



Q1 2024 Trading Update

Thursday, 11 April 2024

Fagron Q1 2024 Trading Update

Operator: Good day, and welcome to Fagron Q1 2024 Trading Update conference call hosted by Rafael Padilla, CEO; Karin de Jong, CFO, and Karen Berg, Global Investor Relations Manager. Throughout today's recorded presentation, all participants will be in a listen-only mode. Later we will conduct a question-and-answer session. If you wish to register for questions, please signal by pressing star one on your telephone keypad at any time.

At this time, I'd like to hand the call over to Karen Berg, Global Investor Relations Manager. Please go ahead, ma'am.

Karen Berg: Thank you, all, and good morning, everyone. Welcome to Fagron's Q1 2024 trading update. I'm here together with our CEO, Rafael Padilla, who will discuss the results, and our CFO, Karin de Jong, who will join in for the Q&A.

Before I hand over to Rafa, a quick announcement from my side. After more than 2.5 years at Fagron, I will be departing from the company. My last day will be on 25th April. It has been an incredible journey and a true privilege to work with this great team and also with everyone on the call. My successor will start on June 1st, so there will be a bit of a vacuum in-between. But if you have any questions during that period, please reach out to the IR email address, as always, investors@fagron.com, which is being monitored.

So with that, for the last time from my end, I would like to hand over to Rafael.

Rafael Padilla: Thanks, Karen, and good morning, all. Karen, your journey at Fagron has been outstanding, consistently demonstrating dedication, expertise, and passion in fostering strong relationships with our investors, internal and external stakeholders. You have brought our corporate communications department to the next level. We wish you the very best for the future. And as you know, Fagron will be always your home. We also welcome your successor, who will be introduced in due course and brings a wealth of experience in the field.

Moving on to the Q1 results. We are very pleased with our first quarter, as we hit a new record revenue of €209 million. We have seen positive performances across all regions, with FSS and Anazao in North America continuing to be the largest contributors followed by Compounding Services in EMEA.

As outlined in previous calls, we continue to focus on operational excellence and executing on our strategic initiatives to strengthen our competitive position. We are also materializing on procurement savings that will support profitability.

Regarding the regulatory changes in the Polish market, we are happy to report that our strategic actions are delivering results in line with our expectations, and we are satisfied with the performance so far.

Coming to our M&A progress, integration of LSP in the UK and Parma Produkt in Hungary is progressing as planned.

Lastly, we reiterate our full year guidance of high single-digit growth in organic revenue and increase in profitability year-on-year.

Moving to the next slide, our revenue bridge demonstrates revenue growth across the board, where North America had an exceptional contribution, followed by our M&A activity and EMEA, whilst LatAm contributed to a lower extent.

Going deeper into the regions, EMEA's revenue growth was driven by Compounding Services performance, mainly in the Netherlands, as it was further boosted by new compounds, registration, and drug shortages.

On B&E, we continue to see strong underlying demand, showcasing the effectiveness of our diversified business approach, while Poland being impacted by the local reimbursement regulation, which we will discuss in more detail on the next slide.

In LatAm, revenue growth mainly reflected seasonality, as Q1 is the quieter quarter. Moreover, Easter holiday timings also impacted revenue development at B&E, which achieved stability after all strategic actions taken during the previous quarters. In Colombia, our Compounding Services activities continue to exhibit growth, driven by rising demand for personalized medicine.

Moving to North America. On the B&E side, we are pleased to see growth following the execution on our strategic initiatives, such as integration of Letco, showing a positive trend into the future. At FSS, the exceptional growth trajectory continued, as we are operationally and commercially well-placed to capture the rising demand in the hospital outsourcing market.

Anazao also continued its impressive growth rate as underlying demand for prevention and lifestyle treatments remains strong and temporary drug shortages continue. Lastly, our investment in Tampa is on schedule and will become operational during the year.

Moving to the next slide, on Poland. At the Q3 call, we updated on the change of the laws passed by the Parliament for the overall pharmaceutical reimbursement system, specifically around new pricing, which would decrease the average sales price. As a result, at the end of last year, market activities slowed in anticipation of these price changes.

