

Italy - Pharmaceutical

The growing profitable pharma STAR

18th September 2019

H1-19 RESULT RELEASE

RIC: PHN.MI
BBG: PHN IM

PharmaNutra reported a solid set of results, with a strong top line increase and a proportional enlargement of profitability. NFP was largely positive, evidence of the significant CF generation, leaving room for future developments and a constant dividend distribution policy. PharmaNutra plans to move to the STAR segment of the MTA reasonably by H1-21.

Rating:

Buy

Price Target:

€ 27.70 (€ 23.30)

Upside/(Downside): 35.8%

Last Price: € 20.40

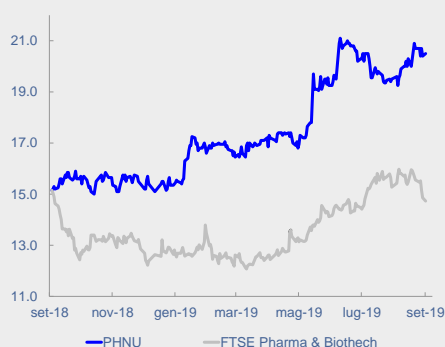
Market Cap.: € 197.5

1Y High/Low: € 21.60/€ 14.40

Free Float: 22.2%

Major shareholders:

Andrea Lacorte 32.2%
Roberto Lacorte 24.0%



Stock price performance

	1M	3M	12M
Absolute	6.0%	5.2%	34.2%
Rel.to AIM Italia	3.8%	13.6%	48.4%
Rel.to EU Sector	16.6%	4.3%	37.1%

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PT upgraded to € 27.70/s, 35.8% upside. Buy reiterated

We have left our model relatively unchanged, only taking into account the effects stemming from the IFRS 16 adoption and higher capex in 2021 required for the completion of the new production facility. H1-19 implies H2-19e results consistent with our FY-19 forecasts: sales, EBITDA adj. and Net Profit adj. are anticipated to increase 14.0%, 5.8% and 8.9% respectively. We have updated DCF valuation criteria, bringing the free risk rate up-to-date: the result is a PT of € 27.70/s (€ 23.30). We believe the strongly committed manager/shareholder team leads an unique company which offers 1) internally developed patented growing products in two niches, 2) a massive growth perspective, much higher than other pharma firms, and 3) appealing dividend yield. Buy reiterated, 35.8% upside.

H1-19 revenues up 13.9%, exports 22.7% of total

Revenues grew 13.9% to € 25.1m. Sideral product line increased 5.8% to € 18.1m (72% of total revenues), Cetilar line soared 28.6% (11% of sales) and the recently launched Apportal and Ultramag generated turnover to the tune of € 1.4m. Foreign countries were up by 14.0% and accounted for 23% of total. Italy increased by 13.9% and represented 77% of revenues. The robust top line increase was the result of R&D investments and clinical activities generating a greater awareness of product efficacy by doctors and a growing quality perception by consumers.

EBITDA grew by 15.1% to € 6.3m, 25.2% margin

EBITDA soared proportionally to top line, +15.1%, to € 6.3m, 25.2% margin (24.9% in H1-18). Excluding the effect stemming from the IFRS 16 adoption, EBITDA increased 12.9% to € 6.2m, 24.7% margin. As a result of the low amount of debt, which prompted the low level of financial charges, net profit totalled € 4.0m, +11.7% YoY, 15.9% margin (vs. 16.2% in H1-18). The IFRS 16 adoption had a negligible impact on bottom line. NFP was € 10.8m cash from € 11.4m cash in FY-18, reflecting substantial operating cash flow and the low amount of capex. In H1-19 the company paid € 4.8m dividends (62% pay-out).

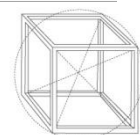
Strategy: international expansion, investments in R&D and clinical trials

PharmaNutra continues its international expansion signing new distribution agreements both for sucrosomial iron products and other food supplements / medical devices, such as Ultramag and Cetilar. Year-to-date, PHN has signed new distribution agreements in 14 different regions: Pakistan, Greece, Ukraine, Sweden, Norway, Austria, Jordan, Turkey, Romania, Taiwan, India, Bulgaria, South Korea and Philippines. Currently PharmaNutra operates in 53 countries with 34 different partners, and have a further negotiations ongoing in 8 new areas.

PharmaNutra, key financials and ratios

€ m	2017	2018	2019e	2020e	2021e
Sales	37.8	46.7	53.2	59.5	66.4
EBITDA	9.4	12.6	12.5	14.4	16.5
EBITDA adjusted	9.5	11.8	12.5	14.4	16.5
EBIT	8.9	11.9	11.9	13.7	15.6
EBIT adjusted	8.9	11.2	11.9	13.7	15.6
Net profit	6.0	8.6	8.5	9.8	11.2
Net profit adjusted	6.1	7.8	8.5	9.8	11.2
NFP (cash)/debt	(9.1)	(11.4)	(15.1)	(19.4)	(23.8)
ROCE	33.6%	37.2%	33.0%	32.6%	32.2%
EPS adjusted FD	0.63	0.81	0.88	1.02	1.16
EPS adj. FD growth	46.4%	28.3%	8.9%	15.4%	14.4%
DPS ord. €/s	0.33	0.50	0.44	0.51	0.58
Dividend yield	1.6%	2.4%	2.1%	2.5%	2.8%
Free Cash Flow Yield	2.3%	2.1%	4.3%	4.3%	4.6%
PER adj. x *	32.6	25.4	23.3	20.2	17.7
EV/Sales x *	3.09	4.01	3.46	3.02	2.64
EV/EBITDA adj. x *	19.9	15.8	14.5	12.3	10.5
EV/EBIT adj. x *	21.2	16.7	15.5	13.2	11.2

