Group Chief Financial Officer's review

Sean Capazorio
Group Chief Financial Officer

Key features of 2023

Normalised EBITDA increased by 1% (-6% CER) to R11,1 billion

Margin improvement in Commercial Pharmaceuticals and strong second half performance in Heparin and API Manufacturing helped deliver normalised EBITDA ahead of the prior year as guided.

See page 20

NHEPS decreased by 8% (-15% CER) to 1 498,5 cents

Normalised headline earnings significantly impacted by higher net finance costs resulting mainly from foreign exchange losses and higher interest rates.

See page 20

Leverage ratio at 1,9 times comfortably below target levels

Net borrowings of R18,4 billion, 1% lower in CER, provides significant headroom for value-enhancing investments.

See pages 21 and 22

Value created and distributed increased by 4%

Our activities this year have created R19 446 million in wealth-generating economic value for our varied stakeholder groups.

See pages 65 and 96

Delivering exceptional performance in the second half, the Group has achieved a solid set of results for the year. The positive strides made in bolstering our product portfolio and securing contracts to utilise our sterile manufacturing capacity position the Group for strong performance in H2 FY2024, providing a foundational inflection point for accelerated growth in the medium term.

Purpose-driven strategy delivers economic value

The Group has made positive strides in delivering on its strategy in the context of a difficult operating environment. With expected headwinds at the start of the financial year, I am pleased to be able to present a solid set of results for the year ended 30 June 2023, against our expectations and guidance provided. Behind these financial results are the Aspen team dedicated to our purpose of improving the health and quality of life of patients across the globe. In addition to our contribution to the health and well-being of people, we remain focused on creating economic value for our key stakeholders by building a profitable and sustainable business model. Our activities this year have created R19 446 million in wealth, which has been distributed to our employees (47%), our providers of capital (17%) and to the fiscus (10%), with the remainder (26%) reinvested to sustain the business (refer to page 95).

Financial performance highlights

The financial performance of the Group needs to be considered in the context of both the difficult operating environment and the impact of a loss of COVID vaccine revenue. The Group experienced a challenging H1 with the Russia-Ukraine war, inflationary pressures, higher interest rates, COVID lockdowns and the VBP impact in China, all creating significant headwinds. The loss of COVID vaccine contribution together with the investment in non-revenue-generating technical transfer activities relating to the onboarding of new sterile manufacturing opportunities further negatively impacted performance of the Manufacturing segment when compared year-on-year. Against this backdrop, the Group performed exceptionally in H2 to achieve solid results for the full financial period. Revenue increased by 5% (-3% CER) to R40,7 billion and normalised EBITDA increased 1% (-6% CER) to R11,1 billion.

Group Chief Financial Officer's review continued

Gross profit grew 3% (-4% CER), ending lower than the growth in revenue with the improvement in Commercial Pharmaceuticals gross profit margins being more than offset by the loss of COVID vaccine contribution in Manufacturing.

The weaker emerging market currencies relative to the Euro, coupled with higher interest rates, resulted in a substantial year-on-year swing in normalised net financing costs of R753 million. This negatively impacted NHEPS which decreased by 8% (-15% CER) to 1 498,5 cents.

Our reported results are boosted by the rate of exchange prevailing during the period. The table which follows compares performance in the prior year at previously reported exchange rates and then at CER. The CER results for the 12 months ended 30 June 2022 restate the performance for that period using the average exchange rates for the 12 months ended 30 June 2023. The overall weakening of the ZAR against the majority of the currencies in which Aspen trades has had a favourable impact on our reported results.

	2023 R'million	2022 R'million	Change %	2022 (CER) R'million	Change (CER) %
Revenue	**40 709**	38 606	5	41 817	(3)
Gross profit	**18 934**	18 306	3	19 725	(4)
Normalised EBITDA	**11 100**	11 012	1	11 844	(6)
NHEPS (cents)	**1 498,5**	1 627,6	(8)	1 754,1	(15)

