

KOLINPHARMA

FY19: Revenue growth and cashflow above expectations

FY19 Results: KOLINPHARMA, innovative SME specialized in R&D in the nutraceutical market, just released a very strong set of FY 19 results, with sales of Euro 8.9 m, up by +24% vs. FY 18 (Euro 7.2 m), and +3% vs. our estimates. Growth was driven by a good performance along all product lines, and implied a continuous increase in market share, as it largely outperformed market growth (+3.6% Federsalus). EBITDA adjusted for non-recurring items came in at Euro 2.3 m, +58% vs. FY 18 (Euro 1.4 Eu m) and overperformed our estimates by +15%, and with an EBITDA margin of 25%, up from 19% in FY2018 thanks to actions taken by Management to improve operational efficiency. Non-adjusted EBITDA was of Euro 2.0 m. Net result increased by +115% to Euro 0.6 m (Euro 0.3 m in FY18). Net cash at the end of the period considered stood at Euro 0.7 m, recoding an increase of Euro 0.6 m vs. FY18 (Euro 0.1 m) thanks to good operating results and efficient management of working capital.

Outlook and Estimates: Our general outlook for Kolinpharma remains positive. In the first months of FY20, the Company launched two new products and added two new international patents to its portfolio. Management, however stated that given the uncertainty regarding the world-wide spread of the COVID-19 it is still difficult and premature to assess short-term potential effects on the Company's FY 2020 financials. For the time being the Company remains fully operational and Management confirmed the strategic guidelines of the Industrial Plan announced in April last year. Given the above we made a slight cut in our FY20 top-line growth assumption, now assuming a c. 12% growth rate (from c. +30%) whereas we increased the growth rate for FY21 as we expect demand to experience a steady recovery. Overall, we estimate a FY19-22 revenue and EPS CAGR of 27% and 46% respectively.

Valuation

We updated our model to factor in new estimates, up-to-date risk-free rate and ERP and market multiples and set a new target price of Euro 12.40 p.s. (Euro 12.33 p.s. previously) providing for an upside of 38% vs. current market price and obtained by weighting equally a DCF and a multiple comparison analysis.

Sector: Healthcare

Target Price (Euro)	12.40 (12.33 pr)
Market Price (Euro)	9.01
Market Cap (Euro m)	13
EV (Euro m)	12
<i>(as of April 26th, 2019)</i>	

Share Data

Market	AIM Italia
Reuters/Bloomberg	KIP.MI / KIP.IM
ISIN	IT0005322950
N. of Shares	1639571
Free Float	40.38%
Main Shareholder	Rita Paola Petrelli (59.62%)
CEO	Rita Paola Petrelli

AIM Positioning

FY 2019	Company	AIM Sector	AIM Italia
Revenues (Eu m)	8.9	48	43
Revenues YoY	24%	26%	30%
EBITDA Margin	25%	18%	14%
NFF/EBITDA (x)	0.3	0.2	3.8

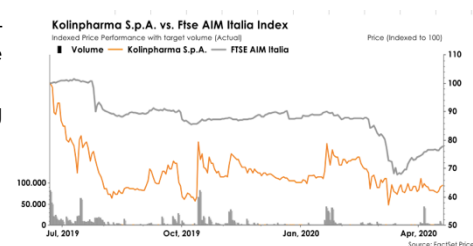
Market Data (Eu m)	Company	AIM Sector	AIM Italia
Capitalisation	13	93	46
Perf. YTD	-1%	-15%	-15%
Free Float	28%	30%	34%
ADTI YTD (Eu)	53,337	101,414	85,118

Performance

	1M	3M	6M
Absolute	0%	-1.6%	55%
Relative (TSE AIM Italia)	2%	2%	77%
52-week High/Low (Eu)	15.60	/	6.00

IR TOP RESEARCH

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Key Figures (Eu m)	Sales	Yoy %	EBITDA	EBITDA %	EBIT	EBIT %	Net Profit	Net Debt
2019A	8.9	+24%	2.0	22%	0.9	10%	0.6	(0.7)
2020E	10.0	+12%	2.3	23%	0.9	9%	0.6	(0.5)
2021E	14.0	+40%	3.4	25%	1.6	12%	1.1	(1.4)
2022E	18.2	+30%	4.7	26%	2.7	15%	1.8	(3.3)

