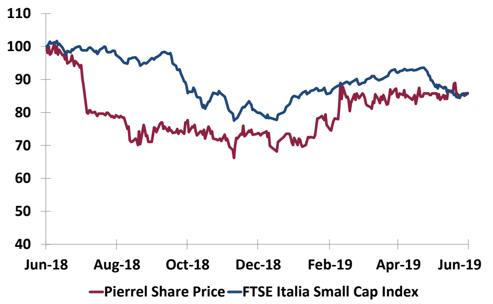
Pierrel global provider of dental anesthetics delivering more than promised: Revenues and EBITDA up 18% and over 50%, debt 65% down, expansion in North America and Asia

OUTPERFORM

Current Share Price (€): 0.175

Target Price (€): 0.267

Pierrel - 1Y Performance



Source: S&P Capital IQ - Note: 11/6/2018=100

Company data

ISIN number	IT0004007560
Bloomberg code	PRL IM
Reuters code	PRL.MI
Sector	Pharma & Healthcare
Stock market	MTA (Italy)
Share Price (€)	0.175
Date of Price	11/06/2019
Shares Outstanding (m)	228.7
Market Cap (€m)	40.0
Market Float (%)	28.8%
Daily Volume	46,450
Avg Daily Volume YTD	522,522
Target Price (€)	0.267
Upside (%)	53%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	1Y
Pierrel - Absolute (%)	0.0%	1.7%	-14.2%
FTSE Italia Small Cap (%)	-4.3%	-3.6%	-14.1%
1Y Range H/L (€)		0.206	0.135
YTD Change (€)/%		0.03	20.7%

Source: S&P Capital IQ

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Rewarding financials at industry-like levels, back to healthy capital structure

Pierrel FY18 revenues were €20.4m, +18% over 2017 and 6% higher than management guidance. EBITDA at €3.4m, +57% vs FY17 and 16% margin vs 12% in FY17, reached the standard of the good industry performers. EBIT more than doubled at €2.3m and net income of €0.8m (vs €2.5m loss in FY17) complete the picture of a fully reversed operating performance. Net debt decreased from €11.4m to €3.7m (68% vs FY17) thanks to paid-in capital and operating cash generation.

Capital raising to double production capacity and for international coverage

Pierrel €28m capital increase completed in November 2018. Cash collected was €8m in the option phase and from a private placement. €20m represent new shares subscribed by the controlling shareholders through their receivable waivers and cash injected before 2018.

Q1 2019 acceleration of performance

In Q1 2019, revenues were €5.4m, +25% on Q1 2018. EBITDA was €1m, 19% margin. EBIT was €0.7m, net income €0.4m. Net debt at March 31st, 2019 was €4m. Share price up 18%.

Management updated guidelines 2019-21E

- 2019E: Revenues €22.4m; EBITDA €3.7m (in line with previous management guidance)
- 2020E: Revenues €24.1m; EBITDA €4.6m (+5% and +35%)
- 2021E: Revenues €28.7m; EBITDA €6.2m

Outlook confirmed

We notice that Pierrel program of expanding presence and distribution in North America and Asia advances. The global industry growth rates and the increasing long-term agreements with leading European and US dental care distributors are confirmed to be a reliable base for the visibility of projections.

Target Price €0.267 per share, OUTPERFORM rating

Our DCF model yields a Target Price of €0.267 per share, a 53% premium on current share price. As such, we assign an Outperform rating on Pierrel's stock.

Key financials and estimates

€m	2018	2019E	2020E	2021E	2022E
Revenues	**20.4**	**22.2**	**23.7**	**27.8**	**33.3**
YoY %	*17.7%*	*9.0%*	*6.8%*	*17.2%*	*20.0%*
EBITDA	**3.4**	**3.7**	**4.1**	**5.0**	**6.5**
Margin	*16.5%*	*16.6%*	*17.4%*	*18.0%*	*19.6%*
EBIT	**2.3**	**2.3**	**2.5**	**3.3**	**4.7**
Margin	*11.3%*	*10.5%*	*10.5%*	*11.7%*	*14.0%*
Net Income (Loss)	**0.8**	**1.6**	**1.7**	**2.3**	**3.4**
Trade Working Capital	**2.6**	**3.1**	**3.5**	**4.0**	**4.7**
Net (Debt) Cash	**(3.7)**	**(3.1)**	**(1.5)**	**0.7**	**4.0**
Equity	**11.3**	**12.9**	**14.6**	**16.9**	**20.3**

