

EARNINGS RELEASE

Avalon delivers strong start to 2024 with a remarkable 37% increase in revenue, high profitability and substantial rise in net profit

Riyadh, Saudi Arabia | 19 May 2024 – Middle East Pharmaceutical Industries Company (“Avalon Pharma”) one of the fastest growing home-grown pharmaceutical manufacturing companies in the Kingdom of Saudi Arabia, today published its Q1 2024 financial results for the period ending March 31st 2024.

- Strong revenue growth of 37.3% year-on-year (YoY), totalling SAR 75.82 million, attributed to the introduction of new products and expansion across all channels.
- Achieved a gross profit of SAR 46.46 million, with a gross margin of 61.3%, compared to 61.1% in Q1 2023.
- Recorded a significant EBITDA growth of 187.3% YoY, reaching SAR 15.64 million, and an expanded EBITDA margin of 20.6%, compared to 9.9% in the corresponding period last year. This growth was propelled by the company’s operational efficiency.
- Net profit soared to SAR 9.37 million from a net loss in Q1 2023, driven by robust profitability growth.
- Robust Free Cash Flow¹ generation up 64.1% YoY to SAR 23.87 million, driven by strong profitability, enhanced collection, and trade payable policy as well as a disciplined approach to growth investment.

Avalon Pharma's first-quarter financial results stand as a testament to our unwavering dedication to operational excellence and strategic growth. We are pleased to announce robust earnings, marked by impressive revenue growth, strengthened margins, and enhanced operational efficiency. These results reflect the efficacy of our prudent financial management and strategic investments, positioning us for sustained success in the dynamic pharmaceutical landscape. As we press forward, we remain committed to maximizing shareholder value, driving innovation, and capitalizing on emerging opportunities, ensuring Avalon Pharma's continued growth trajectory



Mohammed Maher AlGhannam,
MD & CEO of Avalon Pharma

Key figures – Group

SARm	Q1 2024	Q1 2023	% Δ
Revenues	75.82	55.23	+37.3%
Gross Profit	46.46	33.74	+37.7%
<i>Margin</i>	61.3%	61.1%	+0.2pp
EBITDA	15.64	5.44	+187.3%
<i>Margin</i>	20.6%	9.9%	+10.8pp
Net Profit	9.37	(0.50)	+1987.0%
<i>Margin</i>	12.4%	-0.9%	+13.3pp

¹ Free Cash Flow defined as CFO minus Capex

Revenue and Gross Profit by Channel

Avalon Pharma witnessed a remarkable 37.3% YoY revenue increase, driven by outstanding performance across its distribution channels. Notably, Retail, Export, and public sectors saw notable increases, with Retail contributing SAR 12.42 million, Export SAR 5.38 million, and Public SAR 2.79 million to this growth.

The substantial rise in retail sales primarily stemmed from the acquisition of new customers. Moreover, the introduction of new products such as Avotrene, Copan, and Quenfil also played a pivotal role in enhancing overall revenue performance.

Revenue by Distribution Channel

SARm	Q1 2024	Q1 2023	% Δ
Retail	54.78	42.36	+29.3%
Public	12.11	9.32	+29.9%
Export	8.93	3.55	+151.5%
Total Revenues	75.82	55.23	+37.3%

The period saw a substantial 37.7% YoY increase in gross profit to SAR 46.46 million, thanks to the remarkable sales growth. This rise in gross profit resulted in an overall gross profit margin uptick of 0.2 percentage points compared to the previous year.

This margin expansion was predominantly fuelled by improved margins in the Public and Export sectors. However, Retail margins change was primarily due to the reclassification of Wasfaty sales, previously categorized under the public sector.

Gross Profit by Distribution Channel

SARm	Q1 2024	Q1 2023	% Δ
Retail	37.63	29.79	+26.3%
<i>Margin</i>	68.7%	70.3%	-1.6pp
Public	4.11	3.05	+34.8%
<i>Margin</i>	33.9%	32.8%	+1.1pp
Export	4.72	0.90	+424.4%
<i>Margin</i>	52.8%	25.3%	+27.5pp
Total Gross Profit	46.46	33.74	+37.7%

Cost Evolution and Profitability

Operating expenses also experienced a rise, albeit at a moderated rate of 9.4%, reaching SAR 34.13 million. This increase primarily stemmed from heightened expenditures on salaries and related benefits, reflecting the company's ongoing commitment to investment in growth.

