

Italy – Veterinary

A strategic acquisition to underpin the company's expansion

20th December 2022

ACQUISITION OF ARCANATURA

RIC: FCM.MI
BBG: FCM IM

Friulchem buys 70% of Arcanatura, a French veterinary laboratory specialised in the treatment of pets' diseases through food supplements using natural active principles. The rationale behind the deal lies in the opportunity to reinforce the group's commercial presence in France as well as to make better use of FC France's production plant.

Rating:

Buy

Price Target:

€ 1.50

Upside/(Downside): 44.2%

Last Price: € 1.04

Market Cap.: € 8.3m

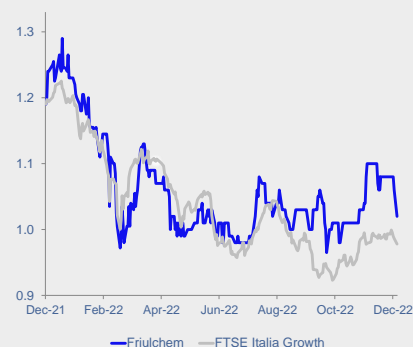
1Y High/Low: € 1.32 / € 0.94

Avg. Daily Turn. (3M, 6M): € 6k, € 5k

Free Float: 31.2%

Major shareholders:

Evultis SA	38.8%
Friulia SpA	23.8%
Fiduciaria Bernasconi	6.3%



Stock price performance

	1M	3M	12M
Absolute	-7.1%	2.0%	-15.8%
Rel.to FTSE IT Growth	-14.8%	-15.0%	-44.0%
Rel.to Sector	-4.9%	10.9%	19.7%

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A French veterinary laboratory focused on pet care solutions

Arcanatura is a French veterinary laboratory founded by practitioners from the university research and clinical veterinary industry, providing food supplements using natural and bioavailable active ingredients intended for pet care (primarily dogs and cats). In particular, its comprehensive portfolio of solutions addresses eye, kidney and liver diseases. The company directly distributes its products to the most important French veterinary clinics, thanks to long-standing commercial relationships built over time.

Friulchem buys 70% of Arcanatura through FC France

Friulchem, through its subsidiary FC France, signed a binding agreement to purchase 70% of Arcanatura's share capital. In detail, Friulchem subscribed a capital increase in FC France for a total of € 400k, thus increasing its stake from 56.74% to 75%. At the same time, FC France subscribed a reserved capital increase in Arcanatura for the same amount, obtaining 70% of the company.

Strengthened distribution capabilities make room for cross-selling and cost synergies

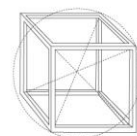
The acquisition of Arcanatura represents a strategic move from a commercial standpoint, as Friulchem will be able to expand its presence in the French veterinary sector. Arcanatura is a well-established player with solid distribution capabilities and strong relationships with the main veterinary clinics in France. Its integration will allow the group to take advantage of several cross-selling opportunities, by leveraging on Friulchem's veterinary solutions, as well as cost synergies, by making use of the untapped production capacity at the French plant. In detail, Arcanatura will focus on marketing and distribution activities in the French market while FC France will continue to take care of the production process.

Enhanced production capacity coupled with a new line to enter the pet food market

Furthermore, Friulchem plans to strengthen the operating structure of FC France by setting up 1) a new department specifically focused on products based on Friulchem's proprietary technology FC-CUBE® dedicated to the US market and 2) new production lines intended for the production of food supplements for pets, also using the FC-CUBE® technology. Overall, the deal entails an expansion of both the production capacity as well as geographical reach in promising markets, thus confirming Friulchem's position as a reference partner for pharma companies, laboratories and specialised clinics operating in the veterinary field. Estimates, rating and PT unchanged.

