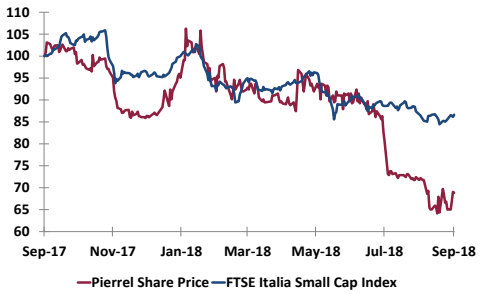
NOT RATED AS INITIATION OF COVERAGE DURING CAPITAL STOCK INCREASE

Pierrel - 1Y Performance



Source: S&P Capital IQ - Note: 13/09/2017=100

Company data

ISIN number	IT0004007560
Bloomberg code	PRL IM
Reuters code	PRL.MI
Sector	Pharma & Healthcare
Stock market	MTA (Italy)
Share Price (€)	0.154
Date of Price	13/09/2018
Shares Outstanding (m)	161.7
Market Cap (€m)	24.8
Market Float (%)	30.4%
Daily Volume	182,392
Avg Daily Volume YTD	233,618

Share price performance

	1M	3M	1Y
Pierrel - Absolute (%)	-4.7%	-23.1%	-31.2%
FTSE Italia Small Cap (%)	0.2%	-4.2%	-8.7%
1Y Range H/L (€)		0.24	0.14
YTD Change (€)/%		-0.05	-25.3%

Source: S&P Capital IQ

Analysts

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Conflicts of interest: EnVentCM is among the advisors of the private placement in course and would receive commissions for the services provided as described in the offering prospectus published on www.pierrelgroup.com. More details at pages 49-50.

The Italian Pharma dental anesthetics and equipment specialist, targeting wider global hits after US breakthrough

A champion within the Italian Pharma production and export leadership in Europe

Pierrel, listed on the main market of the Italian Stock Exchange, is among global suppliers of dental anesthetics, under their proprietary brand Orabloc® or distributor-branded products. It specializes in proprietary, fully-developed in-house products with solid brand recognition in addition to a highly reliable quality Contract Manufacturing activity.

Pierrel is a supplier and partner of choice to dental care companies and distributors who rely on suppliers that guarantee state-of-the-art manufacturing capabilities. High manufacturing standards and product quality have awarded Pierrel with accreditations by the US FDA and EMA.

Sales in 2017 were €17m, over 90% to export markets.

USA achievements, a starting point to be replicated in other markets

Pierrel's flagship product, Orabloc®, a dental anestethic based on Articaine, has a market share close to 20% in the USA. Articaine is the most used anesthetic in Europe, Russia and CIS countries. Articaine and Lidocaine share the market equally in the USA, while the less expensive Lidocaine is leader in emerging markets. Pierrel, as one of the largest global producers of Lidocaine and Articaine, is bound to further expand sales in the US and enter new markets, mainly countries with growing healthcare spending, where authorizations have been already obtained or are in process.

Rights issue to double production capacity

In July 2018, Pierrel announced a rights issue of up to 216,316,292 ordinary shares at an offer price of €0.161, to raise up to €34.8m, partly in option and partly through a private placement. €5.2m in cash have been raised in the option phase now closed. The private placement of up to 108,880,064 ordinary shares at a subscription price of €0.161 per share, to raise up to €17.5m, will last until 6 November 2018. Proceeds will be mainly used to add a cartridge production line, to make development and additional registrations.

Top-line visibility in the mid-term, projections based on solid ground

The growing demand for dental anesthetics and a continued relationship with industry leading dental care distributors in Europe and North America steadily drive sales growth, a solid ground for Pierrel's competitive position and financial performance. Its business model, logics and Pierrel's track record provide high visibility of the top-line, also thanks to CMO contracts designed for the mid/long-term and Orabloc®'s success.

Equity inflows for the value building roadmap

Pierrel has completed an investment cycle and is ready to enter a new one, with the aim of doubling its production capacity and capturing unexploited market areas. We believe that the best way to capture the medium-term impact of such changes is to assess the value of Pierrel both in the pre-money and post-money perspectives. Our projections and models yield a pre-money valuation range of €29-38m, average €0.205 per share, and a post-money valuation range of €47-53m, average €0.262 per share. The implied values per share, in the range of €0.205-0.262, indicate a premium in the range 30-60% on the €0.161 offer price for new shares in the share issue in process.

1. INVESTMENT CASE

Company

Pierrel SpA (PRL) is a global supplier of dental anesthetics and other products, specializing in CMO (Contract Manufacturing Organization) of injectable products under their proprietary brands or distributor-branded products. The CMO Business Unit provides a range of manufacturing services for injectable and oral drug formulations for pharmaceutical companies that have chosen to outsource their production processes. The Pharma BU manages the registration and marketing of proprietary dental anesthetics branded Pierrel, entirely manufactured in-house, as well as the development and marketing of innovative medical devices and new drugs. Pierrel recently completed its operational and financial turnaround after the divestment of a loss-making non-core business.

- Sales (2017): €17.3m, +19% YoY - (2018E Management guidance): €19.3m
- Geographical breakdown (2017): Europe 51%, North America 49%
- Market share of the own anesthetic brand Orabloc® for Articaine, its market segment in USA (2017): 20%
- Employees (March 2018): 88

Drivers

Industry drivers

Dental anesthesia market steadily growing. The increasing dental health checkups, introduction of new products, new investments in dental research and increasing geriatric population are the key factors driving growth of the dental anesthesia market, expected to grow steadily at a moderate pace of around 2% globally.

Dental anesthetics coverage shows room for growth. The dental anesthesia market is segmented mainly into Lidocaine, Mepivacaine, Prilocaine, Bupivacaine, Articaine. In the USA the use of Lidocaine exceeds that of Articaine, because Lidocaine was introduced in 1970s, while Articaine in 2000s; in addition, Articaine is more expensive than Lidocaine. Articaine is the market leader in Europe, Russia, CIS countries. Articaine and Lidocaine share the market equally in the USA. Lidocaine is the market leader in emerging markets. Pierrel, as one of the largest global producers of Lidocaine and Articaine, is in the best position to enter new markets and benefit of the growing demand.

On the tail of pharma trend, CMO on the rise. Worldwide pharmaceutical market is estimated to reach $1.5trn in 2021E, from $1.1trn in 2015 (5.5% CAGR), according to Results Healthcare, a global corporate advisory firm. As incomes rise and populations age, drugs costs continue to rise and the growing demand for lower cost alternatives to novel therapies surges, due to time and investment necessary to bring complex drugs to market. Since many traditional pharma companies lack such expertise, they often turn to CMOs who have the expertise in developing and manufacturing generics and biologic drugs. The global market for

CMO, estimated worth $71.5bn in 2015, is expected to grow to $105bn by 2021E, according to Results Healthcare (Source: Results Healthcare, *Pharma & Biotech*, 2017).

Product and service quality driving demand for CMO. CMO accelerates product development timeframes and go-to-market, reduces costs in order to better compete internationally and efficiently addresses regulatory and compliance issues. Key factors are product and service quality, while price is a second-tier selection criteria.

Patent expiry. The expirations of patents in the mid-term will affect several products made by originators, representing new growth opportunities for CMO players. As aging patents begin to expire and competition heats up, pharma firms are recognizing the urgency in leveraging novel, proprietary technologies to achieve product differentiation - expertise and resources provided by CMOs.

Dental equipment market growing rapidly. The global dental equipment market is expected to grow steadily in the upcoming years, at a 6.5% CAGR in 2018-23E, according to Mordor Intelligence, driven by the growing ageing population, increasing demand for cosmetic dentistry, increasing dental diseases, innovation in dental products, diagnostics and treatment-related technologies. North America is leading the global dental equipment market, Europe following closely. Asian countries, such as India, China, South Korea, Malaysia, Thailand, and Singapore are likely to provide a growing market due to their increasing per capita income and investments in healthcare (Source: Mordor Intelligence, *Dental Equipment Market 2018-2023*, July 2018).

Management of hedge risk and "gap capacity". Pharmaceutical companies often outsource to balance their risk and buy time until key milestones in clinical trials or market uptake are met and they can justify investing in-house. Also, outsourcing is a strategic option for large pharma companies switching over parts of their pipeline to biopharma and new market entrants and start-ups developing pharmaceuticals lacking existing manufacturing capabilities.

Company drivers

Reliable manufacturing capabilities and high product quality, combined with strong FDA and EMA record. In the CMO business, state-of-the-art production plants and manufacturing of effective and quality products are key to obtain approvals from drugs associations. PRL leverages on this key competitive advantage as a fundamental requirement to enlarge customers portfolio and compete with the CMO leaders. Pierrel's production plant is authorized by AIFA (Italian Medicines Agency), EMA (European Medicines Agency) and FDA (US Food and Drug Administration) for the production of aseptic injectable drugs.

One-stop full service provider. Pierrel combines the development, registration and licensing of new drugs and medical devices with drug manufacturing in the dental anesthesia market, fully serving its customers. Offering a multitude of services creates the opportunity for PRL to sell more products to the same customer, as well as develop lock-in models through increased switching costs. In doing so, large and small customers are fully serviced improving time and costs efficiency.

Long-term relationships with main industry distributors, leading to high revenue visibility. Thanks to over 60 years of history, Pierrel relies on its well-established presence in Europe and North America. The nature of the business and Pierrel's track record give high visibility on the top-line, given that CMO contracts generally last a minimum of two years and Pharma contracts usually start from five years. In addition, both are often automatically renewed.

Established presence in Europe and USA and potential expansion into countries with rapid growth. Pierrel's flagship product, Orabloc®, dental anestethic based on Articaine, has a market share of around 20% in the USA. Exports to North America account for around 49% of 2017 total revenues.

Technical know-how. Pierrel has strong technical capabilities in drug development, process development and scale-up, and is well-suited to production process development, able to increase yields while reducing COGS. In fact, a CMO's technical know-how is one of the most important factors to consider when selecting an outsourcer, along with its track record of quality, compliance inspection and supply flexibility.

Highly skilled and committed management team with a long track record in the pharmaceutical sector. Pierrel management team has post-graduate degrees in pharmaceutical and chemical majors. Around 35% of employees have specializations or proven pharmaceutical, chemical and quality control technical know-how.

Production capacity to double by 2020. In order to sustain the future demand and especially its marketing program in the USA and other selected countries, Pierrel has planned to increase its production capacity up to doubling, adding a new production line for cartridges. The start-up of the new production line is currently scheduled for 2020. The investment over 2018-19E is estimated in €9m, including around €2m development and registration costs for the marketing authorization of a new molecule to be marketed in North America.

Rationale of marketing strategy. In the CMO BU growth in the volume of cartridges and new pharmaceutical specialties on the North American market. In the Pharma BU, growth in sales of Orabloc® through agreements with the largest global US and European dental care distributors; launch of products in new markets (Far East, Middle East, CIS regions, Africa) where marketing authorizations have been already obtained.

Operational leverage. Overheads reduction in 2017, still undergoing in 2018, together with the planned investment to double production capacity, should generate significant cost efficiencies in the coming years, leading to an improved operational leverage and increasing operating margins.

Challenges

Revenue concentration. As of May 2018, the two top customers in the CMO BU account for

46% of consolidated revenues. In the Pharma BU, the 15 top customers account for 54% of revenues.

Contract duration. CMO and Pharma contracts, despite being long-term contracts generally lasting at least 2-5 years, are subject to renewal and in most cases do not require a minimum supply.

Execution delivery risk. Delivering products and services not in line with regulation and customer expectations due to cost/time overruns, and quality issues, may impact margins and reputation. Any unplanned interruption or limitation of the production capacity of the Capua plant could lead to delays or interruptions in the delivery of products.

Reliance on key suppliers. The choice of suppliers follows strict selection criteria that ensure adequate levels of service or that have particular skills or qualifications according to the GMP standards, as well as the necessary authorizations issued by AIFA and the Italian Ministry of Health. The authorization process for the selection of a qualified supplier or for its replacement can represent an issue as to time and charges and is subject to several authorizations. The top ten suppliers of the Group accounted for 82% of raw materials as of May 2018, compared to 90% as of December 2017, 96% as of December 2016 and 93% as of December 2015.

2. PROFILE

The Italian dental anesthetics and equipment specialist

Pierrel, an Italian pharmaceutical group, specializes in the development and manufacturing of dental anesthetics, with its main proprietary product known with the brand Orabloc®, and injectable drugs and other products. Pierrel is the partner of choice to pharmaceutical and dental care firms relying on suppliers that guarantee state-of-the-art manufacturing capabilities. Its consolidated presence on the market is grounded on high-standards in the manufacturing process, and product quality, which has led the Company to achieve accreditations by the US FDA and other international drug associations, proof of outstanding pharma production capabilities.

Pierrel - Product portfolio

Product	Therapeutic area	Notes	Market
 Orabloc® - Articaine 4% with epinephrine 1:100.000/1:200.000	Dental Anesthetic	Approved and registered in: USA (2010), Russia (2010), Canada (2011), Europe (2013) under a DCP procedure	USA, Canada, Poland, Germany, Taiwan, Serbia, Kosovo, Russia
Articaine Pierrel 4% with epinephrine 1:100.000/1:200.000	Dental Anesthetic	Approved in Italy (2009)	Italy
Mepivacaine Pierrel 3%/2% with epinephrine 1:100.000	Dental Anesthetic	Approved in Italy (2009)	Italy
Lidocaine Pierrel 2% with epinephrine 1:80.000	Dental Anesthetic	Approved in Italy (2009)	Italy
GOCOLES	Glasses for oral cancer detection	Patent owned Partnership with Univet CE Marked in Europe Registration in USA	USA, UK, Italy, Canada
 Orabloc® injector	Single-use disposable safety syringe	CE marked in Europe Pharma registration in Europe and USA (ongoing) Marketing license	Poland, Germany, Italy, UK

Source: Company data

Pierrel - Projects in the Pipeline

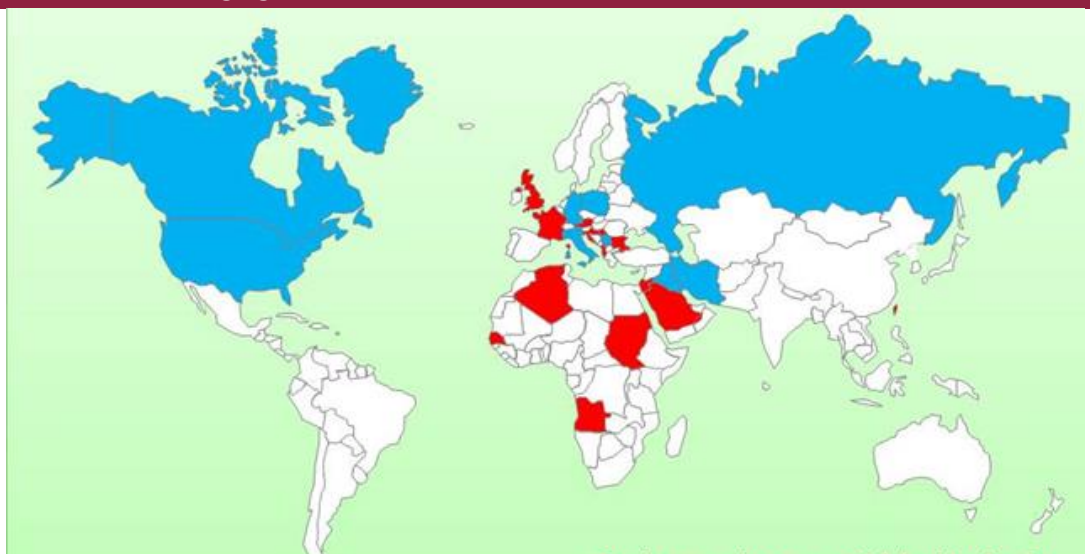
Project	Therapeutic area	Notes	Market
 Ubigel	Gel for periodontal diseases	R&D study on going Division patent and worldwide marketing license owned by Pierrel	Worldwide
New drugs USA	Dental Anesthetic	Pharma already distributes new drugs in other markets Launch will follow the FDA approval	USA

Source: Company data

International presence

Pierrel has an established presence in Europe (51% of 2017 sales) and North America (49% of 2017 sales). Branded products are sold in the US, Canada, Italy, Russia, Germany, Poland. Registrations have been already granted in Kosovo, Serbia, Iran, Iraq, Sudan, Jordan. Pierrel's injectors are distributed in Austria, UK and France, where the Company is currently looking for anesthetics' distributors. Registrations are ongoing in UK, Germany, Poland, Italy, Africa and Middle East. Products under CMO contracts are distributed in Europe, Australia and Middle East.

