Italy – Veterinary

A highly specialised B2B player in the veterinary sector

27th July 2021

INITIATION OF COVERAGE

RIC: FCM.MI
BBG: FCM IM

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 the 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.

Rating:
Buy

Price Target:
€ 1.80

Upside/(Downside): 50.6%

Last Price: € 1.20

Market Cap.: € 9.5m

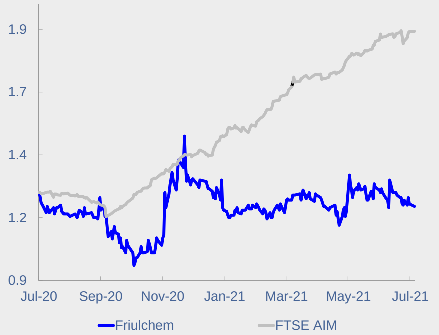
1Y High/Low: € 1.48 / € 0.95

Avg. Daily Turn. (3M, 6M): € 29k, € 17k

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	-2.8%	-2.8%	-3.2%
Rel.to AIM Italia	-10.5%	-19.8%	-31.5%
Rel.to Sector	-4.2%	-7.3%	-42.5%

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Buy, PT of € 1.80/s, 50.6% upside

CFO SIM initiates coverage of Friulchem with a Buy recommendation and a DCF-based PT of € 1.80/s, 50.6% upside to current price levels. We believe that a DCF model can better factor in the medium-/long-term value creation potential of the stock. We also run a market multiples valuation by selecting a peer group composed of global veterinary players in order corroborate the value obtained by the DCF method. The DCF model, based on standard settings for a small-cap, including a prudent g=1%, beta=1, WACC=7.6% and a sustainable 30:70 debt/equity balance-sheet structure, assigns a valuation of € 1.80/s to Friulchem.

A leading veterinary CDMO able to manage several different drug delivery forms

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 in developing dossiers of generic drugs for human beings.

Sales and EBITDA CAGR$_{20-23}$ of 20.7% and 58.6%

Our estimates show a top line CAGR$_{20-23}$ of 20.7%, as result of organic growth in the 'Vet' BU magnified by the acquisition of the production facility in France. EBITDA is anticipated to grow at a 58.6% CAGR$_{20-23}$, as a result of a broadly stable cost structure and the exploitation of some economies of scale thanks to the increasing sales volumes. CFO SIM forecasts cumulated capex for € 5.0m in the 2021-23 period, mainly related to the acquisition of the French plant in 2021. As a result, NFP is projected to rise to € 3.2m in 2021 and then to decline in 2022-23 thanks to a good EBITDA/FCF conversion. Moreover, we anticipated a broadly stable Op.NWC to Sales ratio over the forecast period.

Organic growth by relying on R&D and exploiting untapped production capacity

The group strategy is based on the following pillars: 1) consolidation of the market share in the veterinarian CDMO sector, thanks to the group's strong R&D effort, ability to manage several different drug delivery technologies and undisputed leading position in the penicillin and antibiotics segment; 2) exploitation of the Magny-En-Vexin plant's unexpressed production capacity, which we believe will give the group additional room for serving new clients, even considering the capacity saturation point currently reached in France, 3) organic geographical expansion, by identifying a few commercial partners with which to enter into licence agreements; 4) M&A opportunities among firms involved in the production process phases not yet covered by the group or able to expand the group's product portfolio.

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	-7.8%	-23.3%	-29.7%	0.5%	5.7%
PER x	223.2	Neg.	n.m.	27.6	13.4
EV/Sales x	0.81	0.65	0.57	0.44	0.39
EV/EBITDA x	9.5	11.0	8.5	6.1	4.6
EV/EBIT x	37.1	Neg.	46.2	15.2	8.7

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

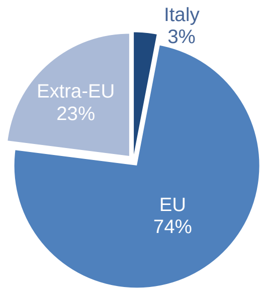
The 'Vet' business unit develops and produces both nutraceutical and pharmaceutical finished and semi-finished veterinary products, through different technologies, such as atomisation, micronisation, granulation and mixing. Friulchem's plants have been compliant with the European Good Manufacturing Standards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

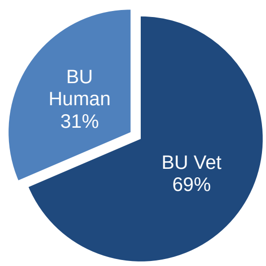
Today Friulchem operates two specialised manufacturing plants, one in Vivaro (Pordenone), in hard-working, creative, north eastern Italy, and the other one in Magny-En-Vexin (France), as well as the headquarters in Milan. The company reported an 8.4% organic sales $CAGR_{08\text{-}20}$ mainly thanks 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

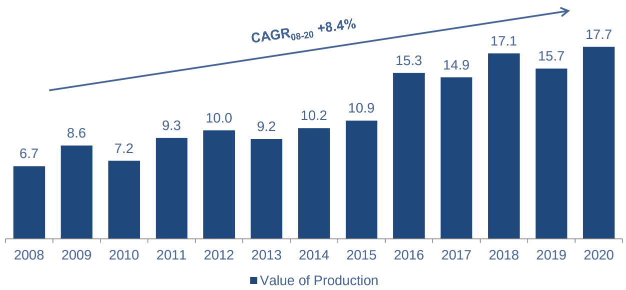


Shareholder structure

	# 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	8.91	8.17	30.6	28.7	33.3	31.4	44.4	42.4
ECO Animal Health Group PLC	2.10	1.96	11.0	10.2	11.0	9.6	26.5	22.0
Elanco Animal Health Inc	4.74	4.46	19.6	17.1	25.0	21.2	33.4	26.8
Merck & Co Inc	4.51	4.04	10.8	9.1	12.3	10.5	13.9	12.1
Shedir Pharma SpA	n.a.	0.81	n.a.	3.9	n.a.	5.6	12.1	9.7
Vetoquinol SA	2.54	2.35	13.1	12.2	19.9	18.2	28.0	25.5
Virbac SA	2.68	2.47	14.7	13.6	19.6	18.1	31.3	28.3
Zoetis Inc	12.97	11.94	30.7	27.6	34.1	30.6	44.4	39.8
Median Veterinary	**4.51**	**3.26**	**14.7**	**12.9**	**19.9**	**18.2**	**29.7**	**26.1**
Friulchem SpA	**0.57**	**0.44**	**8.5**	**6.1**	**46.2**	**15.2**	**n.m.**	**27.6**

Source: 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

1. Investment Summary

Friulchem is a **vertically-integrated R&D-oriented Contract Development and Manufacturing Organisation (CDMO)**, providing its clients with a **full range of services from R&D activity to packaging of finished products**. The group is able to run **tailor-made solutions across a wide range of product categories via several kinds of delivery forms**. Friulchem operates **two business units**, namely the 'Vet' business unit, dedicated to the R&D and production of drugs and food supplements for the veterinary sector, and the 'Human' business unit, dedicated to the R&D of generic drugs based on formulations with a high degree of development and production complexity.

Originating in 1996, today Friulchem 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. The company reported an **8.4% organic sales $CAGR_{08-20}$** mainly thanks to continuous product innovation leading to an increased share of wallet with pharma corporations coupled with a higher number of clients.

The group strategy is based on the following pillars: 1) **consolidation of the market share in the veterinarian CDMO** sector, thanks to the group's strong R&D effort, ability to manage several different drug delivery technologies and undisputed leading position in the penicillin and antibiotics segment; 2) **exploitation of the Magny-En-Vexin plant's unexpressed production capacity** which we believe will give the group additional room for serving new clients even considering the current saturation point of production capacity in France; 3) **organic geographical expansion**, by identifying a few commercial partners with which to enter into licence agreements with minimum guaranteed royalties based on actual sales volumes; 4) **M&A opportunities** among companies involved in the production process phases not yet covered by the group or able to expand the group's product portfolio.

