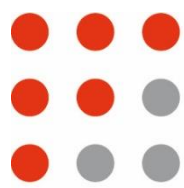




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Fagron

personalizing
medicine

Fagron Full Year 2021 Results

Thursday, 10 February 2022

Fagron Full Year 2021 Results

Karen Berg: Good morning, everyone, and welcome to the presentation of the full year results 2021 from Fagron. My name is Karen Berg. I'm here together with our CEO, Rafael Padilla, and our CFO, Karin de Jong. They will go through the presentation of our annual results. And afterwards, we will have room for questions. You can type in your questions in the webcast, and I will read them out, and then Karin and Rafael will answer them. So, thank you for that.

And then over to Rafael.

Rafael Padilla: Thank you, Karen. Thank you for organizing the day extremely well. Good morning, everyone. We start the presentation of the full year results 2021 with our purpose. We are a purpose-driven organization, and our purpose, together we create the future of personalizing medicine guides our journey.

We know that personalized medicine is a niche, amounts to 0.5 to 1% of the total pharmaceutical market and Fagron is the global leader and consolidator of this very interesting and attractive market that, of course, is the future of medicine.

When we recap 2021, we expected and delivered turnover sales growth and REBITDA of lower end on €118 million and €124 million. We also expected that we would improve our EMEA performance after the streamlining projects that we realized the last year. We saw in Q4 a clear upward trend.

We also expected that we continue to see growth in Latin and North America, and we also realized that in the last quarter of the year. And of course, we would pursue an active and disciplined acquisition strategy focused at EMEA and North America. And we've also, as you have seen, realized this one.

Moving to the next slide, Karin?

Karin de Jong: Yeah. Good morning, everyone. So, the next slides represent some financial highlights of 2021.

Sales increased by 3.2%, driven by growth in the US and Latin America, offset by a decrease in EMEA. When we look at REBITDA, REBITDA decreased by 4.5% as a result of challenges we faced in EMEA related to COVID and the pressure on the supply chain. Our net profit, however, increased slightly by 2.2%.

Operating cash flow decreased to €78.4 million as a result of investments we did in working capital to ensure product availability for our customers. Our net financial debt/REBITDA ratio ended up at 2.11, a slight decrease compared to H1 2021. We proposed to the AGM to distribute €0.20 of dividend per share.

Rafael Padilla: Thank you very much, Karin. Now we move into the operational highlights of the year.

We have, in 2021, invested in our operational footprint. Interesting projects that we realized were, as we announced, the finishing up of the construction of our GMP repackaging Polish facility close to Krakow. As we speak, it's now fully operational and we were granted with the GMP certificate from the Polish government.

In the US, we implemented the second shift in Wichita in order to be able to deliver the products that our customers are asking us in FSS in the Fagron Sterile Services activities in the USA. And by that, we're going to reach the run rate of US\$125 million in 2022.

In South America, we centralized our distribution activities in state-of-the-art automatized warehouse, as you can see here in the picture. We started to move in 2021, and in 2022 we will finalize this project. And this will give us efficiency and also improve our service in the interesting Brazilian market.

We did the same in Mexico after the acquisition of Cedrosa. Cedrosa had three warehouses in Mexico City. We brought everything together in one warehouse. And in the second quarter of 2022, we're going to be



fully operational in Mexico. The same in Colombia with our compounding activities in Bogota. We brought them into one GMP state-of-the-art activity.

In the procurement and supply level, we set up for the first time in our history, a global procurement and supply team led by Michel Izaú, that now, of course, buying together but bringing the procurement and supply to a next level in product categorization grabbing up better opportunities and increasing our availability.

Of course, you know we are a sales and marketing company, focused on product innovation. We introduced in the US the IV bags line that were complementing our OR syringes. So now we have a very competitive portfolio in order to go from fifth position into the top three position in the American market.

In the Genomics division, we launched a nutrigenomics test that helps and support physicians to personalize parental nutrition. In the Fagron lab, and here you see a picture, 30% of the sales of this division came from new items we innovated so our pharmacies can prepare personalized medicine or compounding. Here we can see, as an example, a new product: the ION-e, that improves the operational excellence of the encapsulation process.

And to wrap up 2021, we launched 1,125 new products, 985 in the Brands & Essentials segments. Here we are the global leader in this part. And 140 compounds worldwide.

Then we move to the next slide, and that's a very important enabler of our business, Fagron Academy. We have taken steps in order to globalize and further professionalize this platform that brings education to pharmacists and to prescribers in order to prepare and prescribe personalized medicine. Here, we vehicleize our Essentials, our Brands & Compounding Services, bringing science and knowledge to our stakeholders.

As an example, we take the Polish Fagron Academy initiative where we had almost 40 webinars. We increased the footprint in five dermatological congresses, and of course, we also published in renowned magazines. Here we can see a photo of customers and colleagues enjoying the Fagron Academy session.

