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Fagron Q3 2022 trading update

Thursday, 13 October 2022

Fagron Q3 2022 Results

Operator: – [*Procedural explanation*]

I will now hand you over to your host, Karen Berg, to begin today's conference. Thank you.

Karen Berg: Thank you, and good morning, everyone. My name is Karen Berg, Head of Investor Relations at Fagron. Thank you for joining this call where we will discuss the Q3 trading update for Fagron.

We will start with an explanation of the results by Rafael Padilla, and then we will hand the floor over for questions, which will be answered by Rafael and Karin, our CFO.

Thank you all. I would like to hand over to Rafael.

Rafael Padilla: Thank you, Karen. Good morning, all. Welcome to our Q3 and nine months trading update. Before Karin and I take your questions, we'll go through the presentation, where we will explain our Q3 and nine months' revenues. We will then elaborate on the current macroeconomic developments and how these play in the different regions where we operate. We'll discuss the increasing regulatory environment and how we work to ensure the highest quality standards. And we'll then finalize reiterating our full year guidance.

Moving to the next slide. When we look at our nine-month revenue, we see an increase from the €419 million of last year to the €0.5 billion mark supported by all regions, strong M&A execution, and forex tailwind.

When we deep dive in the quarter, EMEA shows a 10% growth supported by the three business segments where we operate: Essentials, the raw materials; Brands, our added-value products, and Compounding Services, both sterile and non-sterile.

LatAm shows the same picture, with 16% total growth supported by all three segments.

In North America, with 39% total growth, with Compounding Services and Essentials strong, and Brands showing a decrease being a reflection of current operating environment.

Moving to the next slide regarding our Q3 operations. At a global level, we continue to see a disrupted supply chain and inflationary pressure. A good example is the sterile syringe shortage in Wichita. We counteract, as explained several times, globalizing our procurement and supply teams in order to limit this impact.

Following our sustainability strategy, we committed to set science-based emission reduction targets.

On an organizational note, we have appointed Geraldino Neder as LatAm Area leader. Geraldino has more than 30 years' experience in the Brazilian compounding market, being 12 years already at Fagron. He brings strong commercial and innovation expertise.

Jumping to the regions. EMEA's growing trajectory continues as a result of the strategic actions taken, a centralized production, streamlined back office and brand rationalization in the Benelux. On a very relevant note, our Compounding Services activities in the Netherlands continue showing further stabilization. For this region, continuous progress on price pass-through exercise is very important, and we are making good progress here. Finally, our GMP repackaging facility in Poland is fully operational, and we'll start seeing the benefits of.

Going into LatAm, we see a continuation of softened end-user demand this quarter, resulting in increased competitive intensity. In order to maintain market leadership and drive operational efficiency, we're executing on back and front office projects and centralizing all our warehouses activities, being this finalized at the second semester of next year and optimizing our brands by merging three of them into one to gain efficiency and improve innovation capabilities. To finalize, we continuously assess opportunities to strengthen our market leading position in the second biggest compounding market in the world.

Moving into North America. We clearly see a strong underlying demand on the three segments where we operate. Going to each one of them. During this third quarter, at our B&E division, due to the Minneapolis warning letter, we have started the transfer of sales to our Letco facility. This part of our original integration plan has been now accelerated. Within the frame of the remediation plan of the Minneapolis warning letter, we have voluntarily put some batches on hold, causing a displacement of sales into the next two quarters as we satisfactory release those.

Moving into FSS, with a current run rate of €88 million, and as we flagged at the semester update, the continued experienced strong syringe shortage worsened during this quarter. We do not expect to get it better during this fourth quarter. To remedy this and secure constant supply, we are, as we speak, validating two new syringe suppliers. This process takes approximately six months. We are very pleased with the evolution of our new FSS Boston facility as our commercial team is onboarding several new customers and taking advantage of the sterile-to-sterile IV bags' capabilities we have there. Integration with Boston is going according to plan.

