Fagron
personalizing medicine

Press Release

Regulated information
Nazareth (Belgium)/Rotterdam (Netherlands), 5 August 2019

Turnover increase of 10.6%; REBITDA increased to €55.6 million

Acquisitions strengthen market position in Latin America and Europe

New sustainable credit facility of €375 million

S1-2019 Highlights[1] – Financial

- **Turnover increased to €255.4 million (+10.6%)**
- **REBITDA[2] increased to €55.6 million (+6.4%)**
- **EBITDA increased to €54.2 million (+13.8%)**
- **Net profit[3] increased to €26.8 million (+44.4%)**
- **Strong operational cash flow of €37.5 million**
- **Net financial debt/REBITDA ratio of 2.55 on 30 June 2019**

Strategic – Operational

- **Successful continuation of buy-and-build strategy with acquisitions in Brazil, Czech Republic and Mexico**
- **Start construction of new GMP repackaging facility in Poland**
- **Sterile GMP compounding facility in the Netherlands fully operational since July**
- **Promising start for Fagron Genomics with 2,200 DNA tests sold in Q2-19**
- **New sustainable credit facility of €375 million with improved terms**
- **Settlement in principle with US Department of Justice**

Rafael Padilla, CEO of Fagron: *"We are very pleased with the results and progress made in the first semester of 2019. Not only did Fagron once again show good growth in turnover, but also the construction of the new facility in Poland and the investments in North America strengthen our foundation for further growth. We are therefore convinced that we are well-positioned to benefit from the substantial growth opportunities in the markets for personalised medicine.*

The strong turnover growth was especially driven by the excellent performance in North America and the solid turnover development in Latin America. In addition to strong organic growth, we further strengthened our leading market positions in Brazil and the Czech Republic with four acquisitions and made a robust entrance in the Mexican market. Once again, these are important steps in the execution of our disciplined buy-and-build strategy in our core markets.

We are confident that we will realise a nice increase of turnover and profitability in the second semester of 2019 in comparison to the same period in 2018.

[1] The S1-2019 figures are compared to the S1-2018 figures, corrected for the impact of IFRS 16.
[2] EBITDA before non-recurrent result.
[3] Net profit from continued operations.

Update buy-and-build

In the second quarter of 2019, Fagron further strengthened its market leadership in Brazil with the acquisitions of Levviale, Apace and Ortofarma Laboratories. Fagron completed the acquisition of Dr. Kulich Pharma in the Czech Republic in July 2019.

The three Brazilian acquisitions (Levviale, Apace and Ortofarma) realised a combined turnover of approximately €9.9 million and an EBITDA margin of approximately 7.4% in 2018. Dr. Kulich Pharma realised turnover of approximately €5.1 million and an EBITDA margin of approximately 17.8% in 2018. The total consideration for Levviale, Apace, Ortofarma and Dr. Kulich Pharma amounted to approximately €10.6 million. The acquisitions are financed from the existing credit facilities of Fagron.

Dr. Kulich Pharma - Czech Republic

Dr. Kulich Pharma is a supplier of pharmaceutical raw materials, creams and ointments and packaging materials to compounding pharmacies in the Czech Republic. Dr. Kulich Pharma is the number two in the Czech Republic after market leader Fagron. Established in 1992, Dr. Kulich employs 66 employees (in FTE), is situated in Prague and has warehouses and repackaging facilities in Hradec Králové as well as in Otrokovice. The acquisition of Dr. Kulich Pharma provides significant operational synergies for Fagron.

Ortofarma Laboratories - Brazil

Ortofarma is an innovative company that provides a wide range of services to more than 1,000 compounding pharmacies in Brazil. The offer ranges from analytical testing and advice to the development of innovative products and training. The strong strategic fit between Ortofarma and Fagron, combined with the capacity expansion in product development, ensures that Fagron's position is further reinforced in the growing demand for Brands that are used in compounding. Ortofarma was established in 1999 and employs 39 employees (in FTE). Ortofarma is situated in Juiz de Fora, a city in the southeast of Brazil.

Levviale - Brazil

Levviale is a supplier of active pharmaceutical ingredients, excipients and Brands to compounding pharmacies in Brazil. The innovative Levviale Brands, such as Baseffer®, Celulomax® and Oro-tab®, are all based on excipients to increase the biological availability of medicines. The Levviale Brands will also be introduced in Europe and North America at the beginning of 2020. Levviale was established in 1992 and employs 75 employees (in FTE). Levviale is situated in São Paulo and has a repackaging facility for raw materials in Anápolis.

