INTESA SANPAOLO

Equity

MID CORPORATE

Initiation of Coverage

23 November 2020: 8:21 CET
Date and time of production

Labomar

BUY

R&D, M&A and Proactive Sales Structure for Growth

Target Price: EUR 8.6

Listed on the AIM since 5 October 2020, Labomar group is a CDMO (Contract Development and Manufacturing Organisation) of nutraceutical and pharmaceutical products, with a 2019 consolidated pro-forma value of production of EUR 57.4M and an adjusted pro-forma EBITDA margin of 21.2%.

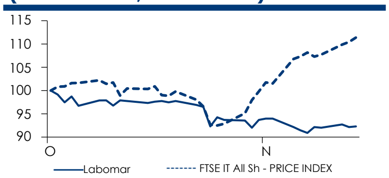
Italy/Healthcare

AIM

Investment case

We think the key drivers of the company's investment case are: its in-sourced R&D, its vertically-integrated model, a widely diversified and loyal customer base, market opportunities and synergies related to the recent acquisition of the assets (ImportFab) in Canada, the growth supporting long-term trends for the Vitamins& Dietary Supplements market and sound financials.

Price Performance
(RIC: LBM.MI, BB: LBM IM)



Outlook and estimates

Management plans to pursue external growth with an eye on international expansion and to increase market penetration on established Italian and European clients by also leveraging on the extensive ready-to-market products catalogue, the sales structure, the available production capacity and the self-financed expansion capex plan. The company will also pursue the consolidation of the ImportFab presence in the Canadian market followed by expansion in the US market, leveraging on the increase in the share of wallet of Canadian customers with a North American presence. Other strategic guidelines for the next few years include an approach to the North American cannabis market and a boost to production capacity and operational efficiency via the unification in a new single plant of the headquarters, production and R&D functions currently split over three different facilities. We estimate the value of production, adj. EBITDA and adj. net income to show CAGRs of 10.2%, 10.5% and 9.6%, respectively, in 2020-22E.

Labomar - Key Data

Price date (market close)	18/11/2020
Target price (EUR)	8.6
Target upside (%)	30.30
Market price (EUR)	6.60
Market cap (EUR M)	121.99
52Wk range (EUR)	NA/NA

Price performance %	1M	3M	12M
Absolute	-5.6	NA	NA
Rel. to FTSE IT All Sh	-14.9	NA	NA

Y/E Dec (EUR M)	FY19A	FY20E	FY21E
Revenues	48.34	60.80	66.11
EBITDA	9.10	11.33	14.25
EBIT	5.82	7.08	9.50
Net income	4.15	5.16	6.43
EPS (EUR)	0.32	0.33	0.35
Net debt/-cash	28.68	2.80	0.71
Adj P/E (x)	NA	19.7	19.0
EV/EBITDA (x)	NA	11.0	8.6
EV/EBIT (x)	NA	17.6	12.9
Div ord yield (%)	NA	1.5	1.6

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

Valuation

We believe that the stock should be valued using a DCF methodology. In evaluating the stock, in addition to the risks to earnings visibility related to the Covid-19 lockdowns' impact on the physicians' prescription activity and on the pharmacies sales of discretionary products, we would note that: 1) the stock liquidity is low, as the free float amounts to 17.9% of the total share capital for a market value at the current price of approx. EUR 22M; and 2) the company has a small size compared to its peers and just started to build its M&A track record. While we acknowledge that some of these factors could prove to be temporary, we believe that at present a discount of 10% to our DCF valuation is a reasonable assumption to reflect these considerations. We thus set our **target price at EUR 8.6/share and we initiate our coverage with a BUY rating.**

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See page 44 for full disclosure and analyst certification
Intesa Sanpaolo is Specialist to Labomar

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IMI CORPORATE & INVESTMENT BANKING

Contents

Investment Case

Positives

A full service CDMO

A full service CDMO. The Labomar group is an Italian Contract Development and Manufacturing Organisation (CDMO) of nutraceutical and pharmaceutical products. Labomar mainly manufactures dietary supplements, medical devices, cosmetics and, through ImportFab, pharmaceutical products for pharma and nutraceutical companies, in all forms (tablets, capsules, liquids, powders and semi solids). In 2019, the pro-forma (as if ImportFab was consolidated from 1 January) value of production amounted to EUR 57.4M, with an adjusted EBITDA result of EUR 12.2M and a margin of 21.2%. As at 31 December 2019, the group's net debt amounted to EUR 28.7M with pro-forma 2019 net debt/EBITDA ratio of 2.4x and net debt/equity ratio of 2.9x.

In-sourced R&D

In-sourced R&D. The group leverages on its R&D department to offer tailor-made solutions with a high proprietary R&D content for each therapeutic area. Labomar insources activities, such as the study of new raw materials, product formulations and delivery systems, and provides its customers with the design and monitoring of clinical trials protocols, the realisation of laboratory prototypes, a product industrialisation plan and consulting activity for scientific marketing. In 2019, the research department employed 24 people and 34% of consolidated sales were generated by products based on Labomar's registered patents, patent applications and know-how. To date, Labomar holds 17 patent families (of which 2 are held with third parties) and has 148 ongoing R&D projects, with a strong focus on the development of probiotic products in all dosage forms (40 projects are currently ongoing). The department delivers approximately 800 new formulas per annum and counts on 15 publications, leveraging on its partnerships with the Italian universities in Padua and Turin to conduct clinical trials. We see R&D as a strategic asset, which allows the company to add high proprietary content value to its products and better fulfil the client's needs given that research and development investments are mainly driven by clients' feedback and requests for a more customised product.

Vertically integrated

A vertically-integrated business model. The group provides its customers with a full range of services, R&D, client's portfolio and market analysis to select the best commercial opportunities, raw materials procurement and manufacturing. In addition to in-sourced R&D (see the paragraph above), direct management of raw materials is also an important part of the company's business model, as it supports the research phase in finding new combinations for final products and allows production efficiencies and a better monitoring of the products quality standards. The group controls the upstream phases of the value chain through its minority stake investments in Labiotre, a supplier of vegetal raw materials, and in Herbae (recently incorporated, not yet operative), a supplier of finished raw materials produced from biomass grown in vertical farms. The group has four specialised manufacturing plants and one R&D facility: L1 plant for the production of tablets, capsules and granulates, L2 plant which only manufactures powders and granulates and L3, the largest one, manufacturing liquids and tablets. With the ImportFab acquisition, a new manufacturing plant for liquids and semi-solids was added. Note also that Labomar holds a 20% minority stake in Printing Pack S.r.l., a supplier of packaging materials: packaging supply is a strategic activity to provide customers with on-time product deliveries. Lastly, the Labomar business model relies on a commercial structure of 12 business development managers (BDM), who are professional figures with a high level of seniority in the pharmaceutical/nutraceutical business and a good relationship network, mainly divided by geographic area, which allows a proactive marketing approach, anticipating market trends and customer needs, significantly reducing the time-to-market for new products and enhancing customer loyalty.

Widely diversified and loyal customer base. The company has a quite wide and diversified customer base comprising of approx. 180 clients and 1,500 SKUs (Stock Keeping Unit). In 2019, the top 5 and 15 customers accounted for 25% and 48% of the company's revenues, respectively. Therefore, we believe that the company should not be significantly affected by any single customer manufacturing order. In 2019, the company's top 15 clients, generating EUR 27.5M sales in FY19, all have long-term partnerships with Labomar, 32% of which for more than ten years and 68% for more than five years. In addition, in the last 5 years (2014-19), Labomar increased the average share of wallet among its customers by 54% with the average revenue per customer increasing from EUR 198,000 to EUR 305,000.

Widely diversified and loyal customer base

ImportFab. The company embarked on a strategic external growth path with the acquisition, in October 2019, of the assets of a CMO (Contract Manufacturing Organisation) based in Canada, specialised in pharmaceuticals, cosmetics and nutraceuticals. The acquisition should pave the way for expansion in North America, which should leverage on important production and commercial synergies between Labomar and ImportFab. Labomar aims at: 1) sharing its R&D capabilities, proprietary patents and ready-to-market products catalogue to manage the transition of ImportFab business model from a pure CMO to CDMO; 2) leveraging on its worldwide commercial structure and business relations to support the ImportFab internationalisation; and 3) exploiting ImportFab's expertise in the pharmaceutical segment and further saturating ImportFab's available production capacity. In addition, ImportFab operates in a market where cannabis is used for both pharmaceutical and recreational purposes. Labomar could thus share the expertise of Herbae (51% Labomar) in vertical farming techniques for vegetal extracts to significantly reduce cannabis cultivation costs and develop its presence in the North American cannabis market.

ImportFab

Growth supporting long-term trends. According to Euromonitor, in 2014-18, the worldwide Vitamins and Dietary Supplements market value recorded a 6.3% CAGR driven by some secular trends, such as an increasingly active aging population especially in developed countries, a growing penetration rate of veganism and vegetarianism, a growing attention to a healthy lifestyle and to curbing cost increases for national healthcare systems. These factors are expected to continue to sustain the Vitamins and Dietary Supplements' market growth in the coming years: according to the same source, in the 2018-23 period, the market value CAGR is estimated at 4.4%. Moreover, CDMO services are increasingly being required as large pharmaceutical groups and nutraceutical companies are raising their outsourcing levels to focus on core R&D and distribution activities, reduce time-to-market and contain the invested capital while maintaining a more flexible production structure. Based on Results Healthcare 2017, the worldwide value of CDMO outsourcing for both pharmaceutical and nutraceutical companies recorded a 2015A-18 CAGR of 6.7% and is estimated to increase to 7.3% over the 2018-21 period.

Growth supporting long-term trends

Sound financials. Over the last three years (2017A-19A), the group's value of production recorded a 12.2% CAGR, which slightly reduces to 11.2% if we only consider organic growth, with a broadly stable adjusted EBITDA margin at around 20%. On a pro-forma basis (assuming ImportFab consolidation since 1 January), the 2019 adj. EBITDA margin would have increased to 21.2%. We expect the 2020-22E period to show a value of production and adj. EBITDA CAGRs of respectively 10.2% and 10.5%. According to our calculations, in 2017-19, the group's net debt increased, entirely due to some extraordinary items. We calculate that, adjusted for such items, the free cash flow generation would have amounted to EUR 4.6M in 2017, EUR 4.8M in 2018 and EUR 1.4M in 2019. We expect Labomar to be able to self finance its maintenance/expansion capex plan over the 2020-22E period.

Sound financials

Negatives

Possibly lockdown measures' effects. While in the first part of 2020 the company was able to tackle the negative pandemic impact, thanks to its solid backlog level at end-2019 and the measures taken by management to ensure the continuity of the supply chain and the manufacturing activity, we note that future earnings visibility could be limited by lockdown measures' impact on the physicians' prescription activity and on the pharmacies sales of discretionary products. We would also not exclude that possible limitations to people moving around or an increased uncertainty in the economic outlook could cause a slowdown in the group's sales volumes growth.

Possibly lockdown measures

Short-term order backlog. In our understanding, the company generally has a 3-4 months order backlog. Therefore, the visibility on future sales is quite limited; there are also a limited number of suppliers for certain raw materials.

3-to-4 months order backlog

Still limited geographical diversification. In 2019, on a pro-forma basis (assuming the consolidation of ImportFab from 1 January), Italy accounted for 55.8% of consolidated revenues. The group has started an internationalisation process, which should be further accelerated thanks to the IPO. We believe that, despite the growing internationalisation trend of the last few years, a wider geographical diversification is needed to reduce the risk related to single countries' issues, such as economic uncertainties or regulation changes.

A wider geographic scope needed

Competitive CDMO market. Labomar operates in a highly-fragmented and competitive global market, characterised by the presence of several small operators with more than 75% of the players showing annual revenues below USD 50M and only 13% with a multi-continent presence (Source: PwC – November 2019). We believe that the significant market competition will require Labomar to continuously develop and differentiate its services and to improve its production efficiency to avoid possible margin pressure.

Highly-fragmented and competitive global market

Changes in the regulatory framework. Note that the manufacturing and sales of nutraceuticals are subject to strict rules in Europe, in the US and in every other country. While we are not aware at present of regulation changes that could potentially threaten the group's business, we signal it as a generic risk for the whole industry in which Labomar operates.

Strict rules in Europe, in the US and in every other country

Valuation

We value Labomar using a DCF approach with a peers' multiple comparison as a cross-check. In our view, a DCF methodology allows us to fully capture the value of the company's production value growth potential over the next 4-5 years. By contrast, a peers' multiples analysis should return a more market-related and short-term view of the company's value. We highlight that our valuation includes the impact of the IPO capital increase (EUR 25M net of bank fees) closed at the beginning of October, while does not include any potential opportunities arising from external growth (except for ImportFab acquired in October 2019), which, according to management, should be a key strategic pillar for the company in the next few years.

DCF model

DCF assumptions

In our DCF valuation, we ran explicit cash flow estimates for the 2020-24E period and we used the following key assumptions:

- A 7.06% WACC, incorporating a risk-free rate of 1.0%, an equity risk premium of 7.25%, a beta of 1.0 and a target gearing ratio ((D/D+E) at 20%;
- A perpetuity growth rate at 1.0%, reflecting on the one hand the long-term growth trend for Labomar's services and manufactured products and, on the other hand, the limited earnings visibility and the discretionary nature of part of the vitamin and dietary supplements consumption.

We show below our base-case DCF valuation (WACC 7.06% and g at 1%) and, given the rapidly evolving macroeconomic environment and market conditions, we also ran a WACC-g sensitivity matrix.

Labomar - DCF base-case valuation

EUR M	
PV of FOpCF 20-24	25
Perpetual growth rate %	1.0
Terminal Value	222
PV of terminal value	156
Enterprise Value	182
Net Debt (+)/Cash(-) at 31 Dec. 2019A	28.7
Employee termination indemnities	2.1
Capital Increase from IPO	25
Equity Value	176
Minorities	0.0
Group Equity Value	**176**
No. of shares (M)	18.5
Fair Value (EUR/share)	**9.5**

Source: Intesa Sanpaolo Research estimates

Labomar - DCF valuation range: WACC and g

EUR/share	Perpetuity growth factor (g, %)				
WACC (%)	+0.00	+0.50	+1.00	+1.50	+2.00
6.56	9.07	9.73	10.51	11.45	12.58
6.81	8.68	9.28	9.99	10.83	11.85
7.06	8.31	8.86	**9.51**	10.27	11.18
7.31	7.97	8.48	9.07	9.76	10.58
7.56	7.65	8.12	8.66	9.29	10.03

Source: Intesa Sanpaolo Research estimates

Peers' multiples

Multiples comparison

Implied market multiples

We believe that a market multiples' analysis is a useful instrument to cross-check our DCF valuation. However, we highlight the difficulty in finding perfect comparables as they differ in terms of size, country, reference markets, business models, stock market listings and operating profitability. We selected our peers' sample (see Appendix 2: Peers Brief Description) including a certain number of companies all providing manufacturing and/or product development services to the pharmaceutical and nutraceutical industry. In the table below, we report the 2020-22E EV/EBITDA, EV/EBIT and P/E multiples and the operating profitability of Labomar's peers included in our sample.

