Fagron FY 2022 results

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Fagron FY 2022 Results

Operator: Hello, and welcome to Fagron Full year Results 2022 Conference Call. My name is Priscilla, and I'll be your coordinator for today's event. Please note, this call is being recorded and your lines will be on listen-only. However, you will have the opportunity to ask questions at the end during the Q&A session. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

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

Karen Berg: Thank you, and welcome all to the results call for Fagron with our full year 2022 results. My name is Karen Berg, as said. I am here together with our CEO, Rafael Padilla, and our CFO, Karin d Jong, who will discuss the numbers in more detail. And afterwards, we will have room for questions.

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

Rafael Padilla: Thanks, Karen. Good morning, and welcome all. Before Karin and I take your questions, we will go through the presentation, where we will explain the highlights of 2022. We will elaborate on current macroeconomic developments and how they played during the year and deep dive into the regions where we operate. After this, Karin will guide us through 2022 financial performance and 2023 guidance. We will conclude and open for Q&A.

In 2022, we have operated in a fast-changing and uncertain environment. Therefore, we are pleased to see topline growth supported by organic growth in EMEA, North America, disciplined M&A, whilst we have seen a forex impact.

In line with guidance, the second semester recurring EBITDA of 19.8% excluding our Boston facility is ahead of the 19.3% in the first one, implying full year reported margin of 19.1%. Following our structured and disciplined M&A approach, we completed five very attractive acquisitions in 2022, showing continued focus on adding capabilities to the group.

Our strong cash conversion of 70% supports balance sheet strength, shareholder value creation and M&A execution. ESG remains a key strategic pillar for us. And amongst other topics, our greenhouse gas intensity reduction was outstanding with a decline of 20% versus the target of 15%. Lastly, we have proposed a dividend of €0.25 per share for the year.

Moving on to the next slide. We currently experienced a fast-changing environment where agility and guaranteeing the highest quality standards are key. Looking at the external risk, inflation remains high. We manage by dynamic pricing pass-through and on the operations side by negotiating better procurement terms.

Regarding the competitive landscape, we aim to maintain leadership in all our markets by strengthening our commercial approach, balancing competitive pricing and being unique with our Brands. We offer the widest portfolio and aim to set the highest quality standards in the industry as regulatory environment evolves.

Being the leading global compounder, we have strengthened our quality management organization by appointing a Global Head of Quality, and we continued implementing our global quality systems across all our regions. Also, we commit to invest in state-of-the-art infrastructure as the one announced today for AnazaoHealth in order to remain well ahead of expectations.

Moving to supply chain risk and sourcing. Again, given our global large scale, we have a broad supplier base, and we continue to further broaden our options. We have intensified our procurement and supply activities, resulting in stronger purchasing power and better logistic terms.

Finally, on our internal business drivers, on operational excellence, while we always focus on it, it has now become necessary to be our key strength to support our activities across the globe to be more competitive and have better cost management.

Regarding our disciplined M&A activities, 2022 has been strong, welcoming Pharma-pack, Hiperscan, Curaphar in Europe and both Letco and FSS Boston in the US. We continue to look actively for opportunities across all our markets.

Now we move on to the regional update. Demand growing trajectory continues as a result of strategic actions taken as centralized production, streamlined back office, brand rationalization in the Benelux and reinforcing registration and in-licensing capabilities. In a very relevant note, our compounding service activities in the Netherlands show further stabilization and growth.

As stated in the previous call, our cGMP repackaging facility in Poland is fully operational, and we start seeing the benefits out of it. Also, our central brands manufacturing facility in the Czech Republic concluded successfully a regulator cGMP audit during the last quarter. For this region, continuous pricing pass-through exercise is very important, and we are progressing well despite increased customer sensitivity to this.

As we explained, we continue diversification in the EMEA region by performing outstanding in markets such as Italy, Denmark, or Israel.

