Fagron H1 2023 Results

Thursday, 3 August 2023

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Operator: Hello, and welcome to the Fagron half year 2023 results. My name is Caroline, and I will be your coordinator for today's event. Please note that this call is being recorded. And for the duration of the call, your lines will be on listen-only mode. However, you'll have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your questions. If you require assistance at any point, please press star zero and you'll be connected to an operator.

I will now hand over the call to your host, Karen Berg, to begin today's conference. Thank you.

Karen Berg: Thank you very much, Caroline, and good morning, all. Welcome to the first half-year results of Fagron. I'm here together with our CEO, Rafael Padilla, who will discuss the numbers and deep – give a deep dive into the regions, and then Karin will take over for more information on the financials. And as said, afterwards, the floor will be open for questions. Thank you.

Rafael Padilla: Thanks, Karen. Good morning, and welcome all. We are happy to report another set of strong results, driven by solid execution on our strategic initiatives and improving operational capabilities. As we all know, during the first half of the year, we operated in a very dynamic and challenging environment, so it is pleasing to see organic revenue growth at 8.4% and REBITDA increased by 14% to €72.2 million with a margin of 19.4%.

We saw strong performance in North America and EMEA, while we have made good progress on structural improvements in LatAm. This positive momentum is a result of our strategic actions and operational excellence initiatives, which together with high quality standards, are key factors in our industry.

Our free cash flow for the first half reflects the one-off investments we made, which Karin will discuss later on.

On the M&A front, the integration of Letco, FSS, Boston and Wildlife is progressing as planned, and we remain on the lookout for any opportunity in the market that meets our disciplined approach.

Finally, for our 2023 full year guidance, we expect high single-digit revenue growth with increasing profitability.

Now moving on to the regional update. EMEA's growing trajectory continues on the back of efficiency improvements with our Polish GMP repackaging facility, innovations and reinforcing registration and in-licensing capabilities. This was further supported by strong demand across most of our markets.

Pricing pass through was very important in this region, and we have seen excellent execution on that front, although it is now fully completed. One of our key markets, the Netherlands, has shown again a solid performance. While, as explained before, we continue diversifying across the EMEA region and have delivered strong results in markets such Poland, Czech Republic, South Africa, and UK.

Moving into LatAm. Given the attractiveness of the Brazilian compounding market, the competitive landscape remains heightened, while we see signs of customer demand improving. We continued our focus on maintaining market leadership and also drive operational efficiencies through several levers.

Firstly, we have completed - earlier than planned - the centralization of our distribution activities in Brazil, and we expect to see operational benefits in the second half of this year.

On brand rationalization, last year we completed consolidation of three brands. And this year, on the equipment and packaging side, we combine three more. Given our strong innovation capabilities in this region, we have launched new successful products that are expected to drive margin growth. Next to this, we also continue to further diversify into Mexico and Colombia.

Looking ahead to the second half of the year, we expect better revenue and margin performance on the back of our commercial and operational excellence initiatives.

To conclude, we remain committed to maintaining our market-leading position in Brazil, as it is the second biggest compounding market in the world and long-term fundamentals remain attractive.

Moving into the largest compounding market in the world, North America. We continue seeing structural growth as hospitals look for outsourcing of pharmaceutical compounding, while Anazao is well placed to capture the growing demand in prevention and lifestyle.

Moving to B&E. As communicated before, we have now completed the transfer of our cGMP API repackaging activities to Letco and have decided to close down the remaining operations of the St. Paul facility by the end of this year.

Further, to build on our key strategic pillar to have market leadership in B&E, while maintaining highest quality standards, we have announced that we will invest in building a state-of-the-art cGMP repackaging facility in Decatur, Alabama.

Moving to FSS. We have reached the €135 million run rate for Wichita and Boston combined. This was achieved on the back of strong market demand and increasing operational efficiencies. At Wichita, to further enhance our performance, we expect visual inspection to be operational in the second semester.

Regarding Boston, integration is on track, and we have now 27 licenses, including Texas. As we guided, we expect to be breakeven during the second semester.

To finalize, we are also very pleased with the development of our health and wellness division, Anazao, which is capitalizing on strong underlying demand for personalized treatments, as well as short-term drug shortages. We also confirm that our investment in the Tampa facility is progressing as planned.