One of the important projects of 2021 was further digitalizing our company. We have developed a brand-new website that, as we speak, is life in order to improve the easiness of the customer to contact and do business with us. This website has full customer engagement model in order to facilitate, again, the customer experience and the customer journey at Fagron. To Mark and the team, congratulations for this nice achievement.

And of course, in our inorganic activities, as we explained last year, we have for the first time, set up a dedicated team led by Johan Verlinden in order to pursue our active and disciplined acquisition strategy, mainly focused at EMEA and North America. As we have seen today, we have strengthened our position in the Belgium market with the acquisition of Pharma-Pack, market leader in the packaging and supplies of products in the attractive Belgium market. And we took a minority stake at HeW Pharma in order to strengthen our partnership in our back-office part.

Of course, in the US, we have the ambition to become number one in the Brands & Essential segment. As we know, the US is the biggest market in absolute value in the world. We took a very nice step acquiring Letco. And now as we speak, we are number two in this market, and we are very well positioned to get this leadership.

Next to this, of course, we acquired a book of business of US Compounding – in the Compounding Services side. In the fourth quarter, we achieved US\$800,000 of revenue coming from this book of business, that as we explained several times, we only pay when the sales are realized, and the customers are inside.

Next to this, in order to focus on our core strategic elements, we divested our CMO activities in the USA.



Last but not least, ESG is at the core of our strategy. It's very important for the management and also for the Board of Directors and personalizing medicine is making treatments accessible for vulnerable people, and this is everything related to ESG.

Next to this, we reduced 20% our carbon footprint. Congratulations to Karin and the team, together with Sanne, we installed almost 2,000 solar panels. The number of women in management positions increased to almost 41%. We reduced the number of recalls in our facilities, and the performance reviews of our employees increased up to 85%. You have the targets of 2022 ESG in our website.

Here, we have some photos of the solar panels installed in Brazil in our Fagron service facility and in Fagron Belgium in our warehouse and distribution.

Now we go into the results per segment. Karin?

Karin de Jong: Yeah. Thank you, Rafa. So, the next slides will present the results per segment and per area. When we start with a geographical breakdown, we see that EMEA is still the largest regions. It has a challenging year, but it was compensated partly by good performance in North America and Latin America. So, the next slides we will further elaborate on the developments in these different regions.

This slide represents the turnover development. So here, we see a bridge, which – where we see that EMEA decreases by 7% in 2021, compensated by a growth in Latin America of 16.5% and an increase in North America, 14.3%. We had some negative FX impacts and some small contribution due to acquisitions, mainly the acquisition of Tamar in Israel, resulting in total sales of €573.8 million, which is an increase of 3.2%.

Then we move to the next slide. So, this is the EMEA slide. EMEA showed a decline in sales and profitability in 2021. So, if we look at the different segments, we see that Essentials had different challenges in 2021. So initially, we saw a drop in COVID-related products compared to 2020. And we have some challenges in the supply chain with pressures on margins, especially in the first semester of 2021.

We saw a recovery in the second half. We sold COVID products. So, we sold specific COVID-testing products. However, these tests are low-margin products, and they looped slightly on gross margin and our profitability for the EMEA region.

When we go to Compounding. So, the Compounding shows a decline of 9.5%. However, in the last quarter, we see the decrease limited to minus 5.5%, and we show – we showed a slight increase if we compare the third quarter with the fourth quarter. So, we see some slight stabilization of sales in that specific segment.

When we look at the profitability, profitability was down by 14.1%, and it was impacted by a delay in elective care, resulting in a drop of sales, which we could compensate mainly in the fourth quarter with some low-margin sales.

Secondly, we saw the start-up of our GMP repacking facilities, which meant that we had a transfer from production site in the Netherlands to Poland, and we had some additional costs, impacting our EBITDA for 2021. We saw a slight recovery in margins in the second half of 2021 as we could pass more price increases towards our customers.

Then we move to the other regions, so Latin America. Latin America had a very strong performance in 2021. So, turnover increased by 9.3%, despite the challenges we also faced in Brazil. We could see a recovery of Compounding Services in Colombia, and we also realized high single-digit growth in Mexico. So, the Brazilian market where we are very well positioned to benefit from the increased attentions for healthy lifestyle and a focus on prevention.

We had an increase in our REBITDA of 18.4% to €30.5 million, a nice increase due to the increased sales but also margin expansion. And then North America, moving to the next slide, we showed strong turnover



growth of 11.3%. The product mix shifted back again after COVID. Therefore, we see a decrease in the Brands & Essentials of 4.9%. However, this is well compensated by the increase in FSS and Anazao.

