



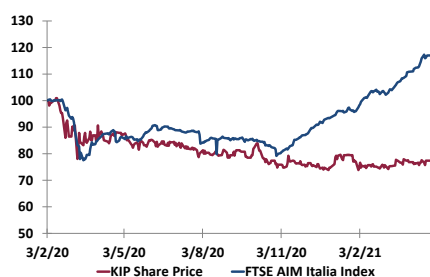
KOLINPHARMA®  
LEADER TO HEALTH

## OUTPERFORM

Current Share Price (€): 8.20

Target Price (€): 11.42

### Kolinpharma – 15M Performance



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

### Company data

ISIN number	IT0005322950
Bloomberg code	KIP IM
Reuters code	KIP.MI
Industry	Healthcare
Stock market	AIM Italia
Share Price (€)	8.20
Date of Price	28/04/2021
Shares Outstanding (m)	1.6
Market Cap (€m)	13.4
Market Float (%)	40.4%
Daily Volume	400
Avg Daily Volume YTD	2,135
Target Price (€)	11.42
Upside (%)	39%
Recommendation	OUTPERFORM

### Share price performance

	1M	3M	1Y
Kolinpharma - Absolute (%)	0%	0%	-12%
FTSE AIM Italia (%)	8%	22%	37%
1Y Range H/L (€)	9.40	7.90	
YTD Change (€)/%	0.26	3%	

Source: S&P Capital IQ

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## Catching up previous growth path, reassuring outlook

### FY20: 7% sales decrease, EBITDA margin increasing at 23%, MSRs increased productivity, TWC evolution impacting cash flow

Kolinpharma (KIP), listed on AIM Italia in 2018, has recorded a -7.4% YoY sales decrease in FY2020, though 5Y revenues CAGR remains huge (+46%). Total number of Medical Sale Representatives (MSRs) are 51 at year end (58 at year end 2019), with an increase of per capita revenues. FY2020 EBITDA and EBIT margin increased with respect to previous year (22.6% vs 21.9% and 11.8% vs 9.5% respectively). FY2020 net income is €0.6m, the same as for FY2019. A slowdown in trade receivables cash in impacted cash flows, with KIP ending 2020 with €1.4m net debt (€0.7 net cash in FY2019).

### Continued progress on R&D and product portfolio

KIP launched Dolatrox® hcc, its first medical device supporting orthopedic therapy (a pre-filled syringe made with hyaluronic acid, chondroitin sulfate and cyclodextrin) at beginning of 2021. The Company received Italian patent for Miledix® (the nutritional supplement that helps women alleviate menstrual cycle disorders). New 46 MSRs joined KIP in the first months of 2021.

### Outlook: 2021-2022E revenues and EBITDA estimates confirmed

FY2020 revenues exceeded our last projections. In the first two months of 2021, total prescriptions increased +3.8% in volume (86.391 vs. 83.262 for the same months in 2020, which were not affected by Covid-19 restrictions) and +6.2% in value. We confirm our 2021-22E revenues and EBITDA figures and take account of extra amortization due to brand revaluation, new loans facilities and TWC adjustment to revise other P&L, BS and Cash Flow figures projections.

### Target Price €11.42 per share (from €11.39), OUTPERFORM confirmed

Our updated projections drive a valuation of €11.42 per share (€11.39 in our prior note), implying a 39% upside potential on KIP stock. As such, we confirm the OUTPERFORM rating on the stock. We note that KIP is currently trading on a 2020 EV/Revenues of 1.7x vs. a sector average of 2.1x.

### Key financials and estimates

€m	2017A	2018A	2019A	2020A	2021E	2022E
Revenues	4.1	7.3	9.1	8.4	11.2	14.6
YoY %	60%	78%	24%	-7%	33%	30%
EBITDA	0.6	1.4	2.3	1.9	2.5	3.5
Margin	15%	20%	25%	23%	23%	24%
EBIT	0.0	0.5	0.9	1.0	1.2	1.8
Margin	1%	8%	10%	12%	11%	12%
Net Income (Loss)	(0.1)	0.3	0.6	0.6	0.7	1.1
Net (Debt) Cash	(2.5)	(0.1)	0.7	(1.4)	(1.3)	0.7
Equity	1.2	4.7	5.2	7.6	8.3	9.4

Source: Company data 2018-20A, EnVent Research 2021-22E

### Key ratios

	2017A	2018A	2019A	2020A	2021E	2022E
MSR per-capita revenues (€k)	70	98	154	161	158	182
TWC/Revenues	19%	17%	18%	50%	48%	38%
Net Debt / EBITDA	4.2x	0.1x	cash	0.8x	0.5x	cash
Cash flow from P&L operations / EBITDA	100%	90%	93%	91%	97%	96%
Earnings per Share (€)	n.m.	0.19	0.36	0.39	0.43	0.69