Finally, on our health and wellness division, Anazao, we see good developments in the third quarter, especially at our Vegas facility, as during the last week of the last month, our Tampa facility could not ship because of the Hurricane Ian. Also, the rest of our business in North America could not ship into the Southeast, especially in Florida, due to the hurricane.

One final note, clearly post COVID, we see increased regulatory scrutiny of the FDA. And moving to the next slide, we will take the chance to explain how the FDA audit process works.

A facility is being normally inspected every two years. After that, in most of the cases, an observational report is being prepared. The company, on a regular basis, updates the agency and depending on how this evolves, it can be closed, or a warning letter is issued where the same process of regular updates continues.

When we look at our facilities in the US, currently at Minneapolis, we are updating regularly the Agency on our remediation plan. As said, a displacement of sales to the next two quarters and transfer to the Letco facility is now ongoing.

In Wichita, we received an audit in March this year with six observations. We delivered our final response in April, and now we wait for the close out report.

At Anazao Vegas, we were audited in July and received five observations. We are now in the response process.

For the other facilities, at Tampa, we received the last inspection in 2019. At Letco, in March this year. And at Boston a remote assessment in 2021. All of them with no pending observations.

And as quality leadership - moving to the next slide, Karen, please - is in our industry a differentiating factor, we, as the global market leader in the niche market of pharmaceutical compounding, we benefit from a resilient business with diversified geographical presence and the broadest product portfolio in the industry with favorable underlying trends, such as demographics and personalization. As we have seen, we have strong M&A execution capabilities and we have as well a strong financial profile with high cash generating operations and a net debt to EBITDA ratio at 2.2.

And finalizing - going to the next slide, Karen - we reiterate our full year guidance. We will, excluding the Boston acquisition, book revenues between €670 million and €690 million with better margins in the second semester compared to the first one.

Thank you very much. Now time for questions.

Questions and Answers

Operator: Thank you. As a reminder, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. We will now take our first question from Frank of Degroof. Your line is open. Please go ahead.

Frank Claassen (Degroof Petercam): Yes, good morning. Frank Claassen, Degroof Petercam. Three questions, please. First of all, you mentioned the Hurricane Ian is impacting your revenues. Could you quantify this in Q3? And will it also have an impact in Q4?

Then on the Boston facility, the acquisition, what did you do so far on the integration? And what level – you indicated now run rate of roughly $15 million. What kind of run rate do you envisage to get to the breakeven target for the end of next year?

And then finally on pricing. Could you elaborate what did you do so far? How easy is it to pass on the higher raw material prices? And does it also have an impact on your gross margin already? Thank you.

Karin de Jong: So, thank you, Frank. Maybe to start with your first question on the hurricane. So indeed, we have a facility in Tampa, so that's the Anazao facility that was impacted by the hurricane in the last couple of days of September. So, the last couple of days of the months were impacted. Those sales will be shipped out in the first week of the next quarter. So, there we see some impact, but it's limited to a couple of days. And next to that, we also see that shipping into the states, to customers we have in specific states was difficult during that period. So that impacted also the other companies we have shipping into that specific state. But again, as mentioned, that sales that will be shipped the early of quarter four. So, we don't quantify it. It's a couple of days which moved from one quarter to another quarter.

Rafael Padilla: Thank you, Frank. Let's take the Boston question. When we acquired the Boston facility, as we speak during the semester call, we had revenues of low double-digit at that time.

Now what we're doing, we are, first of all, integrating on the sales side all the activities. So, this means that our existing commercial team that was, of course, selling for the Wichita plant, is now offering as well as the solutions that we make – we produce in Boston. That's mainly the sterile-to-sterile IV bags. So, this is now taken in their portfolio. And next to this, as we also explained, we are applying for new licenses. We are now licensed in 11 states, and we're applying for nine states like California, Texas, and Florida.

