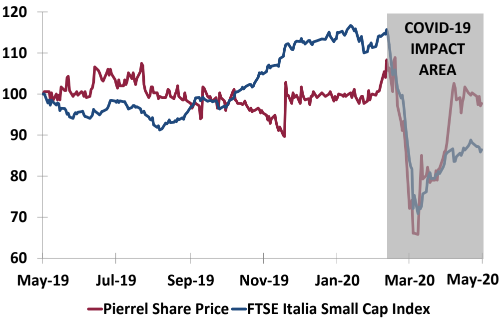
FY19: financial performance, operating profit and cash flow supporting investment in progress

PIERREL

OUTPERFORM

Current Share Price (€): 0.170
Target Price (€): 0.247

Pierrel - 1Y Performance



Source: S&P Capital IQ - Note: 09/05/2019=100

Company data

ISIN number	IT0004007560
Bloomberg code	PRL IM
Reuters code	PRL.MI
Sector	Pharma & Healthcare
Stock market	MTA (Italy)
Share Price (€)	0.170
Date of Price	08/05/2020
Shares Outstanding (m)	228.9
Market Cap (€m)	38.9
Market Float (%)	28.6%
Daily Volume	246,640
Avg Daily Volume YTD	722,617
Target Price (€)	0.247
Upside (%)	45%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	1Y
Pierrel - Absolute (%)	13%	-2%	-2%
FTSE Italia Small Cap (%)	2%	-22%	-14%
1Y Range H/L (€)		0.190	0.115
YTD Change (€)/%		-0.003	-2%

Source: S&P Capital IQ

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Revenues up 8%, sound profitability towards industry-like levels

Pierrel FY19 revenues were €21.9m, +8% YoY, close to management guidance at €22.4m and our estimate of €22.2m. EBITDA at €4.4m, +31% YoY, 20% margin vs. 16% in FY18, meeting industry standards, exceeded both our estimates and management guidance. EBIT was €3.3m (15% margin) and net income €2.3m (€0.8m in FY18). In 2019 main cash uses of €6.1m were investment in production capacity and cut of exposure to suppliers. Net financial debt increase was limited to €3.1m, thanks to a cash contribution from P&L, reaching €6.8m from €3.7m as of December 2018.

Ongoing expansion in EurAsia, Orabloc® market share up to 23% (2nd largest in USA)

Orabloc®, flagship dental anesthetic, is now authorized in Lebanon, Kazakhstan and Albania. Sales include 32 products in 19 countries, further applications are ongoing. Orabloc® sales in 2019 went up 14% YoY (vs. 3% of the US market), reaching a 23% share in dental anesthetics based on Articaine in the USA, from 21% in 2018. Next management target share is 25% by 2020. Sales more than doubled in 2016-19.

Management updated guidelines 2020-22E

- 2020E: Revenues €23.3m; EBITDA €4.3m (-3% & -7% vs. prior mgmt. guidance)
- 2021E: Revenues €28.4m; EBITDA €6.4m (-1% & +3%)
- 2022E: Revenues €36.6m; EBITDA €9.5m (new guidance)

Estimates revision

For 2020 we assume a temporary slowdown in sales of dental anesthetics as a consequence of Covid-19 lockdowns, since the provision of non-urgent dental care has been delayed in reference markets. As such, we have updated revenue estimates as slightly more conservative, while, considering 2019 results, we have restated operating costs to recognize the higher profitability level. We have reviewed the working capital dynamics, to reflect the change in the mix with lower payables - a one-off effect on financial debt.

Target Price €0.247 per share, from €0.271, OUTPERFORM rating confirmed

The DCF valuation on revised estimates, which reflects the higher financial position, yields a Target Price of €0.247 per share (from €0.271), +45% potential upside on the current share price. The upside calculated on the share price before the market drop for Covid-19 would be 31%. We confirm the OUTPERFORM rating on the stock.