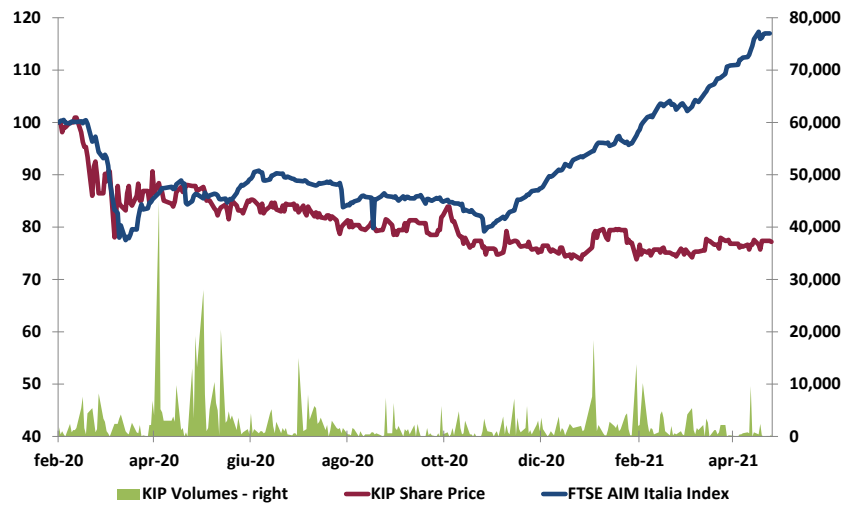
Source: Company data 2018-20A, EnVent Research 2021-22E

## Market update: 23.4% drop vs AIM Italia index overperforming

KIP's shares in the last 15 months traded in the range €7.9-10.80, with beginning price at €10.70 and ending at €8.20, with a -23.4% drop during pandemic

Along the same period AIM Italia Index after a drop until November 2020 of -20%, had an overperformance of +38%

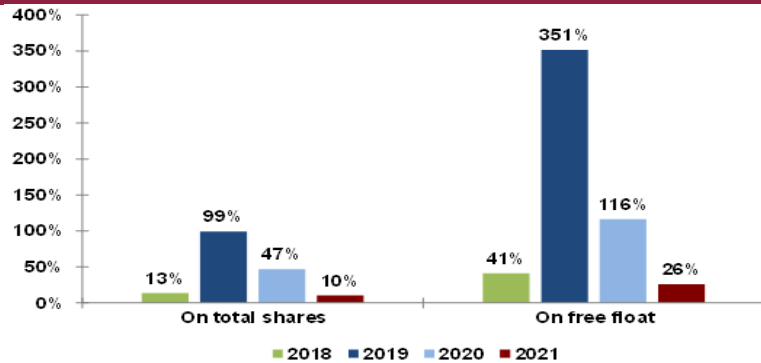
### KIP – 15M Share price performance and trading volumes



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

2020 traded volumes decreasing vs 2019

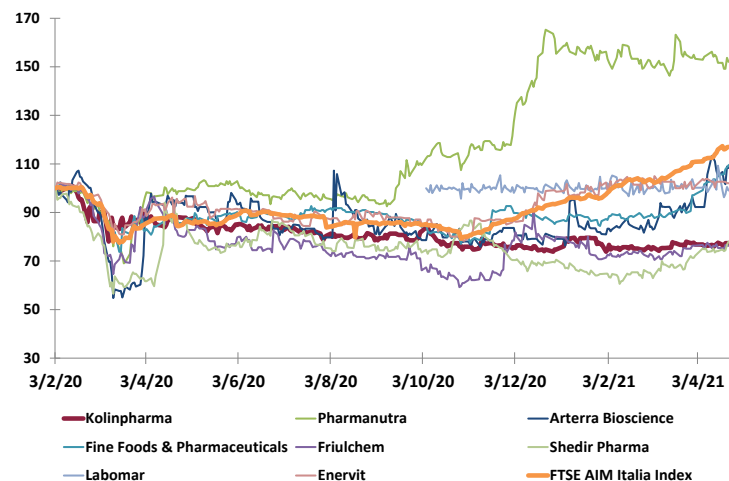
### KIP - Liquidity analysis and velocity turnover



