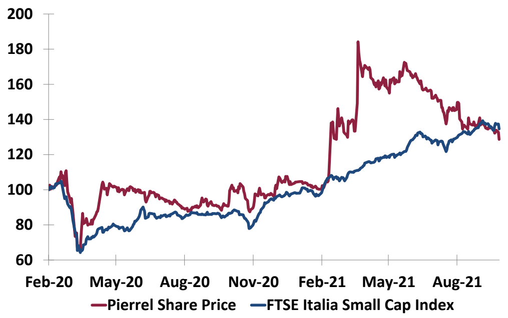
OUTPERFORM

Current Share Price (€): 0.220
Target Price (€): 0.324

Pierrel - Share Price Performance since Feb 20



Source: S&P Capital IQ - Note: 03/02/2020=100

Company data

ISIN number	IT0004007560
Bloomberg code	PRL IM
Reuters code	PRL.MI
Sector	Pharma & Healthcare
Stock market	MTA (Italy)
Share Price (€)	0.220
Date of Price	28/09/2021
Shares Outstanding (m)	228.9
Market Cap (€m)	50.4
Market Float (%)	28.6%
Daily Volume	1,011,748
Avg Daily Volume YTD	1,002,245
Target Price (€)	0.324
Upside (%)	47%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	1Y
Pierrel - Absolute (%)	-6%	-15%	41%
FTSE Italia Small Cap (%)	0%	6%	57%
Range H/L (€) since Feb 20		0.315	0.115
YTD Change (€)/%		0.042	23%

Source: S&P Capital IQ

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Solid operations and financials confirm outlook

Mild revenue growth, temporary lower margins, healthy cash flows in H1 2021

H1 2021 revenues were €10.8m, +5.7% on H1 2020, driven by increases in Orabloc® sales volumes and prices, especially in North America, proving that recovery in orders is being sustained. Higher production costs, which may be deemed temporary, together with a different production scheduling, slightly influenced operating margins, with EBITDA at €1.9m (17% margin vs. 21% in H1 2020) and net income at €0.7m. The healthy P/L cash flow generation together with a sound working capital cash release sustained capex in production capacity increase. Net financial debt down to €6.4m, vs. €7.8m as of year-end 2020.

H1 2021 results consistent with management full-year guidelines

H1 2021 actual figures have been in line with April 2021 full-year management guidelines, updated to keep into account the expected Covid-19 slowdown. As such, we confirm our previous estimates, in view of the additional production capacity coming from investments and of the ongoing marketing program for international expansion.

Current trading: stock price rose +29% since Feb 20

Pierrel share price followed the trend of the Small Cap index since Feb 2020 until mid-Feb 2021, then the stock experienced some peaks and high trading volumes, until stabilizing. Overall, Pierrel share price gained 29% over the last 19 months, a performance in line with its reference index.

Target Price €0.324 per share, from €0.323, OUTPERFORM rating (from Neutral)

Despite the current challenges tied to the pandemic, Pierrel has maintained its market penetration and its financials had no issues, other than a temporary slowdown in profitability, while continuing to show a healthy balance sheet and cash generation ability. The updated valuation of Pierrel yields a Target Price of €0.324 per share (from €0.323), +47% potential upside on current share price. We assign an OUTPERFORM rating on the stock (from Neutral). We note that Pierrel is currently trading on a 2021E EV/Revenues of 2.4x, vs. industry median of 5.1x, while our valuation points at 3.3x.

Key financials and estimates

€m	2018A	2019A	2020A	2021E	2022E	2023E
Revenues	**20.4**	**21.9**	**18.3**	**24.0**	**34.1**	**39.5**
YoY %	*17.7%*	*7.8%*	*-16.8%*	*31.4%*	*42.0%*	*15.9%*
EBITDA	**3.4**	**4.4**	**3.2**	**4.9**	**7.9**	**9.9**
Margin	*16.5%*	*20.1%*	*17.5%*	*20.6%*	*23.1%*	*25.1%*
EBIT	**2.3**	**3.3**	**2.0**	**3.6**	**6.5**	**8.5**
Margin	*11.3%*	*15.0%*	*10.9%*	*15.1%*	*18.9%*	*21.4%*
Net Income (Loss)	**0.8**	**2.3**	**1.9**	**2.6**	**5.2**	**7.1**
Net (Debt) Cash	**(3.7)**	**(6.8)**	**(7.8)**	**(8.0)**	**(3.3)**	**4.2**
Equity	**11.3**	**13.5**	**15.4**	**18.0**	**23.2**	**30.3**