Peers' sample market multiples (2020-22E)

(x)	Price	Mkt Cap (M)	Currency	EV/EBITDA			EV/EBIT			P/E		
				2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Recipharm	148.6	15026	Sw.Krona	12.3	10.7	9.5	33.7	24.0	19.3	72.4	30.3	23.9
Dermapharm	48.7	2622	EUR	16.5	13.0	11.4	22.3	16.9	14.3	28.4	20.9	17.6
Catalent	104.6	17229	USD	25.4	20.7	18.1	32.9	26.6	23.8	48.6	37.2	32.7
ICON	190.9	10074	USD	20.3	16.7	14.6	23.7	18.9	16.5	29.2	23.1	20.6
Siegfried	647.0	2815	Sw.Fr.	20.4	15.7	13.3	32.6	23.8	20.0	37.9	27.3	23.2
LANXESS	51.4	4498	EUR	7.3	6.3	5.7	16.1	12.1	10.6	5.2	16.1	13.5
Strides Pharma	678.1	60782	Ind.Rup.	10.8	8.6	6.9	15.4	11.9	9.5	22.2	15.3	11.0
Bachem Holding	401.0	5614	Sw.Fr.	47.6	40.5	34.9	62.1	52.6	44.2	73.5	61.8	52.2
Laboratorios Rovi	36.1	2024	EUR	26.3	20.5	16.6	32.3	24.2	18.5	36.5	28.8	22.6
Jubilant	698.9	111322	Ind.Rup.	7.3	6.0	5.1	9.8	7.8	6.7	13.1	10.6	9.1
Boiron SA	39.1	686	EUR	4.6	4.5	3.7	14.7	7.0	5.4	43.1	18.2	14.3
Fine Foods	10.0	236	EUR	9.3	7.1	5.7	21.3	12.7	9.6	29.0	19.3	15.3
Probi AB	395.0	4599	Sw.Krona	19.7	17.9	15.9	30.5	26.3	22.3	42.3	36.1	31.2
BioGaia	472.5	8191	Sw.Krona	28.0	25.0	22.1	29.7	26.6	23.4	43.5	39.2	34.8
PharmaNutra	28.9	280	EUR	14.4	15.6	13.6	16.0	16.4	15.1	17.7	24.4	22.2
Labomar*	**6.6**	**121.6**	EUR	**9.8**	**8.8**	**7.6**	**14.7**	**13.1**	**11.4**	**19.7**	**19.0**	**16.2**
Median (ex-LBM)				**16.5**	**15.6**	**13.4**	**23.7**	**18.9**	**17.5**	**36.5**	**24.4**	**22.4**
LBM pr.(+)/disc.(-) %				**-40.5**	**-44.0**	**-43.4**	**-38.1**	**-30.5**	**-35.0**	**-46.0**	**-22.2**	**-27.9**

Priced at market close of 18/11/2020; Note that Labomar figures are on an adjusted basis; Source: FactSet and *Intesa Sanpaolo Research estimates

Labomar - Peers' sample: EBITDA and EBIT margin (2020-22)

%	EBITDA margin			EBIT margin		
	2020	2021	2022	2020	2021	2022
Recipharm AB Class B	17.4	18.5	18.8	6.4	8.2	9.3
Dermapharm Holding SE	23.6	26.2	27.6	17.4	20.2	22.1
Catalent Inc	24.3	24.9	25.9	18.7	19.4	19.7
ICON Plc	16.9	17.9	18.3	14.5	15.8	16.2
Siegfried Holding AG	17.0	17.3	18.6	10.7	11.5	12.4
LANXESS AG	13.8	14.9	15.3	6.3	7.8	8.2
Strides Pharma Science Ltd	21.1	22.1	23.6	14.8	16.0	16.9
Bachem Holding AG Class B	29.4	30.3	30.9	22.5	23.3	24.4
Laboratorios Farmaceuticos Rovi, S.A.	19.7	21.0	22.2	16.0	17.9	19.9
Jubilant Life Sciences Limited	19.8	21.1	21.4	14.7	16.0	16.5
Boiron SA	19.2	19.2	22.3	6.0	12.5	15.3
Fine Foods	13.0	14.0	14.7	5.7	7.8	8.7
Probi AB	29.2	29.0	29.0	18.8	19.7	20.7
BioGaia AB Class B	34.3	34.7	35.1	32.3	32.7	33.2
PharmaNutra S.p.A.	30.8	24.8	25.3	27.7	23.6	22.6
Labomar*	**20.9**	**21.2**	**21.4**	**14.0**	**14.1**	**14.3**
Median (ex-Labomar)	**19.8**	**21.1**	**22.9**	**14.8**	**16.0**	**18.3**

Data as at 18/11/2020; Note that Labomar figures are on an adjusted basis; Source: FactSet and *Intesa Sanpaolo Research estimates

An analysis of Labomar's peers market multiples shows that at the current price the stock trades at a significant discount to the sample median. In our view, this could be partially attributable to Labomar's smaller size and its slightly lower operating profitability compared to the sample median.

Conclusions

As explained above, we believe that the stock should be valued using a DCF methodology with the peers' multiples as a cross check. Our DCF base case valuation returns an equity value of EUR 9.5/share.

EUR 8.6/share target price; BUY

In evaluating the stock, in addition to the risks to earnings visibility related to potential Covid-19 lockdowns' effects on the physicians' prescription activity and on the pharmacies sales of discretionary products, we would also note that: 1) the stock liquidity is low as the free float amounts to 17.9% of the total share capital for a market value at the current price of approx. EUR 22M; and 2) the company has a small size compared to its peers and just started to build its M&A track record.

While we acknowledge that some of these factors could prove to be temporary, we believe that at present a discount of 10% to our DCF valuation is a reasonable assumption to reflect these considerations. We thus set our **target price at EUR 8.6/share, which we believe it is also supported by the implied market multiples, as shown in the table below.**

Labomar - Implied Labomar market multiples at our target price

(x)	EV/EBITDA			EV/EBIT			P/E		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Labomar	12.6	11.3	9.8	18.9	16.9	14.7	25.6	24.6	21.0
Median (ex-Labomar)*	16.5	15.6	13.4	23.7	18.9	17.5	36.5	24.4	22.4
Labomar pr.(+)/disc.(-) %	-23.5	-27.8	-27.1	-20.5	-10.3	-16.2	-29.9	0.8	-6.5

Source: *FactSet and Intesa Sanpaolo Research estimates

In light of the 30% potential price upside, we initiate our coverage on Labomar with a BUY rating.

Group Ownership and Shareholdings

Group structure

Labomar has been listed on the AIM segment of the Italian Stock market since 5 October 2020 following the initial public offering of: 1) 4,333,333 newly issued shares at a price of EUR 6.0/share for a total amount of EUR 26.0M (EUR 25M net of bank fees on raised equity); and 2) the exercise of the greenshoe option for 649,917 shares sold by LBM Holding (secondary offer) for a total amount of EUR 3.9M. The total offer amounted to 4,983,250 Labomar ordinary shares for a total amount of EUR 29.9M. Following the IPO, the Labomar Spa share capital is composed by 18,484,043M ordinary shares, with a market float of 17.9%. The shareholders structure is as follows.

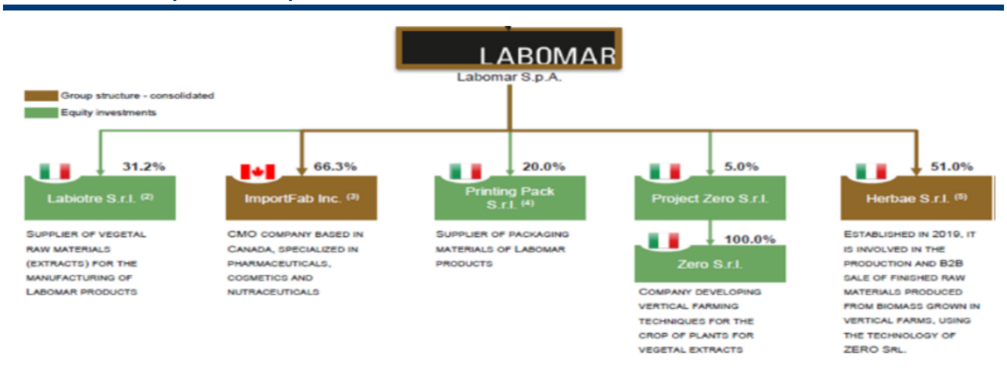
Labomar - Post IPO shareholders' structure

Shareholder	no. of shares (M)	% on share capital
LBM Holding	13.15	71.1
Fidim S.r.l.(Rovati family)	0.27	1.5
Claudio De Nadai	0.05	0.3
Michele Perissinotto	0.02	0.1
Giuseppe Milan	0.01	0.1
Master Lab	1.17	6.3
Value First	0.50	2.7
Market (AIM)	**3.32**	**17.9**
Total	18.48	100.0

Source: Company data

Note that Labomar S.p.A is controlled with a 71.1% stake by LBM Holding S.r.l. a holding company wholly-owned by Walter Bertin, founder and CEO of Labomar; the second and third shareholders are respectively Master Lab S.A. with a 6.3% stake and Value First Sicaf Spa with a 2.7% stake which also acted as anchor investors. We would also highlight that LBM Holding is committed to a lock-up period of 18 months (since the start of the stock negotiation), while Master Lab S.A. and Value First Sicaf Spa are both committed to a lock-up period of 12 months. We show in the chart below the current Labomar Group structure.

Labomar – Group Ownership and structure



Source: Company data

As regards the group structure, we highlight that:

- Even if the majority of Labiotre is held by Biodue Spa, Labomar is present in Labiotre's Board of Directors (one director) and influences certain shareholders meeting resolutions;
- The remaining stake (33.7%) of ImportFab, is held by Simest through an equity loan accounted as financial debt in Labomar's balance sheet.

Group Profile

The Labomar group is an Italian Contract Development and Manufacturing Organisation (CDMO) of nutraceutical and pharmaceutical products. Labomar mainly manufactures dietary supplements, medical devices, cosmetics and, through ImportFab, pharmaceutical products for pharma and nutraceutical companies, in all forms (tablets, capsules, liquids, powders and semi solids). The group leverages on its R&D department to offer tailor-made solutions with a high proprietary R&D content for each therapeutic area. In 2019, the consolidated reported value of production amounted to EUR 49.1M, with an adjusted EBITDA margin of 19.7%.

Labomar is a CDMO in Italy, leveraging on its R&D department to offer tailor-made solutions

History in brief

The group was founded in 1998 by Mr. Walter Bertin, the company's current CEO, as a pharmaceutical lab in Istrana, a small town near Treviso in Northern Italy. In the early 2000s, the company began its transformation from a pure pharmaceutical lab with a R&D branch into an industrial manufacturing company, without losing sight of its research-driven vocation.

History of growth and expansion

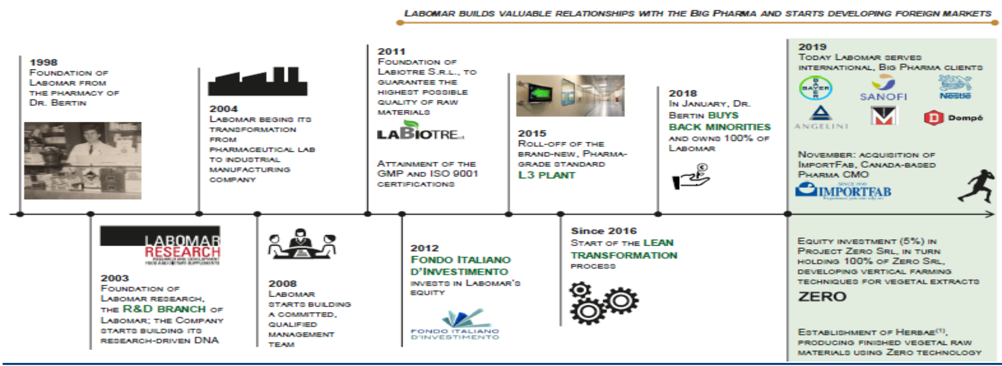
Organic growth supported the expansion along the value chain. In 2011, Labiotre Srl was founded in partnership with Biodue SpA (which holds a majority stake of 51.2%) to ensure the highest quality of vegetal raw materials for Labomar's products. In 2015, a new pharma-grade standard plant started-up (L3), followed by a partnership in the packaging business (20% of Printing Pack Srl), an equity investment in Zero Srl (which developed vertical farming techniques for vegetal extracts) and the creation of Herbae (for the production of finished vegetal raw materials using the Zero technology and to distribute Zero's production modules to third-party purchasers of vegetal raw materials used for producing dietary supplements and medical devices), supporting Labomar's transformation into a vertically-integrated group.

Organic growth…

Following the increasing internationalisation of its business, the company embarked on a strategic external growth path with the acquisition in October 2019, through a newly-incorporated Canadian vehicle, ImportFab Inc (of which it owns 66.3% of the share capital), of the assets of a CMO (Contract Manufacturing Organisation) based in Canada, specialised in pharmaceuticals, cosmetics and nutraceuticals. The rationale behind this move was to allow Labomar to enlarge its product portfolio with pharmaceutical products and establish an access point to the North American market. We highlight that the remaining 33.7% of the Canadian company is owned by SIMEST, the Cassa Depositi e Prestiti (CDP) vehicle, which supports Italian SMEs business growth outside Italian borders.

…and external

Labomar – Main growth milestones



Source: Company data

Labomar at a glance

Diversified revenue streams

Labomar group develops and manufactures a wide range of ready-to-market products spanning from dietary supplements and probiotics to medical devices and functional food. The extensive portfolio was recently expanded through the acquisition of ImportFab at end-October 2019. The Canadian company is specialised in the pharma segment, which was not covered by Labomar standalone. Labomar's product range covers different therapeutic areas and several dosage forms as shown in the matrix below:

- Therapeutic Areas: Gastrointestinal, Respiratory, Cardiovascular, Nervous, Genito-Urinary, Anti-Oxidants;
- Dosage Forms: Tablet, Capsule, Liquid, Powder, Semi-Solid.

Labomar – Product Matrix

✓ Labomar ✓ ImportFab

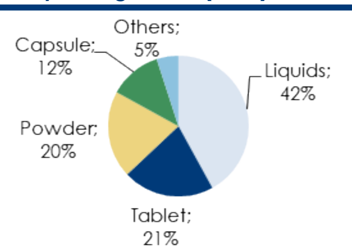
THE ACQUISITION OF IMPORTFAB WIDENS FURTHER THE PRODUCT PORTFOLIO WITH PHARMACEUTICALS AND SEMI-SOLIDS

	Dietary Supplements						Medical Devices			Other Segments			
	Gastro Intestinal	Cardio vascular	Respiratory	Nervous	Genito Urinary	Joint Health	Gastro Intestinal	Respiratory	Genito Urinary	Food for Special Medical Purposes	Functional food	Cosmetics/ topical devices	Pharma(2)
Tablet • Chewable • Swallowable Microtables da 3mm Sublingual Film-covered • Modified release • Multilayer • Gastro-resistent	Labomar	Labomar	Labomar	Labomar	Labomar	Labomar	Labomar	Labomar		Labomar			
Capsule(1) • Dimension 1-0-0 EL-00	Labomar	Labomar		Labomar	Labomar	Labomar	Labomar		Labomar				
Liquid • Syrup • Suspension • Emulsion • Nanoemulsion • Ionized water • Extemporaneous sol.	Labomar		Labomar	Labomar	Labomar	Labomar	Labomar	Labomar	Labomar	Labomar		ImportFab	ImportFab
Powder • Soluble • Orodispersible • Granulated • Gastro-resistent	Labomar	Labomar	Labomar	Labomar	Labomar	Labomar	Labomar	Labomar		Labomar	Labomar		
Semi-solids • Creams • Gels • Ointments • Lotions												Labomar, ImportFab	ImportFab

Source: Company data

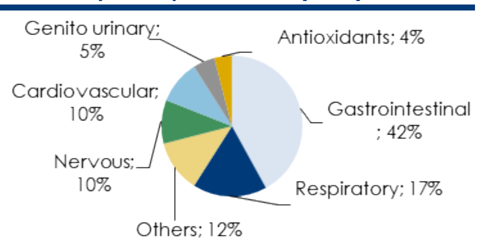
In terms of dosage form, in 2019 Liquids represented the most important source of revenues (42%), followed by Tablets (21%) and Powders (20%). Switching to the Therapeutic Area, products for the gastrointestinal tract accounted for 42%, followed by the respiratory area with 17%.