* Multiples calculated including the IFRS 16 effect



Solid proportional increase in top line and margins in H1

Interim results were characterised by 1) further reinforcement of the Sideral brand, 2) the solid progression of the Cetilar products and 3) the introduction of a few new items. EBITDA recorded an increase in absolute terms proportional to top line jump. Margins, excluding the tiny effect of the IFRS 16 adoption, remained broadly unchanged YoY confirming the significant CF generation capability of the group: NFP was largely positive and leaves rooms for future developments and constant dividend distribution policy.

Table 1 – PharmaNutra, H1-19 results summary

€ m	H1-19	H1-18	% YoY
Revenues	25.1	22.1	13.9
Raw material and processing	(1.3)	(1.5)	
Services	(15.5)	(13.6)	
Personnel expenses	(1.6)	(1.4)	
Other opex	(0.4)	(0.1)	
EBITDA	6.3	5.5	15.1
% margin	25.2	24.9	
D&A	(0.5)	(0.3)	
EBIT	5.8	5.2	13.2
% margin	23.3	23.4	
Financial Income	0.0	0.0	
Financial Costs	(0.0)	(0.0)	
Extraordinary	0.0	0.0	
Pre-Tax profit	5.8	5.1	13.8
% margin	23.3	23.3	
Income taxes	(1.9)	(1.6)	
Tax rate	31.8%	30.6%	
Minorities	0.0	0.0	
Net Profit	4.0	3.6	11.7
% margin	15.9	16.2	
IFRS 16 effect	(0.1)	0.0	
EBITDA ex. IFRS 16	6.2	5.5	12.9
% margin	24.7	24.9	

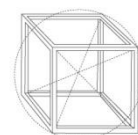
Source: Company data, CFO estimates

Revenues grew 13.9% to € 25.1m: Sideral product line increased 5.8% to € 18.1m (72% of total revenues), Cetilar line soared 28.6% (11% of sale) and the recently launched Apportal and Ultramag generated turnover to the tune of € 1.4m. Foreign countries were up by 14.0% and accounted for 23% of the total revenues. Italy increased by 13.9% and represented 77% of revenues. The robust top line increase was the result of R&D investments and clinical activities generating a greater awareness of product efficacy by doctors and a growing quality perception by consumers.

EBITDA soared proportionally to top line, +15.1%, to € 6.3m, 25.2% margin (24.9% in H1-18). Excluding the effect stemming from the IFRS 16 adoption, EBITDA increased 12.9% to € 6.2m, 24.7% margin.

As a result of the low amount of debt, which prompted the low level of financial charges, **net profit totalled € 4.0m, +11.7% YoY, 15.9% margin** (vs. 16.2% in H1-18). The IFRS 16 adoption had a negligible impact on bottom line.

NFP was € 10.8m cash from € 11.4m cash in FY-18, reflecting substantial operating cash flow and the low amount of capex. In H1-19 the company paid € 4.8m dividends (62% pay-out). The IFRS 16 adoption had a negative effect of € 0.8m on the NFP. Excluding this negative effect the NFP was positive for € 11.6m.



Recent developments

PharmaNutra continues its international expansion signing new distribution agreements both for Sucrosomial iron products and other food supplements, such as Ultramag and Cetilar. **Since the beginning of 2019, PharmaNutra has signed new distribution agreements in 14 different regions:** Pakistan, Greece, Ukraine, Sweden, Norway, Austria, Jordan, Turkey, Romania, Taiwan, India, Bulgaria, South Korea and Philippines.

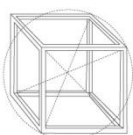
Currently PharmaNutra operates in 53 countries with 34 different partners, and have further negotiations ongoing in 8 new areas.

In addition, PharmaNutra is supporting the efficacy of its selling proposition presenting clinical evidence at the most important overseas scientific conferences. **The continuous investments in R&D generated 10 patents, supported by 91 clinical trials published, more than 6,000 subjects supplemented in trials, 12 studies in progress and 3 certifications for new products ongoing.**

The **strengthening of the sales force in 2019 (150 scientific salespersons as of today)** in terms of territorial focus and coverage, allowed PharmaNutra to achieve solid results:

- **In Jul-19 the group recorded a monthly sales volume of around 400,000 units (historical month-based sales record for the company), +26.2% vs. Jul-18.** The aggregate figure for the first seven months of 2019 was about 1.9 million of units sold, with a 15.2% growth compared to the same period of 2018.
- **In Jan-19, over the course of the previous twelve months, Sideral has been the second best-selling food supplement in Italy, with 1 million units sold,** behind the lactic ferments Enterolactis (source: IQVIA).
- **ApportAI**, the first complete nutritional supplement with 5 sucrosomial minerals and 14 other nutrients, has also had great success since the launch in Sep-18, becoming the **third best-selling product in the company's product portfolio, behind Sideral and Cetilar.**

In Jul-19 PharmaNutra acquired the land where the new innovative R&D, production facility and headquarters will be built. The investment allows the group to protect its patents, keeping in house the most sensitive production phases and focus on the development of new products. The plant is projected to be completed by the beginning of 2022.



