SPIMACO Delivers Strong Performance in 9M 2023, Maintains the Lead in the Private Market

- SPIMACO's 9M23 revenue saw a 25% year-on-year increase to SAR 1.3 billion, driven by an improved client mix, higher sales in private and government sectors, and stronger demand for the Company's products and benefiting from the tailwinds exhibited in the overall Saudi pharma sector during the period.
- The gross profit margin hit 45.9% in 9M23, up by 5.3 percentage points from last year, driven by strong revenue growth and improved operational efficiency.
- In 9M23, operating expenses dropped to 39.2% of revenue, down from 43.6% in 9M22, due to operating leverage benefits and controlled spending.
- The Company's Adjusted[1] EBITDA margin grew by 10.4 percentage points to reach 13.7% in 9M23, and Adjusted[1] net income amounted to SAR 72 million.
- SPIMACO registered 70 new Stock Keeping Units (SKUs) both locally and internationally during 9M23. As of the end of September 2023, 140 SKUs are pending global registration, marking the Company's continuous efforts to expand its product range.
- In 3Q 2023, SPIMACO launched Endosa, Saudi Arabia's first locally-produced biosimilar for blood clot prevention and treatment, underscoring the Company's dedication to innovation and to the advancement of the localization efforts integral to the Health Sector Transformation Program within the Kingdom's Vision 2030.
- R&D expenses, including capitalized costs, made up 3.0% of the 9M23 revenue, highlighting SPIMACO's increased investment in innovation and product development.

Riyadh, 06 November 2023 – In the first nine months of 2023, SPIMACO's top-line performance saw continued expansion of 25% year-on-year, driven predominantly by a rise in pharmaceutical revenue in line with the overall robust growth in the Saudi pharma sector. This growth was attributed to a beneficial change in the client mix, amplified sales in both the private and government sectors, and a rise in sales volumes due to strong product demand. Benefitting from the operating leverage effect, the Company recorded substantial revenue growth, which outpaced costs, leading to improved profitability. Consequently, the Adjusted[1] EBITDA margin reached 13.7% in 9M23, marking an upswing of 10.4 percentage points from 9M22. The Adjusted[1] net income for 9M23 stood at SAR 72 million, contrasting sharply with the SAR 67 million loss observed in 9M22. This positive shift was anchored in structural modifications and a revamp of the Company's business approach, following strategic investments made in 2022, and was further supported by spending realignment in 3Q23, which included balancing resources against the longer-term need to build and maintain capabilities critical to achieving SPIMACO's long-term strategic goals.

[1] Adjusted EBITDA, net income and margins exclude SAR 31 million in 9M23 related to the labor dispute expenses and provisions.

Jerome Cabannes, Chief Executive Officer of SPIMACO, said: "SPIMACO's results for the first nine months of 2023 highlight the overall progress of our "fixing the core" strategies initiated in 2022.

The Company's first-half performance showed positive momentum, and our dedicated team was able to build on that in the third quarter of 2023, with growth in revenue and improvement in the underlying operational efficiency. Central to this success has been a redefined sales strategy and an uptick in productivity across the organization.

A strong and robust generics market in Saudi Arabia and growth in the private and government channels have been key to our progress, with the Saudi private market playing a crucial role. In line with its strategic aspirations, SPIMACO continues to lead the private market in the Kingdom of Saudi Arabia.

In line with the Vision 2030 of the Kingdom of Saudi Arabia, and as we continue pursue innovation and advance localization initiatives in the Health Sector Transformation Program, we launched Endosa in 3Q 2023 – Saudi Arabia's first locally-produced biosimilar. Endosa, a biosimilar of enoxaparin, offers a cost-effective solution to prevent and treat blood clots. This is a truly life-saving medicine, which exemplifies SPIMACO's dedication to excellence. It showcases our technical prowess, aligns with our localization objectives, and underscores the unwavering commitment to enhancing the well-being of our community.

Supported by our Board and a passionate management team, we are confident in our strategic direction. As we continue to fix and strengthen our core, SPIMACO is well positioned to reach its ambitious goals. United in effort, we are progressing well towards establishing SPIMACO's position as the National Champion in the Saudi pharma industry."