Key financials and estimates

€m	2017A	2018A	2019A	2020E	2021E	2022E
Revenues	**17.3**	**20.4**	**21.9**	**22.7**	**27.2**	**34.3**
YoY %	*19.2%*	*17.7%*	*7.8%*	*3.6%*	*19.7%*	*26.0%*
EBITDA	**2.1**	**3.4**	**4.4**	**4.1**	**5.3**	**7.3**
Margin	*12.3%*	*16.5%*	*20.1%*	*18.1%*	*19.4%*	*21.2%*
EBIT	**1.0**	**2.3**	**3.3**	**2.9**	**3.9**	**5.8**
Margin	*5.9%*	*11.3%*	*15.0%*	*12.5%*	*14.4%*	*16.8%*
Net Income (Loss)	**(2.5)**	**0.8**	**2.3**	**1.9**	**2.9**	**4.6**
Net (Debt) Cash	**(11.4)**	**(3.7)**	**(6.8)**	**(5.1)**	**(2.4)**	**1.8**
Equity	**2.3**	**11.3**	**13.5**	**15.4**	**18.3**	**22.9**

Source: Company data 2017-2019A, EnVent Research 2020-22E

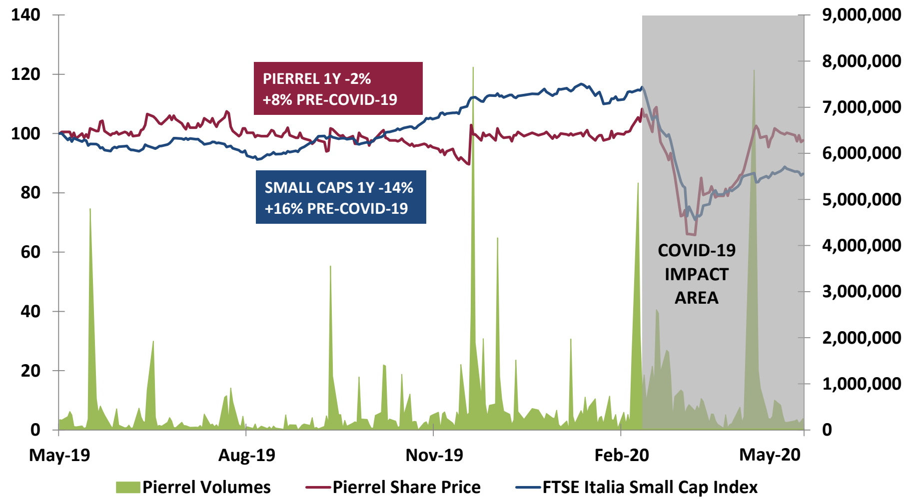
Market update

1Y Share price performance +8% before general market drop for Covid-19

Pierrel's shares in the last 12 months traded in the range €0.115-0.190, with beginning price at €0.174 and ending at €0.170, -2%

LTM Small Cap index: 116 before Feb 19th, then decreased to 86

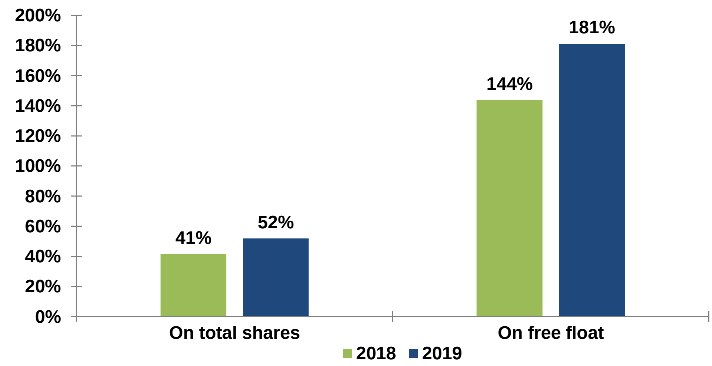
Pierrel - 1Y Share price performance and trading volumes



