the sales mix, partly offset by increased sales volumes. At the same time the cost of revenue increased 2%, while operating expenses grew by 23% arising from the Company's transformation plan execution. These factors, alongside increasing finance expenses influenced by a higher interest rate environment, led to a net loss for the year of SAR 171 million.



Khaled Al-Khattaf, Chief Executive Officer of SPIMACO, said: "SPIMACO successfully achieved multiple transitional milestones during 2022, which were the result of the Board and the new management team working collaboratively towards transforming the leading vertically integrated pharma manufacturer in KSA into a National Champion.

To realign the Company for the future, we focused on fixing the core of the organization first, which included introducing improvements to the science organization, streamlining commercial and manufacturing operations, fixing logistics and distribution, and hiring the right talent to execute our strategy.

While change and transformation in the pharmaceutical industry typically require time to yield benefits, we already see the first green shoots during 2022, including a more focused portfolio, improvement in output and productivity of our facilities, and with a significant increase in the number of products registered and under registration.

We strongly believe that investing in transformation is the only way to secure prosperity for our stakeholders. And despite putting pressure on this year's financial results, the efforts, and investments we made have set the foundation for successful strategy execution in the long term.

With our strong management team, revamped strategy, and available resources, we have all the necessary ingredients to achieve our ambitious targets and build the National Champion in the Saudi pharma industry to the benefit of every stakeholder."

Dr. Michael Baum, Chief Financial Officer of SPIMACO, said: "2022 was a transformative year for SPIMACO as we have made strong progress in fixing the core of the business and have fully refreshed our 5-year strategy. While this positions the Company strongly for future revenue growth and improved profitability, the incremental investments related to the transformation resulted in a net loss for the year of SAR 171 million.

Nevertheless, we are optimistic about the year ahead as early signs of improvements have started materializing on more robust foundations supported by a clear strategy and realizable financial targets for 2023. We are guiding for a revenue annual growth of 12-14%, an improvement in the gross profit margin enabled by a positive shift in the portfolio mix and cost optimization, and an enhancement in EBITDA margin to 9-10%."

Financial Review

Income Statement and Cash Flow Highlights

SAR million	FY2022	FY2021	Δ%	4Q2022	4Q2021	Δ%
Revenue	1,426	1,460	-2%	369	368	+0%
Cost of revenue	(860)	(839)	+2%	(232)	(208)	+11%
Gross profit	566	621	-9%	137	159	-14%
Selling & marketing expenses	(373)	(331)	+13%	(114)	(92)	+24%
General & administrative expenses	(265)	(220)	+20%	(60)	(63)	-4%
Research & development expenses	(43)	(29)	+46%	(34)	(24)	+41%
Other operating expenses	(12)	15	NA	(17)	(1)	+1480%
Total operating expenses	(692)	(565)	+23%	(225)	(180)	+25%
Operating profit / (loss) (EBIT)	(126)	56	NA	(88)	(21)	+324%
EBITDA	(36)	144	NA	(65)	4	NA
Net profit / (loss) for the period	(171)	18	NA	(104)	(42)	+149%
Gross Profit Margin	39.7%	42.5%	-2.8%	37.2%	43.4%	-6.2%
EBIT Margin	-8.8%	3.8%	-12.6%	-23.9%	-5.7%	-18.2%
EBITDA Margin	-2.5%	9.8%	-12.3%	-17.5%	1.1%	-18.5%
Net profit Margin	-12.0%	1.2%	-13.2%	-28.2%	-11.4%	-16.8%
Net cash from operations	(124)	87	NA	115	131	-12%
Capital expenditure	(84)	(82)	+3%	(14)	(23)	-37%
Free Cash Flow	(209)	13	NA	100	120	-17%

The Company's revenue in FY22 amounted to SAR 1,426 million, down 2% year-on-year reflecting an unfavorable change in the sales mix, decrease in sales of one of our licensor products and pricing pressure, partially offset by a higher sales volume (+22%) linked to robust demand for the Company's products.

Gross profit margin decreased from 42.5% to 39.7% in FY22, reflecting single-digit pressure on revenue and moderately higher cost of revenue.

Selling & marketing expenses increased in FY22 by 13% year-on-year to SAR 373 million. Restructuring and optimizing commercial teams and attracting top talent, as well as additional investments in marketing to realize the full sales potential of selected Company products, that were the key drivers of cost growth, followed by extra expenses associated with more focused salesforce training.

