

Italy – Veterinary

Solid growth and higher margins led to a positive bottom line

28th March 2022

FY-21 RESULTS RELEASE

RIC: FCM.MI
BBG: FCM IM

Friulchem reported good results, broadly in line with CFO SIM's estimates. In the wake of increased sales of the more lucrative Vet BU, EBITDA and Net Profit turned positive. The company is eager to leverage its proven R&D capabilities to gain new customers and, in addition, it is exploring investment opportunities in order to further consolidate its competitive position in the veterinarian CDMO market.

Rating:

Buy

Price Target:

€ 2.00 (€ 1.80)

Upside/(Downside): 85.2%

Last Price: € 1.08

Market Cap.: € 8.7m

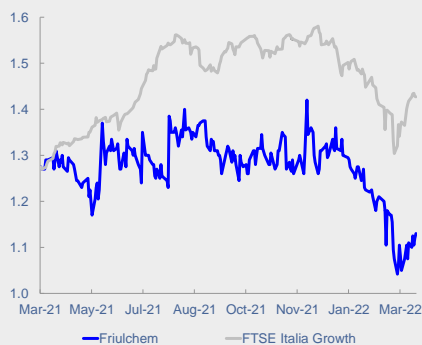
1Y High/Low: € 1.41 / € 0.94

Avg. Daily Turn. (3M, 6M): € 7k, € 10k

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	-4.4%	-14.3%	-11.8%
Rel.to FTSE IT Growth	-12.1%	-31.3%	-40.1%
Rel.to Sector	-2.4%	-8.7%	-28.5%

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Estimates fine-tuned, new DCF-based PT at € 2.00/s (€ 1.80), 85.2% upside. Buy

Following the FY-21 results release, we have fine-tuned our model, factoring in: 1) the higher than expected revenues with regard to the Human BU, leaving almost unchanged top line growth for 2022-23 and 2) a tiny reduction in D&A, in line with the 2021 figure. The combined result is an average 4.6%, 5.2% and 16.5% increase in revenues, EBITDA and Net Profit in 2022-23. We have also introduced projections for 2024. Moreover, CFO has updated the DCF valuation criteria, bringing the Free Risk Rate up-to-date and postponed its first valuation projection to 2022. The combined result is a new PT of € 2.00/s (€ 1.80), with an upside of 85.2% to current price levels. The Buy recommendation is reiterated.

Revenues grew by 37.3% YoY to € 22.9m: Vet BU up 42.4%, Human BU up 26.1%

In 2021, total revenues rose by 37.3% YoY to € 22.9m, mainly as a result of increasing sales in both Vet and Human BUs. The figure is 6.3% better than CFO SIM's expectation, mainly on the back of higher than projected revenues with regard to the Human BU. The Vet BU went up 42.4% YoY to € 16.3m (71% of total revenues), € 4.4m of which are attributable to the production facility in Magny-en-Vexin acquired in May-21 and operative since the beginning of H2-21. Thus, organically, the Vet BU totalled € 11.9m, up by 4.0% YoY, thanks to 1) growing revenues stemming from products manufactured at the Italian facility and 2) the increase in invoices issued for the milestones related to a few R&D projects aimed at developing new tailor-made veterinary solutions for certain customers. The Human BU's revenues stood at € 6.6m (29% of total revenues), up 26.1% YoY, mainly thanks to the increasing sales of generic drugs based on Friulchem's dossiers.

EBITDA at € 1.6m, 6.4% margin, driven by a better revenues mix

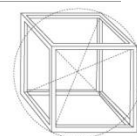
EBITDA climbed to € 1.6m (€ 0.6m in 2020), 6.4% margin, thanks to a higher share of sales generated by the Vet BU, historically more profitable than the Human ones. EBIT was € 0.7m (€ -0.3m in 2020), following broadly stable D&A. Net Profit turned positive by € 0.1m vs € 0.3m loss in 2020, despite net financial charges of € 420k and a heavier tax rate.

Focus on gaining new customers and seizing appealing M&A opportunities

Net Financial Position came in at € 3.1m debt, corresponding to 1.9x NFP/EBITDA. The increase compared to € 1.1m debt at the end-20 was primarily due to 1) the purchase of the plant in Magny-en-Vexin, 2) the FY-21 severance indemnity payment and 3) the increase in NWC. Cash and cash equivalents stand at € 8.8m. In the short-medium term, Friulchem aims at becoming a reference partner for veterinarian pharma companies. The group's strategy will focus on 1) taking advantage of the Magny-en-Vexin plant's unexpressed production capacity and 2) looking for M&A opportunities thanks to a good amount of cash available, also supported by the issuing of a non-convertible bond for € 2.5m.

Friulchem, key financials and ratios

€ m	2020	2021	2022e	2023e	2024e
Value of Production	17.7	24.5	30.2	32.4	33.7
EBITDA	0.6	1.6	2.2	2.7	2.9
EBITDA Adjusted	1.0	1.6	2.2	2.7	2.9
EBIT	(0.3)	0.7	1.2	1.7	1.9
Net Profit	(0.3)	0.1	0.4	0.8	0.9
Net Profit Adjusted	(0.3)	0.1	0.4	0.8	0.9
NFP (cash)/debt	1.1	3.1	2.9	2.4	1.6
EBITDA adj. margin	5.9%	6.4%	7.1%	8.2%	8.5%
EBIT margin	-1.9%	2.8%	3.8%	5.2%	5.6%
EPS stated FD €	(0.04)	0.01	0.05	0.09	0.11
EPS growth	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	81.3%	18.0%
ROCE	Neg.	2.9%	4.8%	6.7%	7.2%
NWC/Sales	6.9%	9.6%	9.2%	9.4%	9.5%
Free Cash Flow Yield	-25.7%	-18.1%	2.3%	6.0%	9.1%
PER x	Neg.	<i>n.m.</i>	20.2	11.2	9.5
EV/Sales x	0.65	0.53	0.38	0.34	0.30
EV/EBITDA x	11.0	8.2	5.4	4.1	3.6
EV/EBIT x	Neg.	18.8	9.9	6.6	5.5



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 human beings.

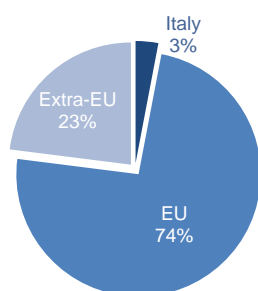
The 'Vet' business unit develops and produces both nutraceutical and pharmaceutical finished and semi-finished veterinary products, through different technologies, such as atomisation, micronisation, granulation and mixing. Friulchem's plants have been compliant with the European Good Manufacturing Standards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

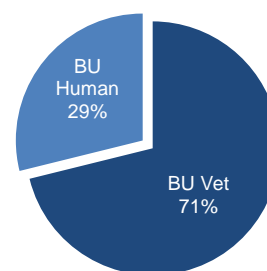
Today Friulchem operates two specialised manufacturing plants, one in Vivaro (Pordenone), in hard-working, creative, north eastern Italy, and the other one in Magny-En-Vexin (France). Its headquarters are in Milan. The company reported an 8.8% organic sales CAGR₀₈₋₂₁ (10.5% including M&A) mainly thanks 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