Moving on to the next slide. As mentioned, we are currently experiencing a fast-changing environment, where agility and guaranteeing the highest quality standards are key. Looking at the external factors, we closely monitor inflationary developments, and as mentioned, while our other regions remain dynamic in pricing pass-through, a very well-executed exercise in EMEA has now concluded.

Regarding competitive landscape, we aim to maintain leadership in all our markets by strengthening our commercial approach, balancing competitive pricing and being unique with our Brands and the widest portfolio.

Being the global pharmaceutical compounding leader, we have strengthened our quality management organization and continued implementing our global quality systems across all our regions, aiming to set the highest quality standards in the industry as the regulatory environment evolves.

Also, in order to remain ahead of regulatory requirements, we commit to invest in state-of-the-art infrastructure, especially in North America. Drug shortages is a primary driver of our industry and during the first half of this year, it has created favorable opportunities. This enables us to have potential structural long-term gains, such as onboarding of new customers.

Coming to internal drivers, we have intensified our procurement and supply activities, resulting in stronger purchasing power and better logistic terms.

Finally, on operational excellence, while we always focus on it, it has now become necessary to be our key strength to support our activities across the globe to be more competitive, and we already see good developments to increase product availability.

Regarding our disciplined M&A activities, we continue to look actively for opportunities across all our markets.

Now Karin will go through the financial highlights and outlook.

Karin de Jong: Thanks, Rafa. Good morning, everyone, and thanks for joining the call. I would like to walk you through the H1 2023 financials in more detail over the next few slides.

During H1 2023, our top line grew 13.1% to €371.6 million, mainly driven by strong organic growth in North America and EMEA, the contribution of acquisitions, and to a lesser extent, FX.

Operating costs increased by 20.3%, reflecting inflation-related increases and higher volumes in North America. Profitability increased 10 basis points year-over-year to 19.4%, reflecting the well-executed pricing pass-through in EMEA, as well as benefits from operational excellence initiatives have come through.

Operational cash flow improved 12% to €43.3 million, flowing mainly from REBITDA growth. Our net debt-to-EBITDA ratio ended at 1.9 times, which is flat compared to the end of full year 2022. This leaves us well positioned to capitalize on future opportunities.

Moving on to the revenue bridge and P&L. The bridge on the next slide shows the sales development in H1 2023. EMEA increased 4.7% organically against constant exchange rates. North America at 19.2%, driven fully by the Compounding Services development and LatAm remained flattish at minus 0.2%, reflecting the operating environment in the Brazilian market.

Looking at the right side of the slide, both top line and profitability increased versus last year. EBITDA also increased 14.7%, mainly coming from revenue growth. The earnings per share ended at €0.46, down 4.2%, reflecting the impact of financial hedges and increase in depreciation and amortization due to the acquisition and investments in Poland, Brazil, and North America.

Moving on to the regions. We start with EMEA. EMEA's topline grew to €146 million, translating into a 6.1% increase. All business segments showed strong performance, and as highlighted by Rafa, was supported by well-executed pricing pass-through.

Brands & Essentials revenue and organic revenue grew 1.7% and 1.9% at CER, and this was supported by solid demand across most of our markets, successful product launches and improved product availability, driven by the completed transition to our Polish GMP repacking facility.

Compounding Services in this region was the main contributor to the strong performance with 12.3% organic revenue growth at CER. Here, we saw good performance across our markets, driven by the strengthening of our registration business, stock compounding and drug shortages in some markets.

Gross margin saw benefits from higher prices and operating costs reflect the impact of inflation-related price increases like higher wages. As a result, we saw a solid growth in the REBITDA margin for the region, improving by 170 basis points year-on-year to 22.7%.

Moving to the next slide on Latin America. Latin America's revenue increased 2.4% to €80.5 million, mainly driven by FX. During the period, we continued to experience pricing pressure due to a highly competitive landscape, which was partly mitigated by improvements in operational excellence. Gross margin for the region was impacted by higher volumes and lower prices as we focus on maintaining market position.

As a result of that, lower prices, and competitive pressures, the REBITDA margin for the region ended at 15.7%, a 170 basis point decrease versus last year. For H2 2023, we expect an improvement in profitability of this region, driven by the distribution centralization, the efficiency gains of brand optimization and launch of new successful products at Consulfarma.

