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# BUSINESS PERFORMANCE

## JANUARY-MARCH 2020

### **Faes Farma Group**

Investor Relations Department

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## 1. Key events during the period

### CONSOLIDATION OF REVENUE AND PROFIT GROWTH

- The Group's turnover **exceeded 113.5 million euros in the first quarter, up 22.3%**, thanks to the healthy performance of all business areas and the contribution of the BCN Group, which was incorporated into the consolidation scope of Faes Farma at the end of last year.
- **EBITDA exceeds 30 million euros, 30.3% up** compared with the same period in 2019, representing a margin of 26.7% on sales.
- **EBIT was over 25.8 million, up +28.1%** compared with March 2019, with a margin of 22.7% on sales.
- **Profit before tax rose by 25.9% to 25.3 million euros.**
- After the cost for tax, the **consolidated profit is close to 21 million euros, 27.3% more** than in the same period of the previous year.
- We must highlight the positive evolution of the "Other Operating Revenues" item, which doubled the amount of the previous year's first quarter, exceeding 9 million euros thanks to meeting certain targets, mainly due to our bilastine licensees.
- The latest investment in the international area, BCN Group of Colombia, is already bearing fruit in the form of a turnover -in a single quarter- more than 5 million euros, thus meeting the business targets.

## 2. Income Statement

The consolidated results for 1Q 2020 show significant growth year-on-year, as shown in the table below:

€ thousands	March 2020	% over sales	March 2019	% over sales	% Change 2020/2019
<b>Total Income</b>	<b>122,642</b>		<b>97,314</b>		<b>26.0%</b>
Ordinary income / sales	113,510		92,815		22.3%
Other operating income	9,132	8.0%	4,499	4.8%	103.0%
Cost of sales	-42,137	37.1%	-32,541	35.1%	29.5%
<b>Gross margin on sales</b>	<b>80,505</b>	<b>70.9%</b>	<b>64,773</b>	<b>69.8%</b>	<b>24.3%</b>
Personnel expenses	-21,229	18.7%	-18,893	20.4%	12.4%
Other operating expenses	-28,933	25.5%	-22,586	24.3%	28.1%
<b>EBITDA</b>	<b>30,343</b>	<b>26.7%</b>	<b>23,294</b>	<b>25.1%</b>	<b>30.3%</b>
Depreciation and impairment of fixed assets	-4,487	4.0%	-3,112	3.4%	44.2%
<b>EBIT</b>	<b>25,856</b>	<b>22.7%</b>	<b>20,182</b>	<b>21.7%</b>	<b>28.1%</b>
Financial profit/(loss)	-476	-0.4%	-19	0.0%	2405.3%
<b>Profit before taxes</b>	<b>25,380</b>	<b>22.3%</b>	<b>20,163</b>	<b>21.7%</b>	<b>25.9%</b>
Corporate tax	-4,471	3.9%	-3,733	4.0%	19.8%
<b>Consolidated profit</b>	<b>20,909</b>	<b>18.4%</b>	<b>16,430</b>	<b>17.7%</b>	<b>27.3%</b>
Minority shareholders	-62	-0.1%	-55	0.1%	12.7%
<b>Profit attributed to the Parent company</b>	<b>20,847</b>	<b>18.3%</b>	<b>16,375</b>	<b>17.6%</b>	<b>27.3%</b>

### 2.1. Turnover

Faes Farma's turnover exceeded 113.5 million euros at 31 March 2020, up 22.3% year-on-year. This positive evolution is largely based on the BCN Group's contribution of 5 million euros and on the healthy performance of almost all the Group's business areas.

**1) PHARMA** The main novelties in the three areas that make up this segment are:

**a) Medicines Spain:** Below are the key events this quarter in turnover from the Group's main business.

Faes Farma's sales volume in Spain has grown by 9.1% in prescription market data (source: Iqvia).