Estimates, valuation & risks

Following the publication of H1-19 results, **we have left our model basically unchanged**, only taking into account the effects stemming from the IFRS 16 adoption and higher capex in 2021 required for the completion of the new production facility. **H1-19 implies H2-19e results consistent with our FY-19 forecasts**: sales, EBITDA adj. and Net Profit adj. are anticipated to increase 14.0%, 5.8% and 8.9% respectively. We have updated the DCF valuation criteria, bringing the free risk rate up-to-date: the result is a **PT of € 27.70/s** (€ 23.30), **35.8% upside**.

PharmaNutra operates in two niches, with a fair selling proposition. **Over 50% of PharmaNutra's R&D expenses are charged to P&L, thus penalises profitability in comparison** with other sector firms. The group develops unique protected products and distributes them directly. **The company has offered in the past and continues to offer** massively appealing future growth: **Sales, EBITDA adj. and Net Profit adj. CAGR₁₈₋₂₁ is 12.5%, 11.7% and 13.0% respectively**. In addition, **PharmaNutra shows a net cash position as of today: a huge amount of resources are available for further growth and return value to shareholders**. That is why a pure multiples comparison with an imperfect list of companies **is not suitable for assessing the equity value of PharmaNutra**.

In order to **quantify PharmaNutra's strong R&D capacity** to develop new products, we assessed the EV stemming from every new single item to be launched on the market. On the back of the median € 1,057k revenues generated annually in the first 5Y from the introduction of a few recently launched products, multiplied by the EV/Sales 8.4x multiple of Biogaia AB (seemingly PHN closest competitor), we attain an EV of € 8.8m. **In other words, every new additional product launch, not factored into our projections, might add € 8.8m EV to our valuation**.

We believe the strongly committed manager/shareholder team leads a unique company which offers 1) **internally developed patented growing products in two specific market segments**, 2) **massive growth perspective**, much higher than other pharma firms, and 3) **an appealing dividend yield**. We reiterate our **Buy recommendation on the shares**.

Last but not least, **PharmaNutra plans to transition by H1-21 from the AIM Italia Alternative Investment Market to the 'Mercato Telematico Azionario' (MTA), STAR segment**, organised and managed by Borsa Italiana. The move, in our view, is set to produce tangible benefits in terms of liquidity and visibility, thus zeroing the AIM Italia discount investors need to apply before evaluating the investment in PharmaNutra.

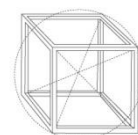
DCF

In the valuation via the DCF method explicit estimates until 2023 and long term growth of 1.5% were used. Cash flows were discounted back at a weighted average cost of capital calculated according to the following parameters:

Table 2 - PharmaNutra, WACC derived from:

Interest costs, pre-tax	1.0%
Tax rate	28.0%
Inf. costs, after taxes	0.7%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 2W average)	1.20%
Beta levered (x)	1.00
Required ROE	10.2%

Source: CFO Sim



Risk premium of 9.0% factors in the minute size of the company and basically all AIM Italia market segment related concerns and disquiets that an investor might have. **Beta at 1.00x** has been calculated taking a peer group specific levered beta for each competitor, deleveraging it using each peer precise D/E structure, then leveraging it for PharmaNutra 40/60 debt/equity long term sustainable balance sheet structure.

Table 3 - PharmaNutra, DCF model

€ m	2019e	2020e	2021e	2022e	2023e	Term. Val.
EBIT	11.9	13.7	15.6	17.3	19.1	
Tax rate	28.0%	28.0%	28.0%	28.0%	28.0%	
Operating profit (NOPAT)	8.5	9.8	11.2	12.5	13.7	
Change working capital	2.2	1.5	(0.6)	(0.5)	(0.1)	
Depreciation	0.7	0.8	0.9	0.9	1.0	
Investments	(4.3)	(3.8)	(2.5)	(1.0)	(1.0)	
Free Cash Flows	7.1	8.3	9.0	11.9	13.7	282.8
Present value	7.0	7.7	7.8	9.7	10.5	216.7
WACC	6.4%	6.4%	6.4%	6.4%	6.4%	
Long-term growth rate	1.5%					

Source: CFO Sim

Table 4 – PharmaNutra, DCF equity value derived from:

Total EV present value € m	259.4
<i>thereof terminal value</i>	83.5%
NFP last reported	10.8
Pension provision last reported	(2.0)
Equity value € m	268.2
#m shares	9.68
Equity value €/s	27.70
<i>% upside/(downside)</i>	35.8%

Source: CFO Sim

The application of the model produces an equity value of € 268.2m, corresponding to € 27.70/share (€ 23.30), 35.8% upside to current price.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value of between € 23.73–33.71/s (perpetuity range between 0.50% and 2.50%), while 2) compared to changes in the free risk rate producing an equity value of € 24.73–31.51/s (free risk range between 2.20% and 0.20%) and 3) compared to changes in the risk premium, including small size premium results into an equity value of € 22.34–36.55/s (risk premium range of between 11.00% and 7.0%).

