Transcript

Fagron Capital Markets Day

Tuesday, 15 March 2022

Fagron Capital Markets Day

Karen Berg: Good afternoon, everyone. Welcome to the Capital Markets Day of Fagron. We're very happy to have you here in person and online as well, of course. Today, we will give a deep dive into Fagron.

First, I would like to start with, of course, the legal stuff. So, we have to give a disclaimer. So, you can read it all on the paper version.

Then today, we have an agenda. We will start with an outline of Fagron. Then we will discuss market opportunities, and we will discuss our strategic profile of Fagron. Then we will have a Q&A for the people in the room, and also questions from people online. So, people online, if you want to ask questions just type them in. We'll have a quick break, and then we'll do a deep dive in the different regions, accompanied by a Q&A per deep dive. So, we'll start with EMEA, then Latin America and then North America, and we will close with the financial objectives.

Today's speakers: of course, Rafael Padilla, our CEO; Karin de Jong, our CFO. We are very happy to have here with us Hans Waals, the managing director of Tiofarma, who will join Constantijn van Rietschoten, when he will give a deep dive into EMEA. And we will have Andy Pulido for the deep dive into North America. Unfortunately, Ivan, our area leader of Latin America, couldn't make it because of travel restrictions, so, Rafael will do the Latin America deep dive.

And with that, I would like to hand over to Rafael.

Rafael Padilla: Thanks a lot, Karen, and congratulations with the organisation of the day. We look for the cross here. And thank you, all of you for attending this meeting physically, of course, for the ones attending virtually as well. We have many joiners there as well. I would like to thank Mr Koen Hoffman, the President of the Board for attending as well. Thank you, Koen, for coming.

And introducing myself. My name is Rafael Padilla. I'm born and raised in Spain, and I am a pharmacist. And coincidentally the last year of my study, I was in Finland making sterile preparation. Then I went to the Netherlands, where Hans Waals hired me in 2002. And in 2017, I became the CEO, and together with the team, we create the future of personalising medicine.

So today, of course, Karin will present our mid-term financial objectives. And before that, first, we're going to understand what is Fagron and what our competitive advantages are. Secondly, our market opportunities with the drivers of the underlying market. Third, our strategic priority. So, what is our strategy, how we are going to be different, and of course, the most important part of the day the last part, the deep dive in the regions with Constantijn and Hans on EMEA, especially on the Netherlands, and Andy explaining us our exponential growth story for North America.

So, what is Fagron? We are the global leader in pharmaceutical compounding. We are active in 19 countries, present in 35. And with more than 3,000 people, we create the future of personalising medicine. We have three divisions. And of course, we are fully integrated in the whole compounding value chain. This is extremely important because we are the only ones throughout the world who are active in this niche, high-fragmented, fast-growing market.

Of course, we are unique positioned to capture the favourable trends of personalising medicine that we'll see later on. And we serve hundreds of thousands of customers throughout the globe within the whole healthcare chain.

When we go at pharmaceutical compounding, pharmaceutical compounding makes the future that is personalising medicine, present today. Imagine a patient going to a doctor and the doctor could choose whether it's going to prescribe a mass product or a personalised product that is more convenient for the patient with lesser side effects. It can combine different APIs, different dosage forms, different dosage strengths. And by doing that, will increase patient adherence and convenience. The pharmaceutical compounding market is approximately 1% of the total pharmaceutical market, and this is USUS$1.2 trillion.

Imagine that we could increase the percentage of compounding to 1.2%. That would be, of course, massive for the whole industry, and for us, as we are the global leader in this segment. And we say, again, global leader, global capabilities. This is something that for us is extremely important as is our solely competitive advantage. It's all about volume.

So, when we look at the value chain and where we are, of course, we have the patient at the end, and we have the ingredients. So how are we going to make the preparation. We need ingredients in order to make it. We acquired from bulk from different parts of the world. We bring them in our facilities. There we make a quality control check that is very important. We fulfil all the regulations in each local country, and we try - and this is a strategic pillar for us - to go ahead of it as – again - it's another competitive advantage that we have high-quality standards. We repack them in our GMP repackaging facilities. You know we have one state-of-the-art in Poland; we rebuild one in Brazil this year. And then we bring them to the customers via the distribution networks, wholesalers, or directly to community pharmacies or hospital pharmacies as well.

Of course, we have our compounding segment activities; ours or partnering with, for example, Tiofarma. And here, we prepare the compounds that a pharmacy for different reasons - quality, regulation - cannot easily compound, bulk compounding, we compound for them. They go then to the hospital pharmacy, to the pharmacy and then to the patient. Again, identifying our competitive advantage, we are uniquely integrated in the whole value chain, and this gives us knowledge, and we can share best practices.

When we go into the last five years, and of course, this is something that is somehow difficult to talk about someone itself, right? But let's see what we have achieved together with the team in the last five years. And we're very proud of saying that we have showed robust growth, almost 8% at CAGR, despite some challenging times that we have had. Of course, each region has been a bit different, and our colleagues will deep dive in the region. We have delivered resilient REBITDA margins. And of course, you know us as well, we have delivered strong operating cash flow figures. This one has helped us in order to improve our balance sheet. And by doing that, we have room to grow organically, and, of course, inorganically.

What have we seen in the last five years? We have welcomed 14 new companies into our family. That's very interesting, because, of course, we are the global consolidator, and we can offer to these companies nice tools, nice competitive tools in order to be close to their customer and leverage our global platform, mainly on procurement, where we can consolidate all the volumes, and we can get good prices for them to go to the market. These 14 acquisitions have been realised in the different segments that we are in: North America, Latin America, EMEA, different countries, Brazil, Mexico, US, very important steps there. We have also done it in new markets like Israel, in Germany, in Belgium. So, we have shown that we can also do it in a diversified way.

Looking at the product segment, we have done both in the Compounding Services side, sterile and non-sterile and also in the ingredients side, in the raw materials, in the branded products. So, we have also leveraged our product portfolio.

When going to the regions, something that we have also realised in the last five years is that we have diversified our business within the regions. So, Europe, EMEA, accounted for almost 58% of total group revenues. Today, it's 44%, as you can see here. LatAm, strong steady at 25%, growing with the rest of the company as well. And North America, a nice story in the last five years. Of course, Andy will tell later on. We have gone from 18% to 31% of total group sales, and now we are ready to make the second phase of growth.

When we go into the product segments, Essentials amount for 50%, and again, sorry that I repeat myself, the team says that I repeat myself a lot, but it's to give a message that it's very clear with us: scale. Scale is everything. We have a purchase volume of €250 million. And we need to leverage as a company this purchase value, in order to be one step ahead of competition.

Brands, very important. They make you different in the market, something that you have; unique. Here you have some of them, 18% of our revenues. Strategically, we should grow the contribution of this segment.

And Compounding Services, 32%. This is again when we compound for our customers.

This slide is very important for us. We historically have been a product company, and now we also realise that after 30 years, we have built strong relationships with our customers as well. So, we have longstanding relations that are very difficult to dispose. And this we have done in the different markets that we are in. So, we have a strong customer-centricity focus that we can also learn how can we innovate, how we can be close, what their needs are. And we can see that in EMEA, mainly pharmacies – hospital pharmacies, wholesalers, their relation is extremely important to keep, maintain and cultivate.

For Latin America, compounding pharmacies mainly throughout the three countries where we are in. And in North America, strong relationship with GPOs and IDNs that we can, of course, combine the broad product portfolio that we have in order to serve them.

So, finalising this first part out of the ones that you're going to see today, what is Fagron and our competitive advantages? We think that we have a sustainable growth story. Why? Because there are eight ingredients in order to make this compound. So, we're going to make this compound ourselves. We're not going to outsource this one. We're going to take eight ingredients.

The first one, we're vertically integrated. We can learn a lot. Think of a compound in the US that can go and bring immediately to Israel, and we can bring the raw materials of a compound that is being made there. We can do that extremely rapidly because we are vertically integrated.

Something that we're very proud of is that we have now a diversified business mix. The US has now compensated a bit what Europe machine has left behind. And this, for us, is extremely important.

Thirdly, we have a strong customer centricity. We're a global company, again, very important. We want to bring value to local businesses; businesses are close to the customer. So, they should understand what the customer needs are and leverage our global platform. This one for us is key.

Point number four and six. We have the broadest portfolio in the whole industry. We can serve the pharmaceutical compounding industry, pharmacies, hospital pharmacies, compounders with the broadest portfolio on raw materials. Think of 3,000 raw materials, APIs, excipients, nutraceuticals, amino acids, vitamins. We also deliver equipment, supplies, packaging material. We also deliver semi-finished products, products that we innovate ourselves, also together with partners. And, of course, think about our Compounding Services when they cannot compound, we are there to help and support.

Of course, we are innovating a lot. We want to be one step ahead of competition. Branded products are extremely important. We should increase the percentage of sales of branded products in order to be unique. And this one is something that we discuss a lot with Hans. Right, Hans? On the highest quality and safety standards regulations are there, regulations are increasing, and the player that is very well position will win the game. This is something that we invest a lot. It's one of our core values. It's in the centre of our logo. We invest a lot in quality.

Of course, we have a nice tailwind. Karin will explain it now. We have favourable trends. It's all about demographics, personalisation, aging population, drug shortages. Those trends are there. And we're going to keep our robust financial profile. We have a high operating cash flow profile, and we use this one in order to compound for growth. So, a sustainable growth story with a high resilient business model.

So, it's good one minute that we give to you for the time.

Karin de Jong: Thank you. Yeah. So, thank you, Rafael. Good afternoon. My name is Karin de Jong. I'm 14 years with this company, and the last years in the role of CFO.

During this part of the presentation, we will dive a bit deeper into the market, into the global compounding market, into the opportunities for growth in that specific market, but also our positioning within that market.

So, if we look at the global pharmaceutical market, as Rafael already referred to, it's approximately USD 1.2 trillion. And we are active in the global compounding markets, which is, in fact, a small niche within that huge pharmaceutical market.

If we look at the prescriptions, we estimate that 1% of all scripts are written for compounded medication. And of that compounded medication, approximately 10-15% of that is related to the raw material costs of the product.

If we look at the different sizes of the markets, we see that North America is the biggest market. So, it's a €5 billion market, and it's growing historically, but also, we expect growth in the future, driven mainly by outsourcing. And we'll touch upon that during the presentation and also in Andy's part on the US.

EMEA being the second biggest markets, where also demographics help the underlying growth, and that's the setup of the population, which we also touch upon later on. And then the third market, Latin America, €1.8 billion. It's the smallest market, but there's no reimbursement in this market. So, it's fully cash based.

If we look at historical growth levels for the different markets, we see that approximately 5.5% for the last year as estimated growth for this specific segments. But also, future growth, we expect approximately 6% growth for the underlying markets.

So, if we look at our positioning within those different markets, we have market leader positions in seven major countries. And next to that, we have a top five position in most of the countries we are active in. It differs slightly per region. If we look at the EMEA region, there's different regulation. So, every country has its own regulation. So, the diversification helps within our vertical integrated model. So, in some countries, we're active in compounding, in other countries, we only do the Essentials and Brands.

There are some companies, some countries, where we have an absolute number one position, and we'll touch upon that in Constantijn's presentation, for instance, the Netherlands. There are markets where we have a strong challenger position. So, we have not the market leader position, but there's potential to grow. Such markets, for instance, are Germany or other European markets.

On the Latin American side, we see that we have a clear business, a market leader position. We have over 50% market share in that specific market, and we see potential of growing the underlying market.

For the compounding segment, we're active in Colombia and we're not active in Brazil or in Mexico within that specific segment. In North America, again, being the biggest market, where we have a challenger position. So, we are number two after the acquisition of Letco and we have a challenger position in the compounding part, where we believe that we are very well positioned to take market share within both segments. So, in B&E as well as in the Compounding Services.

We are well positioned to navigate an evolving landscape, and it has to do with our global scale, our vertical integration, and our long-term perspective on the different markets. So, we have global capabilities, but we stay close to the customers. As Rafael mentioned, centricity of customers is really important within our global model.

So, what drives the underlying growth? There are customer-related trends which drive growth and there are industry trends. So, the demographics, the personalisation, the patient-centricity, which we see throughout the pharmaceutical markets, but also accessibility, which are at the core of Fagron's business model. They drive the underlying market.

Regulation, we'll touch upon that during the course of today, but it drives the outsourcing trend. So, we see a good example in US, of course. As the regulation changes there, we see the push on outsourcing.

Market fragmentation, which helps in our consolidation strategy and in our M&A strategy going forward.

So, if we look at the different elements, so the demographics, personalisation, and accessibility.

The demographics: for certain countries, we are delivering to elderly people, young people, that's our main customer groups in the more traditional compounding markets. Those underlying populations are growing, and therefore, the demand for customised medication is also growing. Secondly, we see an increase in chronic diseases, which means a repetition of scripts and also an increase in compounding medication demands. We see an expanding middle class. So, in certain countries, we focus on preventive care, on lifestyle. For instance, in Brazil, where we, the last years, have benefited from a growing middle class and where we expect to see that middle class growing over the next couple of years, which results in an increasing amount for personalisation. Together with preventive care. So, during Corona, we had a good example of the demand for preventive care increasing, but we see that as a general trend that will continue after the COVID period.

Yeah, personalisation. Personalisation is, I think, a really important element; the patient-centric approach, as already mentioned. So, making personalised medications for patients that aren't served with the big, mass-produced medicines we see throughout the pharmaceutical markets. And that can be because they have specific side effects to medication, so they need adjustments of medication. And we see that more and more within the different markets. Genetics will help, because you can really tailor the medication to specific needs, which also drives the underlying growth of the markets. And next to that, we see also innovation within the pharmaceutical market. So, combination therapies, which really means that compounding and the number of scripts that are compounded will increase over time.

Accessibility, really important, is at the heart of what we are doing. We want to provide affordable care to all patients. So, specific patient groups that are not served for whatever reason, that we can help with their medication needs. And that can be because of shortages in the market, that drugs are just not available. And then we can compound the medication specifically for that patient. Maybe there's discontinuation of drugs because the population of patients is too small to make it profitable for the big pharma companies. So, we deliver that small patient groups that cannot be helped with medication that is available. And then supply chain disruptions. Of course, we also deal with supply chain disruptions in general, but we can find alternative solutions for patients so that they are served.

So, these three elements, I think, are really important and they drive the underlying market growth going forward.

Then we have two industry specific ones. The first one is regulation. So, we see increased regulation. So, for as long as we are in the market, we see that year-on-year quality standards are rising. Of course, it also has an impact on Fagron. We comply with that, but it is a market dynamic, which we see in all markets. Of course, with regulation increasing, the smaller compounding facilities and the smaller pharmacies, they have to invest. So, their cost base will increase. They have to invest in new facilities, in adjustments, in hiring additional staff. And at a point in time, they usually decide to outsource. And they start outsourcing the most difficult preparations first. And then when they have good experience, they enlarge their product portfolio to more products. And so, it pushes outsourcing.