Moving into LatAm. This has been the most impacted region based on external factors. In Brazil, where we have seen a 10% drop in scripts on the back of inflation leading to greater competition, which has intensified as there were some change in ownership of current players. Despite that, we maintain our market share.

During Q4, our performance has been further affected by the Football World Cup, resulting in five less working days, and by the election. In order to maintain market leadership and drive operational efficiencies, we're executing on back and front office projects, such as centralizing all our warehouse activities – started in 2022 and being finalized at the second semester of 2022.

We have also optimized our brands by merging three of them into one, called Sovitá, to gain efficiency and improve innovation capabilities. Thanks to these initiatives, we have seen margin improvement during the second semester of 2022.

During Q4, our Brazilian cGMP repackaging facility was audited by ANVISA and concluded successfully. ANVISA is one of the toughest authorities in the world.

In 2022, we will also continue to further diversify into Mexico and Colombia.

Into the first semester of 2023, we expect to see a continuation of the market conditions we have seen in 2022 and remain committed to strengthen our market-leading position in Brazil, as it is the second biggest compounding market in the world and long-term fundamentals remain attractive.

Moving into North America. The market opportunity is increasing, as well as regulatory scrutiny creating opportunities for us. We decided to invest additional Capex in the Tampa's Anazao facility in line with our strategy of having the best-in-class infrastructure and support the underlying growth at long run.

For the region, we are benefiting of our global operational excellence programs, including supplier base, to support our business operations, and we have already seen early signs of easing syringe shortage.

On our B&E division, regarding the Minneapolis warning letter, we had a greater impact than expected as we have taken a more conservative approach and deliberately delayed the sales from this facility to enable a seamless closure of the audit. We are also accelerating our original integration plan by increasing the transfer of sales to our Letco facility.

In December, we started as well the merger of both Fagron and Letco commercial teams. These actions will ensure the strength of our position, and we expect to see an acceleration of sales growth during the second semester of 2023. In line with our strategy of having the best-in-class facilities, we're assessing the investment requirements for a new cGMP repackaging facility in Alabama, which will provide for capacity expansion.

Moving into FSS, we have exceeded the US$110 million run rate for both Wichita and Boston. Again, we see early signs of easing syringe shortage. And in January, we have hit the US$100 million run rate mark in Wichita. We are committed to the target and expect a progressive step-up through 2023 with the timing being dependent on supply chain and operational factors, particularly as we ensure that quality remains of the highest standards.

Regarding Boston, as you recall, strategically, the purchase of this high-quality asset is very important for us as we have presence in the Northeast, more capacity and redundancy. The integration is on track, having now 16 licenses, and we expect to be breakeven during the second semester. Going forward, we will focus on getting the main state licenses, onboarding new customers, and aligning the process from our Wichita facility.

And finally, we are very much pleased with the developments of our health and wellness division, Anazao, which is capitalizing the strong underlying demand for personalized treatments.

To end this first part, moving on to the next slide, pharmaceutical compounding is ESG at its core. Currently, medicine shortages represent a global health issue. And thanks to personalized care, we contribute to make accessible many different treatments to vulnerable patient groups. We experienced lack of important medication, like antibiotic solutions, based to treat children. As we speak, one of our most important brands, SyrSpend, is supporting hospital and compounding pharmacies to prepare them.

On environmental, we have exceeded our carbon footprint reduction by achieving 20% decrease compared to the target of 15%. And in 2022, we performed our bi-yearly global employee survey with an 84% sustainable engagement score.

Now Karin will cover the 2022 financial highlights.

Karin De Jong: Thank you, Rafael. Good morning and thank you for joining this call. I would like to walk you through the 2022 financials in some more detail while discussing the next couple of slides.

The first slide lists our financial highlights for the year. Sales in 2022 increased by 19.2% to €683.9 million, driven by organic growth in North America and EMEA, the contribution of acquisitions and tailwind of currencies strengthening against the euro.

