

Italy – Veterinary

Good improvement in margins notwithstanding declining sales

17th October 2023

H1-23 RESULTS RELEASE

RIC: FCM.MI
BBG: FCM IM

Friulchem's 2023 interim results exhibited double-digit growth in the Vet BU more than offset by a decline in the Human BU. However, margins improved thanks to a more favourable product mix. The ongoing expansion of production capacity coupled with the signing of new key supply agreements in the APAC region will support organic growth in the medium term.

Rating:

Buy

Price Target:

€ 1.30 (€ 1.40)

Upside/(Downside): 30.0%

Last Price: € 1.00

Market Cap.: € 8.0m

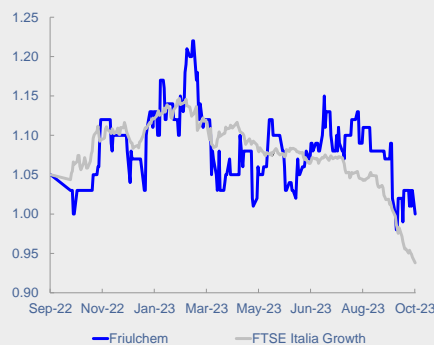
1Y High/Low: € 1.23 / € 0.98

Avg. Daily Turn. (3M, 6M): € 8k, € 8k

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	-6.5%	-11.5%	-2.9%
Rel.to FTSE IT Growth	-14.2%	-28.5%	-31.1%
Rel.to Sector	-5.6%	-12.1%	-11.5%

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Estimates updated: new DCF-based PT of € 1.30/s (€ 1.40), 30.0% upside

On the back of H1-23 results, we have revised our model, by factoring in: 1) lower-than-forecast sales growth in the Human BU along with a fine-tuning of the Vet BU's growth rate; 2) slightly higher profitability due to the greater weight on revenues of the more profitable Vet BU, 3) an increase in financial charges to reflect the interest rate hikes occurred in 2023; and 4) different assumptions with respect to NWC dynamics. The combined result is an average decline of 9.5% and 5.0% in Value of Production and EBITDA, respectively, coupled with a 31.4% increase in Net Debt, in 2023-25. Moreover, CFO updated the DCF valuation criteria, bringing the Free Risk Rate up to date. The combined result is a new PT of € 1.30/s (€ 1.40), with an upside of 30.0% to current price levels. Buy reiterated.

Sales down 11.9% YoY, despite Vet BU's double-digit growth

In H1-23, revenues totalled € 15.1m (€ 17.0m in H1-22), as a result of double-digit growth in the Vet BU more than offset by the significant deceleration in the Human BU. The Vet BU rose by 10.3% to € 12.0m (about 8.5% in organic terms), accounting for 79.7% of total. FC France contributed € 5.5m to the top line, largely unchanged YoY, whereas Arcanatura, acquired in Dec-22, generated sales of € 200k. The Human BU sharply declined to € 3.1m YoY (€ 6.1m in H1-22), as a consequence of management's decision to slow down sales of generic drugs and renegotiate key supply agreements, since the upsurge in the prices of some raw materials had not allowed an acceptable level of profitability to be achieved.

Margins improved thanks to a more favourable product mix

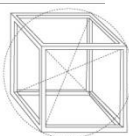
EBITDA amounted to € 920k, 5.5% margin, compared to € 850k, 4.7% margin, registered in H1-22, primarily owing to 1) a favourable product mix, as the Vet BU has much higher margins than the Human BU, and 2) a partial deflationary effect on energy-related costs. After slightly higher D&A expenses, EBIT remained broadly unchanged YoY at € 348k, 2.1% margin (€ 365k, 2.0% margin in H1-22). Net profit came in just below break-even at € 89k, compared to a net loss of € 39k in H1-22.

New supply agreements with APAC-based customers will sustain organic growth

NFP reached € 10.5m debt, from € 5.4m at the year-end 2022, reflecting 1) NWC absorption to the tune of € 5.1m, mainly due to the company's decision to reduce trade payables in order to negotiate better procurement conditions with key suppliers, 2) tangible capex amounting to € 0.3m, and 3) capitalised R&D expenses of € 1.1m related to new promising projects. Cash and cash equivalents amounted to € 3.0m. In Sep-23, Friulchem acquired a new facility with the aim of relocating all nutraceutical departments and expanding the product line based on its FC-CUBE® patented technology, also on the back of new key supply agreements signed with veterinary companies based in the APAC region.