The best example is, of course, the US, where we see that after an incident in 2011, in 2013, they introduced specific legislation on outsourcing. So, the 503A & B legislation, which we touch upon later on in the presentation, was really an example of increased regulatory pressure on that market. So, you have to have FDA oversight on 503B, so on specific compounding facilities and a lot of small players then decided to stop and there was room for the bigger players to step in. So that was a good example.

In EMEA, we see fragmentation throughout the regulatory aspect. So, each country has their own regulations. On the longer term, they will also evolve. But as we see in EMEA, they will take time to get there.

And in Latin America, as you all know, we're active in the Brands and Essentials only there, but we also see there that ANVISA, which is the regulatory body in Brazil, really pushes the quality standards up. And we'll touch upon that also later on in the presentation.

So, I think the conclusion is that we see a raising quality standard throughout the sector, which, of course, we believe, as global player, is really important for the sector going forward and really pushes outsourcing within the different markets.

And then fragmentation that drives, in fact, consolidation. So, in the markets where we see the opportunities for organic growth, we, in some cases, see room for consolidation. So, if we look at the EMEA markets, we have a very solid positions in very big mature markets such as the Netherlands, but we also have challenger positions in very big markets, for instance Germany. So, there's room for organic growth in those specific areas. There's also room for acquisition growth. So, there are smaller, mid-sized companies that we can acquire and really add to the group and benefit from the global aspect we have as a Fagron company.

For Latin America, I think the last ten years, we did a lot of acquisitions, and we are now working on consolidating those. We really made good progress. We're in the final stage of centralising our distribution activities, automating the business more and more. If we look at M&A opportunities there, on the short-term, we're working on consolidation of the acquisitions we did historically. So, we're always open for opportunities, but we see that the EMEA market and the US markets offer on the short-term more opportunities for acquisition than the Latin America markets.

And then finally, North America, as mentioned already, the biggest market where we have challenger positions within the B&E, as well as the compounding side. So, within the B&E, after the acquisition of Letco, we're number two. And we see room there for further growth in the Brands and Essentials part. Again, on the compounding part, we have invested a lot in the last years. We believe we are well-positioned to capture more market share in that specific market. Underlying markets are also growing. And then we have potential of doing acquisitions, smaller ones in the 503B, but also looking in the Brands and Essentials. For instance, in expanding our product portfolio or looking into different therapeutic areas.

So, in combination, I think we have a good positioning within a growing market. So, they showed historic growth numbers. We see growth going forward. We're the unique player that is a global one, that is active in all different segments in three very interesting markets.

Thank you very much.

Rafael Padilla: Thank you, Karin. And we now finalise this first chapter, one of the two chapters, with our strategic framework. So, of course, a company should have a good culture, good tactical capabilities, so execution capabilities, and of course, a clear strategy. So, when we look at the strategy and starting with the purpose, together, we create the future of personalising medicine. This, with our values, guide our business going forward.

Personalising medicine, we say it again, is the future, and compounding brings the future to the day of today, and we are committed to help prescribers and physicians to give the best care to patients and also to increase, expand of healthcare providers.

When we look at our strategy, so how are we going to be different? We identified our product segments. So, we have the Essentials. We have the Brands. And within the Compounding Services, we have the sterile, the non-sterile and we also have, of course, as an evolution of the non-sterile, the niche pharmaceuticals, registrations. That, of course, is a Dutch thing that we collaborate with Hans. You will hear later on.

First of all, and we have had many times already today in this first 30 minutes, we invest a lot in quality. So having the highest quality standards, not only complying with the local regulators, but also going one step ahead is for us strategic important. So, you will see that we invest in our facilities, in our processes in order to keep one step ahead of competition.

On top of it, we build a second good element, a strategic element, and it is our product portfolio. We invest a lot in bringing new products, having them available. And trust us, in the current times, having them available, it's not an easy work to be done, so having them in our warehouses.

And of course, innovating and bringing new innovations into our assortment to serve our customers.

Then when we look at the product segments, we want to accelerate the growth in the Essentials, in the Brands and in the sterile compounding, as we believe that we are unique, and we have unique model. And in the non-sterile, especially in the Netherlands that represents 6% of the total group turnover, we want to optimise this business, of course, together with Hans and Tiofarma.

When we go into the Essentials side, we want to increase our operational efficiency. You have seen that we have now two new facilities. Andy will talk about how we're going to tackle the US operational excellence project as well in capacity. And when we look to the Brands as we're a global company, we want to rollout our global brands with a global approach, but of course, with the local implementation. So, we want to invest as well in science and knowledge for our global brands that, again, we're unique, 18% of the sales should increase. If you want to assess if we're executing our strategy well, you should see good evolution on our Brand's percentage in total of sales.

Then we go to M&A that, of course, brings knowledge, capacity, consolidates the market. And we have, for the first time, a dedicated team in our company that is going to pursue M&A opportunities worldwide, but with a special focus on EMEA and North America as in LatAm, as Karin reflected, we did some acquisitions in the last years.

So, when we put all those elements together, we are launching today a plan that is called One Global Fagron. We did get the remark that we are a real, one global company and that we should leverage that fact.

So, within the One Global Fagron, we identified four pillars. The first one, we want to be absolute leader in the Brands and Essentials. There we are unique. We want to be the best one, doing this job worldwide. Then we want to create a leading platform for sterile outsourcing services. We are the only player in the world present in more than one country. We're present in the US, in Israel, South Africa, Belgium and the Netherlands. We want to accelerate organic growth there, but we also go – want to go to other markets, if possible. It's a nice market. It's growing. There are nice trends. The third pillar, we want to optimise our non-sterile and registration business in the Netherlands. We want to do that extremely well, and we will hear later on how we're going to do that one. And of course, we want to build the organisation for the future with a full focus on sustainability. Later on, we'll see in the LatAm part that the new facility in LatAm is sustainable. We have solar panels, but also, we recycle water. We use green energy. So, this mindset should be in all our employees around the world.

And how we're going to execute? We identified four enablers. The first one, global operational excellence. The second one, our educational hub that is Fagron Academy, very important. The third, a disciplined M&A approach. Again, you have heard many times in roadshows that we don't want to take any step bigger than our legs. And the fourth one, of course, ESG focus, as we said before.

Then we will deep dive in the first of our enablers, global operational excellence. Everything starts with being a global company again. Sorry that you hear this many times today, global company. Sorry for that, but that's for us unique, and we need to leverage that one. So, by being global, we really leverage knowledge, and we leverage best practices. As an example, we launched a product in Italy and two weeks later, we had the same product in the US sharing the same materials, the same go-to-market. So, we need to do that in a more structured way.

Secondly, we are optimising our sourcing capabilities. Of course, historically, we used to buy together, so bringing the volumes together. But COVID also taught us something good, and we optimised, and we improved our sourcing capabilities. We hired a dedicated team. We categorised our portfolio, especially on the Essentials side. You saw in the previous slide, operations on the Essentials. We start there and in each one of the categories, active pharmaceutical ingredients, amino acids, vitamins. We have now one person responsible to have the product available, but also to leverage global volumes savings.

Third one, we're standardising our manufacturing processes. When you look at the factory in Poland and when you look at the factory in Brazil, it's the same, the same process, the same approach. We treat the products the same way, and we leverage knowledge there as well.

And last but not least, of course, digitalisation. We have now a team dedicated to improving our digitalisation capabilities with customer experience and customer engagement programmes. We hired knowledge from out of the company, people that teach us how to do this transformation, and we are happy with this one. You saw our new website, and we are making good steps there as well.

When we go to the Fagron Academy. The Fagron Academy, it's a platform to educate the market, 1% of the total pharmaceutical compounding total market – total pharma market, sorry - is compounding. Imagine, we bring to 1.1%, 1.2%. So, with this platform, we look at prescribers, so how you can prescribe more with the therapeutical approach. We do that by therapy. And we also teach our customers, pharmacists, hospital pharmacies on how to compound.

So, for example, in our Fagron Academy platform, we teach them how to make a capsule, right. And we have nice products, branded products like this one that improve 30% the time that you prepare a capsule. So, of course, it's an educational platform, but also, we take the chance to show them how our products work and how they can use the products in order to have better preparations that are standard and come back, reproducibility.

Then we go into our M&A, the fourth enabler. In the M&A, we have again, a dedicated team that is focused on looking at prospects, identifying them, of course, contacting them, bringing them. You know how the process works very well. And here, we want to be aligned with our global strategy. Remember, the first pillar, absolute leader in Brands and Essentials. We're identifying those targets, leading outsourcing service platform as well. So, our M&A team, led by Johan, is working on that one as well in order to bring new capabilities to the company. So, when we look at the strategic rationale, of course, geographical expansion as we did with Israel. Market consolidation as we did in the Czech Republic. Portfolio expansion as we did with Gako. And of course, therapeutic area expansion. And here, an example would be Levviale in Brazil, where we entered a new product line, tackling a new therapeutical area. So, the team is focused there, and we should see some activity. Always with a very disciplined approach.

When we take one example, the Gako acquisition. Why did we do that? So how we were thinking on? Gako was, and is, of course, the global leader in mixing equipment. So, you make a cream, and you can make it with the different ingredients in a mortar and pestle. If there is a pharmacist here, he should know how it works. Or you can have a device of Gako, and you put everything together, and it's made pharmaceutically perfect, that is being reproduced time on time.

We were collaborating with them, so they were our providers, but we had also sometimes challenges in some markets, where we were competing against each other. So, we thought for ourselves, even though we are not a technology company - you see here some technological stuff, machines. It's located in Germany, in Bavaria - we are not a real manufacturer technology company, but we thought for ourselves, why don't we invite them to the team, to the family and we can learn, and we can leverage their knowledge in order not only to create these devices, but also other stuff; and why don't we also take advantage of our global customer platform, and we can introduce their products and we can expand what they do.

So, we did it. We are now satisfied with integration. In six months, the company was totally integrated, and we always say, in two years, normally, we have a company integrated within Fagron. In this case, we could clearly see that in six months, a company could be integrated and is, of course, a nice benchmark for the team of Johan, that they have, of course, a structured template on approaching, making the whole process and integrating the company within Fagron.

Last but not least, ESG. Pharmaceutical compounding: it's all about ESG. As Karin said extremely well, accessibility. It's the key to pharmaceutical compounding. So, a clear focus on ESG, a team led by Karen Berg, that is not only focused on the targets today, but also ongoing. In the future, this will evolve. So, we want to be one step ahead in this part as well. So, we have clear targets for 2025. You see them here, reduction of emissions, also on male/female distribution. And we are also very satisfied as a management that our Board, led by Mr Koen Hoffman. Again, and we have two Board members here today, Neeraj and Vera. They support us a lot in our ESG best practices.

So, in 2022, we will see a Board that evolves with the business as well with nine members, 66 – 67% of independent directors a five-to-four male/female ratio and 78-79% of Non-Executive Directors in the Board. So, we are also making good steps there.

So now we finish one minute ahead schedule, Karen. So, we keep the time sharp.

Questions and Answers

Karen Berg: Yes, it's time for Q&A. People who want to – or on the webcast, can type in their questions and we will handle them. But let's first start in the room. We have to – this gentleman here was the first one to raise his hand. Please introduce yourself for the – everyone.

Mark Belsey (NNIP): Hi, everyone. I'm Mark Belsey. I'm from NNIP. Interested in your M&A. How long do you think it's going to take to consolidate in LatAm? And what your plans are in EMEA as well? In particular, you were talking about Belgium, I think, when we spoke about six months ago. Interested in your plans there and the pivot more towards Germany. Thank you.

Rafael Padilla: Thanks a lot, Mark. And thank you again for your remark on the One Global Fagron. I don't know if you realised on our strategic plan that was coming from your feedback, so we appreciate a lot.

On the M&A side, we took the steps in Latin America, where we consolidated the market and now, we're taking some steps, for example, into the Belgium market. So, we are consolidating the Brands and Essentials market as well. We are taking opportunities that we see. And we're going to see how this evolves. We always take a disciplined approach with M&A.

So, when all the criteria are met, cultural fit, a good multiple as well, we're going to take these right steps. We have room for that as well. So, we hope that we can give some good news in the mid-term, of course, mid-to long-term. We're working on it.

Matthias Maenhaut (Kepler Cheuvreux): Yes. Hello. Good afternoon. Matthias Maenhaut, Kepler Cheuvreux. I had a question on your global purchasing organisation. You clearly stated it's one of your competitive advantages. Could you maybe quantify – you have done quite some acquisitions during the time in Essentials and Brands – maybe percentage-wise advantage in terms of sourcing conditions that you, in general, have?

And then secondly, could you maybe also elaborate a little bit on the organisation of your purchasing organisation? What's the locations you source? And I understood that historically, airfreight has been quite important and locations with China, India. We now have the Russian-Ukraine conflict. Those airliners need to pass over those countries, unfortunately. So, this comes at an alternative route with additional costs. Can you maybe elaborate a little bit on how big the impact is of that conflict? Is it material? And is it easy to pass through that pricing?

Karen Berg: You want to do this? Or shall I hand it to Karin? Yeah.

Karin de Jong: Thank you for the questions. It's, of course, a fair question in the current situation. And as we see historically, one of the synergies we achieved during acquisition is on the procurement side. So usually, they have smaller volumes. They source locally. We have the volumes combined. And of course, we made the next step with category management. But initially, the first synergy benefits we see with an acquisition is on the sourcing side.

To quantify that, that's very difficult. For each acquisition, it's different. But what you see is when we do acquisitions, they usually have an EBITDA margin between 10-15%. And within 24 months or three years, depending a little bit on the acquisition and the size, we move that towards the average of Fagron. And an important element of that is the sourcing. So that's on the one side.

Secondly, of course, last year, already during Corona, we saw challenges in the supply chain. There were shortages. Price was increasing. Transportation was increasing. Packaging was increasing. We saw that in markets that are pretty flexible on pricing to put it like that, so, the US market, but also the LatAm markets, we are quicker in passing through prices. It's easier to pass those prices through. You saw that also in the developments last year for those regions.

If you look at the EMEA region, that took a bit more time. So, during COVID, we saw that initially early on in the year, we had some margin impact on that. It was 1% in the first six months. We saw later on during 2021 that we could pass on those prices when we renew the contracts. However, in the current situation and the uncertainty we see now, and the prices that are increasing on energy, on transportation, again, but also on raw materials. We see that we have an impact.