Dr. Michael Baum, Chief Financial Officer of SPIMACO, said: "The third quarter continued to witness revenue growth. Although the growth rate has moderated compared to the first half of the year due to seasonal factors, it aligns with our expectations. As projected, the third quarter saw an adjustment in our expenditure to better fit SPIMACO's long-term plans. This led to an uptick in the proportion of selling, marketing, and administrative costs relative to revenue.

Nevertheless, the benefits of our operational leverage remain undiminished. The sustained margin growth observed in 9M23, compared to the previous year, reflects the strengthened foundational structures of our organization and our commitment to the financial guidance we have charted.

We are encouraged by our performance in 9M23 but recognize the existing headwinds and the upcoming journey. As we approach 2024, SPIMACO is moving with conviction and a well-defined strategy. Equipped to address upcoming challenges and seize new opportunities, our objective is to further fortify our organization's core and strengthen SPIMACO's market presence."

Financial Review

Income Statement and Cash Flow Highlights

SAR million	3Q2023	3Q2022	Δ%	9M2023	9M2022	Δ%
Revenue	382	357	+7%	1,322	1,057	+25%
Cost of revenue	(216)	(234)	-8%	(716)	(628)	+14%
Gross profit	**166**	**123**	**+35%**	**606**	**429**	**+41%**
Selling & marketing expenses	(84)	(78)	+8%	(263)	(255)	+3%
General & administrative expenses	(67)	(66)	+1%	(187)	(184)	+2%
Research & development expenses	(8)	(11)	-33%	(31)	(27)	+16%
Other operating expenses	(25)	2	NA	(37)	5	NA
Total operating expenses	**(183)**	**(153)**	**+19%**	**(518)**	**(461)**	**+12%**
Operating profit / (loss) (EBIT)	**(17)**	**(30)**	**-45%**	**88**	**(32)**	**NA**
Adjusted[2] EBIT	**15**	**(30)**	**NA**	**119**	**(32)**	**NA**
EBITDA	**3**	**(9)**	**NA**	**149**	**35**	**+330%**
Adjusted[2] EBITDA	**35**	**(9)**	**NA**	**181**	**35**	**+419%**
Net profit / (loss)	**(38)**	**(46)**	**-16%**	**40**	**(67)**	**NA**
Adjusted[2] net profit / (loss)	**(7)**	**(46)**	**-84%**	**72**	**(67)**	**NA**
Gross Profit Margin	43.5%	34.5%	+9.0%	45.9%	40.6%	+5.3%
Adjusted[2] EBIT Margin	3.8%	-8.4%	+12.2%	9.0%	-3.0%	+12.0%
Adjusted[2] EBITDA Margin	9.1%	-2.5%	+11.5%	13.7%	3.3%	+10.4%
Adjusted[2] net profit Margin	-1.9%	-12.9%	+11.0%	5.4%	-6.3%	+11.8%
Net cash from operations	130	82	+59%	(85)	(239)	-64%
Capital expenditure	(27)	(20)	+34%	(65)	(70)	-7%
Free Cash Flow	103	61	+69%	(154)	(309)	-50%

Building on the positive momentum from 1H23, SPIMACO reported a 7% year-on-year increase in 3Q23 revenues, reaching SAR 382 million. While this quarterly growth was tempered due to seasonal factors, the combined performance for the first nine months of 2023 showcased a strong 25% surge in revenue, totaling SAR 1,322 million. The increase is due to a favorable shift in client mix, expansion in private and government sales, and a boost in sales volumes, which rose by 24% year-on-year in 9M23 driven by high product demand.

[2] Adjusted for SAR 31 million in 9M23 related to the labor dispute expenses and provisions included in Other operating expenses.

The gross profit margin for 9M23 grew to 45.9%, up by 5.3 percentage points year-on-year. The 25% revenue boost in 9M23, exceeding the 14% increase in cost of revenue compared to the previous year, primarily drove this improvement. In 3Q23, the gross profit margin rose by 9.0 percentage points to 43.5%, a result of the same operating leverage effect.

Selling and marketing expenses in 9M23 experienced a 3% year-on-year increase, totaling SAR 263 million. The modest increase can be attributed to the optimizations implemented within the sales and commercial team during FY22. These optimizations affected both the team's structure and processes, leading to enhanced efficiencies, necessitating a slight increase in costs. In specific, we noticed a minor rise in employee salaries and benefits due to the improved compensation frameworks established in FY22 and FY23. Meanwhile, sales promotion expenses were effectively controlled, benefiting from the revamped commercial business model. These improvements were further bolstered by reduced travel, freight costs, and customs duties, all thanks to increased efficiency at the subsidiary level. Consequently, these expenses constituted 19.9% of the revenue in 9M23.