Revenue by Dosage Form (2019)



Source: Company data

Revenue by Therapeutic Area (2019)

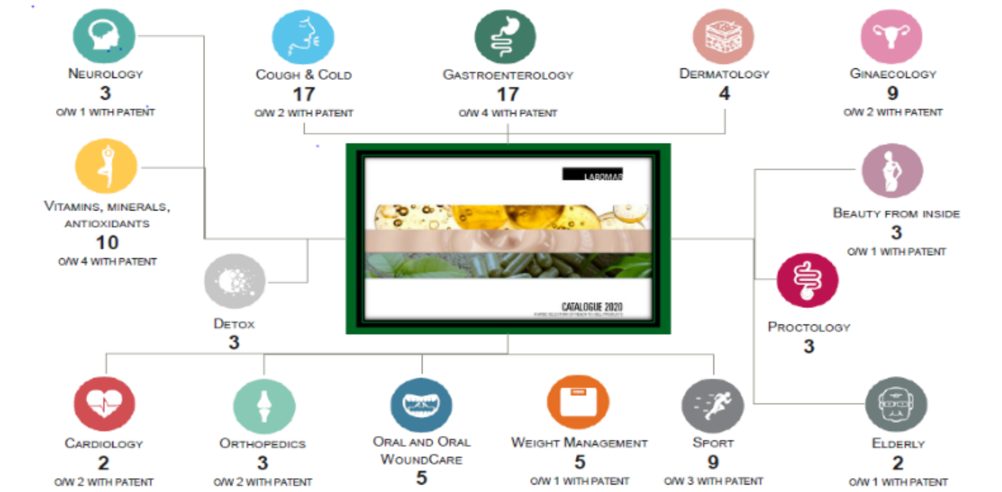


Source: Company data

Product portfolio enhanced by patents

Overall, the products based on Labomar's registered patents, patent applications and know-how accounted for 34% of 2019 sales.

Labomar – 2020 product catalogue

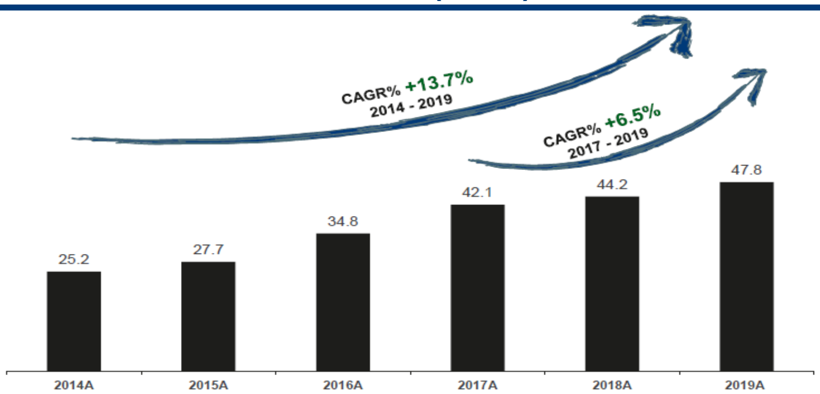


Source: Company data

A glance at financials

From a financial standpoint, Labomar recorded a 2014-19 revenues CAGR of +13.7%, underpinned by the steady product innovation, the customer base widening and an increased share of wallet of the existing clients.

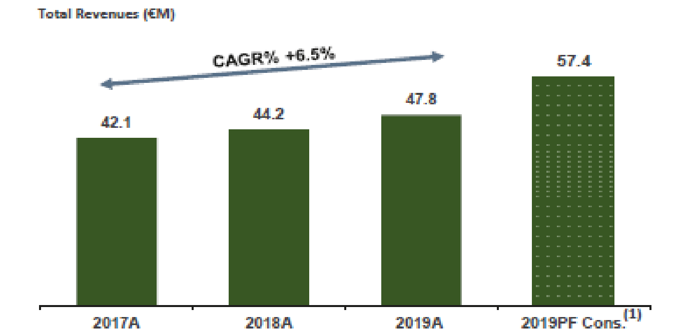
Labomar - Revenue CAGR on a standalone basis (2014-19)



Source: Company data

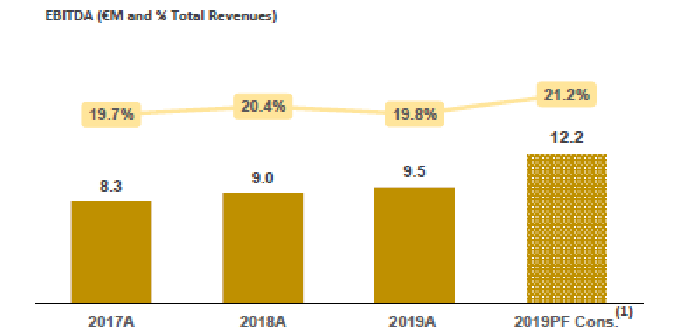
In FY19, on a standalone basis, the group posted a value of production of EUR 47.8M with an EBITDA margin adjusted for non-recurring items of 19.8% (respectively EUR 49.1M and 19.7%, including the ImportFab consolidation for two months from 1 November 2019), showing a good diversification both in terms of dosage forms and therapeutic areas thanks to the extensive product portfolio. In FY19PF, assuming the consolidation of ImportFab from 1 January 2019, Labomar would have reached a value of production of EUR 57.4M with an adj. EBITDA margin of 21.2%.

Labomar - 2017-19PF revenues CAGR



1) As if ImportFab consolidated since 1 January; Source: Company data

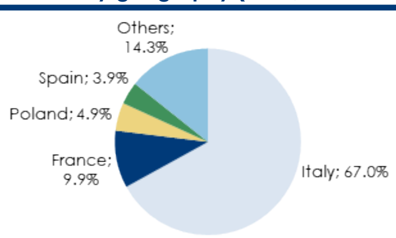
Labomar - EBITDA trend (2017-19PF)



1) EBITDA adjusted for acquisition costs; Source: Company data

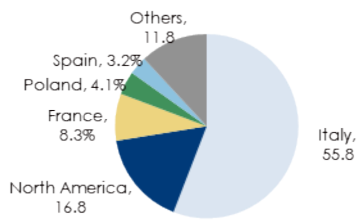
In 2019, on a standalone basis, Italy represented the company's key market with a 67% weighting in total sales, followed by France, Poland and Spain. However, since 2019, the company started its external growth path, finalising at end-October the acquisition, through the Canadian subsidiary ImportFab, of the assets of the Canadian company Canada Inc. (at the time of the transaction named Entreprises ImportFab Inc.), consolidated in Labomar's accounts from November 2019. Looking at pro-forma FY19 data, assuming the consolidation of ImportFab from 1 January 2019, the weighting of Italy would be diluted to 55.8%, with North America becoming the second geographical market, accounting for 16.8%.

Labomar - Revenues by geography (FY19, standalone)



Source: Intesa Sanpaolo Research elaboration on Company data

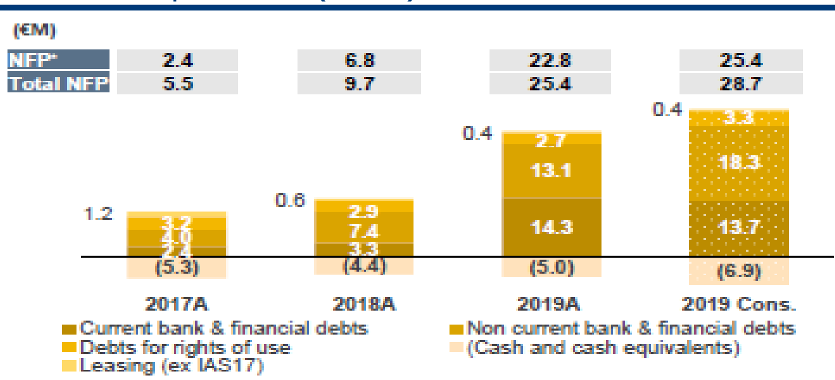
Labomar - Revenue by geography (FY19, pro-forma)



Source: Intesa Sanpaolo Research elaboration on Company data

At end-2019, Labomar's net debt amounted to approx. EUR 28.7M, including the impact of EUR 20.4M related to the ImportFab acquisition. According to management, the IPO capital increase should be mainly slated to financing the company's internationalisation process driven by further acquisitions.

Labomar - Net financial position trend (2017-19)



Note: NFP excluding debts for rights of use (IFRS 16 compliant); Source: Company data

The Business Model

R&D, quality and lean production

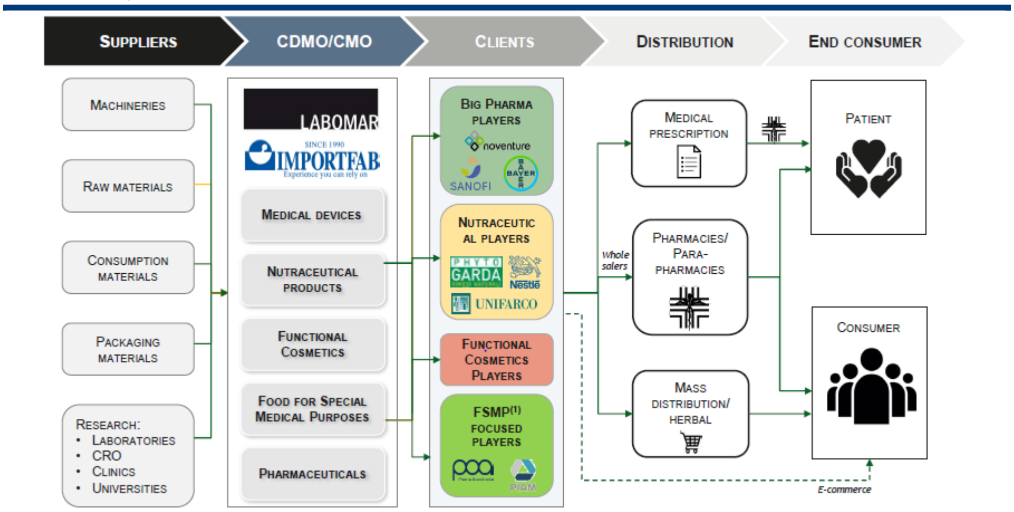
Labomar's business model is characterised by a strong focus on R&D, raw materials quality, a lean production, a diversified supplier and customer base and a pro-active sales network. The group's ability to add proprietary content to final products enhances client retention, thus generating a consistent portion of recurring revenues. Moreover, thanks to its vertical integration, Labomar is well positioned to attract big pharma players, which are more likely to establish long-term partnerships.

Value chain overview: a vertically-integrated player

CDMOs in the pharmaceutical value chain

In the pharmaceutical industry, CDMOs provide the development and manufacturing of nutraceuticals, medical devices and pharmaceutical products to pharma and nutraceutical companies. In fact, big pharma companies are increasingly using outsourcing to focus on the more profitable segments, reduce time-to-market, costs and operational complexity and relocate internal resources to distribution.

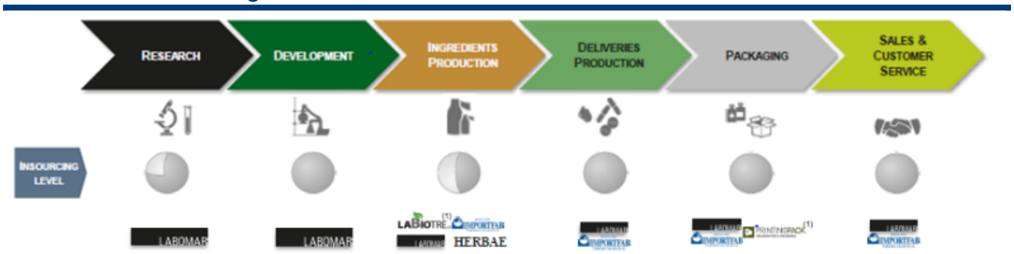
The Pharma/Nutraceutical value chain



Source: Company data

In this scenario, as shown in the chart below, Labomar is positioned as a vertically-integrated company (vs. a pure CMO/CDMO player), providing its customers with a one-stop-shop solution, which fosters the development of loyal and long-term partnerships and improves the product's time-to-market.

Labomar's vertical integrated business model



Source: Company data

In-house R&D: a key asset

Vertical integration starts from research and development: Labomar insources activities, such as the study of new raw materials, product formulations and delivery systems and also provides its customers with the design and monitoring of clinical trials protocols, the realisation of laboratory prototypes and a product industrialisation plan and a consulting activity for scientific marketing. All R&D projects undergo a structured process consisting of four phases: 1) the study and proposal of new raw materials/product formulations and the drafting of clinical trial protocols and related monitoring; 2) the realisation of laboratory prototypes and studies for the product industrialisation; development of sampling for clinical studies and prototypes to be put in the following phase; 3) studies on product stability; and 4) scaling up of the product from the laboratory formula and testing with industrialisation.

R&D: 24 people and costs amounted to around EUR 1.8M in our understanding

In our understanding, in 2019, the company's research department employed 24 people and R&D costs amounted to around EUR 1.8M, almost entirely expensed in the P&L (approx. 95% of the total); 34% of consolidated sales were generated by products based on Labomar's registered patents, patent applications and know how. To date, Labomar holds 17 patent families (of which 2 are held with third parties). R&D is a strategic asset, which allows the company to add high proprietary content value to its products and better fulfil the client's needs considering that research and development investments are mainly driven by clients' feedback and requests for a more customised product. Labomar has 148 ongoing R&D projects as at 30/06/2020, with a strong focus on the development of probiotic products in all pharmaceutical dosage forms (40 projects are currently ongoing). The department delivers approximately 800 new formulas per annum and counts on 15 publications, leveraging on its partnerships with the Italian universities in Padua and Turin to conduct clinical trials.

Raw materials: quality and diversification

Direct management of raw materials a key part of the business model

The direct management of raw materials is also an important part of the company's business model, as it supports the research phase in finding new combinations for final products and allows production efficiencies and a better monitoring of the products quality standards.

In detail, the group controls the upstream phases of the value chain through minority stake investments, detailed as follows:

- **Labiotre S.r.l.**: a supplier of vegetal raw materials for manufacturing. Labomar holds a minority stake of 31.2%, while the majority is owned by Biodue SpA (51%);
- **Herbae S.r.l. (recently incorporated, not yet operative)**: a supplier of finished raw materials produced from biomass grown in vertical farms using the technology of Zero Srl (vertical farming techniques). Labomar directly controls a 51% stake, while the remaining part is held by Zero Srl (in which the group owns a 5% stake).

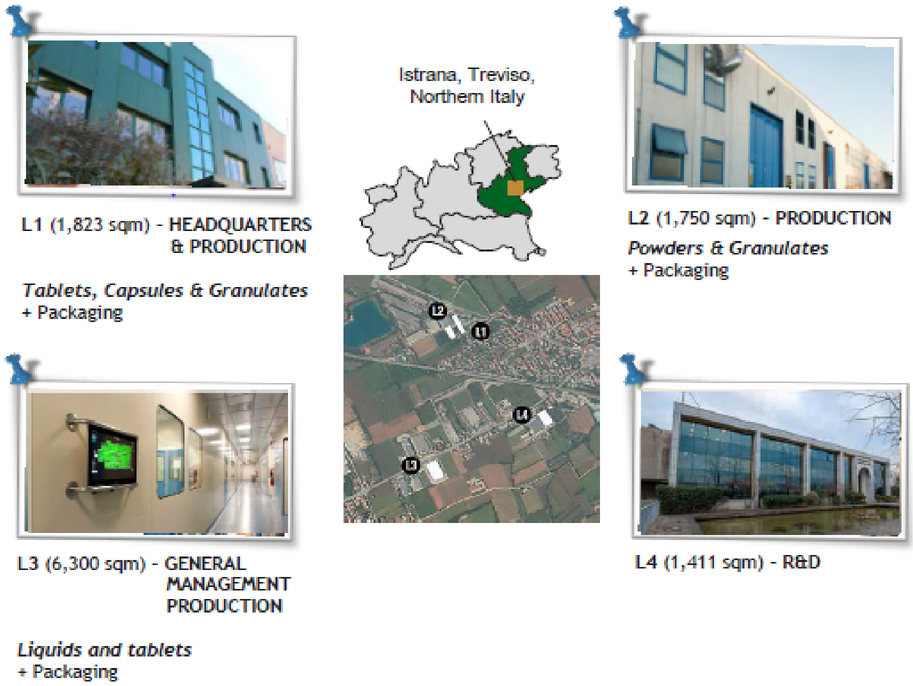
Therefore, the company leverages on its partnerships with Labiotre and, to a lesser extent at least for now with Herbae, to procure the highest quality inputs for its manufacturing activity.