Business segment performance

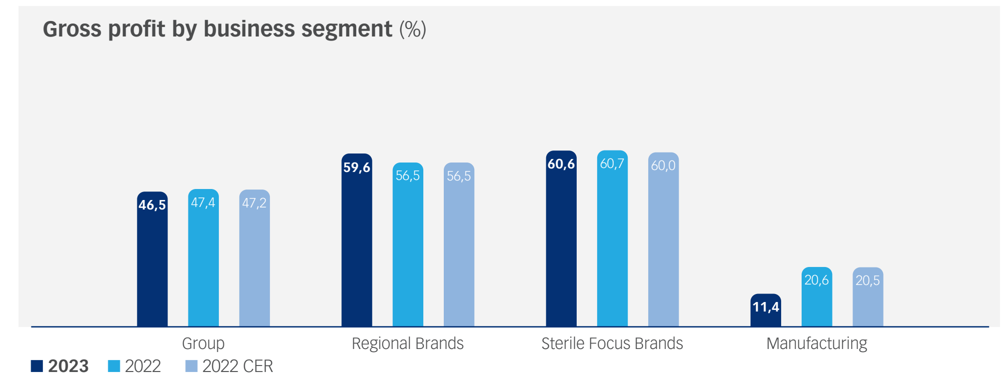
A sustained growth in Commercial Pharmaceuticals offset by loss of vaccine sales

The revenue generated by the Commercial Pharmaceuticals business, comprising Regional Brands and Sterile Focus Brands, grew by 6% (-1% CER) to R29,4 billion. Regional Brands delivered a sound performance, increasing revenue by 8% (+1% CER) to R18,8 billion, notwithstanding the divestment of certain products in South Africa. The Sterile Focus Brands segment posted an increase in revenue of 3% (-6% CER) to R10,6 billion, affected by the aforementioned challenges faced in China, as well as the geopolitical situation in Russia and Ukraine on our businesses there. Our Manufacturing segment faced significant headwinds following the loss of the COVID vaccine sales, but still achieved an increase in revenue of 3% (-6% CER) to R11,3 billion.

	2023 R'million	2022 R'million	Change %	2022 (CER) R'million	Change (CER) %
Commercial Pharmaceuticals	**29 412**	27 658	6	29 859	(1)
Regional Brands	**18 824**	17 405	8	18 597	1
Sterile Focus Brands	**10 588**	10 253	3	11 262	(6)
Manufacturing	**11 297**	10 948	3	11 958	(6)
Active pharmaceutical ingredients	**5 024**	4 894	3	5 357	(6)
Heparin	**3 423**	2 379	44	2 583	33
Finished dose form – Steriles	**1 480**	2 567	(42)	2 807	(47)
Finished dose form – Other	**1 370**	1 108	24	1 211	13
Group revenue	**40 709**	38 606	5	41 817	(3)

Resilient Commercial Pharmaceuticals margins offset by loss of vaccine contribution

Gross profit growth of 3% (-4% CER) ended lower than the growth in revenue. A marked improvement in gross profit margin was achieved by Commercial Pharmaceuticals with a favourable sales mix and cost of goods savings, more than offsetting inflationary headwinds and China VBP impacts. While Manufacturing performed well in H2, driven mainly by the performance in the API and Heparin businesses, the loss of vaccine contribution negatively impacted the full year gross profit margins for this business segment. The Group gross margin ended at 46,5% compared to the prior year of 47,2% (CER).



Group Chief Financial Officer's review continued

EBITDA in line with FY2022 as guided

Normalised EBITDA rose 1% (-6% CER) to R11,1 billion, reflecting the impact of performance headwinds encountered, the impact of which was lessened by strict management of our operating expenses. Normalised EBITDA margin decreased by 1,2 percentage points to 27,3%.

	2023 R'million	% of revenue	2022 R'million	% of revenue	Change %	2022 (CER) R'million	% of revenue	Change (CER) %
Revenue	**40 709**	100,0	38 606	100,0	5	41 817	100,0	(3)
Gross profit*	**18 934**	46,5	18 306	47,4	3	19 725	47,2	(4)
Operating expenses	**(9 426)**	(23,2)	(8 539)	(22,1)	10	(9 206)	(22,0)	2
Net other operating income	**345**	0,8	78	0,2	>100	73	0,2	>100
Depreciation	**1 247**	3,1	1 167	3,0	7	1 252	3,0	0
Normalised EBITDA	**11 100**	27,3	11 012	28,5	1	11 844	28,3	(6)

* *Gross profit is after the deduction of depreciation.*

Significant increase in net financing costs erodes earnings

Normalised headline earnings, which adjusts for specific non-trade items as set out in our accounting policies, is the primary measure management uses to assess our underlying financial performance. Normalised headline earnings of R6,7 billion was 10% (-16% CER) lower than the R7,3 billion achieved in the prior year impacted by the significant increase in net financing costs as a consequence of exchange rate volatility (refer to page 22).