Our estimates show a top line $CAGR_{20-23}$ of 20.7%, as result of organic growth in the 'Vet' BU magnified by the acquisition of the production facility in France. **EBITDA** is anticipated to grow at a **58.6% $CAGR_{20-23}$**, as a result of a broadly stable cost structure and the exploitation of some economies of scale thanks to increasing sales volumes. CFO SIM forecasts **cumulated capex for € 5.0m** in the 2021-23 period, mainly related to the acquisition of the French plant in 2021. As a result, NFP is projected to increase to € 3.2m in 2021 and then to decline in 2022-23 thanks to a **good level of the EBITDA/FCF conversion**. Moreover, we anticipated a **broadly stable Op.NWC/Sales ratio** over the forecast period.

CFO SIM initiates coverage of Friulchem with a Buy recommendation and a DCF-based PT of € 1.80/s, 50.6% upside to current price levels. We believe that a DCF model can better factor in the medium-/long-term value of the stock. We also run a market multiples valuation by selecting a peer group composed of global veterinary players in order corroborate the value obtained by the DCF. The DCF model, based on standard settings for a small-cap, including a prudent g=1%, beta=1, WACC=7.6% and a sustainable 30:70 debt/equity balance-sheet structure, assigns a valuation of € 1.80/s to Friulchem.

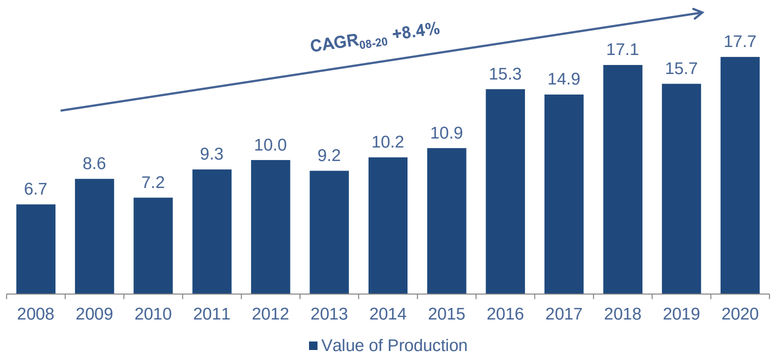
The key investment **risks** associated with Friulchem include: 1) a limited M&A track record; 2) increasing regulation or change in the regulatory framework; 3) arising difficulties in managing the investments and finding sources to support growth; 4) impact on the P&L and balance sheet profiles triggered by a deep decline in global economic growth or geopolitical instability; 5) the reference market consolidation process possibly putting the company's market share under pressure; 6) the M&A execution possibly being hampered by potential consolidating actors in the industry with huge firepower (i.e. PE funds).

2. 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 operates its Milan headquarters as well as **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 **8.4% organic revenues CAGR$_{08\text{-}20}$** mainly thanks to continuous product innovation leading to an increased share of wallet with pharma corporations coupled with a higher number of clients.

Chart 1 – Friulchem, 2008-20 top line evolution



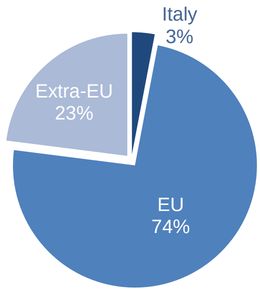
Source: CFO SIM elaboration on company data

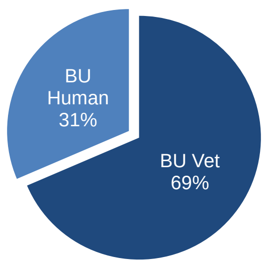
The group's global export sales account for 97% of total (74% generated within the European Union and 23% extra-EU). In terms of business units, 69% of Friulchem's turnover comes from the division involved in the development and production of veterinary products, while the remaining 31% comes from the 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 cosmeceutical with large growth potential, mainly in Asia.

Chart 2 – Friulchem, 2020 top line breakdown by geography and business unit

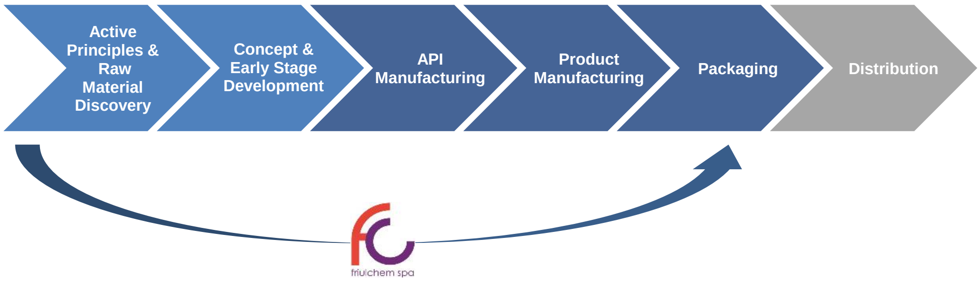




Source: Company data

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. In 2020, Friulchem registered a decrease in margins due to the rising share of sales generated by the Human business unit, which are less profitable than those stemming from veterinary products. The temporary slowdown of the Vet business unit is entirely ascribable to a few logistics inefficiencies stemming from the rapid spread of Covid-19.

Chart 3 – Friulchem, group's business model



Source: CFO SIM elaboration on company data

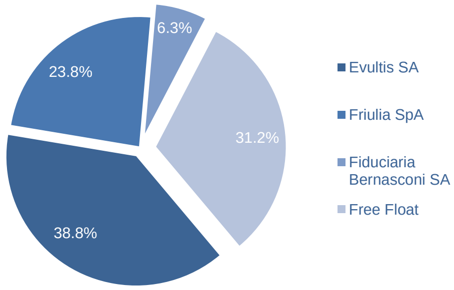
Friulchem provides its clients with a **full range of services from R&D activity to packaging of finished products**. It is worth mentioning that the group is able to run **tailor-made solutions across a wide range of product categories via several kinds of delivery forms**. The bulk of production is 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 has 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 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.

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 in order 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-hedge technologies FC-CUBE® and FC-BALL® (the latter to be approved); **8 dossiers** related to generic drugs for human beings.

3. IPO and Group Structure

Friulchem went public on AIM Italia **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 amount of € 4.5m.** Pre-IPO shareholders have a 36-month lock up.

Chart 4 – Friulchem, shareholder structure



Source: Company data

At the same time as the capital increase of € 4.5m took place, **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 in 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 every 10 warrants held. During the first exercise period no warrants were converted, thus they **are all still outstanding**.

The scope of consolidation includes the Issuer (Friulchem SpA) and the subsidiary Friulchem FC France SAS. In addition, Friulchem has an equity investment in **PharmAbbie Inc.** (12.12%), an American company specialised in the development of veterinary drugs. Through PharmAbbie, Friulchem will be able to validate its FC-CUBE® proprietary technology.

The board of directors is composed of 7 members, one of whom is an independent director.

Table 1 – Friulchem, Board of Directors

Name	Role
Alessandro Mazzola	Chairman
Disma Giovanni Mazzola	Chief Executive Officer
Primo Cinausero	Director
Biagio Giugliano	Director
Carlo Marelli	Director
Franco Biasutti	Director
Ariel Davide Segre	Independent Director

Source: CFO SIM elaboration on Company data

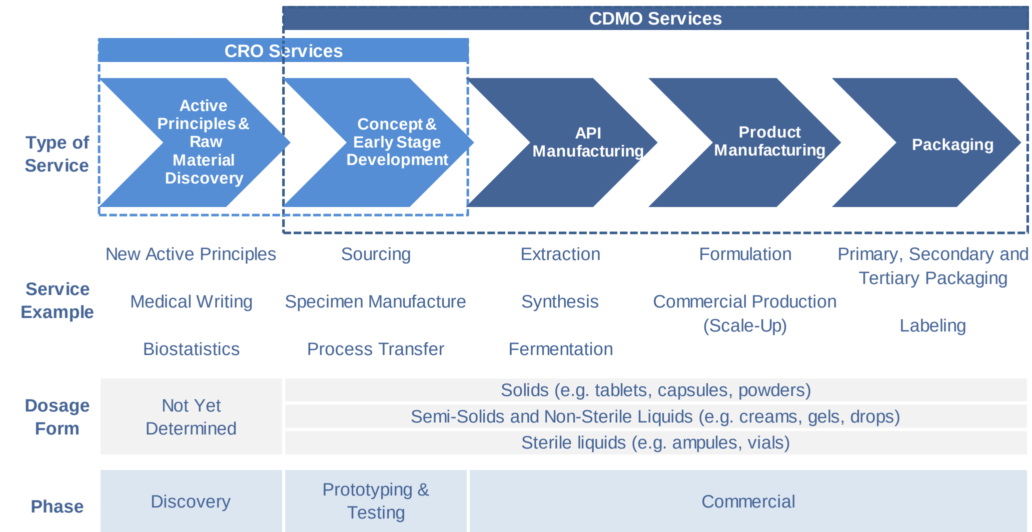
The management team is composed of several key relevant people:

- **Alessandro Mazzola** is the **founder** of the company and today serves as **Chairman** of the group. He has more than 50 years of experience in the pharmaceutical sector and he has established several companies during his career in this field, including Evultis SA, a leading supplier of raw materials (mainly amoxicillin) for pharmaceutical production.
- **Disma Giovanni Mazzola** today is Chief Executive Officer of Friulchem. He has a consolidated experience in the chemical-pharmaceutical industry, having worked for several pharma firms operating mainly in the generic drugs market.
- **Carlo Marelli** has been the group's Chief Financial Officer since 2009. He has more than 25 years of experience in accounting, financial planning and tax management.

