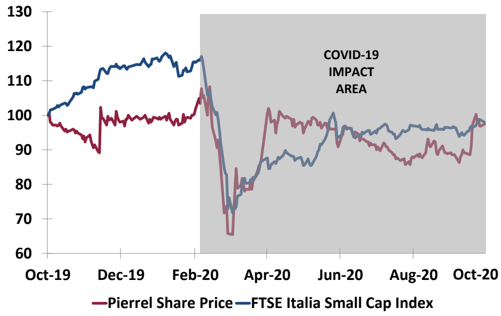
# Brilliant H1 2020, despite the challenging environment

PIERREL

## OUTPERFORM

**Current Share Price (€): 0.168**
**Target Price (€): 0.246**

### Pierrel - 1Y Performance




Source: S&P Capital IQ - Note: 14/10/2019=100

### Company data

| | |
|---|---|
| ISIN number | IT0004007560 |
| Bloomberg code | PRL IM |
| Reuters code | PRL.MI |
| Sector | Pharma & Healthcare |
| Stock market | MTA (Italy) |
| Share Price (€) | 0.168 |
| Date of Price | 13/10/2020 |
| Shares Outstanding (m) | 228.9 |
| Market Cap (€m) | 38.5 |
| Market Float (%) | 28.6% |
| Daily Volume | 408,840 |
| Avg Daily Volume YTD | 455,906 |
| Target Price (€) | 0.246 |
| Upside (%) | 46% |
| Recommendation | OUTPERFORM |

### Share price performance

| | 1M | 3M | 1Y |
|---|---|---|---|
| Pierrel - Absolute (%) | 8% | 6% | -4% |
| FTSE Italia Small Cap (%) | 1% | 2% | -2% |
| 1Y Range H/L (€) | | 0.176 | 0.115 |
| YTD Change (€)/% | | -0.005 | -3% |

Source: S&P Capital IQ

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### Revenues up 9% and EBITDA more than doubled in H1 2020

H1 2020 revenues were €10.2m, +8.5% on H1 2019. EBITDA was €2.2m (21% margin), more than doubled with respect to €0.9m in H1 2019 (9.4% margin). Net income came in at €1.4m, vs. breakeven in H1 2019. Net cash flow of €1.3m was close to net income.

On the balance sheet side, trade working capital was unchanged at €2.8m. Investments to improve production capacity were around €1.3m. Net financial debt went down to €5.5m, from €6.8m as of December 2019. Shareholders' equity was €14.9m.

### Management updated guidelines for 2020E factoring Covid-19

In view of a possible impact of Covid-19 in H2 2020, Management updated its 2020E guidelines:

•2020E: Revenues €19.1m; EBITDA €2.7m (-18% & -37% vs. prior guidance)

We recall the unchanged figures for 2021-22E:

•2021E: Revenues €28.4m; EBITDA €6.4m

•2022E: Revenues €36.6m; EBITDA €9.5m

### Confirmation of profitability improvements, maintaining prudential view

As shown in H1 results, the temporary delay in the provision of non-urgent dental care has not impacted Pierrel's operations to date. However, since Covid-19 is still an issue in countries where Pierrel has strong presence, we maintain our conservative view for the short-term adjusting our revenues and operating margins estimates for 2020, in line with new Management guidelines. The profitability improvements towards industry-like levels that Pierrel is having since FY19 confirm our positive view for the mid-term horizon.

### Target Price €0.246 per share, from €0.247, OUTPERFORM rating confirmed

The DCF valuation, which reflects the lower net financial debt and revised short-term estimates, yields a Target Price of €0.246 per share (from €0.247), +46% potential upside on the current share price. 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** | **19.4** | **27.2** | **34.3** |
| *YoY %* | *19.2%* | *17.7%* | *7.8%* | *-11.7%* | *40.3%* | *26.0%* |
| **EBITDA** | **2.1** | **3.4** | **4.4** | **3.0** | **5.3** | **7.3** |
| *Margin* | *12.3%* | *16.5%* | *20.1%* | *15.4%* | *19.5%* | *21.2%* |
| **EBIT** | **1.0** | **2.3** | **3.3** | **1.7** | **3.9** | **5.8** |
| *Margin* | *5.9%* | *11.3%* | *15.0%* | *8.9%* | *14.4%* | *16.9%* |
| **Net Income (Loss)** | **(2.5)** | **0.8** | **2.3** | **0.9** | **2.9** | **4.6** |
| **Net (Debt) Cash** | **(11.4)** | **(3.7)** | **(6.8)** | **(5.7)** | **(3.5)** | **0.8** |
| **Equity** | **2.3** | **11.3** | **13.5** | **14.4** | **17.3** | **21.9** |