Source: Company data 2018A, EnVent Research 2019-22E

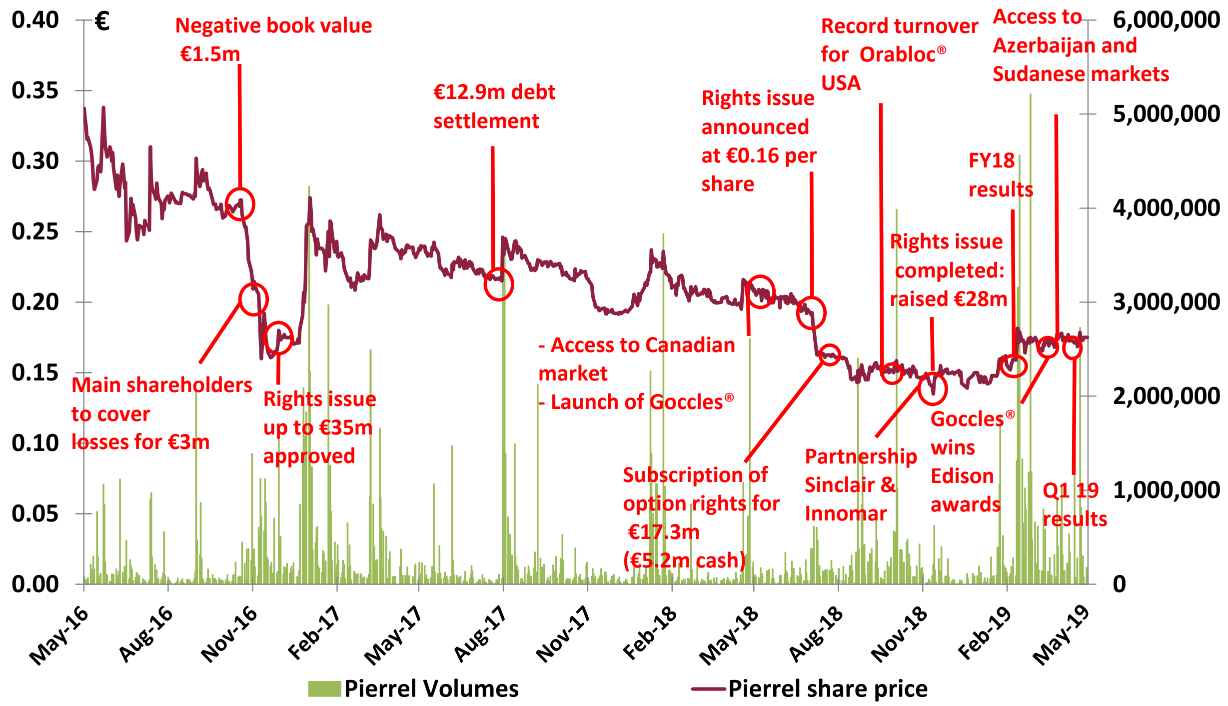
Market update: 2018 profits and financial health after 2017 operating turning point

We read the market dynamics of the last years in connection with the sequence of major facts that reversed the operating and financial profile of Pierrel, surprises in a dormant small fragmented shareholders environment, where even small trades cause big waves.

The share price during 2017 went floating, following 2016 losses and the concurrent key shareholders commitment to finance recovery. The radical operating improvement testified by 2017 interim financials, that showed a reverse trend, helped credibility of a recovery path.

In early 2018 the more than rewarding 2017 operations and financials, after years of losses, helped the share up. Then there has been again a floating up and down during the radical debt coverage and substantial financial rebalance. The rights issue period came with Pierrel at the closing point of a financial distress period and at the beginning of an investment cycle. The share price realigned down 20% to the intentionally lower level fixed for the new shares issue and stayed in the same region towards year-end. In 2019, the expected regular growing trend began, and the price went up by 18% in the first four months.

Pierrel - 3Y Share price performance and trading volumes



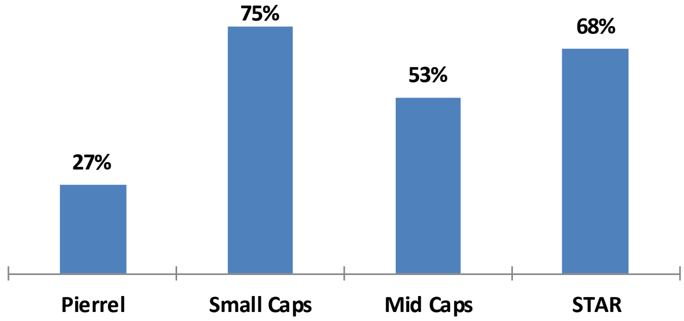
Source: EnVent Research on S&P Capital IQ - Note: 07/05/2016=100