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

Comparison with peers, Pharmanutra overperformed

### KIP vs Italian listed peers – 15M Market performance

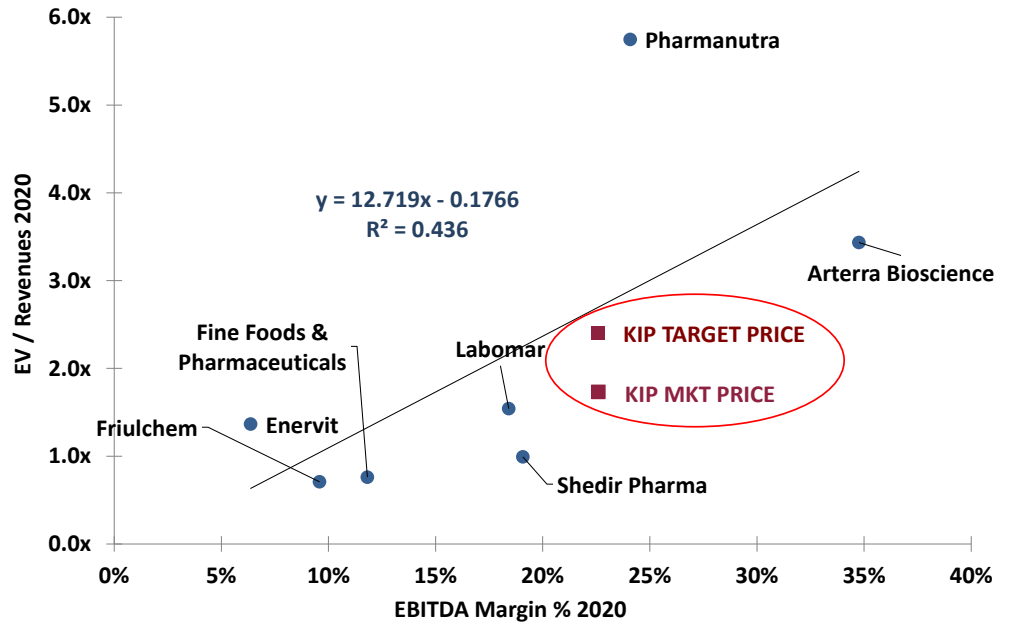


Source: EnVent Research on S&P Capital IQ - Note: 03/02/2020=100

**Pharma and nutraceutical Italian listed peers- Regression analysis and KIP target positioning**

Fair correlation, consistency of multiples

KIP more comparable to peers regression line with our Target Price rather than with market price



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

**FY20: 7% sales decrease, EBITDA margin at 23%, unchanged, MSRs increased productivity, TWC evolution impacting cash flow**

5Y Revenues CAGR 46%

Reduced number of MSRs, increased productivity

2020 revenues reached 8.4m, -7.4% YoY. Medical Sales Representatives (MSRs) as of year-end were 51 (58 at 2019 year end), with average €161k revenue per capita (+4.6% YoY). Mix of personnel and other operating costs changed as a consequence of changing MSRs profile from representatives to employees. EBITDA in 2020 was €1.9m, with margin at 23%, from 22% in FY19. EBIT in 2020 was €1.0m (vs. €0.9m in FY19). Net income was €0.6m, stable with respect to previous year.

TWC increased 150% YoY, from €1.7m to €4.2m, mainly for a deceleration in cashing in part of trade receivables. KIP ended the year with €1.4m net debt (€0.7m net cash in FY19).

Equity as of December 2020 was €7.6m, with an increase of €2.4 which is explained for €1.7 with a new equity reserve originated by brand revaluation allowed by law and affecting Intangibles at year end.

**Business update**

Launch of a medical device, new Italian patent, entry of new 46 MSRs, expected on-line sale for KIP®KIT, two new certifications

- Dolatrox® hcc, KIP first medical device supporting orthopedic therapy (a pre-filled syringe made with hyaluronic acid, chondroitin sulfate and cyclodextrin), was launched at beginning 2021. KIP acts as distributor
- 46 new MSRs joined KIP between January and March 2021

- KIP®KIT, the kit containing a new food supplement previously distributed by pharmacy channel is now sold also on-line
- First Italian patent for Miledix® at year end 2020
- New certifications:
  - UNI EN ISO 26000:2010 on corporate social responsibility
  - UNI ISO 45001:2018, on health and safety at work

Bank facilities agreed along 2020 and 2021Q1 are aimed at new products development and at MSR's increase. KIP has recently published its second sustainability report.

## **Outlook: returning on Mid/Long run growth trend**

In spite of Covid-19 effects, which clearly determined less MSR's-family doctors interactions, and the slight decrease of MSR's total number, KIP was able to limit sales reduction along 2020.

The Company thinks to be ready to face the environment determined by Covid-19, should pandemic restrictions and constraints continue also in the next months. New MSR's were hired at the beginning of 2021. Vaccination activity, started for KIP's MSR's, will support KIP return to full operations. Increase of productivity (in terms of prescriptions per MSR) remains a strategic goal for the medium run.

In the first two months of 2021, total prescriptions increased +3.8% in volume (86.391 vs. 83.262 for the same months in 2020, which were not affected by Covid-19 restrictions) and +6.2% in value.

For 2021QII, two new nutraceutical supplements should be launched.