Apace - Brazil

Apace is a developer and supplier of packaging materials to compounding pharmacies and the pharmaceutical industry in Brazil. Apace's product offering fully complements Fagron's comprehensive range. Apace, situated in São Paulo, was established in 1983 and employs 41 employees (in FTE).

Cedrosa - Mexico

Fagron completed the acquisition of Central de Drogas, S.A de C.V. ("Cedrosa") in July 2019. Cedrosa is a leading supplier of pharmaceutical raw materials to compounding pharmacies and the pharmaceutical industry in Mexico. The press release about the acquisition of Cedrosa can be downloaded here.

Operational update

Start construction of new repackaging facility in Poland

In the first semester of 2019, Fagron started with the construction of a new GMP facility for the repackaging of raw materials in Krakow, Poland. The 5,000 m^2 facility will comply with all quality requirements and will have 1,000 m^2 of clean rooms for the repackaging of raw materials under GMP and 800 m^2 of laboratory for analysing raw materials. The new facility will not only replace the current Polish facility but is also an important step in the process to more centralise the repackaging of raw materials in Europe. The location in Poland is very suitable for this purpose given its central location in Europe and the high-quality standards that are applicable here. The total investment is currently estimated at €8 million. The new facility is expected to be operational in the second semester of 2020 and a structural annual margin improvement of €2 million is expected, starting in 2021.

Sterile compounding facility in the Netherlands fully operational

Fagron's sterile compounding facility in The Netherlands started up again in the second quarter of 2019 and is fully operational again since July. The facility was audited by the Dutch Health Care and Youth Inspectorate (IGJ). IGJ stated in its report that the facility complies with all requirements and issued a GMP-certificate.

Financing update

New sustainable credit facility with improved terms

On 1 August 2019, Fagron entered into a new syndicated multi-currency credit facility of €375 million with improved terms, resulting in greater flexibility and lower financing costs. The new credit facility has a maturity of five years with two one-year extension options. The new credit facility ultimately expires in 2026 and replaces the current facility of €325 million. ING acted as Coordinator for the facility.

The credit facility is a so-called Sustainability Linked Loan. The interest on the new credit facility is linked to Fagron's sustainability aim to reduce greenhouse emissions (Scope 1 and Scope 2 of the GHG protocol) in six years by approximately 30%. Based on the annual progress measured, a discount or surcharge can be applied to the credit facility's interest rate.

The syndicate for the new credit facility consists of ING Belgium NV/SA (also Facility Agent), BNP Paribas Fortis SA/NV and KBC Bank NV as "Bookrunning Mandated Lead Arrangers" and Belfius Bank SA/NV, Commerzbank Aktiengesellschaft (Luxembourg branch) and HSBC France (Brussels branch) as "Mandated Lead Arrangers".

Settlement in principle with the US Department of Justice

As announced earlier, Fagron entered into a settlement in principle with the US Department of Justice on 26 June 2019 regarding the previously announced civil investigation in the context of the sector-wide investigation into the pricing of pharmaceutical products. The settlement consists of a payment by Fagron of US$ 22.3 million. In the results of the first semester of 2019, Fagron took, in addition to the current provision of US$ 8.4 million, an additional provision of US$ 13.9 million. The final, legally binding, settlement between the US Department of Justice and Fagron is expected to be formalised in the second semester of 2019. The press release about the settlement in principle can be downloaded here.

