Procaps Group Reports Fourth Quarter and Full Year 2022 Results

May 12, 2023

Constant Currency Net Revenues Increased 7% Year-over-Year in 2022, With Strong Demand of RX and Softgel Portfolios, Offset by Clinical Specialty Covid Portfolio

Preliminary Results for 1Q23 Show a Significant Rebound from 4Q22 Performance, Company Expects to Reach at Least High Single-Digit Growth in Adjusted EBITDA

Management Reaffirms Preliminary FY2023 Net Revenue and Adjusted EBITDA Guidance

Multiple Value-Creation Initiatives Implemented and On Track to Achieve Up to $15 million of Targeted Recurring Savings

Company to Host Conference Call and Webcast Monday, May 15, 2023 at 10:00am Eastern Time

MIAMI & BARRANQUILLA, Colombia--(BUSINESS WIRE)--May 12, 2023-- Procaps Group S.A. (NASDAQ: PROC) ("Procaps"), a leading integrated international healthcare and pharmaceutical services company, today announced its financial results for the three months ended December 31, 2022 ("4Q22") and full fiscal year ended December 31, 2022 ("2022").

"Demand remains robust for RX and consumer health products as well as for all our CDMO products and services. We are executing our value creation initiatives as we build a solid foundation and transition toward new paths for growth," said Rubén Minski, CEO of Procaps.

Highlights 2022 & 4Q22

Product Development & Market Expansion

- Packaging services started at our new gummy manufacturing facility in Florida. Full gummies production expected to commence in 2H23
- Commencement of operations at our West Palm Beach facility providing R&D services
- Renewal rate of 27% in 2022
- Execution of Value Creation Initiatives on track

Financial Highlights

- Net revenues totaled $101 million for 4Q22, a decrease of 11% in constant currency, impacted mainly by currency devaluation and a decrease in our Covid-related products in our Clinical Specialties line. Net revenues totaled $410 million in 2022, an increase of 7% on a constant currency basis.
- Gross profit for 4Q22 totaled $52 million, with a 51% gross margin. Gross profit totaled $240 million for 2022, with a 58% gross margin.

	4Q22	**4Q21**	**Δ%**	**2022**	**2021**	**Δ%**
Net Revenues	101.5	126.5	-19.8%	409.9	409.7	0.0%
COGS	(49.2)	(50.9)	-3.3%	(170.4)	(174.0)	-2.1%
Gross Profit	**52.3**	**75.7**	**-30.9%**	**239.6**	**235.7**	**1.6%**
Gross Margin	*51.5%*	*59.8%*	*-829.3 bps*	*58.4%*	*57.5%*	*91.6 bps*
Average FX USD/COP	4,808.0	3,879.0	23.9%	4,255	3,743	13.7%

FY 2023 Net Revenue and Adjusted EBITDA Guidance

	2023 Constant Currency	**2022**
Net Revenues	**~+10%**	**$410M**
Adjusted EBITDA	**$90- $100M**	**$70M**

1Q23 Preliminary Results Highlights

	1Q23	**1Q22**
Net Revenues	$82M - $85M	$86 M
FX Impact on Net Revenues	$7M	-
Constant Net Revenues	$89M - $92M	-
Constant Adj. EBITDA	~ $10M	

Procaps Chief Executive Officer, Ruben Minski, added:

“Looking to the remainder of 2023, we continue to expect the impact of many of these recent issues to subside. We believe momentum will expand as we benefit significantly from the investments in capabilities, products and geographies we have made over the last few years. Combined with our cost reduction plans to optimize our business in the near term, without compromising our long-term objectives, we continue to expect to grow net revenues at approximately 10%+ in 2023 on a constant currency basis and are forecasting our Adjusted EBITDA range to be approximately $90-100 million.”

Management Commentary

Procaps Chief Executive Officer, Ruben Minski, commented:

“2022 was underlined by strong demand for our existing product line including RX and consumer health products that helped overcome challenges in several areas. RX products grew approximately 21% year over year. We also maintained our rapid pace with innovative new product launches and expansion into new regions. We have continued to grow on a constant currency basis, supporting our strategic investments in capabilities, products and geographies over the last few years.

“2022 was also affected by multiple macroeconomic headwinds including significant currency devaluation in the markets where we operate, supply chain disruptions, rapid cost inflation and post pandemic demand price adjustments. As the currency headwinds and macro issues impacting us subside, we believe we have put in place a long-term strategy with the competitive advantages that will position us for ongoing success. This strategy is complemented by an aggressive plan to reduce expenses and generate the efficiencies that we implemented at the beginning of 2023.

“The strong cadence of new product launches and product rollouts to new regions combined to deliver 7% revenue growth on a constant currency basis for the full year 2022, despite the previously mentioned headwinds, and is positioning us to build a strong foundation for 2023. With our strong focus on continuous innovation and internationalization, we continue to expand our portfolio within selected therapy areas and geographies, with approximately $111 million net sales coming from new products in 2022. In addition, we have over 170 products pending approval to be launched in the next few years.

