

Operator:

Good morning and welcome to the Procaps's Group Business Update Call and webcast. Today's conference is being recorded.

Please note that some statements made during this call may contain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to risks and uncertainties. Any statement that refers to expectations, projections and or future events, including financial projections or future market conditions, is a forward-looking statement.

The company's actual future results could differ materially from those expressed in such forward-looking statements due to a variety of risks, uncertainties, and other factors, including but not limited to those set forth in Procaps Group's SEC filings. Procaps assumes no obligation to update any such forward looking statements. Please, also note, that past performance or market information is not a guarantee of future results.

At this time, I would like to turn the conference over to Melissa Angelini, Investor Relations Director of Procaps. Please go ahead, Melissa.

Melissa Angelini:

Thank you and good morning, everyone. Thank you for standing by. And welcome to the Procaps Business Update Call. The conference call has also been webcasted and the link is available on the Procaps IR website at investor.procapsgroup.com.

We appreciate everyone joining us today. Please note that our press release in our annual report on Form 10-F were issued last Friday and can be found on our IR website as well as this investor presentation. Please, review the disclaimers included here.

During this conference call, non-GAAP financial measures will be discussed and presented. We believe non-GAAP disclosures enable investors to better understand Procaps core operating performance. Please, refer to the appendix on this presentation for a reconciliation of each of these non-GAAP measures to the most directly comparable GAAP financial measures.

Hosting today's call we have Ruben Minsk, our CEO and Patricio Vargas, our CFO. I will now turn the call over to Procaps' CEO, Ruben Minsk. Please, Ruben, go ahead.

Ruben Minsk:

Thank you, Melissa. I thank you all for joining us today. On our 4Q21 and full year 2021 conference call. With that agenda, I wanted to provide everyone with an overview of our full year 2021 performance, as well as give an update perspective of our growth in 2022.

From there, I will turn it over to Patricia to take you through more details specific on our financial statements. At the end of our call, Patricia and I are both happy to answer any questions you may have, and additionally, please feel free to follow us well with a post call with us or Melissa.

Moving to slide five. As we look back at our last year, we had an incredibly productive year, one of the best in the history of our 44-year-old company. Well, I am incredibly proud of taking the business public and raising the capital to fund our growth, I believe we have taken a number of steps that are critical to laying the foundation for our future.

Most importantly, the talent we have been able to attract to our team, to help guide our company into the future far exceeds what I imagined to be possible and something I am incredibly proud of to report. Patricio,

Camilo and Melissa are key senior hires to grow our business, and I hope everyone has a chance to interact with them.

But I want to also mention the depth of talent of the associates that we continue to recruit. It is a key factor of building the muscle to our growth.

As I review our business performance, the key message I wanted to deliver is that our organic growth is exceeding our expectations on our management, and focus continues to be on ensuring that we have the right capabilities in place to support the success of our new products in the market and of course, our inorganic growth strategy.

Our growth in market shares reflects our focus and support behind our new products and that we are winning with our customers. Our revenues hit nearly US\$410 million, which is ahead of what we forecast last year, up 24%, which is one of the best years in our company's history.

All our units are growing at double digit growth rate in terms of revenue, and our growth has remained consistent across our products as well as launching of new products.

We have seen accelerated growth in 2021, particularly in our Procaps Colombia, Central America North and the Andean region business units, where they increased demand across the board for a variety of our Rx and OTC products has continue.

Our new product launches have been a key driver of our growth. Our renewal rate, the percentage of our revenues from recently launched products, is approaching our 25% goal at 23.5%.

I might sound like a bit of a broken record, but the renewal rate is the key metric that I focus on to measure the health of our business. I have learned over the last 44 years that innovation around our property or delivery systems is the key to our success.

As we look forward to 2022 and onwards, our top line continues to grow as expected into 2Q and we have a meaningful visibility into these given the sales cycles and planning in both in our product launches.

Now, going to slide six. I would like to highlight our internationalization strategy of our market share increases in LATAM. In Colombia, our market share continues to increase at 2x the market growth rate of ourselves and our sales are quite robust.

Our growth in LATAM markets appears quite strong. And importantly, we continue to be the highest growth pharmaceutical company in the region with 2.5% market share.

What is driving this growth, in addition to the increasing demand is that we internationalized over 160 products in 2021. We take what is working in one geography, localize it on leverage or route to market capabilities for success.

Looking forward, our pipeline is still full, and we also have over 150 products in the registration process in different stages. The diversification of our products, customers and geographies are fueling our success.