Friulchem, key financials and ratios

€ m	2021	2022	2023e	2024e	2025e
Revenues	22.9	34.3	30.2	34.3	37.2
Value of Production	24.5	35.7	32.3	36.6	39.7
EBITDA	1.6	1.6	1.7	2.5	2.9
EBIT	0.7	0.5	0.4	1.1	1.6
Net Profit	0.1	0.0	(0.3)	0.3	0.6
NFP (cash)/debt	1.9	5.4	9.9	9.2	8.2
EBITDA margin	6.4%	4.5%	5.3%	6.9%	7.4%
EBIT margin	2.8%	1.4%	1.3%	3.1%	4.0%
EPS stated FD €	0.01	0.00	(0.04)	0.03	0.08
EPS growth	n.m.	-60.1%	n.m.	n.m.	n.m.
ROCE	3.1%	2.1%	1.6%	4.2%	5.9%
NWC/Sales	10.4%	9.4%	16.5%	15.2%	14.8%
Free Cash Flow Yield	-14.7%	-44.9%	-55.9%	9.4%	12.2%
EV/Sales x	0.48	0.39	0.55	0.47	0.41
EV/EBITDA x	7.4	8.8	10.5	6.8	5.5
EV/EBIT x	17.1	27.4	41.1	15.3	10.3
PER x	n.m.	n.m.	n.m.	28.9	12.6



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 companies 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.

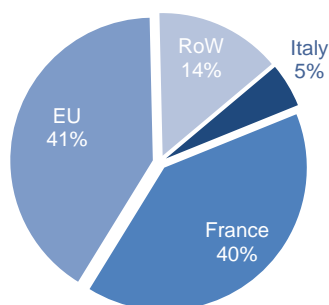
The 'Vet' business unit develops and produces both nutraceutical and pharmaceutical finished and semi-finished veterinary products, through different technologies, such as atomisation, micronisation, granulation and mixing. Friulchem's plants have been compliant with the European Good Manufacturing Standards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

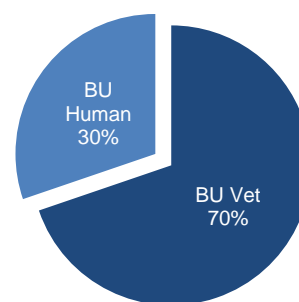
Today Friulchem operates two specialised manufacturing plants, one in Vivaro (Pordenone), in hard-working, creative, north-eastern Italy, and the other one in Magny-En-Vexin (France). Its headquarters are in Milan. The company reported an 8.8% organic sales CAGR₀₈₋₂₂ (10.5% including M&As) mainly thanks to continuous product innovation leading to an increased share of wallet with pharma corporations coupled with a higher number of customers.

FY-22 figures showed total revenues of € 34.3m, EBITDA of € 1.6m (4.5% margin), and Net Profit at break-even. Net Financial Position was € 5.4m.

2022 Revenues breakdown by geography...



... and by business unit

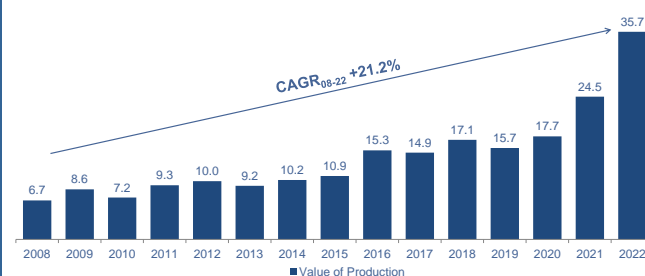


Shareholder structure

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

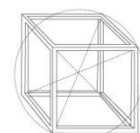
Top line evolution



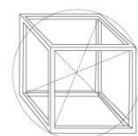
Peer group multiples table

Price & EV multiples x	Sales FY1	Sales FY2	EBITDA FY1	EBITDA FY2	EBIT FY1	EBIT FY2	PER FY1	PER FY2
Dechra Pharmaceuticals PLC	5.55	5.08	20.6	18.5	26.5	23.3	33.4	25.7
ECO Animal Health Group PLC	0.72	0.68	8.3	7.7	13.3	11.8	28.0	22.9
Elanco Animal Health Inc	2.27	2.14	9.5	8.6	11.5	10.4	11.1	10.3
Merck & Co Inc	4.85	4.48	20.1	9.4	25.6	11.0	34.2	12.3
Vetoquinol SA	1.56	1.40	7.9	6.7	11.1	9.4	16.9	15.4
Virbac SA	1.67	1.53	10.3	8.7	13.7	11.5	21.2	18.0
Zoetis Inc	9.88	9.05	23.0	20.6	25.9	23.1	32.1	28.9
Median Veterinary	2.27	2.14	10.3	8.7	13.7	11.5	28.0	18.0
Friulchem SpA	0.55	0.47	10.5	6.8	41.1	15.3	n.m.	28.9