EnVent
Research & Analysis

Low volumes: 61m shares traded in 2018

Average daily volume YTD 522,522 shares

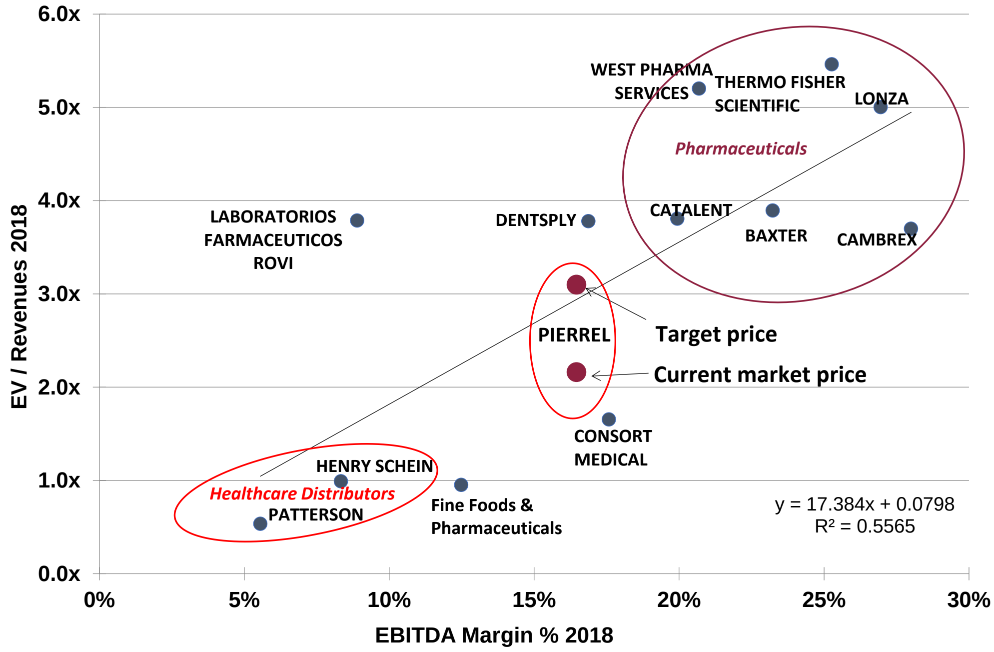
Pierrel - Liquidity analysis and velocity turnover, 2018



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

Forward industry multiples

Pierrel Peer group - Regression analysis and Pierrel target positioning



Source: EnVent Research on S&P Capital IQ, June 2019

FY18 Double-digit growing revenues and EBITDA, beating Management guidance and our estimates, debt down to 18% revenues, turnaround ended

In 2018, Pierrel consolidated revenues were €20.4m, +18% YoY, a double-digit growth rate for the second year in a row, driven by sales of Orabloc® dental anesthetic in the US, Canada and Russia.

The success in the US market continues

Orabloc® US sales in 2018 climbed by +17% YoY, reaching, according to management, a 21% market share in the dental anesthetics market based on Articaine in the USA.

FY18 results beating estimates

FY18 revenues were 6% higher than management guidance issued in February 2018 and 12% higher than our estimates.

EBITDA reached €3.4m, +57% YoY, 16% margin, from €2.1m in 2017 (12% margin).

Sound 16% EBITDA, bottom line recovered

EBITDA was 83% higher than management guidance and 85% higher than our estimates. EBIT was €2.3m, 11% margin, vs €1m in 2017.

Net income of €0.8m, after several years of losses.

On the balance sheet side, trade working capital increased to €2.6m from €1.2m in 2017, with inventory increased by 37% driven by the increase in sales volumes, trade receivables were stable, payables decreased by 7%.

Financial debt down close to receivables level

Net debt decreased from €11.4m at year-end 2017 to €3.7m at year-end 2018, thanks to cash injections from paid-in capital and also operating cash generation. The year-end net debt includes:

- €9.8m cash
- €1.5m bank debt
- €0.8m short-term financial debt (including factoring)
- €11.2m other financial debt, of which €6.6m scheduled to be reimbursed within 2026 to a supplier

Rights issue and capital stock increase in 2018

The rights issue launched in July 2018 up to €34.8m was completed in November for a final consideration of €28.1m. €20m came from conversion of financial debt taken over by the two main shareholders, mostly pre-committed during 2017 and H1 2018, and €8m were raised in cash.

Proceeds are planned to be mainly used to add a cartridge production line, for the international additional registrations program and for R&D ongoing projects.

