

Regulated information

Nazareth (Belgium)/Rotterdam (The Netherlands), 4 August 2022 – 7.00 AM CET

Fagron delivers strong topline growth of 18.8% and an increase in REBITDA of 13.1% for the first half of 2022

Fagron, the leading global player in pharmaceutical compounding today publishes its half year results for the period ending 30 June 2022.

Key Highlights

- **Organic revenue growth of 6.9% at CER with total revenue growth of 10.9% at CER (18.8% reported) to €328.6 million**
- **Revenue development in EMEA stabilizing; steady revenue growth in Latin America and very strong performance in North America**
- **REBITDA increased by 13.1% to €63.3 million with a margin of 19.3%**
- **Free cashflow increased by 44.3% to €31.9 million**
- **Earnings per share increased by 29.7% to €0.48**
- **Four acquisitions completed in the period followed by the 503B facility in Boston in July**
- **Leverage ratio of 2.2x provides sufficient headroom to capture future opportunities**
- **Solid progress on our sustainability agenda with 21.5% reduction of greenhouse gas intensity compared to 2019**
- **Excluding the impact of the Boston acquisition, the FY 2022 revenue expectation increased to between €670 and €690 million with higher REBITDA margin in H2 compared to H1**

Rafael Padilla, CEO of Fagron commented

“Our strong focus on execution continued to deliver excellent results in the first half of 2022, despite the challenging macroeconomic environment, with turnover increasing 10.9% at constant exchange rates and growth across all regions, specifically in the US. The sustained commercial momentum and broad-based growth in each region reflects continued strong customer demand across the attractive growth markets we serve. REBITDA increased 13.1%, and as a percentage of turnover decreased 90bps to 19.3%, mainly due to delays in the passing on of cost increases in certain countries in EMEA and increased competition in Latin America, both resulting from inflationary and supply chain pressures.

We remain committed to ensuring quality across all our operations, especially in light of the communication from the FDA regarding the St. Paul facility in June 2022. We have submitted the remedial action plan and are working closely with the FDA to ensure a satisfactory conclusion of the audit.

We have also progressed our buy & build acquisition strategy with the addition of Letco (US), Pharmapack (Belgium), Curaphar (NL) and Hiperscan (Germany) in the first half of the year, followed by the recently announced purchase of a 503B facility in Boston. This acquisition provides us with an exceptional platform to further grow our business on the East Coast. We remain committed to disciplined execution of our M&A strategy as we seek to grow our footprint and capabilities globally.



Another area of key focus for us is driving operational excellence, and to this end I am delighted to welcome Vera Bakker as Fagron's Chief Operating Officer and member of the Executive Leadership Team. Vera joined us from Unilever and stepped down as non-executive director from our Board with immediate effect. As Vera's replacement, the Board is delighted to co-opt Els Vandecandelaere as independent non-executive director, who will strengthen our HR expertise in the Board.

For the second half of the year, we expect continued strong revenue growth and our profitability to improve compared to the first half of the year excluding the temporary dilutive impact of the Boston acquisition. We remain confident in our ability to meet our mid-term guidance as the secular trends and underlying fundamentals in our industry are strong and we are progressing with the implementation of our strategic priorities."

H1 2022 Key Financial Figures

(€ '000)	Revenue by segment			
	H1 '22	H1 '21	Δ	Δ CER
Essentials	167,306	140,267	19.3%	11.5%
Brands	55,434	51,415	7.8%	-0.5%
Compounding services ¹	105,826	84,906	24.6%	16.7%
Total	328,565	276,587	18.8%	10.9%

(€ '000)	Group		
	H1 '22	H1 '21	Δ
REBITDA	63,322	56,006	13.1%
REBITDA margin	19.3%	20.2%	-90bps
EPS	0.48	0.37	29.7%
Free Cash Flow	31,906	22,114	44.3%

(€ '000)	EMEA			Latin America			North America		
	H1 '22	H1 '21	Δ	H1 '22	H1 '21	Δ	H1 '22	H1 '21	Δ
Revenue	137,709	128,866	6.9%	78,561	65,428	20.1%	112,294	82,293	36.5%
REBITDA	28,929	28,623	1.1%	13,683	13,005	5.2%	20,710	14,378	44.0%
REBITDA Margin	21.0%	22.2%	-120bps	17.4%	19.9%	-250bps	18.4%	17.5%	90bps