General and administrative expenses increased by 2% year-on-year in 9M23 and amounted to SAR 187 million, reflecting the management's prudent approach to expenditures. Increased professional fees for SPIMACO's acquisition strategy and ongoing investment in IT were balanced by reductions in other administrative expenses and D&A, resulting from the full amortization of several intangible assets in 9M23. The proportion of general and administrative expenses to revenue in 9M23 continued to grow as anticipated and amounted to 14.2% as the Company continues to invest in its growth strategy.

Research and development (R&D) expenses rose by 16% in 9M23 due to increased investments in product innovation (+20% year-on-year including capitalized costs). Thirteen SKUs were registered in Saudi Arabia within Oncology, Anti-infectives, Blood and Neurology in 9M23, with 29 SKUs under registration as of 30 September 2023. Internationally, the Company secured registrations for 57 SKUs, with 111 SKUs in the registration process as of 30 September 2023. The Company maintains a focus on fostering continuous innovation and improving the quality of in-house development. As a reflection of this commitment, the R&D expenses, including capitalized costs, constituted 3.0% of the revenue in 9M23.

In 3Q 2023, SPIMACO introduced Endosa, Saudi Arabia's first locally-produced biosimilar product. Endosa, a biosimilar of enoxaparin, is a game-changer in the prevention and treatment of blood clots, particularly in emergency and critical settings. This strategic addition underscores SPIMACO's commitment to in-house development and innovation. Offering a cost-effective solution for both patients and healthcare providers in Saudi Arabia, the launch of Endosa also highlights the Company's robust capabilities in technical and regulatory aspects, solidifying its position as a leader in the regional pharmaceutical industry.

In 9M23, other expenses totaled SAR 37 million, primarily due to a SAR 14 million currency loss from our operations in Egypt and due to an additional expense of SAR 31 million, part of which were provisional charges made for the potential liabilities arising from labor disputes. During 3Q23, the Company faced certain legal claims filed by a select number of employees whose contracts were concluded. In return, the Company has engaged an external legal counsel, and these provisions are subject to reassessment as new information becomes available or as the legal proceedings progress. This was partly offset by a SAR 4 million reversal in the provision for receivables.

Driven by the factors mentioned above, the total Operating expenses in 9M23 amounted to SAR 518 million, having increased by 12% year-on-year. The revenue continued to outpace costs, resulting in a 4.3 times year-on-year improvement in 9M23 EBITDA to SAR 149 million. These dynamics contributed to an expansion of EBITDA margin by 8.0 percentage points to 11.3% in 9M23. Excluding the labor dispute charges, Adjusted[3] EBITDA in 9M23 amounted to SAR 181 million, marking a 5.2 times year-on-year improvement with the Adjusted[3] EBITDA margin totaling 13.7% (+10.4 percentage points year-on-year).

The structural changes and evolution of the Company's business model, following the strategic investments made in 2022, have continued to yield results in 9M23. As expected, there was a recalibration of expenditures in 3Q23 to align with SPIMACO's strategic objectives, leading to a higher share of selling, marketing, and general and administrative expenses for 9M23, consistent with prior guidance. Collectively, these elements are paving the way for the Company's continued growth and improved financial performance.

Net finance and other expenses totaled SAR 31 million due to increased finance costs from rising interest rates and net debt balance, partially offset by associate-contributed profits.

In 9M23, SPIMACO achieved a net income of SAR 40 million, buoyed by a strong 1H23 bottom line, which was partially offset by a net loss in 3Q23, attributed to seasonal sales fluctuations, strategic adjustment in spending, and labor dispute charges. Adjusted[3] net income in 9M23 amounted to SAR 72 million with an Adjusted[3] net profit margin of 5.4% marking a turnaround from the SAR 67 million net loss in 9M22.

Net cash used in 9M23 operating activities was SAR 85 million, a considerable improvement from SAR 239 million in 9M22, influenced by an increase in working capital due to higher trade receivables in line with sales growth and a growth in inventories. The rise in payables partially offset the working capital growth. The quarterly pattern of the cash flow aligns with historical seasonal trends with net cash used in operating activities in 1Q and 2Q transitioning to the net cash generated from operating activities in 3Q.