Turnaround process completed

Restructuring plan completed in advance and successfully

Based on the update report issued in March 2019 by an independent expert on the state of development of Pierrel's 2018-20 business plan aimed at the financial restructuring, Pierrel has successfully recovered the financial balance and restored equity, reaching and, in part, exceeding the objectives of the original recovery plan in advance with respect to the initially foreseen 2021. As of May 2019, CONSOB, the Italian financial markets regulator, has waived the obligation of Pierrel to report its financial position and overdue debt on a monthly basis, imposed on the company before its turnaround.

Q1 2019 results, revenues up again

In Q1 2019, revenues were €5.4m, +25% on Q1 2018. EBITDA was €1m, 19% margin, compared to €0.1m in the same period of the prior year. EBIT was €0.7m, net income €0.4m. Net debt at March 31st, 2019 was €4m, vs €3.7m at year-end.

Interim accounts consistent with the 2018 mood

Consolidated Profit and Loss

€m	Q1 2018	Q1 2019
Revenues	**4.3**	**5.4**
YoY %	*-*	*25.1%*
COGS	(2.1)	(1.7)
Gross profit	**2.3**	**3.7**
Margin	*52.2%*	*68.2%*
Personnel	(1.4)	(1.6)
G&A	(0.7)	(0.8)
Other operating costs	(0.1)	(0.3)
EBITDA	**0.1**	**1.0**
Margin	*1.8%*	*19.2%*
D&A	(0.3)	(0.4)
EBIT	**(0.2)**	**0.7**
Margin	*-4.9%*	*12.5%*
Interest	0.1	(0.3)
EBT	**(0.1)**	**0.4**
Margin	*-3.3%*	*6.6%*
Income taxes	0.0	(0.0)
Net Income (Loss)	**(0.1)**	**0.3**

Source: Company data

Consolidated Balance Sheet

€m	2018	Q1 2019
Inventory	3.8	3.5
Trade receivables	3.3	3.5
Trade payables	(4.5)	(4.0)
Trade Working Capital	2.6	2.9
Other assets (liabilities)	1.2	1.6
Net Working Capital	**3.8**	**4.5**
Intangible assets	2.0	1.9
Property, plant and equipment	9.5	9.5
Financial assets	0.0	0.0
Non-current assets	**11.5**	**11.4**
Leaving indemnities	(0.3)	(0.3)
Provisions	**(0.4)**	**(0.3)**
Net Invested Capital	**15.0**	**15.6**
Net Debt (Cash)	**3.7**	**4.0**
Equity	**11.3**	**11.6**
Sources	**15.0**	**15.6**

Source: Company data - Note: 2018 year-end

Consolidated Cash flow

€m	Q1 2018	Q1 2019
EBIT	**(0.2)**	**0.7**
Current taxes	0.0	(0.0)
D&A	0.3	0.4
Provisions	0.0	(0.0)
Cash flow from operations	**0.1**	**1.0**
Trade Working Capital	(0.6)	(0.3)
Capex	(0.1)	(0.3)
Other assets and liabilities	(0.0)	(0.4)
Free cash flow	**(0.7)**	**(0.0)**
Interest	0.1	(0.3)
Exchange gain (loss)	0.0	0.0
Non-recurring items	0.0	0.0
Dividends	0.0	(0.0)
Capital increase (decrease)	0.6	0.0
Net cash flow	**(0.0)**	**(0.4)**
Net (Debt) Cash - Beginning	(11.4)	(3.7)
Net (Debt) Cash - End	(11.4)	(4.0)
Change in Net (Debt) Cash	**(0.0)**	**(0.4)**

Source: Company data

Beginning WC and capex investment

Advance paid in capital in 2017 €2m

Updated Management guidelines 2019-21E

For 2019, Management expects consolidated revenues up to €22.4m (vs previous target of €20.9m) and €3.7m EBITDA, 17% margin (vs previous target of €2.6m, 12% margin).

(€m)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Revenues	17.3	20.4	22.4	24.1	28.7
YoY%	-	*18%*	*10%*	*8%*	*19%*
EBITDA	2.1	3.4	3.7	4.6	6.2
Margin	*12%*	*16%*	*17%*	*19%*	*22%*

Source: Company data

Business update: new agreements and sales authorizations

Authorizations for Pierrel's presence in Sudan, Indonesia, Armenia and Georgia

Pierrel has obtained the authorization to market Orabloc® and Mepivacaine in Sudan, Orabloc® in Indonesia, Armenia and Georgia. An additional authorization is underway in Indonesia, for Lidocaine-based products.
Pierrel currently sells more than 30 products in 17 countries.