Karin de Jong: And maybe on your third question on the pricing element. So indeed, as we explained during our semester results, we see inflationary impact throughout our businesses. But we are able to pass on price increases towards our customers despite the fact that it's different within the different regions. So, in the US it's easier to pass on price increases. Brazil is a very dynamic market, so there's always price competitiveness on top line. For EMEA, we can pass on our price increases over time. So, we started doing that already early this year and we see that continuing very well. So, we'll keep on doing that for the next couple of quarters. So, we can pass on the price increases and compensate for the inflationary impact we see through the regions.

Frank Claassen: And do you already see, as a result, the gross margin improvement because of these price increases?

Karin de Jong: Yes. As said, this is, of course, a trading update, but we reiterate the guidance we have given. So, we expect that we see an improvement in our profitability for the second half of this year.

Frank Claassen: Okay. That's clear. And coming back on Boston, what kind of run rate of revenues do you need to get to breakeven? Could you elaborate on that?

Rafael Padilla: Yes. So, in the original plan, as we communicated, it will take approximately between 12 to 18 months to bring it to breakeven. We are on track with the plan. And again, we are very pleased because we're onboarding new customers with the existing sales force that we have now.

Frank Claassen: But no number as to –

Rafael Padilla: Well, during the – yes, sure, Frank. As we explained during the last call, during the full year results, we will elaborate on the figures of the Boston facility.

Frank Claassen: Okay. That's fair enough. Thank you very much.

Rafael Padilla: Thank you.

Karin de Jong: Thank you, Frank.

Operator: Thank you. We'll now take our next question here from Stijn of ING. Your line is open. Please go ahead.

Stijn Demeester (ING): Yes. Good morning. Three questions, if I may, and all are related to Wichita. The first one is basically on '23, as you are cutting your year-end sales guidance by some €30 million in sales, should we factor in a similar cut to our '23 assumptions? So, what confidence do you have that you can recuperate these sales over the course of the year? Is it simply a function of pent-up demand which you can cater to as the syringes come in? Or are there additional risks related to the ramp-up?

Secondly, I think a couple of quarters ago you mentioned the double shift and hiring of 30 new people. Does this – is this plan somewhat affected by the recent events? Or is it still continuing as progress? And should there then be an impact on the margin that you can sort of earn on Wichita?

And then the last question is on the new syringe suppliers. You mentioned that it takes six months. When exactly did you start with that process of finding new suppliers and when should we sort of think about the problem to be resolved? So, these are the questions I have.

Karin de Jong: Okay. Thank you, Stijn. Maybe to start, and Rafael will also jump in on the more specifics regarding the syringes.

So, on the run rate, indeed, what we see is that there's supply chain shortages on the syringes. Most of our products that is coming from Wichita are the syringes. So, we see impact on our run rated sales going forward. However, we do see this as a temporary impact. The underlying demand in that market is very strong. So, from that point, any issues going forward, it's more on the supply side. And there, we took action on getting two new suppliers for the syringes on board. So, we expect this to be temporary. And that doesn't mean that we go back on the fact that we expect the run rate to keep on growing. It grew slightly in the third quarter. We expect it to continue to grow in the fourth quarter despite the fact that we see an impact on the syringe supplies for that sector.

Stijn Demeester: Yes. Sorry, if I may here. When you say that the run rate grew slightly in Q3 versus Q2, is that including Boston or organically?

Karin de Jong: No, that's organically.

Rafael Padilla: That is, Stijn, the €88 million that we said during the presentation, right? And on the – on your question specifically on the operations, the third shift is in place. So, we are prepared, because as Karin said, the demand is strong, the underlying demand is very strong in that market. And on the onboarding of those two new suppliers, so we received already the syringes and now we are in the validation process. So, this means that the SKUs that we prepare on the prefilled syringes, we need to do validation studies, and this takes approximately six months. So, we'll have these new suppliers ready to go into the production during the first semester next year.

Stijn Demeester: Okay. Thanks. And then on the sort of margin that you could expect, given the new hires and sort of lower run rate sales, which would suggest that sort of breakeven point is a bit – I mean, not breakeven point but that operationally or profitability-wise, it could be somewhat lower also for '23.