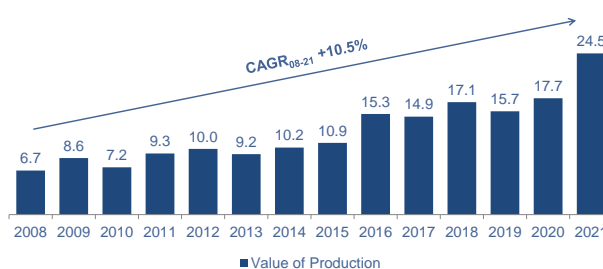


Shareholder structure

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

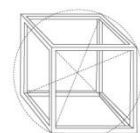
Top line evolution



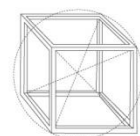
Peer group multiples table

Price & EV multiples x	Sales FY1	Sales FY2	EBITDA FY1	EBITDA FY2	EBIT FY1	EBIT FY2	PER FY1	PER FY2
Dechra Pharmaceuticals PLC	6.75	6.13	23.6	21.3	27.0	25.0	33.9	31.2
ECO Animal Health Group PLC	1.37	1.16	17.0	10.8	26.0	15.9	34.2	32.2
Elanco Animal Health Inc	3.75	3.44	14.6	12.2	17.6	14.4	20.9	16.9
Merck & Co Inc	3.84	3.86	9.0	8.9	10.3	10.2	11.2	11.4
Shedir Pharma SpA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12.0	9.6
Vetoquinol SA	2.86	2.64	13.0	12.0	18.4	16.7	26.2	24.2
Virbac SA	2.46	2.30	12.8	11.7	16.4	14.9	25.5	23.0
Zoetis Inc	10.79	9.91	25.2	22.6	27.9	24.8	36.1	32.0
Median Veterinary	3.75	3.44	14.6	12.0	18.4	15.9	25.8	23.6
Friulchem SpA	0.38	0.34	5.4	4.1	9.9	6.6	20.2	11.2

Source: CFO Sim, Thomson Reuters Eikon



Income statement (€ m)	2020	2021	2022e	2023e	2024e
Revenues	16.7	22.9	28.6	30.7	31.9
Value of Production	17.7	24.5	30.2	32.4	33.7
Raw material and processing	(11.9)	(15.7)	(19.2)	(20.4)	(21.2)
Services	(3.0)	(4.1)	(5.0)	(5.3)	(5.6)
Personnel expenses	(1.9)	(2.6)	(3.4)	(3.5)	(3.5)
Other opex	(0.2)	(0.6)	(0.5)	(0.5)	(0.5)
EBITDA	0.6	1.6	2.2	2.7	2.9
D&A	(1.0)	(0.9)	(1.0)	(1.0)	(1.0)
EBIT	(0.3)	0.7	1.2	1.7	1.9
Financials	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
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	0.7	1.3	1.5
Income taxes	0.2	(0.1)	(0.2)	(0.3)	(0.4)
Minorities	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Net Profit	(0.3)	0.1	0.4	0.8	0.9
EBITDA Adjusted	1.0	1.6	2.2	2.7	2.9
Net Profit Adjusted	(0.3)	0.1	0.4	0.8	0.9
Balance sheet (€ m)	2020	2021	2022e	2023e	2024e
Net Working Capital	1.2	2.3	2.8	3.1	3.2
Net Fixed Assets	10.0	10.8	10.8	10.8	10.9
Equity Investments	1.4	1.4	1.4	1.4	1.4
Other M/L Term A/L	(1.2)	(0.7)	(0.9)	(0.9)	(1.0)
Net Invested Capital	11.5	13.9	14.1	14.4	14.5
Net Financial Debt	1.1	3.1	2.9	2.4	1.6
Minorities	0.0	0.4	0.5	0.7	0.8
Group's Shareholders Equity	10.4	10.4	10.7	11.4	12.1
Financial Liabilities & Equity	11.5	13.9	14.1	14.4	14.5
Cash Flow statement (€ m)	2020	2021	2022e	2023e	2024e
Total net income	(0.3)	0.1	0.4	0.8	0.9
Depreciation	1.0	0.9	1.0	1.0	1.0
Other non-cash charges	(0.7)	0.3	0.2	0.0	0.0
Cash Flow from Oper. (CFO)	(0.1)	1.3	1.6	1.8	1.9
Change in NWC	0.6	(1.1)	(0.4)	(0.3)	(0.1)
FCF from Operations (FCFO)	0.5	0.1	1.2	1.5	1.8
Net Investments (CFI)	(2.7)	(1.7)	(1.0)	(1.0)	(1.0)
Free CF to the Firm (FCFF)	(2.2)	(1.6)	0.2	0.5	0.8
CF from financials (CFF)	1.7	6.2	0.0	(0.0)	(0.0)
Free Cash Flow to Equity (FCFE)	(0.6)	4.6	0.2	0.5	0.8
Financial ratios	2020	2021	2022e	2023e	2024e
EBITDA adj. margin	5.9%	6.4%	7.1%	8.2%	8.5%
EBIT margin	-1.9%	2.8%	3.8%	5.2%	5.6%
Net profit margin	-1.9%	0.3%	1.4%	2.4%	2.7%
Tax rate	33.1%	47.6%	27.5%	27.5%	27.5%
Op NWC/Sales	6.9%	9.6%	9.2%	9.4%	9.5%
Interest coverage x	(1.97)	1.64	2.79	4.04	4.51
Net Debt/EBITDA x	1.68	1.94	1.34	0.88	0.55
Debt-to-Equity x	0.10	0.30	0.27	0.21	0.13
ROIC	Neg.	0.6%	3.0%	5.4%	6.3%
ROCE	Neg.	2.9%	4.8%	6.7%	7.2%
ROACE	Neg.	3.4%	4.8%	6.8%	7.3%
ROE	Neg.	0.8%	4.0%	6.8%	7.5%
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	0.05	0.09	0.11
EPS adjusted FD €	(0.04)	0.01	0.05	0.09	0.11
EBITDA €	0.08	0.19	0.26	0.32	0.35
EBIT €	(0.04)	0.08	0.14	0.20	0.23
BV €	1.26	1.31	1.36	1.46	1.57
FCFO €	0.06	0.02	0.15	0.18	0.22
FCFF €	(0.27)	(0.19)	0.02	0.06	0.10
FCFE €	(0.07)	0.56	0.02	0.06	0.10
Dividend €	0.00	0.00	0.00	0.00	0.00

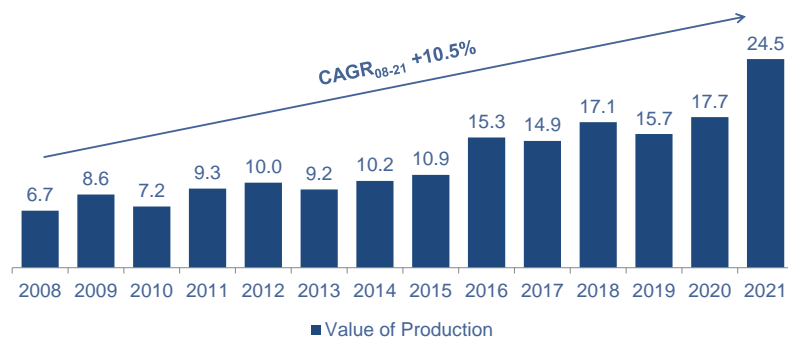


1. Friulchem in a Nutshell

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 veterinary sector and in developing dossiers of generic drugs for human beings.

Today Friulchem is headquartered in Milan and operates **two specialised manufacturing plants**, one in Vivaro (Pordenone), in hard-working, creative, north eastern Italy, and the other in Magny-En-Vexin (France). The company reported an **8.8% organic revenues 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.

Chart 1 – Friulchem, 2008-21 top line evolution



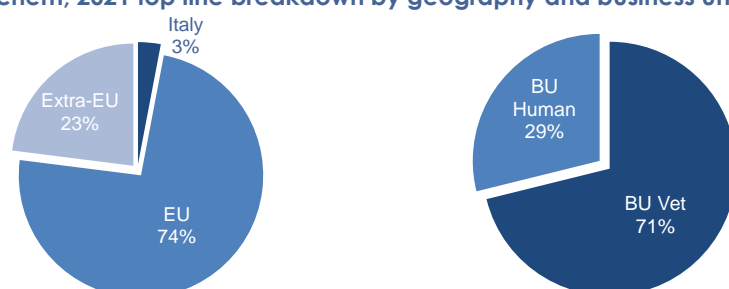
Source: CFO SIM elaboration on company data

The group's **global export sales account for 97% of total** (74% generated within the European Union and 23% extra-EU). In terms of business units, 71% of Friulchem's turnover comes from the division involved in the development and production of veterinary products, while the remaining 29% comes from the R&D division dedicated to generic drugs for human beings.