Pierrel - Presence of branded products in Europe and USA, targeting uncovered European countries and emerging markets



Source: Company data - Note: Blue areas indicate countries where Pierrel products are distributed, red areas indicate targeted geographies (some European uncovered countries, Africa, Middle East)

History and key developments

Global CMO player step by step

Pierrel - Milestones and key acquisitions	
2005	• Establishment of Pierrel Srl by P. Farmaceutici • Acquisition of 51% of PharmaPart AG
2006	• IPO on the Italian Stock Exchange (MTA) • Purchase of a dental anesthetic manufacturing plant from Dentsply in the USA • Start of activities for the FDA submission of the dental anesthetics Orabloc® and qualification of the Capua plant
2007	• Acquisition of 85% of the German CRO IFE Group • Acquisition of 100% of Goodwill Research Kft
2008	• Acquisition of 100% of Hyperphar Group • Acquisition of the residual 49% of PharmaPart AG • AIFA authorization to start production in the Capua plant
2009	• Acquisition of Farma Resa IMP and of Encorium USA
2010	• Set up of Research BU: Pierrel Research International AG • Set up of Pharma BU
2013	• Contribution in kind of Pierrel Research in Therametrics AG
2014	• Agreement between Pierrel Pharma and Univet to produce GOCCLES
2015	• Rescheduling of Pierrel Group net debt • Reorganization plan for Therametrics
2016	• Financial restructuring
2017	• Shareholders Meeting approval of capital increase up to €35m • TRCDO Division completed the business combination with Relief Therapeutics SA

Source: Company data

Financial restructuring

Turnaround and return to profitability

The investment in Relief Therapeutics Holding AG, a non-core business pharma research company with several subsidieries, listed at the Zurich Stock Exchange, had generated substantial losses in the last years.

In order to rebalance the financial position, cover losses, reconstitute Shareholders' Equity and finance capex to increase production capacity, a capital Increase up to €34.8m has been recently launched.

Qualified personnel, high level of technical knowledge

Total headcount at year-end 2017 was 85, 88 as of March 2018. Around 35% of employees have specializations or proven pharmaceutical, chemical and quality control technical know-how. Personnel split among: production 50%, quality 22%, engineering, maintenance & utilities 10%, administration 18%. 60% of the workforce is less than 40 years old.

Manufacturing plant: a CMO technology site, FDA and EMA approved

Pierrel's manufacturing plant is located in Capua (CE), Italy. The main activity of the plant is dental anesthetic cartridge manufacturing.

Pierrel - Manufacturing plant

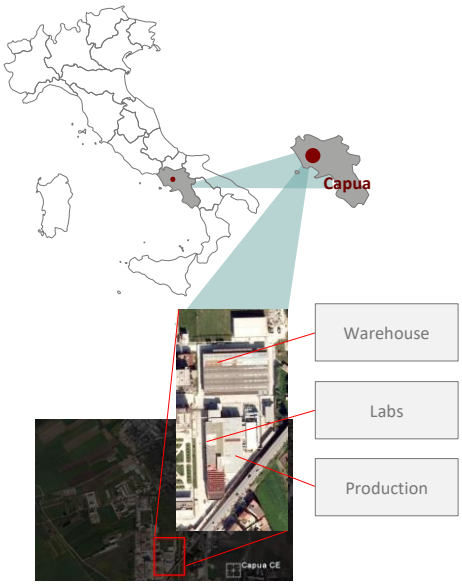
The site has an area of 40,000 m^2, of which 11,000 m^2 covered and a warehouse area of 5,000 m^2. The plant includes: compounding area, components preparation area, filling area, optical inspection machine area, labelling and packaging area, microbiological and chemical laboratories.

The production capacity is 80m cartridges per year, with an average actual production capacity at around 70% between 2015-17.

Current production line: cartridges

Lines on hold:

- Cartridges: one line
- Ampoules: two filling lines
- Vials: one line
- Glass vial line for liquid, drops & spray



Source: Company data

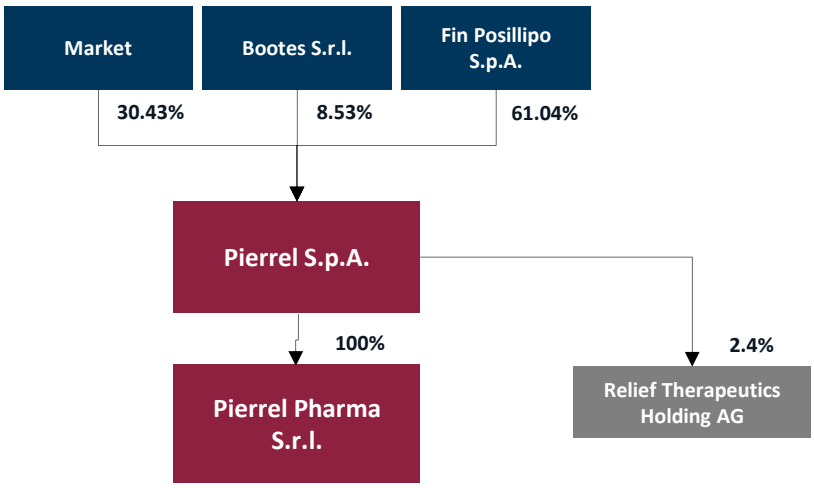
The only production facility outside the US authorized by the FDA for the aseptic production of small volume injectable drugs

The production plant satisfies the Good Manufacturing Practice Standards and is authorized:

- by AIFA and EMA for the production of small volume parenteral products in different pharmaceutical forms (cartridges, ampoules and vials), for oral liquid (drops & sprays) and secondary packaging of tablets and capsules
- by EMA and FDA for the aseptic production of small volume injectable drugs

3. SHAREHOLDERS AND KEY PEOPLE

Shareholders and Group structure



Source: Italian Stock Exchange, update 10/09/2018 - Note: Bootes is owned by Rosario Bifulco, Fin Posillipo is owned by Petrone family

Key people

Name and Role	Background
Raffaele Petrone Chairman and Shareholder of Fin Posillipo	• 2014-to date: Chairman, Pierrel • 2007-2008: Vice President, European Association of Euro Pharmaceutical Companies • Entrepreneur in the family drugstores business - Gruppo Petrone and CEO, Fin Posillipo
Fulvio Citaredo CEO	• 2012-to date: CEO, Pierrel • 2012-2014: Corporate General Manager, Pierrel • Several experiences in financial, banking institutions and manufacturing industry
Francesco Pepe CFO	• 2017-to date: CFO, Pierrel • Started his career as auditor, Ernst & Young

Source: Company data

4. CAPITAL INCREASE AND USE OF PROCEEDS

In November 2017 the Shareholders' meeting decided to finance capex for production increases, reconstitute Shareholders' Equity and rebalance the capital structure through a share capital increase of up to €34.8m. Fin Posillipo and Bootes, representing 41% of share capital as of year-end 2017, had purchased €8.2m bank debt of Pierrel and later had waived their receivable to cover losses and reconstitute equity.

Fin Posillipo and Bootes (the "Relevant Shareholders"), whose shareholding is around 70% as of September 2018, participate the capital increase through:

- the subscription of around €14.5m of the share issue in option completed on August 3rd, 2018, part in cash (€2.4m) and part through additional receivable waiver (€12m)
- the commitment to subscribe up to further €8m in the event it should not be subscribed by third party Institutional Investors (Private Placement)

Deal Structure

Offering Structure	**Issuer**	Pierrel S.p.A.
	Market	MTA (Italian stock exchange main market)
	Deal Type	Capital increase through private placement
	Size	€17.5m for 108,880,064 ordinary shares
	Subscription price	€0.161

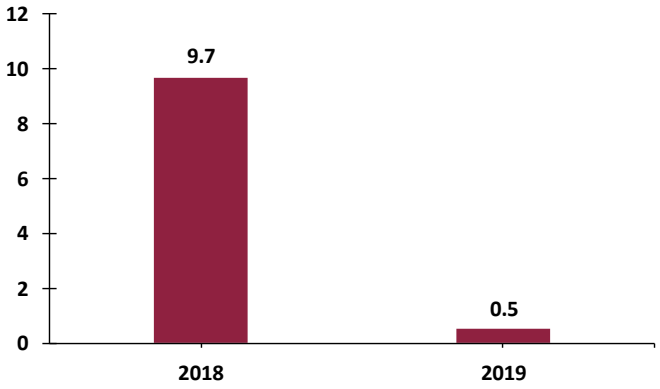
Timing	• Expiry date: 6 November 2018

Source: Company data

Use of proceeds

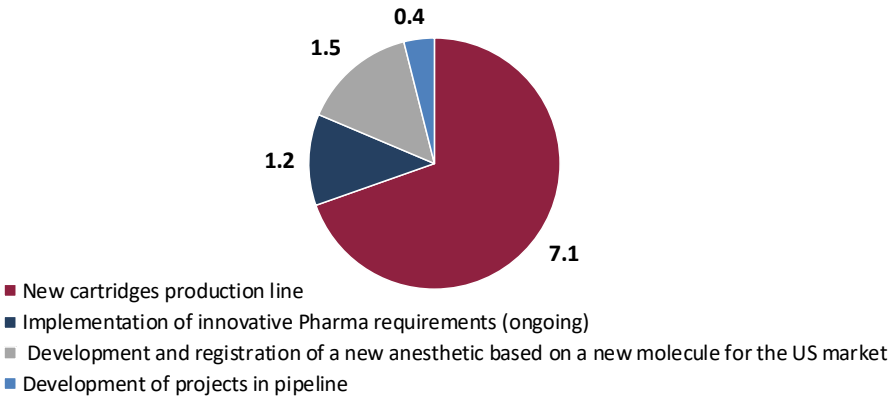
- New cartridges production line
- Implementation of innovative pharma requirements
- Development and registration of an anesthetic based on a new molecule for the US market
- Development of projects in pipeline

Planned investments (€m)



Source: Company data

Breakdown of investments (€m)



Source: Company data

5. INDUSTRY INSIGHTS

Industry logics and drivers

Outsourcing in Pharma business, an optimization choice in the industry

Saving operations costs

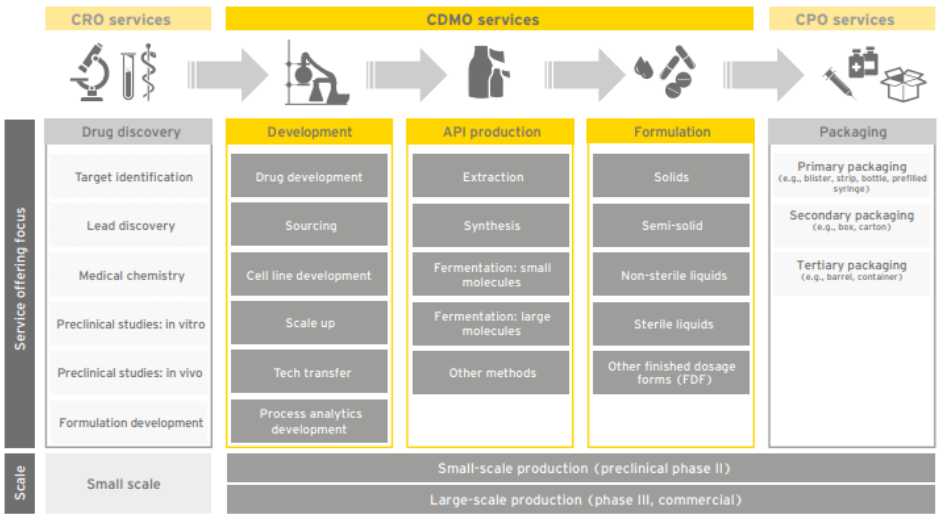
According to a research from EY, the Contract Development Manufacturing Organization (CDMO or CMO) industry started out decades ago as a niche service, offering additional manufacturing capacity. The rise of CMO was fueled by failure stories in the pharmaceutical industry. In the past, pharma companies often installed dedicated manufacturing capacities for innovative drugs in development, but most of them failed during last phases of research. Thus, to reduce the risk of expensive overcapacities, the demand for outsourced manufacturing has been rising continually. The CMO industry's annual growth rate of 6-7% is slightly outpacing the growth of the pharma industry (5-6% CAGR), reflecting the ongoing shift towards outsourcing. Also, an increasing number of pharma companies are refocusing on their core capabilities, leading to divestments of in-house manufacturing capacities, lowering their operations costs. Furthermore, CMOs play crucial roles in providing additional capacities to mitigate the risk of supply shortages, by offering additional sites for pharmaceutical companies with multisite supply strategies as well as backup capacities.

A rewarding 6% Industry growth rate

CMO offers flexibility to address overcapacity risk and time efficiency of the Pharma companies

Externalizing manufacturing may also be highly desirable to reduce time to market if internal expertise or capacities are limited. A lot is at stake for pharma companies when choosing a partner for their manufacturing outsourcing needs. Small producers rely on timely production to enter and proceed swiftly through clinical trials. Also, issues regarding the quality and documentation of the drug manufacturing processes surfacing during regulatory reviews can delay marketing authorization, which poses a significant risk to cash-restrained businesses. Therefore, for small and large pharma sponsors, proven reliability and impeccable quality standards are key to choosing a CMO. Additionally, it is costly and time-consuming to switch the CMO once a manufacturing process is established. Comprehensive due diligence is crucial to prevent potential production delays, revenue losses, damage to a company's or brand's reputation and, in the worst case, health risks for patients.

