

A blurred background image of a financial chart or stock market display. It features a blue grid with white lines, and several colored bars (yellow, red, blue) representing data points. The text 'BUSINESS PERFORMANCE' and 'THIRD QUARTER 2019' is overlaid on this background.

BUSINESS PERFORMANCE

THIRD QUARTER 2019

Faes Farma Group

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1. Key events of the period

THE GROUP EXCEEDS ITS ESTIMATES IN TRADING FIGURES TO SEPTEMBER

- Faes Farma Group's turnover reached **267.8 million Euros, up 11.6%**, which exceeds the upper band of the Group's forecasts made last March.
- Once again, it is worth highlighting the increase in the **“Other Operating Income”** line item, which records turnover related to licences for items other than sales, after registering a spectacular rise of almost 70%.
- **EBITDA stood at 73.2 million Euros, 34.9% up on the end of the third quarter of 2018,** a figure that exceeds our most optimistic estimate (+23%) for the year overall.
- **EBIT also comfortably exceeds the Group's best forecasts announced last March** after reaching **62.7 million Euros, with growth of +34.5%** compared to the same period in 2018 (vs the +20% maximum estimated at the start of the year).
- In the absence of financial debt, the company practically repeats the EBIT figure in the **Earnings before Tax line item (62.6 million Euros), up +34.6%**.
- The **Group's consolidated profit reached 52.9 million Euros, up 26.5%**. Despite the increase in the tax burden following the latest regulatory changes, this percentage is also above the expected range (17% - 22%).

2. Profit and Loss Account

The consolidated results as at 30 September 2019, show a significant increase, compared to the same period of the previous year, as shown in the table below:

€ thousands	September 2019	% over sales	September 2018	% over sales	Var. 2019/2018
Total Income	287,751		251,826		14.3%
Ordinary income / sales	267,873		240,117		11.6%
Other operating income	19,878	7.4%	11,709	4.9%	69.8%
Cost of sales	-95,945	35.8%	-90,685	37.8%	5.8%
Gross margin on sales	191,806	71.6%	161,141	67.1%	19.0%
Personnel expenses	-55,914	20.9%	-51,888	21.6%	7.8%
Other operating expenses	-62,714	23.4%	-54,992	22.9%	14.0%
EBITDA	73,178	27.3%	54,261	22.6%	34.9%
Depreciation and impairment of fixed assets	-10,442	3.9%	-7,621	3.2%	37.0%
EBIT	62,736	23.4%	46,640	19.4%	34.5%
Financial profit/(loss)	-130	0.0%	-138	-0.1%	-5.8%
Profit before taxes	62,606	23.4%	46,502	19.4%	34.6%
Corporate tax	-9,689	3.6%	-4,515	1.9%	114.6%
Consolidated profit	52,917	19.8%	41,987	17.5%	26.0%
Minority shareholders	-66	0.0%	-208	0.1%	-68.3%
Profit attributed to the Parent company	52,851	19.7%	41,779	17.4%	26.5%

2.1. Turnover

Faes Farma closed the first nine months of 2019 with a turnover of 267.8 million Euros and growth of 11.6% versus the third quarter of 2018. This major improvement is based on the positive evolution of all the Group's divisions, as detailed below:

1) **PHARMA** The area comprises four lines of activity.

a) Medicines Spain: This integrates the so-called medical visit products. According to figures from the renowned healthcare management consultancy Iqvia, Faes Farma increased its business by +4.9% in the first nine months of the year, more than doubling the growth of the sector as a whole, which was +2.1%. In relation to the prescription market, the evolution of our Group is even higher, as Faes Farma is up 5.8% compared to 2.2% of the total for the sector.