4. 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 rise of CDMOs was fuelled by failure stories in the pharmaceutical industry. In the past, pharmaceutical companies often installed dedicated manufacturing capacities for developing innovative products, only to see them fail during the last phases of clinical research trials. Thus, the additional manufacturing capacity for those specific products was no longer needed. To reduce the risk of expensive overcapacities, the demand for outsourced manufacturing has been rising continually.

Chart 5 – Friulchem, overview of CRO and CDMO services



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

CROs, CMOs and CDMOs offer outsourcing services for research, development and manufacturing. In particular:

- **Contract Research Organisations – CROs** support pharmaceutical companies in their drug discovery and clinical research effort. The typical services include patient and site recruitment, clinical monitoring, analytics, biostatistics, medical writing and regulatory affairs consulting.
- **Contract Development and Manufacturing Organisations – CDMOs** take care of the product development and manufacturing activities of pharmaceutical companies. In addition, they provide a wide range of ancillary services such as final packaging, clinical logistics & distribution and regulatory support.
- **Contract Manufacturing Organisations – CMOs** are similar to CDMOs but they only take care of the manufacturing phases, not being involved in research and development activities. Traditional CMO services focus on their core competencies in bulk manufacturing and formulation.

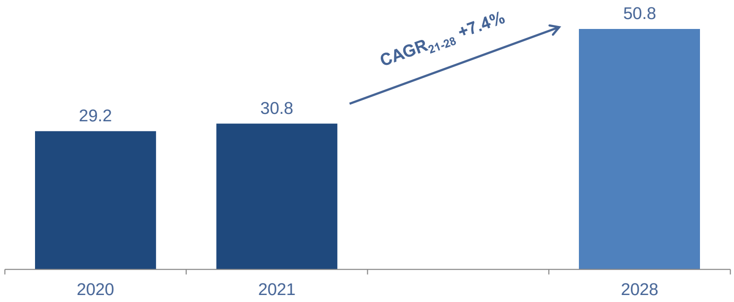
The leading CDMOs, including Friulchem, are clearly committed to broadening the service offering in consistency with the one-stop-shop model, becoming **fully integrated players offering their clients services across the entire product life-cycle**, from discovery to packaging, as well as across all key geographies. **One-stop-shop CDMOs** differentiate themselves through the convenience and complexity reduction that they offer to their customers: the notion is to offer a multitude of services to a customer, who should benefit from the convenience and time and cost efficiency of dealing with a single provider. Furthermore, through a one-stop-shop model, CDMOs are able to increase the addressable market size and to improve the opportunities to gain a larger share of client spend (i.e. increase their share of wallet).

4.1. Veterinary Market

Friulchem is a one-stop-shop CDMO focusing on the **development and production of pharmaceuticals and nutraceuticals 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** is anticipated at **$ 29.2bn** in 2020 and **is expected to grow by 5.5% in 2021** and to expand at a **CAGR$_{21-28}$ of 7.4%,** reaching $ 50.8bn in 2028.

Chart 6 – Friulchem, global veterinary medicine market - $ bn



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 into **rising health expenditure on pets.**

Furthermore, growing consumption of meat is fuelling the demand for **mandatory vaccination for animals**, which results in the growth of the veterinary medicine market. According to The World Counts, global meat production has increased 2-fold from 1988 to 2018 and the meat consumption is estimated to range between 460-570 million tons by 2050.

The **pharmaceuticals segment** dominated the veterinary medicine market and held the largest revenue share of more than 57.0% in 2020. This is owing to the rising prevalence of zoonotic diseases, brucellosis, and food-borne diseases. On the basis of product type, **the market is segmented into biologics, pharmaceuticals, and medicated feed additives.** Biologics is further divided into vaccines and others, including monoclonal antibodies, immunomodulators, hormonal supplements, etc. The pharmaceuticals segment is further divided into anti-infectives, parasiticides, analgesics, anti-inflammatory and others.

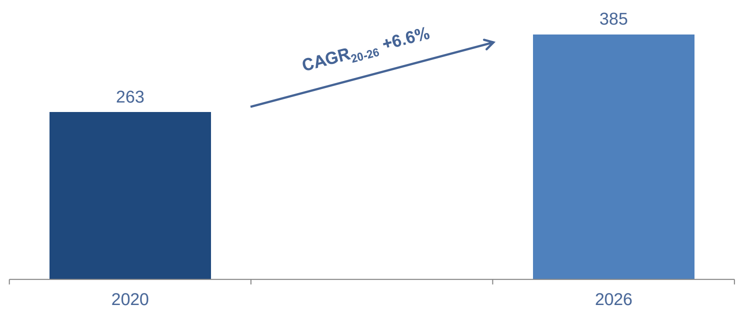
The market leaders are involved in strategic collaboration, regional expansion, and new product launch to sustain the competition. Among the major global veterinary industry players are Zoetis (USA), Boehringer Ingelheim Animal Helath (Germany), MSD Animal Health (USA), Elanco (USA), INDEXX Lab. (USA),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

4.2. 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 a drug equivalent to an existing branded drug. These drugs are cheaper and equivalent to branded drugs in 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 $ 263bn in 2020** and is anticipated to grow at a **$\mathrm{CAGR}_{20\text{-}26}$ of 6.6%**, reaching **$ 385bn in 2026.**

Chart 7 – Friulchem, global generic drugs market - $ bn



Source: Mordor Intelligence 2020

The outbreak of the Covid-19 pandemic had a negative impact on the global generic drugs market because hospitals, healthcare services, and drug manufacturers were significantly reduced due to social distancing measures taken by the government across the globe. Nevertheless, the rising demand for newer versions of generic drugs, additional numbers of clinical trials, and increasing numbers of licensing & partnering strategies to launch new products by key vendors are going to contribute to significant demand for generic drugs in the near future.

4.2. CDMO Market Trends

The massive development of the CDMO market can be ascribed to the greater willingness to outsource among pharmaceutical companies, which have increasingly been outsourcing services in order to decrease time to market, save costs, reduce complexity and reallocate internal resources.

Chart 8 – Friulchem, opportunities and risks in the current CDMO market

Opportunities	Risks
1) Increasing pharmaceutical outsourcing 2) Co-Investments 3) Technological advancements 4) New operational techniques 5) Increasing number of small and medium sized pharmaceutical companies 6) Higher company values 7) Higher profitability in a more consolidated market	1) Strong competition on costs, technology and service range 2) Lack of skilled labour 3) Outsourcing of low-volume and complex drugs 4) Reliance on a small number of customers 5) Governmental healthcare costs containment measures 6) increasing regulation

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

The **increasing outsourcing trend** among pharmaceutical companies unquestionably represents a **favourable opportunity for CDMOs**, which have to establish themselves as vital partners of pharmaceutical and biotech companies. One of the main goals for CDMOs is to build **strategic partnerships with their customers**, which can even lead to co-investments for developing innovative specialised technologies, discovering new active principles or building strategic manufacturing facilities.

Being a vital partner for their own customers means that CDMOs have to broaden their product and service offers consistently with the **one-stop-shop model**. In fact, **big pharma companies are looking to consolidate their supplier base**, choosing partners which are able to offer services across the entire product life-cycle, from discovering to packaging. Dealing with a single provider has definitely multiple advantages: i) limiting costs, ii) reducing risks linked to technology transfer and iii) saving time.

