Fagron

Fagron
H1 2021 Results

Rafael Padilla, CEO
Karin de Jong, CFO
Andrew Pulido, Area Leader North America

August 5, 2021

Together we create the future of personalizing medicine**.**

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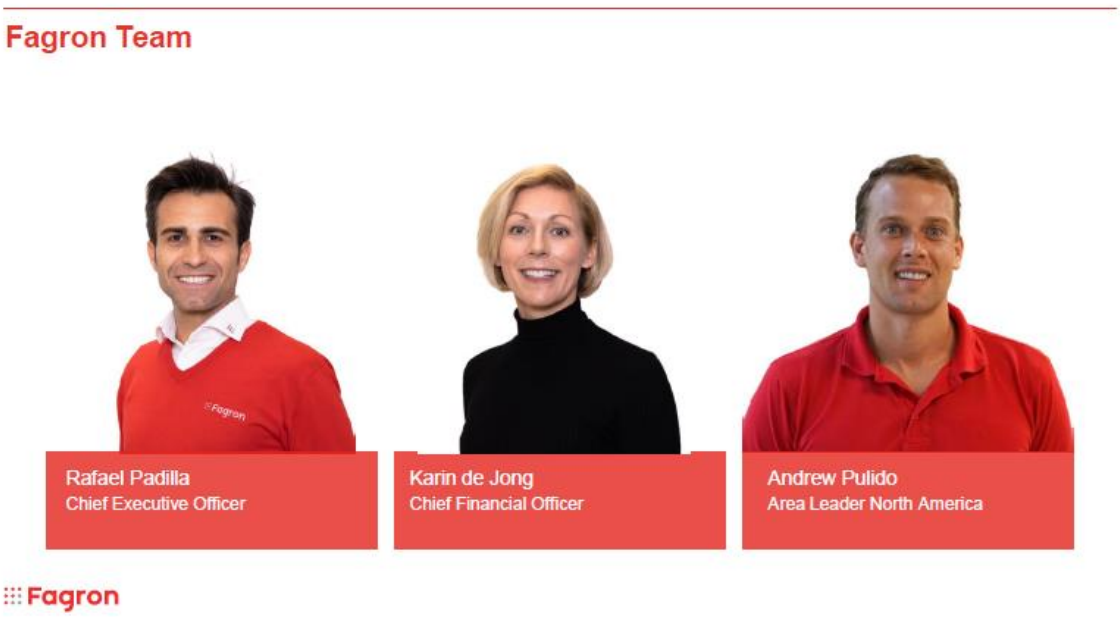


Constantijn van Rietschoten – Chief Corporate Affairs Fagron: Hello, and welcome to Fagron's first half of 2021 conference call. Today, Rafael Padilla, CEO, Karin de Jong, CFO and Andrew Pulido, President of Fagron North America, will guide you through the results for the first half of 2021.

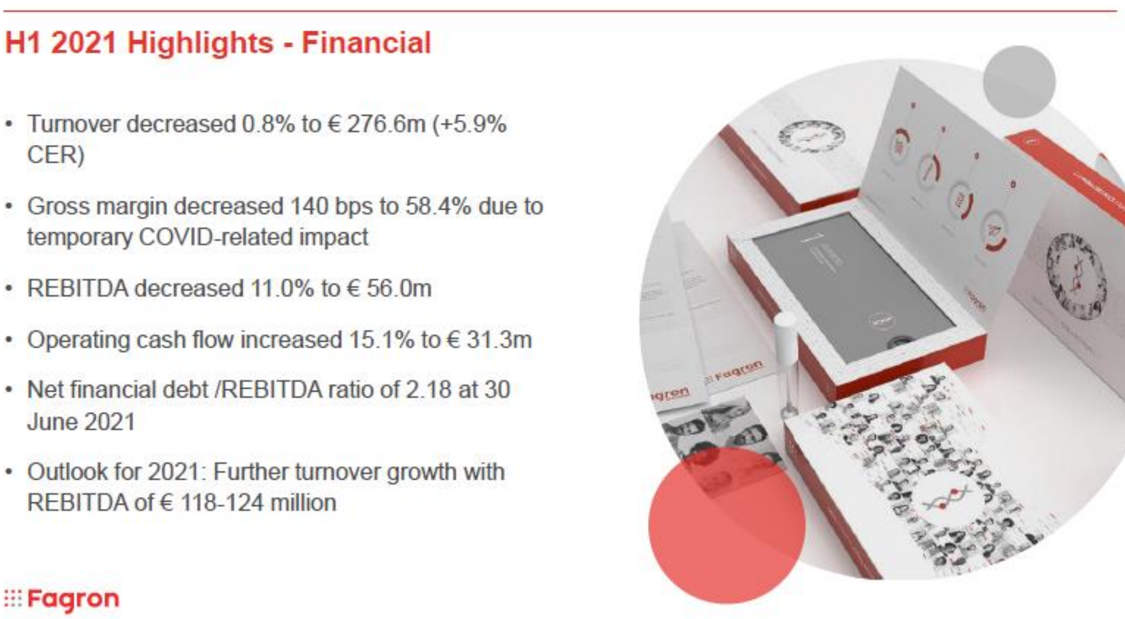
We will refer to a presentation that can be downloaded at our website, investors.fagron.com. There will be an opportunity to ask questions after the presentation.

I will now hand over to Rafael and he will start on slide 3 of the presentation.

Rafael Padilla – CEO Fagron: Thank you very much, Constantijn. Good morning all and Constantijn, congratulations with your new appointment as Area Leader EMEA. For sure you are going to do a very good job!

It is very good that today also we have our colleague Andrew Pulido, so please feel free to ask a lot of questions regarding the growth propeller of Fagron in the upcoming years. Andy, thank you very much for being here.

Andrew Pulido – Area Leader North America Fagron: Thank you!



Rafael Padilla – CEO Fagron: So, let's move to the first slide of the presentation, the first semester highlights, financially.

Our sales decreased 0.8% to EUR 276.6 million, which is growth of 5.9% on a currency exchange rate. Our gross margin decreased 140 bps. to 58.4% due to – as we indicated today in the press release – temporary Covid-related impact. We will elaborate on this later on.

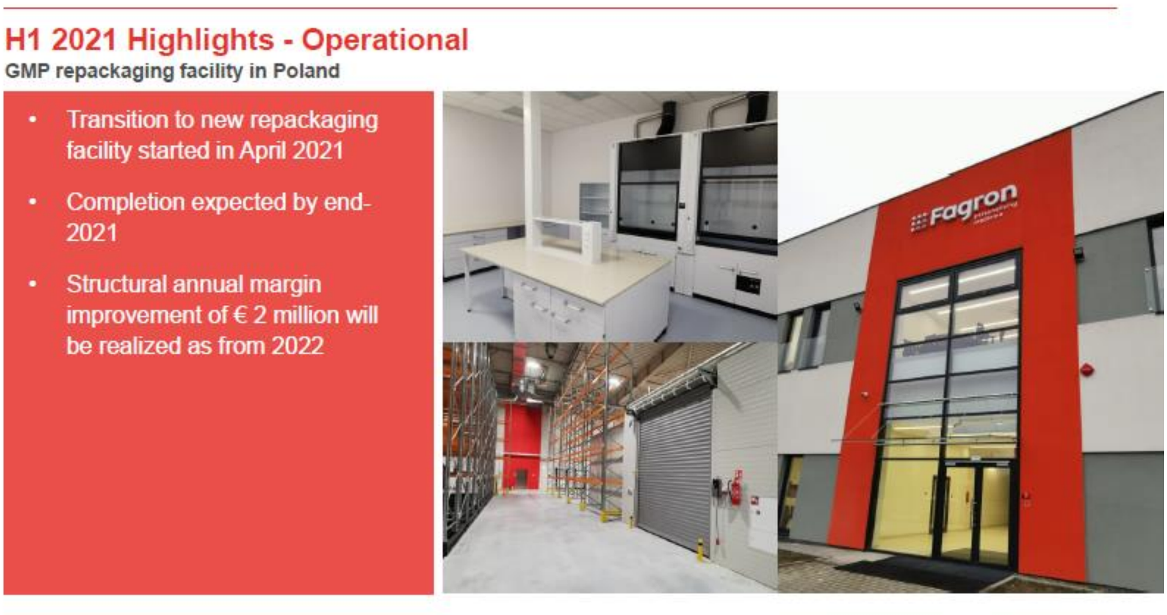
Our REBITDA decreased 11% to EUR 56 million.