Table 5 – PharmaNutra, equity value sensitivity to changes in terminal growth rate

€ m	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%
Present value of CF	42.7	42.7	42.7	42.7	42.7	42.7	42.7	42.7	42.7
PV of terminal value	178.3	186.6	195.7	205.7	216.7	228.9	242.5	257.7	274.8
Total value	221.0	229.3	238.4	248.4	259.4	271.6	285.2	300.4	317.5
NFP last reported	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Pension provision last reported	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Equity value	229.8	238.1	247.2	257.2	268.2	280.4	294.0	309.2	326.3
Equity value/share €	23.73	24.59	25.53	26.57	27.70	28.96	30.37	31.94	33.71

Source: CFO Sim

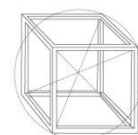


Table 6 – PharmaNutra, equity value sensitivity to changes in free risk rate

€ m	0.20%	0.45%	0.70%	0.95%	1.20%	1.45%	1.70%	1.95%	2.20%
Present value of CF	43.3	43.1	43.0	42.8	42.7	42.5	42.4	42.2	42.1
PV of terminal value	252.9	242.9	233.6	224.9	216.7	209.0	201.7	194.9	188.5
Total value	296.2	286.1	276.6	267.7	259.4	251.5	244.1	237.2	230.6
NFP last reported	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Pension provision last reported	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Equity value	305.0	294.9	285.4	276.5	268.2	260.3	252.9	246.0	239.4
Equity value/share €	31.51	30.46	29.48	28.56	27.70	26.89	26.13	25.41	24.73

Source: CFO Sim

Table 7 – PharmaNutra, equity value sensitivity to changes in risk premium

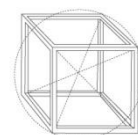
€ m	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%
Present value of CF	43.9	43.6	43.3	43.0	42.7	42.4	42.1	41.8	41.5
PV of terminal value	301.1	275.2	252.9	233.6	216.7	201.7	188.5	176.6	165.9
Total value	345.0	318.8	296.2	276.6	259.4	244.1	230.6	218.4	207.5
NFP last reported	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Pension provision last reported	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Equity value	353.8	327.6	305.0	285.4	268.2	252.9	239.4	227.2	216.3
Equity value/share €	36.55	33.84	31.51	29.48	27.70	26.13	24.73	23.47	22.34

Source: CFO Sim

Market multiples

We have reshuffled our peer list, trying to identify the closest competitors of PharmaNutra in terms of business model, reach and size. We have picked 9 pharmaceutical firms: our panel now comprises of **Bachem Holding AG** (manufactures ingredients for pharmaceuticals, generic drugs, and research supplies), **Biogaia AB** (seemingly the **closest comparable** within the sample - develops and markets health care products and sells food items with healthy additives and nutritional products with therapeutic effects for adults and children), **Cambrex Corp** (supplies products, services, and technologies for the Life Sciences and fine chemicals industry, small molecule Active Pharmaceutical Ingredients - APIs), **Consort Medical PLC** (develops and manufactures metered dose inhaler valves actuators, compliance-aids, dry powder devices, disposable face masks, breathing circuits and laryngeal tubes to pharmaceutical companies), **Faes Pharma SA** (develops, manufactures and markets pharmaceutical products, prescription products combat cardiovascular, respiratory, central nervous system, musculoskeletal and osteoporosis related ailments), **Laboratorio Reig Jofre SA** (research, development, manufacturing, and marketing of medicines and nutritional supplements), **Recipharm AB** (specialises in contract development and manufacturing of pharmaceuticals products in formulas that include solid dose, granulates and powders, liquids, sprays, ecc), **Siegfried Holding AG** (development services and the production of active pharmaceutical ingredients (API), intermediates, controlled and standard substances, and complex formulations) and **Usana Health Science Inc** (develops, manufactures, and markets nutritional, personal care, and weight management products).

PharmaNutra operates in two distinctive market segments, with a fair selling proposition. Contrarily to the other players, which buy IP from third parties and capitalise R&D almost entirely, **PharmaNutra charges over 50% of the total R&D to expenses, thus penalises profitability in comparison to them.** The group develops unique protected products and distributes them directly. **The company has offered in the past and continues to offer** massively appealing future growth: **Sales, EBITDA and Net Profit CAGR₁₈₋₂₁ is 12.5%, 11.7% and 13.0% respectively**, much higher than peers. In addition, **PharmaNutra shows a net cash position in 2018**, only 3 players within the sample have the same result: a **huge amount of resources are available for further growth and return value to shareholders.** The group **is the smallest** in the list in terms of turnover and has an EBITDA margin **much higher than the peers average.**



That is why a pure multiple comparison with this list is **not particularly suitable in assessing the equity value of PharmaNutra** but rather a **methodology to substantiate the value obtained via DCF.**