10Y agreement with Sinclair Dental for the production and marketing in the US of a private label prepared with Pierrel's Articaine

Pierrel has signed a 10Y agreement with Sinclair Dental, a Canadian dental supply company which has been in the Orabloc® distribution pool since 2013, for the production and marketing of a private label dental anesthetic prepared with Pierrel's Articaine, which will be distributed alongside Orabloc®. This is the first agreement entered by Pierrel for the production and distribution of a private label in the Canadian market, in which private label brands are gradually gaining market shares. Pierrel is already producing a private label for the US company Safco Dental, with whom it entered a ten-year agreement in 2016.

Agreement with Innomar Strategies for the distribution and logistics of Pierrel's anesthetics

Pierrel has signed an agreement with Innomar Stategies (part of the US distribution group Amerisource Bergen) for the distribution and logistics of all Pierrel's anesthetics. This agreement will allow the use of a logistic platform in Ontario (Canada).

Goccles® 2nd at Edison Awards

Goccles®, a Pierrel's medical device developed in-house able to detect oral cancer and dysplasia in dental clinical setting, has achieved the second position at the Edison Awards 2019, a recognition to innovation.

Financial projections

Revenue visibility in the mid-term

The business model itself implies high visibility on the top-line, which is driven by sales of large and well-established distributors to end customers. Major distribution contracts in this industry last several years, with an history of recurring and growing orders. Additional agreements with distributors are mid/long-term too. As such, a substantial portion of Pierrel's revenues over the years comes consistently from recurring major customers.

Increase production capacity

We recall that Pierrel has planned to increase its production capacity up to doubling, in order to satisfy the increasing demand and its marketing program in USA and other selected countries. In our scenario we have taken into account the increase in production capacity for cartridges from 2021 on.

Scenario and outlook

Current Company picture:
- high visibility on mid-term sales, in an environment of good market growth and credibility of the distributors marketing power
- only FDA approved production facility out of USA, a powerful competitive advantage for penetration in emerging countries
- multinational grade service
- further revenues and margins increase at reach, with limited investment in working capital and promotion
- capital structure back to health

Management guidance critique and our projections

We critically reviewed the new management's guidance 2019-21 in comparison with our estimates, noting an overall consistency and that our estimates have been even more conservative in some cases. We consider the management revenue and profitability targets at reach, based on the concurring positive trends and flow of opportunities. Given the positive results of FY18 (higher than our estimates) and Q1 2019, we revise upward our estimates, with a slightly conservative approach with respect to management guidelines.

Consolidated Profit and Loss

€m	2017	2018	2019E	2020E	2021E	2022E
Revenues	**17.3**	**20.4**	**22.2**	**23.7**	**27.8**	**33.3**
YoY %	*19%*	*18%*	*9%*	*7%*	*17%*	*20%*
COGS	(6.0)	(7.4)	(8.1)	(8.7)	(10.2)	(12.2)
Gross profit	**11.3**	**12.9**	**14.1**	**15.0**	**17.6**	**21.2**
Margin	*65.2%*	*63.5%*	*63.5%*	*63.5%*	*63.5%*	*63.5%*
Personnel	(5.0)	(5.8)	(6.0)	(6.2)	(6.7)	(7.3)
G&A	(3.2)	(2.6)	(2.6)	(2.7)	(2.9)	(3.2)
Marketing & Sales	(0.4)	(0.5)	(0.5)	(0.6)	(1.4)	(1.7)
Other operating costs	(0.6)	(0.7)	(1.3)	(1.5)	(1.6)	(2.5)
EBITDA	**2.1**	**3.4**	**3.7**	**4.1**	**5.0**	**6.5**
Margin	*12.3%*	*16.5%*	*16.6%*	*17.4%*	*18.0%*	*19.6%*
D&A	(1.1)	(1.0)	(1.4)	(1.6)	(1.8)	(1.9)
EBIT	**1.0**	**2.3**	**2.3**	**2.5**	**3.3**	**4.7**
Margin	*5.9%*	*11.3%*	*10.5%*	*10.5%*	*11.7%*	*14.0%*
Interest	(1.2)	(0.9)	(0.1)	(0.1)	(0.0)	0.1
Exchange gain (loss)	1.0	0.0	0.0	0.0	0.0	0.0
Non-recurring items	(3.1)	(0.3)	0.0	0.0	0.0	0.0
EBT	**(2.3)**	**1.1**	**2.2**	**2.4**	**3.2**	**4.7**
Margin	*-13.1%*	*5.5%*	*10.0%*	*10.1%*	*11.6%*	*14.2%*
Income taxes	(0.2)	(0.3)	(0.6)	(0.7)	(0.9)	(1.4)
Net Income (Loss)	**(2.5)**	**0.8**	**1.6**	**1.7**	**2.3**	**3.4**