General & administrative expenses amounted to SAR 265 million in FY22, up 20% year-on-year, reflecting the impact of adjustments in the compensation and benefits system as well as additional training expenses and growth in software-related spending.

Research & development expenses grew in FY22 by 46% year-on-year efforts to attract and retain top talent and the discontinuation of capitalization of some employees' salaries related to R&D projects as per IAS 38, in addition to writing-off some R&D capitalized cost. During 2022, SPIMACO registered 22 SKUs in KSA in fast-growing therapeutic areas such as metabolic diseases, oncology, and cardiovascular, and received registrations for 54 SKUs in international markets. Following more management focus on constant innovation and quality of in-house development, the share of R&D expenses in revenue increased from 2% in FY21 to 3% in FY22.

As a result of the above factors, FY22 operating expenses increased by 23% year-on-year to total SAR 692 million. Out of the SAR 127 million absolute increase in operating expenses, almost SAR 75 million are related to the structural upgrade and transformation of the Company's business model under the refreshed Strategy-2027. These expenses include, amongst others, hiring the new management team, staff count rationalization, employee training, legal and professional expenses, software subscriptions.

The FY22 operating loss amounted to SAR 126 million, with an EBIT margin registering -8.8%.

Net finance and other expenses in FY22 amounted to SAR 19 million, down 12% year-on-year, on the back of higher profit from associates partly offset by increased finance costs due to the rising interest rate environment.

The net loss in FY22 totaled SAR 171 million.

Net cash used in operating activities in FY22 amounted to SAR 124 million, driven by the negative result from core operations and higher finance costs.

Capital expenditure in FY22 increased by 1% year-on-year to SAR 84 million.

Revenue Trends

By Channel¹

SAR million	Channel sales, SAR million			Channel contribution, %		
	FY2022	FY2021	Δ%	FY2022	FY2021	Δ%
Private	691	691	+0%	55.9%	52.9%	3.1%
International	200	202	-1%	16.2%	15.5%	0.7%
Government	178	164	+9%	14.4%	12.5%	1.8%
CMO	24	24	+3%	1.9%	1.8%	0.2%
Other	143	227	-37%	11.6%	17.3%	-5.7%
Total pharmaceutical revenue²	1,236	1,307	-5%	100%	100%	-

In 2022, SPIMACO solidified its leadership position in the Saudi Private market, achieving a 7.5% market share and maintaining its number-one ranking among peers in the segment. Total sales from this channel reached SAR 691 million, stable year-on-year, and representing 55.9% of total pharmaceutical revenue. Despite an overall increase in commercial volume sold, the top line was negatively impacted by SFDA price adjustments on specific products as part of their price unification project.

International sales in FY22 reached 16.2% of total pharmaceutical revenue, a year-on-year increase on the back of new products introduced in the Egyptian market and higher product demand in the GCC region.

The Government channel represented 14.4% of total pharmaceutical revenue in FY22, with the performance being supported by higher sales volumes of certain products, including Paracetamol, due to limited stock availability of competitors. The Government channel recorded elevated sales towards the end of 2022 on the back of accelerated delivery of certain products, boosting both volumes and margins.

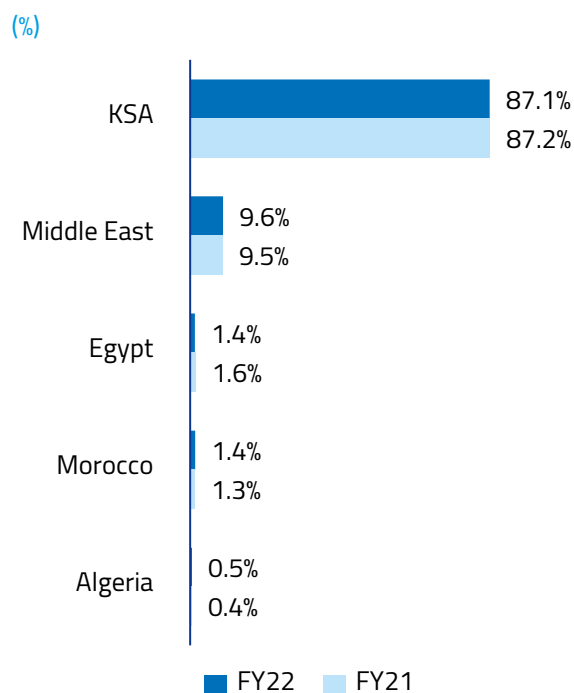
Higher demand in specific therapeutic areas, including respiratory, resulted in higher contract manufacturing operations (CMO) revenue in FY22. The CMO contribution is expected to accelerate in the future as excess capacity is better utilized under the new strategy.

