

Regulated information

Nazareth (Belgium)/Rotterdam (The Netherlands), 5 August 2021

## **Fagron reports turnover of € 276.6 million**

### **Accelerated growth at Fagron Sterile Services in Wichita – turnover target raised on acquisition of US Compounding activities**

#### **Financial highlights of H1 2021**

- Turnover decreased 0.8% to € 276.6 million (+5.9% at constant exchange rates)
- Gross margin decreased 140 bps to 58.4% due to temporary COVID-related impact
- REBITDA<sup>1</sup> decreased 11.0% to € 56.0 million
- REBITDA margin decreased to 20.2% (H1 2020: 22.6%)
- EBIT decreased 11.9% to € 40.7 million
- Operating cash flow increased 15.1% to € 31.3 million
- Net financial debt /REBITDA ratio of 2.18 at 30 June 2021
- Outlook for 2021: Further turnover growth with a REBITDA between € 118 and € 124 million

#### **Strategic and operational highlights**

- Wichita compounding facility on track, thanks in part to product launches and new contracts
  - Ramping up to two shifts in anticipation of growth acceleration
  - Acquisition of compounding activities of US Compounding (turnover approximately US\$ 6.5 million); turnover target raised to US\$ 125 million (run rate) in 2022
- Transition to new repackaging facility in Poland started in April 2021, completion expected by end-2021
- New GMP sterile compounding facility (Compounding Services) operational in Tel Aviv in June 2021
- Higher strategic inventories to safeguard product availability

#### **Organization - Management**

- More compact Executive Leadership team to further strengthen effectiveness
- Constantijn van Rietschoten appointed Area Leader EMEA
- Johan Verlinden appointed Head of Legal & M&A

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<sup>1</sup> EBITDA before the non-recurring result



**Rafael Padilla, CEO of Fagron:** *“As expected, the developments surrounding COVID-19 still strongly dominated our markets in the first half of 2021, although the second quarter brought a recovery in all regions. This resulted in an organic turnover growth at constant exchange rates of 4.9% in the second quarter of 2021. Measures were relaxed in almost all the regions in the second quarter and elective care resumed, albeit not yet at pre-pandemic levels. Whilst new measures were imposed in many markets towards the end of the second quarter due to the rise of the Delta variant, increasing vaccination rates provide support for the future. There is significant pressure to scale up elective care again and at Fagron we are ready to support our customers to do so.*

*Another effect we saw occurring in the first half of the year was the rapid rise in the price of certain raw materials and packaging materials, partly as a result of COVID-19 and the global vaccination programs. Transport costs have also risen substantially. Under 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 and therefore on REBITDA.*

*Towards the end of the second quarter the results in EMEA were clearly showing the effect of the recovery in elective care. The number of prescriptions (first dispensations) in the Netherlands showed a clear recovery in the second quarter. On the other hand, last year Brands and Essentials were still able to benefit from the increased demand for COVID-related products whereas now this was no longer the case. These developments resulted in a 6.3% decrease in turnover in the EMEA region in the first half of the year. Furthermore, in April 2021 we made a start on the transition to the new repackaging facility for raw materials in Poland, which will result in an annual margin improvement of € 2 million. However, costs will temporarily be higher during the transition because both the Dutch and the Polish facility will be fully operational until the transition is completed.*

*In Latin America we also saw the relaxation of COVID-19 measures translating into an increase in the number of doctor’s visits. The activities in Latin America showed strong turnover growth of 25.2% at constant exchange rates.*

*In North America the second quarter also showed the recovery accelerate compared to the first quarter of 2021 although the picture varied strongly from state to state, partly due to differences in vaccination rates. Turnover in the first six months of 2021 increased by 12.3% at constant exchange rates. Especially Compounding Services in the United States showed a good underlying performance. We are particularly proud of the progress we have made at our sterile activities in Wichita. New SKU launches, newly concluded contracts and the acquisition of the US Compounding activities have resulted in accelerated growth, and we have raised our turnover target to USD 125 million (run rate) in 2022. To facilitate this growth, we decided to move to two shifts sooner than planned and have hired 60 new employees in Wichita to enable this.*

