

FY 2018 RESULTS

KOLINPHARMA released a strong set of FY 2018 with sales of 7.2 Eu m, up by 76% vs. 4.1 Eu m in FY 2017, and +7% vs. our estimates.

EBITDA came in at 1.4 Eu m, vs. 0.6 Eu m in FY 2017 (1.4 Eu m as of our estimates) with an EBITDA margin of 19%, up from 15% in FY 2017 as the Company could benefit from operational leverage (fixed costs spread over higher revenues). **Net result was positive** of 0.3 Eu m (-0.1 Eu m in FY 2017) and **Net debt stood at 0.1 Eu m** (vs. 2.5 Eu m in FY 2017) after IPO proceeds of 3.1 Eu m, and investments of 1.3 Eu m net of IPO expenses.

On April 12th, the Company **announced a business plan with financial targets for 2021. The plan is based on three strategic guidelines, and largely confirms** those announced in IPO: (i) continuous focus on R&D, (ii) widening of product range, and (iii) strengthening of MSI network by internalizing the function in order to increase loyalty and optimize territorial coverage. The plan targets to increase the MSI network by an **additional 20-25 resources by 2021**. The Company also announced that Management will consider external growth opportunities aiming at strengthening the market share both in Italy and abroad.

In terms of financials, **the plan forecasts sales in a range between 14 and 16 Eu m in 2021, with an EBITDA margin that should increase to 24-26% from 19% in FY 2018.**

We believe the business plan to be reliable and have **largely aligned our estimates to the plan**. Overall, our revision resulted in an average increase in revenues by 10%, but with a slight decrease in profitability (EBITDA and EPS of -6% and -6% respectively) following the change in cost structure from the hiring of high-performing MSIs, which however should boost revenues and allow the Company to increase market share. We also added 2021 to our estimates.

COMPANY DESCRIPTION

KOLINPHARMA SpA is an **Innovative SME** specialised in R&D in the growing **nutraceutical market**. The Company's products are based on natural raw materials and have the purpose of supporting pharmacological treatments mainly for pathologies in the orthopaedic-physiatric and uro-gynecological fields.

KOLINPHARMA sells its own-branded products through a skilled sales network of 73 medical scientific informers (MSIs). Customers are represented by pharmaceutical wholesalers, which distribute to pharmacies and parapharmacies nationwide.

REFERENCE MARKET AND DRIVERS

The value of the nutraceutical market in Italy has doubled since 2009 and registered about **3.1 Eu b of total sales** in 2018, with a 2016-2018 CAGR of 6.3%. The no. 1 distribution channel is pharmacies, where about 80% of the total value is realized.

Main market drivers: development of the culture of prevention and well-being, opportunity for pharmacies to differentiate, increasing number of distribution channels (e-commerce), aging population.

VALUATION

We increased our target price by 18% to **9.37 Eu p.s.** (previous 7.94, or 8.94 Eu ps. without PAS). As FY 2018 EBITDA of 1.4 Eu m exceeded the profitability target of the price adjustment shares (PAS), these were not cancelled. Our new target price represents a **potential upside of 46%**. At our target price, the stock would be trading at 8.1x and 5.6x 2019 and 2020 EBITDA, respectively. At current market price (6.40 Eu p.s.) Kolinpharma is trading at a significant discount to peers: -54% in 2019-2020 EBITDA terms and -49% in P/E terms.

Please, read important disclaimer on the last page of this report.

SHARE DATA

Market	AIM Italia
Reuters/Bloomberg	KIP.MI / KIP IM
ISIN	IT0005322950
N. of Shares	1,639,571
Free Float	27.57%
Main Shareholder	Rita Paola Petrelli (52.61%)
CEO	Rita Paola Petrelli

Target Price (Eu)	(Previous 7.94) 9.37
Market Price (Eu)	6.40
Capitalisation (Eu m)	9.3
Enterprise Value (Eu m)	9.5

(as of April 16th, 2019)

AIM Positioning

Market Data (Eu m)	Company	AIM Sector*	AIM Italia
Capitalisation	9	93	59
Perf. from IPO	-9%	+21%	-4%
Free Float	32%	33%	38%
ADTT YTD (Eu)	8,142	85,838	102,690