Overview of the CDMO value chain

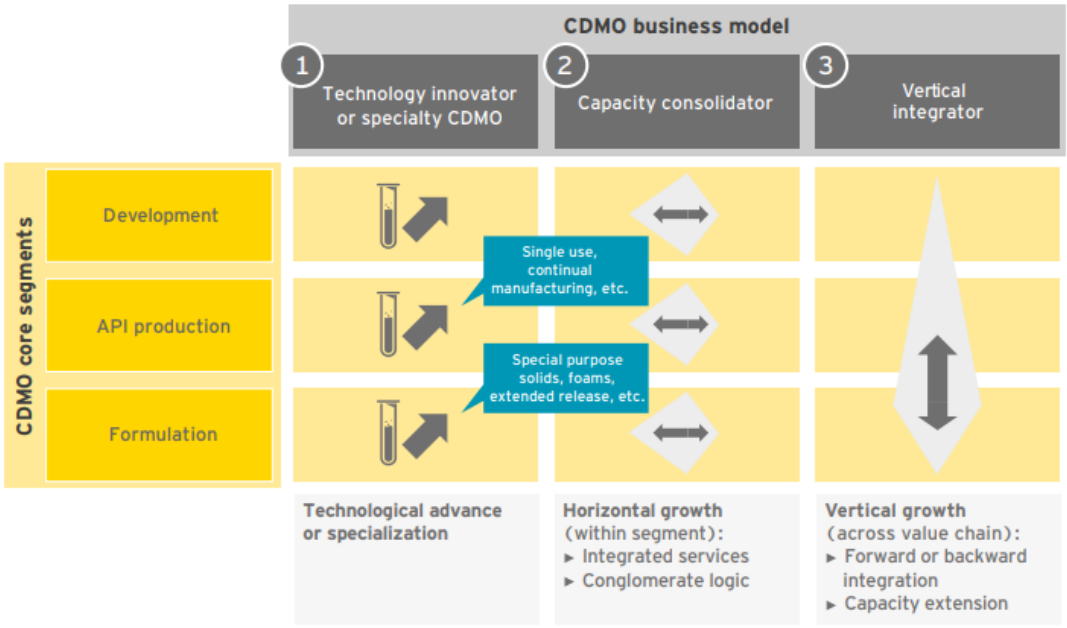


Source: EY, *The pharmaceutical CDMO industry is consolidating*, 2017

Services of CDMO

Service-wise the market is segmented into manufacturing and research services. The manufacturing services are further segmented into Active Pharmaceutical Ingredients (API) and bulk drugs manufacturing, advanced drug delivery formulations, packaging, and finished dose formulations. API dominated as to revenue because of the rising demand for High Potency Active Pharmaceutical Ingredients.

CDMO business model



Source: EY, *The pharmaceutical CDMO industry is consolidating*, 2017

Dental Anesthetics: Pierrel's core business

Dental Anesthetic is the substance used by the dentist for partial or complete numbness of mouth. It is used to manage pain and anxiety in patients. Dental anesthesia is a reversible process of losing sensation which is induced by the drug known as anesthetics. This procedure is used to decrease preoperative or postoperative pain, diagnostic testing and examination and better patient's cooperation. Anesthetics are very different from normal pain killers or analgesics, which relieves pain without loss of sensation. Dental anesthetic includes both general anesthetic and local anesthetic. Dental anesthetic is used in nonsurgical periodontal therapy procedures.

Fuel for the local anesthetic market

The rising awareness among the population about importance of dental health and government initiatives to provide better dental facilities is expected to boost the dental anesthesia market. Main drivers:

Children caries. According to the World Health Organization, 60 to 90% of children suffer from dental caries.

Development of new products. The introduction of new products and the increasing geriatric population are anticipated to upsurge the market for global dental anesthesia. The local anesthesia drugs are also fueled by introduction of new and effective drugs such as Articaine, Levobupivacaine, and Ropivacaine.

Post-operation treatments. A key trend observed in the market is a significant rise in demand for post-operative pain relief options, on the heels of increasing number of surgical procedures. This trend is likely to continue throughout the forecast period, positively influencing the demand for local anesthesia drugs. An approximate 65% of the total surgical procedures performed need post-operative pain management.

Aging population. Growth in number of surgeries performed can be attributed to aging population, a demographic group that is more prone to dental problems.

Capex in emerging markets. Strong increasing in healthcare expenditure in developing countries such as India, China, and Brazil, where the number of surgeries performed has been on a steady rise.

One-stop shop: a valuable differentiation strategy

Many CMOs companies are combining the production of Active Pharmaceutical Ingredients and Drug products, to fully serve the customers. According to Present Healthcare, the trend is evident across the sector, which should benefit both customer and CMO. The notion is to offer a multitude of services, which should be more convenient and efficient rather than dealing with a single provider. The relationship should create the opportunity for the CMO to sell more products to the same customer, as well as develop lock-in models through increased switching costs. By being able to produce API and DP, the customer can place both services order per product avoiding managing two suppliers with a separate API and drug products production. The time benefit can be substantial: according to Results Healthcare, a typical drug makes $1m/day profit during the period of sales under patent. Pharma companies try to ensure DP supply during clinical trials meaning to have earlier production commitments, which can be trickier with multiple suppliers.

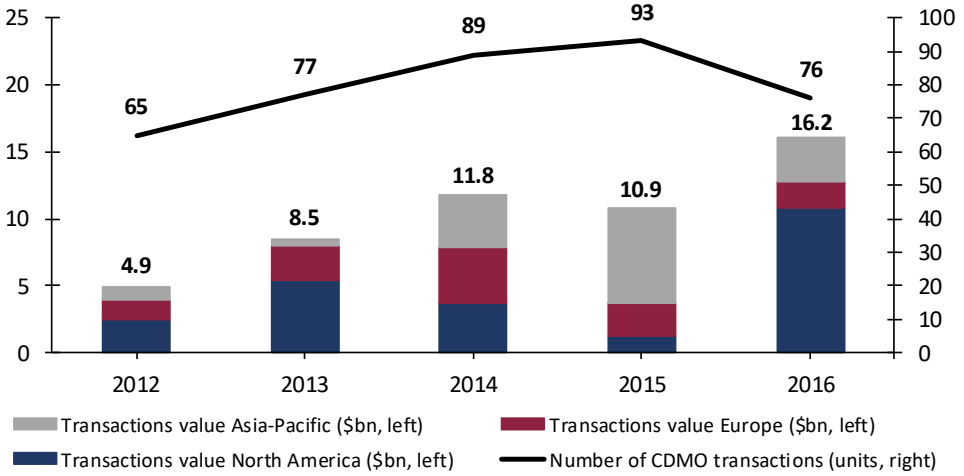
Smaller companies that do not have a procurement department may benefit from dealing with a smaller number of providers. Each provider is a new agreement or contract, a relationship to monitor performance on and if materials need to be transferred between providers it can be inefficient. However, small customers may not feel comfortable with large one-stop shop providers, which may be perceived to prioritize larger customers. As with smaller companies, larger customers could also benefit from fewer relationships; strategic partnerships that have been seen in the industry can help to achieve this simplification. Nonetheless, larger companies may have different procurement teams looking at different areas of service needs. Overall, major CMOs who have competitive offerings in API and DP can increase profitability by reducing the competitive pressure they face through successful positioning of one-stop shop.

Contract Development and Manufacturing organization (CDMO) M&A

Dynamic M&A activity, vertical integrations and large size deals

According to EY, the CDMO M&A activity in the last years has been rising as to value and numbers of transactions. As showed in the graph below, M&A activity within the CDMO industry has been on the rise since 2012. The number of publicly announced CDMO deals increased by approximately 12% per year, with a slight cooldown in 2016. EY assumes that the CDMO industry is expected to remain an attractive sector for M&A activity, given the ongoing appeal for outsourced manufacturing and the still fragmented vendor landscape.

CDMO M&A volume and value



Source: EY, *The pharmaceutical CDMO industry is consolidating*, 2017

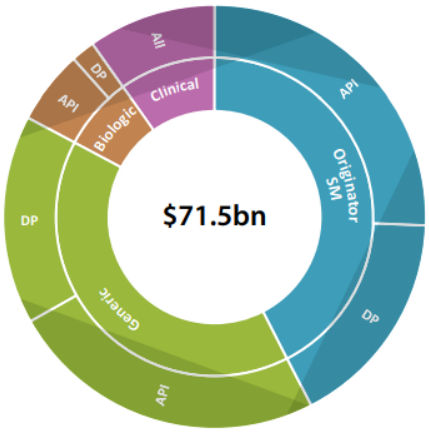
6. MARKET TRENDS AND OUTLOOK

Contract Manufacturing Organization Market

Pharmaceutical sector rise, CMO outperforms

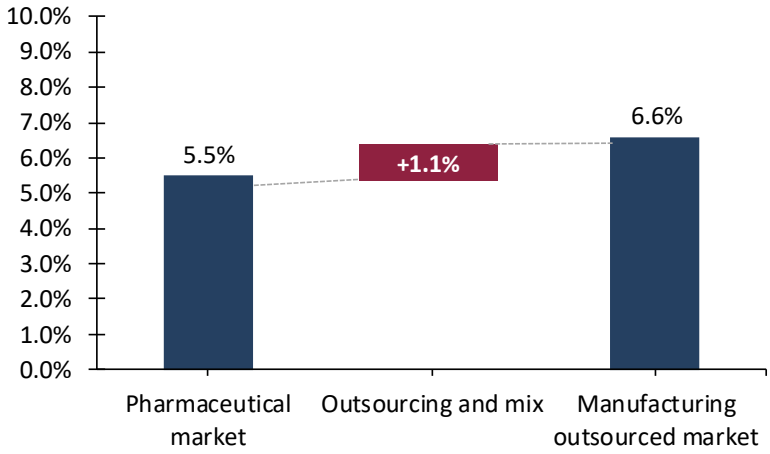
According to Results Healthcare, a global corporate advisory firm, in 2015, the total size of the worldwide pharmaceutical market was around $1.1trn and it's estimated to reach $1.5trn in 2021E (5.5% CAGR). This, together with the increasing volume of drug products, is empowering the role of CMOs activity. Moreover, over 220 new drugs are expected to be introduced by 2021E, which is a positive indication for the outsourced manufacturing sector.
Based on Results Healthcare report, the expected outsourced market growth is significantly above GDP growth expectations at 6.6% until 2021E. This is driven by the strong expansion of the overall pharmaceutical sector as well as an increase in the amount of manufacturing work that will be outsourced. The total outsourced market is estimated to have reached $71.5bn in 2015, growing to $105bn by 2021E, which is mainly dedicated to small molecules and manufacturing supply followed by clinical and biologic.

Breakdowns of the outsourced manufacturing market by sub-sector



Source: Results Healthcare, *Pharma & Biotech 2017, Review of outsourced manufacturing,* 2017

Outsourced manufacturing sector vs. pharmaceutical market growth



Source: Results Healthcare, *Pharma & Biotech 2017, Review of outsourced manufacturing,* 2017

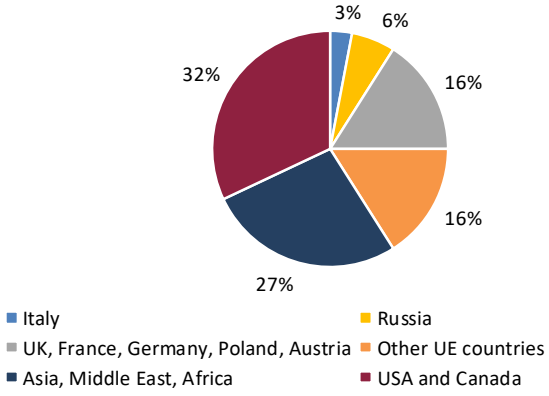
Global dental anesthetics market

Local anesthetics are used in dental practice and the availability of a variety of local anesthetic agents enables dentists to select products with specific properties, such as time of onset and duration, hemostatic control, and degree of cardiac side effects. The anesthetic agents available for dental use are: Articaine, Lidocaine, Mepivacaine, Prilocaine and Bubivacaine. Articaine is the market leader in Europe, Russia and CIS countries, accounting for 35% of total market. Lidocaine is mostly used in the USA for its longer marketing history and lower price. Worldwide consumption of dental anesthetics is rising at 1-2% per year. Currently about 1bn of cartridges are used every year, for a value of around $450m/year, with more than a quarter in the USA ($175m/year) (Source: Company's assumption on market data).

USA first user of dental anesthetics

USA is the most prominent market for dental anesthetics where Lidocaine and Articaine are sharing most of market share. By value, Articaine has 45% of total US dental anesthetics, followed by Lidocaine with 37% of total value. In units, Lidocaine leads the rank in USA, but the rising trend of usage of Articaine is supported by its higher efficiency and longer duration of active principles compared to other anesthetics (Source: Company's assumption on market data).

Global Market Share of Dental Anesthetics

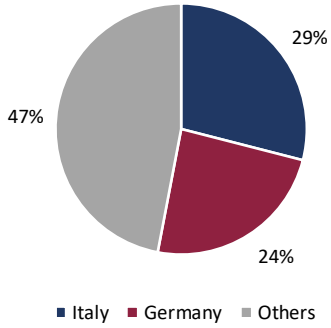


Source: Company's assumption on market data

CMO in Europe: Italy first

According to Prometeia, CDMO in Europe has a total revenue of €5.1bn. Italy is considered an excellence in CDMO covering around 29% of the European production with €1.5bn in revenues, followed by Germany and France respectively with €1.2bn and €1bn.

European CDMOs revenue (%)



Source: Prometeia, *Il CDMO farmaceutico: un'eccellenza dell'industria in Italia*, 2016

Small molecules

Small molecule manufacturing represents the majority of CMO revenues (around 90% of total outsourced market revenue in 2015). Even though it does not reach the expected growth of biologics and biosimilars, it does have an expected CAGR of 6.4%. The biologics CMO market is estimated at $5.3bn and expected to grow at a 8.3% CAGR. There is a greater bias for in-house production for biologics amongst the major companies, which has hindered outsourcing levels reaching those for small molecules (Source: Results Healthcare, *Pharma & Biotech*, 2017).

Injectables

Injectables at 10% growth

The injectables segment, where Pierrel operates, is expected to grow at a CAGR of 10.5% until 2021E, the largest share in CMO, according to Results Healthcare. This is one of the fastest growing areas linked to the growth in biologics, oncology and generics. However, the regulatory hurdles are challenging and the investment required provides barriers to entry. As to future growth, China is expected to be the main driver; however, the USA will remain the largest single market ahead of the EU (Source: Results Healthcare, *Pharma & Biotech*, 2017).

CMO figures and segmentation

Over the last few years, pharma companies have increasingly outsourced the manufacturing activities. This has provided significant growth opportunities for CMO.
Key facts of CMO market:

- Liquid and lyophilized sterile injectable CMO market is worth approx. $7bn and represents about 20% of total CMO market
- Regulatory authorities are increasing requirements for segregation of product manufacturing processes
- Patent expirations in the mid-term will affect several products made by originators, representing new growth opportunities for CMO players
- Europe and USA remain key destination markets for CMO players, given relevant export volumes in Europe and the limited import/export of Asian countries

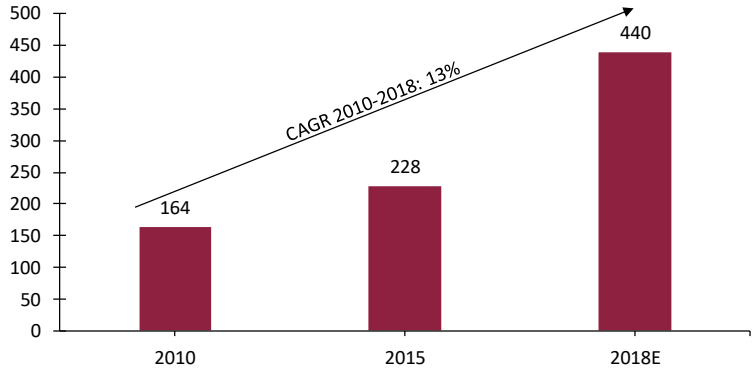
Global medical device sector

The medical device manufacturing sector is a highly diversified industry that produces a range

of products designed to diagnose and treat patients in healthcare systems. Key medical devices include surgical appliances and supplies, surgical and medical instruments, electro-medical equipment, in-vitro diagnostic substances, irradiation.