NHEPS decreased by 8% (-15% CER) to 1 498,5 cents per share benefitting from the share buy-back transaction in late FY2022. The lower percentage reduction in headline earnings per share ("HEPS") of 4% (-11% CER) compared to NHEPS is attributable to reduced transaction costs in the current financial year. The higher percentage decline in earnings per share of 18% (-23% CER), relative to HEPS is due to the prior year benefit of a profit on sale of a product portfolio divested in South Africa.

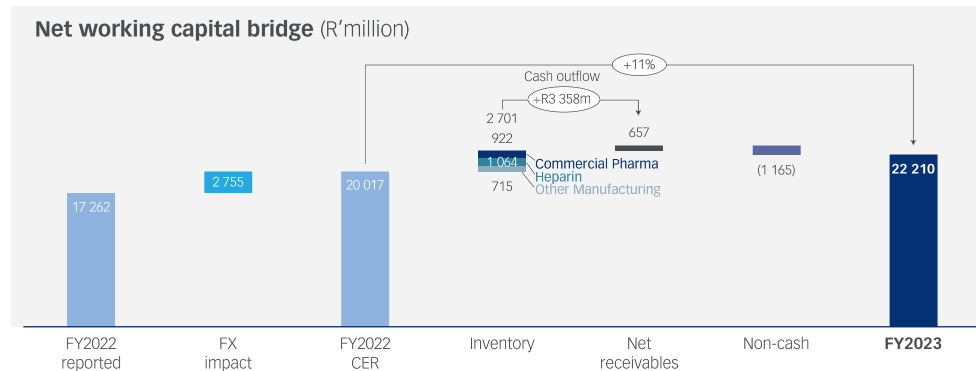
Set out below is a reconciliation of earnings per share at the basic, headline and normalised headline levels.

	2023 Cents	2022 Cents	Change %	2022 (CER) Cents	Change (CER)%
Basic earnings per share	**1 176,9**	1 432,3	(18)	1 523,1	(23)
Impairment of property, plant and equipment	**0,7**	1,9		1,9	
Impairment of right-of-use assets	**—**	3,2		3,5	
Impairment of intangible assets	**292,0**	327,3		348	
Impairment of goodwill	**—**	2,4		2,5	
Reversal of impairment of intangible assets	**(67,3)**	(79,6)		(86,5)	
Reversal of impairment of PPE	**—**	2,5		(27)	
Profit on sale of assets classified as held-for-sale	**—**	(252,6)		(252,6)	
Loss on sale of tangible and intangible assets	**9,8**	39,8		49,9	
Insurance compensation on assets	**(6,7)**	(11)		(11,9)	
Headline earnings per share	**1 405,4**	1 461,2	(4)	1 575,2	(11)
Restructuring costs	**47,2**	29,7		32,2	
Transactions costs	**45,9**	124,1		133	
Product litigation costs	**—**	16,6		18	
Reversal of deferred consideration no longer payable	**—**	(3,3)		(3,6)	
Foreign exchange gain relating to transactions	**—**	(0,7)		(0,7)	
Normalised headline earnings per share	**1 498,5**	1 627,6	(8)	1 754,1	(15)