Broken down by products, the following stand out (according to the same source Iqvia):

- (i) Vitamin D. Our molecule (Calcifediol), which is marketed under the brand name Hydroferol, is Faes Farma's leading product in terms of turnover. And, despite the remarkable growth already recorded in recent months, it closed September with a further percentage increase in sales of 6.9%. The widespread therapeutic use of Hydroferol is consolidated as a measure to offset vitamin D deficiency. And as it is our own product and, therefore, manufactured at our facilities, it means we can achieve relevant margins.
- (ii) Bilastine. With the Bilaxten brand it ranks second in terms of product sales in Spain and, as in the previous case, it is our own manufacturing and research molecule, in other words, with highly attractive margins for the Group. In addition, there is the possibility of exploiting the patent, which allows us to add additional profit under the heading "Other income" of the income statement thanks to the licences granted, as described further on in the following sections.

In terms of market presence, the Bilastine molecule accounts for 32.7%, if we combine the three trademarks currently sold in Spain, with Bilaxten (Faes Farma's own brand) posting the best figure with 71% of this share. Bilastine, therefore once again this quarter, remains an outstanding commercial leader in the antihistamines segment.

Bilastine's turnover in Spain has increased by +28.8% at the end of the third quarter, having undergone, in the opinion of experts, a very aggressive allergy campaign in 2019.

Along with these remarkable figures, as we will see in subsequent sections of the Report, we must add the notable success of the molecule in other markets such as Portugal, our subsidiaries in Latin America and other countries where Bilastine is licensed for sale.

- (iii) Diabetes. MSD licences for this therapeutic area posted an increase in sales of +2.1%. Ristfor and Ristaben, taken together and cumulatively, would rank second in terms of turnover. And this despite the fact that both products have been affected by the price cut regulated by the Ministry of between 7% and 8% depending on the packaging. This measure has been adopted by the authorities to contain pharmaceutical public expenditure in a relevant growth segment.
- (iv) Respiratory. The licence agreed with GSK for the marketing of three products is the major news this year in this branch of activity. For the time being, sales in Spain are still moderate in quantitative terms but, according to our own estimates, it will gradually grow and gain market share.

b) Portugal. The full-year integration of the Diafarm business into this subsidiary has enabled sales to improve by 6.8% at 30 September 2019. A further additional positive factor that has helped to improve figures in the Portuguese market, as in Spain, it is Bilaxten, which grew by +28.5% in this country, placing the subsidiary's turnover above 24.9 million Euros.

Of particular note in the breakdown by area was the performance of Healthcare, with growth of 17.3%, and the significant boost in Ipsen licences.

c) Healthcare (pharmacy) Spain: Following the integration of the products in this segment from Laboratorios Diafarm, together with those already marketed by Faes Farma, the Group's entire activity has been unified into a single business area which closed the first nine months of the year with sales in excess of 41 million Euros. Given its differential nature, the Healthcare business segment requires its own highly specialised marketing and sales strategy based on product type, a goal that we are steadily achieving and which is beginning to be significantly reflected in our profit and loss account.

Prominent brands such as Ricola, Positón, Siken, Venosmil, Roha, etc., all of them with increasing recognition among the public at large.

d) Consumer (other health channels): Following the acquisition of Laboratorios Diafarm in 2017, the Faes Farma Group added this new segment to its product catalogue. At 30 September 2019, the sales figure for this line of business stood at over 8 million Euros.

The brands marketed by Consumer are mostly also shared with the Healthcare area, but the difference is that they are aimed at a very specific group of customers, mainly large supermarkets, which are characterised by their special complexity due to their commercial requirements.

Of particular note are brands such as Nelson (Bach), Ricola, Siken, Vitanatur...

2) ANIMAL NUTRITION AND HEALTH (FARM Faes). Since the Group acquired Ingaso Farm in 2007, Faes Farma has consolidated a business that has allowed it to diversify its activities taking into account its pharmaceutical origins, and also strengthening it with the inorganic investments undertaken in 2017 in ITF and the Tecnovit Group. As a result, this area has a consolidated turnover of 39 million Euros. A very important figure with very attractive percentage margins to which we must add a synergetic upswing in manufacturing, technical department and structural costs that allows us to look ahead with optimism.

The Faes Farma Group, which maintains its traditional leadership in the early stages of swine life, has added diversification thanks to the new companies incorporated into its consolidation sphere, which allow it to reach customers that specialise in ruminants and poultry.