The Others channel contribution, which includes the sale of non-SPIMACO products, cosmetics, and APIs, to total pharmaceutical revenue decreased to 12.0% in FY22, driven by lower sales of certain licensor products.

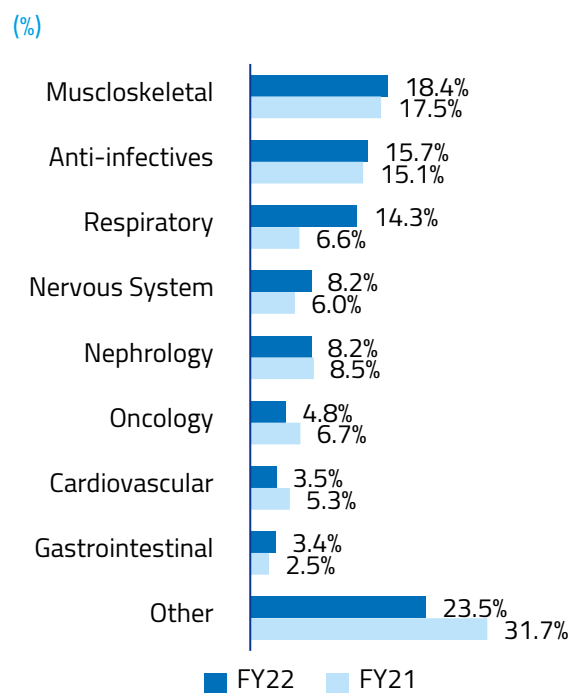
¹ Based on pharmaceutical revenue.

² Non-IFRS measure. Pharmaceutical revenue excludes other types of revenue such as revenue from hospital business, etc. Total pharmaceutical revenue represents 86.4% of Total revenue in FY22 (89.5% in FY21).

By Geography³



By Therapeutic Area⁴



KSA continued to lead in FY22, generating 87.1% of the Company’s total revenue. International revenue in FY22 remained broadly flat, with pressure on the top line from Egypt and Sudan offset by revenue gains in Morocco and Algeria.

Key therapeutic areas continued to show favorable performance on strong market demand across channels. Respiratory and nervous system therapeutic areas recorded solid growth during 2022, with their contribution to total pharmaceutical revenue increasing to 14.3% and 8.2%, respectively, further positively impacted by post-covid reopening of educational institutions and robust demand for medication addressing the central nervous system. The musculoskeletal and the anti-infectives products’ share of revenue remained resilient, with their combined contribution improving to 34.1% from 32.6% in 2021. The oncology therapeutic area showed a decline due to lower sales of one of the licensor products, while nephrology products witnessed slower market demand. The overall portfolio improved its focus, with a share of other therapeutic areas declining to 23.5% in FY22 from 31.7% in FY21.

³ Based on Total revenue

⁴ Based on pharmaceutical revenue.

Balance Sheet Highlights

SAR million	4Q 2022	3Q 2022	Δ%	4Q 2021	Δ%
Total Non-Current Assets	1,951	1,951	-0%	1,972	-1%
Total Current Assets	1,880	2,251	-17%	2,458	-24%
Total Assets	3,832	4,205	-9%	4,434	-14%
Total Equity	1,693	1,846	-8%	1,993	-15%
Total Non-Current Liabilities	790	793	-0%	801	-1%
Total Current Liabilities	1,349	1,565	-14%	1,637	-18%
Total Liabilities	2,139	2,358	-9%	2,441	-12%
Cash & cash equivalents	335	424	-21%	328	+2%
Net Debt	721	782	-8%	942	-23%

Total assets as of 31 December 2022 amounted to SAR 3,832 million, a 14% reduction from the previous year-end driven by lower investments held at FVTPL and a decrease in trade and other receivables from targeted improvements in receivables turnover. Days sales outstanding decreased from 254 days in FY21 to 237 in FY22, positively impacting the Company's cash conversion cycle. This was offset by lower days payable outstanding and slower inventory turnover on the back of 4Q22 inventory build-up in anticipation of a production ramp-up in 2023.

Net debt amounted to SAR 721 million as of 31 December 2022 and decreased by 23% during the year due to a 17% decline in total debt and 2% growth in cash and cash equivalents on better collection and proceeds from divestment of mutual funds.