Our operating cash flow increased 15.1% to EUR 31.3 million.

Our net financial debt/REBITDA-ratio was 2.28 at 30 June 2021.

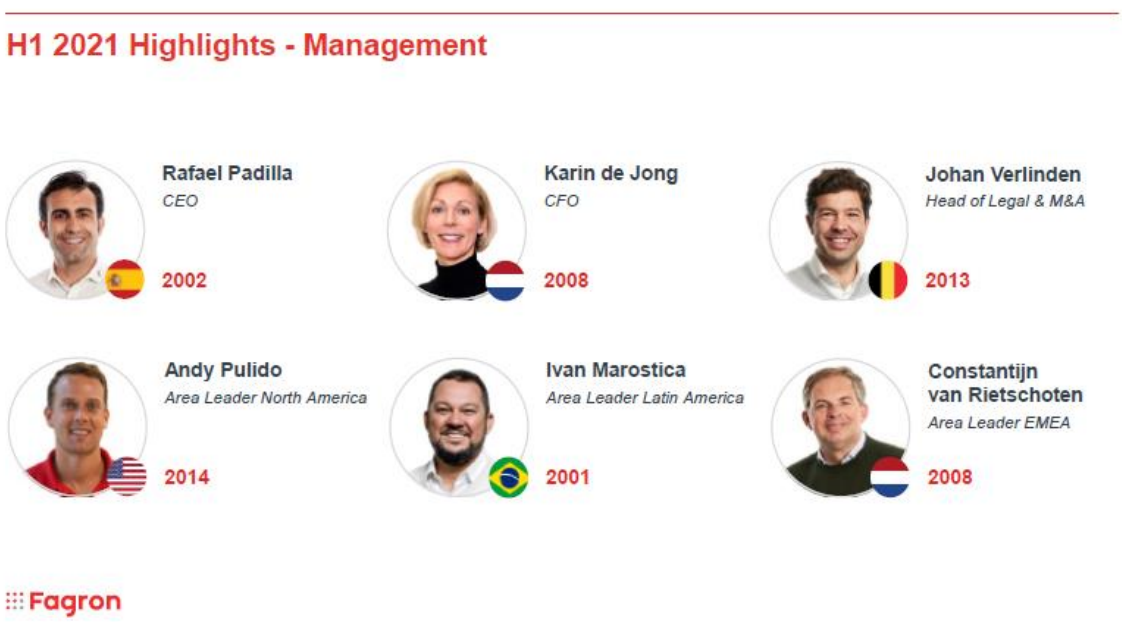
The outlook for 2021: we foresee further growth in sales with a REBITDA-margin of between EUR 118 million and EUR 124 million.

Andrew Pulido – Area Leader North America Fagron: One of the key highlights in the first half of 2021 was the acceleration of our sales growth at Wichita at our Fagron Sterile Services businesses. Towards the end of the second quarter we realised a run rate of roughly US$ 70 million annualized. That can be attributed to the launch of 15 new SKUs, primarily focused on IV-bags, which we see a tremendous opportunity. We also invested in our headcount with the addition of a second shift, so roughly 60 new FTEs, in order to prepare for more accelerated growth. We also announced this morning the acquisition of the activities of US Compounding and so based on the factors that we saw in the first half of the year, the onboarding of roughly 400 new accounts and then the acceleration of our new product development pipeline where we added 15 new SKUs, we are confident in the stated target from US$ 118 million plus the activities of US Compounding to create US$ 125 million run rate in 2022.



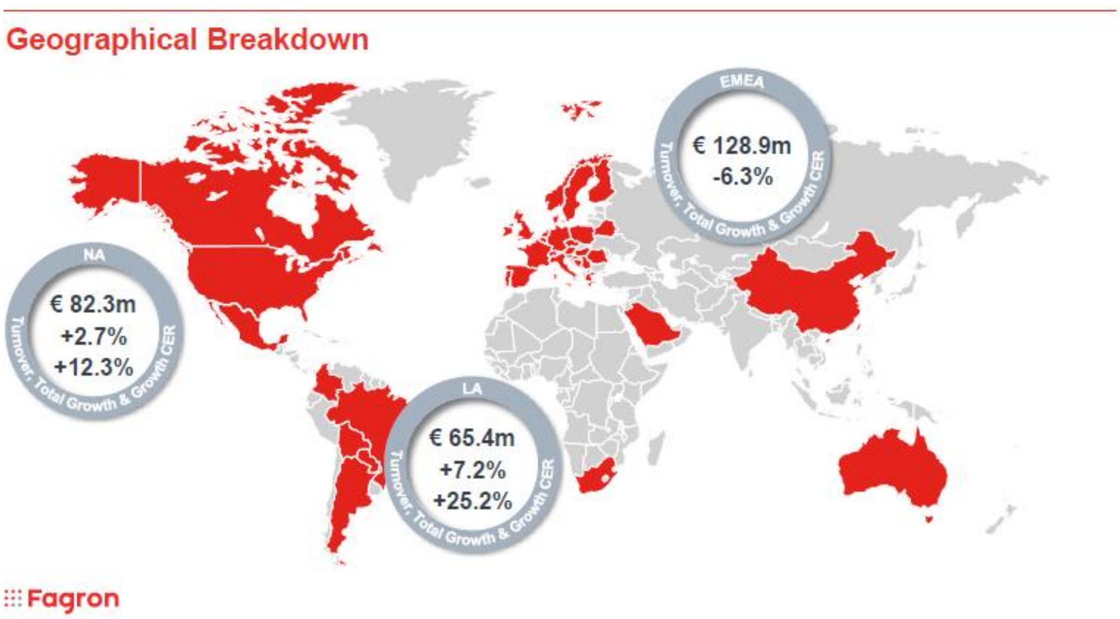
Rafael Padilla – CEO Fagron: Thank you, Andy. We have seen the operational highlights of the year. As we have indicated many times, we started the movement of our production activities in the GMP repackaging of raw materials in our new facility in Poland. You can see here the pictures of the warehouses. We started, as we indicated, in the middle of this year and the first products are coming out of the new factory as we speak. We are going to see a structural annual contribution margin of EUR 2 million as from 2022.

We are also very proud to share with you that we have completed the construction of a new lab in Israel. You will remember the acquisition of Pharma Tamar last year and the Israelian market is very attractive for us, as we offer full service to the industry there. So, we sell the raw materials, the compounding services, not sterile and sterile. We invested in this attractive market.



Also, as we have indicated in the press release this morning, our management structure has been reshaped a bit in order to have more efficiency in the decision-taking process. We have of course next to the CEO and the CFO appointed someone for M&A activities. That is our colleague Johan Verlinden, and next to the three of us, Andy for North America, Ivan for Latin America and Constantijn for EMEA. You can see a diversified team of colleagues in terms of nationality and also with a lot of experience, as you can see in the years they have been with the company.

Karin de Jong – CFO Fagron: Good morning, everybody. On the next slides I will explain the H1 2021 results per region.



The first slide represents the geographical breakdown of the sales of Fagron. EMEA is the biggest region of Fagron with EUR 128.9 million of sales and shows growth of 6.3%, including acquisitions.

North America increased sales by 2.7% to EUR 82.3 million, which was an increase of 12.3% against constant exchange rates.

Finally, Latin America increased sales by 7.2% to EUR 65.4 million or 25.2% against constant exchange rates.

Rafael Padilla – CEO Fagron: Thank you very much, Karin. We will move now into EMEA.