Source: EnVent Research on S&P Capital IQ - Note: 09/05/2019=100

Traded volumes increased by over 20%

Pierrel - Liquidity analysis and velocity turnover

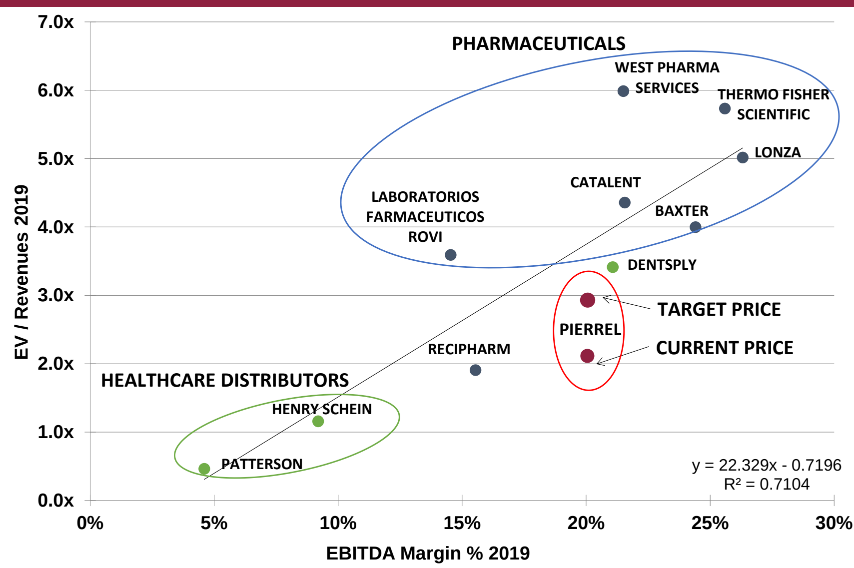


Source: EnVent Research - Note: Velocity turnover on total shares: ratio of total traded shares to total ordinary shares in a given period; Velocity turnover on free float: ratio of total volumes to free float

Rising industry multiples emphasize upside potential

Exits from peer group in 2020 for delisting:
- Cambrex acquired by Permira Funds (4.1x EV/Revenues, 15.3x EV/EBITDA)
- Consort Medical acquired by Recipharm (2.1x EV/Revenues, 13.6x EV/EBITDA)

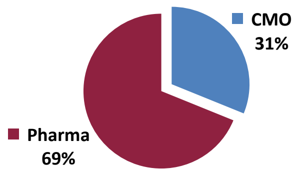
Peer group - Regression analysis and Pierrel target positioning



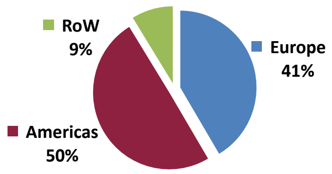
Source: EnVent Research on S&P Capital IQ, May 2020

FY19 Revenues up, 20% EBITDA margin towards industry-like levels, healthy and sustainable financial performance, cash flow generation to self-finance investments

Revenues by BU, 2019



Revenues by geography, 2019



Source: Company data

In 2019, Pierrel consolidated revenues were €21.9m, +8% YoY, driven by Orabloc® sales in USA (+14% YoY). Operating costs were mostly stable. EBITDA at €4.4m, +31% YoY, 20% margin vs. 16% in FY18, meeting industry standards. EBIT was €3.3m (15% margin), vs. €2.3m in 2018, and net income €2.3m (€0.8m in FY18). On the balance sheet, trade working capital was €2.8m from €2.6m in 2018, with a major drop in payables by 34%.

Net financial debt increased to €6.8m as of year-end 2019, from €4.7m as of June 2019 and €3.7m as of year-end 2018, justified by planned investment in production capacity and cut of exposure to suppliers. Breakdown:

- €5.5m cash
- €0.4m bank debt
- €1.5m short-term financial debt
- €10.5m other financial debt

Business update

Ongoing expansion in EurAsia

- Pierrel added authorizations to market Orabloc®, its flagship dental anesthetic based on Articaine, in Lebanon, Kazakhstan and Albania. Currently more than 30 products are sold in 19 countries and further applications are ongoing.