Moving on to North America. North America experienced the highest growth reaching €145 million, which is a 29.2% increase. This result was mainly due to the impressive performance from Anazao and Wichita. At the Brands segment, we saw continued positive organic revenue development, supported by customer demand, and increased product availability.

The Essential segment continued its recovery through the semester and is expected to continue going forward, now that all our API repacking activities have been transferred to our Letco facility and the sales forces have been integrated.

The Compounding Services segment showed an outstanding organic revenue growth of 38% at CER, reaching €100.6 million due to new customer wins, market opportunities and a higher consumer demand.

Gross margin improved in this region on the back of a better sales mix. Operating expenses were higher, given the rising scale at US FSS and Anazao.

Profitability increased 27.7% to €26.4 million, while REBITDA margin decreased 20 basis points to 18.2%, mainly due to the dilution from the Boston facility on a year-over-year basis. Sequentially, the margin in the region has shown good recovery, expanding by 270 basis points from 15.5% in H2 2022. This trend is the result of our focus on operational excellence in the integration of Boston and Letco.

Moving on to the next slide. Strong cash conversion remains an important element of our business. The operating working capital improved as a percentage of revenue compared to the same period last year. This is the result of better payment terms in EMEA and North America and factoring. However, absolute operating working capital increased year-over-year, driven by the seasonality, as well as higher sales and production volumes in North America.

Our Capex was 5.6% as a percentage of revenue. This was mainly driven by our one-off investments, namely the licensing deals in the Benelux and Anazao. Adjusting for these investments, the number stands at 3.5%, which is in line with our mid-term objectives.

Operating cash flow increased to €43.3 million, mainly reflecting strong EBITDA growth.

Finally, free cash flow reflects the discussed one-off investment and was €30.1 million, excluding these investments.

Net financial debt decreased €0.7 million to €273.3 million from €274 million at the end of last year. This leaves our net debt-to-EBITDA ratio at 1.9 times, same as it was the end of full year 2022 and well below our internal threshold of 2.8 times, leaving us more than enough headroom for any opportunity in the market that matches our disciplined acquisition strategy.

Before giving it back to Rafa, let me touch briefly on our outlook for the full year 2023. For full year 2023, we improved our organic revenue growth expectation from mid to high single-digit growth to high single-digit growth. For profitability, we expect an increase and a higher REBITDA margin on a year-over-year basis.

And lastly, we expect Capex to end at around 3.5% of total revenue with a one-off Capex related to the licensing deals, Tampa, and Decatur.

Rafael Padilla: Thank you, Karin. To conclude, Fagron is a global, vertically integrated, niche, defensive, high-cash generating company, operating in a highly fragmented industry. Our strength lies in having a resilient business model with a diverse geographical presence. These factors, together with demographics and personalization, contribute to our success.

Our operational excellence initiatives will help optimize our business through global synergies and best practices while a disciplined M&A strategy remains a key part of our growth. Sustainability remains one of our main priority and a strategic pillar, as together, we create the future of personalizing medicine.

With that, we open the floor for questions. Thank you all.

Questions and Answers

Operator: Thank you. As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the first question from line Stijn Demeester from ING. The line is open now. Please go ahead.

Stijn Demeester (ING): Yes, good morning. Thanks for taking my questions and congratulations with the results. My first question is on Anazao. To what extent do you expect to maintain current growth rates, which is partially linked to the recent drug shortages? Could you also quantify the significance of these shortages, including Semaglutide in the Anazao growth, maybe both on sales and REBITDA to sort of see the windfall impact here?

Karin de Jong: Yes, good morning. If we look at Anazao, we had good performance in the first six months with a growth of 26.1% that was supported by underlying strong demand for prevention and lifestyle products. Of course, we had some tailwind of drug shortages. But if we correct for that, we still see mid-teens growth for Anazao, and that is similar as we saw for full year 2022 for that business part.

On drug shortages, we see the benefits, and it is difficult to say how long that will continue. It is part of our business model in general. We expect for the short term, specifically for Anazao, that that will continue.