*The ongoing global vaccination programs will allow increasing normalization of our markets. How fast this happens will differ strongly from region to region and will partly depend on potential new outbreaks. This means that visibility is still limited by the pandemic. Fagron’s focus areas have become even more relevant as a result of COVID-19 and we are excellently positioned to benefit once the healthcare sector returns to normal. In this context we are also actively looking at acquisition opportunities, in EMEA and North America in particular.*

*Based on these developments our outlook for the 2021 full year is for further turnover growth with a REBITDA between € 118 and € 124 million.”*



## Management and organization

Constantijn van Rietschoten has been appointed Area Leader EMEA, a role which was temporarily filled by Fagron CEO Rafael Padilla. Van Rietschoten has been with Fagron since May 2008, most recently as Chief Corporate Affairs Officer, with his responsibilities including Investor Relations, Communications and ESG. In addition, as Chief Marketing Officer he was responsible for global marketing, innovation and business development, and has already held responsibility for several countries in the EMEA region.

Johan Verlinden has been appointed Head of Legal & M&A, adding the new M&A function to his responsibilities. Verlinden has been with Fagron since April 2013, most recently as Global Legal Affairs Director, responsible for, among others, Global Legal, Global Insurance and the Company Secretary activities. Verlinden has broad M&A experience and has played an important role in the execution of transactions over the years, during the transformation of Arseus into Fagron.

Furthermore, to further strengthen its effectiveness, the Executive Leadership team has been reduced and now comprises of the CEO and the CFO, the Area Leaders Constantijn van Rietschoten (EMEA), Andrew Pulido (North America) and Ivan Marostica (Latin America) as well as the Head of Legal & M&A (Johan Verlinden).

Karen Berg has been appointed Global IR Manager, a role in which she succeeds Constantijn van Rietschoten. Berg has previously held positions including that of Investor Relations & Treasury Director and Company Secretary at PostNL and has broad experience in the financial sector. Berg will join Fagron as of mid-September 2021.

## COVID-19 update

### *Supply chain*

The supply chain is being affected by various COVID-related developments, including the large-scale vaccination programs having resulted in limited availability of certain raw materials and packaging materials, leading to rapid price increases for these products. In addition, the costs of transport (by both land and sea) have risen substantially. Under the current contracts these cost increases cannot always be passed on to our customers in full and/or only with a delay. In the first six months of 2021 these factors had a temporary negative impact on the gross margin of around 100 basis points.

Product availability is a critical success factor. Inventory levels are being closely monitored and higher inventories are being kept for specific products. Fagron's extensive global network of approved suppliers is proving to be of great value, with Fagron generally experiencing no noteworthy supply issues. In addition, Fagron has set up a dedicated team to deal with purchasing and negotiating in relation to specific scarce products to ensure that both availability and the cost price are managed in the best way possible.

### *Measures*

The entire first half of 2021 was still characterized by (drastic) measures and full or partial lockdowns in most of the regions where we operate, whereas the comparative period was only partly impacted by the effects of the pandemic.

Both the virus and the measures aimed at containing it developed differently in the various regions. Some countries where measures were relaxed in the course of the first half of the year are now re-imposing restrictions due to the sharp rise of the Delta variant. At the same time vaccination rates are rising and as a result public life is largely returning to normal in a part of the countries where Fagron operates.



### **Update on buy-and-build**

On 4 August 2021 Fagron acquired a significant part of the assets of US Compounding, a subsidiary of Adamis Pharmaceuticals Corporation of the United States. The acquisition, which represents annual turnover of around US\$ 6.5 million, gives Fagron access to a large group of new customers and further expands the product portfolio. The takeover will also contribute towards better utilization of the production capacity and increase the growth potential of Fagron Sterile Services.

Acquisitions emphatically remain an important part of Fagron's growth strategy in all the regions where the company is active, with a focus on EMEA and North America in the short term.