In slide seven, I wanted to share a bit more about the expansion of our iCDMO business in the US with acquisition of the West Palm Beach. A number of investors have asked me about this. Our investment rationale behind this acquisition was that it was incredibly important for us to have a US iCDMO capability to better serve our US and European customers.

As we have seen in the recent proposal of the American Made Medicine Act in Congress, Procaps is focused on boosting its US drug manufacturing capabilities. Additionally, we also needed to plan for medium-term capacity constraints given our top-line growth.

When we put the two factors together, we believe this opportunity represented a very compelling and low-risk solution.

The facility specializes in complex social gaps and has differentiated manufacturing technologies, including GMP, manufacturing, quality control and micro labs, research for Advanced Delivery Technologies, end to end solutions for Orphan fast track development, and finally preclinical and clinical development for new molecular entities.

Stepping back from a broader perspective, this acquisition was an important milestone for our strategy of bringing socio-based innovations to all corners of the world, both being integrated iCDMO solutions on our own property developments.

Moving to slide eight. Another milestone I wanted to share more details about is our new gummy facility in the US. Complementing the West Palm Beach acquisition that we just discussed, the expansion of our US capacity to our funritrition business is an important step towards our commitment to meet the requirements of our growing base of US customers in gummies.

The plan will be Miramar, Florida, and will include three phase projects. The first now phase will begin this month with logistics, warehousing and offices. The second phase, scheduled to begin at some point in 2Q, is with packaging operations.

The third and final phase to house the full gummy manufacturing in place is scheduled to be completed by end of this year, with operations beginning in 2023.

I am happy to report that we are on track, and we are currently discussing with many potential customers to include them in our production plan for 2023.

Peripherals capacity in the marketplace for gummies is not unlimited, and the value-added nature of our products is creating in high demand at attractive margins for our company. Value added gummies are a critical piece of our oral delivery value proposition, underscoring our commitment to delivering better health and nutrition.

And with that, I will look forward to updating you on our continued progress in 2022. And our year has been off to a very good start. With that, I will ask Patricio Vargas to review our financial statements before we take the Q&A.

Patricio Vargas:

Thank you, Reuben. On slide ten, I want to give you a summary of our 4Q21 financial results and year end 2021. Procaps demonstrate a strong performance in 2021 with a net sales growth of 24%. Our net sales growth was driven by strong demand across our branded Rx and OTC businesses in both our existing products, as well as from our continued rollout of new product launches.

This trend exemplifies a solid fundamental for organic growth, which have driven us in the past few years and which we believe will drive us into the next years.

On the gross profit line, we have increased by US\$44 million year over year or roughly 23% to reach approximately US\$236 million, maintaining our gross margin at the same levels of last year at 58%.

Our adjusted EBITDA increased by 18% to US\$99.7 million, compared to US\$84.5 million. Our EBITDA margins are slightly down versus 2020, which has been driven by our investment spending behind new product launches and facilities improvement, while also investing in the new team to handle our growth plan.

This is an important point I wanted to make here. We have taken a longer-term view on the capability building necessary and our organization and systems to set Procaps up for success. There are two aspects to this specifically.

The first is that we need to support our new products aggressively in the first year of launch at heavier rates to ensure their long-term adoption and success. The initial ramp up of new products has a negative impact, initial impact on the near-term margin, but is agreed in the medium term.

The second is that we needed to build a massive process and internal capabilities to handle our growth. While this impacted our financial modestly in 4Q4, we are 100% certain it is prudent given our future growth plans.

We feel better about the team that we are building today, and we look forward to continuing to implement the necessary building blocks to set our foundation up for success.

Going back to financials, there are a few one-off non-cash adjustments that impact their results and bottom line, adjustments that are related to our packing process. With this, our net loss for the year was US\$100.9 million, which was primarily driven by a one time a non-cash listing expense of US\$73.9 million and the loss of US\$35.9 million related to the extinguishing of the productions.

The listing expenses were previously disclosed in our depacking financial process, and we believe we have now recorded the proper accounting that captures the deemed cost of the shares issued by the company in excess of the net assets of Union that occur as part of the business combination. With this impact, we consider our merger accounting process completed.

Finally, as of December 21st, 2021, we have a cash balance of US\$70 million, which combined with our leverage profile of 1.8x net debt to adjusted EBITDA, positions us in a unique position to capture opportunities in our main markets.

As you can see, we are executing our strategy designed to deliver strong growth and establishing the necessary building blocks behind the growth drivers to achieve our 2022 targets.

On the top line, we are expecting mid-teens growth, back not only by the performance or existing brands, but also by the rollout of recently launched products and new product launches throughout 2022.