Source: Company data 2018-20A, EnVent Research 2021-23E

Key ratios

	2018A	2019A	2020A	2021E	2022E	2023E
TWC/Revenues	13%	13%	27%	23%	19%	16%
Net Debt / EBITDA	1.1x	1.5x	2.5x	1.6x	0.4x	cash
Cash flow from P&L operations / EBITDA	87%	94%	99%	96%	95%	93%
FCF / EBITDA	22%	neg.	neg.	12%	68%	82%
Earnings Per Share (€)	0.00	0.01	0.01	0.01	0.02	0.03

Source: Company data 2018-20A, EnVent Research 2021-23E

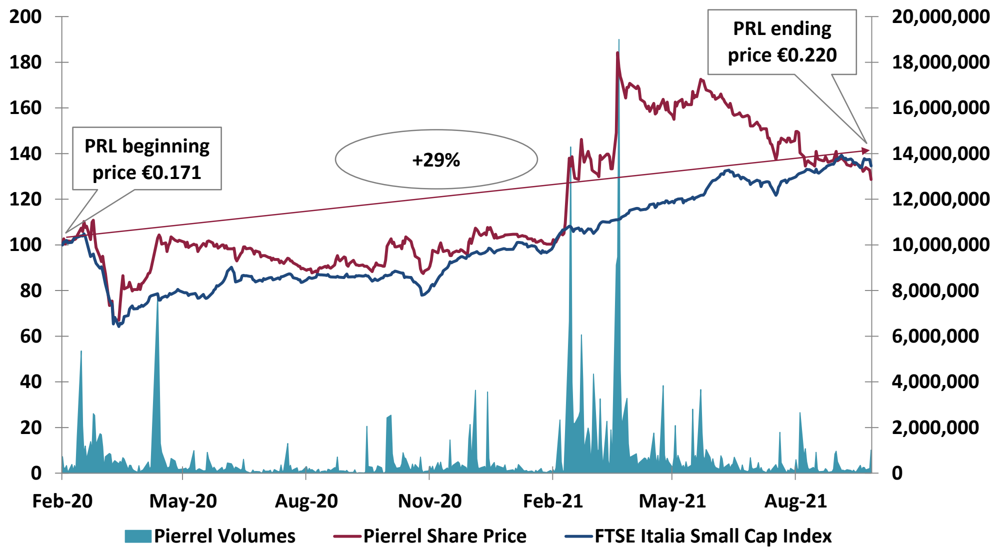
Market update

Trading price range €0.115-0.315 per share

Performance in line with FTSE Italia Small Cap index

Main peaks after Orabloc® authorizations in new markets

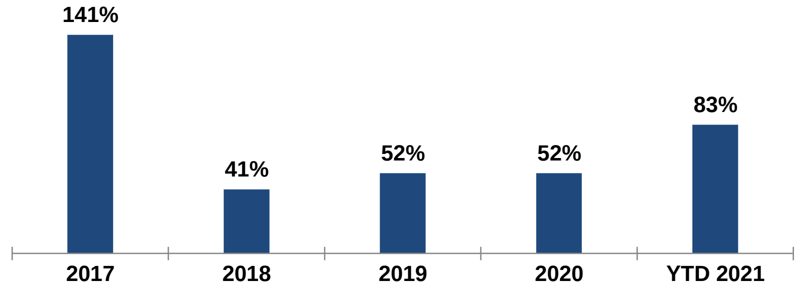
Pierrel - Share price performance and trading volumes since Feb 20



Source: EnVent Research on S&P Capital IQ - Note: 03/02/2020=100

Sharp increase in traded volumes in 2021 to date

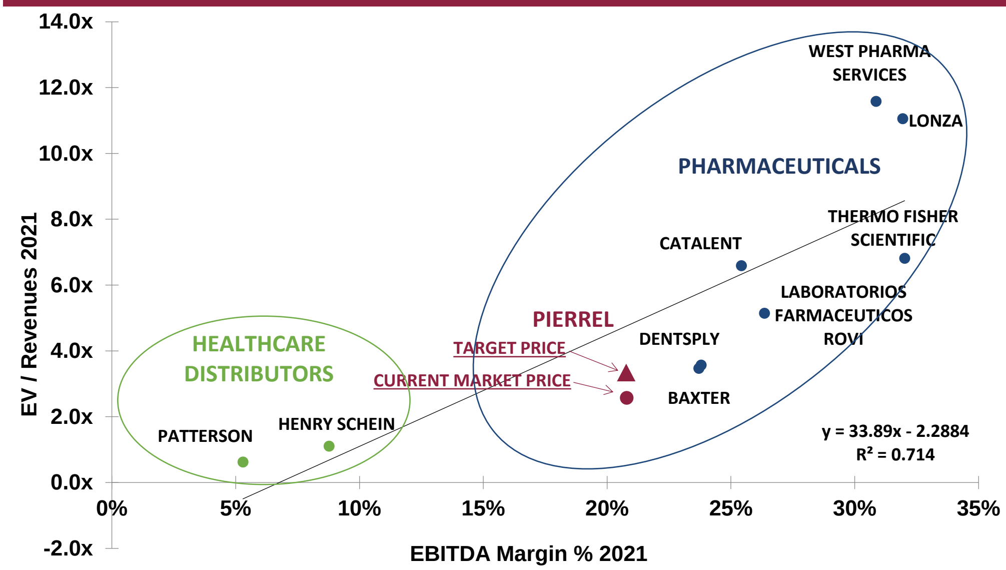
Pierrel - Liquidity analysis and velocity turnover