FARM Faes is growing progressively in the international geographical areas already served by Ingaso Farm, now extending the scope of exports to new customers and products, both swine and other species.

The animal nutrition and health business is based on the Group's own productions in the three factories: Lanciego (Alava) of Ingaso Farm, Alforja (Tarragona) of Tecnovit and Barbastro (Huesca) of AT Capselos. Thanks to this outstanding fact, the area achieves very significant margins, major synergies in production and technical departments, as well as boosting its competitiveness in a market in which Faes Farma is a benchmark in quality and market share.

3) BILASTINE. For the Faes Farma Group, this own research and production molecule has led to a very significant change in terms of turnover and consolidated profits.

Its worldwide growth, through numerous licencing agreements, is contributing very significant growth and very interesting business expectations to the statement of income. Bilastine is an unprecedented success in the company's extensive history.

These licences represent the sales volume of raw materials in excess of 47.7 million Euros, added to the fact that they provide outstanding margins given the Group's manufacturing and patent control. The evolution in the Japanese market is particularly relevant, after doubling turnover due to the sale of API.

Likewise, our molecule generates an item of other income in excess of 13 million Euros (with very interesting percentage increases), received from licensees and which is included in the income statement under the heading "Other operating income", up almost 70% year on year.

Faes Farma also has a direct and outstanding presence with bilastine in countries such as Spain, Portugal and other Latin American markets, which add new revenue streams.

In quantitative terms, the bilastine molecule is gaining market share quarter-by-quarter in all countries where it is present, as high as double-digit percentages. Occasionally, it even has a leading position among medicines for the treatment of allergies.

In terms of figures, cumulative revenue from Bilastine in the first nine months of the year, without taking into account the figures already mentioned for Spain and Portugal, or those shown below in the breakdown of the International Division, amounted to almost 61 million Euros.

4) INTERNATIONAL. Business from abroad continues to grow at a very significant pace. In addition to Bilastine's contribution, already mentioned above, we can highlight the following headings:

- Other licences. Along with the activity that started with Bilastine (which has already demonstrated its success) the company has continued to work hard to extend the agreements to other molecules in its portfolio which, given their maturity, efficiency

and economic feasibility evidenced in some countries, have allowed us to close other interesting licensing agreements. Up to September of this year, the volume of income has exceeded 5 million Euros, doubling the amount obtained in the same period of the previous year.

- o Direct exports. These are billed from Spain and Portugal to all continents and, in particular, to Latin America, the historical area where we started our operations abroad, and to Africa, a region in which the Group has been working for many years and where it has become a benchmark. These two continents share, almost equally, 90% of the Group's total exports, which jointly already exceed 19.5 million Euros in terms of sales and are up 14.6% in the first nine months of 2019 in relation to the same period of the previous year.
- o International Healthcare. An extensive range of products is managed through the two subsidiaries of Laboratorios Diafarm (Phyto-Actif in France and Colpharma in Italy). Turnover exceeds 13.6 million Euros, with the Microlife brands and Colpharma's own range in Italy and the identification of Phyto-Actif as its own brand in the whole range of food supplements and cosmetics.
- o Subsidiaries in Mexico, Colombia, Ecuador, Peru, Chile and Nigeria. With a direct presence, these six subsidiaries achieve sales of close to 10 million Euros. Furthermore, all of them have the vocation to be support for an incipient business in animal nutrition and health, especially in Chile.

The positive evolution of the figures announced in the International Division is particularly relevant because of the complexity of the activity, due to the disparity of the markets in which Faes Farma operates, the complex requirements of local authorities, the presence of large multinationals and the strength and rivalry of domestic laboratories.

Our subsidiaries in Mexico, Colombia, Peru, Chile, Ecuador and Nigeria are committed to organic growth. They were established and are decidedly chosen as long-term businesses with a clear potential for future development. This strategy is not without its difficulties, but we are unwaveringly convinced that it will produce excellent results in the mid to long term, as shown by the evolution of current figures.

And in addition to this in Latin America, if formalised, will be the purchase of BCN Medical that we reported as a Relevant Event on 15 October this year.

