Fagron personalizing medicine

Press release

Regulated information - inside information
Nazareth (Belgium)/Rotterdam (The Netherlands), 1 August 2024 – 7:00 AM CET

# Fagron delivers strong performance with 16% topline growth and 17% increase in REBITDA for the first half of 2024

Fagron, the leading global player in pharmaceutical compounding today publishes its first half results for the period ending 30 June 2024.

## Key Highlights

- **Strong topline performance with 15.5% reported revenue growth (15.3% at Constant Exchange Rates (CER)) and 12.8% organic growth at CER**
- **Organic growth reflects strong performances across all regions**
- **17.2% REBITDA increase translates to 30bps REBITDA margin uplift YoY to 19.7%, reflecting synergies from acquisitions and operational excellence benefits globally**
- **Operating cash flow decreased 3.1% to €41.9 million (up 34.7% when adjusted for factoring impact)**
- **Net earnings per share of €0.55, increased by 22.2% year-on-year**
- **One-off investments of $39 million and €15 million into the expansion of the Wichita and FSS Netherlands facilities respectively**
- **Upgrading FY 2024 revenue outlook to €850 – €870 million; Reiterating improvement in profitability year-on-year**

## Rafael Padilla, CEO of Fagron:

*Fagron has sustained its impressive performance throughout the first half of 2024, achieving 12.8% organic revenue growth at CER and a margin improvement year-on-year. This exceptional performance illustrates the robustness of our diversified business model, strong execution capabilities and focus on driving operational efficiencies.*

*In EMEA, we delivered strong organic revenue growth despite the challenges posed by the change in the reimbursement policy in Poland. Our strategic initiatives in the region, coupled with solid results from other markets highlight the benefits of our diversified business. Latin America demonstrated resilience in both revenue and profitability, reflecting our continued focus on commercial and operational excellence, although the competitive environment remains challenging. North America was the highest contributor to revenue growth, driven by strong underlying demand at Compounding Services (CS), while Brands & Essentials (B&E) saw healthy revenue growth, primarily due to operational excellence benefits.*

*Recognising the strong underlying demand for outsourced compounding and our goal of market leadership, we have strategically decided to invest in the expansion of the Wichita facility and our Fagron Sterile Services (FSS) facility in Netherlands. With regard to B&E in North America, we have cancelled the proposed investment at Decatur, as we now have a better alternative to drive the required growth there, through a combination of a facility upgrade and the use of our global network capacity. On the inorganic growth front, we remain committed to exploring market opportunities globally to further strengthen our position.*

*Looking ahead, for the full year we anticipate revenue in the range of €850 - €870 million and expect profitability to increase year-on-year. We remain committed to our mid-term objectives".*

## H1 2024 Key Financial Figures

| (€ '000) | Revenue per region | | | | | |
|---|---|---|---|---|---|---|
| | H1 '24 | H1 '23 | ∆ | ∆ CER | ∆ Organic | ∆ Organic CER |
| EMEA | 160,319 | 146,084 | 9.7% | 9.8% | 3.2% | 3.3% |
| Latin America | 85,954 | 80,450 | 6.8% | 5.7% | 6.8% | 5.7% |
| North America | 183,070 | 145,039 | 26.2% | 26.2% | 26.2% | 26.2% |
| **Group** | **429,344** | **371,573** | **15.5%** | **15.3%** | **13.0%** | **12.8%** |

| (€ '000) | Revenue per segment | | | | | |
|---|---|---|---|---|---|---|
| | H1 '24 | H1 '23 | ∆ | ∆ CER | ∆ Organic | ∆ Organic CER |
| Essentials | 171,198 | 166,847 | 2.6% | 2.2% | 1.0% | 0.5% |
| Brands | 65,620 | 60,597 | 8.3% | 8.4% | 8.3% | 8.4% |
| Compounding Services (CS) | 192,525 | 144,130 | 33.6% | 33.5% | 28.8% | 28.8% |

| (€ '000) | Group | | |
|---|---|---|---|
| | H1 '24 | H1 '23 | ∆ |
| REBITDA | 84,622 | 72,183 | 17.2% |
| REBITDA margin | 19.7% | 19.4% | 30bps |
| Net EPS (€) | 0.55 | 0.45 | 22.2% |
| Free cash flow | 21,350 | 22,291 | -4.2% |

### Outlook

Assuming no significant changes in current market conditions, we upgrade our FY 2024 revenue guidance to €850 – €870 million and reiterate improvement in profitability year-on-year.