Operating expenses increased by 25.8% due to inflationary pressure in combination with acquisition and FX impact. Overall, recurring EBITDA increased with 10.5% to €130.7 million. REBITDA margin decreased compared to last year due to the dilutive impact of the sizable acquisitions we did, and the challenges we faced in the operational environment in 2022.

Excluding the Boston facility, H2 2022 REBITDA margin is 19.8%, in line with expectation an improvement compared to the 19.3% we reported over H1 2022. Earnings per share increased 14.3% to €0.96 a share.

Strong cash flow conversion in 2023 … 2022 demonstrate the strong cash-generating capabilities of our company. Free cash flow increased by 57.5% to €91 million. Our strong cash generation also translated in a decreasing net debt to EBITDA in 2022 despite the five acquisitions we did this year, creating sufficient headroom for future acquisitions.

The bridge on the next slide shows the sales development in 2022. EMEA increased 2.2% organically against constant exchange rates. North America at 10.5%, driven fully by the Compounding Services development, and LATAM showed a decline of 1.1%, reflecting the challenging environment in 2022 in the Brazilian market.

Acquisitions contributed €58.5 million to sales growth, mainly driven by the Letco acquisition in North America. Tailwind of FX strengthening against the euro positively contributing to the euro sales growth. The P&L on the other side of the slide shows topline growth and positive development on margin full year 2022, mainly driven by the performance in EMEA, offset by an increase in expenses due to inflation, FX, and acquisitions.

Gross margin as a percentage of revenue improved by 30 basis points, supported by operational efficiencies and improvements. Particularly in H2, we saw a strong improvement of 170 basis points compared to H1 2022, driven by operational benefits of our Poland manufacturing site and further price increases.

The non-recurring elements consist of badwill due to the acquisition of the Fresenius Kabi site in North America of a little over €5 million and some releases of contingent liabilities, offset mainly by acquisition and legal costs. Overall, profitability increased by 12%, while net profit increased by 14.2%, resulting in earnings per share of €0.96.

Turning to the next slide. In the EMEA region, we see underlying organic growth supported by acquisitions, resulting in a total growth of 8.4% and H2 of 9.9%, showing the persisting upward trend of this region. The Essentials sales still show some impact of COVID-19 tests sold in the fourth quarter of 2021 for €5 million, which could not fully be compensated in Q4 2022. This effect will also impact the Q1 2023 comparable numbers for EMEA.

Compounding Services grew slightly over 10%, and 5% organically against constant exchange rates. In the fourth quarter, we see the segment Compounding Services delivering a very solid 24% growth and an organic growth against constant exchange rates of 17.7%. The segment is benefiting from renewal of contracts and the acquisition of Curaphar.

Profitability overall increased by almost 9% to 21.9% REBITDA margin for the year. In H2, we see recovery due to operational benefits in combination with price increases in the region. Overall, with a solid year for EMEA, where we see compounding growth stabilizing in H1 and starting to grow, and profitability picking up as a result of operational benefits and savings.

Turning to the next slide on Latin America. 2022 shows total growth of 15.1%, driven by FX. Underlying there is a small decrease in sales of 1.1%. In 2022, we see end market softness having an impact on sales development in combination with price pressure due to competitive dynamics.

Our deliberate focus on protecting our market share impacted margins. But we also streamlined the organization to reduce costs. We see a slight recovery in margin in the second semester to 18.1% from 17.4% in H1 2022. Overall margin for the year is 17.8%.

On the long term, we believe that margins will recover further, due to our strong innovation strategy and further cost reduction as a result of centralization of distribution centers and combining of brands.

Next on North America. North America showed sales of €245.1 million, an increase of 38% and an organic increase against constant exchange rates of 10.5%. B&E sales increased by 33.2%, driven by the acquisition of Letco and the strengthening of the US dollar. Organically, B&E sales declined with 8.3% as a result of the deliberate slowdown in sales as a result of the FDA audit in Minneapolis. Part of that sales is transferred to the facility of Letco. Corrected for these transferred sales, decline would be 6.8%.