Source: Company data 2017-18A; EnVent Research 2019-22E

Consolidated Balance Sheet

€m	2017	2018	2019E	2020E	2021E	2022E
Inventory	2.8	3.8	4.1	4.4	5.2	6.2
Trade receivables	3.3	3.3	3.6	3.8	4.5	5.4
Trade payables	(4.9)	(4.5)	(4.6)	(4.8)	(5.7)	(7.0)
Trade Working Capital	1.2	2.6	3.1	3.5	4.0	4.7
Other assets (liabilities)	1.2	1.2	1.4	1.6	1.8	1.8
Net Working Capital	**2.5**	**3.8**	**4.5**	**5.1**	**5.7**	**6.4**
Intangible assets	1.4	2.0	2.6	2.6	2.5	2.4
Property, plant and equipment	10.2	9.5	9.3	8.8	8.3	7.8
Financial assets	0.1	0.0	0.0	0.0	0.0	0.0
Non-current assets	**11.8**	**11.5**	**11.9**	**11.4**	**10.9**	**10.2**
Provisions	**(0.5)**	**(0.4)**	**(0.4)**	**(0.4)**	**(0.4)**	**(0.4)**
Net Invested Capital	**13.7**	**15.0**	**16.0**	**16.1**	**16.2**	**16.3**
Net Debt (Cash)	**11.4**	**3.7**	**3.1**	**1.5**	**(0.7)**	**(4.0)**
Equity	**2.3**	**11.3**	**12.9**	**14.6**	**16.9**	**20.3**
Sources	**13.7**	**15.0**	**16.0**	**16.1**	**16.2**	**16.3**

Source: Company data 2017-18A; EnVent Research 2019-22E

Consolidated Cash Flow

€m	2017	2018	2019E	2020E	2021E	2022E
EBIT	**1.0**	**2.3**	**2.3**	**2.5**	**3.3**	**4.7**
Current taxes	(0.2)	(0.3)	(0.6)	(0.7)	(0.9)	(1.4)
D&A	1.1	1.0	1.4	1.6	1.8	1.9
Provisions	(0.0)	(0.2)	0.0	0.0	0.0	0.0
Cash flow from operations	**1.8**	**2.9**	**3.0**	**3.4**	**4.1**	**5.2**
Trade Working Capital	(1.8)	(1.4)	(0.5)	(0.4)	(0.5)	(0.7)
Capex	(0.9)	(0.8)	(1.7)	(1.2)	(1.2)	(1.2)
Other assets and liabilities	3.3	(0.0)	(0.2)	(0.2)	(0.2)	0.0
Free cash flow	**2.4**	**0.7**	**0.7**	**1.7**	**2.2**	**3.3**
Interest	(1.2)	(0.9)	(0.1)	(0.1)	(0.0)	0.1
Exchange gain (loss)	1.0	0.0	0.0	0.0	0.0	0.0
Non-recurring items	(3.1)	(0.3)	0.0	0.0	0.0	0.0
Capital increase (decrease)	12.3	8.2	0.0	0.0	0.0	0.0
Net cash flow	**11.4**	**7.8**	**0.5**	**1.6**	**2.2**	**3.3**
Net (Debt) Cash - Beginning	(22.9)	(11.4)	(3.7)	(3.1)	(1.5)	0.7
Net (Debt) Cash - End	(11.4)	(3.7)	(3.1)	(1.5)	0.7	4.0
Change in Net (Debt) Cash	**11.4**	**7.8**	**0.5**	**1.6**	**2.2**	**3.3**

Source: Company data 2017-18A; EnVent Research 2019-22E

Ratio analysis

KPIs	2017	2018	2019E	2020E	2021E	2022E
ROE	-112%	7%	12%	12%	14%	17%
ROS (EBIT/Revenues)	6%	11%	11%	10%	12%	14%
ROIC (NOPAT/Invested Capital)	6%	11%	10%	11%	14%	20%
DSO	70	59	59	59	59	59
DPO	175	147	135	130	130	130
DOI	59	68	68	68	68	68
TWC/Revenues	7%	13%	14%	15%	14%	14%
NWC/Revenues	14%	19%	20%	21%	21%	19%
Net Debt / EBITDA	5.4x	1.1x	0.8x	0.4x	-0.1x	-0.6x
Cash flow from operations / EBITDA	86%	87%	82%	83%	81%	79%
FCF / EBITDA	115%	22%	18%	40%	44%	50%

Source: Company data 2017-18A; EnVent Research 2019-22E

Valuation

Value drivers

According to our assessment, the key value drivers are:

- the consistent global industry growth rates
- the unique competitive advantages of being the only FDA approved producer outside US for its specialties
- the position of second largest competitor in North America with a reliable base of long-term agreements with leading industry customers, European and US dental care distributors

The visibility of projections and quality of earnings is now accompanied by a healthy capital structure and an operating profitability consistent with the industry segment. As such, the application of peers multiples as an additional valuation metric makes sense and becomes sufficiently reliable.