So, in Wichita, products and customer portfolio grew in 2021, resulting in a run rate of US\$80 million in December of 2021. And we expect to further expand product portfolio with epidurals and more IV bags. And therefore, we're confident that we could achieve the guidance that we gave.

On the REBITDA, we see a slight decrease of 3.7%. In the first semester of 2021, we invested in the second shift in Wichita. Therefore, we increased our cost base and we needed to do this to anticipate growth of sales. We see some slight improvements in leverage already in the second half of 2021. So, EBITDA percentage increased from 17.5% in the first semester to 18.7% in the second. And we're confident that EBITDA will grow further as we continue in 2022.

Moving to the next one, Rafa?

Rafael Padilla: Thank you very much, Karin. So, we have gone through 2021, both from an operational perspective. We have tackled M&A as well. Karin has explained the 2021 results. What are we going to see in 2022? We're going to see growth in both sales and profitability. We're going to see in the EMEA region growth again and slight improvement of profitability. We're going to see strong performance in Latin and North America. We're going to see, at the end of the year, FSS US at US\$125 million run rate, annualized, and we're going to see continuous active and disciplined acquisition strategy focused again in EMEA and North America.

Thank you very much. Karen?

Questions and Answers

Karen Berg: Thank you for your explanation. The – I have some questions here that I'll start with the first one who asked the question. It's Jeroen Van den Bossche from KBC. I'll read out the questions, so you can answer them. The first question is how you will see US margins change over time with the addition of the second shift in FSS. Rafa?

Rafael Padilla: Yes, sure. So, what we're going to see now in the US in FSS, with addition of the second shift, now we have the capacity in order to fulfil the increased demand. We have always explained that the market is there. Currently, 20-30% of the sterile services are being outsourced.

We're also growing – next to the market growth, we're also growing organically. So, we see an increased demand. New customers are coming in. We're onboarding these new customers from a top-down, bottom-up strategy, GPO, IDN, hospital systems, the other way around. So, what we expect is with increased sales and the costs that we have done with the second shift, we will see leverage and increased profitability during this year at FSS US, and of course, influencing North America as a whole, and we will bring the region to 20% that we always guided for 2022.

Karen Berg: Thank you, Rafa.

Rafael Padilla: Thank you, Karen.

Karen Berg: Two more questions from Jeroen, also for you. First one is, will the GMP facility now close now that the Polish site is up and running? And the second question is: you have announced additional M&A; will you further divest assets as well?

Rafael Padilla: Yes. And Jeroen is meaning that the GMP facility will close?

Karen Berg: It doesn't say which one, but I think he means the Dutch one.



Rafael Padilla: Okay. Right. So, as we said, the Polish facility is now up and running, is fully operational. And what we have done, we have done a product specialization strategy in our operations in Europe.

We have now three facilities, Fagron Service Northern Europe in Poland is totally focused on the solids, on the powders, the repackaging side. So, all the activities in Europe are now centralized in Poland.

In Czech Republic, Fagron Services Central Europe, we have specialized that plant in order to make the liquids. So that's the second one.

And the Dutch one, it's according to your question. We have now that specialized in the narcotics and the GMP repackaging of the cannabis for the Dutch market, Jeroen.

Karen Berg: Thank you. Then we go over to the questions of Matthias Maenhaut from Kepler Cheuvreux. It's quite a list. So, I'll start with the first one. Your guidance for 2022 speaks about growth in turnover and profitability. Would you elaborate how that should translate in quantitative measures? What kind of organic sales and EBITDA growth should we think about? And are you happy with consensus expectation at this point in time? So that's the first one from Matthias. There are more to come. But Rafa, maybe you can answer this one?

Rafael Padilla: Yes, sure. Thank you very much, Matthias. We are satisfied with the consensus – with the current consensus that we see. So that was your second question, but just answering the first one. So, we are satisfied and aligned with that one.

Regarding quantitative targets, of course, we have a session on 15th March, Capital Markets Day, where we will elaborate not only the strategy but also in quantitative targets for 2022 in the coming three to five years.

Karen Berg: Thank you. Second question is for Karin, regarding the working capital. Would you be able to comment a bit on the days sales outstanding, the days inventory outstanding and the days payable outstanding, both year-on-year and half year on half year? And how is the use of factoring? Is this up or down?

Karin de Jong: Yeah. Thank you, Matthias. To start with factoring, factoring is slightly up. So, the amount of factoring at the end of the year was approximately €31 million. So, looking at our inventory levels, we, as you all can see, invested in inventory basically to ensure product availability. It has been a challenging year if you look at the supply chain.

If you look at the outstanding inventories, we see that we have bigger inventories in the US and in Brazil. So, Brazil product availability is key. And we have more inventory in that region if we compare that, for instance, to EMEA and to the US.

If we look at the European market, we see that due to the transfer of the production sites from the Netherlands to Poland, we also invested in additional inventory, and we expect to decrease that if we move towards 2022.