To support the growth of our rapidly expanding compounding services segment and to capitalize on the market opportunity in North America and EMEA – albeit on different magnitudes, we plan to invest a total of $39 million and €15 million at Wichita and FSS NL, respectively. The majority of the investment will occur in 2025, 2026 and 2027, and will be on top of our regular maintenance capex spend of around 3.5% of revenue. With regard to B&E in North America, we have cancelled the proposed investment of $20 million at Decatur, as we now have a better alternative to drive the required growth there, through a combination of a facility upgrade and the use of our global network capacity.

We remain committed to our disciplined acquisition strategy in all regions where we are active as part of our growth strategy. Our medium-term objectives remain unchanged.

### Webcast

Rafael Padilla (CEO) and Karin de Jong (CFO) will discuss the trading update in a webcast starting at 9.30 AM CET. Registration to the webcast is available via this link. The presentation for the call will be available to download from the Fagron website around 8.00 AM CET.

### Interim financial statements

Fagron's interim financial statements (unaudited) for the six-month period ended 30 June 2024 have been made available on Fagron's website together with the publication of this press release.

## Business Review

### EMEA

| (€ ‘000) | H1 ‘24 | H1 ‘23 | ∆ | ∆ CER | ∆ Organic | ∆ Organic CER |
|---|---|---|---|---|---|---|
| Essentials | 81,741 | 79,180 | 3.2% | 3.1% | -0.2% | -0.4% |
| Brands | 25,043 | 24,886 | 0.6% | 0.7% | 0.6% | 0.7% |
| CS | 53,535 | 42,018 | 27.4% | 27.9% | 11.1% | 11.7% |
| **Total revenue** | **160,319** | **146,084** | **9.7%** | **9.8%** | **3.2%** | **3.3%** |

| (€ ‘000) | H1 ‘24 | H1 ‘23 | ∆ |
|---|---|---|---|
| REBITDA | 34,039 | 33,091 | 2.9% |
| REBITDA margin | 21.2% | 22.7% | -150bps |

Revenue growth in the EMEA region was driven by sustained strong performance in Compounding Services and a recovery in Brands and Essentials.

Revenue from Brands and Essentials continues to reflect the impact of Poland’s new reimbursement system, which has been largely offset by the solid performance in our other European countries.

Poland’s performance remains resilient as we continue to execute our strategic plan, which includes enhancing partnerships with medical professionals and pharmacists, new product launches at FagronLab, direct selling and proactively monitoring customer order trends to adjust our product mix. Overall, market-wide price decreases were partially offset by increasing volumes.

Strong revenue growth in Compounding Services is supported by robust demand across all our markets, new product launches, registrations, and drug shortages in some countries.

The REBITDA margin in the first semester primarily reflects the impact of the changes in Polish reimbursement laws, significantly aided by the execution of our strategic plan.

The integration of LSP in the United Kingdom and Parma Produkt in Hungary continues to progress in line with expectations.

### Latin America

| (€ ‘000) | H1 ‘24 | H1 ‘23 | ∆ | ∆ CER | ∆ Organic | ∆ Organic CER |
|---|---|---|---|---|---|---|
| Essentials | 55,030 | 54,867 | 0.3% | -0.9% | 0.3% | -0.9% |
| Brands | 28,708 | 24,027 | 19.5% | 19.7% | 19.5% | 19.7% |
| CS | 2,216 | 1,557 | 42.3% | 21.6% | 42.3% | 21.6% |
| **Total revenue** | **85,954** | **80,450** | **6.8%** | **5.7%** | **6.8%** | **5.7%** |

| (€ ‘000) | H1 ‘24 | H1 ‘23 | ∆ |
|---|---|---|---|
| REBITDA | 14,895 | 12,654 | 17.7% |
| REBITDA margin | 17.3% | 15.7% | 160bps |

Revenue development in Latin America reflects growth in Brands and Compounding Services (Colombia).

Revenues from Essentials reflect our ongoing efforts to sustain market leadership in a highly competitive environment and improvements in operational excellence. Brands experienced robust revenue growth, benefitting from our broad product portfolio, product launches and innovation capabilities, and lastly the timing of Easter holidays.

The strong revenue growth in Compounding Services in Colombia is primarily driven by solid demand, supported by the successful promotion of locally developed personalized medicine, particularly in dermatology.

As anticipated, the region's REBITDA margin has continued its year-on-year recovery. Despite the heightened competitive environment, our operational excellence programs have been key contributors to the improved REBITDA margin.