¹ Previously Compounding Services and Premium Pharmaceuticals



Financial Review

Income statement

(€ '000)	H1 2022	H1 2021	Δ
Net revenue	328,565	276,587	18.8%
Gross margin	190,571	161,590	17.9%
<i>As % of net revenue</i>	58.0%	58.4%	
Operating costs	126,170	103,765	21.6%
<i>As % of net revenue</i>	38.4%	37.5%	
Subscription rights costs	1,079	1,819	-40.7%
EBITDA before non-recurrent result	63,322	56,006	13.1%
<i>As % of net revenue</i>	19.3%	20.2%	
Non-recurrent result	-800	-707	13.2%
EBITDA	62,522	55,299	13.1%
<i>As % of net revenue</i>	19.0%	20.0%	
Depreciation and amortization	15,720	14,584	7.8%
EBIT	46,801	40,715	14.9%
<i>As % of net revenue</i>	14.2%	14.7%	
Financial result	-2,186	-6,097	-64.1%
Profit before taxes	44,615	34,619	28.9%
Taxes	-9,317	-7,670	21.5%
Net profit	35,299	26,949	31.0%
Net profit per share (€)	0.48	0.37	29.7%
Average number of outstanding shares	72,992,654	72,430,319	

Revenue

Consolidated revenue increased by 18.8% (10.9% at constant exchange rates) compared to the first half of 2021 to €328.6 million. Organic revenue growth was 14.5% (6.9% at constant exchange rates) compared to the first half of 2021.

Gross margin

Gross margin increased by 17.9% to €190.6 million in the first half of 2022. Gross margin as a percentage of revenue decreased 40 basis points compared to the first half of 2021 to 58.0%. Operating costs excluding the costs of the subscription rights as percentage of revenue was 38.4% in the first half of 2022, an increase of 90bps compared to the first half of 2021. The costs of the subscription rights decreased by 40.7% compared to the first half of 2021 to €1.1 million.

EBITDA and EBITDA margin

REBITDA (i.e., EBITDA before non-recurring result) increased by 13.1% (5.6% at constant exchange rates) compared to the first half of 2021 to €63.3 million. REBITDA as a percentage of revenue decreased 90 basis points compared to the first half of 2021 to 19.3%. The non-recurring result amounted to €0.8 million in the first half of 2022 and related mainly to acquisition and restructuring costs offset by the release of contingent liabilities related to acquisitions in North America. EBITDA increased by 13.1% compared to the first half of 2021 to €62.5 million. EBITDA as a percentage of revenue decreased 100 basis points compared to the first half of 2021 to 19.0%.



Depreciation and amortization

Depreciation and amortization increased by 7.8% compared to the first half of 2021 to €15.7 million.

EBIT and EBIT margin

EBIT increased by 14.9% compared to the first half of 2021 to €46.8 million. EBIT as a percentage of revenue decreased 50 basis points compared to the first half of 2021 to 14.2%.

Result before tax and tax expenses

The result before tax increased 28.9% compared to the first half of 2021 to €44.6 million. The effective tax rate as a percentage of the profit before taxes was 20.9% in the first half of 2022 compared to 22.2% in the first half of 2021. The effective cash tax rate was 19.6% in the first half of 2022 compared to 27.4% in the first half of 2021.

Net profit and EPS

Net profit increased by 31.0% compared to the first half of 2021 to €35.3 million. Earnings per share increased by 29.7% compared to the first half of 2021 to €0.48.

Balance sheet

(€ '000)	30-06-2022	31-12-2021
Intangible fixed assets	469,295	411,075
Property, plant, and equipment	135,668	128,626
Deferred tax assets	24,496	22,545
Financial fixed assets	3,940	1,556
Financial instruments	8,092	1,197
Other fixed assets	3,785	1,710
Operational working capital	79,677	59,070
Other working capital	-27,236	-26,646
Equity	377,377	325,466
Provisions and pension obligations	6,350	6,112
Financial instruments	2,170	103
Deferred tax liabilities	4,018	2,510
Net financial debt	307,804	264,941

Cash flow, working capital and net debt

Operating working capital as a percentage of revenue amounted to 12.1%, an increase of 10 basis points year-on-year and an increase of 180 basis points compared to year-end 2021, driven by inter alia investments in inventories and acquisitions.

