

Buy

PT: €86.00

Key data

Ticker	PHN IM
Price (6 November 2023)	€50.40
Upside to Price Target (%)	70.6
Market Cap (m)	488
Free Float (%)	35.0
No. of Shares (m)	9.68
1mth perf (%)	6.2
3mth perf (%)	(10.8)
12mth perf (%)	(24.2)
12mth high-low (€)	68 - 44

Key financials

(In EUR M)

Year to Dec	2022A	2023E	2024E
Group revenue	82.7	98.8	111
EBITDA (rep.)	24.4	24.1	27.8
EBIT (rep.)	23.0	22.1	25.1
EPS (adj.)	1.56	1.60	1.79
DPS	0.80	0.80	0.81
Net debt/(cash)	(11)	0.1	(7.6)
ROCE (NOPAT) (%)	47.4	36.3	39.9
EPS (adj.) y/y (%)	13.4	2.8	11.9
Net debt/EBITDA	(0.4)	0.00	(0.3)
EV/Sales	5.8	5.0	4.4
EV/EBITDA (adj.)	19.8	20.5	17.5
EV/EBIT (adj.)	21.0	22.3	19.4
P/E (adj.)	32.3	31.4	28.1
Dividend yield (%)	1.6	1.6	1.6
Free CF yield (%)	0.7	(0.1)	3.4
EV/ICE	9.9	8.1	7.7

Prices are as of close 6 November 2023

Completed: 6 November 2023 17:41EST

Disseminated: 7 November 2023 01:00EST

All sources unless otherwise stated: Company data, FactSet, Stifel estimates

Share price performance (indexed)



Solid Q3 and confident FY-23 outlook

Key Points

PharmaNutra reported an overall solid set of Q3 results, with in-line sales driven by International and better-than-expected Adj. EBITDA, with recurring profitability intact excluding investments in new projects (Nutrition, Spain, US, and China). The FY-23 outlook (aligned with our current estimates) was confidently confirmed and implies an acceleration of trends in Q4, especially for the International business which is well-set to achieve record-high turnover. We believe the improved visibility on FY-23 results should be well-received by the market, while the recent derating of the stock offers a good opportunity to gain exposure to a structural growth story at reasonable prices.

Key numbers

- Revenue:** Q3 Net Sales were up +6% YoY to €21.8m, in line with SFe (€21.7m) and primarily driven by volumes. By division, Italy was in line with expectations, up +3% YoY (vs. +15% in H1) to c.€14m, while International revenue of c.€7m was 5% above our estimate (+13% YoY in Q3 vs. SFe +7% and H1 +28%). Akern was up 1% to €0.9m. By product, all-important SiderAL continued to grow nicely at +11% YoY growth in Q3 (in line with SFe), while Cetilar was a positive spot with +14% YoY growth in Q3 (vs. SF +7% and H1 +27%). Finally, ApportAL sales slowed to -20% YoY in Q3 (vs. -16% in Q3 and SFe -26%), in line with market trends due to lower rates of Covid-19.
- Profitability:** Q3 Adj. EBITDA was flat YoY at €4.4m, c.10% above our estimate, with a margin of 22.2% (vs. 32.5% in Q3-22), including c.€1.2m of additional set-up costs (c.€3m in 9M) for new businesses (US, Cina, Spain, Cetilar Nutrition) related to personnel, commercial and administrative consulting and marketing expenses. Excluding the non-recurring start-up costs, Q3 Adj. EBITDA was c.€6m, leading to a 9M Adj. EBITDA increase of +9% YoY (vs. flat reported), with a margin of 30.5% (vs. 26.6% reported). Q3 Adj. Net Income came in at c.€2.5m, broadly in line with SFe (€2.4m).
- Cash generation:** Net Debt of c.€10m was unchanged vs. H1 and came in slightly ahead of expectations (c.€8m), due to heavier WC absorption, reflecting higher inventories related to the ramp of the International business as well as Cetilar Nutrition products, and a higher decrease in payables due to differences in timing.
- Outlook confirmed:** Management expects high double-digit organic growth trends for the existing business, driven by foreign markets, with a recurring EBITDA excluding the key projects of c.19% (aligned with 2022).

