PHARMANUTRA

ACHAT

Iron Leadership Leads PHN to STAR

Target Price : **42€**

Upside : **+21%**

15 December 2020

From Pisa to the Nutraceutical Sector leadership

Pharmanutra is the Italian leader in the development and distribution of nutraceutical products and achieved revenue of about €54m in 2019.
The group is the **undisputed leader in the oral iron supplements market**, with its Sideral product line having a market share of 53% in value. PHN is also a credible player in the topical treatment of muscular pain, thanks to its Cetilar product line.
Pharmanutra's uniqueness stems from an unparalleled intellectual property (IP) production and management strategy. Indeed, PHN has developed innovative patented technologies as well as exclusive active ingredients, creating high barriers to entry on its markets.
The business model largely relies on in-house R&D and a vast network of 170 sales agents in Italy. On the international level, Pharmanutra relies on agreements with trustworthy distributors and local players, which makes it possible for it to rapidly penetrate many markets.

Strategy: National Consolidation, Internal Expansion and R&D

Pharmanutra's future strategy is founded on various pillars: (i) harnessing the fast expansion of the nutraceutical product market in Italy thanks to the strengthening of its sales network, (ii) **expand its international activities** thanks to new distribution agreements and to penetrate key markets, such as the United Kingdom, Germany, France and the United States with its own subsidiaries, thanks to joint-ventures, strategic partnerships and/or M&A activity (iii) to develop **new products and new proprietary technologies** thanks to intensive research and development.

10% Revenue Growth and 12% EBITDA Growth

We expect Pharmanutra's revenues to grow at an average annual growth rate of 9.6% over the next five years to reach €85.7m in 2024. We reckon that **Pharmanutra's EBITDA should increase with a CAGR of 12.1%** over the next five years, to reach €23.3m in 2024. 2020 was an exceptional year, as the Covid pandemic forced the group to reduce its sales&marketing expenditure, which increased the margins (EBITDA margin 2020E to 26.8%). From 2021, Pharmanutra will resume investing heavily again in sales&marketing with a particular focus in activities direct to consumers and R&D. Therefore, we expect the EBITDA margin to decrease to 24.9% in 2021 before normalising at 27.2% again thanks to economies of scale.

Still good upside potential with a target price of €42

We start the hedge on PHN with our BUY recommendation with a **TP of €42**, derived as the average of DCF and stock market multiples. Since its IPO in July 2017, the stock has risen by more than 150% as the market has appreciated its profitable growth and international expansion. The stock is currently trading at 25x FY20E PE and 23x EV/EBIT, **approximately 30% lower than its closest competitors, Biogaia and Probi**. Our buy recommendation is motivated by the exceptional resilience demonstrated during the pandemic, Improving margins and new international distribution agreements.

Market Data	
Industry	Pharma
Share Price (€)	34.9
Market Cap (€M)	337.9
Market Segment	STAR
Bloomberg	PHN IM

Ownership Structure	
Andrea Lacorte	31.4%
Roberto Lacorte	23.1%
Beda srl	10.5%
Free Float	35.0%

€M (31/12)	2019	2020	2021	2022
Sales (€M)	**54.2**	**57.7**	**62.0**	**70.3**
Growth	*12.7%*	*6.5%*	*7.5%*	*13.3%*
EBIT	**12.2**	**12.9**	**13.5**	**16.3**
EBIT Margin	*22.5%*	*22.4%*	*21.8%*	*23.2%*
Net Income	**8.5**	**13.7**	**10.5**	**12.5**
EPS €	**0.87**	**1.41**	**1.08**	**1.29**
EPS growth	*-1.2%*	*61.8%*	*-23.5%*	*19.2%*
Dividend	**0.50**	**0.46**	**0.56**	**0.54**
Yield	*1.4%*	*1.3%*	*1.6%*	*1.5%*
FCF	**7.1**	**11.9**	**6.9**	**7.4**
ROIC	**37.1%**	**38.2%**	**32.3%**	**33.4%**
EV/Sales (x)		**5.7**	**5.3**	**4.6**
EV/EBIT (x)		**23.1**	**24.1**	**20.0**
PE (x)		**31.2**	**32.3**	**27.1**
Net debt	**-11.7**	**-14.4**	**-15.8**	**-18.1**
Gearing net	*-42%*	*-38%*	*-37%*	*-36%*

Midcap Partners estimates

Upcoming Event

TBD

Recommandation History

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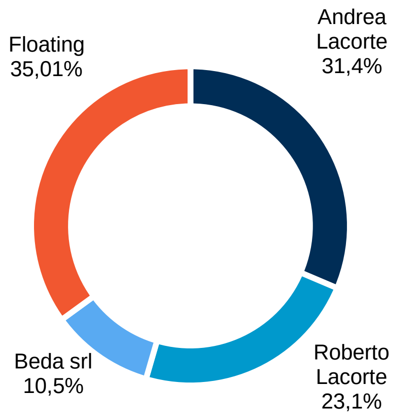
I. OVERVIEW

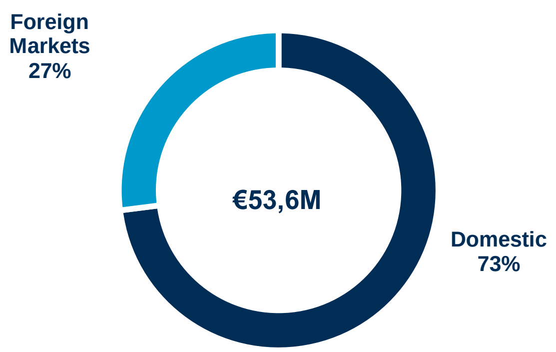
Description

Pharmanutra, founded in 2003 in Pisa, is an Italian pharmaceutical group specialised in in nutraceutical supplements (also known as dietary supplements) and medical devices. The Group deploys its activities in the research, design, development, and sale of its innovative products. Its product portfolio is focused on the over-the-counter oral iron supplements segment with the Sideral product line holding 53% market share in Italy. The group is also present on the muscle pain treatment sector thanks to its Cetilar product line. The products under the brand Cetilar are designed to improve joint health and relieve the joints affected by osteoarthritis. Pharmanutra achieved revenue of about €54m in 2019.

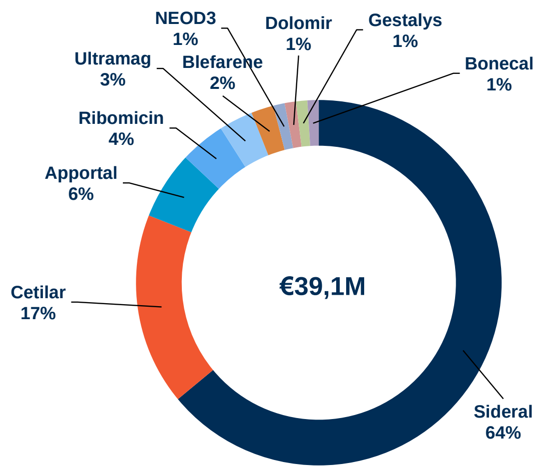
Shareholder Structure



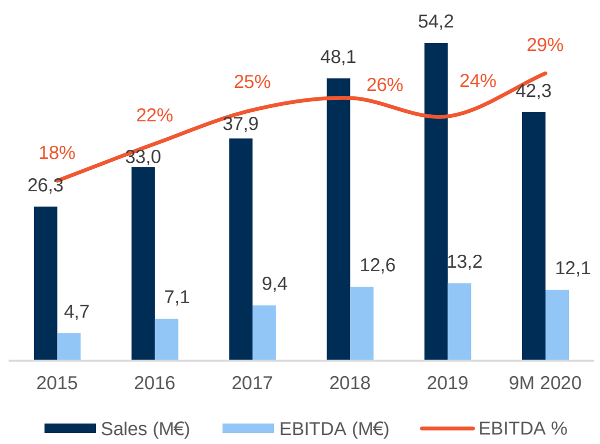
2019 Revenue Breakdown by Geography



2019 Domestic Revenue Breakdown



Revenue, EBITDA and EBITDA Margin Evolution



Pharmanutra Products

Source : Company, Midcap Partners

SWOT Analysis

Strengths

- Leading position in the fast-growing niche market of oral iron supplements
- Patented technologies and production processes not expiring before 2032
- Integrated business model, with the internalisation of all the critical phases of the value chain, including R&D
- Vast distribution network on the internal market which allows efficient coverage of the territory (about 170 agents)
- An "asset-light" business model that promotes cash generation and a high return on capital

Weaknesses

- Very dependent on a single product line
- Still not exposed to key countries including the United States and Germany
- Dependent on third-party distribution agreements internationally
- Small size in a sector where large global players are also present

Opportunities

- Increase the penetration of the internal market, notably thanks to the development of the sales force
- Development of products in new therapeutical fields, as well as new applications for existing products
- Continued international expansion through new marketing agreements, particularly in key markets
- M&A can accelerate the internationalisation process in strategic countries and/or the development of specific targets/segments in the domestic market

Threats

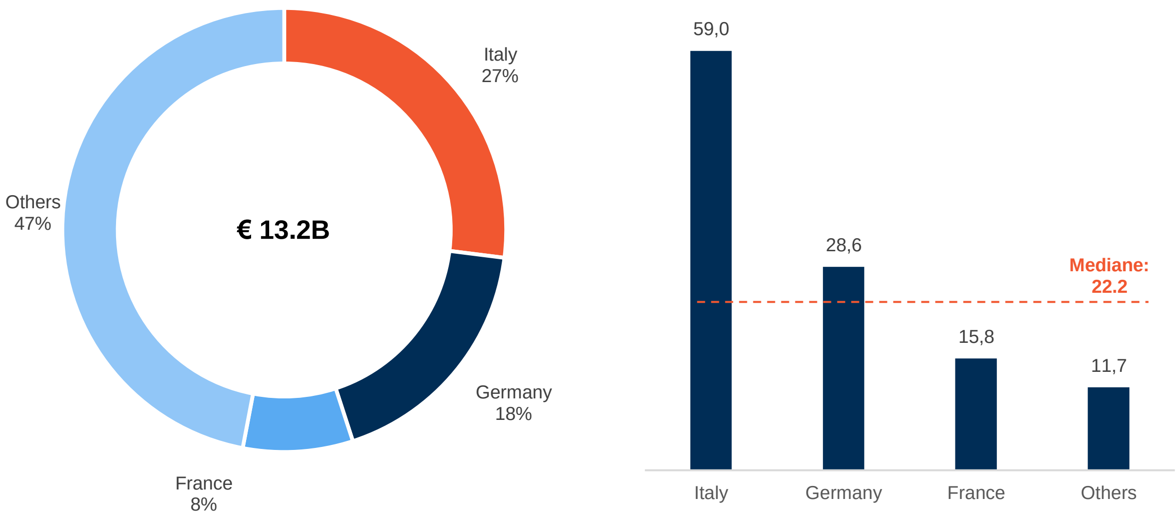
- Heightened competition from existing products or new alternatives
- International expansion slower than expected
- Changes in regulation on dietary supplements
- More significant impact than predicted on margins and/or on the capital absorption of the growth support strategy
- Obsolescence of patented technologies

Sources: Company, Midcap Partners

II. A Still-Growing Market in Italy and Abroad

According to Grand View Research, in 2019, the global dietary supplements market was estimated at about $123bn and is expected to grow with an **average annual rate of 8.2%** until 2027 to reach a total value of about $231bn. The European market recorded a total value of €13.2bn at the end of 2019, with Italy being the main player by far with 27% of the market, followed by Germany with 18% and France with 8%.

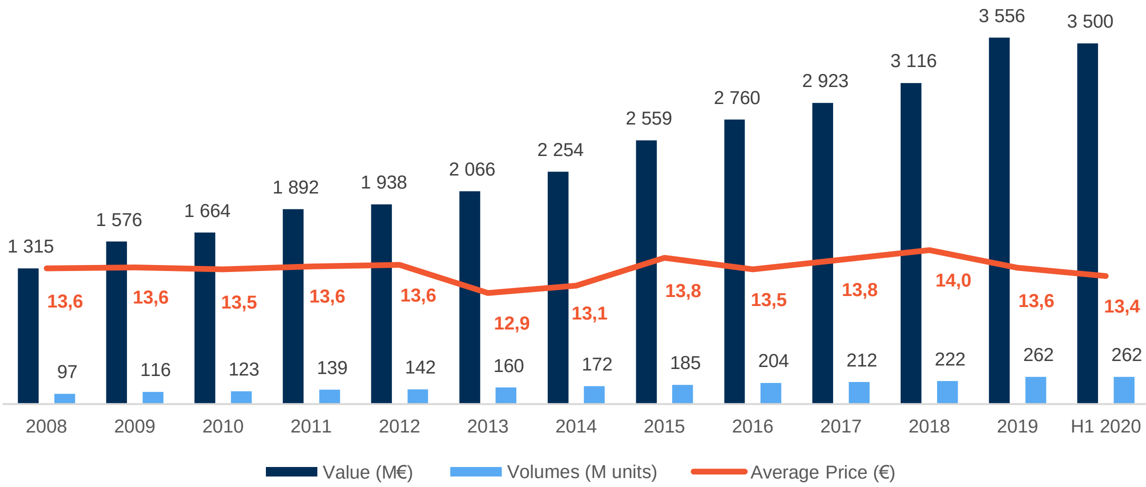
European Dietary Supplements Market (left) and Average Annual Expenditure By Inhabitant in Euros (Right)



Source : Federsalus on IQVIA, Midcap Partners

At the end of 2019, the Italian market reached a value of €3.6bn with 262 million units sold, implying a CAGR of 9.5% from 2008-2019.

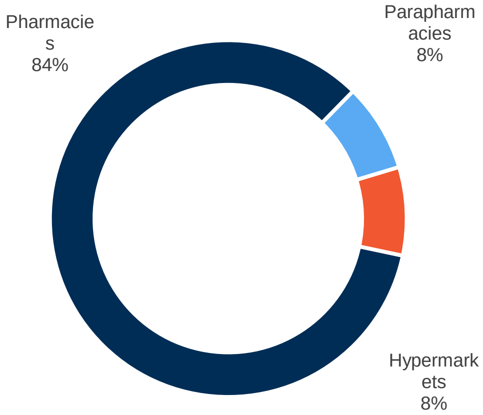
Evolution of the Italian Dietary Supplements Market (2008-H1 2020)

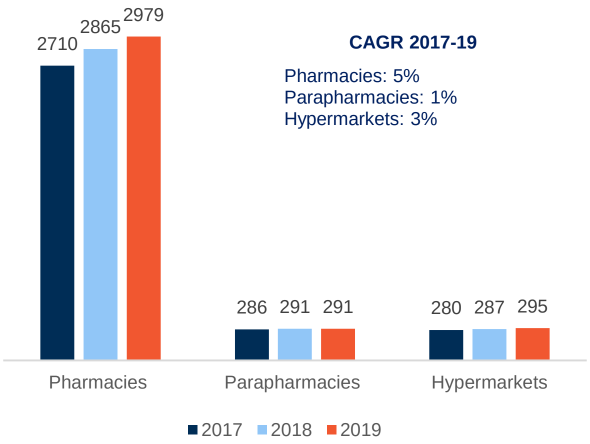


Source : Federsalus on IQVIA, Midcap Partners

Pharmacies and parapharmacies are by far the preferred channels for the purchase of dietary supplements and nutraceutical products by end consumers in Italy, accounting for 92% of revenue. The remaining 8% are accounted for by mass distribution.

Market Segmentation by Distribution Channel H1 2020 (Left) & Distribution Channel Trends 2017-2019 (Right)



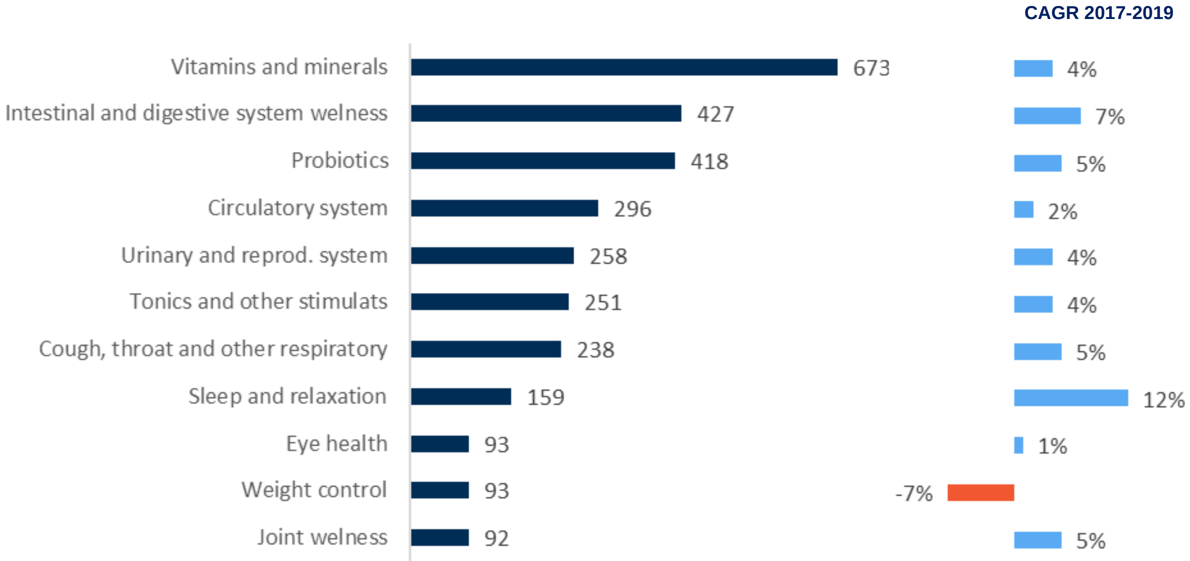


Sources: Federsalus on IQVIA, Midcap Partners

According to Federsalus' data, the large majority of the adult population in Italy (65% or 32 million people) use dietary supplements. In terms of therapeutical fields, the market is extremely diversified, with the "vitamins and minerals" segment valuing €673m at the end of 2019, followed by the "intestine and digestive system" segment for €427m and 'probiotic products' for €418m euros.