Sources: CFO Sim, Refinitiv Eikon



Income statement (€ m)	2021	2022	2023e	2024e	2025e
Revenues	22.9	34.3	30.2	34.3	37.2
Value of Production	24.5	35.7	32.3	36.6	39.7
Raw material and processing	(15.7)	(24.1)	(20.4)	(23.1)	(25.0)
Services	(4.1)	(5.1)	(4.8)	(5.3)	(5.8)
Personnel expenses	(2.6)	(4.0)	(4.6)	(4.8)	(5.0)
Other opex	(0.6)	(0.9)	(0.8)	(0.8)	(0.9)
EBITDA	1.6	1.6	1.7	2.5	2.9
D&A	(0.9)	(1.1)	(1.3)	(1.4)	(1.4)
EBIT	0.7	0.5	0.4	1.1	1.6
Financials	(0.3)	(0.6)	(0.8)	(0.7)	(0.7)
Re/(Devaluation) of financial assets	0.0	0.0	0.0	0.0	0.0
Forex gain/(loss)	(0.1)	0.0	0.0	0.0	0.0
Pre-Tax profit	0.3	(0.1)	(0.3)	0.4	0.9
Income taxes	(0.1)	0.1	0.0	(0.1)	(0.2)
Minorities	(0.1)	0.0	0.0	0.0	0.0
Net Profit	0.1	0.0	(0.3)	0.3	0.6
Balance sheet (€ m)	2021	2022	2023e	2024e	2025e
Net Working Capital	2.6	3.4	5.3	5.5	5.9
Net Fixed Assets	10.8	11.9	14.1	13.5	12.9
Equity Investments	1.4	1.6	1.6	1.6	1.6
Other M/L Term A/L	(2.1)	(0.6)	(0.7)	(0.7)	(0.7)
Net Invested Capital	12.7	16.3	20.4	19.9	19.6
Net Financial Debt	1.9	5.4	9.9	9.2	8.2
Minorities	0.3	0.4	0.4	0.4	0.4
Group's Shareholders Equity	10.6	10.4	10.1	10.4	11.0
Financial Liabilities & Equity	12.7	16.3	20.4	19.9	19.6
Cash Flow statement (€ m)	2021	2022	2023e	2024e	2025e
Total net income	0.1	0.0	(0.3)	0.3	0.6
Depreciation	0.9	1.1	1.3	1.4	1.4
Other non-cash charges	0.9	(1.5)	0.1	0.0	0.0
Cash Flow from Oper. (CFO)	1.9	(0.4)	1.0	1.7	2.0
Change in NWC	(1.3)	(0.8)	(2.0)	(0.2)	(0.3)
FCF from Operations (FCFO)	0.5	(1.2)	(1.0)	1.5	1.7
Net Investments (CFI)	(1.7)	(2.4)	(3.5)	(0.8)	(0.8)
Free CF to the Firm (FCFF)	(1.2)	(3.6)	(4.5)	0.7	1.0
CF from financials (CFF)	5.8	1.9	3.0	(0.8)	(0.7)
Free Cash Flow to Equity (FCFE)	4.6	(1.7)	(1.5)	(0.0)	0.2
Financial ratios	2021	2022	2023e	2024e	2025e
EBITDA margin	6.4%	4.5%	5.3%	6.9%	7.4%
EBIT margin	2.8%	1.4%	1.3%	3.1%	4.0%
Net profit margin	0.3%	0.1%	-1.1%	0.8%	1.6%
Tax rate	47.7%	n.m.	n.m.	27.5%	27.5%
Op NWC/Sales	10.4%	9.4%	16.5%	15.2%	14.8%
Interest coverage x	2.09	0.87	0.56	1.52	2.24
Net Debt/EBITDA x	1.19	3.40	5.81	3.61	2.79
Debt-to-Equity x	0.18	0.52	0.98	0.88	0.74
ROIC	0.7%	0.2%	Neg.	1.4%	3.2%
ROCE	3.1%	2.1%	1.6%	4.2%	5.9%
ROACE	3.5%	2.2%	1.7%	4.2%	5.9%
ROE	0.8%	0.3%	Neg.	2.7%	5.8%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2021	2022	2023e	2024e	2025e
Number of shares # m	8.00	8.00	8.00	8.00	8.00
Number of shares Fully Diluted # m	8.00	8.00	8.00	8.00	8.00
Average Number of shares Fully Diluted # m	8.00	8.00	8.00	8.00	8.00
EPS stated FD €	0.01	0.00	(0.04)	0.03	0.08
EPS adjusted FD €	0.01	0.00	(0.04)	0.03	0.08
EBITDA €	0.20	0.20	0.21	0.32	0.37
EBIT €	0.09	0.06	0.05	0.14	0.20
BV €	1.35	1.36	1.31	1.35	1.43
FCFO €	0.07	(0.15)	(0.12)	0.19	0.21
FCFF €	(0.15)	(0.45)	(0.56)	0.09	0.12
FCFE €	0.58	(0.21)	(0.18)	(0.00)	0.03
Dividend €	0.00	0.00	0.00	0.00	0.00