Fagron EMEA

(x € 1,000)	H1 2021	H1 2020	Δ
Turnover	128,866	137,549	-6.3%
REBITDA	28,623	33,448	-14.4%
REBITDA margin	22.2%	24.3%	

- Turnover decreased 6.3% (organic: -10.0% CER)
  - Lockdowns and other restrictive COVID-19-related measures negatively impacted demand for Essentials and non-sterile Compounding Services
  - Number of prescriptions (1st dispensations) recovered in NL in Q2 2021
  - Compounding Services decreased 3.9% in Q2 2021 compared to a decline of 18.8% in Q1 2021 and 12.0% in H1 2021
  - Brands and sterile Compounding Services sustained strong performance
  - Demand for specific COVID-19-related products almost absent in H1 2021
- REBITDA down 14.4% to € 28.6m
  - REBITDA margin decreased 210bps to 22.2%
  - Temporary impact on gross margin due to CV19-related issues
  - Temporary increase in costs related to new facility in Poland

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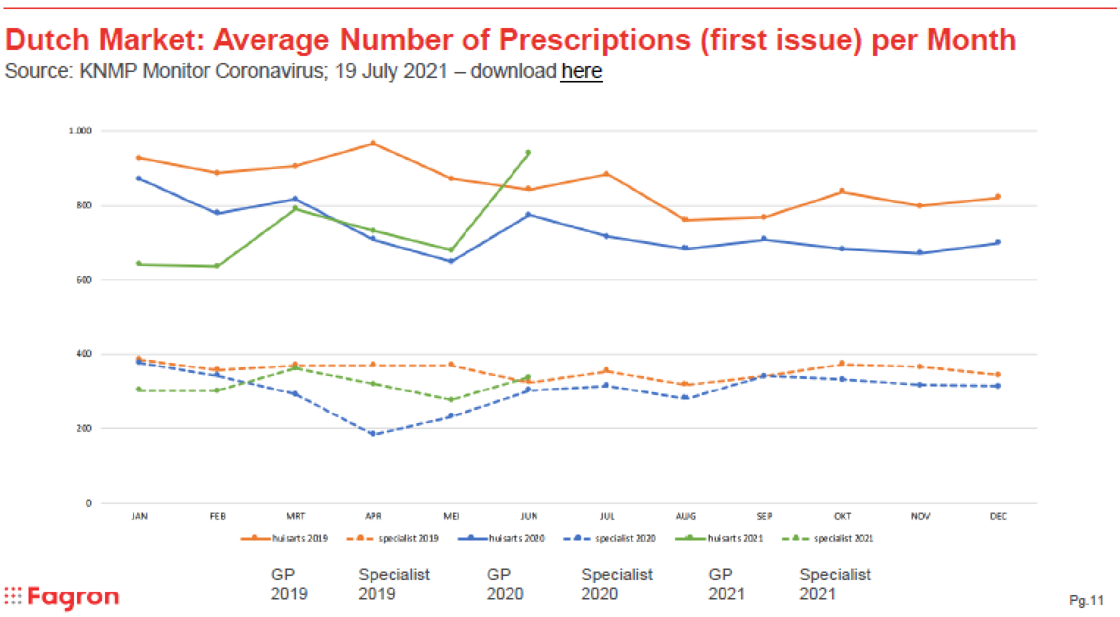
We can see a sales increase of 6.3% and organically at 10%. Of course, what we indicated is that we have seen lockdowns in different countries in the European countries and other Covid-19 related measures. These impacted the demand of our Essentials-segment and the non-sterile Compounding Services.

We see the third bullet, which shows a nice development in the Compounding Services, that decreased only 3.9% during the second quarter compared to the decline of 18.8% in Q1.



On the next slide, we see the recovery of the first issued prescription in the Dutch market. That is very positive for us because the funnel is now being filled and, as we also explained last time, of 100 prescriptions 20 come from the first new and 80 from repetition.

Fagron EMEA

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When we go further into the explanation of the sales in EMEA, we can see that the demand of specific Covid-19 items was absent during the first six months of the year and of course again, we have seen the sterile Compounding and the Brands performing strongly.

Our REBITDA was down 14.4% to EUR 28.6 million, a decrease of 210 bps. As we also indicated, this is a temporary impact on the gross margin due to Covid-19 related issues in the supply chain and of course a temporary increase in costs related to the new factory in Poland that we saw.

Fagron Latin America

(x € 1,000)	H1 2021	H1 2020	Δ
Turnover	65,428	61,045	+7.2%
REBITDA	13,005	12,758	+1.9%
REBITDA margin	19.9%	20.9%	

- Turnover up 7.2% (+25.2% CER)
  - Number of doctor's visits and prescriptions increasing in H1 2021
  - Strengthening market leadership with good turnover growth of Brands and Essentials
  - Strong turnover growth of 52.1% CER of Compounding Services in Colombia
- REBITDA up 1.9% to € 13.0m
  - REBITDA margin dropped 100bps to 19.9%
  - Temporary impact on gross margin due to CV19-related issues

Then we go to Latin America. In Latin America we continue our strong performance. The numbers of doctor's visits and prescriptions increased again in the first semester of 2021. We strengthened our leadership with good sales growth in Brands and Essentials.

Our activities in Colombia, our Compounding Services activities grew 52.1% at constant exchange rate.

Our REBITDA was up 1.9% to EUR 13 million.

The margin dropped 100 bps. and here we see again the impact on the supply chain issues […]. We have spoken. We see for example […] which normally costs US$ 800 to bring it from the Far East to Sao Paolo and it was increased during this first half ten times.

Fagron North America

(x € 1,000)	H1 2021	H1 2020	Δ
Turnover	82,293	80,156	+2.7%
REBITDA	14,378	16,729	-14.1%
REBITDA margin	17.5%	20.9%	

- Turnover up 2.7% (+12.3% CER); impacted by weakening USD vs. EUR
  - Brands & Essentials: -11.1% (-2.7% CER)
    - Demand for CV19-related products almost absent in H1 2021
  - FSS: +21.0% (+32.3% CER)
    - Run rate of US$ 70m in June 2021
    - Growth acceleration expected in H2 2021
    - Target raised to US$ 125m following acquisition of assets of USC
  - Anazao: +6.8% (+16.8% CER)
    - Clinics largely reopening again in Q2 2021
- REBITDA down 14.1% to € 14.4m
  - Temporary impact on gross margin due to COVID-19-related issues
  - Ramping up to two shifts at FSS in anticipation of growth acceleration (60 FTE hired)

Andrew Pulido – Area Leader North America Fagron: In North America you saw an increase in the first half of this year versus the same period last year of 12.3% in constant exchange rate, 2.7% in euro and when you look at the underlying data, you saw 2.7% decline in constant exchange rate in our Brands and Essentials business. This was primarily related to demand for our Covid-19 related products, almost 0.5% this year versus prior periods, albeit the underlying business is very strong.

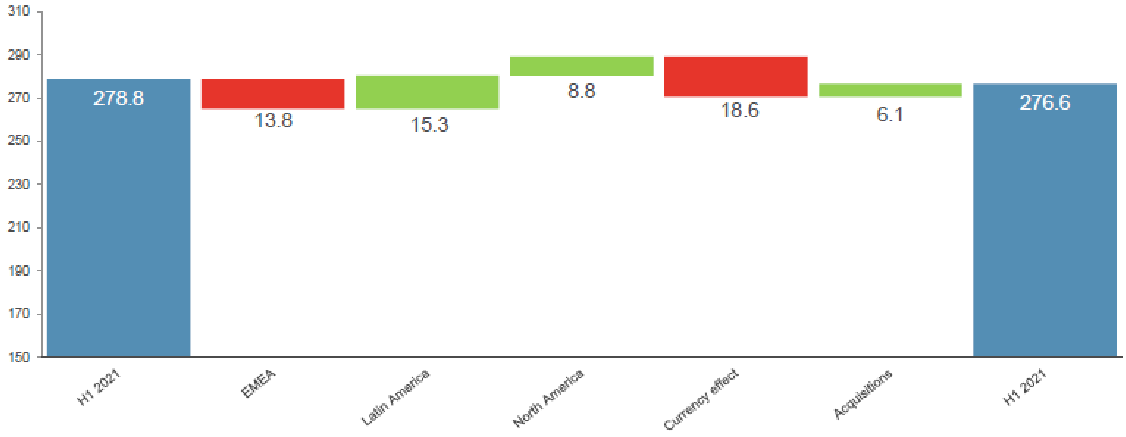
When we move to our Compounding Services business, particularly for general services we saw exciting developments in the first half of this year. We are at 32.3% on a constant exchange rate. When you look at Q2 last year, we are more or less on a run rate of US$ 3.2 million per month. When we look at Q2 this we are on a run rate of US$ 70 million, so very exciting developments that can be attributed to a launch of new SKUs as well as rolling out our IV-bags, which we have large expectations for. That, in combination with the acquisition of the assets of USC, we have raised our target run rate to US$ 125 million for 2022 for FSS.

At our Anazao business, we saw 16.8% increase in constant exchange rate, largely due to favourable industry dynamics as well as clinics reopening in the second quarter of 2021.