In terms of growth, over the last year years, the "sleep and relaxation" segment has seen better growth, reaching a CAGR of 12% over the period, as the "weight control" segment was the only one down (-5%).

Italian Dietary Supplement Market Segmentation (2019)



Source : Federsalus on Rapporto Censis « Il valore sociale degli integratori alimentari 2019 »

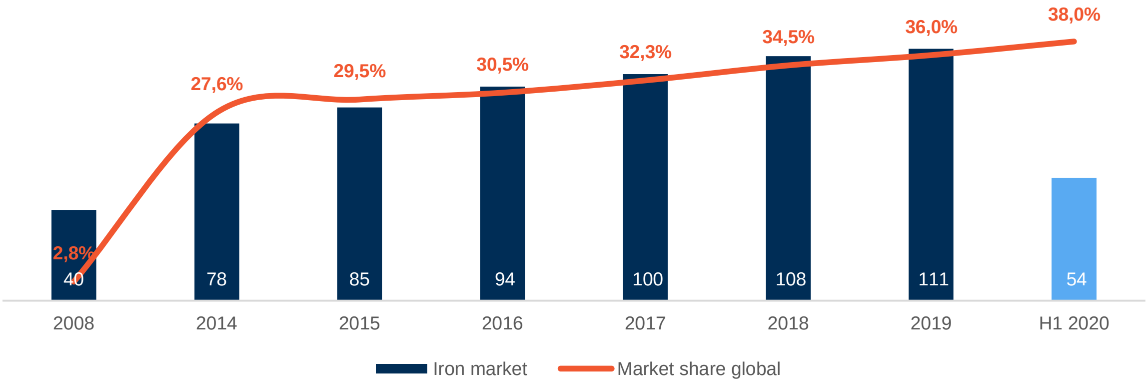
The outbreak of the Covid-19 pandemic led most of the population to reflect on its health status and to rethink its food habits. As a result, over the first half of the year 2020, we have seen an increase in the consumption of food supplements designed to strengthen the immune system and improve general well-being. Over this period, we also saw a new trend: the online pharmacy channel, which increased 64% compared to the same period the year before to reach €82m. Dietary supplements are the main category of products sold and account for about 50% of total value.
In conclusion, dietary supplements are increasingly prescribed, and reached 28.6 million prescriptions in 2019 compared with 23.9 million in 2017 (CAGR of 9.3% over the period).

Oral Iron Supplements Market

Iron is an essential micro-element for a well-functioning human metabolism because it is vital to the production of haemoglobin, which transports oxygen to cells inside the red blood cells. An iron deficiency can affect all age categories, mainly children, teenagers, women of reproductive age, pregnant and breastfeeding women. The World Health Organisation (WHO) states that iron deficiency is the most common and widespread nutritional disorder in the world with more than 1 billion people living with iron deficiency anaemia. These figures make iron deficiency the planet's main nutritional problem, mainly affects emerging countries, with a high concentration in Africa and Asia, being at the same time the only nutrient deficiency which is also significantly prevalent in virtually all industrialized nations.
According to Credence Research, in 2017, the global iron supplements market was estimated at €3bn and is expected to reach €6.4bn in 2025 (CAGR 2017-2025 of 9.3%). The growing demand for iron is due to consumers' increasing concern with well-being, the expansion of iron-based therapeutic solutions and population growth.

In Italy, the iron supplements market valued €111m at the end of 2019, with a CAGR of 6% over the past four years. Pharmanutra is the industry leader with the Sideral product line which reached an absolute market share of 38% at the end of the first half of 2020. Moreover, it should be noted that only 3 out of 10 anaemic people regularly assume iron and of these only 2 out of 10 people use Sideral, which is why management believes that **there is still tremendous room to grow and gain market share.**

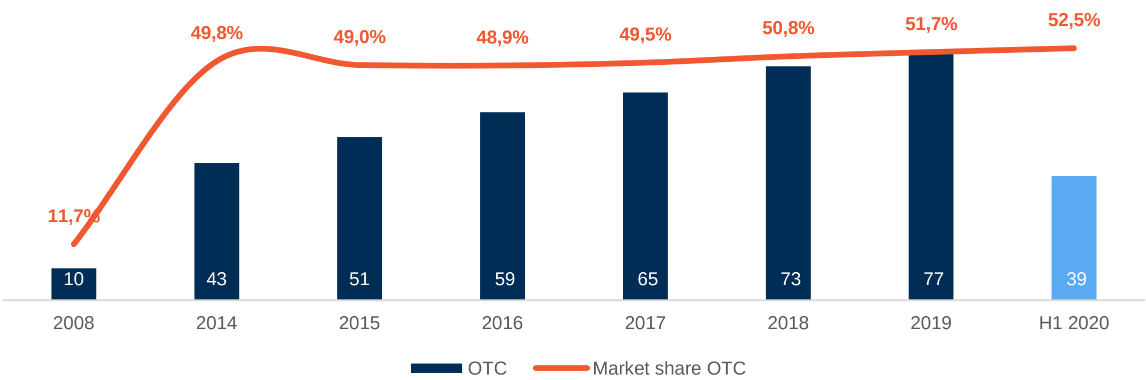
Evolution of Italian Oral Iron Market (€m) & Sideral's Market Share (%)



Source: Company on IQVIA data

By considering only the products sold over the counter, the iron food supplements market valued €77m at the end of 2019, with a CAGR of 9.5% over the past four years. According to this analysis, Pharmanutra's leadership in the industry is becoming clearer, attaining 53% of market share over the first half of this year.

Evolution of Italian Oral OTC Iron Food Supplements Market (€m) & Sideral's Market Share (%)

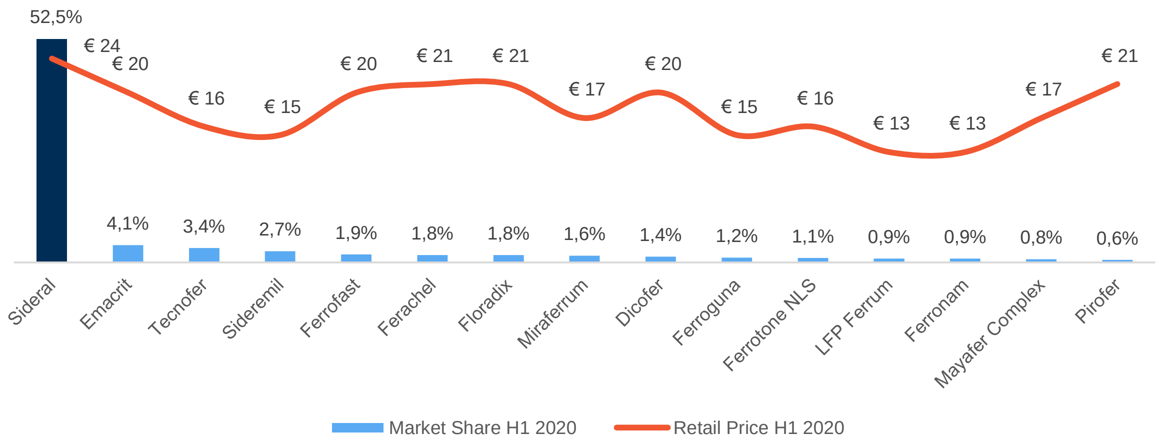


Source: Company on IQVIA data

The information published by Pharmanutra on the iron supplements market also show Sideral's dominant position, that the market is highly fragmented, with the leading competitor stopping at a market share of 4.1%.

Regarding prices, Sideral benefits from a privileged position on the market, with the highest retail prices on the market (€24/unit), representing 34% more than the market average (€17.9/unit). Sideral is sold at a significant premium price due to its uniqueness, efficiency and reputation. Studies published in scientific journals show that Sideral bioavailability is 4x higher than its competitors.

Iron Food Supplements Market Composition (June 2020)



Source: Company

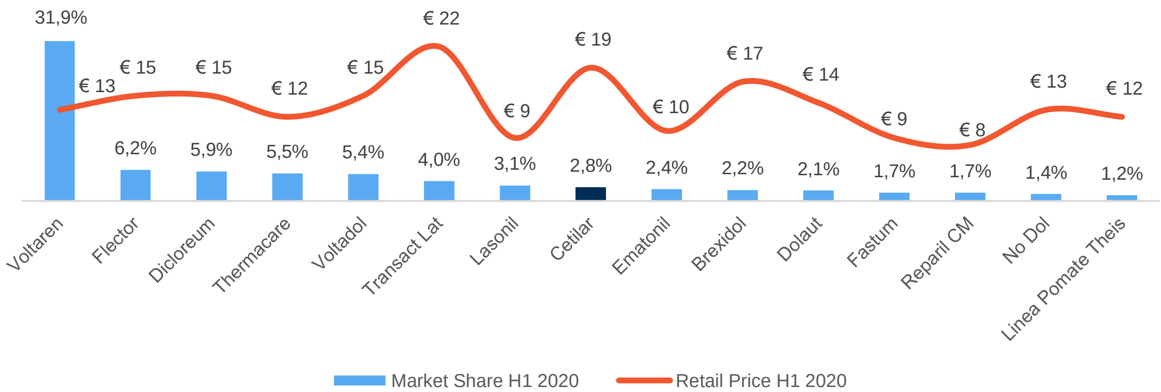
Muscular Pain Treatment Market

According to Allied Market Research, the global topical painkiller market was valued at $7.481bn dollars in 2017 and is expected to reach $13.276bn by 2025, with a CAGR of 7.4% from 2018 to 2025. By type, the topical pain relief market is divided into prescription and over the counter (OTC) pain relief. The over-the-counter pain relief segment accounted for the largest market share in 2017 due to the widespread availability of these products with high success rates and few secondary effects. Furthermore, the pain relief segment by patch is expected to expand at an annual growth rate of 9.0% over the forecast period.

Unlike the iron supplements market, the topical painkiller market is a lot more mature and the big multinational pharmaceutical companies such as Johnson & Johnson, Novartis and GSK also compete on it. The market leader is Voltaren (produced by Novartis) which had a 32% market share at the end of June 2020. The remaining part of the market is very fragmented, as all the other competitors have a market share below 6%, including Cetilar with 2.8%.

Regarding price, the average retail price in the sector is €13.53, with a minimum of €8.0 and a maximum of €22.0. Cetilar is in second place with a selling price of €19.0.

Muscular Pain Treatment Market Composition (June 2020)



Source: Company

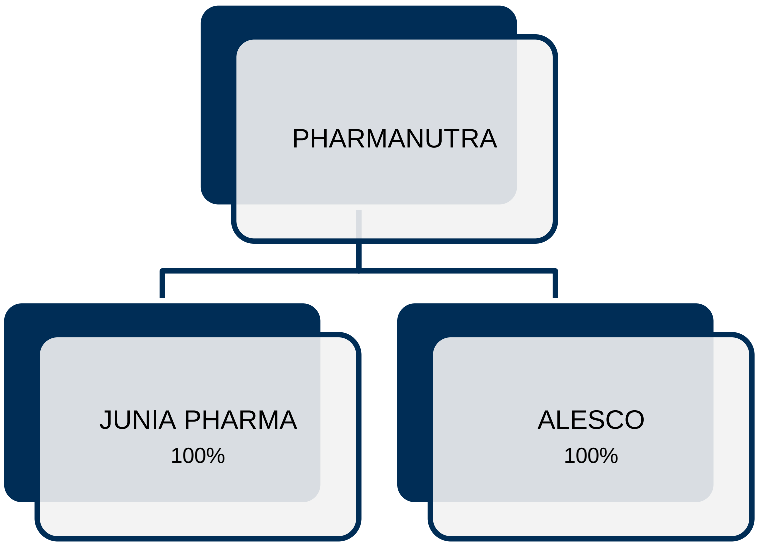
Cetilar was developed to treat osteoarthritic-type joint disorders, to improve joint function and movement ability and to reduce painful symptoms. The product is based on cetylated fatty acid (CFA) and was approved by the Italian Ministry of Health in October 2016 as a Medical Device Class 2A. Massaging with Cetilar cream quickly reduces joint and musculoskeletal pain, is useful for regaining mobility during period of rehabilitation following inflammatory and traumatic events and can be useful in the case of sports injuries to the joints.

III. A Combination of Innovative Products and a Successful Business Model

Pharmanutra, founded in 2003 in Pisa, is an Italian pharmaceutical group specialised in dietary supplements and medical devices. The Group deploys its activities in the research, design, development, and sale of innovative products. Its product portfolio is focused on the over-the-counter oral iron supplements, with the Sideral product line having 53% market share in Italy. The products under the brand Cetilar are designed to improve joint health and relieve the joints affected by osteoarthritis. Pharmanutra achieved revenue of about €54m in 2019. The company is expected to continue growing thanks to its high added value products on a dynamic market. Management is confident about the group's outlook and should make acquisitions in the near future, supported by the solid financial situation.

Pharmanutra has control of its two subsidiaries. Alesco Srl develops and distributes raw materials (active substances) for the dietary and pharmaceutical supplements industry. Junia Pharma Srl develops and markets drugs, medical devices and dietary supplements. It specialises strongly in paediatrics. The group has implemented a production strategy and intellectual property management relying on the active integration of active substances (patented), patents, brands, and clinical trials.

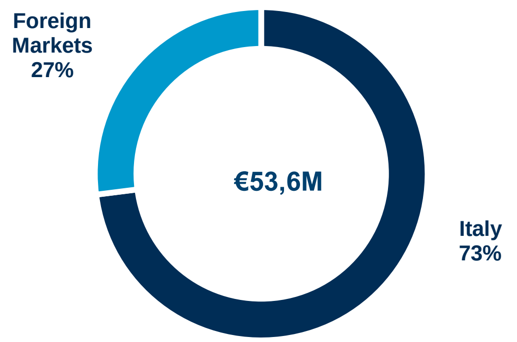
Group Structure



Source: Company

At the end of 2019, the group recorded revenue of €53.6m, up 15% compared to the year before. Most of the revenue was achieved in Italy (73% of revenue for FY 2019) and the rest was in 57 international countries thanks to several distribution agreements signed with local distributors. However, in terms of volume, international markets account for 62% of total units sold. In terms of products, the Sideral line accounted for 64% of units sold on the Italian market, followed by the Cetilar line (17% of units sold), while the rest included all the other product lines.

2019 Revenue segmentation



Source: Company

A Portfolio of Products with High Added Value

The group has developed a very targeted product offering. Pharmanutra has two main product groups:

- **Sideral:** oral iron supplements
- **Cetiral**: topical muscle pain treatment

The two product lines are covered by patents that will expire in 2032 for Sideral and 2035 for Cetilar. The group also offers other supplements, such as magnesium and other vitamins.

It is important to note that Pharmanutra develops, makes internally and patents the active ingredients underlying its products. This creates a high barrier to entry for new competitors. To this day, the group has total ownership of 17 active ingredients, 17 patents and 34 trademarks.

Product Portfolio

Product	Segment	Active Principle	Patent	Company	LB1 Volumes *
Sideral	Iron Supplement	Sucrosomial Iron	2032 EU; 2033 US	Pharmanutra	64%
Cetilar	Muscle Pain	Cetylated Fatty Acids (CFA)	2035 EU	Pharmanutra	17%
Apportal	Vitamin Integrator	Several Vitamins		Pharmanutra	6%
Ribomicin	Antibiotic	Gentamicine		Junia Pharma	4%
Ultramag	Magnesium Integrator	Magnesium		Pharmanutra	3%
Blefarene	Cleasing Towels	n.a.		Junia Pharma	2%
NEOD3	Vitamin Integrator	Vitamin D		Junia Pharma	1%
Dolomir	Oropharyngeal Treatment	Myrrh		Junia Pharma	1%
Gestalys	Vitamin Integrator	Microalgal DHA		Pharmanutra	1%
Bonecal	Vitamin Integrator	Several Vitamins		Pharmanutra	1%

* only Sales in Italy

Sources: Company, Midcap Partners

SIDERAL

The Sideral product group mainly contributes to Pharmanutra's direct sales (64% of direct sales) and in the first half of 2020, it attained 53% market share in Italy for over-the-counter iron supplements. These products are sucrosomial iron oral supplements necessary in the case of nutrient deficiency. The group has developed the "sucrosomial technology" internally since 2012. This production technology enables the iron to resist the gastric environment and to be directly absorbed in the intestine. This eliminates all recurring gastrointestinal side effects linked to iron intake. The Sideral product group includes **several variants specifically designed for each situation requiring an iron supplementation**.