Table 8 – PharmaNutra, peer group summary table

€ m	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR ₁₈₋₂₁	EBITDA CAGR ₁₈₋₂₁	EBIT CAGR ₁₈₋₂₁	Net Profit CAGR ₁₉₋₂₁	NFP FY1	NFP /EBITDA
Bachem Holding AG	903	283	80	28.2%	6.5%	8.0%	10.4%	6.1%	63	0.8
Biogaia AB	657	77	26	34.1%	11.1%	8.9%	8.5%	16.2%	(27)	(1.0)
Cambrex Corp	1,813	582	143	24.5%	10.4%	4.6%	3.5%	4.0%	350	2.5
Consort Medical PLC	429	343	55	15.9%	2.1%	3.9%	16.1%	25.4%	98	1.8
Faes Farma SA	1,285	358	91	25.4%	5.4%	11.3%	12.5%	6.1%	(65)	(0.7)
Laboratorio Reig Jofre SA	181	203	21	10.3%	10.6%	30.8%	27.3%	49.6%	42	2.0
Recipharm AB (publ)	663	685	113	16.5%	6.6%	10.8%	16.6%	22.6%	331	2.9
Siegfried Holding AG	1,608	767	130	17.0%	6.9%	13.3%	18.4%	18.3%	215	1.6
USANA Health Sciences Inc	1,434	941	139	14.7%	-0.9%	-3.9%	-6.5%	7.5%	(186)	(1.3)
Median	903	358	91	17.0%	6.6%	8.9%	12.5%	16.2%	63	1.6
PharmaNutra	198	53	13	23.6%	12.5%	11.7%	11.8%	9.5%	(15)	(1.2)

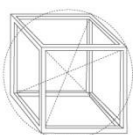
Source: Thomson Reuters Eikon, CFO Sim

Table 9 – PharmaNutra, peer group multiples table

EV & Price multiples x	PER FY1	PER FY2	PER FY3	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Bachem Holding AG	18.8	16.3	16.7	3.41	3.15	3.33	12.1	10.8	11.6	16.7	14.7	15.4
Biogaia AB	33.7	28.7	25.0	8.14	7.11	6.18	23.8	20.2	17.5	24.9	21.0	18.1
Cambrex Corp	29.6	29.3	27.4	3.72	3.55	3.27	15.2	14.8	13.6	20.2	20.1	18.8
Consort Medical PLC	17.6	12.3	11.2	1.54	1.41	1.32	9.6	7.7	6.9	12.2	9.5	9.0
Faes Farma SA	20.1	17.3	17.8	3.41	3.03	3.14	13.4	11.3	12.0	16.0	12.8	13.5
Laboratorio Reig Jofre SA	27.1	16.6	12.1	1.10	0.98	0.93	10.7	7.6	6.4	26.0	16.5	12.2
Recipharm AB (publ)	25.4	20.2	16.9	1.45	1.29	1.17	8.8	7.5	6.6	20.1	15.6	13.1
Siegfried Holding AG	25.4	20.8	18.2	2.38	2.27	2.12	14.0	12.4	11.1	21.7	18.3	16.0
USANA Health Sciences Inc	18.2	16.1	n.a.	1.33	1.27	n.a.	9.0	8.1	n.a.	10.9	9.5	n.a.
Median	25.4	17.3	17.4	2.38	2.27	2.63	12.1	10.8	11.4	20.1	15.6	14.5
PharmaNutra	23.3	20.2	17.7	3.46	3.02	2.64	14.5	12.3	10.5	15.5	13.2	11.2
% prem./disc. to peers	(8.3)	17.0	1.6	45.6	33.3	0.3	19.8	13.4	(7.4)	(22.7)	(15.4)	(22.3)

Source: Thomson Reuters Eikon, CFO Sim

Now the stock trades at discount to 2019 PER and broadly in line in 2020-21. Looking at EV/EBIT it trades at double digit discount. **If we take into consideration the closest peers within the sample, Biogaia AB, PharmaNutra trades at huge discount**, only partially explained by current lower profitability.



Stock performance

PharmaNutra was listed on AIM Italia (Alternative Investment Market) on the 18th July 2017 at € 10.0/share, corresponding to a market capitalization post money of € 89.5m, through the pre-booking company IPO Challenger 1, whose investors/ex-bondholders were reimbursed in kind with the listed shares and warrants of PharmaNutra, becoming direct shareholders and free float of the company.

PharmaNutra reached 1Y maximum of € 21.60 last 25-Jun-19 and 1Y minimum of € 14.40 last 29-Oct-18. The PharmaNutra shares outperformed peer median and indexes and EU sector at 1Y.