Karin de Jong: Yes, so on the longer term, I think there's enough volume to create leverage and increase profitability levels for that – for Wichita, for that site and of course, we'll have a slight impact. But again, we reiterate our guidance, and we will see for the overall an improvement in profitability.

On the longer term, we believe that a third shift is needed to cover the volume and will create some leverage.

Stijn Demeester: Thank you.

Karin de Jong: Thank you, Stijn.

Operator: Thank you. We'll now move on to our next question from Matthias of Kepler. Your line is open. Please go ahead.

Matthias Maenhaut (Kepler Cheuvreux): Yeah, good morning. Thank you for taking my questions. And yeah, maybe three left. Maybe first on Latin America. There, clearly organic growth is slowing further. Could you maybe elaborate on the price/volume mix and also on the measures you have taken? You mentioned streamlining operations. Could you maybe elaborate on what that just implies and how you are going to revive the organic growth there? That's my first question. I will ask them one by one.

Karin de Jong: Maybe to start with the price/volume mix. So, we see that we are slightly increasing our volumes, but we do have negative pricing impact in that market.

Rafael Padilla: Yeah. And good morning, Matthias. On the streamlining projects that we are launching in LatAm, especially in Brazil. So, when you look at the back-office side, we have already centralized all the back-office admin activities in São Paulo and now we are centralizing all our warehouse activities. So, each brand had each its own warehouse and now we are bringing them together into a centralized warehouse that will, of course, improve our logistics and our service capabilities to the market.

Next, on the front-office side, we have now started an exercise of optimizing our brands, so we took three of our six brands in the Brands and Essentials division, and we're going to bring it into one. And by this, we're going to have more innovation power because – and going to your last question on how we are going to grow again organically - there, you need to have two things. First of all, availability of products and, of course, we are quite solid there, we are a market leader, we maintain market leadership position. So, we are good there. And then on the second side, innovation. So, it's a market where innovation and branded products really help, and we are improving our innovation pipeline. And of course, with this brand optimization, this one will improve.

Matthias Maenhaut: Yeah. Okay. Would you say you're losing market share at this point in time in Brazil?

Rafael Padilla: Not at all. We are maintaining market share. It's a market where data is very clear. And at this moment, we are maintaining our current market share.

Matthias Maenhaut: Okay. So, it's more a market-related issue than a company-specific one?

Rafael Padilla: Yes, softening of consumer demand. You see it every four years, and it's not new for us - we have seen also in the past – every four years you have elections, you have the World Cup, consumer demand decreases a bit and then you fill it back. Nevertheless, with the actions that we already have taken and as well we forgot to mention on the new GMP repackaging site we have in Anápolis; it's giving us muscle power in order to maintain and improve our market leadership.

Matthias Maenhaut: Okay. Then the second question is actually on Wichita and the syringes. Could you maybe just elaborate on the process it takes to add additional suppliers, because this is an issue that was effectively flagged at H1 results already. And I hear from Karin that you have onboarded additional suppliers. I was just wondering, is there a reason why you can't move faster, because clearly, it's impacting your Q3 but will also impact your Q4 sales. So, if you would maybe elaborate a little bit on that onboarding process and what – why it's exactly taken quite a while before you have additional suppliers.

Rafael Padilla: Sure, Matthias. And we have seen during Q3 that the situation did get worse, right, on the supply of these sterile syringes. So, we have onboard two new suppliers. And how it worked, you get the syringe, you make immediate fills and then you go into validation process. And when all the tests are satisfactory, then the supplier is being validated and now you can go into production. And this takes approximately six months.

Matthias Maenhaut: Okay. And the last question is effectively on this third shift. I'm a bit puzzled. Can you maybe elaborate on what the margin headwind is from that third shift? Because previously, when you added from one to two shifts, the impact was quite substantial. I still see that you guide for H2 margin ahead of H1. So, I am a little bit puzzled given that your organic growth performance is clearly below your own expectations effectively if I look at your guidance. So, could you maybe give us a little bit more color on what kind of margin headwind you would expect maybe on North American and Group level from this third shift? And what is going to be the drivers that your H1 – H2 margin will be above H1, please? What gives you this confidence?

