Ascendis to beef up operating efficiencies

By Marc Hasenfuss

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Healthcare products conglomerate Ascendis is still on the acquisition trail, but an investment presentation last week stressed a focus on markedly improving profit margins in existing operations that span the pharma-med, consumer brands and phyto-vet segments.

Image credit: Trevor Samson

Ascendis CEO Karsten Wellner said an ebitda (earnings before interest, tax, depreciation and amortisation) margin of 18% had been set for the next 12 to 18 months. In the year to end-June 2017, Ascendis achieved an ebitda margin of 17%. While the trading environment is likely to drag on growth prospects in the year ahead, he was adamant that Ascendis could bolster ebitda by R19m-R31m in the next 18 months, mainly through realising further operational synergies.

There is already a project underway to consolidate two manufacturing plants in SA. This is a key initiative since about 44% of cost of goods produced is incurred at the firm's plants. Wellner said the company was in a "diagnostic" phase to ensure more operating efficiencies. This could result in further optimisation of the local manufacturing, global procurement models as well as improving the warehousing and distribution.

Wellner said there would also be a strong focus on improving free cash generation and reducing gearing levels in the year ahead. The cash conversion target has been set at 75%, with a gearing ratio (net debt: ebitda) of 3.4.

In the past financial year, Ascendis managed to generate cash flow from operating activities of R787m, which meant 73% cash conversion rate.

It seems acquisition activities in the new financial year will mostly be limited to complementary bolt-on acquisitions rather than larger deals to create new operating platforms. But some market watchers will not discount the chances of Ascendis uncovering a large deal, noting that it opted to skip the final dividend in order to shore up the balance sheet.

Wellner said the firm aimed to generate about 60% of earnings outside SA in the new financial year. In the year to end June, about half of ebitda was derived from global markets. He said that the international earnings capacity would be considerably strengthened in the financial year ahead by the recent acquisition of Sun Wave Pharma in Romania and Cipla Animal Health, which has major export opportunities in Africa.

Wellner said Remedica, the recently acquired European pharmaceutical company with strong emerging markets focus, had a positive outlook for the 2018 financial year. Scitec, the European sports nutrition brand specialist, had been revamped with a sales focus in new geographies.

Wellner said there was an improved outlook for 2018, especially in the second half of the year. He said Sunwave Pharma in Romania, had seen strong double-digit sales and profit growth in the first two months (June and July) since being incorporated into Ascendis.