The 2015 global medical device market was worth $228bn, up from $164bn in 2010 and projected to reach $440bn by 2018E, growing at a 13% CAGR. Diagnostics are predicted to be the industry's top segment, achieving global sales of $54.5bn and neurology devices are expected to grow the fastest, expanding by 6.1% annually. The largest medical device market is USA, worth $125bn. The European market is the second largest, worth $66bn, with leading countries as Germany, France, Italy, UK and Spain (Source: The Whitaker Institute, *Medical Device Sectoral Overview*, 2015).

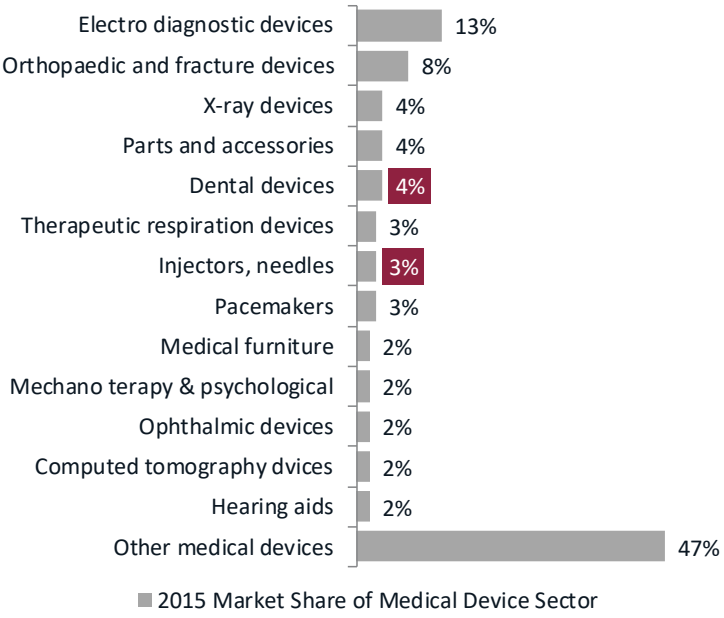
Global Medical device market by size ($bn)



Source: The Whitaker Institute, *Medical Device Sectoral Overview*, 2015

The global market share of medical devices is illustrated in the following figure, with electro-diagnostic devices accounting for 13% of the global market share, orthopedic and fracture devices account for 8% of market share while the Pierrel market segment of dental devices and injectors account for respectively 4% and 3%.

Global Market Share of Medical Devices



Source: The Whitaker Institute, *Medical Device Sectoral Overview*, 2015

Global dental equipment market

The global dental equipment market is expected to grow steadily in the upcoming years, led by North America. Factors such as people aging, surging dental tourism, increasing demand of cosmetic dentistry are boosting market growth. Moreover, the global dental equipment market has received a boost from the new development in treatment and diagnostic procedures resulting in a more effective and less painful dental treatments.

7. BUSINESS MODEL AND STRATEGY

CMO and specialist in dental anesthetics

Through the integration of its drug development and manufacturing activities, Pierrel positions itself as an analytical and microbiological services provider. Pierrel, as a CMO player, offers flexible solutions across a range of services, from receipt of intermediate products, to the purchase of excipients and packaging materials, to the production of primary and secondary packaging stages to the analytical control and release of products. Moreover, in addition to marketing, sales and distribution activities, Pierrel develops new molecules, drugs and medical devices in the dental field. Pierrel's operations include: Research, Development, Manufacturing and Marketing & Sales.

Business Overview

	Pierrel S.p.A. Contract Manufacturing	Pierrel Pharma S.r.l. Pharma
Description	➢ Established in 2005, the Company leverages on excellent technical and managerial skills in the production of injectable products ➢ Producer of cartridges, injectable ampoules & vials of dental anesthetic for primary and selected client ➢ Manufacturing plant in Capua (NA), Italy	➢ Established in 2010, Pierrel Pharma is engaged in registration and commercialization of dental anaesthetic branded Pierrel and Orabloc™, as well as the development and marketing of innovative medical devices and new drugs ➢ Pierrel Pharma is the exclusive distributor of Pierrel products
Key services	Complete contract manufacturing services: receipt of intermediate products, purchase of excipients and packaging materials, production of primary and secondary packaging stages, analytical control and product release	➢ Marketing, sales and distribution. Development of new molecules, drugs and medical devices in the dental field ➢ Clinical research, including clinical trials

Source: Company data

Contract Manufacturing

Analytical Chemistry and Microbiological Services. Run of analytical tests of raw and bulk material and finished products providing test analysis based on customer specifications. Also, microbiology tests of non-sterile and sterile products in a GMP compliant environment (test performed and validated according to the required pharmacopoeia, which also approved the equipment and the state of Pierrel's laboratories).

Stability storage and testing. Storage solutions and monitoring of analytical tests and documentation. Development and validation of "stability indicating methods", examination of stability-relevant parameters and for the management and storage of stability samples.

Licensing opportunities. Pierrel develops and registers its own generic dossiers which are then licensed to sell, market and distribute to partners across the world and ensure the supply for both product launch and continuing demand.

Regulatory services. Pierrel supports customers in the development and registration of their

products.

Ways of operation:

- direct processing: the customer provides all raw materials necessary for the production and Pierrel carries out the processing, based on technical specifications indicated by the customer
- independent processing: Pierrel directly purchases, in whole or in part, the raw materials required for the production and delivers the final product to the customer following the instructions received

Pierrel manufacturing plant is approved by the Food & Drugs Administration (FDA)

Pierrel's Capua plant is regularly checked by AIFA, EMA and FDA

FDA regulates the quality of pharmaceuticals under the main regulatory standard of Current Good Manufacturing Practice (CGMP) in the USA. CGMP assures the identity, strength, quality and purity of drugs by requiring that producers adequately control manufacturing operations. This includes establishing quality management systems and operating procedures, obtaining appropriate quality raw materials. This formal system of controls helps to prevent instances of contamination, mix-ups, deviations, failures, and errors. The resulting assurance that drugs meet quality standards supports the offer of safe products to consumers.

FDA approval: what does it mean for the business

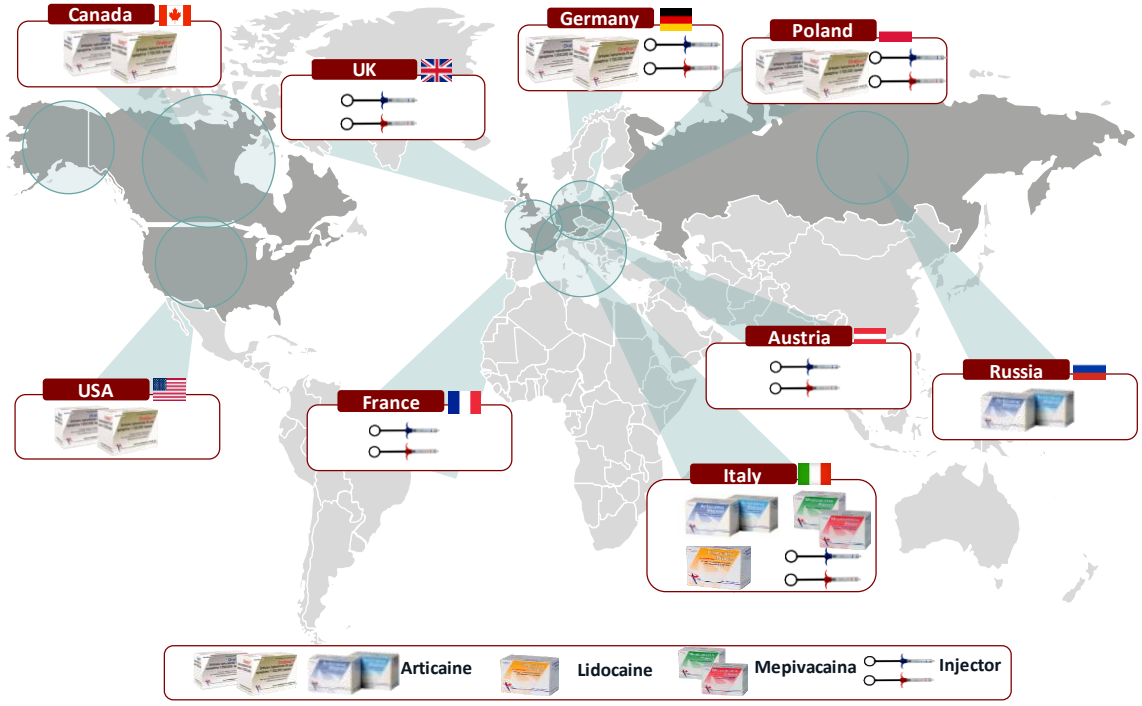
The FDA approval points out the high attention to quality and process in the manufacturing activity, declaring that the product is safe and effective of its intended use. All products are tested before being marketed in the USA. Consumers are more prone to buy FDA products since they are controlled and compliant with high-quality standards. With the FDA approval, Pierrel stands out from the main CMO pharma competitors as being one of the few CMO companies to have dental anesthetic products approved by the FDA. Since all products are tested before being marketed in the USA, the FDA approval is a crucial step to grow and rise barriers to entry in such a huge market.

Pharma BU

Mission:

1. Exploitation of marketing authorizations received by Group and referring to some pharmaceutical dental products (such as Articaine) and products with Orabloc® and Pierrel brand
2. Extend marketing authorizations in rapid developing countries, where Pierrel has not registered its own products yet
3. Identify, develop and buy new products (molecules, formulations), mainly used in dental sector, to enlarge the products portfolio

Pierrel - Branded products' international presence



Source: Company data

International customers across business units

Customers are international and domestic dental pharma companies. Key customers: Henry Schein and Patterson Dental, large distributors of dental and medical products; Dentsply; Safco Dental Supply, online sales to dental care professionals; NDC, US supplier of healthcare products, logistic services and distribution.

Pierrel - Key customers by BU

Source: Company data

8. COMPETITION

A high-value niche

Pierrel operates in a niche within the wide span of medical dental supplies where large distributors serve the needs of Dental Professionals everywhere through the supply of a wide range of equipment and other products. The largest dental care distributors seek partners as exclusive suppliers of specific products thus completing their product range, allowing to be more competitive in innovation, quality and service. As a consequence, the key success factors for partner-suppliers are product and service quality, while price is of second-importance in selection criteria.

Septodont, Inibsa and Pierrel, the three main players with a global presence, have to seek the best distributors to cover more product segments in growing foreign markets. Their competitive criteria are customer relationship, reputation, service and assistance, technical expertise, in addition to compliance to standards.

Competitive forces

Source: EnVent Research

Barriers to entry are high in the CMO market:

- Regulatory framework and strict time-consuming authorizations
- Capital-intensive business, with state-of-the-art production plants
- Technical and manufacturing know-how, educated workforce

Liquid dosage forms and aseptic liquid injectable drugs require a higher manufacturing and technical know-how compared to solid dosage forms.

As a consequence of high entry barriers, switching costs of CMOs are particularly high.

The production of branded pharma products presents additional barriers to entry, represented by few marketing authorizations available and high costs for maintenance of marketing licenses, especially in the USA.

CMO segments

The global CMO market is divided by four types of competitors:

- Hybrid: Companies with offerings based on specialized technology or knowledge/capabilities
- Traditional CMOs: focused on clinical and commercial manufacturing of drugs, medical devices, finished dosage forms and biologics such as Pierrel
- CRAMS: Companies that offer one-stop-shop pharmaceutical research and manufacturing services
- Low cost: CMOs typically based in low-cost countries to take advantage of cheaper labor costs. Most of them are intermediate and API manufacturers, but many are expanding to adjacent service offerings

Pierrel among leading producers of dental anesthetics

Most of large global CMOs operate across different markets and therapeutic specializations. As to the liquid dosage forms market, the main worldwide operators are Baxter International, DSM Pharmaceuticals, Cardinal Health, Patheon, Recipharm and CordenPharma International. However, these companies can not be considered direct competitors to Pierrel, given their limited involvement in Pierrel's core business.

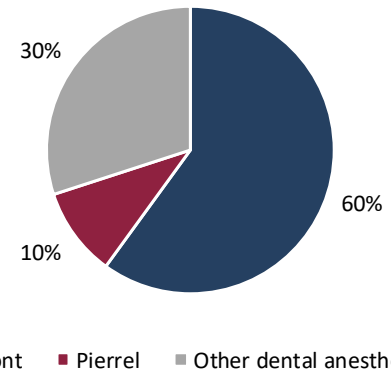
Key CMO competitors in the dental injectable drugs are Septodont, Normon, Inibsa, while key competitors for dental anesthetics that are also producers in their own facilities are Septodont, 3M Espe, Sanofi Aventis, Inibsa, DFL.

Septodont is considered the market leader for dental anesthetics, with a 90% market share in the USA, among branded and private label products, according to the Company.

The US market, one of the most prominent arenas for the CMOs of dental anesthetics, is valued at 300m doses every year and Pierrel is placed as one of top exporters in the USA.

As to dental anesthetics production capacity, Septodont has the major stake (60%) of the global market, Pierrel has a 10% share, other players share the residual 30%, according to the Company.

Worldwide dental anesthetics production capacity



Source: Company data

The next quantum leap opportunity

Pierrel, as one of the largest global producers of Lidocaine and Articaine, is in the best position to further expand North American sales with new products, enter new markets and benefit of the growing demand through distributors completing their product portfolio.

Major trends and strategies in the competitive arena

Several companies, based on a research from Prometeia:

- consider investments on the quality of plants the most important feature, followed by R&D
- are working to expand their services and covering the full production cycle
- wish to be recognized by drugs associations as being a crucial step to approach big customers and increasing their market share

9. MARKET METRICS

Market value of comparable companies

Selection criteria of comparable Pharma and CMO listed companies

Key factors for the selection of industry players:

- Drugs manufacturing
- Outsourced pharmaceutical development and contract manufacturing
- Players located in both Europe and the US, international reach

Business models typical of pharmaceutical companies are different, as such companies substantially engaged in the traditional pharma industry are not considered in our selected peer sample. Listed companies in the Pharma and CMO industries have been classified into two groups, core business peers and companies dedicated to distribution.

Comparability of selected peers

Peers are larger in size

Though comparable as to activity, the selected peers show certain differences as to size, profitability and market capitalization, degrees of specialization and integration. Size looks more critical than others. Among peers, revenues are in a wide range, between €250m-€4bn. Geographical presence is not a key issue given that all peers widely sell their products internationally (except ROVI more focused on its domestic market).

Key takeaways:

- Pierrel is among the few listed European companies offering CMO, the majority of listed peers are US companies
- There is a limited number of listed CMO pureplays
- Most of the listed CMO players are mid to large caps whose CMO businesses are mixed with other pharmaceutical services

Although smaller than its peers, Pierrel offers higher growth rates, which is the result of its untapped potential, market penetration set to improve, higher level of efficiency at reach.