We do not have the technical-scientific skills to assert that Pharmanutra's Sucrosomial technology is better than its competitors', but we can point out that, as opposed to competitors, **this technology**

has been the subject of 100+ studies and research by prestigious university teams and research centre, both in Italy and abroad, which demonstrate the superiority of Sucrosomial ® Iron compared to the other sources of iron available in the market.

Sideral Product Portfolio

Sources: Company, Midcap Partners

CETILAR

Cetilar is the second biggest product in Pharmanutra's portfolio. Last year, it accounted for 17% of the group's sales volumes and reached a 2.9% share in the topical muscle pain relief market. PHN has a patent lasting 20 years for Cetilar in Europe, which expires in 2035. This product is used for the treatment of local symptoms at joint and muscle level, including sports injuries. Cetilar has been studied for treating traumas resulting from bruising and stretching, sprains and strains. Recently, Pharmanutra launched a new product in the Cetilar range: Cetillar Tape. This is an innovative adhesive inelastic tape which is easily applied, based on certified vegetable fatty acids (CFA) and menthol. This product guarantees a prolonged benefit for muscles, joints, and tendons thanks to its progressive release action.

Cetilar Product Portfolio

Sources: Company, Midcap Partners

OTHER PRODUCTS

- ✓ **Apportal:** a dietary supplement containing 19 nutrients, including 5 minerals (selenium, iron, zinc, magnesium, and iodine), developed by the Sucrosomial® technology exclusive to Pharmanutra. In 2019, the product contributed to 6% of the group's sales volume.
- ✓ **Ribomicin:** Gentamicin-based ocular antibiotic marketed by the subsidiary Junia Pharma. In 2019, the product contributed 4% to the group's sales volume.
- ✓ **Ultramag:** is a magnesium dietary supplement based on a patented sucrosomial technology. In 2019, its volumes accounted for 3% of the total group sales.

Other Products

Sources: Company, Midcap Partners

INDUSTRIAL MODEL

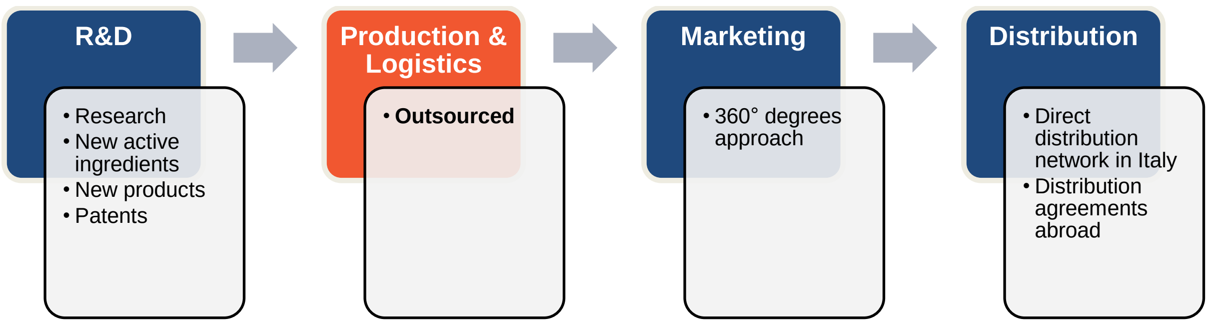
Pharmanutra keeps control of its value chain by only externalizing production activities and logistics, because they have low added value. The group focuses its attention on research and development, the marketing and domestic distribution network. Pharmanutra maintains that this business model allows the company to bring new products to the market much faster than its competitors.

It is believed that the traditional pharmaceutical business model, where research and development activities are separated from marketing and sales activities, takes 5 to 10 years to develop and launch a new product on the market. Pharmanutra has reduced this drastically to a period of between 1 to 3 years.

Pharmanutra has implemented a **rigorous methodology for the acquisition and management of its intellectual property in order to create a sustainable competitive advantage** as well as significant barriers to entry for new competitors. We think that no other company of the nutraceutical industry focuses so much on its intellectual property, certainly in Italy. At 30.06.2020, the group had 17 registered patents, 17 patented active ingredients, 34 registered products and 123 completed clinical trials.

As already mentioned, production and logistics are outsourced to leading third party companies (CMO: Contract Manufacturing Organization).

Industrial model



Sources: Company, Midcap Partners

R&D – Fully in house

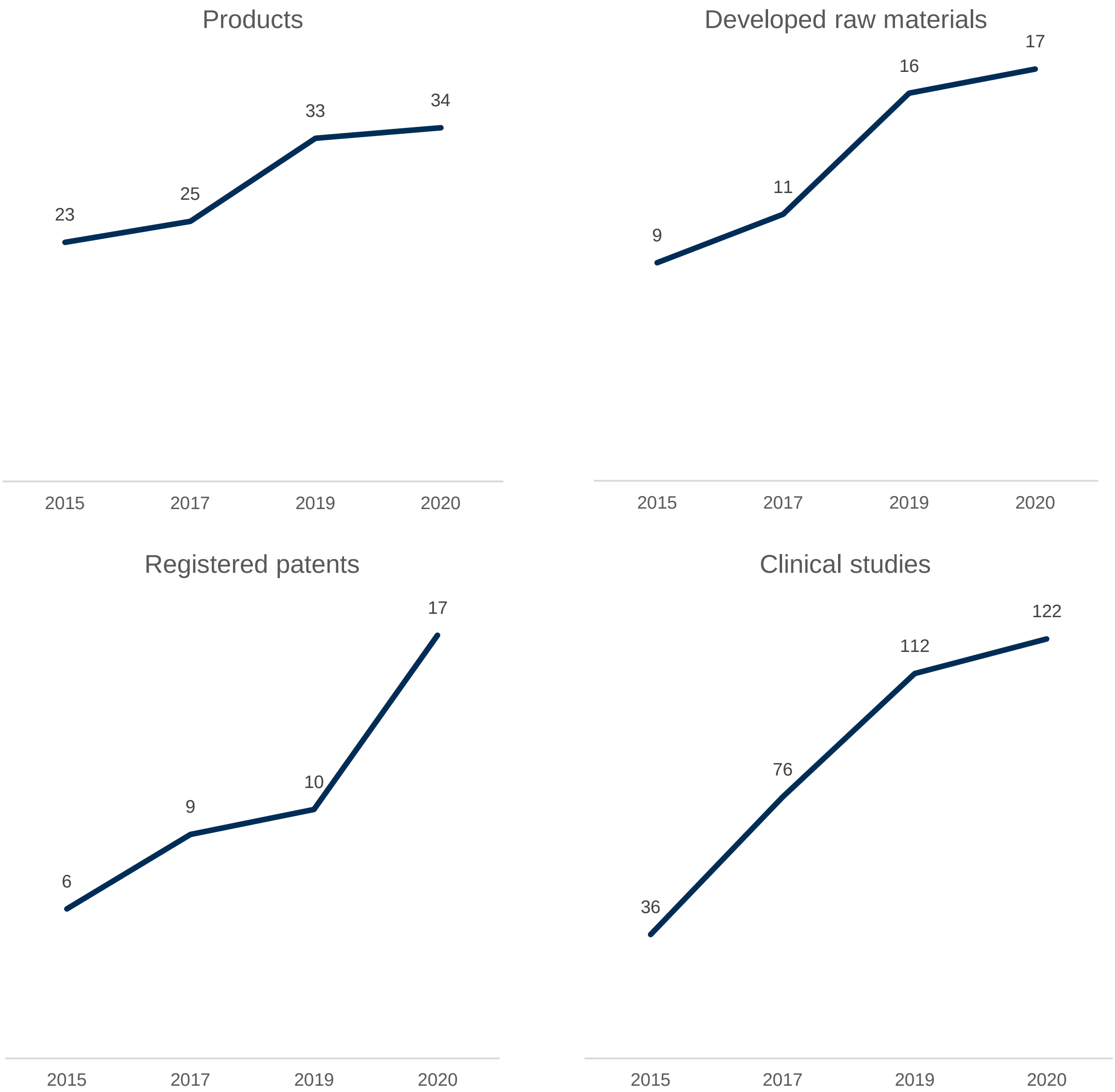
The research and development department is the core of Pharmanutra's success. The research team is composed of 10 experienced scientists, who study new formulations and products aiming at maximising the efficiency of patented raw materials. This department also collaborates with external institutions, in particular through partnerships with universities worldwide.

Discovery: PHN has the in-house capability to develop innovative formulations and finished products which may be subject to international patents.

Development of Active Ingredients: starting from raw materials, the group, via its subsidiary Alesco, develops in-house active ingredients which will serve as a base to its products.

Laboratory Tests and Clinical Trials: Laboratory tests are carried out in-house and in partnership with the best Italian and international universities and laboratories of analysis. The internalisation of this process is strategic as it enables Pharmanutra to access study results in real time and to minimise the time gap between the discovery and the sale phases. Subsequently, clinical trials are carried out to scientifically prove the efficacy of the products developed. On this topic, the group plans to involve more and more prestigious national and international institutes to increase the relevance of the clinical data published on its products.

R&D Results (2015 – 2020)



Sources: Company, Midcap Partners

Production – Almost Entirely Externalised

Provision of Raw Materials – In-House -: the Alesco subsidiary is in charge of providing raw materials, as well as of developing and producing active ingredients which underlie the group's products.

Production - Externalised-: all Pharmanutra and Junia Pharma's marketed products are made by selected reliable third-party manufacturers (CMO: Contract Manufacturing Organization) all located in Italy.

Logistics - Externalised-: Finished product deliveries to wholesalers and pharmacies are carried out by one of the largest pharmaceutical product distributors in Italy. As far as foreign distributors are concerned, deliveries are made by international couriers.

Marketing – In-House
Pharmanutra strategically decided to manage its marketing and communication functions in-house. Almost all the resources for this strategic activity are concentrated on Sideral, Cetilar, Apportal and Ultramag. Furthermore, the sales&marketing division works closely with the scientific division to train foreign distributors, the sales force on the Italian territory and the organisation of trade fairs and events.

Multichannel Communication Plan

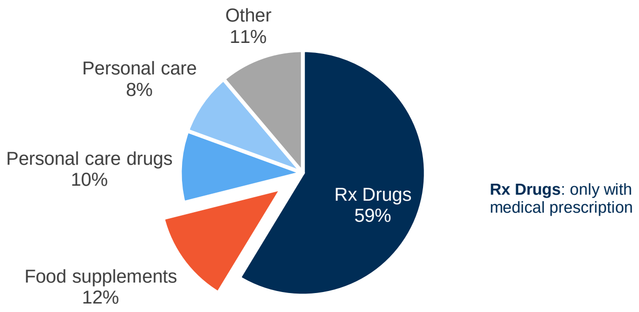
Sources: Company, Midcap Partners

DISTRIBUTION – in-house –

Regarding distribution, Pharmanutra has a dual approach:

1. Direct distribution network in Italy: on the national level, the group relies on a vast network of about 170 sales representatives (Informatori scientifici commerciali, ISC). The ISC cover all the market players, represented by doctors (general practitioners and specialists), pharmacies, hospitals, and wholesalers. The company invests massively in the training of its sales force, which is responsible for sales and medical detailing. Since 2017, the ISC has increased by about 40 people, going from 130 to 170 at the end of 2019 and the company expects to reach 200 in the near future.

Segmentation of Sales by Pharmacy Channel



Source: Federsalus on IQVIA Data

2. Distribution Contracts for Foreign Countries: For the sale of products abroad, Pharmanutra has replied on local distributors since 2013. This approach has enabled the group to penetrate several markets quite quickly, with very limited investments. Nowadays, **PHN is present with its product in 57 countries through 39 distributors**. The distribution contracts generally provide for territorial exclusivity and a duration of several years. For these reasons, their negotiation can last up to 24 months. Recently, Pharmanutra finalised numerous international distribution agreements covering countries such as Mexico, Bolivia, Hungary, Romania, the Czech Republic, Greece, Cyprus, and Slovakia.

On December 1, Pharmanutra has strengthened its existing partnership relations with the Zambon Group, defining an extension to its agreement for distribution in Brazil of two nutritional supplements with Sucrosomial® Iron. The two flagship products, leaders in their respective sectors, are Sideral Forte 30mg and Sideral Drops that will be distributed by Zambon in Brazil as of next year joining Sideral 14mg present on the Brazilian market since March 2016.

On November 18 Pharmanutra signed two new distribution agreements for the markets of Greece & Cyprus and the Mauritius Islands. As regards Greece and Cyprus, the agreement concerns the Cetilar line, which will be distributed by Winmedica, a leading Greek pharmaceutical company that will distribute Sideral from 2014 and Ultramag from 2017.
As far as Mauritius islands are concerned, the agreement was signed with Cucray Lenoir, a company founded in 1956 and active also in Madagascar, Seychelles, Comoros Islands, Rwanda, South Sudan and Eritrea, and concerns the distribution of Sideral.

On September 10, the group signed an exclusive distribution contract for four of the Sideral brand's products with Drogueria Intl, the largest pharmaceutical company in Bolivia with over 82 years of history, over 1,000 employees and 400 medical representatives. It should be noted that Bolivia has more than 10 million inhabitants and one of the strongest growth rates in South America, about 5% before the Covid crisis.

On February 7, the group signed an exclusive distribution contract for the Sideral brand's products with Casa Marzam, one of the oldest Mexican pharmaceutical companies with over 84 years of history, 10 distribution channels and 200 medical representatives. On the same date, a distribution agreement for Sideral's products was signed with Zentiva KS for the Czech Republic and Slovakia, confirming Pharmanutra's strong desire to expand in central Europe.

Among the most important distributors there are:

Zambon: an Italian multinational company present in 84 countries with more than 3,000 agents worldwide. It distributes Pharmanutra products in Spain, Portugal, and Brazil.

Generica: engages in the engineering and development of medical products. It offers medicaments, medical devices, vitamins, and food supplements. The company was founded on September 19, 2007 and is headquartered in Istanbul, Turkey.

Zentiva: A successful company whose origins date back as far as 1488, when an entrepreneurial pharmacist in a Prague pharmacy created what is today one of the leading players in the European pharmaceutical market. Also active in Italy since 2011, Zentiva distributes SiderAL Forte in Romania, the Czech Republic and Slovakia, crucial and strategic hubs that propel PharmaNutra towards rapid and significant growth in Eastern European markets.

Fresenius Kabi: Fresenius Kabi is a global healthcare company specialised in medicines and technologies for infusion, transfusion, and clinical nutrition. FK distributes Sideral's products in Austria, Switzerland, and Hungary.

Pharmapal: the company was founded in 1998, as a full-service distributor handling exclusive products tailor-made to meet the demands of the U.A.E in its fast-growing landscape and continuous developments in the healthcare industry. Pharmapal distributes and sells in the UAE with its network of well-trained agents and partnership with international pharmaceutical and para-pharmaceutical groups ensuring the full coverage of the country.

Winmedica: one of the leading Greek pharmaceutical companies, also operating in Cyprus, which has been collaborating with Pharmanutra since 2014 with excellent results and a wide product portfolio including Ultramag and Cetilar in addition to Sideral.

IV. Future strategy: Italy + Abroad (Distributors and M&A)

Pharmanutra's medium-term strategy is built on 4 fundamental pillars:

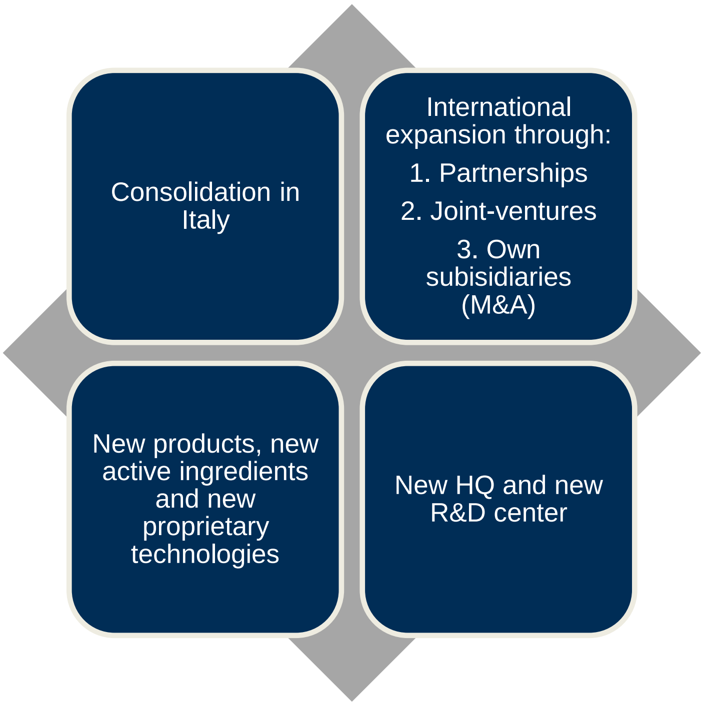
- ✓ **Consolidation of Its Position in Italy:** PHN continues to see significant opportunities for expansion in Italy, mainly due to its leadership on the oral iron integration market. Management expects this market to **continue to grow at high single-digit** in the next 5 years. To continue to harness this growth in the internal market, Pharmanutra plans to continue expanding its sales representatives' network to 200 employees over the next 18 months.
  Management is also actively monitoring the domestic market for scouting any potential M&A target having complementary products and/or distribution networks.