That impact is on different elements. So, we see on the energy side, it's a fairly small impact. We invested last year and the year before on solar panels throughout the company, and we made a big investment, of course, ESG-driven, but we benefit from that now on the energy side. So, we see a slight uplift in Opex, but we are confident that we could manage that on other elements in Opex.

On outbound transportation, so going to the customers, it's approximately 3.8% of sales. We see impact there. But also on that element, we can pass it towards our customers. In the same cases during COVID, some markets more easily than other markets. On the inbound transportation, so that's mainly what's coming from China and India. And as you all know, they are the biggest suppliers of pharmaceutical raw materials. So, a big part of our products is coming from those regions. It's part of our transfer price internally. So, to quantify the impact currently with all the uncertainty in the market is very difficult. We are on top of it. So, it's one of our important topics every day to see what the evolution is and how to pass it through to our customers. We believe on the longer term, we should be able to deal with that. On the short-term, it remains an uncertainty, as you can imagine. So, we will refer back if we have it quantified, but now during the uncertainty in the market, it's difficult to do that at this point in time. Hope that answers your question.

Frank Claassen (Degroof Petercam): Yes. Hi. Frank Claassen of Degroof Petercam. I've got a question on Fagron Genomics. I remember that some two years ago, you had big plans, big stories about using genetic tests as a basis for personalised medication. I don't hear that much now. What is the status? And what are the plans with Fagron Genomics?

Rafael Padilla: Thank you, Frank. So, we have – this year, as you see now, we have activities in all the countries we are active in. So, we have rolled that out. COVID did not help in this process as patients need to go to the doctors to get the genetic tests prescribed.

Now, what we see is that last year, we had a nice improvement in the number of genetic tests sold. It was around 40,000 tests that we sold last year, and we are now rolling out a new one. So, we have a fourth panel and we're going to introduce them, of course, everywhere, because now we have footprint in all the countries that we're active in.

Regarding materiality, we always looked at genetic testing as a tool, as a driver, as an enabler in order to generate more scripts and to link them with the Brands. And this is how we want to position. So, linking the genetic test within the Brands to increase the average weight of the Brand segments.

Jeroen Van den Bossche (KBC Securities): Yeah. Jeroen Van den Bossche, KBC Securities. I have two questions. Number one, regarding evolution in the market. When we're thinking about countries like, say, Belgium versus the Netherlands, what we can see in the pharmacies that in the Netherlands, they are mainly consolidated and you see big pharmacies, even Kruidvat, etc., are big players versus Belgium is more local, small pharmacies. It is being consolidated more and you have big players stepping in that are basically acquiring these pharmacies and making a bigger, let's say, pharmacy across the region. Is that a positive evolution for you? Does it make it easier via key account model? Number one. Number two, when you're saying that looking at the pricing ability, which segment is, let's say, the least sensitive to price increases? Is that your Brands and Essential segment? Or is that more your compounding? And how do you address that?

Karen Berg: Thank you. I'll pass the first question – or the second question to Karin.

Karin de Jong: Yeah. So as mentioned already, for one script, it's 1% of the total mark, but it's approximately 10-15% of the raw material price is related to that. The rest is the labour cost and the other elements that are part of that compounded product. So direct impact is on the Essentials and Brands, and it depends a little bit on the market and where we are in that market, because in some markets, there's inflation where we need to increase wages. So that also has an impact on the price of the compounded product. So, it's a little bit scattered, depending on where we are. But initially, the Brands and Essentials will have the direct impact because of the direct link to the raw material price increases.

Jeroen Van den Bossche: And maybe a follow-up question. Have you already calculated that into your forecast that [inaudible]?

Karin de Jong: There is some room, and we'll touch upon that in the financial section because of this downside potential risk we have within the short-term, I think.

Karen Berg: Thank you. Your first question will probably also be handled by Constantijn in the EMEA deep dive. But maybe Rafael can give a very brief answer.

Rafael Padilla: Sure. So, thank you, Karen. Good. In this respect, we see an evolution. You see also in Europe that the evolution, it somehow takes its time, right? So, this evolution takes time. It's the evolution that it's natural also with the online pharmacies. We see that as well. And this – we see it as an opportunity because you can see that the outsourcing trend, as more as the pharmaceutical market is being consolidated, will increase, right? So, we see that positively.

Also, the touch points with the customers, we can have more customer-centric approach. We can discuss with them the possibilities, that there are vertical possibilities that also they can offer to their customers. So, it gives us – the consolidation gives us a better understanding of the customer.

On the other hand, we have always operated in countries like, for example, Italy or Spain that you have a lot of pharmacies, and we have operated extremely well directly and also via the wholesaler. So, both models work fine for us.

Karen Berg: Any further questions in the room? Yes, Eric – Stijn.

Stijn Demeester (ING): Stijn Demeester, ING. A follow-up on M&A. You mentioned Germany as a key target. Would you be willing to dilute your margin by going into that region? Because it's highly regulated. Companies have lower margins. So, when you talk about culture fit and the multiple, is the margin also, I think, to consider when acquiring companies?

Rafael Padilla: Thank you, Stijn. We – of course, the German market and the sterile outsourcing side has lower multiples. So, you would see a dilutive multiple effect – margin effect, sorry, for that. We – of course, we like having high REBITDA percentages, as we saw in the third slide of the presentation. So, we look carefully at that one. When we look at that market, we, as a company, right - and we are not saying that we're going to do that one -, but as a company, we should look at specific therapeutical areas that, of course, give us higher average percentages than the average of the industry. So that's what we should look upon.

Karin de Jong: Need to add something on margin side? Yeah. Maybe to add on the margin side, because, indeed, it's also related to the therapeutic areas. And maybe an example, but for you is absolutely clear. But if you, for instance, look at oncology: it's a huge market where margins are pretty thin. And when you look at ophthalmics, where we have experience, and where we look at specific therapeutic areas where we have a global scale and can benefit from the knowledge we have on that specific therapeutic area, we believe that we can lift that margin. So, it's not our objective to step into very low margin business. It has to have somewhere synergy within our group if it's on product based, on knowledge base, and not stepping into an oncology market where we do not have the experience, and which dilutes our margins way down. So that's also not - just for your understanding - in the business model, which we'll present later on in the presentation.

Stijn Demeester: [Inaudible]

Karin de Jong: Yeah, we look at every opportunity, of course. But if there's synergy potential, if we see margin uplift and benefit from being a global player, we will investigate it. If that's not the case, is there's no synergy advantages, no knowledge sharing potential, and it will dilute our margins heavily, we will reconsider, because we need to have a return on the investment in the end, and that is key. So just stepping in because of the size of the market will not be our first preference.

Eric Wilmer (ABN AMRO-ODDO): Hi. Also had a question. Eric Wilmer, ABN AMRO-ODDO. Also had a question on sourcing. I think we're still in an environment of escalation if you look at the headlines with also China now being mentioned. I was wondering about your sourcing exposure to China and also how quickly you could switch to other regions, either in Europe or perhaps India, should things escalate any further?

Rafael Padilla: Thank you, Eric. So far, what we see in this respect is that the relationships with our providers or manufacturers are like they were three, four weeks ago. So, we see the same pattern. We're acting on the quotes and the mails, so the situation hasn't changed. What we did see, is what Matthias was referring before on the transportation cost, we see that one. And as Karin answered very well, we are disciplined looking at this on a daily basis to take the actions that we need to take as a company. Approximately around a bit more than 50% is being sourced in the far East. So, China and India, and you have alternative suppliers. So, within the second pillar that we showed in the procurement optimisation plan. Remember, the second Pacman ball there we have with the sourcing team? We are now for each one of our main raw materials top 20, top 50, if you will, identifying second or third alternative sources, if there were a supply disruption that till today, of course, till today, we have not seen.

Karen Berg: Thank you.

Maarten Verbeek (The Idea): Maarten Verbeek, The Idea. Firstly, on sheet 16, you presented the growth you predict for the next coming years, some 6%. Could you also break that down for the three regions you're active in EMEA, Latin, North America?

Karin de Jong: Yeah, the financial framework will be discussed at the end of the presentation. So, I suggest that we – if you still have a question, then we'll answer it. Thank you.

Maarten Verbeek: Okay. You also mentioned you will continue with making acquisitions. Could you remind us what the leverage ratio you have? And if you would be able to catch a big fish, are you willing to issue equity? Or is that step too large for Fagron?

Karin de Jong: Yeah. So, on the leverage side, at the end of last year, we were at 2.1 net debt to EBITDA ratio, which is an important element for looking at acquisitions. So, our internal objective is not go above 2.8%. So, we believe that in the short term, we have sufficient room. Just to remind you, the banks, we have a max of 3.5. So, we believe we have sufficient headroom there. On the bigger acquisition side, I think we have a lot of opportunities in the pipeline on mid and small-sized companies that fit really well within our strategic agenda. If there's a really big fish, we, of course, will analyse that and see together with the Board, if there is a fair return and if that's an option. In the current market with the current price, you could imagine that is not the case. However, we believe that on short term, we have sufficient companies and acquisition targets in the pipeline that we can finance through our debt position currently.

Karen Berg: I think one more question from Jeroen. Just wait for the mic, otherwise, people on the webcast can't hear you.

Jeroen Van den Bossche: Maybe a follow-up question to your colleague, Rafael. Is this then an opportunity for Fagron supposedly, if – yeah, things escalate, and I know this is a bit of a crazy one. But considering you have smaller competitors that don't have the global outreach, maybe you can take advantage of that point to wheel in more customers at this point? You had also a success in the COVID times, of course, then you had a lot of, let's say, some products for sterilisation of hands, etc., but how do you look at that?

Rafael Padilla: Yeah. Thank you, Jeroen. I think later on, Andy and Constantijn, you can also give a comment on this one as well. But we see this, of course, as an opportunity. And sourcing is key. You have seen quality and product availability as two main factors for our strategic success. So having the product available for the pharmacies and hospital pharmacies when they need, it's very relevant. So again, so far, we see – we have not seen any disruption in the market in the day-to-day, we haven't seen there because our competitors are also sourcing. Of course, they have the increase on the transportation, whatnot. But if that would occur, that could be for us an opportunity.

Karen Berg: Okay. Thank you. There was one question online, but that was already answered by answering the question from Matthias. So, then we have a quick break until 10 past the hour, and I hope to see you back soon. Thanks.

[BREAK]

Karen Berg: Ladies and gentlemen, we are starting. We're returning in one minute.

Karen Berg: Welcom terug na een korte break – Ehm Welcome back after short break. Sorry, I'm too focused on Dutch. I would like to hand over to Constantijn van Rietschoten for the deep dive in EMEA. After his introduction, we will have a short time for Q&A, so then I'll be back.

Constantijn van Rietschoten: Thank you, Karen. Indeed, Constantijn van Rietschoten. I'm working for Fagron for over – almost 14 years right now. And since August last year, I'm responsible for the EMEA region. I want to take you today through the dynamics of the EMEA region, but also want to show you the opportunities we are having.

If we look at a snapshot of EMEA, we see that with over 1,200 employees located in 14 countries, we service customers throughout the whole of Europe, Israel, and South Africa. The majority of sales is coming from the Brands and Essentials. Over 70% is Brands and Essentials. Around 30% is coming from the Compounding Services activities we are having in the Netherlands, Belgium, the Czech Republic, Israel, and South Africa.

If we look at the EMEA market, we see a lot of unique dynamics, for instance, the fact that the regulatory framework, as Karin already mentioned, is localised. So, every country has its own regulatory framework for compounding. That means that certain countries are more sophisticated, more mature than other countries. We see that also in our footprint. Fagron is well presented in more mature countries, like the Netherlands, like Belgium.

If we look then at the five-year financials, we see that the margins are always healthy, very healthy. But that the last two years, we have seen in the region some headwinds, some challenges that I want to address with you. So, if we look, the first challenge we experienced in 2020 – at the beginning of 2020 was COVID-19. So, what did we see? Elective care being postponed, doctors' visits declined. And of course, that had an impact on the number of scripts. And we need a script in our markets to be able to compound.

Of course, we – as you know, our values of the company. We are a very entrepreneurial mindset. We find alternative opportunities to serve our customers, pharmacies, wholesalers, and the hospitals. What we are seeing at the moment is that the number of scripts is returning. It's increasing again. That's a positive one. We are not back at pre-COVID levels, but we see a positive transfer there where, of course, Fagron is benefiting from.

The second challenge I want to address with you is the registration of compounds by third parties. This is very important because this is only the situation in the Dutch market. It's important to understand, okay, what is the regulatory framework and why is it impacting Fagron. In the Dutch market, a very mature market, the outsourcing of compounding is fully allowed. But you have to comply with the conditions as specified in the *Circulaire* of the Dutch Health and Youth Inspectorate. And one of the conditions is that if there is a licensed, a registered alternative commercially available on the market, you are not allowed to compound that product any more or to outsource that compounding anymore.

What we have seen in 2020 and in 2021, is that our two biggest compounds that we were having, were registered. The impact over a period of two years was over €10 million. I can reassure you that we have taken remedial actions. We already have strong registration capabilities at our partner, Tiofarma. Hans will address that later in the presentation. But we also expanded the registration team at Fagron, just to protect our business, to retrieve our business or to win new business. Important about that registration is that our two largest registrations of largest compounds were registered. And they were, by far, the largest products in our portfolio. The registration of compounds is not new. It's already ongoing for years. As long as I'm working for Fagron, I just explained to you almost 14 years, we see this trend that sometimes products are registered and that we have to stop with the non-sterile compound.

The increased localised competition is also something specifically for the Dutch market. And when I sometimes read papers, I see more competition in the Dutch market. We have to understand the Dutch market. Yes, Fagron is active in the full portfolio in the Netherlands. That means that we have Brands and Essentials for pharmacies and hospitals compounding in-house. That we have sterile compounding, we are fast growing in that market. And that we have the non-sterile compounding. And mainly on the non-sterile compounding aspect of the business, we have seen in 2020 a newcomer coming to the market. At Fagron, yeah, we developed this market. We were the first one in the market together with Tiofarma. And of course, that resulted that they took some customers away from Fagron. We immediately strengthened our commercial product. In the Netherlands, in the past, we had three brands for non-sterile compounding: we stopped, went back to one brand. We had three commercial teams: we combined them to one commercial team. We strengthened the relationship with Tiofarma. So, we are focusing more and more, and we already have a big portfolio in non-sterile compounding, because – but we want to increase it further.

The supply chain pressures, I think it's already addressed. It's the fourth challenge we want to discuss today. It's not unique to Fagron. Every company has supply change pressures and we are, with our globalised procurement team mitigating the impact as much as we can. Temporary cost duplication is fully related to the new repackaging plants we have in Poland in Trzebinia. Due to COVID, we have some delays, as you know, in the transfer of raw materials to that new site. We see a temporarily cost duplication. We have a clear plan, clear strategy, to have resolved the backlog by the end of the first semester. So, the cost duplication will cycle out in the second half of this year.