However, on the product availability in Brazil, we believe that is key. So that level will remain high. We're now at 10.7% if we look at the percentage of sales. We anticipate to slowly decrease that further, but we'll stay around the 9-10% of working capital.

On the quality of our inventory, we monitor that closely, and there's currently no risk in the quality of our inventory. And receivables, as you mentioned, we do factoring. We do factoring mainly in the European region and a small part in the US and we don't see any additional risk there in collecting those receivables. And there's no huge increase in the number of days outstanding for those receivables.

Karen Berg: Thank you, Karin. Another question for you. Can you elaborate on the private label business you have sold in the US? What is the origin of this business? And how has sales growth been of this business in recent years? Is it an Essentials or Brands business?



Karin de Jong: Yeah. Thank you. So, it's a combination of both in the sense that part is white label repackaging, which as you can imagine, is not core to the strategy of Fagron. So we are, in fact, an Essentials and Brands business and we do not do contract manufacturing or OTC products.

So therefore, we decided that because focusing on being number one and becoming number one in that specific US market, it's important to have a certain focus. And therefore, we decided to divest that private label business. This business didn't require any prescription, so it's a bit outside of our business model.

It grew. So initially, part of the sales we sold now was off Humco. But as you know, we combined and consolidated the sales of Fagron and Humco during the last couple of years. So, it's a mix of those two businesses.

It grew. It grew throughout the years, also partly because of Corona. So, we estimate that approximately 70% was Branded sales and the rest was Essentials. And now with the acquisition of Letco, we believe that we are well-positioned to further grow that Essentials and Brands business.

Karen Berg: Thank you, Karin. A question for Rafa, still from Matthias. We're not done yet.

Rafael Padilla: Sure.

Karen Berg: Can you give an update on client onboarding and SKU rollout in Wichita FSS? Is there further growth of clients in Q4? And when would you anticipate additional sales? How should we think about the ramps – the sales ramp in 2022? Will it be geared toward the first half year or also back-end loaded like this year? How is the onboarding of US Compounding business? And was there any notable sales generation in Q4?

Rafael Padilla: Sure. So, thank you, Matthias. Now on the SKU level, we are heading towards the 200 SKUs that we always said that it's very important in order to fulfil the run rate of US\$125 million for 2022. We are now at approximately 180 to 190 products. And now, as Karin was explaining before, we're launching the epidurals and the cassettes in order to have a full portfolio to go to market.

Having said that, the first six months, we were around 450 new customers onboarded. And in the second half of the year, we increased the numbers of customers onboarded between hospitals and also private clinics and we went to a number of approximately 800 customers in total.

For 2022, we are going to see the same pattern as 2021. We will see a back-end loaded performance. And at the end of the year, in the month of December, we will run rate to US\$125 million.

Regarding US Compounding, the book of business that we acquired was approximately US\$6.5 million. That was a human compounding part of the company. In the Q4 results, we could onboard US\$800,000. Again, as we explained that deal, we pay when we sell, and we collect the receivables on the sales that US Compounding is being generating to us.

Karen Berg: Thank you. One more question from Matthias for you.

Rafael Padilla: Sure.

Karen Berg: The Latin America margin of the second half of the year. Is it sustainable? And if so, why, or why not?

Rafael Padilla: Sure. So first of all, thanks again, Matthias, for the question. We're extremely satisfied with the performance of the team. The business in Latin America is always above expectations for the last ten years, and we expect to be so. We always guided a 20% EBITDA business there with a high single-digit growth.

We are comfortable with that. Of course, we had a very strong Q4. We are doing efficiency projects. But as we know, it's a very competitive market. So, we are satisfied, and we are comfortable with 20% EBITDA



margin. Of course, if we can overperform, that's very fine, but the 20% it's something that we would take into account.

Karen Berg: Thank you. Some more questions for Karin from Matthias about Letco. What has been the growth rate of the business historically? What are the synergies possible? How fast do you think to improve the margin? Why doesn't management stay onboard? Have they been subject to any Department of Justice investigation on the back of any US reimbursement issues? And was this acquisition the result of an auction or deal sourcing?

Karin de Jong: Yeah. Thank you for the question. So maybe to start with the last one. So, it was not an auction. So that's one. On the growth levels of Letco. So Letco had a low-single-digit growth historically, and we believe we can accelerate that growth and there also lies the benefits of adding Letco to the US group.

There are a lot of synergies potentials on the one side, of course, on the back office, on purchase, but also on sales, because we acquire additional SKUs, new products. So, our portfolio broadens. So, we believe that within two years we can have synergies realized and realize approximately 20% EBITDA levels by a combination of elements.

So first, operational synergies, purchase synergies, back office, but also just enlarging the portfolio of the Brands & Essentials business in the US. And therefore, accelerating our top line growth. So that's one on Letco.