Group Chief Financial Officer's review continued

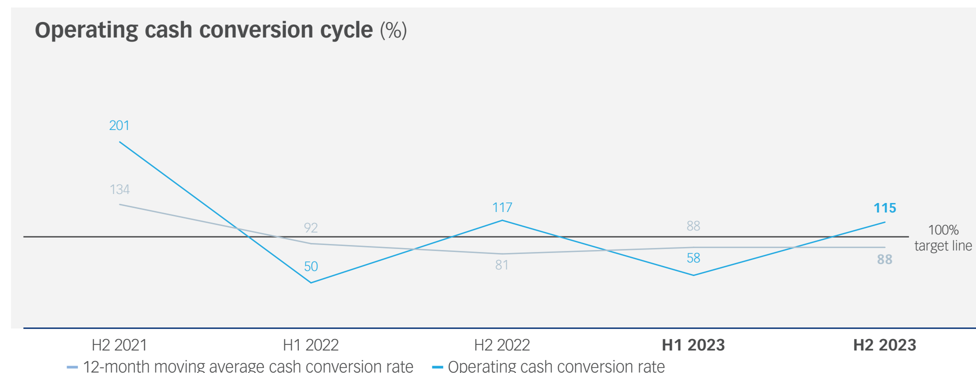
Increased Heparin investment to support Viatris Latin American transaction elevates net working capital investment

An increase in Heparin stock levels to support the Viatris transaction in Latin America together with the slower than anticipated unwind of API inventory and an increase in safety stock levels required by regulators in Australia for prescription medicines, resulted in a R2,7 billion increased inventory cash investment at year end. Net working capital levels increased by 11% CER over the prior year, increasing the investment in working capital to 55% of revenue from 45% reported in the prior year. Our working capital levels are influenced by the long working capital cycle associated with our Oss API business, and excluding this business, working capital reduces to 44% of revenue compared to 38% at June 2022. The increased investment in Heparin and API inventory is expected to unwind in FY2024.



Strong operating cash flow and cash conversion rate in H2

Operating cash flows were negatively impacted by the increase in inventory levels as well as higher fourth quarter Manufacturing sales increasing net receivables. Cash generated from operating activities of R5,5 billion represents operating cash flow per share of 1 242,6 cents per share (increasing 5% over the prior year) and an 88% conversion of headline earnings to cash. While below our target level of 100%, this does present an improvement over the prior year conversion rate of 81%.



Non-current asset optimisation

Commercial Pharmaceuticals makes advances in its portfolio enhancement strategy

The recently concluded transactions with Lilly and Amgen for sub-Saharan Africa and Viatris for Latin America will enhance the Commercial Pharmaceuticals product portfolio footprint in emerging markets with incremental revenue of more than USD135 million on an annualised basis.

Strategic investment in our manufacturing capabilities underpins our growth strategy

We continue to invest in our manufacturing sites, most notably our Gqeberha and Notre Dame de Bondeville sites, in order to transfer the production of certain of our Anaesthetic portfolio in-house and to build a platform for the manufacture of vaccines and other steriles including biological products. The expansion project value of R2 billion will be spread over the financial years 2022 to 2024, with R0,8 billion being expended in the current financial year and a further R0,7 billion planned for FY2024. Total property, plant and equipment ("PPE") capex for FY2023 was R2,2 billion. It is anticipated that the level of capital expenditure will reduce from FY2025 as we complete the sterile capacity expansion projects.

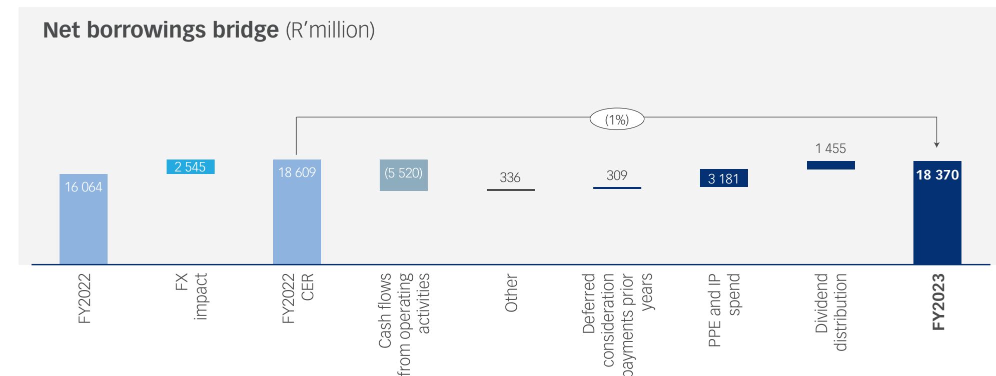
Impairment to intangible assets and goodwill

We classify certain of our intangible assets as being of indefinite life. Each year the carrying values of the intangible assets and goodwill are rigorously tested for impairment, and carrying values are written down where there has been a reduction in value. Intangible assets which are no longer assessed as indefinite life are reclassified as definite life assets. This year, net impairments of intangible assets and goodwill were R1,0 billion on a total combined net book value of R68,7 billion at financial year-end.