Orabloc® market share up to 23%, the 2nd largest in USA

- Orabloc® sales in 2019 went up 14% YoY (vs. 3% of the US market), reaching a 23% market share in dental anesthetics based on Articaine in the USA, from 21% in 2018. Sales more than doubled in 2016-19 (+114%). Next management target is 25% share by 2020.

Updated Management guidelines 2020-22E

Updated Management Guidance (Feb 2020)				
€m	2019A	2020E	2021E	2022E
Revenues	21.9	23.3	28.4	36.6
YoY%	*8%*	*4%*	*22%*	*29%*
EBITDA	4.4	4.3	6.4	9.5
Margin	*20%*	*18%*	*23%*	*26%*

Prior Management Guidance (2019)				
€m	2019E	2020E	2021E	2022E
Revenues	22.4	24.1	28.7	na
YoY%	*10%*	*8%*	*19%*	
EBITDA	3.7	4.6	6.2	na
Margin	*17%*	*19%*	*22%*	

Source: Company data

Estimates revision

Pierrel FY19 revenues were close to management guidance at €22.4m and our prior estimate of €22.2m, while EBITDA was 19% higher than our estimates and management guidance. The 20% margin is consistent with pharma industry standards.

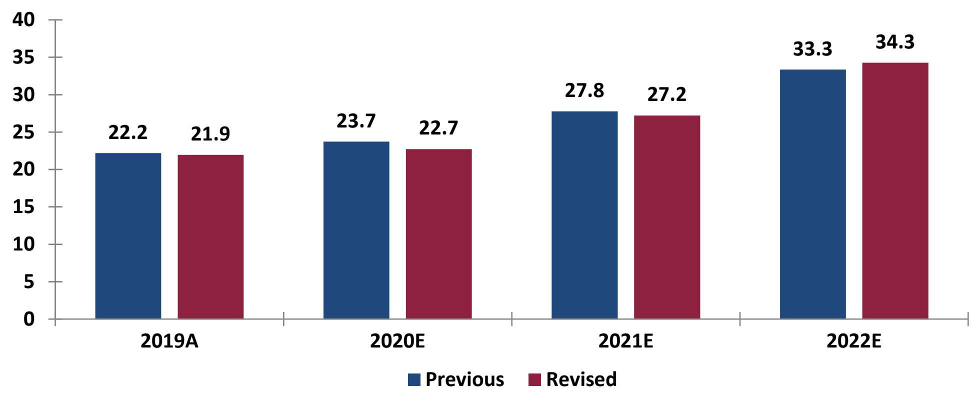
For 2020 we assume a temporary slowdown in sales of dental anesthetics as a consequence of Covid-19 lockdowns, since the provision of non-urgent dental care has been delayed in reference markets. As such, we have updated revenue estimates as slightly more conservative. Considering 2019 results, we have restated operating costs to align to the higher profitability level. We rely on 2020 guidelines as to operating margin in view of the management visibility of contractual pricing dynamics.

We have also remodeled the working capital dynamics due to the change in the mix with lower payables - a one-off effect on financial debt.

We see management target figures at reach, however we keep being more conservative with respect to guidelines.

Change in estimates

Revenues (€m) - Previous vs. Revised estimates



Source: EnVent Research

€m	Revised				Previous				Change %			
	2019A	2020E	2021E	2022E	2019E	2020E	2021E	2022E	2019A	2020E	2021E	2022E
Revenues	21.9	22.7	27.2	34.3	22.2	23.7	27.8	33.3	-1%	-4%	-2%	3%
EBITDA	4.4	4.1	5.3	7.3	3.7	4.1	5.0	6.5	19%	0%	5%	11%
Margin	*20%*	*18%*	*19%*	*21%*	*17%*	*17%*	*18%*	*20%*				
EBIT	3.3	2.9	3.9	5.8	2.3	2.5	3.3	4.7	41%	15%	20%	24%
Margin	*15%*	*13%*	*14%*	*17%*	*11%*	*10%*	*12%*	*14%*				
Net Income	2.3	1.9	2.9	4.6	1.6	1.7	2.3	3.4	44%	13%	26%	37%
Net (Debt) Cash	(6.8)	(5.1)	(2.4)	1.8	(3.1)	(1.5)	0.7	4.0				
Net Debt / EBITDA	*1.5x*	*1.2x*	*0.5x*	*nm*	*0.8x*	*0.4x*	*nm*	*nm*				