Despite supply chain challenges, the growth in the Compounding segment continued. Organic sales against constant exchange rates increased by almost 20%. The run rate combined for FSS Boston and Wichita exceeded US$110 million. Profitability in H2 2022 was 15.5%. Corrected for the Boston acquisition, this was 17.8% compared to 18.1% in FY 2021.

Profitability margin was impacted by the acquisitions of FSS Boston and Letco, which had a dilutive impact, in combination with the decrease in sales in B&E. We expect to see sales growth and the margin to improve towards H2 2023 as FSS Boston ramps up on the back of further licenses and the completed transfer of products to Letco. In addition, we will also benefit from the growth trajectory at Wichita.

An important element of our business model is strong cash conversion. Operational cash flow in 2022 amounted to €109.5 million, an increase of almost 40%. Working capital benefited mainly in the last month of 2022 from supply chain easing and improving operational output from the facility in Poland. The factoring amount increased by €5.8 million to €36.8 million by the end of 2022.

Capex was just below the guided range of 3% to 3.5% of sales, mainly due to timing of investments and order delays. For the next year, we expect therefore to be on the high end of the range.

Strong cash generation resulted in an 84% REBITDA operating cash conversion and a free cash flow conversion of 69.5%, representing €91 million.

Moving to the next slide. This bridge represents the net debt development in 2022, moving from €264.9 million at the end of 2021 to €274.1 million at the end of 2022. In 2022, we see a further strengthening of the balance sheet as net debt to EBITDA ratio improved and is below 2.0. This ratio includes, amongst others, adjustments for the annualization of acquisitions and IFRS 16 adjustments.

In 2022, the main cash-out is related to the acquisitions in North America and EMEA, of which Letco is the largest. For 2023, we will continue our disciplined M&A strategy, taking into consideration our internal threshold net debt to EBITDA ratio of 2.8 times.

Continuing with the outlook for 2023. Cash will be largely used to fund growth, which will remain our overarching priority over the next period. We do not expect our working capital profile to change dramatically. Maintenance Capex will remain between 3% and 3.5% of sales. On top of that, we are planning to invest in a new 503 facility in Tampa for around US$18 million, mostly spent in 2023. This facility will be part of AnazaoHealth. We are working on a plan for further expansion of our B&E business in North America and will inform you when these plans are finalized.

Next, we want to maintain a consistent and disciplined approach towards acquisition growth. Net leverage ratio limits set by our bank covenants at 3.5 times REBITDA, while we have set our limit at around 2.8 times. As you know, that compares with a ratio of 1.9 at the end of December 2022, which gives us sufficient headroom.

Dividend policy remains unchanged. The proposal will be an increase compared to 2022, resulting in €0.25 per share. Overall, our capital allocation framework will remain focused on funding growth opportunities.

The next slide provides our expectations for 2023. Our sales expectation for 2023 is a mid to high single-digit growth, with each region having its own dynamics. M&A activity will support upside in revenue in all regions. We expect REBITDA margin to show a progressive improvement during 2023, driven by operational efficiencies, global procurement benefits, rationalization of support functions, in combination with continued passing on of price increases. Therefore, we expect a pickup in the second half of the year.

Maintenance will be in line with – maintenance Capex will be in line with guidance. And on top of this, we will invest in the expansion of our AnazaoHealth business in North America as discussed on the previous slides.

Rafael Padilla: Thanks, Karin. To sum up, Fagron is a niche, defensive, high-cash-generating company, who is consolidating a highly fragmented market. 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 seen in our results, Fagron demonstrates strong cash-generating capabilities, and disciplined M&A remains a key part of our growth strategy. Our operational excellence plans will drive several efficiencies across the company, mainly on global procurement synergies. To conclude, sustainability is a key strategic pillar, as together, we create the future of personalized medicine.