Source: EnVent Research on S&P Capital IQ - Note: Velocity turnover on total shares: ratio of total traded shares to total ordinary shares in a given period

Pierrel progressively towards the industry stars

Peer group - Regression analysis and Pierrel target positioning



Source: EnVent Research on S&P Capital IQ, September 2021

Revenue growth as per guidelines, lower margins as a consequence of continued pandemic impact

The results of the first six months of 2021 show that the recovery in orders began in Q4 2020 is being sustained and there was some influence of the impact of Covid-19, especially by comparing H1 21 with H1 20, when the pandemic effects had not been fully evident yet.

Results consistent with management full-year 2021 guidelines

H1 2021 consolidated revenues were €10.8m, +5.7% on H1 2020, driven by increases in Orabloc® sales volumes and prices, especially in North America. Gross profit decreased due to a temporary stop to production scheduling and a general increase in production costs. As a consequence of this, EBITDA and EBIT decreased too, and were, respectively, €1.9m (17% margin vs. 21% in H1 2020) and €1.1m (10% margin vs. 16% in H1 2020). Net income was €0.7m, vs. €1.4m in H1 2020.

Working capital and P/L cash generation over cash use for capex

On the balance sheet, trade working capital decreased from €4.9m as of Dec 2020 to €0.8m as of June 2021, mainly because of lower receivables. Net financial debt went down to €6.4m as of June 2021, from €7.8m at year-end 2020. Breakdown:

- €14.7m cash, after higher cash-ins from customers
- €10m long-term bank debt, new financing for programmed investments
- €1.7m short-term financial debt
- €9.5m other financial debt

Operating cash flow, after working capital cash release of €4.1m and capex of €3.1m, offset by €1.8m P/L cash generation, resulted in the net financial debt decrease by €1.4m. In the first six months of the year Pierrel invested around €2m in the planned increase in production capacity (purchase of a new filling line, new equipment and revised layout of some production areas).

Revenues 6% up, gross margin 10% down, other operating overall unchanged

Consolidated Profit and Loss

€m	H1 2020	H1 2021
Revenues	**10.2**	**10.8**
YoY %	*8.5%*	*5.7%*
COGS	(3.0)	(3.9)
Gross profit	**7.2**	**6.9**
Margin	*70.6%*	*64.2%*
Personnel	(3.0)	(2.9)
G&A	(1.0)	(0.4)
Marketing & Sales	(0.2)	(0.3)
Other operating costs	(0.8)	(1.4)
EBITDA	**2.2**	**1.9**
Margin	*21.0%*	*17.3%*
D&A	(0.6)	(0.7)
EBIT	**1.6**	**1.1**
Margin	*15.5%*	*10.5%*
Interest	(0.2)	(0.3)
EBT	**1.3**	**0.8**
Margin	*13.2%*	*7.5%*
Income taxes	0.1	(0.1)
Net Income (Loss)	**1.4**	**0.7**
Margin	*13.7%*	*6.5%*

Source: Company data

Trade working capital down, financial debt mostly covered by working capital investments, fast payback of capex perspective

Consolidated Balance Sheet

€m	H1 2020	2020	H1 2021
Inventory	4.4	4.1	3.7
Trade receivables	2.0	3.7	1.0
Trade payables	(3.6)	(2.8)	(3.9)
Trade Working Capital	2.8	4.9	0.8
Other assets (liabilities)	(3.6)	(4.7)	(3.7)
Net Working Capital	**(0.8)**	**0.2**	**(2.9)**
Intangible assets	2.7	3.2	3.6
Property, plant and equipment	13.6	14.9	16.9
Deferred tax assets	5.3	5.3	5.3
Non-current assets	**21.6**	**23.3**	**25.7**
Provisions	**(0.3)**	**(0.3)**	**(0.3)**
Net Invested Capital	**20.4**	**23.2**	**22.5**
Net Debt (Cash)	**5.5**	**7.8**	**6.4**
Equity	**14.9**	**15.4**	**16.1**
Sources	**20.4**	**23.2**	**22.5**