Management, they will not stay on. So historically, they were owned by private equity. Management did a management buyout. It's a combination of a team of people. We believe that the most important people stay onboard and we, at Fagron, have a good team for the integration of that. And the previous owners, they want to step out and expand doing other things. So, we don't see that as a limitation for the integration or realizing synergies.

On the DoJ, of course, that was an important topic also for us and we did our due diligence on that. And they're not involved in any DoJ investigation. Of course, there's also something we took into account when we did the SPA negotiations and reps and warranties. But to our knowledge, they're not involved in any DoJ investigation. So, I hope that I answered all the questions.

Karen Berg: Thank you, Karin. One more for you still from Matthias. Can you elaborate on your M&A pipeline for this year? Will we see add-ons rather the size of Letco or more Pharma-Pack or a mix? And any change in targets? And what is your financial firepower for the M&A?

Rafael Padilla: Right, so –

Karen Berg: Sorry, for Rafa.

Rafael Padilla: The financial power can elaborate, Karin, of course, right? So, on the first ones. So, Matthias, we have, of course, an active and discipline - that's very important for us - acquisition strategy focusing EMEA and North America. We want to further consolidate the Brands & Essentials segment. So that's one of the investment thesis that we have. Of course, we have the pipeline, the well-known M&A pipeline.

And then on the Compounding Service, our ambition is to be – to have the leading global platform for sterile outsourcing services. We're the only company in the world that has – that is present in more than one country in this activity. So, we will see activity in the M&A in those both pillars, and of course, in EMEA and North America that always taking into account the discipline worked in it and that's to protect the balance sheet and protect shareholders.

On the financial firepower, maybe that's a bit for Karin.



Karen Berg: Yes, of course.

Karin de Jong: Yeah. So, if we look at the firepower, it's a combination of liquidity and leverage. I think on the liquidity side, we increased our financing in January. So, we increased our financing capability. So, on the liquidity side, we have plenty of room.

On net debt to EBITDA targets, we are not intending to go over 2.8 net debt to EBITDA. So, when we stay below that, we have room to acquire companies. It will be a combination of smaller ones and bigger ones, but always keeping in mind the leverage start with what we have, and we will deleverage in case we need. We have strong organic cash flow. So that's for us remains an option to do acquisitions during 2022.

Karen Berg: Thank you. One more question from Matthias for you, Karin, on the Capex. What do we expect in terms of Capex in 2022? And are there any noteworthy subsequent payments for 2022 to expect?

Karin de Jong: Yeah. So, on the Capex side, we expect it to be around 3-3.5%. If we do additional big investments, we will announce them separately. On the outstanding payments, so the one that is outstanding, which is the biggest one is the US Compounding business. Of course, that's a rough estimation because of the sales we anticipate there. So that's over, slightly over US\$7 million, which is still open if we realize that sales, and that's the biggest one. On the other elements there, there are rather small amounts. So, I think the biggest one issue is US Compounding.

Karen Berg: Thank you, Karin. One final one from Matthias for Rafa. How will you grow in EMEA compounding business in 2022? What would need to happen to be able to grow it, only recovery of elective care and/or new product introductions?

Rafael Padilla: Yes, sure. Thank you, Matthias. So, as you have seen in the fourth quarter, we see some stabilization in the Compounding Services business in EMEA. And that's, we look at it as a combination of the Compounding Services and the Premium or Niche Pharmaceuticals, that is an evolution of the business. So, we further intended to do, we further look for stabilization and slight growth of that segment.

When you take the two together, it's a combination of different factors. First of all, as you said, a recovery of elective care that we expect. So that will help. Second, introduction of new products. You have seen that we introduced in 2021 globally - but that's mainly the Compounding Services part in the, in Europe - 140 new products we have in the pipeline, more than 200 SKUs here in Europe in order to launch in the Compounding Services, together with some registrations and in-licensing that the team is, of course, working to crystallize that one.

So, a combination of those three elements will bring us to first, stabilization of the Compounding Services, plus the Premium Pharmaceutical segment that is, of course, small, but you can take it into account together. And secondly, we will see slight growth during 2022.

Karen Berg: Thank you. And thank you, Matthias, for all your questions. Always welcome. Then we move over to the questions of Stijn Demeester from ING. He has eight questions. The first one is a bit related to the previous question. So, I give that to you, Rafael. Can you comment on the quarterly evolution in EMEA with Compounding still stabilizing at around 15 million to 16 million per quarter? Why isn't the Compounding segment rebounding in line with the Essentials segment?

Rafael Padilla: Yeah. Thanks very much, Stijn, for your question. It is aligned with the previous question that we answered. Of course, in Essentials, we are active in 15 countries. So, you see that, of course, other countries in EMEA are performing extremely well, and this is very interesting because we are averaging, balancing the – how all the countries contribute in the EMEA region.