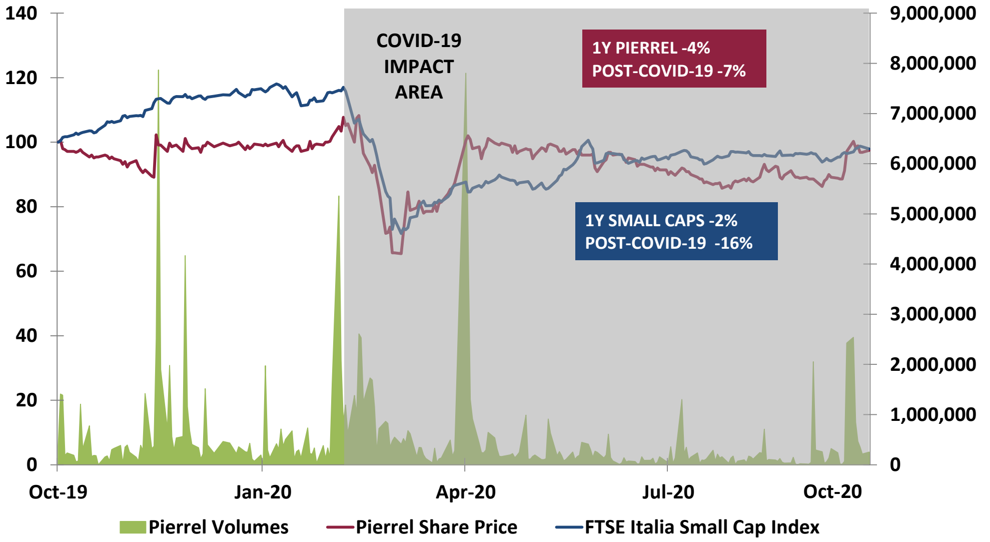
Source: Company data 2017-19A, EnVent Research 2020-22E

## Market update

Pierrel's shares in the last 12 months traded in the range €0.115-0.176, with beginning price at €0.175 and ending at €0.168, -4%

1Y Small Cap index -2%

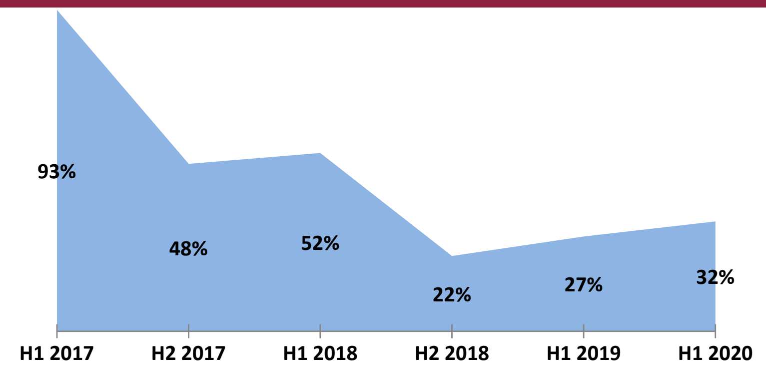
### Pierrel - 1Y Share price performance and trading volumes




