

Company Note

Labomar

Expansion Capex Plan to Support Medium-Term Growth

With the 2022 results release the company also announced a 2024-26 expansion capex plan aimed at doubling the Labomar Spa production capacity. We believe that the announced plan could add value to the stock even considering the quite extended time frame and the related execution risk.

FY22 results

FY22 results were slightly above forecasts at the EBITDA level and slightly short of expectations for EBIT and net income, mostly due to higher than estimated depreciation.

Outlook and estimates

Management guided for a double-digit top-line increase in 2023, mostly driven by the higher volumes expected from multi-national customers and indicated that it aims at protecting operating margins through selected price, production efficiencies, the sale of R&D services and the application of an energy surcharge up to when it will be necessary. Management also plans to implement an expansion capex plan over the 2024-26 period for a total amount of EUR 30-35M, which should allow to approximately double the Labomar Spa production capacity (in 2022, Labomar SpA revenue amounted to EUR 70.7M). Based on the announced results and new investment plan, we fine-tune our 2023E-25E P&L forecasts, while increase our net debt expectations factoring in the impact of the expansion capex plan to be implemented in 2024-26. According to our understanding, the new capacity should start to generate revenue since the second half of 2026 and is aimed at supporting the company's top line and profitability growth over the 2026-30 period.

Valuation

We value Labomar using a DCF approach with a peers' multiples comparison as a cross-check. We also highlight that the last could turn out to be quite penalising as it fully reflects the impact of the announced expansion capex plan without capturing the potential benefits. Based on our 2023E-27E estimates and our updated DCF model parameters, we raise our target price to **EUR 10.3/share** (EUR 9.6/share previously) and considering the 11% potential price upside, we reiterate **our BUY rating**.

Intesa Sanpaolo changed its long-term 12M horizon rating key on 3 April 2023; please refer to the ISP Equity Rating Reconciliation Table for further details at the following link: <https://group.intesasanpaolo.com/it/research/equity---credit-research>

5 April 2023: 13:36 CET
Date and time of production

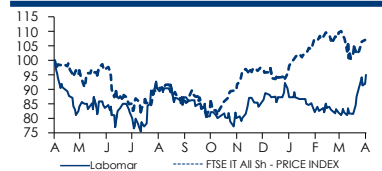
BUY

Target Price: EUR 10.3
(from EUR 9.6)

Italy/Healthcare
Results

EGM

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



Labomar - Key Data

Price date (market close)	04/04/2023
Target price (EUR)	10.3
Target upside (%)	11.35
Market price (EUR)	9.25
Market cap (EUR M)	170.98
52Wk range (EUR)	9.74/7.36

Price performance %	1M	3M	12M
Absolute	15.9	8.8	-5.0
Rel. to FTSE IT All Sh	19.3	0.3	-10.8

Y/E Dec (EUR M)	FY22A	FY23E	FY24E
Revenues	91.82	100.3	109.7
EBITDA	16.55	18.82	20.73
EBIT	9.41	11.42	12.16
Net income	6.13	7.83	8.48
EPS (EUR)	0.33	0.42	0.46
Net debt/-cash	27.64	33.48	37.53
Adj P/E (x)	25.8	21.8	20.2
EV/EBITDA (x)	11.2	10.9	10.1
EV/EBIT (x)	19.8	17.9	17.2
Div ord yield (%)	1.2	1.4	1.5

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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FY22 Results

FY22 revenues amounted to EUR 91.8M, with a 40.4% yoy increase vs. EUR 65.4M in 2021; on a LFL basis, the yoy growth rate was approx. 24%, mainly driven by the rebound in the sale of probiotics and “cough & cold” products following the 2021 Covid-related decline and to the significant growth in revenues of the main international accounts.