During the first quarter of this year, despite average sales price decrease, we are pleased with the order intake and consequent volumes, which shows that underlying market remains strong. We also continue to execute on our strategic plan, which, includes: contributing insights to the government in different working groups; enhance partnership efforts with medical professionals and pharmacies through the Fagron Academy; increase direct sales resulting in new customer acquisitions; launch of new products and services at Fagron Lab; and lastly, but most importantly, we monitor customer order trends to adjust our product mix and our production setup in 2024 as the market normalizes to its new reality.

All these factors, together with our leading market position and underlying dynamics, give us confidence in our ability to navigate through it over the mid-term.

Moving on to our guidance for 2024. We are maintaining our guidance of high single-digit sales growth with an increase in profitability year-on-year. Building on our strategy of investing for growth, capex as a percentage of revenue shall remain within the range of 3-3.5% of revenues, excluding the one-off capex projects we have announced, with Tampa's new facility going according to plan.

Working capital will be 12.5-13.5% of revenues at the end of the year as we will be phasing out factoring.

To conclude, Fagron is a global, vertically integrated, niche, defensive, high cash-generating company operating in a highly fragmented market. Our resilient business model is fortified by a diverse geographical footprint. And these factors, coupled with demographic trends and our emphasis on personalization, are the basis of success.

Our quality focus, together with our ongoing 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 is a paramount priority and a strategic cornerstone for us, 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, sir. As a reminder, ladies and gentlemen, if you wish to submit your question, please signal by pressing star one on your telephone keypad. If you find that your question has been already answered, you may remove yourself from the queue by pressing star two. And please make sure the mute function on your phone is unmuted locally to allow your signal to reach our equipment.

And our first question comes from Matthias Maenhaut from Kepler Cheuvreux. Please go ahead.

Matthias Maenhaut (Kepler Cheuvreux): Yes. Hello. Good morning. Thank you for taking my questions. I have two to start with. Maybe on GLP-1 or Semaglutide, could you maybe elaborate on the sales tailwinds you had in the first quarter? Could you quantify, please? And also, how should we look at the development throughout the year? You have been on a quarterly run rate of roughly, I think, mid-single digit million sales. Will the new facility in Tampa for Anazao provide a significant boost to the production capacity?

And then second question is maybe on M&A and then in your home markets, there has been a relatively large transaction announced. What are your expectations regarding competitive intensity for that region? Thank you.

Karin de Jong: Good morning, Matthias. So I will start with the first question on the shortages at Anazao. So we guided for a low-teens amount in millions of dollars. So half of this is embedded in the Q1 2024 numbers, and we expect the other half to be in the second quarter of this year. Please be aware that we started to see benefits of this specific shortage in Q2 of 2023. So then we grew further in Q3 and Q4 of last year. So the comps are getting stronger. If we look into Q3 and Q4, we have limited visibility on the scale of activities of the other companies. So we will assess on a quarterly basis how this develops.

Maybe on the investment in Tampa, want to say something about that?

Rafael Padilla: Sure. Good morning, Matthias. And of course, a new facility in Tampa will for the mid-term bring us more capacity for the whole 503A business in the US, that's for sure. Specifically on the Semaglutide at this moment, with the current capacity, we're able to cope with the demand we're having from our customers.

Matthias Maenhaut: So if I may do a follow up. So you're presently not capacity constrained on GLP-1.

Rafael Padilla: No, at this moment we do not see any capacity constraint with the current facility we have.

Matthias Maenhaut: Thank you.

Karin de Jong: Maybe on the second question, so are you alluding to the acquisition in the German/Benelux market, Matthias, or in general?

Matthias Maenhaut: Yes, the acquisition of your competitor, Ceban.

Rafael Padilla: Very good. So thanks for this very important question, Matthias. And of course, it is positive because it validates our industry of personalized medicine, right? For us, it's business as usual.

As you know, Ceban exists since 2004 and the last six years, of course, under PE. And it has been for sale for a significant period of time. Looking at business models, we have wholesaling, owned pharmacies, sterile to sterile mixing on one side, and API sourcing, repackaging, developing of own brands, manufacturing, and compounding non-sterile and sterile on the other. In this last model, Fagron is the global leader, vertically integrated with a full compounding focus and quality as a differentiator. Of course, 34 years of experience and expertise navigating into different market dynamics, right, as we saw in the Netherlands some years ago and recently in Brazil. So all these elements for us, again, it's business as usual.