- ✓ **International Expansion**: The group continues to develop abroad, relying only on top distributors. As a strategy, Pharmanutra proposes Sideral as its main product and aims to sell the group's other products in a subsequent phase (**cross-selling**). Regarding the key countries such as the U.K., the U.S., Germany and France, management thinks that a distribution agreement is not the only option. For this reason, PHN monitors these markets to capture any opportunity to create joint-venture or to establish its own subsidiaries and to create its own distribution network in order to penetrate the market much more significantly. For this type of strategy, M&A activity could be a tactical option. Assuming maximum financial debt of 3x EBITDA, the group can now count on **more than €60m to finance its acquisitions**.

- ✓ **New Headquarters and Research Centre**: last summer, Pharmanutra invested €3m to acquire the structure where the new headquarters and research centre will be. We estimate that about €15m will be necessary over the next 24 to 30 months to finalise this investment mainly funded through cash flow generation.

- ✓ **New products:** thanks to strong R&D activity, we predict that the group will expand its product portfolio in the coming years, covering new therapeutical domains and developing new proprietary technologies. Management has indicated that there are numerous products under development.

Fundamental Pillars of the Future Strategy

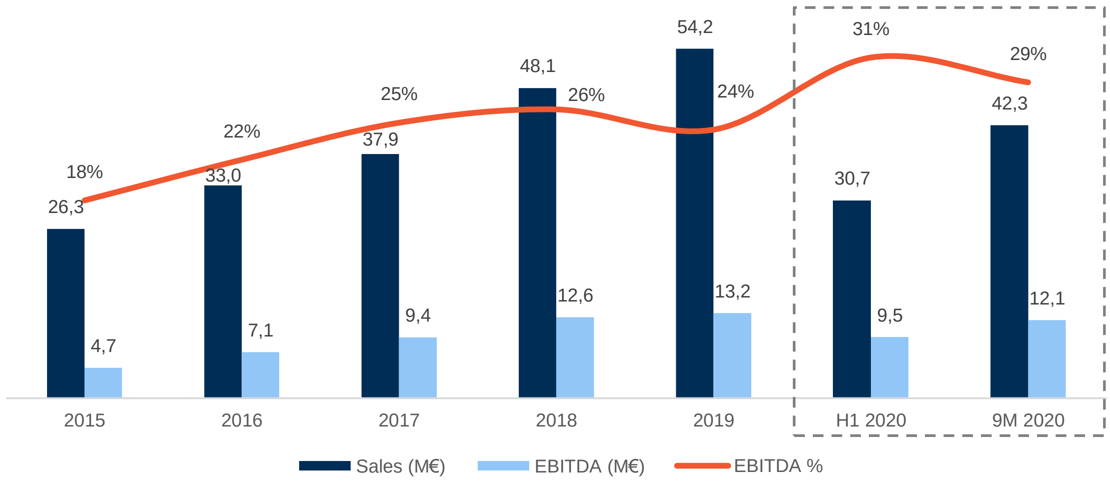


Source: Midcap Partners

V. Financial Analysis: Margins Progressing in Line with Revenue

Over the past five years, the group has seen very strong revenue growth, going from €26m in 2015 to about €54m in 2019 (20% CAGR). This growth is mainly the result of Sideral's performance, the launch of new products such as Cetilar and international expansion. Moreover, the group has managed to grow its EBITDA margin more than proportionally compared to revenue, taking its from 18% in 2015 to 24% at the end of 2019 (29% CAGR over the period).

Revenue and EBITDA Evolution Over the Past Five Years (2015-9M 2020)



Source: Company

In terms of revenue by segment, national revenues reached €39m at the end of 2019 (78% of revenues), up 14.7% compared to 2018, while foreign revenues reached €14m (22% of revenues), up 16.7% compared to the year before.

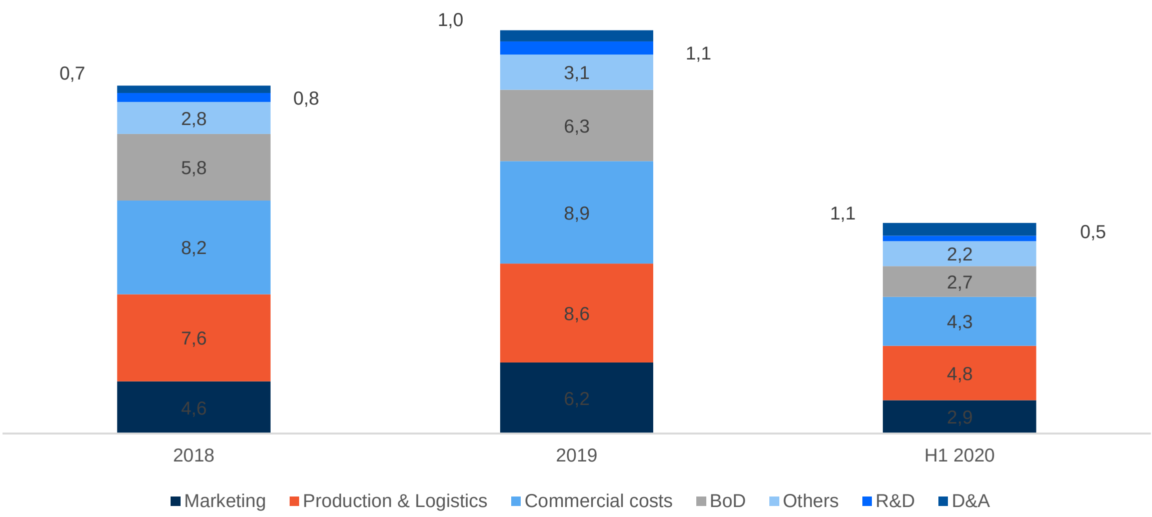
The coronavirus epidemic affected the first half of the year 2020, slowing value growth in Italy, which only increased by 5.3% compared to the same period the year before. The group's sales abroad were not affected by the crisis since they grew by 57% compared to the year before thanks especially to the development of existing clients.

Revenue Evolution by Segment (2016 – H1 2020)

Source: Company

More specifically, Pharmanutra's cost structure is divisible into seven categories: (i) Amortisation and impairment, (ii) Production and logistics, (iii) Trade costs, (iv) Marketing, (v) R&D, (vi) Governing body and (vii) Others.

Detailed Cost Trends in €m (2018 - H1 2020)



Source: Company

Marketing Costs: As the group manages its activity independently, it spent €6.2m in 2019 (11% of revenue) and €2.9m in the first half of 2020 (10% of revenue).

Production and Logistics Costs: As PHN outsources these low-added value activities, they could be classified as external costs. In 2019, they reached €8.6m (16% of revenue) and €4.8m in the first half of 2020 (15% of revenue).

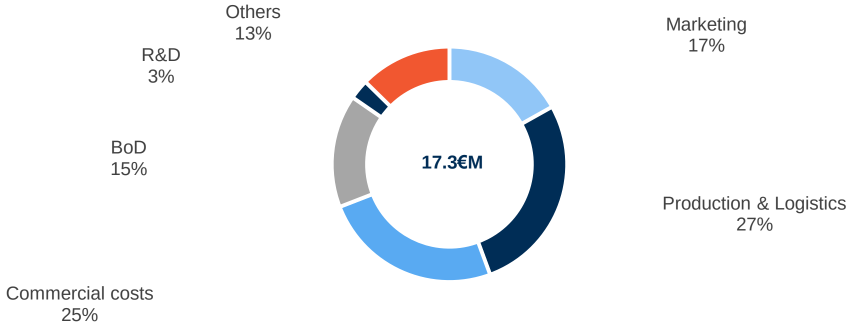
Commercial Expenses: are still part of the cost of services and include the remuneration of the group's approximately 170 sales representatives. At the end of 2019, they accounted for €8.9m (16% of revenue) and at the end of the first half of this year, they reached €4.3m (14% of revenue).

Board of Directors: the remuneration of legal entities such as BoD plays an important role in cost analysis given that in 2019, it accounted for 12% i.e. €6.3m, and at the end of the first half of 2020, it reached €2.7m (9% of the period's revenue).

Research and Development: this has historically been about 2% of revenue, reaching €1.1m in 2019 and €0.5m in the first half of 2020.

Other Operating Costs represent between 6 and 7% of revenue with a value of €3.1m at the end of 2019 and 2.2 million at the end of the first half of 2020.

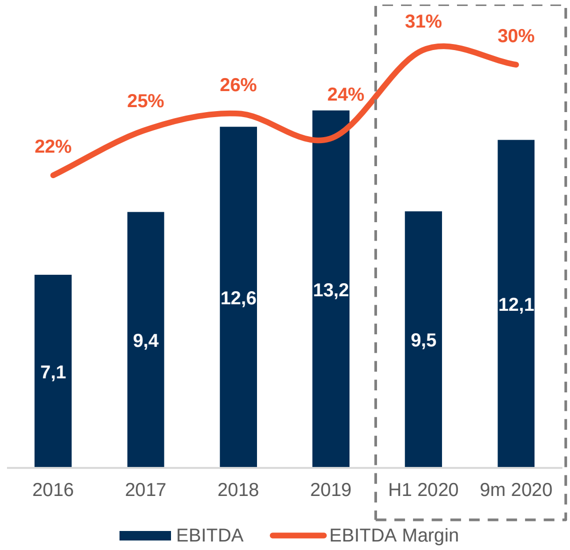
Detailed Costs for Services (H1 2020)

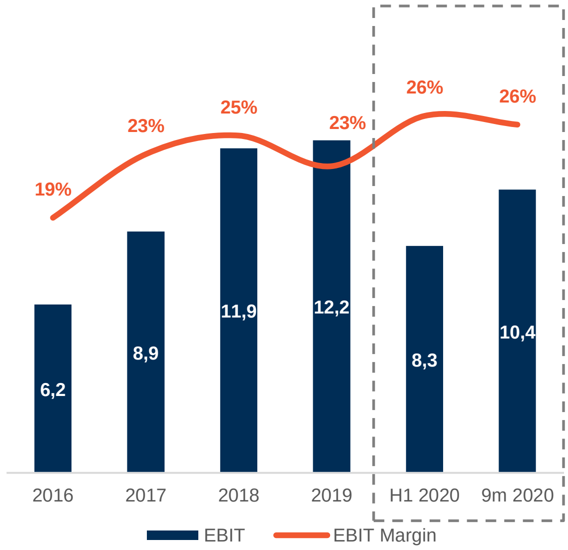


Source: Company

In terms of profitability, EBITDA has grown constantly in recent years, going from €7.1m in 2016 to €13.2m in 2019. Over the first half of the year 2020, Pharmanutra transformed the crisis brought about by COVID to make the cost structure more effective and thus achieved the best EBITDA margin ever achieved, at 31% of revenues.
Thanks to the lean business model, amortisations over a small part of the group's costs, which ensures that EBIT does not deviate too much from EBITDA. At the end of 2019, EBIT reached €12.2m (23% of sales). In the first half of 2020, following the same EBITDA trend, PHN published the best EBIT in its history, at €8.3m (26% of sales).

EBITDA and EBIT Trends 2016 – 9M 2020 (€m)

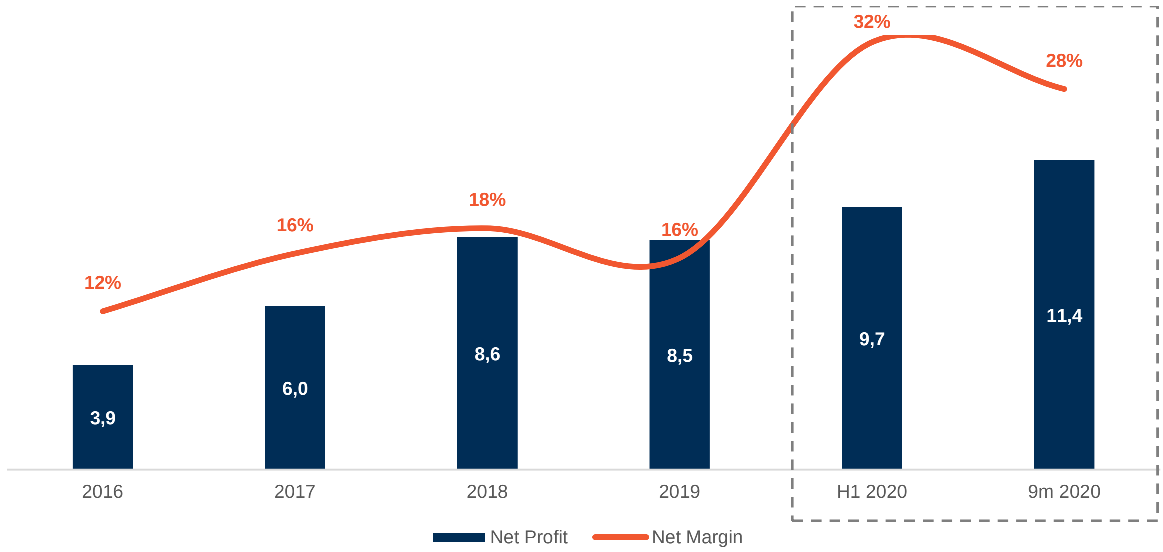




Source: Company

In the end, due to the limited financial debt, the interest expenses are negligeable. Net profit at the end of 2019 reached €8.5m (a 16% margin), i.e. more than double the €3.9m at the end of 2016 (a 12% margin).
Over the first half of 2020, thanks to the "**patent box**" tax benefits reaching €3.1m made it possible to reach a record net profit of €9.7m (32% of revenue).
Without this tax benefit, net income would have reached €6.6m, or 21.5% of revenue, the best margin in its history.

Net Profit Trends 2016 – 9M 2020 (€m)



Source: Company

Working Capital:

Between 2016 and H1 2020, Pharmanutra's WCR went from €5.6m (17% of revenue) to €9.9m (16% of revenue). This momentum demonstrates the limited absorption of working capital while the group has seen significant growth:

- ✓ **Trade receivables:** these followed the increase in revenue and remained within a range of 26 to 28% of revenue.
- ✓ **Inventories:** has a structurally limited impact, between 3 to 5% of revenue over the past four years.
- ✓ **Accounts payables:** have slightly increased, from 13% in 2016 to 15% in 2019, thanks to better contractual conditions taken with suppliers in view of the company's excellent performance.

Working Capital M€	2016	2017	2018	2019
Inventories	1.097	1.878	2.149	1.853
% sales	*3%*	*5%*	*4%*	*3%*
Receivables	8.736	10.084	12.977	15.028
% sales	*26%*	*27%*	*27%*	*28%*
Payables	4.197	4.860	6.666	8.165
% sales	*13%*	*13%*	*14%*	*15%*
Trade WC	5.636	7.102	8.460	8.716
% Sales	*17%*	*19%*	*18%*	*16%*

Sources: Company, Midcap Partners

Capex:

Pharmanutra has a low capital-intensive business model as it outsources almost all production activities. The main part of investments is characterised as development costs. In 2019, investments reach €4.9m (9% of revenue) due to the €3m investment for the group's new headquarters.

Highly Cash Generating Business Model:

Between 2016 and 2019, the cash conversion capacity was always between 40 and 50% of EBITDA. This strong cash generation enabled the company to pay substantial dividends to its shareholders, which rose from €1.7m in 2016 (44% of payout) to €4.5m in 2019 (53% of payout). It should also be remembered that, in 2017, the group benefited from the €8.6m capital increase at the time of its IPO.

Covid Focus

Pharmanutra's half-year results were, as mentioned above, very good, with revenue and margins exceeding expectations. The same positive trend persisted during Q3 2020.
The company achieved revenue of €29m for the first six months of the year, representing a 17% increase compared to the same period the year before. This growth was mainly driven by international markets which saw 57% growth compared to the year before, while the Italian market stopped at +5% due to movement restrictions imposed in Italy to sales representatives. In terms of EBITDA, the group reported a value of €9.4m, up 48% compared to H1 2019. Equally, the EBITDA margin increased by 32.5%, i.e. 700 base points, thanks to lowered marketing costs and event sponsorship costs due to the pandemic. As a result, the period's net income came out at €9.7m, i.e. more than double compared to H1 2029, thanks to the exceptional €3.4m tax benefit resulting from the "patent box". The benefit of the patent box is another differentiating element of Pharmanutra, as it **is a valid recognition of the results deriving from the intellectual property of the group**. Excluding this benefit, net income amounted to €6.2m, a 57% increase compared to the year before.

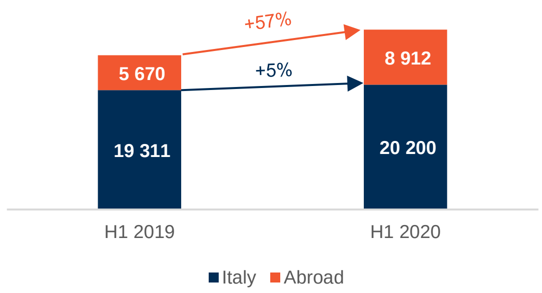
These interesting results are the product not only of the quality of its products, but also of a rapid and targeted management response when coronavirus exploded. During the crisis, PHN managed to:

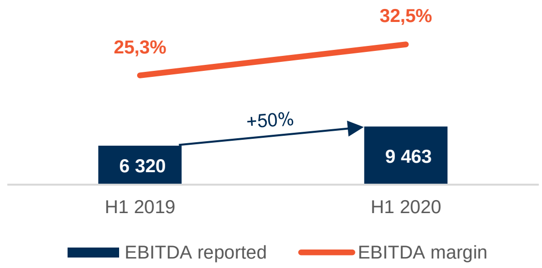
- ✓ Launch new marketing campaigns on innovative channels
- ✓ Implement a digital platform for its sales force
- ✓ Sign distribution agreements for its products with several online distributors

Moreover, PHN's flexibility and adaptability was demonstrated when, at the beginning of the pandemic, management was able to create a new distribution centre in Lazio in just three weeks so as not to depend exclusively on the one already operating in Lombardy, the epicentre of the pandemic in Italy.