Friulchem, key financials and ratios

€ m	2020	2021	2022e	2023e	2024e
Value of Production	17.7	24.5	33.6	35.9	37.3
EBITDA	0.6	1.6	1.8	2.4	2.8
EBITDA Adjusted	1.0	1.6	1.8	2.4	2.8
EBIT	(0.3)	0.7	0.8	1.3	1.8
Net Profit	(0.3)	0.1	0.1	0.5	0.8
Net Profit Adjusted	(0.3)	0.1	0.1	0.5	0.8
NFP (cash)/debt	1.1	3.1	4.2	3.9	3.2
EBITDA adj. margin	5.9%	6.4%	5.5%	6.6%	7.6%
EBIT margin	-1.9%	2.8%	2.3%	3.7%	4.8%
EPS stated FD €	(0.04)	0.01	0.01	0.06	0.10
EPS growth	<i>n.m.</i>	<i>n.m.</i>	-35.3%	<i>n.m.</i>	65.4%
ROCE	Neg.	2.9%	3.2%	5.4%	7.0%
NWC/Sales	6.9%	9.6%	8.8%	9.1%	9.3%
Free Cash Flow Yield	-26.8%	-18.8%	-13.8%	3.8%	8.1%
PER x	Neg.	<i>n.m.</i>	<i>n.m.</i>	16.9	10.2
EV/Sales x	0.65	0.53	0.37	0.34	0.31
EV/EBITDA x	11.0	8.2	6.8	5.1	4.1
EV/EBIT x	Neg.	18.8	16.1	9.2	6.5



The Company at a Glance

Originating in 1996, today Friulchem is a vertically-integrated R&D-oriented Contract Development and Manufacturing Organisation (CDMO). It is an 'Innovative SME' operating in the pharmaceutical and nutraceutical market, serving both the veterinary and the human sector. The group provides global big pharma firms with finished and semi-finished products, including Active Pharmaceutical Ingredients (APIs), drugs and food supplements. Friulchem is specialised in delivering drugs for the veterinary sector and developing dossiers of generic drugs for humans.

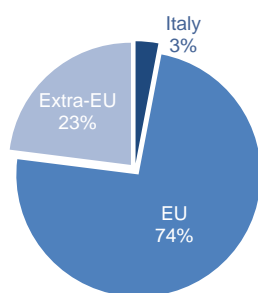
The 'Vet' business unit develops and produces both nutraceutical and pharmaceutical finished and semi-finished veterinary products, through different technologies, such as atomisation, micronisation, granulation and mixing. Friulchem's plants have been compliant with the European Good Manufacturing Standards since 2007.

The 'Human' business unit is dedicated to the R&D of generic drugs based on formulations with a high degree of development and production complexity. Friulchem is the owner of the formulations while the production is outsourced to selected partners. Furthermore, the group has developed a product line dedicated to cosmeceuticals with large growth potential, mainly in Asia.

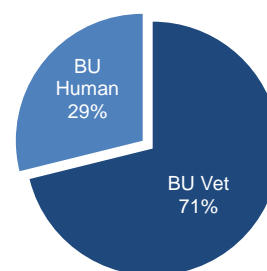
Today Friulchem operates two specialised manufacturing plants, one in Vivaro (Pordenone), in hard-working, creative, north-eastern Italy, and the other one in Magny-En-Vexin (France). Its headquarters are in Milan. The company reported an 8.8% organic sales CAGR₀₈₋₂₁ (10.5% including M&A) mainly thanks to continuous product innovation leading to an increased share of wallet with pharma corporations coupled with a higher number of customers.

FY-21 figures show total revenues of € 22.9m, EBITDA of € 1.6m, 6.4% margin and Net Profit of € 0.1m. Net Financial Position was € 3.1m, corresponding to 1.9x NFP/EBITDA.

2021 Revenues breakdown by geography...



... and by business unit

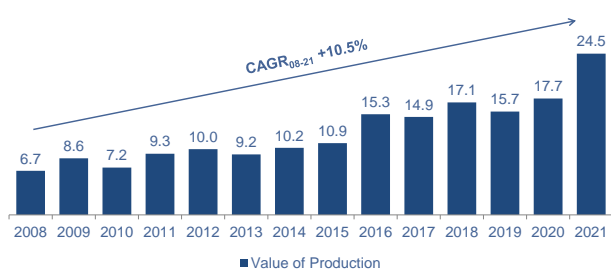


Shareholder structure

Shareholder	# m	%
Evultis SA	3.10	38.8%
Friulia SpA	1.90	23.8%
Fiduciaria Bernasconi SA	0.50	6.3%
Free Float	2.50	31.2%
Total	8.00	100.0%