Source: EnVent Research on S&P Capital IQ - Note: 14/10/2019=100

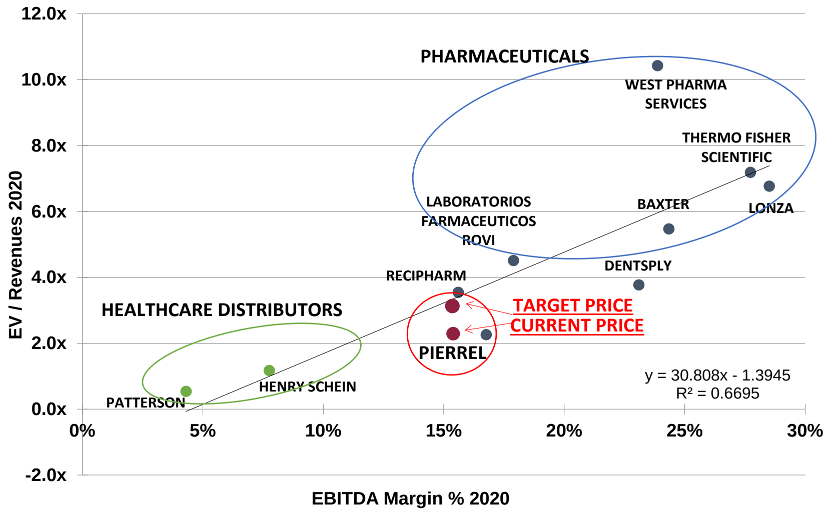
Traded volumes increased to over 30%

### 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

### Peer group - Regression analysis and Pierrel target positioning




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

## H1 2020 Revenues 9% up, despite Covid-19 challenges, EBITDA margin more than doubled to 21%, net debt down

**Industry like EBITDA at 20%**

H1 2020 consolidated revenues were €10.2m, +8.5% on H1 2019, driven mainly by the Pharma BU which accounted for almost 70% of total revenues. Gross profit rose by 17.3% at €7.2m vs. €6.2m in H1 2019. EBITDA was €2.2m (21% margin), more than doubled compared to €0.9m in H1 2019 (9.4% margin), thanks to costs efficiency primarily on G&A and personnel, pursuing management plan targets. Net income reached €1.4m, vs. breakeven in H1 2019.

On the balance sheet side, trade working capital was unchanged at €2.8m, while net financial debt went down to €5.5m as of June 2020, from €6.8m at year-end 2019.

Net financial debt breakdown:

- €6.6m cash
- €0.4m bank debt
- €2.0m short-term financial debt
- €9.6m other financial debt

Shareholders' equity was €14.9m.

In the first six months of the year Pierrel invested around €1.3m in the establishment of a new production area of injectables and in improvements in production capacity.

Pierrel obtained, thanks to the law n. 208/2015, the possibility to use a €0.6m tax credit for investments in the Italian Southern regions.

**Consolidated Profit and Loss**

| €m | H1 2019 | H1 2020 |
|---|---|---|
| **Revenues** | **9.4** | **10.2** |
| *YoY %* | *8.5%* | *8.5%* |
| COGS | (3.3) | (3.0) |
| **Gross profit** | **6.2** | **7.2** |
| *Margin* | *65.3%* | *70.6%* |
| Personnel | (3.3) | (3.0) |
| G&A | (0.9) | (1.0) |
| Marketing & Sales | (0.3) | (0.2) |
| Other operating costs | (0.8) | (0.8) |
| **EBITDA** | **0.9** | **2.2** |
| *Margin* | *9.4%* | *21.0%* |
| D&A | (0.6) | (0.6) |
| **EBIT** | **0.3** | **1.6** |
| *Margin* | *3.4%* | *15.5%* |
| Interest | (0.4) | (0.2) |
| Exchange gain (loss) | 0.0 | 0.0 |
| Non-recurring items | 0.0 | 0.0 |
| **EBT** | **(0.1)** | **1.3** |
| *Margin* | *-0.6%* | *13.2%* |
| Income taxes | (0.1) | 0.1 |
| **Net Income (Loss)** | **(0.1)** | **1.4** |
| *Margin* | *-1.2%* | *13.7%* |