## North America

| (€ '000) | H1 '24 | H1 '23 | ∆ | ∆ CER | ∆ Organic | ∆ Organic CER |
|---|---|---|---|---|---|---|
| Essentials | 34,427 | 32,799 | 5.0% | 5.0% | 5.0% | 5.0% |
| Brands | 11,869 | 11,684 | 1.6% | 1.6% | 1.6% | 1.6% |
| CS | 136,775 | 100,556 | 36.0% | 36.0% | 36.0% | 36.0% |
| **Total revenue** | **183,070** | **145,039** | **26.2%** | **26.2%** | **26.2%** | **26.2%** |

| (€ '000) | H1 '24 | H1 '23 | ∆ |
|---|---|---|---|
| REBITDA | 35,688 | 26,438 | 35.0% |
| REBITDA margin | 19.5% | 18.2% | 130bps |

Revenue growth in North America continued its positive trend, supported by the outstanding performance at Fagron Sterile Services (FSS) and Anazao.

Brands and Essentials revenue growth reflects further development quarter-on-quarter as we continue reaping the benefits of the consolidation of our repackaging activities and improving operational performance.

Compounding Services maintained its strong growth trajectory, with exceptional performances from both, FSS and Anazao. This revenue growth is driven by new customer wins, increased revenue from existing customers and drug shortages. By the end of the quarter, the Boston facility is now able to ship to 46 states.

The REBITDA margin improved year-on-year, as the integration of the Letco and Boston acquisition progressed, further supported by improved operational efficiency at our Wichita facility.

Investment in the Anazao site in Tampa continues to progress as planned and is scheduled to become operational this year.

## ESG Developments

In the first half of the year, Fagron made further progress with its ESG targets. We realized a 33.6% reduction of our greenhouse gas intensity compared to 2019, well ahead of the targeted 20% reduction. We are also reducing our absolute greenhouse gas emissions. The 2024 reduction forecast is in-line with our science-based targets as validated by the Science Based Targets initiative. By realizing these targets, we strive to meet the goals of the Paris Agreement of limiting global warming to 1.5°C.

| Climate change impact (scope 1, 2 and business travel) | H1 '24 [1] | 2019 | Δ | Unit |
|---|---|---|---|---|
| Greenhouse gas intensity (location-based) | 17.1 | 25.7 | -33.6% | kt $CO_2$ eq per €m revenue at CER |

[1] Preliminary results: reviewed FY numbers will be published in annual report

## Launch share buyback program

On 19 August 2024, Fagron will start the repurchase of up to 150,000 Fagron shares to fulfil its obligations under Fagron's long term incentive scheme as approved at the last shareholders meeting. At the closing price of 31 July 2024, the program will cost €2.9 million. The share buy-back program will end on 31 December 2024, or sooner if the maximum number of repurchased shares has been acquired before then. Fagron has retained KBC Securities to execute the share buy-back program and KBC Securities will make its trading decisions independently. Weekly updates on the share buy-back program will be announced in press releases and be available on Fagron's website.

## Organisational change

Area Leader EMEA and member of the Executive Leadership Team, Maarten Pouw has decided to leave Fagron. Konstantinos Kouloridas (Kostas) has taken over as the Area Leader of EMEA. Kostas, who formerly led our Southeastern Europe division, joined Fagron in 2014 as part of the Kertus acquisition. He brings with him a wealth of experience and a profound understanding of pharmaceutical compounding market. We look forward to his leadership in the EMEA region.

## Financial Review

### Income statement

| (€ '000) | H1 '24 | H1 '23 | Δ |
|---|---|---|---|
| **Net revenue** | **429,344** | **371,573** | **15.5%** |
| Gross margin | 264,438 | 225,600 | 17.2% |
| *As % of net revenue* | *61.6%* | *60.7%* | *90bps* |
| Operating expenses | 178,461 | 151,821 | 17.5% |
| *As % of net revenue* | *41.6%* | *40.9%* | *70bps* |
| Share-based payments and LTI | 1,354 | 1,596 | -15.1% |
| **EBITDA before non-recurrent result** | **84,622** | **72,183** | **17.2%** |
| *As % of net revenue* | *19.7%* | *19.4%* | *30bps* |
| Non-recurrent result | -1,264 | -497 | -154.3% |
| **EBITDA** | **83,358** | **71,686** | **16.3%** |
| *As % of net revenue* | *19.4%* | *19.3%* | *10bps* |
| Depreciation and amortization | 19,709 | 18,958 | 4.0% |
| **Operating profit (EBIT)** | **63,649** | **52,728** | **20.7%** |
| *As % of net revenue* | *14.8%* | *14.2%* | *60bps* |
| Financial result excl. hedge | -9,693 | -9,187 | -5.5% |
| Hedge result | -2,242 | -1,359 | -64.9% |
| Financial result | -11,936 | -10,546 | -13.2% |
| **Profit before income tax** | **51,713** | **42,182** | **22.6%** |
| Taxes | -11,062 | -8,901 | -24.3% |
| **Net profit (loss)** | **40,651** | **33,282** | **22.1%** |
| Basic earnings (loss) per share | 0.55 | 0.45 | 22.2% |
| Average number of outstanding shares | 72,986,905 | 72,966,465 | |

**Consolidated revenue** increased by 15.5% (15.3% at CER) compared to the first half of 2023 to €429.3 million. Organic revenue growth was 13.0% (12.8% at CER) compared to the first half of 2023.