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

- (i) Hydroferol (Vitamin D / Calcifediol). Our brand consolidated its growth for yet another quarter (+6.4% vs 1Q19), continuing and reconfirming the outstanding trajectory of recent years. Hidroferol remains the Group's leading product by revenue volume for yet another quarter.
- (ii) Ristaben and Ristfor. MSD licences for diabetes are up by 5.4% in unit sales, but are nevertheless affected by the price reduction approved by the Ministry in 2019, with turnover dropping slightly. Despite this, they are the Group's third largest product by sales.
- (iii) Respiratory. GSK licence. Revinty, Laventair and Rolufta, all with the Ellipta device, exceeded 2.5 million euros in revenue in the first quarter with very significant growth year-on-year and with good prospects, considering their recent market launch.
- (iv) Bilaxten. Our own brand of bilastine, with an increase of 4.9% in sales, is our second most important product by turnover in Spain. As well as being manufactured in-house, our product has high margins and, as will be detailed later in this report, significant revenues in other areas.

Bilaxten recorded moderate growth in the quarter, compared to previous periods, affected mainly by two factors: the forced lockdown of the population due to the coronavirus, which reduced time spent outdoors, and therefore the pollen has less effect; and secondly, the aggressive allergy campaign of 2019, which led to increased sales of Bilaxten by 81%.

This quarter, our molecule reached a 35.8% share of the global turnover of the antihistamine market in Spain; Bilaxten accounted for 69.1% of this portion of the business, and the other licensed brand accounted for the rest.

In addition to these notable figures, as will be described in other points, we must add the success of the molecule (bilastine) in Portugal, in our subsidiaries in Latin America and in the other countries where it is licensed for sale by the Faes Farma Group.

Also noteworthy in the quarter was the healthy sales performance of various historical products with recurring prescriptions, given the long history of treatments, which have been affected positively by the health crisis as patients have prudently purchased more than usual. Examples of this are brands such as Claversal (+19.7%) and Zyloric (+19.5%), which contribute additional growth to our turnover, percentages that are even higher if we consult our own data for direct sales to the distribution chain.

**b) Portugal.** Sales increased by 18.7%, driven by the good performance of prescription products, which grew by 25.8%. Bilaxten (+41.6%), Zyloric (+16.6%), Rosilan (+11.8%)... and the increase is also due to the excellent performance of the Healthcare area (+12.5%)

As in Spain, Bilastine stands out as the subsidiary's leading product, also with the Bilaxten brand, with good growth as mentioned in the previous paragraph.

**c) Healthcare and Over-the-counter:** The health emergency and lockdown situation did not benefit consumption of products included in this segment. Despite this, they grew by more than 3% on average, with notable performance by two historical products in our portfolio, Positón (+8.2%) and Alergical (+23.6%), while other classics such as Ricola held their own, and sales of several traditional products such as Venosmil, Analgilasa or Siken have fallen off.

**2) ANIMAL NUTRITION AND HEALTH (FARM Faes).** Revenues grew strongly (+16.9%) to over 15 million euros in the quarter. In both Iberia (+10.3%) and International (+16.6%), turnover improved at a double-digit growth rate in percentage terms.

In Iberia, the growth of Tecnovit (+15.9%), Cidosa (+21.7%) and Capselos (+32%) is noteworthy, with Ingaso Farm's performance being more moderate (+3.5%), due to its sales volume and its leading position in swine nutrition and health during the early stages of life, which makes relevant growth more difficult.

Manufacturing at our own facilities enables us to achieve relevant profitability; the Group's three factories share synergies and optimized processes. In that regard, the plants in Lanciego (Alava) of Ingaso Farm, Alforja (Tarragona) of Tecnovit and Barbastro (Huesca) of AT Capselos have been the recipients of frequent and repeated investments for organic growth and various improvements.

**3) BILASTINE.** Bilastina's worldwide expansion continues, with marketing taking place in new countries and growth in market share where the Group is already present. The various licensing contracts have contributed very significant sales and profits to the Group's income statement, complementing our own presence in Iberia and Latin America.

Bilastine is progressively strengthening its share of the world market for antihistamines with increasing double-digit shares in most countries where we have been operating for several years: Japan, Spain, Portugal, France, Brazil, Poland, Italy...

Bilastine, without considering revenues in the aforementioned markets, contributed a sales volume to the Group of close to 20 million euros this quarter after registering growth of 19.7%, with Japan and the Menarini area standing out as the two most important contracts.