Income statement and balance sheet

Income statement (x €1,000)	S1-2019	S1-2018	Δ	S1-2018 including IFRS 16	Δ
Net turnover	**255,399**	**230,923**	**+10.6%**	**230,923**	**+10.6%**
Gross margin	155,934	141,929	+9.9%	141,929	+9.9%
As % of net turnover	*61.1%*	*61.5%*		*61.5%*	
Operating costs	100,344	93,277	+7.6%	89,661	+11.9%
As % of net turnover	*39.3%*	*40.4%*		*38.8%*	
EBITDA before non-recurrent result	**55,590**	**48,652**	**+14.3%**	**52,268**	**+6.4%**
As % of net turnover	*21.8%*	*21.1%*		*22.6%*	
Non-recurrent result	-1,397	-4,666	-70.1%	-4,666	-70.1%
EBITDA	**54,193**	**43,986**	**+23.2%**	**47,602**	**+13.8%**
As % of net turnover	*21.2%*	*19.0%*		*20.6%*	
Depreciation and amortisation	13,663	9,499	+43.8%	12,822	+6.6%
EBIT	**40,530**	**34,487**	**+17.5%**	**34,780**	**+16.5%**
As % of net turnover	*15.9%*	*14.9%*		*15.1%*	
Financial result	-7,045	-10,474	-32.7%	-10,996	-35.9%
Profit before taxes	33,485	24,013	+39.4%	23,784	+40.8%
Taxes	-6,714	-5,241	+28.1%	-5,241	+28.1%
Net profit from continuing operations	**26,771**	**18,773**	**+42.6%**	**18,544**	**+44.4%**
Result from discontinued operations	-13,839	0		0	
Net profit	**12,932**	**18,773**	**-31.1%**	**18,544**	**-30.3%**
Recurrent net profit[4]	28,006	22,252	+25.9%	22,012	+27.2%
Net profit from continuing operations per share (€)	0.37	0.26		0.26	
Recurrent net profit per share (€)	0.39	0.31		0.31	
Average number of outstanding shares	71,740,277	71,740,277		71,740,277	

Balance sheet (x €1,000)	30/06/2019	31/12/2018
Intangible fixed assets	401,829	391,388
Property, plant and equipment	110,758	73,439
Deferred tax assets	17,577	16,061
Financial assets	2,377	2,158
Operational working capital	53,547	49,029
Other working capital	-58,489	-50,733
Equity	218,199	209,716
Provisions and pension obligations	31,881	18,943
Financial instruments	557	131
Deferred tax liabilities	559	259
Net financial debt	276,403	252,294

[4] Recurrent net profit is defined as the profit before non-recurring items and revaluation of financial derivatives, corrected for taxes.

Notes to the consolidated results[5]

Income statement

The **consolidated turnover** amounted to €255.4 million, an increase of 10.6% (+9.8% at constant exchange rates) compared to the first semester of 2018. The organic growth was 7.2% (+6.6% at constant exchange rates). The turnover development per region is set out in more detail under 'Key figures per segment'.

The **gross margin** increased by 9.9% to €155.9 million. The gross margin as a percentage of turnover decreased by 40 basis points to 61.1%.

The **operating costs** as a percentage of turnover amounted to 39.3% in the first semester of 2019. This is an increase of 50 basis points compared to 38.8% in the first semester of 2018.

The **EBITDA before the non-recurrent result** (REBITDA) increased in the first semester of 2019 by 6.4% (+6.3% at constant exchange rates) to €55.6 million. The REBITDA as a percentage of turnover decreased by 80 basis points to 21.8%.

The **non-recurrent result** was negative €1.4 million and mainly involved restructuring costs and acquisition costs. In the first semester of 2018, the non-recurrent result was negative €4.7 million and mainly consisted of the settlement costs with the former owners of JCB Laboratories in the United States.

The **EBITDA** increased by 13.8% to €54.2 million. The EBITDA margin increased by 60 basis points to 21.2%.

The **depreciation and amortisation** amounted to €13.7 million, an increase of 6.6% compared to € 12.8 million in the first semester of 2018.

The **EBIT** amounted to €40.5 million, an increase of 16.5% compared to the first semester of 2018. The EBIT margin increased by 80 basis points to 15.9%.

The **financial result** improved by 35.9% to negative €7.0 million.

The **effective tax rate** as a percentage of profit before taxes was 20.1% in the first semester of 2019 (S1-2018: 22.0%). The **effective cash tax rate** was 25.4% in the first semester of 2019 (S1-2018: 15.3%). An effective cash tax rate of approximately 20% is expected for 2019.

The **net profit from continuing operations** amounted to €26.8 million, an increase of 44.4% compared to the first semester of 2018. The **result from discontinued operations** mainly relates to the additional provision taken as a result of the settlement in principle with the US Department of Justice. The **recurrent net profit** amounted to €28.0 million, an increase of 27.2% compared to €22.0 million in the first semester of 2018.

Financial position

The **operational working capital** as a percentage of turnover amounted to 10.6%, an increase of 40 basis points compared to 31 December 2018. This increase is mainly the result of retaining higher inventories in the United States and Brazil due to the expected growth in turnover in the second semester of 2019.

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[5] The S1-2019 figures are compared to the S1-2018 figures, corrected for the impact of IFRS 16.