**Gross margin** increased by 17.2% to €264.4 million. Gross margin as a percentage of revenue increased 90 basis points compared to the first half of 2023 to 61.6%, mainly driven by Brands in Brazil and product mix on FSS side in North America.

**REBITDA** (EBITDA before non-recurring result) increased by 17.2% compared to the first half of 2023 to €84.6 million. **REBITDA margin** increased 30 basis points compared to the first half of 2023 to 19.7%. The non-recurring result amounted to -€1.3 million and related mainly to reorganisation and acquisition costs. **EBITDA** increased by 16.3% compared to the first half of 2023 to €83.4 million.

**Depreciation and amortization** increased by 4.0% compared to the first half of 2023 to €19.7 million.

**EBIT** increased by 20.7% compared to the first half of 2023 to €63.6 million. **EBIT margin** increased by 60bps compared to the first half of 2023 to 14.8%.

**Profit before income tax** increased by 22.6% compared to the first half of 2023 to €51.7 million. The effective tax rate as a percentage of profit before income taxes was 21.4% compared to 21.1% in the first half of 2023. The effective cash tax rate was 19.8% compared to 26.5% in the first half of 2023.

**Net profit** increased by 22.1% compared to the first half of 2023 to €40.7 million. **Earnings per share** increased by 22.2% compared to the first half of 2023 to €0.55.

## Balance sheet

| (€ '000) | 30-06-2024 | 31-12-2023 |
|---|---|---|
| Intangible assets and goodwill | 496,761 | 482,921 |
| Property, plant, equipment, leasing and similar rights | 164,816 | 147,935 |
| Deferred tax assets | 24,667 | 28,904 |
| Financial assets | 4,202 | 4,199 |
| Financial instruments | 3,154 | 6,783 |
| Other non-current assets | 4,801 | 4,579 |
| | | |
| Operational working capital | 101,940 | 71,058 |
| Other working capital | -40,458 | -37,641 |
| | | |
| Equity | 477,113 | 467,627 |
| Provisions and pension obligations | 4,647 | 4,588 |
| Financial instruments | 1,481 | 811 |
| Deferred tax liabilities | 1,420 | 1,976 |
| Net financial debt | 275,220 | 233,735 |

**Operating working capital as a percentage of revenue** amounted to 14.5%, an increase of 290 basis points compared to the first half of 2023, mainly due to phasing out of factoring.

**Net financial debt** increased by €41.5 million to €275.2 million as of 30 June 2024, compared to year end 2023. The **net financial debt/REBITDA ratio** was 1.5x at 30 June 2024 compared to 1.4x at year-end 2023.

**Net operational capex** decreased by 1.9% compared to the first half of 2023 to €20.6 million (4.8% of revenue). Corrected for the investments in the Anazao facility in Tampa and in licensing deals in the Netherlands, maintenance capex was 3.0% of revenue, in line with our regular 3 to 3.5% level.

**Free cash flow** decreased by 4.2% compared to the first half of 2023 to €21.4 million, as result of phasing out of factoring and one-off capex. Operational cash conversion would be 68.9% excluding factoring impact and free cash flow conversion would be 53.6% excluding factoring and one-off capex impact.

## Financial calendar 2024

| | |
|---|---|
| 10 October 2024 | Trading update third quarter 2024 |

Results and trading updates are published at 7.00 AM CET.

## Further information

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## About Fagron

Fagron is a leading global company active in pharmaceutical compounding, focusing on delivering personalized medicine to hospitals, pharmacies, clinics, and patients in more than 30 countries around the world.

Belgian company Fagron NV has its registered office in Nazareth and is listed on Euronext Brussels and Euronext Amsterdam under the ticker symbol 'FAGR'. Fagron's operational activities are managed by the Dutch company Fagron BV, which is headquartered in Rotterdam.

## Important information regarding forward-looking statements

Certain statements in this press release may be deemed 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 guarantee that such forward-looking statements will, in fact, materialize 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.

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