In terms of the flow through our sales increase to adjusted EBITDA, we are going to continue to invest in the necessary capabilities to position the company for long term success and drive market share increases.

As I mentioned earlier, we need to put the team and processes in place before we can accelerate and integrate our acquisitions. And I am confident this planning will serve us well down the road. With this in mind, we are estimating an adjusted EBITDA around US\$110 million for the full year of 2022.

Next on slide 11, I wanted to take a deeper diving into explaining our net sales growth, which was primarily driven by three factors. First, we experience high demand for product manufacture for third parties.

Second, there was also increased demand for both our Rx and OTC products. And third, we complemented the rollout of our existing portfolio with new product launches.

First, our iCDMO cream business experienced strong demand from our third-party clients, as well as from both the launch of new products in Brazil and new products from our front line. Our net revenues grew 14% in the full year of 2021 versus last year and 26% in the quarter.

Second, Procaps Colombia experienced increased demand because of the reopening of the economy in Colombia in general, as well as increased demand for existing brands in OTC and Rx lines.

In addition, the launch of new products in selected therapeutic areas such as dermatology and pain relief also contributed to an incremental increase in revenues. Overall, Procaps Colombia increased net revenues by 35% during the year and 4% in the quarter.

Third, CAN or Central American North had a 2% growth versus full last year and 6% compared to the 4Q20. We are seeing the benefits of reducing inventories our distributor levels, which was a hit for the earlier part of the year.

We are pleased to see increased demand for both our Rx and OTC products, such as Ezolium, Muvett and Isoface.

Fourth, Casand or Central America South and Andean region experienced a robust growth rate of approximately 40% for the year and was flat in the quarter versus 2020 impacted by effects on sales facing.

This increase for the year was a result of higher demand, primarily due to the rollout of new products in the region, such as Tapectam, Ezolium and Vitybelle, and the continuous strengthening of our existing brands in key growth markets.

Finally, our diabetics SBU had an increase in their revenue, approximately 26% in the full year and 20% during the last quarter.

Diabetrics benefited from a combination of factors, including the launch of a new recent product, continued demand for our blood glucose meters, new product launches in Colombia, higher use of our digital health platform Zutrics, and the increase in demand as a result of the offering of a more complete diabetes solution. In addition, we continued the rollout of our diabetes solution in El Salvador.

In summary, as you can see, all of our business units grew experiencing robust double digit net revenue growth.

Finally on the next slide, number 12, we can see how we restructure our balance sheet, the cash in hand, combined with the reprofiling of our debt, with the private placement carried out recently and the use a net debt to adjusted EBITDA of 1.8x.

As you can see, we have improved our financial position, restructuring the debt, adding cash and working towards having a clean balance sheet. This puts us in a better position to fund our organic and inorganic growth plans. With that, I will pass it back to Ruben.

Ruben Minsk:

Thank you, Patricio, and thank you all for participating. We are looking forward to delivering results in the quarters ahead. In 2022, we are focused on executing our growth strategy that we expect will continue to deliver double-digit growth in our core markets with a strong price generation on the bottom line.

We believe our capital position also enables us to focus on strategic roll-ups and consolidation in the region that we anticipate will drive and accelerate the competitive position and value creation.

Importantly, I want to make clear that we are making a big investment in the team to handle our future growth responsibly. We also continue to do our best to employ best practices as a public company and have made enormous strides over the past year in this regard.

We hope that all of our management efforts will continue to translate into growth for our shareholders and look forward to updating you on our progress in 2022. Thank you very much for listening. We welcome any questions that you may have.

Samuel Alves, BTG Pactual:

Good morning, everyone. Thank you very much. Two questions from our side, please. The first one is regarding the one-off expenses in the fourth quarter. Just to clarify those listing expenses in more details. If you could just quantify if we have any cashback and what are the accounting mechanisms that were related to the expenses in the fourth quarter?

And the second question is regarding working capital. Just to understand, what are the main reasons for this deterioration that we saw in the fourth quarter? And if you guys see room for improvement throughout 2022? Thank you very much, guys.

Patricio Vargas:

Thank you, Samuel. The one-off expense, the US\$73.9 million is a completely non-cash impact. It is a non-recurring related to the SPAC accounting process. And it is something there has been debated for some time whether it should be recorded as an expense, as we have it now following the IFRS guidelines or if it should have been more like an opening balance sheet process, in the process we underwent.

The way this is considered you should look at us. The company is giving shares in this process, there is a fair value for that. And there is a net asset being received in the combination from the SPAC and the difference is allocated as an expense is called a listing fee.