H1-23 Results

Friulchem's 2023 interim results exhibited double-digit growth in the Vet BU more than counterbalanced by the sharp deceleration in the Human BU, as management decided to temporarily slow down its operations because of a non-sustainable increase in the cost of raw materials. However, EBITDA remained unchanged, whereas margins improved by 80bps compared to H1-22, in light of the greater weight on revenues of the more profitable Vet BU.

Table 1 – Friulchem, H1-23 results summary

€ m	H1-23	H1-22	% YoY
BU Vet	12.0	10.9	10.3
BU Human	3.1	6.1	(50.0)
Revenues	15.1	17.0	(11.4)
Increase in finished products	1.0	0.4	
Other revenues	0.8	0.5	
Value of Production	16.8	17.9	(6.2)
Raw materials and processing	(10.3)	(11.5)	
Services	(2.6)	(2.5)	
Personnel expenses	(2.4)	(2.0)	
Other opex	(0.6)	(0.3)	
EBITDA	0.9	0.9	7.9
% margin	5.5	4.7	
D&A	(0.6)	(0.5)	
EBIT	0.3	0.4	(4.7)
% margin	2.1	2.0	
Financials	(0.5)	(0.4)	
Pre-Tax profit	(0.1)	(0.0)	n.m.
% margin	(0.6)	(0.1)	
Income taxes	(0.0)	(0.0)	
Tax rate	n.m.	n.m.	
Minorities	0.0	(0.0)	
Net Profit	(0.1)	(0.0)	n.m.
% margin	(0.5)	(0.2)	
Net Financial Position *	10.5	5.4	91.9
Net Equity *	10.7	10.8	(1.2)

Source: Company data, * compared to FY-22 figures

In H1-23, revenues totalled € 15.1m, compared to € 17.0m posted in H1-22, as a result of double-digit growth of the Vet BU more than offset by the significant deceleration of the Human BU, due to management's decision to slow down operations as the spike in the related raw materials made it impossible to maintain acceptable profitability. Organically, i.e. excluding Arcanatura's turnover of € 200k, the top line was approximately € 14.9m.

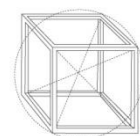
Table 2 – Friulchem, H1-23 revenues breakdown by business unit

€ m	H1-23	H1-22
BU Vet	12.0	10.9
% on total revenues	79.7%	64.0%
BU Human	3.1	6.1
% on total revenues	20.3%	36.0%
Revenues	15.1	17.0

Source: Company data

As regards the two business units:

- The **Vet BU rose by 10.3% to € 12.0m** (about **8.5% in organic terms**), accounting for 79.7% of total. FC France contributed € 5.5m to the top line, largely unchanged YoY, whereas the French veterinary laboratory Arcanatura, acquired in Dec-22, generated sales of € 200k;



- The **Human BU sharply declined to € 3.1m YoY** (€ 6.1m in H1-22), as a consequence of management's decision to slow down sales of generic drugs and renegotiate key supply agreements, since the upsurge in the prices of some raw materials had not allowed an acceptable level of profitability to be achieved.

EBITDA amounted to € 0.9m, 5.5% margin, compared to € 0.9m, 4.7% margin, registered in H1-22, primarily owing to 1) a favourable product mix, as the Vet BU has much higher margins than the Human BU, and 2) a partial deflationary effect on energy-related costs.