Profit and Loss Account H1 2020 vs H1 2019 (€/000)

Semester results	H1 2019	H1 2020
Product sales	24,981	29,112
change yoy		*16.5%*
Italy	19,311	20,200
change yoy		*4.6%*
Abroad	5,670	8,912
change yoy		*56.9%*
EBITDA reported	6,320	9,463
EBITDA margin	*25.3%*	*32.5%*
change yoy		*49.7%*
Net Income	3,980	9,679
change yoy		*143.2%*
Patent box effect	- -	3,431
Net Income adj	3,980	6,248
change yoy		*57.0%*

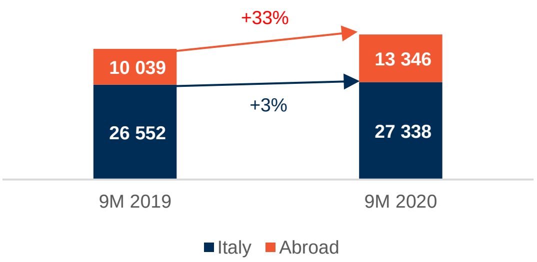


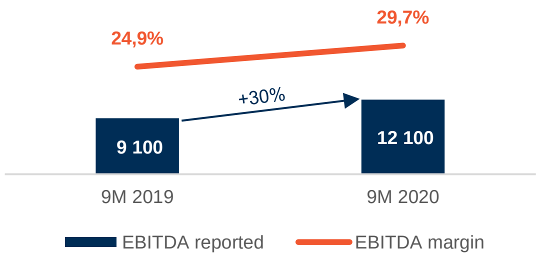


Sources: Company, Midcap Partners

Profit and Loss Account 9M 2020 vs 9M 2019 (€/000)

9 months results	9M 2019	9M 2020
Product sales	36.591	40.684
change yoy		*11,2%*
Italy	26.552	27.338
change yoy		*3,0%*
Abroad	10.039	13.346
change yoy		*32,9%*
EBITDA reported	9.100	12.100
EBITDA margin	*24,9%*	*29,7%*
change yoy		*33,0%*
Net Income	5.800	11.400
change yoy		*96,6%*
Extraordinary items	- -	2.500
Net Income adj	5.800	8.900
change yoy		*53,4%*



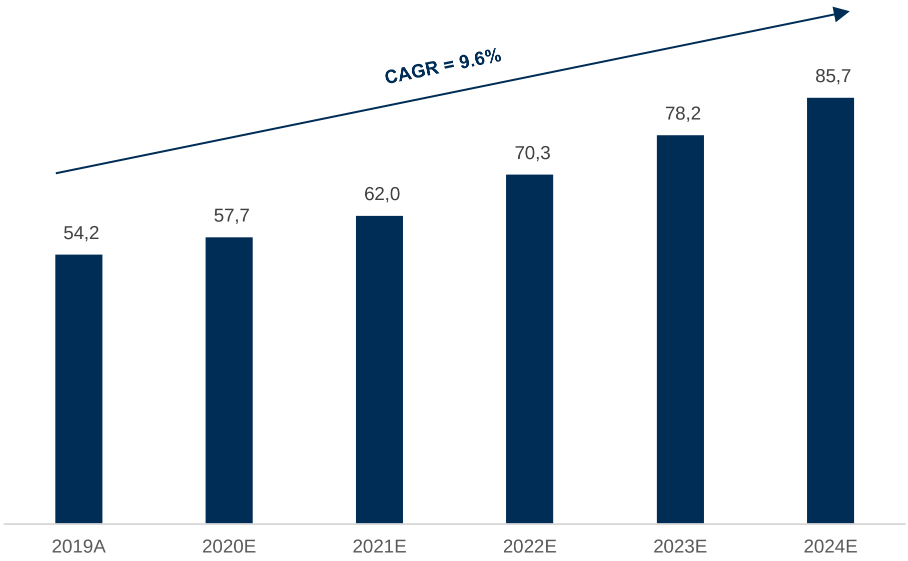


Sources: Company, Midcap Partners

VI. Estimates: Growth Is Not Over

We predict that **Pharmanutra's revenue will reach a CAGR of 9.6%** over the next five years, thanks to the expansion of its sales network in Italy and distributors abroad. Thanks to the excellent performance in H1 2020, we expect Pharmanutra to finish the year with €57.7m revenue, representing a 6.5% increase compared to 2019.

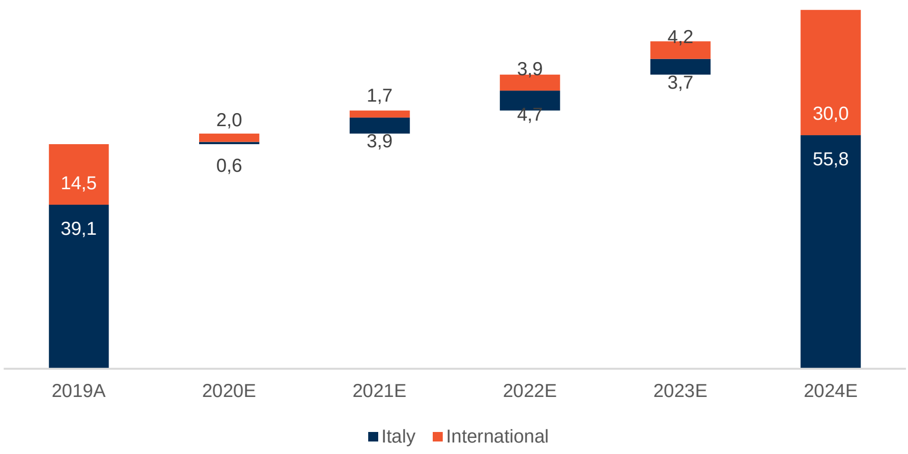
Value of Production Trend 2019A – 2024E (€m)



Sources: Company, Midcap Partners

Regarding the composition of the revenue, we expect Italy to grow by 7.3% over the next five years. We expect international markets to see a stronger growth rate with a CAGR of 15.7% over the same period.

Revenue Evolution 2019A – 2024E by segment (€m)



Sources: Company, Midcap Partners

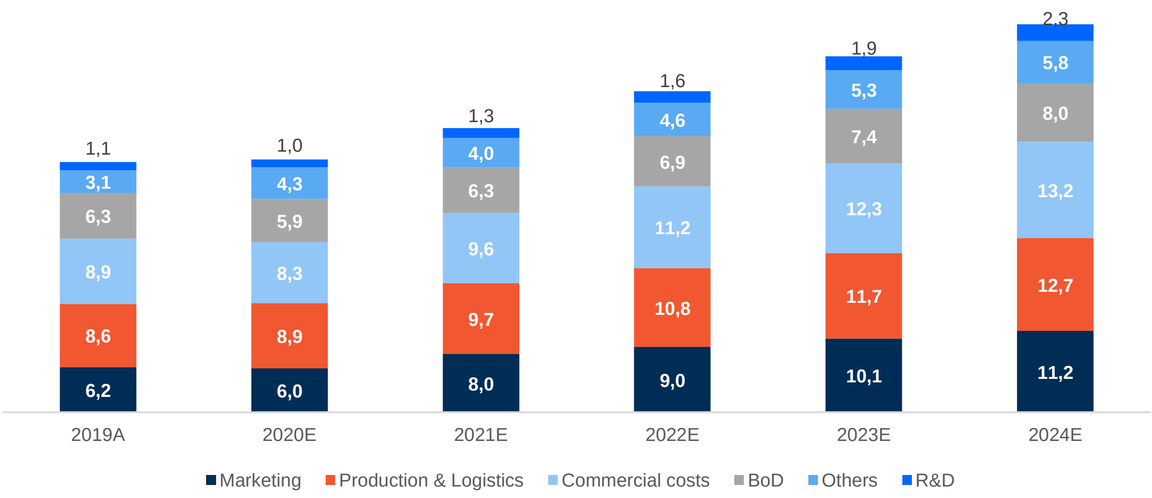
We believe that Pharmanutra's EBITDA should increase with an 12.1% CAGR over the next five years, to reach €23.3m in 2024. As we have already pointed out, 2020 has been an exceptional year, since the Covid epidemic forced the group to lower its marketing expenses, which increased margins.

However, PHN needs to and wants to invest more to continue growing both in Italy and abroad. This is why we are sharing the following hypotheses:

- ✓ **Marketing costs** will increase by €2m in 2021 for the investment delayed by the Covid-19 epidemic and after by roughly €1.2m per year, to reach €11.2m in 2024, compared to €6.2m in 2019.
- ✓ **R&D costs** will increase by 20% per year, going from €1.1m in 2019 to €2.3m in 2024.
- ✓ **Commercial costs** will go from €8.9m in 2019 to €13.2m in 2024 due to the strengthening of the national sales force.
- ✓ **Other expenses** will increase accordingly to the group growth by roughly €0.6m per year.

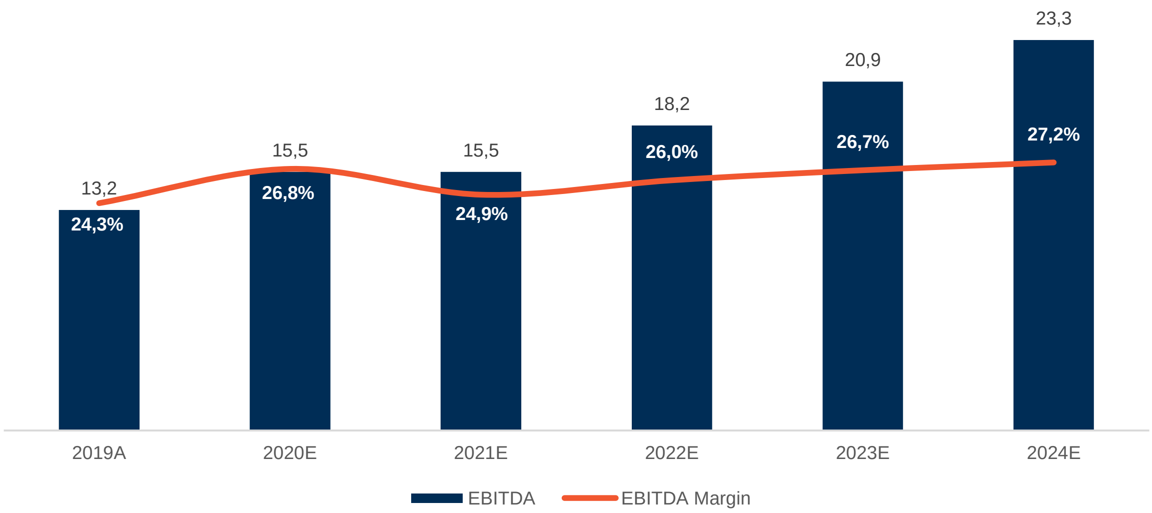
For all these reasons, we expect to see the EBITDA margin dropping at 24.9% in 2021 and then stabilise over 27.2% in 2024.

Evolution of Costs and Segmentation 2019A – 2024E (€m)



Sources: Company, Midcap Partners

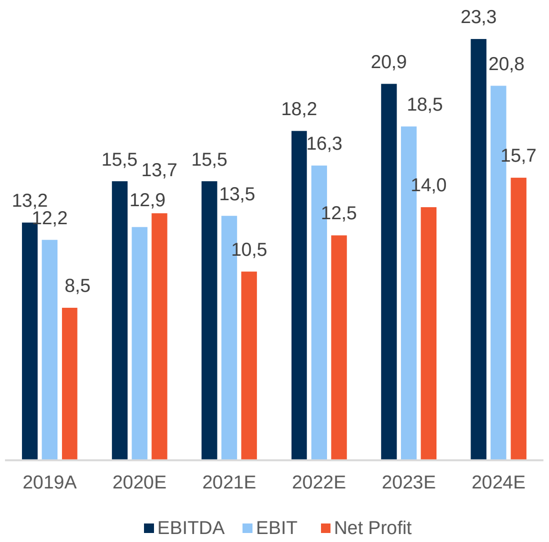
EBITDA and EBITDA Margin Evolution 2019A – 2024E (€m)

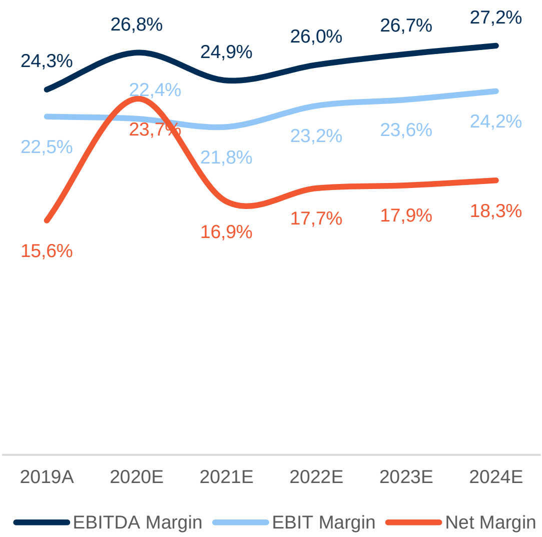


Sources: Company, Midcap Partners

Thanks to its lightweight structure and the relative absence of financial debt, development, and administrative costs as well as financial costs, will marginally affect PHN's profit and loss.
Furthermore, thanks to the "patent box", we have estimated a tax benefit of €800k a year between 2021 and 2024. Generally, we expect the net income to increase at an average annual growth rate of 13.1% over the next five years to reach €15.7m in 2024.

Evolution of EBITDA, EBIT, Net Income and Margins (2019A – 2024E)

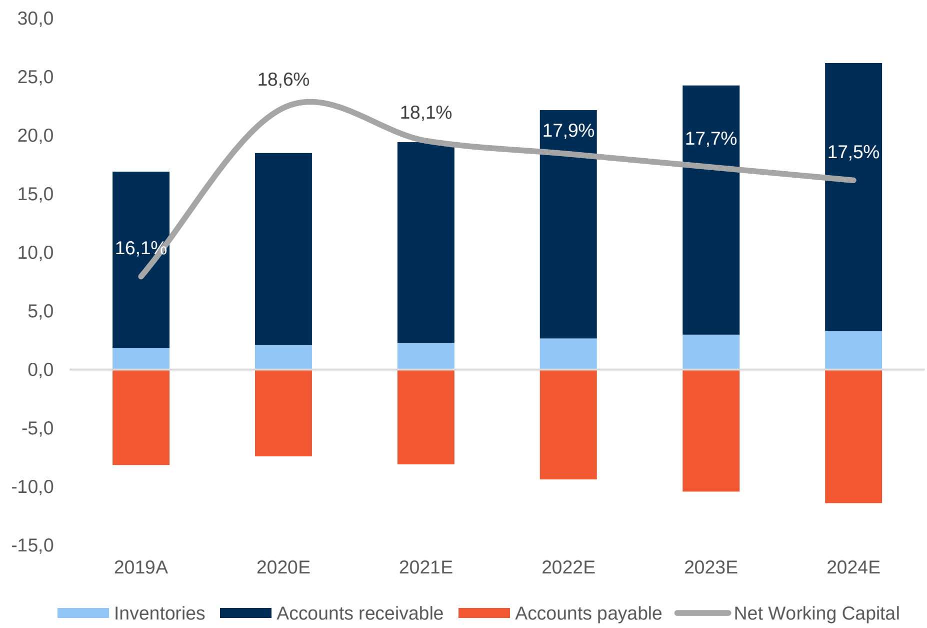




Sources: Company, Midcap Partners

For the next five years, we predict WC absorption to remain low thanks to the outsourcing of production and logistics activities. Moreover, we think that Pharmanutra, thanks to its larger size, will be able to secure slightly more favourable payment terms.

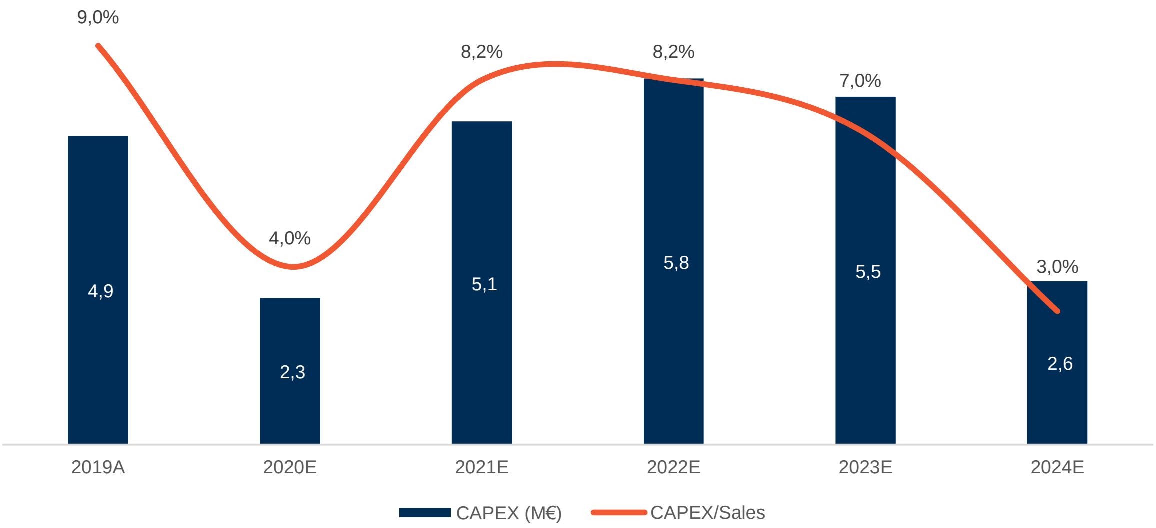
Working Capital Trend (2019A – 2024E)



Sources: Company, Midcap Partners

We expect investment expenditure to grow significantly, over the next 24 months, thanks to the completion of the new headquarters and research laboratory. We foresee about €15m of one-time investments in this context over the next 30 months.