FY23 Outlook

The Company is guiding 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-2026E⁵. 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 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

⁵ Source: IQVIA Market Prognosis 2021-26 (May 2022).

Press Release



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 a conference call to discuss FY22 financial results with analysts and investors on Monday, 27 March 2023, at 3:30 pm Riyadh time (12:30 London, 4:30 pm Dubai, 8:30 am New York). For further details on the call, including dial-ins, please contact Investor Relations.

For more information, please get in touch with us:

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Appendix

Balance Sheet

SAR million	4Q 2022	3Q 2022	Δ%	4Q 2021	Δ%
Property, plant & equipment	1,040	1,055	-1%	1,098	-5%
Assets under construction	790	779	+1%	719	+10%
Other non-current assets	120	118	+2%	155	-22%
Total Non-Current Assets	1,951	1,951	-0%	1,972	-1%
Inventories	495	521	-5%	419	+18%
Trade & other receivables	834	1,107	-25%	1,017	-18%
Cash & cash equivalents	335	424	-21%	328	+2%
Other current assets	216	200	+8%	694	-69%
Total Current Assets	1,880	2,251	-17%	2,458	-24%
Assets from discontinued operations	1	2	-49%	5	-73%
Total Assets	3,832	4,205	-9%	4,434	-14%
Share capital	1,200	1,200	+0%	1,200	+0%
Retained earnings	(179)	(26)	+586%	104	NA
Reserves	519	522	-1%	533	-3%
Equity attr. to Shareholders of the Parent	1,540	1,696	-9%	1,838	-16%
Non-controlling interest	154	151	+2%	156	-1%
Total Equity	1,693	1,846	-8%	1,993	-15%
Loans & borrowings	380	402	-6%	417	-9%
Employees' end-of-service benefit obligations	313	301	+4%	296	+6%
Other non-current liabilities	97	90	+8%	88	+10%
Total Non-Current Liabilities	790	793	-0%	801	-1%
Loans & borrowings	677	803	-16%	853	-21%
Trade payables & other liabilities	403	449	-10%	461	-13%
Dividends payable	159	160	-1%	157	+1%
Other current liabilities	110	153	-28%	165	-34%
Total Current Liabilities	1,349	1,565	-14%	1,637	-18%
Liabilities from discontinued operations	0	0	-52%	3	-99%
Total Liabilities	2,139	2,358	-9%	2,441	-12%

Income Statement

SAR million	FY2022	FY2021	Δ%	4Q2022	4Q2021	Δ%
Revenue	1,426	1,460	-2%	369	368	+0%
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Gross profit	566	621	-9%	137	159	-14%
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Other operating expenses	(12)	15	NA	(17)	(1)	+1480%
Total operating expenses	(692)	(565)	+23%	(225)	(180)	+25%
Operating profit / (loss) (EBIT)	(126)	56	NA	(88)	(21)	+324%
Depreciation & amortization	90	88	+2%	24	25	-4%
EBITDA	(36)	144	NA	(65)	4	NA
Total finance & other income / (cost), net	(19)	(22)	-12%	(12)	(18)	-31%
Profit / (loss) before zakat, income tax & discontinued operations	(145)	34	NA	(101)	(39)	+160%
Zakat & income tax	(25)	(12)	+102%	(4)	(2)	+123%
Net profit / (loss) for the period before discontinued operations	(170)	21	NA	(104)	(40)	+159%
Loss from discontinued operations	(1)	(3)	-69%	0	(2)	NA
Net profit / (loss) for the period	(171)	18	NA	(104)	(42)	+149%

Cash Flow Statement

SAR million	FY2022	FY2021	Δ%
Profit before zakat & income tax	(146)	32	NA
Adjustments	99	134	-26%
Net Income before zakat & after adjustments	(47)	165	NA
Working capital changes	33	14	+139%
Cash flows generated from / (used in) operating activities	(14)	179	NA
Finance cost paid	(34)	(20)	+67%
Zakat & income tax paid	(27)	(25)	+9%
Employees' end-of-service benefit obligations paid	(50)	(48)	+4%
Net cash generated from / (used in) operating activities	(124)	87	NA
Net cash generated from / (used in) investing activities	478	141	+238%
Net cash (used in) / generated from financing activities	(311)	(241)	+29%
Net changes in cash & cash equivalents during the period	43	(13)	NA
Cash & cash equivalents at the beginning of the period	330	334	-1%
Foreign exchange translation	(37)	8	NA
Cash & cash equivalents at the end of the period	335	330	+2%

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