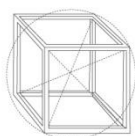
The **'Vet' business unit** develops and produces both nutraceutical and pharmaceutical finished and semi-finished veterinary products, through the use of different technologies, such as atomisation, micronisation, granulation and mixing. Friulchem's plants have been compliant with the European Good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

Chart 2 – Friulchem, 2021 top line breakdown by geography and business unit

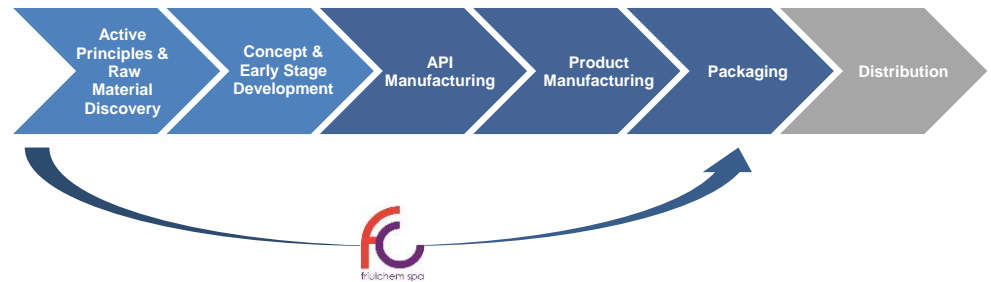


Source: Company data



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. In 2021, Friulchem registered an increase in margins due to the rising share of sales generated by the Veterinarian business unit (71% vs 69% in FY-20), characterised by higher profitability. The Human business unit reported growing revenues thanks to increasing sales of generic drugs based on the company's dossiers.

Chart 3 – Friulchem, group's business model

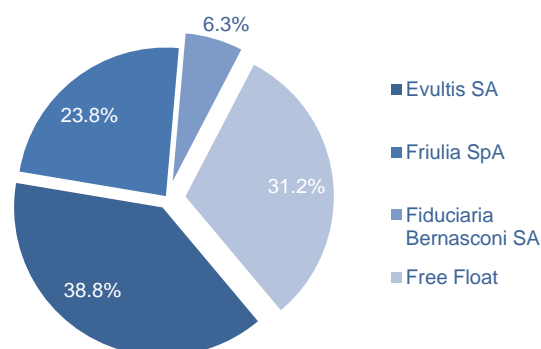


Source: CFO SIM elaboration on company data

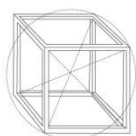
Friulchem provides its customers with a **full range of services from R&D activity to packaging of finished products**. It is worth mentioning that the group is able to run **tailor-made solutions across a wide range of product categories via several kinds of delivery forms**. The bulk of production is dedicated to **farm animals and livestock**, namely special feeds, vitamins, minerals, probiotics and antibiotics provided in different delivery forms, such as pre-mixes, injectable and soluble solutions, capsules, granules and aerosol sprays. Recently, the Friulchem's R&D department developed and registered two **innovative cutting-edge technologies named FC-BALL® and FC-CUBE®** able to improve the administration of drugs and food supplements both to farm animals and pets. Furthermore, by using the FC-CUBE® technology, the group launched '**Suppleo**', a new **B2C product line comprising complementary feeds for dogs and cats** in the form of highly palatable tablets formulated to preserve the organoleptic properties of natural ingredients.

Friulchem went public on Euronext Growth Milan **on 25-Jul-19** with a **market capitalisation of € 14.4m and a free float of 31.2%**. The IPO encompassed a **primary offering for a total of € 4.5m**. Pre-IPO shareholders have a 36-month lock up. At the same time as the capital increase of € 4.5m, 2,499,750 warrants were assigned free of charge, one for every share subscribed. The warrant exercise periods run between 1-Nov to, and including, 30-Nov 2020, 2021 and 2022, respectively. The exercise price was € 1.98/s for the first exercise period; it will be € 2.18/s for the second one and € 2.40/s for the third one, with a conversion ratio of 1 share for every 10 warrants held. During the first exercise period no warrants were converted, thus they are all still outstanding.

Chart 4 – Friulchem, shareholder structure



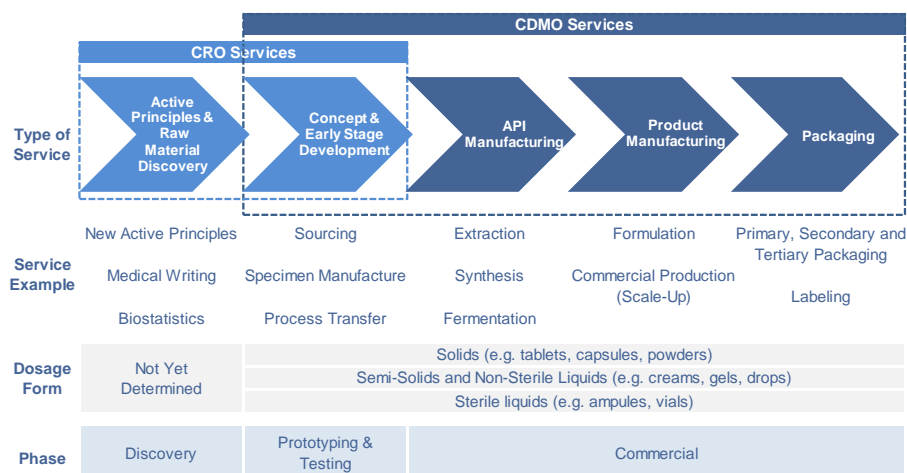
Source: Company data



2. The Reference Market: CDMO

The **Contract Development and Manufacturing Organisation** industry started out decades ago as a niche service, offering additional manufacturing capacity and specialty services to pharmaceutical companies. The leading CDMOs, including Friulchem, are clearly committed to broadening the service offering in line with the one-stop-shop model, becoming **fully integrated players offering their customers services across the entire product life-cycle**, from discovery to packaging, as well as across all key geographies.

Chart 5 – Friulchem, overview of CRO and CDMO services



Source: PwC, *Current trends and strategic options in the pharma CDMO market*

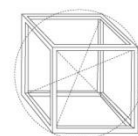
2.1. Veterinary Market

Friulchem focuses on the **development and production of pharmaceutical and nutraceutical products for the veterinary market**. The animal health industry includes all products and services, other than livestock feed and pet food, that promote livestock productivity and health as well as companion animal health. These products and services include medicines and vaccines, diagnostics, medical devices, pet supplies, nutritional supplements, veterinary and other related services.

The size of the **global veterinary medicine market** was **\$ 29.2bn** in 2020 and **is expected to grow by 5.5% in 2021** and to expand at a **CAGR₂₁₋₂₈ of 7.4%**, reaching \$ 50.8bn in 2028 (source: Grand View Research 2021).

The **increasing cases of zoonotic and chronic diseases** are the key factors driving the veterinary medicine market. The global livestock population has also been experiencing rapid growth over the past few decades. Moreover, the **increase in the number of pet owners** is driving the need for better treatment options for companion animals, which is resulting in **rising health expenditure on pets**. Furthermore, rising meat consumption is fuelling the demand for **mandatory vaccinations for animals**, driving the growth of the veterinary medicine market. According to The World Counts, global meat production increased 2-fold between 1988 and 2018 and is estimated to range between 460-570 million tons by 2050.

The market leaders are involved in strategic collaboration, regional expansion, and new product launch to sustain the competition. Some of the main global veterinary industry players are Zoetis (USA), Boehringer Ingelheim Animal Health (Germany), MSD Animal Health (USA), Elanco (USA), INDEXX Lab. (USA), Bayer Animal Health (Germany), Ceva (France), Virbac (France), Phibro Animal Health (USA) and Decra Pharma (UK).