I already mentioned when we were discussing the snapshot, we have very strong market positions in the more mature markets. We have leading positions in the Netherlands and in Belgium. And we have more challenger positions in most other European markets. If you look at this slide, it gives you a little bit of indication and the bubbles you are seeing, it's purely indicative for revenues. What we are seeing here is that the challenger positions that we are seeing here that we have a position relatively small in markets that have more potential for growth, and are, in general, bigger than the other markets. So, we want to diversify our business. We already have presence. We want to diversify, focus our business more on the challenger markets where we are. We already briefly discussed in one of – in the presentation of Rafael, Germany, it's an extremely attractive market. It's the biggest pharmaceutical market in Europe. We have a relatively small position in the Brands and Essentials. We are the number three in that market. We have identified what we can do better in that market. We have a relatively small product portfolio. We don't have that much effect with the Fagron Academies. We are going to invest in it. We focus more on the local pharmacies, not the big compounding facilities that we also have in that market. So, we see an attractive market to further grow the business of the Brands and Essentials, either organically or maybe through an acquisition. It's also a market where sterile outsourcing is allowed. We see a nice opportunity there, of course, if all the criteria we are having for that acquisition are matched.

If we look then at the long-term drivers of success in EMEA, I think product portfolio is key. We want to have, as Fagron, the biggest portfolio in the market. Secondly, innovation. Thirdly, the third focus point is operational excellence.

So, leadership is underpinned by a broad product portfolio and a focus on quality. And if we look at the B&E side of the business, we see that Fagron has the broadest assortments of raw materials, 2,300. We have brands that we develop in-house, our own R&D. We are unique with that. We have equipment. We have packaging materials. We have supplies. And a lot of these products are mostly not covered by our competitors. So, if you need that product, you will always need to come via us. If we look at the Compounding Services part of the business. Our starting point, as already mentioned by Karin earlier, is always accessibility. We want to keep medicine accessible for vulnerable patient groups, children, elderly. And also there, the breadth of the portfolio, the unique portfolio. And sure, that's also what we are seeing in the Dutch market that, yes, we can lose a customer, but we don't lose it in full because we have unique products and those unique products, he can only get from us.

If we look then at innovation, that breadth of portfolio, we need to innovate it. We need to add more products. Innovation at Fagron, it's driven at a local level, supported by global capabilities. Client centricity, it's key. Know your customer, know what their needs are. We visit prescribers. We visit pharmacies. We do Fagron Academies. We attend at meetings of patient associations. So, we have a clear understanding of the need in the market. Our global infrastructure supports those local innovation opportunities by giving it speed, by giving it scale, by using the knowledge, by using the experience we have within the group. And the proof-based approach, we have over 400 pharmacists within Fagron working. To be honest, with all the experience we have globally, we know what works, and we know what doesn't work. So, we can bring those innovations to market timely and efficiently.

And digitalisation, it's not only for Fagron, but it's, I think, for every company in the world. We gather a lot of data. We also want to analyse that data and funnel it back to our innovation portfolio.

If we look at operational excellence, I think we have a full focus in the EMEA region on operational excellence. First of all, in the Brands and Essentials part of the business, the new facility, the GMP facility licensed in January for repackaging of raw materials that we have in Poland. When the facility is fully operational, it will deliver a €2 million of annual savings. Efficient and cost-effective procurement. It's already addressed earlier in the presentation. But by better forecasting, combining volumes, by better sourcing, we cannot only have better pricing, better product availability, but also better conditions in general from our suppliers.

Compounding Services, we really want to be the quality leader. We don't compromise on that. We invested last year at Pharma Tamar in Israel to build a completely new sterile compounding facility. It's state-of-the-art. We are currently in the process of building a new sterile facility in Cape Town. It will be ready at the end of Q2, beginning of Q3 of this year. And of course, we have a very strong partnership with Tiofarma in the Dutch market, that Hans will comment on later.

So, to summarise what we want in the EMEA region, what our ambitions are; we want to achieve leadership positions in Brands and Essentials in all markets, where we operate, not only in the mature markets but also in the challenging markets that we have addressed. We want to accelerate the revenue contribution from Brands. Brands are our own R&D, our own innovations. They have a certain stickiness. So, we want to accelerate the revenue contribution from our own brands. And last but not least, we want to grow Fagron Sterile Services. Besides Germany, we see also that outsourcing is allowed in other markets, for instance, in Denmark, in the UK, we see also opportunities. There is no competition yet available. There are no players available. We see opportunities maybe in Poland, maybe in the Czech Republic, but we want to grow in that part of the business, and we want to optimise the markets here in non-sterile.

With that, I want to hand over to Hans Waals of our valued partner, Tiofarma. Hans?

Hans Waals: Thank you, Constantijn. Hans Waals, Managing Director of Tiofarma. Thank you for being allowed to speak here.

I was preparing today, and Tiofarma is a 28-year-old company. And the cooperation between Tio and Fagron is over 30 years old. That says something. The founder of Tiofarma already cooperated with Fagron prior to founding Tiofarma. We have been doing that over the past 30 years, and I see no reason why we won't continue doing that over the next 30 years.

There are four dots on this sheet. And actually, there's only one that is truly important, and that's this one. That's innovation. That's creating products where a gap in the current pharmaceutical market needs to be filled. We need to innovate. We need to create products that the regular industry doesn't fulfil. And that gap exists in many different areas. And it's not easy, but we have a very professional team working on that. We have a very, very professional team working on that, and I'm really proud of that.

And that also – why I think this is so important is, as a company, Tiofarma, we can focus on that. We can focus on the products. Fagron is a very customer-centric company. I'm ashamed to say we're not. We're a products-focused company. We think we need to make the right products. They need to be the customer-centric company. And so far, that has been working very well for both of us. And we're very confident that, that will work in the long run as well.

It leads to a portfolio of over 700 products that we jointly carry. And it creates enough uniqueness in our portfolio that despite the current conditions in the market, every pharmacy in the Netherlands orders products out of that portfolio just because it's unique. And it's our job to make sure enough new products are added, that it remains unique, and it will remain in the lead.

And as far as it comes to quality, there is nobody within our company that would not want to give the products that we make to their own children. That is the quality standard that we need to fulfil, too. Yes, it's called GMP, GDP and everything else. And yes, it's called regulations. But at the end of the day, everybody needs to be convinced enough that you want to give those products to your own children, and we do. And we want to maintain just right there, make new products, fill gaps and there's many more gaps to come.

Only last month, an article was published on the need for specific medication for pregnant women. I didn't know that. I wasn't aware of that, that the way the metabolism works for pregnant women is different, and hence, they need different levels of medication. It's not a very big market, but it's just nice enough for us to fill that market because it will be too small for the big pharmaceutical industry. It's just another opportunity that these 80 people need to work on. And it's another opportunity, where we will create products, products at the right quality and just to fill that gap.

And I look forward to doing that for the next 30 years with the Fagron team. Thank you.

Questions and Answers

Karen Berg: Thank you, Hans. Thank you, Constantijn. Are there any questions in the room? Yes, the microphone is coming. Just one second. There's someone who really, really want to ask a question.

Matthias Maenhaut: Matthias Maenhaut, Kepler Cheuvreux. As you have rightly pointed out, your margin evolution in the EMEA region has been slightly under pressure. Now some of the headwinds are disappearing. And there are maybe some new logistical challenges. If you now look this morning, you published some margin aspirations for the group, but not for the regions. So, my question is, what should we anticipate over the coming five years in terms of margins? Are you going to go back to the levels previously? And how will that scale or phase? Can we first still anticipate margins to go down in the short-term? Or is that not a risk?

Karin de Jong: Yeah. Thank you for the question. Sorry. Yeah, so on one of the – I think the second slides Constantijn presented, indeed, we see a margin profile going down. And historically, the margins for the EMEA region were well above 25%. I think it's clear to say that we will not return to those margins within the EMEA segment. I think the diversification has increased within that segment. The dependency has decreased within that segment, which I think are healthy developments, but will have an impact on the profitability. We did not give any guidance on the different region. However, we did give guidance on total Fagron. So, we believe that we will have a broadly consistent EBITDA that is in line with our historical numbers from the last five years, so that's 21.6%. Specific for EMEA, that will mean that they will move closer towards the average of Fagron but will not return to levels around 25% or 24%.

Frank Claassen: Yes, Frank Claassen, Degroof Petercam. I've got a question on the premium pharmaceuticals on the registration drugs. Of the €10 million revenues you've lost, how much do you think you can gain back and when? And also, could you elaborate on how many registrations you currently have and how many you target?

Karen Berg: Maybe Hans? Or shall I give it to –

Rafael Padilla: Hans first, I think.

Hans Waals: The registration process is a process that is partly an in-house process. But of course, the authorities play a big part in this as well. So, it's very difficult to give any timelines on when new registrations will come to market. I can promise you, though, that in the short term, you will see the results of our work in – over the past months and years. So new registrations will come to market in the short-term.

What the impact is in the numbers? I gladly leave that to Karin and Constantijn. Like I said, we make the products and – but we expect some products with a serious impact. We want to make sure that we pick the right products and rather take our time obtaining marketing authorisations for those products and exactly making it the right products than just another one just to copy somebody else.

Stijn Demeester: Thank you. Stijn Demeester, ING. I'd like to better understand what the relationship with Tiofarma entails? I mean it seems now like you are outsourcing the registration process to Tiofarma. I assume that there's also a manufacturing component that is partly outsourced. So, I think it's helpful for everybody to sort of better understand that relationship, how important Tiofarma is within the EMEA footprint? And then yeah, my question also was on the registration pipeline. You mentioned the two big runners. Is it the goal to get those back in near-term? These were my questions for now.

Constantijn van Rietschoten: Yeah. Thank you, Stijn. Of course, as Hans already mentioned and you see here on the slides, we have a very long-lasting relationship with Tiofarma fully for the Dutch market. I think we, together, set up the whole non-sterile landscape as we see it in the Dutch market. So, I think that you could say that a lot of the development and the registration processes are done at Tiofarma, that the whole marketing sales customer relationship is done at Fagron. This is something that has already been ongoing since the beginning of the outsourcing in the Dutch market. This has, however, not been – yeah, we have not exported to other countries. It's purely a Dutch collaboration. Is that answering your question, Stijn?

Stijn Demeester: For sure. To my knowledge, you have also scaled down your own production process over the last couple of years by closing down, for example, Pharmaline. How dependent now are you on Tio?

Constantijn van Rietschoten: Do you want to?

Hans Waals: Maybe I can explain it from our end. We are very dependent on Fagron. Maybe that helps. We've – we saw copies of what we were doing in different locations, and we realised that innovation needed to be stressed more than ever, and it doesn't make sense to copy innovation. You need to make sure that you build every effort that's available on different opportunities. So that was a very important reason for us to focus everything we do in one location as Tiofarma. But that also made us more dependent on the cooperationship and the partnership we have with Fagron. So, from our end, I think we can honestly say that, yes, there is a dependency and I hope it's in both ways. It's reciprocal. It's a mutual dependency. Because that is what makes a partnership.

Constantijn van Rietschoten: Fully agree with you, Hans.

Jeroen Van den Bossche: Jeroen Van den Bossche, KBC. Very quick. You pointed out that two of your products constituted of €10 million and had an enormous – over €10 million, sorry, had an enormous impact on your top line, obviously. But could you then elaborate on the next, say, 10, maybe 20 next compounds? And how many of those are currently being registered or already registered? And thus, how protected are the next, let's say, biggest products? I might have missed it.

Constantijn van Rietschoten: Hans, do you want to address this one?

Hans Waals: Yeah. I'll try to answer that to the best of my capabilities. Like I've tried to explain before, obtaining a marketing authorisation is a process that takes time, and sometimes we win, sometimes others win. That means that sometimes it happens that we spend a lot of time and energy on products that others are spending the same time and energy at the same time, and they win being first to market.

So, you'll find that certain products, we lack a couple of months, sometimes a year. But that's not the objective. The objective is to find unique products that are more difficult to copy. And the issue with the compounding market is that you compound with patent-free molecules. So, you need to make sure that you include unique technologies in what you're making and in what you're trying to register. It takes a bit of time. But if we succeed, then that allows us to do exactly what you're suggesting.

Jeroen Van den Bossche: But what I'm asking is –

Hans Waals: I know what you're asking, and I'm trying to answer to – without the numbers is that we are trying to, out of the portfolio of the next ten, let's say, we've picked a number of promising molecules and we've tried to include technology that is more difficult to copy for others just to avoid that we get – we make these products into just another generic products because that's where we do not want to end up. I hope this answers your question. Otherwise –

Constantijn van Rietschoten: Yeah, and maybe to add. The two products that have been registered in 2020 and 2021 were by far the largest compounds we had. So, the – currently, the top 20 is much smaller in revenues.

Jeroen Van den Bossche: Can you elaborate?

Constantijn van Rietschoten: From a competitive purpose, we are not going to elaborate on that one.

Karen Berg: I think there is one more question.

Christophe Beghin (Kempen): Christophe Beghin from Kempen. I have a question on operational excellence. So, over the last two to three years, we have seen that Fagron has taken an accelerated way steps to improve that position, from procurement, to operating under one brand, to whatever else. My question is, what other steps can you take to secure a sustainable margin if needed? Let's say that competition increase in the Dutch market, pricing pressure continues. What other steps, not only, of course, in the Dutch market, but across the total organisation, can you still take?

Constantijn van Rietschoten: In EMEA in general?

Christophe Beghin: Yeah.

Constantijn van Rietschoten: As you know, we already took a lot of steps in the Dutch market, in the Belgium market, and we centralised the repackaging in Poland that's ongoing, but we will centralise it there. There are other projects also ongoing. We are centralising everything that has to do with creams and ointments, with liquids, so the vehicles in our facility in the Czech Republic. And we are looking at ways to find more a model like we're seeing in Latin America and North America, where we also focus on centralising more and more the back-office functions within the different organisations. But that's what we are working on, yeah?

Karen Berg: Thank you. One final question – sorry.

Christophe Beghin: Yeah. A small follow-up on M&A. You mentioned in EMEA specifically, looking at Italy, for instance. Can you elaborate a bit more? Is that also a fragmented market with one leading player active?

Constantijn van Rietschoten: Yeah. In the Italian market, it's a very attractive market. We have a number three position in that market, a strong market leader. And number two, that's more or less similar as Fagron. But what we see here is that we – with innovation, like what we are seeing in Brazil, we really can innovate the market. We can expand the market. Rafael showed this, all innovations that have been brought by Fagron Italy recently, all new products we bring to the market. So that makes the market so attractive. It's – a lot is lifestyle-driven in the Italian market. We have a number three position. We are very innovative. We bring those products to the market. This is a very well-received Academy, and that's how we grow the market in general. Is that answering your question?