In order to establish themselves as one-stop-shop players, CDMOs have two options:

- **Vertical integration** by offering new services for existing delivery forms. This is typical of former CMOs, which expand their service portfolio by offering development activities, characterised by higher margins, in addition to manufacturing. CDMOs can further extend their range of services by offering packaging of finished products or through backward integration into the CRO space.
- **Horizontal integration** by offering existing services for new delivery forms. This kind of integration tends to be unquestionably risky and expensive, as expanding into a new delivery form involves high entry barriers, namely high upfront costs, lack of expertise, lack of reputation and difficulties finding qualified employees. In addition, a horizontal integration opportunity might even be that of expanding into new geographical areas, leveraging the existing sales network.

All in all, the **CDMO sector is facing a consolidation process**, mainly on the back of big pharma companies' trend to simplify their supply chain and to work with fewer manufacturing partners. Over the past five years, the M&A activity within the sector has been strong with around 40 to 60 transactions per annum, although it is still lower than in the CRO sector in terms of number of transactions and consolidation of the market share. The consolidation process has been driven by large public CDMOs, such as Recipharm (11 acquisitions), Catalent (8 acquisitions) and AMRI (7 acquisitions) (source Results Healthcare). On the other hand, private equity funds have also been highly active in the sector over the past five years and might be playing an increasingly bigger role in sector consolidation in the future.

4.3. 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, being a **one-stop-shop CDMO.** Friulchem is able to manage different production techniques, such as atomisation, micronisation, granulation and mixing.

The group's main competitors are three European companies with a similar size to Friulchem's and a significantly bigger US-based player.

- **Labiana Life Sciences SA (Spain)** provides its clients with CDMO services as well as proprietary animal health and human medicine 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 powered 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 (monogastric, ruminant, rabbits and fishes).
- **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 on the market more than 20 product in the veterinary industry for dogs, cats and horses.

Chart 9 – 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	●	●	●	●	●

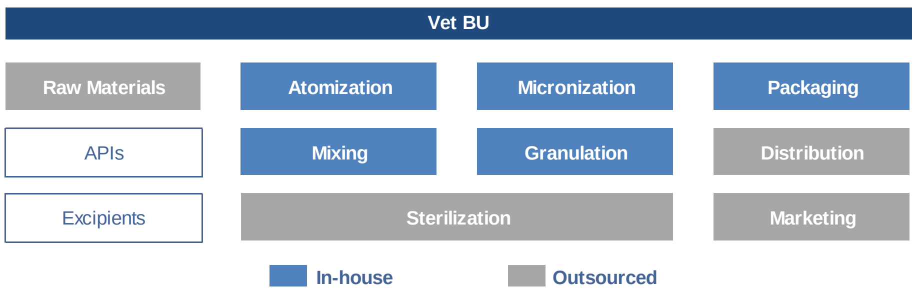
Source: CFO SIM elaboration on information provided by the company

5. Business Model

Friulchem is a one-stop-shop CDMO, providing its clients 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 human beings. 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 the 'Vet' business unit, dedicated to the R&D and production of drugs and food supplements for the veterinary sector, and the 'Human' business unit, dedicated to the R&D of generic drugs based on formulations with a high degree of development and production complexity.

- **'Vet' business unit:** Friulchem provides its clients with semi-finished and finished products based both on proprietary formulations or 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 activity, providing veterinary pharma companies with products ready to be sold to the final customers.

Chart 10 – Friulchem, business model of 'Vet' business unit



Source: CFO Sim elaboration based on company information

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 is spread over an area of 18,000 square meters, which could be further expanded by another 18,000 square meters. 3,000 sqm are covered and include a laboratory dedicated to R&D and quality control activities. The Italian plant's **capacity utilization is at 80% while the French plant is currently running at about 50%**. It is worth remembering that Friulchem has recently acquired the production facility in Magny-En-Vexin from Virbac and as of today Virbac is the only client served through this plant. The French site is specialised in the production of pre-mixes, soluble powders, liquid products, pastes and boluses, thus expanding the group's product portfolio. Furthermore, Friulchem has signed a ten-year non-exclusive supply agreement with Virbac establishing minimum quantities for the first four years in order to immediately exploit the plant's production capacity and to positively contribute to the group's consolidated turnover and EBITDA. Considering the current saturation point of production capacity in France, we believe the group will have additional room for serving new clients through this production facility, thus taking better advantage of the operating leverage.

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. In particular, the FC-BALL® technology is applicable to all finished products using water as an excipient, diluent or carrier, allowing the supply of active ingredients in all concentrations. On the other hand, through the FC-CUBE® technology Friulchem has developed an innovative manufacturing method to obtain a chewable matrix with high palatability that can be used to prepare food for medical use. Furthermore, 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. The Suppleo product portfolio covers a wide range of therapeutic areas, such as immune system strengthening, muscle and joint pain, digestion difficulties or dental hygiene, and products are sold exclusively online through a dedicated website or on Amazon.

In order to grow in the US veterinary market, last Mar-20 Friulchem acquired 13.0% of **PharmAbbie Inc**., an American company specialised in the development of veterinary drugs, for $ 1.5m. In collaboration with Friulchem, PharmAbbie has developed palatable and flavoured tablets based on the FC-CUBE® technology. In this way, after the FDA's approval of PharmAbbie's products, Friulchem will be able to validate its proprietary FC-CUBE® technology.

- **'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 **production phase is outsourced** to selected partners. Friulchem develops new dossiers via two different approaches:
  - ✓ **In-house project:** Friulchem develops an in-house project dealing with the initial testing and feasibility phases. After the feasibility study is completed, Friulchem looks for an investor who financially supports the testing and clinical analysis phases, which are essential for the filing of the dossier. At the end of the process, the ownership of the formulations remains with Friulchem, which can license or sell them to an industrial player.
  - ✓ **Project for a client:** Friulchem co-develops the dossier with the client, including providing technical support to file the documentation. In this case, Friulchem issues an invoice for every milestone of the project (production, stability studies, market authorisation). At the end of the project, the client becomes the owner of the dossier.

Furthermore, the group has developed a product line dedicated to cosmeceuticals with a large growth potential, mainly in Asia.

Chart 11 – Friulchem, business model of 'Human' business unit

Source: CFO Sim elaboration based on company information

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 in order 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-hedge 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, thus being a **strong reliable partner**. Friulchem's main client 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. In 2020, Virbac accounted for 26% of Friulchem's consolidated revenues while **the top five and ten clients accounted for 64% and 84% of total**, respectively.

Chart 12 – Friulchem, group's main clients

Client	Commercial relationship as from	Activities
Virbac	1998	Research, production and distribution of health products for both pets and livestock
KERN PHARMA	2012	Distribution of chemical products, with a division focused on the animal world
KRKA	2015	Production and sale of drugs and veterinary products under its own brand in over 70 countries
Norbrook	2015	Manufacturing of pharmaceutical products, including APIs, for both the livestock and pets segments
Kyoritsu Seiyaku	2017	Production of drugs for pets and livestock
TEVA	2012	Development, manufacturing and selling generic drugs. It has an important role in supplying APIs worldwide
SANDOZ a Novartis company	2016	Development, manufacturing and selling generic drugs
EG STADA GROUP	2017	Development, manufacturing and selling generic drugs
Mylan	2016	Development, manufacturing and selling generic drugs and pharmaceuticals products for special use

Source: CFO Sim elaboration based on company information

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 by customers and carries out careful quality control of 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.

6. M&A deals

Since the IPO in 2019, Friulchem closed two strategic extraordinary transactions: the acquisition of an equity stake in PharmAbbie Inc. and an asset deal for the purchase of the industrial assets of one of Virbac's productive business units in Magny-En-Vexin (France).

- In Mar-20, Friulchem acquired a **13.0% equity stake in PharmAbbie Inc**., underwriting a dedicate capital increase **for $ 1.5m**. PharmAbbie Inc. is an American company specialised in the development of veterinary drugs. In collaboration with Friulchem, PharmAbbie has developed palatable and flavoured tablets based on the FC-CUBE® technology. In this way, after the FDA's approval of PharmAbbie's products, Friulchem will be able to validate its proprietary FC-CUBE® technology. **Giovanni Disma Mazzola, Friulchem's CEO, is on PharmAbbie's board of directors**. As of today, Friulchem holds 12.12% of PharmAbbie's share capital.