Funding and debt profile

Significant headroom on covenant leverage ratio

The cash flows from operating activities have been substantially offset by capital outflows in respect of dividend payments and PPE and intellectual property ("IP") spend. A weaker Rand increases our reported net borrowing levels by R2,5 billion to R18,4 billion. The leverage ratio of 1,89 times is well within the covenant level of 3,5 times and below our internal limit of 3,0 times.

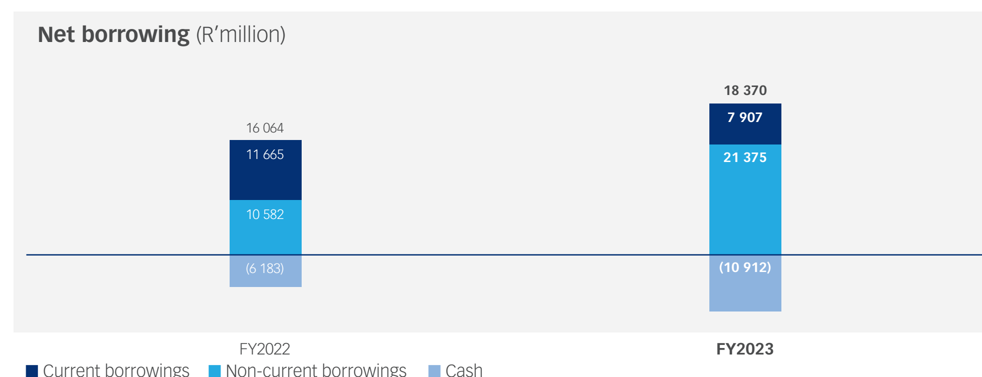


Group Chief Financial Officer's review continued

Successful refinancing of debt facilities achieved

As at 30 June 2022, we had in place syndicated debt facilities totalling the equivalent of R17,1 billion which were due to mature on 1 July 2023. Of this, R8,4 billion had been utilised and was included as part of current borrowings of R11,7 billion at 30 June 2022. We successfully completed a refinancing programme for the maturing facilities in November 2022, with new long-term maturity dates. This refinancing included the R8,4 billion that had been included in current borrowings in the prior year.

The Oss loan owing to Merck Sharpe & Dohme ("MSD") of EUR188 million was originally due for repayment in September 2023. Subsequent to year-end, an agreement has been reached to extend the loan repayment terms with repayment now in three instalments over the next two years. The extended loan attracts a lower interest rate than the notional interest rate incurred on the original loan. Since FY2022, the MSD loan is included in the leverage ratio calculation.



A significant increase in net financing costs erodes NHEPS growth

The substantial year-on-year negative swing in net financing costs of R753 million is primarily driven by foreign exchange losses of R434 million arising from weaker emerging market currencies relative to the Euro and partly due to higher interest rates. This 136% increase in reported net financing cost contributes to the erosion in NHEPS growth as mentioned before.

	2023 R million	2022 R million	Change %
Net interest paid	**(591)**	(468)	
Effective interest rate for the period* (%)	**3,21**	2,92	
Foreign exchange (losses)/gains	**(434)**	184	
Notional interest on financial instruments	**(204)**	(192)	
Normalised net funding costs	**(1 229)**	(476)	>100
Debt raising fees on acquisitions	**(38)**	(64)	
Foreign exchange gains on acquisitions	**—**	3	
Reported net financing costs	**(1 267)**	(537)	>100

* *Excluding amortisation of capital raising fees.*

Capital returns to shareholders aligned to prioritisation model

In accordance with the Board-approved capital allocation prioritisation model and taking into account earnings and cash flow performance for FY2023 and the leverage ratio which is well below the limit of no more than 3,0 times, the Board declared a gross dividend of 342 cents per ordinary share which was paid to shareholders registered in the share register as at 22 September 2023. This represents an increase in 5% over that declared in the prior year. Refer to page 34 for more information on our capital allocation model.