Along with KIP®KIT, all other KIP products are going to be sold also on line as soon as e-commerce platform will be completed.

A change in compliance requirements delayed the launch of a gynecological medical device.

In the next shareholders meeting, KIP Board of Directors will ask to be authorized to purchase company's own shares.

## **Estimates revision**

FY20 revenues and operating profits exceeded our last estimates, while the slowdown of trade receivables cash in explains the net debt amount at 2020 year end, different from our moderate net cash estimate.

**Our estimates:**

**Mid and long-term outlook  
overall confirmed**

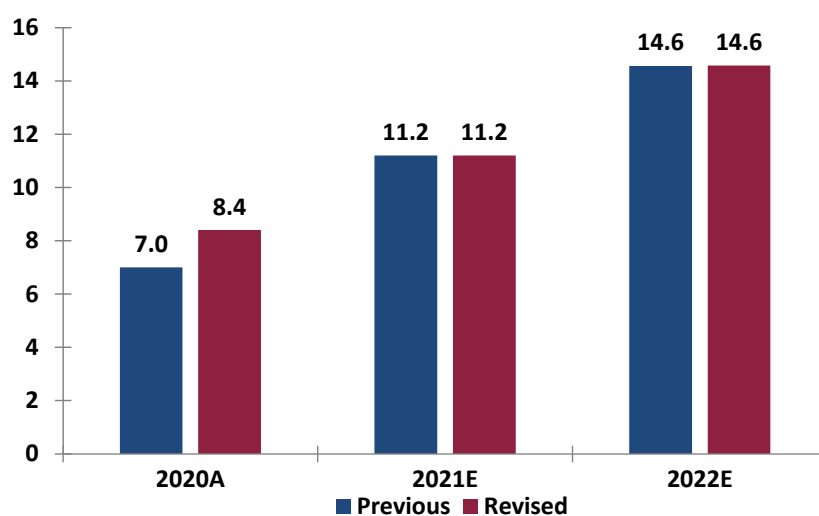
Given that, we confirm of our revenue and EBITDA projections along 2021-22E.

The 2020 brand revaluation will generate extra amortization, which along with other accounting updates will be factored in our model to adjust our projections.

We expect TPO and TSO slowly adjusting to pre-Covid figures, with impact on TWC and consequent net debt evolution, with KIP returning cash positive in 2022.

**Change in estimates**

**Revenues (€m) - Previous vs. Revised estimates**



Source: EnVent Research

**Change in Estimates**

€m	Revised			Previous			Change %		
	2020A	2021E	2022E	2020E	2021E	2022E	2020A	2021E	2022E
<b>Revenues</b>	8.4	11.2	14.6	7.0	11.2	14.6	20%	0%	0%
<b>EBITDA</b>	1.9	2.5	3.5	0.8	2.5	3.5	136%	0%	0%
<i>Margin</i>	23%	23%	24%	12%	23%	24%			
<b>EBIT</b>	1.0	1.2	1.8	(0.3)	1.3	2.0	n.m.	-8%	-12%
<i>Margin</i>	12%	11%	12%	-4%	12%	14%			
<b>Net Income</b>	0.6	0.7	1.1	(0.3)	0.9	1.4	n.m.	-18%	-19%
<b>Net (Debt) Cash</b>	(1.4)	(1.3)	0.7	0.2	1.0	2.1			
<i>Net Debt / EBITDA</i>	0.8x	0.5x	n.m.	n.m.	n.m.	n.m.			

Source: EnVent Research

Source: EnVent Research

## Financial projections

### Profit and Loss

€m	2017A	2018A	2019A	2020A	2021E	2022E
Sales	4.1	7.2	8.9	8.2	11.2	14.6
Other revenues	0.0	0.1	0.2	0.2	0.0	0.0
<b>Revenues</b>	<b>4.1</b>	<b>7.3</b>	<b>9.1</b>	<b>8.4</b>	<b>11.2</b>	<b>14.6</b>
YoY %	60.4%	78.2%	24.3%	-7.4%	33.3%	30.1%
Operating costs	(2.8)	(4.6)	(4.8)	(4.0)	(4.7)	(5.4)
Personnel	(0.7)	(1.4)	(2.3)	(2.5)	(4.0)	(5.7)
<b>EBITDA</b>	<b>0.6</b>	<b>1.4</b>	<b>2.0</b>	<b>1.9</b>	<b>2.5</b>	<b>3.5</b>
Margin	14.5%	18.9%	21.9%	22.6%	22.7%	23.8%
D&A	(0.6)	(0.8)	(1.1)	(0.9)	(1.3)	(1.7)
<b>EBIT</b>	<b>0.03</b>	<b>0.5</b>	<b>0.9</b>	<b>1.0</b>	<b>1.2</b>	<b>1.8</b>
Margin	0.8%	7.5%	9.5%	11.8%	10.7%	12.3%
Interest	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
<b>EBT</b>	<b>(0.0)</b>	<b>0.5</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>	<b>1.6</b>
Margin	-1.1%	6.3%	8.8%	10.5%	8.9%	10.9%
Income taxes	(0.0)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)
<b>Net Income (Loss)</b>	<b>(0.1)</b>	<b>0.3</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>1.1</b>
Margin	-1.6%	3.8%	6.5%	7.6%	6.3%	7.8%