So, as we see the Compounding Services stabilizing, in 2022, we'll see slight growth together with the Premium or Niche Pharmaceuticals and Essentials growing as, of course, as we're seeing at the beginning,



personalized medicine is also growing. We will see these combinations, of course, Essentials growing a bit more than the Compounding Service and Premium Pharmaceuticals.

Another important element as well in this second segment is the Sterile Outsourcing Services that we are present in more than three countries in the EMEA region, that will also show growth regarding Compounding Service/Premium Pharmaceuticals.

Karen Berg: Thank you. You – I think you highlighted it already, but maybe a quick word on the progress of registrations in the Dutch market.

Rafael Padilla: Correct. So, this is a combination. As you know, we are focusing with a dedicated team, of course, also working together with our partners in this one. As we said, we are working on registrations of our own compounding products. That's one.

Also very important, recouping some of the sales that we lost in the last years regarding Compounding Services. That's also in the pipeline of the team, together with our partners. And third, in-licensing deals that will, of course, increase accessibility of medications that some group of patients need. And not only in the Netherlands, but we're also looking to do so in some other specific countries in EMEA.

Karen Berg: Thank you. A question on the US for Karin. Can you disclose quarterly growth rates for FSS and Anazao separately for the first, the fourth quarter of '21, or disclose quarterly run-up as monthly numbers can be volatile? Maybe that we're not going to do. But the first one, you – maybe you want to say something about it?

Karin de Jong: Yeah. So, if we look at the quarterly growth, I think both Anazao and FSS show very nice development. So, if we look at the fourth quarter, for instance, we see that Anazao grew 32.8%, while Wichita they grew 62.8%, and they will further grow that number going forward, so they can reach their run rate target.

For Anazao, we see that the developments are very positive in the sense that 503A business is growing, next to the 503B business that Anazao has. I think they had a very good year with overall growth rate of 25% against constant exchange rates. So, they had a very good year.

Going forward, we anticipate still that Anazao is growing. However, the current growth rates will slightly move down because they had an amazing year. But still, it will be double-digit growth for that region. And Wichita even accelerating more on that side. So, both the companies compensate for the loss in Brands & Essentials we had this year due to the drop of Corona products.

Karen Berg: Thank you, Karin. One for you, Rafael. It looks as if the US Brands portfolio continued to contract strongly in the fourth quarter, well below 2019 levels, while Essentials did see an uptick. What is driving this divergence?

Rafael Padilla: Yes, sure. So, what we see, of course, in the Branded segment of the US is that you have the COVID-related items in 2020. You were referring to 2019. But in 2020, we see the drop regarding the products being meant for the first part of the Corona pandemic.

What we're going to see now that we have achieved number two position together with the Letco portfolio, we will see a growth on the Essentials side, of course. And now with the combined sales force, we're going to leverage our Brands portfolio. We have strong brands at Fagron and at Humco and leveraging this one we will ship towards year-end, an increase in the branded segment in the US.

Karen Berg: Thank you. Another question for Karin. Your outlook for a slight improvement in profitability in EMEA suggests little improvement, despite Poland savings kicking in and the renewed agreements, which should make it easier to pass on higher costs. What is making you so cautious for the profitability outlook in EMEA?



Karin de Jong: Yeah. So, if we look at 2021, it was a challenging year. COVID hit the supply chain. So, we are positive that EMEA shall stabilize and will show some growth in 2022. However, we are a bit careful as we still see that COVID brings uncertainty to our business. Of course, we could compensate in the fourth quarter with COVID testing. However, these products have very low margins. So, we are a bit careful because we will – first, we want to see stabilization and grow again for the European market. So, despite the fact that we are positive, we are cautious positive because of the uncertain elements.

We see – Poland with the new plant, we see a slight delay there, which will have a positive impact in the end in 2022. But initially, we will see some impacts of that. And therefore, we are a bit cautious on the outlook for EMEA.

Karen Berg: Thank you. Two final questions from Stijn for Rafael. You mentioned the wage increases as headwind. Is this mostly in North America or also in other countries?

Rafael Padilla: So, we see – of course, it varies country by country. We see, especially in North America and some countries in EMEA, a wage increase. Again, this is the same situation that we face with the supply chain during last year. We're able to pass through the price increases, or in this case, the higher OpEx onto our customers. So, we monitor on a daily basis our gross and operating margin. So, we are quite confident that we can level that one out for 2022.

Karen Berg: Thank you. And Stijn's final question, referring to the answer you gave to Matthias on the consensus for 2021. You said you were happy with it. Does it take into account recent acquisitions, which should contribute to EBITDA, as this is not reflected in consensus?

Rafael Padilla: Well, of course, we always normalize the acquisitions. And how this affects or improves our profitability, we take 2022 consensus without taking into account these new acquisitions that we have seen in the past days.