After slightly higher D&A expenses, **EBIT remained broadly unchanged at € 0.3m YoY, 2.1% margin** (€ 0.4m, 2.0% margin in H1-22). **Net loss was € 0.1m.**

The Net Financial Position reached € 10.5m debt, from € 5.4m at the year-end 2022, reflecting 1) NWC absorption to the tune of € 5.1m, mainly due to the company's decision to reduce trade payables in order to negotiate better procurement conditions with key suppliers, 2) tangible capex amounting to € 0.3m, and 3) capitalised R&D expenses of € 1.1m related to new promising projects. **Cash and cash equivalents amounted to € 3.0m.**

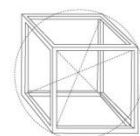
Table 3 – Friulchem, H1-23 Op. Net Working Capital

€ m	H1-23	FY-22	Δ
Inventories	7.9	8.2	(0.3)
Receivables	7.0	8.3	(1.3)
Payables	(6.4)	(13.1)	6.7
Op. Net Working Capital	8.4	3.4	5.1

Source: Company data

In addition to the revamping of the production plant in Vivaro, which started in July, in Sep-23, **Friulchem acquired a new facility with the aim of relocating all nutraceutical departments and expanding the product line based on its FC-CUBE® patented technology, in order deal with rising demand.** Notably, during the first semester of 2023, the company signed major complementary feed supply agreements with veterinary companies based in the APAC region, namely Japan, Australia, and New Zealand. Moreover, it obtained the approval from the Chinese Minister of Agriculture for the registration of two products relating to the Suppleo® line.

Finally, from Q4-23 onwards, Friulchem will be able to mitigate the adverse effects of higher energy prices, as **a photovoltaic plant installed at the Italian facility came into operation as of the end of Sep-23.**



Estimates, Valuation & Risks

In H1-23, Friulchem reported double-digit growth of the Vet BU more than counterbalanced by the sharp deceleration of the Human BU, as a result of management's decision to temporarily slow down its operations. However, EBITDA remained largely unchanged, although margins improved by 80bps YoY, in light of a more favorable product mix.

In H2-23, top line dynamics will be affected by the start of the revamping of the Vivaro facility in July, which will partially halt production, as well as the purchase of a new production plant located nearby. These investments will allow Friulchem to significantly expand its production capacity and overall efficiency, in order to cope with new supply agreements signed with veterinary companies of the APAC region.

On the back of H1-23 results, **we have revised our model**, by factoring in: 1) lower-than-forecast sales growth of the Human BU along with a fine-tuning of the Vet BU's growth rate; 2) slightly higher profitability due to the greater weight on revenues of the more profitable Vet BU, 3) an increase in financial charges to reflect the interest rate hikes occurred in 2023; and 4) different assumptions with respect to NWC dynamics. The combined result is an average decline of **9.5% and 5.0% in the Value of Production and EBITDA, respectively, together with a 31.4% increase in Net Debt, in 2023-25.**

Table 4 – Friulchem, 2023e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	32.3	37.9	(14.9)	(5.7)
EBITDA	1.7	1.9	(10.0)	(0.2)
% margin	5.3	5.0		
EBIT	0.4	0.5	(18.2)	(0.1)
% margin	1.3	1.4		
Net Profit	(0.3)	(0.1)	n.m.	(0.2)
% margin	(1.1)	(0.3)		
Y/E net debt/(cash)	9.9	7.8	27.0	2.1

Source: CFO Sim

Table 5 – Friulchem, 2024e new/old estimates

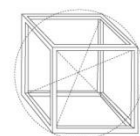
€ m	New	Old	% Diff.	€ m Diff.
Value of Production	36.6	40.0	(8.6)	(3.4)
EBITDA	2.5	2.6	(3.2)	(0.1)
% margin	6.9	6.5		
EBIT	1.1	1.2	(7.9)	(0.1)
% margin	3.1	3.0		
Net Profit	0.3	0.4	(30.8)	(0.1)
% margin	0.8	1.0		
Y/E net debt/(cash)	9.2	7.0	30.1	2.1

Source: CFO Sim

Table 6 – Friulchem, 2025e new/old estimates

€ m	New	Old	% Diff.	€ m Diff.
Value of Production	39.7	41.8	(5.1)	(2.1)
EBITDA	2.9	3.0	(1.8)	(0.1)
% margin	7.4	7.1		
EBIT	1.6	1.7	(9.0)	(0.2)
% margin	4.0	4.1		
Net Profit	0.6	0.8	(20.5)	(0.2)
% margin	1.6	1.9		
Y/E net debt/(cash)	8.2	6.0	37.2	2.2

Source: CFO Sim



Moreover, CFO has **updated the DCF valuation criteria**, bringing the Free Risk Rate up to date. The combined result is a **new PT of € 1.30/s** (€ 1.40), with an upside of 30.0% to current price levels. Buy recommendation reiterated.