Source: Company data

TWC cash generation after cash-ins from receivables and higher trade payables

Ongoing investments in production capacity

Healthy cash flows

Consolidated Cash Flow

€m	H1 2020	H1 2021
EBIT	**1.6**	**1.1**
Current taxes	0.1	(0.1)
D&A	0.6	0.7
Cash flow from P&L operations	**2.2**	**1.8**
Trade Working Capital	(0.0)	4.1
Other assets and liabilities	1.2	(1.0)
Capex	(1.8)	(3.1)
Operating cash flow after working capital and capex	**1.5**	**1.7**
Interest	(0.2)	(0.3)
Net cash flow	**1.3**	**1.4**
Net (Debt) Cash - Beginning	(6.8)	(7.8)
Net (Debt) Cash - End	(5.5)	(6.4)
Change in Net (Debt) Cash	**1.3**	**1.4**

Source: Company data

Sound ratios prelude of a solid mid-term performance

Ratio analysis

KPIs	H1 2020	H1 2021
ROE	25%	8%
ROS (EBIT/Revenues)	16%	10%
DOI	77	61
DSO	31	15
DPO	104	95
TWC/Revenues	12%	4%
NWC/Revenues	-4%	-15%
Net Debt / EBITDA	1.0x	2.2x
Net Debt / Equity	0.2x	0.3x
Cash flow from P&L operations / EBITDA	103%	94%
FCF / EBITDA	72%	90%

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

Period facts

Orabloc® ongoing expansion

- Pierrel added authorizations to market Orabloc® in Slovakia, Romania and Kyrgyzstan

Outlook and estimates: maintaining our guidance

As commented in our previous notes, during last year Pierrel's business suffered just from delays in non-urgent dental care in reference markets during Covid-19 lockdowns. A gradual recovery is ongoing since Q4 2020 and growth will be driven by the marketing efforts and investments in doubling the production capacity.

H1 2021 results are consistent with updated management full-year 2021 guidelines. As such we confirm our previous estimates, in view of the additional production capacity coming from last two years' investments and consequent increase in production efficiency.

Recall of management guidelines

Updated Management Guidance (April 2021)			
€m	2019A	2020A	2021E
Revenues	21.9	18.3	24.0
YoY%	8%	*-17%*	*31%*
EBITDA	4.4	3.2	4.9
Margin	20%	*17%*	*20%*

Source: Company data

Financial projections

Consolidated Profit and Loss

€m	2018A	2019A	2020A	2021E	2022E	2023E
Revenues	**20.4**	**21.9**	**18.3**	**24.0**	**34.1**	**39.5**
YoY %	*18%*	*8%*	*-17%*	*31%*	*42%*	*16%*
COGS	(7.4)	(7.6)	(5.9)	(8.2)	(11.6)	(13.4)
Gross profit	**12.9**	**14.4**	**12.4**	**15.8**	**22.5**	**26.1**
Margin	*63.5%*	*65.5%*	*67.8%*	*66.0%*	*66.0%*	*66.0%*
Personnel	(5.8)	(6.1)	(5.5)	(6.3)	(8.2)	(9.1)
G&A	(2.6)	(2.5)	(2.5)	(2.8)	(3.2)	(3.6)
Marketing & Sales	(0.5)	(0.6)	(0.5)	(0.7)	(1.7)	(2.0)
Other operating costs	(0.7)	(0.8)	(0.7)	(1.1)	(1.5)	(1.5)
EBITDA	**3.4**	**4.4**	**3.2**	**4.9**	**7.9**	**9.9**
Margin	*16.5%*	*20.1%*	*17.5%*	*20.6%*	*23.1%*	*25.1%*
D&A	(1.0)	(1.1)	(1.2)	(1.3)	(1.4)	(1.4)
EBIT	**2.3**	**3.3**	**2.0**	**3.6**	**6.5**	**8.5**
Margin	*11.3%*	*15.0%*	*10.9%*	*15.1%*	*18.9%*	*21.4%*
Interest	(0.9)	(0.8)	(0.0)	(0.7)	(0.7)	(0.7)
Non-recurring items	(0.3)	0.0	0.0	0.0	0.0	0.0
EBT	**1.1**	**2.5**	**2.0**	**2.9**	**5.7**	**7.8**
Margin	*5.5%*	*11.3%*	*10.7%*	*12.0%*	*16.8%*	*19.6%*
Income taxes	(0.3)	(0.2)	(0.0)	(0.3)	(0.5)	(0.7)
Net Income (Loss)	**0.8**	**2.3**	**1.9**	**2.6**	**5.2**	**7.1**
Margin	*4.2%*	*10.3%*	*10.5%*	*10.9%*	*15.3%*	*17.9%*