2.2. The Generic Drugs Market

Friulchem has a business unit dedicated to the R&D of generic drugs based on formulations with a high degree of development and production complexity. Currently, the group holds 8 dossiers related to generic drugs for human beings. Generic drugs are drugs with the chemical makeup of an existing branded drug. They are cheaper and equivalent to branded drugs in terms of dosage, strength, route of administration, quality, performance, and application. Generic drugs are subjected to government regulations in various countries rather than being associated with a particular company.





The **global generic drugs market is valued at approximately \$ 415bn in 2021** and is anticipated to grow at a **CAGR₂₁₋₂₇ of 5.6%**, reaching **\$ 575bn in 2027** (source: Precedence Research 2021). The rising demand for newer versions of generic drugs, higher numbers of clinical trials, and increasing licensing & partnering strategies by key vendors to launch new products are going to contribute to significant demand for generic drugs in the near future.

2.3. The Competitive Arena

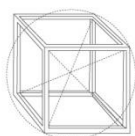
Among European CDMOs operating in the veterinary field, **Friulchem is unquestionably well-positioned** on the back of its ability to offer its customers a wide portfolio of products and services. Friulchem is able to manage different production techniques, such as atomisation, micronisation, granulation and mixing. The group's main competitors are three European companies of a similar size to Friulchem and a significantly larger US player.

- **Labiana Life Sciences SA (Spain)** provides its customers with CDMO services as well as proprietary animal health and human medicinal products. The group focuses on the production of pharmaceuticals for European animal and human health industries. Moreover, it is specialised in the manufacturing of products with sterile and lyophilised dosage forms.
- **Unione Commerciale Lombarda SpA – UCL (Italy)** produces oral, liquid and powdered veterinary drugs, sanitizers, biocides and nutritional products both for livestock and pets. Furthermore, the R&D department developed a wide range of prebiotics and probiotics for all wildlife.
- **Lab-Service SA (France)** is a CMO specialised in particle size analysis, air jet micronisation, grinding and sieving. The company works in collaboration with pharmaceutical, chemical, cosmetic and food companies.
- **Piedmont Animal Health LLC (USA)** is a CDMO focused on veterinary medicine, developing and manufacturing products both for livestock and pets. The group launched more than 20 products in the veterinary industry for dogs, cats and horses.

Chart 6 – Friulchem, main competitors

Main competitors	Country	Revenues	Micronization	Granulation	Atomization	R&D	Finished products
Piedmont Animal Health LLC		> € 100m				●	●
Labiana Life Sciences SA		~ € 40m				●	●
UCL SpA		~ € 7m		●			
Lab-Service SA		~ € 5m	●				
Friulchem SpA		€ 18m	●	●	●	●	●

Source: CFO SIM elaboration on information provided by the company



3. Business Model & Strategy

Friulchem is a one-stop-shop CDMO, providing its customers with a **full range of services from R&D activity to packaging of finished products**. The group product portfolio includes Active Pharmaceutical Ingredients (APIs), drugs (including antibiotics and penicillin), food supplements and special feeds for the veterinary sector. Furthermore, Friulchem is specialised in the development of dossiers of generic drugs for humans. It is worth mentioning that the group is able to run **tailor-made solutions across a wide range of product categories** (vitamins, minerals, probiotics, antibiotics, penicillin) **via several kinds of delivery forms** (injectables, capsules, granules and aerosol sprays). Friulchem operates **two business units**, namely:

- **'Vet' business unit:** Friulchem provides its customers with semi-finished and finished products based both on proprietary formulations and on specific customer requests. The group sources APIs and excipients, including antibiotics and penicillin (mainly amoxicillin), via a selected network of suppliers. The **manufacturing process takes place entirely in-house**, using several different production techniques, such as atomisation, micronisation, granulation and mixing. Furthermore, the group also deals with the packaging, providing veterinary pharma companies with products ready to be sold to the end customers.

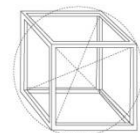
Today Friulchem operates **two specialised manufacturing plants**, one in Vivaro (Pordenone, Italy) and the other in Magny-En-Vexin (France), both compliant with European Good Manufacturing Standards. The Italian plant's **capacity utilization is at 80% while the French plant is currently running at about 50%**.

The bulk of production is dedicated to farm animals, namely special feeds, vitamins, minerals, probiotics and antibiotics provided in different delivery forms, such as pre-mixes and soluble or injectable solutions. Recently, the Friulchem's R&D department developed two **innovative cutting-edge technologies named FC-BALL®** (to be approved) and **FC-CUBE®** (patented) able to improve the administration of drugs and food supplements both to farm animals and pets. Using the FC-CUBE® technology, the group has launched **'Suppleo'**, a new **B2C product line comprising complementary feeds for dogs and cats** in the form of highly palatable tablets formulated to preserve the organoleptic properties of natural ingredients.

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

The **R&D department** covers several activities, namely 1) identifying new molecules, APIs and formulations, 2) discovering innovative drug delivery solutions, 3) running quality control activities both on raw materials and finished or semi-finished products, 4) managing some pilot applications to satisfy specific customer requests. Currently, the group holds several intellectual properties: **3 registered patents in addition to one to be approved**, including the two cutting-edge technologies FC-CUBE® and FC-BALL®, the latter to be approved; **8 dossiers** related to generic drugs for human beings.

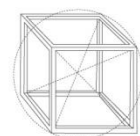
Friulchem has **consolidated relationships with the main veterinarian multinational pharma companies**, mainly thanks to its ability to offer tailor-made solutions and to satisfy all the customer's needs, making it a **strong reliable partner**. Friulchem's main customer is Virbac (with whom the relationship started more than 20 years ago), a France-based veterinarian pharmaceutical company focused on the development and production of vaccines and medicines for domestic animals and livestock.



The raw materials procurement takes place through a **global network of selected suppliers**. The group buys active ingredients and excipients based on the orders received from customers and carries out careful quality controls on all raw materials before starting the production process. In particular, **Friulchem is one of the few companies in Europe specialised in the treatment of penicillin** for animal health with a dedicated manufacturing area.

Friulchem is now aiming to continue consolidating its competitive positioning in the buoyant veterinarian CDMO market and expanding geographically. The group's growth strategy is based on both organic and external growth, namely:

- **Consolidation of the market share in the veterinarian CDMO sector:** thanks to its strong R&D effort, ability to manage several different drug delivery technologies and undisputed leading position in the penicillin and antibiotics segment in Italy, Friulchem is well positioned to increase its share of wallet among the multinational veterinarian pharma companies. Furthermore, Friulchem will keep investing in developing new drug delivery technologies as well as in discovering new active principles.
- **Exploiting the untapped production capacity of the Magny-En-Vexin plant:** the French plant is currently operating at about 50% capacity. It is worth remembering that as of today Virbac is the only customer served through this plant. The French site is specialised in the production of pre-mixes, soluble powders, liquid products, pastes and boluses, and thus is complementary to the group's Italian plant. Considering the current saturation point of production capacity in France, we believe the group has gained additional room for serving new additional customers through this production facility, thus taking better advantage of the operating leverage.
- **Organic geographical expansion:** the target markets where Friulchem plans to expand are the USA, South America, South East Asia, Australia and New Zealand. The strategy is to identify a few commercial partners with which to enter into licence agreements with minimum guaranteed royalties based actual sales volumes.
- **M&A opportunities:** in our view, the group will continue to look for strategic synergic M&As in order to support and boost organic growth. We believe, the **potential targets may have different profiles**, namely: i) companies allowing Friulchem to vertically integrate, adding production phases not yet covered by the group (i.e. sterilisation); ii) firms owning innovative patents and technological platforms as well as companies managing new molecules in order to improve and expand Friulchem's product portfolio; and iii) industrial players with a similar business model to Friulchem but serving different customers in order to enlarge the group's customer base.