### **Operational update**

The transition to the new repackaging facility for raw materials in Poland started according to plan in April 2021, with product groups being transferred to Poland in stages. To ensure a seamless transition, both the Dutch and the Polish facility will be fully operational for a while, temporarily resulting in higher costs. The transition is expected to be completed by the end of 2021, after which a structural annual margin improvement of € 2 million will be realized.

In June 2021 Fagron took a new GMP sterile compounding facility (Compounding Services) into production in Tel Aviv. The facility replaces the old compounding facility of Pharma Tamar, which was acquired in August 2020. The new facility will improve both capacity and quality as well as efficiency.

### **ESG update**

During the first half of 2021 Fagron published its Environmental, Social and Governance (ESG) strategy which sets out how Fagron aims to make an active contribution to achieving the UN Sustainable Development Goals. This is for example reflected in our aim to reduce greenhouse gas emissions in our business operations and to make a positive contribution to the well-being of our employees. Further information about Fagron's ESG efforts can be found at [investors.fagron.com](https://investors.fagron.com).

One of Fagron's targets is to achieve a 30% reduction in greenhouse gas intensity by 2025 compared to 2019. At 30 June 2021 we achieved a 21.8% reduction in greenhouse gas intensity compared to the base year 2019. During the first half of 2021 non-LED lighting was replaced by LEDs at various sites, and solar panel installations were taken into use at our sites in Johannesburg (South Africa) and Nazareth (Belgium). Another six installations are planned for the second half of the year.



## Income statement and balance sheet

Income statement (x € 1,000)	H1 2021	H1 2020	Δ
<b>Net turnover</b>	<b>276,587</b>	<b>278,750</b>	<b>-0.8%</b>
Gross margin	161,590	166,557	-3.0%
<i>As % of net turnover</i>	58.4%	59.8%	
Operating costs	103,765	103,059	+0.7%
<i>As % of net turnover</i>	37.5%	37.0%	
Subscription rights costs	1,819	563	+223.0%
<b>EBITDA before non-recurrent result</b>	<b>56,006</b>	<b>62,943</b>	<b>-11.0%</b>
<i>As % of net turnover</i>	20.2%	22.6%	
Non-recurrent result	-707	-1,654	-57.2%
<b>EBITDA</b>	<b>55,299</b>	<b>61,280</b>	<b>-9.8%</b>
<i>As % of net turnover</i>	20.0%	22.0%	
Depreciation and amortization	14,584	15,084	-3.3%
<b>EBIT</b>	<b>40,715</b>	<b>46,196</b>	<b>-11.9%</b>
<i>As % of net turnover</i>	14.7%	16.6%	
Financial result	-6,097	-7,172	+15.0%
<b>Profit before taxes</b>	<b>34,619</b>	<b>39,024</b>	<b>-11.3%</b>
Taxes	-7,670	-7,466	-2.7%
<b>Net profit</b>	<b>26,949</b>	<b>31,559</b>	<b>-14.6%</b>
Recurrent net profit <sup>2</sup>	27,308	32,822	-16.8%
Net profit per share (€)	0.37	0.44	
Recurrent net profit per share(€)	0.38	0.46	
Average number of outstanding shares	72,430,319	72,075,277	

Balance sheet (x € 1,000)	30-06-2021	31-12-2020
Intangible fixed assets	400,732	389,167
Property, plant and equipment	121,459	118,625
Deferred tax assets	21,108	20,811
Financial assets	3,026	2,340
Operational working capital	65,643	49,682
Other working capital	-42,791	-40,801
Equity	292,497	257,819
Provisions and pension obligations	6,575	8,175
Financial instruments	1,147	411
Deferred tax liabilities	2,168	2,128
Net financial debt	266,791	271,290

<sup>2</sup> 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

### Income statement

**Consolidated turnover** amounted to € 276.6 million, a decline of 0.8% (+5.9% at constant exchange rates) compared to the first half of 2020. Organic growth equaled 3.7% at constant exchange rates. More detailed information on turnover development by region can be found under 'Key figures by segment'.