We highlight that, in our understanding, Labomar's raw materials' procurement activity is widely diversified.

Manufacturing and packaging

The strong grip on the value chain aims to guarantee clients high quality standards. Labomar's production facilities are all located in close proximity, within a 1km radius in Istrana, in the North-East of Italy. The company has three specialised manufacturing plants and one R&D facility. The L1 plant (1,823 sqm) is dedicated to the headquarters and the production of tablets, capsules and granulates. The L2 (1,750 sqm) plant only manufactures Powders and Granulates, while L3, the largest one in terms of sqm (6,300 sqm), manufactures liquids and tablets. The L4 facility (1,411 sqm) is entirely dedicated to R&D. The plants and production are certified with ISO 13485 standards for the design and manufacture of medical devices.

Labomar - R&D and Production Plants



Source: Company data

With the ImportFab acquisition, a new manufacturing plant (2,973 sqm) for liquids and semi-solids was added. The facility has been approved for almost three decades for pharmaceutical products' manufacturing and complies with US Food & Drugs Administration guidelines, the Health Canada establishment license, and Current Good Manufacturing Practices (cGMP) for semi-solid manufacturing in Canada. All the following product categories can be manufactured in Canada for both the domestic and the US market: prescription drugs, over the counter (OTC), nutraceuticals and cosmetics.

Labomar's strategy envisages the optimisation of the industrial footprint through a self-financed capex plan: a new plant (L6) will be built consisting of a 5,600 sqm production site and 7,000 sqm HQ/offices. L6 should replace L1, L2, L4 plants, and partially L3, and should be designed to improve operational efficiency, through the unification of R&D, production and area specialisation and logistics. In our understanding, the L6 investment should be completed over the 2021-23 period.

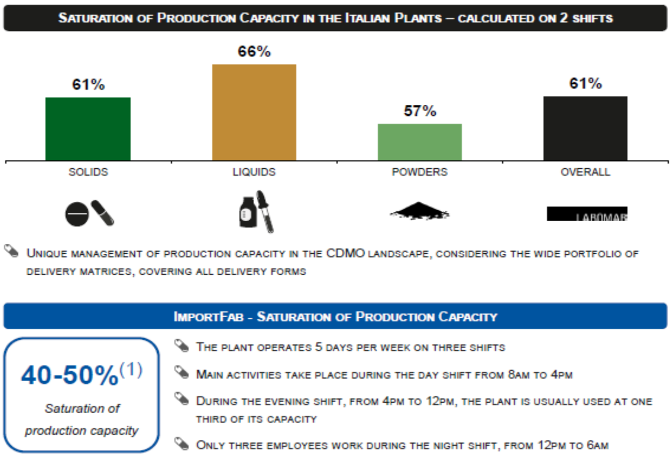
Labomar – New production site

Source: Company data

Saturation of production capacity

The overall saturation of production capacity of the four Italian existing plants amounts to 61% calculated on two shifts. Splitting it by pharma form, saturation of liquids stands at 66%, while solids are at 61% and powders 57%. The plant acquired through ImportFab has an estimated utilisation rate in the range of 40-50%, based on three shifts. The main activities take place during the day, whereas the plant operates at one-third capacity in the evening shift. In our understanding, should Italian production be operated on three shifts, the estimated saturation would be diluted to approx. 45%.

Labomar - Production capacity utilisation



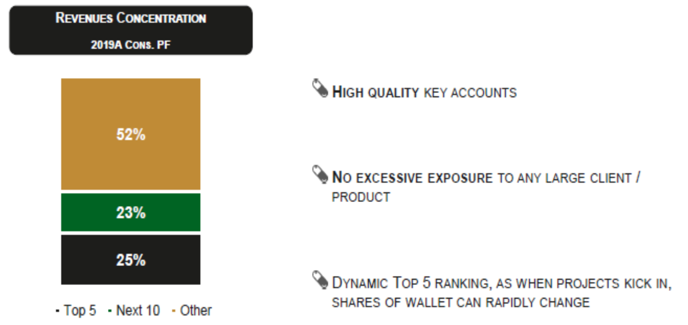
Source: Company data

Note also that Labomar holds a 20% minority stake in Printing Pack S.r.l., a supplier of packaging materials participated by other companies and individuals, none of whom hold the absolute majority. While not strictly related to the company's core business, the packaging supply is a strategic activity to provide customers with on-time product deliveries and the shareholding thus fits well with Labomar's business model, aimed at providing its clients with the best product and service experience.

Sales and customers

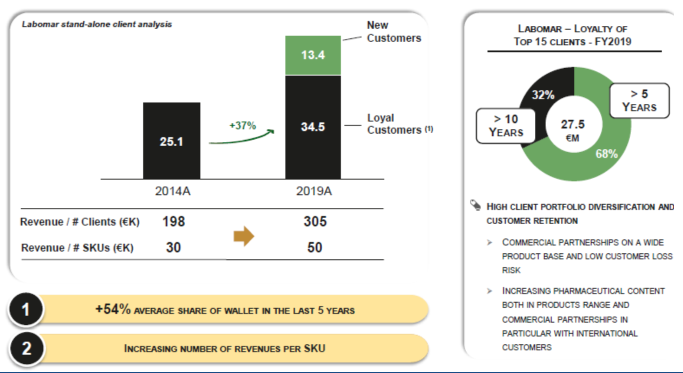
The group's R&D structure is a distinctive key asset, which is also strategic for the company's approach to existing and potential customers. Labomar's commercial structure relies on 12 business development managers (BDM), who are professional figures with a high level of seniority in the pharmaceutical/nutraceutical business and a good relationship network, mainly divided by geographic area. Most of them operate with a consultancy/collaboration agreement and their job consists in signalling to Labomar's key account managers the ongoing trends and potential customers' needs in their covered geographies. This approach, together with the products catalogue developed by Labomar's research department, allows a proactive marketing approach, anticipating market trends and customer needs, significantly reducing the time-to-market for new products and enhancing customer loyalty. In this respect, we highlight that the company's top 15 clients, generating EUR 27.5M sales in FY19, all have long-term partnerships with Labomar, 32% of which for more than ten years and 68% for more than five years. As shown in the chart below, in the last 5 years (2014-19), Labomar increased the average share of wallet among its customers by 54%.

Labomar - Good customers diversification and…



Source: Company data

…increasing share of wallet



Source: Company data

Moreover, the company has a quite wide and diversified customer base comprising of approx. 180 clients and 1,500 SKUs (Stock Keeping Unit). In 2019, the top 5 and 15 customers accounted for 25% and 48% of the company's revenues, respectively. Therefore, we believe that the company should not be significantly affected by any single customer manufacturing order.

The Reference End-Market

Labomar's reference end-market is Nutraceutical products with a focus on the Vitamins and Dietary Supplements segment.

In Nutraceuticals, Labomar is focused on Vitamin and the Dietary Supplements segment

Vitamins and Dietary Supplements

A dietary supplement is a manufactured product intended to support a person's diet, taken in pill, capsule, tablet or liquid form, providing either synthetic or food-sourced nutrients, individually or in combination. The class of nutrient compounds includes vitamins, minerals, fibre, fatty acids and amino acids. Dietary supplements are marketed as having a beneficial biological effect, coming from plant pigments or polyphenols or animals (i.e. collagen from fish or chickens).

Dietary Supplements differ from Functional Foods (see the chart below), which are foods given an additional function by adding new ingredients or more of the existing ingredients and are similar in appearance to conventional food and consumed as part of a regular diet. Foods for Medical Purposes are designed to meet the nutritional or dietary needs of patients suffering from a disease, disorder or medical condition, which either temporarily or permanently affects their ability to achieve a suitable nutritional intake via normal foods.

Nutraceuticals

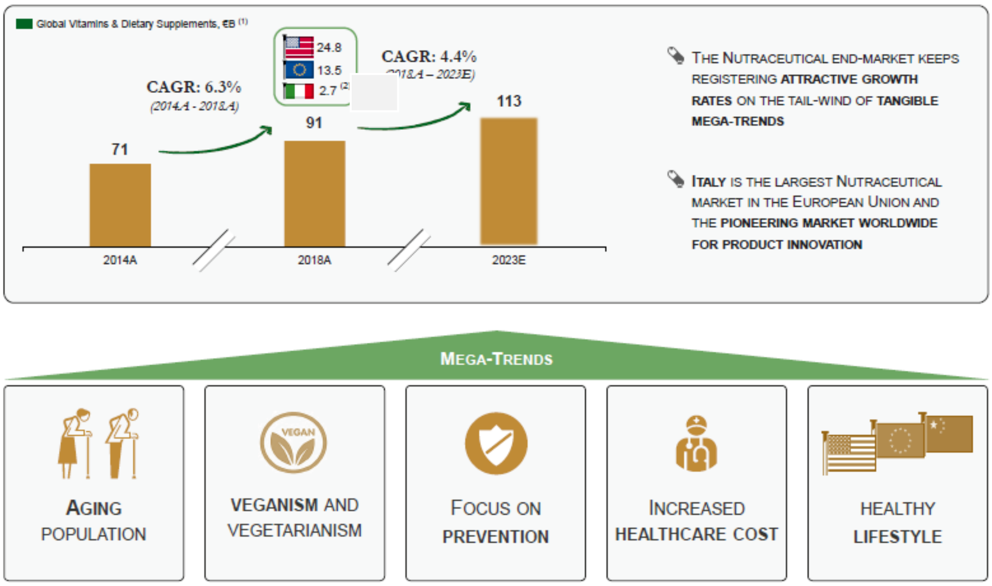
Source: Company data

Market value and prospects

According to Euromonitor, in 2018 the global Vitamin and Dietary Supplements market value was EUR 91.2Bn, out of which Europe accounted for EUR 13.5Bn and the US for EUR 24.8Bn. With a value of EUR 2.7Bn, Italy is the largest Vitamin and Dietary Supplements market in Europe.

Vitamins and Dietary Supplements expected to show a 4.4% CAGR over the 2018-23 period

Vitamin and Dietary Supplements Market: Historical Growth and Outlook



1) Consumer Health: Euromonitor from trade sources/national statistics 2019; Technavio 2018; (specified in analysts presentation); Source: Company data

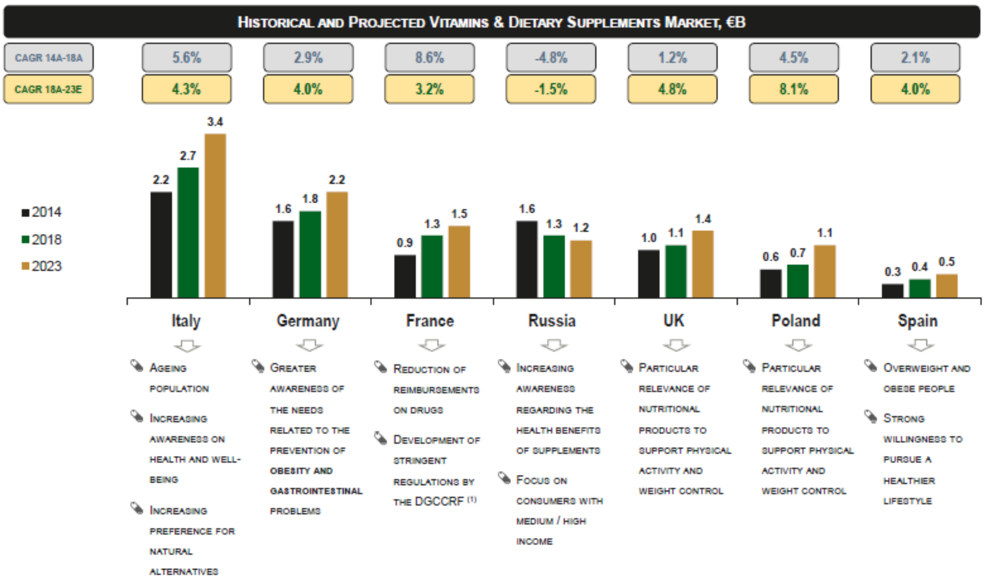
In 2018-23 market value CAGR estimated at 4.4%.

According to Euromonitor, in 2014-18 the worldwide Vitamins and Dietary Supplements market value recorded a 6.3% CAGR driven by some secular trends, such as an increasingly active aging population especially in developed countries, a growing penetration rate of veganism and vegetarianism, a growing attention to a healthy lifestyle and to curbing cost increases for national healthcare systems. These factors are expected to continue to sustain the Vitamins and Dietary Supplements' market growth in the coming years: according to Euromonitor, in the 2018-23 period, the market value CAGR is estimated at 4.4%. Overall, the worldwide market for Vitamins and Dietary Supplements should increase from approx. EUR 91.2Bn in 2018 to approx. EUR 112.9Bn by 2023.

Italy and Germany, largest European markets

Looking at the most important European markets, we highlight that Italy and Germany, the largest ones, are expected to show a 2018A-23 CAGR above 4%, Poland is rapidly growing driven by products to support physical activity and weight control, growth in France could be slowed by a reduction in drugs reimbursements, while the Russian market is expected to be penalised by the weak economic environment and growing wealth inequalities.

Vitamin and Dietary Supplements Market: Main European Markets

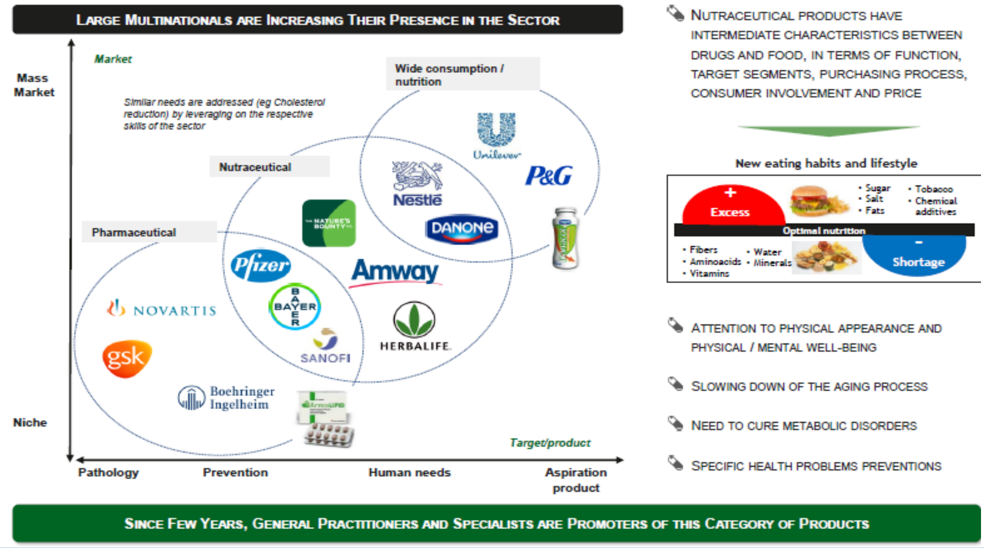


Source: Company data on Federsalus; Consumer Health; Euromonitor from trade sources/national statistics

In the last few years, the trends supporting the nutraceuticals market have attracted the interest of large pharmaceutical and food multinationals, which are developing nutraceutical products.