KEY FINANCIALS

Profit&Loss Statement	2018A	2019A	2020E	2021E	2022E
Sales	7,2	8,9	10,0	14,0	18,2
Revenues (VoP)	9,0	10,5	11,1	15,1	19,4
EBITDA	1,4	2,0	2,3	3,4	4,7
EBIT	0,5	0,9	0,9	1,6	2,7
Financial Income (charges)	(0,1)	(0,1)	(0,1)	(0,1)	(0,1)
Pre-tax profit (loss)	0,5	0,8	0,9	1,6	2,6
Taxes	(0,2)	(0,2)	(0,3)	(0,5)	(0,8)
Net profit (loss)	0,3	0,6	0,6	1,1	1,8

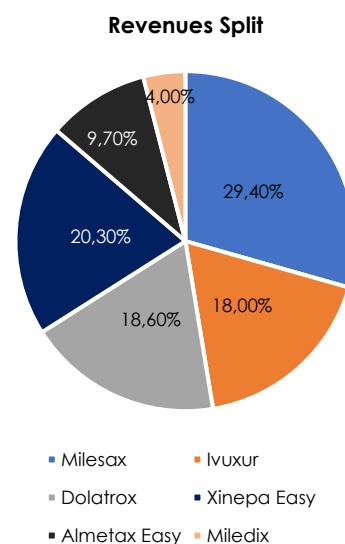
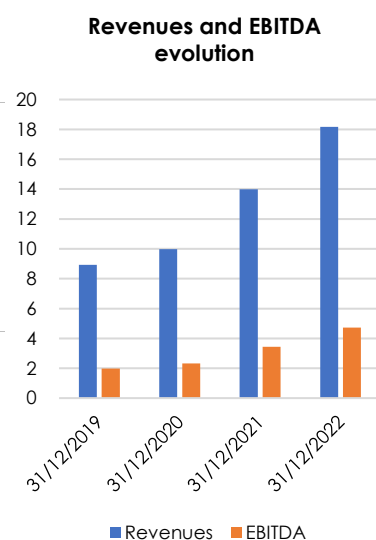
Balance Sheet	2018A	2019A	2020E	2021E	2022E
Net working capital (NWC)	0,8	0,8	1,7	2,5	3,5
Net fixed assets	4,0	3,9	3,9	3,1	2,2
M/L Funds	(0,1)	(0,2)	(0,2)	(0,1)	(0,1)
Net Capital Employed	4,8	4,6	5,4	5,5	5,5
Net Debt (Cash)	0,1	(0,7)	(0,5)	(1,4)	(3,3)
Net Equity	4,7	5,2	5,9	6,9	8,8

Cash Flow	2018A	2019A	2020E	2021E	2022E
EBIT	0,5	0,9	0,9	1,6	2,7
D&A	0,8	1,1	1,4	1,8	2,0
Tax	(0,2)	(0,2)	(0,3)	(0,5)	(0,8)
Change in M/L Funds	0,0	0,1	0,0	(0,0)	0,0
Gross Cash Flow	1,2	1,8	2,1	3,0	3,9
Change in NWC	(0,2)	(0,0)	(0,8)	(0,9)	(0,9)
Operating Cash Flow	1,1	1,8	1,2	2,1	3,0
Capex	(1,7)	(0,9)	(1,4)	(1,1)	(1,1)
Change in other non-current asset	(0,0)	0,0	0,0	0,0	0,0
Financial Income (charges)	(0,1)	(0,1)	(0,1)	(0,1)	(0,1)
Free Cash Flow	(0,8)	0,8	(0,2)	0,9	1,9
Dividend	0,0	0,0	0,0	0,0	0,0
Change in Equity	3,1	(0,0)	0,0	0,0	0,0
Change in Net debt (Cash)	2,4	0,8	(0,2)	0,9	1,9

Per Share Data	2018A	2019A	2020E	2021E	2022E
Current Price	€9,01				
Total shares out fully diluted (mn)	1,8				
EPS	0,16	0,33	0,34	0,61	1,03
DPS	0,0	0,0	0,0	0,0	0,0
FCF	(0,8)	0,8	(0,2)	0,9	1,9
Pay out ratio	0%	0%	0%	0%	0%

Ratios	2018A	2019A	2020E	2021E	2022E
EBITDA margin	19,3%	22,3%	23,2%	24,6%	26,0%
EBIT margin	7,7%	9,7%	9,4%	11,6%	14,8%
Net Debt/Equity (Gearing)	3,0%	-13,0%	-8,3%	-20,2%	-37,1%
Net Debt/EBITDA	0,10	-0,34	-0,21	-0,41	-0,69
Interest cover EBIT	6,34	12,26	13,34	22,98	37,99
ROE	5,9%	11,3%	10,4%	15,7%	20,9%
ROCE	15,4%	23,5%	22,4%	37,7%	62,9%
Free Cash Flow Yield	-8,6%	9,1%	-2,2%	10,2%	20,6%