The **net financial debt** increased by €24.1 million to €276.4 million in the first semester of 2019. The net financial debt/REBITDA ratio as of 30 June 2019 is 2.55.

The table below provides an overview of the development of the net financial debt in the first semester of 2019.

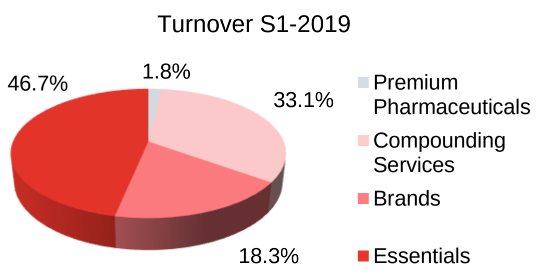
(x €1,000)	
Net financial debt on 31 December 2018	**-252,294**
Operational cash flow	+37,540
Acquisitions	-2,530
Investments	-10,338
Paid dividends	-3,473
Net interests	-7,078
Exchange rate differences	+33
Discontinued operations	-150
Impact IFRS 16	-38,113
Net financial debt on 30 June 2019	**-276,403**

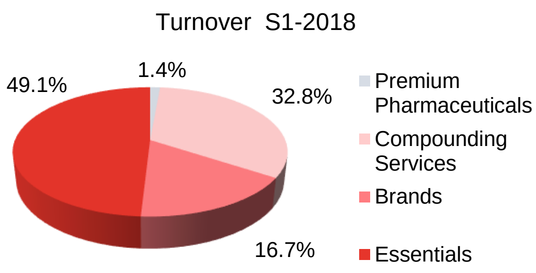
The **net operational capex** amounted to €10.3 million (4.0% of turnover) in the first semester of 2019. The capex mainly consists of investments in a new repackaging facility for raw materials in Poland, existing facilities in the United States, Brazil and Spain (Fagron Genomics), automation of logistics processes and software implementations. Excluding the investment of maximum €8 million in a new repackaging facility in Poland, the capex will be between 3.0% and 3.5% of turnover in 2019 and 2020.

Key figures per segment[6]

Fagron (excluding HL Technology)

(x €1,000)	S1-2019	S1-2018	Δ
Turnover	251,019	227,285	+10.4%
REBITDA[7]	54,777	51,512	+6.3%
REBITDA margin	21.8%	22.7%	





Fagron's turnover (excluding HL Technology) increased by 10.4% (+ 9.7% at constant exchange rates) to €251.0 million in the first semester of 2019. The organic turnover growth was 7.0% (+6.4% at constant exchange rates). The REBITDA increased by 6.3% (+6.4% at constant exchange rates) to €54.8 million. The REBITDA as a percentage of turnover decreased by 90 basis points to 21.8%.

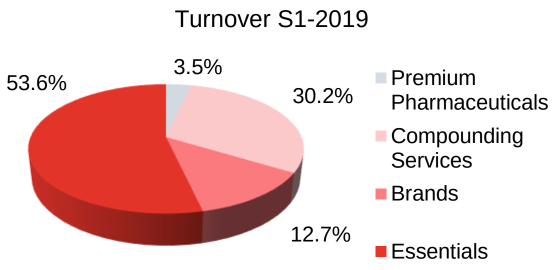
[6] The S1-2019 figures are compared to the S1-2018 figures, corrected for the impact of IFRS 16.
[7] EBITDA before non-recurrent result.

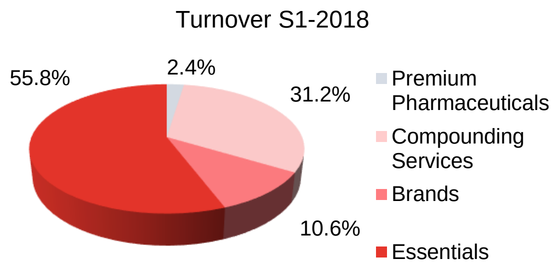
The table below provides an overview of turnover development and currency effects for Fagron (excluding HL Technology) in the first semester of 2019.