Conference call feedback – key points

- Current trading commentary:** Management has not seen any deterioration of consumer sentiment and reiterated its confidence to reach consensus estimates of c. €98m sales and €24m Adj. EBITDA in 2023. This implies a reacceleration of revenue growth in Q4, driven by a different phasing of International sales.
- International turnover** is expected to reach a record-high in Q4, we believe is above the c.€7m recorded in Q2-23 and Q3-23. Italy should continue to grow in line with 9M.
- Cetilar** continued to gain market share in Italy both in volumes (2.6% in 9M-23 vs. 2.3% in 9M-22) and value (3.7% in 9M-23 vs. 3.3% in 9M-22) and is rapidly approaching the 1m units sold per year mark, being well positioned for a target of 5/6% in a few years.
- Key projects update:** 1. Investments related to the new projects (Cetilar Nutrition, PHN ESP, PHN USA, and China) are estimated at €5m (in line with previous indications) and include commercial and recruiting expenses, consulting fees, marketing and personnel expenses. No material revenues are forecasted for 2023 (H1-23 €0.243m). 2. PharmaNutra Espana has developed CRM software for its sales force (8 people) and signed an agreement for logistics and distribution. 3. PharmaNutra USA has hired 2 regional managers and 8 sales account executives. The first delivery of products has been executed and the e-commerce platform has been finalized. 4. Akern's growth of revenues and margins is in line with budget. Progressing on the implementation of the Group's ERP.

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PharmaNutra: 3Q/9M-23 Results review