Nutraceuticals market attracting large pharma and food multinational players

Nutraceuticals market attracting large Pharmaceutical and Food multinationals



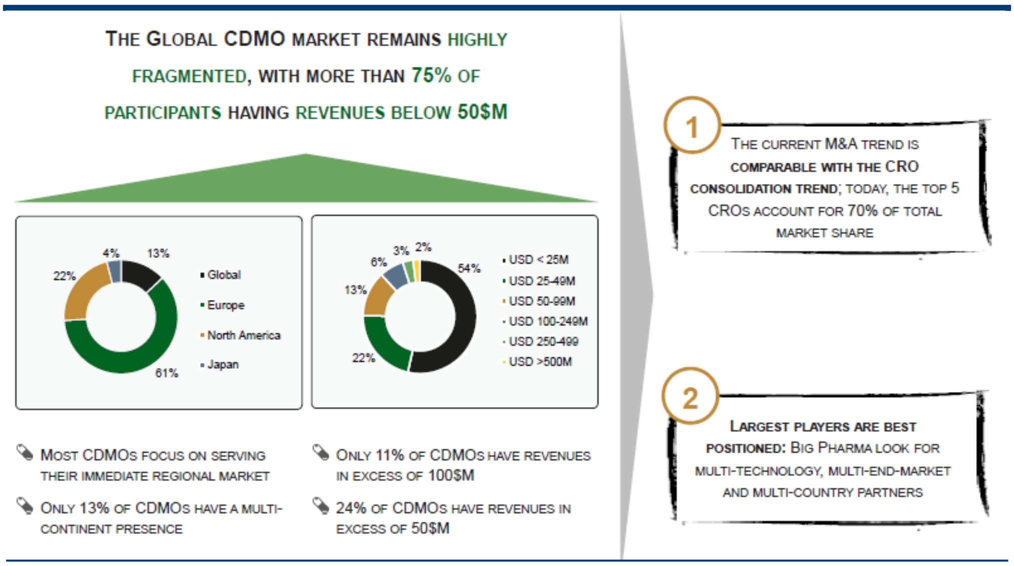
Source: Company data

As a result, CDMO services are increasingly being required as large pharmaceutical groups and nutraceutical companies are raising their outsourcing levels to focus on core R&D and distribution activities, reduce time-to-market and contain the invested capital while maintaining a more flexible production structure. Based on Results Healthcare 2017, the worldwide value of CDMO outsourcing for both pharmaceutical and nutraceutical companies recorded a 2015A-18 CAGR of 6.7% and is estimated to increase to 7.3% over the 2018-21 period.

We also note that the worldwide CDMO industry is quite fragmented with more than 75% of players showing annual revenue below USD 50M and only 2% with annual revenue above USD 500M. In addition, only 13% of CDMOs have a multi-continent presence (Source: PwC, November 2019). The CDMO market is currently going through a consolidation process, which we believe could be exploited by Labomar to enhance its international presence and to generate commercial and R&D synergies.

CDMO market in consolidation process

CDMO Market



Source: Company data

Strategy

Increase market share in Italy and the other main European markets

According to Euromonitor, in 2018, Italy was the most important market for Vitamin and Dietary Supplements (VDS) in Europe and over the 2018-23 period it is estimated to show a CAGR of 4.3%. According to the same source, the VDS market should show a 2018-23 CAGR in the 3-5% range in Germany, France, UK and Spain and 8.1% in Poland. Labomar intends to increase its market penetration on established Italian and European clients by leveraging on its extensive ready-to-market products catalogue, its sales structure, its available production capacity and its self-financed expansion capex plan. Note that, without considering the Canadian facility (ImportFab), the company's production capacity utilisation rate is at 61% on 2 shifts and 45% on 3 shifts, thus, no significant additional investments would be required to almost double production volumes. The company intends to focus on customers with a recognised brand and a strong domestic and international distribution network. The high retention rate of key clients and the supportive long-term manufacturing outsourcing trend of the pharmaceutical industry should be a solid base for its internal growth strategy in the domestic market.

Organic growth in North America

The acquisition of ImportFab in Canada at end-October 2019 should pave the way for expansion in North America. In our understanding, the first step should be the consolidation of ImportFab in the Canadian market with the existing commercial structure, while a second phase should be expansion in the US, leveraging on the increase in the share of wallet of Canadian customers with a North American presence. The establishment of a direct commercial network in the US could also be an option but this is not envisaged in the short term.

Synergies with ImportFab

The North American expansion should also leverage on important production and commercial synergies between Labomar and ImportFab. Labomar aims at: 1) sharing its R&D capabilities and proprietary patents to manage the transition of ImportFab business model from a pure CMO to CDMO; 2) leveraging on its worldwide commercial structure and business relations to support the ImportFab internationalisation; and 3) exploiting ImportFab's expertise in the pharmaceutical segment and at further saturating ImportFab's available production capacity.

Expansion in the cannabis market

ImportFab operates in a market where cannabis is used for both pharmaceutical and recreational purposes. Labomar could thus share the expertise of Herbae (51% Labomar) in vertical farming techniques for vegetal extracts to significantly reduce cannabis cultivation costs and develop its presence in the North American cannabis market.

External growth

According to management, international expansion via acquisitions should be an important growth driver for the next few years. The focus should be on: i) European players with an international customer base; ii) players with a proprietary technology platform that could be associated with multiple products with favourable market potential; and iii) players active in the probiotics products that could be employed in several therapeutic areas. Note that the global CDMO market is still highly fragmented with approx. 75% of the players showing revenues below USD 50M (Source: PwC – December 2019), suggesting ample room for M&A opportunities. The company said that the cash provided by the IPO capital increase will be mainly employed to support external growth given that the planned investment for the new plant (L6) should be fully self-financed.

New L6 plant in Italy

Labomar aims at boosting production capacity and operational efficiency unifying the headquarters, production and R&D functions (currently split in three different facilities) into a single plant to be realised in Istrana close to the existing buildings and also building a new facility devoted to functional cosmetics and sanitizing gels. According to our estimates, the total investment for Labomar should amount to approx. EUR 20M over the 2021E-23E period with a peak that we expect in 2022E-23E. No meaningful relocation costs or production diseconomies are envisaged by management, while no write-offs should be needed as the dismissed plants were completely amortised.

Competitive Positioning

Competitive forces

Suppliers power

In our understanding, Labomar has a wide base of raw material suppliers with no significant dependence on a single one. The company's suppliers must be certified in terms of quality and accepted by Labomar's customers.

New entrants

Entry barriers are quite high as newcomers need to make significant investments to build a long-term relationship with customers and set up a highly specialised technical team capable of dealing with quality and regulatory issues concerning the manufacturing activity and product development. An R&D force capable of developing new products formulation is an essential competitive factor to stay in this business.

Rivalry

Labomar operates in a highly-fragmented and competitive global market, characterised by the presence of several small operators with more than 75% of the players showing annual revenue below USD 50M and only 13% having a multi-continent presence. The CDMO market is currently going through a consolidation process, which we believe could be exploited by Labomar to enhance its international presence and to generate commercial and R&D synergies.

Substitute products

CDMO services are increasingly more required as they allow pharmaceutical and nutraceutical companies to focus on the core R&D and marketing activities, to reduce the invested capital and to have a more flexible production structure. Therefore, we believe that the risk of a reversal of the growing manufacturing outsourcing trend in the pharmaceutical industry is remote.

Customer power

Labomar's customer base is quite wide and diversified as it comprises approx. 180 clients and 1,500 SKUs. Moreover, in 2019 the top 5 and 15 customers accounted for respectively 25% and 48% of the company's revenue. Therefore, we believe that the company should not be significantly affected by any single customer manufacturing order. We would also note that among the top 15, 32% has been Labomar's customers for more than 10 years and 68% for more than 5 years.

Source: Intesa Sanpaolo Research elaboration, Porter model

SWOT analysis

Strengths

- Vertically-integrated group;
- Manufacturing of all pharmaceutical forms;
- Reduced time-to-market and enhanced value proposition thanks to ready-to-market catalogue;
- Strong R&D capabilities;
- Diversified and loyal customer base;
- Higher life expectancy, an increasingly active way of life of the elderly, and a growing attention to well-being to support the business.

Weaknesses

- Short-term visibility on production volumes;
- Limited number of suppliers for certain raw materials;
- Still too focused on the domestic market despite a growing internationalization trend.

Opportunities

- Expanding the group's international presence;
- Increasing the share of wallet among existing customers;
- Acquiring new technologies and products (probiotics);
- Transforming ImportFab business model from pure CMO to CDMO;
- Participating in the consolidation trend of the CDMO market;
- Development of the vertical farming techniques for vegetal extracts and expansion into the cannabis market;
- Scale-up of the functional cosmetic business.

Threats

- Changes in the regulatory framework;
- Potential changes in consumer trends and needs;
- Competitive CDMO market;
- Covid-19 related lockdown measures.

Source: Intesa Sanpaolo Research estimates

2017-19A Historical Financials

Labomar - P&L and 2019PF figures (2017A-19A)

EUR M	2017A	on VoP%	2018A	on VoP %	yoy %	2019A	on VoP %	yoy %	2019PF	on VoP%	yoy %
Net revenues	41.9	99.4	43.5	98.4	3.8	48.3	98.4	11.2	56.6	98.6	30.1
Other income/Stock variation	0.2	0.6	0.7	1.6	197.9	0.8	1.6	14.0	0.8	1.4	14.5
Total Value of production	42.1	100.0	44.2	100.0	4.9	49.1	100.0	11.3	57.4	100.0	29.9
Costs for raw materials	19.0	45.1	19.9	45.0	4.8	22.4	45.6	12.6	24.3	42.4	22.3
Staff costs	8.8	20.9	8.6	19.6	-1.9	10.1	20.6	16.9	12.5	21.8	44.7
of which non-recurring	0.0	0.0	0.0	0.0	NM	0.0	0.0	NM	0.0	0.0	NM
Service costs	5.8	13.8	6.5	14.7	11.5	7.3	14.9	13.2	9.0	15.7	39.1
of which non-recurring	0.0	0.0	0.0	0.0	NM	0.6	1.2	NM	0.9	1.5	NM
Other costs	0.2	0.4	0.2	0.3	NM	0.2	0.4	28.1	0.2	0.3	28.0
EBITDA	8.3	19.7	9.0	20.4	8.1	9.1	18.5	1.2	11.3	19.7	25.7
Adj. EBITDA	8.3	19.7	9.0	20.4	8.1	9.7	19.7	7.5	12.2	21.2	35.5
Amortisation/Right of use	1.0	2.5	1.0	2.3	-1.7	1.0	2.0	-4.0	NA	NA	NM
Depreciation	1.6	3.8	1.7	3.9	7.1	2.0	4.0	14.4	3.9*	6.7	NM
Write-offs	0.2	0.4	0.1	0.2	NM	0.3	0.7	213.1	NA	NA	NM
EBIT	5.5	13.1	6.2	13.9	11.6	5.8	11.8	-5.3	7.4	13.0	27.8
Adj. EBIT	5.5	13.1	6.2	13.9	11.6	6.4	13.0	4.0	8.3	14.5	35.3
Financial Income	0.0	0.1	0.0	0.1	4.9	0.1	0.2	142.3	0.1	0.1	142.3
Financial Expense	0.2	0.5	0.3	0.8	45.3	0.3	0.7	-4.2	0.6	1.1	94.1
Forex gains/losses	0.0	0.0	0.0	0.0	NM	-0.1	-0.1	NM	-0.2	-0.3	NM
Write down/up financial assets	0.3	0.8	0.1	0.3	NM	0.0	0.1	NM	0.0	0.1	NM
EBT	5.6	13.4	6.0	13.5	5.7	5.6	11.3	-6.9	6.7	11.7	12.7
Income tax	1.5	3.6	1.6	3.7	8.6	1.4	2.9	-12.9	1.7	3.0	5.9
Net Income	4.1	9.8	4.3	9.8	4.9	4.1	8.4	-4.7	5.0	8.7	15.3
Adj. Net Income	4.1	9.8	4.3	9.8	4.9	4.6	9.3	5.0	5.7	10.0	32.0

NM: not meaningful; NA: not available A: actual; PF: pro-forma; Source: Company data; *also includes also amortization and right of use depreciation

Revenues and profitability

Group VOP has shown an 11.2% organic CAGR in last 3 years

In the table above, we show Labomar group's 2017A-19A P&L figures which for 2019 included the consolidation of ImportFab from the month of November. For a better assessment of the ImportFab impact and for the sake of comparison with the next years, we also showed the consolidated 2019 pro-forma figures, which assume the consolidation of ImportFab from 1 January 2019.

Over the last three years (2017A-19A), the group's value of production recorded a 12.2% CAGR, which slightly reduces to 11.2% if we only consider organic growth. The top-line increase was driven by the group's expansion in foreign markets, by focusing on the most important and reliable customers and by a growing share of wallet of the big pharma companies. In this respect, an important role was played by the group's R&D activity, which allowed Labomar to offer its main customers tailormade innovations in terms of product formulations, production processes and delivery systems. Overall, in the last five years, the average revenue per active client increased from EUR 198,000 to EUR 305,000 with a +54% increase in the average share of wallet, also reaping the benefits of the start-up since 2015 of the last significant expansion capacity investment, the L3 plant for the manufacturing of liquids and tablets.

In the last three years, the company also accelerated its geographical diversification: Italy remains the group's most important market, but even excluding the ImportFab acquisition, it is progressively decreasing its weighting in sales as a result of management's internationalisation efforts. France, Poland and Spain represented the most important foreign markets for Labomar in 2019 before the acquisition of ImportFab, which should significantly increase the weighting of North America from end-2019.

Labomar - Revenues by geographical area (2017A-19A)

EUR M	2017A	on net rev. %	yoy %	2018A	on net rev. %	yoy %	2019A	on net rev. %	yoy %	2017-19 CAGR %
Italy	32.9	78.6	14.2	33.2	76.4	0.9	33.7	69.7	1.5	5.3
EU	8.6	20.4	55.2	9.6	22.0	11.5	11.9	24.6	24.5	29.2
Extra EU	0.4	1.0	8.2	0.7	1.7	81.2	2.8	5.7		95.6
Total net revenues	**41.9**	**100**	**20.6**	**43.5**	**100**	**3.8**	**48.3**	**100**	**11.2**	**11.7**

A: actual; Source: Company data

In the table below, we show the development of the group's cost structure and the consolidated adj. profitability in the last three years. Note that the 2019A/2019PF figures include some non-recurring items for a total amount of EUR 0.6M/EUR 0.9M, which were related to the ImportFab acquisition. The adj. EBITDA, EBIT and net income shown in the table above factor in such items.

Looking at the 2017-19A period, we would highlight that the costs for raw materials variations were strictly correlated to the top-line growth rate, thus maintaining a weighting in sales in the 45-46% range. Note that in the 2019PF figures, this percentage declines to 42.4%, as ImportFab relies much more than Labomar on third parties for its pharmaceuticals manufacturing activity. Staff costs remained pretty stable at 20-21% of the value of production with personnel increasing from 180 units at end-2017 to 264 units at end-2019, including 65 people in ImportFab. Service costs increased their weighting in sales over the period, mostly due to higher consulting expenses related to both the external growth and the IPO process. Should we adjust the 2019 service costs figures for the ImportFab related ones (EUR 0.6M), they would have remained stable in absolute terms compared to the previous year. According to our elaborations, over the last three years, fixed costs (excluding personnel employed in the manufacturing activity and depreciation and amortisation) accounted for approx. 20% of total costs and around 15% of the value of production. Therefore, in our view, the group's costs structure seems to be quite flexible to cope with a possible demand decrease.

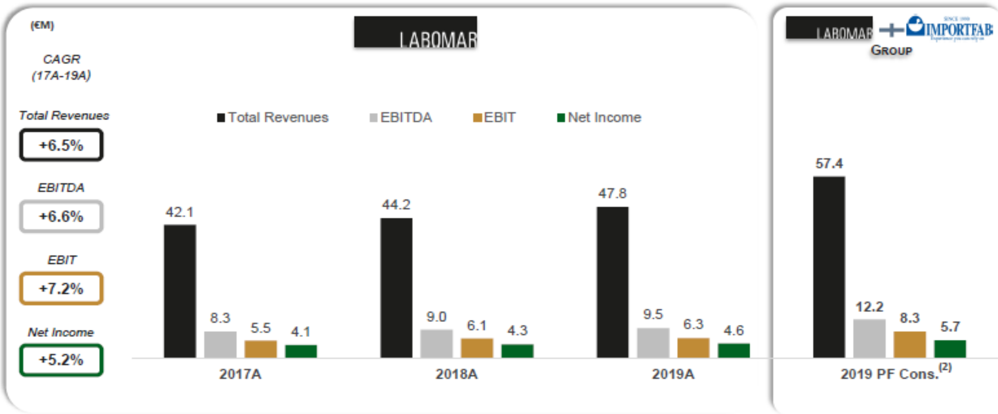
Labomar – Costs structure (2017A-19A)

EUR M	2017A	% on VoP	2018A	% on VoP	yoy %	2019A	% on VoP	yoy %	2019PF	% on VoP	yoy %
Costs raw materials, supplies, cons. & goods	19.0	45.1	19.9	45.0	4.8	22.4	45.6	12.6	24.3	42.4	8.6
Staff costs	8.8	20.9	8.6	19.6	-1.9	10.1	20.6	16.9	12.5	21.8	23.9
Services and other costs	5.8	13.8	6.5	14.7	11.5	7.3	14.9	13.2	9.0	15.7	22.8
Other Costs	0.2	0.4	0.2	0.3	-18.6	0.2	0.4	28.1	0.2	0.3	-0.1
Total costs	33.8	80.3	35.2	79.6	4.1	40.0	81.5	13.8	46.1	80.3	15.0
Non-recurring costs	0.0	0.0	0.0	0.0	NM	0.6	1.2	NM	0.9	1.5	NM
Total recurring costs	33.8	80.3	35.2	79.6	4.1	39.5	80.3	12.2	45.2	78.8	14.5

NM: not meaningful; A: actual; PF: pro-forma; Source: Intesa Sanpaolo Research elaboration on Company data

The EBIT margin changes in the last three years mainly reflect those registered at the EBITDA level, as no major events impacted on the group's depreciation, amortisation and write-offs.