Moreover, in addition to direct sales and invoicing of raw materials to licensees, significant revenues are obtained from other items, mainly compliance with contractual milestones by achieving sales targets. The contribution of this heading to the income statement this quarter has been very relevant as can be seen in the section "Other operating income", an item that grew 103% compared with March 2019, essentially due to bilastine.

Finally, due to the lack of progress in previous regulatory contacts with the US-FDA for bilastine tablets, the requirement for additional efficacy and safety studies for ophthalmic bilastine, with the high cost this would entail, and also due to the sharp deterioration in the US antihistamine market over the last two years (oral forms have lost 22% of their value and ophthalmic forms 33%), Faes Farma has lowered the priority of this project, although the option has been left open so that it can be reactivated by a local licensee to spearhead and finance it.



**4) INTERNATIONAL.** The foreign business has grown at a relevant pace in recent years, an uptrend that continues in this 1Q of 2020, to which we have added in recent months (October 2019) the contribution of the BCN Medical Group (Colombia) acquired on that date to strengthen our presence in Latin America.

To Animal Nutrition and Bilastine, already mentioned in previous paragraphs, there is an addition:

- Other licences. Agreements for other molecules in our portfolio which, given their maturity, efficiency and economic viability in some countries, allow us to close new licensing deals. This section shows growth of 49% at 31 March 2020 compared to the same date the previous year.
- Healthcare, with direct exports of products from Diafarm and the sales of the subsidiaries acquired together with Diafarm (Phyto-Actif and Colpharma), totalled more than 3.7 million euros, despite the fall due to termination of a facial products distribution contract.
- The traditional pharmaceutical market that the Group has developed in recent years through direct exports has been very strong this first quarter, with sales up 31.7%.
- The BCN Medical Group, an inorganic investment from October 2019, has already contributed more than 5 million euros in sales in a single quarter, with excellent growth over last year.
- And finally, our direct presence with six subsidiaries in Mexico, Colombia, Ecuador, Peru, Chile and Nigeria. In addition, all of them strive to support an incipient business in animal health and nutrition. Sales in the Pharma segment grew by more than 55%, thanks to the boost from all subsidiaries, in particular those in Mexico and Chile.

These figures, and their positive evolution from one period to the next, are especially important because of the complexity of this activity, due to the disparity of the markets in which Faes Farma operates, the requirements of local authorities, competition with multinationals and the strength of domestic laboratories.



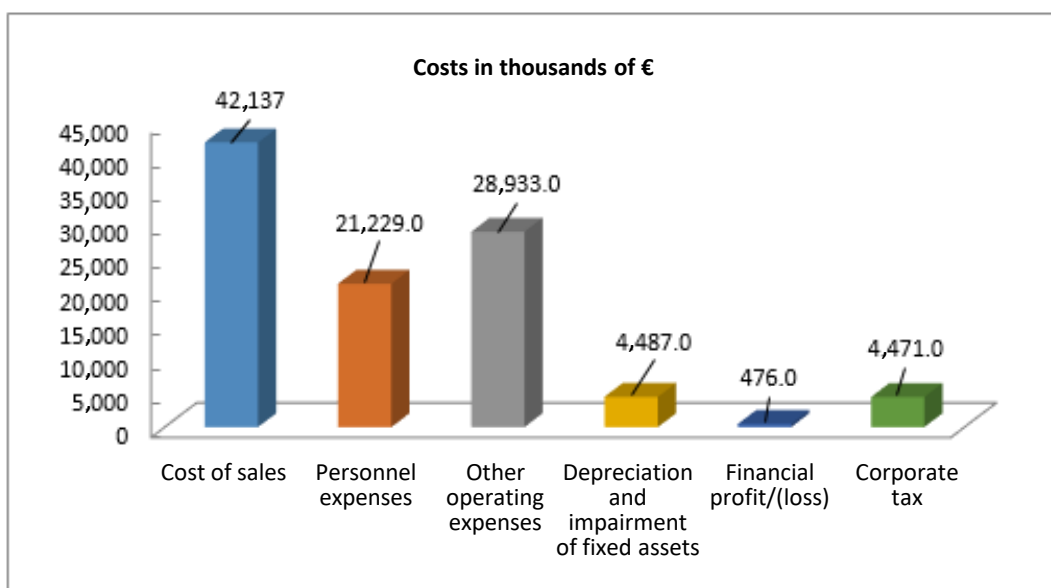
## 2.2. Costs and margins

The Faes Farma Group's gross margin grew by 24.3% in the first quarter of 2020, with an additional 16 million euros. This positive trend is based on both turnover and other various revenue streams.