“As I mentioned before, we have implemented multiple value-creation initiatives to reduce costs, improve margins and near-term profitability, as well as to expand our global reach with our roll-up strategy and to fund our growth objectives. The goal is to achieve up to $15 million of recurring savings to be realized over the next 18 months. Since the beginning of this year, we have been focused on these initiatives, including headcount right-sizing, SG&A efficiency, R&D optimization, and corporate expenses efficiency. As of March 2023, total execution of our savings capture rate was approximately 20%, and preliminary accumulated savings results from these efforts were $3.0 million.

“Looking ahead in 2023, we expect to see continuing challenges and uncertainties, such as a possible recession in the United States and Europe, supply chain disruptions, significant volatility of the currencies in the markets where we operate, as well as high interest rates and tight financial markets in general. However, with our focus on our strengths for growth and the substantial efforts we’re putting in our strategic improvement initiatives, I’m confident that we are well positioned to achieve our near and long-term goals. We expect 2023 to be a year to stabilize and improve our results so we can continue with our expansion plans,” concluded Minski.

Procaps Chief Financial Officer, Patricio Vargas, commented:

“We ended the fourth quarter of 2022 with a revenue decrease of 11% over the same period of the previous year, and an increase of 7% for the full year, both on a constant currency basis. Significant currency devaluation in the markets where we operate, supply chain disruptions and rapid cost inflation disproportionately and negatively impacted our usually strong fourth quarter. We also saw distributors reducing Covid-19 related inventories, which negatively impacted our sales in the last months of the year. As we move into 2023, we believe our strong demand growth and value creation initiatives will position us to recover from the negative impacts we suffered in 2022.

“The strong currency devaluation during the last few months in some of our markets, and especially in the last quarter, negatively impacted our net revenues by $12 million compared to the fourth quarter of 2021 and by $28 million in the full year compared to the same period in the prior year.

“Despite these negative impacts our gross margin remained robust at 58% for 2022, slightly higher than 2021.

“We want to take this opportunity to apologize to our shareholders for being delayed in our 2022 filing. We recognize it is bad news and we’re working hard to solve our issues. We expected our new consolidation system to be in place by now, but we were delayed and are now expecting it to be operational with respect to our second quarter filing. At the same time, we continue working on remediating our material weaknesses, which we expect should be mostly addressed within the next 18 months,” concluded Vargas.

Please check Procaps investor relations website for full Earning Release details, at: https://investor.procapsgroup.com/financials/quarterly-reports.

Conference Call Information:

The Company expects to host a conference call and webcast on Monday, May 15th, at 10am Eastern time.

To access the call, please use the following information:

Date: Monday, May 15, 2023
Time: 10 a.m. ET
Toll Free dial-in number: 1-844-204-8586
Toll/International dial-in number: 1-412-317-6346
Procaps HD Phone: **https://hd.choruscall.com/?$Y2FsbHR5cGU9MiZyPXRydWUmaW5mbz1waG9uZS1jb21wYW55**
Conference ID: Procaps Group

The conference call will be broadcast live and available for replay at https://webcastlite.mziq.com/cover.html?webcastId=c1db710b-4949-463c-9079-ae5991d29b9f and via the investor relations section of Procaps’ website.

About Procaps Group

Procaps Group, S.A. ("Procaps") (NASDAQ: PROC) is a developer of pharmaceutical and nutraceutical solutions, medicines, and hospital supplies that reach more than 50 countries in all five continents. Procaps has a direct presence in 13 countries in the Americas and more than 5,500 employees working under a sustainable model. Procaps develops, manufactures, and markets over the counter (OTC) pharmaceutical products and prescription pharmaceutical drugs (Rx), nutritional supplements and high-potency clinical solutions. For more information, visit www.procapsgroup.com or Procaps Group's investor relations website investor.procapsgroup.com.

Use of Non-IFRS Financial Measures

Our management uses and discloses EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Net Debt-to-Adjusted EBITDA ratio, Contribution Margin and net revenue on a constant currency basis, which are non-IFRS financial information to assess our operating performance across periods and for business planning purposes. We believe the presentation of these non-IFRS financial measures is useful to investors as it provides additional information to facilitate comparisons of historical operating results, identify trends in our underlying operating results and provide additional insight and transparency on how we evaluate our business. These non-IFRS measures are not meant to be considered in isolation or as a substitute for financial information presented in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and should be viewed as supplemental and in addition to our financial information presented in accordance with IFRS.