Profiles of core business peers

Lonza. Swiss supplier of products and services to the pharmaceutical, biotech, and specialty ingredients markets worldwide. BUs: Custom Manufacturing (main BU), Life Science Ingredients, Biosciences.
2017 revenues: €4.4bn
Comparability: average (too different size)

Catalent. US company, provides technologies and development solutions for drugs, biologics, consumer and animal health products worldwide.
2017 revenues: €1.8bn
Comparability: average

West Pharmaceutical Company. US company, manufactures and sells containment and delivery systems for injectable drugs and healthcare products in the United States, Germany,

France, other European countries, and internationally. BUs: Proprietary Products, Contract-Manufactured Products.
2017 revenues: €1.3bn
Comparability: high

Cambrex. US life sciences company, provides products and services for the development and marketing of new and generic therapeutics worldwide.
2017 revenues: €450m
Comparability: low

Consort Medical. US one-stop developer and manufacturer of drugs and premium drug delivery devices.
2017 revenues: €350m
Comparability: average

Laboratorios Farmaceuticos ROVI. Spain-based specialty pharmaceutical company engaged in the R&D, manufacturing and marketing of small molecule and specialty biologic products primarily into domestic market (Spain accounted for 71% of revenues in 2016). Other operations include the provision of contract manufacturing services (production, filing and packaging injectable and oral formulations).
2017 revenues: €280m
Comparability: average (business mix)

Baxter International. US-based pharma company providing a portfolio of healthcare products.
2017 revenues: €8.8bn
Comparability: low

Thermo Fisher Scientific. US company, provides analytical instruments, equipment, reagents and consumables, software, and services for research, manufacturing, analysis, discovery, and diagnostics. As of August 2017, Thermo Fisher Scientific incorporated Patheon a contract development and manufacturing organization serving the pharmaceutical and biotechnology sectors - €1.7bn revenues in 2016.
2017 revenues: €17bn
Comparability: low

Profiles of key listed customers/distributors

Patterson. Distributes and sells dental and animal health products in the United States, the United Kingdom, and Canada.
2017 revenues: €5bn
Comparability: low, as to business model - high, as to segment benchmark

Henry Schein. Provides health care products and services to dental practitioners and laboratories, animal health clinics, physician practices, government, institutional health care clinics, and other alternate care clinics worldwide.

2017 revenues: €10bn
Comparability: low, as to business model - high, as to segment benchmark

Dentsply Sirona. Designs, develops, manufactures, and markets various dental and oral health products, and other consumable healthcare products primarily for the professional dental market worldwide.
2017 revenues: €3bn
Comparability: low, as to business model - high, as to segment benchmark

Source: EnVent Research on publicly available information

Key data comparison

The following chart shows a summary of key data and financial metrics of the selected industry players.

Company	Revenues 2017 (€m)	Rev. CAGR '13-17	Rev. CAGR '17-20E	EBITDA % 2017	EBITDA % Avg. 5Y	EBITDA % Min 5Y	EBITDA % Max 5Y
Core business peers							
Lonza	4,362	11%	10%	25%	21%	19%	25%
Catalent	1,819	7%	10%	20%	21%	20%	23%
West Pharmaceutical Services	1,332	8%	9%	21%	19%	16%	21%
Cambrex	446	18%	4%	33%	27%	21%	33%
Consort Medical	349	33%	3%	17%	18%	13%	24%
Laboratorios Farmaceuticos ROVI	276	6%	10%	10%	13%	10%	15%
Baxter International	8,795	7%	6%	21%	17%	15%	21%
Thermo Fisher Scientific	17,421	16%	9%	25%	24%	21%	25%
Mean		**13%**	**8%**	**21%**	**20%**	**17%**	**23%**
Median		**9%**	**9%**	**21%**	**20%**	**18%**	**24%**
Customers/Distributors							
Patterson	5,133	16%	-2%	7%	9%	7%	11%
Henry Schein	10,378	11%	4%	8%	9%	8%	9%
Dentsply	3,326	12%	5%	21%	20%	19%	22%
Mean		**13%**	**2%**	**12%**	**13%**	**12%**	**14%**
Median		**12%**	**4%**	**8%**	**9%**	**8%**	**11%**

Source: EnVent Research on S&P Capital IQ data; update: 04/09/2018

Key facts:

- On average, operating margins have never been over 20% in the last five years
- After a significant sales growth in 2013-17, a deceleration is expected in 2017-20E, being these large mature companies

Market multiples

Company	EV/REVENUES			EV/EBITDA			EV/EBIT			P/E		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Core business peers												
Lonza	4.6x	4.3x	4.1x	17.8x	16.1x	14.7x	23.9x	21.1x	18.6x	26.5x	23.1x	20.8x
Catalent	3.4x	3.2x	3.0x	15.3x	13.8x	12.8x	27.8x	22.2x	19.2x	27.0x	23.5x	20.3x
West Pharmaceutical Services	5.0x	4.6x	4.3x	22.9x	20.1x	17.2x	32.4x	27.1x	22.5x	40.6x	35.2x	28.7x
Cambrex	3.9x	3.8x	3.6x	13.6x	12.9x	12.2x	17.1x	16.6x	15.8x	25.5x	23.8x	21.6x
Consort Medical	2.1x	2.0x	1.9x	11.7x	11.0x	10.1x	15.4x	14.4x	13.4x	17.3x	16.2x	14.6x
Laboratorios Farmaceuticos ROVI	2.8x	2.5x	2.2x	32.3x	18.7x	12.8x	64.6x	28.3x	16.5x	71.3x	27.6x	17.2x
Baxter International	3.6x	3.5x	3.3x	15.5x	13.8x	12.5x	21.0x	18.3x	16.1x	25.5x	22.9x	20.1x
Thermo Fisher Scientific	4.8x	4.6x	4.4x	18.8x	17.5x	16.0x	20.7x	19.1x	17.6x	21.8x	19.8x	18.0x
Mean	**3.8x**	**3.6x**	**3.3x**	**18.5x**	**15.5x**	**13.6x**	**27.9x**	**20.9x**	**17.5x**	**31.9x**	**24.0x**	**20.2x**
Median	**3.7x**	**3.6x**	**3.5x**	**16.6x**	**14.9x**	**12.8x**	**22.5x**	**20.1x**	**17.0x**	**26.0x**	**23.3x**	**20.2x**
Customers/Distributors												
Patterson	0.6x	0.5x	0.5x	10.0x	9.6x	9.1x	11.6x	11.7x	11.2x	14.6x	13.9x	13.2x
Henry Schein	1.1x	1.1x	1.1x	12.9x	13.0x	13.3x	15.6x	15.2x	14.8x	19.2x	18.4x	17.8x
Dentsply	2.5x	2.4x	2.3x	11.4x	10.6x	10.1x	13.5x	12.4x	11.6x	14.9x	13.7x	12.7x
Mean	**1.4x**	**1.3x**	**1.3x**	**11.4x**	**11.1x**	**10.9x**	**13.6x**	**13.1x**	**12.5x**	**16.2x**	**15.3x**	**14.6x**
Median	**1.1x**	**1.1x**	**1.1x**	**11.4x**	**10.6x**	**10.1x**	**13.5x**	**12.4x**	**11.6x**	**14.9x**	**13.9x**	**13.2x**

Source: EnVent Research on S&P Capital IQ data; update: 04/09/2018

We notice consistently high EV/Revenues multiples, except for distributors, whose rationale we attribute to the market shares of product portfolios and to the development competencies. We consider Pierrel as a mid-way player:

- has gained a remarkable North American market share for its anesthetics, opening the way to other appealing markets worldwide
- at the initial cycle of building a diversified product portfolio

10. FINANCIAL ANALYSIS AND PROJECTIONS

2017 as a radical turning point: out of non-core business, fully achieved turnaround provides a sector-correct 12% EBITDA

Good performance in 2017, reverting the trend and successfully expanding in the US market

In 2017, consolidated revenues were €17.3m, +19% YoY, of which €8.3m Contract Manufacturing and €8.8m Pharma. The change is mostly attributable to the increase in sales volumes of the Orabloc® dental anesthetic in the United States, Canada and Russia.
Following the increase in Orabloc® sales on the US market, according to Management, Pierrel reached a 20% market share in the dental anesthetics market based on Articaina in the US.
COGS decreased from 41% of revenues in 2016 to 35% in 2017. Cost of personnel slightly decreased too, by 7% YoY. Headcount was 85 as of year-end. Marketing & Sales increased by 29% YoY. G&A was almost stable and other operating costs decreased by 38%. As a result, EBITDA was €2.1m, 12% margin, compared to €-1.1m loss of prior year. EBIT was €1m, 6% margin, after €1.1m D&A, compared to a €2.5m loss in 2016. EBT was negative for €2.3m, after €1.2m interest, €1m exchange gain and €3.1m non-recurring items linked to the sale and depreciation of the 2.94% shareholding in Relief Therapeutics Holding (Swiss listed company, formerly Tech-driven Contract Research & Development Organization Division of Pierrel). €2.5m net loss of the year.

12% EBITDA, jumping up into the sector standards

On the balance sheet side, inventory was almost stable, trade receivables increased by 18% driven by the increase in sales, trade payable decreased by 17%, due to the payment of some overdue debt. Also €1.3m overdue debt due to social security institutions was repaid in 2017.
Intangible assets of €1.4m are mainly attributable to marketing authorization costs of proprietary pharma products. Property, plant and equipment for €10.2m are related to the production facility located in Capua (Italy). Financial assets include minority shareholdings.

Pierrel is still subject to monthly reporting obligations regarding net financial debt and overdue debt (so-called black-list), as required by CONSOB (art. 114, comma 5, D. Lgs. n. 58/98 - Consolidated Finance Act), the public authority responsible for regulating Italian financial markets.

Recovery plan by key shareholders

Normalized financial debt

Net debt decreased by €11.4m, from €22.9m as of year-end 2016 to €11.4m as of year-end 2017, mainly due to:

- the purchase of €8.2m bank debt by the major shareholders of Pierrel - Fin Posillipo and Bootes - who later waived their receivable to cover losses and reconstitute equity
- €4m capital injection into equity executed by the same shareholders

An overdue debt to the supplier/customer Dentsply, US company which markets professional dental product and has a long-term outsourcing relationship with Pierrel for the production of its anesthetic, has been negotiated as payable within 2026 through offsetting with receivables. The balance has been included within the long-term debt position.

The year-end 2017 net debt includes:

- €1.9m cash

- €1.3m bank debt
- €1.3m short-term financial debt, of which €1m factoring
- €10.7m financial debt, of which €6m due to Dentsply and €4.7m due to key shareholders

Out of the net debt balance, the portion due to financial institutions net of cash is thus lower than €1m, an over safe level versus the previous excessively risky financial profile.

Net debt as of July 31st, 2018 was €11.2m:

- €2m cash
- €1.0m bank debt, mainly factoring
- €1.5m short-term financial debt
- €10.7m financial debt

H1 2018 results and critique

In H1 2018, revenues were €8.7m, +46% on H1 2017, of which €3.9m Contract Manufacturing (+39%) and €4.7m Pharma (+53%). The change is mostly attributable to the increase in sales volumes and prices in North America and Russia.
EBITDA was €0.6m, 7% margin, compared to €-0.9m loss in the same period of the prior year. EBIT was €0.1m, EBT and net loss of the period were €0.3m.
On the balance sheet side, inventory was almost stable, trade receivables and payables decreased by around 30%. Non-current assets were stable. Net debt at June 30th, 2018 was €11.7.
A backward comparison of H1 and H2 recent revenues of Pierrel Group evidenced that H1 revenues are historically lower. Based on the recurring better performance in the second half and on the confirmation of year-end targets communicated by Management, we understand that production facilities' maintenance cycles are concentrated in the first part of the year. As such, the revenue backlog normally is not evenly distributed over the year.

Reshaped and renovated, ready to capture the unexploited market potential

Key growth drivers

- High quality and reliable manufacturing capabilities with strong FDA and EMA track record
- Strong long-term relationships with industry leaders
- Well-identified products and reputation
- Growth in the volume of cartridges and new pharmaceutical specialties on the North American market
- Agreements with the largest global US and Canadian dental care distributors in Europe and on new markets (Africa and Middle East)
- Launch of Orabloc® in new markets (Africa and Middle East) where marketing authorizations have been already obtained (Kosovo, Serbia, Iran, Iraq, Saudi Arabia, Jordan, Algeria, Egypt, Sudan, Taiwan)
- Strengthened marketing and communication campaigns for Pierrel branded products

Management guidance: 2018-20E business plan highlights

Pierrel's Management released the strategic and financial guidelines of the 2018-20E business plan, within its updated recovery plan.
Management foresees consolidated revenues up to €23m in 2020E, a 10% 2017-20E CAGR. EBITDA is targeted at €3.4m (nearly 15% margin) at the same date.
Expected capex are €9.7m for 2018E, of which €1.2m already in course, and €0.5m for 2019E.
The Company's plan to date has achieved €5.2m paid-in capital by Relevant Shareholders. Based on the financial recovery roadmap progress and H1 2018 performance in line with expectations, we do not envisage issues for 2018E Management guidance.

BP 2018-20E (€m)	2017	2018E	2019E	2020E
Revenues	17.3	19.3	20.9	23.0
YoY%	-	*12%*	*8%*	*10%*
EBITDA	2.1	1.8	2.6	3.4
Margin	*12%*	*9%*	*13%*	*15%*

Source: Company data

Our estimates

High visibility on top-line

The nature of the business gives high visibility on the top-line, given that CMO contracts generally last several years (2-5 years). Since drug production is normally carried out in partnership, producers and customers are *de facto* bound. For instance, in case of decision of replacing a producer, the Pharma company has to obtain again all necessary authorizations. As such the rate of renewal of contracts in the industry is generally high.

We concur with Company's operating hints and thus foresee:

- an increase in revenues of the CMO BU, mainly due to higher volumes for the Pharma BU and, residually an increase in volumes to outsourcing customers in portfolio
- increasing revenues in the Pharma BU, from distribution contracts for the sale of Orabloc® and a new molecule which will be registered on the North American market, as well as expected sales on the European market and other countries
- central operating costs and G&A flat over the plan period

Two scenarios

We have run our projections under two scenarios:

- Continuity: business as usual and no assumptions of cash in from shareholders. As such, this is to be considered a pre-money scenario without non-recurring capex and non-comparable with management guidance assumptions.
- Ramp-up: investment in a new production line and doubled production capacity, planned capex in 2018-19E and assumptions on shareholders financing. As such, this is a post-money scenario.

Doubled production capacity

In order to satisfy the foreseen increasing demand and its marketing program in USA and other selected countries, Pierrel has planned to increase its production capacity up to doubling, adding a new production line for cartridges. The investment over 2018-19E is estimated in €7m. The start-up of the new production line is currently scheduled for 2020E.
In our Ramp-up Scenario we have taken into account the increase in production capacity for

cartridges.

Continuity Scenario

Our estimates in the Continuity Scenario do not include any equity injection from the capital increase and projections are to be considered drawn up on a stand-alone basis.