Now time for Q&A.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, 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. To withdraw your question, please press start two. We'll pause for a moment to allow everyone an opportunity to signal for questions. We'll now go ahead with our first participant, Frank Claassen from Degroof Petercam. Please go-ahead sir. Your line is open.

Frank Claassen (Degroof Petercam): Yes. Good morning, all. Three questions, please. First of all, on Brazil, looking at the organic revenue decline. Could you roughly indicate how much is due to the market softness and how much is due to increased competition? And when do you expect this situation to improve? That is the first question.

Then secondly, on Boston, the Boston plant. You indicated you're going to reach breakeven in the second half. Is that over the second half? Or do you expect to reach breakeven, let's say, towards the end of this year? And what are you all doing to reach breakeven? Because you are still, yeah, loss-making at the moment. So, what is your, let's say, integration plan? Can you elaborate on that?

And then finally, a financial question probably for Karin. The factoring position. What is currently the factoring position? Could you indicate that? Thank you.

Rafael Padilla: Yeah. Good morning, Frank. Regarding Brazil, we have seen last year, and that is data that is available, right, that the number of scripts decreased 10%. And we have therefore seen that the competition intensity increased as everyone wants to sell and maintain their position, right?

So, as said, we want to maintain our leading position there. And therefore, we have, during the first semester, made some price concessions. When you see the second semester improved profitability because regardless of the fact that we maintain market-leading position, we have been extremely competitive. We have also focused a lot on innovative Brands in order to maintain and increase, of course, the margin compared to the first semester. And as well, we have started or continued important projects like the centralization of the warehouse that has helped us in order to achieve the results.

On Boston…

Karin De Jong: Yeah, so –

Frank Claassen Sorry to come back. So, when do you expect, let's say, the situation to improve in Brazil? Is there anything to say on this? Or will it stay like it is now?

Rafael Padilla: Right. During the first semester of 2023, we expect that the conditions will remain as 2022, right? So, the first semester of 2023, and we expect to see during the second semester of this year a recovery in the region.

Frank Claassen: Okay.

Karin De Jong: Yeah. And maybe coming back on the question regarding Boston. So, Boston was acquired at the second – in the second semester of last year. Sales were approximately €7.2 million over that period, and we reported a loss of €1.7 million. We see that the synergies from that acquisition lie in the combination of the facilities for Wichita and Boston.

First step for Boston is obtaining licenses in the different states in the US. So, we are currently at 16. So, we acquired some licenses in the last period. We have to increase those licenses to sell in the big states in the US. So – and that is an important driver of sales growth on the one hand, and of course of profitability growth. So, that is an uncertainty in the sense that timing on those licenses is difficult to predict.

However, we see options to be at breakeven 12 to 18 months after the acquisition. So, we expect to be breakeven in H2 2023 for that facility and continue to grow.

On the – sorry, go ahead.

Frank Claassen: So, does that mean that you – over the second half, you will be breakeven? Or will you hit, at a certain point, let's say, at the end of this year, breakeven?

Karin De Jong: Yeah, we will hit – yeah, correct, Frank. So, the last point, we hit breakeven in the second semester, correct.

Frank Claassen: Okay, thanks.

Karin De Jong: And then on the factoring position. At the end of the year, we were at €36.8 million. So that is an increase of €5.8 million.

Frank Claassen: Okay, thank you.

Karin De Jong: Thank you, Frank.

Rafael Padilla: Thank you.

Operator: Thank you. We will now move on to our next participant, Stijn Demeester from ING. Please go-ahead, sir. Your line is open.

Stijn Demeester (ING): Yes, good morning. Three questions, if I may. I will ask them one by one if that is okay. First one is on the organic sales growth outlook for 2023, which calls for mid-to-high single-digit organic growth. Could you give some granularity on the regional level, how we should see this evolve in 2023?

Rafael Padilla: Yeah. Good morning, Stijn. So, when you look at 2023 and we go through the regions, we expect EMEA to continue the growing trajectory that we have seen in the last quarters. Moving into North America and on the Compounding side, we will see a progressive step-up and – contributing to this organic growth. On the B&E side, we expect a greater sales growth in the second semester compared to the first semester. And then moving into LatAm, as we were discussing with the previous question, we will see an increase during the second semester as well.