Source: Company data

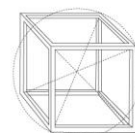
Top line evolution



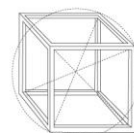
Peer group multiples table

Price & EV multiples x	Sales FY1	Sales FY2	EBITDA FY1	EBITDA FY2	EBIT FY1	EBIT FY2	PER FY1	PER FY2
Dechra Pharmaceuticals PLC	4.19	3.76	15.9	13.9	18.7	16.3	22.0	19.7
ECO Animal Health Group PLC	0.85	0.79	11.1	8.9	14.0	10.5	44.4	28.4
Elanco Animal Health Inc	2.43	2.36	10.3	9.8	11.6	11.1	10.5	10.6
Merck & Co Inc	4.99	4.96	11.6	11.2	13.3	12.9	14.6	14.5
Shedir Pharma SpA	0.57	0.39	2.8	1.9	3.9	2.5	8.2	7.6
Vetoquinol SA	1.73	1.57	8.3	7.7	11.4	10.6	17.7	17.1
Virbac SA	1.47	1.33	8.0	7.3	10.2	9.4	15.4	14.3
Zoetis Inc	8.48	7.86	19.8	18.2	22.1	20.3	28.2	25.8
Median Veterinary	2.08	1.96	10.7	9.4	12.5	10.9	16.6	15.8
Friulchem SpA	0.37	0.34	6.8	5.1	16.1	9.2	n.m.	16.9