Net financial debt increased by €42.9 million to €307.8 million as at 30 June 2022. The net financial debt/REBITDA ratio was 2.2x at 30 June 2022 compared to 2.1x at year-end 2021.

Net operational capex decreased 27.0% compared to the first half of 2021 to €6.7 million (2.0% of revenue). Capex mainly related to investments in existing facilities, new facilities, and software implementations.

Free cash flow increased 44.3% compared to the first half of 2021 to €31.9 million.



Business Review

EMEA

(€ '000)	H1 '22	H1 '21	Δ	Δ CER	Organic Δ	Organic Δ CER
Essentials	77,104	71,723	7.5%	7.0%	4.0%	3.5%
Brands	23,003	20,649	11.4%	10.8%	2.0%	1.4%
Compounding services	37,603	36,494	3.0%	1.7%	0.4%	-1.0%
Total revenue	137,709	128,866	6.9%	6.1%	2.6%	1.9%

(€ '000)	H1 '22	H1 '21	Δ
REBITDA	28,929	28,623	1.1%
REBITDA Margin	21.0%	22.2%	-120bps

Organic revenue growth in the EMEA region was 1.9% at CER with total growth at CER of 6.1% (reported 6.9%) to €137.7 million. This demonstrates further stabilization of performance in the region following various management actions taken over recent quarters. In particular, the performance in the Netherlands is progressing in line with expectations and has been bolstered by recent multi-year contract renewals. Elsewhere in the region, we have also witnessed solid growth in our smaller markets in line with our strategy to continue to diversify revenue across the region.

The increase in the Brands and Essentials revenue was supported by increased demand for COVID tests, innovative product launches and improved product availability as the transition to the GMP repackaging facility in Poland was completed at the end of the first half year. The increase in the Compounding Services revenue is reflective of the normalization of the market and was also supported by the acquisition of Curaphar, partly offset by the phasing out of our alternative branded products.

Supply chain and inflationary pressures remained heightened and our REBITDA margin was largely impacted by the delay in passing on price increases linked to the longer-term contracts that are more common in Europe than in other regions we operate in.

Latin America

(€ '000)	H1 '22	H1 '21	Δ	Δ CER	Organic Δ	Organic Δ CER
Essentials	55,482	47,490	16.8%	1.3%	16.8%	1.3%
Brands	21,695	16,756	29.5%	10.7%	29.5%	10.7%
Compounding services	1,385	1,182	17.1%	14.7%	17.1%	14.7%
Total revenue	78,561	65,428	20.1%	4.0%	20.1%	4.0%

(€ '000)	H1 '22	H1 '21	Δ
REBITDA	13,683	13,005	5.2%
REBITDA Margin	17.4%	19.9%	-250bps

Organic revenue growth in the Latin American region was 4.0% at CER (20.1% reported) to €78.6 million and performance was further supported by the positive exchange rate impact sustained into the second quarter of 2022. However, on the flip side given our elevated inventory levels to ensure product availability we have felt a negative impact as the Brazilian Real has rallied on the back of the commodity price boom and high interest rates.



From a segmental perspective, Brands and Essentials revenue showed solid organic growth at constant exchange rates with a further strengthening of the Brands contribution, supported by innovative product launches. Compounding Services continued its revenue growth, supported by customer wins and increasing orders from existing customers.

The underlying performance in the region reflects the impact of a challenging economic environment as the inflationary impact on consumer spending came through. This, allied to an increasingly competitive environment, had an impact on pricing and we continue to monitor the situation closely to protect our market leading position.

North America

(€ '000)	H1 '22	H1 '21	Δ	Δ CER	Organic Δ	Organic Δ CER
Essentials	34,720	21,054	64.9%	49.6%	22.2%	10.8%
Brands	10,736	14,010	-23.4%	-30.5%	-6.0%	-14.7%
Compounding services	66,838	47,229	41.5%	28.4%	41.5%	28.4%
Total revenue	112,294	82,293	36.5%	23.8%	30.3%	18.2%

(€ '000)	H1 '22	H1 '21	Δ
REBITDA	20,710	14,378	44.0%
REBITDA Margin	18.4%	17.5%	90bps

Organic revenue growth in the North American region was 18.2% at CER with total growth at CER of 23.8% (reported 36.5%) to €112.3 million, representing an exceptional performance in the world's largest compounding market. This was achieved despite the increased syringe shortages caused by the global vaccination programs and further re-enforces our strengthening position in the region.