Labomar - Main P&L figures (2017A-19A/PF)



	2017A	2018A	2019A	2019 PF Cons.
EBITDA %	19.7%	20.4%	19.8%	21.2%
EBIT %	13.0%	13.9%	13.2%	14.5%
Net Income %	9.8%	9.8%	9.6%	9.9%

Source: Company data

Below the EBIT line, we only highlight that in 2018 the group posted a slight increase in net financial charges as a result of the higher net debt, mainly related to the buyout of the minorities (see the paragraph below). The cost of financing for the ImportFab acquisition instead had a negligible impact in 2019 as the deal was closed on 31 October. Over the last three years, the consolidated tax rate was in the 26-27% range and should remain stable in the coming years, according to management.

Cash flow and debt

Group net debt remained stable in last three years

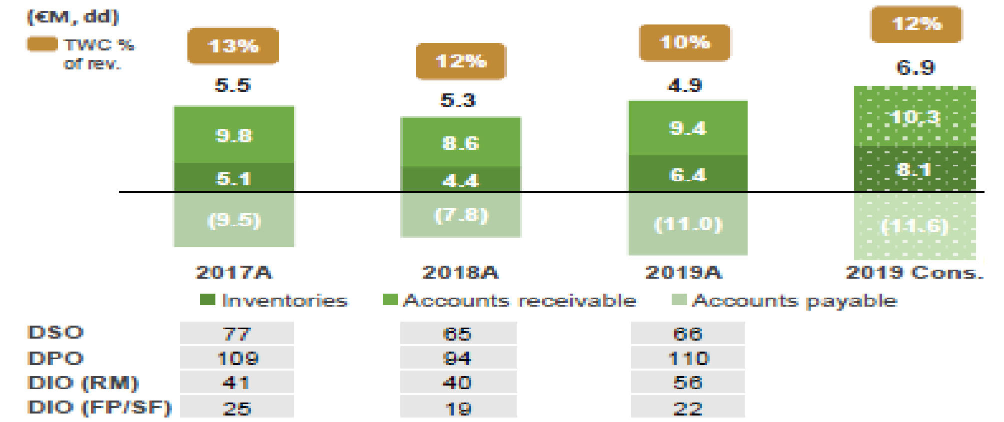
Over the last three years, the group's net debt increased, entirely due to some extraordinary events/items. In 2017, the first-time adoption of IFRS 16 increased the consolidated net debt by approx. EUR 4.4M; adjusted for this impact, free cash flow generation would have amounted to approx. EUR 4.6M; in 2018, the company Lab Holding Srl entirely held by Mr. Bertin and controlling 56.54% of Labomar bought from the shareholders Fondo Italiano d'Investimento SGR S.p.A. (29,33%) and Mrs. Carmen Frare (14,13%), the Labomar minorities for a total amount of approximately EUR 8.98M. Lab Holding Srl was then merged into Labomar with the related debt. Adjusted for this extraordinary impact in 2018, we calculate that Labomar would have generated a free cash flow of EUR 4.8M.

As for 2019, we note that on 31 October, Labomar closed the deal for the acquisition, through the Canadian subsidiary ImportFab, of the assets of the Canadian company Canada Inc (at the time of the transaction named Entreprises ImportFab Inc) for a total amount of EUR 20.4M: according to our calculation, the 2019 free cash flow generation before the ImportFab impact would have amounted to EUR 1.4M.

As for the investment activity, we would highlight that the higher capex level registered in 2019 (ex-ImportFab) was related to the purchase of a building plot and the related design expenses for a total amount of approx. EUR 1.8M; management is evaluating the resale of such assets to a real estate company in the near future.

In 2017-19, the group's trade NWC showed little variation declining from 13% of revenues in 2017 to 10% of revenues in 2019, excluding the EUR 2M of current assets acquired from ImportFab. which is a relatively low level for an industrial company, favoured by the fast manufacturing cycle and an average DSO of 66 days in 2019 vs. a DPO of 110 days.

Labomar - Trade working capital (2017-19A)



Source: Company data

Labomar - Free cash flow and net debt (2017-19A)

EUR M	2017A	2018A	2019A
Net Income	4.1	4.3	4.1
Depreciation/Amortisation	1.9	2.0	2.2
Impairment charge	0.0	0.0	0.0
Asset disposal	0.0	0.0	0.0
Capital Increase	0.0	0.0	0.0
Sources	**6.1**	**6.3**	**6.4**
Tangible Investments	2.7	1.5	3.5
Intangible Investments	0.4	0.3	0.3
Change in NWC	-2.3	0.5	1.7
Dividends	0.0	0.0	1.2
Other	5.1*	8.2	18.6
Uses	**5.9**	**10.5**	**25.3**
Free CF	**0.2**	**-4.2**	**-18.9**
Net Debt(+)/Cash(-)	**5.5**	**9.7**	**28.7**

*out of which approx. EUR 4.4M for rights of use; A: actual; Source: Intesa Sanpaolo Research elaboration on Company data

Gross and net debt

As at 31 December 2019, the company's gross debt amounted to EUR 40.4M, out of which approx. EUR 4.1M related to the equity loan received from Simest for the purchase of the ImportFab assets, at an annual interest rate of 4.5% and EUR 3.7M accounted for the rights of use and leases (IFRS16). The remaining portion, mainly represented by bank debt, is almost entirely at a variable rate (EURIBOR + spread): in our understanding, the average cost of variable rate debt is currently 0.86%. We would also note that the 2019 gross debt figure also includes a residual amount of approx. EUR 5.3M to be paid for the ImportFab assets purchase: EUR 1.1M is the maximum earnout to be paid in 2020, 2021 and 2022 subject to ImportFab, showing in each year a gross margin at least in line with 2019, while the remaining EUR 4.2M represents the residual price to be paid in 2020. An equivalent amount of cash is segregated in Labomar's balance sheet for the completion of the ImportFab payment. Based on the 2019 pro-forma figures, which assume the consolidation of ImportFab from 1 January 2019, we calculate that at end-December 2019 the company had a net debt/EBITDA ratio of 2.35x and a net debt/equity ratio at 2.9x.

Note also that at 31 December 2019, the group's liabilities related to personnel termination indemnities amounted to EUR 2.1M and registered an increase compared to end-2018 mainly related to the ImportFab asset purchase.

Labomar - Gross and net debt (2017A-19A)

EUR M	2017A	2018A	2019A
Bonds	0.0	0.0	0.0
Bank loans & borrowing from others	4.0	7.4	17.2
Financial lease liabilities	3.4	2.8	2.8
Hedging instruments & other	0.0	0.0	1.1
Total non-current financial debt	**7.4**	**10.2**	**21.1**
Bank loans & senior notes	2.4	3.3	13.9
Financial lease liabilities	1.0	0.6	0.9
Hedging instruments & other	0.0	0.0	4.6
Total short-term debt	**3.5**	**3.9**	**19.3**
Total gross debt	**10.8**	**14.1**	**40.4**
Cash & equivalents	5.3	4.4	11.7
Total financial assets	**5.3**	**4.4**	**11.7**
Net Debt(+)/Cash(-)	**5.5**	**9.7**	**28.7**

A: actual; Source: Company data

Labomar - Personnel termination indemnity (2017A-19A)

EUR M	2017A	2018A	2019A
Personnel Termination Indemnities	1.7	1.7	2.1

A: actual; Source: Company data

1H20 results and COVID-19 impact

The company released the following consolidated figures for 1H20A. Note that the 1H19A results reported below are related to Labomar standalone (ex-ImportFab, consolidated since November 2019).

Labomar -Consolidated 1H20A results

EUR M	1H20A	1H19A*	yoy%
Contract rev.	33.0	23.4	41.3
Other rev.	0.2	0.4	-44.4
VoP	**33.2**	**23.7**	**40.0**
EBITDA	**7.8**	**5.0**	**54.3**
% margin	**23.4**	**21.2**	
EBIT	5.6	3.6	55.9
% margin	16.8	15.1	
Net income	3.6	2.6	38.5
Net debt	26.3	NA	-
Capex	2.6	1.8	44.4

NA: not available; A: actual; Source: Company data; *Labomar without ImportFab.

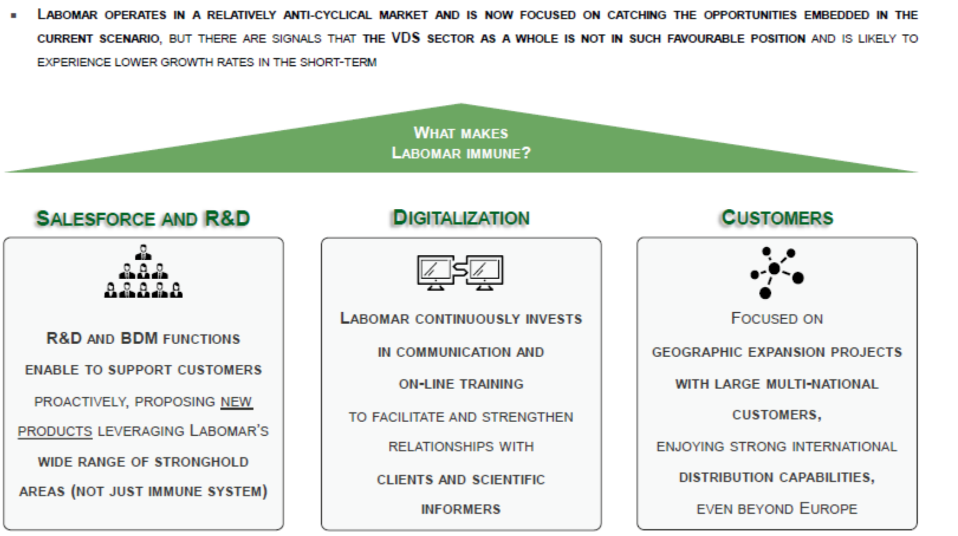
1H20 figures and COVID-19 health emergency impact

In 1H20, the group showed an increase in contract revenues of EUR 9.6M yoy, out of which EUR 5.4M attributable to the consolidation of ImportFab and the remaining EUR 4.2M reflecting Labomar's organic growth. Labomar standalone was not impacted by the COVID-19 health emergency as a result of its solid backlog level at end-2019 and the measures taken by management to ensure the continuity of the supply chain and the manufacturing activities, which were not subject to lockdown as they are considered strategic. The company did not release comparable 1H19 figures for ImportFab; however, we believe that ImportFab could have been impacted more than Labomar standalone by the pandemic as in Canada the lockdown measures forced the company to halt the functional cosmetic manufacturing activity.

Labomar's 1H20 consolidated EBITDA increased by EUR 2.8M yoy, out of which EUR 1.7M from ImportFab. The 1H20A EBITDA margin was 23.4% vs. 21.2% in 1H19A and benefited from the better fixed costs absorption and from the structurally higher EBITDA margin of ImportFab vs. Labomar standalone, which is mainly attributable to the higher profitability of the pharmaceutical products compared to nutraceuticals. At 30 June 2020, the combined (Labomar+ImportFab) net debt amounted to EUR 26.3M, with a slight reduction compared to EUR 28.7M at end-2019.

Management specified that Labomar generally has a 3-4 months revenue visibility and the company also said that there are signs that the Vitamin and Dietary Supplement market could be affected by the slowdown in drug prescriptions and direct marketing activities related to the pandemic, which we tried to factor in our whole 2020E forecasts (see the "Outlook" paragraph). According to management, however, the joint R&D-BDM's (Business Development Manager) highly proactive customer approach, the digitalisation of the commercial communication and the implementation of geographic and brand extension projects with large pharma companies should support the company to limit the negative impact of the pandemic in 2020E.

Labomar and the COVID-19 pandemic effects



Source: Company data

Lastly, we highlight that following the health emergency, the company decided to delay to 2021 the start-up of the L6 investment project aimed at boosting production and operational efficiency unifying the headquarters, production and R&D functions, currently split over three different facilities. While the delay will not have any impact on the potential top-line growth as the group's production capacity is still underutilised, it will allow a better management assessment of the health emergency impact on the group's cash flows.

The main actions taken by the company to face the pandemic impact are summarised in the table below:

Labomar - Actions to tackle the pandemic impact

COVID Task Force

1. **EMPLOYEE HEALTH AND SAFETY**
   MASKS AND GEL, SOCIAL DISTANCE MEASURES, SELECTIVE SMART-WORKING, REORGANIZATION OF PRODUCTION TO AVOID GATHERINGS, RULES FOR COFFEE AND LUNCH BREAKS, ETC.
2. **CONTINUITY OF PRODUCTION & FURTHER EFFICIENCY MEASURES**
   ESPECIALLY IN CONNECTION TO ENSURING THE CONTINUITY OF SUPPLY-CHAIN
3. **KEEP CLOSE CONTACT WITH CLIENTS AND PROACTIVELY TAKE ADVANTAGE**
   WITH AN EYE TO CATCH NEW OPPORTUNITIES IN TARGETED THERAPEUTIC AREAS (E.G. COUGH & COLD, IMMUNE SYSTEM)
4. **FOCUS ON FINANCIAL PLANNING**
   IMPLEMENTING ALSO AGEING ANALYSIS OF CUSTOMERS AND SUPPLIERS
5. **CAPEX PLAN OPTIMIZATION**
   WITH ATTENTION TO PRIORITY AND TIMING, TO MAKE THE MOST EFFICIENT USE OF FINANCIAL RESOURCES

Source: Company data

Earnings Outlook

Below, we show our earnings assumptions. We base our 2020-22E forecasts on the following underlying assumptions:

- Out of total IPO costs for EUR 2.4M (additional EUR 0.1M were paid by LBM Holding), EUR 1.0M should directly reduce the cash in from the capital increase, while the remaining EUR 1.4M should be entirely expensed in the 2020 P&L. We therefore include such one-off item in our 2020E P&L forecasts along with EUR 0.17M of extraordinary costs related to the pandemic for salary bonuses and donations;
- We include in our 2020E-22E forecasts the impact of the EUR 26M net capital increase successfully completed in the IPO process. Consider that, at the equity level, we factor in our 2020E forecasts a net increase of EUR 25M to account for bank fees of EUR 1.0M;
- We factor in our 2020E P&L forecasts the positive impact of the following tax credits: EUR 0.5M on the IPO expenses and EUR 0.45M related to the patent box for 2020E. Note that the company has requested to the Italian fiscal authorities for the recognition of the so-called 'Patent Box' fiscal relief for the 2016-19 period and the possibility to extend the benefits to the 2021-25 period. Such potential benefits are not included in our 2020-22E forecasts, pending the request's outcome;
- While not factoring in any potential opportunities arising from external growth, we remind that, according to management, the new cash provided by the capital increase would be used to carry out M&A activities in the widely-fragmented CMO/CDMO market, while maintaining a sound balance sheet.