Source: CFO Sim, Thomson Reuters Eikon



Income statement (€ m)	2020	2021	2022e	2023e	2024e
Revenues	16.7	22.9	31.8	34.0	35.3
Value of Production	17.7	24.5	33.6	35.9	37.3
Raw material and processing	(11.9)	(15.7)	(21.5)	(22.8)	(23.7)
Services	(3.0)	(4.1)	(5.5)	(5.7)	(5.8)
Personnel expenses	(1.9)	(2.6)	(4.0)	(4.3)	(4.3)
Other opex	(0.2)	(0.6)	(0.7)	(0.7)	(0.7)
EBITDA	0.6	1.6	1.8	2.4	2.8
D&A	(1.0)	(0.9)	(1.1)	(1.1)	(1.1)
EBIT	(0.3)	0.7	0.8	1.3	1.8
Financials	(0.2)	(0.4)	(0.6)	(0.5)	(0.5)
Re/(Devaluation) of financial assets	0.0	0.0	0.0	0.0	0.0
Forex gain/(loss)	0.0	0.0	0.0	0.0	0.0
Pre-Tax profit	(0.5)	0.3	0.2	0.8	1.2
Income taxes	0.2	(0.1)	(0.1)	(0.2)	(0.3)
Minorities	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Net Profit	(0.3)	0.1	0.1	0.5	0.8
EBITDA Adjusted	1.0	1.6	1.8	2.4	2.8
Net Profit Adjusted	(0.3)	0.1	0.1	0.5	0.8
Balance sheet (€ m)	2020	2021	2022e	2023e	2024e
Net Working Capital	1.2	2.3	3.0	3.3	3.5
Net Fixed Assets	10.0	10.8	11.8	11.7	11.7
Equity Investments	1.4	1.4	1.4	1.4	1.4
Other M/L Term A/L	(1.2)	(0.7)	(1.1)	(1.1)	(1.1)
Net Invested Capital	11.5	13.9	15.1	15.3	15.4
Net Financial Debt	1.1	3.1	4.2	3.9	3.2
Minorities	0.0	0.4	0.5	0.6	0.6
Group's Shareholders Equity	10.4	10.4	10.4	10.8	11.5
Financial Liabilities & Equity	11.5	13.9	15.1	15.3	15.4
Cash Flow statement (€ m)	2020	2021	2022e	2023e	2024e
Total net income	(0.3)	0.1	0.1	0.5	0.8
Depreciation	1.0	0.9	1.1	1.1	1.1
Other non-cash charges	(0.7)	0.3	0.4	0.1	0.0
Cash Flow from Oper. (CFO)	(0.1)	1.3	1.5	1.6	1.9
Change in NWC	0.6	(1.1)	(0.6)	(0.3)	(0.2)
FCF from Operations (FCFO)	0.5	0.1	0.9	1.3	1.7
Net Investments (CFI)	(2.7)	(1.7)	(2.0)	(1.0)	(1.0)
Free CF to the Firm (FCFF)	(2.2)	(1.6)	(1.1)	0.3	0.7
CF from financials (CFF)	1.7	6.2	(0.0)	(0.0)	(0.0)
Free Cash Flow to Equity (FCFE)	(0.6)	4.6	(1.1)	0.3	0.7
Financial ratios	2020	2021	2022e	2023e	2024e
EBITDA adj. margin	5.9%	6.4%	5.5%	6.6%	7.6%
EBIT margin	-1.9%	2.8%	2.3%	3.7%	4.8%
Net profit margin	-1.9%	0.3%	0.2%	1.4%	2.2%
Tax rate	33.1%	47.6%	27.5%	27.5%	27.5%
Op NWC/Sales	6.9%	9.6%	8.8%	9.1%	9.3%
Interest coverage x	(1.97)	1.64	1.31	2.48	3.32
Net Debt/EBITDA x	1.68	1.94	2.30	1.64	1.14
Debt-to-Equity x	0.10	0.30	0.41	0.36	0.28
ROIC	Neg.	0.6%	0.4%	3.2%	5.3%
ROCE	Neg.	2.9%	3.2%	5.4%	7.0%
ROACE	Neg.	3.4%	3.3%	5.4%	7.1%
ROE	Neg.	0.8%	0.5%	4.5%	7.0%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2020	2021	2022e	2023e	2024e
Number of shares # m	8.00	8.00	8.00	8.00	8.00
Number of shares Fully Diluted # m	8.25	8.25	8.25	8.25	8.25
Average Number of shares Fully Diluted # m	8.25	8.25	8.25	8.25	8.25
EPS stated FD €	(0.04)	0.01	0.01	0.06	0.10
EPS adjusted FD €	(0.04)	0.01	0.01	0.06	0.10
EBITDA €	0.08	0.19	0.22	0.29	0.34
EBIT €	(0.04)	0.08	0.09	0.16	0.21
BV €	1.26	1.31	1.32	1.38	1.48
FCFO €	0.06	0.02	0.10	0.16	0.20
FCFF €	(0.27)	(0.19)	(0.14)	0.04	0.08
FCFE €	(0.07)	0.56	(0.14)	0.04	0.08
Dividend €	0.00	0.00	0.00	0.00	0.00



ANALYST CERTIFICATION

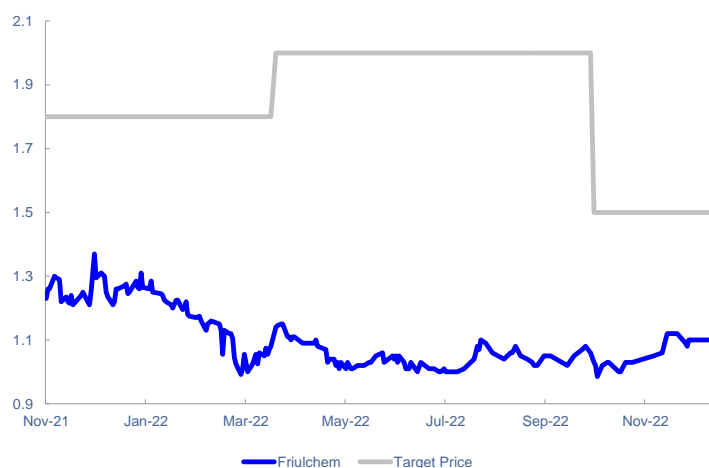
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DATE	TARGET PRICE	RATING
20/12/2022	€1.50	BUY
05/10/2022	€1.50	BUY
28/03/2022	€2.00	BUY
28/09/2021	€1.80	BUY

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

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