Source: Company data

## Consolidated Balance Sheet

| €m | 2019 | H1 2019 | H1 2020 |
|---|---|---|---|
| Inventory | 3.3 | 3.6 | 4.4 |
| Trade receivables | 2.4 | 1.5 | 2.0 |
| Trade payables | (3.0) | (3.4) | (3.6) |
| Trade Working Capital | 2.8 | 1.7 | 2.8 |
| Other assets (liabilities) | (2.4) | 1.5 | (3.6) |
| **Net Working Capital** | **0.3** | **3.2** | **(0.8)** |
| Intangible assets | 2.3 | 2.0 | 2.7 |
| Property, plant and equipment | 12.7 | 11.0 | 13.6 |
| Deferred tax assets | 5.3 | 0.0 | 5.3 |
| Financial assets | 0.0 | 0.0 | 0.0 |
| **Non-current assets** | **20.3** | **13.1** | **21.6** |
| **Provisions** | **(0.3)** | **(0.3)** | **(0.3)** |
| **Net Invested Capital** | **20.3** | **15.9** | **20.4** |
| | | | |
| **Net Debt (Cash)** | **6.8** | **4.7** | **5.5** |
| **Equity** | **13.5** | **11.2** | **14.9** |
| **Sources** | **20.3** | **15.9** | **20.4** |

Source: Company data

## Consolidated Cash Flow

| €m | H1 2019 | H1 2020 |
|---|---|---|
| **EBIT** | **0.3** | **1.6** |
| Current taxes | (0.1) | 0.1 |
| D&A | 0.6 | 0.6 |
| Provisions | (0.0) | 0.0 |
| **Cash flow from P&L operations** | **0.8** | **2.2** |
| Trade Working Capital | 0.9 | (0.0) |
| Other assets and liabilities | (5.6) | 1.2 |
| Capex | (2.1) | (1.8) |
| Deferred tax assets | 5.3 | 0.0 |
| **Operating cash flow after working capital and capex** | **(0.6)** | **1.5** |
| Interest | (0.4) | (0.2) |
| Exchange gain (loss) | 0.0 | 0.0 |
| Non-recurring items | 0.0 | 0.0 |
| Dividends | 0.0 | 0.0 |
| Capital increase (decrease) | (0.1) | 0.0 |
| **Net cash flow** | **(1.1)** | **1.3** |
| | | |
| Net (Debt) Cash - Beginning | (3.7) | (6.8) |
| Net (Debt) Cash - End | (4.7) | (5.5) |
| **Change in Net (Debt) Cash** | **(1.1)** | **1.3** |

Source: Company data

**Ratio analysis**

| KPIs | H1 2019 | H1 2020 |
|---|---|---|
| ROE | -1% | 9% |
| ROS (EBIT/Revenues) | 3% | 16% |
| DOI | 68 | 77 |
| DSO | 26 | 31 |
| DPO | 95 | 104 |
| TWC/Revenues | 18% | 27% |
| NWC/Revenues | 34% | -8% |
| Net Debt / EBITDA | 10.7x | 5.1x |
| Net Debt / Equity | 0.2x | 0.2x |
| Cash flow from P&L operations / EBITDA | 92% | 103% |
| FCF / EBITDA | neg. | 72% |

Source: Company data - Note: H1 KPIs calculated on LTM economics

## Updated Management guidelines for 2020E after COVID-19

In view of a possible impact of Covid-19 in H2 2020, Management updated its guidelines for 2020, while figures for 2021-22 are unchanged.

| Updated Management Guidance (September 2020) | | | | |
|---|---|---|---|---|
| €m | 2019A | 2020E | 2021E | 2022E |
| **Revenues** | 21.9 | 19.1 | 28.4 | 36.6 |
| *YoY%* | *8%* | *-13%* | *49%* | *29%* |
| **EBITDA** | 4.4 | 2.7 | 6.4 | 9.5 |
| *Margin* | *20%* | *14%* | *23%* | *26%* |

| Prior Management Guidance (February 2020) | | | | |
|---|---|---|---|---|
| €m | 2019A | 2020E | 2021E | 2022E |
| **Revenues** | 21.9 | 23.3 | 28.4 | 36.6 |
| *YoY%* | *8%* | *6%* | *22%* | *29%* |
| **EBITDA** | 4.4 | 4.3 | 6.4 | 9.5 |
| *Margin* | *20%* | *18%* | *23%* | *26%* |

