

Italy – Veterinary

Significant sales growth coupled with margin improvement

28th September 2021

H1-21 RESULTS RELEASE

RIC: FCM.MI
BBG: FCM IM

Friulchem reported 2021 interim results showing a good recovery in the Vet business unit coupled with a stable performance of the Human division. The sharp increase in profitability was mainly due to the rising sales of veterinary products, historically more profitable than generic drugs for human beings.

Rating:

Buy

Price Target:

€ 1.80

Upside/(Downside): 45.7%

Last Price: € 1.24

Market Cap.: € 9.9m

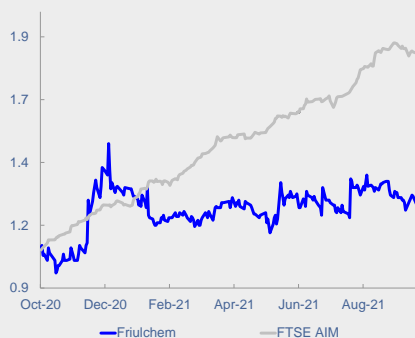
1Y High/Low: € 1.48 / € 0.95

Avg. Daily Turn. (3M, 6M): € 24k, € 14k

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	-6.8%	0.4%	4.7%
Rel.to AIM Italia	-14.5%	-16.6%	-23.6%
Rel.to Sector	-4.2%	-5.3%	-18.3%

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Rating and PT confirmed

We believe the group is well on track to reach our estimates for FY-21, as we anticipated organic growth to the tune of 2.1% YoY coupled with the consolidation of the newly acquired productive plant in Magny-En-Vexin for a six-month period (as from Jul-21). Consequently, we left our estimates unchanged. Moreover, we have updated our DCF model by bringing the free risk rate up to date, which has remained broadly stable since our Initiation of Coverage. Thus, we confirmed our DCF-based PT of € 1.80/s, 45.7% upside to current price levels. Buy recommendation reiterated.

Sales grew organically by 25.9% YoY, driven by the Vet business unit

H1-21 revenues grew organically by 25.9% YoY to € 9.4m, as a result of increasing sales in the Vet business unit while the Human division reported almost steady turnover. The VoP was € 9.6m, up by 12.5% YoY. The Vet BU rose 59.5% YoY to € 5.4m, thanks to increasing orders from the group's long-standing clients after a 2020 affected by a few logistics inefficiencies due to the Covid-19 pandemic. The Human BU totalled € 4.0m, broadly in line with H1-20, as a result of increasing sales of generic drugs based on Friulchem's dossiers almost entirely counterbalanced by declining sales of marketed products.

EBITDA rose more than proportionately to top line. NFP at € 1.9m (debt)

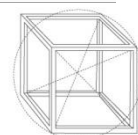
EBITDA reached € 0.5m, 4.9% margin, rising more than proportionately to revenues thanks to 1) the increasing turnover in the Vet business unit, more profitable than the Human division and 2) the growing sales of generic drugs based on Friulchem's dossiers, characterised by higher profitability compared to marketed products. EBIT totalled € 0.1m vs € -0.4m in H1-20, after D&A broadly in line with H1-20. Net Profit was negative for € 0.05m after net financial charges of € 131k (vs € 36k in H1-20), on the back of the full repayment of the medium-/long-term mortgage payments (in H1-20 the company asked for a moratorium because of the Covid-19 pandemic). Net Financial Position was negative for € 1.9m (debt). The increase compared to € 1.1m at end-20 was due to 1) the purchase of FC France SAS shares for € 0.35m leading up to the acquisition of Virbac's plant in France and 2) a NWC increase to the tune of € 0.45m as a result of the rise in inventory.

A highly specialised B2B player in the veterinary sector

Friulchem is a vertically-integrated CDMO able to run tailor-made solutions across a wide range of product categories via several kinds of delivery forms. Thanks to its strong R&D effort and ability to manage several different drug delivery forms, the group aims to consolidate its competitive positioning in the reference market, proposing itself as the reference partner for veterinary pharmaceutical companies.

Friulchem, key financials and ratios

€ m	2019	2020	2021e	2022e	2023e
Value of Production	15.7	17.7	22.6	28.6	30.8
EBITDA	1.3	0.6	1.5	2.0	2.6
EBITDA Adjusted	1.3	1.0	1.5	2.0	2.6
EBIT	0.3	(0.3)	0.3	0.8	1.4
Net Profit	0.1	(0.3)	0.0	0.3	0.7
Net Profit Adjusted	0.1	(0.3)	0.0	0.3	0.7
NFP (cash)/debt	(1.1)	1.1	3.2	2.9	2.3
EBITDA adj. margin	8.5%	5.9%	6.7%	7.1%	8.3%
EBIT margin	2.2%	-1.9%	1.2%	2.9%	4.4%
EPS stated FD €	0.01	(0.04)	0.00	0.04	0.09
EPS growth	-	n.m.	102.7%	n.m.	105.3%
ROCE	2.3%	Neg.	1.6%	4.5%	7.1%
NWC/Sales	11.4%	6.9%	10.9%	11.0%	11.2%
Free Cash Flow Yield	-7.5%	-22.5%	-28.7%	0.5%	5.5%
PER x	n.m.	Neg.	n.m.	28.7	14.0
EV/Sales x	0.81	0.65	0.58	0.45	0.40
EV/EBITDA x	9.5	11.0	8.7	6.3	4.8
EV/EBIT x	37.1	Neg.	47.5	15.6	9.0



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.