Maintenance of financial health

To sustain our business model and to generate accretive value for investors, we have a fiduciary duty to our stakeholders to manage our financial capital in a responsible manner. Robust financial controls and treasury management systems are in place to mitigate currency, interest rate and credit risks as far as reasonably possible. The Audit & Risk Committee assists the Board in discharging its duties in respect of the safeguarding of assets, accounting systems and practices, internal control processes and the preparation of the Group and Company Annual Financial Statements.

Internal financial controls

The key internal financial controls in operation for all significant operating businesses within the Group are documented in formalised financial internal control frameworks, and these frameworks are maintained and updated by financial management during the course of the year or as part of the year-end process. The documented key internal financial controls are audited by Group Internal Audit on an annual basis. This process provides support for the positively worded statement corroborating that there are no material breakdowns in the internal controls underpinning the financial results.

Each subsidiary also undertakes a rigorous self-assessment, which is formally signed off by the respective financial head and reviewed and approved by the Group finance team. The self-assessment includes financial and disclosure controls, internal financial and operating controls, business performance-related representations and a detailed fraud assessment review. The positive assurance outcome provides strong support for meeting the requirements of section 3.84(k) of the JSE Listings Requirements.

Funding and treasury risk management

The Group Treasury Committee is charged with monitoring the Group's performance in managing the risks (including liquidity, foreign exchange, covenant compliance, counterparty and interest rate) identified in the Group Treasury Policy. Local management is empowered, within the relevant approvals frameworks and the limitations set out in the Group Treasury Policy, to make decisions regarding how to manage these risks and to take ownership for implementation of any related actions. The Group Treasury Committee is also responsible for overseeing, reviewing and challenging the recommendations made and actions taken by Group Treasury in terms of its duties under the Group Treasury Policy, as well as with respect to centralisation, automation and optimisation of the Group's operational treasury activities and the appropriateness of the Group's debt funding portfolio (including related intra-group guarantees and funding arrangements).

Group Chief Financial Officer's review continued

Per the Group's Treasury Policy, the Group's treasury activities should be undertaken in a controlled and systematic manner that supports the Group's commercial and manufacturing operations by managing the Group's financial risks within the risk tolerances set and agreed by the Audit & Risk Committee; ensuring compliance with relevant laws, regulations and undertakings; optimising funding and deployment of capital within the Group and ensuring that the Group has adequate liquidity to meet its strategic objectives; facilitating all transactions considered necessary to achieve the Group's business objectives; and to the greatest extent possible, ensuring the best cost of execution of treasury-related trades, taking into account explicit and implicit costs.

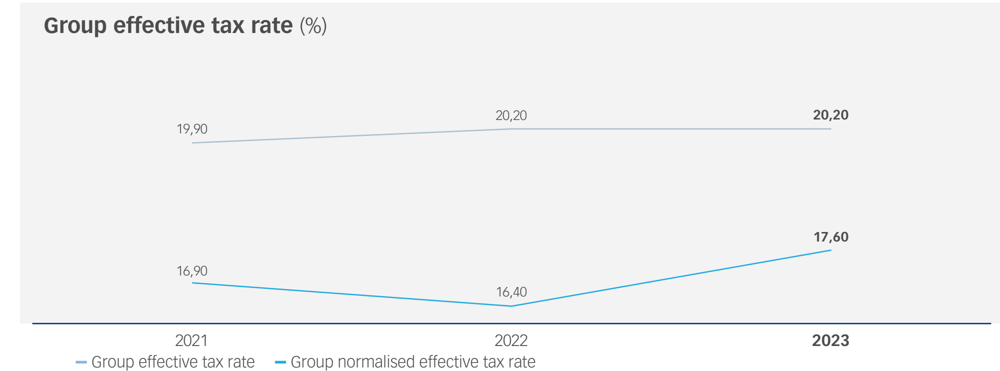
With respect to specific treasury-related risks (including liquidity, refinancing, capital structure, covenant compliance, foreign exchange rate, interest rate, counterparty), the Group Treasury Policy details how each risk should be managed and (where applicable) sets out KPIs for each identified risk. The Group Treasury Committee is charged with monitoring and providing guidance to the Group's treasury function with respect to its control environment, its risk register, the appropriateness of policies, procedures and structures which are in place with respect to treasury risk management and facilitation of centralising, automating and optimising the Group's operational treasury activities, the appropriateness of the Group's capital structure and assessments of the Group's solvency and liquidity, and overall implementation of the Group Treasury Policy.