Moving down to our REBITDA, we were down 14.1% year over year, so we did EUR 14.4 million. This is primarily related to two factors, the first one being an impact on our gross margin due to Covid-19 related issues and our supply chains mostly increased cost of goods and increased transportation costs, as Rafael mentioned and that we see in other regions. Traditionally, we have been very successful in being able to pass these temporary price increases on to our customers, so we are monitoring that situation very closely. Secondly, we made a strategic investment I our FSS business to increase another shift in order to prepare for our accelerated growth in the second half of this year and 2022, so we added 60 new FTEs. By doing this, we feel we are very well positioned and are very confident to hit the guidance that we have given for US$ 125 million. We also are confident in our ability, as we continue to grow the business to bring EBITDA margins structurally to 20% in 2022, as we stated before.

Karin de Jong – CFO Fagron: The next slide will summarise the financial results of the first semester of 2021.

Turnover Development

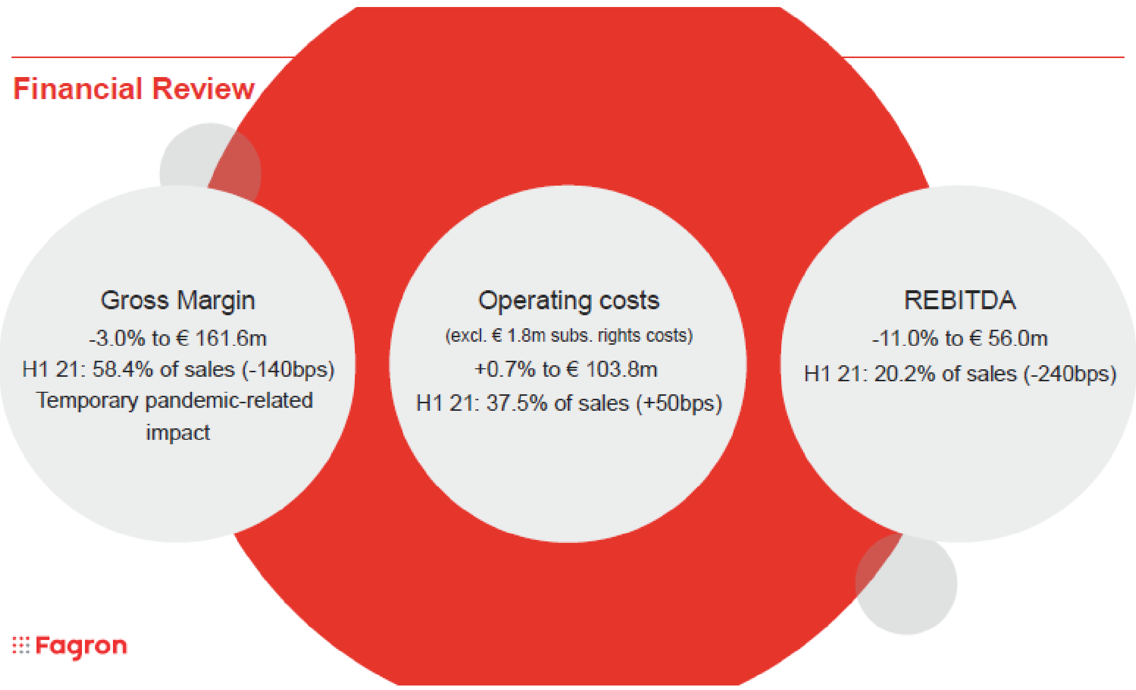


The first slide represents the turnover development in the different regions for the first semester. Sales decreased slightly from EUR 278.8 million last year to EUR 276.6 million at the end of the first semester.

EMEA shows a decrease of 10%. We see Compounding Services in EMEA recovering compared to the first quarter of 2021. Elective care is starting up again in our main markets and the number of prescriptions is increasing. However, this is compensated by a drop in Essentials sales because of decreased demand for Covid-related products.

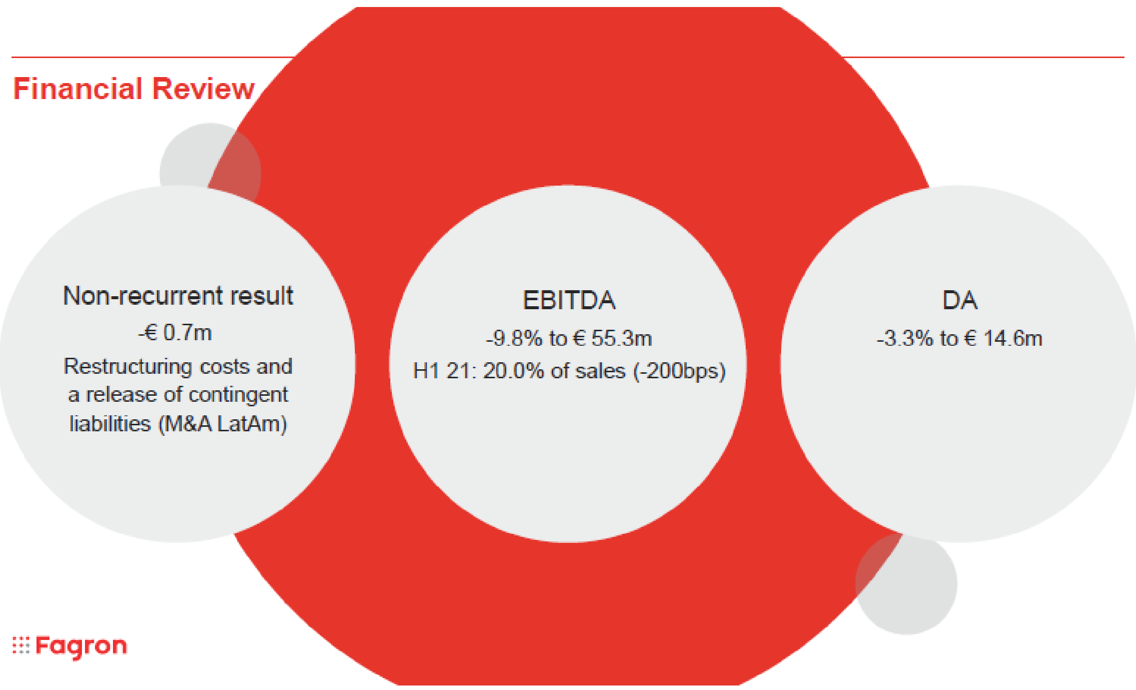
Latin America shows growth of 25%, driven by a combination of price and volume increases.

The US sales increased by 12.3% or 8.8 million. The Essentials business increased by 16% while the Brands decreased by 22.1% as a result of Covid-related sales decreasing. Sterile Services increased by 23.7%. There is a negative FX-impact because of the weakening of the Brazilian real and the US dollar of 18.6 million. On top of that, there is 6 million of acquisition growth, mainly because of the acquisition of Tamar resulting in total sales of EUR 276.6 million.



The gross margin shows a decrease of 114 bps to 58.4% compared to last year. The main reason for the decline is the impact we have from various Covid-related developments resulting in limited availability of products and higher costs. We estimate the impact roughly to be around 1%.