Stijn Demeester: Okay. It seems – the windfall seems to accelerate in Q2 versus Q1. Is that right? And do you still – there's still some acceleration potentially in the second half?

Karin de Jong: We do see an increase Q2 compared to Q1. To state that there will be an acceleration in Q3, it is too early. We cannot answer that, Stijn.

Stijn Demeester: Then also on North America, and more specifically on the margin, knowing that there is still sort of a drag on profitability from Boston, could you perhaps disclose the underlying margin excluding Boston, or quantify the impact of Boston like you have done previously?

Karin de Jong: Yeah. So, if we look at the Boston facility, it is still loss-making. And we expect, as Rafa said in the presentation, that it will reach breakeven in the second half of the year. However, if we look overall at Boston and Wichita, we integrated the businesses. So, there is one sales team, and there is one go-to-market strategy. In H1, we combined the IT systems, the quality systems and the objective is to leverage the sites as much as possible. Therefore, we do not disclose the separate run rate.

We did see nice progress in Boston in the second quarter on the back of obtaining new licenses and growing on topline. So therefore, we expect to reach breakeven in H2 2023. And on Wichita, we developed a strong top line growth of almost 50%. But, as said before, the timing is – on growth is depending on supply chain and operational factors and making sure, of course, we maintain the highest quality standards.

Stijn Demeester: Next one is on EMEA. Could you separate the pricing impact as organically your Essentials and Brands only show muted sales growth, which suggest that volumes are actually declining? And also, do I understand correctly that the pricing tailwind will taper off in the second half? Or do you still expect some benefit?

Karin de Jong: Yes. So, if you look at the European region, a very solid, good performance in H1, indeed, driven partly by our executed pricing strategy, so increased prices. We see a mix of price and volume. As you remember, in the first six months of 2022, we still had tailwinds because of COVID-19 tests we sold in that specific market. If you take that out, we see the underlying volumes in the European market growing. So, we see nice developments. If we look at Brands specifically, we see a slight decrease in the second quarter, while they had a very solid first quarter.

The reason for that is the timing and registration. So, we do expect for the second half of 2023 that the growth for the Brands will continue, as the underlying demand is there in the European market. So, we do expect solid performance again for H2, albeit, knowing that the pricing increase cycle is at its end.

Stijn Demeester: Okay. But year-over-year in the second half, should there still be an impact of the pricing initiatives? Or is it sort of already an element in the second half of last year so that the year-over-year impact will be sort of negligible?

Karin de Jong: Correct, Stijn.

Stijn Demeester: Well, the last I think

Karin de Jong: Your last one.

Stijn Demeester: Okay. Last question from me is also for you, Karin, unfortunately. Can you sort of elaborate what happened in the financial results with the hedges because that is a bit unclear to me with the sort of strong increase in financial expense?

Karin de Jong: Yeah. So that is a fair question. So, if you look at the financial result last year, there were some hedge valuations. So, under IFRS, you can value that and book it through equity depending on certain elements of the hedge or through P&L. And because of the specifics of the hedge, we booked it through P&L and that's why you see translated into the numbers. So last year, the valuation of the hedge, which is, in fact, a noncash element, went through the P&L and was a benefit.

And this year, we see the valuation turning. So, it is a cost, but over the life span of the hedge, the valuation is zero. So, you see that running through the P&L. So, if we can do hedge accounting and put it through equity, we'll do that. But due to the specifics of this hedge, it wasn't possible. So therefore, you see that movement through the financial results.

We try to report it separately, so we can disclose the impact of that. And of course, if you look at the financial results, excluding the hedge, you see an increase. It was a similar amount financial result in H2 2022, if you exclude the hedge. And the reason is that part of our financing is unhedged. So, you see that having an impact – the interest rates rising, having an impact on our interest payments. Same for factoring interest we pay, of course, and other interest-related elements that go through that line. So that's basically the reason for the increase.

Stijn Demeester: The underlying results should be leading forward to pencil in the impact for the second half?

Karin de Jong: Correct.

Stijn Demeester: Okay. Thank you so much.

Karin de Jong: Thanks, Stijn.

Operator: And we will take the next question from Frank Claassen from Degroof Petercam. The line is open now. Please go ahead.