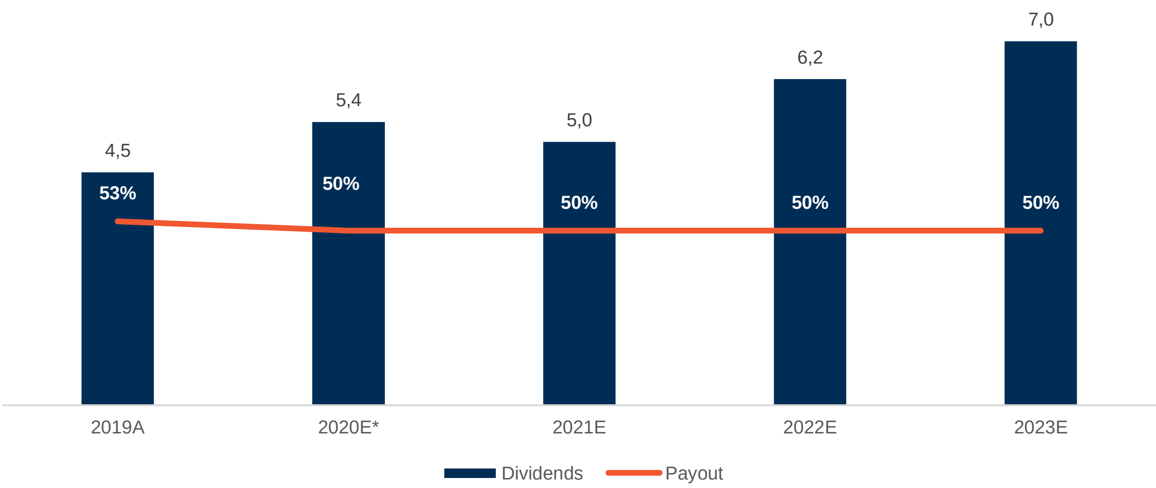
Capex Trends (2019A – 2024E)



Sources: Company, Midcap Partners

We expect Pharmanutra to produce strong cash flows over the next five years, despite increased investments.
The group will thus be able to distribute generous dividends, with a 50% distribution rate, to reach €7.0m in 2024.

Dividends paid trend in €M (2019A – 2024E)



2020E : 50% payout computed on the Adjusted Net Income*

Sources: Company, Midcap Partners

VII. Valuation: Still undervalued

Methods used for evaluation

In order to determine the intrinsic value of Pharmanutra, we have mainly used the discounted free cash flow method (50%) and the valuation method based on stock market multiples (50%).

Our valuation does not consider foreign M&A transactions that would have a positive impact on the growth of the group and its valuation.

DCF actualisation methods

For this approach, we use the following assumptions:

Normative flows

- ✓ Terminal Growth Rate of 3.0%
- ✓ EBITDA margin stable at 27.8% in 2030E
- ✓ Capital Expenditure (Capex) stable at 2.0% of Revenue
- ✓ Depreciation & Amortization (D&A) stable at 2.0% of Revenue
- ✓ Working Capital between 20.0 and 22.0% of Revenue

Discount rate: ***WACC 7.2%***

- ✓ A risk-free rate of 0.55%% (10-year Italian BTP)
- ✓ A size, liquidity, and country premium of 2.0% (200bps)
- ✓ A beta re-levered of 0.58 integrating a 100% Equity capital structure
- ✓ An after-tax cost of debt of 1.4%

DCF discounting method : Flow chart

DCF Valuation - FCFF *(All figures in K EUR millions)*	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Sales	62,030	70,280	78,222	85,746	93,055	99,969	106,301	111,871	116,508	120,062
% YoY	*7.5%*	*13.3%*	*11.3%*	*9.6%*	*8.5%*	*7.4%*	*6.3%*	*5.2%*	*4.1%*	*3.0%*
EBITDA recurring	15,455	18,239	20,862	23,348	25,475	27,498	29,360	31,004	32,377	33,432
% margin	*24.9%*	*26.0%*	*26.7%*	*27.2%*	*27.4%*	*27.5%*	*27.6%*	*27.7%*	*27.8%*	*27.8%*
Depreciation & Amortization	1,918	1,914	2,374	2,596	2,658	2,684	2,672	2,620	2,530	2,401
% of Sales	*3.1%*	*2.7%*	*3.0%*	*3.0%*	*2.9%*	*2.7%*	*2.5%*	*2.3%*	*2.2%*	*2.0%*
EBIT	13,538	16,324	18,489	20,753	22,818	24,814	26,688	28,383	29,847	31,031
EBIT Margin	*21.8%*	*23.2%*	*23.6%*	*24.2%*	*24.5%*	*24.8%*	*25.1%*	*25.4%*	*25.6%*	*25.8%*
Marginal tax rate	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%
NOPAT	9,761	11,770	13,330	14,963	16,452	17,891	19,242	20,464	21,520	22,373
Add: Depreciation & Amortization + NCC	1,918	1,914	2,374	2,596	2,658	2,684	2,672	2,620	2,530	2,401
Less: Capital Expenditures	5,086	5,763	5,476	2,572	1,861	1,999	2,126	2,237	2,330	2,401
% of Sales	*8.2%*	*8.2%*	*7.0%*	*3.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Net Working Capital	14,937	16,108	17,198	18,192	19,554	20,804	21,907	22,828	23,538	24,012
% of Sales	*24.1%*	*22.9%*	*22.0%*	*21.2%*	*21.0%*	*20.8%*	*20.6%*	*20.4%*	*20.2%*	*20.0%*
Less : Working Capital Changes	396	1,171	1,090	995	1,362	1,250	1,102	921	710	474
% of Sales	*0.6%*	*1.7%*	*1.4%*	*1.2%*	*1.5%*	*1.3%*	*1.0%*	*0.8%*	*0.6%*	*0.4%*
Unlevered Free Cash Flow	**6,196**	**6,750**	**9,138**	**13,991**	**15,886**	**17,325**	**18,685**	**19,926**	**21,009**	**21,899**
Cash conversion on EBITDA	*40%*	*37%*	*44%*	*60%*	*62%*	*63%*	*64%*	*64%*	*65%*	*66%*
Discount Period	1	2	3	4	5	6	7	8	9	10
Discount Factor	93%	87%	81%	76%	71%	66%	61%	57%	53%	50%
Present Value of Free Cash Flow	**5,779**	**5,872**	**7,415**	**10,589**	**11,214**	**11,407**	**11,475**	**11,414**	**11,225**	**10,913**

Sources: Company, Midcap Partners

Valuation summary

Valuation Summary

Terminal Value Calculation:	
Perpetuity Growth Rate	**3.0%**
Terminal Year Free Cash Flow	21,899
Terminal Value	542,024
TV as a % of EV	*74%*
Implied Terminal EBITDA Multiple	16.2 x
Terminal Free Cash Flow Multiple	24.8 x
Discount Factor	50%
NPV of Terminal Value	**270,101**

Cumulative NPV of Free Cash Flow	97,304
NPV of Terminal Value	270,101
Enterprise Value	**367,405**
Less : Bridge	-11,672
Equity Value	**379,077**
Shares Outstanding	9,681
Price Per Share	**€ 39.2**
Potential upside	**12.2%**

WACC CALCULATION	
Risk free rate (10 YR Italian Bond)	0.55%
Size, liquidity, place premium	2.0%
Beta	0.58
Equity premium	8.0%
Cost of equity	**7.2%**
Interest rate	2.0%
Tax rate	27.9%
Cost of debt (after tax)	**1.4%**
% equity	100.00%
% debt	0.00%
Indirect Method WACC	**7.2%**

Sources: Company, Midcap Partners

Sensitivity Analysis

Price		WACC				
		6.2%	6.7%	**7.2%**	7.7%	8.2%
Perpetuity growth rate	2.0%	€ 42.2	€ 37.4	€ 33.5	€ 30.4	€ 27.7
	2.5%	€ 46.5	€ 40.6	€ 36.0	€ 32.3	€ 29.3
	3.0%	€ 52.2	€ 44.8	**€ 39.2**	€ 34.8	€ 31.2
	3.5%	€ 60.0	€ 50.2	€ 43.1	€ 37.7	€ 33.5
	4.0%	€ 71.4	€ 57.7	€ 48.3	€ 41.5	€ 36.4

Enterprise Value		WACC				
		6.2%	6.7%	**7.2%**	7.7%	8.2%
Perpetuity growth rate	2.0%	€ 396.7	€ 350.3	€ 313.0	€ 282.3	€ 256.7
	2.5%	€ 438.5	€ 381.7	€ 337.3	€ 301.5	€ 272.1
	3.0%	€ 493.4	€ 421.7	**€ 367.4**	€ 324.8	€ 290.5
	3.5%	€ 568.9	€ 474.4	€ 405.7	€ 353.7	€ 312.8
	4.0%	€ 679.3	€ 546.8	€ 456.2	€ 390.4	€ 340.5

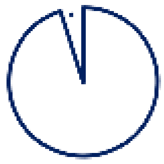
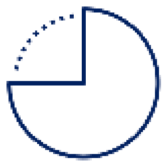
Sources: Company, Midcap Partners

According to the DCF method, the enterprise value (EV) amounts to €367M and, by subtracting the net financial position, we have estimated an equity value of €379M or **€39.2 per share** (potential upside of 12.2%).

Peer Company Analysis Method

Pharmanutra is quite a unique company, with a very strong franchise in the iron market, therefore we decided to apply a lower weight to the Relative Valuation, 20%. We have identified an international group of comparable companies which have similar business models and growth prospects.

Description of comparable listed companies

Company	Description	Comparability
BioGaia	BioGaia AB is involved in the development, marketing, and sale of probiotic products. It operates through the following segments: Paediatrics, adult health and others. The Paediatric segments sells drops, oral rehydration solutions, digestive health tablets and royalties for paediatric products. The Adult Health segment includes intestinal health tablets, oral health products and offers cultures as ingredients in licensees' dairy products. The Others' segment includes royalties from development projects and revenues from packaging solutions. The company was founded by Jan Annwall and Peter Rothschild in 1990 and is headquartered in Stockholm, Sweden.	
probi	Probi AB is involved in the development and sale of probiotics. It operates through the Consumer Healthcare and Functional Food segments. The Consumer Healthcare segment develops, markets, and sells Probi probiotics. The Functional Food segment develops foods that have beneficial effects on health. The company was founded in 1991 and its head office is found in Lund, Sweden.	

Source: Company, Factset, Midcap Partners

We compare below the revenue growth and EBITDA margin growth prospects expected by the analyst consensus in 2020E, 2021E and 2022E.

Growth in sales, EBITDA, net income and EBITDA % rate expected by the consensus

Peers Financials

Company Name	Ticker	Country	Market Value (M€) Equity	Market Value (M€) EV	EBITDA margin 2020E	EBITDA margin 2021E	EBITDA margin 2022E	CAGR 19A-22E Sales	CAGR 19A-22E EBITDA	CAGR 19A-22E Net Inc.
Probi AB	PROB-SE	Sweden	477	449	29%	29%	29%	10%	11%	18%
BioGaia AB Class B	BIOG.B-SE	Sweden	946	822	34%	35%	35%	6%	7%	7%
			Mean		**32%**	**32%**	**32%**	**8%**	**9%**	**12%**
			Median		26%	26%	26%	8%	9%	12%
			Harmonic Mean		25%	26%	26%	6%	6%	9%
PharmaNutra S.p.A. - Consensus	**PHN-IT**	**Italy**	**334**	**214**	**29.8%**	**24.7%**	**25.3%**	**12.3%**	**14.1%**	**14.2%**
vs. Peers' average					***(6.1%)***	***(22.5%)***	***(21.1%)***	***55.8%***	***58.4%***	***14.5%***
PharmaNutra S.p.A. - MCP Estimates					**26.8%**	**24.9%**	**26.0%**	**9.0%**	**11.4%**	**13.8%**
vs. Peers' average					***(15.7%)***	***(21.8%)***	***(19.1%)***	***14.9%***	***28.3%***	***11.2%***

Source : Sociétés, Midcap Partners, FactSet

On the one hand, Pharmanutra shows stronger sales growth (12% CAGR over 3 years versus 8% for the panel according to Factset) and higher EBITDA growth (14% CAGR over 3 years versus 9%). On the other hand, PHN presents slightly lower margins than comparable (24.7% EBITDA margin in 2021 versus 32% on average for the panel).

Multiples EV/Sales, EV/EBIT and PE of comparable companies

Trading Multiples

Company Name	Ticker	EV/Sales			P/E		
		2020E	2021E	2022E	2020E	2021E	2022E
Probi AB	PROB-SE	6.5 x	6.0 x	5.5 x	46.2 x	39.2 x	34.1 x
BioGaia AB Class B	BIOG.B-SE	11.4 x	10.4 x	9.4 x	48.4 x	45.9 x	40.7 x
		8.9 x	**8.2 x**	**7.4 x**	**47.3 x**	**42.5 x**	**37.4 x**
		5.3 x	4.9 x	4.4 x	38.6 x	33.2 x	28.8 x
		5.2 x	4.5 x	4.1 x	35.1 x	29.1 x	25.2 x
PharmaNutra S.p.A. - Consensus	**PHN-IT**	**5.5 x**	**4.9 x**	**4.3 x**	**24.3 x**	**30.2 x**	**26.6 x**
vs. Peers' average		***(38.1%)***	***(39.7%)***	***(42.4%)***	***(48.7%)***	***(29.1%)***	***(28.8%)***
PharmaNutra S.p.A. - MCP Estimates		**5.7 x**	**5.3 x**	**4.6 x**	**31.2 x**	**32.3 x**	**27.1 x**
vs. Peers' average		***(36.7%)***	***(35.8%)***	***(37.6%)***	***(34.1%)***	***(24.1%)***	***(27.5%)***

Source : Sociétés, Midcap Partners, FactSet

By analyzing stock market multiples of comparable companies, Pharmanutra is discounted both in terms of EV/Sales 2021E (36% discount) and PE 2021E (24% discount).

Valorisation par les comparables

Relative Valuation

Discount applied to multiple	10%
Valuation year	2021E

2021E	EV/Sales	P/E
Figure	62.0	10.5
Multiple	8.2 x	42.5 x
Multiple at -10% discount	7.4 x	38.3 x
Enterprise Value	457.6	
Bridge 2020E	11.7	
Equity	469.3	400.5
Diluted Number of shares 2020E	9.7	9.7
Price/share	**48.5**	**41.4**
% upside (downside)	***38.9%***	***18.5%***

We decided to apply a 10% market discount on PE and EV/Sales multiples of comparable companies. By taking the average of the two multiples, we obtain a relative valuation of **45 euros, i.e. a potential increase of 28.9%.**

Source : Sociétés, Midcap Partners, FactSet

Valuation: TP €42.0

Method	Price/share	Coefficient
Discounted FCFF	€ 39.2	50.0%
EV/Sales	€ 48.5	25.0%
P/E	€ 41.4	25.0%

Source: Company, Factset, Midcap Partners

As a result of our analysis, we are initiating our PHN's coverage with a **BUY recommendation and €42.0 Target Price** (50% DCF and 50% multiples).

We believe that the market is still undervaluing Pharmanutra's iron leadership and future growth potential. Moreover, it must be noted that the company was not impacted by the Covid pandemic, on the contrary the group benefited from an increasing spending on health products both in Italy and abroad.
Finally, our Target Price implies an EV/Sales multiple of 6.4x and a P/E of 38.9x (2021E), which are still lower than comparable multiples of 8.2x and 45.1x.