Valuation metrics

Our valuation metrics include discounted cash flows and market multiples.

Discounted Cash Flows

DCF assumptions updated:

- Risk free rate: 1.9% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, June 2019)
- Market return: 13.8% (3Y average. Source: Bloomberg, June 2019)
- Market risk premium: 11.8%
- Beta: 1 (Median of core business peers. Source: Bloomberg, June 2019)
- Cost of equity: 14.2%
- Cost of debt: 3.5%
- Tax rate: 24% IRES
- 50% debt/(debt + equity) as target capital structure
- WACC calculated at 8.4%, according to above data (from previous 9%)
- Perpetual growth rate after explicit projections 3.0%, based on industry long-term trend
- Terminal Value assumes an EBIT margin of 16%

DCF Valuation

€m		2018	2019E	2020E	2021E	2022E	Perpetuity
Revenues		**20.4**	**22.2**	**23.7**	**27.8**	**33.3**	**34.3**
EBITDA		**3.4**	**3.7**	**4.1**	**5.0**	**6.5**	**6.7**
Margin		*16.5%*	*16.6%*	*17.4%*	*18.0%*	*19.6%*	*19.6%*
EBIT		**2.3**	**2.3**	**2.5**	**3.3**	**4.7**	**5.5**
Margin		*11.3%*	*10.5%*	*10.5%*	*11.7%*	*14.0%*	*16.1%*
Taxes		(0.7)	(0.7)	(0.7)	(0.9)	(1.3)	(1.6)
NOPAT		**1.6**	**1.7**	**1.8**	**2.3**	**3.3**	**3.9**
D&A		1.0	1.4	1.6	1.8	1.9	1.2
Provisions		(0.2)	0.0	0.0	0.0	0.0	0.0
Cash flow from operations		**2.5**	**3.0**	**3.4**	**4.1**	**5.2**	**5.1**
Trade Working Capital		(1.4)	(0.5)	(0.4)	(0.5)	(0.7)	0.0
Capex		(0.8)	(1.7)	(1.2)	(1.2)	(1.2)	(1.2)
Other assets and liabilities		(0.0)	(0.2)	(0.2)	(0.2)	0.0	0.0
Unlevered free cash flow		**0.3**	**0.6**	**1.6**	**2.2**	**3.3**	**3.9**
WACC	8.4%						
Long-term growth (G)	3.0%						
Discounted Cash Flows			**0.6**	**1.5**	**1.9**	**2.6**	
Sum of Discounted Cash Flows	6.6						
Terminal Value							**72.6**
Discounted TV	57.0						
Enterprise Value	**63.6**						
Net Debt as of 31/03/19	(4.0)						
Short-term tax relief	1.4						
Equity Value	**61.1**						

DCF - Implied multiples	2018	2019E	2020E	2021E	2022E
EV/Revenues	3.1x	2.9x	2.7x	2.3x	1.9x
EV/EBITDA	19.0x	17.3x	15.4x	12.7x	9.7x
EV/EBIT	27.6x	27.2x	25.6x	19.6x	13.7x
P/E	72.2x	39.0x	36.0x	26.6x	18.1x

Current market price - Implied multiples		2018	2019E	2020E	2021E	2022E
EV/Revenues		2.2x	2.0x	1.9x	1.6x	1.3x
EV/EBITDA		13.1x	11.9x	10.7x	8.8x	6.7x
EV/EBIT		19.0x	18.8x	17.7x	13.5x	9.4x
P/E		47.2x	25.5x	23.5x	17.4x	11.8x
Discount	*31%*					

Source: EnVent Research

Valuation by market multiples

Application of market multiples

€m

Multiples Valuation			Multiple	EV	Net Debt	Equity Value
2018A Revenues	20.4	*Median*	3.8x	77.2	(4.0)	73.2
2019E Revenues	22.2	*Median*	3.5x	77.8	(4.0)	73.8
2020E Revenues	23.7	*Median*	3.3x	77.2	(4.0)	73.1
Mean						*73.4*
2018A EBITDA	3.4	*Median*	17.9x	59.9	(4.0)	55.9
2019E EBITDA	3.7	*Median*	15.9x	58.8	(4.0)	54.8
2020E EBITDA	4.1	*Median*	14.1x	58.0	(4.0)	54.0
Mean						*54.9*

Source: EnVent Research

Target Price

The updated DCF valuation model yields a Target Price of €0.267 per share, with a potential upside of 53% on the current share price. As a consequence, we assign an OUTPERFORM recommendation on the stock.