Source: Company data 2018-20A; EnVent Research 2021-23E

Consolidated Balance Sheet

€m	2018A	2019A	2020A	2021E	2022E	2023E
Inventory	3.8	3.3	4.1	4.6	5.6	6.0
Trade receivables	3.3	2.4	3.7	4.4	5.7	5.9
Trade payables	(4.5)	(3.0)	(2.8)	(3.4)	(4.8)	(5.5)
Trade Working Capital	2.6	2.8	4.9	5.6	6.5	6.4
Other assets (liabilities)	(4.0)	(2.4)	(4.7)	(2.5)	(2.5)	(2.5)
Net Working Capital	**(1.4)**	**0.3**	**0.2**	**3.1**	**4.0**	**3.9**
Intangible assets	2.0	2.3	3.2	3.4	3.5	3.7
Property, plant and equipment	9.5	12.7	14.9	14.6	14.2	13.8
Deferred tax assets	5.3	5.3	5.3	5.3	5.3	5.3
Non-current assets	**16.8**	**20.3**	**23.3**	**23.2**	**23.0**	**22.8**
Provisions	**(0.4)**	**(0.3)**	**(0.3)**	**(0.4)**	**(0.5)**	**(0.5)**
Net Invested Capital	**15.0**	**20.3**	**23.2**	**26.0**	**26.5**	**26.1**
Net Debt (Cash)	**3.7**	**6.8**	**7.8**	**8.0**	**3.3**	**(4.2)**
Equity	**11.3**	**13.5**	**15.4**	**18.0**	**23.2**	**30.3**
Sources	**15.0**	**20.3**	**23.2**	**26.0**	**26.5**	**26.1**

Source: Company data 2018-20A; EnVent Research 2021-23E

Consolidated Cash Flow

€m	2018A	2019A	2020A	2021E	2022E	2023E
EBIT	**2.3**	**3.3**	**2.0**	**3.6**	**6.5**	**8.5**
Current taxes	(0.3)	(0.2)	(0.0)	(0.3)	(0.5)	(0.7)
D&A	1.0	1.1	1.2	1.3	1.4	1.4
Provisions	(0.2)	(0.0)	(0.0)	0.0	0.1	0.0
Cash flow from P&L operations	**2.9**	**4.2**	**3.1**	**4.7**	**7.5**	**9.2**
Trade Working Capital	(1.4)	(0.2)	(2.2)	(0.7)	(0.9)	0.1
Other assets and liabilities	(0.0)	(1.6)	2.3	(2.2)	0.0	0.0
Capex	(0.8)	(4.6)	(4.2)	(1.2)	(1.2)	(1.2)
Operating cash flow after working capital and capex	**0.7**	**(2.2)**	**(1.0)**	**0.6**	**5.4**	**8.1**
Interest	(0.9)	(0.8)	(0.0)	(0.7)	(0.7)	(0.7)
Non-recurring items	(0.3)	0.0	0.0	0.0	0.0	0.0
Capital increase (decrease)	8.2	(0.1)	(0.0)	0.0	0.0	0.0
Net cash flow	**7.8**	**(3.1)**	**(1.0)**	**(0.2)**	**4.7**	**7.4**
Net (Debt) Cash - Beginning	(11.4)	(3.7)	(6.8)	(7.8)	(8.0)	(3.3)
Net (Debt) Cash - End	(3.7)	(6.8)	(7.8)	(8.0)	(3.3)	4.2
Change in Net (Debt) Cash	**7.8**	**(3.1)**	**(1.0)**	**(0.2)**	**4.7**	**7.4**

Source: Company data 2018-20A; EnVent Research 2021-23E

Ratio analysis

KPIs	2018A	2019A	2020A	2021E	2022E	2023E
ROE	7%	17%	12%	15%	22%	23%
ROS (EBIT/Revenues)	11%	15%	11%	15%	19%	21%
ROIC (NOPAT/Invested Capital)	11%	12%	6%	10%	17%	23%
DSO	49	33	60	55	50	45
DPO	121	78	89	80	80	80
DOI	68	56	81	60	60	55
TWC/Revenues	13%	13%	27%	23%	19%	16%
NWC/Revenues	-7%	1%	1%	13%	12%	10%
Net Debt / EBITDA	1.1x	1.5x	2.5x	1.6x	0.4x	cash
Cash flow from P&L operations / EBITDA	87%	94%	99%	96%	95%	93%
FCF / EBITDA	22%	neg.	neg.	12%	68%	82%
EPS	0.00	0.01	0.01	0.01	0.02	0.03

Source: Company data 2018-20A; EnVent Research 2021-23E

Valuation

We have updated our DCF valuation model and market multiples, acknowledging limited fluctuations in industry multiples.

Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.3% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, September 2021)
- Market return: 12.5% (3Y average. Source: Bloomberg, September 2021)
- Market risk premium: 11.2%
- Beta: 0.8 (Median of industry peers. Source: Bloomberg)
- Cost of equity: 10.2%
- Cost of debt: 3.5%
- Tax rate: 24% IRES
- 30% debt/(debt + equity) as target capital structure
- WACC calculated at 7.9%, according to above data
- Perpetual growth rate after explicit projections 2.5%
- Terminal Value assumes EBITDA margin at 20% and EBIT margin at 17%

DCF Valuation

€m		2018A	2019A	2020A	2021E	2022E	2023E	Perpetuity
Revenues		**20.4**	**21.9**	**18.3**	**24.0**	**34.1**	**39.5**	**40.4**
EBITDA		**3.4**	**4.4**	**3.2**	**4.9**	**7.9**	**9.9**	**8.1**
Margin		*16.5%*	*20.1%*	*17.5%*	*20.6%*	*23.1%*	*25.1%*	*20.0%*
EBIT		**2.3**	**3.3**	**2.0**	**3.6**	**6.5**	**8.5**	**6.9**
Margin		*11.3%*	*15.0%*	*10.9%*	*15.1%*	*18.9%*	*21.4%*	*17.0%*
Taxes		(0.7)	(1.0)	(0.6)	(1.0)	(1.9)	(2.5)	(2.0)
NOPAT		**1.6**	**2.3**	**1.4**	**2.6**	**4.6**	**6.0**	**4.9**
D&A		1.0	1.1	1.2	1.3	1.4	1.4	1.2
Provisions		(0.2)	(0.0)	(0.0)	0.0	0.1	0.0	0.0
Cash flow from P&L operations		**2.5**	**3.4**	**2.6**	**3.9**	**6.1**	**7.5**	**6.1**
Trade Working Capital		(1.4)	(0.2)	(2.2)	(0.7)	(0.9)	0.1	(0.2)
Other assets and liabilities		(0.0)	(1.6)	2.3	(2.2)	0.0	0.0	0.0
Capex		(0.8)	(4.6)	(4.2)	(1.2)	(1.2)	(1.2)	(1.2)
Yearly unlevered free cash flow		***0.3***	***(2.9)***	***(1.5)***	***(0.2)***	***4.0***	***6.4***	***4.7***
- H1 unlevered free cash flow					***(1.5)***			
Free cash Flow to be discounted					**(1.7)**	**4.0**	**6.4**	**4.7**
WACC	7.9%							
Long-term growth (G)	2.5%							
Discounted Cash Flows					**(1.6)**	**3.6**	**5.3**	
Sum of Discounted Cash Flows	7.3							
Terminal Value								**87.5**
Discounted TV	72.3							
Enterprise Value	**79.6**							
Net Debt as of 30/06/21	(6.4)							
Short-term tax relief	1.0							
Equity Value	**74.1**							

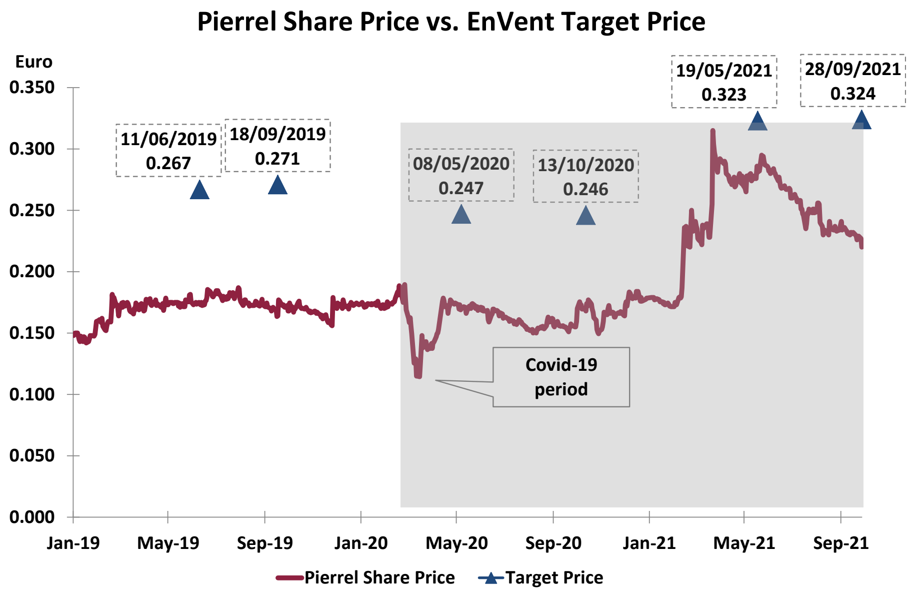
Source: EnVent Research

DCF - Implied multiples	2018A	2019A	2020A	2021E	2022E	2023E
EV/Revenues	3.9x	3.6x	4.4x	3.3x	2.3x	2.0x
EV/EBITDA	23.8x	18.1x	25.0x	16.1x	10.1x	8.0x
EV/EBIT	34.5x	24.1x	40.0x	22.0x	12.3x	9.4x
P/E	87.6x	33.0x	38.7x	28.3x	14.2x	10.5x