The **gross margin** decreased by 3.0% to € 161.6 million as a result of a temporary COVID-19 related impact. The gross margin as a percentage of turnover decreased by 20 basis points compared to the second half of 2020 and 140 basis points compared to the first half of 2020 to 58.4%.

**Operating costs, excluding the costs of the subscription rights**, as a percentage of turnover were 37.5% in the first half of 2021, an increase of 50 basis points compared to 37.0% in the first half of 2020.

The **costs of the subscription rights** rose by € 1.3 million to € 1.8 million in the first six months of 2021 due to the allocation of subscription rights under the 2020 subscription rights plan.

**EBITDA before the non-recurring result** (REBITDA) decreased by 11.0% to € 56.0 million in the first half of 2021. REBITDA as a percentage of turnover dropped by 240 basis points to 20.2%.

The **non-recurring result** was a negative € 0.7 million and related for example to restructuring costs and a release of contingent liabilities related to acquisitions in Latin America.

**EBITDA** decreased by 9.8% to € 55.3 million. The EBITDA margin decreased 200 basis points to 20.0%.

**Depreciation and amortization** equaled € 14.6 million, a decrease of 3.3% compared to € 15.1 million in the first half of 2020.

**EBIT** was € 40.7 million, a decline of 11.9% compared to the first half of 2020. The EBIT margin decreased with 190 basis points to 14.7%.

The **financial result** was a negative € 6.1 million, a € 1.1 million improvement compared to a negative € 7.2 million in the first half of 2020.

The **effective tax rate** as a percentage of the profit before taxes was 22.2% in the first half of 2021 (H1 2020: 19.1%). The **effective cash tax rate** was 27.4% in the first half of 2021 (H1 2020: 25.4%).

**Net profit** was € 26.9 million, a decline of 14.6% compared to the first half of 2020. **Recurrent net profit** amounted to € 27.3 million, a decrease of 16.8% compared to € 32.8 million in the first half of 2020.

### Financial position

The **operational working capital** as a percentage of turnover amounted to 12.0%, an increase of 120 basis points compared to 30 June 2020. The rise was mainly the result of maintaining higher inventories to safeguard the availability of certain specific products.

**Net financial debt** decreased with € 4.5 million in the first half of 2021 to € 266.8 million. The net financial debt/REBITDA ratio was 2.18 at 30 June 2021 (31 December 2020: 2.06).



The table below shows the development of net financial debt in the first half of 2021.

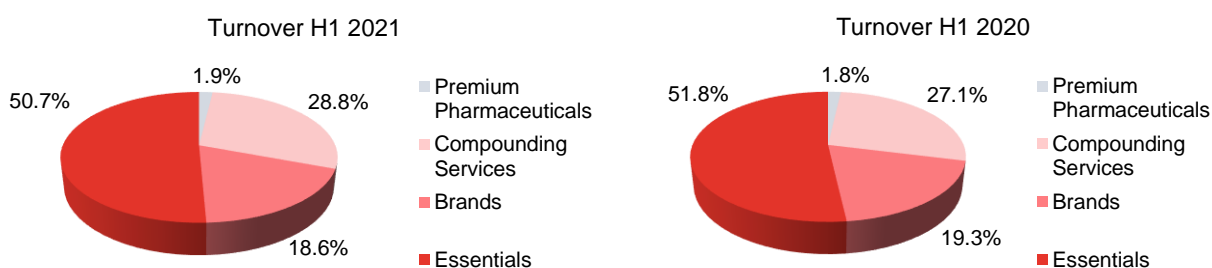
(x € 1,000)	
<b>Net financial debt on 31 December 2020</b>	<b>271,290</b>
Operational cash flow	-31,265
Capital increases	-6,798
Acquisitions and subsequent payments for acquisitions	4,495
Investments	9,152
Paid dividend	8,468
Net interests	7,129
Exchange rate differences	1,798
Impact IFRS 16	2,522
<b>Net financial debt on 30 June 2021</b>	<b>266,791</b>

**Net operational capex** was € 9.2 million (3.3% of turnover) in the first half of 2021. Capex mainly relates to investments in existing facilities in the United States and Latin America, the new repackaging facility for pharmaceutical raw materials in Poland and software implementations.