€ Mn	1Q22	2Q22	1H22	3Q22	9M22	1Q23	2Q23	1H23	3Q23	3Q23	A. Vs E.	9M23
P&L												
NET REVENUES	18.8	20.9	39.7	20.6	60.3	23.6	26.0	49.6	21.8	21.7	1%	71.4
<i>chge% YoY</i>	32.3%	15.7%	23.0%	20.7%	22.2%	25.3%	24.7%	25.0%	6.0%	5.4%		18.5%
Adj. EBITDA	5.3	7.2	12.4	6.7	19.1	6.6	7.5	14.1	5.0	4.5	11%	19.0
<i>chge% YoY</i>	36.7%	11.5%	20.8%	20.5%	20.7%	25.0%	4.5%	13.2%	-25.5%	-32.8%		-0.3%
margin	27.8%	34.2%	31.2%	32.5%	31.6%	27.9%	28.7%	28.2%	22.8%	20.7%		26.5%
D&A	(0.3)	(0.3)	(0.6)	(0.4)	(1.0)	(0.4)	(0.4)	(0.9)	(0.4)	(0.6)		(1.3)
EBIT	5.0	6.8	11.8	6.3	18.1	7.0	6.2	13.2	4.4	3.8	15%	17.8
<i>chge% YoY</i>	39.4%	11.3%	21.6%	20.8%	21.3%	40.1%	-9.0%	11.7%	-29.8%	-39.0%		-2.0%
margin	26.4%	32.8%	29.8%	30.6%	30.1%	29.5%	24.0%	26.6%	20.3%	17.7%		24.9%
Net Financial Result	0.0	(0.0)	0.0	0.3	0.3	0.1	(0.1)	0.0	(0.1)	(0.1)		(0.1)
PRE TAX PROFIT	5.0	6.8	11.8	6.6	18.5	7.1	6.1	13.2	4.3	3.8	15%	17.7
Taxes	(1.5)	(2.1)	(3.6)	(2.0)	(5.6)	(1.7)	(4.3)	(6.0)	(2.0)	(1.2)		(8.0)
Tax Rate (%)	-30.0%	-30.6%	-30.4%	-30.2%	-30.3%	-23.3%	-70.6%	-45.2%	-31.5%	-31.5%		-45.0%
NET INCOME	3.5	4.7	8.2	4.6	12.9	5.4	1.8	7.2	2.4	2.6	-9%	9.7
ONE-OFFS	0.0	0.0	0.0	0.0		0.8	(2.8)	(2.1)	0.0	0.0		(2.1)
Adj. NET INCOME	3.5	4.7	8.2	4.6	12.9	4.6	4.6	9.3	2.5	2.6	-3%	11.8
<i>chge% YoY</i>	39.4%	16.5%	25.0%	20.5%	23.4%	32.9%	-2.1%	12.8%	-46.1%	-44.5%		-8.4%
Adj. EPS	0.36	0.49	0.85	0.48	1.33	0.48	0.48	0.96	0.26	0.27		1.22
Cash Flow & Balance Sheet												
Capex	-0.9	-4.6	-5.5	-1.4	-6.9	-3.6	-6.0	-9.6	-2.6	-2.4		-12.1
FCF	0.8	(0.6)	0.2	(1.6)	(1.4)	(5.7)	(3.7)	(9.4)	0.5	2.4		(8.9)
NET DEBT / (CASH)	(27.1)	(19.6)	(19.6)	(7.3)	(7.3)	(2.9)	10.0	10.0	9.9	7.6	30%	9.9
NET DEBT/EBITDAx	(5.1) x	(2.7) x	(1.6) x	(1.1) x	(0.4) x	(0.4) x	1.3 x	0.7 x	2.0 x	1.7 x		0.5 x
Net Revenue drivers												
Sales by division												
LB1 (Italy)	13.1	15.9	28.9	13.5	42.5	15.3	17.9	33.2	13.9	14.0	0%	47.1
<i>chge% YoY</i>	20.7%	17.9%	19.1%	22.0%	20.0%	16.9%	12.6%	14.5%	3.1%	3.4%		10.9%
LB2 (Row)	5.8	5.0	10.8	6.1	16.9	6.8	7.0	13.8	6.9	6.6	5%	20.7
<i>chge% YoY</i>	69.1%	9.4%	35.0%	3.1%	21.4%	17.8%	40.1%	28.1%	12.8%	7.2%		22.6%
Akern	-	-	-	0.9	0.9	1.5	1.2	2.7	0.9	1.1	-17%	0.9
<i>chge% YoY</i>	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	1.0%	21.4%		1.0%
Total	18.8	20.9	39.7	20.6	60.3	23.6	26.0	49.6	21.8	21.7		68.7
<i>chge% YoY</i>	32.3%	15.7%	23.0%	20.7%	22.2%	25.3%	24.7%	25.0%	5.9%	5.4%		18.5%
Sales by product line												
Sideral	14.1	14.8	28.9	14.0	42.9	16.1	18.7	34.8	15.5	15.5	0%	50.3
<i>chge% YoY</i>	32.3%	7.5%	18.3%	4.9%	13.6%	14.5%	26.0%	20.4%	11.1%	11.2%		17.4%
Cetilar	1.4	2.5	3.9	2.0	5.8	1.8	3.1	4.9	2.2	2.1	7%	7.1
<i>chge% YoY</i>	-10.6%	53.1%	22.0%	29.1%	24.3%	31.1%	24.2%	26.7%	14.0%	6.8%		20.0%
Apportal	1.8	2.0	3.8	2.5	6.3	2.4	1.6	4.1	2.0	1.9	9%	6.1
<i>chge% YoY</i>	147%	53.1%	87.5%	137%	104.6%	34%	-16%	7.8%	-20%	-26%		-6.0%
UltraMag	0.2	0.2	0.4	0.2	0.6	0.3	0.3	0.6	0.2	0.2	-6%	0.8
<i>chge% YoY</i>	16.9%	-16.9%	-4.3%	21.3%	3.2%	33.0%	39.4%	36.5%	-11.7%	-5.7%		22.0%
Others	0.6	0.7	1.3	0.5	1.8	0.6	0.7	1.4	0.4	0.3	17%	1.7
<i>chge% YoY</i>	35.8%	42.7%	39.6%	19.3%	33.7%	10.8%	-3.9%	2.5%	-16.8%	-28.8%		2.0%
Total FP	18.0	20.3	38.3	19.1	57.4	21.2	24.5	45.7	20.4	20.0	2%	66.1
<i>chge% YoY</i>	33.6%	15.7%	23.5%	16.3%	21.0%	17.8%	20.8%	19.4%	6.3%	4.6%		15.0%
Raw Materials	0.8	0.6	1.4	0.5	1.9	0.8	0.4	1.2	0.5	0.5	0%	1.8
<i>chge% YoY</i>	9.3%	15.3%	11.8%	-10.5%	5.0%	3.7%	-34.2%	-12.8%	6.9%	6.9%		-8.4%
Akern	-	-	-	0.9	0.9	1.5	1.2	2.7	0.9	1.1	-17%	3.6
<i>chge% YoY</i>	-	-	-	na	na	na	na	na	1.0%	21.4%		n.m.
Total	18.8	20.9	39.7	20.6	60.3	23.6	26.0	49.6	21.8	21.7	1%	71.4
<i>chge% YoY</i>	32.3%	15.7%	23.0%	20.7%	22.2%	25.3%	24.7%	25.0%	6.1%	5.4%		18.5%