Stijn Demeester: Okay. Understood. So, the first half will still be, sort of, in line with the second half of 2022 in terms of organic growth? Or do you already see a pickup versus the second half?

Rafael Padilla: Well, when – specifically for LatAm, what we see is that during the first semester of 2023, we will see a continuous progression on what we saw in 2022 and then increase in the second semester of 2023. That is for LatAm.

Stijn Demeester: Okay. Understood. Then on Fagron Sterile Services, could you provide some more specific guidance on the further ramp-up in Wichita in 2023 and give perhaps a shot at a new year-end target? And then related to that, there are some new entrants in the sterile space in North America, such as injectables, especially Hikma which has bought medium assets. Do you see or do you expect an increase in competitive pressure as more players are looking into the space?

Rafael Padilla: Yeah, that is a very good question, Stijn. And when you look at the overall market in the US for the sterile services, it is a current market of US$1.5 billion and the trends say that it will go up to US$3 billion, moved by regulation, right, the underlying trend regulation that brings the outsourcing path.

So, regarding competition, we see new players coming as well. We also see some players going out of the space because quality, as we're saying, is a very important factor there and ensuring the highest quality standards is again a very important factor in this industry.

So regarding Wichita, we commit to our target, of course, and we expect a progressive step-up in 2023. Timing depends on supply chain and operational factors, and again, as said, Stijn, we remain really focused on maintaining the high quality standards.

Stijn Demeester: Okay. If I may ask a follow-up on this one. In Q3, you mentioned that you would onboard new syringe suppliers. How is that progressing? Has it now been completed so that the syringe issue will not be, sort of, prevalent in the first half? Or is that still ongoing, that process?

Rafael Padilla: Yes, spot on, Stijn. Because what we said, we see early signs of easing syringe shortage. We continue to monitor it extremely closely with our global procurement teams. And if you recall well, we have – we were onboarding two new suppliers. We have currently two suppliers that we have done business with in the last five years. And these are the suppliers that are supporting us and where we now see these early signs of easing, right? So, on the two new ones, and specifically your question, one has – one stepped out of – because of quality demands from our side, right? So, one is not there anymore. And the one that stayed, we expect to have onboard during the second quarter of this year. But again, the existing ones are the ones that are supporting us. And on time in full – the concept that we explained last call, right, so they were delivering on time, but not always in full the quantities that we are asking – we see now an improvement on that part.

Stijn Demeester: Okay. Understood. And the last one is a more specific question on the competitive dynamics in the Benelux. It seems Netherlands is now on a more stable footing, but ACE Pharmaceuticals is expanding geographically with the first acquisition in Belgium, together with Febelco. Now, Febelco has also launched its essential offering, I think last year. And considering the high market share of Febelco amongst Belgian pharmacies, which I think is at 40%, do you see this evolution as a material one in one of your home markets? Could you also indicate what the significance is of Belgium within EMEA in terms of sales?

Rafael Padilla: Right. So, a very, very good question because Belgium is one of the biggest markets in the world in compounding per capita, right? So, 12 million compounds on a yearly base in Belgium. So, it is important for us. When you talk specifically on Febelco, if you recall last year, we were saying that in the Benelux, speaking to the Netherlands, we had extended some important contracts, and we also did in Belgium, and Febelco is one of these. So, we have a good partnership with Febelco. We do very good business with them. And as you said, they have a good coverage. So, we are confident that this will stay, right?

And then on the share of Belgium within EMEA?

Karin De Jong: Yes. So, it is limited. It is one of the three biggest markets, but not on profitability. So, current first indication is that the impact will not be material.

Stijn Demeester: Okay. And your relationship with Febelco, is that as a supplier in Essentials? Or is there – are there other aspects to it? Now we see that Belgium is also mostly Essential sales.