- In Jul-21, Friulchem closed **the acquisition of one of Virbac SA's productive business units in Magny-En-Vexin (France),** near Paris. Virbac is a France-based veterinarian pharmaceutical company focused on the development and production of vaccines and medicines for domestic animals and livestock. The agreement was entered into as an **asset deal** through the acquisition of Virbac's business unit, including its production facility, 33 employees, machineries and inventories as of the closing date. The acquisition was performed **by the new-co FC France SAS, 56.74% owned by Friulchem SpA and 43.26% by Finest SpA,** a finance company and equity partner which takes an active part in promoting international projects of firms based in North-Eastern Italy.

  The total consideration for the acquisition was set at € 4.8m, € 2.4m of which relating to the business unit while the remaining € 2.4m to the value of inventories as of the closing date. The deal was financed through a € 2.3m real estate leasing transaction with a duration of 15 years, while the remainder was paid in cash. In particular, the inventories were paid through an advance payment of € 0.4m at the closing date, while the remaining € 2.0m are paid through six monthly instalments maturing on 31st December 2021.

  The French site is specialised in the production of pre-mixes, soluble powders, liquid products, pastes and boluses, which will enable the group to expand its product portfolio. Furthermore, Friulchem signed a ten-year non-exclusive supply agreement with Virbac establishing minimum quantities for the first four years in order to immediately exploit the plant's production capacity and to positively contribute to the group's consolidated turnover and EBITDA. Considering the current saturation point of production capacity in France (i.e. about 50%), we believe the group has gained additional room for serving new additional clients through this production facility, thus taking better advantage of the operating leverage.

7. Strategy

After the solid growth path recorded since its establishment and especially in the last five years ($CAGR_{15-20}$ of 10.2%), 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.

Consistently with its growth path, Friulchem's principal strategy is focused on:

- **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 production capacity is currently exploited at about 50% at the French plant. It is worth remembering that as of today Virbac is the only client served through this plant. The French site is specialised in the production of pre-mixes, soluble powders, liquid products, pastes and boluses, thus being 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 clients through this production facility, thus taking better advantage of the operating leverage.

- **Organic geographical expansion:** the target markets where Friulchem plans to expand are 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:** Friulchem invested a portion of the IPO proceeds in two extraordinary operations, namely the acquisition of an equity stake in PharmAbbie Inc. and an asset deal for the purchase of the industrial assets of one of Virbac's productive business units in Magny-En-Vexin (France). 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; iii) industrial players with a business model similar to Friulchem's but serving different clients in order to enlarge the group's customer base.

8. Porter's 5 Forces

According to Michael Porter the competitive structure and the degree of attractiveness of an industry are a function of the **simultaneous interaction of five forces**. Their analysis allows to evaluate the competitive position of a firm 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 to raw material procurement, Friulchem has an extensive list of selected suppliers, with rather low concentration risks. The Italian plants' capacity utilisation is close to 80%. whereas that of the French plant is almost 50%: Friulchem has adequate capacity to sustain growth and plenty of room to maintain flexibility.
- **Quite well-balanced client base**. The top ten clients account for 84% of 2020 turnover: the top customer makes 26% and the top five 64%. Customer loyalty is very high as the group has long-lasting consolidated relationships with several veterinarian pharma firms. 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 13 – 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 availabel 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

9. 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 exploit to its advantage.
- **Threats**: elements in the environment that could cause trouble 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	Weaknesses
Well-structured R&D team with a solid proven track-record in developing innovative drug delivery solutions	**Limited size** in the international competitive arena
Ability to deliver **tailor-made solutions** via **different delivery forms,** also based on proprietary technologies	**Few key relevant people** represent a vital asset for the company
Extremely flexible production structure, with approximately **80-20 variable-fixed costs**	Need for **reinforcement of the management structure** to boost developments
	Limited **M&A track record**

Opportunities	Threats
The **increasing outsourcing trend** by pharma companies, both in terms of R&D and production	Development of **new innovative successful dossiers** by some competitors
Exploiting the **French plant's unused production capacity** to serve new customers	**Other potential consolidating actors in the industry** with huge fire power (i.e. private equity funds)
	Increasing regulation or changes in the regulatory framework

10. Recent Results

Since its establishment, Friulchem has been persistently growing, realising € 17.7m in revenues in 2020. In the last five years the company recorded fair organic growth at a $CAGR_{15\text{-}20}$ of 10.2%, mainly thanks to the increasing share of wallet with several clients as well as the enlargement of the customer base. The less intense growth recorded in the last three years compared to $CAGR_{15\text{-}20}$ was mainly due to a YoY revenue decrease in FY-19 in the Human business unit due to the postponement of revenues related to a pharmaceutical dossier to 2020.

Table 2 – Friulchem, FY 2018-19-20 results summary

€ m	2020	2019	2018	$CAGR_{18\text{-}20}$
Value of Production	**17.7**	**15.7**	**17.1**	***1.7***
EBITDA	**0.6**	**1.3**	**1.6**	***(37.2)***
% margin	*3.6*	*8.5*	*9.5*	
EBITDA adjusted	**1.0**	**1.3**	**1.8**	***(24.8)***
% margin	*5.9*	*8.5*	*10.8*	
EBIT	**(0.3)**	**0.3**	**0.7**	***n.m.***
% margin	*(1.9)*	*2.2*	*3.8*	
Net Profit	**(0.3)**	**0.1**	**0.2**	***n.m.***
% margin	*(1.9)*	*0.4*	*1.3*	
Net Financial Position	**1.1**	**(1.1)**	**2.7**	***(36.3)***

Source: Company data, CFO SIM analysis

10.1 FY-20 Results

Friulchem's 2020 reported results were characterised by growing revenues and a slight pressure on margins. The Human business unit benefited from the increasing demand for generic drugs based on Friulchem's dossiers as well as from customer base expansion. The Vet business unit suffered a few logistics inefficiencies due to the Covid-19 pandemic.

Table 3 – Friulchem, FY 2020-19 results summary

€ m	2020	2019	% YoY
Revenues	**16.7**	**15.6**	**6.6**
Increase in finished products	0.7	(0.1)	
Other revenues	0.3	0.1	
Value of Production	**17.7**	**15.7**	***12.7***
Raw material and processing	(11.9)	(8.8)	
Services	(3.0)	(3.4)	
Personnel expenses	(1.9)	(1.7)	
Other opex	(0.2)	(0.5)	
EBITDA	**0.6**	**1.3**	***(52.1)***
% margin	*3.6*	*8.5*	
D&A	(1.0)	(1.0)	
EBIT	**(0.3)**	**0.3**	***n.m.***
% margin	*(1.9)*	*2.2*	
Financials	(0.2)	(0.3)	
Pre-Tax profit	**(0.5)**	**0.1**	***n.m.***
% margin	*(2.9)*	*0.5*	
Income taxes	0.2	(0.0)	
Tax rate	*33.1%*	*17.3%*	
Minorities	0.0	0.0	
Net Profit	**(0.3)**	**0.1**	***n.m.***
% margin	*(1.9)*	*0.4*	
EBITDA adj.	**1.0**	**1.3**	***(22.2)***
% margin	*5.9*	*8.5*	
Net Financial Position	**1.1**	**(1.1)**	***n.m.***
Net Equity	**10.4**	**10.7**	***(2.9)***

Source: Company data, CFO SIM analysis

In 2020, the **value of production was € 17.7m, up 12.7% YoY,** mainly as a result of the increasing sales in the Human business unit**. Foreign sales** accounted for **97% of total** (74% of total generated in EU, while the remaining 23% extra-EU).

The Vet business unit totalled € 11.4m (69% of total revenues), down 4.3% YoY, as a result of 1) some delays in receiving raw materials from China at the beginning of the year due to the Covid-19 pandemic, 2) some delays in delivering finished and semi-finished products to several clients as their warehouses had been closed for at least two weeks in order to set up anti-contagion protocols, 3) some inefficiencies in the production facility in Vivaro (Pordenone, Italy) due to the rapid spread of Covid-19.

The Human business unit unveiled revenues equal to € 5.2m (31% of total revenues), up 41.7% YoY, thanks to the increasing sales of generic drugs based on Friulchem's dossiers. Furthermore, the addition of a new marketed product to the group's portfolio allowed Friulchem to gain a new promising client, able to offer some cross-selling opportunities.