Growth Rates	2018A	2019A	2020E	2021E	2022E
Sales	76%	24%	12%	40%	30%
Revenues (VoP)	68%	17%	6%	36%	28%
EBITDA	129%	44%	17%	48%	38%
EBIT	1670%	58%	9%	72%	65%
Net Profit	516%	114%	3%	78%	68%



Source: Company data (Italian accounting principles) for FY 2018-2019 and IRTop Research estimates for FY 2020-2022

FY19 RESULTS

In FY19, Kolinpharma continued to grow, and recorded an increase in revenues (VdP) of +17% to Euro 10.5 m (Euro 9.0 m in FY18) largely outperforming the market which according to Federsalus recorded 2019 growth of +3.6%. More in detail, net sales came in at Euro 8.9 m, + 24% vs. FY18 (Euro 7.2 m), and driven mainly by a good performance along all product lines and in particular by Dolatrox, Milesax and Ivuxur (+50%, +34% and +25% respectively). The result was achieved despite a decrease in the MSI network that counted 58 units at the end of FY 19 vs. 73 as of the end of last year, implying a significant increase in efficiency thanks to a reorganization aiming at optimization of territorial coverage.

Eu m – ITA GAP	2019	2019 %	2018	2018 %	Var % 18-19
Milesax	2,6	29,4%	2,1	29,6%	25%
Ivuxur	1,6	18,0%	1,2	16,9%	34%
Dolatrox	1,7	18,6%	1,1	15,5%	50%
Xinepa Easy	1,8	20,3%	1,9	26,8%	-5%
Almetax Easy	0,9	9,7%	0,8	11,3%	9%
Miledix	0,4	4,0%	-	-	-
Total	8,9	100%	7,1	100,0%	25%

Source: IR Top elaboration on Company data

EBITDA adjusted for non-recurring items came in at Euro 2.3 m, +58% vs. FY 18 (Euro 1.4 Eu m) and overperformed our estimates by +15%, and with an EBITDA margin of 25%, up from 19% in FY2018 thanks to actions put in place by Management to improve operational efficiency and reduce consumption. Non-adjusted EBITDA was of Euro 2.0 m (20.1% of sales). With 2H19, the internalization of the entire MSI network, in order to increase loyalty, was concluded and resulted in an increase in personnel expenses (Euro 2.3 m vs. Euro 1.4 m in FY18), offset by lower agent commission fees. Net result increased by +115% to Euro 0.6 m (Euro 0.3 m in FY18).

Net cash stood at Euro 0.7 m, up from Euro 0.1 m in FY 18, thanks to good operating results and efficient management of working capital with a reduction in DSOs thanks to the use of non-recourse factoring, which more than offset the increase in inventory following a policy of planned purchase in order to limit the impact of expected increase in raw material costs in 2020.

OUTLOOK AND ESTIMATES

In the first months of FY20, the Company has continued to work on the product portfolio and launched two new products (Xinepa tablets and Almetax tablets), obtain its fourth patent for the US market Dolatrox) and its first in the Israelian market (Xinepa) and hence reaching 5 international patents in total. Management stated that given the uncertainty regarding the world-wide spread of the COVID-19 it is still difficult and premature to assess short-term potential effects on the Company's FY20 financials. However, for the time being the Company remains fully operational and Management confirmed the strategic guidelines based on continuous R&D and the widening of product offering with a particular focus on market niches with high growth rate.

In addition, we highlight that after a private transaction between majority shareholder and CEO Ritapaola Petrelli and institutional investors, free float increased significantly to 40.38% (27.57%).

Our general outlook for Kolinpharma remains positive as Management continues to work on the development of new products and as medical prescriptions, one of the key drivers for our estimates, continue to increase (+22% in FY 2019). Given the above, we believe that the Company can perform in line with the Industrial Plan presented in April last year with financial targets for FY21 (Euro 12-14 m of revenues and EBITDA margin between 24-26%). We however made a slight cut in our FY20 top-line growth assumption, now assuming a c. 12% growth rate (from c. +30%) whereas we increased the growth rate for FY21 as we expect demand to experience a steady recovery. Overall, we estimate a FY19-22 revenue and EPS CAGR of 27% and 46% respectively. We stress however that unpredictable temporal extension and geographical spread of the COVID-19 emergency could undermine the feasibility of our estimates.