#### Key figures by segment

##### Fagron

(x € 1,000)	H1 2021	H1 2020	Δ
Turnover	276,587	278,750	-0.8%
REBITDA <sup>3</sup>	56,006	62,934	-11.0%
REBITDA-margin	20.2%	22.6%	



Fagron's turnover decreased by 0.8% in the first half of 2021 (+5.9% at constant exchange rates) to € 276.6 million. Organic turnover growth equaled 3.7% at constant exchange rates. The second quarter brought a recovery in all regions. This resulted in an organic turnover growth at constant exchange rates of 4.9% in the second quarter of 2021.

REBITDA was down 11.0% at € 56.0 million, partly as a result of the lower gross margin due to pandemic-related reasons and the temporary higher costs of the commissioning of the new repackaging facility in Poland. Additionally, 60 FTEs were hired in the United States to facilitate the growth acceleration of the sterile compounding facilities in Wichita. REBITDA as a percentage of turnover decreased by 240 basis points to 20.2%

<sup>3</sup> EBITDA before non-recurring result.

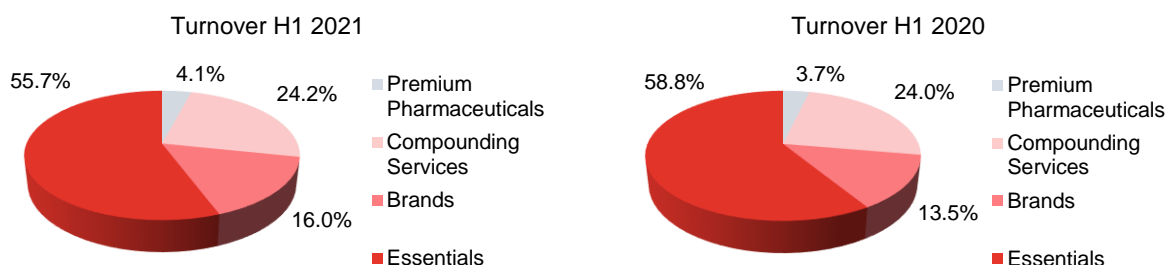


The table below shows the turnover development and exchange rate effects at Fagron in the first half of 2021.

(x € 1,000)	Impact
<b>Turnover in H1 2020</b>	<b>278,750</b>
Development EMEA <sup>4</sup>	-13,766
Development Latin America	+15,267
Development North America	+8,837
Currency-effect BRL/euro	-10,967
Currency-effect US\$/euro	-7,636
Currency-effect other	+49
Contribution of acquisitions	+6,054
<b>Turnover in H1 2021</b>	<b>276,587</b>

#### Fagron EMEA<sup>5</sup>

(x € 1,000)	H1 2021	H1 2020	Δ
Turnover	128,866	137,549	-6.3%
REBITDA <sup>6</sup>	28,623	33,448	-14.4%
REBITDA-margin	22.2%	24.3%	



The turnover of the EMEA segment decreased with 6.3% in the first half of 2021 to € 128.9 million. Adjusted for the acquisitions of Gako (Germany) and Pharma Tamar (Israel), organic turnover development equaled -10.0%. REBITDA as a percentage of turnover decreased 210 basis points to 22.2%, partly as a result of the temporary increase in start-up and other costs associated with taking the new repackaging facility in Poland into production and the lower gross margin due to pandemic-related reasons.

Almost all the countries in EMEA where Fagron operates imposed (partial) lockdowns and other restrictive measures during the first half of 2021. Although demand for sterile compounds remained strong in the Netherlands the impact of COVID-19 on elective care and doctor's visits affected Compounding Services. In addition, the registration last year of a number of non-sterile compounds by other parties continued to negatively affect the turnover of Compounding Services in the first half of 2021.