EBITDA was € 0.6m, 3.5% margin (vs € 1.3m, 8.5% margin in 2019). The decrease was mainly ascribable to the rising share of sales generated by the Human business unit which are less profitable than those stemming from veterinary drugs. **EBITDA adjusted** for non-recurring costs related to the Covid-19 pandemic was **€ 1.0m, 5.9% margin.** Bottom line turned negative by € 0.3m vs € 0.1m profit in 2019.

Net Financial Position increased to € 1.1m debt (€ 1.1m cash in FY-19), 1.0x NFP/EBITDA adj., mainly as a result of the acquisition of 12.2% of PharmAbbie Inc. for € 1.4m. **Cash and cash equivalents amounted to € 4.1m.**

11. Financial Forecasts

Originating in 1996, today Friulchem is a **vertically-integrated R&D-oriented CDMO**. It is an 'Innovative SME' operating in the **pharmaceutical and nutraceutical** markets, serving both the **veterinary and the human sectors**. The group provides global big pharma firms with finished and semi-finished products, including **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 company reported an **8.4% organic sales CAGR$_{08-20}$**,mainly thanks to continuous product innovation, leading to an increased share of wallet with pharma corporations coupled with a higher number of clients.

Our 2021 estimates include the newly acquired French plant's revenues for a period of six months. Moreover, our top line progression estimates are based on **different assumptions for each business unit**:

- The **'Vet'** business unit: thanks to its strong R&D effort, ability to manage several different drug delivery technologies and strong competitive positioning in the penicillin and antibiotics segment, Friulchem is well positioned to increase the share of wallet among multinational veterinarian pharma companies as well as to gain new customers. Thus, the 'Vet' business unit's sales are **anticipated to grow organically at a CAGR$_{20-23}$ of 6.3%** in addition to the acquisition of the new plant in France, consolidated for six months in 2021. It is worth remembering that as of today the French plant's capacity utilization is about 50% and Virbac is the only client served through this plant. Considering the current saturation point of production capacity in France, we believe the group has gained a lot more room to serve new additional clients in the next years. **The Vet business unit, including the French plant, is expected to grow at a 27.5% CAGR$_{20-23}$.**
- The **'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 **production phase is outsourced** to selected partners. Currently, the group holds **8 dossiers** related to generic drugs for human beings. We estimate that the business unit's sales will grow at a **CAGR$_{20-23}$ of 2.5%**, mainly driven by the increasing revenue average per dossier as a result of the rising demand for generic drugs (according to Mordor Intelligence, the global generic drugs market is anticipated to grow at a 6.6% CAGR$_{20-26}$).

Overall, **CFO SIM expects consolidated revenues to show a 20.7% CAGR$_{20-23}$.**

Table 4 – Friulchem, 2020-23e top line growth evolution breakdown

€ m	2020	2021e	2022e	2023e	CAGR$_{20-23}$
Revenues	**16.7**	**21.5**	**27.3**	**29.3**	**20.7**
BU Vet	11.4	16.2	21.8	23.7	*27.5*
o/w Italian plant	*11.4*	*11.7*	*12.8*	*13.7*	*6.3*
o/w French plant	-	*4.5*	*9.0*	*10.0*	*n.a.*
BU Human	5.2	5.4	5.5	5.6	*2.5*
% YoY					
Revenues	**-**	***29.1***	***26.8***	***7.5***	
BU Vet	-	*41.4*	*34.8*	*8.8*	
BU Human	-	*2.5*	*2.5*	*2.5*	
% on total					
Revenues	***100.0***	***100.0***	***100.0***	***100.0***	
BU Vet	*68.6*	*75.1*	*79.8*	*80.8*	
BU Human	*31.4*	*24.9*	*20.2*	*19.2*	

Source: Company data, CFO SIM estimates

The 'Vet' business unit is expected to progress more than the group's average as a consequence of the aforementioned reasons and to account for **80.8% of total sales in 2023** (vs 68.6% in 2020).

Table 5 – Friulchem, 2020-23e profitability evolution

€ m	2020	2021e	2022e	2023e	$CAGR_{20-23}$
Revenues	**16.7**	**21.5**	**27.3**	**29.3**	***20.7***
Increase in finished products	0.7	0.8	1.0	1.1	
Other revenues	0.3	0.3	0.3	0.3	
Value of Production	**17.7**	**22.6**	**28.6**	**30.8**	***20.2***
Raw material and processing	(11.9)	(14.4)	(18.0)	(19.2)	
Services	(3.0)	(3.7)	(4.6)	(4.9)	
Personnel expenses	(1.9)	(2.7)	(3.6)	(3.7)	
Other opex	(0.2)	(0.3)	(0.4)	(0.4)	
EBITDA	**0.6**	**1.5**	**2.0**	**2.6**	***58.6***
% margin	*3.6*	*6.7*	*7.1*	*8.3*	
D&A	(1.0)	(1.2)	(1.2)	(1.2)	
EBIT	**(0.3)**	**0.3**	**0.8**	**1.4**	***n.m.***
% margin	*(1.9)*	*1.2*	*2.9*	*4.4*	
EBITDA Adjusted	**1.0**	**1.5**	**2.0**	**2.6**	***34.9***
% margin	*5.9*	*6.7*	*7.1*	*8.3*	

Source: Company data, CFO SIM estimates

The group's cost structure is anticipated to be broadly stable (20-80 fixed-variable costs) and gross margin is predicted at 19.6% on average in the 2021-23 period. We estimate **personnel expenses to increase** from € 1.9m in 2020 to € 3.7m in 2023, mainly as a result of the acquisition of the new plant in France employing 33 highly specialised staff. The impact of the costs of raw materials and processing systems as well as of services are anticipated to slightly reduce in the 2021-23 period on the back of the exploitation of some economies of scale stemming from the increasing sales volumes. As a result, **EBITDA is projected to grow at a $CAGR_{20-23}$ of 58.6%** vs. 20.7% of revenues. D&A are seen to slightly rise in the period, on the back of the acquisition in France.

Table 6 – Friulchem, 2020-23e profitability evolution

€ m	2020	2021e	2022e	2023e	$CAGR_{20-23}$
EBIT	**(0.3)**	**0.3**	**0.8**	**1.4**	***n.m.***
% margin	*(1.9)*	*1.2*	*2.9*	*4.4*	
Financials	(0.2)	(0.2)	(0.2)	(0.2)	
Re/(Devaluation) of financial assets	0.0	0.0	0.0	0.0	
Forex gain/(loss)	0.0	0.0	0.0	0.0	
Pre-Tax profit	**(0.5)**	**0.1**	**0.6**	**1.2**	***n.m.***
% margin	*(2.9)*	*0.4*	*2.2*	*3.8*	
Income taxes	0.2	(0.0)	(0.2)	(0.3)	
Tax rate	n.m.	27.5%	27.5%	27.5%	
Minorities	0.0	(0.1)	(0.1)	(0.1)	
Net Profit	**(0.3)**	**0.0**	**0.3**	**0.7**	***n.m.***
% margin	*(1.9)*	*0.0*	*1.2*	*2.3*	

Source: Company data, CFO SIM estimates

Below EBIT, CFO SIM expects stable financial costs in the coming years and the tax burden is predicted to be steady at a 27.5% rate.

Table 7 – Friulchem, 2020-23e Net Financial Position and financial solidity

€ m	2020	2021e	2022e	2023e
Year-end NFP (Cash)/Debt	**1.1**	**3.2**	**2.9**	**2.3**
Average (Cash)/debt	(0.0)	2.2	3.1	2.6
Gross debt	5.2	5.2	5.2	5.2
EBITDA	**0.6**	**1.5**	**2.0**	**2.6**
Shareholders' equity	**10.4**	**10.4**	**10.6**	**11.2**
Minorities	0.0	0.5	0.6	0.8
Interest charges	(0.2)	(0.2)	(0.2)	(0.2)
NFP/Equity	0.1	0.3	0.3	0.2
NFP/EBITDA	1.7	2.2	1.5	0.9
EBITDA/charges	3.8	8.2	11.1	14.0
Debt/Equity	0.5	0.5	0.5	0.5

Source: Company data, CFO SIM estimates

Over the 2021-23 period CFO SIM forecasts cumulated capex for € 5.0m, mainly related to the acquisition of the production facility in Magny-En-Vexin (France) from Virbac in 2021. Capex for the maintenance of the existing production lines is anticipated to the tune of € 1.0m per year.