Source: Company data 2017-20A, EnVent Research 2021-22E

### Balance Sheet

€m	2017A	2018A	2019A	2020A	2021E	2022E
Inventory	0.4	0.4	0.9	0.8	1.1	1.4
Trade receivables	2.1	2.6	3.1	5.3	5.7	5.7
Trade payables	(1.7)	(1.8)	(2.3)	(1.9)	(1.4)	(1.6)
Trade Working Capital	0.8	1.2	1.7	4.2	5.4	5.5
Other assets (liabilities)	(0.1)	(0.4)	(0.8)	(0.8)	(0.8)	(0.8)
<b>Net Working Capital</b>	<b>0.6</b>	<b>0.8</b>	<b>0.8</b>	<b>3.4</b>	<b>4.6</b>	<b>4.7</b>
Intangible assets	3.1	4.0	3.8	5.8	5.4	4.8
<b>Non-current assets</b>	<b>3.1</b>	<b>4.0</b>	<b>3.9</b>	<b>5.8</b>	<b>5.5</b>	<b>4.8</b>
<b>Provisions</b>	<b>(0.0)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.4)</b>	<b>(0.7)</b>
<b>Net Invested Capital</b>	<b>3.7</b>	<b>4.8</b>	<b>4.6</b>	<b>9.0</b>	<b>9.6</b>	<b>8.8</b>
<b>Net Debt (Cash)</b>	<b>2.5</b>	<b>0.1</b>	<b>(0.7)</b>	<b>1.4</b>	<b>1.3</b>	<b>(0.7)</b>
<b>Equity</b>	<b>1.2</b>	<b>4.7</b>	<b>5.2</b>	<b>7.6</b>	<b>8.3</b>	<b>9.4</b>
<b>Sources</b>	<b>3.7</b>	<b>4.8</b>	<b>4.6</b>	<b>9.0</b>	<b>9.6</b>	<b>8.8</b>

Source: Company data 2017-20A, EnVent Research 2021-22E

### Cash Flow

€m	2017A	2018A	2019A	2020A	2021E	2022E
<b>EBIT</b>	<b>0.0</b>	<b>0.5</b>	<b>0.9</b>	<b>1.0</b>	<b>1.2</b>	<b>1.8</b>
Current taxes	(0.0)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)
D&A	0.6	0.8	1.1	0.9	1.3	1.7
Provisions	0.0	0.0	0.1	0.1	0.2	0.3
<b>Cash flow from P&amp;L operations</b>	<b>0.6</b>	<b>1.2</b>	<b>1.8</b>	<b>1.7</b>	<b>2.5</b>	<b>3.3</b>
Trade Working Capital	(0.5)	(0.4)	(0.4)	(2.5)	(1.2)	(0.1)
Other assets and liabilities	0.2	0.2	0.4	(0.0)	0.0	0.0
Capex (cash out portion)	(1.2)	(1.7)	(0.9)	(1.2)	(1.0)	(1.0)
<b>Operating cash flow after working capital and capex</b>	<b>(0.9)</b>	<b>(0.7)</b>	<b>0.9</b>	<b>(2.0)</b>	<b>0.3</b>	<b>2.2</b>
Interest	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Paid-in capital	1.2	0.0	0.0	0.0	0.0	0.0
IPO proceeds	0.0	3.1	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>0.2</b>	<b>2.4</b>	<b>0.8</b>	<b>(2.1)</b>	<b>0.1</b>	<b>2.0</b>
Net (Debt) Cash - Beginning	(2.7)	(2.5)	(0.1)	0.7	(1.4)	(1.3)
Net (Debt) Cash - End	(2.5)	(0.1)	0.7	(1.4)	(1.3)	0.7
<b>Change in Net (Debt) Cash</b>	<b>0.2</b>	<b>2.4</b>	<b>0.8</b>	<b>(2.1)</b>	<b>0.1</b>	<b>2.0</b>