Assumptions - Continuity Scenario

Revenues	• Sales +10% YoY 2018-20E, +5% YoY 2021-22E • Pharma: from 51% of sales in 2017 to 60% in 2022E • CMO: from 49% of sales in 2017 to 40% in 2022E
COGS and other operating costs	• COGS 35% of sales, 2017 level • Personnel cost 2x H1 2018 level in 2018E, +2% YoY 2019-22E • G&A -5% in 2018E for cost savings, then +2% YoY • Marketing & Sales +€120k per year until 2020E, then stable, to take into account marketing effort in the Pharma BU • Other operating costs include provisions, writedown of receivables and other non-budgeted charges
Income taxes	• Corporate tax (IRES): 24% • Regional tax (IRAP): 4.97%
Working Capital	• Trade and other working capital consistent with historical level: - DSO 60 - DPO gradual normalization to 130 - DOI 60 • Repayment of €0.7m overdue tax and social security debt in four years
Capex	• Intangible assets: €0.4m recurring yearly • Property, plant and equipment: €0.8m recurring yearly
Equity	• Paid-in capital already committed by Relevant Shareholders for €0.6m in 2018

Source: EnVent Research

Consolidated Profit and Loss - Continuity Scenario

€m	2016	2017	2018E	2019E	2020E	2021E	2022E
Revenues	**14.5**	**17.3**	**19.0**	**20.9**	**23.0**	**24.2**	**25.4**
YoY %	-	*19.2%*	*10.0%*	*10.0%*	*10.0%*	*5.0%*	*5.0%*
COGS	(5.9)	(6.0)	(6.6)	(7.3)	(8.0)	(8.4)	(8.8)
Gross profit	**8.6**	**11.3**	**12.4**	**13.7**	**15.0**	**15.8**	**16.6**
Margin	*59.5%*	*65.2%*	*65.2%*	*65.2%*	*65.2%*	*65.2%*	*65.2%*
Personnel	(5.4)	(5.0)	(5.7)	(5.8)	(5.9)	(6.0)	(6.1)
G&A	(3.1)	(3.2)	(3.0)	(3.1)	(3.1)	(3.2)	(3.2)
Marketing & Sales	(0.3)	(0.4)	(0.5)	(0.6)	(0.8)	(0.8)	(0.8)
Other operating costs	(1.0)	(0.6)	(1.5)	(1.7)	(1.9)	(1.9)	(1.9)
EBITDA	**(1.1)**	**2.1**	**1.8**	**2.5**	**3.3**	**3.9**	**4.5**
Margin	*-7.6%*	*12.3%*	*9.4%*	*11.8%*	*14.5%*	*16.2%*	*17.8%*
D&A	(1.4)	(1.1)	(1.2)	(1.5)	(1.7)	(1.8)	(1.9)
EBIT	**(2.5)**	**1.0**	**0.6**	**1.0**	**1.6**	**2.1**	**2.6**
Margin	*-17.2%*	*5.9%*	*2.9%*	*4.9%*	*7.1%*	*8.7%*	*10.2%*
Interest	(1.9)	(1.2)	(0.4)	(0.4)	(0.4)	(0.4)	(0.3)
Exchange gain (loss)	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Non-recurring items	(3.1)	(3.1)	0.0	0.0	0.0	0.0	0.0
EBT	**(7.4)**	**(2.3)**	**0.1**	**0.6**	**1.2**	**1.7**	**2.3**
Margin	*-51.2%*	*-13.1%*	*0.7%*	*2.8%*	*5.4%*	*7.1%*	*9.0%*
Income taxes	0.0	(0.2)	(0.1)	(0.2)	(0.4)	(0.5)	(0.7)
Net Income (Loss)	**(7.4)**	**(2.5)**	**0.1**	**0.4**	**0.9**	**1.2**	**1.6**
Margin	*-51.1%*	*-14.5%*	*0.4%*	*1.9%*	*3.7%*	*5.0%*	*6.3%*

Source: EnVent Research - Note: IFRS-compliant financial statements

According to our estimates, Pierrel's consolidated revenues should reach €25m in 2022E in a continuity scenario, a 2017-22E 8% CAGR. Over the same period, we expect EBITDA to reach the low-end level of the business peers that we analyzed, from €2.1m in 2017 (12% margin) to €4.5m in 2022E (18% margin).

Consolidated Balance Sheet - Continuity Scenario

€m	2016	2017	2018E	2019E	2020E	2021E	2022E
Inventory	2.5	2.8	3.1	3.4	3.8	4.0	4.2
Trade receivables	2.8	3.3	3.1	3.4	3.8	4.0	4.2
Trade payables	(5.9)	(4.9)	(4.4)	(4.7)	(4.9)	(5.1)	(5.2)
Trade Working Capital	(0.6)	1.2	1.8	2.2	2.7	2.9	3.1
Other assets (liabilities)	4.6	1.2	1.4	1.6	1.8	1.9	1.9
Net Working Capital	**4.0**	**2.5**	**3.2**	**3.8**	**4.4**	**4.8**	**5.0**
Intangible assets	1.4	1.4	1.6	1.7	1.8	1.8	1.7
Property, plant and equipment	10.2	10.2	10.0	9.6	9.1	8.4	7.7
Financial assets	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Non-current assets	**11.9**	**11.8**	**11.7**	**11.5**	**11.0**	**10.3**	**9.6**
Provisions	**(0.6)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**
Net Invested Capital	**15.4**	**13.7**	**14.4**	**14.7**	**14.8**	**14.6**	**14.1**
Net Debt (Cash)	**22.9**	**11.4**	**11.5**	**11.4**	**10.7**	**9.2**	**7.1**
Equity	**(7.5)**	**2.3**	**2.9**	**3.3**	**4.2**	**5.4**	**7.0**
Sources	**15.4**	**13.7**	**14.4**	**14.7**	**14.8**	**14.6**	**14.1**

Source: EnVent Research - Note: IFRS-compliant financial statements

Consolidated Cash Flow - Continuity Scenario

€m	2016	2017	2018E	2019E	2020E	2021E	2022E
EBIT	**(2.5)**	**1.0**	**0.6**	**1.0**	**1.6**	**2.1**	**2.6**
Current taxes	0.0	(0.2)	(0.1)	(0.2)	(0.4)	(0.5)	(0.7)
D&A	1.4	1.1	1.2	1.5	1.7	1.8	1.9
Provisions	0.4	(0.0)	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	**(0.6)**	**1.8**	**1.7**	**2.3**	**3.0**	**3.4**	**3.8**
Trade Working Capital	0.3	(1.8)	(0.6)	(0.4)	(0.5)	(0.2)	(0.2)
Capex	(0.7)	(0.9)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
Other assets and liabilities	11.4	3.3	(0.2)	(0.2)	(0.2)	(0.2)	0.0
Free cash flow	**10.3**	**2.4**	**(0.2)**	**0.5**	**1.1**	**1.8**	**2.4**
Interest	(1.9)	(1.2)	(0.4)	(0.4)	(0.4)	(0.4)	(0.3)
Exchange gain (loss)	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Non-recurring items	(3.1)	(3.1)	0.0	0.0	0.0	0.0	0.0
Capital increase (decrease)	(1.0)	12.3	0.6	0.0	0.0	0.0	0.0
Net cash flow	**4.4**	**11.4**	**(0.0)**	**0.1**	**0.7**	**1.4**	**2.1**
Net (Debt) Cash - Beginning	(27.2)	(22.9)	(11.4)	(11.5)	(11.4)	(10.7)	(9.2)
Net (Debt) Cash - End	(22.9)	(11.4)	(11.5)	(11.4)	(10.7)	(9.2)	(7.1)
Change in Net (Debt) Cash	**4.4**	**11.4**	**(0.0)**	**0.1**	**0.7**	**1.4**	**2.1**

Source: EnVent Research - Note: IFRS-compliant financial statements

Ratio analysis - Continuity Scenario

KPIs	2016	2017	2018E	2019E	2020E	2021E	2022E
ROE	99%	-112%	3%	12%	21%	22%	23%
ROS (EBIT/Revenues)	-17%	6%	3%	5%	7%	9%	10%
ROIC (NOPAT/Invested Capital)	-16%	6%	3%	5%	8%	10%	13%
DSO	71	70	60	60	60	60	60
DPO	208	175	140	135	130	130	130
DOI	62	59	60	60	60	60	60
TWC/Revenues	-4%	7%	10%	10%	12%	12%	12%
NWC/Revenues	28%	14%	17%	18%	19%	20%	20%
Net Debt / EBITDA	n.m.	5.4x	6.4x	4.6x	3.2x	2.4x	1.6x
Cash flow from operations / EBITDA	59%	86%	97%	92%	89%	87%	85%
FCF / EBITDA	neg.	115%	neg.	21%	34%	46%	54%

Source: EnVent Research - Note: IFRS-compliant financial statements

Ramp-up Scenario and management guidance critique

Our estimates in the Ramp-up Scenario include the assumption of €10m equity injection from the share capital increase, which will be used for planned investments. This cash assumption is at a low intermediate level between the minimum guaranteed proceeds of €5.2m and the further €15-20m possible share subscription foreseen by the Share Capital Increase.

Our projections are based on certain general assumptions:

- There is a comprehensive set of drivers and conditions underlying substantial revenue growth, the competitive position presents more opportunities than challenges
- The 2017 cost and cash flow dynamics reflect a financial model based on facts which avoids unrealistic cash flows and profitability margins
- The revenue growth in the short-term - investment period - in our projections is on the conservative side with respect to the company's potential. The full display of the increased

production capacity would be better foreseen after 2020E

We have made a critical review of management guidance and verified that our estimates are We critically reviewed management's guidance and verified that our estimates are more conservative and do not exceed the Company's figures or implied figures. As a consequence, we consider the financial figures used in our valuation models as consistent with management guidance where applicable.

Assumptions - Ramp-up Scenario

Revenues	• Sales +10% YoY 2018-20E, +20% YoY 2021E, +25% YoY 2022E, until doubling 2017 turnover
COGS and other operating costs	• COGS 35% of sales, 2017 level • Personnel cost 2x H1 2018 level in 2018E, +2% YoY 2019E, +5% 2020E, +10% 2021-22E to reflect increasing production volume • G&A 2018E 2x H1 2018 level, stable in 2019E, +5% 2020E, +10% 2021-22E • Marketing & Sales 3% of sales • Other operating costs include provisions, writedown of receivables and other non-budgeted charges
Capex	• Intangible assets: €0.4m recurring yearly + €2m for new marketing authorizations and other intangibles • Property, plant and equipment: €0.8m recurring yearly + €7m for a new cartridges production line
Equity	• Paid-in capital already committed by Relevant Shareholders for €0.6m in 2018 • Further equity injection from the ongoing capital increase of €10m

Consolidated Profit and Loss - Ramp-up Scenario

€m	2016	2017	2018E	2019E	2020E	2021E	2022E
Revenues	**14.5**	**17.3**	**19.0**	**20.9**	**23.0**	**27.6**	**34.5**
YoY %	*-*	*19.2%*	*10.0%*	*10.0%*	*10.0%*	*20.0%*	*25.0%*
COGS	(5.9)	(6.0)	(6.6)	(7.3)	(8.0)	(9.6)	(12.0)
Gross profit	**8.6**	**11.3**	**12.4**	**13.7**	**15.0**	**18.0**	**22.5**
Margin	*59.5%*	*65.2%*	*65.2%*	*65.2%*	*65.2%*	*65.2%*	*65.2%*
Personnel	(5.4)	(5.0)	(5.7)	(5.8)	(6.1)	(6.7)	(7.3)
G&A	(3.1)	(3.2)	(3.0)	(3.0)	(3.2)	(3.5)	(3.8)
Marketing & Sales	(0.3)	(0.4)	(0.5)	(0.6)	(0.7)	(0.8)	(1.1)
Other operating costs	(1.0)	(0.6)	(1.5)	(1.6)	(1.9)	(2.0)	(3.2)
EBITDA	**(1.1)**	**2.1**	**1.8**	**2.6**	**3.2**	**5.0**	**7.1**
Margin	*-7.6%*	*12.3%*	*9.4%*	*12.6%*	*13.9%*	*18.3%*	*20.6%*
D&A	(1.4)	(1.1)	(2.1)	(3.2)	(3.5)	(3.6)	(3.7)
EBIT	**(2.5)**	**1.0**	**(0.3)**	**(0.6)**	**(0.3)**	**1.4**	**3.4**
Margin	*-17.2%*	*5.9%*	*-1.5%*	*-2.7%*	*-1.3%*	*5.1%*	*9.8%*
Interest	(1.9)	(1.2)	(0.4)	(0.3)	(0.3)	(0.2)	(0.1)
Exchange gain (loss)	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Non-recurring items	(3.1)	(3.1)	0.0	0.0	0.0	0.0	0.0
EBT	**(7.4)**	**(2.3)**	**(0.7)**	**(0.9)**	**(0.6)**	**1.2**	**3.3**
Margin	*-51.2%*	*-13.1%*	*-3.5%*	*-4.3%*	*-2.6%*	*4.3%*	*9.5%*
Income taxes	0.0	(0.2)	0.2	0.2	0.2	(0.4)	(1.0)
Net Income (Loss)	**(7.4)**	**(2.5)**	**(0.5)**	**(0.6)**	**(0.4)**	**0.8**	**2.3**
Margin	*-51.1%*	*-14.5%*	*-2.6%*	*-3.1%*	*-1.9%*	*3.0%*	*6.7%*

Source: EnVent Research - Note: IFRS-compliant financial statements

Consolidated Balance Sheet - Ramp-up Scenario

€m	2016	2017	2018E	2019E	2020E	2021E	2022E
Inventory	2.5	2.8	3.1	3.4	3.8	4.5	5.7
Trade receivables	2.8	3.3	3.1	3.4	3.8	4.5	5.7
Trade payables	(5.9)	(4.9)	(4.4)	(4.6)	(4.9)	(5.7)	(7.2)
Trade Working Capital	(0.6)	1.2	1.8	2.3	2.7	3.4	4.2
Other assets (liabilities)	4.6	1.2	1.4	1.6	1.8	1.9	1.9
Net Working Capital	**4.0**	**2.5**	**3.2**	**3.8**	**4.4**	**5.3**	**6.1**
Intangible assets	1.4	1.4	3.6	3.7	3.2	2.7	2.1
Property, plant and equipment	10.2	10.2	15.7	14.0	12.2	10.3	8.4
Financial assets	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Non-current assets	**11.9**	**11.8**	**19.4**	**17.9**	**15.6**	**13.1**	**10.6**
Provisions	**(0.6)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**
Net Invested Capital	**15.4**	**13.7**	**22.1**	**21.2**	**19.5**	**18.0**	**16.2**
Net Debt (Cash)	**22.9**	**11.4**	**8.7**	**8.5**	**7.2**	**4.8**	**0.8**
Equity	**(7.5)**	**2.3**	**13.4**	**12.7**	**12.3**	**13.1**	**15.4**
Sources	**15.4**	**13.7**	**22.1**	**21.2**	**19.5**	**18.0**	**16.2**

Source: EnVent Research - Note: IFRS-compliant financial statements

Consolidated Cash Flow - Ramp-up Scenario

€m	2016	2017	2018E	2019E	2020E	2021E	2022E
EBIT	**(2.5)**	**1.0**	**(0.3)**	**(0.6)**	**(0.3)**	**1.4**	**3.4**
Current taxes	0.0	(0.2)	0.2	0.2	0.2	(0.4)	(1.0)
D&A	1.4	1.1	2.1	3.2	3.5	3.6	3.7
Provisions	0.4	(0.0)	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	**(0.6)**	**1.8**	**2.0**	**2.9**	**3.4**	**4.7**	**6.2**
Trade Working Capital	0.3	(1.8)	(0.6)	(0.4)	(0.4)	(0.7)	(0.8)
Capex	(0.7)	(0.9)	(9.7)	(1.7)	(1.2)	(1.2)	(1.2)
Other assets and liabilities	11.4	3.3	(0.2)	(0.2)	(0.2)	(0.2)	0.0
Free cash flow	**10.3**	**2.4**	**(8.5)**	**0.6**	**1.6**	**2.6**	**4.2**
Interest	(1.9)	(1.2)	(0.4)	(0.3)	(0.3)	(0.2)	(0.1)
Exchange gain (loss)	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Non-recurring items	(3.1)	(3.1)	0.0	0.0	0.0	0.0	0.0
Capital increase (decrease)	(1.0)	12.3	11.6	0.0	0.0	0.0	0.0
Net cash flow	**4.4**	**11.4**	**2.7**	**0.3**	**1.3**	**2.3**	**4.1**
Net (Debt) Cash - Beginning	(27.2)	(22.9)	(11.4)	(8.7)	(8.5)	(7.2)	(4.8)
Net (Debt) Cash - End	(22.9)	(11.4)	(8.7)	(8.5)	(7.2)	(4.8)	(0.8)
Change in Net (Debt) Cash	**4.4**	**11.4**	**2.7**	**0.3**	**1.3**	**2.3**	**4.1**