Source: EnVent Research; Company data 2019A

Financial projections

2019 Growth as per guidelines

Sound profitability

Consolidated Profit and Loss

€m	2017A	2018A	2019A	2020E	2021E	2022E
Revenues	**17.3**	**20.4**	**21.9**	**22.7**	**27.2**	**34.3**
YoY %	*19%*	*18%*	*8%*	*4%*	*20%*	*26%*
COGS	(6.0)	(7.4)	(7.6)	(8.0)	(9.5)	(12.0)
Gross profit	**11.3**	**12.9**	**14.4**	**14.8**	**17.7**	**22.3**
Margin	*65.2%*	*63.5%*	*65.5%*	*65.0%*	*65.0%*	*65.0%*
Personnel	(5.0)	(5.8)	(6.1)	(6.4)	(7.0)	(7.7)
G&A	(3.2)	(2.6)	(2.5)	(2.6)	(2.8)	(3.1)
Marketing & Sales	(0.4)	(0.5)	(0.6)	(0.9)	(1.4)	(1.7)
Other operating costs	(0.6)	(0.7)	(0.8)	(0.8)	(1.2)	(2.5)
EBITDA	**2.1**	**3.4**	**4.4**	**4.1**	**5.3**	**7.3**
Margin	*12.3%*	*16.5%*	*20.1%*	*18.1%*	*19.4%*	*21.2%*
D&A	(1.1)	(1.0)	(1.1)	(1.3)	(1.4)	(1.5)
EBIT	**1.0**	**2.3**	**3.3**	**2.9**	**3.9**	**5.8**
Margin	*5.9%*	*11.3%*	*15.0%*	*12.5%*	*14.4%*	*16.8%*
Interest	(1.2)	(0.9)	(0.8)	(0.8)	(0.7)	(0.7)
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**	**2.5**	**2.1**	**3.2**	**5.1**
Margin	*-13.1%*	*5.5%*	*11.3%*	*9.2%*	*11.7%*	*14.8%*
Income taxes	(0.2)	(0.3)	(0.2)	(0.2)	(0.3)	(0.5)
Net Income (Loss)	**(2.5)**	**0.8**	**2.3**	**1.9**	**2.9**	**4.6**
Margin	*-14.5%*	*4.2%*	*10.3%*	*8.4%*	*10.7%*	*13.5%*

Source: Company data 2017-19A; EnVent Research 2020-22E

Consolidated Balance Sheet

€m	2017A	2018A	2019A	2020E	2021E	2022E
Inventory	2.8	3.8	3.3	3.5	4.1	5.2
Trade receivables	3.3	3.3	2.4	2.5	3.0	3.7
Trade payables	(4.9)	(4.5)	(3.0)	(3.2)	(3.9)	(5.0)
Trade Working Capital	1.2	2.6	2.8	2.8	3.2	3.9
Other assets (liabilities)	(4.0)	(4.0)	(2.4)	(2.5)	(2.5)	(2.5)
Net Working Capital	**(2.8)**	**(1.4)**	**0.3**	**0.3**	**0.7**	**1.4**
Intangible assets	1.4	2.0	2.3	2.5	2.7	2.7
Property, plant and equipment	10.2	9.5	12.7	12.8	12.4	12.1
Deferred tax assets	5.3	5.3	5.3	5.3	5.3	5.3
Financial assets	0.1	0.0	0.0	0.0	0.0	0.0
Non-current assets	**17.0**	**16.8**	**20.3**	**20.6**	**20.4**	**20.1**
Provisions	**(0.5)**	**(0.4)**	**(0.3)**	**(0.3)**	**(0.4)**	**(0.4)**
Net Invested Capital	**13.7**	**15.0**	**20.3**	**20.5**	**20.7**	**21.1**
Net Debt (Cash)	**11.4**	**3.7**	**6.8**	**5.1**	**2.4**	**(1.8)**
Equity	**2.3**	**11.3**	**13.5**	**15.4**	**18.3**	**22.9**
Sources	**13.7**	**15.0**	**20.3**	**20.5**	**20.7**	**21.1**