Christophe Beghin: Yeah. And then one small follow-up. You didn't discuss very – elaborated how you're going to target or at least to try to get more or stronger position in the sterile compounding market in the Netherlands. Because we all know that actually, in terms of market opportunity, the sterile market is maybe 1.5 or close to twice as big as the non-sterile market. So far, all hospitals prefer majorly to do it themselves or to centralise it themselves. But yeah, on the mid-term target, how you're going to get into that market? How are you going to strengthen the position? How convinced that hospitals to outsource?

Constantijn van Rietschoten: Yeah, that's a good question. Of course, the Dutch sterile outsourcing market is not that advanced as what we are seeing in the US. We see a lot of hospitals still doing the sterile compounding in-house. But if you look at our sterile outsourcing activities in the Netherlands, they are fast-growing activities. Currently, we focus mainly on the ophthalmology, on the medication cassettes and on the OR syringes. And what we are really doing and how we convince the hospital to outsource to us, is to bring a product to the market with added value, for instance, a product with a longer shelf life because in the hospitals, they produce, for instance, medication cassettes on a script basis.

So, we really try to think how we can help those hospitals, how can we support those hospitals by bringing products that really make their life easier and more efficient. And as said, the sterile activities in the Netherlands are fast growing. I think also there, we were the first mover in that sterile market. We don't see that much competition in that market and really how to grow it, bringing smart products to the market that adds value, both for us and for the hospital.

Karen Berg: Thank you. There was one final question from Ms Voûte.

Ms. M. Voûte: Thank you. Merrywood Capital Management. You do not seem to have leading positions in three sizable markets in EMEA, UK, France, and the Nordics. Are there any structural reasons for that?

Constantijn van Rietschoten: To be honest, the raw material market in the UK, let's address them, all three of them, is relatively small. What we see, is that the UK market has gone to a registration market. There is not that much, what they call compounding specials in that market left. So, from a raw material at the Brands and Essentials perspective, it's a relatively small market. If we look at outsourced compounding, it could be an opportunity, both in sterile and non-sterile as both markets are fully allowed for outsourcing.

If we look at the French market, we started there as a greenfield. We are still relatively small. We see that we have two major competitors in that market. Yes, it is an attractive market. We try to grow. We changed management earlier this year. We see how we can work more together with the Belgium team. It's a bigger team, more experienced team, how we can bring that market to accelerated growth.

Scandinavia, we have a small presence in Copenhagen, both for Brands and Essentials, and they're mainly focused on the packaging materials. Yes, we see opportunities also in outsourcing there, and we are actively looking for acquisitions. But again, the business in France is rapidly growing. It's small, but it's growing. In the UK, it will also see nice growth this year. The same for the activities in the Nordics.

Karen Berg: Thank you very much, Constantijn. Thank you very much, Hans. Then it's time to go to our next subject. Latin America. I would like to hand over to Rafael.

Rafael Padilla: Thank you, Karen. And again, thank you, Constantijn and Hans, for the update on the EMEA and Netherlands region. Maybe, Karen, if we have the pointer? Yes, thank you.

So now we go into LatAm. We're going to structure the presentation in two parts. First of all, we're going to describe the region and the countries that we are in. And secondly, we're going to discuss on the growth leverage, how we're going to create value in the region as well.

So, when we look at our Latin American market, Latin America represents 25% of the total group revenues. We are active in three countries. First of all, Brazil. That is the largest compounding market in the world in number of scripts, not in value, that is the US, that Andy will speak later on.

In the number of scripts, we have said many times, there is more than one million scripts prescribed on a daily basis. And there, we have a position in the Brands and Essentials. We could think, okay, how is outsourcing? How is the outsourcing or the compounding doing in the Brazilian market? There, you do not see any outsourcing because of market dynamics. You have 8,000 only compounding pharmacies that do have their own compounding, so production premises. They don't even outsource to other ones, and they have their own sales and marketing teams in order to visit prescribers to generate new scripts as it is a fully cash-based market. That's for the Brazilian one. We have there a good position. We have a sustainable market share position. And we offer everything a compounding pharmacy needs in order to make the preparation. And of course, we help them to grow their own business.

Then we go into Mexico, that amounts for 13-15% of the region. There, what you see is that the compounding industry is not as advanced as it is in Brazil, even though it's the second largest country in terms of population, 130 million people in the Mexican market. We acquired Cedrosa two years ago. And of course, when you make the calculations, you can see that in euros, we did not grow. On the other side, in Mexican pesos, we realised a growth of 7% last year. And after two years earn-out, we are now setting the right basis on our operational structure, so consolidating warehouses, IT programmes, HR structures in order to have the right basis to capture further growth in that market.

And finally, we go to Colombia, which is 2% of the region. Colombia is a pure compounding market. We are the leaders in that segment. And there, we have four compounding facilities, we will see later on, that we are bringing into one, so operational excellence programme as well. And we have the room for growth as it is very highly innovative, 45 million people living there. So, it gives us also opportunities even though it's not as material as, for example, Mexico in the region.

You could ask what the status in other countries is. In other countries, you see compounding. There is compounding in Peru, in Chile, in Argentina, though we have always focused on this Brazilian market and in the Mexican, and Colombia. And we want to keep it so. So, the growth opportunities will come from the three existing countries. And if we see opportunities in order to export the goods as we are doing now and increase export of the goods, we're going to do that one.

When we look at the – sorry, here before I forget, something extremely important. 10% of our employee base is pharmacists as knowledge is very important to innovate and to educate the market, the customers there. So, this is a very important element here on our workforce.

When we look at the financials, over the last five years, Ivan, the other leader, and the team, have been able to deliver nice structural growth, even though it's sometimes an unstable market. So, what you see, COVID did not affect the market as such. What we have seen, for example, that January, February, we have seen with the Omicron variant, that people were not going to the pharmacy because they were quarantined. So, the number of scripts were there, but people were not able to compound because there was not a workforce. So, you see this instability.

But though the market is resilient, and you also see it back in the figures on the sales development, so in the last ten years, we have been able to deliver on a yearly base, steady organic growth, but also in the margin development. Because as you know, we have acquired some players in the Brazilian market, mainly with lower EBITDA margins. And in a period of two years, we have been able to bring it up to the average group levels in the region.

So, you see that we need to keep one step ahead of competition as it is a very competitive market, 30 players in total. Even though we have a good position there, we need to keep up with the competition, therefore, we have some initiatives lined up in the region.

So how to win? We saw the EMEA ones, we see the North American ones, and Latin America ones. Three elements. You have heard them in the last 1.5 hours: Product portfolio, regulatory compliance even goes further, and of course, operational excellence.

When we go to product portfolio, we have – and specifically on Brazil, then we will tackle Mexico, we have a multi-brand strategy. So, what does this mean? We have our back office internalised, HR, finance, IT, all those elements, and have different phasing to the customers. So different brands to the customers. We offer with those brands different products, a very broad portfolio with raw materials, different kind of raw materials. We work a lot. We invest a lot in raw materials from natural origin. So, we try to serve the market with natural origin raw materials. Also in finished goods, you saw in the previous slide how brands are important for the region. In Brazil, amount for 30%. Another competitive advantage that we have there, brands are sticky for the Brazilian market.

And of course, we also serve with packaging, with devices, with machinery, with software. We have our own software company that develops software for compounding. So, we support the compounding industry with software from the start to the end of the process. And it is very important for the market, that the market is sustainable for the future. And we even sell the cleaning material, specific cleaning material for pharmaceutical environment in the compounding industry.

Regarding Mexico and what our plans there. As we said, after the earn-out, we are now Fagronizing the company. And what does this mean? First of all, on the operational side, we're making steps, also increasing the quality side. We had three warehouses, so Cedrosa had three warehouses. We're bringing now to one centralised in Mexico City with high-quality standards. So that has been the first step. Secondly, we are now introducing our ERP, the 365, Dynamics 365, in order to Fagronize the processes. And when these steps are being done, we're going to enter with our full product portfolio from Brazil, but, of course, also from the US in order to capture growth in our 130 million inhabitants' market.

When we go to innovation, and that's for whole Fagron extremely important. But for Latin America and specific for Brazil, crucial. We are now working with our own laboratory team, with our own R&D team in the region, with more than 50 projects in order to bring them to the market and help this market expansion, that is, of course, relevant, very important for the success of compounding in the region.

And last but not least, we're also very proud to launch in that specific market, Soul Magistral, means in English, I am compounding. This is a joint force initiative of all our brands in order to create an educational hub to promote compounding to the next level. So, you would think, okay, that is the same as Fagron Academy. Yes, it is, but we'll bring it to the next level. So, we educate not only pharmacists and prescribers, but other stakeholders in the compounding industry, where we have there more than 100,000 people involved in the whole value chain. So, we'll have a training centre in São Paulo, where we're going to invite other actors in the industry in order to promote actively compounding personalising medicine, go to new therapeutical areas, create new scripts, improve the quality of the compounds. So, Soul Magistral will be the motor for our future growth in Brazil.

Second important element, regulatory compliance. Sorry that we repeat ourselves again, but quality is the most important competitive factor in our industry. ANVISA, that is the health regulator, is one of the strictest agencies in the world. And as compounding in the region is huge, ANVISA is also very strict on compounding. We have had historically our GMP, that was a GMP repackaging site, where we integrated all the repackaging activities that we had when we were acquiring companies. What have we done in the last three years? We have revamped the facility. And we can say that we have the most modern, most efficient, with the biggest capacity GMP repackaging facility in the world that is, of course, I don't know if you can see it well, 100% focused on sustainability. So, these are the offices, the same here. This office part: this part here was the warehouse. It is now this one. You see it. And this part that was the production and the lab here. Now this one is the lab, the quality control lab. You can see a car here, so you can make yourself how the size of a car is here, so how the whole thing looks like. And this is now our quality control lab. We have 15 HPLCs, four UAPLCs, one ICP. I don't know if this sounds familiar for you guys, but it's real high quality for you, for sure, the highest-quality control standards in the industry. And then you go to the repackaging site that is this one here. It's a three-floor repackaging site. Everything is automatised. We want to be extremely efficient. And then you would ask, okay, are we going to see margins improved? Our thesis there is all the efficiency progress that we make, we want to put it in a market expansion, so in innovation, in creating new scripts, in helping the industry to go further. Sorry that – maybe I'm very enthusiastic in this one, but we built this one for the last 11 years. So, we're very proud on what we did.

And then we go for the last part that is operational excellence programmes, where we said, of course, that we have an integrated back office in São Paulo. We have now integrated our processes from the Colombian teams and the Mexican teams. So, the finance team is in São Paulo working together with the finance team in Rotterdam. So, we're integrating those ones as we speak. That's for the centralised resources. The team there in Latin America is very much digital-oriented. You see that Brazil has the highest internet consumption rates in the world, so do the team. So, everything is monitored with Power BI analytics, but also predictive analytics as well are being used as the quantities are huge.

We spoke about the GMP repackaging side. And now as we speak this year, we're going to consolidate the seven warehouses that we have around Brazil, mainly on the São Paulo state, that is the highest part of the population, into one modern automatised distribution centre, where we're going to, of course, have more efficiency, and as well, we're going to have better customer service for that market.

So finally, to sum up. We want to maintain strong positions in the three markets that we are in. We did a lot of M&A. We said at the beginning that M&A is important for Europe and for the US, less for the region. So, we don't actively look. Though, if an opportunity comes, we will look at it. We may look at export possibilities to other countries, though it's not in the priority list. It's Fagronizing Mexico, having a good growth story in the Mexican market, also helping the Colombian team in order to exponential growth there. And, of course, maintain and increase our market share in Brazil and the number of scripts there.

Secondly, you have seen a lot of operational excellence programmes. We want to keep that one, not only on the data digitalisation, but in the warehousing, but also in other process of the company. That's very important for us.

And the third one, of course, again, the broadest portfolio with products available with innovation will be key for us in the region in order to keep growing as we did the last ten years. So, Karen?

Karen Berg: Are there any questions? Yes, Christophe, for sure. It's Eric. Okay.

Eric Wilmer: This is Eric Wilmer, ABN AMRO-ODDO. I had a question on your – basically on your competition. I think you saw very good margins, especially in H2 last year in LatAm. And I was wondering if you could talk a little bit about your – about the ownership of your competitors, as well as how large they are? I mean, I could imagine that, for example, if some are PE-backed, that they may be interested in looking at when they see these margins to also boost basically the emphasis on this business.

Rafael Padilla: Thank you, Eric. So, what you see there, we said 30 players in total, not only in the raw materials, but in everything that compounding pharmacy needs, equipment supplies, devices, so 30 in total. With the raw materials assessed, it is, of course, the biggest part. You have around 20, you would say 20, and there are five relevant ones. All of them are family-owned business, right? We have two that are our main competitors, if you will, that are family-owned business that we have a very good relationship with. One of them, also works with branded products as well, very well-known in the Brazilian market. So, what we have seen historically that some US-based competitors like MEDISCA and PCCA. Humco at the beginning, I think, as well, right, tried to enter the Brazilian market, and it was for them somehow difficult to do that. Maybe that's my personal opinion for some cultural elements that exist in the market, right? So, this is what we have seen.

Karen Berg: Thank you. There's one question.

Christophe Beghin: Christophe Beghin from Kempen. I have a question on M&A. We have some benchmark, at least for EMEA, the US to what multiples are paid for mid-sized companies. We – Fagron has done some acquisitions, smaller ones in Latin America. But can you give some flavour on what do you see of multiples being paid off more sizable companies active in Brands and Essentials in Latin America? Is it in the range of EMEA? Is it more towards the US markets, somewhere between?

Rafael Padilla: Thank you, Christophe. What we have seen in the region, it's between five and seven times max for our specific business. Not more than that.

Karin de Jong: Maybe let me add something to that. Because as you will see throughout the numbers and especially in the financial part is that we had impacts for the weakening of the Brazilian Real throughout our existence. And of course, we have a long-term view, and we believe in the underlying metrics of the market.

But when we do acquisition, there's a risk on FX, which we need to compensate. So, if we can do acquisition at sensible multiples in Europe and US and then compare them, which is practical in the Brazilian market, we should have a discount there to make the business case solid. So that's something we keep in mind when we go there and do acquisitions. It's also the reason why we cool off a little bit because there are attractive opportunities in other markets with multiples that are a bit similar like that.

Frank Claassen: Yes, Frank Claassen, Degroof Petercam. Talking about the Brazilian Real, I saw that it's improved quite a bit, strengthened quite a bit versus the euro lately. What kind of impact could that have and particularly on your pricing strategy? Do you – yes, you've passed on price increases. Can you keep those? Or yes, what is the impact?