In this regard, the "Other operating income" item doubles its value to over 9 million euros, as a result of several payments for fulfilment of various contractual milestones in the international licences of bilastine.

The three main cost items (consumption, workforce and commercial/marketing) grew strongly due to both the positive evolution of the business itself and the incorporation of the BCN Group into the consolidation scope, which did not prevent the gross margin on sales from improving to 70.9%.

The following chart shows the distribution, in thousands of euros, of expenses:



The **EBITDA (earnings before interest, taxes, depreciation and amortization)** also improved notably, reaching **30.3 million euros, with growth of 30.3%** compared with March 2019 and a ratio of 26.7% over sales.

Depreciation has increased as a result of the high level of investment in recent years, as well as the recent addition of BCN, and there have been some adjustments in the valuations of certain brands associated with the consumer area.

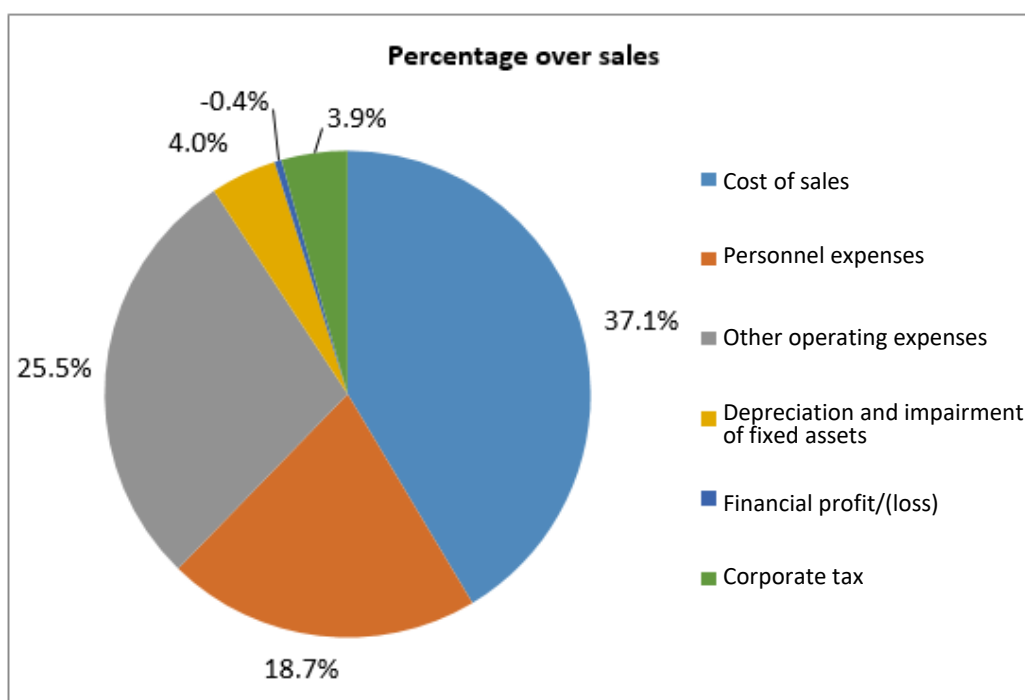
We therefore reached an **EBIT (earnings before interest and taxes) of 25.9 million euros, with an increase of +28.1%**, while improving last year's ratio over sales by +22.7%.

After making a slight adjustment to the statement for exchange rate differences in our Latin American subsidiaries, **profit before tax (PBT) reached 25.3 million euros (+25.9% compared to the first quarter of 2019), achieving a margin of 22.3% over sales.**

In absolute values, corporate tax is up due to the 5 million increase in pre-tax profits, but the percentage over this improves thanks to the growth in investment in R&D&I.