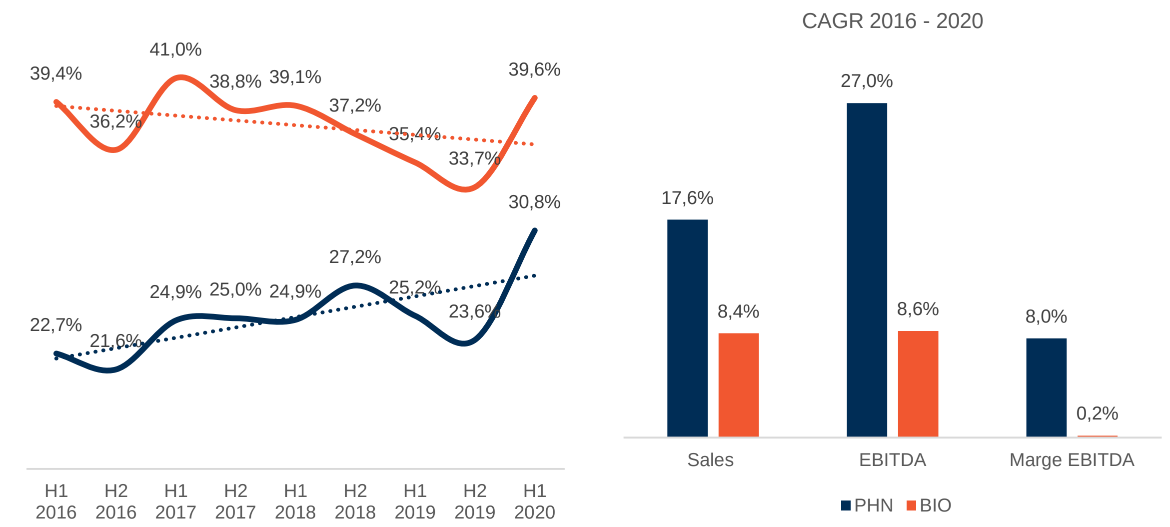
Pharmanutra vs BioGaia valuation

Biogaia is a Swedish nutraceutical products company specialised in probiotics. Biogaia is the closest comparable company, given its unquestionable R&D capacities in a specific niche, its international presence through distributors and its exceptional growth rates with high margins.

Historically, Biogaia was traded at a 39% premium compared to PHN, but we believe that this pattern can no longer be explained by the fundamentals.

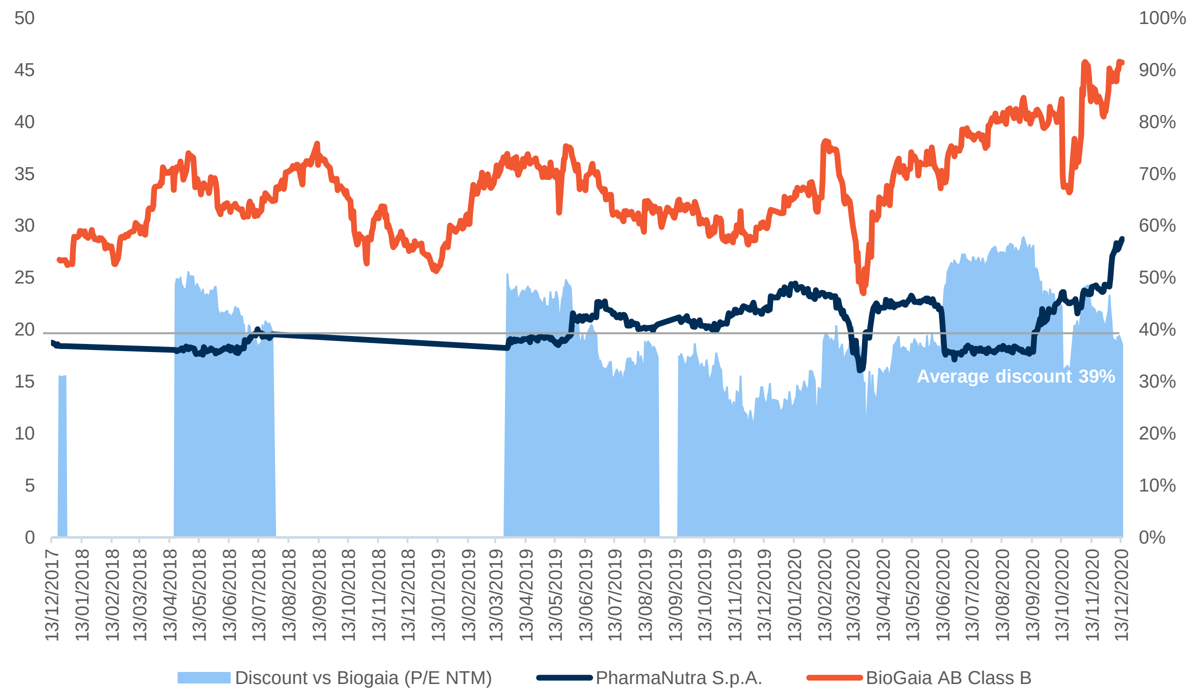
In fact, over the past five years, Pharmanutra has seen more growth in terms of sales, EBITDA, EBIT and net income.

Evolution of Pharmanutra vs. Biogaia Financial indicators



Source : Société, Facset, Midcap Partners

Pharmanutra vs Biogaia Valuation (Past 3 Years)



Sources: Facset, Midcap Partners

Transactional Multiples

We have selected some comparable transactions that have taken place in recent years. This analysis indicates that average evaluation multiples came out at 2.9x EV/Sales and 10.8x EV/EBITDA. The median multiples observed were 2.3x EV/Sales and 10.5x EV/EBITDA.

Transactions Multiples (in M)								
Date	**Target**	**Country**	**Acquirer**	**EV**	**Sales**	**EBITDA**	**EV/Sales**	**EV/EBITDA**
2014	Jamieson Labs (en M$)	Canada	CCMP	230				10.0x
2016	InterHealth Nutraceuticals (en M$)	US	Lonza	246	119	23.3	2.1x	10.6x
2016	Nutraceutical International (en M$)	US	HGGC Private Equity	446	233	43.0	1.9x	10.4x
2017	Herb's International Service (en M€)	France	Dohler	25	10	1.7	2.5x	14.7x
2017	NutraGenesis (en M$)	US	Innophos Holding	28	12	2.6	2.3x	10.6x
2018	Natural Point (en M€)	Italie	Recordati	75	15	10.0	5.0x	7.5x
2018	NHCO (en M€)	France	Chiesi	75	16	5.0	4.8x	15.0x
2018	Nutragroup (en M€)	France	Merieux Equity Partners	24	12	2.9	1.9x	8.0x
Average							**2.9x**	**10.8x**
Median							**2.3x**	**10.5x**

Sources: Reuters, Les Echos, Factset, Web based research

VIII. Key Questions

Q: What is Pharmanutra's competitive advantage?

Pharmanutra's competitive advantage stems from the uniqueness of its products since they are developed in-house and patented worldwide. For example, the Sideral patent expires in 2032, but Pharmanutra is working on new developments to extend the duration of patents up to 2050.

Q: What is the sucrosomial technology patented by Pharmanutra?

The group developed the sucrosomial technology in-house in 2012. This production technology enables the iron to resist the stomach environment and to be absorbed directly in the intestine. This wipes out all recurrent gastrointestinal side effects and problems linked to iron supplementation. This technology has been applied to other minerals too such as zinc, magnesium, iodine, selenium, calcium, chromium, copper. Recently, Pfizer decided to include the sucrosomial magnesium developed by Alesco, one of Pharmanutra's subsidiaries, in its Multicentrum My Mag.
Recently, Alesco has developed sucrosomial berberine, the first vegetable ingredient using this revolutionary technology, which showed to be effective on reducing cholesterol levels.

Q: How is Pharmanutra different to other Italian companies listed on the stock market such as Labomar, Finefoods and Shedir Pharma?

These companies are extremely different to Pharmanutra.
Labomar and Finefoods (which produce for PHN) are two nutraceutical product manufacturing businesses. ShedirPharma relies on more than 700, for selling 300+ products, achieving revenues of €51m, while Pharmanutra only has 170 sales agents, promoting only 25 products and achieving revenue of €54m. This shows that PHN's products are a lot more innovative with a larger sales potential to exploit.

Q: What are the next steps in Pharmanutra's international expansion?

For the key markets such as France, the U.K., Germany, and the U.S., Pharmanutra is open to three different commercial strategies:

1. Distribution agreements
2. Joint ventures
3. Own subsidiaries

However, the management firmly believes that it will not suffice to rely on distributors to significantly penetrate these markets. Hence, Pharmanutra is actively surveying these regions to grab any potential opportunity. Some M&A activity is probable in the short or medium-term.

For all the countries where PHN is already present, the group aims to develop existing clients enlarging their product portfolio through a cross-selling strategy.

Q: Do you include in your estimates any profit coming from M&A activities or new product launches?

No. We know that PHN will probably be involved in at least one acquisition operation in the medium-term, but we have no visibility on the timeframe and scale of this operation. We are also aware that research and development are more active than ever within the group, but, as management highlights, it cannot be said that a product will be successful until it is launched on the market. Therefore, ss a company policy, PHN never includes revenues of future products in the business plan.

IX. Management

Andrea Lacorte: Chairman

Mr. Lacorte graduated with honours in Veterinary Medicine in 1982 from the University of Pisa. He is the chairman (since 1997) and founder of Nutristar spa. Mr. Lacorte, after having conducted extensive research in the fields of nutrition and human lipidology, has also contributed to the founding of (i) Alesco srl (in 2000), acting so far as Vice Chairman of the Board of Directors and (ii) Pharmanutra (in 2003), acting as far as Chairman. Since 2011, he has been the Vice Chairman of Junia Pharma’s Board of Directors. Andrea Lacorte has led research and created sucrosomial solutions with human applications.

Roberto Lacorte: CEO

Mr. Lacorte graduated in Economics and Business from the University of Pisa in 1997. He has had several experiences in accounting firms. He holds the following positions: Director at Nutristar srl (since 2000), Director at Alesco srl (since 2001), Vice-Chairman of the Board of Directors at Pharmanutra (since 2003), Chairman of Junia Pharma’s Board of Directors (since 2009).
He is registered on the list of chartered accountants and auditors.

Carlo Volpi: Head of Operations (COO)

Mr. Volpi graduated in Economics and Business from the University of Parma in 1991, while also obtaining a Sloan Master in Management from the London Business School of the University of London in 1995. Between 1986 and 1993, he was a financial analyst at Banca Monte Parma. Between 1993 and 2000, he held several positions within the PAM group. From 2000 to 2002 he was Senior Consultant at Mckinsey. From 2003 to 2006 he held the role of Business Unit Director in Schering AG (pharmaceutical company) in Italy. From 2006 to 2008, he was CEO of Step spa. Between 2008 and 2015, he was the CEO of Vertigo srl. Since 2009, he has been Director and COO at Pharmanutra.

Germano Tarantino: Scientific Director (CSO)

Mr. Tarantino graduated in Veterinary Medicine from the University of Pisa in 2003. After having led in-depth studies in the field of clinical human nutrition, he held the role of Scientific Director at Pharmanutra. Since 2011, he has been Pharmanutra’s director. Germano Tarantino has led research and created sucrosomial solutions with human application.

Marida Zaffaroni : Independent Director Mrs Zaffaroni graduated in Law from the University of Milan in 2001, enrolled in the Milan Bar Association since 2005, the year in which she obtained the IPSOA Master's degree in corporate law. From 2001 to 2003 she practiced law at the law firm Calloni & Ambrosoli. From 2004 to 2015 she worked with the law firm d'Urso Gatti Bianchi (now Gatti Pavesi Bianchi) becoming a junior partner in 2011. Since 2016 he has been partner of Pedersoli law firm. Marida Zaffaroni specialises in advising industrial and financial groups on commercial and corporate law, also in the context of extraordinary transactions such as mergers and acquisitions, joint ventures, reorganisations and corporate restructuring, as well as debt restructuring.	
Alessandro Calzolari: Independent Director Mr. Calzolari graduated in Economics and Business from the University of Bologna in 1985. Since 1987, he has been registered in the Register of Chartered Accountants and Qualified Professionals in in the field of the City of Bologna. Since 1995, he has been registered in the Register of Legal Auditors at the MEF and CTU of the court of Bologna. Since 1989, he has been a judicial administrator and appointed to the Court of Bologna. Since 2005, he has been advising various companies on recovery plans, debt recovery, composition with creditors and assistance in companies' special operations. He currently holds positions in several companies.	
Giovanna Zanotti : Independent Director Mrs Zanotti holds a degree in Economics and Social Sciences and a Doctorate in Business Economics & Management both from Bocconi University. She is an Affiliate Professor of Banking and Insurance at SDA Bocconi School of Management. She also is Full Professor at the University of Bergamo and Adjunct Professor at Bocconi University. He has been working with SDA Bocconi since 1998. She is a member of the editorial board of the International Journal of Portfolio Analysis and Management. She is independent director of Banco Popolare S.p.A. and Digital Value S.p.a.; and has been independent director of Banca Akros (2017-April 2020), Sesa S.p.A. (2012-July 2018) and Banca Aletti (2012-March 2017). She was Scientific Director of ACEPI (Italian Association of Certificates and Investment Products).	

X. Shareholder Structure

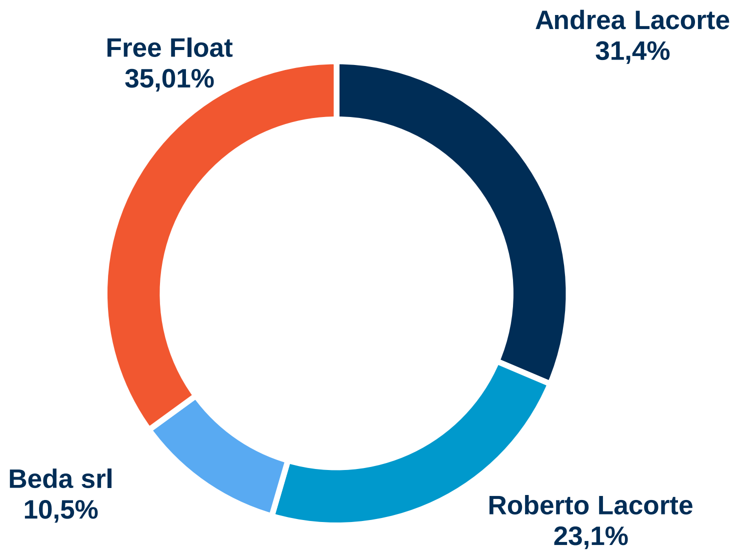
To this day, Pharmanutra's share capital totals €1.123m, with 9,680,977 ordinary shares without par value. No other types of shares have been issued.

The company is listed on the AIM segment of the Italian Stock Exchange following the merger with the SPAC IPO Challenger 1.

On 23 September 2020, the company's reference shareholders and directors general, Andrea Lacorte, Roberto Lacorte and Carlo Volpi (through the holding Beda srl), entered into transactions involving the sale of 80,000 of the company's shares each (representing a total of approximately 2.48% of the company's share capital) at a price of €25.30 per share.

The sale – carried out through Mediobanca's brokerage blocks – has seen the entry of major international investors and is part of the process of creating the conditions, including free float required by applicable regulations, for the transition to trading on the STAR segment of the MTA **from 15/12/2020.**

Shareholder structure

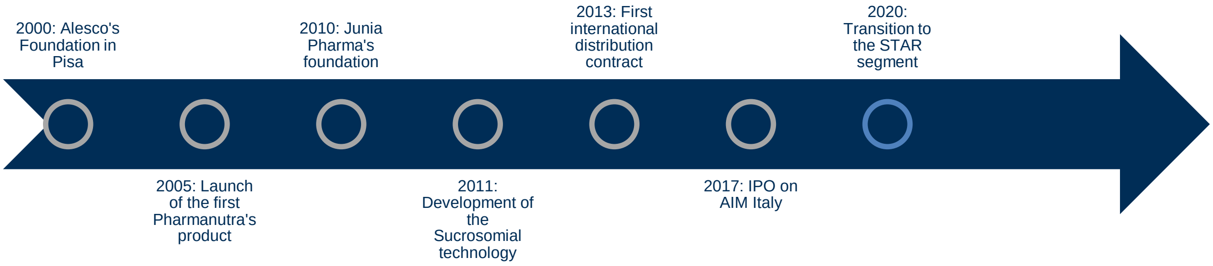


Source: Company

XI. History

Main Events:

- ✓ **2000** Alesco's creation in Pisa by the Lacorte brothers, in the aim of distributing active substances, marketed exclusively in Italy
- ✓ **2003** Pharmanutra starts to develop nutraceutical products and medical devices designed for adults
- ✓ **2005** The launch of the first Pharmanutra brand product, distributed by its agents
- ✓ **2010** Creation of the Junia Pharma company: Combining Pharmanutra's nutraceuticals and Farmigea's ophthalmology expertise
- ✓ **2011-12** Sucrosomial technology was developed and patented
- ✓ **2013** First distribution contract abroad: beginning of international expansion
- ✓ **2015** Acquisition of Junia Pharma and Alesco
- ✓ **2017** Listing on AIM Italia: following the merger of companies with IPO Challenger 1 SPAC
- ✓ **2020 T**ransition to STAR segment of Borsa Italiana



XII. Certifications

Pharmanutra's products are safe, innovative and specifically adapted to meet market expectations. This takes the form of the certifications that the company is proud to possess:

- ✓ **ISO 9001 Certification**

Quality is one of the fundamental pillars of any of the Pharmanutra group's subsidiaries. The company first obtained the ISO 9001 certification for its quality control in 2007, Junia Pharma in 2012 and Alesco in 2018. All three companies have been 9001:2015 certified since 2017 attesting to the highest ISO quality standards in development and production.
The organisation has the capacity to regularly bring to market products that meet customer expectations and legal requirements. They promote a risk and process-based approach.