Source: EnVent Research - Note: IFRS-compliant financial statements

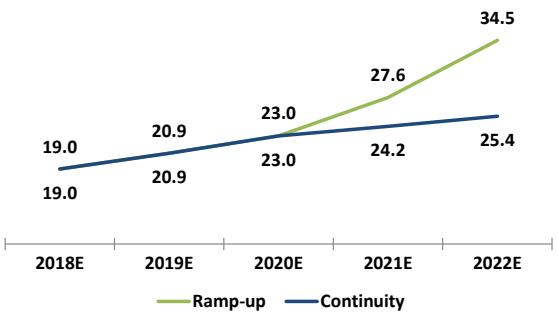
Ratio analysis - Ramp-up Scenario

KPIs	2016	2017	2018E	2019E	2020E	2021E	2022E
ROE	99%	-112%	-4%	-5%	-4%	6%	15%
ROS (EBIT/Revenues)	-17%	6%	-2%	-3%	-1%	5%	10%
ROIC (NOPAT/Invested Capital)	-16%	6%	-1%	-2%	-1%	6%	15%
DSO	71	70	60	60	60	60	60
DPO	208	175	140	135	130	130	130
DOI	62	59	60	60	60	60	60
TWC/Revenues	-4%	7%	10%	11%	12%	12%	12%
NWC/Revenues	28%	14%	17%	18%	19%	19%	18%
Net Debt / EBITDA	n.m.	5.4x	4.9x	3.2x	2.2x	1.0x	0.1x
Cash flow from operations / EBITDA	59%	86%	110%	109%	105%	93%	87%
FCF / EBITDA	neg.	115%	neg.	21%	49%	51%	59%

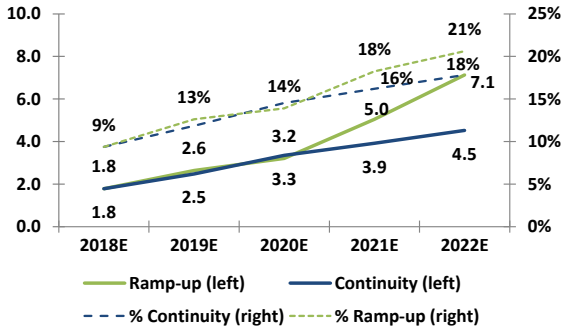
Source: EnVent Research - Note: IFRS-compliant financial statements

Side by side comparison of two scenarios

Revenues (€m)

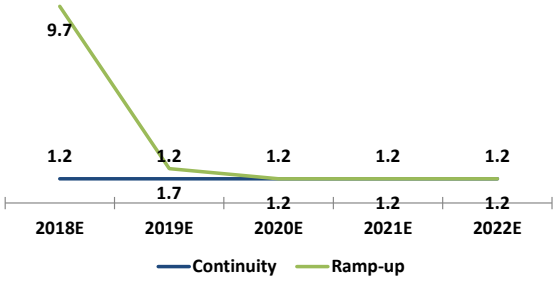


EBITDA (€m)

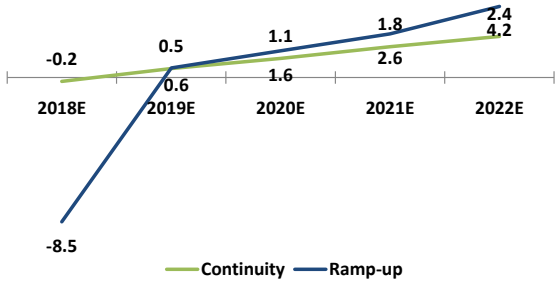


Source: EnVent Research

Capex (€m)

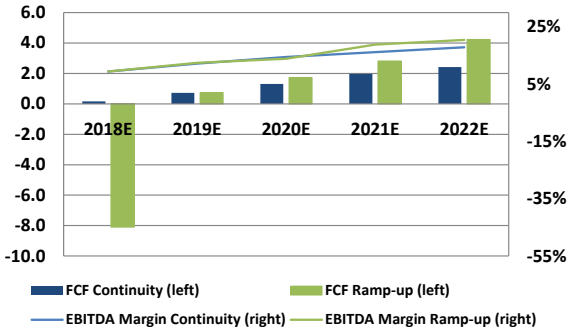


Free Cash Flow (€m)



Source: EnVent Research

EBITDA Cash Conversion



Source: EnVent Research

11. VALUATION

60 years old Pierrel, out of the financial distress thanks to becoming a global leader in its specializations, in the value-building mood

Pierrel's CMO and Pharma perspective

According to our assessment of the business model, the key driver for growth in the CMO and Pharma units are the consistent global growth rates for the industries and a reliable base of long-term agreements with leading industry customers, European and US dental care distributors, based on manufacturing process excellence and product quality and effectiveness.

Value drivers and use of market data

- The dental anesthesia market is set to grow steadily at a moderate pace of around 2% globally, due to the increasing dental health checkups, introduction of new products, new investments in dental research and increasing geriatric population
- The dental equipment market is expected to grow at a higher pace, 6.5% CAGR in 2018-23E according to Mordor Intelligence, driven also by the increasing demand for cosmetic dentistry and dental diseases, especially among children
- Based on our Continuity projections, Pierrel is expected to grow at a 2017-22E revenue CAGR of 8%, in line with growth expectations of core business peers
- The average 5Y EBITDA margin of core business peers is in the region of 20%, Pierrel's long-run target of 18% margin in 2022E is aligned to industry benchmarks

Valuation

Our valuation metrics include discounted cash flows, market multiples and regression analysis.
Over the last ten years Pierrel has completed an investment cycle and is now ready to enter a new investment phase on its production capacity in order to sustain future demand. We believe that the DCF valuation may capture better than other models the medium-term impact of the planned changes.

Discounted Cash Flows

We have applied the DCF model to our projections with the following assumptions:

- Risk free rate: 1.6% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, September 2018)
- Market return: 13.8% (3Y average. Source: Bloomberg, September 2018)
- Market risk premium: 12.2%
- Beta: 1.1 (Median of selected core business peers. Source: Bloomberg, September 2018)
- Cost of equity: 15.3%
- Cost of debt: 3.5%

- Tax rate: 24% IRES
- 50% debt/(debt + equity) as target capital structure
- WACC calculated at 9.0%, according to above data
- Perpetual growth rate after explicit projections: 3.0% based on industry long-term trend
- Terminal Value assumes an EBIT margin of 16% in the Continuity Scenario and 17% in the Ramp-up Scenario

DCF Valuation - Continuity Scenario

€m		2016A	2017	2018E	2019E	2020E	2021E	2022E	Perpetuity
Revenues		**14.5**	**17.3**	**19.0**	**20.9**	**23.0**	**24.2**	**25.4**	**26.2**
EBITDA		**(1.1)**	**2.1**	**1.8**	**2.5**	**3.3**	**3.9**	**4.5**	**4.7**
Margin		*-7.6%*	*12.3%*	*9.4%*	*11.8%*	*14.5%*	*16.2%*	*17.8%*	*18.0%*
EBIT		**(2.5)**	**1.0**	**0.6**	**1.0**	**1.6**	**2.1**	**2.6**	**4.2**
Margin		*-17.2%*	*5.9%*	*2.9%*	*4.9%*	*7.1%*	*8.7%*	*10.2%*	*16.1%*
Taxes		0.0	(0.2)	(0.2)	(0.3)	(0.5)	(0.6)	(0.7)	(1.2)
NOPAT		**(2.5)**	**0.8**	**0.4**	**0.7**	**1.2**	**1.5**	**1.8**	**3.0**
D&A		1.4	1.1	1.2	1.5	1.7	1.8	1.9	0.5
Provisions		0.4	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from operations		**(0.6)**	**1.8**	**1.6**	**2.2**	**2.9**	**3.3**	**3.8**	**3.5**
Trade Working Capital		0.3	(1.8)	(0.6)	(0.4)	(0.5)	(0.2)	(0.2)	0.0
Capex		(0.7)	(0.9)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(0.5)
Other assets and liabilities		11.4	3.3	(0.2)	(0.2)	(0.2)	(0.2)	0.0	0.0
Unlevered free cash flow		**10.3**	**2.4**	**(0.3)**	**0.4**	**1.0**	**1.7**	**2.4**	**3.0**
WACC	9%								
Long-term growth (G)	3%								
Discounted Cash Flows				**(0.3)**	**0.4**	**0.9**	**1.3**	**1.7**	
Sum of Discounted Cash Flows	3.9								
Terminal Value									**49.8**
Discounted TV	35.3								
Enterprise Value	**39.2**								
Net Debt as of 31/07/18	(11.2)								
Capital increase	5.2								
Short-term tax relief	1.0								
Equity Value	**34.2**								
Equity Value per share	0.212								

DCF - Implied multiples	**2017**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**
EV/Revenues	2.3x	2.1x	1.9x	1.7x	1.6x	1.5x
EV/EBITDA	18.4x	22.0x	15.8x	11.7x	10.0x	8.7x
EV/EBIT	38.2x	70.3x	38.6x	23.8x	18.7x	15.2x
P/E	neg.	464.7x	85.6x	39.9x	28.3x	21.3x

Source: EnVent Research

DCF Valuation - Ramp-up scenario

€m		2016A	2017	2018E	2019E	2020E	2021E	2022E	Perpetuity
Revenues		**14.5**	**17.3**	**19.0**	**20.9**	**23.0**	**27.6**	**34.5**	**35.6**
EBITDA		**(1.1)**	**2.1**	**1.8**	**2.6**	**3.2**	**5.0**	**7.1**	**7.1**
Margin		*-7.6%*	*12.3%*	*9.4%*	*12.6%*	*13.9%*	*18.3%*	*20.6%*	*20.0%*
EBIT		**(2.5)**	**1.0**	**(0.3)**	**(0.6)**	**(0.3)**	**1.4**	**3.4**	**5.9**
Margin		*-17.2%*	*5.9%*	*-1.5%*	*-2.7%*	*-1.3%*	*5.1%*	*9.8%*	*16.6%*
Taxes		0.0	(0.2)	0.1	0.2	0.1	(0.4)	(1.0)	(1.7)
NOPAT		**(2.5)**	**0.8**	**(0.2)**	**(0.4)**	**(0.2)**	**1.0**	**2.4**	**4.2**
D&A		1.4	1.1	2.1	3.2	3.5	3.6	3.7	1.2
Provisions		0.4	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from operations		**(0.6)**	**1.8**	**1.9**	**2.8**	**3.3**	**4.6**	**6.1**	**5.4**
Trade Working Capital		0.3	(1.8)	(0.6)	(0.4)	(0.4)	(0.7)	(0.8)	0.0
Capex		(0.7)	(0.9)	(9.7)	(1.7)	(1.2)	(1.2)	(1.2)	(1.2)
Other assets and liabilities		11.4	3.3	(0.2)	(0.2)	(0.2)	(0.2)	0.0	0.0
Unlevered free cash flow		**10.3**	**2.4**	**(8.6)**	**0.5**	**1.5**	**2.5**	**4.2**	**4.2**
WACC	9%								
Long-term growth (G)	3%								
Discounted Cash Flows				**(8.6)**	**0.5**	**1.3**	**1.9**	**2.9**	
Sum of Discounted Cash Flows	(2.0)								
Terminal Value									**70.0**
Discounted TV	49.6								
Enterprise Value	**47.6**								
Net Debt as of 31/07/18	(11.2)								
Capital increase	10.0								
Short-term tax relief	0.7								
Equity Value	**47.1**								
Equity Value per share	0.246								

DCF - Implied multiples	**2017**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**
EV/Revenues	2.8x	2.5x	2.3x	2.1x	1.7x	1.4x
EV/EBITDA	22.4x	26.7x	18.0x	14.9x	9.4x	6.7x
EV/EBIT	46.4x	neg.	neg.	neg.	33.5x	14.1x
P/E	neg.	neg.	neg.	neg.	56.1x	20.3x

Source: EnVent Research

Valuation based on market multiples

Market multiple metrics are typically applied to a short-term projection period, using data which derive from 2Y forward analyst consensus. In Pierrel's case the multiples methodology poses complications as:

- Pierrel is at the closing point of a financial distress period and at the beginning of an investment cycle. In such a flip-phase, sustained by recently successful operations and even more rewarding expectations, the principal valuation issue is to deal with the unusually concurrent risk of both underestimating or overestimating a fair value. Past history suggests prudence, the market and competitive environments suggest major opportunities.
- The peer group analyzed includes diversified Pharma companies, with high discrepancy of size, profitability and market capitalization, different degrees of specialization and integration, which may imply unrealistic or inconsistent average multiples. A recurring metric among Pharma companies is an EV/revenue multiple consistently above those of other industries.

Our interpretation of the above is that we have to exercise judgement and care in selecting overall multiples to apply to PRL synthetic indicators. We believe that our conclusion on values should be articulated and derived from multiple sources, but linked by a common path.
As a first step, we recall that Enterprise Value multiples look at market value of the operating assets of the firm. They provide a broader measure of value that is less affected by the capital structure of a firm (equity invested, financial leverage and tax effects).
In Pierrel's case, this is presently more significant than other circumstances, since during a the capital raising phase we need to isolate the value of the asset performance from its financial burden. This is a fundamental information, when evaluating a company whose financing structure is going to change radically and whose future performance depends largely from the raised resources made available to invest in production capacity and marketing.
Among other measures and multiples, EV/Revenues has the advantage of being less influenced by investment or accounting policies and cycles, sector profitability standards or temporarily abnormal profitability levels. This, again, is the scenario which PRL currently presents.

We note that the Peers analyzed show consistently high multiples, usual for Pharma companies. Notwithstanding the aforementioned substantial differences with peers, thanks to certain recurring indicators in the sample analysis, we deem the so-calculated market multiples a suitable method to provide a value indication for Pierrel. Major reasons are the sector-like operational practices and certifications, cost control, continuity of relationships with major customers, sound operating profitability and the success in the USA, in addition to an overly complicated marketplace. In general higher multiples reflect market consensus on typically lower risk, high margins or expected growth cases, regardless of contingent lower performances. Lower multiples may reflect higher risk or growth expectations, or, alternatively, lower sustainable profitability although in presence of stable performances.

Regression analysis offers another key suggestion: consistently higher EV/Revenues multiples, for Pharma companies, than those calculated through EV/EBITDA, are the - obvious - proof that we must look at EV/Revenues as a reliable indicator of the embedded value of know-how, which for Pharma companies is the most important value generator, whereas EBITDA is a good measure of investment return. EBITDA margins are in fact quite well comparable, but less significant than in other industries as to value indicators.

We conclude that market multiple value calculations, as long as they are sufficiently consistent with the DCF values in the two scenarios, may contribute to confirming reliability of results and to the quality of information available to investors.
However, given the differences in size and know-how with respect to hybrid peers, engaged both in CMO and pure Pharma specialties or diversified equipment makers, we have capped the EV/ Revenues multiple to the low-end of the listed peers analyzed, assumed at 2.5 times revenues.

Application of market multiples

€m

Multiples Valuation			Multiple	EV	Net Debt	Cap. increase	Equity Value
2018E Revenues	19.0	Median	1.9x	36.2	(11.2)	5.2	30.2
2019E Revenues	20.9	Median	1.8x	37.7	(11.2)	5.2	31.7
2020E Revenues	23.0	Median	1.7x	39.2	(11.2)	5.2	33.1
Mean							*31.7*
2018E EBITDA	1.8	Median	15.6x	27.7	(11.2)	5.2	21.7
2019E EBITDA	2.5	Median	14.0x	34.7	(11.2)	5.2	28.7
2020E EBITDA	3.3	Median	12.4x	41.4	(11.2)	5.2	35.4
Mean							*28.6*

Source: EnVent Research

Looking for a short/mid-term perspective, we have applied the 2018-20E EV/Revenues and EV/EBITDA median multiples to Pierrel.