Matthias Maenhaut: Okay, thank you.

Rafael Padilla: Thank you.

Operator: And our next question comes from Stijn Demeester from ING. Please go ahead.

Stijn Demeester (ING): Yes, good morning. Couple of questions. And I will ask them one-by-one if that's okay. So the first one is for the US compounding segment. As a whole, you mentioned three drivers: new customers wins, upselling, and then the shortages. Could you rank these three drivers in terms of impact?

Rafael Padilla: Good morning, Stijn. Thanks for the question. And you should take the three of them as equal as important, right, all the drivers you have in mind, right?

Stijn Demeester: Okay.

Rafael Padilla: And we see the automation. And as we mentioned many times, remember, always also discussing with you, is that it's not a linear pathway, so of course operationally we need to cope with the volumes, then we have to cope with the volumes, then we onboard new customers and then again, another round and you see this process within the factory. We have explained about labelling, about business inspection, then across the street and so on. So now, of course, the same with Boston, it's happened.

Stijn Demeester: Yeah, related to that – sorry.

Karen Berg: Sorry to interrupt. I get messages that people cannot listen in on the webcast. I know the people we're now talking to are dialing in on a different number, but maybe Company Webcast can check whether people who are dialing in online can hear us?

Operator: Everybody who is connected on the phone line can hear you loud and clear.

Karen Berg: Yeah, but the people who are on the webcast, so the other –

Operator: My colleague is now working on this.

Karen Berg: Okay, thanks. Yes, thank you. Sorry for the interruption, Stijn.

Stijn Demeester: No problem. So, for Boston, can you give us a bit more sort of detail on what kind of sales you expect from this facility this year related to also the ramp up and the new licenses? And where you expect to be in terms of profitability? And I fully appreciate this is only a trading update, but it would be helpful to sort of have a sense of where that's heading to.

Rafael Padilla: Sure, Stijn. So regarding Boston, as we have indicated, we would be breakeven at the end of last year, and of course, then we will see a progressive step up in profitability. We have also explained that we will not have it within the average profitability of the region because we have a pure sterile production, and we have there lower margins, as you know very well.

So now at this moment, we're able to ship to 42 states, right? So we have a significant number of new customers. And the beauty of this is that now we are acting as one company, right? So the end goal is that the customer doesn't know where the product is coming from, whether it's Wichita or Boston, right? So we have a nice capacity for growing in Boston and we are utilizing this one.

Specific run rates regarding the FSS activities are, of course, embedded within the regional guidelines. As you know that very well for our compounding for growth plan '22 to '26, the US will be at a mid-teens growth.

Stijn Demeester: Yeah, you're not willing to break the – break this out?

Rafael Padilla: Sure, it's also the operational setup, right, Stijn? So now it's – so we are moving products around. So one product we move to Wichita or the other way around. So for us, we see it as one entity.

Stijn Demeester: Okay, understood. Next – sorry, next question is on the 17% organic growth in the EMEA compounding. That's quite impressive. Is that volume-related or is there also pricing component in that 17%?

Karin de Jong: Yeah, so it's a – good morning, Stijn - it's a mix of price and volume. So the Compounding Services, as you know, in EMEA is mainly the Netherlands. And we see good developments there on the back of some new product innovations and launches that we had last year. And we see that benefiting our sales now. But it's a healthy mix of price and volume.

Price increases in general for EMEA are relatively small. We can increase in certain countries our prices, but customers are more reluctant. Of course in Poland, we have a decrease in prices because of the reimbursement system changes. But on the other markets in EMEA, we are capable of increasing our prices slightly.

Stijn Demeester: Okay, understood. The next one is to further build upon the previous question on the guidance. Can I ask what is embedded in the high single-digit growth guidance for Semaglutide in the second half? Is that returning to previous levels or is there still some impact that you would take into account?

Karin de Jong: Yeah, so for the guidance, we said that for full year 2024 we would have a low teens number in millions of dollars. So that was similar to the amount we had in 2023. And in the guidance, we embedded the first two quarters. So there's still limited visibility, as I said, towards Q3 and Q4, so that's not in the guidance that we have given.

Stijn Demeester: So in simple terms, if the strength or the Semaglutide demand extends into the second half, then there's be a upside risk to that high single-digit organic growth guidance.