Current market price - Implied multiples		2018A	2019A	2020A	2021E	2022E	2023E
EV/Revenues		2.8x	2.6x	3.1x	2.4x	1.7x	1.4x
EV/EBITDA		16.9x	12.9x	17.8x	11.5x	7.2x	5.7x
EV/EBIT		24.6x	17.2x	28.5x	15.7x	8.8x	6.7x
P/E		59.5x	22.4x	26.3x	19.2x	9.7x	7.1x
Discount	*29%*						

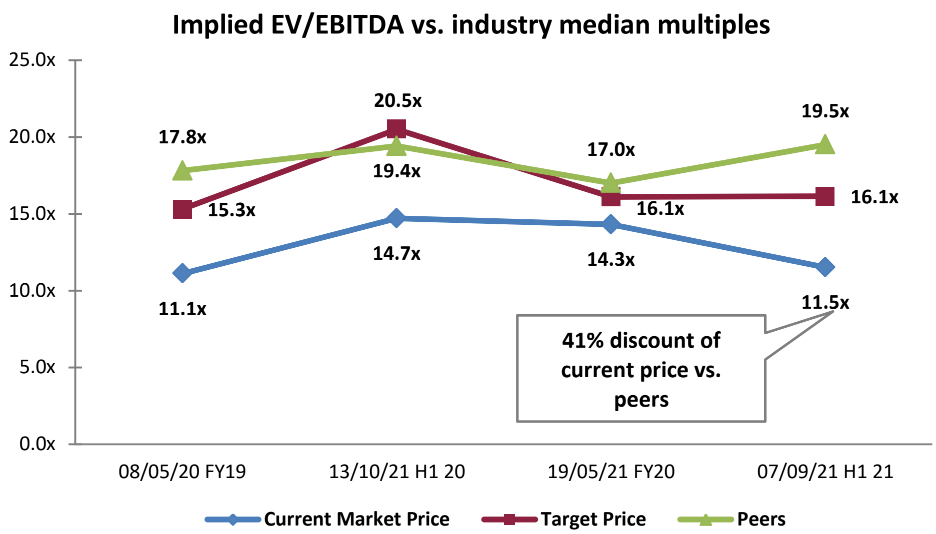
Source: EnVent Research

Target Price



Source: EnVent Research

Current market valuations leave room for further upside



Source: EnVent Research

Pierrel market price peaks in 2021 were closer to our target, then had fluctuations. Our view of stability of performance and mid-term perspective sustains implied multiples closer to the industry values resulting from our analysis.

Our valuation of Pierrel is stable, at €0.324 per share, from €0.323, with a potential upside of 47% on current share price. Thus, we assign an OUTPERFORM recommendation on the stock (from Neutral).

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

Pierrel Price per Share

Target Price	**0.324**
Current Share Price (28/09/2021)	0.220
Premium (Discount)	**47%**