The FY22 EBITDA margin increased 260bps yoy, benefiting from the better fixed costs absorption, production efficiencies and a higher service content of the products sold. No significant surprises emerged below the EBITDA line. Note that last year the group's pre-tax income had benefited from net one-off gains of EUR 3.7M: adjusted for such an impact, the 2022 bottom line would have shown a significant yoy increase, more in line with the group's operating performance.

Net debt at 31 December was EUR 27.6M, slightly lower than the EUR 28.2M posted at end-2021: according to our calculations, the gross cash flow of EUR 13.3M was almost entirely absorbed by net investments for EUR 6.7M, the NWC increase for approx. EUR 3M and the dividend distribution for EUR 1.8M.

The BoD will propose a dividend distribution of EUR 0.1/share: the Shareholders' Meeting is to be held on 28 April 2023 in first call and, where required, on 4 May 2023 in second call.

Labomar - FY22 results

EUR M	2H21A	FY21A	2H22A	2H22E	A/E %	yoy %	FY22A	FY22E	FY22C	A/E%	A/C%	yoy %
Sales	34.9	65.4	50.0	50.2	-0.4	43.3	91.8	92.0	88.1	-	-	40.4
EBITDA	5.6	10.1	8.5	8.2	3.4	49.6	16.6	16.3	15.6	1.7	6.1	63.9
% on sales	16.2	15.4	16.9	16.3	-	-	18.0	17.7	17.7	-	-	-
Adj. EBITDA	6.1	10.1	8.5	8.2	3.4	38.6	16.6	16.3	-	1.7	-	63.9
% on sales	17.5	15.4	16.9	16.3	-	-	18.0	17.7	-	-	-	-
EBIT	0.0	2.4	4.7	5.0	-6.8	NM	9.4	9.7	8.9	-3.5	6.1	293.6
% on sales	0.1	3.7	9.4	10.0	-	-	10.2	10.6	10.1	-	-	-
Adj. EBIT	0.5	2.4	4.7	5.0	-6.8	NM	9.4	9.7	-	-3.5	-	293.6
% on sales	1.4	3.7	9.4	10.0	-	-	10.2	10.6	-	-	-	-
Pre-tax profit	5.4	9.0	3.7	4.5	-16.4	-30.5	8.5	9.2	8.4	-8.0	1.4	-5.8
Net profit	5.4	8.3	3.0	3.6	-16.4	-44.9	6.1	6.7	6.3	-8.7	-2.1	-26.1

NA: not available; NM: not meaningful; A: actual; E: estimates; C: Bloomberg consensus; Source: Company data and Intesa Sanpaolo Research

Earnings Outlook

Based on the recent business development and current order backlog, management guided for a double-digit top-line increase in 2023, mostly driven by the higher volumes expected from multi-national customers and the tail effect of the price increases gradually implemented in 2022. Management also highlighted that the raw materials and energy prices remain at a reasonable level and that it aims at protecting operating margins through selected price, production efficiencies, the sale of R&D services and the application of an energy surcharge up to when it will be necessary.

Management also plans to implement an expansion capex plan over the 2024-26 period for a total amount of EUR 30-35M on top of EUR 6.5M to be invested in 2023 for the expansion of the liquids production lines and of the already announced 2022-24 investment of EUR 13.5M (out of which EUR 10M left) for the construction of a new logistics hub. While the last should allow at regime by 2025 a reduction in logistic costs estimated at approx. EUR 1M/year, production efficiencies and improvements in the product quality control, the 2024-26 investment plan should allow to approximately double the Labomar Spa production capacity (in 2022, Labomar SPA revenue amounted to EUR 70.7M).

Based on the announced results and new investment plan, we fine-tune our 2023E-25E P&L forecasts, while raise our net debt expectations factoring in the impact of the expansion capex plan to be implemented in the 2024-26 period. According to our understanding, the new capacity should start to generate revenue since the second half of 2026 and is aimed at supporting the company's top-line and profitability growth over the 2026-30 period.