SPIMACO's capital expenditure in the first nine months of 2023 saw a reduction of 7% year-on-year, amounting to SAR 65 million.

[3] Adjusted for SAR 31 million in 9M23 related to the labor dispute expenses and provisions included in Other operating expenses.

Revenue Trends

By Channel[4]

	Channel contribution, %			Channel sales, SAR million	
SAR million	**9M2023**	**FY2022**	**Δ%**	**9M2023**	**FY2022**
Private	57.5%	55.9%	1.6%	639	691
International	13.4%	16.2%	-2.7%	149	200
Government	18.3%	14.4%	3.9%	203	178
CMO	2.3%	1.9%	0.4%	26	24
Other	8.4%	11.6%	-3.1%	94	143
Total pharmaceutical revenue[5]	**100%**	**100%**	**-**	**1,111**	**1,236**

In 9M23, SPIMACO retained a strong presence in the Saudi private market with a market share of 7.4% by the end of September. Sales from this channel generated SAR 639 million, making up 57.5% of the pharmaceutical revenue, a 1.6 percentage points increase from FY22. This growth stems from an updated go-to-market strategy, emphasizing key account management. Additionally, further refinement of the product portfolio and a shift in sales away from the challenged international segment contributed to the upward trajectory.

For 9M23, sales in the government channel represented 18.3% of the pharmaceutical revenue, a rise of 3.9 percentage points from FY22. The boost is attributed to increased sales of high-margin items and the continued strategic push to become a leader in the market segment.

International sales represented 13.4% of pharmaceutical revenue in 9M23, a decrease of 2.7 percentage points from FY22. This downturn was due to both private and government sectors surpassing international growth. Global sales faced headwinds from the unrest in Sudan and Egypt's currency woes. However, this decline was partially mitigated by an uptick in revenue from the UAE thanks to the revamped commercial approach from 1Q23 that began showing results.

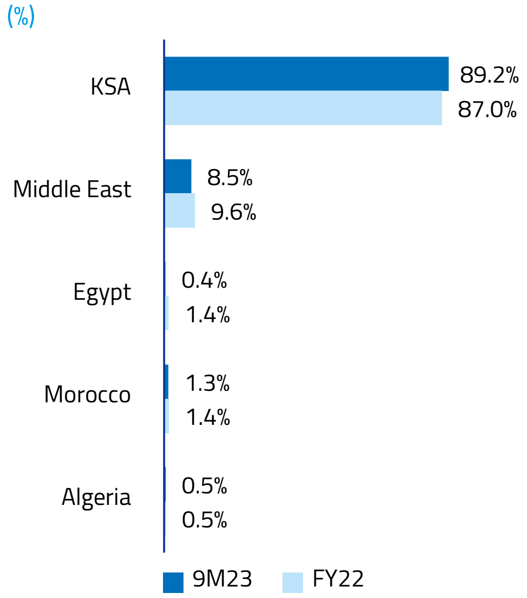
Revenue from contract manufacturing operations (CMO) in 9M23 amounted to 2.3% of total pharmaceutical revenue supported by stable demand from partners.

Lastly, the other segment, encompassing non-SPIMACO products, cosmetics, and APIs, comprised 8.4% of the pharmaceutical revenue in 9M23.

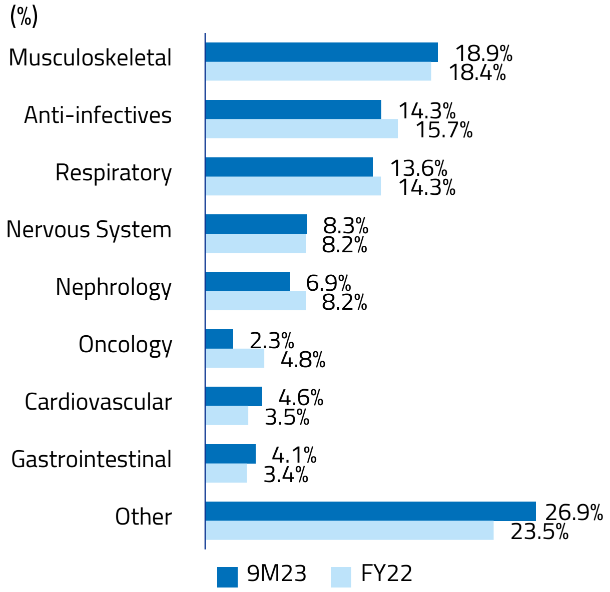
[4] Based on pharmaceutical revenue.