Frank Claassen (Degroof Petercam): Yes, good morning. Frank Claassen, Degroof Petercam. Three questions, please. On the Essentials business in the US, it was still down minus 15%. Is that purely because of the transition to the new – to Letco? And now that is finished, could we expect growth in that business to return? That's my first question.

Then secondly, the St. Paul's plant, you're going to close that. Will that lead to one-off costs? And what does that mean for the FDA warning letter, which is also on that plant?

And then thirdly, the gross margin, we saw, yeah, a nice jump to 16.7%. Yeah. What can we expect going forward? Is this all because of higher prices and lower raw material prices? Or can we expect more benefit from lower raw material prices, lower transport costs? So, some color on that, please? Thank you.

Rafael Padilla: Goo morning, Frank. Well, you see it right. When we look at the performance of B&E in the first semester, we see that we have been focused on structural improvements. As you said, we have been transferring and we have now completed the cGMP API repackaging activities from Minnesota into Letco in Alabama, right? And we have decided that the remaining activities there, we will also transfer. So, we will close down the facility. So, this means that during the second semester, we will focus on the market, going to market, as we said during the last call. We have also integrated the sales teams, the systems, the processes, right? So now we have full focus on going back to the market. We are number three in that market that is very attractive. And our strategic priority is to be number one. So, we expect to see growth during the second semester.

And regarding the FDA warning letter, of course, it's still open, as we always explained. Timing is not set. It's something that is not – there is not a clear timeline there. What we're doing is the 7th of each month, we update the [FDA on the] progress on the remediation plan. Of course, now we are not having any production on the API side, right? And the products that we're producing at that facility that are in the market are being consumed. So, we have already informed the FDA that we took that decision. And now we need to work on administrative tasks in order to bring the closure down of the letter when FDA finds appropriate.

Karin de Jong: And then coming back to your question on costs relating to the decommissioning of the St. Paul facility. These are limited and basically related to one-off dismissal fees we expect, but this is not a material amount. And these costs are not yet reflected in the P&L of H1 2023. So that will be in H2 of 2023.

And then the last one on margin expansion. As said, operational excellence, as I've explained, is very important for our business. So, on the procurement side, combining our volumes, having benefit from that in combination with the market dynamics we have. So overall, we expect for this year an increase in profitability margin compared to last year, and that is for many reasons. Of course, one of that is operational excellence initiatives we have in the different markets. but also, on commercial strategies for that specific market.

Frank Claassen: And coming back on the last one. Do you also see raw material prices coming down again a bit? And do you have to pass these on, or – yeah, what about that dynamic?

Rafael Padilla: Sure, we see, Frank, stabilization of pricing, right? So, we saw a slight decrease some months ago as we were discussing during the other calls, right? And now we see stabilization. And on the logistic terms as well, we saw a decrease after COVID, and now we see stabilization there as well.

Frank Claassen: Okay. Okay, thank you very much.

Rafael Padilla: Thanks a lot, Frank.

Operator: Thank you. As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the next question from line of Alexander Craeymeersch from Kepler Cheuvreux. The line is open now. Please go ahead.

Alexander Craeymeersch (Kepler Cheuvreux): Hi. Good morning. Congrats on the nice set of results. So yeah, just two small questions. So, in LatAm, one your competitors was taken over by a private equity player last year, and they adopted an aggressive pricing strategy to gain market share. And I was just wondering, considering the results that were published today that came a bit below consensus, clearly, we have been underestimating the impact there. So how much market share did you lose, if you lost any? And how long do you think this aggressive pricing strategy will last? And if you could maybe just shed some light also on the margin impact, that would be interesting as well.

And then just also the second question would be related to the expansion in US. You just mentioned that you had also a US$20 million Capex plan for the second half and 2024 for a repackaging facility. I was just wondering; how much additional capacity is that? How do we need to place that in the whole context of it? Thank you.