Labomar – Estimates revision

EUR M	2023E			2024E			2025E
	New	Old	chg %	New	Old	chg %	New
Value of Production	101.5	101.9	-0.4	111.1	111.6	-0.4	121.5
EBITDA	18.8	18.5	1.7	20.7	20.4	1.7	24.0
% margin	18.5	18.2		18.7	18.3		19.8
Rec. EBITDA	18.8	18.5	1.7	20.7	20.4	1.7	24.0
% margin	18.5	18.2		18.7	18.3		19.8
EBIT	11.4	11.0	3.8	12.2	12.2	-0.3	14.0
% margin	11.2	11.2		10.9	11.3		11.5
Net Profit	7.8	7.6	3.0	8.5	8.6	-1.4	9.9
Net debt/-cash	33.5	29.7	12.7	37.5	28.9	29.9	34.1

Source: Intesa Sanpaolo Research estimates

Valuation

We value Labomar using a DCF approach with a peers' multiples comparison as a cross-check.

DCF model

Our DCF model is based on the following key assumptions:

- We roll-over our 5-year forecasts period to 2023E-27E from 2022E-26E previously and considering the announced 2024-26 investment plan to double the Labomar Spa production capacity we factored in our forecasts the impact of both the increased investment level and, since 2H26E, the higher top-line growth potential;
- A 7.21% WACC (6.81% previously), incorporating a risk-free rate of 4.00% (3.50% previously), an equity risk premium of 6.5% (unchanged), a beta of 0.72x (unchanged, source: Bloomberg) and a target gearing ratio (D/D+E) at 20% (unchanged);
- A perpetuity growth rate at 1.0% (unchanged), 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.

Our DCF model suggests a fair value of EUR 10.3/share (EUR 9.6/share previously). Note that the fair value increase is mostly related to the expected impact of the 2024-26 expansion capex plan, which compared to our previous valuation implies a reduction of the PV of the 2023-27 cumulated operating cash flow while increasing the expected terminal value.

Labomar – DCF valuation

EUR M	
PV of FOpCF 23-27	19
Perpetual growth rate %	1.0
Terminal Value	298
PV of terminal value	201
Enterprise Value	220
Net Debt (+)/Cash(-) 2022A	27.6
Employee termination indemnities	2.6
Equity Value	190
Minorities	0.0
Group Equity value	190
No. of shares (M)	18.5
Fair value (EUR)	10.3

Source: Intesa Sanpaolo Research estimates

Peers' multiples

Multiples comparison

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 select our peers' sample 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 2023-24 EV/EBITDA, EV/EBIT and P/E multiples and the operating profitability of Labomar's peers included in our sample.

Peers' sample market multiples (2023E-24E)

(x)	Price	Mkt Cap (M) (Loc.Ccy)	Currency	EV/EBITDA		EV/EBIT		P/E	
				2023E	2024E	2023E	2024E	2023E	2024E
Dermapharm	39.7	2139	Euro	9.6	9.6	12.4	11.6	15.2	14.6
Catalent	62.3	11211	USD	12.3	10.9	16.3	14.8	19.7	17.7
ICON	210.8	17231	USD	12.4	11.0	13.3	11.6	16.4	14.2
Siegfried	662.0	2934	Sw.Fr.	11.6	10.3	16.8	15.1	20.8	18.4
LANXESS	37.7	3258	Euro	6.3	5.6	15.9	12.1	17.4	10.7
Bachem Holding	89.3	6694	Sw.Fr.	37.4	27.7	47.7	35.9	56.1	42.0
Laboratorios Rovi	39.2	2119	Euro	11.1	9.6	12.7	11.0	17.0	14.9
Boiron SA	39.0	683	Euro	4.3	3.4	6.4	4.9	15.0	13.1
Fine Foods	8.3	184	Euro	9.0	6.8	21.2	12.5	25.2	15.5
Probi AB	176.0	2005	Sw.Krona	9.6	8.6	17.3	15.0	26.9	24.1
BioGaia	89.4	8692	Sw.Krona	18.6	16.0	20.0	17.1	29.8	26.1
PharmaNutra	54.9	531	Euro	22.2	18.4	24.5	20.3	34.9	30.2
Labomar*	9.1	168.2	Euro	10.9	10.1	17.9	17.1	21.5	19.8
Median (ex-Labomar)				11.6	10.3	16.3	14.8	19.7	17.7
Labomar pr.(+)/disc.(-) %				-6.5	-2.5	10.1	15.7	9.0	11.8