4. Porter's 5 Forces

According to Michael Porter the competitive structure and the degree of attractiveness of an industry are the result of the **simultaneous interaction of five forces**. Their analysis allows for the evaluation of the competitive position of a company within a given industry.

- **Competitors**, intensity of competition.
- **Suppliers**, bargaining power.
- **Customers**, bargaining power.
- Potential new **competitors**.
- **Substitute** products.

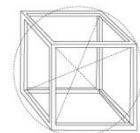
The veterinary CDMO segment in which Friulchem operates is a business that can be labelled as **RATHER ATTRACTIVE** and characterised by:

- **A quite competitive market:** Friulchem is a small/medium sized player in a quite fragmented industry with a large number of small players, which are not necessarily direct competitors but, rather, possible M&A targets. Production capacity is not an issue in this segment, also on the back of the great number of sub-suppliers out there. The consistent high level of the quality and services offered makes the difference: product originality and differentiation are key competitive advantages. Friulchem is a true partner to customers.
- **No issue of weighty suppliers.** Friulchem has an extremely flexible production structure, with approximately 80-20 variable-fixed costs: resorting to external production capacity for certain low-value-added manufacturing processes is rather significant. In the Vet business unit, the group directly manages every strategic activity (i.e. R&D of active ingredients and formulas, quality control and production). As for raw material procurement, Friulchem has an extensive list of selected suppliers, with quite low concentration risks. The Italian plant's capacity utilisation is close to 80%, whereas that of the French plant is almost 50%: Friulchem has adequate capacity to support growth and plenty of room to maintain flexibility.
- **Quite well-balanced customer base.** The top ten customers account for 62% of 2021 turnover: the top customer makes 19% and the top five 47%. Customer loyalty is very high as the group has long-lasting consolidated relationships with several veterinarian pharma companies. Friulchem is their reliable R&D, developing, producing and technology solution partner.
- **Rather robust barriers to entry**, represented by the originality, differentiation and consistent quality of products as well as by the level of services. Friulchem is a true partner to customers. The price is relevant but is not on the podium. Furthermore, reliable high levels of technological innovation/development as well as compliance with high sustainability standard levels represent defendable entry barriers, corroborated by constant and enduring R&D investment.
- **The substantial absence of potential substitutes.** There is a low threat of substitution in static terms and limited cross-elasticity of goods. The pharmaceutical form could vary, but not the function of drugs and APIs.

Chart 7 – Porter's 5 forces industry summary

Rivalry amongst competitors	Low	Friulchem is the only player in Italy authorised to process penicillin and antibiotics for the veterinary sector Production capacity is not an issue, price is not the key aspect	+	+
Bargaining power of suppliers	Low	Key strategic activities performed in house Ingredient producers and other suppliers are largely available on the market	+	+
Bargaining power of customers	Medium Low	Clients tend to externalise R&D and production rather than vertically integrate In the veterinary sector, the number of potential customers is quite low Friulchem is able to provide its clients with quite unique products and services	+	+/-
Threats of new entrants	Medium Low	Quality, service, differentiation, innovation and R&D capacity make the difference Friulchem is a true and reliable partner to pharma companies The time and investments needed to build an efficient production facility might deter new comers	+	+/-
Threats of potential substitutes	Low	Low threat of substitution in static terms, limited cross-elasticity of goods To a lesser extent, the pharmaceutical form could vary, not the function of drugs and APIs	+	+

Source: CFO Sim, Company data



5. SWOT Analysis

The SWOT analysis, also known as SWOT Matrix, is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. A SWOT analysis can be carried out with regard to a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objective.

- **Strengths:** characteristics of the business that give it an advantage over others.
- **Weaknesses:** characteristics that place the business at a disadvantage vs. others.
- **Opportunities:** elements that the project could use to its advantage.
- **Threats:** elements in the environment that could cause damage or be detrimental for the business or project.

The technique is credited to Albert Humphrey, who led a research project at Stanford University between the 60s/70s using Fortune 500 data.

S.W.O.T. ANALYSIS

STRENGTHS

- ❑ **Well-structured R&D team** with a solid proven track-record in developing innovative drug delivery solutions
- ❑ Ability to deliver **tailor-made solutions** via **different delivery forms**, also based on proprietary technologies
- ❑ Extremely flexible production structure, with approximately **80-20 variable-fixed costs**

WEAKNESSES

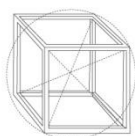
- ❑ **Limited size** in the international competitive arena
- ❑ **Few key relevant people** represent a vital asset for the company
- ❑ Need for **reinforcement of the management structure** to boost developments
- ❑ Limited **M&A track record**

OPPORTUNITIES

- ❑ The **increasing outsourcing trend** by pharma companies, both in terms of R&D and production
- ❑ Exploiting the **French plant's unused production capacity** to serve new customers

THREATS

- ❑ Development of **new innovative successful dossiers** by some competitors
- ❑ **Other potential consolidating actors in the industry** with huge fire power (i.e. private equity funds)
- ❑ **Increasing regulation** or changes in the regulatory framework



6. FY-21 Results

Friulchem's FY-21 reported results were characterised by growing revenues, coupled with better margins which led to a positive bottom line. The Vet business unit benefited from increasing sales both from the Vivaro (Pordenone, Italy) plant and the recently acquired production facility in Magny-en-Vexin. The Human business unit registered increasing demand for generic drugs based on Friulchem's dossiers.

Table 1 – Friulchem, FY-21 results summary

€ m	2021	2020	% YoY	2021e	% Diff.
BU Vet	16.3	11.4	42.4	16.2	0.7
BU Human	6.6	5.2	26.1	5.4	23.0
Revenues	22.9	16.7	37.3	21.5	6.3
Increase in finished products	1.1	0.7		0.8	
Other revenues	0.5	0.3		0.3	
Value of Production	24.5	17.7	38.5	22.6	8.4
Raw material and processing	(15.7)	(11.9)		(14.4)	
Services	(4.1)	(3.0)		(3.7)	
Personnel expenses	(2.6)	(1.9)		(2.7)	
Other opex	(0.6)	(0.2)		(0.3)	
EBITDA	1.6	0.6	<i>n.m.</i>	1.5	5.1
% margin	6.4	3.6		6.7	
D&A	(0.9)	(1.0)		(1.2)	
EBIT	0.7	(0.3)	<i>n.m.</i>	0.3	<i>n.m.</i>
% margin	2.8	(1.9)		1.2	
Financials	(0.2)	(0.4)		(0.2)	
Pre-Tax profit	0.3	(0.5)	<i>n.m.</i>	0.1	<i>n.m.</i>
% margin	1.1	(2.9)		0.4	
Income taxes	(0.1)	0.2		(0.0)	
Tax rate	47.6%	<i>n.m.</i>		27.5%	
Minorities	(0.1)	0.0		(0.1)	
Net Profit	0.1	(0.3)	<i>n.m.</i>	0.0	<i>n.m.</i>
% margin	0.0	(1.9)		0.0	
Net Financial Position	3.1	1.1	<i>n.m.</i>	3.2	(5.3)
Net Equity	10.8	10.4	3.9	10.9	(0.6)

Source: Company data, CFO SIM analysis

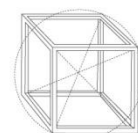
In 2021, **total revenues rose by 37.3% YoY to € 22.9m**, mainly as a result of increasing sales in both Vet and Human business units. The figure is 6.3% better than CFO SIM's expectation, mainly on the back of higher than projected revenues with regard to the Human business unit.