We also updated our market multiples valuation, resulting in Friulchem's equity value of € 0.90/s (€ 1.20/s), as a combined result of the estimates revision and the peers' multiples de-rating.

DCF

In applying the DCF valuation method, we have made explicit estimates until 2027 and assumed a long-term growth rate of 1.0%. Cash flows are discounted back at a weighted average cost of capital calculated according to the following parameters:

Table 7 – WACC derived from:

Interest costs, pre-tax	4.0%
Tax rate	27.5%
Int. costs, after taxes	2.9%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200dd mov. avg.)	4.20%
Beta levered (x)	1.00
Required ROE	13.2%

Source: CFO SIM, Refinitiv Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all the concerns related to the Euronext Growth Milan market segment that an investor might have. **Beta at 1.00** is a usual conservative value for a small cap. The WACC is calculated using a sustainable 70:30 equity/debt balance-sheet structure.

Table 8 – Friulchem, DCF model

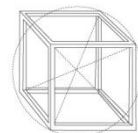
€ m	2023e	2024e	2025e	2026e	2027e Term. Val.	
EBIT	0.4	1.1	1.6	2.2	2.9	
Tax rate	27.5%	27.5%	27.5%	27.5%	27.5%	
Operating profit (NOPAT)	0.3	0.8	1.1	1.6	2.1	
Change working capital	(2.0)	(0.2)	(0.3)	(0.2)	(0.1)	
Depreciation	1.3	1.4	1.4	1.1	0.8	
Investments	(3.5)	(0.8)	(0.8)	(0.8)	(0.8)	
Free Cash Flows	(3.9)	1.2	1.4	1.7	2.0	22.5
Present value	(3.8)	1.1	1.2	1.3	1.4	15.0
WACC	10.1%	10.1%	10.1%	10.1%	10.1%	
Long-term growth rate	1.0%					

Source: CFO SIM

Table 9 – Friulchem, DCF derived from:

€ m	
Total EV present value € m	16.1
	<i>thereof terminal value</i>
	93.2%
NFP last reported	(5.4)
Pension provision	(0.6)
Equity value € m	10.0
#m shares	8.00
Equity value €/s	1.30
% upside/(downside)	30.0%

Source: CFO SIM



The outcome of our DCF model generated an equity value of € 10.0m for Friulchem, which corresponds to € 1.30/s (€ 1.40), 30.0% upside to the current price levels.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value of € 1.10-1.44/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 € 1.11-1.42/s (free risk range between 4.95% and 3.45%) and, 3) if compared to changes in the risk premium, including small size premium, it results into an equity value of € 0.98-1.60/s (risk premium range between 10.50% and 7.50%).

Table 10 – 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	1.1	1.1	1.1	1.1	1.1	1.1	1.1
PV of terminal value	13.7	14.1	14.6	15.0	15.5	15.9	16.5
Total value	14.8	15.2	15.6	16.1	16.5	17.0	17.5
NFP last reported	(5.4)	(5.4)	(5.4)	(5.4)	(5.4)	(5.4)	(5.4)
Pension provision	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Equity value	8.8	9.2	9.6	10.0	10.5	11.0	11.5
Equity value/share €	1.10	1.15	1.20	1.30	1.31	1.37	1.44

Source: CFO SIM

Table 11 – Friulchem, equity value sensitivity to changes in free risk rate

€ m	3.45%	3.70%	3.95%	4.20%	4.45%	4.70%	4.95%
Present value of CF	1.2	1.1	1.1	1.1	1.1	1.0	1.0
PV of terminal value	16.2	15.8	15.4	15.0	14.6	14.2	13.9
Total value	17.4	16.9	16.5	16.1	15.7	15.3	14.9
NFP last reported	(5.4)	(5.4)	(5.4)	(5.4)	(5.4)	(5.4)	(5.4)
Pension provision	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Equity value	11.4	10.9	10.5	10.0	9.6	9.3	8.9
Equity value/share €	1.42	1.36	1.31	1.30	1.21	1.16	1.11