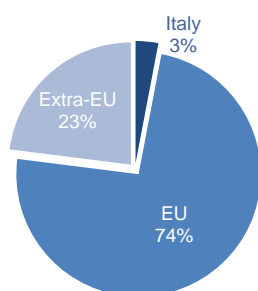
The 'Vet' business unit develops and produces both nutraceutical and pharmaceutical finished and semi-finished veterinary products, through different technologies, such as atomisation, micronisation, granulation and mixing. Friulchem's plants have been compliant with the European Good Manufacturing Standards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

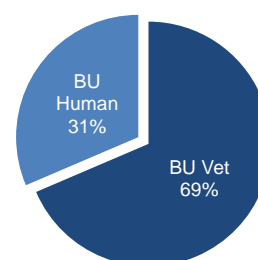
Today Friulchem operates two specialised manufacturing plants, one in Vivaro (Pordenone), in hard-working, creative, north eastern Italy, and the other one in Magny-En-Vexin (France). Its headquarters are in Milan. The company reported an 8.4% organic sales CAGR₀₈₋₂₀ mainly thanks to continuous product innovation leading to an increased share of wallet with pharma corporations coupled with a higher number of clients.

FY-20 figures show total revenues of € 17.7m, adjusted EBITDA of € 1.0m, 3.6% margin and Net Loss of € 0.3m. Net Financial Position was € 1.1m, corresponding to 1.0x NFP/EBITDA adj.

2020 Revenues breakdown by geography...



... and by business unit

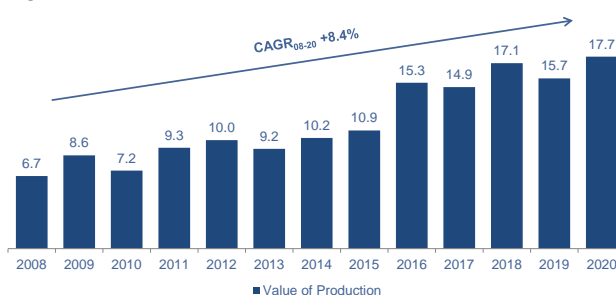


Shareholder structure

	# 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

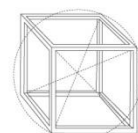
Top line evolution



Peer group multiples table

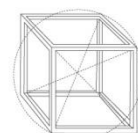
Price & EV multiples x	Sales FY1	Sales FY2	EBITDA FY1	EBITDA FY2	EBIT FY1	EBIT FY2	PER FY1	PER FY2
Dechra Pharmaceuticals PLC	8.22	7.47	28.7	25.9	31.5	29.8	43.0	39.5
ECO Animal Health Group PLC	2.35	2.10	13.5	11.0	13.8	10.9	32.3	24.4
Elanco Animal Health Inc	4.47	4.21	18.6	16.2	23.8	20.4	32.1	25.2
Merck & Co Inc	4.35	3.83	10.7	8.8	12.2	10.1	13.3	11.4
Shedir Pharma SpA	n.a.	0.96	n.a.	4.7	n.a.	6.7	14.1	11.2
Vetoquinol SA	3.11	2.88	14.4	13.8	20.5	19.5	29.0	28.7
Virbac SA	2.97	2.75	15.6	14.7	20.2	19.1	31.6	30.1
Zoetis Inc	12.63	11.54	29.4	26.4	33.0	29.6	43.3	38.7
Median Veterinary	4.35	3.36	15.6	14.2	20.5	19.3	31.9	27.0
Friulchem SpA	0.58	0.45	8.7	6.3	47.5	15.6	n.m.	28.7