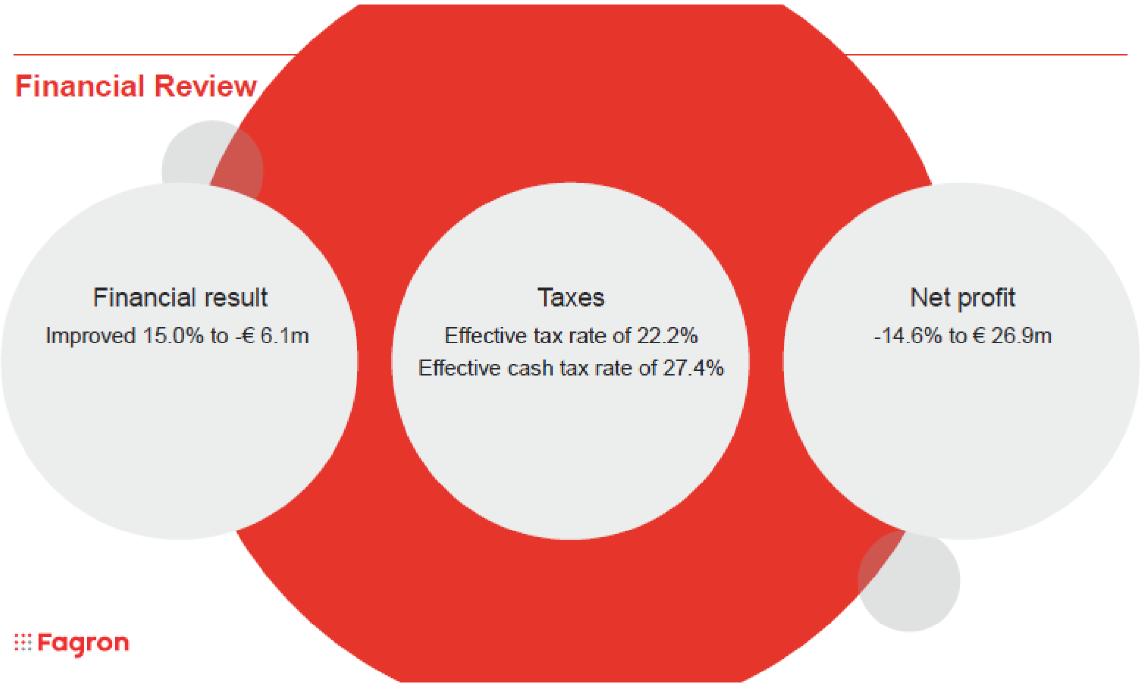
The operating costs excluding subscription rights increased slightly by 0.7%, resulting in a REBITDA of EUR 56 million, a decrease of 11%.



The non-recurring costs are 0.7 million, which are related to the restructuring costs we had in EMEA and a release of a contingent liability in Latin America.

EBITDA decreased to EUR 55.3 million.

Depreciation and amortisation also decreased to EUR 14.6 million.



The financial results decreased by 15% to EUR 6.1 million. In April 2021, we repaid US$ 60 million of outstanding notes, which resulted in a decrease of the interest costs of Fagron.

The effective tax rate is 22.2% and the cash tax rate is 27.4%. The reasons for the increased cash tax rate are a combination of decreased profitability and timing of payments.

This all results in a net profit of EUR 26.9 million, a decrease of 14.6%.

Rafael Padilla – CEO Fagron: Thank you very much, Karin.

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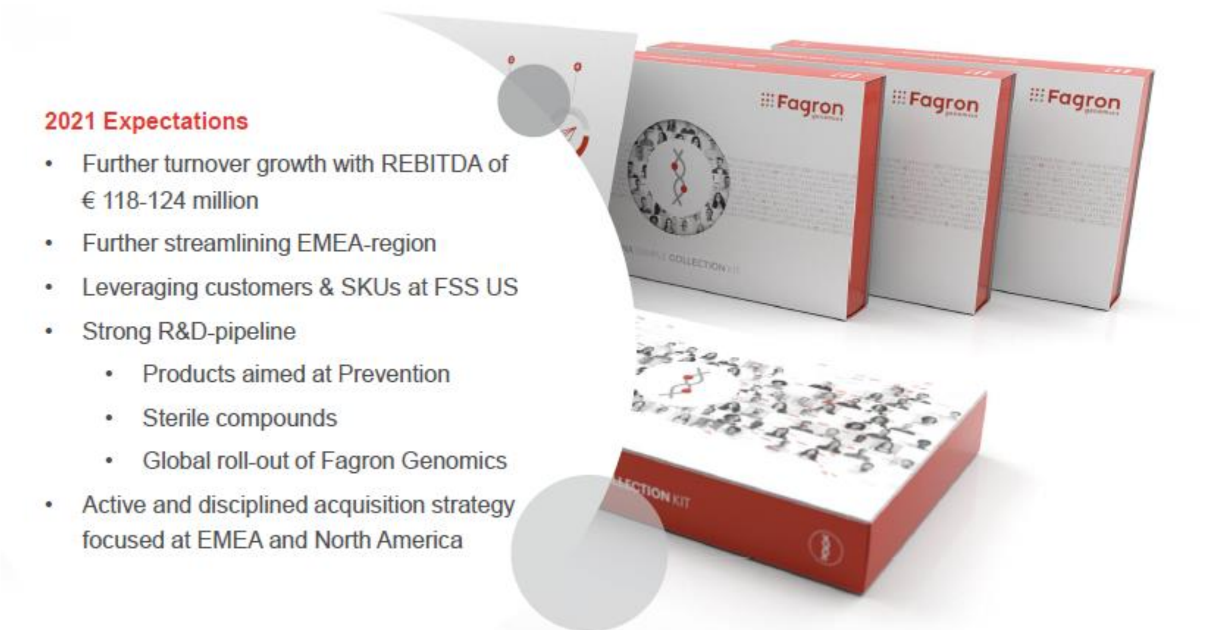

To finalise this presentation, what can we expect for 2021?

We can expect further growth in sales with a REBITDA of between EUR 118 million and EUR 124 million.

We also – and this is the job that we did – during the last nine months we streamlined the EMEA region with a back office, the facility in Poland but also the rationalisation of our front office activities in important markets like the Netherlands. Now, Constantijn can take it over and of course he can make a big success out of it.

We are going to leverage […] customers, 400 new accounts and SKUs on track for 2022, 180 new SKUs. Now, we are also going to launch [….] Andy?

Andrew Pulido – Area Leader North America Fagron: Correct.

Rafael Padilla – CEO Fagron: Also, we are working on our strong R&D pipeline with products in our Brands and Essentials aimed at prevention, our Sterile compounds – we are the global consolidator of the Sterile market worldwide with activities in six countries – and of course the global platform of Fagron genomics that are an enabler of our Brands and Essentials business, totally aligned with personalising medicine and, as we saw today, with the acquisition of the book of business of US Compound Services an active and disciplined acquisition strategy focused at EMEA and North America with also, as we stated, a dedicated colleague in our team in order to execute this strategy.

Now, we open up the floor to questions. Thank you very much.

Questions

Frank Claassen – Degroof Petercam: Good morning, all. My first question is on the impact on the gross margin of the Covid-related raw material increases and the transportation costs. How quickly do you think the situation can normalize and what are you doing? Can you for instance quantify the price increases, are you breaking up existing contracts? So, could you elaborate on how you think the situation will evolve going forward?

Karin de Jong – CFO Fagron: Thank you, Frank. Indeed, we see a decrease of our margins. We believed initially we would see a recovery this semester, however, we saw a rapid rise in the price of raw materials and packaging, partly as a result of Covid-19 and the global vaccination programs. We see transportation costs having risen substantially and on the current contracts these cost increases cannot always be passed on in full or only with a delay, resulting in a temporary negative impact on our gross margin. As said, we believe it is a temporary impact. We believe we can pass price increases to our customers and come back to levels pre-Covid. That is around 60%. However, we do not know about the new developments regarding Covid and especially how the outbreak of the Delta-variant can impact us, so it is difficult to provide an indication on timing. That said, we are positive that by the end of the year we would see recovery in the margins again.

Frank Claassen – Degroof Petercam: Okay. Could you also quantify the price increases you have to pass on? Is that quantifiable?

Karin de Jong – CFO Fagron: That differs a little bit per market. Brazil is pretty dynamic, so we can pass part of the price increases a bit easier although we do see that with the huge increases in Brazil we are not able to pass them all on at this moment. So, when we see growth in Brazil it is a combination of price and volume. Price double digit, so a little bit over 10% is price-driven. We see price increases way over that, so at that point in time it is difficult for us to increase even more in that already very dynamic market. Other markets are a bit easier but for instance in Europe we have contracts that are running, so it is not that easy to immediately increase prices. Over time, we are positive that we can increase those prices.

Frank Claassen – Degroof Petercam: You helped us on the impact on the gross margins but there were also some extra costs in the first half for the packaging facility and for Wichita. Could you roughly indicate how much additional costs you have added because of these two reasons?

Karin de Jong – CFO Fagron: Indeed, we indicated that Opex remained stable around EUR 103 million compared to last year. We see that on the one side the increase is in the US compounding part to accelerate that growth. You also see that in the EBITDA margin of the US. We see an increase in Poland and we also believe that this is temporary because we are transferring products from the Netherlands to Poland, so there are double costs in that process and we believe that is a temporary impact. Of course, on an absolute amount we also see an increase because of the acquisitions. Those costs are being compensated by savings we realised there. Last year we mentioned we had a reorganisation and that partly compensated the Opex we invest in the business. This is the level of detail we want to give, Frank.