In the second quarter of 2021 the number of prescriptions (first dispensations) in the Netherlands staged a recovery, demonstrating that the number of prescriptions picks up once measures are relaxed. This

<sup>4</sup> The EMEA segment comprises the Fagron activities in Europe, South-Africa and Israel.

<sup>5</sup> The EMEA segment comprises the Fagron activities in Europe, South-Africa and Israel.

<sup>6</sup> EBITDA before non-recurring result.





translated into a decline of 3.9% at Compounding Services in the second quarter compared to a decline of 18.8% in the first quarter and 12.0% in the first half of 2021.

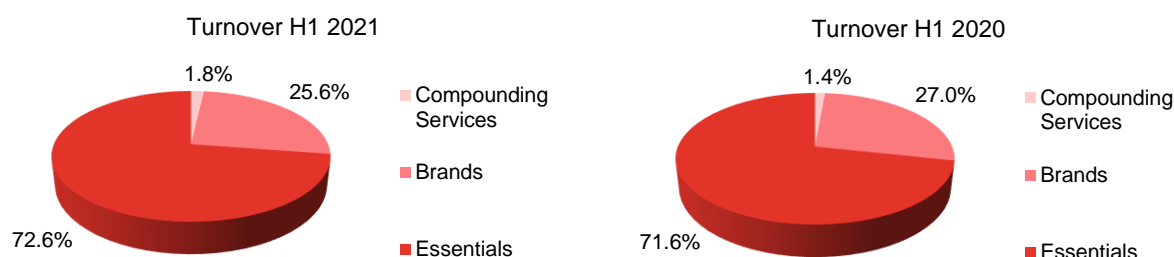
Elective care has been slowly resumed in most markets since the beginning of June 2021, but volumes are not yet back to pre-pandemic levels. Whilst there is a lot of pressure to bring elective care back to its pre-pandemic level, how it develops will be largely dependent on how much pressure COVID-19 puts on the healthcare system.

The turnover of Premium Pharmaceuticals increased 4.7% in the first half of 2021.

Whereas Brands and Essentials benefited from increased demand for COVID-19-related products in the first half of 2020 this was no longer the case in the first half of 2021. This resulted in a decrease in turnover at Essentials compared to the first half of 2020, although Essentials still showed underlying growth compared to the pre-pandemic situation.

### Fagron Latin America

(x € 1,000)	H1 2021	H1 2020	Δ
Turnover	65,428	61,045	+7.2%
REBITDA <sup>7</sup>	13,005	12,758	+1.9%
REBITDA-margin	19.9%	20.9%	



The turnover of the Latin America segment increased by 7.2% in the first half of 2021 (+25.2% at constant exchange rates) to € 65.4 million. In the second quarter of 2021 turnover increased 24.8% (+30.1% at constant exchange rates). REBITDA increased 1.9% to € 13.0 million in the first half of 2021. The REBITDA margin decreased 100 basis points to 19.9%, partly as a result of a lower gross margin due to pandemic-related reasons.

In Latin America compounding pharmacies are Fagron's most important sales channel and these mostly stayed open despite the COVID-19 restrictions. Fagron saw the number of doctor's visits and hence the number of prescriptions rise in the first half of the year. Brands and Essentials both displayed good organic turnover growth across the board. Thanks to its scale, global network and flexible operating methods Fagron is well placed to further expand its market share in Latin America in the current circumstances.