ESTIMATE REVISION

Eu m		19A	20E Old	20E New	21E Old	21E New	22E New
Sales		8,9	11,2	10,0	14,5	14,0	18,2
	yoy	24%	30%	12%	30%	40%	30%
EBITDA		2,0	2,8	2,3	3,8	3,4	4,7
	margin	22%	26%	23%	26%	25%	26%
EBIT		0,9	1,3	0,9	1,9	1,6	2,7
	margin	10%	12%	9%	13%	12%	15%
Net Profit		0,6	0,9	0,6	1,3	1,1	1,8
	yoy	114%	73%	3%	41%	78%	68%
EPS		0,33	0,55	0,34	0,78	0,61	1,03

Eu m		19A	20E Old	20E New	21E Old	21E New	22E New
Net Working Capital (NWC)		0,8	2,4	1,7	3,2	2,5	3,5
Fixed net assets		3,9	3,9	3,9	3	3,1	2,2
Funds		(0,16)	(0,04)	(0,16)	(0,04)	(0,14)	(0,14)
Net Capital Employed		4,6	6,2	5,4	6,2	5,5	5,5
Net Debt (Cash)		(0,7)	0,1	(0,5)	(1,2)	(1,4)	(3,3)
Equity		5,2	6,1	5,9	7,4	6,9	8,8
Sources		4,6	6,2	5,4	6,2	5,5	5,5

VALUATION

We updated our model to factor in new estimates, up-to-date risk-free rate and ERP and market multiples and set a new target price of Euro 12.40 (Euro 12.33 p.s previously). providing an upside of 37.6% to the current share price and obtained by weighting equally a DCF and a multiple comparison analysis. At our target price Kolinpharma would be trading at 10.1x and 8.6x 2020 and 2021 EV/EBITDA respectively.

Method	Weight	Price (Eu)
Multiple analysis	50%	11.7
DCF	50%	13.1
Target Price	100%	12.40

Our valuation is on a non-diluted basis (not considering the stock option plan).

DETAILS PEER GROUP

	Country	Market Cap (Eu m)	2018 revenue (Eu m)	Yoy	2019E revenue (Eu m)	2018 EBITDA margin	2019E EBITDA margin
Balchem	USA	2,812	546	3%	605	24%	24%
Boiron SA	France	880	604	-2%	564	21%	17%
Enervit S.p.A.	Italy	62	61	11%	n.a.	8%	n.a.
Herbalife Ltd.	USA	6,890	4,146	6%	4,444	16%	15%
USANA Health Sciences, Inc.	USA	1,709	1,008	9%	952	17%	15%
AVERAGE		2,471	1,273	5%	1,642	17%	18%
KOLINPHARMA	Italy	15	7	+76%	8.6	19.3%	22.9%

	EV/EBITDA (x)		P/E (x)	
	20E	21E	20E	21E
Balchem	19,9	n.a.	33,1	n.a.
Boiron SA	5,2	5,0	14,5	13,8
Enervit S.p.A.	7,8	n.a.	n.a.	n.a.
Herbalife Ltd.	10,1	9,7	14,3	11,6
USANA Health Sciences, Inc.	7,5	n.a.	13,9	n.a.
AVERAGE	10,1	7	18,9	12,7
Kolinpharma	5.7	4.1	13.0	11.0
Discount/Premium to peers	-43%	-41%	-31%	-13%

Source: Osservatorio AIM Italia for AIM peers, FactSet data as of October 21th, 2019 for Small & Mid Cap peers, IR Top Research estimates for KOLINPHARMA

	Country	Market Cap (Eu m)	2018 revenue (Eu m)	Yoy	2019E revenue (Eu m)	2018 EBITDA margin	2019E EBITDA margin
BioDue	Italy	56	41	15%	44	17%	19%
Fine Foods NTM	Italy	187	139	10%	152	13%	13%
Pharmanutra	Italy	167	47	24%	53	25%	14%
Shedir Pharma Group	Italy	84	47	17%	55	23%	24%
Friulchem	Italy	14	16	1%	17	11%	10%
AVERAGE		101	58	13%	64	18%	16%
KOLINPHARMA	Italy	15	7	+76%	8.6	19.3%	22.9%

	EV/EBITDA (x)		P/E (x)	
	20E	21E	20E	21E
BioDue	7,5	6,2	13,0	10,7
Fine Foods NTM	5,0	4,2	20,0	14,6
Pharmanutra	13,2	11,3	20,2	17,2
Shedir Pharma Group	4,8	3,6	9,1	7,8
Friulchem	5,4	3,4	11,2	6,8
MEDIAN	5,4	4,2	13,0	10,7
Kolinpharma	5.7	4.1	13.0	11.0
Discount/Premium to peers	-24%	-36%	-17%	-13%