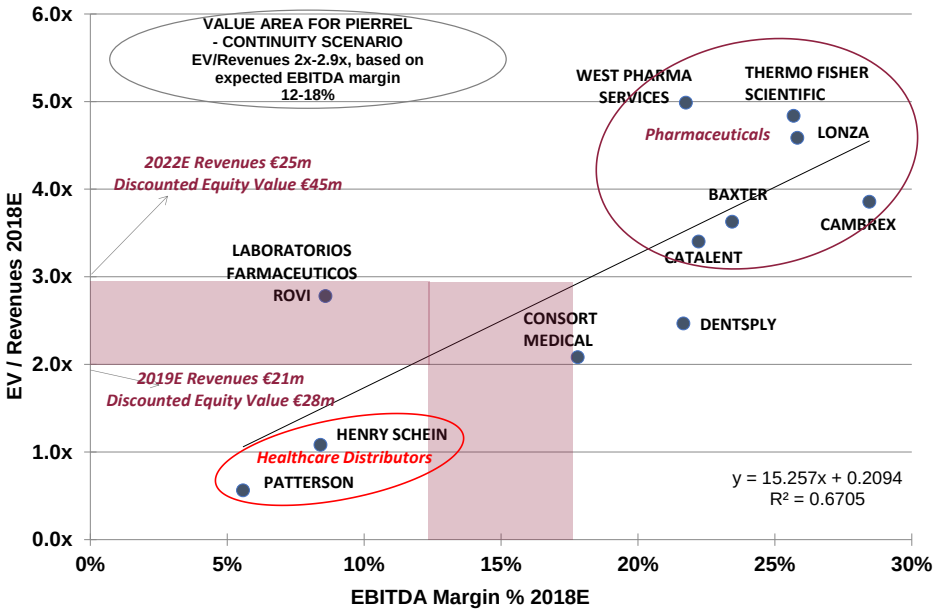
Valuation based on regression analysis

The linear regression between EBITDA Margin and EV/Revenues of peers shows a fair R2 higher than 60%.

Continuity Scenario

Pierrel's prospect value area assumes an EBITDA margin between 12-18% in the Continuity Scenario, that we consider a reasonable if not conservative target for Pierrel, and results in EV/Revenues in the 2-2.9x range. The resulting equity values are in the range €28-45m. We consider the regression analysis outcome a confirm of reliability for the DCF and market multiples calculations. Moreover, the graph below represents the summary of the assumption of the embedded value implied by high EV/Revenue multiples of the Pharma peers with diversified operations.

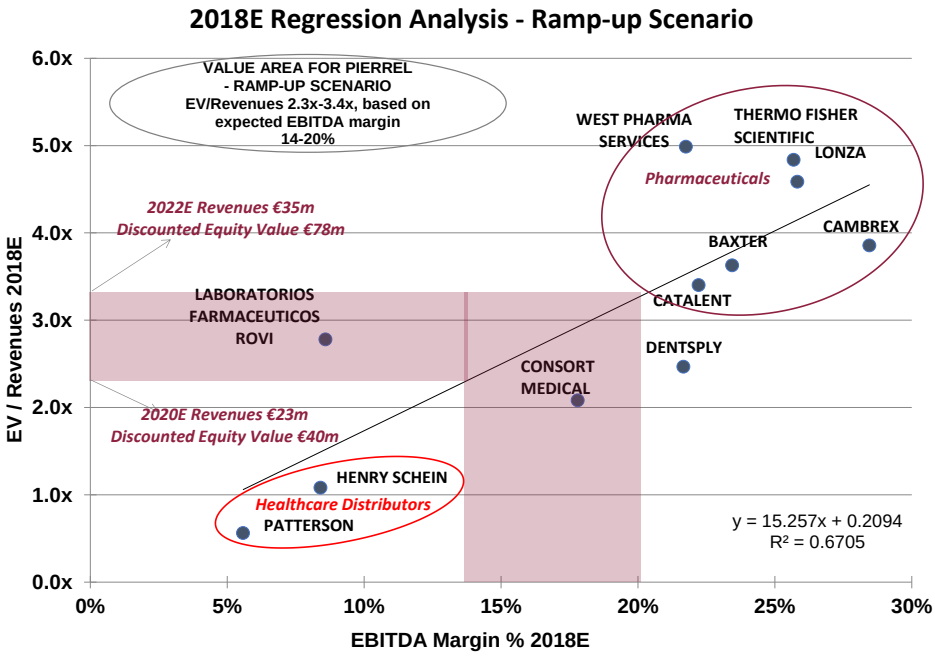
2018E Regression Analysis - Continuity Scenario



Source: EnVent Research on S&P Capital IQ data; update: 04/09/ 2018

Ramp-up Scenario

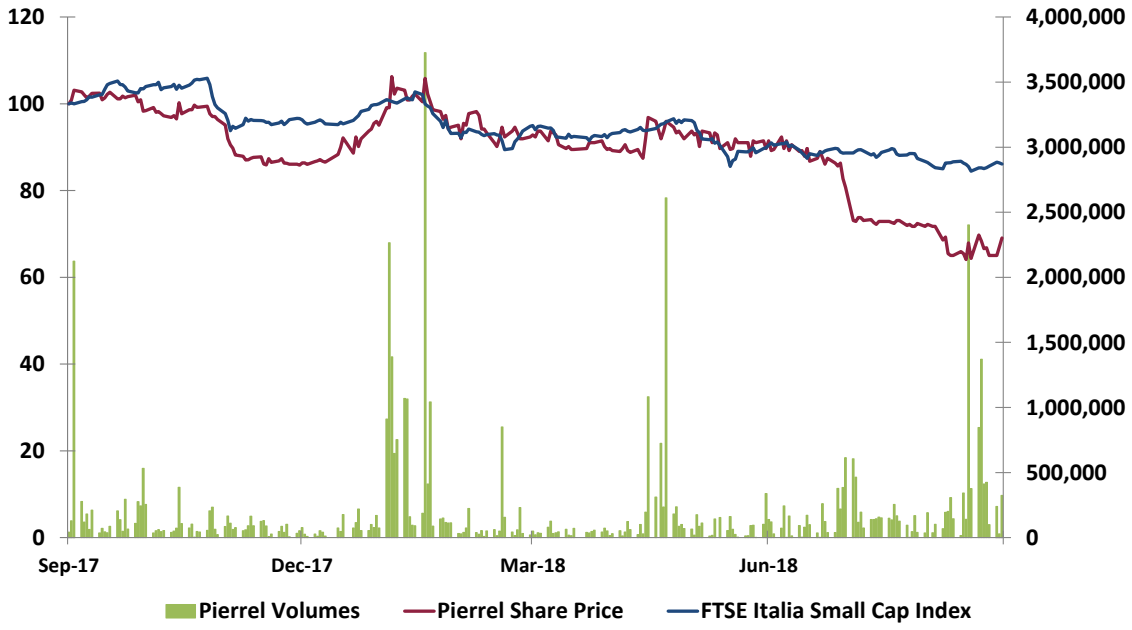
According to the value area identified for Pierrel, we have also calculated implied values at the higher levels of revenues of the ramp-up scenario. The 2022E revenues assumed in our estimates, indicate as a possible upside a figure up to over €100m, whose present value, discounted at the same rate of other examples, would indicate a target value of €78m. These figures are intended to help measure upside potential.



Source: EnVent Research on S&P Capital IQ data; update: 04/09/ 2018

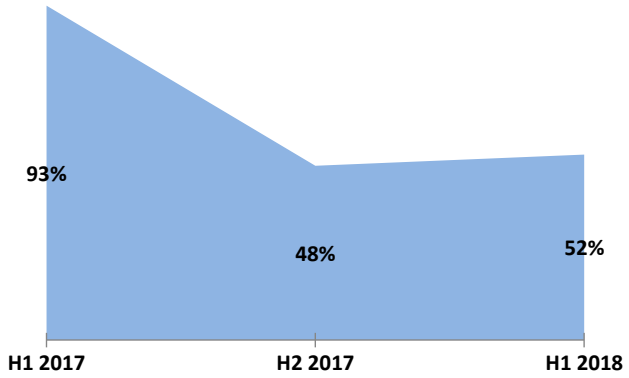
Pierrel's performance on the stock market

Pierrel - 1Y share price performance and trading volumes



Source: EnVent Research on S&P Capital IQ - Note: 13/09/2017=100

Pierrel - Liquidity analysis and Velocity Turnover



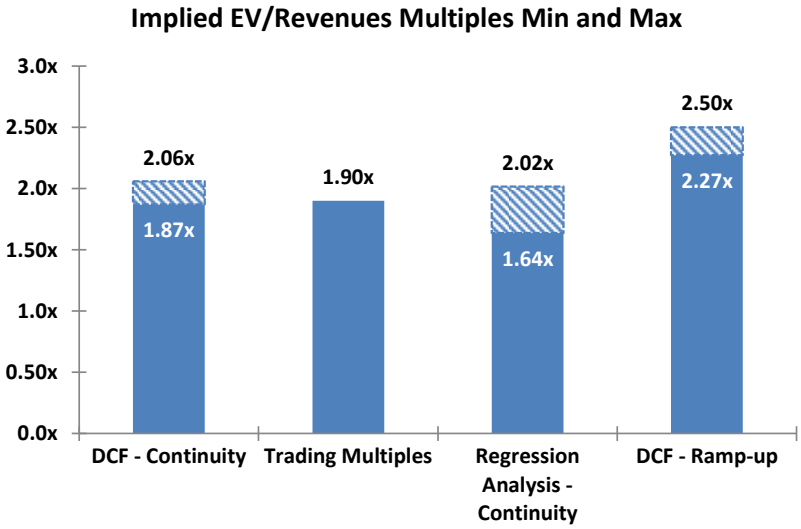
Source: EnVent Research on Bloomberg - Note: The velocity turnover is the ratio of total traded shares to total ordinary shares in a given period

Valuation summary

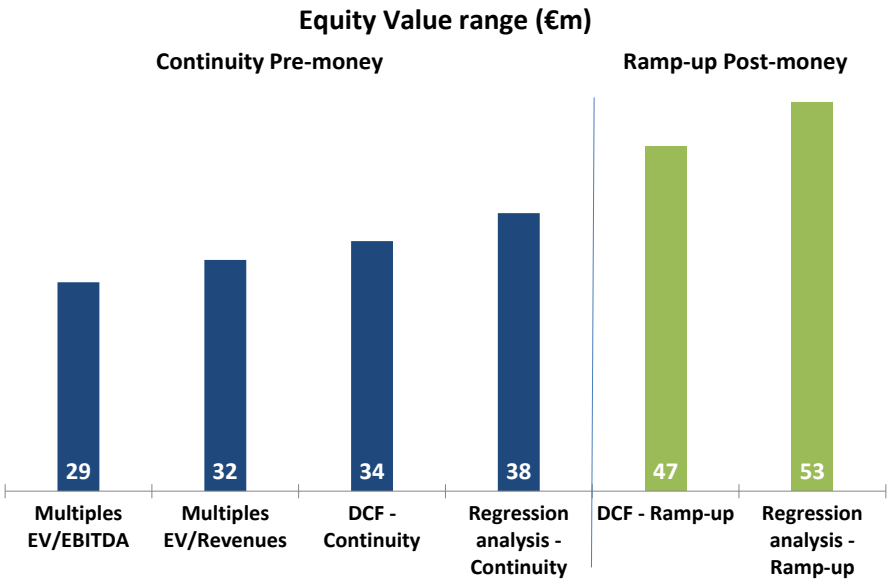
The valuation range calculated through DCF, multiples and Regression has a multipurpose signaling capacity:

- The EBITDA-based values are deemed to represent the current value of Pierrel assuming its operating profitability reaching industry minimum records
- The EV/Revenues values are deemed to express the value embedded in the present and short-term perspective, whose expected outcome is a quantum leap of operations and profit
- The DCF Ramp-up scenario is intended to represent the present measure of the value building path
- The Regression analysis represents a proxy of the likely values indicated by the different revenue scenarios
- Consistent multiples

Consistent among metrics



Source: EnVent Research



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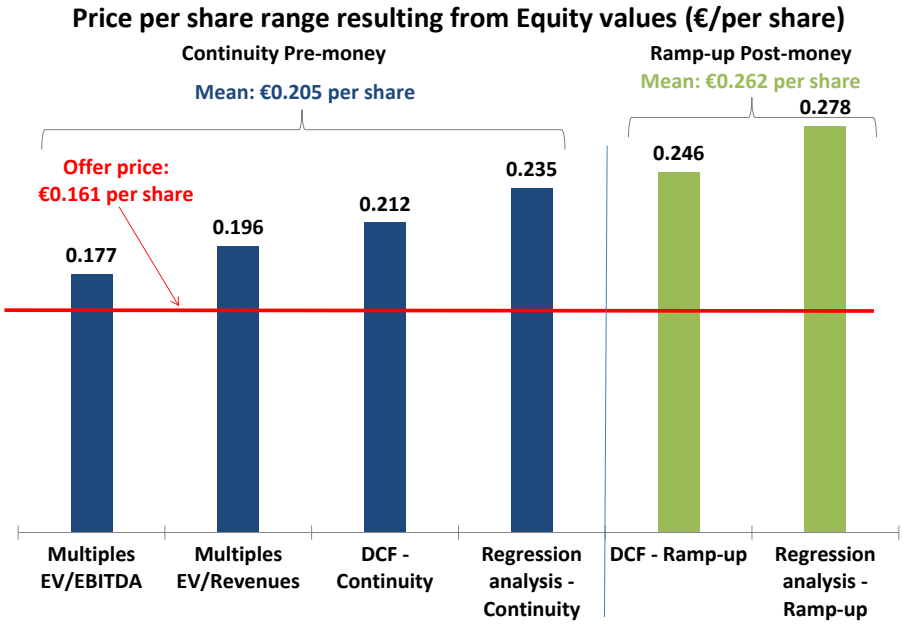

Source: EnVent Research

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The "OUTPERFORM", "NEUTRAL", AND "UNDERPERFORM" recommendations are based on the expectations within 12-month period of date of initial rating (shown in the chart on the front page of this publication). Equity ratings and valuations are issued in absolute terms, not relative to market performance.
Rating rationale:
OUTPERFORM: stocks are expected to have a total return of at least 20% in the mid-term;
NEUTRAL: stocks are expected to have a performance consistent with market or industry trend and appear less attractive than Outperform rated stocks;
UNDERPERFORM: stocks are among the least attractive in a peer group;
UNDER REVIEW: target price under review, waiting for updated financial data, or other key information such as material transactions involving share capital or financing;
SUSPENDED: no rating/target price assigned, due to material uncertainties or other issues that seriously impair our previous investment ratings, price targets and earnings estimates;
NOT RATED: no rating or target price assigned.
The stock price indicated is the reference price on the day indicated as "Date of Price" in the table on the front page of this publication.

DETAILS ON STOCK RECOMMENDATION AND TARGET PRICE

Date	Recommendation	Target Price (€)	Share Price (€)
13/09/2018	NOT RATED	n.a.	0.154

ENVENTCM RECOMMENDATION DISTRIBUTION (September 13th, 2018)

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