The Vet business unit went up 42.4% YoY to € 16.3m (71% of total revenues), € 4.4m of which are attributable to the production facility in Magny-en-Vexin (France) acquired in May-21 and operative since the beginning of H2-21. Thus, **organically, the Vet business unit totalled € 11.9m, up by 4.0% YoY**, thanks to 1) growing revenues stemming from products manufactured at the Italian facility and 2) the increase in the invoices issued for the milestones related to a few R&D projects aimed at developing new veterinary tailor-made solutions for certain customers. Revenues stemming from commercialised veterinarian products remained stable compared to 2020.

The Human business unit's revenues stood at € 6.6m (29% of total revenues), up 26.1% YoY, mainly thanks to the increasing sales of generic drugs based on Friulchem's dossiers. In particular, the business unit experienced a solid sales increase of both Fosfomicina and Acarbose products, while a decrease in Meropenem sales.

EBITDA climbed to € 1.6m, 6.4% margin (vs € 0.6m, 3.6% margin in 2020), thanks to a higher share of sales generated by the Vet BU (71% of total, vs 68% in FY-20), historically more profitable than the Human BU.

EBIT totalled € 0.7m, compared to € -0.3m in 2020, after D&A broadly stable YoY. **Net Profit turned positive by € 0.1m** vs € 0.3m loss in 2020, despite net financial charges of € 420k and a heavier tax rate.



Net Financial Position came in at € 3.1m debt, corresponding to 1.9x NFP/EBITDA. The increase compared to € 1.1m debt at the end-20 was primarily due to 1) the purchase of the plant in Magny-en-Vexin (France) from Virbac, 2) the FY-21 severance indemnity payment and 3) the increase in NWC. **Cash and cash equivalents stand at € 8.8m.**

7. Estimates, Valuation & Risks

Friulchem reported a good set of FY-21 results, broadly in line with CFO SIM's estimates. The positive performance in terms of EBITDA was mainly driven by higher sales volumes as well as by the increasing turnover with regard to the Vet business unit, characterised by higher profitability, thanks to a mid-single digit organic growth coupled with the consolidation of the French plant acquired in May-21.

Top line upward trend in the Vet BU is set to continue in 2022, after Friulchem managed to make **long-term strategic agreements** at the end of FY-21 with Italian and international partners for the development and supply of probiotics and food supplements, leveraging the **FC-CUBE®** proprietary technology and its proven R&D capabilities.

Following the FY-21 results release, **we have fine-tuned our model**, factoring in: 1) the higher than expected revenues with regard to the Human BU, leaving almost unchanged top line growth for 2022-23 and 2) a tiny reduction in D&A, in line with the 2021 figure. The combined result is an average **4.6%, 5.2% and 16.5% increase in revenues, EBITDA and Net Profit in 2022-23**. We have also introduced projections for 2024.

Table 2 – Friulchem, 2022e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	30.2	28.6	5.6	1.6
EBITDA	2.2	2.0	5.9	0.1
% margin	7.1	7.1		
EBIT	1.2	0.8	40.9	0.3
% margin	3.8	2.9		
Net Profit	0.4	0.3	23.8	0.1
% margin	1.4	1.2		
Y/E net debt/(cash)	2.9	2.9	(2.5)	(0.1)

Source: CFO Sim

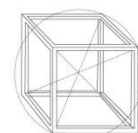
Table 3 – Friulchem, 2023e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	32.4	30.8	5.4	1.7
EBITDA	2.7	2.6	4.6	0.1
% margin	8.2	8.3		
EBIT	1.7	1.4	23.0	0.3
% margin	5.2	4.4		
Net Profit	0.8	0.7	9.3	0.1
% margin	2.4	2.3		
Y/E net debt/(cash)	2.4	2.3	1.9	0.0

Source: CFO Sim

Moreover, CFO has **updated the DCF valuation criteria**, bringing the Free Risk Rate up-to-date and postponed its first valuation projection to 2022. The combined result is a **new PT of € 2.00/s** (€ 1.80), with an upside of 85.2% to current price levels.

We also updated our market multiples valuation, resulting in Friulchem equity value of € 2.20/s (€ 1.70/s), corroborating the value obtained by the DCF model.



7.1. DCF

In the valuation via the DCF method, we include explicit estimates until 2026 and a cautious long-term growth of 1.0%. Cash flows are discounted back at a weighted average cost of capital calculated according to the following parameters:

Table 4 – WACC derived from:

Interest costs, pre-tax	3.5%
Tax rate	27.5%
Inf. costs, after taxes	2.5%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200dd mov. avg.)	1.05%
Beta levered (x)	1.00
Required ROE	10.0%

Source: CFO SIM, Thomson Reuters Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all concerns and disquiet that an investor might have with regard to the Euronext Growth Milan market segment. **Beta** has been prudentially set **at 1.00**, taking into account the lower liquidity of the company. The WACC is computed using a 30:70 debt/equity sustainable balance-sheet structure.

Table 5 – Friulchem, DCF model

€ m	2022e	2023e	2024e	2025e	2026e Term.	Val.
EBIT	1.2	1.7	1.9	2.1	2.3	
Tax rate	27.5%	27.5%	27.5%	27.5%	27.5%	
Operating profit (NOPAT)	0.8	1.2	1.4	1.5	1.6	
Change working capital	(0.4)	(0.3)	(0.1)	(0.1)	(0.1)	
Depreciation	1.0	1.0	1.0	1.0	1.0	
Investments	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	
Free Cash Flows	0.4	0.9	1.2	1.4	1.5	22.9
Present value	0.4	0.8	1.0	1.0	1.1	16.0
WACC	7.8%	7.8%	7.8%	7.8%	7.8%	
Long-term growth rate	1.0%					

Source: CFO SIM

Table 6 – Friulchem, DCF derived from:

€ m	
Total EV present value € m	20.3
	<i>thereof terminal value</i>
	78.9%
NFP last reported	(3.1)
Pension provision	(0.5)
Equity value € m	16.7
#m shares FD	8.25
Equity value €/s	2.00
<i>% upside/(downside)</i>	85.2%

Source: CFO SIM

The outcome of our DCF shows an equity value of € 16.7m for Friulchem, € 2.00/s (€ 1.80), 85.2% upside to current price levels.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value of **€ 1.82-2.29/s (perpetuity range between 0.25% and 1.75%)**, while 2) if compared to changes in the free risk rate, it produces an equity value of **€ 1.84-2.25/s (free risk range between 1.80% and 0.30%)** and 3) if compared to changes in the risk premium, including small size premium, it results into an equity value of **€ 1.68-2.51/s (risk premium range between 10.5% and 7.50%)**.

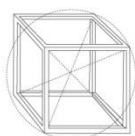


Table 7 – Friulchem, equity value sensitivity to changes in terminal growth rate

€ m	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
Present value of CF	4.3	4.3	4.3	4.3	4.3	4.3	4.3
PV of terminal value	14.3	14.9	15.4	16.0	16.7	17.4	18.2
Total value	18.6	19.2	19.7	20.3	21.0	21.7	22.5
NFP last reported	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
Pension provision	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Equity value	15.0	15.6	16.1	16.7	17.4	18.1	18.9
Equity value/share €	1.82	1.89	1.96	2.00	2.11	2.19	2.29

Source: CFO SIM

Table 8 – Friulchem, equity value sensitivity to changes in free risk rate

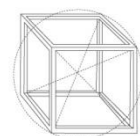
€ m	0.30%	0.55%	0.80%	1.05%	1.30%	1.55%	1.80%
Present value of CF	4.4	4.3	4.3	4.3	4.3	4.2	4.2
PV of terminal value	17.8	17.2	16.6	16.0	15.5	15.0	14.5
Total value	22.1	21.5	20.9	20.3	19.8	19.3	18.8
NFP last reported	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
Pension provision	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Equity value	18.6	17.9	17.3	16.7	16.2	15.7	15.2
Equity value/share €	2.25	2.17	2.10	2.00	1.96	1.90	1.84

Source: CFO SIM

Table 9 – Friulchem, equity value sensitivity to changes in risk premium

€ m	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%
Present value of CF	4.4	4.4	4.3	4.3	4.2	4.2	4.2
PV of terminal value	19.9	18.4	17.2	16.0	15.0	14.1	13.3
Total value	24.3	22.8	21.5	20.3	19.3	18.3	17.4
NFP last reported	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
Pension provision	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Equity value	20.7	19.2	17.9	16.7	15.7	14.7	13.8
Equity value/share €	2.51	2.33	2.17	2.00	1.90	1.78	1.68

Source: CFO SIM



7.2. Market Multiples

Friulchem is a B2B Contract Development and Manufacturing Organisation, producing pharmaceutical and nutraceutical products, including APIs, drugs and food supplements, mainly for the veterinary sector.