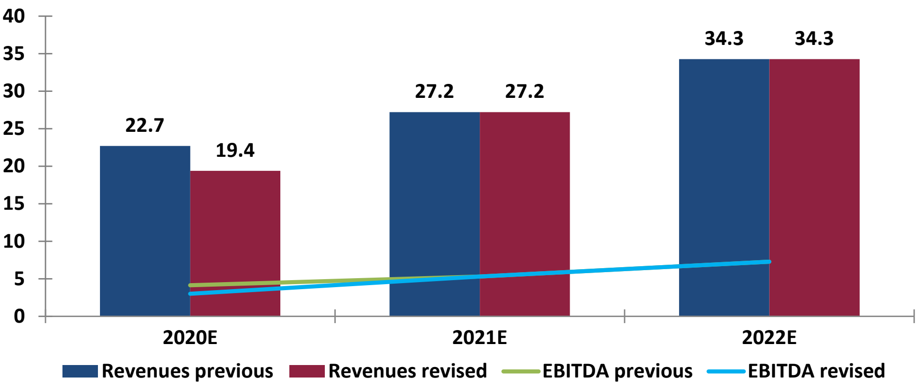
Source: Company data

## Estimates revision

Since Covid-19 emergency is still ongoing, especially in some countries like USA where Pierrel revenues account for around 50%, and after Management guidelines revision for 2020, we maintain our conservative view for the short-term, adjusting revenues and EBITDA for 2020, more in line with new Management guidelines, factoring possible negative effects from Covid-19 pandemic. However, the profitability improvements towards industry-like levels that Pierrel has recorded since FY19 confirm our view for the mid-term horizon.

## Change in estimates

### Revenues and EBITDA (€m) - Previous vs. Revised estimates




Source: EnVent Research

| | Revised | | | | Previous | | | | Change % | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| €m | 2019A | 2020E | 2021E | 2022E | 2019E | 2020E | 2021E | 2022E | 2019A | 2020E | 2021E | 2022E |
| **Revenues** | 21.9 | 19.4 | 27.2 | 34.3 | 22.2 | 22.7 | 27.2 | 34.3 | -1% | -15% | 0% | 0% |
| **EBITDA** | 4.4 | 3.0 | 5.3 | 7.3 | 3.7 | 4.1 | 5.3 | 7.3 | 19% | -28% | 0% | 0% |
| *Margin* | *20%* | *15%* | *19%* | *21%* | *17%* | *18%* | *19%* | *21%* | | | | |
| **EBIT** | 3.3 | 1.7 | 3.9 | 5.8 | 2.3 | 2.9 | 3.9 | 5.8 | 41% | -40% | 0% | 0% |
| *Margin* | *15%* | *9%* | *14%* | *17%* | *11%* | *13%* | *14%* | *17%* | | | | |
| **Net Income** | 2.3 | 0.9 | 2.9 | 4.6 | 1.6 | 1.9 | 2.9 | 4.6 | 44% | -53% | 0% | 0% |
| **Net (Debt) Cash** | (6.8) | (5.7) | (3.5) | 0.8 | (3.1) | (5.1 | (3.9) | 0.4 | | | | |
| *Net Debt / EBITDA* | *1.5x* | *1.9x* | *0.7x* | *nm* | *0.8x* | *1.2x* | *0.7x* | *nm* | | | | |