It led to a substantial increase in EBITDA, which surged by 187.3% YoY to SAR 15.64 million for a margin of 20.6% vs 9.9% in Q1 2023, indicative of robust operational leverage and efficiency enhancements. Moreover, financing costs were lower compared to the previous year, largely attributed to reduced short-term loans.

In that context, the company witnessed a remarkable turnaround in net profit, soaring to SAR 9.37 million from a loss of SAR 0.50 million in the first quarter of 2023. This strong performance underscores Avalon's commitment to operational excellence initiatives in line with the company's strategic roadmap.

Cash Generation and Balance Sheet

Net cash generated from operations increased by 58.3% compared to Q1 2023 reaching SAR 31.14 million, driven by an improvement in overall collections and enhanced trade payable policy.

This enhancement in operational efficiency is reflected in the last twelve months (LTM) cash conversion cycle, which shortened by 34 days compared to the previous year. This improvement was primarily attributed to stronger inventory turnover, especially for Finished Goods, and increased collections from Retail channels.

Adjusted Net Working Capital saw a decrease primarily due to the rise in trade payables and accruals during the period, indicating more efficient management of working capital components.

Capital expenditures amounted to SAR 7.27 million in Q1 2024, an increase of 41.9% YoY as part of Avalon Pharma's ongoing investments to fuel long term profitable growth. The company's capital spending averaged 9.6% of revenue, vs 9.3% in the same period last year and 9.1% in FY 2023.

Avalon's strong profitability and disciplined approach to growth investment supported significant Free Cash Flow generation that amounted to SAR 23.87 million, up 64.1% YoY.

Furthermore, the net debt decreased significantly from SAR 44.67 million in FY 2023 to SAR 14.32 million in Q1 2024, resulting in a Net Debt/EBITDA ratio of 0.9x. This reduction was driven by robust cash generation during the quarter, reflecting the company's strong financial performance and improved liquidity position.

Financial Statements – Group

Statement of Income

SARm	Q1 2024	Q1 2023	% Δ
Revenues	75.82	55.23	+37.3%
Cost of revenues	(29.36)	(21.49)	+36.7%
Gross Profit	46.46	33.74	+37.7%
Selling and distribution expenses	(19.69)	(20.32)	-3.1%
General and administrative expenses	(14.38)	(10.47)	+37.4%
Reversal of impairment loss on trade receivables	0.03	-	-
Other expenses	(0.09)	(0.42)	-78.0%
Operating profit	12.33	2.54	+385.3%
Financing costs	(1.34)	(1.54)	-12.9%
Porfit before Zakat	10.99	1.00	+995.5%
Zakat expense	(1.63)	(1.50)	+8.3%
Net Profit (loss)	9.37	(0.50)	+1987.0%

Statement of Financial Position

SARm	Q1 2024	FY 2023	
Total current assets	284.89	277.65	+2.6%
Total non-current assets	170.95	167.25	+2.2%
Total assets	455.84	444.90	+2.5%
Total current liabilities	116.66	113.24	+3.0%
Total non-current liabilities	23.68	25.26	-6.3%
Total equity	315.50	306.40	+3.0%
Total equity and liabilities	455.84	444.90	+2.5%

Statement of Cash Flows

SARm	Q1 2024	Q1 2023	% Δ
Net cash generated from operating activities	31.14	19.67	+58.3%
Net cash used in investing activities	(7.27)	(5.12)	+42.0%
Net cash generated from (used in) financing activities	(4.45)	(21.37)	-79.2%
Cash and cash equivalents at the end of period	34.53	16.97	+103.5%

Q1 2024 RESULTS DOCUMENTS

The Q1 2024 results documents can be found on Avalon's website <https://www.avalonpharmaceutical.com/investors>

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ABOUT AVALON PHARMA

Founded in 1998 in Riyadh, Saudi Arabia, Avalon Pharma develops, manufactures, and distributes a wide range of high-quality health and beauty brands, as well as generic prescription medicines. Operating primarily within Saudi Arabia, the company also exports to numerous countries across the MENA region, Eastern Europe, Asia, and Africa. Avalon Pharma supports healthcare providers, government agencies, distributors, and pharmacies with its extensive product portfolio and state-of-the-art manufacturing facilities. The company is dedicated to innovation, quality, and sustainable growth, contributing significantly to the Saudi pharmaceutical market.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This document may contain forward-looking statements that involve risks and uncertainties, including statements regarding our future performance, product development, and market expansion. These statements are based on current expectations and projections about future events and trends that may affect our business. Actual results may differ materially from those expressed or implied due to various factors, including changes in market conditions, regulatory developments, competitive pressures, and the availability of funding. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.