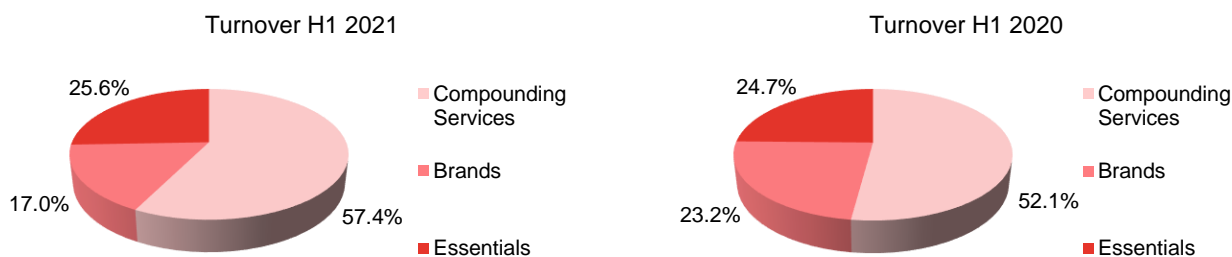
The Compounding Services activities in Colombia, which represent a relatively small share of total turnover in Latin America, showed strong turnover growth of 52.1% at constant exchange rates, despite some prescribers still being closed.

<sup>7</sup> EBITDA before non-recurring result.



### Fagron North America

(x € 1,000)	H1 2021	H1 2020	Δ
Turnover	82,293	80,156	+2.7%
REBITDA <sup>8</sup>	14,378	16,729	-14.1%
REBITDA-margin	17.5%	20.9%	



The turnover of the North America segment increased by 2.7% in the first half of 2021 (+12.3% at constant exchange rates) to € 82.3 million due to a strong recovery at Compounding Services. Organic turnover growth was 1.5% (+11.0% at constant exchange rates). REBITDA declined 14.1% to € 14.4 million. The REBITDA margin decreased 340 basis points compared to the first half of 2020 to 17.5%. In addition to the temporary impact on the gross margin due to pandemic-related causes, more staff (60 FTEs) were hired for the Wichita facility. With a view to further growth acceleration in the second half of the year and the acquisition of US Compounding, the decision was made to launch and deploy a second shift in Wichita.

The recovery accelerated in the second quarter compared to the first quarter of 2021, although the picture differs considerably from state to state. In particular the states with low vaccination rates increasingly face rising cases of the Delta variant of COVID-19, which is causing continued uncertainty.

Essentials showed healthy turnover growth of 6.4% (+16.4% at constant exchange rates) in the first half of 2021. Brands saw turnover decline compared to the comparison base in 2020, when Brands benefited strongly from the increased demand for COVID-related products.

The sterile activities of Fagron (Compounding Services) in the United States showed a turnover increase of 13.0% (+23.7% at constant exchange rates) and increased as a share of total turnover due to the decrease in turnover at Brands. Fagron Sterile Services achieved a turnover increase of 21.0% (+32.3% at constant exchange rates). The first six months of 2021 saw 15 new SKU launches in Wichita, with the expansion of the range of prefilled intravenous (IV) bags as the most strategic launch. In June 2021, Wichita had a run rate (annual turnover) of around USD 70 million despite regular demand not yet having returned to pre-pandemic levels. Based on planned and completed launches of new SKUs, a higher level of automation and newly concluded contracts, growth is expected to accelerate, and Wichita is on track to achieve its long-term turnover target. Taking into account the acquisition of part of the assets of Adamis Pharmaceuticals Corporation's subsidiary US Compounding, which will give Fagron access to a large group of new customers, Fagron currently expects to realize turnover of USD 125 million (run rate) in 2022.

<sup>8</sup> EBITDA voor niet-recurrent resultaat.



AnazaoHealth managed to reverse the turnover decrease in the first quarter into a turnover increase of 6.8% (+16.8% at constant exchange rates) for the first six months of 2021 thanks to clinics largely returning to full opening again in the second quarter.

#### Conference call

Fagron is organizing a conference call today to elaborate on the results for the first half of 2021. The conference call will begin at 9.30 am CET. In order to take part in the conference call you need to register beforehand by clicking on this [link](#). The presentation for the conference call can be downloaded from the Fagron website (<http://investors.fagron.com/>) from 9.00 am CET.

The conference call can be played back or downloaded from the Fagron website (<http://investors.fagron.com/>) from 6 August 2021.

#### Financial calendar 2021

13 October

Trading update on third quarter of 2021

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 35 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.*