We conducted an analysis of the following companies operating in the veterinary sector:

Dechra Pharmaceuticals PLC is engaged in veterinary pharmaceuticals and related products business. The company is engaged in the development, manufacturing and marketing of products for veterinarians. Its offerings include Osphos, Zycortal and Vetoryl.

ECO Animal Health Group PLC is engaged in the development, registration and marketing of pharmaceutical products for global animal health markets. The company's principal activity is the manufacture and supply of animal health products across the globe. The company's products include Aivlosin and Ecomectin.

Elanco Animal Health Inc. is an animal health company that develops, manufactures and markets products for companion and farm animals. It provides a wide range of products: parasiticide portfolios in the companion animal sector, with products that protect pets from worms, fleas and ticks; a pain and osteoarthritis portfolio across species, modes of action, indications and disease stages; treatments for otitis (ear infections), as well as cardiovascular and dermatology indications; vaccines, nutritional enzymes and animal-only antibiotics; products in poultry and aquaculture production.

Merck & Co. Inc. is a global healthcare company, offering health solutions through its prescription medicines, vaccines, biologic therapies and animal health products. It operates through two segments: Pharmaceutical and Animal Health. The Pharmaceutical segment includes human health pharmaceutical and vaccine products. The Animal Health segment develops, manufactures and markets a wide range of veterinary pharmaceutical and vaccine products, as well as health management solutions and services, for the prevention, treatment and control of disease in all major livestock and companion animal species.

Phibro Animal Health Corp is a global diversified animal health and mineral nutrition company. The company operates in three segments, which include Animal Health, Mineral Nutrition and Performance Products. The company offers various products, which include antibacterials, anticoccidials, vaccines, nutritional specialty products and mineral nutrition products. Phibro Animal Health Corp also manufactures and markets specific ingredients for use in the personal care, automotive, industrial chemical and chemical catalyst industries.

Shedir Pharma SpA is an Italy-based pharmaceutical company specialised in nutraceuticals, cosmetics and medical devices. The company markets its products in different forms and under the following brand lines: Shedir Farmaceutici, Deimos Farmaceutici, Phobos Farmaceutici, Menkar Farmaceutici and Greenplanet Divisione Farmaceutica. Its products cover a wide range of therapeutics areas, such as cardiovascular, dermatology, neurology, urology, gynaecology and dental health, among others.

Vetoquinol SA is a France-based company that specialises in the research, development, manufacture, marketing and sale of veterinary drugs and products. The company's product portfolio is divided between livestock, such as cattle and pigs, and companion animals, including dogs and cats.

Virbac SA is a France-based veterinarian pharmaceutical company that specialises in the development and production of vaccines and medicines for domestic animals and livestock. Its development efforts focus mainly on formulating drugs designed to prevent or treat certain animal diseases. Its product portfolio encompasses pet medications such as pest control drugs, vaccines, antibiotics, anaesthetics, anti-inflammatory drugs, mouth/dental care products, ophthalmologic and dermatological products intended



for dogs, cats, horses, birds and rodents, as well as livestock medications including pest control drugs and antibiotics intended for cattle, sheep, pigs and poultry.

Zoetis Inc is engaged in the discovery, development, manufacture and marketing of animal health medicines and vaccines, with a focus on both livestock and companion animals. The company markets products across eight core species: cattle, swine, poultry, sheep and fish (collectively, livestock) and dogs, cats and horses (collectively, companion animals), and within five product categories: anti-infectives, vaccines, parasiticides, medicated feed additives and other pharmaceuticals.

The peers have rather diversified sizes, profitability, financial structures, geographical presence and supply chain integration. Based on CFO SIM's estimates, **Friulchem shows higher-than-peer median Sales and EBITDA CAGR but lower-than-peer median EBITDA margin.**

Table 10 – Friulchem, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA margin	Sales CAGR ₂₁₋₂₄	EBITDA CAGR ₂₁₋₂₄	EBIT CAGR ₂₁₋₂₄	EPS CAGR ₂₂₋₂₄ /EBITDA	NFP
Dechra Pharmaceuticals PLC	UK	5,163	795	227	28.6%	9.1%	9.1%	30.8%	9.6%	0.9
ECO Animal Health Group PLC	UK	134	97	8	8.0%	-3.2%	-18.4%	-22.9%	18.1%	n.m.
Elanco Animal Health Inc	USA	11,458	4,342	1,115	25.7%	3.9%	17.4%	66.4%	21.6%	4.3
Merck & Co Inc	USA	187,237	51,976	22,128	42.6%	7.0%	8.6%	10.7%	5.3%	0.6
Phibro Animal Health Corp	USA	737	798	100	12.5%	6.4%	9.5%	12.8%	4.6%	2.6
Shedir Pharma SpA	IT	48	45	8	17.8%	7.9%	7.5%	5.8%	11.8%	n.a.
Vetoquinol SA	FR	1,618	553	121	21.9%	4.5%	n.a.	n.a.	4.4%	n.m.
Virbac SA	FR	3,002	1,148	221	19.2%	5.8%	6.8%	7.0%	8.8%	n.m.
Zoetis Inc	USA	81,418	7,745	3,321	42.9%	9.6%	11.8%	13.5%	12.0%	0.7
Median Veterinary		3,002	798	221	21.9%	6.4%	8.8%	11.7%	9.6%	0.9
Friulchem SpA	IT	9	30	2	7.1%	11.2%	21.9%	39.5%	46.2%	1.3

Source: CFO SIM, Thomson Reuters Eikon

Table 11 – Friulchem, peer group EV multiple table

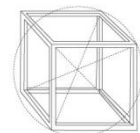
EV multiples - x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Dechra Pharmaceuticals PLC	6.75	6.13	5.52	23.6	21.3	18.9
ECO Animal Health Group PLC	1.37	1.16	1.17	17.0	10.8	9.3
Elanco Animal Health Inc	3.75	3.44	3.13	14.6	12.2	10.2
Merck & Co Inc	3.84	3.86	3.62	9.0	8.9	7.9
Phibro Animal Health Corp	1.25	1.18	1.10	10.0	9.0	7.9
Shedir Pharma SpA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Vetoquinol SA	2.86	2.64	2.42	13.0	12.0	11.0
Virbac SA	2.46	2.30	2.18	12.8	11.7	10.8
Zoetis Inc	10.79	9.91	8.93	25.2	22.6	20.0
Median Veterinary	3.30	3.04	2.78	13.8	11.8	10.5
Friulchem SpA	0.38	0.34	0.30	5.4	4.1	3.6
% premium/(discount) to Veterinary	(88.4)	(88.8)	(89.1)	(61.2)	(65.2)	(65.9)