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Net Debt-to- Adjusted EBITDA ratio

We define EBITDA as profit (loss) for the period before interest expense, net, income tax expense and depreciation and amortization. We define Adjusted EBITDA as EBITDA further adjusted to exclude certain isolated costs incurred as a result of the COVID-19 pandemic, certain transaction costs incurred in connection with the business combination ("Business Combination") with Union Acquisition Corp. II ("Union"), certain listing expenses incurred in connection with the Business Combination, certain costs related to business transformation initiatives, certain foreign currency translation adjustments and certain other finance costs, and other nonrecurring nonoperational or unordinary items as the Company may deem appropriate from time to time. We also report Adjusted EBITDA as a percentage of net revenue as an additional measure so investors may evaluate our Adjusted EBITDA margins. None of EBITDA, Adjusted EBITDA or Adjusted EBITDA margin are presented in accordance with generally accepted accounting principles ("GAAP") or IFRS and are non-IFRS financial measures.

We use EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, and Net Debt-to-Adjusted EBITDA ratio for operational and financial decision-making and believe these measures are useful in evaluating our performance because they eliminate certain items that we do not consider indicators of our operating performance. EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Net Debt-to-Adjusted EBITDA ratio are also used by many of our investors and other interested parties in evaluating our operational and financial performance across reporting periods. We believe that the presentation of EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Net Debt-to- Adjusted EBITDA ratio provides useful information to investors by allowing an understanding of key measures that we use internally for operational decision-making, budgeting, evaluating acquisition targets, and assessing our operating performance.

EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, and Net Debt-to- Adjusted EBITDA ratio are not recognized terms under IFRS and should not be considered as a substitute for net income (loss), cash flows from operating activities, or other income or cash flow statement data. These measures have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of our results as reported under IFRS. We strongly encourage investors to review our financial statements in their entirety and not to rely on any single financial measure.

Because non-IFRS financial measures are not standardized, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, and Net Debt-to-Adjusted EBITDA ratio, as defined by us, may not be comparable to similarly titled measures reported by other companies. It, therefore, may not be possible to compare our use of these non-IFRS financial measures with those used by other companies.

The Company is not able to reconcile its forward-looking non-IFRS estimates of Adjusted EBITDA presented in this press release for the year ending December 31, 2023, without unreasonable effort because of the inherent difficulty of accurately forecasting the occurrence and financial impact of the various adjusting items necessary for such reconciliation that have not yet occurred, are out of our control, or cannot be reasonably predicted, which could have a material impact on its future IFRS financial results.

Forward-Looking Statements

This press release includes "forward-looking statements." Forward-looking statements may be identified by the use of words such as "forecast," "intend," "seek," "target," "anticipate," "believe," "expect," "estimate," "plan," "outlook," and "project" and other similar expressions that predict or indicate future events or trends or that are not statements of historical matters. Such forward-looking statements include projected financial information. Such forward-looking statements with respect to revenues, earnings, performance, strategies, synergies, prospects, and other aspects of the businesses of Procaps are based on current expectations that are subject to risks and uncertainties. A number of factors could cause actual results or outcomes to differ materially from those indicated by such forward-looking statements. These factors include, but are not limited to: (1) whether the Company enters into a new definitive agreement with respect to an acquisition of, and if so, the inability to recognize the anticipated benefits of any such potential acquisition of Al Soar (Netherlands) BV ("Somar Holding"), Química y Farmacia S.A. de C.V. ("Quífa"), PDM Acondifarma S.A. de C.V. ("PDM"), Gelcaps Exportadora de Mexico S.A. de C.V. ("Gelcaps"), and Grupo Farmacéutico Somar S.A.P.I. de C.V. ("Somar", and together with Somar Holding, Quífa, PDM and Gelcaps, collectively, "Grupo Somar") which may be affected by, among other things, competition, and the ability of the combined business to grow and manage growth profitably, or of any merger or acquisition contemplated by the Company; (2) the inability to successfully retain or recruits officers, key employees, or directors; (3) effects on Procaps' public securities' liquidity and trading; (4) the lack of a market for Procaps' securities; (5) changes in applicable laws or regulations; (6) the possibility that Procaps may be adversely affected by other economic, business, and/or competitive factors; (7) the Company's inability to achieve its cost saving goals and value creating initiatives, (8) our ability to remediate our disclosed material weaknesses within certain time frames, if at all and (9) other risks and uncertainties indicated from time to time in documents filed or to be filed with the Securities and Exchange Commission ("SEC") by Procaps. Accordingly, forward-looking statements, including any projections or analysis, should not be viewed as factual and should not be relied upon as an accurate prediction of future results. The forward-looking statements contained in this presentation are based on our current expectations and beliefs concerning future developments and their potential effects on Procaps. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control), or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, the ability to recognize the anticipated benefits of any acquisitions contemplated or pursued by the Company, the impact of COVID-19 on Procaps' business, changes in applicable laws or regulations, the possibility that Procaps may be adversely affected by other economic, business, and/or competitive factors, and other risks and uncertainties, including those included under the header "Risk Factors" in Procaps' annual report on Form 20-F filed with the SEC, as well as Procaps' other filings with the SEC. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. Accordingly, you should not put undue reliance on these statements.

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