Source: Company data 2017-20A, EnVent Research 2021-22E

## Ratio analysis

KPIs	2017A	2018A	2019A	2020A	2021E	2022E
MSRs	58	73	58	51	71	80
MSR per-capita revenues (€k)	70	98	154	161	158	182
ROE	neg.	6%	11%	8%	8%	12%
ROS (EBIT/Revenues)	1%	8%	10%	12%	11%	12%
ROIC (NOPAT/Invested Capital)	0%	8%	15%	8%	9%	15%
DSO	175	122	115	216	170	130
DPO	182	118	146	141	90	90
DOI	33	19	36	34	35	35
TWC/Revenues	19%	17%	18%	50%	48%	38%
NWC/Revenues	16%	11%	9%	41%	41%	32%
Net Debt / EBITDA	4.2x	0.1x	cash	0.8x	0.5x	cash
Net Debt / Equity	1.7x	0.0x	cash	0.2x	0.2x	cash
Net Debt / (Net Debt+Equity)	0.7x	0.0x	cash	0.2x	0.1x	cash
Cash flow from P&L operations / EBITDA	100%	90%	93%	91%	97%	96%
FCF / EBITDA	neg.	neg.	45%	neg.	12%	64%
Earnings per Share (€)	n.m.	0.19	0.36	0.39	0.43	0.69

Source: Company data 2017-20A, EnVent Research 2021-22E

## Valuation

### Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.5% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, March 31<sup>st</sup> 2021)
- Market return: 12.7% (3Y average. Source: Bloomberg, March 31<sup>st</sup> 2021)
- Market risk premium: 11.1%
- Beta: 0.9
- Cost of equity: 11.6%
- Cost of debt: 4%
- Tax rate: 24% (IRES)
- 30% debt/(debt + equity) as a sustainable target capital structure
- WACC 9%
- Perpetual growth rate after explicit projections: 2%
- Terminal Value assumes a 15% EBIT margin (2022E mean from the listed peers)

**DCF Valuation**

€m	2017A	2018A	2019A	2020A	2021E	2022E	Perpetuity	
<b>Revenues</b>	<b>4.1</b>	<b>7.3</b>	<b>9.1</b>	<b>8.4</b>	<b>11.2</b>	<b>14.6</b>	<b>14.9</b>	
<b>EBITDA</b>	<b>0.6</b>	<b>1.4</b>	<b>2.0</b>	<b>1.9</b>	<b>2.5</b>	<b>3.5</b>	<b>3.0</b>	
<i>Margin</i>	14.5%	18.9%	21.9%	22.6%	22.7%	23.8%	20.0%	
<b>EBIT</b>	<b>0.0</b>	<b>0.5</b>	<b>0.9</b>	<b>1.0</b>	<b>1.2</b>	<b>1.8</b>	<b>2.2</b>	
<i>Margin</i>	0.8%	7.5%	9.5%	11.8%	10.7%	12.3%	15.0%	
Taxes	(0.0)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)	(0.6)	
<b>NOPAT</b>	<b>0.0</b>	<b>0.4</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>1.3</b>	<b>1.6</b>	
D&A	0.6	0.8	1.1	0.9	1.3	1.7	0.7	
Provisions	0.0	0.0	0.1	0.1	0.2	0.3	0.0	
<b>Cash flow from P&amp;L operations</b>	<b>0.6</b>	<b>1.2</b>	<b>1.8</b>	<b>1.7</b>	<b>2.5</b>	<b>3.3</b>	<b>2.4</b>	
Trade Working Capital	(0.5)	(0.4)	(0.4)	(2.5)	(1.2)	(0.1)	(0.1)	
Other assets and liabilities	0.2	0.2	0.4	(0.0)	0.0	0.0	0.0	
Capex	(1.2)	(1.7)	(0.9)	(1.2)	(1.0)	(1.0)	(0.7)	
<b>Unlevered free cash flow</b>	<b>(0.9)</b>	<b>(0.7)</b>	<b>0.9</b>	<b>(2.0)</b>	<b>0.3</b>	<b>2.2</b>	<b>1.5</b>	
WACC	9.00%							
Long-term growth (G)	2.00%							
<b>Discounted Cash Flows</b>					<b>0.3</b>	<b>1.9</b>		
Sum of Discounted Cash Flows	2.1							
<b>Terminal Value</b>							<b>21.4</b>	
Discounted TV	18.0							
<b>Enterprise Value</b>	<b>20.2</b>							
Net Debt as of 31/12/20	(1.4)							
<b>Equity Value</b>	<b>18.7</b>							

<b>DCF - Implied multiples</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>
EV/Revenues	2.4x	1.8x	1.4x
EV/EBITDA	10.6x	7.9x	5.8x
EV/EBIT	20.3x	16.8x	11.3x
P/E	29.2x	26.4x	16.5x

Source: EnVent Research

## Target Price

The updated valuation model yields a Target Price of €11.42 per share (from €11.39 in our previous note), with a potential upside of 39% on the current share price. We confirm our OUTPERFORM recommendation on KIP stock.