[5] Non-IFRS measure. Pharmaceutical revenue excludes other types of revenue such as revenue from hospital business, etc. Pharmaceutical revenue represents 84.0% of Total revenue in 9M23 (86.4% in FY22).

By Geography[6]



By Therapeutic Area[7]



KSA advanced its lead in 9M23, contributing 89.2% of the Company's total revenue. The share of international revenue declined during this period due to its slower growth when compared to the Saudi Arabian market as well as negative impact from external factors in select international markets.

In 9M23, SPIMACO sharpened its product focus further, targeting high-profit SKUs in specialized therapeutic areas (TA). Cardiovascular and Gastrointestinal areas saw increased shares, while the Nervous System TA reported solid revenue growth keeping the sales share almost flat. The decline in Oncology TA's share was linked to reduced licensor product sales. These changes highlight SPIMACO's further strategic push to high-potential segments to drive further growth and profitability.

[6] Based on Total revenue.

[7] Based on pharmaceutical revenue.

Balance Sheet Highlights

SAR million	3Q 2023	4Q 2022	Δ%	3Q 2022	Δ%
Total Non-Current Assets	1,972	1,951	+1%	1,951	+1%
Total Current Assets	2,158	1,880	+15%	2,251	-4%
Total Assets	**4,131**	**3,832**	**+8%**	**4,205**	**-2%**
Total Equity	**1,705**	**1,693**	**+1%**	**1,846**	**-8%**
Total Non-Current Liabilities	1,049	790	+33%	793	+32%
Total Current Liabilities	1,377	1,349	+2%	1,565	-12%
Total Liabilities	**2,426**	**2,139**	**+13%**	**2,358**	**+3%**
Cash & cash equivalents	135	335	-60%	424	-68%
Net Debt[8]	948	721	+31%	782	+21%

Total assets as of 30 September 2023 amounted to SAR 4,131 million, an 8% growth from the previous year-end driven by higher trade and other receivables driven by significantly improved sales volumes in the first nine months of 2023.

Total liabilities as of 30 September 2023 totaled SAR 2,426 million, a 13% increase from 31 December 2022 which was mostly driven higher trade payables. The Company focused on increasing the debt maturity profile by adding long-term debt and cutting short-term debt correspondingly.

Days sales outstanding decreased by 47 days from 297 days in 3Q22 to 250 days in 3Q23 (on an LTM basis), further reflecting the effects of the revised commercial contract terms. The figure for 3Q23 was higher than the 237 days reported in 4Q22, due to the cyclical nature of trade receivable dynamics and accelerated collections in 4Q22. Compared to 3Q22, the improvement in receivables turnover in 3Q23 was supported by lower inventory turnover days and counterbalanced by faster payables turnover, which led to a 264-day cash conversion cycle in 3Q23 (-11% vs 296 days in 3Q22, on a trailing basis).

As of September 30, 2023, the net debt stood at SAR 948 million, marking a 31% increase from the prior year-end. This jump was primarily due to a 60% reduction in cash and cash equivalents on rapid turnover of payables coupled with a 2% rise in total debt.

[8] Long-term loans and borrowings + Short-term loans and borrowings - Cash and cash equivalents

FY23 Outlook

The Company is reiterating the previously upgraded guidance towards the following financial results for FY23 (year-on-year if not stated otherwise):