Table 10 - PharmaNutra, peers group and indexes absolute performance

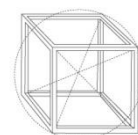
%	1D	1W	1M	3M	6M	YTD	1Y
Bachem Holding AG	1.1	(3.3)	7.1	10.3	16.2	24.8	17.6
Biogaia AB	(1.5)	(2.6)	1.4	(4.9)	(10.0)	33.2	(8.9)
Cambrex Corp	0.2	(0.6)	0.8	36.5	52.9	57.9	(4.9)
Consort Medical PLC	0.8	2.1	4.0	(20.5)	(12.0)	(17.2)	(36.5)
Faes Farma SA	0.4	2.8	(3.1)	14.1	31.4	56.6	27.7
Laboratorio Reig Jofre SA	1.7	0.8	0.4	(0.4)	(2.5)	6.9	(9.1)
Recipharm AB (publ)	0.1	3.1	17.1	9.1	(2.0)	19.1	(8.0)
Siegfried Holding AG	1.4	0.5	12.6	12.5	12.8	22.2	(9.2)
USANA Health Sciences Inc	(1.0)	(2.0)	6.5	(4.2)	(22.0)	(39.4)	(42.5)
Median	0.4	0.5	4.0	9.1	(2.0)	22.2	(8.9)
MSCI World Index	0.3	1.0	3.9	2.4	3.8	16.9	1.9
EURO STOXX	(0.0)	0.5	5.3	1.6	1.9	15.9	1.5
EURO STOXX Health Care	0.4	0.9	1.8	7.5	3.3	14.3	(0.6)
FTSE Pharma & Biothech	(3.1)	(7.7)	(10.6)	0.8	12.7	13.0	(2.9)
FTSE AIM Italia	0.5	0.2	2.2	(8.5)	(7.3)	(2.8)	(14.2)
FTSE STAR	(0.4)	3.0	4.8	(0.2)	(1.0)	14.3	(7.9)
FTSE MIB Italia	(0.8)	(0.3)	6.4	3.2	1.7	19.0	3.3
PharmaNutra SpA	(0.5)	(1.4)	6.0	5.2	24.0	35.1	34.2

Source: Thomson Reuters Eikon

Table 11 – PharmaNutra relative performances

%	1D	1W	1M	3M	6M	YTD	1Y
PHNU to Peer Median	(0.9)	(1.9)	1.9	(3.9)	26.0	12.9	43.1
FTSE AIM Italia	(1.0)	(1.7)	3.8	13.6	31.3	37.9	48.4
FTSE STAR Italia	(0.1)	(4.4)	1.1	5.3	25.0	20.8	42.1
FTSE MIB Italia	0.3	(1.1)	(0.5)	2.0	22.3	16.1	30.9
EU Sector	2.6	6.2	16.6	4.3	11.3	22.1	37.1

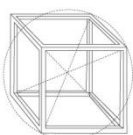
Source: Thomson Reuters Eikon



Risks

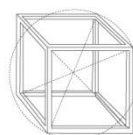
The principal investment **risks** in PharmaNutra include:

- impacts on economics and balance sheet profile triggered by a deep decline in local and global economic growth,
- impact on profitability deriving from changes in the legislative environment,
- risks related to product responsibility and collateral effects,
- longer than expected distribution authorization procedures in existing or new markets,
- risks related to relevant competition in the reference markets,
- dilution on profitability stemming from the acquisition campaign.