<b>Kolinpharma Price per Share</b>	<b>€</b>
<b>Target Price</b>	<b>11.42</b>
Current Share Price (28/04/2021)	8.20
<b>Premium (Discount)</b>	<b>39%</b>

Source: EnVent Research

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



## Annex: Peer Group - Market Multiples

Company	EV/REVENUES			EV/EBITDA			EV/EBIT			P/E		
	2020	2021E	2022E	2020	2021E	2022E	2020	2021E	2022E	2020	2021E	2022E
<b>Kolinpharma</b>	<b>1.7x</b>			<b>7.7x</b>			<b>14.7x</b>			<b>20.4x</b>		
Pharmanutra	5.7x	4.9x	4.8x	23.9x	19.7x	18.6x	24.9x	21.2x	21.9x	37.0x	32.1x	28.7x
Fine Foods & Pharmaceuticals	0.8x	0.9x	0.8x	6.4x	6.2x	5.3x	12.8x	11.4x	9.3x	14.1x	19.8x	15.8x
Friulchem	0.7x	0.6x	na	7.4x	4.7x	na	19.7x	7.5x	na	20.8x	8.9x	na
Shedir Pharma	1.0x	1.1x	0.9x	5.2x	5.8x	4.4x	9.7x	8.0x	5.9x	11.1x	12.2x	8.7x
Arterra Bioscience	3.4x	5.0x	4.6x	9.9x	13.2x	11.7x	16.7x	15.4x	13.4x	16.9x	21.0x	19.5x
Labomar	1.5x	2.0x	1.8x	8.4x	9.9x	8.6x	11.4x	14.6x	13.0x	15.6x	20.2x	18.0x
Enervit	1.4x	1.3x	1.2x	21.4x	24.5x	13.6x	neg	neg	46.6x	neg	neg	84.1x
USANA Health Sciences	1.2x	1.4x	1.3x	7.0x	8.5x	8.2x	8.0x	9.3x	9.0x	13.0x	15.5x	15.2x
Herbalife	1.3x	1.2x	1.1x	10.1x	8.2x	7.8x	10.0x	9.3x	8.9x	15.7x	11.0x	10.5x
Balchem	5.4x	5.5x	5.2x	23.3x	22.3x	20.9x	34.5x	32.8x	29.4x	44.0x	34.4x	31.3x
Boiron	1.0x	1.0x	1.0x	5.3x	6.5x	5.0x	21.3x	13.7x	7.6x	64.2x	39.0x	20.5x
Laboratorio Reig Jofre	1.6x	na	na	18.8x	na	na	39.9x	na	na	59.1x	na	na
<b>Mean</b>	<b>2.1x</b>	<b>2.3x</b>	<b>2.3x</b>	<b>12.2x</b>	<b>11.7x</b>	<b>10.4x</b>	<b>19.0x</b>	<b>14.3x</b>	<b>16.5x</b>	<b>28.3x</b>	<b>21.4x</b>	<b>25.2x</b>
<b>Mean w/out extremes</b>	<b>1.9x</b>	<b>2.1x</b>	<b>2.1x</b>	<b>11.8x</b>	<b>11.1x</b>	<b>9.8x</b>	<b>17.9x</b>	<b>12.9x</b>	<b>14.1x</b>	<b>26.2x</b>	<b>20.8x</b>	<b>20.0x</b>
<b>Median</b>	<b>1.4x</b>	<b>1.3x</b>	<b>1.2x</b>	<b>9.1x</b>	<b>8.5x</b>	<b>8.4x</b>	<b>16.7x</b>	<b>12.5x</b>	<b>11.1x</b>	<b>16.9x</b>	<b>20.0x</b>	<b>18.8x</b>

Note1: Mean and Median figures do not take account of negative and not meaningful figures

Note2: Mean and Median figures do not take account of KIP figures

Source: S&P Capital IQ, update 26/04/2021

## Investment case

### Company

Kolinpharma SpA (KIP), listed on AIM Italia in March 2018, is an Italian company which develops, produces and markets nutraceutical products, all made of natural ingredients, with the purpose of helping to prevent or cure diseases.

### Drivers

#### Global and domestic industry drivers

**Nutraceuticals continue to gain ground.** The global nutraceutical industry has so far experienced exceptional growth rates. Growth of the nutraceutical market is driven by an aging population, rise in disposable income, increasing healthcare awareness, and higher occurrence of allergies/intolerance. Nutraceuticals are expected to play a central role in prevention, especially by mitigating the effect of lifestyle-related diseases in aging population. Consumers share the perception that the onset of many chronic diseases can be prevented with intake of proper nutritious supplements.

**Ageing/healthy ageing.** The life expectancy increase is and will continue to boost demand for medical treatments, health care services and nutritional products.

**Global middle class population growth.** The observed and still expected global growth of middle class population will increase demand for all goods and services associated with a healthier lifestyle.