Frank Claassen – Degroof Petercam: Okay, fair enough! Thank you very much.

- **Matthias Maenhaut – Kepler**

Good morning, two questions from my end. The first is on the guidance. You have a guidance bracket to arrive at full year adjusted EBITDA of between EUR 118 million and EUR 124 million. I just want to try and understand a little bit better what is going to be the swing factor for Fagron for arriving at respectively at the low end or at the high end of that guidance. And maybe also some more colour per region on what to expect.

The second question is on the strategic investments done in the Wichita facility, so a second shift. I was just wondering, next to this initiation of a second shift, what is still needed to get to full capacity of the facility and can you confirm that with these investments there is the potential to do more than US$ 125 million and how much more?

Rafael Padilla – CEO Fagron: Thank you very much, Matthias, and good morning. Regarding the range that we gave today and how we see the shift; we see that our fundamentals remained strong and even stronger during this pandemic. We also see improvements in – again – two strategic elements. As we said in the presentation, one is the […] services activities in Europe, mainly in the Netherlands, where we see a positive trend. We are coming from minus 18.8 to minus 3.9, so that is a good, positive trend, aligned with the issued prescriptions. That is one element. The second is of course the ramp-up of our Wichita facility in the US, as we said the propeller for our growth. Of course, Q1 sales were somehow weak and improvements in the second quarter were more at the end of the second quarter. So, that is another element. Of course, as we said today, we have seen some margin erosion during the first semester due to the Covid-related situation in the supply chain, also with the new Wichita 60 FTEs that Andy elaborated on and the movement of the Polish facility. All these elements give us confidence in order to give this range of EUR 118 million – EUR 124 million.

Moving to the regions, what we see in LatAm, we see continued strong growth there. With the pricing that we monitor on a daily base with this dynamic of the market, we will also continue to pass through these price increases that we have seen in the supply chain to our customers. There, we are very well positioned because also we made the step of building some strategic inventories there in order to stay as we are, very much competitive, in the US. Andy will elaborate on how the margin will evolve in the second semester but we are very confident.

In the EMEA region, of course with the projects we have done the last nine months on streamlining the organisation and centralising the back office on the operational side, on having this delay of price increases in some of the contracts, we are also confident that we will see an improvement there.

Andy, maybe you can tackle the second question on Wichita?

Andrew Pulido – Area Leader North America Fagron: Your second question was on Wichita and the 60 new FTEs. We took the decision to make a strategic investment in 60 new full-time hirers for the operation to create the second shift. When you looked at our business last year on a monthly basis in the second quarter we were a little over 3.2 million per month. Of course now, as we wrapped up the second quarter of this year, we are around 5.8 million per month. If you look at the acceleration of the new product development pipeline and the onboarding of roughly 400 new accounts, which take more or less around four to six months to fully onboard, especially for the larger hospital systems, that gives us a lot of confidence that adding these 60 new FTEs is the right decision in order to continue the accelerated growth and growth in the second half of this year as well as in 2022.

As it relates to capacity, I think more or less we should have sufficient capacity in the facility up till around 200 million or so, which we previously communicated. The team is doing a great job, we are on the IV bags and what not, and you can feel the energy and the enthusiasm as we continue to accelerate the business.

Matthias Maenhaut – Kepler: Alright, thank you. If I may follow up, to get to that 200 million are there any additional investments still necessary in terms of equipment, et cetera? What would be a reasonable timeframe to get to these US$ 200 million? Also, from a product innovation perspective, what can we still expect for the remainder of the year?

Rafael Padilla – CEO Fagron: Matthias, Andy will answer that question, but when we stated 200 million we did not give a new guidance whatsoever as to when we are going to get there! So, we are at 118 and with this movement, with this book of business of the US Compounding, we feel comfortable with 125. We are on track. The 200 million is the capacity of the current facility. If you want to add something, Andy? What are the investments necessary?

Andrew Pulido – Area Leader North America Fagron: Of course, we are always looking at different automation, techniques and what not. Part of the facility is automated. When we think about our new product development, we traditionally serviced our customers with OR syringes. We strategically launched our IV bags and in the first half of this year, which we have already seen a nice impact from. So, we will continue to see further developments and new product development efforts in that category. But when we look towards the next year, we are really focused on being a one-stop shop full-service provider for hospital outsourcing. So, we really need to be in four key categories; the first is OR syringes which is our historic business that we focused on, the second is IV bags, which we launched in the first half of this year, in the second and third are epidurals and […] cassettes, which we will roll out in the second half of this year and the first half of 2022. Those products all in combination give us significant confidence that it leaves us enough headroom to be able to continue to grow to not only the 124 million but beyond.

Rafael Padilla – CEO Fagron: Maybe Andy we can also explain to Matthias about the investments. For us, quality has always been the first driver for success in Wichita, right. So far, we have done a good job there. But it is very important for the industry is that we invest in service levels.

Andrew Pulido – Area Leader North America Fagron: Yes. As I am sure you can imagine we are the largest player in the market, [exiting] at the beginning of 2020. The need for really strong, reliable hospital outsourcing partners is greater than ever, so from our standpoint we have over the last year been very targeted in how we think about our growth and onboarding new customers as well as the way in which we roll out SKUs, so that we can ensure that we service our customers with very high service levels. Right now, we are more or less around 97%, which is I believe industry leading. So, that gives us quite a bit of confidence that in the way in which we are doing it, adding on a second shift, we can continue to accelerate our growth in the second half of the year and next year as well.

Frank Claassen – Degroof Petercam: Thank you.

- **Lenny van Steenhuyse – KBC Securities**

Hi, good morning. I was also wondering a bit on the US operations, so some questions on that. Could you elaborate a bit on the acquisition of US Compounding, how the product offering and customer base compared to the existing one of Fagron in the US.

Then the second question. You mentioned the 400 new accounts being added. How do you feel in terms of overall market share in that compounding segment? How is that shifting in the US through the lingering pandemic effects? How much do you feel could be sticky or do you expect still some churn of the overall market share?

Andrew Pulido – Area Leader North America Fagron: On the US Compounding business acquisition it is more or less 6.5 million annualised with a product portfolio that is quite similar to our product portfolio. We do have the ability to add on a few new SKUs from this deal, albeit there will be a transition in order for that to take place. So, really what this deal gives us is access to new customers and it gives us the ability to take customers that we share together and expand the share of the wallet with our launch of IV bags. So, we are quite excited about that. Again, for the first half of this year we do expect a transition with the quality standards, cGMP/CFR 2.10 and 2.11, it does take some time to transition these customers properly in order to have long-term relationships with them. So, we expect some time there. But mostly this is an opportunity for us to further strengthen the relationship that we have with customers that we share and to gain new customers.

As it relates to the 400 new accounts that we added on the first half of this year, we see a really great potential to grow at these accounts. It takes about four to six months on average to really fully onboard these accounts, so for the accounts that we landed at the beginning of the year – January, February, and March – you saw some of that revenue coming in in the second quarter, which is why we were able to realise a run rate of roughly 70 million in June. For the folks that we added on towards the back half of the semester, we will see those customers come into fruition at the end of the third quarter and the beginning of the fourth quarter. That, in combination with being more a one-stop shop, we feel that gives us a lot of stickiness. Our customers, once they make a transition because of the quality standards and because of the involvement – as I am sure you can imagine the larger the hospital system the more challenging it is to move their hospital pharmacy operations to us – it requires high service levels. When you have high service levels and you can provide one-stop shopping with a top-notch customer experience, they tend to stick with you. So, that gives us a lot of confidence that we will not have very much customer churn if we do our job operationally to keep the service levels very high, which we are confident of.

Lenny van Steenhuyse – KBC Securities: Alright, thanks for that. Perhaps if I can squeeze in another last question also on the REBITDA margin guidance? Just a quick one. Does the guidance take into account or assumes similar increased costs for the second half of this year or is there already some alleviation expected in costs for the coming months?

Karin de Jong – CFO Fagron: For North America we of course expect to see leverage based on the investments we now do, on the 60 FTEs and the sales increases. For Poland, when the transfer is finalised somewhere in Q3 and early Q4, we expect those costs will run out of our P&L.

Lenny van Steenhuyse – KBC Securities: And how does that relate to the growth margin in terms of costs?