(x €1,000)	Impact
Turnover in S1-2018	**227,285**
Development Europe[8]	1,554
Development Latin America	4,741
Development North America	8,325
Currency effect BRL/Euro	-2,462
Currency effect USD/Euro	4,167
Currency effect other	-457
Contribution of acquisitions	7,865
Turnover in S1-2019	**251,019**

Fagron Europe[9]

(x €1,000)	S1-2019	S1-2018	Δ
Turnover	128,677	127,536	+0.9%
REBITDA[10]	34,591	34,417	+0.5%
REBITDA margin	26.9%	27.0%	





Turnover of the Europe segment increased by 0.9% (+1.2% at constant exchange rates) to €128.7 million in the first semester of 2019. The REBITDA as a percentage of turnover decreased by 10 basis points to 26.9%.

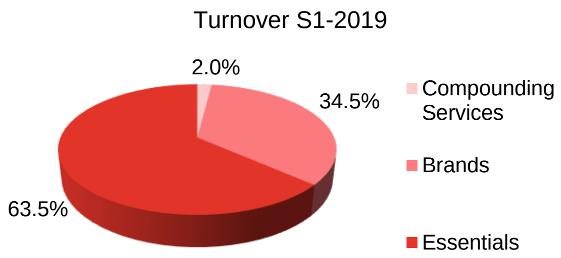
Organic turnover growth and profitability in the first semester of 2019 of the Europe segment was held back by the temporary reduction of the capacity at one of the sterile compounding facilities in the Netherlands in order to be able to invest in further improving the quality of both the facility and the processes. The negative impact on turnover was € 2.0 million in the first semester of 2019. The facility was audited and GMP certified in June. The facility started up again in the second quarter of 2019 and has been fully operational since July. Combined with the acquisition of Dr. Kulich Pharma, this will have a positive effect on the turnover development in Europe in the second semester of 2019.

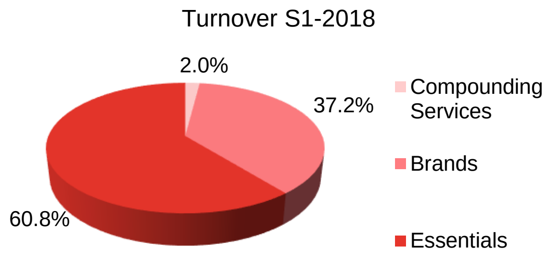
[8] The Europe segment is comprised of Fagron's activities in Europe, South Africa and Australia.
[9] The Europe segment is comprised of Fagron's activities in Europe, South Africa and Australia.
[10] EBITDA before non-recurrent result.

The strong focus on Brands also led to strong turnover growth in this segment in the first semester of 2019. Almost 13% of the turnover in Europe was realised with Brands, compared to 10.6% in the first semester of 2018. The promising start of Fagron Genomics, with 2,200 DNA tests sold in the second quarter of 2019, contributed to this strong development.

Fagron Latin America

(x €1,000)	S1-2019	S1-2018	Δ
Turnover	52,417	48,880	+7.2%
REBITDA[11]	10,385	10,159	+2.2%
REBITDA margin	19.8%	20.8%	





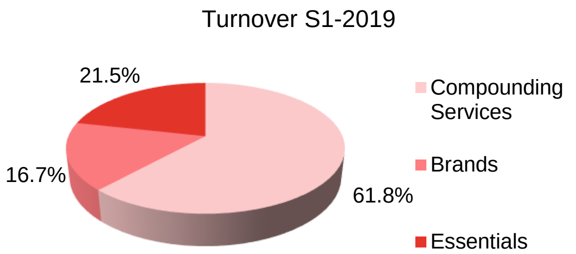
Turnover of the Latin America segment increased by 7.2% (+12.5% at constant exchange rates) to €52.4 million in the first semester of 2019. Adjusted for the acquisitions of Ortofarma and Levviale, organic growth was 4.6% (+9.7% at constant exchange rates). The REBITDA increased by 2.2% (+7.7% at constant exchange rates) to €10.4 million. The strong increase in Essentials' turnover shows that Fagron is clearly gaining market share through good product availability.

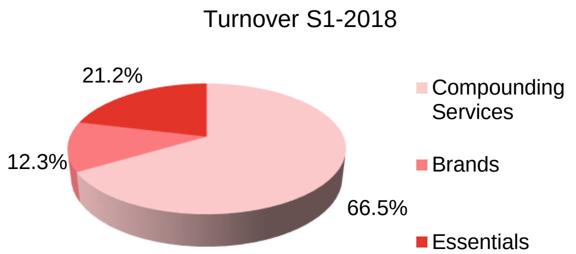
Although the segment showed strong turnover development, it must also be considered, in comparison to last year, that the industry's most important trade fair – the Consulfarma – was held in July this year, while the trade fair was held in June in 2018. This has a significant impact since many pharmacies place their orders after this trade fair. A video impression of the Fagron companies that were present at the Consulfarma can be downloaded here.