Karen Berg: Thank you. And thank you, Stijn, for your questions.

Rafael Padilla: Thank you very much, Stijn.

Karen Berg: We're now moving forward to the questions from Frank Claassen from DeGroof Petercam. What was the amount of factoring at the end of the full year? And did it change last year? Karin, you already highlighted a bit on the factoring?

Karin de Jong: Yeah, so the factoring amounted to €31 million, which was a slight increase if you compare it to H1 of 2021, when it was €27 million. We believe that going forward, it will be around €30 million, €32 million on factoring amounts.

Karen Berg: Yeah. And a quick question again for you, Karin, on working capital. How much is it elevated versus what you – we consider normal? And do you think it can come down again in 2022?

Karin de Jong: Yeah. So, our objective is indeed to decrease it in 2022 again. We are now at 10.7%. I know we said, okay, around 10% is okay for the business. Historically, we were lower. So, at a certain point, we were at 8.8%. I think that's doable, but it's too early to say that we're going to achieve that for 2022 as supply chain issues remain important, and we still see that impacting our business, and we don't want to jeopardize sales because we have low product availability. So, on the longer end, we believe that we can definitely improve for 2022. If we can stay around 10%, that will be good.

Karen Berg: Thank you, Karin. Rafael, a question from Frank. How easy is it to pass on price increases in EMEA also in view of the increased competition in the Benelux?

Rafael Padilla: Yes, sure. Thank you, Frank. So, when you look at the price increase in EMEA, it's a bit more challenging than doing that in LatAm, of course, and North America. We have some contracts with



group of customers, of course, mainly hospitals. And here, as we offer the full product portfolio, for us it's somehow easier to negotiate and to pass these price increases regarding competition.

So, the fact that we have a full portfolio helps us in order to negotiate these price increases because, again, we work with the raw materials, with the branded product, with the compounding service being in sterile and non-sterile, with some niche pharmaceuticals. So, this gives us power in order to negotiate these renewed contracts.

Karen Berg: Yes. We have very ESG-sensitive lightening here. So, it was a bit dark for a second, sorry for that. The final question from Frank. You slightly improved gross margin in the second half of the year. What do you expect for the coming quarters? Can we move back to the 59-60% that we've seen before COVID?

Rafael Padilla: Sure. So, of course, COVID and the supply chain that Karin was referring to, impacted our gross margin. We have taken a very interesting step, Frank, setting up a dedicated procurement and supply team that is now active, next to the fact that we're, of course, purchasing together, but categorizing our portfolio and setting strategy in each one of the categories, also closing agreements with our vendors and our partners. So, during this movement, we will first, of course, as you have seen the improvement, stabilize this improvement, and second, pursue in the mid-term, this operating or gross margin increase.

Karen Berg: Thank you. Thank you for your question, Frank. We're now moving over to the questions from Eric Wilmer from ABN ODDO. First question is again on working capital. I haven't read it yet, so I don't know whether it's something that you answered already. It seems that last year you had a bigger negative cash outflow from working capital in the first semester than this year, but it was largely reversed in the second semester last year. This year, it seems that your working capital actually saw further cash outflows in the second semester. So, what was the reason behind the different dynamics in this year? Is this inventory-driven? What kind of products does it pertain? And do you really foresee a reversal of this working capital position in the first half of 2022? Karin?

Karin de Jong: Yeah. So again, it's been a challenging year if we look at the supply chain. So, if we compare it historically, it's different. The situation is different. So, on the sourcing side, we try to combine more volumes than we historically did to limit transportation costs. So, the dynamics within the supply chain and sourcing changed. And of course, we took action, but we see that impacting our working capital levels.

So, comparing it historically, it's difficult, I think, with the current situation in the supply chain we faced in 2021. We do, however, had a lot of focus on it in the second half. So, if you compare H1 to full year, you see that the percentage of working capital as a percent of sales dropped. However, if we could see that 2022 will further drop, as I mentioned before, that's difficult to predict with the supply chain.

However, we are now at 10.8%. So, if we can bring it back to 10% and in later years when the supply chain normalizes, we can move below 10%, I think that will be a nice ambition. So yeah, comparing 2019 or 2018 with the current years, I think it's a bit difficult if we look at the situation in the markets.

Karen Berg: Thank you, Karin. Rafael on Letco. Eric is wondering if you could talk a little bit about operational synergies. If he's not mistaking, your – our own Essentials facilities are located in the middle of the US, whereas Letco's plant is on the East Coast. Will you close one of your existing facilities? Or do you mainly anticipate revenue synergies?