Karin de Jong: Yeah. So that's a fair question. So, we started 10, 11 years ago when the Real was 1 to 2 with the euros. Now last year, it was at 6, 6.4. And now as of 1st January, we see it indeed strengthening. That's for the first time in, I think, a long period where we see that impact. So, what we see historically is that because historically the Real weakened, the raw material elements which we source in Dollars became more expensive, and we could pass that towards our customers in Brazil, because they are used to working with the dollar and fixing the price on a daily basis. So historically, we can – we could easily fluctuate throughout the volatility of the Real. In the current situation, it's very difficult to see what will happen, because if we drop prices, we also have other elements that play in, like transportation, inflation. So, there are different elements that play into that. So, we have to see how the dynamics play out in that market, and maybe Rafael you want to add on that, to see whether we could decrease price and what the impact would be.

Of course, on a translation basis, it's for the first time positive so that's great. On a transaction basis, we will try to see how to manage that part.

Rafael Padilla: Thanks, Karin. You are totally right. On the transactional side, the most important in the Brazilian market is to have the products available on the shelf as the 8,000 compounding pharmacies quote constantly their needs. The volumes are high. So, we saw, during the second semester of last year, our revenues increasing, our performance increasing there, because we had the right stock – or inventory, sorry, approach there. And this is something that we work a lot with the procurement supply team in order to have good inventory levels there in order to keep competitive. Because when you get the quotations from the customers, you quote what you have and the price that you have. And having as many items in the quote makes you stronger in that one. So that's something that we are working together with the team in order to, okay, which is the right inventory levels in order to keep this competitive edge.

Karin de Jong: And maybe finally to add on the H2 numbers of Brazil, because indeed, they had a very good performance and it had to do with the availability of capsules we had in at the moment. So, it's not driven by price dynamics on FX. It was certain products, and especially the capsules where we were the only one in the market that really drove the profitability. That's also the reason why we guide later on in the presentation on growth levels that are below historic levels, especially because of this element.

We believe in that market, but there's a lot of dynamics. And we – if we want to stay competitive, should be flexible in how we act and react in that specific market.

Matthias Maenhaut: Matthias Maenhaut, Kepler Cheuvreux. Maybe a question on the software part of the business. Could you maybe elaborate on how many of your clients are actually on the software programme? Do you see any competitors there that are active? And what is actually the potential for scaling this business outside of Latin America?

Rafael Padilla: Yes. Thank you for the question. Very good one, because having Fagron Tech - is how we called the company- it was an acquisition in 2013, Alternate Technologies helped us, gives, solidifies the business of our customers. So, you are really supporting your customers. They become stronger and the compounding industry grows as a whole. So that was for us the rationale when we did that acquisition because we are not a tech company, right? But we thought like this at that time. We have approximately 2,700 customers. So out of 8,000, then you know the – how many compounding pharmacies will have software. So, we have room for growth. There are four other family-owned software companies in the region. So, you also see that it's a competitive market as well because, again, the industry is big. We have from the starting of the process, so, when you quote the materials, till the after care, if you will, with the customer. So, we developed an app that the patient can see, I receive the medication now. When do I need a refill now? When do I need to go to doctor or not? So, we're very digitalised oriented. So, it's very nice to see.

And maybe, Andy, you can take the question of Matthias on other opportunities because the US could be an interesting market as well, because the typology of the compounding pharmacies, it's more like – looks like in Brazil and in the US. So, US could be a possibility, a potential opportunity for us there. I think maybe when you talk about B&E, you can talk about the software as well.

Matthias Maenhaut: Just have one follow-up in terms of pricing. If I may, have just a short follow-up, maybe in terms of pricing of your software packages and in terms of margins, how is it actually structured?

Rafael Padilla: So maybe you want to take that one, if it's more financial oriented? No. And when we look at the – we have a monthly fee that we charge to our customers on different software packages that they use. So now we are launching a programme called Fusion that is the ERP of Fagron Tech that replaces the Formula Certa that was the previous ERP that we had in the market. And this is a paid-per-use, cloud-based software that we are developing, and this will be a fee – recurring fee on a monthly base. On the price setting and margin setting, the margin is somehow above the region average because it's a tech company and you need to have room for further develop your software base. So, this is how we model with the software part.

Karen Berg: Thank you. Andy, it's your turn.

Andrew Pulido: Do you want me to tackle the software question now or? Just quickly following up on that. I think it's a good opportunity for us. In the US, of course, in our B&E business, we want to be a one-stop shop. And that means offering a full-service platform, teaching our pharmacies how to compound, giving them the Brands, giving them the Essentials, giving them the equipment in order to make the compound, and then, of course, the educational platform to teach their prescribers how to prescribe compounds. And so having a really robust software programme, is really the game-changer in terms of where we are now in the industry and where we can take it in the future. As I'm sure you could imagine, if you look at multiples, software companies are not cheap to come by. And at our core, we are a pharmaceutical company, a manufacturing and repackaging firm, and a sales and marketing company. So, to wake up and create something like that from scratch, I could imagine would be a challenge. But it's certainly something that, as we think about digitalisation and the future of technology, that's an area where we certainly will look if there is opportunity for us.

Matthias Maenhaut: [Inaudible].

Andrew Pulido: Yes, so PCCA, the now number three player in the market, they offer a software package. But I think even if you think about that software in relation to the other types of compounding software that are maybe with some of the larger firms, we're now seeing that there is opportunity for a new way to look at it. And so that's an area certainly that we'll be taking a close look at in the future as we continue to scale our business and have one-stop shopping for our customers.

Okay. All right. Well, guys, thanks so much for having me this afternoon and for being here, for the folks in person, and then of course, for the folks on the webcast. I'm Andy Pulido, and I lead our Fagron North America business. And today, we're going to talk about the opportunities in the US market and how we are positioned in the medium term to be able to capture those opportunities and grow and scale the business.

A little about me. I joined the company four years ago via acquisition of Humco. Led our Humco business through our earn-out, and then subsequently following, the Brands and Essentials US business. And then have been in my role now since the summer of 2020, leading all of our North American operations.

A quick snapshot of the company. More or less five years ago, we represented 17% of total Fagron turnover. Today, we're 31%. All businesses are growing. Our pipelines are robust. And we are ready for the next phase of growth in the business. And so, when you look at what it is that we do, we really have two principal activities, Brands and Essentials and Compounding Services. And in our Compounding Services' segment, we really specialise in two verticals: hospital outsourcing and lifestyle prevention, 503A and B compounding.

When you think about the business mix, more or less 61% of the revenue breakout is in Compounding Services, more or less equally broke out as it sits today with FSS and Anazao. And then, of course, our Brands are 14.7%. Our Essentials are a little less than 25%. That presents great opportunity for us as we talk about one of the recent transactions that we just completed in order to cross-sell and the synergies that exist there.

On the right-hand side, I'd give a quick snapshot. One of the key differentiators in our business, which we think is a game-changer on the go forward, is having 195 pharmacists on staff. That's unparalleled expertise in our space. It's leading worldwide, but most certainly leading in our geography. Having those 195 pharmacists on staff will be the differentiator on successful new product launches, growing our Brands and Essentials business in total and the total pharmaceutical compounding prescription market in the US by offering unparalleled education and academies to our customers. And so, this is something that I think it's important to note and for everyone to keep an eye on as we grow over the next few years. In the medium term, this is one of the key reasons why we're able to do it successfully and right the first time.

So, what I'd like to talk about is – today is to spend a few minutes on where we've come from and how we've transformed the US market in order to be able to capitalise on the growth opportunity that we see in the short term. Then I'd like to talk about – I'm going to spend some time on what we need to do in the medium term in order to realise our ambition and what tactical steps we need to take in order to execute on our plan. And then lastly, we'll summarise it. But if we do those things that we say we're going to do and if we keep our focus, what that means for our business.

And so, over the past five years, we have been busy. When you think about where we focused? First and foremost, it's really been on our leadership team and our people. We are a commercial organisation at heart. And over the last few years, we have totally reshaped our commercial business, and that starts with our leaders. And so, as I'm sure you can imagine, being a very niche market, having that expertise in-house, along with bringing best practices from the outside, has created a really collaborative group and it's allowed us to think about things that were possible that maybe we didn't think about five years ago. And so that's been a big differentiator as we thought about how we want to grow our business and in what categories we want to do it and the people that we want to do it with. And so, the leadership has done a great job working through the commercial changes.

So, three, four years ago, we thought about our commercial enterprise as more or less separate brands with separate sales forces. Over the last three years, we have centralised that with one sales force. So, the customer has one point of contact, and we offer a multi-brand strategy with them. So, in the past, maybe you had a customer get a call from one brand at 9.00 and a different brand at 11.00 and a different brand at 13.00, and we would offer our separate brands, and we would – and we'd move customers throughout our businesses. Today, you have one point of contact, and they can offer one-stop shopping across the full Fagron portfolio, which we think has really improved the customer experience. It's allowed more diversification of customers because you can have a more meaningful relationship with that customer. So, it's allowed us to tackle different kinds of – and diversify our customer base.

It's also allowed us to be more successful when we have launched new products. And so, that's been a really key area of focus for us as we've gotten to this point is making sure that we have one-stop shopping, making sure that when a customer and our Brands and Essentials business calls in, that we can offer them the basis, the equipment supplies, the education, and of course, the active pharmaceutical ingredients in order to make their compounded preparation.

On the sterile outsourcing side, it's making sure that we are a full-service partner and a one-stop shop hospital outsourcing pharmacy. So, the legacy of the business being the OR syringes, you guys that have followed the company, you've seen in the last year and a half, we've launched our IV bags, and we have ambition here in the near term to launch our epidurals and CADD cassettes, which would complete that offering. And so, we've been busy on product portfolio.

Along those lines, we've spent time and resources to invest in our facilities. That's going to be essential on the go-forward as the regulatory environment is quite dynamic. This ensures that we have state-of-the-art quality standards and facilities and the automation in order to be able to scale the business and realise efficient growth. And so, we've spent some time there. Robotics were key with our IV bags, as I'm sure you can imagine.

And then lastly, we've done some transactions. So back in 2018, we did the Humco transaction. That brought us good innovation and strong brands that we could cross-sell and realise synergies with our leading essentials portfolio. And last summer, we bought a book of business in US compounding to realise some new products there and to get some cross-selling synergies with a new customer base that we hadn't called on before at our sterile outsourcing business. So that's going well. We're almost one year into that and everything is going according to plan there.

And then most recently, we – month and a half ago, we announced the divestiture of 80% of our non-core contract manufacturing business. This was important for us because it now allows us to focus fully on our core business, Brands and Essentials, which we'll talk about in a second. And then, of course, the sterile outsourcing opportunity in Wichita.

And then lastly, at the same time, at the same day, we announced the acquisition of Letco, which was the leading supplier in the US market for capsules, equipment and supplies and we also had a very strong product portfolio. So really, the deal rationale for us there was taking the number three player Fagron in the US market with strong innovation, strong education and academies and a good API portfolio and combining it with the number four player, the market leader and capsules, equipment and supplies in order to create a pure play number two player that has an unparalleled product portfolio across the US market and as a unbelievable potential to cross-sell these products to one another, whereas, in the past, we weren't.

So we feel with that combination of the two businesses, it not only gives us a lot to do from an integration standpoint and synergy standpoint over the next couple of years, and that, in turn, will help impact our profitability on the go-forward, but it also positions us in the medium term to become the number player with a product offering that is more robust than any player in the market.

On our Compounding Services side, of course, there's two verticals. We're currently the number five player in the hospital outsourcing game. Again, we've spent time on product portfolio. We spent time on the commercial team, spent time investing in our facilities. At this stage, we feel with those changes that we've made and the progress over the last few years, now is the best time and it's the right time to reinvest in the facility in order to increase our capacity for the next phase of growth. So, we made that announcement this morning, and we'll talk a little bit more about those facility expansion plans and what that means in terms of growth headroom in the future.

So that's a quick, more or less a snapshot of what we've been working on over the last five years in order to position us for the future in order to capture the growth opportunities.

So, let's talk a little bit about what matters for us going forward. And as you've seen, it's – some of these things are a common trend across all of our geographies, but the tactical execution of those is maybe where it differs.

In our business, of course, it's a high-growth business. There's lots of opportunity. We sit in good positions in each of the markets that we play in. And so, for us, what to focus on and where to spend our time is more important than anything right now. And so, we've really aligned three key areas of focus that if we execute over the next few years, we should be able to capture the opportunity that's in front of us.

The first one, of course, is product portfolio. Again, in our Brands and Essentials business, the theme is one-stop shopping. We want all customers that come into us, for us to be able to offer a full-service solution, everything you need in order to make a compound, and we'll teach you how to do it.

The transaction gives us the greatest portfolio in the US market for not only the innovation and the academies that we do on the Fagron side but also the equipment and the supplies on the Letco side. And so, the cross-selling synergies, we feel, are significant. I'd also add that now, being the number two player in the market, our philosophy will start to change in the medium term, where before, we said, okay, we want to get product into the hands of customers; now we want to start thinking about ways in which we can grow the overall prescription count. And that's our responsibility as the number two player, and that will ultimately, if we do it well, embed us more with our customers and allow us in the medium term to be the number one player.

And so really, the way in which we're going to do that is, as Rafael mentioned, on the academies and the education. That's where the over 190 pharmacists come into play on the teaching piece of this. Also, on the Fagron Genomics side. So, we think giving – arming our customers with genetic testing is really a key driver of generating a compounding prescription in order to have a tailored medication based on that person's genetic makeup. And so that will be an area that we work closely on with our customers as the market develops and as we help to develop it.

On the FSS side. So, the origin of the business is really in OR syringes. We realised over the past few years that if the market is US$1.2 billion to US$1.5 billion currently as it sits today, 30% of that market more or less is OR syringes. 60% is IV bags. And so, we've spent the time and the resources in order to be able to invest in that product portfolio. We had our first rollout in Q4 of 2020 with a few products, and then we doubled down in Q1 and Q2 of 2021. That really fuelled a lot of our success last year. And as we think about the go-forward and facility expansion and capacity, that will continue to drive top line results for us in this business.

And then lastly, really in the epidurals and the CADD cassettes, to offer a one-stop shop experience for our customers. Those are probably, more or less, we estimate 5% each in the marketplace for the US$1.2 billion to US$1.5 billion for total addressable market today. And so those products are key for us because they’re challenging, difficult to make, and they’re good wedge products for us. So, we’ll roll out our epidurals in 2022 and then our CADD cassettes at the beginning of 2023. And this will position us nicely with, not only the GPOs, but the key IDNs and the major health systems in the US, to be able to service them as a tier one or a tier two vendor. So those are the big steps that we’ve taken and we’ll to take and what you can expect from us in the medium term in terms of product portfolio.