Karin de Jong – CFO Fagron: The 2 million we communicated earlier related to the transfer of Poland and the gross margin improvement. We will see the full benefit of that in 2022.

Lenny van Steenhuyse – KBC Securities: Okay. Thanks for that.

- **Stijn Demeester – ING**

Good morning and thank you for taking my questions. The first is also on Wichita, I am afraid. Basically, you are expanding your work force by 30% in Wichita on basically the same sales target. So, can you help me understand what has changed or how you will be able to recuperate this FTE increase on a sales number that is roughly the same as before, including the 6.5 million of acquired sales? So, what has changed that you can pass on these higher FTE costs, given that your margin target of 20% is basically unchanged?

Andrew Pulido – Area Leader North America Fagron: As it relates to the 60 FTEs, it was certainly something we needed to go from the 3.2 million to the 5.8 million. So, part of it is to be able to keep our high service levels for the business that we have already added on but part of the benefit of the way that you land these contracts – we saw the 400 new accounts in the first half of the year as well as the acquisitions of USC with about 6.5 million more or less of business – we felt that it was imperative to prepare for the future. As I am sure you can imagine in a cGMP-facility with top quality you cannot make decisions overnight and so, in order to be able to grow really efficiently and swiftly in the second half of this year, we felt that the 60 new FTEs were needed in order to put that infrastructure in place. When you add on a second shift, as you think about our first shift and what we are able to realise, I would expect that what we have added remains somewhat fixed because you will get leverage there and you do get synergies when you are adding these shifts, also when you look at our manufacturing process. So, I would expect that the new 60 FTEs will give us sufficient room in order to be able to grow and realise the operational leverage.

Stijn Demeester – ING: Sure, I appreciate that but where do you aim to recover those costs of this work force increase if there is not another change in the market left to pricing, for example?

Rafael Padilla – CEO Fagron: Stijn if I may comment on this one? What we see and what we said this morning, is that the service level of 97% that we are now serving to the market is very important. We expect with the new onboarding customers that we see and that we also have in the pipeline, that the ramp-up will occur, that we are on track with monthly sales of 5.5 to 5.8 – as you indicated now, Andy – you have your fixed costs of the facility and then you have your viable costs with adding the work force, as you indicated. We will see when we get to the next monthly achievement of US$ 6.5 million through the P&L into the bottom line.

Karin de Jong – CFO Fagron: And maybe to add, Stijn, that as the volumes increase our batches are also increasing. So, we get more efficient on that. We see volumes already increasing because we are landing more customers, similar product portfolios, we get more efficient and of course, we still invest in automation. That also takes time and people to validate those processes but that will also increase our efficiency and therefore, we are confident that we will get to the 20% on that part.

Stijn Demeester – ING: Yes if I may rephrase? Was the hiring of these people planned in the original roadmap or are you trading off automation investments, which are slow, by adding FTEs and manual workforce?

Andrew Pulido – Area Leader North America Fagron: Certainly, it was planned. What we – I am not going to say 'underestimated' – certainly enjoyed in the first half of the year is the onboarding of these 400 new accounts. So, from our standpoint we do not want to miss an opportunity to service the customer at a high service level and so, that is what really contributes to the stickiness-factor. We really see that as a short-term investment that impacts profitability but we will get a long-term benefit out of this because we will have a much better relationship with our customers and intern, as we continue to accelerate our new product development efforts, it will be easier to add those new SKUs to those accounts.

Rafael Padilla – CEO Fagron: If we understand correctly what you say, maybe we anticipated this second shift because we also foresee the pipeline that we have in IDNs and GPOs; you need the onboarding time, what we anticipated. We want to be ready, again, to fulfil the needs of our customers and we do not want to disappoint any new customer that we foresee that is going to come into our customer portfolio. So, that is why we took this initiative and it is very much aligned with our plant of 125.

Stijn Demeester – ING: I have another question on Wichita. It is very helpful to have the June run rate of 70 million but can you disclose the run rate in Wichita over April and May, as looking over a one-month period might cause some distortion in the numbers? So, on my calculation the Q2 run rate is still below 60 million, so can you confirm that April and May were significantly weaker than June?

Rafael Padilla – CEO Fagron: Again, what we said in other calls, we monitor this on a monthly base with monthly developments and also the onboarding of new customers. You will also need to take into account one element and that is what we explained in other calls. We have two businesses in Wichita, we have the ASC with the elective care and we have the hospital business, where we really invested in order to get to the 125 run rate. So, we see that also due to the measures relating Covid these clinics re-open and therefore we see these accelerations in the month of June. Andy, if you want to comment here.

Andrew Pulido – Area Leader North America Fagron: Certainly Stijn, it is fluid and so when you look at the results in the second quarter of course they are back-end weighted but that can be attributed to the onboarding of new accounts. So, as we closed new deals in January and February, those deals materialised in April and May, as we close deals in March and April those deals materialise in June, July and August. So, when we look at month-over-month developments and what not we see those customers materialising and that is why we are confident with the guidance of the run rate of 70 million. Of course, it is fluid when customers onboard their business to us. We usually start because we do supply-chains fills and what not and then we get to a more balanced level. So, that is just something that we constantly monitor and work through with the customers but the underlying business is there and that is why we are confident on the run rate. Of course, in the second quarter two of the major states in the US, population centres, California and New York, having reopening and so we see a come-back to pre-pandemic levels in our Elective Care business. That in combination with our accelerated growth and our new product development pipeline gives us insurance that we are moving in the right direction towards the target that we stated for the next year.

Stijn Demeester – ING: Okay, understood. My final question is on EMEA. Looking at the margin evolution, from the second half last year to the first half of this year, you do not seem to have the same cost […] the same inability to pass through higher raw material, packaging costs, et cetera, in Latin America versus Europe. But I would expect that the pricing trend in LatAm is the same versus Europe, so what explains this big discrepancy between being able to pass through these higher costs in your core region Europe versus LatAm?

Rafael Padilla – CEO Fagron: We also need to see how the market is set up. In Europe, it is more starting in terms of reimbursement instead of in terms of product portfolio with somehow fixed prices and fixed contracts. Of course, we are reworking diligently in order to see an improvement there. On the European side it is more static on the front part. On the LatAm side – and this we explained several times – it is more dynamic. So, the prices are being updated on a daily base and even on an hourly base, depending on the inventory position. Therefore, we also took this movement in inventory levels in our LatAm region in order to continue the gaining of the market share that we were successfully doing. There, we are more able to pass these price increases rapidly to the cash market, because there it is more of a cash market and that has this dynamic. That is the main difference between those two regions.

Stijn Demeester – ING: Thank you for answering my questions.

- **Eric Wilmer – ABN ODDO**

Good morning, thanks for taking my questions. First, during the Q1 call you were rather optimistic about the full year 2021 sales and profitability. Now, the mid-point of your REBITDA guidance is lower than your 2020 REBITDA, while at Q1 you should have had some visibility into April. Assuming that you already had visibility into higher COGS in your Polish transfer and US growth plans, including that second shift, what has happened that made you much less optimistic?

Rafael Padilla – CEO Fagron: Sure, that is a very valid question. We are navigating during these Covid-times through uncertainty. What we foresaw in April, we thought that the recuperation of Elective Care, especially in the EMEA region, would be rather sooner than what was the real case. We had some acceleration in the number of scripts at the end of Q2, so the last weeks of June and we expected that this would have happened before. Therefore, you also see the Compounding Services getting better traction. That was the delay that we saw in these uncertain moments. That was the main reason for this delay.

Eric Wilmer – ABN ODDO: Understood. Then maybe a few questions on the US acquisition. When exactly will it be closed? Could you also disclose some details on the price tag? Why did Aramis Pharmaceuticals sell the division? Is it because they only want to focus on […]?

Finally, do you see more opportunities for such acquisitions in the foreseeable future?

Karin de Jong – CFO Fagron: We closed it and, as Andy mentioned, it will take a couple of months or weeks to onboard new customers depending on the size and the type of the customers. So, we expect sales later on in this year. Annualised it is US$ 6.5 million and if you look at the acquisition price, it depends on the sales we are doing. It is kind of a book of business we buy and it can vary one- and two-times sales depending on the type of products, so the margin profile of that product. Let me pass it on to Andy for maybe other assets in the market.