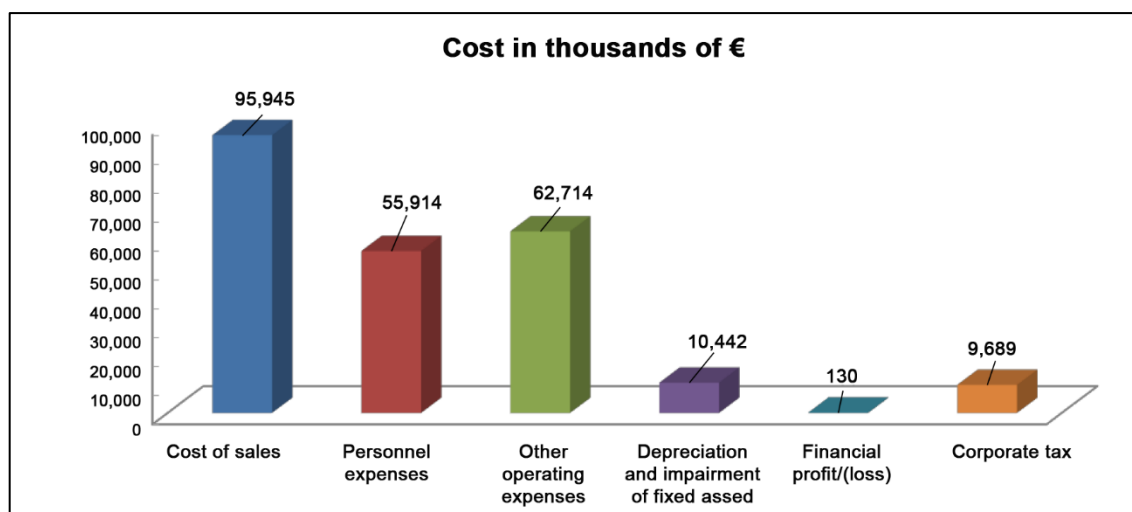
2.2. Costs and margins

The Faes Farma Group has achieved sales of more than 267.8 million Euros in this period, up 11.6% compared to the first nine months of 2018.

The gross margin rose 19% and now stands at 71.6% of ordinary income, thanks to the containment of consumption (which grew by 5.8%, a percentage significantly lower than the increase in sales).

The positive development of the gross margin is greatly favoured by the "Other operating income" heading. This line item grew strongly by 69.8%, driven by the increase, as mentioned above, in Bilastine and other licensing revenues.

The graph below shows the distribution, in thousands of Euros, of expenses:



EBITDA (earnings before interest, taxes, depreciation and amortisation) stood at 73.2 million Euros, 34.9% more than in September 2018 and well above the anticipated target of +23%. This positive figure also represents a margin of 27.3% on sales.

The Group's depreciation/amortisation and impairment increased by 37% as a result of corrections in measurements of trademarks and goodwill.