On the FSS or on the Anazao side, it’s mostly a lifestyle and prevention-focused business. We see really key opportunities in the IV bag mixes, mostly in vitamins and amino acids. But also, we see consolidation opportunities on the 503A custom side. And so, that kind of sets us up in terms of what we feel the regulatory environment and the landscape and the way in which it’s moving, and how we can play in that particular business.

And so, if you can imagine back ten years ago when we had the New England compounding meningitis outbreak that killed 76 people, and the FDA put new legislation for 503A and 503B pharmacies. At that time, there were 250-or-so registered outsourcing pharmacies. So as the FDA and the regulatory agencies have developed the framework over the last decade, for the last, really, six, seven years, that market has greatly consolidated to more or less 60 or 65 to 70 key outsourcing players. That’s also – as regulation has increased in the 503A space, and the quality standards have increased in the industry, the compounders that were doing five and ten prescriptions a day are having more of a challenge. And so, there’s opportunity with the national player to help take that volume on and consolidate it and an FDA-registered CGMP, CFR 210 and 211 facility that ships into all 50 states.

So many players in the markets see regulation as a threat or a challenge. We really see it as more an opportunity because we’ve taken the time to position the business the right way with quality first and leading infrastructure in our facilities. And so, it will be – if this was the last five or six years and the developments that took place, we expect even a further round of development to take place as the industry grows and matures and develops, and the regulatory framework will be built to support that more or less.

I’d also add that the FDA, from a regulatory standpoint, is also not only looking at your facilities and your quality standards, and that’s really taken place over the last five or six years, but they’re also looking at and putting regulation into place in terms of what products can be compounded and the way in which they can be compounded.

And so, a key theme there is the API to sterile, and sterile to sterile. And that’s a topic that we’ve spent a tremendous amount of time on over the last couple of years to make sure we’re positioned well in terms of offering both options to customers and building processes in place. And so that will be – depending on how the FDA and how the regulatory agencies develop the industry and the framework they’ve put in place over the next decade, that will be essential for our business and will really be a key differentiator versus the other 76 players that are out there, and really, there’s ten major ones as the industry continues to consolidate. That will be a key differentiator for us, having put the time in and invested there.

So, on that note, the – what’s important, if the regulatory environment is changing, the product portfolio is increasing, the market potential is there. We think now is the right time to focus on our facilities and our capacity. So, of course, with the Letco acquisition, we took on the Decatur facility. So now we have two API repackaging facilities in our Brands and Essentials business. This gives us good opportunity to create centres of excellence with those two facilities and then ultimately further optimise the operations.

And so, you'll see that as we evaluate and digest the Letco acquisition. You'll see us starting to take those decisions in the coming years. Also, the divestment of our non-core contract manufacturing business allows us to fully focus on these as the market potential is there, and that's where we feel like we can make the most impact in both of these segments from a time and capital allocation.

On the Compounding Services side, of course, with the increased product portfolio and increased capabilities and the launch of the IV bags, we saw last year a need for a second shift. So, we put that second shift in the facility. This year, as we think about the business, we have taken – at the time, we – in the past, we've had two sites in Wichita. This quarter, we have consolidated our smaller site into our larger state-of-the-art facility. We did this for a number of different reasons. But the name one is standardisation and process control.

So, when you think about where Fagron is on a Q1 basis versus a Q4 basis, last year, we took the company more or less to December to an US$80 million run rate. I would expect in Q1, we have a slight cooling off period in order to digest that consolidation and prepare for the next round of growth, but we see and have full confidence in our ability to get to the US$125 million run rate by the end of the year. And so, at that point – some point this year, we're evaluating whether to add in a third shift for the facility. That will be key. At that point, I feel that our facility more or less will probably be at full utilisation, and that should come more or less in the next two or so years and tap out around US$150 million to US$175 million.

So, let's talk about the new facility. So, we announced this morning a US$20 million Capex plan to invest in a new facility in Wichita across the street, which effectively doubles our capacity. We think this facility can take us – so we'll be at US$125 million by the end of the year. We see us being at US$150 million to US$175 million in the next year and a half following. We think this facility could take us to more or less about US$300 million by the end of 2027 and will be key for us as it will give us the adequate space in order to be able to do API-to-sterile and sterile-to-sterile, as well as focus on all four categories for one-stop shopping for compounding, OR syringes, IV bags, epidurals, and CADD cassettes. So, this is a well-timed expansion plan for us.

As far as the phasing. Phase 1 will start immediately. We expect, just for modelling purposes, US$5 million of capital investment in the first phase, which will come online at the beginning of next year. This will be mostly focused on where our logjam is today in the business, which is postproduction and visual inspection. So, if you could imagine, as we've grown our business now, more or less about a million units a month, visually inspecting and labelling each one of those units to get them out in a timely fashion presents some opportunities for improvement. So, we've already started putting some automation in, which will come online in the second quarter of this year, but the bulk of that – or the bulk of our US$5 million investment really is centred on the beginning of next year to come to fruition.

Phases 2 and 3 will be focused on capacity increases and the actual compounding clean rooms, as well as full scale state-of-the-art automation, particularly with the IV bags. And so, we expect that to come online more or less in mid-2024, at which point, we will work with the regulatory agencies and the state pharmacy boards to commission the facility. We expect that or giving ourselves time more or less about six months for that to occur, and we expect revenue to start flowing through the facility more or less at the beginning of 2025.

So, a really exciting investment. The timing is really good for us for this. We feel that we have the product portfolio in place. We feel that we have a competitive edge with our quality standards in that business, and now reinvesting in the infrastructure and the expansion gives us plenty of room in the medium term to accomplish our ambition in terms of our growth objectives.

So, to sum it up, really, we have three key areas of focus over the medium term here. Our product portfolio, making sure that we stay dynamic in the regulatory environment and using it as a competitive advantage for us versus other market players. And then lastly, investing in our capacity and our operations.

And so, if we do those three things in the medium term, we should be well positioned to consolidate leadership in the Brands and Essentials business. So again, the Letco acquisition takes the number three player and the number four player into a pure-play number two player, having a one-stop shop, best-in-class portfolio. We feel that we are well positioned to be the number one player here in the medium term in the next few years.

On the second bullet, on becoming a leading sterile outsourcing platform. Again, it's product portfolio, which we've developed organically. So, the legacy of the business is OR syringes. We have launched our IV bags in the last year and a half, which we see as tremendous potential and have plans to do – plans to launch our epidurals in 2022 and then our CADD cassettes in early 2023. That, in combination with our commercial team and the way in which we're going to market and the increased capacity, should present very nice opportunities for growth for us here over the next few years. And then lastly, optimising our operations. With the Letco transaction, that gives us lots of room to be able to have centres of excellence and consolidate and integrate the companies. So, we'll focus on that digestion over the next year and hope to have some good reports there.

And then in terms of increasing and introducing automation more into our processes over the next couple of years in Wichita, that gives us plenty of room to optimise, and over the mid-term, we feel that this – that we are well positioned to realise our growth ambition here with – focusing on these three things.

So, with that, maybe some questions.

Questions and Answers

Matthias Maenhaut: Thank you. Matthias Maenhaut, Kepler Cheuvreux. Maybe first question is on Wichita and on the expansion. You clearly hope to do organic Capex. So, what does that entail for M&A? Does that mean that it will see less focus? And then the second question is actually on the validation period. There you say six months for the second and third phase for the new facility. I was just wondering; how does that relate with the original validation of the new facility? Was that also six months? What are the lessons learned there? And I can only recall that it took longer. You also need to revalidate the products because I think that was a very time-consuming process. So that's two questions to start with.

Andrew Pulido: Okay. Those are good questions. Let's take the first one in terms of M&A. We will look at anything that we feel can add value to shareholders and increase our relationships and our touch point with our customer. So, whether that be product portfolio or increased capacity and the right type of capacity, we're certainly willing to evaluate it. As I'm sure you could imagine, as you've seen in past transactions, there hasn't been a ton of them, but the multiples in the industry are rather high. And so, we have chosen to take a very disciplined approach towards that. But Karin, anything to add there?

Yeah. But that's – going back to the US compounding book of business, that was a good transaction for us that we were able to do in more or less a risk-free way. So, if we see those opportunities come along, we will certainly take a look at it.

As it relates to capacity. So, the first six months, that's – your first six months in terms of the new automation coming online in relation to why do we feel that we can do it so quickly versus why it took us so long in the past.

Matthias Maenhaut: It's mostly on the capacity expansion because there you said that [inaudible].

Andrew Pulido: Yeah. Okay. So, two separate processes. So, the first process and the first phase will mostly be – will mostly exclusively be focused on post-production and visual inspection. So, after the product is already made in its package, we're going to automate our labelling process, and we're going to automate the way in which we look at it. So, there is a validation period, but it's an internal validation.

As it relates to commissioning a new facility, well, that we have to work with regulatory agencies. I can't speak to the past that was before I joined the company. But I can tell you, I would expect that to take some time. The benefit of the expansion is that our facility is across the Street. And so, we'll work closely with the agency and the state boards of pharmacy to see what registrations need to be put in place before we can actually start to manufacture product, but we expect that to be slightly different than creating a new facility from scratch in a rural area where we didn't already have an existing facility. So, we've already had these processes built out. So, we expect to get some benefit from a timing point of view, but it will also be up to us from an execution standpoint that when we feel the facility is ready to come online several months prior to that, working with the agencies and the folks that have to commission the facility in order to line it up to maximise the efficiency and save the timing. That will be key for us as we enter 2024.

Karin, anything to add?

Karin de Jong: Maybe historically, because what took us very long initially was getting the licenses in the different states. So, there are certain states like Florida, where it takes a longer period of time than for other states. While we already have all the licenses at the other facility that's across the street, we can optimise that. So, in certain states, it's only a formality to get it in. In other states, they come in to audit your site. So, it differs a little bit per state. And as – at that point in time, we didn't have any volumes, and we would wait until it took us a very long time. However, we believe that with the experience we have and with the benefit of having the facility across the street, we could optimise that throughout the plan and make it shorter.

Jeroen van den Bossche: With regards to Wichita, two questions. Number one, you're doing a US$20 million investment into the facility. Can you give a sense of what the growth of the investment into the facility would be? Number one. So how – let's say, how does that compare to the book value today?

And number two, I've noticed you're putting a run rate of US$300 million by 2027. I think that's tripling about versus today. Where would that put you in the, let's say, compounding market, where with Brands and Essentials, you're saying we want to be number one, and you're number five now with compounding? Of course, there might be M&A going on in the US. But where do you think that will end up? What's the ambition long-term with the US compounding competitively in terms of volume?

Andrew Pulido: Let's take the second question first. Over the next five years, we feel confident that with increased – with the increased regulatory environment, that the consolidation you saw between 2015 to 2022 from 250-so hospital outsourcing pharmacies to now 65-70 with really 10 key players, we see that continuing to develop over the next medium term.

So, in terms of the US$1.2 billion to US$1.5 billion total addressable market today, being there for a handful of players, we see that market being there for even less players in the future, which Fagron is positioned to be one of those top players.

We also see the market is growing. And so, if it's a US$1.2 billion to US$1.5 billion market today, our analysis shows us that in the medium term, this market can be up to US$3 billion with the expansion of therapeutic categories. Right now, we are mostly focused on anaesthesia and the OR, as well as some private clinics in dialysis. And so, as we get into other key therapeutic categories and enter other areas of the hospital, paediatrics, for example, we see tremendous opportunity to expand the market.

In terms of the revenue opportunity. So, this year – so last year, we just finished on a run rate of US$80 million in December. I would expect a cooling-off period in Q1 as we digest the integration from the West side to the East side as well as add on a third shift. That should move us more towards the US$125 million run rate that we're confident we'll hit by the end of the year. Between the US$125 million at the end of the year to the US$300 million by the end of 2027, we feel more or less, over the next one-and-a-half years, two years, we should be at that US$150 million to US$175 million level, at which point we will cap out capacity in our existing facility.

At that stage, the new facility comes online, more or less, we anticipate at the beginning of 2025, and that should give us room from the US$150 million to the US$300 million. It will be a steady build. Success won't be overnight in that process, but we're confident in terms of the way we built our commercial organisation that we get revenue visibility into the future. And that's why we have confidence in terms of saying how we're going to build the business up.

So having that increased capacity, of course, won't be something that occurs overnight, but it will be our job to execute and making sure that we have the order book lined up, and that we get visibility with onboarding those customers so that we can do it in an efficient, sustainable way in order to add long-term growth and value in the business. Does that answer your question on number two?

Jeroen van den Bossche: Yeah.

Andrew Pulido: Okay. Yeah.

Karin de Jong: Can I add something on that? Yeah. Because if we look at that investment of US$20 million, indeed, you said it was at several phases. But if you look at the revenue coming in, full benefit will be after this strategic period. So, after 2026, we will have the full benefit of that. Of course, with an investment like this, you can see that it starts up slowly. So, it's not that it's a linear process in which each year you add amount. It will start slowly and then ramp up to the 2027. So, the way we guide on the US is with that in mind. So, the exponential growth we expect is not in the mid-teens as we guide for the US now because that's after the strategic period. So that's for the next one. Yes?

Stijn Demeester: Yeah. Thank you. Stijn Demeester, ING. You mentioned sterile-to-sterile. How important a driver is that in the growth ambition? Because today, I understand it is mostly API-to-sterile. We've seen some other players in the market growing faster than Fagron with a sterile-to-sterile approach, assumingly also at lower margins. So yeah, is that an important driver in the road map? And then does the 20% margin target, which I still see as valid for the first expansion, does it also apply to, yeah, then the second leg of this growth? So, a bit shedding some light on margins here.

Andrew Pulido: Yes. Stijn, that's a good question, and it's one that we've thought about and certainly prepared for as we think about our next phase of growth. And so, the origins of the business are, of course, in API-to-sterile. And if you think about the – really the reason why the industry was built, it was to cover the drug shortages.

And so, you needed to be able to have API in bulk in order to compound that in order to cover those shortages. As the industry has progressed, of course, many of these products have – once they've reached a certain value level – have gotten their own registrations at which the FDA has stipulated that at that point, you have to compound from a finished dose product in order to reconstitute it into your compounded product.

I would expect that trend to continue, and I would – and Fagron will be positioned in order to be able to do both.

In terms of the mix, it's hard to tell. Our need is in covering critical shortages. And so, we expect that there will always be API at the sterile compounding, and there will always be sterile-to-sterile compounding. So, the two should exist in harmony. But to give a specific mix, I'm not sure, but what I can tell you is that we will be positioned in order to be able to do that either way. We do it currently today in the existing facility, and we will make sure that we do that investment in our new facility in order to be able to support whichever direction that might go in the medium term.