Source: EnVent Research

Annex

Peer Group - Market Multiples

Company	EV/REVENUES 2020	EV/REVENUES 2021E	EV/REVENUES 2022E	EV/EBITDA 2020	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2020	EV/EBIT 2021E	EV/EBIT 2022E	P/E 2020	P/E 2021E	P/E 2022E
Core business peers												
Lonza	10.1x	11.1x	9.7x	32.8x	34.6x	29.7x	47.1x	45.8x	38.2x	48.6x	54.7x	45.9x
Catalent	5.8x	6.6x	5.7x	27.0x	25.9x	21.6x	44.0x	33.3x	28.1x	71.4x	46.0x	36.5x
West Pharmaceutical Services	9.6x	11.6x	10.7x	39.0x	37.5x	33.6x	49.2x	43.8x	38.9x	60.5x	52.5x	48.8x
Laboratorios Farmaceuticos ROVI	5.0x	5.1x	4.2x	23.0x	19.5x	14.5x	27.3x	22.5x	16.4x	34.4x	28.7x	20.2x
Baxter International	3.8x	3.5x	3.3x	16.3x	14.6x	13.4x	23.5x	18.8x	16.9x	37.2x	22.4x	19.9x
Thermo Fisher Scientific	6.1x	6.8x	6.1x	19.3x	21.3x	22.1x	25.0x	22.9x	24.3x	29.0x	26.7x	27.9x
Mean	**6.7x**	**7.4x**	**6.6x**	**26.2x**	**25.6x**	**22.5x**	**36.0x**	**31.2x**	**27.1x**	**46.8x**	**38.5x**	**33.2x**
Median	**5.9x**	**6.7x**	**5.9x**	**25.0x**	**23.6x**	**21.8x**	**35.6x**	**28.1x**	**26.2x**	**42.9x**	**37.4x**	**32.2x**
Customers/Distributors												
Patterson	0.6x	0.6x	0.6x	11.6x	11.8x	12.1x	16.7x	13.5x	13.5x	neg	15.5x	15.0x
Henry Schein	1.1x	1.1x	1.1x	15.1x	12.6x	12.2x	20.2x	15.7x	15.1x	23.6x	18.2x	17.5x
Dentsply	4.0x	3.6x	3.4x	22.2x	15.0x	13.6x	49.6x	17.2x	15.6x	neg	20.9x	18.7x
Mean	**1.9x**	**1.8x**	**1.7x**	**16.3x**	**13.1x**	**12.6x**	**28.8x**	**15.5x**	**14.8x**	**23.6x**	**18.2x**	**17.0x**
Median	**1.1x**	**1.1x**	**1.1x**	**15.1x**	**12.6x**	**12.2x**	**20.2x**	**15.7x**	**15.1x**	**23.6x**	**18.2x**	**17.5x**
Combined Mean	**5.1x**	**5.5x**	**5.0x**	**22.9x**	**21.4x**	**19.2x**	**33.6x**	**25.9x**	**23.0x**	**43.5x**	**31.7x**	**27.8x**
Combined Median	**5.0x**	**5.1x**	**4.2x**	**22.2x**	**19.5x**	**14.5x**	**27.3x**	**22.5x**	**16.9x**	**37.2x**	**26.7x**	**20.2x**
Pierrel - Consensus	**2.7x**	**2.4x**	**1.7x**	**15.3x**	**11.7x**	**7.4x**	**24.4x**	**17.2x**	**9.6x**	**21.3x**	**21.6x**	**10.6x**
Pierrel - Updated EnVent estimates	**2.7x**	**2.4x**	**1.7x**	**15.3x**	**11.8x**	**7.4x**	**24.4x**	**16.1x**	**9.0x**	**21.3x**	**19.9x**	**10.0x**

Source: S&P Capital IQ, September 2021

Peer Group - Key Data

Company	Revenues 2020 (€m)	Rev. YoY 20-19 %	Rev. CAGR '20-22E	EBITDA % 2020	EBITDA % Avg. 5Y	EBITDA % Min 5Y	EBITDA % Max 5Y
Core business peers							
Lonza	4,165	8%	14%	31%	28%	22%	32%
Catalent	2,749	24%	18%	21%	20%	19%	21%
West Pharmaceutical Services	1,755	7%	21%	25%	22%	21%	25%
Laboratorios Farmaceuticos ROVI	420	10%	31%	22%	13%	9%	22%
Baxter International	9,543	-6%	9%	23%	22%	19%	24%
Thermo Fisher Scientific	26,338	16%	15%	32%	27%	25%	32%
Mean		**10%**	**18%**	**26%**	**22%**	**19%**	**26%**
Median		**9%**	**16%**	**24%**	**22%**	**20%**	**25%**
Customers/Distributors							
Patterson	5,085	2%	3%	5%	6%	4%	8%
Henry Schein	8,304	-7%	12%	7%	9%	7%	9%
Dentsply	2,732	-24%	19%	18%	19%	17%	21%
Mean		**-10%**	**11%**	**10%**	**11%**	**9%**	**13%**
Median		**-7%**	**12%**	**7%**	**9%**	**7%**	**9%**

Source: S&P Capital IQ, September 2021

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 (2020): €18.3m, 6% CAGR 2016-20
- Geographical breakdown (2020): North America 57%, Europe 37%, RoW 6%
- Market share of the flagship product Orabloc® in the dental anesthetics market based on Articaine in the USA (2020): 23%
- Employees (2020): 96

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 the 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 57% of 2020 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 Q4 2022. In order to sustain the future demand and its marketing program in the USA and other selected countries, Pierrel is investing up to €15m to increase its production capacity adding a new production line for cartridges. The start-up of the new production line is currently scheduled for Q4 2022. The total investment, formerly planned in €9m, has been increased up to €15m to include also additional equipment and the revamping works of some areas.

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, 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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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.

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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
13/10/2020	OUTPERFORM	0.246	0.286
19/05/2021	NEUTRAL	0.323	0.281
28/09/2021	OUTPERFORM	0.324	0.220

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