Karin de Jong: It could potentially be an upside.

Stijn Demeester: Okay, all right. Thanks. These were my question now. So would like to thank Karen for the nice collaboration and wish her good luck in the future endeavors.

Karen Berg: Thank you, Stijn.

Operator: And our next question comes from Frank Claassen from Degroof Petercam. Please go ahead. Your line is open.

Frank Claassen (Degroof Petercam): Yes, good morning all. A few questions. First of all, you indicate in your press release that the operational excellence measures are on track and are yielding efficiencies as you call it. Could you elaborate on this, what have you done? Could you give some examples of what you're doing on this? That would be helpful.

And secondly, on the Polish market, we've seen some negative pricing. Could you maybe quantify this effect? And what can we expect going forward now that more or less the dust has settled in Poland?

And then finally, on FSS. You have indicated in the past your run rate revenues. I might have missed it, but if I recall well, it was USD 165 million at the end of '23. What is currently roughly the run rate for FSS? So both plants, Wichita, and Boston. Thank you.

Rafael Padilla: Yeah. Good morning, Frank, and thank you. And the first question, it's extremely important for us. As we have indicated, global operational excellence is our first enabler for our strategic ambitions. This is a journey that we started at the time, almost two years – three years ago, and of course with a dedicated COO, Vera, who has a lot of experience and has set up all the structure for it, as we were, of course, benefiting at that time from global presence, nevertheless, not in a really structure way.

Now, for the outline for pillars. And the first one is demand planning, the second one is sourcing, the third one is manufacturing, and fourth one is delivering. Quickly going into each one of them. So demand planning, we are having now a specific process on forecasting and demand planning from our companies. As you know, we have a very huge portfolio. That's our key differentiating factor in all the markets, the breadth of our portfolio with thousands of references, with all the product segments. And having a very strong demand planning that is very important with, of course, systems that support us.

Then manufacturing, we have done a setup of global manufacturing. So before it was local, even regional, right? Europe, North America, LatAm. Now we're looking at global manufacturing. So when we have built the factories in Poland, in Mexico, in Brazil, of course, Tampa, the upgrades in Wichita, we look at it from a global perspective, of course, with highest quality possible. And this has also been embedded.

Then you go into the delivering. And this one, of course, with the network of warehouses across the globe. And the second pillar that I left for last, because this is where we see the highest impact, is sourcing and procurement, where we have put a lot of effort, a lot of effort, also having hubs in Asia with dedicated people in China. Now we also have dedicated people in India that are really bundling all the volumes, aligning best specifications, and having a global procurement deals. And we see it back in the competitiveness that we have within the market, and of course, in the P&L; we saw it last year in the second semester. And as we said now during the presentation, we continue seeing it throughout 2024. So thanks a lot again for this very good question, Frank.

Karin de Jong: Yeah. Good morning, Frank. Then moving to the second one on the Polish market and the impact. So we see a price drop in the first quarter in the Polish market as a result of the changes in the reimbursement system. However, we see the market volumes normalizing after the drop we experienced in the fourth quarter. So, if we look at the impact, it's basically a price decrease. If you look at the Q1, the B&E EMEA sales that declined by 1.3%, that's mainly Poland. So if we take out the Poland sales, we would have increased the B&E segment for EMEA with a low single-digit amount.

The expectations regarding Poland is that we still expect some variation as the market adjusts fully to the new situation. So in the next quarters, we will expect to see impact. On the mid-to-long term, we're positive about the developments in the underlying market.

And then related to your third question on the run rate in North America. So as you know, we stopped guiding on the specific run rate for Wichita plus Boston last year. We're not disclosing any run rates for any other part of our businesses. So we're not disclosing the run rates for that specific part as of now.

However, we, of course, understand that it's an important element of our business. So if you look at the separate growth rate of FSS, Wichita and Boston versus Anazao, we do disclose that. So if you look at the growth number for Wichita and Boston for the first quarter, they grew by 42.7% against constant exchange rate. And if you look at the Anazao business, there we grew 33.7% against constant exchange rates.

Frank Claassen: Okay, that's helpful. Okay, thank you very much. And thank you, Karen, for the nice cooperation over the past few years and good luck with your future endeavors indeed. Thank you.

Karen Berg: Thank you, Frank.