For all the preceding reasons, **consolidated net profit totals 20.9 million euros, up 27.3% and a margin of 18.4% over sales.**

As a final summary of this section, it is relevant to analyse the distribution of the Faes Farma Group's costs as a percentage of sales:



### **3. Covid-19 Coronavirus**

Given the relevance that the effects of Covid-19 are having on all aspects of the company's daily life, the main sections and contributions of the Faes Farma Group are commented on below.

#### **Financial position**

The Faes Farma Group faces this health crisis with a solid financial position, and continues to strengthen its liquidity situation, with its bank debt fully amortised a year ago; it maintains its plan of organic and inorganic investments paid for with "cash".

The company has liquidity in financial assets, mainly bank balances, to address the planned organic and inorganic investments that may arise to maintain its future growth. In addition, and if required, external resources could be pooled with various financial institutions to address new challenges and future investments.

For the time being, Faes Farma does not consider it necessary to resort to the financing market, or to modify the investment plans or the payment of dividends planned pre-crisis.

#### **Corporate Social Responsibility**

The Faes Farma Group has committed itself to various groups to improve the situation in the face of this crisis.

A donation of materials worth over 400,000 euros was made, consisting of the manufacture of 100,000 litres of hydroalcoholic gel, the donation of 100,000 gloves and 50,000 FFP2 masks with special guarantees to prevent contagion.

The manufacture of the gel was carried out with the voluntary participation of our staff, an initiative that arose from the company, but it was ably assisted by the disinterested involvement of our workers, and by the indispensable help of the Basque Health Service and the Spanish Agency of Medicines and Medical Devices (AEMPS) which, thanks to their expeditious and practical response in granting the temporary authorisation for this manufacture, has already been put to immediate social use. With

this contribution, Faes Farma supports the essential work of the health professionals who are sacrificing themselves tirelessly to fight the pandemic.

Furthermore, the Group wants to recognise the commitment and responsibility of its employees who must travel to their workplace in person on a daily basis, not without risk, allowing our facilities to operate in full. Accordingly, a bonus of 20% in the salary corresponding to the duration of the state of emergency has been approved for these employees based on the time spent and physical presence.

The Faes Farma Group also considers it an improvement in CSR to ensure the proper functioning of its manufacturing plants, given the vital importance of fulfilling its responsibility as a manufacturer of drugs and animal feed.

### **Measures with regard to workers**

As regards personnel, the Group has introduced the option of remote working since the closure of educational centres, allowing its employees to maintain a work/life balance during the days leading up to the mandatory lockdown, a period in which most personnel continued coming to work as usual.

Since the state of emergency, and applying all health protection measures for our employees, since both pharmaceutical production and animal health and nutrition are essential activities, the usual on-site activity has been maintained in the research and production areas and centres in both sectors. In turn, they have supported areas such as quality control, maintenance, IT, etc.

The internal logistic activity of distribution for national and export territories remains unchanged. The remaining teams continue to carry out their daily activities from home using a variety of connection systems.

Furthermore, the necessary measures have been introduced to guarantee the health of staff, and the risks of staff in critical productive functions becoming infected have been minimised.

Finally, teleworking has been promoted to the fullest extent in all those departments where this alternative is possible.

### **Production facilities and supply chain**

To date, the overall assessment of this crisis is that the Faes Farma Group has not been significantly affected by events, mainly because it operates in two essential sectors: pharmaceuticals and animal health and nutrition.

The availability of buffer stocks and continuity of the usual supplies have enabled the Group to keep the production and sales chain in constant activity to meet the demand in these weeks affected by the Covid-19.

There have been certain delays in some products, but these have not significantly affected the Group's sales.

### **Sales and income statement for the first quarter of 2020**

As already mentioned in the corresponding sections of this report, sales have behaved very positively during the first quarter of 2020, given the sectors where the company operates: animal nutrition and pharmaceuticals. These sectors have not been affected by the restrictive measures on mobility or plant closures, since they are classified as essential sectors, and hence full activity has been allowed in recent weeks.

In fact, there has been a higher-than-expected upturn in sales, which is likely the result of a higher-than-usual temporary stockpiling in March by our distributors and end consumers.