Source: CFO SIM

Table 12 – 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	1.2	1.2	1.1	1.1	1.0	1.0	1.0
PV of terminal value	17.6	16.7	15.8	15.0	14.2	13.6	12.9
Total value	18.9	17.9	16.9	16.1	15.3	14.6	13.9
NFP last reported	(5.4)	(5.4)	(5.4)	(5.4)	(5.4)	(5.4)	(5.4)
Pension provision	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Equity value	12.8	11.8	10.9	10.0	9.3	8.5	7.9
Equity value/share €	1.60	1.48	1.36	1.30	1.16	1.07	0.98

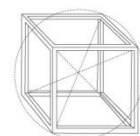
Source: CFO SIM

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.

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 EBITDA CAGR but lower-than-peer median EBITDA margin.**

Table 13 – Friulchem, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA margin	Sales CAGR ₂₂₋₂₅	EBITDA CAGR ₂₂₋₂₅	EBIT CAGR ₂₂₋₂₅	EPS CAGR ₂₃₋₂₅ /EBITDA	NFP
Dechra Pharmaceuticals PLC	UK	4,969	952	256	26.9%	9.4%	14.8%	25.7%	n.a.	1.2
ECO Animal Health Group PLC	UK	87	102	9	8.7%	5.6%	5.4%	2.3%	-0.9%	n.m.
Elanco Animal Health Inc	USA	4,470	4,155	991	23.9%	2.1%	5.0%	38.4%	9.3%	5.0
Merck & Co Inc	USA	250,291	56,218	13,600	24.2%	4.4%	5.5%	6.6%	76.8%	1.6
Vetoquinol SA	FR	970	539	107	19.8%	3.5%	8.8%	2.8%	8.2%	n.m.
Virbac SA	FR	2,193	1,232	201	16.3%	4.1%	2.8%	1.5%	14.2%	n.m.
Zoetis Inc	USA	76,377	8,133	3,493	43.0%	7.9%	9.5%	11.0%	11.3%	1.1
Median Veterinary		4,470	1,232	256	23.9%	4.4%	5.5%	6.6%	10.3%	1.4
Friulchem SpA	IT	8	32	2	5.3%	3.6%	22.4%	45.4%	n.m.	5.8

Source: CFO SIM, Refinitiv Eikon

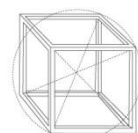


Table 14 – Friulchem, peer group EV multiple table

EV multiples - x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Dechra Pharmaceuticals PLC	5.55	5.08	n.a.	20.6	18.5	n.a.
ECO Animal Health Group PLC	0.72	0.68	0.76	8.3	7.7	8.4
Elanco Animal Health Inc	2.27	2.14	2.00	9.5	8.6	7.6
Merck & Co Inc	4.85	4.48	3.90	20.1	9.4	8.0
Vetoquinol SA	1.56	1.40	1.24	7.9	6.7	5.9
Virbac SA	1.67	1.53	1.47	10.3	8.7	8.1
Zoetis Inc	9.88	9.05	8.36	23.0	20.6	18.9
Median Veterinary	2.27	2.14	1.74	10.3	8.7	8.0
Friulchem SpA	0.55	0.47	0.41	10.5	6.8	5.5
% premium/(discount) to Veterinary	(75.6)	(78.1)	(76.6)	2.2	(22.8)	(31.5)

Source: CFO SIM, Refinitiv Eikon

Table 15 – 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	26.5	23.3	n.a.	33.4	25.7	n.a.
ECO Animal Health Group PLC	13.3	11.8	13.2	28.0	22.9	28.6
Elanco Animal Health Inc	11.5	10.4	9.2	11.1	10.3	9.3
Merck & Co Inc	25.6	11.0	9.0	34.2	12.3	10.9
Vetoquinol SA	11.1	9.4	8.1	16.9	15.4	14.4
Virbac SA	13.7	11.5	10.5	21.2	18.0	16.3
Zoetis Inc	25.9	23.1	21.0	32.1	28.9	25.9
Median Veterinary	13.7	11.5	9.9	28.0	18.0	15.3
Friulchem SpA	41.1	15.3	10.3	n.m.	28.9	12.6
% premium/(discount) to Veterinary	n.m.	33.5	3.8	n.m.	60.2	(17.8)

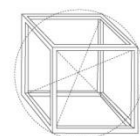
Source: CFO SIM, Refinitiv Eikon

In order to obtain a fair valuation of Friulchem, we believe the peer median multiples need should be discounted on the back of the smaller size and lower profitability of the company as well as the lower liquidity of the stock. By applying the median EV/EBITDA multiple of the peer group, discounted by 30.0%, to Friulchem's metrics we obtain a valuation **of Friulchem to the tune of € 0.90/s, using 2024-25 estimates and multiples**, in order to capture the full upside potential resulting from the capex plan carried out in 2023.