The Audit & Risk Committee retains overall responsibility for ensuring the Group meets its treasury objectives. It is responsible for approving changes to the treasury policy, reviewing the Group's performance in terms of its treasury-related KPIs, approving the Group's capital structure and the assessment of the Group's solvency and liquidity, and reviewing/approving the Group's treasury risk register. In addition, the Audit & Risk Committee is responsible for ensuring the Group's treasury function is subject to annual internal audit reviews.

A responsible approach to taxation

As a Group that has a substantial presence in many countries, we understand our responsibility to pay an appropriate amount of tax. We comply with tax laws in the countries in which we operate and seek to maintain open and positive relationships with tax authorities. The Group Tax Committee oversees the Group's tax strategy and risk management and ensures that our tax affairs are proactively managed. Our approach to taxation is more fully explained on page 96.

An increase in normalised effective tax rate was experienced in FY2023 due to a change in the mix of profits being generated by significant entities in the Group.



Continued improvement in financial and tax reporting systems

During the year, we further progressed our digitalisation strategy and continued to invest in enterprise resource planning ("ERP") systems and advanced technology. These projects remain integral to our objective of achieving significant improvement in the quality, timeliness and depth of financial and tax reporting available to the Group.

Looking ahead

The targeted reshaping of our Commercial business over the past few years, together with our recently announced product portfolio additions in Latin America and South Africa, is expected to continue to yield results, notwithstanding the challenging trading environment and the VBP risk in China. Based upon current exchange rates, we anticipate Commercial Pharmaceuticals to achieve double-digit reported revenue growth in FY2024 weighted towards H2. We have made significant strides in securing contracts to fill our sterile capacity and are focused on successfully executing these agreements. While our Manufacturing performance in FY2024 will be impacted by non-revenue-generating technical transfer activities, we do expect to achieve contributions of R2 billion in CY2024, increasing to R4 billion in CY2025.

Anticipated FY2024 reported results will receive an uplift should the currently weaker ZAR continue in the year ahead. Based upon current exchange rates, reported normalised EBITDA is expected to grow over the prior year. Factors anticipated to weigh on performance are the potential downside of VBP in China and the loss of grant funding of USD30 million for the full year which was received this year, while the potential upside from product portfolio additions and contract manufacturing revenue is expected to lift performance. Finance charges will continue to be influenced by the interest rate cycle. Lower targeted manufacturing inventory levels are expected to reduce working capital cash flow investment compared to FY2023 and an operating cash conversion rate of greater than 100% is expected. H2 FY2024 should represent a significant inflection point for the Group and should form the foundation for sustainable future earnings growth.

Group Chief Financial Officer's review continued

Continued focus to achieve financial medium-term guidance to FY2024

Target	FY2022	FY2023	Commentary
Increase from rebased FY2020 EBITDA margin of 25,8%	↑	↑	EBITDA margin of 27,3% achieved
EBITDA growth > Revenue growth	↑	↓	EBITDA growth of 1% < Revenue growth of 5%
NHEPS > EBITDA growth	↑	↓	NHEPS decline at 9% < EBITDA growth of 1%
Leverage ratio no greater than 3x	↑	↑	Significant headroom providing capacity for value-enhancing investments
Improving free cash flow	↔	↔	Slightly improved FCF in FY2023 impacted by increased investment in Heparin inventory which should normalise in FY2024
Recommence dividends	↑	↑	Recommenced from FY2021 and increased dividend declared for FY2023

Closing remarks

While our financial performance for FY2023 has reflected short-term challenges, it has been a pivotal year in building the foundation for sustainable growth for Aspen. I am confident, with continued focus on the delivery of our Business Strategy, we will get back on track to achieving our financial medium-term guidance to FY2024, while the investment in our product portfolio and sterile manufacturing capacity is set to deliver accelerated growth in the medium term.

I would like to extend a sincere thanks to the finance team members across our operations who have worked diligently throughout the financial year to achieve strong financial discipline and meaningful financial reporting.

Sean Capazorio
Group Chief Financial Officer