- Revenue growth of 19-21%.
- Improvement in the gross profit margin.
- Lower 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 10-11%.
- 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 9M23 financial results with analysts and investors on Monday, 6 November 2023, at 3:00 pm Riyadh time (12:00 pm London, 4:00 pm Dubai, 7:00 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	3Q 2023	4Q 2022	Δ%	3Q 2022	Δ%
Property, plant & equipment	1,199	1,040	+15%	1,055	+14%
Assets under construction	640	790	-19%	779	-18%
Other non-current assets	132	120	+10%	118	+13%
Total Non-Current Assets	**1,972**	**1,951**	**+1%**	**1,951**	**+1%**
Inventories	530	495	+7%	521	+2%
Trade & other receivables	1,207	834	+45%	1,107	+9%
Cash & cash equivalents	135	335	-60%	424	-68%
Other current assets	286	216	+33%	200	+43%
Total Current Assets	**2,158**	**1,880**	**+15%**	**2,251**	**-4%**
Assets from discontinued operations	1	1	+0%	2	-49%
Total Assets	**4,131**	**3,832**	**+8%**	**4,205**	**-2%**
Share capital	1,200	1,200	+0%	1,200	+0%
Retained earnings	(149)	(179)	-17%	(26)	+472%
Reserves	499	519	-4%	522	-4%
Equity attr. to shareholders of the parent	1,549	1,540	+1%	1,696	-9%
Non-controlling interest	156	154	+1%	151	+3%
Total Equity	**1,705**	**1,693**	**+1%**	**1,846**	**-8%**
Loans & borrowings	649	380	+71%	402	+61%
Employees' end-of-service benefit obligations	302	313	-4%	301	+0%
Other non-current liabilities	97	97	+0%	90	+8%
Total Non-Current Liabilities	**1,049**	**790**	**+33%**	**793**	**+32%**
Loans & borrowings	434	677	-36%	803	-46%
Trade payables & other liabilities	527	403	+31%	449	+17%
Dividends payable	158	159	-0%	160	-1%
Other current liabilities	258	110	+135%	153	+69%
Total Current Liabilities	**1,377**	**1,349**	**+2%**	**1,565**	**-12%**
Liabilities from discontinued operations	0	0	+0%	0	-52%
Total Liabilities	**2,426**	**2,139**	**+13%**	**2,358**	**+3%**

Income Statement

SAR million	3Q2023	3Q2022	Δ%	9M2023	9M2022	Δ%
Revenue	382	357	+7%	1,322	1,057	+25%
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Selling & marketing expenses	(84)	(78)	+8%	(263)	(255)	+3%
General & administrative expenses	(67)	(66)	+1%	(187)	(184)	+2%
Research & development expenses	(8)	(11)	-33%	(31)	(27)	+16%
Other operating expenses	(25)	2	NA	(37)	5	NA
Total operating expenses	**(183)**	**(153)**	**+19%**	**(518)**	**(461)**	**+12%**
Operating profit / (loss) (EBIT)	**(17)**	**(30)**	**-45%**	**88**	**(32)**	**NA**
Depreciation & amortization	20	21	-6%	61	67	-8%
EBITDA	**3**	**(9)**	**NA**	**149**	**35**	**+330%**
Total finance & other income / (cost), net	(17)	(10)	+77%	(31)	(13)	+142%
Profit / (loss) before zakat, income tax & discontinued operations	**(34)**	**(40)**	**-15%**	**57**	**(45)**	**NA**
Zakat & income tax	(4)	(6)	-27%	(16)	(21)	-23%
Net profit / (loss) for the period before discontinued operations	**(38)**	**(46)**	**-16%**	**40**	**(66)**	**NA**
Loss from discontinued operations	0	(0)	-100%	0	(1)	-100%
Net profit / (loss) for the period	**(38)**	**(46)**	**-16%**	**40**	**(67)**	**NA**

Cash Flow Statement

SAR million	9M2023	9M2022	Δ%
Profit before zakat & income tax	57	(46)	NA
Adjustments	310	121	+156%
Net Income before zakat & after adjustments	**367**	**75**	**+387%**
Working capital changes	(334)	(239)	+40%
Cash flows generated from / (used in) operating activities	**34**	**(164)**	**NA**
Finance cost paid	(41)	(25)	+62%
Zakat & income tax paid	(28)	(25)	+15%
Employees' end-of-service benefit obligations paid	(49)	(26)	+94%
Net cash generated from / (used in) operating activities	**(85)**	**(239)**	**-64%**
Net cash generated from / (used in) investing activities	**(111)**	**500**	**NA**
Net cash (used in) / generated from financing activities	**14**	**(163)**	**NA**
Net changes in cash & cash equivalents during the period	(182)	98	NA
Cash & cash equivalents at the beginning of the period[9]	**335**	**330**	**+2%**
Foreign exchange translation	(18)	(3)	+446%
Cash & cash equivalents at the end of the period[9]	**135**	**425**	**-68%**

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[9] Including cash from discontinued operations where applicable.