Table 16 – Friulchem, equity value assessment

€/s	FY1	FY2	FY3
EV/EBITDA	0.29	0.80	1.04
Weighting	0.0%	50.0%	50.0%
Equity Value	0.90		
% upside/(downside)	-10.0%		

Source: CFO SIM, Refinitiv Eikon



Peer Stock Performance

Friulchem 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 € 1.23/s on 20-Feb-23 and a minimum price of € 0.98/s on 26-Sep-23.

Table 17 – Friulchem, peer group and indexes absolute performance

%	1D	1W	1M	3M	6M	YTD	1Y
Dechra Pharmaceuticals PLC	0.0	0.2	(0.6)	2.5	1.7	44.9	42.8
ECO Animal Health Group PLC	0.0	0.0	(1.3)	3.7	7.7	10.4	4.2
Elanco Animal Health Inc	3.5	1.2	(18.8)	(16.8)	0.3	(21.6)	(18.5)
Merck & Co Inc	0.1	(0.3)	(3.4)	(1.4)	(9.5)	(6.1)	13.0
Vetoquinol SA	0.1	(0.8)	1.5	(7.6)	(5.7)	(6.4)	(4.0)
Virbac SA	0.8	1.4	1.2	4.6	(13.0)	14.3	(10.9)
Zoetis Inc	0.5	0.3	(2.5)	2.6	0.3	19.5	20.5
Median Veterinary	0.1	0.2	(1.3)	2.5	0.3	10.4	4.2
Friulchem SpA	(2.9)	(2.9)	(6.5)	(11.5)	(5.7)	(6.5)	(2.9)
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: Refinitiv Eikon

Table 18 – Friulchem, relative performances

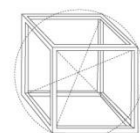
%	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	(3.4)	(4.9)	(9.7)	(17.4)	(25.0)	(14.2)	(52.2)
to EUROSTOXX	(3.3)	(3.6)	(9.6)	(19.4)	(26.5)	(16.8)	(44.1)
to FTSE Italia All Share	(2.3)	(2.9)	(8.6)	(19.7)	(30.7)	(17.3)	(44.3)
to FTSE Italia STAR	(2.6)	(4.7)	(9.9)	(21.8)	(29.8)	(17.7)	(63.8)
to FTSE Italia Growth	(3.0)	(4.1)	(14.2)	(28.5)	(37.9)	(26.4)	(31.1)
to Veterinary Median	(3.0)	(3.1)	(5.2)	(14.0)	(6.0)	(16.9)	(7.1)

Source: Refinitiv Eikon

Risks

The principal investment **risks** associated with Friulchem 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&L and balance sheet profiles triggered by a sharp decline in global economic growth and/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 industry players with huge firepower (i.e. private equity funds).



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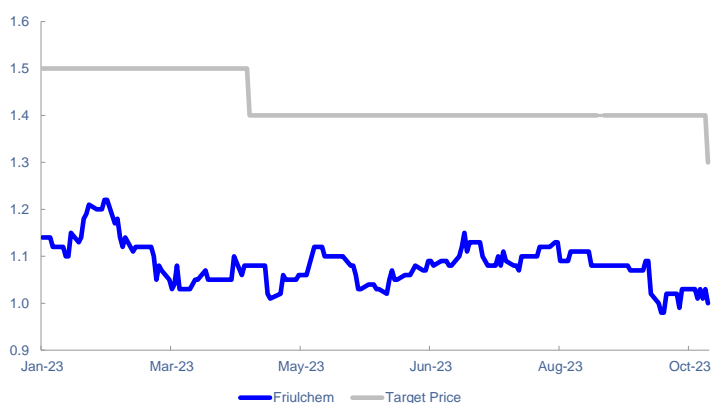
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DATE	TARGET PRICE	RATING
17/10/2023	€1.30	BUY
20/04/2023	€1.40	BUY
20/12/2022	€1.50	BUY
05/10/2022	€1.50	BUY

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- 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.