- ✓ **SA8000 Certification**

Pharmanutra and Junia Pharma are certified according to the SA8000 standard for corporate social responsibility (workplace quality). With this certification, Pharmanutra and Junia Pharma wants to align their financial objectives with their ethical principles. Social responsibility certainly represents an important added value for the development of the organisation.
The SA8000 standard is a voluntary standard for the social certification of quality and safety in the workplace. It also guarantees employees fundamental rights.
Adopting SA8000 principles reinforces Pharmanutra's accountability to internal and external stakeholders. This enhances transparency regarding working conditions, safety and employee compensation.

The SA8000 standard is composed of 9 main elements including:

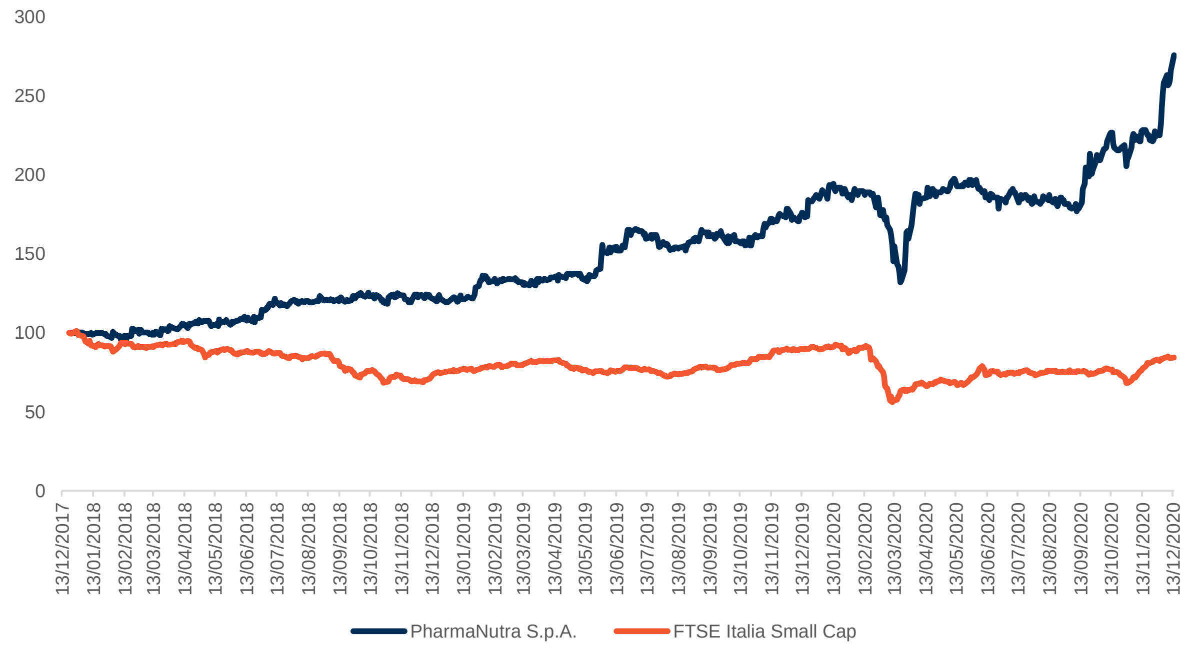
- Child labour prevention.
- The guarantee of freedom of assembly and the right to collective bargaining.
- Prevention of discriminatory behaviour.

- ✓ **Doping Free Play Sure Certification**

Moreover, the company received the "Doping Free Play Sure" certification for its Cetilar, Oleovital and Apportal products. This allows athletes and elite athletes to be able to use Pharmanutra's nutraceutical supplements without fear of a doping charge. It should also be noted at the same time that a certain part of the market could be enticed by the range of "Gluten Free" products.

XIII. Stock Market Performance: Strong outperformance

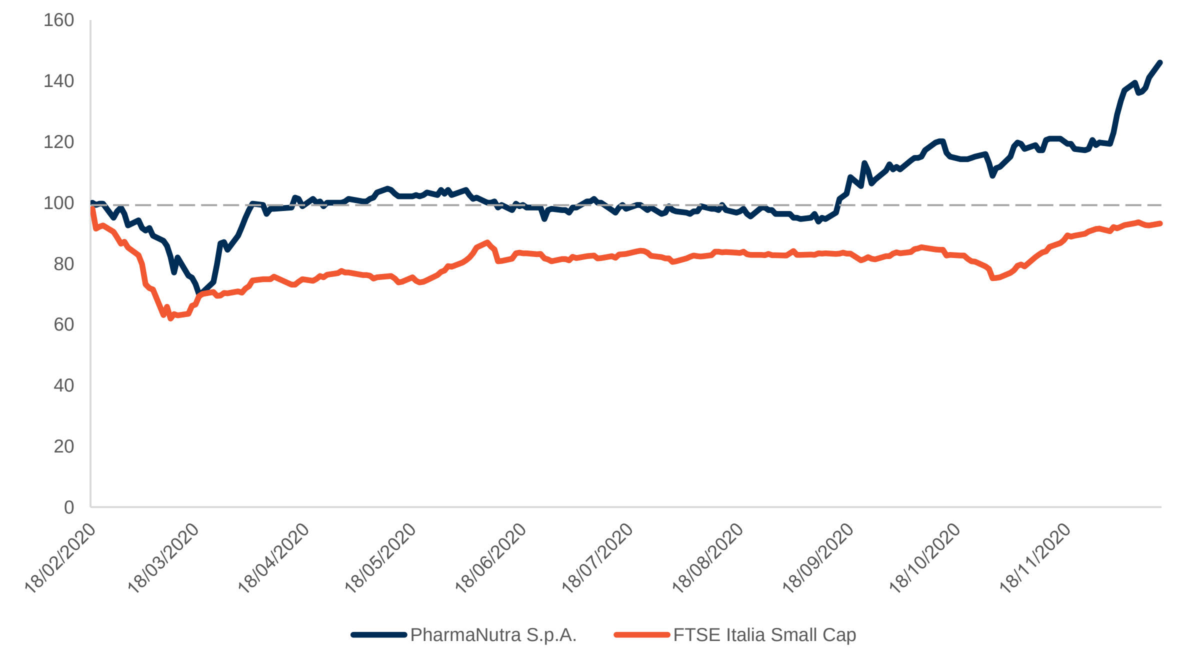
Stock Market Performance Over 3 Years (PHN vs FTSE Italia Small Cap)



Source: Factset

Over the past three years, Pharmanutra has outperformed the Italian Small Cap Index with a price performance of 162.7% compared to –15.7%.

Stock Market Performance Since 18/02/2020 (PHN vs FTSE Italia Small Cap)



Source: Factset

Since the beginning of the Covid-19 pandemic, Pharmanutra has largely outperformed the Italian Small Cap Index with a price performance of 41.0% vs. -7.5%.

XIV. Financial Data (1/2)

Income statement								
€M	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Total sales	**37.9**	**48.1**	**54.2**	**57.7**	**62.0**	**70.3**	**78.2**	**85.7**
Change	*14.7%*	*27.1%*	*12.7%*	*6.5%*	*7.5%*	*13.3%*	*11.3%*	*9.6%*
Raw materials and consumables	(2.5)	(2.7)	(2.6)	(3.2)	(3.1)	(3.5)	(3.9)	(4.3)
External charges	(23.8)	(29.7)	(34.3)	(34.6)	(38.9)	(44.0)	(48.8)	(53.1)
Personnel costs	(2.5)	(2.8)	(3.3)	(3.3)	(3.5)	(3.9)	(4.1)	(4.3)
Other operating costs	(0.3)	(0.5)	(0.7)	(1.6)	(1.1)	(0.7)	(0.6)	(0.7)
Other revenues	0.8	0.3	(0.3)	0.5	0.0	0.0	0.0	0.0
EBITDA reported	**9.4**	**12.6**	**13.2**	**15.5**	**15.5**	**18.2**	**20.9**	**23.3**
% of revenue	*24.9%*	*26.1%*	*24.3%*	*26.8%*	*24.9%*	*26.0%*	*26.7%*	*27.2%*
Extraordinary revenues and expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA adjusted	**9.4**	**12.6**	**13.2**	**15.5**	**15.5**	**18.2**	**20.9**	**23.3**
% of revenue	*24.9%*	*26.1%*	*24.3%*	*26.8%*	*24.9%*	*26.0%*	*26.7%*	*27.2%*
Net depreciation, amortization and provisions	(0.6)	(0.7)	(1.0)	(2.5)	(1.9)	(1.9)	(2.4)	(2.6)
EBIT	**8.9**	**11.9**	**12.2**	**12.9**	**13.5**	**16.3**	**18.5**	**20.8**
% of revenue	*23.4%*	*24.8%*	*22.5%*	*22.4%*	*21.8%*	*23.2%*	*23.6%*	*24.2%*
Financial result	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Income tax	(2.7)	(3.3)	(3.7)	0.9	(2.9)	(3.7)	(4.3)	(5.0)
Tax rate	*-31.2%*	*-27.8%*	*-30.7%*	*7.1%*	*-21.9%*	*-23.0%*	*-23.5%*	*-24.0%*
Net income	6.0	8.6	8.5	13.7	10.5	12.5	14.0	15.7
Minority	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income group share	**6.0**	**8.6**	**8.5**	**13.7**	**10.5**	**12.5**	**14.0**	**15.7**

Balance sheet								
€M	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Goodwiil	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Intangible fixed assets	1.7	2.0	2.0	1.7	1.3	1.3	1.4	1.5
Tangible fixed assets	1.1	1.0	4.1	5.4	9.0	12.7	15.8	15.7
Financials assets	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Deferred tax	0.3	0.5	0.7	0.7	0.7	0.7	0.7	0.7
Other assets	0.3	0.7	1.7	1.7	1.7	1.7	1.7	1.7
Current assets	12.5	19.2	23.5	24.6	26.0	28.7	31.4	33.8
Cash	14.1	15.0	13.8	16.4	17.9	20.1	23.7	31.4
Assets	**33.4**	**41.5**	**48.9**	**53.6**	**59.7**	**68.5**	**77.8**	**87.9**
Shareholder's equity	19.1	24.4	28.1	37.4	42.4	49.6	57.4	66.1
Minority	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	1.2	1.7	2.2	2.2	2.2	2.2	2.2	2.2
Deferred tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial debt	5.6	5.3	6.4	1.5	1.5	1.5	1.5	1.5
IFRS 16 debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	0.4	0.5	0.7	1.9	1.9	1.9	1.9	1.9
Current liabilities	7.1	9.5	11.4	10.6	11.6	13.2	14.7	16.2
Liabilities	**33.4**	**41.5**	**48.9**	**53.6**	**59.7**	**68.5**	**77.8**	**87.9**

Cash-flow statement								
€M	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Operating cash-flow	7.2	9.8	10.1	16.2	12.4	14.4	16.4	18.3
∆NWC	(1.5)	(3.4)	1.9	(2.0)	(0.4)	(1.2)	(1.1)	(1.0)
Cash-flow from operating activities	**5.7**	**6.4**	**12.0**	**14.3**	**12.0**	**13.2**	**15.3**	**17.3**
CAPEX	(1.3)	(0.8)	(4.9)	(2.3)	(5.1)	(5.8)	(5.5)	(2.6)
FCF	**4.4**	**5.6**	**7.1**	**11.9**	**6.9**	**7.4**	**9.8**	**14.7**
Net acquisition of financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.1	0.5	0.4	0.0	0.0	0.0	0.0	0.0
Other change in scope	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash-flow from investing activities	**(1.4)**	**(1.3)**	**(5.3)**	**(2.3)**	**(5.1)**	**(5.8)**	**(5.5)**	**(2.6)**
Capital increase	8.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in borrowings	1.3	(1.2)	(0.3)	0.0	0.0	0.0	0.0	0.0
Dividends	(1.7)	(3.2)	(4.8)	(4.5)	(5.4)	(5.2)	(6.2)	(7.0)
Other	(0.5)	(0.8)	(4.1)	0.0	0.0	0.0	0.0	0.0
Cash-flow from financing activities	**7.7**	**(5.1)**	**(9.3)**	**(4.5)**	**(5.4)**	**(5.2)**	**(6.2)**	**(7.0)**
Currency effect	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	**12.0**	**0.0**	**(2.6)**	**7.5**	**1.5**	**2.2**	**3.6**	**7.7**

XV. Financial Data (2/2)

KEY RATIOS

	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Revenue growth	14.7%	27.1%	12.7%	6.5%	7.5%	13.3%	11.3%	9.6%
Reported EBITDA margin	24.9%	26.1%	24.3%	26.8%	24.9%	26.0%	26.7%	27.2%
Adjusted EBITDA margin	24.9%	26.1%	24.3%	26.8%	24.9%	26.0%	26.7%	27.2%
EBIT margin	23.4%	24.8%	22.5%	22.4%	21.8%	23.2%	23.6%	24.2%
Net margin	15.9%	17.8%	15.6%	23.7%	16.9%	17.7%	17.9%	18.3%
Reported EPS	0.6	0.9	0.9	1.4	1.1	1.3	1.4	1.6
Dividend per share	0.2	0.3	0.5	0.5	0.6	0.5	0.6	0.7
Dividend Yield	0.5%	0.9%	1.4%	1.3%	1.6%	1.5%	1.8%	2.1%
NWC as a % of Revenue	16.4%	19.1%	23.2%	25.2%	24.1%	22.9%	22.0%	21.2%
DIO	33.3	38.4	34.8	34.6	34.9	34.8	36.6	38.4
DSO	97.2	98.4	101.2	100.8	100.4	100.1	99.7	99.4
DPO	129.0	139.0	127.3	142.1	128.6	131.5	132.9	137.0
FCF	4.4	5.6	7.1	11.9	6.9	7.4	9.8	14.7
FCF yield	0%	0%	0%	3%	3%	3%	4%	4%
Conversion rate (FCF/EBITDA)	46%	45%	54%	77%	45%	41%	47%	63%
CAPEX/Sales	3.5%	1.6%	9.0%	4.0%	8.2%	8.2%	7.0%	3.0%
ROE	46.8%	39.3%	32.2%	33.1%	26.2%	27.1%	26.2%	25.4%
ROA	23.0%	22.9%	18.7%	21.1%	18.5%	19.5%	19.2%	18.9%
ROCE (after tax)	52.1%	50.4%	37.1%	38.2%	32.3%	33.4%	33.8%	37.1%
Gearing, net	-42.1%	-40.7%	-41.7%	-38.5%	-37.4%	-36.4%	-37.7%	-44.4%
Financial leverage	-0.9x	-0.8x	-0.9x	-0.9x	-1.0x	-1.0x	-1.0x	-1.3x
EV/Sales				5.7x	5.3x	4.6x	4.2x	3.8x
EV/EBITDA				21.1x	21.1x	17.9x	15.6x	14.0x
EV/EBIT				23.1x	24.1x	20.0x	17.6x	15.7x
PE				31.2x	32.3x	27.1x	24.1x	21.6x

MIDCAP PARTNERS vs CONSENSUS

	2020E		2021E		2022E	
	Midcap Partners	Consensus	Midcap Partners	Consensus	Midcap Partners	Consensus
Sales	57.7	58.9	62.0	65.8	70.3	75.9
EBITDA	15.5	17.6	15.5	16.3	18.2	19.2
EBIT	12.9	15.7	13.5	15.6	16.3	17.2
EPS	1.4	1.4	1.1	1.2	1.3	1.3

Disclaimer

This document may refer to valuation methods defined as follows:

1/DCF method: discounting future cash flows generated by the business's operations. Cash flows are determined using the analyst's financial forecasts and models. The discount rate used is the weighted average cost of capital, defined as the weighted average cost of the company's borrowings and the theoretical cost of its equity as estimated by the analyst.
2/ Comparables method: application of stock-market valuation multiples, or multiples observed for recent transactions. These multiples may be used as benchmarks and be applied to the company's financial aggregates to determine its valuation. The sample is constituted by the analyst according to the company's characteristics (size, growth, profitability, etc.). The analyst may also apply a premium/discount based on his perception of the company's characteristics.
3/ Asset-based method: estimation of the value of the equity on the basis of the revalued assets and corrected for the value of the liability.
4/ Discounted dividend method: discounted future value of estimated dividend flows. The discount rate applied is generally the cost of capital.
5/ Sum of the parts method: this method consists of estimating the different activities of a company, by using the most appropriate assessment method for each, then calculating the total.

Recommendation scale:

Buy: expected over-performance above 10% compared to the market within 6 to 12 months
Hold: expected to outperform or under-perform the market within a range of +10% and -10%, within 6 to 12 months
Sell: expected to under-perform the market by more than 10% within 6 to 12 months

Detection of conflicts of interest:

Company	Closing price (€)	Rating	Warning
PHARMANUTRA	€34.9	BUY	G

A LOUIS CAPITAL MARKETS – MCP or any legal entity related to it holds more than 5% of the issuer's total issued capital; B The issuer holds over 5% of the totality of capital issued by LOUIS CAPITAL MARKETS - MCP or a related legal entity;
C LOUIS CAPITAL MARKETS - MCP, alone or with other related legal entities, is related to the issuer through other significant financial interests;
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F LOUIS CAPITAL MARKETS - MCP or any legal entity related to it is a party to any other agreement with the issuer concerning the provision of investment services relating to the corporate activity;
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At 1st December 2020, the recommendations issued by the Midcap research team at LOUIS CAPITAL MARKETS – MCP break down as follows:

Rating	Companies covered	of which "Corporate" clients
Buy	63%	74%
Hold	29%	24%
Sell	5%	0%
Under Review	3%	2%

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