Sources: CFO Sim, Thomson Reuters Eikon





Income statement (€ m)	2019	2020	2021e	2022e	2023e
Revenues	15.6	16.7	21.5	27.3	29.3
Value of Production	15.7	17.7	22.6	28.6	30.8
Raw material and processing	(8.8)	(11.9)	(14.4)	(18.0)	(19.2)
Services	(3.4)	(3.0)	(3.7)	(4.6)	(4.9)
Personnel expenses	(1.7)	(1.9)	(2.7)	(3.6)	(3.7)
Other opex	(0.5)	(0.2)	(0.3)	(0.4)	(0.4)
EBITDA	1.3	0.6	1.5	2.0	2.6
D&A	(1.0)	(1.0)	(1.2)	(1.2)	(1.2)
EBIT	0.3	(0.3)	0.3	0.8	1.4
Financials	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)
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	0.1	(0.5)	0.1	0.6	1.2
Income taxes	(0.0)	0.2	(0.0)	(0.2)	(0.3)
Minorities	0.0	0.0	(0.1)	(0.1)	(0.1)
Net Profit	0.1	(0.3)	0.0	0.3	0.7
EBITDA Adjusted	1.3	1.0	1.5	2.0	2.6
Net Profit Adjusted	0.1	(0.3)	0.0	0.3	0.7
Balance sheet (€ m)	2019	2020	2021e	2022e	2023e
Net Working Capital	1.8	1.2	2.5	3.1	3.4
Net Fixed Assets	9.6	10.0	11.8	11.6	11.4
Equity Investments	0.0	1.4	1.4	1.4	1.4
Other M/L Term A/L	(1.9)	(1.2)	(1.6)	(2.0)	(2.0)
Net Invested Capital	9.6	11.5	14.1	14.2	14.2
Net Financial Debt	(1.1)	1.1	3.2	2.9	2.3
Minorities	0.0	0.0	0.5	0.6	0.8
Group's Shareholders Equity	10.7	10.4	10.4	10.6	11.2
Financial Liabilities & Equity	9.6	11.5	14.1	14.2	14.2
Cash Flow statement (€ m)	2019	2020	2021e	2022e	2023e
Total net income	0.1	(0.3)	0.0	0.3	0.7
Depreciation	1.0	1.0	1.2	1.2	1.2
Other non-cash charges	(0.3)	(0.7)	0.2	0.2	(0.1)
Cash Flow from Oper. (CFO)	0.7	(0.1)	1.4	1.7	1.8
Change in NWC	0.6	0.6	(1.2)	(0.7)	(0.3)
FCF from Operations (FCFO)	1.3	0.5	0.2	1.0	1.5
Net Investments (CFI)	(2.0)	(2.7)	(3.0)	(1.0)	(1.0)
Free CF to the Firm (FCFF)	(0.7)	(2.2)	(2.8)	0.0	0.5
CF from financials (CFF)	3.8	1.7	0.7	0.3	0.1
Free Cash Flow to Equity (FCFE)	3.0	(0.6)	(2.2)	0.3	0.6
Financial ratios	2019	2020	2021e	2022e	2023e
EBITDA adj. margin	8.5%	5.9%	6.7%	7.1%	8.3%
EBIT margin	2.2%	-1.9%	1.2%	2.9%	4.4%
Net profit margin	0.4%	-1.9%	0.0%	1.2%	2.3%
Tax rate	17.3%	33.1%	27.5%	27.5%	27.5%
Op NWC/Sales	11.4%	6.9%	10.9%	11.0%	11.2%
Interest coverage x	1.28	(1.97)	1.51	4.50	7.46
Net Debt/EBITDA x	n.m.	1.68	2.16	1.45	0.90
Debt-to-Equity x	n.m.	0.10	0.31	0.28	0.21
ROIC	0.6%	Neg.	0.1%	2.4%	5.0%
ROCE	2.3%	Neg.	1.6%	4.5%	7.1%
ROACE	2.6%	Neg.	1.6%	4.6%	7.3%
ROE	0.6%	Neg.	0.1%	3.3%	6.4%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2019	2020	2021e	2022e	2023e
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 €	0.01	(0.04)	0.00	0.04	0.09
EPS adjusted FD €	0.01	(0.04)	0.00	0.04	0.09
EBITDA €	0.16	0.08	0.18	0.25	0.31
EBIT €	0.04	(0.04)	0.03	0.10	0.17
BV €	1.30	1.26	1.32	1.36	1.45
FCFO €	0.15	0.06	0.02	0.13	0.19
FCFF €	(0.09)	(0.27)	(0.34)	0.01	0.07
FCFE €	0.37	(0.07)	(0.26)	0.04	0.08
Dividend €	0.00	0.00	0.00	0.00	0.00



ANALYST CERTIFICATION

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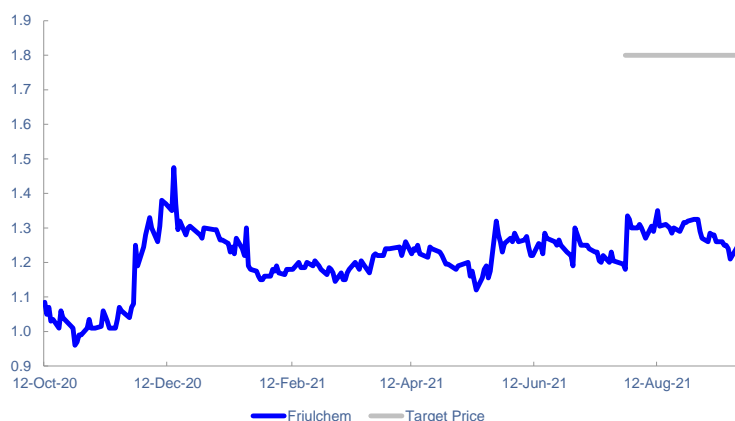
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DATE	TARGET PRICE	RATING
28/09/2021	€1.80	BUY
27/07/2021	€1.80	BUY

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

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. 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.