Andrew Pulido – Area Leader North America Fagron: From an acquisition-outlook we are looking at deals in the US primarily in our Brands and Essentials business and our [5.03B] hospital outsourcing business that we feel could help accelerate our organic growth plan or add more value to customers and add value to shareholders. So as of now, anything really in those two buckets is on the table. Of course, we will continue to maintain a very disciplined approach towards M&A in the US and in other regions and so, for that, we are looking but at this time nothing to comment on.

Eric Wilmer – ABN ODDO: Very clear. Thanks. Just for modelling purposes: you are talking lightly around 2 million sales for this year from the new acquisition.

Karin de Jong – CFO Fagron: As mentioned before, that is a bit difficult. It depends on the onboarding of these customers, so we expect some in the last quarter.

Eric Wilmer – ABN ODDO: Understood. Thanks.

- **Beghin Christophe – Kempen**

Good morning, everyone. I have a straight question. Can you please quantify, if possible, firstly the impact of the operating of the Dutch and the Poland packaging facility at the same time in H2?

Karin de Jong – CFO Fagron: As mentioned earlier, the impact is indeed on the Opex-side. This is the level of detail we want to give on that.

Beghin Christophe – Kempen: Okay. And then, I am aware it depends of course on the region division, but typically, on average, what is the lead time it takes to transfer increasing pricing? Typically. I know it is a different situation because raw material has risen more strongly than normally, but what is the typical lead time in transferring increasing pricing?

Rafael Padilla – CEO Fagron: Good morning, Beghin. At lot has been said, depending on the region. In Latin America you see it back of course in the figures. We are able to do it extremely fast because it is a very dynamic market. In the US it is somehow less, though there you a cash-based market in the Brands and Essentials part, where we acquire the raw materials. It is somehow more dynamic, not as dynamic as in Latin America. In Europe it is more static. It takes some time and therefore we say that towards the second semester we are able to renegotiate some contracts to see how we can pass through those price increases. But also, as we stated in the press releases, we are working diligently in order to minimise this impact again.

Beghin Christophe – Kempen: So, let's say for the EU it is three to six months.

Rafael Padilla – CEO Fagron: Well, again, we work diligently in order to recuperate those margins. Regarding timing, it goes more towards the end of the second semester.

Beghin Christophe – Kempen: Okay. Thank you. The second question is on […] I noticed that in Q2 you have initiated three SKUs, if I am right. Can you maybe provide some qualitative explanation to that, given that the number of SKUs went down? Is that slowing down or are these high-volume, high-qualitative SKUs? Can you guide me there, please?

Andrew Pulido – Area Leader North America Fagron: The majority of our focus on new product launches in the first half of this year has been heavily weighted towards the IV bags. That is where we feel at this time is the most significant opportunity in the market for us. So, we have chosen to spend a lot of effort in Q4 of last year to get the bags and a place where we can roll them out successfully and where we can maintain high service levels at launch. That is maybe why you see a little bit slower or a little decelerating in the launches in the second quarter versus the first quarter and prior quarters, because we really want to give emphasis on this very important category. But as we continue to move through this year and next year, what you will see is some continued launches in IV bags and we continue to invest in that category. But then we are also investing in epidurals and cassettes. This gives us a much more well-rounded offering and allows us to be more or less a one-stop shop for our customers, which for them adds a lot of value and being able to be a more complete hospital pharmacy outsourcing partner. Does that answer your question?

Beghin Christophe – Kempen: Yes, it does. I have a follow-up. The reason why you focused on IV bags primarily in the last six months is that because you should increase the upsell or cross-sell potential you currently see? Or is it a temporary trend you quickly wanted to anticipate or is it important to increase customer acquisition? What is explaining this choice?

Andrew Pulido – Area Leader North America Fagron: The need in the market is certainly the greatest, because the IV bags are the most challenging to fill. So, if you could imagine, the hospital pharmacy filling a 5 ml OR syringe is as challenging for a hospital pharmacy to run through their operations. When you start getting into larger IV bags the process becomes much more cumbersome. So, from our standpoint we felt like that added the most value to customers and allowed us the ability to take the work we have done and the customers that we have built in our OR syringe portfolio and expand the share of the […]. So, from that standpoint, that gives us a lot of confidence that as we get into new categories like epidurals and cassettes we will be able to add those new products efficiently and effectively onto these customers. We feel the need in the markets there and that is why we have chosen to focus on that.

Beghin Christophe – Kempen: Thank you.

- **Maarten Verbeek – the IDEA!**

Good morning, a couple of questions from my side. First of all, you mentioned that you want to have a higher strategic level or more inventory. Could you indicate how much more basis points as a percentage of revenue you are thinking of?

Secondly, you had non-recurring costs of 0.7 million. Could you break that down into the restructuring costs you mentioned and the […] contingent liabilities of an acquisition you made in the past?

Lastly, in Q1 the revenues in EMEA declined by some 10% and then more or less you stated that you were impacted by the number of prescriptions, which declined by some 12.5%. In Q2, the decline is more or less the same; again some 10% decline but in Q2 there was an increase in the number of prescriptions of +15%. So, I am a bit puzzled here. Could you give some more colour on those developments?

Karin de Jong – CFO Fagron: Let me start with the question on working capital. Indeed, working capital increased to 12% of sales compared to 10.8% last year. That is mainly because of the increased inventory levels combined with higher receivables. So, the increase in stock is mainly because of the increase in inventory levels in Brazil and EMEA. As mentioned, we decided to increase those levels to ensure product availability. Currently, we see the challenges in the supply chain because of Covid, so we also increased some volumes because of higher transportation costs and we anticipated some price increases for our products. On the longer term however, we expect to get back to our 10% of sales for working capital. So, we do see this as a temporary build-out of our inventories and we are sure that we get back to that 10% level, as the situation regarding Covid normalised again. The same goes for the receivables; that is a temporary thing and we see that we can bring that back to normal levels again. That is on the working capital.

Maybe on the non-recurring: the release of the contingent liability in LatAm is around 2 million and the rest is related to reorganisation costs.

Rafael Padilla – CEO Fagron: And on your question on the number of scrips that we saw. You correctly stated that in the first quarter we saw a sales development in EMEA of -10.6% and in the second quarter of -9.4%, so an improvement of 1.2%. When we look back at 2020 in the first quarter, we had two months and two weeks of normal course of business and then the last two weeks of March, when the pandemic started, Elective Care decreased enormously and we were able to compensate or to serve – we are very proud of that time – our customers with Covid-related items on the protection, prevention and on the treatment. That was the dynamic state in the second quarter. There was much less Elective Care and we were able to continue serving the customers at that time. Remember, we explained some calls ago that some of the customers said that they were very happy with us, that our tracks were going to their facilities or hospitals at that time to serve them with Covid-related items. That is how we built the sales in different regions but especially in the European region, that you were referring to in 2020. When we go back to 2021, of course we see an absence of those Covid-related items because the market normalised. There is another dynamic. The decline on Elective Care was there. What we explained during the previous calls is that out of 100 products that we serve to our customers, hospital pharmacies, communitive pharmacies, 80% is repetition prescription and 20% is more the first prescription that is being generated. That is the graph that we always show in the presentation. So, you can see it like a funnel that gets when the patient gets back and refills the prescription. That has this delayed effect.

Maarten Verbeek – the IDEA!: Thank you very much.

- **Stijn Demeester – ING**

Thank you for taking my follow-up on the receivables evolution. Can you help me understand what drives this increase and can you also disclose the evolution of the factoring versus the second half of last year?

Karin de Jong – CFO Fagron: We are around 28 million of factoring, currently. We had some delayed collection of receivables in the EMEA region, which had to do with some [inaudible] we had on the ERP-systems while we postponed a little bit the collection with a week. That fell in that period, so therefore we are confident that this is a level that is temporary. [sound!] Therefore, we see that this is a temporary impact and we can get back to normal levels. Working capital on average on the longer term will go back to 10%.

Stijn Demeester – ING: Has there been a lot of pre-ordering by clients facing those shortages that they perhaps tried to secure orders already? Has that increased?

Rafael Padilla – CEO Fagron: It makes sense what you are saying but in the market dynamic we have not really seen that.

Stijn Demeester – ING: Okay. Thanks.

Rafael Padilla – CEO Fagron: As there are no further questions, thank you very much all for your questions and for having attended the call today. Thank you and have a nice day!

End of call.


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