Please refer to important disclosures at the end of this report.

Pierrel Price per Share	
Target Price	**0.267**
Current Share Price (11/06/2019)	0.175
Premium (Discount)	**53%**

Source: EnVent Research

Annex

Peer Group - Market Multiples

Company	EV/REVENUES 2018A	EV/REVENUES 2019E	EV/REVENUES 2020E	EV/EBITDA 2018A	EV/EBITDA 2019E	EV/EBITDA 2020E	EV/EBIT 2018A	EV/EBIT 2019E	EV/EBIT 2020E	P/E 2018A	P/E 2019E	P/E 2020E
Pierrel	2.2x	2.0x	1.9x	13.1x	11.9x	10.7x	19.1x	18.8x	17.7x	47.3x	25.6x	23.6x
Core business peers												
Lonza	5.0x	4.7x	4.4x	18.6x	17.2x	15.6x	27.2x	22.6x	20.4x	26.9x	24.7x	22.3x
Catalent	3.8x	3.6x	3.2x	19.1x	15.0x	13.0x	31.1x	29.7x	22.5x	32.2x	26.1x	23.2x
West Pharmaceutical Services	5.2x	4.9x	4.6x	25.1x	22.6x	20.2x	35.6x	31.4x	27.4x	42.0x	40.5x	35.3x
Cambrex	3.7x	3.0x	2.9x	13.2x	12.3x	12.0x	17.7x	18.8x	17.7x	15.5x	21.1x	21.5x
Consort Medical	1.7x	1.6x	1.6x	9.4x	9.0x	9.2x	12.4x	11.9x	11.7x	13.2x	13.1x	12.9x
Laboratorios Farmaceuticos ROVI	3.8x	3.3x	3.0x	42.5x	33.8x	18.4x	72.3x	60.5x	22.4x	78.3x	83.5x	26.7x
Baxter International	3.9x	3.8x	3.6x	16.8x	15.8x	14.2x	23.9x	21.0x	18.3x	24.6x	23.1x	20.9x
Thermo Fisher Scientific	5.5x	5.2x	4.9x	21.6x	20.0x	18.4x	34.2x	21.9x	20.2x	25.6x	23.0x	21.0x
Mean	**4.1x**	**3.8x**	**3.5x**	**20.8x**	**18.2x**	**15.1x**	**31.8x**	**27.2x**	**20.1x**	**32.3x**	**31.9x**	**23.0x**
Median	**3.8x**	**3.7x**	**3.4x**	**18.8x**	**16.5x**	**14.9x**	**29.1x**	**22.3x**	**20.3x**	**26.3x**	**23.9x**	**21.9x**
Customers/Distributors												
Patterson	0.5x	0.5x	0.5x	9.6x	11.0x	10.1x	13.3x	13.1x	12.4x	14.0x	15.4x	14.4x
Henry Schein	1.0x	1.3x	1.2x	11.9x	14.4x	13.7x	14.6x	17.6x	16.6x	16.8x	20.3x	19.1x
Dentsply	3.8x	3.7x	3.6x	22.4x	17.4x	15.8x	44.1x	20.9x	18.7x	30.4x	25.3x	22.5x
Mean	**1.8x**	**1.8x**	**1.8x**	**14.6x**	**14.3x**	**13.2x**	**24.0x**	**17.2x**	**15.9x**	**20.4x**	**20.3x**	**18.7x**
Median	**1.0x**	**1.3x**	**1.2x**	**11.9x**	**14.4x**	**13.7x**	**14.6x**	**17.6x**	**16.6x**	**16.8x**	**20.3x**	**19.1x**

Source: S&P Capital IQ, update: June 2019

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 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 (2018): €20.4m, +18% YoY
- Geographical breakdown (2018): Europe 53%, North America 46%
- Market share of the own anesthetic brand Orabloc® for Articaine, its market segment in USA (2018): 21%
- Employees (December 2018): 91

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. In 2018, Europe accounted for 53% of consolidated revenues, followed by USA (44%). The additional registrations and distributors in new geographies are going to decrease progressively customer concentration.

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.

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Date	Recommendation	Target Price (€)	Share Price (€)
13/09/2018	NOT RATED	n.a.	0.154
11/06/2019	OUTPERFORM	0.267	0.175

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