In the second half of March, we observed an increase in the acquisition of mature products and drugs for chronic diseases such as Bilaxten, Zyloric, Claversal, Hidroferol, as well as for Diabetes, Respiratory... in our opinion due to prudence in obtaining product in the event of a supply shortfall, as well as the prescription of recurrent prescriptions for a longer period than usual.

As a result, the good sales performance in virtually all areas allows us to avoid the impairment of intangible assets since the business plans prior to the crisis are reconfirmed.

Likewise, we do not expect any damage to our clients' economic situation given the essential sectors in which we work.

The Group is monitoring the evolution of sales according to the portfolio and the needs that may arise in products of special need. In the Pharma area we have seen an increase in prescription drug sales, which we are monitoring very closely to determine whether there may be any changes in the trend. The evolution of Diafarm products has not been so positive. This is because, despite being articles for sale in pharmacies, they are less associated with the urgency inherent in this health crisis situation. The most significant drop in sales was in the consumer area due to the closure of businesses and the fact that these are products of lesser need.

### **Research, development and innovation activity**

The R&D&I activities are maintained, both in teleworking and work involving a physical presence, in those positions that require it, without being affected on the whole.

Faes Farma continues with its drug approval processes in the regulatory phase and with plans for the development of a new portfolio. However, it is possible that the health crisis will absorb the efforts of the Agencies in different countries, so we cannot rule out that there may be delays in the approval processes for some drugs.

### **Sales and income statement in subsequent quarters**

In the basic medium-term aspects, no major changes are envisaged in the Faes Farma Group's activity, except for medical appointments, which are practically at a standstill. The sector will continue to research, develop and manufacture medicines in conjunction with the government, with the aim of providing solutions to the health problems faced by doctors, pharmacists, patients and users.

Whether the current models for promotion, technical information, training and conferences are still valid after standardisation or whether they must be revised will be the subject of further discussion.

On the other hand, the extensive use of health resources to confront the pandemic, together with the serious economic downturn will force companies to negotiate with the health administration with the common aim of overcoming the crisis together,

while keeping alive a sector that generates wealth in Spain with investments in basic research, clinical research and drug production plants. Specifically, there are 95 facilities throughout the country, which produce goods worth 15 billion euros and generate exports valued at 11 billion.

In the coming months, a slight adjustment in our clients' stocks is expected, as a result of the stockpiling that we estimate has occurred during the first weeks of the crisis. This adjustment will not prevent us from meeting our growth forecasts in the main headings of the income statement.

Internally, we plan to keep our production facilities at full capacity as they were pre-crisis and, consequently, the entire supply chain: from purchasing, through manufacturing and storage to sales logistics. And, of course, this extends to all the areas where the Faes Farma Group is present: medicines, chemical products, animal health and nutrition, exports, international subsidiaries, etc.

We therefore do not estimate a slowdown in our sales or operating profit, without being able to assess, due to their uncertainty, the effects of the current stoppage of the medical visit and its duration, as well as the measures that may be approved by the Public Administration to respond to the needs of each country in the face of a negative economic situation not seen in decades.

It is very difficult to get estimates right given the complexities associated with the evolution of the current situation, so Faes Farma will continue to monitor closely the evolution of events and their effect on the Group during the state of emergency and afterwards. Under these circumstances it is not currently possible to assess precisely the impact that the pandemic will have on the current year, although the main effect is expected to come in the second half of the year for the reasons mentioned above.

The Group is saddened by the human losses suffered as a consequence of this crisis, as well as the terrible health and economic consequences it has caused, and reiterates its commitment to fully collaborate with the authorities on behalf of and at the service of all types of health centres, care homes, pharmacies, hospitals, doctors, social and health personnel and patients.

Likewise, Faes Farma expresses its deepest gratitude to its shareholders for their support, as well as to all workers for their commitment, responsibility and involvement,



dedicating all efforts to maintaining the supply of essential medicines and animal feed at this time of immense need.

The Faes Farma Group wishes a speedy recovery to all those affected by Covid-19 and sends a very special recognition to the health sector, volunteers and all the people, both from the Administrations and the private sectors, and professionals who are in the front line fighting against the virus.

30 April 2020