Source: Company data 2017-19A; EnVent Research 2020-22E

€1.5m cash used for payables and €4.6m for investments in 2019

Consolidated Cash Flow

€m	2017A	2018A	2019A	2020E	2021E	2022E
EBIT	**1.0**	**2.3**	**3.3**	**2.9**	**3.9**	**5.8**
Current taxes	(0.2)	(0.3)	(0.2)	(0.2)	(0.3)	(0.5)
D&A	1.1	1.0	1.1	1.3	1.4	1.5
Provisions	(0.0)	(0.2)	(0.0)	0.0	0.0	0.0
Cash flow from P&L operations	**1.8**	**2.9**	**4.2**	**3.9**	**5.0**	**6.8**
Trade Working Capital	(1.8)	(1.4)	(0.2)	(0.0)	(0.5)	(0.7)
Other assets and liabilities	3.2	(0.0)	(1.6)	0.1	0.0	0.0
Capex	(0.9)	(0.8)	(4.6)	(1.5)	(1.2)	(1.2)
Deferred tax assets	0.1	0.0	0.0	0.0	0.0	0.0
Operating cash flow after working capital and capex	**2.4**	**0.7**	**(2.2)**	**2.5**	**3.4**	**4.9**
Interest	(1.2)	(0.9)	(0.8)	(0.8)	(0.7)	(0.7)
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	(0.1)	0.0	0.0	0.0
Net cash flow	**11.4**	**7.8**	**(3.1)**	**1.7**	**2.6**	**4.2**
Net (Debt) Cash - Beginning	(22.9)	(11.4)	(3.7)	(6.8)	(5.1)	(2.4)
Net (Debt) Cash - End	(11.4)	(3.7)	(6.8)	(5.1)	(2.4)	1.8
Change in Net (Debt) Cash	**11.4**	**7.8**	**(3.1)**	**1.7**	**2.6**	**4.2**

Source: Company data 2017-19A; EnVent Research 2020-22E

50 days decrease in payables in 2019

Ratio analysis

KPIs	2017A	2018A	2019A	2020E	2021E	2022E
ROE	-112%	7%	17%	12%	16%	20%
ROS (EBIT/Revenues)	6%	11%	15%	13%	14%	17%
ROIC (NOPAT/Invested Capital)	6%	11%	12%	10%	13%	19%
DSO	70	59	40	40	40	40
DPO	175	147	95	95	95	95
DOI	59	68	56	56	56	56
TWC/Revenues	7%	13%	13%	12%	12%	11%
NWC/Revenues	-16%	-7%	1%	1%	3%	4%
Net Debt / EBITDA	5.4x	1.1x	1.5x	1.2x	0.5x	cash
Cash flow from P&L operations / EBITDA	86%	87%	94%	96%	95%	94%
FCF / EBITDA	115%	22%	neg.	61%	64%	68%

Source: Company data 2017-19A; EnVent Research 2020-22E

Valuation

Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.8% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, May 2020)
- Market return: 13.3% (3Y average. Source: Bloomberg, May 2020)
- Market risk premium: 11.5%
- Beta: 1 (Median of core business peers. Source: Bloomberg, May 2020)
- Cost of equity: 13.6%
- Cost of debt: 3.5%
- Tax rate: 24% IRES
- 50% debt/(debt + equity) as target capital structure
- WACC calculated at 8.2%, according to above data
- Perpetual growth rate after explicit projections 2.5% (lowered from 3% due to

current financial markets instability)