Income statement (€ m)	2017	2018	2019e	2020e	2021e
Revenues	37.8	46.7	53.2	59.5	66.4
Raw material and processing	(1.8)	(2.5)	(2.8)	(3.2)	(3.5)
Services	(23.8)	(29.7)	(34.8)	(38.6)	(42.5)
Personnel expenses	(2.5)	(2.8)	(3.2)	(3.6)	(4.0)
Other opex/revenues	(0.3)	0.9	0.2	0.2	0.1
EBITDA	9.4	12.6	12.5	14.4	16.5
D&A	(0.6)	(0.7)	(0.7)	(0.8)	(0.9)
EBIT	8.9	11.9	11.9	13.7	15.6
Financial Income	0.0	0.0	0.1	0.1	0.1
Financial Costs	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Extraordinary	0.0	0.0	0.0	0.0	0.0
Pre-Tax profit	8.8	11.9	11.8	13.7	15.6
Income taxes	(2.7)	(3.3)	(3.3)	(3.8)	(4.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	6.0	8.6	8.5	9.8	11.2
EBITDA adj.	9.5	11.8	12.5	14.4	16.5
EBIT adj.	8.9	11.2	11.9	13.7	15.6
Net Profit adj.	6.1	7.8	8.5	9.8	11.2
EBITDA Incl. IFRS 16	-	-	12.7	14.6	16.7
Balance sheet (€ m)	2017	2018	2019e	2020e	2021e
Net Working Capital	7.1	8.5	6.2	4.8	5.4
Net Fixed Assets	5.8	5.9	9.6	12.6	14.2
Equity Investments	0.3	0.3	0.0	0.0	0.0
Other M/L Term A/L	(3.2)	(1.6)	(2.8)	(3.0)	(3.4)
Net Invested Capital	10.0	13.1	13.0	14.3	16.2
Net Financial Position	(9.1)	(11.4)	(15.1)	(19.4)	(23.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	19.1	24.4	28.1	33.7	40.0
Net Financial Position & Equity	10.0	13.1	13.0	14.3	16.2
NFP Incl. IFRS 16	-	-	(14.3)	(18.6)	(23.0)
Cash Flow statement (€ m)	2017	2018	2019e	2020e	2021e
Total net income	6.0	8.6	8.5	9.8	11.2
Depreciation	0.6	0.7	0.7	0.8	0.9
Other non-cash charges	0.8	(2.4)	1.3	0.2	0.2
Cash Flow from Oper. (CFO)	7.4	6.8	10.5	10.8	12.3
Change in NWC	(1.5)	(1.4)	2.2	1.5	(0.6)
FCF from Operations (FCFO)	6.0	5.4	12.7	12.2	11.7
Net Investments (CFI)	(1.4)	(1.3)	(4.3)	(3.8)	(2.5)
Free CF to the Firm (FCFF)	4.6	4.1	8.4	8.5	9.2
CF from financials (CFF)	7.4	(3.0)	(4.8)	(4.3)	(4.9)
Free Cash Flow to Equity (FCFE)	12.0	1.1	3.6	4.2	4.3
Financial ratios	2017	2018	2019e	2020e	2021e
EBITDA adj. margin	25.2%	25.4%	23.6%	24.3%	24.8%
EBIT margin	23.4%	25.5%	22.3%	23.0%	23.5%
Net profit adj. margin	16.1%	16.8%	16.0%	16.5%	16.9%
Tax rate	31.2%	27.8%	28.0%	28.0%	28.0%
Interest coverage x	0.01	0.01	0.01	0.01	0.01
Net Debt/EBITDA x	(0.96)	(0.90)	(1.20)	(1.34)	(1.45)
Debt-to-Equity x	(0.48)	(0.47)	(0.54)	(0.58)	(0.60)
ROIC	60.3%	65.5%	65.4%	68.8%	69.4%
ROCE	33.6%	37.2%	33.0%	32.6%	32.2%
ROACE	45.6%	40.8%	34.9%	35.1%	34.5%
ROE	31.6%	35.0%	30.3%	29.2%	28.1%
Payout ratio	52.4%	61.9%	50.0%	50.0%	50.0%
Per share figures	2017	2018	2019e	2020e	2021e
Number of issued ordinary shares # m	9.68	9.68	9.68	9.68	9.68
Number of shares Fully Diluted # m	9.68	9.68	9.68	9.68	9.68
Average Number of shares Fully Diluted # m	9.68	9.68	9.68	9.68	9.68
EPS reported €	0.62	0.88	0.88	1.02	1.16
EPS adjusted €	0.63	0.81	0.88	1.02	1.16
EPS reported FD €	0.62	0.88	0.88	1.02	1.16
EPS adjusted FD €	0.63	0.81	0.88	1.02	1.16
EBITDA €	0.98	1.30	1.29	1.49	1.70
EBIT €	0.92	1.23	1.23	1.41	1.61
BV €	1.97	2.52	2.90	3.48	4.13
FCFO €	0.62	0.56	1.31	1.26	1.21
FCFF €	0.47	0.43	0.87	0.87	0.95
FCFE €	1.23	0.12	0.37	0.43	0.44
Dividend €	0.33	0.50	0.44	0.51	0.58

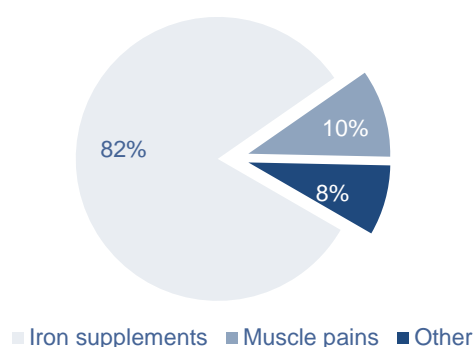


The company in a nutshell

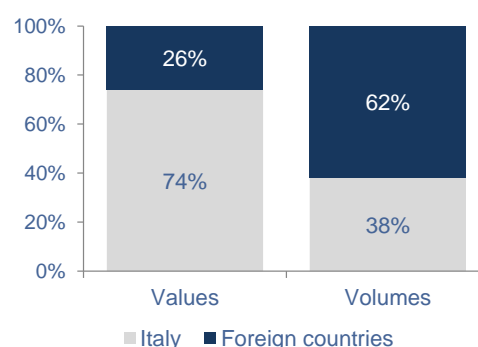
PharmaNutra is a global pharmaceutical firm, headquartered in Pisa, founded in 2003 with the aim of developing nutraceuticals and medical devices. The group comprises three 100% owned companies: PharmaNutra (nutraceutical company, established in 2003, active in the oral iron supplement market and in the muscular pain relief market), Junia Pharma (established in 2010, focussed on paediatric products) and Alesco (established in 2000, exclusively for the production and distribution of ingredients in Italy). With revenues to the tune of € 46.7m and EBITDA adj. of 25.4% of turnover, PharmaNutra shows a 21.2% and 33.9% CAGR₁₅₋₁₈ respectively. The group focuses on two main business areas: oral iron supplements (82% of turnover, with the Sideral product line) and muscle and joint pain relief (10% of revenues, with the Cetilar product line, launched in 2016 following the experience in the same field with Celadrin). PharmaNutra operates in 53 nations via distribution agreements: foreign countries totalled 26% of revenues in 2018.