Operator: And our next question comes from Thomas Vranken from KBC Securities. Please go ahead. Your line is open.

Thomas Vranken (KBC Securities): Hi. Good morning, and thanks for taking my questions. Two from my side as well. Maybe the first question is just to clarify on the Polish situation to understand based on previous comments that the situation is there now normalizing in terms of pricing. So just to make sure I get that correctly, so if you look at it on a quarter-by-quarter basis into the rest of the years, you don't anticipate further pressure on the pricing? Or is there still some residual impact to be expected there?

Karin de Jong: Yeah. So, Thomas, we do expect to see impact, of course. So the market will normalize in volumes, but of course the change in the reimbursement system were related to the pricing of the products. So that impact will also be seen in the next quarters. Volumes in the underlying markets are good and solid. So therefore, we see that that market will remain stable despite the fact that we have negative price pressure due to the changes in the reimbursement system.

Thomas Vranken: Okay, that's very clear. And then I also wanted to zoom in on Latin America for just a second. Could you give a bit of your commercial outlook there for the year? I understand there's typically like a multi-year cyclical in terms of customer demand. Should we for this year also foresee a year of softer demand? Or how do you think about it there?

Rafael Padilla: Sure. Good morning, Thomas. So what we have seen during Q1 regarding the market, regarding the market is a continuation on what we saw the second half of last year, right? So the competitive pressure remained, though it started easing as we were explaining during the last call, and the demand from the market as such, so patients going to doctors, getting the personalized scrips, this one started increasing, and this we have seen in Q1, and we expect to see it throughout the rest of the year.

So having this one together with all the actions that we took the last quarters on the front, of course, on the operational side, and with the innovation power that we have demonstrated during the last semester at the end of '23, give us confidence on the rest of the years for the region.

Thomas Vranken: All right. That's very clear. And then also from my side, Karen, thank you very much for all your help and the interesting interactions over the past few months and years. Best of luck in your future endeavors. Thank you.

Karen Berg: Thank you, Thomas.

Operator: Thank you. I'd like to remind, if you wish to signal for question, please press star one on your telephone keypad. And our next question comes from Edward Leane from Berenberg. Please go ahead.

Edward Leane (Berenberg): Hi there. Thank you for taking my questions. One firstly on the Boston facility state licenses. You now have 42 licenses; I understand with New York recently being obtained. Am I right in saying that California is the last sort of big state remaining? And do you have any visibility on when you'll kind of ramp up the last few state licenses in it for this Boston facility? Thank you.

Rafael Padilla: Sure. Good morning, Edward. That's correct. Regarding what you stated, of course, and the visibility, it's not there. Sorry to be so direct, right? But we don't have any visibility. It's a process we need to follow. We deliver all documentation, and we need to wait, right?

Edward Leane: Okay, very clear. Thank you. And just on M&A, I understand it might be tricky to kind of give much detail on this, but just wondering on the pipeline at this stage and what potentially we can expect heading through the rest of 2024 on M&A.

Rafael Padilla: Sure. So, of course, we have the pipeline filled. It's a highly fragmented market, so in the different regions and segments. We have a clear strategy that we outlined during the Capital Markets Day that is still valid. We named it as discipline M&A strategy. So there's several criteria that needs to be met, of course. And we follow this one. We have added on top also some integration capabilities, right? So within the team that we have created the last three years, we have now dedicated colleagues into integration. So that's also yielding benefits. And this highly fragmented market, of course, filling the pipeline as we said, we continue to cultivate it as we say internally, and we are happy with these developments. But again, we saw it last year, disciplined M&A strategy remains our key focus.

Edward Leane: Great, thank you. Really clear. And also from my side, Karen, thank you for your help and good luck.

Karen Berg: Thank you, Ed.

Operator: Thank you. As a final reminder, to ask a question at this time, please signal by pressing star one on your telephone keypad. We will pause for just a moment to allow you to signal. As there are no further questions in the queue, I'd like to hand the call back over to Karen Berg for any additional or closing remarks. Over to you, ma'am.

Karen Berg: Thank you. Thank you all. Again, it has been a great time. And we may meet in the future, but you will definitely be here on the next call for the semi-annual result with my successor. Good luck to everyone and thank you very much.

Operator: Thank you. This concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.