Priced at market close of 04/04/2023; Source: FactSet and *Intesa Sanpaolo Research estimates

Peers' sample - EBITDA and EBIT margin (2023E-24E)

(%)	EBITDA margin		EBIT margin	
	2023	2024	2023	2024
Dermapharm Holding SE	27.9	26.7	21.6	22.1
Catalent Inc	26.0	26.9	19.7	19.8
ICON Plc	20.5	20.7	19.0	19.5
Siegfried Holding AG	20.9	21.6	14.4	14.7
LANXESS AG	11.4	12.2	4.5	5.6
Bachem Holding AG Class B	29.8	31.5	23.4	24.3
Laboratorios Farmaceuticos Rovi, S.A.	25.1	25.3	21.9	22.1
Boiron SA	17.0	17.9	11.4	12.3
Fine Foods & Pharmaceuticals N.T.M. SpA	10.9	12.6	4.6	6.9
Probi AB	27.4	27.3	15.1	15.7
BioGaia AB Class B	34.1	34.7	31.9	32.5
PharmaNutra S.p.A.	23.9	25.0	21.8	22.6
Labomar*	18.8	18.9	11.4	11.1
Median (ex-Labomar)	25.1	25.3	19.7	19.8

Source: FactSet and *Intesa Sanpaolo Research estimates

An analysis of Labomar's peers multiples shows a mixed picture: at the current price, the stock trades at a discount on the EV/EBITDA 2023E-24E peers' sample median and at a premium on EV/EBIT and P/E multiples, partly due to the acquisition impact. While for comparison purposes, we prefer to look at EV/EBITDA multiples, which better reflect the group's operating performance and its cash generation, we think that a discount to peers would be justified considering Labomar's lower size and EBITDA margin. Yet, we note that the peers multiples analysis, while starting to reflect the higher level of capital expenditure planned since 2024, is not able to capture any potential positive impact of the announced 2024-26 expansion capex plan expected on the group's P&L since the 2H26.

Conclusions

Based on the above considerations, we believe that the stock should be valued using a DCF methodology with the peers' multiples as a cross check. In evaluating the stock, we would point out that:

- The stock liquidity is still quite low, as the free float amounts to 15.8% of the total share capital for a market value at the current price of approx. EUR 27M;
- The company has a small size compared to its peers;

- Since 2021, Labomar has started to build its M&A track record with the Welcare and Labiotre acquisitions, showing the ability to acquire profitable companies at reasonable multiples;
- Through its shareholdings in Project Zero (5.56%) and in Labomar Next (51%), the company has entered the vertical farm industry with a project for the cultivation of medicinal plants, which is gaining momentum and is aimed at developing new nutraceutical active ingredients, new functional dressings (superfoods) and at possibly cultivating medical cannabis.

In summary, despite the hurdle from Covid-19, we think management is delivering on its IPO promises in terms of both organic commercial expansion and M&A activity. Based on our 2023E-27E estimates and our updated DCF model parameters, we raise our target price **to EUR 10.3/share** (EUR 9.6/share previously) and considering the 11% potential price upside, we reiterate **our BUY rating**.