As it relates to the margins and the profitability, having a diversified mix is advantageous for us. And of course, as we scale the business and leverage our margins and leverage our – getting operational leverage and our margins as well as getting leverage with our automation, I would expect our business to really more or less be slightly below that of the Group average for North America, but albeit at a high growth rate.

Karin de Jong: Maybe to add on the 2022 20% number. So just for clarification reasons, it’s by the end of 2022. So, we’ll hit the US$125 million by the end, with 20% EBITDA margins.

Karen Berg: Thank you. If those were the questions, I would like to hand over back to you.

Karin de Jong: Thank you very much. Thanks. Thank you, Andy. So last part of the presentation today is the financial framework, and I think a lot of questions are already asked regarding this. But this is to complete it, and again, at the end, there’s time for Q&A, so you can ask your questions.

First, looking at historical values. Before we go into the guidance for the next five years, let’s have a look at the last five years and our performance in the last five years. I think that with a 7.7% reported revenue CAGR, we had a solid result. Of course, we see that the last two years, especially EMEA had a challenging environment. COVID impacted us, and that had more impacts in EMEA than we saw in other markets. So, we slowed down a little bit on the growth in the last two years. However, over the five-year period, we have a robust financial growth level.

If we correct for acquisitions and also currency exchanges, we see that we have a 7.8% growth level. So that means that the FX part really impacted our business going forward.

The Brazilian business, because I think that’s the main reason for the fluctuations in the FX, is a long-strategy business. So, we have a long view on that market. We see underlying opportunities. We see also product innovations, which we can leverage in other markets and knowledge we have especially on production sites and on quality levels, which we can also use. So, we have a long-term view on that market. So that’s the reason why we believe in that market and are still in that despite the risk of volatility of the currency.

We have a 3.5% REBITDA CAGR over that period, and we show an average margin for the five-year period as 21.6%. And also there, again, we talked about EMEA. So, we see it balancing out a little bit throughout the years, and we’ll expect also to see that in the next couple of years.

And we have a 5.4% adjusted earnings per share CAGR, and I think a really important element of Fagron is that we have an asset-light model, which means that our operating cash flow as a result of our strong cash conversion is high. So, on average, 73.9%, and also further on in the presentation, we will guide on that continuing for the next five years.

If we look at the guidance we are giving. So, on top line guidance, we see an average growth rate of 8% over the next five years, driven by growth in all the regions. And in the next slide, we will dive a bit deeper and have a view on the different regions.

For EBITDA margin, we keep it broadly consistent with the last five years. And so that’s 21.6% on average, and of course, macroeconomic elements, as we currently see, can have impact, while we believe that will be broadly consistent over the period on the average of that period. So that’s between 21% and 22%, on average 21.6%.

Cash generation and earnings conversions. As I already mentioned, the dynamics of the business will not change. So that means that we will remain asset-light, and our cash conversion remains high. And therefore, our cash flows will also remain high. And we will invest that cash in growth. So, we’re not drastically changing our capital allocation. We are a growing company, and we are investing in future growth, whether it's organically as a contribution to our margin or by acquisitions, which really enforces our growth strategy going forward.

If we then look at the 8% organic growth CAGR, which we guide upon, we see different elements and different dynamics in each market. We spoke about that today.

EMEA, as we've seen last year, 7% decline, but we see that coming back on growth again. So, we already saw some recovery in the fourth quarter, and we will see a recovery in the next quarters. And on the mid-term, we guide to low single-digit growth. That will be driven mainly by increasing our market share in the challenging markets. So, we have some smaller positions in very big pharmaceutical market. We got a question on that today. We believe that we can accelerate our growth there and optimise the positions we have in the big markets, such as the Netherlands and Belgium, resulting in low-single-digit growth for the mid period.

Brazil, Latin America, and of course, specifically Brazil, we guide on high-single-digit. As we saw today, it was higher than that in the last five years. However, we also see that it's a very dynamic market with a lot of competitors, competitive pressure. It's fully cash-based, so there's no reimbursement. So, we need to retain some flexibility on pricing throughout the period of the time. So therefore, we guide on high-single digits, and we're confident that we will achieve that.

North America being the most important driver of the future growth, we guide for mid-teens, driven by all the segments. So, the B&E, as Andy explained, because we have the ambition to become number one in combination with the compounding facilities, which we definitely see acceleration of growth there in a really dynamic market.

So overall, 8% organic growth without any acquisition. So that will be on top of that. So, we end up above 10% growth for Fagron over that period.

So, the Wichita upside, and I hope I explained it clearly. So, the US$300 million that is mentioned is after the period, so after this strategic cycle, and the mid-teens is what we guide upon in the next five years.

If we look at the different segments, I think we have different strategies on that slightly, within – we have seen different dynamics within different markets. So, we're not quantitatively going to guide on that. However, what we can say is that we expect Compounding Services to grow faster than B&E. Of course, we have a global strategy on becoming a global platform for that, and therefore, we expect a higher growth than the Brands and Essential markets.

If we look at the Brands, especially, you cannot see them apart from the Essentials. So, they are combined. We need to have the Essentials and then enlarge that essential product portfolio with branded products to really differentiate and have that competitive edge. So, we do see that as an important element together. However, we do expect Brands to grow faster than the Essentials markets.

On the M&A. As I said, the 8% is excluding M&A. So, we have M&A upside for the business. We spoke about it this afternoon. Important criteria, of course, it has to fit with our strategy. So, on the one side, becoming a market leader in B&E but also building out our sterile platform. And the priorities, again, EMEA and North America. And we can expand and diversify our product portfolio or look into new therapeutic areas. So that's, I think, our strategic criteria. Important for us is also a cultural fit. So, we didn't discuss it or elaborated on this today, but we feel, when doing an acquisition, that's crucial. There we have a real cultural fit with the management and with the people within the company. So that's an important element.

So, we, of course, prioritise on different things. We have a diligent process of doing acquisitions. And during COVID, I – we are aware that we slowed down a little bit because of the uncertainties in the market. We didn't know what the multiples were going to do, and therefore, we waited a bit to see what was going to happen within that acquisition market.

So currently, we are fully focused on doing acquisitions. I think we already started this year, and there are a couple of more in the pipeline further on, and these are the priorities. So, it's small to mid-sized companies. It's the sweet spot of Fagron, where we have the synergies. Initially, we have sufficient room from our financials to finance these acquisitions. So, there will be an upside on the top line growth of 8%, which we guide for, for the next five years.

Then on profitability margin. So, we see it broadly consistent with the last five years, so that's between 21% and 22%. However, markets are dynamic. You all know that. We have some upside on operational leverage to all kind of commercial activities in the different regions, where we expect to see some leverage but also on operational excellence.

So having efficiencies in manufacturing sites we have will increase our EBITDA margins. And next to that, combining the sourcing and having the benefits of being a global player. However, we also see that saving money nowadays in global procurement is difficult. It's avoiding costs, unfortunately, where we have to deal with. So that counteracts a little bit all the upside initiatives. On the longer term, we are positive. On the short-term, there's a lot of uncertainty in that value chain. We see the dilutive impacts of our M&A activity. So, we acquire companies that are between 10% and 15% EBITDA margins. We expect to get them to 20% within 24 months. But initially, it will have a dilutive impact on our margins. And thirdly, FX volatility. Fully understand that can be positive. It can be negative. However, we have an experience in Brazil that it's a dynamic element. And so, it can impact our margins going forward. So, we're confident with the guidance we're giving that is broadly consistent with the last five years.

So, on cash generation, I think the unique element of Fagron is, we have a very solid cash generation. So, we guide on more than 70%. For 2021, we were slightly below that. So, we invested in working capital last year. We increased by approximately US$10 million to safeguard our product availability. We believe it was a good decision. However, we do not anticipate that for the next period. So, we guide on 10-11% of working capital with a capital expenditure of between 3% and 3.5%. This excludes the investment Andy spoke about, the US$20 million. So that's – you have to include that one.

So overall, 70% operating cash flow and a free cash conversion of over 50%. Again, historically, we were within that range. Last year, we saw an exception, and we discussed and elaborated on the reasons for that.

And then finally, the allocation of capital. Of course, we are here to make return for the shareholders to maximise value. We believe that we have a really solid growth strategy going forward. We have underlying markets which underpin that, and we want to invest in that growth. In some markets, we see consolidation. We want to be there. We want to be part of that. So, we want to invest. So, our capital is initially going to be invested in organic investment initiatives that add value, and next to that, on the M&A initiatives. The M&A initiatives, they will be with a solid balance sheet structure. So that means that we deleveraged the last years. Our net debt to EBITDA level is currently 2.11. We're confident with the 2.8 level. So, we have some room to do acquisitions. And with our strong operational cash flow, we also generate cash to do acquisitions. So initially, that will be the focus for Fagron, knowing that there is sufficient room with the banks where we have a max level of 3.5.

And the dividends, we will remain as it is. So, we're committed to optimise shareholder value. So, for us, capital allocation is all about growth and realising long-term value for our shareholders. Any questions?

Questions and Answers

Matthias Maenhaut: Yes. Thank you. Matthias Maenhaut, Kepler Cheuvreux. Two questions from my end. Firstly, if I recall correctly, at the conference call of the 2021 results, I asked for a more quantified guidance on 2022. You then stated that you would provide some more colour on that at the Capital Markets Day, and we are here today. So, my question would be –

Karin de Jong: What will 2022 be?

Matthias Maenhaut: 2022. Can you give us there some yardstick? I appreciate that there are some uncertainties. But I guess it's also elementary to frame short-term expectations for the market. So, would it be possible to give a quantified guidance?

And then a second question is actually more from a management remuneration perspective. Could you maybe elaborate on which criteria it's based? And if it's a purely organic targets or if M&A is included? That would be my second question.

Karin de Jong: Yeah. So, on the first one, it's a fair point in the sense that we will provide guidance during the Capital Markets Day. We feel that with this guidance we've given, we've given mid-term guidance. We've given some specifics on the European markets. We've given some specifics on the US market, and you also understand it's an uncertain environment. So, we are confident with the current guidance we have given. And so, for 2022, yeah, this is it. So yeah. You want to add something, Rafael, if you can?

And on the second question, do you want to take that one on – or you can also.

Rafael Padilla: Yes. So, the executive leadership team, Matthias. We have targets on several aspects, financial aspects, and also on other non-financial aspects, less average weighted, of course. We have as well as sustainability embedded there. So aligned with our ESG focus, one of the enablers of our strategy, we have that part as well. We do not include M&A in that respect.

On the other hand, one of our team members, Johan, that is now Head of M&A, has in his specific targets the M&A plan embedded.

Matthias Maenhaut: [Inaudible].

Rafael Padilla: I think there is – in the previous slide of Karin, we have the 2.8 target and this one, it's of course, driven by M&A. We see, again, M&A is a very important driver of our strategy. It's one of our enablers. We have a dedicated team for the first time in the last 30 years. So, we take this one very seriously with a good plan. We have good prospects. So, it's a matter of execution. Of course, you never know because it doesn't depend on you, but we have a good, structured plan for that always in a very disciplined way.

Speaker: I have a small follow-up on the last comment Rafael made. How should we read that medium net debt target? Is that on average in the coming years? Is it by the end of 2026? How should we see that?

Karin de Jong: Yeah. It's not a target per se. It's a level of net debt to EBITDA which we don't prefer to exceed. And of course, we want to do M&A, but we also are aware that with mid-sized company, you usually acquire companies that are family-owned, and that can take longer or shorter depending on the negotiations. In some cases, it took us two years historically, but that's a different process. So, it's not a target we want to be at 2.8. It's a ceiling. And we're also aware that with the strong cash flow we have, we can deleverage pretty quickly and create additional room to do acquisitions.

Speaker: So, it's a level you're comfortable with?

Karin de Jong: Correct.

Eric Wilmer: Hi. Eric Wilmer, ABN ODDO, again. Just very briefly taking into account time, we've seen a period of relatively limited M&A in 2020, 2021. I was wondering, should there be a similar period at some point, would you ever consider doing a share buyback, especially when the valuation of the share is, let's say, not really demanding? Thank you.

Karin de Jong: Yeah. That's a very good question. I think on the short term, we have sufficient acquisition targets in the pipeline. We also see that there's a consolidation trend in certain markets, which we don't want to miss. So, on the short-term, we set the strategy on capital allocation to be fully focused on growth.

On the longer term, of course, we can reiterate that based on current situations in the market, but that's a broader discussion with a broader group of people internally. So – but on the short term, it's on growth. If there's the growth, if the consolidation is done, if we have a solid position, and we see that there's no room for acquisitions anymore, of course, we will reconsider. But that's currently not the case.

Ingmar Schaefer (Kempen): Ingmar Schaefer, Capital – Kempen Capital Management. I'd like to follow up on an earlier question regarding the remuneration of management. And I believe, but please correct me if I'm wrong, that what you've described, Rafael, is the situation of the short-term incentive plan, whereas the long-term incentive plan does not have targets. And potentially, it's something more for the AGM, but I think it will be very nice and fair if today's targets will also find their way into long-term incentive plan.

Rafael Padilla: Yes. Thank you, Ingmar, and we appreciate your comment. That's also in the framework of our ESG as one of our enablers for the strategy, an important one, and we're going to take this one at this point that you are now commenting for the AGM. We have, as you know, a warrant plan for the upcoming years with the cadence period, if you will, and this is the LTI that we have at this moment as management. But we will focus on this point during the AGM.

Karin de Jong: Sorry. I apologise. I didn't see it.

Carlo Bogerd: My name is Carlo Bogerd. I'm a shareholder. My question is your build and your – sorry, the strategy to build out the company by mergers and by takeovers. Who are your competitors if you are buying companies out?

Rafael Padilla: Yeah. Thanks a lot for the question. What we have shown today is that we have two-pillar business on the product side. First of all, on the ingredient side, what we see is that we have fragmented competition, so mainly family-owned business. We see it in the Americas. We see it in Europe. Very regional. We have some competitors that may exist in one, two, three countries at max, like, for example, Medisca, that is in the US, Canada, and Australia. So that's for the ingredient side. We have a Dutch player, that is Ceban, that is on the raw material side in two countries in Europe, so little. But though this is what we see on the ingredients side, very much fragmented on the compound services side.

On the sterile side, Fagron is the pure global player. We see that the main competitors in the US, and it's only focused on the US. We see players in the German market. We see players in the Israeli market. But the only one that is really more than one country is Fagron, and we want to leverage this position.

Well, so if there are no more questions – there are no more questions for the 20 minutes delay.

So, after five years, we have built a solid track record. We have also improved our execution capabilities. We have embedded ESG. And as we said, it's not only for today but also going forward. And with our prudent financial approach and with a high calibre team, we are ready for the next growth phase.

So, thank you very much for attending here and there as well. Thank you.