- Terminal Value assumes EBITDA margin at 20% and EBIT margin at 16-17%

DCF Valuation

€m		2017A	2018A	2019A	2020E	2021E	2022E	Perpetuity
Revenues		**17.3**	**20.4**	**21.9**	**22.7**	**27.2**	**34.3**	**35.1**
EBITDA		**2.1**	**3.4**	**4.4**	**4.1**	**5.3**	**7.3**	**7.0**
Margin		*12.3%*	*16.5%*	*20.1%*	*18.1%*	*19.4%*	*21.2%*	*20.0%*
EBIT		**1.0**	**2.3**	**3.3**	**2.9**	**3.9**	**5.8**	**5.8**
Margin		*5.9%*	*11.3%*	*15.0%*	*12.5%*	*14.4%*	*16.8%*	*16.6%*
Taxes		(0.2)	(0.7)	(1.0)	(0.8)	(1.1)	(1.7)	(1.7)
NOPAT		**0.8**	**1.6**	**2.3**	**2.0**	**2.8**	**4.1**	**4.1**
D&A		1.1	1.0	1.1	1.3	1.4	1.5	1.2
Provisions		(0.0)	(0.2)	(0.0)	0.0	0.0	0.0	0.0
Cash flow from P&L operations		**1.8**	**2.5**	**3.4**	**3.3**	**4.2**	**5.6**	**5.4**
Trade Working Capital		(1.8)	(1.4)	(0.2)	(0.0)	(0.5)	(0.7)	(0.2)
Other assets and liabilities		3.2	(0.0)	(1.6)	0.1	0.0	0.0	0.0
Capex		(0.9)	(0.8)	(4.6)	(1.5)	(1.2)	(1.2)	(1.2)
Unlevered free cash flow		**2.3**	**0.3**	**(2.9)**	**1.8**	**2.5**	**3.7**	**4.0**
WACC	8.2%							
Long-term growth (G)	2.5%							
Discounted Cash Flows					**1.7**	**2.1**	**2.9**	
Sum of Discounted Cash Flows	6.8							
Terminal Value								**70.8**
Discounted TV	56.0							
Enterprise Value	**62.8**							
Net Financial Debt as of 31/12/19	(6.8)							
Short-term tax relief	0.6							
Equity Value	**56.6**							

DCF - Implied multiples	2018A	2019A	2020E	2021E	2022E
EV/Revenues	3.1x	2.9x	2.8x	2.3x	1.8x
EV/EBITDA	18.7x	14.3x	15.3x	11.9x	8.7x
EV/EBIT	27.2x	19.0x	22.0x	16.1x	10.9x
P/E	66.9x	25.1x	29.6x	19.5x	12.3x

Current market price - Implied multiples		2018A	2019A	2020E	2021E	2022E
EV/Revenues		2.2x	2.1x	2.0x	1.7x	1.3x
EV/EBITDA		13.6x	10.4x	11.1x	8.7x	6.3x
EV/EBIT		19.8x	13.9x	16.0x	11.7x	7.9x
P/E		46.0x	17.3x	20.4x	13.4x	8.4x
Discount	*27%*					

Source: EnVent Research

Target Price

Our valuation of Pierrel on updated estimates is at €0.247 per share, from €0.271, with a potential upside of 45% on the current share price. The upside calculated on the share price before the general market drop for Covid-19 (€0.189 as of 19/02/2020) would be 31%. We confirm the OUTPERFORM recommendation on the stock.

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

Pierrel Price per Share	
Target Price	**0.247**
Current Share Price (08/05/2020)	0.170
Premium (Discount)	**45%**