Source: EnVent Research; Company data 2019A

## Financial projections

### Consolidated Profit and Loss

| €m | 2017A | 2018A | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| **Revenues** | **17.3** | **20.4** | **21.9** | **19.4** | **27.2** | **34.3** |
| *YoY %* | *19%* | *18%* | *8%* | *-12%* | *40%* | *26%* |
| COGS | (6.0) | (7.4) | (7.6) | (6.6) | (9.5) | (12.0) |
| **Gross profit** | **11.3** | **12.9** | **14.4** | **12.8** | **17.7** | **22.3** |
| *Margin* | *65.2%* | *63.5%* | *65.5%* | *66.0%* | *65.0%* | *65.0%* |
| Personnel | (5.0) | (5.8) | (6.1) | (6.1) | (7.0) | (7.7) |
| G&A | (3.2) | (2.6) | (2.5) | (2.5) | (2.8) | (3.1) |
| Marketing & Sales | (0.4) | (0.5) | (0.6) | (0.4) | (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** | **3.0** | **5.3** | **7.3** |
| *Margin* | *12.3%* | *16.5%* | *20.1%* | *15.4%* | *19.5%* | *21.2%* |
| D&A | (1.1) | (1.0) | (1.1) | (1.3) | (1.4) | (1.5) |
| **EBIT** | **1.0** | **2.3** | **3.3** | **1.7** | **3.9** | **5.8** |
| *Margin* | *5.9%* | *11.3%* | *15.0%* | *8.9%* | *14.4%* | *16.9%* |
| 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 |
| **EBT** | **(2.3)** | **1.1** | **2.5** | **1.0** | **3.2** | **5.1** |
| *Margin* | *-13.1%* | *5.5%* | *11.3%* | *5.0%* | *11.7%* | *14.9%* |
| Income taxes | (0.2) | (0.3) | (0.2) | (0.1) | (0.3) | (0.5) |
| **Net Income (Loss)** | **(2.5)** | **0.8** | **2.3** | **0.9** | **2.9** | **4.6** |
| *Margin* | *-14.5%* | *4.2%* | *10.3%* | *4.6%* | *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 | 3.0 | 4.1 | 5.2 |
| Trade receivables | 3.3 | 3.3 | 2.4 | 2.1 | 3.0 | 3.7 |
| Trade payables | (4.9) | (4.5) | (3.0) | (2.7) | (3.9) | (5.0) |
| Trade Working Capital | 1.2 | 2.6 | 2.8 | 2.4 | 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** | **(0.1)** | **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** | **20.1** | **20.7** | **21.1** |
| **Net Debt (Cash)** | **11.4** | **3.7** | **6.8** | **5.7** | **3.5** | **(0.8)** |
| **Equity** | **2.3** | **11.3** | **13.5** | **14.4** | **17.3** | **21.9** |
| **Sources** | **13.7** | **15.0** | **20.3** | **20.1** | **20.7** | **21.1** |

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

## Consolidated Cash Flow

| €m | 2017A | 2018A | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| **EBIT** | **1.0** | **2.3** | **3.3** | **1.7** | **3.9** | **5.8** |
| Current taxes | (0.2) | (0.3) | (0.2) | (0.1) | (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** | **2.9** | **5.1** | **6.9** |
| Trade Working Capital | (1.8) | (1.4) | (0.2) | 0.4 | (0.8) | (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)** | **1.8** | **3.0** | **5.0** |
| 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)** | **1.1** | **2.3** | **4.3** |
| Net (Debt) Cash - Beginning | (22.9) | (11.4) | (3.7) | (6.8) | (5.7) | (3.5) |
| Net (Debt) Cash - End | (11.4) | (3.7) | (6.8) | (5.7) | (3.5) | 0.8 |
| **Change in Net (Debt) Cash** | **11.4** | **7.8** | **(3.1)** | **1.1** | **2.3** | **4.3** |

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

## Ratio analysis

| KPIs | 2017A | 2018A | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| ROE | -112% | 7% | 17% | 6% | 17% | 21% |
| ROS (EBIT/Revenues) | 6% | 11% | 15% | 9% | 14% | 17% |
| ROIC (NOPAT/Invested Capital) | 6% | 11% | 12% | 6% | 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 | 1.9x | 0.7x | cash |
| Cash flow from P&L operations / EBITDA | 86% | 87% | 94% | 97% | 95% | 94% |
| FCF / EBITDA | 115% | 22% | neg. | 61% | 57% | 68% |
| EPS | neg. | 0.00 | 0.01 | 0.00 | 0.01 | 0.02 |