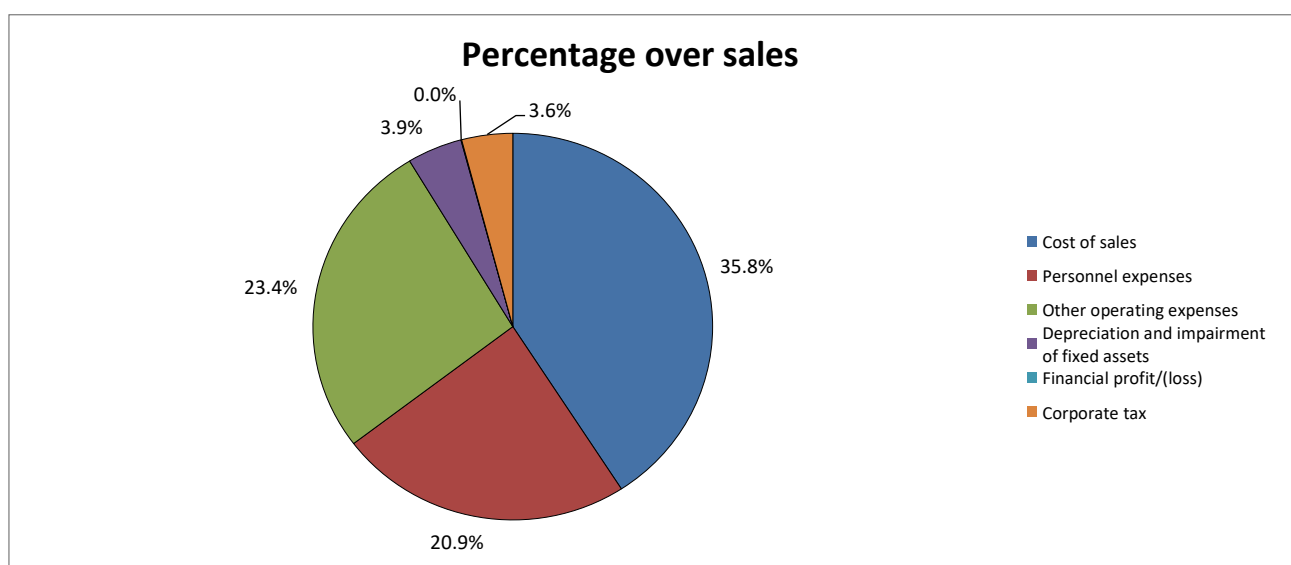
As a result, **EBIT (earnings before interest and taxes) grew by +34.5%, exceeding 62.7 million Euros**, representing a margin of 23.4% on sales.

With barely any effect on the result of the financial section given the company's financial health, **Profits Before Tax (PBT) stood at 62.6 million Euros (+34.6%), far exceeding the company's own forecast for growth expected for the financial year (+20%) and achieving a margin of 23.4% on sales.**

Corporate income tax rebounds following regulatory changes. However, and thanks to the actions undertaken by the company such as the deductions for investment in new fixed assets and the constant and determined commitment to research, the tax rate remains at a percentage of 15.5% of the profit before tax (PBT).

Consolidated net profit reached a record figure over the nine-month period at 52.9 million Euros, 26.5% higher than in September 2018 and a margin of 19.7% on sales. Thus, over a period of just three quarters, consolidated Net Profit at 30 September exceeds that of the full year in 2018.

As a final summary of this section, it is relevant to show what the distribution of costs has been in terms of percentages over sales:



3. Financial position

It is important to note that in the first half of this year the 40 million euro loan taken out to finance the purchases of Laboratorios Diafarm and Tecnovit Group was repaid on maturity, leaving at the current date a residual bank debt necessary for settlement operations.

The generation of a high level of liquidity, which currently stands at more than 59 million Euros, will allow the Group to continue with the three main investment channels set out in the Group's Strategic Plan: (i) organic investments in production and technical plants, (ii) recurrent R&D&I in portfolio development, and (iii) inorganic investments as we have recently reported with the purchase of the BCN Medical Group, subject to conditions

precedent for its formalisation, to which part of our financial drawdown will be targeted (20 million Euros), if the operation finally is concluded.

Moreover, Faes Farma maintains an investment in treasury stock of 1.5% of the share capital, a stake whose value amounts to 19 million Euros according to the market price of the shares in the Continuous Trading Market.

4. Shareholder remuneration

The most important aspects to be highlighted during 2019 are:

- January. A flexible dividend of 0.118 Euros per share was paid, 18% higher than the previous year. 86.5% of the share capital subscribed the share capital increase, a sign of the broad acceptance among our shareholders of this type of remuneration scheme.
- July. Payment of the final cash dividend in the amount of 0.022 Euros per share.
- Total remuneration and yield. The total gross dividend per share charged to 2018 earnings was 0.14 Euros, 16.7% more than in the previous year. Dividend yield reached 3% considering the share price at 30 September.
- Future operations. The General Shareholders Meeting held last June approved a new share capital increase to cover the scrip dividend charged to 2019 profits, an operation which, foreseeably, and in line with the schedule of previous years, could be approved at the year-end.

24 October 2019