[11] EBITDA before non-recurrent result.

Fagron North America

(x € 1,000)	S1-2019	S1-2018	Δ
Turnover	69,924	50,869	+37.5%
REBITDA[12]	9,801	6,936	+41.3%
REBITDA margin	14.0%	13.6%	





Turnover of the North America segment increased by 37.5% (+28.3% at constant exchange rates) to €69.9 million in the first semester of 2019. Adjusted for the acquisition of Humco, the organic turnover growth was 24.6% (+16.4% at constant exchange rates). The REBITDA increased by 41.3% (+30.7% at constant exchange rates) to €9.8 million. The REBITDA margin increased by 40 basis points to 14.0% compared to the first semester of 2018.

Compounding Services, in which Fagron is active in the US with the Fagron Sterile Services and AnazaoHealth brands, performed according to expectation and realised turnover growth of 27.7% (+19.1% at constant exchange rates). AnazaoHealth achieved turnover growth of 19.0% (+11.0% at constant exchange rates). The turnover growth of Fagron Sterile Services in Wichita was 42.1% (+32.6% at constant exchange rates) in the first semester of 2019.

Fagron Sterile Services implemented an electronic quality system (MasterControl) in the first semester of 2019, insourced 80% of the laboratory tests and took important steps regarding product development and the automation of the operational process. In the second quarter of 2019, a record number of regulatory agencies, Integrated Delivery Networks (IDNs) and hospital groups successfully audited the Fagron facility in Wichita, an important indicator for future growth. In addition, 35 new SKUs will be introduced in the second semester of 2019, bringing the number of SKUs at the end of the year to approximately 115.

These steps are important in Fagron Sterile Services' growth strategy. The facility is on track to reach the previously stated turnover target. A video impression of the developments at Fagron Sterile Services in Wichita can be downloaded here.

The turnover of Brands and Essentials increased in the first semester of 2019 by 56.9% (+46.4% at constant exchange rates) compared to the first semester of 2018. The organic growth, excluding the Humco acquisition in April 2018, was 18.4% (+10.9% at constant exchange rates).

[12] EBITDA before non-recurrent result.

HL Technology

(x €1,000)	S1-2019	S1-2018	Δ
Turnover	4,380	3,638	+20.4%
REBITDA[13]	813	756	+7.5%
REBITDA margin	18.6%	20.8%	

The turnover of HL Technology segment increased by 20.4% (+16.2% at constant exchange rates) to €4.4 million in the first semester of 2019. The REBITDA increased by 7.5% to €0.8 million.

Conference Call

Fagron organises a conference call today in order to elaborate on the results of the first semester of 2019. The conference call will begin at 9:30 am CEST. Starting 10 minutes prior to this time, you will be able to call in using the numbers and confirmation code below:

Belgium/Europe	+32 (0)2 400 6926
Netherlands	+31 (0)20 703 8261
Spain	+34 91 419 2514
United Kingdom	+44 (0)330 336 9411
United States	+1 323 794 2093
Confirmation Code	4291887

As of 6 August 2019, you can listen to or download the conference call from the Fagron website (http://investors.fagron.com/).

Financial calendar 2019

11 October Trading update, third quarter 2019

The results and trading updates will be published at 7:00 a.m. CEST.

In the event of differences between the English translation and the Dutch original of this press release, the latter prevails.

For more information

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Fagron profile

Fagron is a leading global company active in pharmaceutical compounding, focusing on delivering personalised medicine to hospitals, pharmacies, clinics and patients in 36 countries around the world.

The Belgian company Fagron NV is located in Nazareth and is listed on Euronext Brussels and Euronext Amsterdam under the ticker symbol 'FAGR'. Fagron's operational activities are driven by the Dutch company Fagron BV. Fagron BV's head office is located in Rotterdam.

[13] EBITDA before non-recurrent result.

Important information regarding forward-looking statements

Certain statements in this press release could be considered to be forward looking. Such forward-looking statements are based on current expectations and are influenced by various risks and uncertainties. Consequently, Fagron cannot provide any guarantees that such forward-looking statements will, in fact, materialise and cannot accept any obligation to update or revise any forward-looking statement as a result of new information, future events or for any other reason.