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

# Valuation

## Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.7% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, October 2020)
- Market return: 13.0% (3Y average. Source: Bloomberg, October 2020)
- Market risk premium: 11.3%
- Beta: 1 (Median of core business peers. Source: Bloomberg, October 2020)
- Cost of equity: 13.3%
- Cost of debt: 3.5%
- Tax rate: 24% IRES
- 50% debt/(debt + equity) as target capital structure
- WACC calculated at 8.0%, according to above data
- Perpetual growth rate after explicit projections 2.0% (lowered from 2.5% 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** | **19.4** | **27.2** | **34.3** | **35.0** |
| **EBITDA** | | **2.1** | **3.4** | **4.4** | **3.0** | **5.3** | **7.3** | **7.0** |
| *Margin* | | *12.3%* | *16.5%* | *20.1%* | *15.4%* | *19.5%* | *21.2%* | *20.0%* |
| **EBIT** | | **1.0** | **2.3** | **3.3** | **1.7** | **3.9** | **5.8** | **5.8** |
| *Margin* | | *5.9%* | *11.3%* | *15.0%* | *8.9%* | *14.4%* | *16.9%* | *16.6%* |
| Taxes | | (0.2) | (0.7) | (1.0) | (0.5) | (1.1) | (1.7) | (1.7) |
| **NOPAT** | | **0.8** | **1.6** | **2.3** | **1.2** | **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** | **2.5** | **4.2** | **5.6** | **5.4** |
| Trade Working Capital | | (1.8) | (1.4) | (0.2) | 0.4 | (0.8) | (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)** | **1.4** | **2.2** | **3.7** | **4.0** |
| WACC | 8.0% | | | | | | | |
| Long-term growth (G) | 2.0% | | | | | | | |
| **Discounted Cash Flows** | | | | | **1.3** | **1.9** | **3.1** | |
| Sum of Discounted Cash Flows | 6.4 | | | | | | | |
| **Terminal Value** | | | | | | | | **66.4** |
| Discounted TV | 54.8 | | | | | | | |
| **Enterprise Value** | **61.2** | | | | | | | |
| Net Debt as of 30/06/20 | (5.5) | | | | | | | |
| Short-term tax relief | 0.5 | | | | | | | |
| **Equity Value** | **56.2** | | | | | | | |

| **DCF - Implied multiples** | | 2018A | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| EV/Revenues | | 3.0x | 2.8x | 3.2x | 2.2x | 1.8x |
| EV/EBITDA | | 18.3x | 13.9x | 20.5x | 11.6x | 8.4x |
| EV/EBIT | | 26.5x | 18.5x | 35.4x | 15.6x | 10.6x |
| P/E | | 66.5x | 25.0x | 63.2x | 19.3x | 12.1x |

| **Current market price - Implied multiples** | | 2018A | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| EV/Revenues | | 2.2x | 2.0x | 2.3x | 1.6x | 1.3x |
| EV/EBITDA | | 13.1x | 10.0x | 14.7x | 8.3x | 6.0x |
| EV/EBIT | | 19.1x | 13.3x | 25.4x | 11.2x | 7.6x |
| P/E | | 45.5x | 17.1x | 43.3x | 13.2x | 8.3x |
| *Discount* | *28%* | | | | | |

Source: EnVent Research

## Target Price

Our valuation of Pierrel on updated estimates is at €0.246 per share, almost unchanged compared to our prior target price of €0.247, with a potential upside of 46% on the current share price. 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** | **0.246** |
| Current Share Price 13/10/2020) | 0.168 |
| **Premium (Discount)** | **46%** |