Karin de Jong: Yeah. So maybe on the third shift, so that's not easy to quantify. Of course, we monitor the number of people with the volumes that go into the facility, yes. So, it's a balancing act on how many people you add to your third shift and what the impact on profitability is. So, we do expect some growth in the fourth quarter, and we balance the number of people in the facility based on the expected production batches and volumes we have. So, we will have some impact. However, we are positive that the market continues to develop in the right direction. So, demand is growing.

Overall, I think for the entire Group, if you look at the profitability margin, I think we start increasing prices towards our customers in EMEA. We started that a couple of quarters ago. We continue doing that, have positive benefit from that point of view. Also, the operational excellence we achieved by the facility in Poland, which will have positive benefit. We expect to – Brazil in H2 to be better than H1, traditionally Q4 is always good. So, we are positive.

We don't see that the third shift will have a huge impact on the profitability margins for the Group in total.

Matthias Maenhaut: Okay. And just as a background, if you say we can balance a little bit this third shift and function of the volumes that we can do, those people that you then not employ, I would say, how certain are you that you can – yeah, I would say, rehire those people quite quickly at the day that your supply chain issues are resolved and you have to cater for all this pent-up demand?

Rafael Padilla: Right. Here, Matthias, you can make a comparison with the supply of the syringes, the new suppliers that we are seeing on the validation, right, so you get the new colleagues on board, and you need to go through training and also validating your room, right? We have the control environmental monitoring. So, this is a process that takes time. It's not like we have a new colleague up and running, right? So, you get the training. But also again, because we're working in sterile environment, you need to do the control, again, assess environmental monitoring. And this takes some time, right?

So, we want to be prepared when we have the volumes seeing, because, again, as Karin said, the demand – the underlying demand is there. It's strong. I see that well with Boston, that our current commercial teams are awarding several new customers to the Boston facility with the sterile IV bags capability that we have there. Right?

So, we'll be prepared to deliver those volumes to the market from our Wichita facility.

Matthias Maenhaut: Okay. Thank you. That were my questions.

Rafael Padilla: Thank you, Matthias.

Operator: Thank you. Ladies and gentlemen, if you find that your question has been answered, you may remove yourself from the queue by pressing star two. Thank you. We'll now move onto our next question from Christophe of Kempen. Your line is open. Please go ahead.

Christophe Beghin (Kempen): Hello. Good morning, everyone. I have two questions. First one is if you can give a qualitative statement on how cash generation was in Q3 and how working capital did evolve. And the second question is – let's take question by question, sorry.

Karin de Jong: Yeah, so on that, Christophe, as you know, it's a trading update, so we don't specifically quantify anything on working capital or our cash flow. I think the fundamentals of the business are and remain the same. So, we saw during S1 a small increase in working capital, above 12%. We don't expect that to decrease in the second semester.

And secondly, on cash generation, of course, those fundamentals are also not changed. So, it will be I think on cash generation a very solid year.

Christophe Beghin: Okay. That's what I wanted to hear. Then the second question is with regard to FDA audit. It seems that FDA is catching up with auditing 503B facilities in the US in general. Do you have an idea how the audits are at competitors? Because I can see that QuVa has been audited recently and many other direct competitors. I don't want to hear some names. But do you have an idea how, let's say, conclusions of these audits were?

Rafael Padilla: Yeah, so good morning, Christophe. It varies on each company, on each site even, right? And we see that some are – most of them get the observations, then it's being translated into the 483. Some are being resolved, some continue. And you get this evolution with the Agency.

Some of them have recalls even, in this industry, because if you are talking about sterile products, so you have recalls. And what you see is that maintaining the highest quality standards, it's a competitive advantage in the industry, right? So, we, as Fagron, are ensuring that one. And then that the market will consolidate because of regulation and quality, that's very clear for us.

Christophe Beghin: Okay. Thank you.

Rafael Padilla: Thank you, Christophe.