Brands and Essentials revenue growth was supported by the acquisition of Letco, partly offset by the divestment of our CMO business. Organic revenue growth of Compounding Services was 28.4% at CER, driven by strong revenue growth at both FSS US and Anazao despite the global syringe shortages.

With a run-rate of US\$83 million (annualized) in June 2022 and automatic labelling plus the implementation of a third shift planned for second half of the year, FSS US is on track to realize the run rate of US\$125 million (annualized) at year end 2022. The start of the automated visual inspection has been delayed towards the first half of 2023 due to ongoing supply chain issues.

The REBITDA margin improved by 90bps to 18.4% as we have been able to pass on most of the inflationary increases to our customers.

Finally, following the correspondence from the FDA regarding the GMP repackaging facility in St. Paul, we have submitted the remedial action plan whilst also accelerating the integration of Letco.

M&A Developments

Integration of the acquisitions closed in the first half of the year namely Letco (USA), Pharma-Pack (Belgium), Curaphar (NL), and Hiperscan (Germany), are progressing in line with expectations.

With the recent acquisition of the 503B facility in Boston, we have taken another important step towards meeting the continuously growing demand for sterile outsourcing services in the US market,



and significantly strengthened our geographic proximity towards existing and potential customers on the East Coast. We expect the transition of the facility to Fagron processes to take approximately 12 to 18 months and the facility to start making a positive contribution to results in the second half of 2023.

We remain committed to our disciplined acquisition strategy which is an important part of Fagron's growth strategy in all regions where we are active.

Organizational Developments

Vera Bakker has been appointed as Chief Operating Officer and member of the Executive Leadership Team and stepped down as non-executive director from our Board of Directors with immediate effect. Vera joined us from Unilever where she worked 25 years.

The Board of Directors, on the advice of its Nomination and Remuneration Committee, has decided to co-opt Els Vandecandelaere as independent non-executive director. Her appointment is subject to the approval of Fagron's general meeting of shareholders. Els (1971 - Belgian nationality) is currently the Global Head of HR Integrated Supply Chain, Quality & Regulatory, Services & Solutions Delivery at Philips. She joined Philips in 2021 and is based in the US, having started her professional career at Johnson & Johnson, holding various leadership roles of increasing responsibility in HR in Belgium, the US, the UK, and Switzerland.

The Board of Directors has appointed Ann Desender as chair of the Audit Committee.

Area Leader EMEA and member of the Executive Leadership Team, Constantijn van Rietschoten has decided to leave Fagron. To allow for a sound transition he will remain associated with Fagron until 1 December 2022. In August, Maarten Pouw will start as Area Leader EMEA. He worked 16+ years at DSM and Centrient and brings a wealth of experience in the pharmaceutical raw materials business.

ESG Initiatives

Climate impact (Scope 1, 2 and business travel)	H1 '22 ²	2019 ³	Δ	Unit
Greenhouse gas intensity (location-based)	20.2	25.7	-21.5%	Kt of CO ₂ eq per million € revenue at CER

Outlook

Assuming no significant changes in current market conditions and excluding the temporary dilutive impact of the Boston acquisition, we expect FY 2022 revenue of between €670 and €690 million and a higher REBITDA margin in the second half of the year compared to the first half of the year.

Our medium-term objectives remain unchanged.

Webcast

Rafael Padilla (CEO) and Karin de Jong (CFO) will elaborate on the first semester 2022 results in a webcast starting at 9.30 AM CET. Registration to the webcast is available via this [link](#). The presentation by means of which they will explain the developments will be available to download from the Fagron [website](#) from 9.00 AM CET.

² Preliminary results: FY numbers will be reviewed prior to publication of Annual Report.

³ All environmental targets are versus financial year 2019.



Financial calendar 2022

13 October 2022 Trading update third quarter 2022

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.



Development net financial debt

The table below shows the development of net financial debt in the first half of 2022.

(€ '000)	
Net financial debt on 31 December 2021	264,941
Operational cash flow	-38,587
Capital increases	-453
Acquisitions and subsequent payments for acquisitions	48,834
Proceeds for shareholdings sold	-3,226
Investments	6,681
Paid dividend	9,955
Net interests	5,023
Exchange rate differences	9,899
Impact IFRS 16	4,736
Net financial debt on 30 June 2022	307,804