But again, non-cash non-recurring. Nothing related to the operational with the prospects for the future. And again, it is completely related to the de-SPAC process. Does that answer your question?

Samuel Alves:

Yes. Thank you. And just a question regarding the working capital.

Patricio Vargas:

Regarding the working capital, one of the things that impacted us in 2021 was the increase in revenues. That was the most important impact on the cash for this year. And for the next year, we should be probably looking at the same thing as we grow our revenues, we need to invest more in working capital.

Probably should not be as big as this one. You saw a significantly bigger increase in revenues this year, but we have to think that all the complications worldwide the supply chains. We do not know how that is going to evolve.

Depending on that, we may need to increase our inventories for certain critical raw materials, spare parts, stuff like that. So, that could also be a negative impact on working capital going forward. But again, I cannot give you an estimate for the year because it will depend on how that situation evolves.

Samuel Alves:

Ok. Thank you very much, Patricio. Good morning.

Kemp Dolliver, Brookline Capital Markets:

Thank you and good morning. Just to build on the question about the one-off expenses in fourth quarter and then looking ahead. This relates to the tax rate, which has been, you know, volatile during the year.

What would you say is a normalized tax rate that we should think about with 4Q, given the one-off expenses? And then what tax rate should we be thinking about for 2022?

Patricio Vargas:

Thank you very much for your question. You have to think that we are present in many jurisdictions. So, that is one thing that you always have to keep in mind. It is very, very hard to project a consolidated tax rate because it will depend on that on where we are generating the different cash flows. So that is one thing to keep in mind.

Now, we are always trying to be the most efficient as we can as any company can do it. But you have to think that we are operating in jurisdictions that have tax rates of higher than 25%, some 30%, some higher.

So, I think a good tax rate to predict for the future would be anywhere between around 25% or 26%. But again, this will depend on where we allocate the different flows.

Kemp Dolliver:

Okay. And would that 25, 26% be a reasonable number to use to normalize the fourth quarter earnings, given the one offs?

Patricio Vargas:

Yeah, it should be.

Kemp Dolliver:

Okay. Super. Next question relates to effects. It looks like based on your revenue growth in fourth quarter and then the movements in particularly the Colombian peso, but some of the other currencies that you had a pretty material currency hit to revenue in the fourth quarter.

And then the quarter earlier of that it looks like on a year over year basis, more evened out in 1Q of this year. Am I thinking about this correctly?

Patricio Vargas:

Yeah, you have to think that there is two ways in which you should look at it. Of course, in the very short term, when you look at quarter by quarter, big variations of exchange rate have an impact on our revenues and costs.

But on the longer term, we are a defensive company because we have such a broad range of products in such a broad range of markets, and we are launching new products constantly that we are able to offset those long-term variations by transferring to price.

So, in the short term your assessment is correct, going longer, more than six months, we are able to offset that.

Kemp Dolliver:

Okay. Fabulous. One other question and then I will pass the microphone. But we have had this global uptick in inflation and your Forex notes. Well, your Forex business in Latin America operates in markets that typically have some kind of inflation tied in price regime.

Would you likely see any benefit in your significant markets from these higher inflation numbers rolling into the various formulas that the authorities use to govern price increases?

Patricio Vargas:

I would say our most important goal is always trying to provide the best alternative to the customers at the most reasonable price for them. I would not say that we can take advantage of different formulations.

What we do is we do try to keep it up with inflation. So, if there are inflation and we are, you have to remember, in emerging economies that over time they suffer periods of high inflation.

And given the agreements that we have or the new launch of product or the different changes we make to our product that allows us to do a repricing, we are just, like I mentioned, in Fx, we are able to transfer that price increase or that inflation increase, we are able to transfer it into pricing.

But I would not say that we are able to beat it and get like an advantage above inflation, if that is what you were trying to say.

Kemp Dolliver:

Yeah, I was more just thinking in terms of an absolute number. You know, depending on the country they may have been running, say, mid or upper single digits. We are probably seeing double digits in a number of markets.

And, you know, if you keep up that is going to boost your revenue and your cost regardless. So, just understand how it flows through the numbers.

Mario Applebaum, First New York:

Hello, everybody. Thank you very much for taking my questions. The first one is a little more color on sort of the budget. If you could talk about for the year with the one hundred EBITDA, how much would you expect to be in CAPEX?

And if you could talk a little bit about if you would have some free cash flow after that, after the investment in working capital. Why do not we start with that first?

Patricio Vargas:

We are estimating, like we just said, an EBITDA around US\$110 million and the CAPEX estimate for the year is also around US\$20 million. This is an increase from last year, but last year, you have to think that given COVID, we took it easier with some of our projects.