Karin de Jong: Thank you.

Operator: We'll now take our next question from Jeroen of KBC Securities. Your line is open. Please go ahead.

Jeroen Van den Bossche (KBC Securities): Yeah. Thank you for the question. I'll start with one. Going back to the North America region. First, following up on the FDA's audit. Can you provide some more color as to the Anazao, let's say, issues or where they tend to land and what your expectation is with regarding to not having that warning letter, how serious are these audit, let's say, issues?

Rafael Padilla: Yeah. Morning, Jeroen. Regarding Anazao, as said, we recently had the audit. We had five observational points, and we are responding to them. And after responding, we are – we think we are quite confident that we'll be very successful there. We will get the close-up letter from the FDA. So, this is how the process normally goes. It's a 503B facility, and we have always had satisfactory results there.

Jeroen Van den Bossche: Okay.

Rafael Padilla: And we are quite confident that, together with the team, we will close the letter as well.

Jeroen Van den Bossche: Fair enough. And then maybe following up and maybe a bizarre question here. Since Fagron is the only global compounder with, let's say, more supply lines I imagine than other competitors – of course, most of these in North American region are in private hands – but does that ultimately provide opportunity for Fagron on the longer term? Are you able now with the new, let's say, supply lines for the syringes? Do you expect that longer term you'll be able to take a bigger market share in the US due to your, let's say, additional supply lines?

Rafael Padilla: Yes. So – continue, sorry. I thought you were finished.

Jeroen Van den Bossche: No, as compared to your competitors specifically where they might not have that access.

Rafael Padilla: Yes, so as we said in the last calls, we are in the process of globalizing our procurement supply team. So, this gives benefits, right? As you said, the network is – it's bigger, right? And you can take some benefits there. Again, going to the highest quality standards, that's a very important point for that industry. And of course, with supplies, you can help one company to each other, right? But again, the crucial factor is maintaining highest quality standards in the industry.

Jeroen Van den Bossche: Okay. Maybe one last final question with regards to EMEA. Okay, everything seems to be on track there. But specifically with Belgium, you have a high impact automatic wage indexation obviously. What can we expect there with regards to the Netherlands? Is there – while it's not mandatory, can – should we also calculate a massive salary increase there going into the future?

Karin de Jong: Yes. So that's a good question. In Belgium, it's indeed compulsory to increase. It's one of the only countries where we are active in Europe where that's the case. So, in the Netherlands it's not the case. And in a lot of countries, it's not the case. So, we have to see next year. I think a lot of companies have the same. Of course, you need to balance our Opex and our increases into elements in energy and wages with balancing price increases. So overall, we will try to have operational efficiencies to monitor that and strict Opex control; but it's not the case that it applies in all countries we're going to increase wages. It's more an exception like in Belgium that it is inflation related and it's obliged to do that.

Jeroen Van den Bossche: Okay. No further questions. Thank you.

Rafael Padilla: Thank you.

Karin de Jong: Thank you.

Operator: Thank you. We'll move on to our next question from Eric of ABN AMRO. Your line is open. Please go ahead.

Eric Wilmer (ABN AMRO): Good morning, everyone. I've got a few left. I think Fagron has made welcome steps to become more transparent, evidenced by your cautious wording on the LatAm market as well as the mentioning of the Anazao FDA observations. But that being said, on the guidance front, I'm a bit surprised why you did not already lower the Wichita guidance at Q2 as the syringe shortages are such an important part of Wichita's growth story? So basically, what – and that's my first question. What in your view has changed so drastically during Q3 for you to lower the Wichita guide now and not yet during at Q2? Thanks.