New EUR 10.3/share TP (from EUR 9.6/sh.); BUY rating confirmed

Labomar – Key Data

Rating	Target price (EUR/sh)		Mkt price (EUR/sh)			Sector
BUY	Ord 10.3		Ord 9.25			Healthcare
Values per share (EUR)	2020A	2021A	2022A	2023E	2024E	2025E
No. ordinary shares (M)	18.48	18.48	18.48	18.48	18.48	18.48
Total no. of shares (M)	18.48	18.48	18.48	18.48	18.48	18.48
Market cap (EUR M)	125.05	202.45	158.20	170.98	170.98	170.98
Adj. EPS	0.39	0.45	0.33	0.42	0.46	0.53
BVPS	2.1	2.4	2.6	3.0	3.3	3.7
Dividend ord	0.11	0.10	0.10	0.13	0.14	0.16
Income statement (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Revenues	61.06	65.41	91.82	100.3	109.7	120.0
EBITDA	11.33	10.12	16.55	18.82	20.73	24.03
EBIT	7.28	2.39	9.41	11.42	12.16	14.01
Pre-tax income	6.90	8.99	8.47	10.72	11.46	13.31
Net income	6.10	8.27	6.13	7.83	8.48	9.85
Cash flow (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Net income before minorities	6.1	8.3	6.1	7.8	8.5	9.9
Depreciation and provisions	4.0	7.7	7.1	7.4	8.6	10.0
Others/Uses of funds	-0.9	-28.8	-0.8	0	0	0
Change in working capital	-1.7	-0.0	-3.0	-1.7	-1.2	-1.3
Operating cash flow	7.6	-19.2	9.5	13.6	15.9	18.6
Capital expenditure	-5.7	-3.3	-7.1	-17.6	-17.6	-12.6
Financial investments	0	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0	0
Free cash flow	1.8	-22.5	2.4	-4.0	-1.7	6.0
Dividends	1.4	2.0	1.8	1.8	2.3	2.5
Equity changes & Non-op items	25.0	0	0	0	0	0
Net cash flow	28.2	-20.5	4.3	-2.2	0.7	8.6
Balance sheet (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Net capital employed	41.7	58.1	62.7	74.5	84.7	88.5
of which associates	0	0	0	0	0	0
Net debt/-cash	3.4	28.2	27.6	33.5	37.5	34.1
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Net equity	38.2	44.5	48.8	54.8	60.9	68.2
Minorities value	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise value	128.5	230.7	185.9	204.5	208.5	205.1
Stock market ratios (x)	2020A	2021A	2022A	2023E	2024E	2025E
Adj. P/E	17.6	24.5	25.8	21.8	20.2	17.4
P/CFPS	12.6	21.7	11.9	11.2	10.0	8.6
P/BVPS	3.3	4.5	3.2	3.1	2.8	2.5
Payout (%)	22	24	30	23	28	26
Dividend yield (% ord)	1.6	0.9	1.2	1.4	1.5	1.7
FCF yield (%)	1.3	-11.3	1.5	-2.3	-1.0	3.5
EV/sales	2.1	3.5	2.0	2.0	1.9	1.7
EV/EBITDA	11.3	22.8	11.2	10.9	10.1	8.5
EV/EBIT	17.6	96.4	19.8	17.9	17.2	14.6
EV/CE	3.1	4.0	3.0	2.7	2.5	2.3
D/EBITDA	0.30	2.8	1.7	1.8	1.8	1.4
D/EBIT	0.47	11.8	2.9	2.9	3.1	2.4
Profitability & financial ratios (%)	2020A	2021A	2022A	2023E	2024E	2025E
EBITDA margin	18.6	15.5	18.0	18.8	18.9	20.0
EBIT margin	11.9	3.7	10.2	11.4	11.1	11.7
Tax rate	11.6	8.1	29.5	27.0	26.0	26.0
Net income margin	10.0	12.6	6.7	7.8	7.7	8.2
ROCE	17.5	4.1	15.0	15.3	14.4	15.8
ROE	25.4	20.0	13.1	15.1	14.7	15.3
Interest cover	-30.3	10.7	-12.0	-16.9	-18.0	-20.7
Debt/equity ratio	8.9	63.3	56.6	61.1	61.6	49.9
Growth (%)		2021A	2022A	2023E	2024E	2025E
Sales		7.1	40.4	9.2	9.4	9.3
EBITDA		-10.7	63.6	13.7	10.1	15.9
EBIT		-67.1	NM	21.4	6.5	15.2
Pre-tax income		30.4	-5.9	26.7	6.9	16.1
Net income		35.5	-25.8	27.7	8.4	16.1