Source: EnVent Research

## Annex

### Peer Group - Market Multiples

| Company | EV/REVENUES | | | | EV/EBITDA | | | | EV/EBIT | | | | P/E | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020E | 2021E | 2022E | 2019 | 2020E | 2021E | 2022E | 2019 | 2020E | 2021E | 2022E | 2019 | 2020E | 2021E | 2022E |
| Pierrel | 2.1x | 2.3x | 1.6x | 1.3x | 10.5x | 14.9x | 8.4x | 6.1x | 14.1x | 25.7x | 11.3x | 7.7x | 17.6x | 43.8x | 13.4x | 8.4x |
| Core business peers | | | | | | | | | | | | | | | | |
| **Lonza** | 5.0x | 7.2x | 6.7x | 6.2x | 19.0x | 25.9x | 23.4x | 20.5x | 27.4x | 33.7x | 29.8x | 26.1x | 40.7x | 39.6x | 35.3x | 30.3x |
| **Catalent** | 4.4x | 5.5x | 4.9x | 4.5x | 21.0x | 22.5x | 20.1x | 17.8x | 37.2x | 30.6x | 26.8x | 23.8x | 60.8x | 44.5x | 36.3x | 31.0x |
| **West Pharmaceutical Services** | 6.0x | 10.4x | 9.5x | 8.9x | 27.8x | 43.6x | 38.9x | 35.1x | 37.7x | 56.0x | 49.1x | 44.2x | 46.0x | 67.2x | 61.8x | 56.1x |
| **Laboratorios Farmaceuticos ROVI** | 3.6x | 4.5x | 3.8x | 3.3x | 24.7x | 25.2x | 20.4x | 15.0x | 32.6x | 34.8x | 26.4x | 17.6x | 34.4x | 38.2x | 28.0x | 18.6x |
| **Baxter International** | 4.0x | 3.8x | 3.6x | 3.4x | 16.4x | 16.3x | 14.3x | 13.4x | 22.8x | 21.1x | 18.2x | 16.3x | 42.7x | 25.3x | 21.2x | 18.9x |
| **Thermo Fisher Scientific** | 5.7x | 6.8x | 6.3x | 6.1x | 22.4x | 23.7x | 21.9x | 21.5x | 34.4x | 26.0x | 24.0x | 23.5x | 35.2x | 28.4x | 25.9x | 24.8x |
| **Recipharm** | 1.9x | 2.3x | 2.1x | 2.0x | 12.2x | 13.5x | 11.9x | 11.1x | 27.0x | 38.8x | 25.5x | 22.6x | 29.3x | 34.1x | 21.9x | 18.9x |
| **Mean** | **4.4x** | **5.8x** | **5.3x** | **4.9x** | **20.5x** | **24.4x** | **21.6x** | **19.2x** | **31.3x** | **34.4x** | **28.5x** | **24.9x** | **41.3x** | **39.6x** | **32.9x** | **28.4x** |
| **Median** | **4.4x** | **5.5x** | **4.9x** | **4.5x** | **21.0x** | **23.7x** | **20.4x** | **17.8x** | **32.6x** | **33.7x** | **26.4x** | **23.5x** | **40.7x** | **38.2x** | **28.0x** | **24.8x** |
| Customers/Distributors | | | | | | | | | | | | | | | | |
| **Patterson** | 0.5x | 0.5x | 0.6x | 0.5x | 10.1x | 12.6x | 11.9x | 10.9x | 14.9x | 15.7x | 14.3x | 13.2x | 23.0x | 18.1x | 16.1x | 14.6x |
| **Henry Schein** | 1.2x | 1.2x | 1.0x | 1.0x | 12.6x | 15.1x | 12.0x | 11.2x | 15.8x | 21.2x | 15.3x | 14.2x | 14.0x | 23.0x | 17.1x | 15.6x |
| **Dentsply** | 3.4x | 3.5x | 3.1x | 2.9x | 16.2x | 22.7x | 14.1x | 12.4x | 26.1x | 31.8x | 16.8x | 14.5x | 47.9x | 40.1x | 21.0x | 17.7x |
| **Mean** | **1.7x** | **1.8x** | **1.6x** | **1.5x** | **13.0x** | **16.8x** | **12.6x** | **11.5x** | **18.9x** | **22.9x** | **15.5x** | **13.9x** | **28.3x** | **27.1x** | **18.0x** | **16.0x** |
| **Median** | **1.2x** | **1.2x** | **1.0x** | **1.0x** | **12.6x** | **15.1x** | **12.0x** | **11.2x** | **15.8x** | **21.2x** | **15.3x** | **14.2x** | **23.0x** | **23.0x** | **17.1x** | **15.6x** |

Source: S&P Capital IQ, October 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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OUTPERFORM: stocks are expected to have a total return of at least 20% in the mid-term;

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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 |
| 11/06/2019 | OUTPERFORM | 0.267 | 0.175 |
| 18/09/2019 | OUTPERFORM | 0.271 | 0.164 |
| 08/05/2020 | OUTPERFORM | 0.247 | 0.170 |
| 13/10/2020 | OUTPERFORM | 0.246 | 0.168 |

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