PharmaNutra was listed on AIM Italia (Alternative Investment Market) on 18 July 2017 at € 10.0/share, corresponding to a market capitalization post money of € 89.5m (including the Price Adjustment Shares detained by PharmaNutra core shareholders), through the pre-booking company IPO Challenger 1, whose investors/ex-bondholders were reimbursed in kind with the listed shares and warrants of PharmaNutra, becoming direct shareholders and free float of the company.

2018 Turnover by product



2018 Turnover by country



Shareholder structure

	# m	%
A. Lacorte	3.118	32.2%
R. Lacorte	2.319	24.0%
Beda S.r.l.	1.095	11.3%
Other	0.718	7.4%
Historical PHN Shareholders	7.250	74.9%
IPOC Srl	0.284	2.9%
Free Float	2.147	22.2%
o/w IPO Club	0.496	5.1%
Total	9.681	100.0%

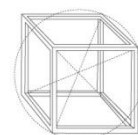
Peer group absolute performance

	1D	1W	1M	3M	6M	YTD
Bachem Holding AG	1.1	(3.3)	7.1	10.3	16.2	24.8
Biogaia AB	(1.5)	(2.6)	1.4	(4.9)	(10.0)	33.2
Cambrex Corp	0.2	(0.6)	0.8	36.5	52.9	57.9
Consort Medical PLC	0.8	2.1	4.0	(20.5)	(12.0)	(17.2)
Faes Farma SA	0.4	2.8	(3.1)	14.1	31.4	56.6
Laboratorio Reig Jofre SA	1.7	0.8	0.4	(0.4)	(2.5)	6.9
Recipharm AB (publ)	0.1	3.1	17.1	9.1	(2.0)	19.1
Siegfried Holding AG	1.4	0.5	12.6	12.5	12.8	22.2
USANA Health Sciences Inc	(1.0)	(2.0)	6.5	(4.2)	(22.0)	(39.4)
Median	0.4	0.5	4.0	9.1	(2.0)	22.2
PharmaNutra SpA	(0.5)	(1.4)	6.0	5.2	24.0	35.1

Peers group multiples table

Price & EV multiples x	PER FY1	PER FY2	PER FY3	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Bachem Holding AG	18.8	16.3	16.7	3.41	3.15	3.33	12.1	10.8	11.6
Biogaia AB	33.7	28.7	25.0	8.14	7.11	6.18	23.8	20.2	17.5
Cambrex Corp	29.6	29.3	27.4	3.72	3.55	3.27	15.2	14.8	13.6
Consort Medical PLC	17.6	12.3	11.2	1.54	1.41	1.32	9.6	7.7	6.9
Faes Farma SA	20.1	17.3	17.8	3.41	3.03	3.14	13.4	11.3	12.0
Laboratorio Reig Jofre SA	27.1	16.6	12.1	1.10	0.98	0.93	10.7	7.6	6.4
Recipharm AB (publ)	25.4	20.2	16.9	1.45	1.29	1.17	8.8	7.5	6.6
Siegfried Holding AG	25.4	20.8	18.2	2.38	2.27	2.12	14.0	12.4	11.1
USANA Health Sciences Inc	18.2	16.1	n.a.	1.33	1.27	n.a.	9.0	8.1	n.a.
Median	25.4	17.3	17.4	2.38	2.27	2.63	12.1	10.8	11.4
PharmaNutra	23.2	20.1	17.6	3.44	3.01	2.63	14.4	12.2	10.5

Source: CFO Sim, Thomson Reuters Eikon

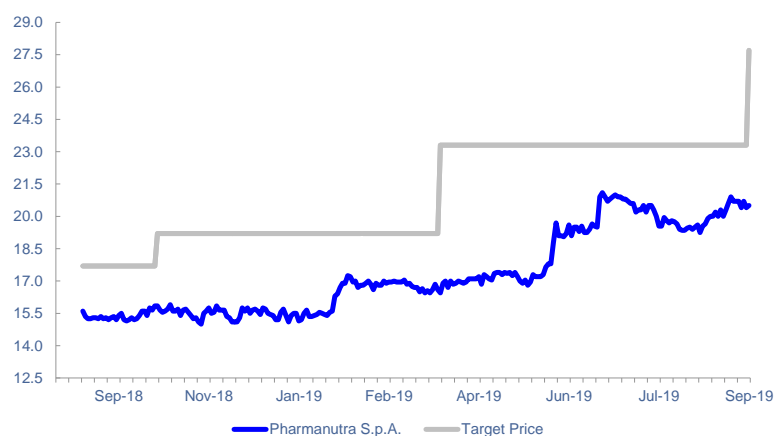


ANALYST CERTIFICATION

This publication was prepared by **LUCA ARENA**, Head of the Equity Research Department of "Corporate Family Office SIM S.p.A." ("CFO SIM") and **GIANLUCA MOZZALI**, Equity Analyst of CFO SIM. This is to certify that the views expressed on the companies mentioned in this document reflect the analysts' personal opinions and that no direct or indirect recompense has been, or will be, received by the analyst further to the views expressed herein.

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DATE	TARGET PRICE	RATING
18/09/2019	€27.70	BUY
20/05/2019	€23.30	BUY
25/03/2019	€23.30	BUY
04/10/2018	€19.20	BUY

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RATING SYSTEM

- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/- 15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