So, I would not say that we are growing our CAPEX, which is more like either catching up or going back to normal levels. We believe we are cash flow positive for 2022.

Mario Applebaum:

Can you give a range around how much or you prefer not?

Patricio Vargas:

No, we are not getting into that level of predictions.

Mario Applebaum:

Thank you. My second question is about the acquisitions. So, you mentioned in the presentation your net debt to EBITDA is about 1.8x. How do you see that number potentially evolving over time as you go through acquisition cycles? You buy something, you grow, your EBITDA grows and etc., you get back to the normal.

Patricio Vargas:

That is a very good question. Of course, it will depend on what type of target we end up acquiring, you know, how big it is, how we finance it. Right now, what we are thinking, and this is in line with what we said in the past conference call, we have enough room in our balance sheet to go.

We feel comfortable with a normalized net debt EBITDA target of 3.5x. We would like to be around that level. Of course, at some point, at the minute of acquisition, you may go higher. We may probably even reach from below the floor, but within a year, quickly going back down below 3.5x.

And at longer term, we aim to be below three. And the reason we have that is that we want to try to have a good investment grade rating. In order for us to fund this, we are going to have to access international markets most likely.

Therefore, we want to have a policy that is consistent with having a reasonable debt metrics. So again, this is very conditional subject to whatever target we end up acquiring.

Mario Applebaum:

Thank you. And then. Do you have any sense of when the timing of when the acquisitions made will occur? I know this is a complicated thing. It is unpredictable. But sometimes maybe you have during the diligence process with anyone right now or in conversations. If you could just give whatever color around that.

Ruben Minsk:

Thank you for your question, Mario. We are working hard with all the inorganic growth. For me, is top priority and working very much, living with Patricio in the different states. I could not go into details, of course, but I can assure you that it is a top priority issue for us.

Mario Applebaum:

Okay. Great. And then I just have one final question. It is quite understandable, and it makes a lot of sense that you increase the growth of the company, and you would have to increase your expenses so that at least as you guided. In 2022, your margin is going to fall some.

But can you talk about your medium-term goals on EBITDA margin. Do you think you will get back to this 24 that you had this year? I think it was 24 in the last couple of years. Could you think it could go higher? What do you think once the new business plan is implemented, more mature, in more mature face?

Ruben Minsk:

Okay, Mario. That is a very good question. And I am glad that you asked because maybe we have should addressed that, as I like to put things back into context after everything is gone.

We strongly believe our fundamentals based on a wide away of products in different therapeutic areas, in different markets with the powerhouse that we have for launching new products and making tweaks and improvements to the different business life allows us to get the levels we had before.

So, when you say 24% even, I would go even higher. I think we need to get to 25% and maybe even more if we can complement all the acquisitions later. But I do not want to overstep my guidance. I think 24, 25% is where we should go into medium term after an acquisition.

And regarding the expenses we are putting into it, we started last year and of course you are going to see the effect this year because we started more like at the middle of last year. So, you are going to see the impact in the first half of this year or in that year.

Just think that as we grow up through acquisitions and organically, we are going to start diluting those effects. So that is one important source of, let's say, dilution of the expenses.

And the other source is that we have many expenses that will go down in the next couple of years as we become a more normalized public company. You have to think that I went through the same process some years ago in another pharmaceutical company that became public.

You need to set up the processes, the systems, hiring new people. You have to have more consultants giving you advise, more legal fees. So, everything is completely higher than what you would expect from a company that has been in the market for five years.

So, we also have a source there that we believe strongly that we are going to have to decrease the permanent ancillary expenses in the next couple of years. So again, we are very convinced that we are going to go back to the levels very soon.

Mario Applebaum:

All right. Well, thank you very much, gentlemen. And I look forward to hearing the first quarter results, which are likely to be reported soon or no, I imagine.

Patricio Vargas:

Yeah, that is a very good point. We have made a commitment with the market, and we sustain it. We are preparing ourselves even though we are not required to. We want to comply with the same deadlines that American listed companies have. We are still not there. That is why we released the full year results end of April.

But we hope to do it sooner next year. For the quarter information, ideally, we would have like to do it by mid-May, but we are not going to get there. We are probably going to be in the first days of June.

If we can make it sooner, we will make it sooner. But you should expect the first days of June and as time goes by, we will start to get those disclosure to what the market is expecting.

Mario Applebaum:

All right. Thank you very much.

Operator:

This concludes our question-and-answer session and the conference is also concluded. Thank you for attending today's presentation. You may now disconnect.

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