**Increasing opportunity to divert spending from medical services to nutrition and wellness.** As a consequence of both policy-making and shifting of consumers' lifestyle choices, there is a consensus of an increasing switch from medical services to nutrition and wellness expenditure.

**Pharmacies decreasing price/margins for traditional medical prescriptions.** In Italy, as well as in other countries in the western world, nutraceuticals represent a suitable alternative to traditional prescription drugs which deliver gradually decreasing margins for pharmacies.

#### Company drivers

**A product portfolio marketable to the medical profession.** Quality and Innovation are a *must have* to enter a crowded market and gain market share. Differently from most competitors, KIP was established with a mission to operate in the nutraceutical market functioning as a pharma company, rather than a simple nutritional supplements player.

Nutraceutical products are perceived as "lighter" and more natural with respect to drugs. Advertising can be effective, but physicians play a crucial role with their recommendation to

patients. An exhaustive explanation of the effects of nutraceuticals by a physician is seen as a crucial factor in order to generate customer/patient retention (Source: IQVIA Italy S.r.l., 2017).

**Quality recognized by physicians.** KIP has established agreements with the University of Pavia, Rome University La Sapienza and University of Milan. The Company currently owns Italian and foreign patents, others are pending, all products are certified Kosher, Halal and Play Sure Doping-Free. The fast growth experienced in the first four years of the Company's life proves its appreciation by the medical profession, which is a key source of sales.

**A skilled and valuable affiliated salesforce.** The presence of skilled and successful Medical Sales Representatives (MSR) is a key driver to be successful in the industry. In order to operate with first class professionals and to affiliate them, KIP, for its exclusive salesforce, only seeks graduated MSRs. The fast growth of prescriptions per MSR reflects the quality of their communication.

**Certifications are a distinctive factor.** KIP is an ISO 9001 (Quality Management), ISO 22000 (Food Safety Management) and UNI ISO 37001 (Anti-bribery management systems) certified company and is pending to be ISO 13485 (Medical Devices) certified. Moreover, KIP's products have the following certifications and endorsements: Italy Kosher Union, Dairy-Free, Lactose-Free, Halal, Play Sure Doping-Free, UCI, ECS. All KIP's product packaging can be also read in Braille.

**Management experience.** Management's industry experience was gained in large pharmaceutical companies and the organization was modeled according to pharma companies best practices.

## Challenges

**Low barriers to entry and pricing trends.** The nutraceutical industry has relatively low barriers to entry. New competitors can enter the marketplace without significant obstacles. Since purchase decisions are normally addressed by physicians and pharmacies, new large competitors might offer underpriced specialties in order to capture market share or as a strategic decision, affecting the industry's margins as a whole.

**Pharma giants entering the competitive arena.** Should nutraceuticals confirm their growth rate observed in the past years, more and more pharmaceutical companies will invest in this industry, capitalizing on the average small size of its operators. Increasingly intense rivalry coupled with attractive profit margins might bring to a wave of market consolidation. Consequently, it will become crucial for well-established players to act quickly in acquiring additional portfolios for their product range. Large promotion and advertising budgets, unaffordable by smaller companies, will follow suit. Pharma companies could then easily gain market share by squeezing existing players out.

**Regulatory changes.** More limitations or a tightening of laws regulating the nutraceutical industry could require unexpected investment and other expenses on behalf of current operators which could even end-up altering the competitive arena.

**Supply chain.** Along the supply chain, KIP presently has a limited number of suppliers. The inherent risk is progressively mitigated by the addition of suppliers concurrently with size increase.

**Agreements among drugstores.** Pharmacies cooperate in order to increase their bargaining power towards wholesalers to face lower prices (which, in turn, could decrease the final price indicated by nutraceutical companies towards wholesalers).

**Pharmacies moral suasion towards end-users.** Pharmacies may sway end-users' decisions in towards products which guarantee better margins.

**Salesforce retention.** KIP relies on its network of MSRs, who play a key role in driving sales and profitability. KIP's capability to attract and retain salespeople who can create a value-added relationship with physicians is critical. As such, after recruiting the best competencies on the market, the Company faces the challenge of motivating and rewarding the sales team. In addition, the industry's continuous growth could raise the cost of retaining top performing Medical Sales Representatives.

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Date	Recommendation	Target Price (€)	Share Price (€)
18/04/2018	OUTPERFORM	8.54	7.05
08/10/2018	OUTPERFORM	8.33	6.95
15/04/2019	OUTPERFORM	8.73	6.60
21/10/2019	OUTPERFORM	13.61	10.00
30/04/2020	OUTPERFORM	13.69	9.30
16/10/2020	OUTPERFORM	11.32	8.34
28/04/2021	OUTPERFORM	11.42	8.20

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