The total consideration for the acquisition of the productive business unit in France was set at € 4.8m, € 2.4m of which relating to the business unit while the remaining € 2.4m to the value of inventories as of the closing date. The deal was financed through a € 2.3m real estate leasing transaction with a duration of 15 years, while the remainder was paid in cash. In particular, the inventories were paid through an advance payment of € 0.4m at the closing date, while the remaining € 2.0m through six monthly instalments maturing on 31st December 2021.

On the back of the investment in France, **NFP is projected to rise to € 3.2m in 2021** (vs € 1.1m in 2020) and then to decline in 2022-23 as a result a good EBITDA/FCF conversion.

As far as operating working capital is concerned, we anticipated a **broadly stable Op.NWC/Sales ratio in the 2021-23 period,** on the back of receivables more than counterbalanced by payables and limited levels of inventories (almost entirely already sold and ready to be delivered to clients).

Table 8 – Friulchem, 2020-23e Net Financial Position and financial solidity

€ m	2020	2021e	2022e	2023e
Op NWC	**1.2**	**2.5**	**3.1**	**3.4**
Inventories	2.3	2.8	3.5	3.8
Receivables	1.4	3.7	4.7	5.1
Payable	(2.5)	(4.0)	(5.1)	(5.4)
Op NWC/Sales	6.9%	10.9%	11.0%	11.2%
Capital Employed	16.7	17.5	18.3	19.1
Capital Employed turnover x	0.9	0.8	0.6	0.6
NFP debt/(cash)	**1.1**	**3.2**	**2.9**	**2.3**
NFP repayment YoY	-	2.2	(0.3)	(0.6)
ROACE%	**Neg.**	**1.6**	**4.6**	**7.3**
ROCE %	**Neg.**	**1.6**	**4.5**	**7.1**
ROE %	**Neg.**	**0.1**	**3.3**	**6.4**
EBITDA - FCF Conversion %	**Neg.**	**Neg.**	**2.4**	**21.2**
Free Cash Flow	(2.2)	(2.8)	0.0	0.5
EBITDA	0.6	1.5	2.0	2.6
Capex	2.7	3.0	1.0	1.0

Source: Company data, CFO SIM estimates

12. Valuation & Risks

CFO SIM initiates coverage of Friulchem with a Buy recommendation and a DCF-based PT of € 1.80/s, 50.6% upside to current price levels. We believe that the DCF model is the most appropriate methodology to get a reasonable valuation, in order to better factor in the medium-/long-term value generation potential of the stock and avoid incorporating the currently increased stock market volatility.

The DCF model is based on standard settings for a small-cap, including a prudent g=1%, beta=1, WACC=7.6% and a 30/70 debt/equity sustainable balance sheet structure. According to the **DCF model, we attain a valuation of Friulchem of € 1.80/s**.

We also run a market multiples valuation to corroborate the value obtained by the DCF model. Considering the market multiples valuation method, we set a peer group composed of companies operating in the global veterinary sector. The peers have a rather diversified sizes, profitability, financial structures, geographical presence and supply chain integration. 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 € 1.70/s**, **using 2022 estimates and multiples** in order to incorporate the full consolidation of the Magny-En-Vexin (France) plant (consolidated in the P&L only for 6 months in 2021 but entirely in the FY-21e Net Financial Position).

12.1. DCF

In the valuation via the DCF method, we assess explicit estimates until 2025 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 9 – WACC derived from:

Interest costs, pre-tax	3.5%
Tax rate	27.5%
Int. costs, after taxes	**2.5%**
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200dd mov. avg.)	0.71%
Beta levered (x)	1.00
Required ROE	**9.7%**

Source: CFO SIM, Thomson Reuters Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all AIM Italia market segment related concerns and disquiet that an investor might have. **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 10 – Friulchem, DCF model

€ m	2021e	2022e	2023e	2024e	2025e	Term. Val.
EBIT	0.3	0.8	1.4	1.7	2.1	
Tax rate	27.5%	27.5%	27.5%	27.5%	27.5%	
Operating profit (NOPAT)	**0.2**	**0.6**	**1.0**	**1.2**	**1.5**	
Change working capital	(1.2)	(0.7)	(0.3)	(0.2)	(0.1)	
Depreciation	1.2	1.2	1.2	1.0	1.0	
Investments	(3.0)	(1.0)	(1.0)	(1.0)	(1.0)	
Free Cash Flows	**(2.8)**	**0.1**	**0.9**	**1.1**	**1.5**	**23.0**
Present value	(2.7)	0.1	0.7	0.8	1.1	**16.7**
WACC	7.6%	7.6%	7.6%	7.6%	7.6%	
Long-term growth rate	**1.0%**					

Source: CFO SIM

Table 11 – Friulchem, DCF derived from:

€ m	
Total EV present value € m	16.7
thereof terminal value	*99.8%*
NFP last reported	(1.1)
Pension provision	(0.7)
Equity value € m	**15.0**
#m shares FD	8.25
Equity value €/s	**1.80**
% upside/(downside)	*50.6%*

Source: CFO SIM

The outcome of our DCF delivers an equity value of € 15.0m for Friulchem, € 1.80/s.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value of **€ 1.60-2.09/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 **€ 1.62-2.03/s (free risk range between 1.46% and 0.00%)** and 3) if compared to changes in the risk premium, including small size premium, it results into an equity value of **€ 1.45-2.32/s (risk premium range between 10.5% and 7.50%)**.

Table 12 – 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	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PV of terminal value	14.9	15.4	16.0	16.7	17.4	18.1	19.0
Total value	**14.9**	**15.5**	**16.1**	**16.7**	**17.4**	**18.2**	**19.0**
NFP last reported	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Pension provision	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Equity value	**13.2**	**13.7**	**14.3**	**15.0**	**15.7**	**16.5**	**17.3**
Equity value/share €	**1.60**	**1.66**	**1.74**	**1.80**	**1.90**	**1.99**	**2.09**

Source: CFO SIM

Table 13 – Friulchem, equity value sensitivity to changes in free risk rate

€ m	0.00%	0.21%	0.46%	0.71%	0.96%	1.21%	1.46%
Present value of CF	0.1	0.1	0.1	0.0	0.0	0.0	(0.0)
PV of terminal value	18.4	17.9	17.3	16.7	16.1	15.6	15.1
Total value	**18.5**	**17.9**	**17.3**	**16.7**	**16.1**	**15.6**	**15.1**
NFP last reported	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Pension provision	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Equity value	**16.8**	**16.2**	**15.6**	**15.0**	**14.4**	**13.9**	**13.4**
Equity value/share €	**2.03**	**1.96**	**1.89**	**1.80**	**1.75**	**1.68**	**1.62**

Source: CFO SIM

Table 14 – 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	0.1	0.1	0.1	0.0	0.0	(0.0)	(0.0)
PV of terminal value	20.7	19.2	17.9	16.7	15.6	14.6	13.8
Total value	**20.9**	**19.3**	**17.9**	**16.7**	**15.6**	**14.6**	**13.7**
NFP last reported	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Pension provision	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Equity value	**19.1**	**17.6**	**16.2**	**15.0**	**13.9**	**12.9**	**12.0**
Equity value/share €	**2.32**	**2.13**	**1.96**	**1.80**	**1.68**	**1.56**	**1.45**