Rafael Padilla: Yeah. Thanks a lot, Eric. Very interesting question, because, again, with the acquisition of Letco, now we have the second position in this very interesting market. And what we see now in our operational footprint, we have the facility in Minneapolis. That's the Fagron facility. And of course, now with – on the Essentials side, so the GMP repackaging and now we have the Alabama facility that's in Decatur, Alabama of Letco. We need to – we have to say that Letco is very well organized on the operational side. So, we will see efficiencies there in a short to mid-term portfolio at Letco that's mainly on the raw materials and supplies, so on the Essentials side.



We're going to leverage that portfolio into one unified sales force and the Brands that we, as Fagron and Humco, are very strong. We are going to leverage those Brands into the unified sales force that Letco will, of course, join with the current ones that we have in Austin.

So, we have those two plants and, of course, after analysis that we're going to perform in 90 days, we'll have a clear picture on our operational strategy. When you look at our operational strategy globally, we have a state-of-the-art GMP facility in Europe, and we have a state-of-the-art GMP facility in Latin America, in Brazil, Anápolis. We saw the photo with the solar panels.

In the US, we have these two facilities, GMP compliant. They are good, operating good. But as we now have the ambition to jump into the first position, we need to see whether we need to also invest in having the same footprint that we have in EMEA and Latin America, but it's early to say this one.

Regarding the synergies, as we said, on the back office, on the operations, GMP repackaging, but also on the purchase side, also on the purchasing side, there are many items that are common. And of course, as we said on the sales side, now we have a total full portfolio in order to pursue the first position in the US market.

Karen Berg: Thank you, Rafael, and thank you, Eric, for your questions. One question from Christophe Beghin from Kempen, also on the US for Rafael. What are your plans in the US sterile compounding market besides fully ramping up Wichita? Will you buy or build a new facility? Are you focused on overhauling books of business again?

Rafael Padilla: Sure. So, Christophe, thank you very much for the question. And this is a very important one because there is life after the US\$125 million at the end of 2022. And there are several options. Of course, acquisition would be an option. Here though, we need to always take into account our active, but disciplined acquisition strategy. So that could be one thesis.

Another thesis is to further look into books of business as US Compounding. Again, we see that the demand is there. It's more an operational gig rather than sales gig. Though, we need to, of course, see whether there is opportunity in some books of business that still could be there.

And third, on what you said on building more capacity, that's something that we are currently, as we speak, looking and evaluating what are the options that we do have. But of course, we're going to be – now we're number five in this market. Our ambition is to be between the first three players in this market. The market grows, and we are growing. So, building up more capacity will be one of the theses that we will work on with the team, and we will present in the short to mid-term.

Karen Berg: Thank you, Rafa.

Rafael Padilla: Sure.

Karen Berg: One follow-up question from Jeroen van den Bossche from KBC. He asked about our M&A activity. And he was wondering whether we have any specific plans for the Netherlands?

Rafael Padilla: Yeah. So that's –

Karen Berg: For you.

Rafael Padilla: Thank you, Karen, as you are dividing. Thanks a lot, Jeroen. Again, we have now done very interesting acquisitions in the US and Belgium. So, we're very happy with these ones. And Johan, together with the team, Philip, and Erik, are working diligently. We look at different alternatives in the EMEA landscape now as we – the US, we have done a nice step.



And the Netherlands could be an option, but we're also looking at other markets, interesting markets within EMEA that we are not present or other markets that we are present. So, we are evaluating many options together with Johan and the team.

Karen Berg: Thank you, Rafael. One further question from an investor. I don't know whether it is something you can elaborate on. But can you say something about the added value of Ms. Desender to the Board, the new envisaged Board member?

Rafael Padilla: Maybe that is –

Karen Berg: It's more for the Board, but maybe you've met her already.

Rafael Padilla: Yes, but the vacancy is for the Head of the Audit Committee. Maybe we can give it to Karin, as she's the CFO?

Karen Berg: Of course.

Karin de Jong: Yeah. We believe she has a lot of added value, of course, with her financial expertise and her background of being a CFO for many, many years. And of course, it's a question the Board needs to answer, but we believe that she will definitely add value with her qualities and expertise mainly on the financial part.

Karen Berg: Thank you, Karin. I have one last question on my screen. So, if anyone has a further question, type it now quickly when Rafael is answering the last question I have here from an investor. We say that we returned to growth in EMEA in 2022. Do you expect to see that already in the first quarter?

Rafael Padilla: So, of course, it's early to say. The year has started, but we see in Q4 stabilization and a slight growth of EMEA, and this trend we see continuing in the first month of 2022.

Karen Berg: Thank you. There is – I don't see any further questions appearing on my screen. So, I would really like to thank you all for your attention, your questions and interest in Fagron. I know it's a very busy day with financials today, I know we are not the only one. Also, thanks to Karin and Rafael for answering all the questions. And we really hope to see you on 15th March on our Capital Markets Day. Thank you.

Rafael Padilla: Thank you.

Karin de Jong: Thank you.