Rafael Padilla: Right, that is correct. And we have, as you know, the widest product portfolio in the industry. And of course, Febelco – we work with Febelco with our full product portfolio.

Stijn Demeester: Okay. Thanks for my question – for addressing my questions.

Rafael Padilla: Yes. Thank you, Stijn.

Operator: Thank you. Once again, ladies and gentlemen, if you would like to ask a question, please press star one. We will move on to our next participant. Jeroen Van den Bossche from KBC Securities. Please go ahead. Your line is open.

Jeroen Van den Bossche (KBC Securities): Yeah, hi. Congrats on the strong results from KBC Securities. Maybe two questions. One with regards – following up on the FSS question there. How will you evolve Boston versus Wichita? Right now, we see – we understand, okay, you had US$110 million of which let's say, US$10 million in Boston. How do you see that changing over time? Will you be able to create some, let's say, synergies on the longer term, also with offsetting risks like what happened at the St. Paul facility? Can you give some more granularity as to what will happen also with Anazao going forward because it seems like you are really going after this market?

Rafael Padilla: Yeah, thanks a lot, Jeroen. Good morning. Regarding Boston, as we recall, it was the purchase of a high-quality strategic asset, right? So, we have capacity - we have presence in the Northeast, and we have redundancy, right? So having said that, our focus lies on, first of all, obtaining new state licenses, mainly on important states like Florida, like Texas, like California, like New York, very important for us. And of course, this will bring, as a result, the onboarding of new customers. So, this is the most important trajectory – path trajectory for us in the upcoming months, right? So, we are doing our work there.

And next to this, and one remark that you gave that is very interesting, is the alignment of the operational processes with Wichita, right? So first of all, of course, the IT part because we need to introduce our system, right? And then the operational and production process, being quality control, a very important one – we have the quality control lab in Wichita, where we have – where we insourced at that time. Now we do almost all our quality checks - very important in the industry. So, we will centralize this quality control lab and then all the compounding and operational processes that come after that. So, this is the pathway for Boston, and as said, our focus now lies on bringing it to breakeven during the second semester of 2023.

And then on Anazao, yes, indeed, we go after this market because the 503A, the patient specific market, in the US is growing. There is an effect on telemedicine and then also prevention and lifestyle. So, you see patients, people, looking for these kind of therapies and doctors really adhering to these ones, right? So, we have seen a nice growth for AnazaoHealth in both the B division, and also the A in Tampa. And that is the reason that we are investing in this new facility, also in line, of course, with our global strategy to have the highest-class infrastructure, right, and also to bring capacity for the long term.

Jeroen Van den Bossche: Maybe to follow up, will that mean St Paul is going to be basically decommissioned in the future or…?

Rafael Padilla: Yeah. So yeah, that is a very good point that you are bringing, because when we talk about Tampa, it is the compounding of patient specific scripts, right? Then we will move to B&E, and when we look at St Paul, as we said, we are transferring the sales from that facility - mainly the API repackaging - into the Letco one, right? And of course, Letco had an FDA audit at the beginning of last year that we concluded successfully. Of course, we need to expand capacity and as we speak – now – we are assessing the financial plans to invest in a new cGMP repackaging facility in Alabama to give us extra capacity for the B&E market. So, then you have both the new facility at Anazao for the 503A, and then, of course, when we assess and when we will announce accordingly, of course, when we finalize this exercise for the B&E to capture that market as well. Yes, that is correct.

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

Rafael Padilla: Thank you, Jeroen.

Karin De Jong: Thank you.

Operator: Thank you. It appears there is no further question at this time. I would like to turn the conference back to the host for any additional or closing remarks. Thank you.

Karen Berg: Yes. Well, thank you all for your questions. We look forward to speaking to you again when we present our Q1 results. And for the rest of the day, I wish you a great day. Thank you.

Operator: Thank you for joining today's call. You may now disconnect.