Source: CFO SIM

12.2. 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 on 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 food 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 health care 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 firm 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 cure 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 commercialisation of animal health medicines and vaccines, with a focus on both livestock and companion animals. The company commercialises 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 a 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 15 – Friulchem, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA margin	Sales CAGR$_{20-23}$	EBITDA CAGR$_{20-23}$	EBIT CAGR$_{20-23}$	EPS CAGR$_{21-23}$	NFP /EBITDA
Dechra Pharmaceuticals PLC	UK	6,101	707	206	29.1%	12.9%	14.1%	46.3%	4.1%	1.0
ECO Animal Health Group PLC	UK	260	123	24	19.2%	4.6%	n.a.	n.a.	16.0%	n.m.
Elanco Animal Health Inc	USA	14,355	4,005	965	24.1%	17.0%	51.0%	-352.1%	24.8%	4.8
Merck & Co Inc	USA	165,757	39,253	16,328	41.6%	3.4%	9.7%	13.4%	10.1%	0.7
Phibro Animal Health Corp	USA	850	699	92	13.1%	1.3%	4.4%	9.5%	5.7%	2.6
Shedir Pharma SpA	IT	48	45	8	17.8%	7.9%	9.2%	8.0%	11.8%	n.a.
Vetoquinol SA	FR	1,233	482	93	19.3%	7.3%	10.2%	7.9%	9.6%	n.m.
Virbac SA	FR	2,785	1,010	184	18.3%	7.1%	5.7%	6.5%	13.3%	n.m.
Zoetis Inc	USA	80,806	6,443	2,720	42.2%	10.7%	13.1%	16.6%	11.2%	1.0
Median Veterinary		**2,785**	**707**	**184**	**19.3%**	**7.3%**	**9.9%**	**8.7%**	**11.2%**	**1.0**
Friulchem SpA	**IT**	**10**	**23**	**2**	**6.7%**	**20.2%**	**58.6%**	**n.m.**	**n.m.**	**2.2**

Source: CFO SIM, Thomson Reuters Eikon

Table 16 – Friulchem, peer group EV multiple table

EV multiples - x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Dechra Pharmaceuticals PLC	8.91	8.17	7.49	30.6	28.7	26.3
ECO Animal Health Group PLC	2.10	1.96	1.47	11.0	10.2	7.6
Elanco Animal Health Inc	4.74	4.46	4.22	19.6	17.1	14.6
Merck & Co Inc	4.51	4.04	3.82	10.8	9.1	8.6
Phibro Animal Health Corp	1.55	1.49	1.15	11.8	11.0	8.4
Shedir Pharma SpA	n.a.	0.81	0.64	n.a.	3.9	3.1
Vetoquinol SA	2.54	2.35	2.25	13.1	12.2	11.5
Virbac SA	2.68	2.47	2.29	14.7	13.6	12.3
Zoetis Inc	12.97	11.94	10.97	30.7	27.6	25.1
Median Veterinary	**3.60**	**2.47**	**2.29**	**13.9**	**12.2**	**11.5**
Friulchem SpA	**0.57**	**0.44**	**0.39**	**8.5**	**6.1**	**4.6**
% premium/(discount) to Veterinary	*(84.3)*	*(82.4)*	*(83.2)*	*(38.9)*	*(49.5)*	*(59.6)*

Source: CFO SIM, Thomson Reuters Eikon

Table 17 – 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	33.3	31.4	30.2	44.4	42.4	41.0
ECO Animal Health Group PLC	11.0	9.6	7.7	26.5	22.0	19.7
Elanco Animal Health Inc	25.0	21.2	18.0	33.4	26.8	21.5
Merck & Co Inc	12.3	10.5	9.8	13.9	12.1	11.5
Phibro Animal Health Corp	15.1	13.9	10.8	19.7	18.3	17.6
Shedir Pharma SpA	n.a.	5.6	4.3	12.1	9.7	9.7
Vetoquinol SA	19.9	18.2	16.8	28.0	25.5	23.4
Virbac SA	19.6	18.1	16.3	31.3	28.3	24.4
Zoetis Inc	34.1	30.6	27.3	44.4	39.8	35.9
Median Veterinary	**19.8**	**18.1**	**16.3**	**28.0**	**25.5**	**21.5**
Friulchem SpA	**46.2**	**15.2**	**8.7**	**n.m.**	**27.6**	**13.4**
% premium/(discount) to Veterinary	*133.7*	*(16.2)*	*(46.8)*	*n.m.*	*8.1*	*(37.3)*

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 € 1.70/s**, **using 2022 estimates and multiples** in order to incorporate the full consolidation of the Magny-En-Vexin (France) plant (consolidated in the P&L only for 6 months in 2021 but entirely in the FY-21e Net Financial Position).

Table 18 – 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)	**3.60**	**2.47**	**2.29**	**13.9**	**12.2**	**11.5**
Friulchem metric	22.6	28.6	30.8	1.5	2.0	2.6
NFP	(3.2)	(2.9)	(2.3)	(3.2)	(2.9)	(2.3)
Friulchem Equity Value	**53.7**	**46.6**	**47.0**	**11.4**	**14.4**	**18.2**
Friulchem Equity Value/share €	**6.51**	**5.65**	**5.69**	**1.38**	**1.70**	**2.21**
% upside/(downside)	*444.6*	*372.7*	*376.4*	*15.6*	*45.8*	*84.6*

Source: CFO SIM, Thomson Reuters Eikon

Table 19 – 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)	**19.8**	**18.1**	**16.3**	**28.0**	**25.5**	**21.5**
Friulchem metric	0.3	0.8	1.4	0.0	0.3	0.7
NFP	(3.2)	(2.9)	(2.3)			
Friulchem Equity Value	**0.6**	**7.5**	**13.3**	**0.2**	**6.2**	**10.7**
Friulchem Equity Value/share €	**0.07**	**0.91**	**1.61**	**0.02**	**0.75**	**1.29**
% upside/(downside)	*(94.1)*	*(24.1)*	*34.6*	*(98.2)*	*(37.4)*	*8.1*

Source: CFO SIM, Thomson Reuters Eikon

Table 20 – Friulchem, equity value assessment, 3#3

€/s	FY1	FY2	FY3
EV/EBITDA	1.38	1.70	2.21
Weighting	*0.0%*	*100.0%*	*0.0%*
Equity Value	**1.70**		
% upside/(downside)	*42.3%*		

Source: CFO SIM, Thomson Reuters Eikon

12.3. Peer Stock Performance

Friulchem was listed on the AIM Italia market 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 € 1.48/s on 15-Dec-20 and a minimum price of € 0.95/s on 29-Oct-20. The stock has underperformed its peer group median and reference indexes, over the last 6M, 1Y and YTD.

Table 21 – Friulchem, peer group and indexes absolute performance

%	1D	1W	1M	3M	6M	YTD	1Y
Dechra Pharmaceuticals PLC	(1.5)	1.3	11.7	23.5	30.2	40.3	63.6
ECO Animal Health Group PLC	(5.7)	(5.7)	(5.7)	(12.6)	33.3	33.3	34.7
Elanco Animal Health Inc	(1.9)	4.6	1.4	15.5	19.6	16.8	51.8
Merck & Co Inc	(0.4)	0.2	0.5	4.5	(0.2)	(1.0)	5.1
Phibro Animal Health Corp	1.9	(0.1)	(14.4)	1.6	16.0	27.5	5.5
Shedir Pharma SpA	0.2	5.7	4.9	-	22.8	11.5	2.7
Vetoquinol SA	0.4	2.6	(2.3)	(6.3)	20.4	24.4	49.0
Virbac SA	(0.2)	1.2	16.2	18.3	52.1	38.7	73.5
Zoetis Inc	(1.4)	1.5	7.3	18.3	24.5	21.3	39.2
Median Veterinary	**(0.4)**	**1.3**	**1.4**	**4.5**	**22.8**	**24.4**	**39.2**
Friulchem SpA	**(0.8)**	**(0.4)**	**(2.8)**	**(2.8)**	**1.7**	**(8.1)**	**(3.2)**
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 STAR Italia	(0.3)	1.8	3.4	10.3	24.2	11.2	60.9
FTSE AIM Italia	0.1	1.2	7.7	17.0	32.2	19.8	28.2

Source: Thomson Reuters Eikon

Table 22 – Friulchem, relative performances

%	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	(1.3)	(2.4)	(6.0)	(8.7)	(17.6)	(15.7)	(52.5)
to EUROSTOXX	(1.2)	(1.1)	(5.9)	(10.8)	(19.2)	(18.4)	(44.4)
to FTSE Italia All Share	(0.2)	(0.4)	(4.9)	(11.1)	(23.4)	(18.8)	(44.6)
to FTSE STAR Italia	(0.6)	(2.2)	(6.2)	(13.2)	(22.5)	(19.3)	(64.1)
to FTSE AIM Italia	(0.9)	(1.6)	(10.5)	(19.8)	(30.5)	(27.9)	(31.5)
to Veterinary Median	(0.4)	(1.7)	(4.2)	(7.3)	(21.1)	(32.5)	(42.5)

Source: Thomson Reuters Eikon

12.4. 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&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
27/07/2021	€1.80	BUY

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