Rafael Padilla: Yeah. Sure. Thanks a lot, Eric, and thank you for the comments that you made. On that respect, during the call, we said that we would be able to get to the 125 run-rate when the syringe supply would stabilize, right? So how does it work? The producers that we have validated, the two of them, they have a committed supply to their customers. We are one of them, right? And what you have normally seen during this month is that this supply to the customers in this respect to us has not been, most of the times, respected in the on-time, in full, right? So sometimes, maybe on time but not in full. So not the full batch as

they had to split into several customers. So, we were quite confident on the fact that, of course, as the demand is there, as the orders are there, as the customers want to order with us, right, that we could deliver those when the syringes, those supplies, would come to our facility. But the fact is that in Q3, the situation worsened. We can – we hear many times that, okay, we will deliver the full batch to you, but that's not the case. So, we want to be here - as you said right - transparent in, okay, when the syringes come, we might have a better result. Nevertheless, with the experience that we had in Q3, we are now comfortable with the guidance that we gave today. And we're going to see how this evolves. Again, you didn't ask, but I want to add, the Boston facility offers us nice opportunities and the sales team now are also offering the product range that we can produce at Boston.

Eric Wilmer: Okay. The next question is on Brands in North America. I think like-for-like sales were down by about 10%. To what degree is this driven by the – or is this related by the FDA warnings from your Minnesota facility? Could you break down that 10% a little bit from the – what has been driving that?

Karin de Jong: Yeah, I think it's a quarterly thing. So, a big part of that is related to the FDA as Minneapolis also delivers Brands next to other suppliers. So, we expect some recovery in the fourth quarter of that.

Eric Wilmer: Okay. Thank you. And then two more remaining small questions. One is on Brazil. You just mentioned Q4 usually strong. Maybe it's on my end, but could you remind me why is Q4 usually strong for Brazil margin-wise again?

Rafael Padilla: Yeah, here you have the seasonality, right? So, you enter into the summer months and the compounding market in Brazil is mainly focused on the health and wellness, and these kind of products have traction during this period, Eric.

Eric Wilmer: Okay. That's very helpful, thank you. And then lastly, M&A pipeline. You kicked off this year actually rather actively. So, I was wondering, how are you looking at this? I think last quarter was, let's say, more muted. How do you look at the next couple of quarters if we should look at your M&A pipeline? Thanks.

Rafael Padilla: Yes, sure. So, as we said, we reiterate, we have now a dedicated team. We're working, as you know, with the funnel, right? We have many candidates in the funnel. They may move or not and we are assessing different opportunities in all the markets that we're active in.

Eric Wilmer: Okay. Thank you.

Rafael Padilla: Thank you, Eric.

Operator: Thank you. We'll now take our last question from Maarten Verbeek of the IDEA! Your line is open. Please go ahead.

Maarten Verbeek (The IDEA!): Good morning. It's Maarten Verbeek for The IDEA! Firstly, does your Boston facility have a syringes supplier as well?

Rafael Padilla: Yeah. This one – good morning, Maarten. The Boston facility is more dedicated to sterile-to-sterile IV bags production. That's how the facility is set up. So, you have –

Maarten Verbeek: Okay. So, they don't have a syringes supplier?

Rafael Padilla: No.

Maarten Verbeek: Okay. You stated you're not going to make your goal for FSS, Wichita, and you more or less blame it on the syringes, which is a large part of your business. However, you also have your IV bags and your epidurals and cassettes. Do they live up to the expectation which was incorporated in the 125?

Rafael Padilla: Yes, so that's a very good question because they do, right? You see quarter-on-quarter that we are increasing. So, we're picking up with the revenues. And this is mainly this year originated by the IV bags, and then with the two new pharmaceutical forms, the epidurals, and cassettes. That's correct.

Maarten Verbeek: So, they are on track?

Rafael Padilla: They are on track, for sure.

Maarten Verbeek: Okay. Thank you very much.

Rafael Padilla: Thank you.

Operator: We have no further questions in the queue. As a final reminder, if you would like to ask a question, press star one on your keypad now. Thank you. I didn't see any questions in queue. I will now hand you back over to your host, Karen, to conclude today's conference. Thank you.

Karen Berg: Thank you, Laura, and thank you for all the questions and everyone dialing in and listening in. I wish you all a great day and looking forward to seeing you again in February to discuss our full year reports.

Operator: Thank you. Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect.