

Sustained organic growth at a fair price

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Leading player in the fast-growing Italian nutraceutical market

Pharmanutra is an Italian player active in the development and distribution of nutraceutical products, with c.€50m sales recorded in 2018. Thanks to its Sideral product line, Pharmanutra enjoys a dominant 51% market share in the iron supplement market, a niche segment seen growing at a high-single digit pace in the coming years. Besides, PHN also operates in the topical muscle pain treatment segment through its Cetilar product line. PHN's key competitive edge stems from its patented technologies and proprietary raw materials, which serve as a valuable barrier to entry. PHN's business model strongly relies on in-sourced R&D, and a widespread distribution network in Italy, which comprises c.150 scientific sale representatives, granting pervasive access to doctors and drugstores. Outside Italy, product commercialisation is carried out through distribution agreements with local players, which provide significant flexibility and have helped speed up the internationalisation process.

Strategy revolving around a mix of domestic and international expansion...

Pharmanutra's strategy for the coming years is aimed at grabbing the opportunities offered by Italy's growing food supplements market by leveraging its leading position by further strengthening its wide distribution network. At the same time, Pharmanutra plans to expand its international activities through new distribution agreements, with particular attention to key countries that are still not covered. Thanks to its strong focus on R&D, we would expect the development of new products to enrich the company's current portfolio, diversifying into new therapeutic areas. Complementarily to organic business development, M&A may be exploited by PHN to speed up its international expansion process.

...fueling a 14% top-line 3Y CAGR with margin stabilisation

We expect PHN's revenues to increase at a 14% 3Y CAGR to reach €70m, supported by the planned increase in the domestic salesforce and further international expansion through new distribution agreements. We estimate PHN's EBITDA to grow at 10.5% CAGR over the next 3 years to reach €17m, projecting overall margin stability close to 24%, as higher structural costs should widely offset positive operating leverage. At net profit, we project a 10% 3Y CAGR to reach €11.4m in FY21E. Healthy operating cashflow generation will fund investments for the new HQ and a cumulative dividend distribution of €14m in FY19-21E, leading to a net cash position of €10m in FY21E, almost flat vs FY18.

Limited upside on current market prices. Neutral, TP €24.5/share

We initiate coverage on PHN with a Neutral rating and a TP of €24.5, derived as the simple average of DCF and peers' multiples. Since its IPO in July 2017, the stock is up >100%, as the market rewarded PHN's profile of sustained growth and its first steps in terms of international expansion. The stock is currently trading at 22x FY20E PE and 14x EV/EBITDA, in line with a selected cluster of Italian Mid-Small caps featuring prospects of solid and sustainable organic growth. Our Neutral recommendation is mainly driven by the limited upside on current market price implied at our TP. That said, we believe that a continuation of consistent delivery of sustained organic growth, as well as prompt and effective entry into key markets, such as the US and Germany, may support a re-rating of the stock.

	2018	2019E	2020E	2021E
EPS Adj (€)	0.88	0.89	1.00	1.18
DPS (€)	0.50	0.45	0.50	0.59
BVPS (€)	2.52	2.92	3.47	4.15
EV/Ebitda(x)	10.3	16.1	14.2	12.1
P/E adj (x)	17.2	24.5	22.0	18.5
Div.Yield(%)	3.5%	2.0%	2.3%	2.7%
OpFCF Yield(%)	3.9%	2.1%	3.2%	2.0%

Market Data

Market Cap (€m)	212
Shares Out (m)	10
Lacorte family (%)	56%
Free Float (%)	33%
52 week range (€)	22.60-15.10
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	1.1%
-3m	0.0%
-12m	15.1%
21dd Avg. Vol.	6,326
Reuters/Bloomberg	I:PHAR / PHN IM

Source: Mediobanca Securities

This research report was previously notified to company Pharmanutra with the exclusive purpose of verifying factual accuracy

Valuation Matrix

Profit & Loss account (€ m)	2018	2019E	2020E	2021E
Turnover	48	53	61	70
Turnover growth %	27.1%	10.9%	14.4%	14.8%
EBITDA	13	13	14	17
EBITDA margin (%)	26.1%	24.0%	23.6%	24.2%
EBITDA growth (%)	33.2%	1.8%	12.3%	18.0%
Depreciation & Amortization	-1	-1	-1	-1
EBIT	12	12	13	16
EBIT margin (%)	24.8%	22.6%	22.0%	22.8%
EBIT growth (%)	34.5%	1.2%	11.5%	18.6%
Net Fin. Income (charges)	-0	-0	-0	-0
Non-Operating Items				
Extraordinary Items	0	0	0	0
Pre-tax Profit	12	12	13	16
Tax	-3	-3	-4	-4
Tax rate (%)	27.8%	28.0%	28.0%	28.0%
Minorities	0	0	0	0
Net Profit	9	9	10	11
Net Profit growth (%)	41.9%	1.0%	11.5%	18.6%
Adjusted Net Profit	8	9	10	11
Adj. Net Profit growth (%)	32.3%	8.3%	11.5%	18.6%

Multiples	2018	2019E	2020E	2021E
P/E Adj.	17.2	24.5	22.0	18.5
P/CEPS	14.9	22.6	20.1	17.0
P/BV	5.6	7.5	6.3	5.3
EV/ Sales	2.7	3.9	3.3	2.9
EV/EBITDA	10.3	16.1	14.2	12.1
EV/EBIT	10.9	17.1	15.2	12.8
EV/Cap. Employed	7.6	9.3	8.0	6.3
Yield (%)	3.5%	2.0%	2.3%	2.7%
OpFCF Yield(%)	3.9%	2.1%	3.2%	2.0%
FCF Yield (%)	3.6%	2.0%	3.1%	1.9%

Per Share Data (€)	2018	2019E	2020E	2021E
EPS	0.88	0.89	1.00	1.18
EPS growth (%)	41.9%	1.0%	11.5%	18.6%
EPS Adj.	0.88	0.89	1.00	1.18
EPS Adj. growth (%)	41.9%	1.0%	11.5%	18.6%
CEPS	0.12	-0.14	0.22	-0.07
BVPS	2.52	2.92	3.47	4.15
DPS Ord	0.43	0.45	0.50	0.59

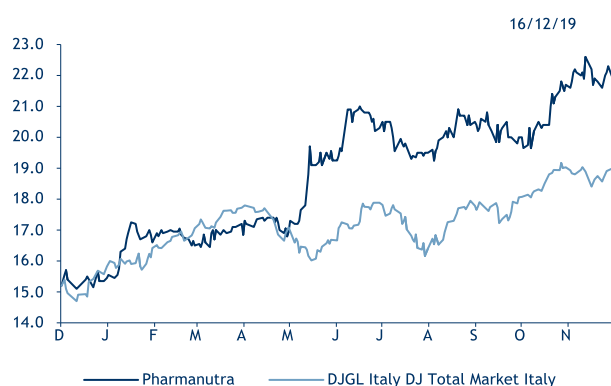
Balance Sheet (€ m)	2018	2019E	2020E	2021E
Working Capital	9	11	12	14
Net Fixed Assets	8	12	13	19
Total Capital Employed	17	22	25	33
Shareholders' Funds	24	28	34	40
Minorities	0	0	0	0
Provisions	2	2	2	2
Net Debt (-) Cash (+)	10	8	10	10

Key Figures & Ratios	2018	2019E	2020E	2021E
Avg. N° of Shares (m)	10	10	10	10
EoP N° of Shares (m)	10	10	10	10
Avg. Market Cap. (m)	138	212	212	212
Enterprise Value (m)	130	206	204	205
Adjustments (m)	2	2	2	2
Labour Costs/Turnover	6%	6%	5%	5%
Depr. & Amort. / Turnover	1%	1%	2%	1%
Turnover / Op.Costs	1.4	1.3	1.3	1.3

Cash Flow (€ m)	2018	2019E	2020E	2021E
Cash Earnings	9	9	11	12
Working Capital Needs	-3	-1	-1	-2
Capex (-)	-1	-4	-3	-7
Financial Investments (-)	0	0	0	0
Dividends (-)	-3	-5	-4	-5
Other Sources / Uses	-1	-1	0	0
Ch. in Net Debt (-) Cash (+)	1	-1	2	-1

Gearing (Debt / Equity)	-39%	-29%	-31%	-24%
EBITDA / Fin. Charges	-201.0	-204.7	-229.8	-271.1
Net Debt / EBITDA	-0.8	-0.6	-0.7	-0.6
Cap. Employed/Turnover	35%	42%	42%	47%
Capex / Turnover	3%	7%	4%	10%
Pay out	57%	50%	50%	50%
ROE	35%	31%	29%	28%
ROCE (pre tax)	70%	54%	53%	49%
ROCE (after tax)	50%	39%	38%	35%

Source: Mediobanca Securities



Source: Mediobanca Securities

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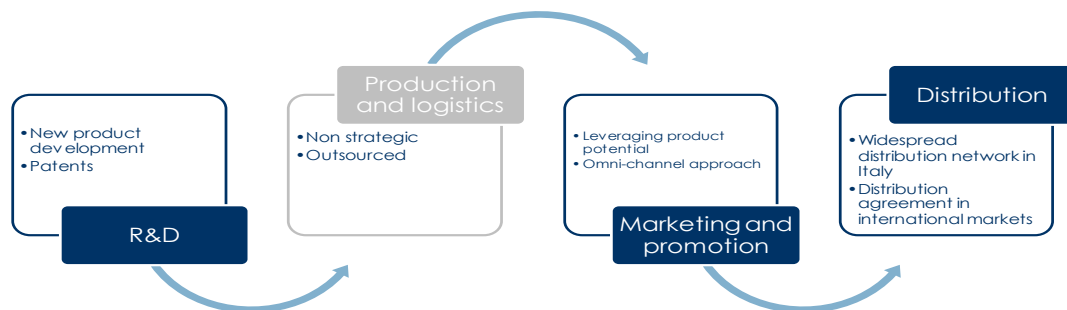
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EXECUTIVE SUMMARY

Leading player in the Italian nutraceutical market

Pharmanutra is a leading player in the Italian nutraceutical market with c.€50m sales recorded in 2018. Its product portfolio focuses on the oral iron supplement segment, with the Sideral product line retaining a 51% market share in Italy, and on the topical muscle pain treatment segment through the Cetilar product line. PHN's competitive edge stems from its patented technologies and proprietary raw materials, which serve as a valuable barrier to entry. Pharmanutra's business model strongly relies on R&D, which has allowed for successful product development through the years, and its widespread distribution network in the domestic market, which comprises c.150 scientific sale representatives, granting pervasive access to doctors and drugstores. Outside Italy, product commercialisation is carried out through distribution agreements with local players, which provide significant flexibility and have helped speed up the internationalisation process.

Pharmanutra business model focuses on R&D and distribution

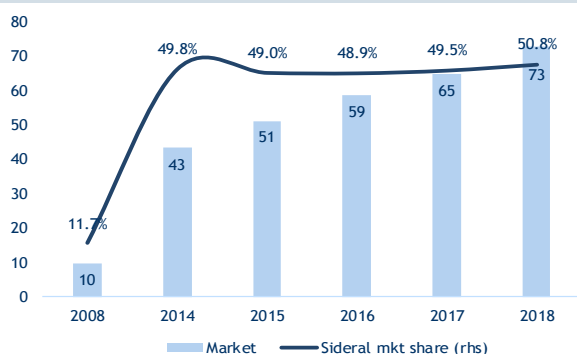


Source: Mediobanca Securities

Italian food supplements: a fast growing market worth €3bn

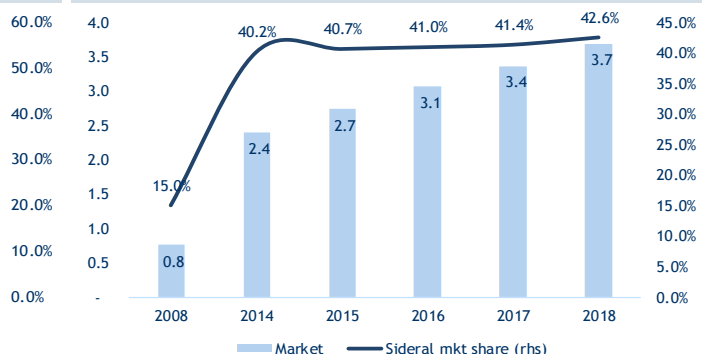
The global food supplement market is worth c. USD120bn and is estimated to grow at a 7.8% 18-2025 CAGR to reach USD195bn. The Italian food supplements market reached €3bn in value and 222m in volume in 2018, achieving a 9% 10Y CAGR with the growth rate stabilising in the mid-single digit area, mainly driven by raising adoption in customers' dietary habits. Drugstores are by far the main distribution channel, as they account for more than 90% of the market's turnover. In terms of therapeutic area, the market is highly diversified. Focusing on PHN's segments, the OTC oral iron supplement market grew at a 14% CAGR over the past 4 years to reach €73m, with PHN's Sideral being the market leader, with a 51% share. At the same time, the topical muscle pain treatment market grew at a 3% CAGR to reach €306m, with PHN's Cetilar steadily gaining market share over the period.

OTC oral iron supplements market



Source: Company data on IQVIA

OTC oral iron supplements volumes



Source: Company data on IQVIA

Strengthening the domestic salesforce and further international expansion as strategic priorities...

Pharmanutra's strategy for the coming years is aimed at grabbing the opportunities offered by Italy's growing food supplements market by leveraging its leading position by further strengthening its wide distribution network. At the same time, Pharmanutra plans to expand its international activities through new distribution agreements, with particular attention to key countries that are still not covered, including the US. Thanks to its strong focus on R&D, we would expect the development of new products to enrich the company's current portfolio, diversifying into new therapeutics areas. Although it is not considered as a priority, M&A may help Pharmanutra speed up its internationalisation process.

Main pillars of Pharmanutra's growth strategy

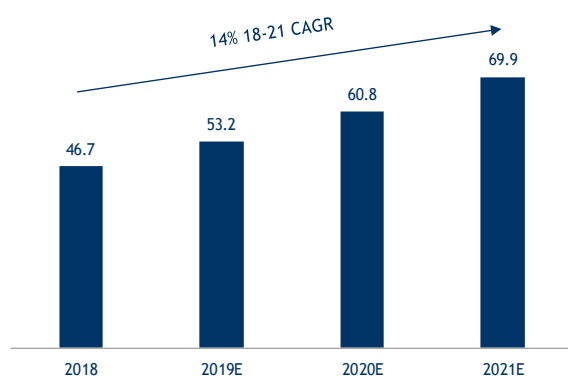


Source: Mediobanca Securities

...fuelling a 14% 3Y top-line CAGR

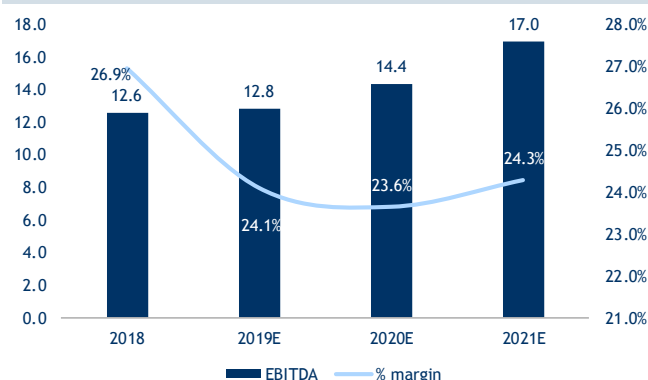
We expect Pharmanutra's revenues to increase at a 14% CAGR over the next 3 years, driven by the planned increase in the salesforce, which should reach 200 agents by end 2020, and further international expansion through new distribution agreements. In terms of revenues composition, domestic sales are expected to increase at a 14% 3Y CAGR to reach €49m in FY21E from €33m in FY18. International sales should grow at a faster pace, as we assume a 17% 3Y CAGR to €19m in FY21E. We estimate Pharmanutra's EBITDA to grow at 10.5% CAGR over the next 3 years to reach €17m, reflecting top-line growth assumption. We project overall margin stability close to 24%, as higher structure costs should widely offset positive operating leverage. Overall, we project net profit to grow at a 10% CAGR over the next 3 years to reach €11.4m in FY21E.

FY18-21E top-line trend (€m)



Source: Mediobanca Securities

FY18-21E EBITDA trend (€m)

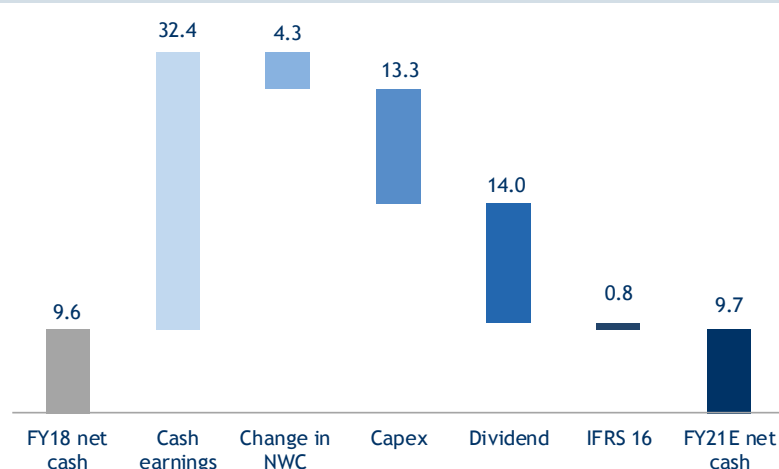


Source: Mediobanca Securities

Healthy cash generation to sustain generous dividend policy of a 50% pay-out

For FY19-21E we project net working capital absorption to remain limited, assuming its weight on sales to marginally improve from 20% in FY18 to 19.5% in FY21E, given Pharmanutra's good track record in managing NWC notwithstanding the significant business expansion. We forecast capex to materially increase during FY19-21E, factoring in the realisation of the new corporate site. While ordinary capex is projected to remain in line with FY18 at €1m, we project c.€10m of cumulated extra-ordinary capex over the period. Nonetheless, we expect Pharmanutra to generate sound FCFs over 2019-21E, projecting a cumulated cash generation of €15m over the period. This should help sustain PHN's generous dividend policy of a 50% pay-out through the years, which should lead to a cumulated dividend distribution of €14m in FY19-21E. Overall, we project Pharmanutra to reach a net cash position of €10m in FY21E.

FY19-21E net cash bridge (€m)



Source: Mediobanca Securities

Limited upside on current market prices. Neutral, TP €24.5/share

We initiate coverage on PHN with a Neutral rating and a TP of €24.5/share, derived as simple average of DCF (€25.8/sh. assuming $g=2.5\%$; $WACC=8.0\%$) and peers' multiples (€23.2/sh assuming a 10% discount). Since its IPO in July 2017, the stock is up >100%, as the market rewarded PHN's profile of sustained growth and its first steps in terms of international expansion. The stock is currently trading at 22x FY20E PE and 14x EV/EBITDA, in line with a selected cluster of Italian Mid-Small caps with prospects of solid and sustainable organic growth. Our Neutral recommendation is mainly driven by the limited upside on current market price implied at our TP. That said, we believe that a continuation of consistent delivery of sustained organic growth, as well as prompt and effective entry into key markets, such as the US and Germany, may support a re-rating of the stock.

PHN vs panel of Mid Cap showing solid and sustainable organic growth

Company	SALES 2Y CAGR	EBITDA 2Y CAGR	EV/EBITDA		EV/EBIT		PE	
			2020E	2021E	2020E	2021E	2020E	2021E
Antares Vision	20%	20%	13.4	11.0	13.9	11.4	21.0	17.9
SeSa	12%	17%	7.4	6.5	10.7	9.2	18.6	16.7
Technogym	8%	11%	13.8	12.0	17.1	14.6	24.0	21.5
CAREL	8%	10%	19.9	18.0	25.9	23.3	32.8	28.6
Brunello Cucinelli	8%	10%	19.5	17.6	26.1	23.8	39.0	34.8
REPLY	10%	9%	12.0	10.6	14.6	12.8	21.3	19.5
Median	9%	11%	13.6	11.5	15.8	13.7	22.7	20.5
Pharmanutra	14%	10%	14.0	11.9	15.0	12.7	22.0	18.5

Source: Mediobanca Securities, prices as of December 16

SWOT ANALYSIS

Strengths

- ◆ Leadership position in fast-growing niche of oral iron food supplements
- ◆ Patented technologies and production processes expiring not before 2032
- ◆ Integrated business model, with insourcing of all the critical phases of the value chain, including R&D
- ◆ Widespread distribution network in the domestic market granting capillary reach to doctors and drugstores
- ◆ Asset-light business model supporting cash generation and high returns on capital

Weaknesses

- ◆ High dependence on a single product line
- ◆ Still no exposure to key countries, including the US
- ◆ Dependence on third-party distribution agreements for international business
- ◆ Small size in a sector in which big global players also compete
- ◆ Dependence of the Group's growth strategy on top management figures

Opportunities

- ◆ Increasing penetration into the domestic market, also thanks to the strengthening of the salesforce
- ◆ Product development in new therapeutic areas, as well as new applications for existing products
- ◆ Further international expansion through new distribution agreements, especially in key markets
- ◆ M&A potentially speeding up the internationalisation process

Threats

- ◆ Increasing competition from existing or new alternative products
- ◆ Slower-than-expected international expansion
- ◆ Changes in regulation for food supplement products
- ◆ Higher-than-expected impact on margins and/or capital absorption to sustain future growth
- ◆ Obsolescence of patented technologies

COMPANY DESCRIPTION: LEADING PLAYER IN THE ITALIAN NUTRACEUTICAL MARKET

Pharmanutra is a leading player in the Italian nutraceutical market. Its product portfolio focuses on the OTC oral iron supplement segment, with the Sideral product line retaining a 51% market share in Italy, and on the topical muscle pain treatment segment through the Cetilar product line. The company's competitive edge stems from its patented technologies and proprietary raw materials, which serve as valuable barrier to entry. PHN's business model strongly relies on R&D, which has allowed for successful product development through the years, and its widespread distribution network in the domestic market, which comprises c.150 scientific sale representatives, granting pervasive access to doctors and drugstores. Outside Italy, product commercialisation is carried out through distribution agreements with foreign players, which provide significant flexibility and have helped speed up the internationalisation process.

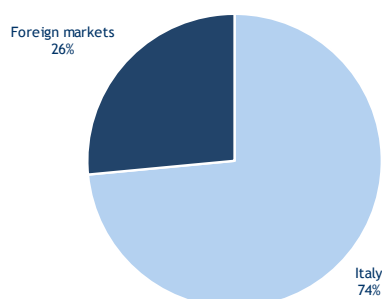
Pharmanutra is an Italian player active in the R&D, commercialisation and distribution of nutraceutical products. The company is the market leader in the OTC oral iron supplement segment, with its Sideral product line retaining a 51% market share in Italy. It also focuses on topical muscle pain treatments, through its Cetilar product line. PHN's competitive edge stems mainly from its proprietary ingredients and raw materials employed in its products, as well as its patented technologies, which serve as a valuable barrier to entry into Pharmanutra's market niches.

Pharmanutra's origin traces back to 2000, when the group was established by Andrea and Roberto Lacorte together with other partners in Pisa. In 2005, the company launched its own product line and established its own distribution network in Italy. In 2013, it started its international diversification process, signing distribution agreements for the commercialisation of its products in foreign markets.

Pharmanutra's perimeter also includes two fully-owned subsidiaries, namely Alesco, which is active in the R&D and distribution of raw materials for pharmaceutical and nutraceutical products (also third-party ones), and Junia Pharma, which focuses on paediatric products.

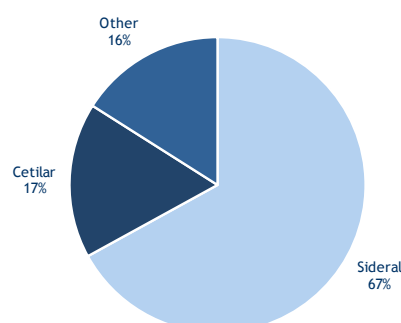
As of FY18, Pharmanutra recorded revenues of €46.7m, up 23% YoY, with the bulk of it generated in Italy (74% of FY18 revenues), and the remainder from international markets, which include 45 countries. By product, the Sideral product line accounts for 67% of the volumes sold by Pharmanutra in the domestic market, followed by Cetilar (17% of volumes), while the remainder includes other smaller product lines.

Figure 1: FY18 revenue breakdown by geography



Source: Mediobanca Securities

Figure 2: FY18 volume* breakdown by product



Source: Mediobanca Securities, *includes only sales in Italy

A focused product portfolio

Pharmanutra has developed a focused product offering within the nutraceuticals market. Its two main product lines are Sideral, which is an oral iron supplement and Cetilar, which is used to treat topical muscle pain. Both the two products are covered by patents. Other minor products encompass dietary supplement for magnesium and other vitamins.

Pharmanutra has exclusive access to the key raw materials employed in the production of own its products, since it has developed these on its own and patented them. This serves as a significant barrier to entry and a valuable hedge against alternatives. As of today, the company is the sole owner of 13 raw materials, 10 patents and 25 registered trademarks.

Table 1: product portfolio

Product	Segment	Active principle	Patent expiration	% group volumes*
Sideral	Iron supplement	Sucrosomial iron	2032 (EU); 2033 (US)	67%
Cetilar	Muscle pain	Cetylated Fatty Acids (CFA)	2035 (EU)	17%
Ribomicin	Antibiotic	Gentamicine		5%
UltraMag	Magnesium food supplement	Magnesium		2%
Bonecal	Vitamin integrator	Various vitamins		2%
Blefarene	Cleansing towels	-		1%
Dolomir	Oropharyngeal treatment	Myrrh		1%
Gestalys	Vitamin integrator	Microalgal DHA		1%
Neod3	Vitamin integrator	Vitamin D		1%
ApportAL	Vitamin integrator	Various vitamins		1%

Source: Mediobanca Securities, *includes only sales in Italy

Sideral product line

The Sideral product line accounts for the largest shares of Pharmanutra's volumes (67% of the total directly managed volumes) and has a 51% share in the Italian OTC oral iron supplement market. It consists of an oral "Sucrosomial" iron supplement, used as treatment for alimentary deficiency or as a complement when higher organic levels of these nutrients are required. The company has developed the "Sucrosomial" technology, a processing technology for raw materials which is endowed with peculiar properties, as it allows the iron to overcome the gastric environment and be absorbed directly in the intestinal tract, thus eliminating the gastric discomfort that may occur after iron ingestion. The product line includes many sub-products specific to every need for iron supplement.

Sideral product line is covered by 20-year patent, which will expire in 2032 in Europe and in 2035 in the US.

Although we are not entitled to comment on the advantages of "Sucrosomial" technology, we acknowledge that it has received several acclaims from academic researches, including position papers like Barni, Gascon, Petrelli, et al. (2017); Girelli et al (2017); Busti, Girelli et al. (2019); and Pergola, Fishbane and Ganz (2019).

Figure 3: Sideral product line



Source: Company website

Cetilar product line

Cetilar is the second-most-important product line for Pharmanutra, as it accounted for c.17% of the volumes sold by Pharmanutra in FY18 and has a 2.5% share in the Italian topical muscle pain aid market. In Europe, the product is covered by a 20-year patent expiring in 2035. Cetilar is used as a topical treatment for musculoskeletal pain and is based on Cetylated Fatty Acids (“CFA”). It provides relief from articulations caused by osteoarthritis and can be beneficial in sports-related injuries. It is sold both as a cream and in patch formats.

Figure 4: Cetilar product line



Source: Company website

Other minor products

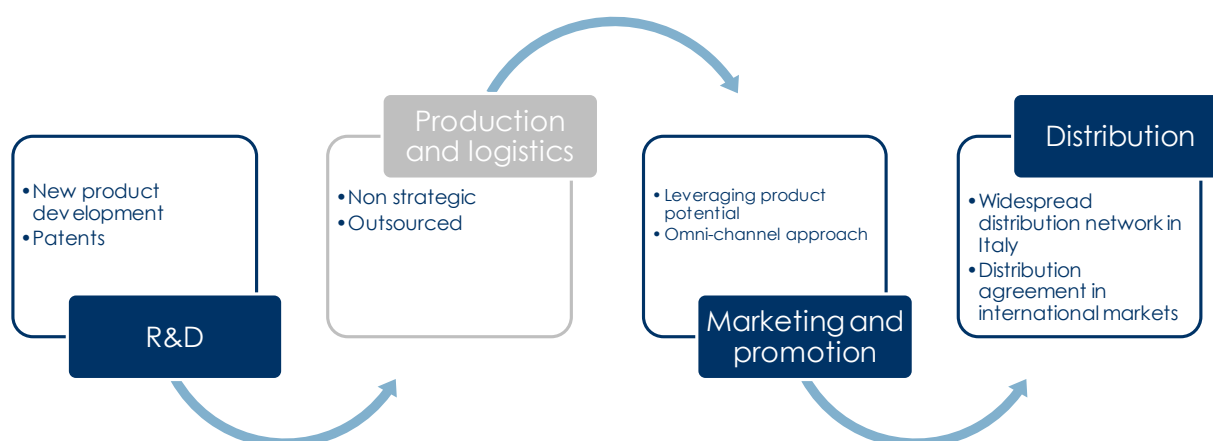
The company’s product portfolio includes several minor food supplements and pharma products. Among these, we recall:

- ◆ **Ribomicin:** an antibiotic for the eyes, which is sold by Junia Pharma. As of FY18 it accounted for c. 5% of Group volumes;
- ◆ **UltraMag:** a food supplement used to treat dietary deficiencies of Magnesium based on the “Sucrosomial” technology. As of FY18 it accounted for c. 2% of Group volumes;
- ◆ **Apportal:** a nutritional supplement containing 19 different ingredients, including 5 minerals developed according to the “Sucrosomial” technology;
- ◆ **“Cardiovascular formulation”:** an innovative formulation recently developed by Pharmanutra for the prevention and treatment of cardiovascular diseases, which has recently been patented in Italy (expires in 2037).

Business model focused on R&D and distribution network

Pharmanutra has pervasive control over its supply chain, as it outsources only non-strategic activities, such as production and logistics. Its business model strongly focuses on R&D and its domestic distribution network. Such a vertically integrated approach provides a competitive edge and enables the company to achieve a shorter time to market for its products compared to its competitors.

Figure 5: Pharmanutra's business model

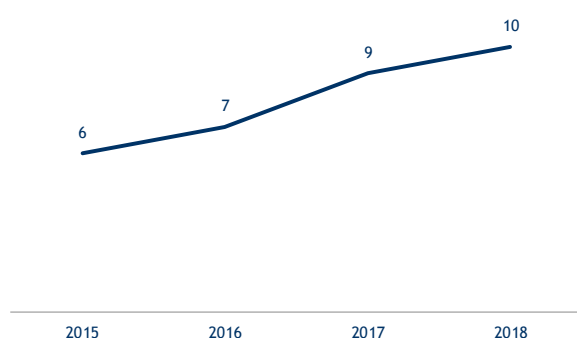


Source: Mediobanca Securities

Key aspects to flag in PHN's business model are the following:

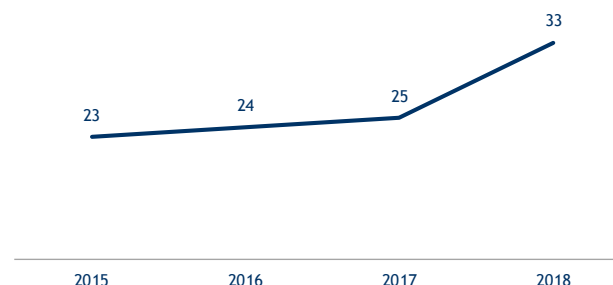
- ♦ **R&D at the core of the business model** - Pharmanutra completely insources R&D activities, which play a key role in developing new products and ensuring the competitiveness of company's offer. The company has established a dedicated team of professionals that devote their efforts to studying new therapeutic solutions and enhance products capabilities for proprietary raw materials and active ingredients. This department is also responsible for testing new products and carrying out clinical studies through partnerships with universities.

Figure 6: registered patents



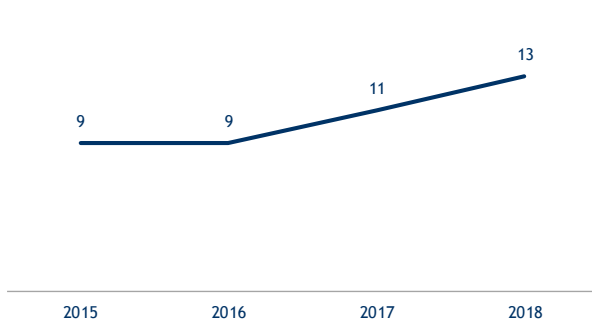
Source: Company Data

Figure 7: launched products



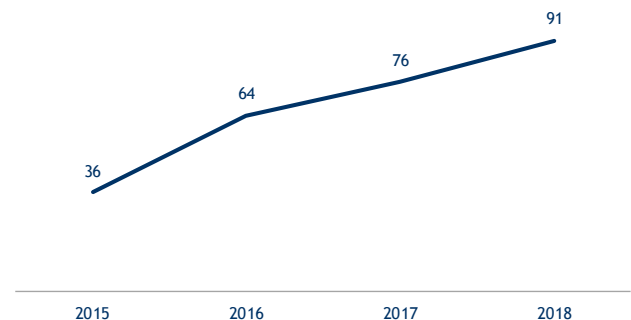
Source: Company Data

Figure 8: developed raw materials



Source: Company Data

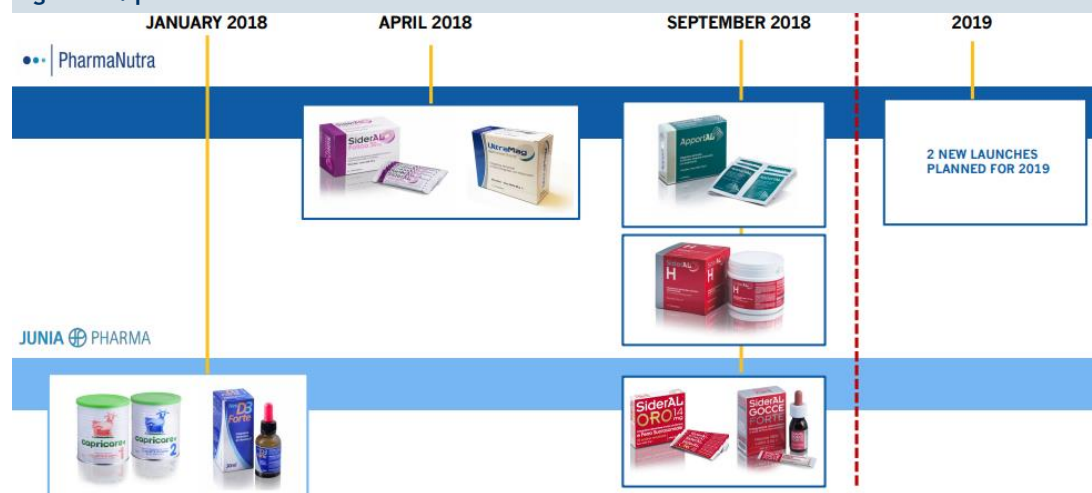
Figure 9: clinical studies commissioned



Source: Company Data

- ◆ **Product development** - As of today, the company is the sole owner of 13 raw materials employed for production and 10 patents that grant exclusivity of its products and have allowed the launch of 33 new products through the years, steadily innovating its offering. As shown in the picture below, product development encompasses both extension of existing product lines and roll-out of new products

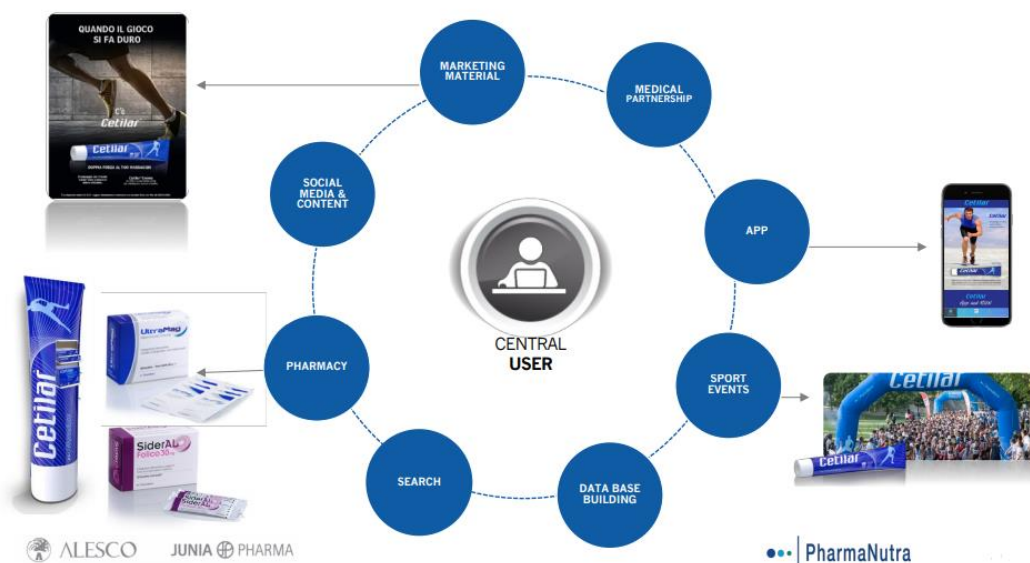
Figure 10: product launches in FY18



Source: Company presentation

- ◆ **Production and logistics outsourced to third parties** - Pharmanutra outsources its production activities to trusted suppliers, which are thoroughly selected according to specific technical requirements, with only the exception of fully-owned and self-developed raw materials, which are strategically in-sourced. Moreover, logistics activities are completely outsourced as they are not considered strategic;
- ◆ **Marketing and promotion to leverage products' potential** - Marketing and promotion activities represent another pillar of Pharmanutra's strategy. The company adopts a multichannel approach, promoting its products through both physical and digital channels, with a focus also on sporting events.

Figure 11: omni-channel communication approach for Cetilar product line



Source: Company presentation

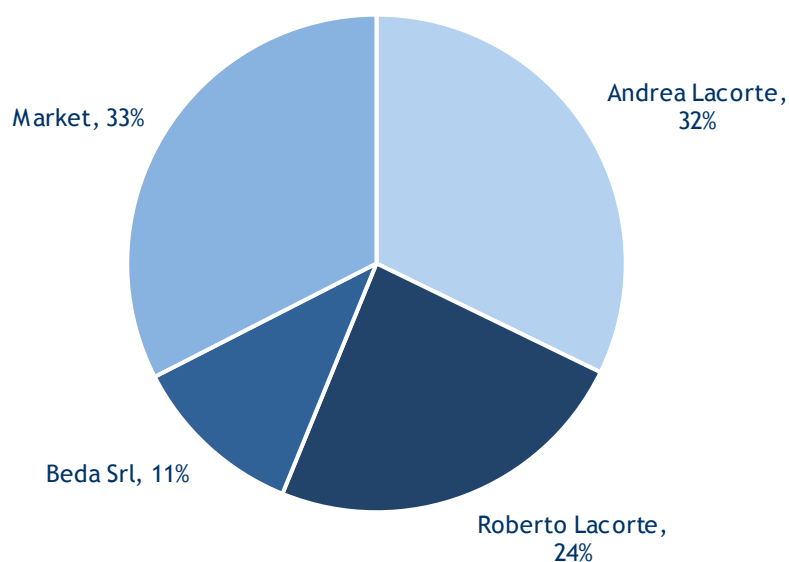
- ◆ **Two different approaches for products' distribution** - The distribution network is considered as strategic by Pharmanutra. The company adopts two different approaches to manage the distribution network for domestic market and international markets:
 - **Direct distribution network in Italy** - In Italy, distribution is carried out directly and relies on a network of c.150 scientific sales representatives. The company provides on a recurring basis training to its salesforce, which is responsible for both commercialisation and pharmaceutical information activities. Such a model allows the company to have pervasive control and access to drugstores and both general and specialist doctors. The company is willing to increase its salesforce to 200 agents in the coming years;
 - **International business carried out through distribution agreements** - In international markets, Pharmanutra's products commercialisation is managed by distribution agreements signed with foreign players. Such a model grants significant flexibility and enables the company to speed up the international expansion process. As of today, Pharmanutra sells its products in 45 countries and has a rich pipeline of new markets. Importantly, Pharmanutra is still not present in key markets in Europe (such as Germany, France and the UK), as well as outside Europe, including the US, China and Japan. At the time being, international distribution is mainly focused on Sideral product line and in the future the company plans may gradually expand it to a wider part of its product portfolio. Distribution agreements comprise multi-year contracts of exclusive distribution rights for areas, which are the result of thorough negotiating process that may last up to 18-24 months. International vendors are considered by Pharmanutra as strategic partners rather than mere distributors. Besides product supply, PHN provides recurring training and support to their salesforce in order to maximise commercial efforts.

Shareholder structure: management retains majority stake

As of today, the share capital of Pharmanutra amounts to €1.12m, with 9,680,977 ordinary shares issued without any par value. Currently, no other type of shares has been issued except ordinary ones. The company's shares are listed on the AIM segment of the Italian Stock Exchange, following the business combination with IPO Challenger 1 SPAC. As of today, PHN is among the 5-largest stocks listed on this segment in terms of market capitalisation.

Based on the latest available shareholding structure data, the company is controlled by management, namely Mr Andrea Lacorte (Chairman), Mr Roberto Lacorte (CEO) and Mr Carlo Volpi (COO) through Beda srl, which jointly control c.67% of the voting rights. As part of the listing process made through the business combination, the above-mentioned shareholders have signed a lock-up agreement, which will expire on 12 July 2020.

Figure 12: shareholding structure

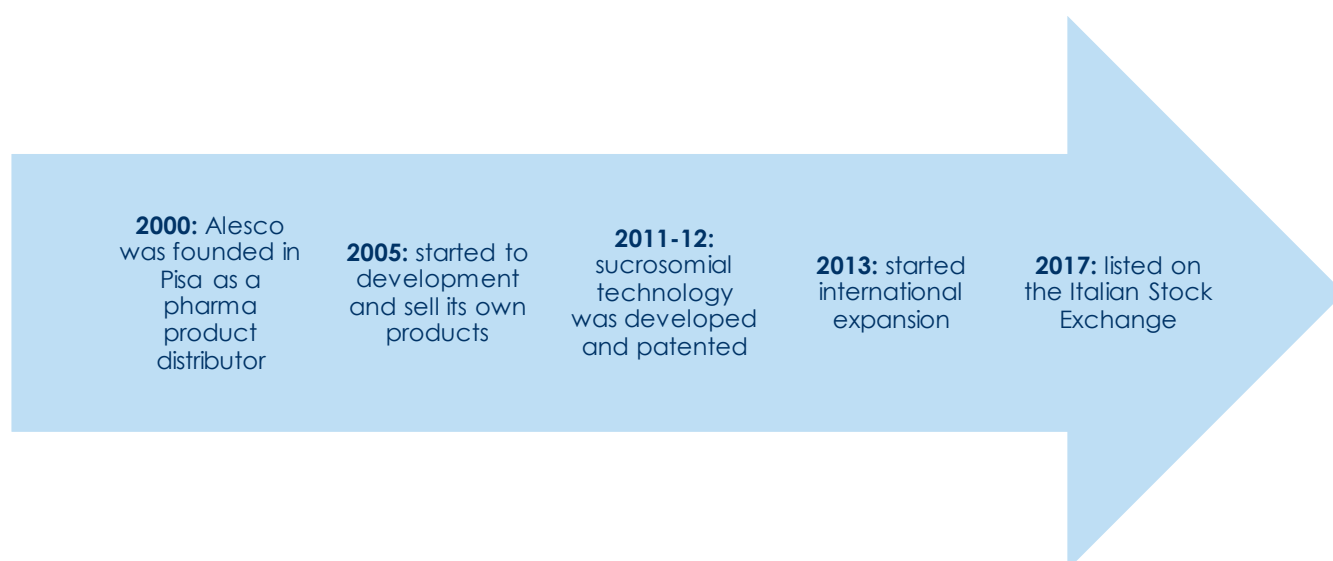


Source: Mediobanca Securities on company data

Historical milestones

- ◆ Pharmanutra Group traces its origins to 2000, when Alesco was founded in Pisa by Mr Andrea and Lacorte and Mr Roberto Lacorte, together with other partners, as a distributor of raw materials for the pharmaceutical and food supplement industry;
- ◆ In 2005 the company started developing and commercialising its own products through its sales agent network;
- ◆ In 2010, Junia Pharma was established as a pharmaceutical company specialised in paediatric products;
- ◆ In 2011-12 Alesco developed and patented the “Sucrosomial” technology, an innovative raw material processing method which represents the core distinctive technology of Pharmanutra’s products;
- ◆ In 2013, Pharmanutra started the international expansion of its business through distribution agreements with third-party players;
- ◆ In 2016, Pharmanutra bought out minorities from Junia Pharma and Alesco, as a preliminary process for listing;
- ◆ In 2017, Pharmanutra’s shares were listed on the AIM segment of the Italian Stock Exchange, following the business combination with IPO Challenger 1 SPAC

Figure 13: historical milestones



Source: Mediobanca Securities, company data

REFERENCE MARKET: INCREASING DEMAND DRIVING 9% CAGR SINCE 2008

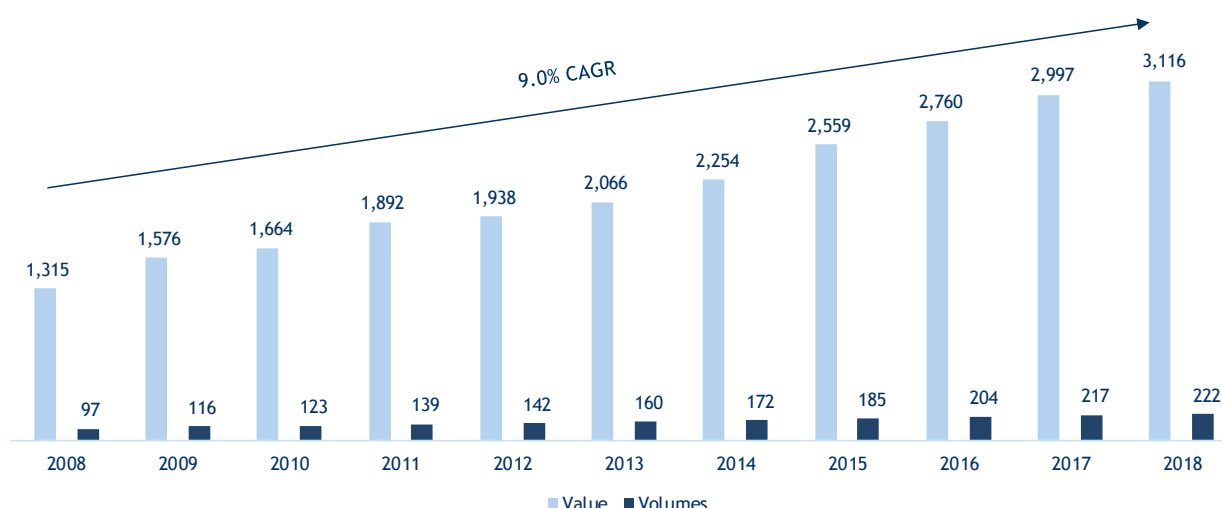
Global food supplements market is worth c. USD120bn and is estimated to grow at a 7.8% CAGR through 2025 to reach USD195bn. In Italy, food supplements market has experienced noticeable growth over the past years, mainly driven by the raising adoption in customers' diets. The total market reached €3bn value and 222m units in 2018, achieving a 9% 10-Y CAGR since 2008, with the growth rate stabilising in the mid-single-digit area. Drugstores are by far the main distribution channel, as they account for more than 90% of market's turnover. In terms of therapeutic area, the market is highly diversified. Focusing on Pharmanutra's market segments, OTC oral iron supplement market grew at 14% CAGR over the past 4 years to reach €73m, with PHN's Sideral being the market leader with a 51% share. At the same time, the topical muscle pain treatment market grew at a 3% CAGR to reach €306m, with PHN's Cetilar steadily gaining market shares over the period.

Global food supplements market is worth c. USD120bn and is estimated to grow at a 7.8% CAGR through 2025 to reach USD195bn.

The Italian market for food supplements recorded noticeable growth in the past years, reaching a value of €3.1bn in 2018. The main growth drivers have been (1) the rising adoption of these products in customers' dietary habits (c.65% adoption rate as of 2017 according to FederSalus), (2) the launch of new products, and (3) higher number of medical prescriptions, which grew by c.30% over the past two years (in terms of volumes).

Overall, the market value grew at a 9% CAGR over 2008-18, with the growth rate stabilising in the mid-single-digit area. In terms of volumes, the market increased at a 9% CAGR over the same period, reaching 222m units sold.

Figure 14: Italian food supplement market evolution (€m and m/units)

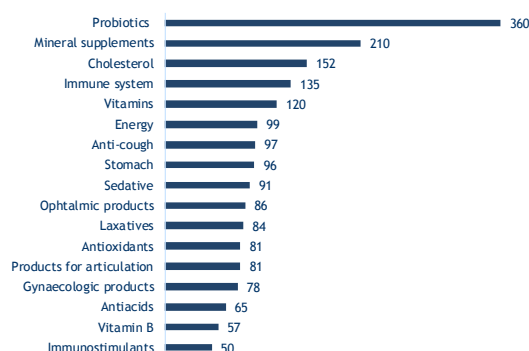


Source: Mediobanca Securities on FederSalus data

In terms of the therapeutics area, the market is highly diversified, with probiotics account for the largest market share (c.12%), totalling to a value of €360m in 2018, followed by mineral supplements (€210m, 7% of the total), cholesterol aids (€152, 5% of the total) and immune system products (€135m, 4% of the total).

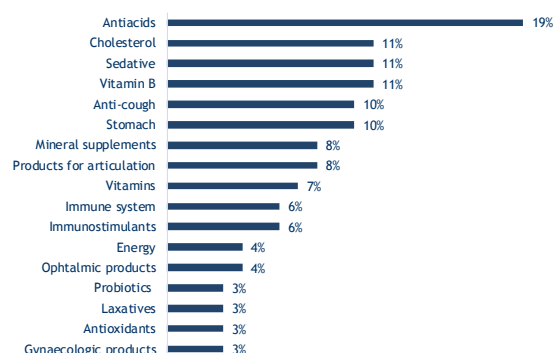
With reference to the growth rate, the therapeutic areas featuring the highest past 3Y-CAGRs include antacids (19%), cholesterol aids (11%), sedative (11%) and Vitamin B (11%).

Figure 15: market value by main therapeutic area



Source: Federsalus on IQVIA data

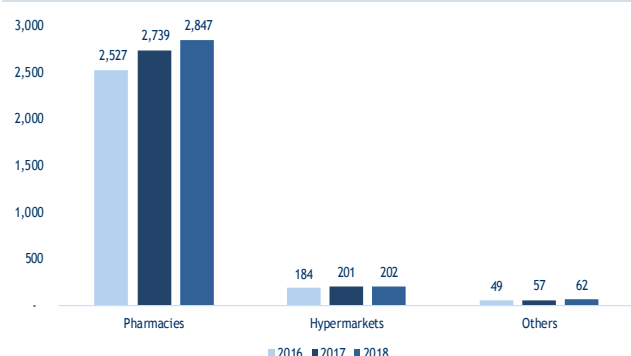
Figure 16: market growth by main therapeutic area (3Y CAGR)



Source: Federsalus on IQVIA data

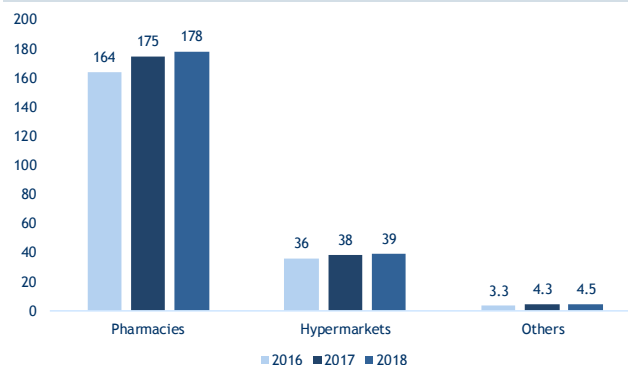
In terms of distribution channel, pharmacies by far account for the largest share, representing c.92% of the market value in 2018, while the remaining is split between hypermarkets (6% of the total) and other PoS (mainly corner shops, 2% of the total).

Figure 17: market evolution by channel (€m)



Source: Company data

Figure 18: market evolution by channel (m/units)



Source: Company data

Oral iron supplement market: a fast-growing niche

Iron deficiency has many causes, which include inadequate iron intake due to poor diet or restrictive diets, increased requirements during pregnancy and blood loss through heavy periods or internal bleeding or other diseases. According to WHO, iron deficiency is the most common cause of anaemia, as it is estimated to be responsible for c.50% of instances of this disease. In its latest report, which is based on data collected in the 1993-2005 period, WHO estimates that c.25% of the global population or 1.6bn people are affected by anaemia, with the prevalence varying by region.

In Italy, WHO estimates that anaemia affects c.23% of the population or c.13.5m individuals, with its prevalence amounting to 11% for preschool-age children, 15.5% for pregnant women and 14.4% for non-pregnant women of reproductive age.

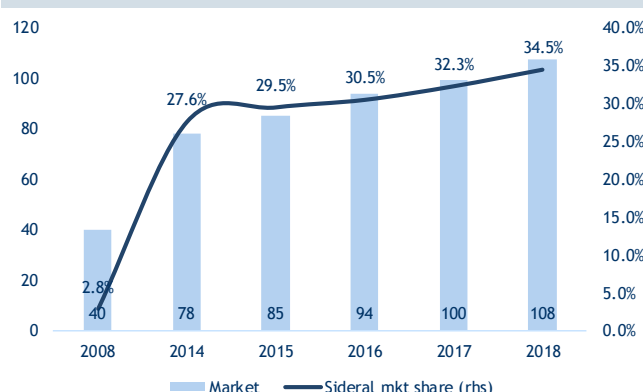
Table 2: worldwide prevalence of anaemia 1993-2005

Region	Preschool-age children		Pregnant women		Non-pregnant women	
	Prevalence (%)	# affected (m)	Prevalence (%)	# affected (m)	Prevalence (%)	# affected (m)
Africa	67.6%	83.5	57.1%	17.2	47.5%	69.9
Americas	29.3%	23.1	24.1%	3.9	17.8%	39.0
South-East Asia	65.5%	115.3	48.2%	18.1	45.7%	182.0
Europe	21.7%	11.1	25.1%	2.6	19.0%	40.8
Eastern Mediterranean	46.7%	0.8	44.2%	7.1	32.4%	39.8
Western Pacific	23.1%	27.4	30.7%	7.6	21.5%	97.0
Global	47.4%	293.1	41.8%	56.4	30.2%	468.4

Source: WHO Global Database on Anaemia

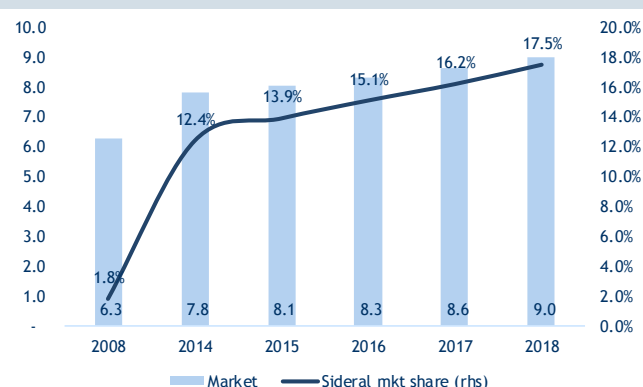
In Italy, the oral iron supplement market is worth €108m and has grown at an 8% CAGR over the past 4 years. In terms of volumes, the market grew at a 4% CAGR over the same period, reaching c.9m units sold in 2018. Pharmanutra is the market leader in this segment with its Sideral, which gained market shares through the years, reaching a 35% market share in terms of value and an 18% share in terms of volumes.

Figure 19: oral iron market value and Sideral share (€m)



Source: Company data on IQVIA

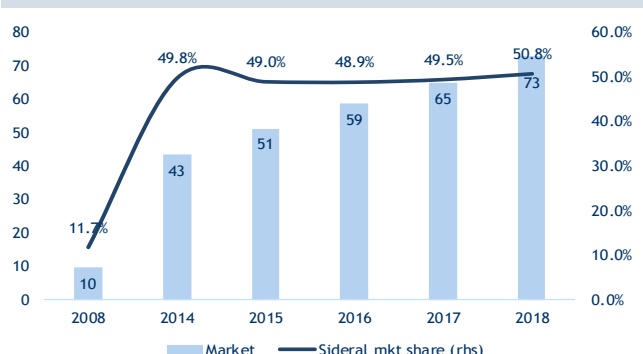
Figure 20: oral iron mkt volumes and Sideral share (m)



Source: Company data on IQVIA

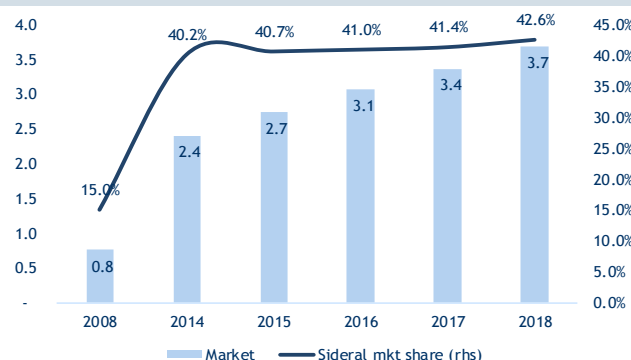
Taking into account only OTC food supplements (thus excluding products where a medical prescription is needed), the oral iron supplements market reached €73m in 2018, recording a 14% CAGR over the past 4 years. In terms of volumes, the total market reached c.4m units sold in 2018, achieving an 11% CAGR over the same period. In this segment, Sideral market shares further increase, as the product retains a 51% market share in terms of value and a 43% market share in terms of volumes.

Figure 21: OTC oral iron supplements market (€m) and Sideral mkt share (%)



Source: Company data on IQVIA

Figure 22: OTC oral iron supplements volumes (m/units) and Sideral share (%)



Source: Company data on IQVIA

Besides Sideral, OTC oral iron supplements market is highly fragmented, with the second and third largest products accounting for c.4% of the total market. Furthermore, we would flag that the bulk of alternative products are marketed by player featuring sizes similar to that of PHN.

In terms of pricing, Sideral enjoys a premium positioning vs among its alternatives, featuring a selling price (€24/unit) that is c.40% higher than the average market price (€17/unit).

Figure 23: Iron supplement market composition (June 2019)

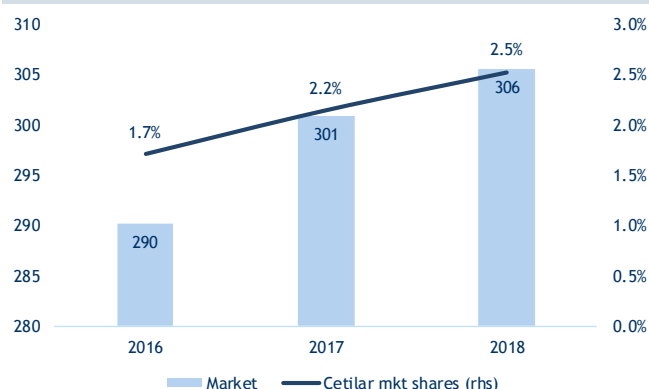


Source: Company data

Topical muscle pain treatment market

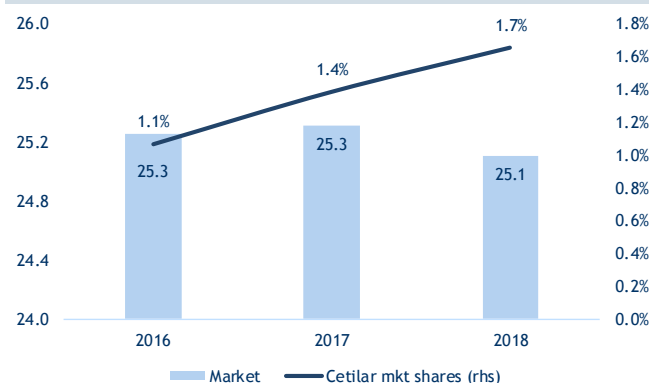
The topical muscle pain treatment market totalled to €306m in 2018, after having grown at a 3% CAGR over the past 3 years. In terms of volumes, the market recorded a slightly negative trend over the same period, declining by -0.3% to 25.1m units sold in 2018. Nevertheless, Pharmanutra's Cetilar steadily grew, gaining market share in the highly fragmented market.

Figure 24: topical pain relief market and Cetilar market share (€m)



Source: Company data on IQVIA

Figure 25: topical pain relief market and Cetilar market share (m/units)



Source: Company data on IQVIA

Price: € 21.90

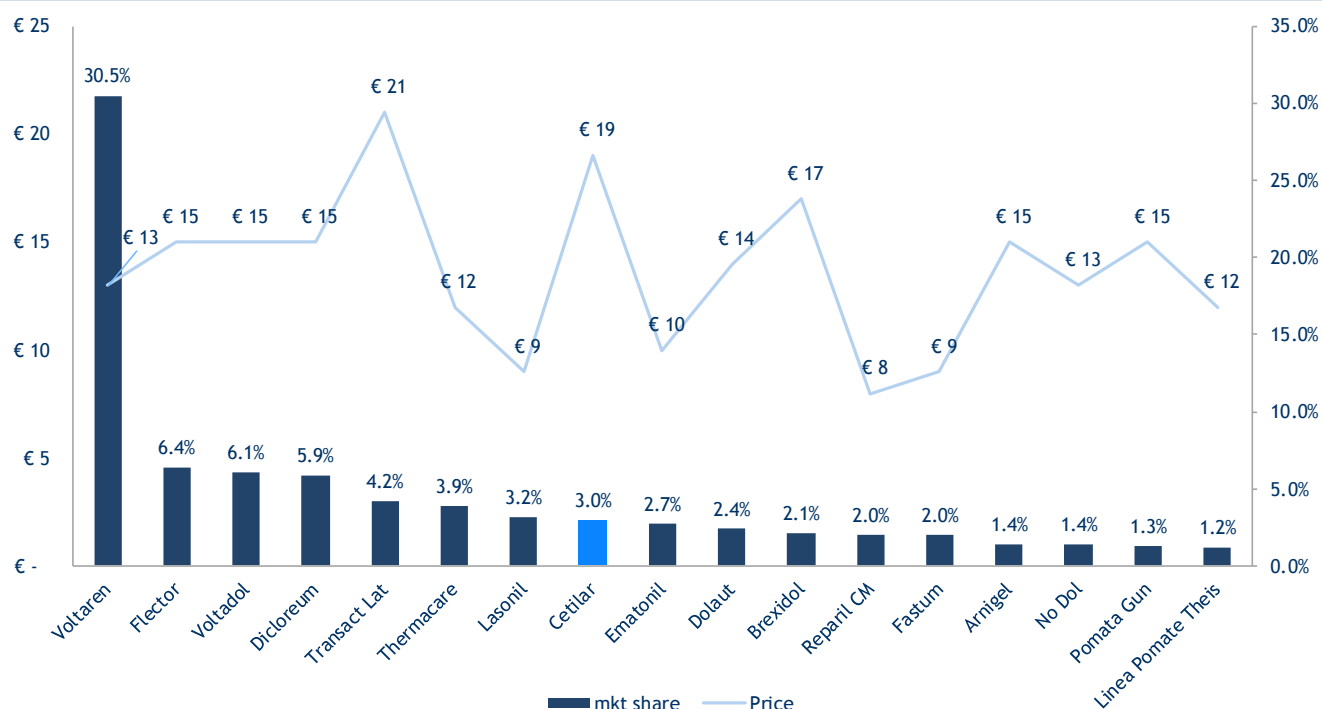
Target price: € 24.50

Neutral

Contrary to the iron supplement market, this segment is more a mature one and is populated also by large pharmaceutical players. Voltaren is the product leader in this market segment, with 31% a market share. The rest of the market, however, is highly fragmented, as the other products have shares below 6%.

In terms of pricing, the sector's average selling price is set at €14/unit, with prices ranging from a minimum of €8/unit to a maximum of €21/unit. Cetilar is positioned at the high end of the market, with a selling price of €19/unit.

Figure 26: topical pain relief market composition



Source: Company data

Less stringent regulation compared to pharma products

Nutraceutical products are characterised by regulations that vary across countries, but in general, they are less stringent compared to that of pharmaceutical products, being often equalised to food products. We provide below an overview of the current regulations in Europe and the US.

Europe

In Europe, nutraceutical products are regulated under EU General Food Law Regulation (EC) No 178/2002 and overseen by European Food Safety Authority (EFSA), which considers food supplements as food-stuff. As such, the main rule prescriptions are the following:

- ◆ Responsibility for the safety of these products lies with the business operator placing the product on the market;
- ◆ Maximum and minimum levels of vitamins and minerals in supplements are prescribed;
- ◆ Specific labelling, which may not include claims that the product will diagnose, cure, mitigate, treat or prevent a disease, is required;
- ◆ Companies wishing to market a nutrient source not included in the permitted list have to submit an application to the European Commission.

The US

In the US, dietary supplements are regulated mainly by the Dietary Supplement Health and Education Act of 1994 (DSHEA). Under this regulation the manufacturer is responsible for the below:

- ◆ Evaluating the safety and labelling of their products before marketing to ensure that they meet all the requirements;
- ◆ Ensuring that products' labels do not include claims that the product will diagnose, cure, mitigate, treat or prevent a disease;
- ◆ Notify the FDA about "new ingredients" when intending to market dietary supplements that contain such "ingredients", providing evidence that the new product is expected to be reasonably safe under the conditions of use recommended or suggested in the labelling.

Furthermore, FDA can take action to remove products from the market, but the agency must first establish that such products are adulterated or misbranded.

STRATEGY: MIX OF DOMESTIC GROWTH AND FURTHER INTERNATIONAL EXPANSION

Pharmanutra's strategy for the coming years is aimed at grabbing the opportunities offered by Italy's growing food supplements market by leveraging its leading position by further strengthening its wide distribution network. At the same time, Pharmanutra plans to expand its international activities through new distribution agreements, and we would expect particular attention to key countries that are still not covered. Thanks to its strong focus on R&D, we would expect new product development to enrich the company's current portfolio, diversifying into new therapeutics areas. Complementarily to business organic development, M&A may help Pharmanutra speed up its international expansion process.

Figure 27: Main pillars of Pharmanutra's growth strategy:



Source: Mediobanca Securities

We expect the following to be the main drivers of group's strategy in the coming years:

- ◆ **Consolidation of the market position in Italy** - Pharmanutra aims to consolidate its market position in Italy, where it holds a leading position in the iron food supplement market, which is seen growing 7%-8% in terms of volumes during the coming years. The main growth drivers of this market should be the increasing number of iron supplement prescriptions by doctors and its increasing adoption in new therapies. Pharmanutra plans to strengthen its distribution network in order to fully exploit the growth potential of this market. In particular, the company is willing to increase its salesforce from the current c.150 to 200 agents over the coming years.
- ◆ **International expansion fuelling additional growth** - Pharmanutra plans to further expand its international activities. International expansion may continue to be carried out primarily via distribution agreements with trusted partners. The company will particularly focus on key markets where it is not present at the time being, which may include, among others, the US, the UK, China, Japan, Germany and France.
- ◆ **New product development to enrich the current portfolio** - Thanks to its strong focus on R&D, we would expect the company to expand its product portfolio, developing new products in order to diversify its exposure to therapeutics areas or to upgrade its patented technologies. On one hand, this should be geared to extend its "Sucrosomial" technology to

new applications, such as other mineral supplements. On the other hand, R&D also aims to develop new formulations for different therapeutic areas. We see product development as key to: 1) defending leading market shares, 2) exploiting growth opportunities in new therapeutics areas, and 3) enhance product diversification.

- ◆ **M&A may speed up its internationalisation process** - Complementarily to business organic development, Pharmanutra's management has not ruled out potential M&A, which may aid the company to speed up its entry into new markets or strengthen its position in international markets. Assuming 3x D/EBITDA as maximum level of financial leverage, Pharmanutra may rely on more than €50m firepower to finance acquisitions.
- ◆ **New corporate HQ and R&D center** - In July 2019 Pharmanutra acquired a property in Pisa for €2.8m to realise the new corporate HQ and R&D center, for which we have assumed c.€10m extraordinary capex in FY19-21E period.

FINANCIALS: DOUBLE DIGIT GROWTH TO CONTINUE

Key FY 2015-18 financials:

- ◆ Sales grew from €26m in FY15 to €47m in FY18, recording a 21% CAGR driven by growing volumes of Sideral, expansion into international markets and the launch of new products;
- ◆ EBITDA increased from €4.7m in FY16 to €12.6m in FY18, mirroring the top-line trend. The margin expanded from 17.9% to 26.1%, benefitting from positive operative leverage;
- ◆ Net profit grew from €2.6m in FY16 to €8.6m in FY18;
- ◆ Healthy cash generation, coupled with proceeds from the IPO process, led Pharmanutra to a net cash position of €9.6m in FY18 from €4.9m in net debt in FY15.

Our FY 2019-21E forecasts:

- ◆ Revenues are forecast to increase at a 14% CAGR over 2018-21E, from €46.7m to €69.9m, driven by the strengthening of the domestic salesforce and further international expansion through new distribution agreements;
- ◆ EBITDA is expected to grow to €16.9m in FY21E from €12.6m in FY18, with the margin stabilising at close to 24%, as the higher structural costs should widely offset the positive operative leverage;
- ◆ Net profit should increase to €11.4m in FY21E from €8.6m in FY18;
- ◆ Net cash should reach €10m in FY21E, almost stable compared to FY18, as higher capex for the realisation of the new corporate site should largely offset rising cash earnings.

FY19-21E Summary of the main estimates

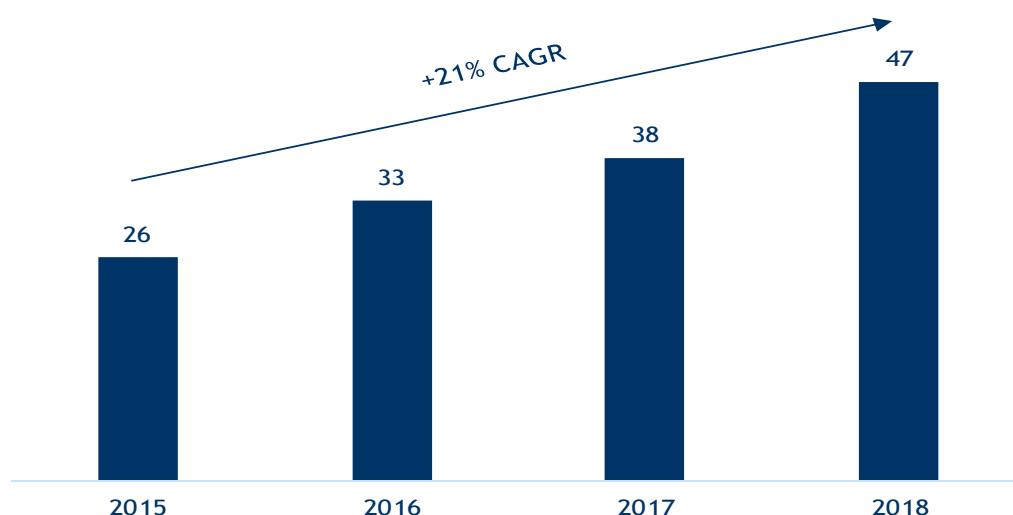
(€m)	2016	2017	2018	2019E	2020E	2021E
Revenues	32.8	37.8	46.7	53.2	60.8	69.9
YoY growth	25.4%	15.3%	23.5%	13.9%	14.4%	14.9%
EBITDA reported	7.1	9.4	12.6	12.8	14.4	17.0
Margin (%)	21.7%	25.0%	26.9%	24.1%	23.6%	24.3%
Adj. EBITDA	7.1	9.4	11.8	12.8	14.4	17.0
Margin (%)	21.7%	25.0%	25.2%	24.1%	23.6%	24.3%
EBIT reported	6.2	8.9	11.9	12.1	13.4	15.9
Margin (%)	18.9%	23.4%	25.5%	22.7%	22.1%	22.8%
Adj. EBIT	6.2	8.9	11.1	12.1	13.4	15.9
Margin (%)	18.9%	23.4%	23.5%	22.7%	22.1%	22.8%
Net Profit	3.9	6.0	8.6	8.6	9.6	11.4
Adj. net profit	3.9	6.0	8.0	8.6	9.6	11.4
Net Debt/(Cash)	2.3	(8.4)	(9.6)	(8.3)	(10.4)	(9.7)

Source: Mediobanca Securities

Historical financials: 21% sales CAGR achieved in 2015-18

Over 2015-18 revenues grew at a 21% organic CAGR to reach €47m in FY18, enjoying the favourable underlying trend of the industry. Pharmanutra outperformed the reference market thanks to its Sideral product line, which gained market shares in its segments, the roll-out of new products, including Cetilar, as well as rising penetration into international markets.

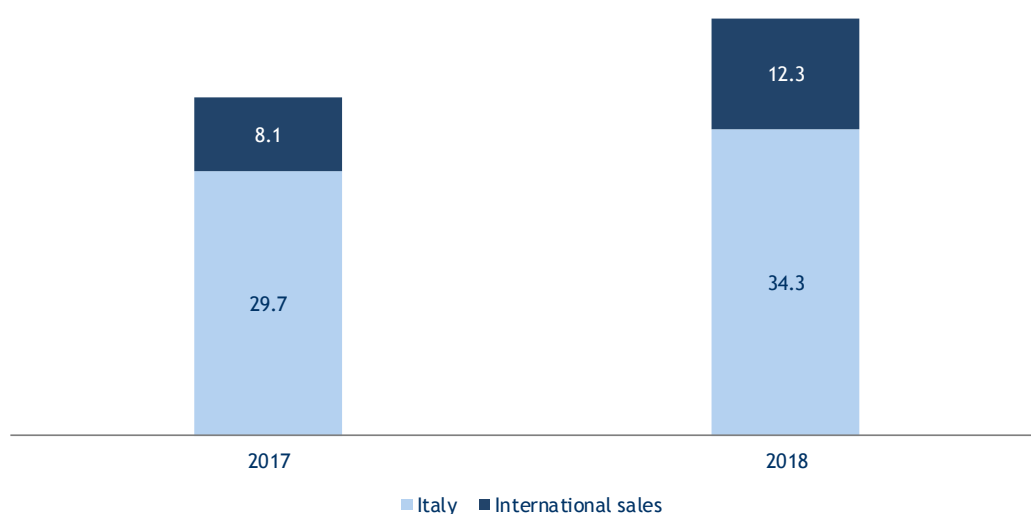
Figure 28: FY15-18 revenues (€m)



Source: Mediobanca Securities on Company data

In terms of revenue composition, domestic sales amounted to €33m in FY18, increasing by 18% YoY and accounting for c.70% of the total. Since 2013, international business grew apace, and reached €12m in FY18, up 57% YoY driven by new distribution agreements.

Figure 29: FY17-18 revenues composition by geography (€m)



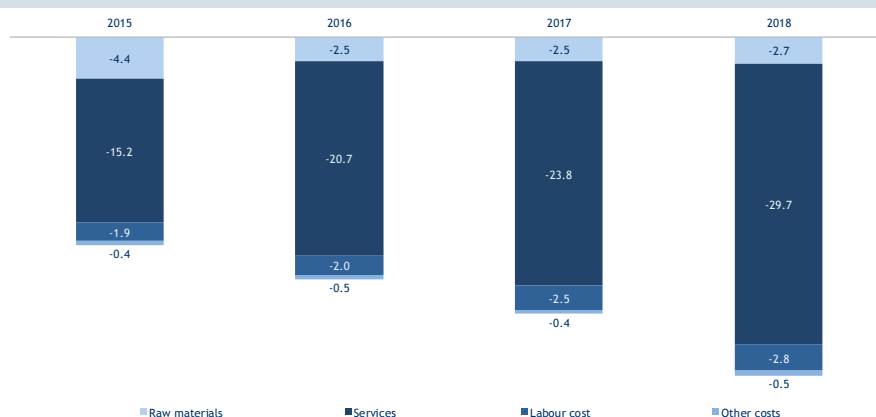
Source: Mediobanca Securities on Company data

Cost structure skewed towards SG&A expenses

Pharmanutra has a moderately rigid cost structure, which should leave room for operating leverage, as a material portion of group's operating costs are of a fixed nature. Although the company largely outsources its production activities, this is due to the significant incidence of service costs, which include the remuneration of the distribution network. Looking at the cost items, we flag that:

- ♦ **Raw material costs** represent a minor part of Pharmanutra's cost structure, as the company largely outsources its production activities. In FY18, these costs amounted to €2.7m, accounting for c.6% of the Group's sales;
- ♦ **Service costs** represent the bulk of Pharmanutra's costs, accounting for c.84% of the total costs. The three major items included are 1) production and logistics costs (c.16% of FY18 sales), which are outsourced, 2) G&A expenses (c.17% on FY18 sales), and 3) selling and distribution costs (c.17% of FY18 sales), which include the remuneration of the domestic distribution network (c.150 agents);
- ♦ **Personnel costs** represent a minor part of total costs, as they include only the administration staff. In FY18, they amounted to €2.8m, accounting for c.6% of the Group's revenues.

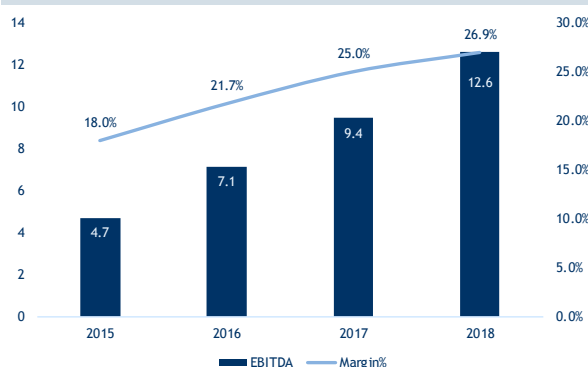
Figure 30: FY15-2018 cost structure (€m)



Source: Mediobanca Securities on Company data

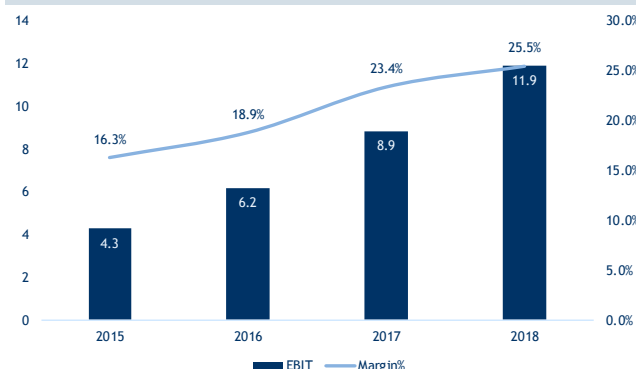
In terms of profitability, EBITDA increased to €12.6m in FY18 from €4.7m in FY15. Pharmanutra's EBITDA margin was 26.9% in FY18 (25.1% excluding positive non-recurring items), expanding by 890bps, mainly driven by positive operating leverage. A very similar trend can be observed at the EBIT level, as D&A represents a marginal part of its costs, given Pharmanutra's asset-light business model. In FY18, EBIT amounted to €11.9m, increasing from €4.3m in FY15, with the EBIT margin expanding by 920bps to 25.5% (23.8% on adjusted basis).

Figure 31: FY15-18 EBITDA trend (€m)



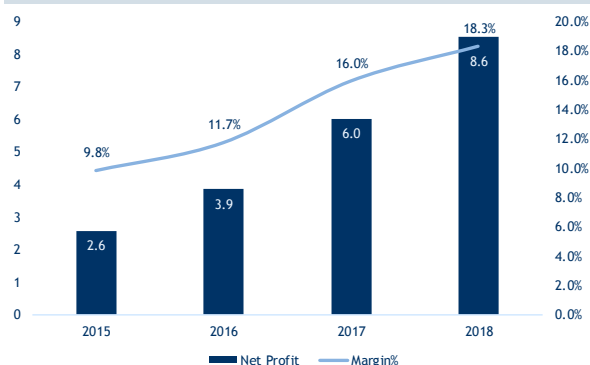
Source: Mediobanca Securities on Company data

Figure 32: FY15-18 EBIT trend (€m)



Source: Mediobanca Securities on Company data

At the bottom line, interest expenses are not meaningful, given Pharmanutra's unlevered balance sheet. Net profit increased to €8.6m in FY18 from €2.6m in FY15, driven by the increase in EBT also aided by tax rate normalisation. Net profit margin stood at 18.3% in FY18, reflecting the good profitability, low D&A incidence and interest expenses.

Figure 33: FY15-18 net profit trend (€m)


Source: Mediobanca Securities on Company data

Figure 34: FY15-18 P&L highlights (€m)


Source: Mediobanca Securities on Company data

Table 3: FY15-18 P&L

€m	2015	2016	2017	2018
Sales	26.1	32.8	37.8	46.7
<i>Change yoy</i>		25.4%	15.3%	23.5%
Other revenues	0.1	0.2	0	1.4
Value of production	26.3	33.0	37.9	48.1
<i>Change yoy</i>		25.7%	14.7%	27.1%
Raw materials	-4.4	-2.5	-2.5	-2.7
<i>% of sales</i>	16.8%	7.5%	6.7%	5.9%
Delta inventories	0.4	-0.2	0.8	0.3
<i>% of sales</i>	-1.6%	0.8%	-2.1%	-0.6%
Services and overheads	-15.2	-20.7	-23.8	-29.7
<i>% of sales</i>	58.2%	63.0%	62.9%	63.7%
Labour cost	-1.9	-2.0	-2.5	-2.8
<i>% of sales</i>	7.4%	6.1%	6.7%	6.0%
Other costs	-0.4	-0.5	-0.4	-0.5
<i>% of sales</i>	1.7%	1.6%	1.0%	1.1%
EBITDA	4.7	7.1	9.4	12.6
<i>Margin%</i>	18.0%	21.7%	25.0%	26.9%
D&A	-0.4	-0.9	-0.6	-0.7
<i>% of sales</i>	1.6%	2.9%	1.5%	1.4%
EBIT	4.3	6.2	8.9	11.9
<i>Margin%</i>	16.3%	18.9%	23.4%	25.5%
Financial incomes	0.0	0.1	0.0	0.0
Financial costs	-0.1	-0.2	-0.1	-0.1
EBT	4.1	6.1	8.8	11.9
Taxes	-1.5	-2.2	-2.7	-3.3
<i>Tax rate</i>	36.5%	36.4%	31.2%	27.8%
Minorities	-0.1	0.0	0.0	0.0
Net profit	2.6	3.9	6.0	8.6
<i>Margin%</i>	9.8%	11.7%	16.0%	18.3%

Source: Mediobanca Securities

Key balance sheet themes: asset-light business model

Looking at PHN's balance sheet, we highlight the following:

- ◆ **Limited absorption from NWC growth despite substantial business expansion** - Over 2015-18 Pharmanutra's NWC grew from €5m to €7.3m, mirroring its top-line expansion. Trade working capital on sales swung in the range of 17% to 22%, closing FY18 at 18%. The dynamics of the main items included in TWC are the following:
 - **Trade receivables** mirrored the increase in trading activity maintaining an overall stable ratio on sales (c.28% in 2018);
 - **Inventory** has a structurally limited incidence on sales, which has been stable at c.5%;
 - **Trade payables** ratio hovered c.13%-14% during the period, meaning a c.50 DPO in FY18.

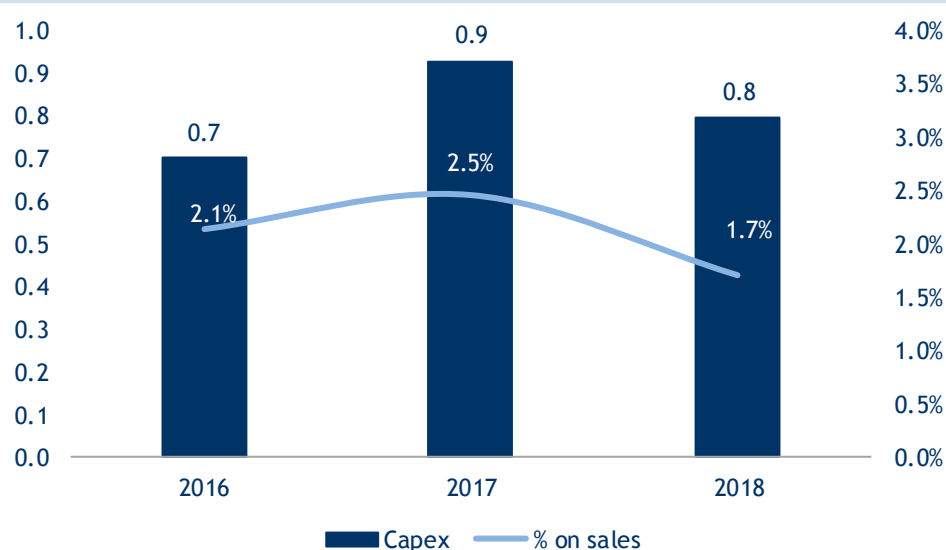
Table 4: FY2015-18 NWC trend

	2015	2016	2017	2018
Inventories	1.3	1.1	1.9	2.1
Receivables	7.5	8.7	10.1	13.0
Accounts payable	-3.0	-4.2	-4.9	-6.7
Trade WC	5.9	5.6	7.1	8.5
<i>% on sales</i>	22%	17%	19%	18%
Other assets	0.4	0.4	0.4	1.7
Other liabilities	-1.2	-2.2	-2.2	-2.8
Net working capital	5.0	3.8	5.3	7.3
<i>% on sales</i>	19%	11%	14%	16%

Source: Mediobanca Securities on Company data

- ◆ **Low capital requirements** - Pharmanutra has an asset-light business model, as it largely outsources its production activities. In FY18, capex amounted to c.€0.8m, which mainly included product development costs. Its incidence on sales stood at c.2% over FY16-18.

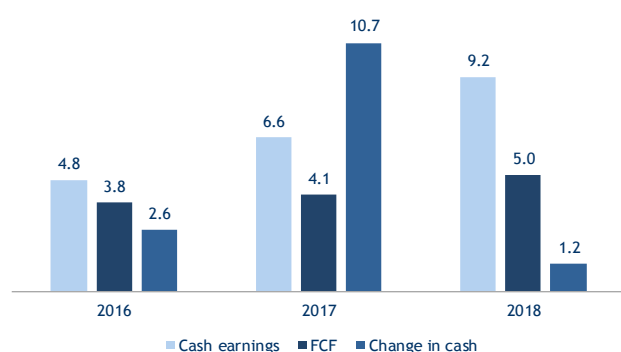
Figure 35: FY16-18 capex trend (€m)



Source: Source: Mediobanca Securities on Company data

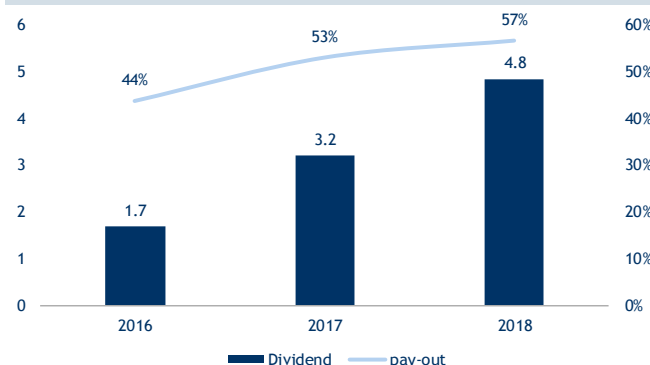
- ◆ **Cash-generative business model supports 50% payout** - Pharmanutra has a cash-generative business. Over FY16-18, cash conversion exceeded 40% of the EBITDA level, with FCF growing from €3.8m to €5.0m. Over the same period, dividend grew from €1.7m in FY16 to €4.8m in FY18 (which included c.€0.7m of extraordinary component), with the pay-out ratio increasing from 44% to 57% (50% excluding the extra-dividend payment). Furthermore, in FY17, the company benefitted from an €8.6m capital increase, as part of its listing process.

Figure 36: FY16-18 cash generation trend (€m)



Source: Mediobanca Securities on Company data

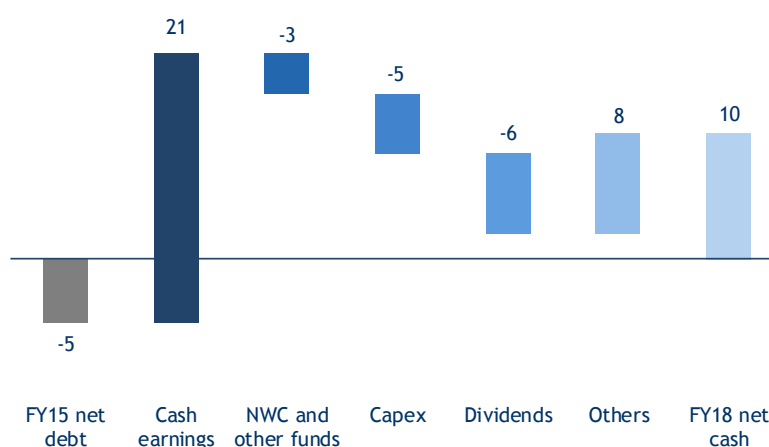
Figure 37: FY16-18 dividend trend (€m)



Source: Mediobanca Securities on Company data

- ◆ **Unlevered balance sheet** - Over FY16-18 Pharmanutra generated cumulative FCFs of €13m, which, after €6m cumulated dividend distributions and €8m net proceeds from the IPO, led to a net cash position of €10m in FY18.

Figure 38: FY16-18 cash generation trend (€m)



Source: Mediobanca Securities on Company data

1H19 results confirmed the solid growth momentum

On September 16, Pharmanutra reported its 1H19 results, which featured a sustained double-digit top-line growth, coupled with a slight margin expansion. More in details, the company reported the below:

- ◆ Sales at €25m, up 13.6% YoY, with an overall balanced growth in the domestic market and international business;
- ◆ EBITDA at €6.3m, up 15% YoY, with the margin expanding by 40bps to 25.3%;
- ◆ Net profit at €4m, up 12%;
- ◆ Net cash at €9.5m, which is in line with the FY18 figure and includes the payment of a €4.8m dividend.

Table 5: 1H19 result highlights

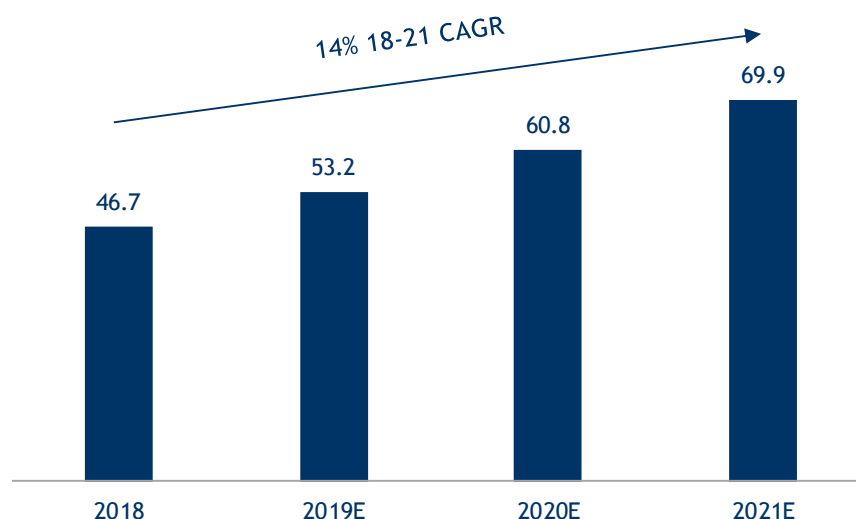
€m	1H19A	1H18A	YoY chg.
Sales	25.0	22.0	13.6%
EBITDA	6.3	5.5	15.1%
<i>margin</i>	25.3%	24.9%	
Net profit	4.0	3.6	11.6%
Net Cash	9.5	9.7	

Source: Mediobanca Securities on Company data

FY19-21E estimates: double digit growth to continue

We expect Pharmanutra's revenues to increase at a 14% CAGR over the next 3 years, driven by the planned increase in its salesforce in Italy, which should reach 200 agents by end 2020, and by further international expansion. For FY19E, we forecast revenues to increase by 13.9%, in line with the trend recorded in 1H19. For FY20-21E, we expect the pace of growth to progressively accelerate to 14.9%, reflecting the full contribution of the wider sales network and higher international sales on the back of new distribution agreements.

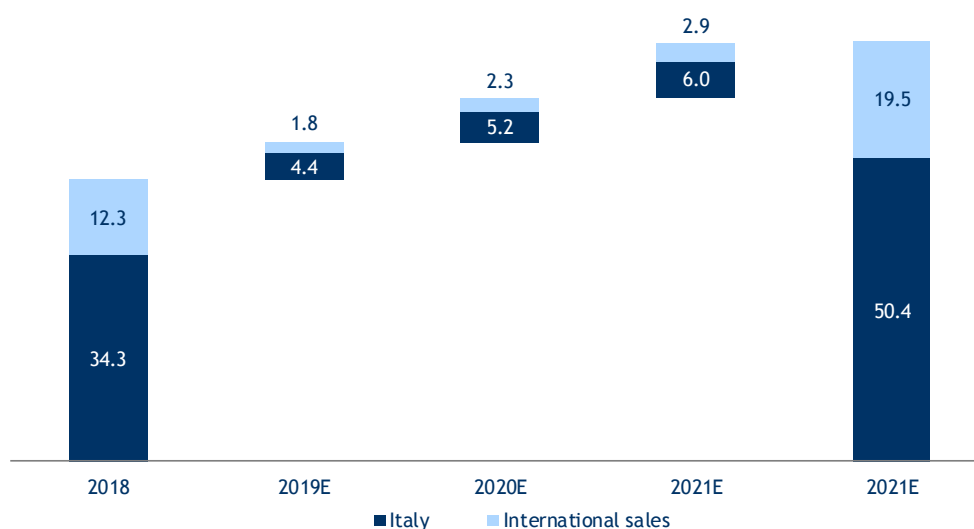
Figure 39: FY19-21E revenues trend (€m)



Source: Mediobanca Securities

In terms of revenues composition, domestic sales are expected to increase at a 14% 3Y CAGR to reach €49m in FY21E from €33m in FY18. International sales should grow at a faster pace, and we assume a 17% 3Y CAGR to lead to €19m in sales in FY21E. This should be driven by further penetration in existing markets as well as entry into new geographies.

Figure 40: FY19-21E revenues trend by geography (€m)

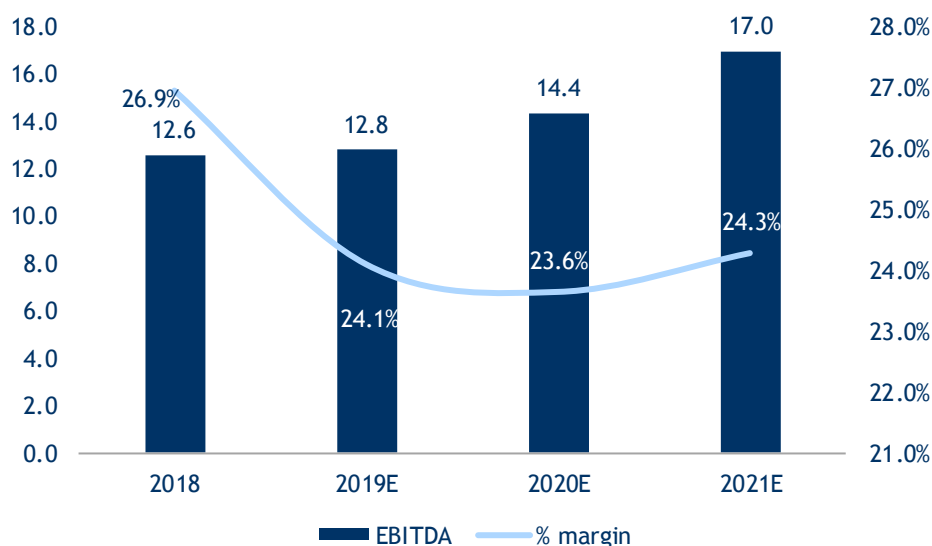


Source: Mediobanca Securities

Higher structural costs to offset positive operating leverage

We estimate Pharmanutra's EBITDA to grow at a 10.5% CAGR over the next 3 years to reach €17m, reflecting our top-line growth assumption. We project overall margin stability at close to 24%, as the higher structural costs should widely offset positive operating leverage. We assume the rise in costs to be largely driven by the strengthening of its domestic salesforce, which should result in a higher incidence of commercial and distribution costs, together with some additional G&A costs related to Group's growing size.

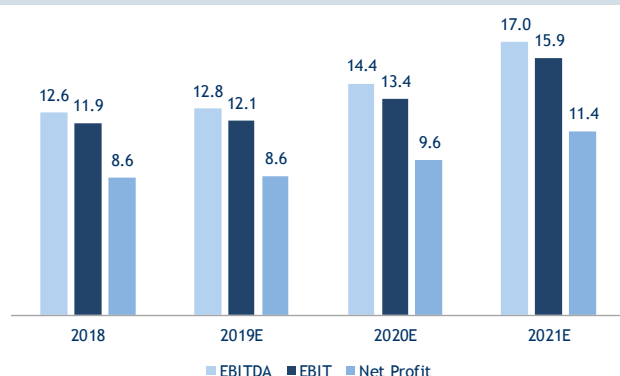
Figure 41: FY19-21E EBITDA trend (€m)



Source: Mediobanca Securities

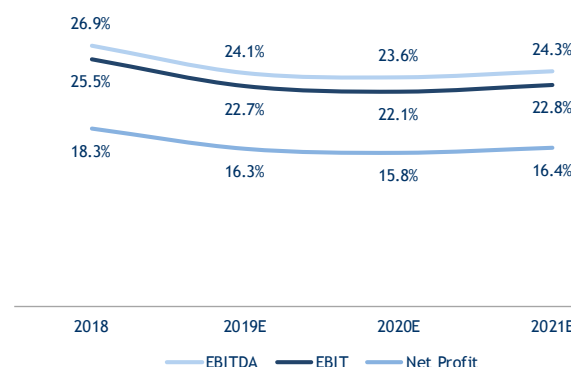
Given its asset-light structure and unlevered balance sheet, we assumed D&A and financial costs to marginally affect Pharmanutra's P&L. With reference to taxes, we project 28% as normalised tax rate level. Overall, we project net profit to grow at a 10% CAGR over the next 3 years to reach €11.4m in FY21E.

Figure 42: FY19-21E profitability evolution (€m)



Source: Mediobanca Securities

Figure 43: FY19-21E margins evolution (%)



Source: Mediobanca Securities

Table 6: FY19-21E P&L estimates

€m	2018	2019E	2020E	2021E	3Y CAGR
Sales	46.7	53.2	60.8	69.9	14.4%
YoY %	23.5%	13.9%	14.4%	14.9%	
Other revenues	1.4	0.2	0.2	0.2	
Value of production	48.1	53.4	61.0	70.1	
Purchases and other direct costs	-2.7	-2.7	-3.3	-3.8	
% of sales	-5.9%	-5.1%	-5.5%	-5.5%	
Delta inventories	0.3	0.0	0.0	0.0	
Gross margin	45.6	50.7	57.7	66.2	
% of sales	97.8%	95.3%	94.8%	94.8%	
Services	-29.7	-33.9	-39.1	-44.8	
Labour cost	-2.8	-3.2	-3.4	-3.6	
Other costs	-0.5	-0.7	-0.9	-0.9	
EBITDA	12.6	12.8	14.4	17.0	10.5%
% margin	26.9%	24.1%	23.6%	24.3%	
D&A	-0.7	-0.7	-0.9	-1.0	
% of sales	-1.4%	-1.4%	-1.5%	-1.5%	
EBIT	11.9	12.1	13.4	15.9	10.2%
% margin	25.5%	22.7%	22.1%	22.8%	
Financial incomes	0.0	0.0	0.0	0.0	
Financial costs	-0.1	-0.1	-0.1	-0.1	
Non-recurring items	0.0	0.0	0.0	0.0	
EBT	11.9	12.0	13.4	15.9	10.2%
Taxes	-3.3	-3.4	-3.7	-4.4	
Tax rate	27.8%	28.0%	28.0%	28.0%	
Minorities	0.0	0.0	0.0	0.0	
Net Profit	8.6	8.6	9.6	11.4	10.1%
% margin	18.3%	16.3%	15.8%	16.4%	

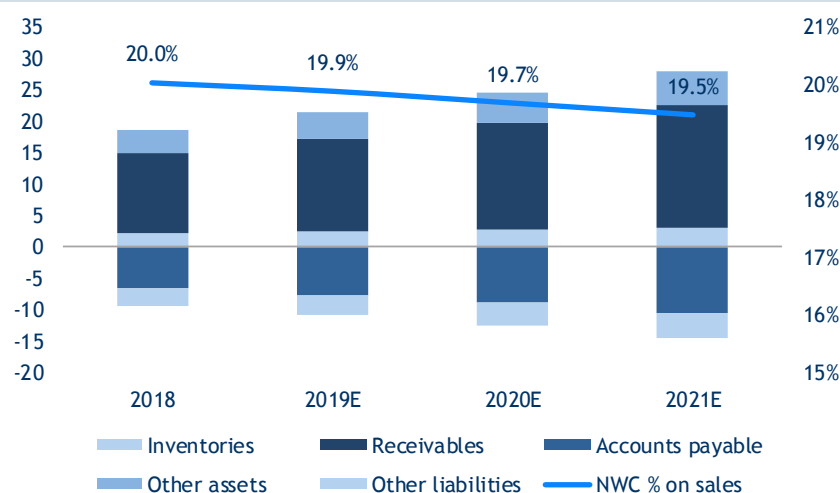
Source: Mediobanca Securities

Healthy cash generation should sustain a 50% dividend payout

Limited NWC cash absorption despite business expansion

In FY19-21E we project networking capital absorption to remain limited, as Pharmanutra has proved to be capable of managing NWC well, in the past notwithstanding the significant business expansion. We assume its weight on sales to marginally improve from 20% in FY18 to 19.5% in FY21E, factoring in slightly more favourable payment conditions, while keeping unchanged inventory and DSO metrics.

Figure 44: FY19-21E NWC trend (€m)

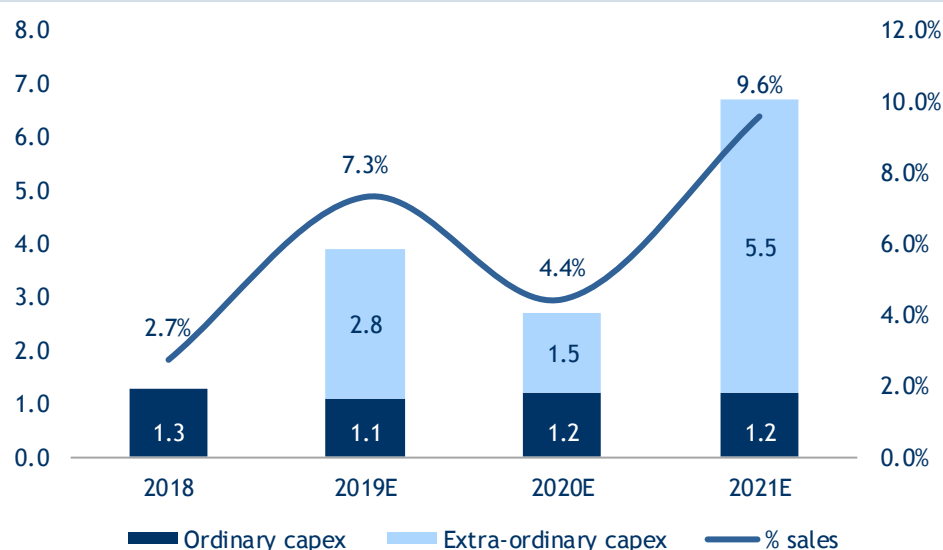


Source: Mediobanca Securities

Capex picking up for the realisation of the new corporate site

We forecast capex to materially increase during FY19-21E, factoring in the realization of the new corporate site. While ordinary capex is projected to remain in line with that of FY18 at €1m, we project c.€10m of cumulative extra-ordinary capex over the period. For FY19E, we included the €2.8m cash-out for the acquisition of the new property announced in July. Going forward, we assume work for the realisation of the site to start at the end of FY20E, with a higher cash-out in FY21E.

Figure 44: FY19-21E capex trend (€m)



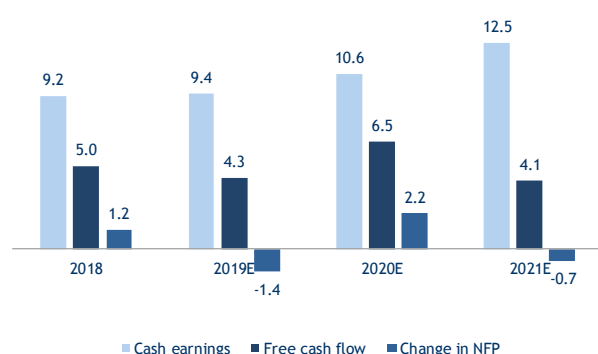
Source: Mediobanca Securities

Cash generation granting generous dividends

We expect Pharmanutra to generate sound FCFs over 2019-21E, notwithstanding the NWC absorption and increasing capex. For FY19E, we project €4.3m of FCF, which should remain flat through FY21E, as higher capex should offset the increase in cash earnings.

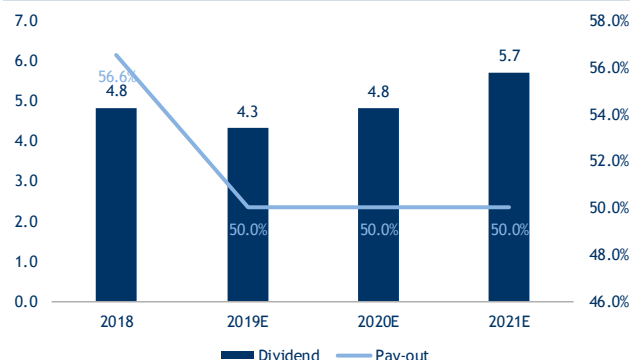
With reference to dividend assumptions, we have factored into our estimates Pharmanutra's dividend policy of a stable pay-out of 50% (please note that FY18 dividend included €0.07/sh as extraordinary component), which should imply growing dividends reaching €5.7m in FY19E.

Figure 45: FY19-21E cash generation forecasts (€m)



Source: Mediobanca Securities

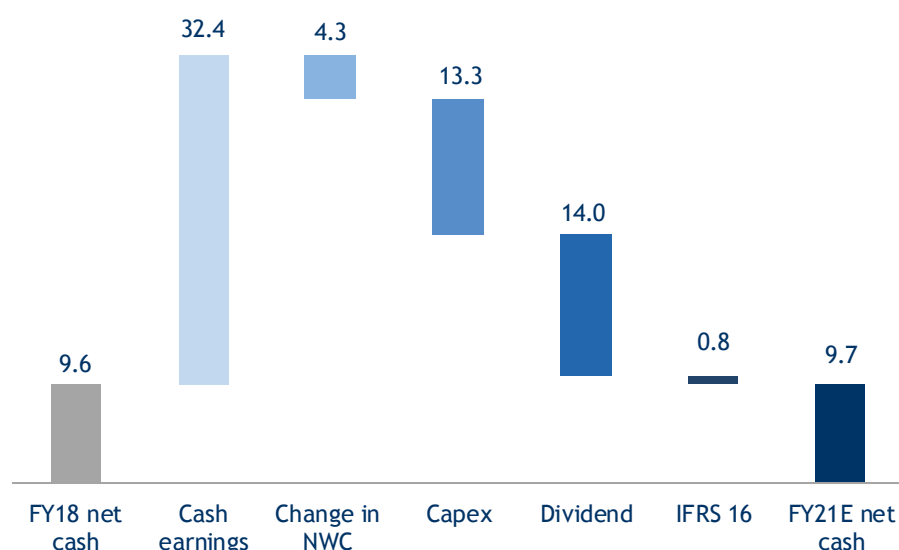
Figure 46: FY19-21E dividend assumptions (€m)



Source: Mediobanca Securities

Overall, we expect Pharmanutra to reach a net cash position of €10m in FY21E, almost unchanged vs FY18, as healthy operating cashflow generation will fund investments for the new HQ and a cumulative dividend distribution of €14m.