Source: EnVent Research

Annex

Peer Group - Market Multiples

Company	EV/REVENUES			EV/EBITDA			EV/EBIT			P/E		
	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E
Pierrel	2.1x	2.0x	1.7x	10.5x	11.1x	8.7x	14.1x	16.0x	11.7x	17.6x	20.4x	13.4x
Core business peers												
Lonza	5.0x	5.8x	5.5x	19.0x	21.6x	19.4x	27.4x	28.8x	24.6x	40.7x	33.9x	29.2x
Catalent	4.4x	4.7x	4.3x	20.2x	19.4x	17.3x	34.9x	27.6x	24.7x	60.8x	36.5x	30.9x
West Pharmaceutical Services	6.0x	7.5x	7.0x	27.8x	33.0x	29.6x	37.7x	43.7x	38.7x	46.0x	54.0x	48.9x
Laboratorios Farmaceuticos ROVI	3.6x	3.6x	3.1x	24.7x	24.6x	17.8x	32.6x	34.6x	23.0x	34.4x	38.1x	23.9x
Baxter International	4.0x	4.1x	3.9x	16.4x	17.4x	15.5x	22.8x	22.3x	19.4x	42.7x	27.7x	23.5x
Thermo Fisher Scientific	5.7x	6.0x	5.5x	22.4x	23.5x	20.8x	34.4x	26.0x	22.9x	35.2x	27.7x	24.1x
Recipharm	1.9x	1.9x	1.9x	12.2x	11.9x	10.6x	27.0x	30.6x	22.5x	29.3x	16.7x	13.6x
Mean	**4.4x**	**4.8x**	**4.5x**	**20.4x**	**21.6x**	**18.7x**	**31.0x**	**30.5x**	**25.1x**	**41.3x**	**33.5x**	**27.7x**
Median	**4.4x**	**4.7x**	**4.3x**	**20.2x**	**21.6x**	**17.8x**	**32.6x**	**28.8x**	**23.0x**	**40.7x**	**33.9x**	**24.1x**
Customers/Distributors												
Patterson	0.5x	0.4x	0.4x	10.1x	9.1x	9.2x	14.9x	11.4x	11.6x	23.0x	11.8x	12.1x
Henry Schein	1.2x	1.1x	1.0x	12.6x	14.0x	10.9x	15.8x	20.7x	14.1x	14.0x	22.7x	16.4x
Dentsply	3.4x	3.0x	2.6x	16.2x	14.9x	11.2x	26.1x	18.9x	13.3x	47.9x	22.3x	15.6x
Mean	**1.7x**	**1.5x**	**1.3x**	**13.0x**	**12.7x**	**10.5x**	**18.9x**	**17.0x**	**13.0x**	**28.3x**	**19.0x**	**14.7x**
Median	**1.2x**	**1.1x**	**1.0x**	**12.6x**	**14.0x**	**10.9x**	**15.8x**	**18.9x**	**13.3x**	**23.0x**	**22.3x**	**15.6x**

Source: S&P Capital IQ, May 2020

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 (2019): €21.9m, 15% CAGR 2016-2019
- Geographical breakdown (2019): North America 50%, Europe 41%, RoW 9%
- Market share of the flagship product Orabloc® in the dental anesthetics market based on Articaine in the USA (2019): 23%
- Employees (2019): 92

Revenue drivers

Pierrel, as one of the largest global producers of Articaine and Lidocaine and the only FDA authorized outside the USA, is a first choice supplier for North American and international dental products distributors which see room to rebalance market shares in a segment where the market leader has its own distribution and a market share higher than 50% in the US and even more internationally.

Pierrel's business model 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.

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 globally.

Dental anesthetics coverage shows room for growth. The dental anesthesia market is segmented mainly into Articaine, Lidocaine, Mepivacaine, Prilocaine, Bupivacaine. In the USA the use of Lidocaine exceeds that of Articaine, because Lidocaine was introduced in 70s, 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 Articaine and Lidocaine, 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. 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.

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, 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.

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 Pierrel 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 23% in the USA. Exports to North America account for 50% of 2019 revenues.

Technical know-how. Pierrel has 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 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, estimated in €9m, includes 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 2017-2018, together with the planned investment to double production capacity, should generate significant cost efficiencies, leading to an improved operational leverage and increasing operating margins.

Challenges

Revenue concentration. Europe and North America account for ca. 90% of consolidated revenues. 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
18/09/2019	OUTPERFORM	0.271	0.164
08/05/2020	OUTPERFORM	0.247	0.170

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