Source: Company accounts, Stifel Research and Estimates

Company Snapshot

Investment case summary

PharmaNutra's competitive advantage stems from its proprietary raw materials employed in its products, as well as its patented technologies, which serve as a valuable barrier to entry from the competition. In the past 20 years, the company grew revenue from zero to c.€100m, maintaining healthy profitability and strong free cash generation. As the company is still at an earlier stage of development while enjoying a clear leading position in the OTC oral iron supplements market in Italy, we believe it can benefit from multiple growth opportunities going forward, both organically and externally.

Target price methodology

A weighted average of DCF valuation, computed using a WACC of 7.0% and a terminal growth rate of 4.0%, and peer multiples.

Risk to our valuation and rating

- **Macroeconomic and country risk:** Any deterioration in its key markets due to macro-related issues.
- **Strategy execution risk:** Slower/faster-than-expected delivery against the 2022-30 business plan.
- **Operational risk:** Lack of skilled workforce or labor cost inflation; global supply chain constraints leading to higher manufacturing costs; new HQ construction delays; higher than budgeted costs to develop the US market.
- **Capital allocation:** Cheap/expensive M&A or capital injections to accelerate growth.
- **Competition risk:** New product launches undermining/strengthening its leadership in the oral iron market or in the muscle painkillers segment.
- **Regulatory risk:** Change in food supplements regulation.
- **Technological risk:** From the obsolescence of patented technologies and approvals in new markets.

Key dates

6 November 2023: Q3-23 results

Company description

Established by Andrea and Roberto Lacorte in 2003, PharmaNutra (PHN) is an Italian operator active in the R&D, commercialisation, and distribution of nutraceutical products and medical devices. The company is the market leader in the OTC oral iron supplement segment, with its SiderAL product line retaining a c.54% market share in Italy. It also focuses on topical muscle pain treatments through its Cetilar product line. Its flagship products are covered by patents. PHN's business model relies on R&D, with a widespread distribution network in Italy, including c.150 scientific sales representatives, providing access to doctors and pharmacies. Abroad, PHN operates in 85 countries through 50 exclusive key partners, selected among the world's primary pharmaceutical companies. As of H1-23, PharmaNutra had 20 patents, 40 trademarks, 21 proprietary raw materials and over 30 products backed by 158 observational studies.

Key products, clients and end markets

By product:

- **SiderAL line:** Nutritional supplement based on sucrosomial Iron (75% FY-22e reported net revenue)
- **Cetilar line:** Topical muscle pain treatment medical devices (10%)
- **Apportal:** Nutritional supplement containing 19 different ingredients (10%)
- **Ultramag:** Nutritional supplement based on sucrosomial Magnesium (1%)
- **Others:** Including Ribomicin, Dolomir and Lactozepam (4%)
- **Akern:** Medical devices and software for body composition analysis (2% reported; 6% pro-forma)

By region:

- **Italy** (37% of volumes; 71% of revenue in FY-20) and, **RoW** (63%; 29%), with Europe and the Middle East representing the bulk of foreign sales.

Key shareholders

- Andrea Lacorte, Chairman: 31.4%
- Roberto Lacorte, CEO: 23.1%
- Carlo Volpi, COO: 10.5%
- Free Float: 35.0%

Senior management

- Andrea Lacorte, Chairman and co-founder
- Roberto Lacorte, CEO, Vice-chariman and co-founder
- Carlo Volpi, COO
- Francesco Sarti, CFO
- Germano Tarantino, Chief Scientific Officer

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PharmaNutra (PHN IM) as of November 03, 2023 (in EUR)



*Represents the value(s) that changed.

Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

For a price chart with our ratings and any applicable target price changes for PHN IM go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=PHN IM>

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Sell - We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

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¹ This rating is only utilised by Stifel Canada.

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