Value of production

Group's top line and costs assumptions

We recall that in October 2019 Labomar closed the deal for the acquisition of the ImportFab assets consolidated from 1 November 2019. Therefore, for comparison purposes, we also report in the following P&L table Labomar's 2019 pro-forma figures, assuming the ImportFab consolidation from January 2019. We estimate the group's top line to show a 2019PF-22E CAGR of 10.2%, with a lower growth in 2020E (+7.7% yoy) and 2021E (+8.7% yoy), mainly due to the uncertainties related to the pandemic and an acceleration in the following years, driven by the positive underlying trend expected for the whole nutraceutical market, the growing recourse by the big pharma companies to CDMO services and a rise in Labomar's share of wallet of the main clients.

In this respect, we assume that Labomar will be able to leverage on its R&D and commercial capabilities to negotiate brand extensions and new supply contracts with some of its more important customers. Lastly, we assume that Labomar's product catalogue and R&D structure will allow ImportFab to change its business model from a pure CMO to a CDMO and that the Canadian manufacturing facility will allow it to significantly enhance its presence in the nutraceutical North American market. In our top-line forecasts, we do not include any impact from potential acquisitions, which in our understanding are nonetheless in the pipeline and are part of the rationale for the IPO.

Costs structure

On the costs side, we expect the group to be able to slightly reduce the weighting in sales of the costs of raw materials and supplies, as a result of the consolidation of ImportFab, whose manufacturing activity has a higher outsourcing content. We also estimate the company's top-line growth should allow a better absorption of the fixed cost base which, according to our elaborations, in 2019 had a weighting in net sales of around 15%. As for personnel costs, we assume that the current R&D (24 people) and administrative structure should be sufficient to support the expected organic growth of the next few years; therefore, we estimate that the increase in personnel costs should be entirely related to higher manufacturing activities. We do not expect additional extraordinary costs to be sustained in 2020-22E except for the IPO costs outlined above and some minor COVID-19 related expenses (EUR 0.17M expected in 2020E).

Profitability

Overall, we estimate that on a pro-forma basis these top line and costs trends should allow the group to slightly increase its operating profitability, with the adjusted EBITDA margin gaining 20bps from a pro-forma of 21.2% in 2019A to 21.4% in 2022E. We do not estimate a significant increase in depreciation and amortisation over the period. Below the EBIT line, we forecast net financial charges to increase in 2020E vs. 2019A, as a result of the ImportFab financing and to gradually decrease thereafter, also thanks to the planned reduction of the cost of part of the equity loan agreed upon with SIMEST. Lastly, we assume in our forecasts a broadly stable tax rate at 26% beyond 2020E. For the current year, we factor in our forecasts the impact related to the tax credits on the IPO expenses (EUR 0.5M) and on the R&D investments for EUR 0.45M (the so-called Patent Box). Note that the company has requested to the Italian fiscal authorities for the recognition of the 'Patent Box' fiscal relief also for 2016-19 period and the possibility to extend the benefits to the 2021-25 period. Such potential benefits are not included in our 2020-22E forecasts, pending the request's outcome.

Labomar - Income statement (2019A/PF-22E)

	2019A	% on VoP	yoy %	2019PF	% on VoP	2020E	% on VoP	yoy %	2021E	% on VoP	yoy %	2022E	% on VoP	yoy %
Net Revenues	48.3	98.4	11.2	56.6	98.6	60.8	98	7.5	66.1	98	8.7	75.5	98	14.2
Other inc./Stock var.	0.8	1.6	14.0	0.8	1.4	1.0	1.6	25.8	1.1	1.6	8.7	1.2	1.6	14.2
Total VoP	**49.1**	**100.0**	**11.3**	**57.4**	**100.0**	**61.8**	**100.0**	**7.7**	**67.2**	**100.0**	**8.7**	**76.7**	**100.0**	**14.2**
Costs for raw mat.	22.4	45.6	12.6	24.3	42.4	26.2	42.4	7.7	28.5	42.4	8.8	32.9	42.9	15.5
Staff costs	10.1	20.6	16.9	12.5	21.8	13.5	21.8	7.8	14.4	21.4	6.4	16.1	20.9	12.0
of which not rec.	0.0	0.0	NM	0.0	0.0	0.2	0.3	NM	0.0	0.0	NM	0.0	0.0	NM
Service costs	7.3	14.9	13.2	9.0	15.7	10.6	17.1	17.2	9.9	14.7	-6.5	11.0	14.3	11.4
of which not rec.	0.6	1.2	NM	0.9	1.5	1.4	2.3	NM	0.0	0.0	NM	0.0	0.0	NM
Other costs	**0.2**	**0.4**	**28.1**	**0.2**	**0.3**	**0.2**	**0.4**	**12.8**	**0.2**	**0.3**	**-9.1**	**0.3**	**0.4**	**41.0**
EBITDA	**9.1**	**18.5**	**1.2**	**11.3**	**19.7**	**11.3**	**18.3**	**0.3**	**14.2**	**21.2**	**25.7**	**16.5**	**21.4**	**15.5**
Adj. EBITDA	9.7	19.7	7.5	12.2	21.2	12.9	20.9	5.9	14.2	21.2	10.4	16.5	21.4	15.5
Amortiz./right of use	1.0	2.0	-4.0	0.0	0.0	1.4	2.3	NA	1.4	2.1	1.4	1.4	1.8	-0.3
Depreciation	2.0	4.0	14.4	3.9	6.7	2.5	4.1	NA	3.0	4.5	18.7	3.7	4.8	23.4
Write-offs	**0.3**	**0.7**	**213.1**	**0.0**	**0.0**	**0.3**	**0.5**	**NA**	**0.3**	**0.5**	**0.0**	**0.3**	**0.4**	**0.0**
EBIT	**5.8**	**11.8**	**-5.3**	**7.4**	**13.0**	**7.1**	**11.5**	**-4.8**	**9.5**	**14.1**	**34.2**	**11.0**	**14.3**	**15.9**
Adj. EBIT	6.4	13.0	4.0	8.3	14.5	8.6	14.0	4.0	9.5	14.1	9.8	11.0	14.3	15.9
Financial Income	0.1	0.2	142.3	0.1	0.1	0.0	0.0	NA	0.0	0.0	70.5	0.0	0.0	2.5
Financial Expense	0.3	0.7	-4.2	0.6	1.1	0.9	1.5	NA	0.8	1.3	-9.8	0.8	1.1	0.0
Forex gains/losses	-0.1	-0.1	NM	-0.2	-0.3	0.0	0.0	NA	0.0	0.0	NM	0.0	0.0	NM
Write-down/up	**0.0**	**0.1**	**NM**	**0.0**	**0.1**	**0.0**	**0.1**	**NA**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**
EBT	5.6	11.3	-6.9	6.7	11.7	6.2	10.0	-8.3	8.7	12.9	40.7	10.2	13.3	17.4
Income tax	**1.4**	**2.9**	**-12.9**	**1.7**	**3.0**	**1.0**	**1.7**	**-40.8**	**2.3**	**3.4**	**121.5**	**2.7**	**3.5**	**17.4**
Net Income	**4.1**	**8.4**	**-4.7**	**5.0**	**8.7**	**5.2**	**8.3**	**2.9**	**6.4**	**9.6**	**24.7**	**7.5**	**9.8**	**17.4**
Adj. Net Income	4.6	9.3	5.0	5.7	10.0	6.2	10.0	7.7	6.4	9.6	4.0	7.5	9.8	17.4

NM: not meaningful; Source: Company data (A: actual, PF: pro-forma) and Intesa Sanpaolo Research (E: estimates)

Cash flow

As for the group's cash flows, we highlight that our 2020E forecasts include the impact of the net cash in from the capital increase completed with the IPO for EUR 25M. Should we take off such an item from our forecasts, we would expect Labomar to generate a cumulated free cash flow of EUR 2.6M over the 2020E-22E period, as the gross cash flow should be more than sufficient for the financing of both maintenance (assumed at approx. EUR 2M per year) and expansion capex (estimated at approx. EUR 20M over the 2020-23E period with a peak in 2022-23E), to support an increase in NWC in line with the top-line growth and a dividend payout ratio of 30%. As for the expansion investments, we factor in the expenses for the set-up of the new L6 plant, which should allow the group to increase its production capacity and operational efficiency unifying its headquarters, production and R&D functions currently split over three different facilities. We would also highlight that, according to our estimates, the free cash flow generation before expansion capex, dividend distribution and the cash in of EUR 25M from the IPO, should amount to EUR 5.3M, EUR 7.9M and EUR 9.5M, respectively, in 2020E, 2021E and 2022E. Overall, our expectation is that the group should have room to entirely dedicate to external growth the financial resources raised through the IPO.

Labomar - Cash flow statement (2019A-22E)

	2019A	2020E	2021E	2022E
Net Income	4.1	5.2	6.4	7.5
Depreciation/Amortization	2.2	3.9	4.4	5.1
Impairment charge	0.0	0.0	0.0	0.0
Asset disposal	0.0	0.0	0.0	0.0
Capital Increase	0.0	25.0	0.0	0.0
Sources	**6.4**	**34.1**	**10.8**	**12.7**
Tangible Investments	3.5	4.7	5.7	9.7
Intangible Investments	0.3	0.3	0.3	0.3
Change in NWC	1.7	1.8	0.9	1.1
Dividends	1.2	1.4	1.9	1.9
Other	18.6	0.0	0.0	0.0
Uses	**25.3**	**8.2**	**8.8**	**13.0**
Free CF	**-18.9**	**25.9**	**2.1**	**-0.4**
Net Debt(+)/Cash(-)	**28.7**	**2.8**	**0.7**	**1.1**

Source: Company data (A: actual) and Intesa Sanpaolo Research (E: estimates)

Labomar - Balance sheet (2019A-22E)

Assets	2019A	% on total	2020E	% on total	2021E	% on total	2022E	% on total
Net Intangible Assets	17.2	25.3	16.1	16.0	15.0	14.0	13.9	12.0
Net Tangible Assets	16.7	24.5	18.9	18.7	21.6	20.1	27.5	23.8
Total non-current assets	**35.8**	**52.7**	**36.9**	**36.7**	**38.5**	**36.0**	**43.4**	**37.5**
Inventories	8.1	12.0	10.7	10.7	12.0	11.2	13.7	11.8
Trade debtors	10.3	15.2	13.0	12.9	14.1	13.2	16.1	13.9
Accrued income & other receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current tax assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current assets	2.0	2.9	2.5	2.5	2.7	2.5	3.1	2.7
Other current financial assets	4.8	7.1	4.8	4.8	4.8	4.5	4.8	4.1
Cash and equivalents	6.9	10.1	32.8	32.5	34.9	32.6	34.5	29.8
Current assets	**32.1**	**47.3**	**63.8**	**63.3**	**68.5**	**64.0**	**72.2**	**62.5**
Assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	**68.0**	**100.0**	**100.7**	**100.0**	**107.0**	**100.0**	**115.6**	**100.0**

Liabilities	2019A	% on total	2020E	% on total	2021E	% on total	2022E	% on total
Issued share capital	1.4	2.1	1.4	1.4	1.4	1.3	1.4	1.2
Treasury shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other reserves and retained earnings	4.3	6.4	32.1	31.9	35.4	33.1	39.9	34.5
Profit / loss for the year	4.1	6.1	5.2	5.1	6.4	6.0	7.5	6.5
Shareholders' Equity	**9.9**	**14.6**	**38.7**	**38.4**	**43.3**	**40.4**	**48.9**	**42.3**
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Equity	**9.9**	**14.6**	**38.7**	**38.4**	**43.3**	**40.5**	**48.9**	**42.3**
Deferred tax	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Senior secured notes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank loans & borrowing from others	17.2	25.3	17.2	17.1	17.2	16.1	17.2	14.9
Financial lease liabilities	2.8	4.1	2.8	2.8	2.8	2.6	2.8	2.4
hedging instruments & other	1.1	1.6	1.1	1.1	1.1	1.0	1.1	1.0
Non-current financial debt	**21.1**	**31.0**	**21.1**	**20.9**	**21.1**	**19.7**	**21.1**	**18.2**
Provisions	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Termination indemnities	2.1	3.0	2.1	2.1	2.1	1.9	2.1	1.8
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total long-term liabilities	**23.4**	**34.4**	**23.4**	**23.2**	**23.4**	**21.9**	**23.4**	**20.2**
Trade payables	11.6	17.0	14.5	14.4	15.8	14.8	18.1	15.6
Accrued expenses & deferred income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	3.6	5.4	4.6	4.6	5.0	4.7	5.7	4.9
Current tax liabilities	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Bank loans & senior notes	13.9	20.4	13.9	13.8	13.9	13.0	13.9	12.0
Other financial liabilities	0.4	0.6	0.4	0.4	0.4	0.4	0.4	0.3
Total short-term debt	19.3	28.4	19.3	19.2	19.3	18.1	19.3	16.7
Current liabilities	**34.7**	**51.0**	**38.6**	**38.3**	**40.3**	**37.7**	**43.3**	**37.5**
Total liabilities and equity	**67.9**	**100.0**	**100.7**	**100.0**	**106.9**	**100.0**	**115.5**	**100.0**

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Labomar – Key Data

Rating	Target price (EUR/sh)	Mkt price (EUR/sh)			Sector
BUY	Ord 8.6	Ord 6.60			Healthcare

Values per share (EUR)	2018A	2019A	2020E	2021E	2022E
No. ordinary shares (M)	14.15	14.15	18.48	18.48	18.48
Total no. of shares (M)	14.15	14.15	18.48	18.48	18.48
Market cap (EUR M)	NA	NA	121.99	121.99	121.99
Adj. EPS	0.31	0.32	0.33	0.35	0.41
CFPS	0.45	0.45	0.49	0.59	0.68
BVPS	0.52	0.70	2.1	2.3	2.6
Dividend ord	0.08	0.10	0.10	0.10	0.12
Income statement (EUR M)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenues	43.47	48.34	60.80	66.11	75.50
EBITDA	8.99	9.10	11.33	14.25	16.45
EBIT	6.15	5.82	7.08	9.50	11.01
Pre-tax income	5.98	5.56	6.18	8.69	10.20
Net income	4.35	4.15	5.16	6.43	7.55
Adj. net income	4.35	4.57	6.18	6.43	7.55
Cash flow (EUR M)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Net income before minorities	4.3	4.1	5.2	6.4	7.5
Depreciation and provisions	2.8	3.3	4.3	4.7	5.4
Others/Uses of funds	-8.2	-18.6	0	0	0
Change in working capital	-0.5	-1.7	-1.8	-0.9	-1.1
Operating cash flow	-1.5	-12.9	7.6	10.3	11.9
Capital expenditure	-1.9	-3.8	-5.0	-6.0	-10.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	-3.3	-16.7	2.6	4.3	1.9
Dividends	0	1.2	1.4	1.9	1.9
Equity changes & Other non-operating items	0	0	25.0	0	0
Net cash flow	-3.3	-15.5	28.9	6.1	3.8
Balance sheet (EUR M)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Net capital employed	17.4	38.6	41.5	44.0	50.0
of which associates	0	0	0	0	0
Net debt/-cash	9.7	28.7	2.8	0.7	1.1
Minorities	0	0.0	0.0	0.0	0.0
Net equity	7.4	9.9	38.7	43.3	48.9
Minorities value	0	0.0	0.0	0.0	0.0
Enterprise value	NA	NA	124.8	122.7	123.1
Stock market ratios (x)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Adj. P/E	NA	NA	19.7	19.0	16.2
P/CFPS	NA	NA	13.4	11.2	9.6
P/BVPS	NA	NA	3.2	2.8	2.5
Payout (%)	0	29	27	29	26
Dividend yield (% ord)	NA	NA	1.5	1.6	1.9
FCF yield (%)	NA	NA	1.8	3.2	1.3
EV/sales	NA	NA	2.1	1.9	1.6
EV/EBITDA	NA	NA	11.0	8.6	7.5
EV/EBIT	NA	NA	17.6	12.9	11.2
EV/CE	NA	NA	3.0	2.8	2.5
D/EBITDA	1.1	3.2	0.25	0.05	0.07
D/EBIT	1.6	4.9	0.40	0.07	0.10
Profitability & financial ratios (%)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA margin	20.7	18.8	18.6	21.5	21.8
EBIT margin	14.1	12.0	11.6	14.4	14.6
Tax rate	27.2	25.5	16.5	26.0	26.0
Net income margin	10.0	8.6	8.5	9.7	10.0
ROCE	35.4	15.1	17.0	21.6	22.0
ROE	45.0	48.0	21.2	15.7	16.4
Interest cover	-20.4	-24.2	-7.5	-11.2	-13.0
Debt/equity ratio	131.8	289.2	7.2	1.6	2.2
Growth (%)		**2019A**	**2020E**	**2021E**	**2022E**
Sales		11.2	25.8	8.7	14.2
EBITDA		1.2	24.6	25.7	15.5
EBIT		-5.3	21.6	34.2	15.9
Pre-tax income		-6.9	11.0	40.7	17.4
Net income		-4.7	24.4	24.7	17.4
Adj. net income		5.0	35.3	4.0	17.4

NM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Company Snapshot

Company Description

Labomar group is a CDMO (Contract Development and Manufacturing Organisation) of nutraceutical and pharmaceutical products with a 2019 consolidated pro-forma value of production of EUR 57.4M and an adjusted pro-forma EBITDA margin of 21.2%.

