

Bulletin:

Cheplapharm's Proposed New Issuance Will Not Affect Leverage Materially

September 18, 2023

This report does not constitute a rating action.

PARIS (S&P Global Ratings) Sept. 18, 2023--Pharmaceutical company Cheplapharm Arzneimittel GmbH's (Cheplapharm's; B+/Stable/--) intention to raise an additional €300 million in senior secured notes from a syndicate of banks will have a limited effect on its deleveraging path in 2023 and 2024. We do not expect that the new debt issuance will affect the current recovery rating of '3'.

The proceeds from the proposed new issuance will remain in the balance sheet for potential bolt-on acquisitions or the payment of the deferred consideration that is due in July 2024 and linked to the Zyprexa acquisition from Eli Lilly. Therefore, we do not expect that the proposed new issuance will have any impact on our previous forecast of an S&P Global Ratings-adjusted debt to EBITDA of close to 5.5x in 2023 and about 5x in 2024.

Cheplapharm reported solid revenue in the first half of 2023. Year-on-year growth, which increased by 17% to €697.8 million, resulted from newly integrated investments in 2022 and the beginning of 2023 that led to higher volumes sold. This translated into a company-reported increase in EBITDA of 7.3% (€368.4 million), compared with the first half of 2022, even though personnel costs and other operating expenses increased the cost base. We believe the company should be able to meet our revenue and EBITDA expectations for 2023.

Cheplapharm successfully closed the acquisitions of Zyprexa in July 2023, which was in line with our expectations, Xeloda in May 2023, and Pulmicort in February 2023. We expect full contribution to the pipeline in 2024. Accounting for potential acquisitions, we project the company's free operating cash flow generation will remain strong at above €500 million in 2023 and 2024.

Related Research

- CHEPLAPHARM Arzneimittel GmbH, July 26, 2023

Primary contact

Ihsane Mesrar
Paris
33-1-4075-2591
ihsane.mesrar
@spglobal.com

Secondary contact

Nicolas Baudouin
Paris
33-14-420-6672
nicolas.baudouin
@spglobal.com

Analytical group contact

Industrial Ratings Europe
Corporate_Admin_London
@spglobal.com

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- Cheplapharm Proposed Acquisition Will Momentarily Stretch Leverage Above 5x, April 24, 2023

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