KOLINPHARMA ON AIM ITALIA
IPO

Trading Market: AIM Italia – Borsa Italiana SpA

 Date: March 9th, 2018

Price: 7.00 Eu

Capital raised: 3.1 Eu m equity through a capital increase with private placement

Capitalisation: 10.2 Eu m

SHARES (as of April 26th 2020)

Code: KIP

Bloomberg: KIP IM

Reuters: KIP.MI

ISIN ordinary shares: IT0005322950

ISIN PAS: IT0005322968

Shares: 1,639,571

Price: 9.01 Eu

Performance from IPO: +34%

Capitalisation: Euro 13 m

Free Float: 40.38%

NomAd: EnVent Capital Markets Ltd

Specialist: BANCA AKROS- Gruppo Banco BPM

STOCK OPTION

In May 2019 the shareholders' meeting approved a 2019-2021 Stock Option Plan to incentivize key employees, and on the relevant capital increase for a maximum of 138.462 shares without option rights (conversion rate 1:1).

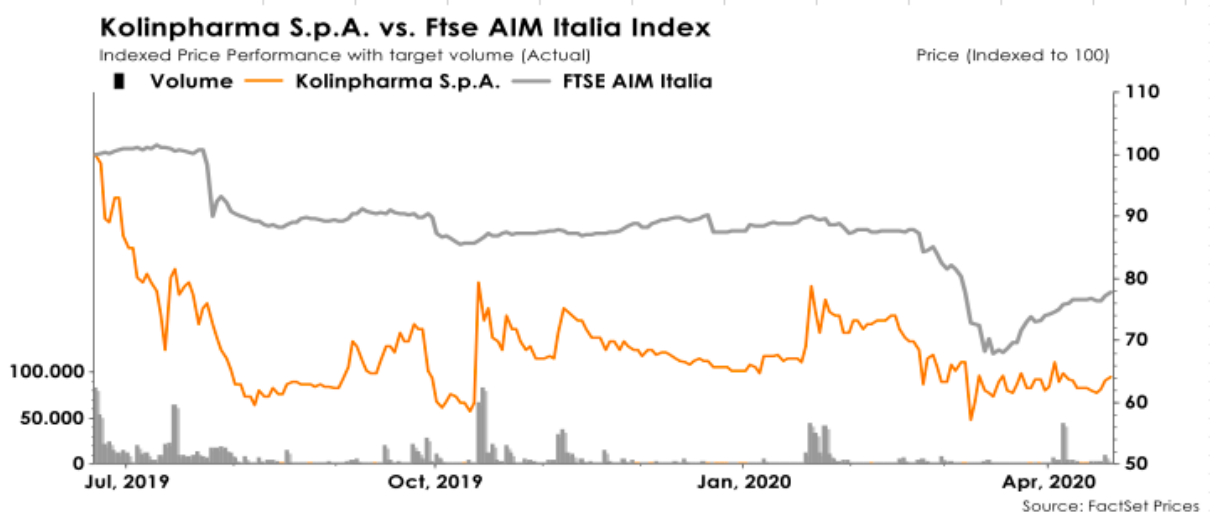
OWNERSHIP

Since our last report (October 22nd, 2019) the Company announced:

- February 2020: increase of majority shareholder Rita Paola Petrelli's share in the Company after the acquisition, in a private transaction, of the entire stake (19.21%) from former CEO, Emanuele Lusenti. Mr Lusenti has not been operative in the Company since the beginning of 2019.
- April 2020: the sale, in a private transaction, by Rita Paola Petrelli of a 12.20% stake to institutional investors. With the transaction free-float increased significantly to 40.38%.

Shareholder	N° of shares	%
Rita Paola Petrelli	977.571	59.62%
Market	662.000	40.38%
Total	1,639,571	100.00%

Source: Company Data



DISCLAIMER

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During the last 12 months, the following indications have been disseminated:

Date	Target Price	Market Price	Validity Time
April 27 th , 2020	12.40	9.01	12 months
October 22 nd , 2019	12.33	10.0	12 months
April 16 th 2019	9.37	6.40	12 months
October 15 th 2018	8.92	6.50	12 months
April 4 th 2018	8.67	6.94	12 months

VALUATION METHODOLOGY (HORIZON: 12M): IR Top obtained a fair value using different valuation methodologies including Discounted Cash Flow method and Multiple-based models. Moreover, IR Top used a proprietary model, "AIM Positioning rating", which incorporates a number of variables selected by IR Top based on research of "Osservatorio AIM Italia", managed by IR Top and focused on research about performance of Companies listed on AIM Italia.

Detailed information about the valuation or methodology and the underlying assumptions and information about the proprietary model used is accessible at IR Top premises.

RESEARCH TEAM

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