Figure 47: FY19-21E cumulative cash generation (€m)



Source: Mediobanca Securities

VALUATION: APPEALING GROWTH PROSPECTS PRICED IN

We initiate coverage on Pharmanutra with a Neutral rating and a €24.5/share target price, which we have obtained as the simple average of a peer multiples approach based on FY20-21E EV/EBITDA and PE sector multiples, and a DCF-based valuation. The stock is currently trading at 14x FY20E EV/EBITDA and 22x FY20E PE.

In our view, valuation of Pharmanutra should be based on two criteria:

- a) Peer multiples. We have identified two listed peers operating in the same sector as Pharmanutra with a similar business model and growth prospects;
- b) Discounted cash flow model. We have used DCF as a complementary valuation method, as the visibility on the group's cash flow is good and we believe DCF might allow to better factor in the group's growth prospects in the medium-long term.

As an additional cross-check to our valuation, we found that PHN is currently trading overall in line with the average trading multiples of a panel of Italian Mid-Small cap under MB's coverage releasing sustained organic growth.

We set our target price at €24.5/share, on the basis of the following: i) a €23.2/share valuation obtained through a peer multiples approach based on FY20-21E EV/EBITDA and PE multiples; and ii) a €25.8/share valuation obtained via the DCF-method.

Table 7: summary of valuation

	Value/share	Weight
TP peer multiples	23.2	50%
TP DCF	25.8	50%
TP	24.5	

Source: Mediobanca Securities

Peers multiples analysis points to €23.2/sh target price

We have identified a group of international listed peers active in the nutraceutical market which have comparable business models and growth prospects similar to Pharmanutra's. A more detailed analysis of each player is included in the Appendix, while a quick overview of the panel is provided below. Our panel includes two companies both with a size similar to Pharmanutra's, namely Biogaia and Probi. More specifically, the two companies are Swedish players active in the development and commercialisation of probiotics. In our view, the two players have similar business models in light of 1) in-sourced R&D, 2) presence in the value chain and 3) product portfolio based on leading patented technologies.

Table 8: Snapshot of Pharmanutra's selected peers

Company	Country	Sub-sector	Key markets	Key products
Biogaia	Sweden	Probiotics	EMEA (59%); Americas (23%); Apac (18%) Americas (74%); Sweden (10%); Apac (10%);	Protectis
Probi	Sweden	Probiotics	Rest of Europe (7%)	Probi Premium; Probi Select; Probi Live Bac

Source: Companies' annual reports

In terms of turnover size, the two selected peers report sales slightly higher than Pharmanutra's, with Biogaia recording SEK742m (c.€71m) sales in FY18 and Probi recording SEK604m (c.€57m) sales in the same year.

Price: € 21.90

Target price: € 24.50

Neutral

Pharmanutra compares favourably with its peers in terms of sales growth (14% 3Y CAGR vs 9.2% for the panel according to Thomson Reuters). On the other hand, Pharmanutra shows lower profitability than peer average (23.6% EBITDA margin in FY20E vs 31.9% panel average).

Furthermore, we note that all these players boast an unlevered balance sheet.

Table 9: Pharmanutra's peers main financials (m, local currencies)

Company	CCY	Market cap	Sales	Sales CAGR	EBITDA CAGR	EBITDA margin %		EBIT margin %		Net cash
			2018	18-'21	18-'21	2020E	2021E	2020E	2021E	2018
Biogaia	SEK	6,804	742	11.2%	8.0%	34.8%	35.2%	33.3%	33.8%	285
Probi	SEK	2,548	604	7.3%	12.9%	29.1%	29.9%	20.2%	22.3%	81
Pharmanutra (MBe) EUR		212	48	14.4%	10.5%	23.6%	24.3%	22.1%	22.8%	10

Source: Mediobanca Securities, Thomson Reuters Datastream (as of December 13)

Table 10: Pharmanutra's peers multiples

Company	EV/EBITDA			P/E		
	2019E	2020E	2021E	2019E	2020E	2021E
Biogaia	26.5	20.8	17.9	37.0	29.5	25.6
Probi	13.9	11.8	9.8	32.7	23.8	19.4
Average	20.2	16.3	13.9	34.8	26.7	22.5

Source: Mediobanca Securities, Thomson Reuters Datastream (as of December 13)

Looking at peers' multiples, a discount for Pharmanutra appears to be deserved in the light of: 1) peer's broader international presence, including in key markets such as the US; 2) lower profitability (c.800bps gap in terms of EBITDA margin); and 3) peers' wider product portfolios. All in all, we consider it fair to apply a 10% discount to peers' average FY20-21E EV/EBITDA and PE.

Our target price based on peers' multiples points to €23.2/sh., which we have obtained as the simple average of FY20-21E EV/EBITDA and PE implied valuation.

Table 11: Pharmanutra's peers valuation

	EV/EBITDA		P/E		Average
	2020	2021	2020	2021	
Peers multiples	16.3	13.9	26.7	22.5	
Fair discount	10%	10%	10%	10%	
Fair multiple	14.7	12.5	24.0	20.2	
Enterprise value	211.1	212.0	231.2	231.3	
Equity value	217.1	220.2	231.2	231.3	
TP/sh	22.4	22.7	23.9	23.9	23.2

Source: Mediobanca Securities, Thomson Reuters Datastream (as of December 13)

DCF analysis points to €25.8/sh target price

Our DCF analysis is based on the following assumptions:

- ◆ A WACC of 8.0%, which is the result of: 1) a risk free rate of 3.7%; 2) an equity risk premium of 4%; 3) a beta of 1.2 in line with our base assumption for Italian Mid-Small caps; 4) a net cost of debt of 3.0%; and 5) a target leverage ratio of 10%;
- ◆ A terminal growth rate of 2.5%;
- ◆ We considered T+8 as the reference year for computing the terminal value of our model. We assumed an exit level of EBITDA margin close to 25%; while we acknowledge that the group might overstep this target, we still await more evidence of execution of the group's growth strategy before assuming an exit margin above current levels.

Table 12: DCF analysis

(€m)	
Perpetual growth rate	2.5%
WACC	8.0%
Terminal value end of projection period	305.6
Discounting rate of terminal value	0.59
Discounted terminal value	178.8
Cumulated DFOCF	64.3
Enterprise Value	243.1
Net financial debt as of 31/12/19 (€m)	9.1
Minorities	0.0
Pensions liabilities	(2.2)
Equity Value	250.0
Value per share (€)	25.8

Source: Mediobanca Securities

The sensitivity of our DCF analysis to different long term growth rates and different WACC levels is provided below.

Table 13: DCF sensitivity to WACC and g

		Terminal growth rate						
		1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
WACC	6.5%	25.6	27.5	29.9	32.8	36.7	41.8	49.0
	7.0%	24.0	25.6	27.6	30.0	33.0	36.8	42.0
	7.5%	22.7	24.1	25.7	27.7	30.1	33.1	36.9
	8.0%	21.6	22.8	24.2	25.8	27.8	30.2	33.2
	8.5%	20.7	21.7	22.9	24.3	25.9	27.9	30.3
	9.0%	19.8	20.7	21.8	23.0	24.4	26.0	28.0
	9.5%	19.1	19.9	20.8	21.8	23.0	24.4	26.1

Source: Mediobanca Securities

Trading in line with Mid-Caps showing solid & sustainable organic growth

Furthermore, as a cross-check of our valuation, we drew a comparison between Pharmanutra and a selected panel of Italian Mid-Small caps included in our coverage showing sustainable organic top-line and EBITDA growth. The panel included companies of different sizes operating in different sectors, and also included equity stories with an established track record (such as Brunello Cucinelli, Reply and Technogym), as well as companies at an earlier stage of their development process (such as Antares Vision). We note that stocks included in the panel trade between 18x and 40x 2020E PE, and that Pharmanutra currently trades overall in line with the median of the panel. While we acknowledge that this cluster also includes stocks showing unique company specific dynamics that justify their premium valuations, we believe that the consistent delivery of sustained organic growth may support PHN's re-rating towards the multiples of companies boasting more established track records.

Table 14: PHN vs panel of Mid Cap showing solid & sustainable organic growth

Company	SALES 2Y CAGR	EBITDA 2Y CAGR	EV/EBITDA		EV/EBIT		PE	
			2020E	2021E	2020E	2021E	2020E	2021E
Antares Vision	20%	20%	13.4	11.0	13.9	11.4	21.0	17.9
SeSa	12%	17%	7.4	6.5	10.7	9.2	18.6	16.7
Technogym	8%	11%	13.8	12.0	17.1	14.6	24.0	21.5
CAREL	8%	10%	19.9	18.0	25.9	23.3	32.8	28.6
Brunello Cucinelli	8%	10%	19.5	17.6	26.1	23.8	39.0	34.8
REPLY	10%	9%	12.0	10.6	14.6	12.8	21.3	19.5
Median	9%	11%	13.6	11.5	15.8	13.7	22.7	20.5
Average	11%	13%	14.3	12.6	18.1	15.8	26.1	23.2
Pharmanutra	14%	10%	14.0	11.9	15.0	12.7	22.0	18.5

Source: Mediobanca Securities, as of December 16

SUMMARY OF FINANCIALS

P&L (€m)	2016	2017	2018	2019E	2020E	2021E
Sales	32.8	37.8	46.7	53.2	60.8	69.9
YoY %	25.4%	15.3%	23.5%	13.9%	14.4%	14.9%
Other revenues	0.2	0.1	1.4	0.2	0.2	0.2
Value of production	33.0	37.9	48.1	53.4	61.0	70.1
Purchases and other direct costs	-2.5	-2.5	-2.7	-2.7	-3.3	-3.8
% of sales	-7.5%	-6.7%	-5.9%	-5.1%	-5.5%	-5.5%
Delta inventories	-0.2	0.8	0.3	0.0	0.0	0.0
Gross margin	30.3	36.1	45.6	50.7	57.7	66.2
% of sales	92.4%	95.5%	97.8%	95.3%	94.8%	94.8%
Services	-20.7	-23.8	-29.7	-33.9	-39.1	-44.8
Labour cost	-2.0	-2.5	-2.8	-3.2	-3.4	-3.6
Other costs	-0.5	-0.4	-0.5	-0.7	-0.9	-0.9
EBITDA	7.1	9.4	12.6	12.8	14.4	17.0
% margin	21.7%	25.0%	26.9%	24.1%	23.6%	24.3%
D&A	-0.9	-0.6	-0.7	-0.7	-0.9	-1.0
% of sales	-2.9%	-1.5%	-1.4%	-1.4%	-1.5%	-1.5%
EBIT	6.2	8.9	11.9	12.1	13.4	15.9
% margin	18.9%	23.4%	25.5%	22.7%	22.1%	22.8%
Financial incomes	0.1	0.0	0.0	0.0	0.0	0.0
Financial costs	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Non-recurring items	0.0	0.0	0.0	0.0	0.0	0.0
EBT	6.1	8.8	11.9	12.0	13.4	15.9
Taxes	-2.2	-2.7	-3.3	-3.4	-3.7	-4.4
tax rate	36.4%	31.2%	27.8%	28.0%	28.0%	28.0%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	3.9	6.0	8.6	8.6	9.6	11.4
% margin	11.7%	16.0%	18.3%	16.3%	15.8%	16.4%

B/S (€m)	2016	2017	2018	2019E	2020E	2021E
Net Tangible Assets	1.0	1.1	1.0	4.9	6.7	12.4
Net Intangible Assets (ex Goodwill)	4.2	4.4	4.7	4.7	4.7	4.7
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Net Financial Assets	0.6	0.9	2.0	2.0	2.0	2.0
Total fixed assets	5.8	6.5	7.7	11.6	13.4	19.1
Net Working Capital	5.6	7.1	8.5	9.6	10.8	12.3
Other assets	0.8	0.9	3.7	4.2	4.8	5.5
Total net assets	12.2	14.5	19.8	25.4	29.0	36.9
Shareholders equity	6.6	19.1	24.4	28.2	33.6	40.2
Minorities equity	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt (cash)	2.3	-8.4	-9.6	-8.3	-10.4	-9.7
Provisions (pension&others related to cost)	1.1	1.6	2.2	2.2	2.2	2.2
Other Liabilities	2.2	2.2	2.8	3.2	3.6	4.2
Total liabilities and equity	12.2	14.5	19.8	25.4	29.0	36.9

Price: € 21.90

Target price: € 24.50

Neutral

Cash flow (€m)	2016	2017	2018	2019E	2020E	2021E
Net income	3.9	6.0	8.6	8.6	9.6	11.4
D&A	0.9	0.6	0.7	0.7	0.9	1.0
Cash earnings	4.8	6.6	9.2	9.4	10.6	12.5
Change in working capital	1.3	-1.6	-3.5	-1.2	-1.4	-1.6
Net change in reserve for empl.term.indemn.	-0.4	0.6	0.6	0.0	0.0	0.0
Capex	-1.9	-1.4	-1.3	-3.9	-2.7	-6.7
Free cash flow	3.8	4.1	5.0	4.3	6.5	4.1
Dividends	-1.3	-1.7	-3.2	-4.8	-4.3	-4.8
Change in equity	0.0	8.1	0.0	0.0	0.0	0.0
Other	0.1	0.2	-0.6	-0.8	0.0	0.0
Change in NFP	2.6	10.7	1.2	-1.4	2.2	-0.7

Source: Mediobanca Securities

APPENDIX

MANAGEMENT TEAM

Pharmanutra: Management team

Members	Role
Andrea Lacorte	Chairman
Roberto Lacorte	Vice-chairman and CEO
Carlo Volpi	COO
Francesco Sarti	CFO
Germano Tarantino	CSO

Source: Company data

Peers description

We have identified a group of international listed peers active in the nutraceutical market. Our panel includes two Swedish companies active in the development and commercialisation of probiotics.

Below, we provide a quick description of the two companies:

- ◆ **Biogaia** is a Sweden-based company engaged in the development and sell of probiotic products, primarily based on the *Lactobacillus reuteri* bacteria. The Company's activities can be divided into three segments: *Finished consumer products*, which distributes tablets, drops, Oral Rehydration Solutions (ORSs), and oral health products, among others; *Component products*, which is responsible for the sale of LifeTop Straw and Life Top Cap, as well as of cultures as an ingredient in licensee products, such as infant formula and dairy products; and *Other products*, which include animal health goods. It collaborates with Nestle, Gerber, Delta Medical, InfectoPharm, Ferring Middle East, AllergyCare, and Ewopharma, among others;
- ◆ **Probi** is a Swedish company engaged in the probiotics research and development. The Company's activities can be divided into two business areas: *Functional Foods*, which focuses on the probiotics application in food in partnership with food companies; and *Consumer Healthcares*, which develops, commercializes and sells Probi probiotics in collaboration with a range of entities, such as pharmaceutical companies and firms related to the production of probiotics and self-care goods. Its brands portfolio includes two trademarks: *Probi Digestis* and *Probi Defendum*. The Company's partners include, among others, Danone, Skanemejerier, NextFoods, Sanum Polska, Heinz, Kraft Foods, and Institut Rosell.

Main players (SEKm) (FY18 data)

	Biogaia	Probi
Revenues	742	604
EBITDA	285	155
% Margin	38.4%	25.6%
EBIT	277	101
% Margin	37.4%	16.7%
Net Profit	215	76
Market cap	6,804	2,548

Source: Mediobanca Securities, Companies' annual reports, prices as of December 13

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Proportion of all recommendations relating to the last quarter			
Outperform	Neutral	Underperform	Not Rated
42.19%	42.71%	15.10%	0.00%

Proportion of issuers to which Mediobanca S.p.A. has supplied material investment banking services relating to the last quarter:			
Outperform	Neutral	Underperform	Not Rated
53.45%	44.07%	42.11%	#DIV/0!

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RATING

The present rating in regard to Pharmanutra has not been changed since 18/12/2019.

INITIAL COVERAGE

Pharmanutra initial coverage as of 18/12/2019.

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