Rafael Padilla: Yeah, thank you, thanks a lot, Alexander, for your questions. And to start with LatAm, look, Brazil is the second biggest compounding market in the world. And what we saw during COVID, it was that the demand increased because patients were looking for prevention and lifestyle products. Of course, after COVID, there was a correction in the market. So, the number of scripts decreased to have somehow a correction if you will. And therefore, the competitive pressure increased, right? Then what you said very well, there was a competitor taken over. Remember that we have around 30 competitors in this market. So not only this competitor that was taken over by PE, but also other competitors remain active in this attractive market, again, the volumes are huge, right? So, we took – as we are market leader, around 40%, we took the initiative to defend our market-leading position. We have been increasing our participation slightly with this strategy. We see this as short term. Having then a mid-term, a Brands introduction strategy, we have launched successfully now in Consulfarma. That's the biggest compounding fair in the world that happened in the first week of July. New interesting products in the Brands segments, of course. And on the long term, quality. And as you know, we have there a new cGMP repackaging facility in Annapolis, and now we worked also in a GDP distribution center where we centralized all our activities there, right?

So now what we have seen at the end of Q2, we have seen early signs of improving customer demand. And then therefore, when you take the same rationale on what happened one year ago, approximately, we expect that the pricing pressure will ease.

Next to this, what have we done, right? And we also communicate our projects, right, what we have done in that region is, first of all, we will focus really on structural improvement, right? So last year, we rationalized three brands into one. This year, we have gone through a second rendition on that one in the packaging and equipment side, having one company called Fagron Solutions, that was the first thing we did.

Second, as we said, we centralized all our activities in the distribution center, that was planned to end during the second semester, and we have accelerated that one, right? So, this will show benefits in the second semester. And as we said, we launched some interesting items during the Consulfarma fair in July, and this will help our competitiveness there.

Karin de Jong: Yeah. And coming back on the profitability for the region. So, we saw a decrease in REBITDA margin of 170 basis points. If we look at price and volume dynamics, we see the volumes in the first six months increasing. So, we see the underlying demand returning in that market. However, that was fully offset by the price erosion we experienced on margin, and that's also the reason for the decrease in profitability margin for the first six months. And we do expect an improvement of the profitability margin as a result of the actions we have taken in combination with the early signs of strengthening customer demand, as Rafa just explained. However, the quantum of the improvement will be dependent on the specific market developments for the Brazilian market.

Rafael Padilla: And Alexander, on your second question on the US regarding the new cGMP repackaging facility that we announced today, this will be located in Decatur, Alabama, where the current Letco facility is, just close by. So that is very interesting because we will not have any interruption in the current facility that we have now. And with the capacity of the plant, we expect to be number one or at least to be in line with our ambition of being number one in this market, as we presented during our Capital Markets Day last year in our Compounding for Growth 2022-2026 plan.

Alexander Craeymeersch: Okay. Thank you for that. Congrats again.

Rafael Padilla: Thanks a lot, Alexander.

Operator: Thank you. We will take the next question from line Chase Coughlan from Van Lanschot Kempen. The line is open now. Please go ahead.

Chase Coughlan (Van Lanschot Kempen): Hi. Good morning, all. Thank you for taking my questions. I'll take them one at a time if that's okay. Starting with, I guess, you published that Wichita and Boston has combined run rate of US$135 million. Do you have any sort of year-end targets or even internal targets of what we can expect to achieve by the end of this year?

Rafael Padilla: Thanks a lot, Chase, good morning. So, as you said, we're at US$135 million run rate. We don't have specific targets for this combined entity as we align these ones with the mid-term guidance that we gave of mid-teens for the US as a whole.

Chase Coughlan: Okay. And this new facility that you announced today with the US$20 million investment. I see, so the majority of that will be spent in 2024. And my question is, when do you expect this facility to sort of be fully online or operating at full capacity?

Karin de Jong: Yeah. So maybe first to come back on the spend. Yeah. So, we do expect approximately 20-25% spend this year on that specific investment and the rest in 2024. So, the facility is expected to be operational in 2025.

Chase Coughlan: Okay. That's clear. And then lastly, just a broader question on the acquisition landscape. Obviously, you did your acquisition at Q1, Wildlife Pharmaceuticals. How are you looking at the acquisitions now? Or do you have anything in your pipeline, and sort of what areas you're looking at?

Karin de Jong: Yeah. So, in H2 2023, we want to continue our disciplined approach in executing our M&A strategy. We've done five acquisitions last year. And in H1, we did two deals, and one of them is, of course, the Wildlife acquisition. We see in the current M&A market that the valuation expectations remain at the high end. So prospective sellers are taking their time to sell, and they test the market broadly and sometimes they even abandon the process.