Key Risks

Company specific risks:

- Short-term visibility on production volumes
- Low stock liquidity and market float
- Still too focused on the domestic market despite a growing internationalization trend

Sector generic risks:

- Potential changes in consumer trends and needs
- Possible changes in the regulatory framework
- New lockdown measures related to the pandemic

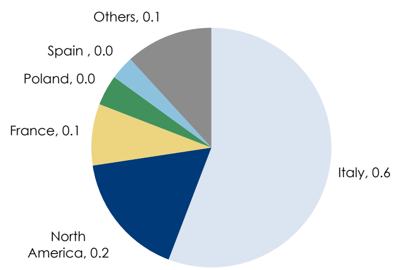
Key data

Mkt price (EUR)	6.60	Free float (%)	17.9
No. of shares	18.48	Major shr	LBM Holding
52Wk range (EUR)	NA/NA	(%)	71.1
Reuters	LBM.MI	Bloomberg	LBM IM
Performance (%)	**Absolute**		**Rel. FTSE IT All Sh**
-1M	-5.6	-1M	-14.9
-3M	NA	-3M	NA
-12M	NA	-12M	NA

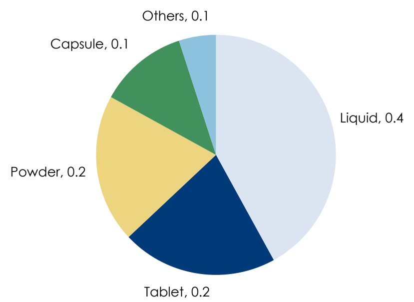
Estimates vs. consensus

EUR M (Y/E Dec)	2019A	2020E	2020C	2021E	2021C	2022E	2022C
Sales	48.34	60.80	NA	66.11	NA	75.50	NA
EBITDA	9.10	11.33	NA	14.25	NA	16.45	NA
EBIT	5.82	7.08	NA	9.50	NA	11.01	NA
Pre-tax income	5.56	6.18	NA	8.69	NA	10.20	NA
Net income	4.15	5.16	NA	6.43	NA	7.55	NA
EPS (€)	0.32	0.33	NA	0.35	NA	0.41	NA

Sales breakdown by geography (%) breakdown by product



Sales breakdown by dosage form (%) breakdown by geographic



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 18/11/2020)

Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies have revenues ranging from EUR 50M-EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

Appendix 1: Labomar and ImportFab Top Management

Walter Bertin
Chief Executive Officer

- Founder and CEO of Labomar and owner of a pharmacy in Treviso. He graduated in Pharmaceutical Science at University of Padua and got ha master degree in Lean Management. Further, he was part of Fedefarma's council from 1989 to 1992, President of Farmarca until 2004, member of Federsalus board since 2011 and of Unindustria Treviso since 2012.

Ruggero Martignoni
Chief Operating Officer

- Before joining Labomar in 2014, he gathered more than 10-years experience in the food supplements and pharmaceutical industry covering several managerial roles for Zambon SpA. He is now Head of Corporate Operations and supervises the Regulatory, Supply Chain, Production, Logistics, IT and Technology areas.

Claudio De Nadai
Board Member

- He is a Board Member since 2018 after working for Labomar as an external consultant on financial strategy. He is inside the Board of the New Co. ImportFab and supervises the Administration, Finance and Management Control areas. He founded in 2017 BModel, a boutique providing Corporate Finance, M&A and Private Equity activities for Small&Medium Caps.

Davide Munaretto
Chief Financial Officer

- CFO of Labomar since 2012. He continues to hold the position of Head of Administration and Finance at "Gruppo Industrie Maurizio Peruzzo". He also gained a relevant work experience at Unicredit Leasing SpA as Financial Analyst.

Riccardo Basso
Management Control

- Management Controller of Labomar since 2015. He previously gained experience as Industrial Controller at Bofrost Italia SpA, Zignano Vetro SpA and Group Controller Manager in Codognotto Italia SpA. He has a 4-years experience as Senior Auditor at KPMG Italy.

Francesco Da Riva
Commercial and Sales Manager

- He joined Labomar in 2011 and he is now Commercial and Sales Director coordinating a team of 9 people. He previously gained experience as Senior Consultant in the strategic business planning field. He graduated in Political Science at University of Padua and completed a Master in Management, Accounting & Control at Bocconi University.

ImportFab

Sylvain Renzi
Business Consultant

- He founded ImportFab in 1990 developing the company during the years which operates in the natural products and pharmaceutical sectors. After the deal with Labomar, he still works in the company as Business Consultant.

Brunella Fata
General Manager / Chief Operating Officer

- She joined ImportFab in 2019 as General Manager and CFO. Since 2014 she worked in Canadian companies as Finance Director and Financial Controller. Previously, she gained experience as Senior Finance Manager in General Eletric Italy and then as Finance Director in Industrie Allegrezza SpA. She started her career as auditor working for E&Y and Arthur Andersen.

Josée P. Carbonneau
Business Development Manager

- He joined ImportFab as Business Development Manager. He has a long and wide experience in Project Management and worked for several companies in Quebec such as Uman Pharma – Pharmascience as Transfer Specialist since 2012.

Source: Company data

Appendix 2: Peers

Bachem Holding AG Class B

Bachem Holding description

Founded in 2003 and headquartered in Bubendorf, Switzerland, Bachem Holding is a technology-based biochemical company, which engages in the provision of services to the pharmaceutical and biotechnology industries. The company operates through the Europe and North America geographical segments. It specializes in the development of manufacturing processes and the production of peptide-based active pharmaceutical ingredients.

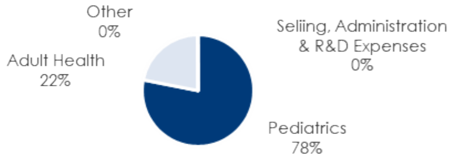
Bachem Holding – Business breakdown[1]

BioGaia AB Class B

BioGaia description

Founded by Jan Annwall and Peter Rothschild in 1990 and headquartered in Stockholm, Sweden, BioGaia engages in the development, marketing, and sale of probiotic products. It operates through the following segments: Pediatrics, Adult Health, and Other. The Pediatrics segment sells drops, oral rehydration solutions, digestive health tablets, and also royalties pertaining to pediatric products. The Adult Health segment include gut health tablets, oral health products, and offers cultures as an ingredient in a licensee's dairy product. The Other segment consists royalties from the development projects, and revenue from packaging solutions.

BioGaia – Business breakdown[1]

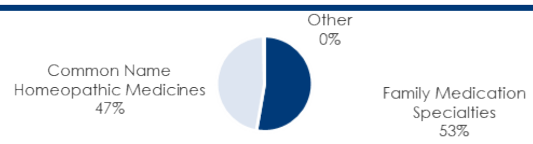


Boiron SA

Boiron description

Founded by Jean Boiron and Henri Boiron on 7 June 1932 and headquartered in Messimy, France, Boiron engages in the manufacturing and selling homeopathic medicines. It operates through the following geographical segments: France; Europe; North America; and Other Countries. It offers non-proprietary, proprietary and branded homeopathic medicines.

Boiron – Business breakdown[1]



Catalent Inc

Catalent description

Founded in April 2007 and headquartered in Somerset, NJ (US), Catalent is a holding company, which engages in the provision of delivery technologies and development solutions for drugs, biologics, and consumer and animal health products. It operates via the following segments: Softgel Technologies; Biologics and Specialty Drug Delivery; Oral Drug Delivery; and Clinical Supply Services. Softgel Technologies formulate, develop, and manufacture services for soft capsules. Biologics and Specialty Drug Delivery develops and manufacture services for blow-fill-seal unit doses, prefilled syringes, vials, & cartridges; analytical development and testing services for large molecules; inhaled products for delivery via metered dose inhalers, dry powder inhalers, and intra-nasal sprays. Oral Drug Delivery focuses on the formulation development and manufacturing technologies, & related solutions including: clinical development & commercial manufacturing of a range of oral dose forms, including proprietary fast-dissolve Zydis tablets and both conventional immediate and controlled release tablets, capsules, and sachet products. Clinical Supply Services includes packaging, labelling, storage, distribution, and inventory management for drugs and biologics in clinical trials.

Catalent – Business breakdown[1]

Dermapharm Holding SE

Dermapharm description

Founded in 1991 and headquartered in Grunwald, Germany, Dermapharm Holding engages in the development, manufacture. and market of patent-free pharmaceutical products. The company also involves in in-house development, in-house production, and distribution of pharmaceuticals and other healthcare products. It offers its products through the following brands: Dekristol 20,000 I.E., bite away, Herpotherm, sikapur, Ampho-Moronal, Solacutan, Ciclocutan, Minoxicutan, Prednisolut, Dienovel, Lactofem, Finapil, Panthenol-Augensalbe JENAPHARM, and Suxilep.

Dermapharm – Business breakdown[1]

[1] Latest available data

Fine Foods & Pharmaceuticals N.T.M. SpA

Fine Foods & Pharmaceuticals description

Founded in 2010 and headquartered in Verdellino, Italy, Fine Foods & Pharmaceuticals operates as a contract development and manufacturing organization for the pharmaceutical industry. The firm specialises in the distribution of oral solid forms for the pharmaceutical and nutraceutical industries. It also offers medical devices and technologies for granulation and packaging.

Fine Foods & Pharmaceuticals – Business breakdown[1]

ICON Plc

ICON description

Founded by John Climax and Ronan Lambe in June 1990 and headquartered in Dublin, Ireland, ICON operates as a clinical research organization, which engages in the provision of outsourced development services to the pharmaceutical, biotechnology, and medical device industries. It specialises in the strategic development, management and analysis of programs that support clinical development.

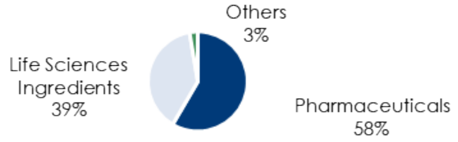
ICON – Business breakdown[1]

Jubilant Life Sciences Limited

Jubilant Life Sciences description

Founded on 21 June 1978 and headquartered in Noida, India, Jubilant Life Sciences engages in the provision of basic organic chemicals. It operates through the Life Science Ingredients and Others segments. The Life Science Ingredients segment provides specialty intermediates, nutritional products, and life science chemicals. The Others segment operates on the India branded pharmaceuticals.

Jubilant Life Sciences – Business breakdown[1]

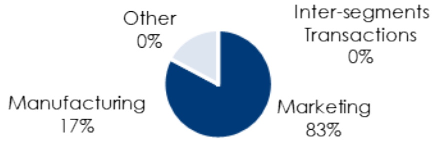


Laboratorios Farmaceuticos Rovi, S.A.

Laboratorios Farmaceuticos Rovi description

Founded on 21 December 1946 and headquartered in Madrid, Spain, Laboratorios Farmaceúticos Rovi engages in the research, development, manufacture, and marketing of small molecule and specialty biologic drugs. It operates through the following business segments: Manufacturing, Marketing and Other. Manufacturing obtains its income from service contracts that relate to the finalization of the pharmaceutical product production process for external entities and the manufacture of products to be subsequently marketed by other group companies. The Marketing segment purchases and sells pharmaceutical products. The Others segment includes other services, research, and development activities that are not significant for the group.

Laboratorios Farmaceuticos Rovi – Business breakdown[1]



LANXESS AG

LANXESS description

Founded on 1 July 2004 and headquartered in Leverkusen, Germany, LANXESS is a holding company, which engages in the provision of specialty chemicals. It operates through the following segments: Advanced Intermediates, Specialty Additives, Performance Chemicals, High Performance Materials, and Arlanxeo. The Advanced Intermediates segment consists of industrial chemical intermediates and a key player in the custom synthesis, and manufacturing of chemical precursors and specialty active ingredients. The Specialty Additives segment focuses on specialty additive chemicals. The Performance Chemicals segment covers application-oriented process, and functional chemicals operations. The High Performance Materials segment represents plastic activities in the engineering materials. The Arlanxeo segment refers to synthetic rubber activities.

LANXESS – Business breakdown[1]

PharmaNutra S.p.A.

PharmaNutra description

Founded by Andrea Lacorte and Roberto Lacorte in 2003 and headquartered in Pisa, Italy, Pharmanutra develops nutraceutical products and medical devices. Its Sroscaloidal Iron intends to restore articular and movement ability in osteoarticular affections, consisting of cetilar line.

PharmaNutra – Business breakdown[1]

Probi AB

Probi description

Founded in 1991 and headquarters in Lund, Sweden, Probi engages in the development and sale of probiotics. It operates through the Consumer Healthcare and Functional Food segments. The Consumer Healthcare segment develops, markets, and sells Probi probiotics. The Functional Food segment develops food that provides beneficial health effects.

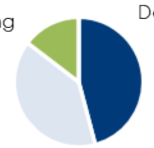
Probi – Business breakdown[1]

Recipharm AB Class B

Recipharm description

Founded by Lars Rickard Backsell and Thomas Bengt Eldered in 1995 and headquartered in Stockholm, Sweden, Recipharm engages in the manufacture of pharmaceuticals and contract development services for pharmaceutical companies. It operates through the following segments: Manufacturing Sterile and Inhalation (MFG-SI); Manufacturing Solids and Others (MFG-SO); Development and Technology (D&T); and Others and Eliminations. The MFG-SI segment includes manufacturing of products on behalf of pharmaceutical companies and covers sterile and inhalation technologies as well as liquid vials and ampoules, lyophilisates, blow-fill-seal products, and inhalation. The MFG-SO segment produces products on behalf of pharmaceutical companies and covers tablets, capsules, semi-solids, and non-sterile liquids. The D&T segment focuses on pharmaceutical development services.

Recipharm – Business breakdown[1]



Siegfried Holding AG

Siegfried Holding description

Founded by Samuel Benoni Siegfried in 1873 and headquartered in Zofingen, Switzerland, Siegfried Holding engages in the development and manufacture of active pharmaceutical ingredients for pharmaceutical clients with research and development programmes, related intermediates, and controlled substances. It also provides development and production services for finished dosage forms including sterile filling.

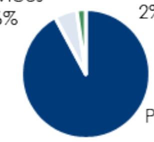
Siegfried Holding – Business breakdown[1]

Strides Pharma Science Ltd

Strides Pharma Science description

Founded by Arun N. Kumar on 28 June 1990 and headquartered in Bangalore, India, Strides Pharma Science Ltd. engages in the development, manufacture and distribution of Internet Protocol-led generics and bio-pharmaceutical products.

Strides Pharma Science – Business breakdown[1]



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Equity Rating Key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

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Target price and market price trend (-1Y)

Initiation of coverage

Historical recommendations and target price trend (-1Y)

Initiation of coverage

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Intesa Sanpaolo Research Rating Distribution (at October 2020)

Number of companies considered: 103	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	44	26	30	0	0
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(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

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Equity rating key (short-term horizon: 3M)

Short-term rating	Definition
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