Source: CFO SIM, Thomson Reuters Eikon

Table 12 – Friulchem, peer group EV & price multiple table

EV & price multiples - x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Dechra Pharmaceuticals PLC	27.0	25.0	22.3	33.9	31.2	28.2
ECO Animal Health Group PLC	26.0	15.9	12.0	34.2	32.2	24.5
Elanco Animal Health Inc	17.6	14.4	12.0	20.9	16.9	14.2
Merck & Co Inc	10.3	10.2	8.8	11.2	11.4	10.1
Phibro Animal Health Corp	13.2	12.0	10.3	15.3	15.6	14.0
Shedir Pharma SpA	n.a.	n.a.	n.a.	12.0	9.6	9.6
Vetoquinol SA	18.4	16.7	15.3	26.2	24.2	24.0
Virbac SA	16.4	14.9	13.5	25.5	23.0	21.5
Zoetis Inc	27.9	24.8	22.2	36.1	32.0	28.8
Median Veterinary	18.0	15.4	12.8	25.5	23.0	21.5
Friulchem SpA	9.9	6.6	5.5	20.2	11.2	9.5
% premium/(discount) to Veterinary	(44.7)	(57.4)	(57.2)	(20.6)	(51.5)	(56.0)

Source: CFO SIM, Thomson Reuters Eikon



In order to obtain a fair appraisal of Friulchem, we believe the peer median multiples need to be discounted on the back of the smaller size and the lower profitability of the company as well as the lower liquidity of the stock. By applying the peer group **EV/EBITDA** multiple median, **discounted by 30.0%**, to Friulchem's metrics we attain an **appraisal of Friulchem to the tune of € 2.20/s, using 2022 estimates and multiples.**

Table 13 – Friulchem, equity value assessment, 1#3

Friulchem Equity Value - € m	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Median Veterinary Peers (x)	3.30	3.04	2.78	13.8	11.8	10.5
Friulchem metric	30.2	32.4	33.7	2.2	2.7	2.9
NFP	(2.9)	(2.4)	(1.6)	(2.9)	(2.4)	(1.6)
Friulchem Equity Value	67.0	66.6	63.9	17.9	19.8	19.4
Friulchem Equity Value/share €	8.12	8.08	7.75	2.20	2.40	2.35
% upside/(downside)	651.6	647.9	617.5	101.3	122.0	117.9

Source: CFO SIM, Thomson Reuters Eikon

Table 14 – Friulchem, equity value assessment, 2#3

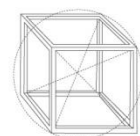
Friulchem Equity Value - € m	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Median Veterinary Peers (x)	18.0	15.4	12.8	25.5	23.0	21.5
Friulchem metric	1.2	1.7	1.9	0.4	0.8	0.9
NFP	(2.9)	(2.4)	(1.6)			
Friulchem Equity Value	11.7	15.7	15.1	7.6	12.5	13.8
Friulchem Equity Value/share €	1.42	1.91	1.83	0.92	1.51	1.67
% upside/(downside)	31.6	76.5	69.9	(14.4)	40.0	54.6

Source: CFO SIM, Thomson Reuters Eikon

Table 15 – Friulchem, equity value assessment, 3#3

€/s	FY1	FY2	FY3
EV/EBITDA	2.20	2.40	2.35
Weighting	100.0%	0.0%	0.0%
Equity Value	2.20		
% upside/(downside)	103.7%		

Source: CFO SIM, Thomson Reuters Eikon



7.3. Peer Stock Performance

Frilchem was listed on Euronext Growth Milan on **25th July 2019 at € 1.80/share**, corresponding to a post-money **market capitalisation of € 14.4m**. The stock reached a 1Y intraday maximum price of € 1.41/s on 24-May-21 and a minimum price of € 0.94/s on 07-Mar-22. The stock has underperformed its peer group median and reference indexes, over the last 6M, 1Y and YTD.

Table 16 – Frilchem, peer group and indexes absolute performance

%	1D	1W	1M	3M	6M	YTD	1Y
Dechra Pharmaceuticals PLC	(1.3)	(7.2)	(0.6)	(21.9)	(23.3)	(25.5)	17.3
ECO Animal Health Group PLC	-	15.8	(4.3)	3.1	(48.8)	3.1	(49.2)
Elanco Animal Health Inc	(3.2)	(3.0)	(4.6)	(7.9)	(18.5)	(6.3)	(5.2)
Merck & Co Inc	1.2	2.8	6.6	7.4	10.5	6.1	12.1
Phibro Animal Health Corp	0.9	(0.6)	(6.2)	(3.6)	(7.5)	(2.2)	(17.5)
Shedir Pharma SpA	0.7	9.9	6.9	(5.6)	(16.7)	(10.6)	16.7
Vetoquinol SA	(1.0)	(4.2)	0.9	3.5	3.2	3.0	36.3
Virbac SA	4.9	(11.0)	(2.1)	(14.7)	(7.7)	(16.5)	63.7
Zoetis Inc	(0.1)	(3.3)	(2.7)	(21.9)	(7.5)	(22.4)	23.9
Median Veterinary	-	(3.0)	(2.1)	(5.6)	(7.7)	(6.3)	16.7
Frilchem SpA	0.9	1.9	(4.4)	(14.3)	(14.6)	(13.6)	(11.8)
MSCI World Index	0.5	2.0	3.2	5.9	19.3	7.6	49.3
EUROSTOXX	0.4	0.7	3.0	7.9	20.9	10.3	41.2
FTSE Italia All Share	(0.6)	(0.0)	2.0	8.2	25.1	10.7	41.4
FTSE Italia STAR	(0.3)	1.8	3.4	10.3	24.2	11.2	60.9
FTSE Italia Growth	0.1	1.2	7.7	17.0	32.2	19.8	28.2

Source: Thomson Reuters Eikon

Table 17 – Frilchem, relative performances

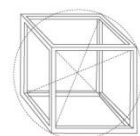
%	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	0.4	(0.1)	(7.6)	(20.2)	(33.9)	(21.2)	(61.1)
to EUROSTOXX	0.5	1.2	(7.5)	(22.2)	(35.5)	(23.9)	(53.0)
to FTSE Italia All Share	1.5	1.9	(6.5)	(22.5)	(39.7)	(24.3)	(53.2)
to FTSE Italia STAR	1.2	0.1	(7.8)	(24.6)	(38.8)	(24.8)	(72.7)
to FTSE Italia Growth	0.8	0.7	(12.1)	(31.3)	(46.9)	(33.4)	(40.1)
to Veterinary Median	0.9	4.9	(2.4)	(8.7)	(6.9)	(7.3)	(28.5)

Source: Thomson Reuters Eikon

7.4. Risks

The principal investment **risks** associated with Frilchem include:

- limited M&A track record;
- increasing regulation or change in the regulatory framework;
- arising difficulties in managing the investments and finding sources to support growth;
- impact on the P&Ls and balance sheet profiles triggered by a deep decline in global economic growth or geopolitical instability;
- the consolidation process of the reference market possibly putting the company's market share under pressure;
- M&A execution possibly being hampered by potential consolidating actors in the industry with huge firepower (i.e. private equity funds).



ANALYST CERTIFICATION

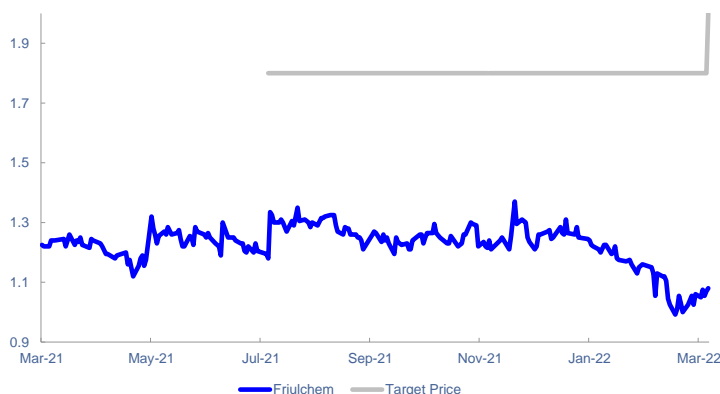
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DATE	TARGET PRICE	RATING
28/03/2022	€2.00	BUY
28/09/2021	€1.80	BUY
27/07/2021	€1.80	BUY

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RATING SYSTEM

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