But however, we expect that M&A will bring further revenue upside on a reported basis in 2023. So, we have a pipeline with acquisitions, and they're basically in all regions, where we're currently active and are mostly small to midsized companies or partnership opportunities like we did, for instance, with the licensing deals in the first quarter of this year.

Chase Coughlan: Okay, great. That’s very clear. Those are all my questions. Thank you.

Karin de Jong: Thank you, Chase.

Rafael Padilla: Thanks, Chase.

Operator: Thank you. We will take the next question from line Maarten Verbeek from The IDEA. The line is open now. Please go ahead.

Maarten Verbeek (The IDEA): Good morning. It's Maarten of The IDEA. A couple of questions from my end. A bit of a clarification on your Capex also, which you just mentioned. Firstly, could you give a guidance what you expect to spend this year? And then am I right in saying for next year, it will be the 3.5% of revenues, plus 75% of the US$20 million investment.

Karin de Jong: Yeah. So, in this Capex, if we look at Capex spend, it was 21 million for the first semester. So, if we exclude the licensing deals and the investment in Tampa, we are at 3.5% of sales on the Capex, and it's a bit higher than last year in the same period, it has to do with timing of invoices, investment payments. However, for the full year, we expect to be at 3.5% as we guided on for Capex.

If we look at the separate investments, indeed, we – as mentioned earlier - expect a majority of the US$20 million investment of Decatur to be spent in 2024. So that's 75% approximately of the US$20 million. That's one. And then for the other investments, that's the Tampa investment, so the Anazao expansion. We expect of the US$18 million that we will spend 75% this year and the rest in next year. So that facility will be up and running somewhere next year.

Maarten Verbeek: Okay. Thanks.

Karin de Jong: So, on the – yeah, okay, sorry.

Maarten Verbeek: No, go on. Please, go on.

Karin de Jong: Yeah. So, on the long term, we reiterate the guidance on Capex being between 3% and 3.5% of sales.

Maarten Verbeek: Okay. Thanks a lot. Then you made quite a step forward in obtaining the licenses for Boston. If I'm right, at Q1, it was still in 16, now it's at 27. Firstly, what's your goal? What's your hope to have at the end of this year? And which important states are you still missing?

Rafael Padilla: Yes. So good morning, Maarten. And when you look at the states, as we also explained during the last call, we applied for four important states, being California, New York, Florida, and Texas. The last one we did get. So, we expect developments on those three. Of course, it's not something depending on us, right? So, you have the all administrative procedures. And we are waiting and whenever we need to add information, we do it diligently. So, we are really excited to get those three new states that will help our Boston facility a lot. And for completion of the year, we do not have a target. We have, again, applied for other states as well. And when they come, we announce the progress to all of you.

Maarten Verbeek: Okay. Thanks. And then could you clarify a bit on one of your statements in your press release that you hope to achieve market leadership in the B&E segment in North America. What will it take? Can you do this all organic? Or could you clarify that a bit?

Rafael Padilla: Sure. So, as we said, the B&E market in the US, it is very important for us, as it is one of the biggest together with Brazil, and we are now at the – at number three position behind Medisca and PCCA, very good players in this industry, and now with merging both Fagron and Letco activities, as we said, on the front side, also on the system processes, now transferring the operations to our Letco facility with the new investment that we have announced adding extra capacity, and of course, being in line with our state-of-the-art infrastructure strategy worldwide, we – this has the sufficient requirements to get to market leadership on an organic basis.

Maarten Verbeek: And do you have set yourself a timeline for achieving that position?

Rafael Padilla: So, this is – for sure. This is in line with our Compound for growth plan that we presented during the Capital Markets Day for the 2022-2026 period.

Maarten Verbeek: Okay. Thanks very much.

Rafael Padilla: Thank you.

Karin de Jong: Thank you.

Operator: Thank you. It appears no further question at this time. I'll hand it back over to your host.

Karen Berg: Okay. Well, thank you all for dialing in and for your questions. If – we look forward to seeing you again at the presentation of our Q3 results. And for now, I wish you a happy rest of your summer. Thank you. Bye-bye.

Operator: Thank you for joining today's call. You may now disconnect.