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 VoP 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

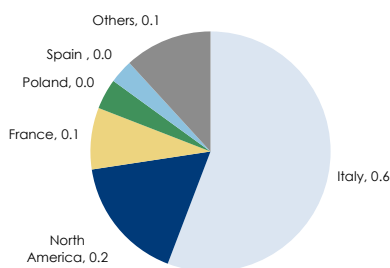
Key data

Mkt price (EUR)	9.25	Free float (%)	15.8
No. of shares	18.48	Major shr	LBM Holding
52Wk range (EUR)	9.74/7.36	(%)	67.3
Reuters	LBM.MI	Bloomberg	LBM IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	15.9	-1M	19.3
-3M	8.8	-3M	0.3
-12M	-5.0	-12M	-10.8

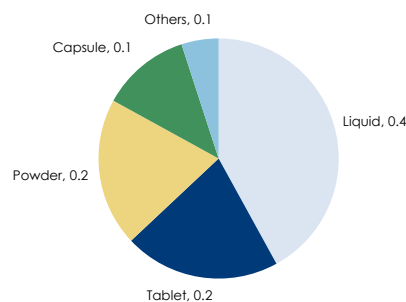
Estimates vs. consensus

EUR M (Y/E Dec)	2022A	2023E	2023C	2024E	2024C	2025E	2025C
Sales	91.82	100.3	95.90	109.7	104.1	120.0	NA
EBITDA	16.55	18.82	17.81	20.73	20.20	24.03	NA
EBIT	9.41	11.42	10.12	12.16	11.97	14.01	NA
Pre-tax income	8.47	10.72	9.53	11.46	11.33	13.31	NA
Net income	6.13	7.83	7.13	8.48	8.58	9.85	NA
EPS (€)	0.33	0.42	0.39	0.46	0.46	0.53	NA

Sales breakdown by geography (%)



Sales breakdown by dosage form (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 04/04/2023)

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 eligible for listing have revenues below 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 around EUR 1Bn.

Disclaimer

Analyst certification

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Equity rating key: (long-term horizon: 12M)

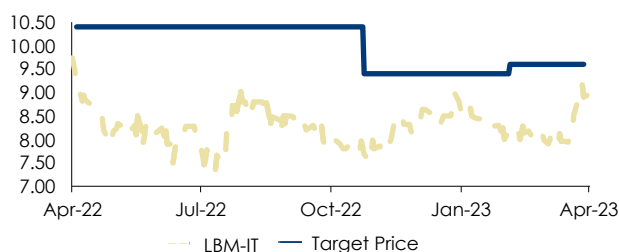
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Equity Rating Key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 10% higher than the market price.
HOLD	If the target price is in a range 10% below or 10% above the market price.
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TENDER SHARES	We advise investors to tender the shares to the offer.
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Historical recommendations and target price trends (long-term horizon: 12M)

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Target price and market price trend (-1Y)**Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
03-Apr-23	Under Review	Under Review	9.0
07-Feb-23	ADD	9.6	8.2
27-Oct-22	ADD	9.4	7.7
07-Apr-22	ADD	10.4	9.3

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at April 2023)**

Number of companies considered: 131	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	63	11	21	0	0
of which Intesa Sanpaolo's Clients (%)**	75	45	43	0	0

* Last rating refers to rating as at end of the previous quarter; ** 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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