Source: Osservatorio AIM Italia as of April 10th, 2019
* Healthcare goods & services

Results & Estimates

Key Figures (Eu m)	17A	18A	19E	20E	21E
Sales	4.1	7.2	9.7	12.6	16.4
YoY growth	62%	76%	35%	30%	30%
EBITDA	0.6	1.4	2.2	3.2	4.3
EBITDA%	15%	19%	23%	25%	26%
EBIT	0.03	0.6	1.0	1.7	2.3
EBIT%	1%	8%	11%	13%	14%
Net Profit	-0.1	0.3	0.8	1.1	1.6
Net Debt (Cash)	2.5	0.1	0.1	(0.5)	(2.1)
EPS	n.m.	0.17	0.52	0.69	1.00

Source: Company data (ITA GAAP) for FY 2017-18 and IR Top Research estimates for FY 19-21

EV/EBITDA (x)	19E	20E
KOLINPHARMA	4.0	2.6
Nutraceutical peers	8.3	7.5
Discount/Premium to Nutraceutical peers	-52%	-65%
AIM Peers	7.1	5.7
Discount/Premium to AIM peers	-44%	-54%

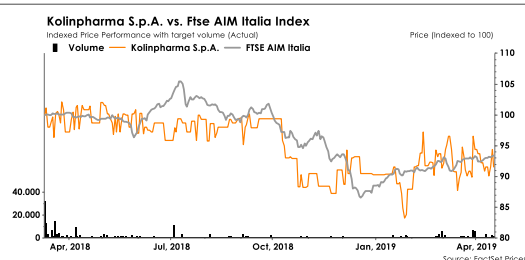
P/E (x)	19E	20E
KOLINPHARMA	9.0	6.1
Nutraceutical peers	15.3	13.9
Discount/Premium to Nutraceutical peers	-41%	-56%
AIM Peers	15.7	13.5
Discount/Premium to AIM peers	-43%	-55%

Source: IR Top Estimates for KOLINPHARMA and Factset data for comparables

Performance

	1M	3M	1Y
Absolute	+2.1%	+0.0%	-9.2%
Relative (FTSE AIM Italia)	+1.0%	-3.1%	-3.0%
52-week High/Low* (Eu)	7.13 / 5.71		

Source: Factset data
* Intra Day



BUSINESS UPDATE

BUSINESS UPDATE

KOLINPHARMA had a very positive FY 2018, and closed with revenues of 7.2 Eu m, up by 76% vs. 4.1 Eu m in FY 2017, and +7% vs. our estimates. Also profitability increased and EBITDA of 1.4 Eu m **exceeded the profitability target of the price adjustment shares (PAS)** that hence will not be cancelled. Growth was registered along all five product lines, and in January 2019 the Company released a new gynecological product in the market, MILEDIX.

- In late January the CEO, Emanuele Lusenti, resigned for personal reasons, and was replaced by Rita Paola Petrelli (already Chairman). The former CEO has signed a 5-year non complete agreement.

On April 12th, the Company **announced a business plan with financial targets for 2021. The plan is based on three strategic guidelines, and largely confirms** those announced in IPO:

- increase in scientific research on portfolio products through continuous clinical and observational studies;
- widening of product offering with a particular focus on market niches with high growth rate. The Company targets to introduce 4 new products in the market by 2021, and
- strengthening of MSI network by internalizing the function (previously only paid on commission) in order to increase loyalty of MSIs and optimize territorial coverage. The plan targets to increase the MSI network by an **additional 20-25 resources by 2021**.

The Company also announced that Management will consider external growth opportunities aiming at strengthening the market share also in export markets. In terms of financials, **the plan forecasts sales in a range between 14 and 16 Eu m in 2021, with an EBITDA margin that should increase to 24-26% from 19% in FY 2018.**

RESULTS & ESTIMATES

FY 2018 RESULTS

FY 2018

Sales growth +76%
EBITDA margin 19%

KOLINPHARMA released a strong set of FY 2018 results. Sales came in at 7.2 Eu m **+76% vs FY 2017** (4.1 Eu m), and +7% vs. our estimate, thanks to the strengthening of the MSI network (currently total of 73 MSIs) and the good performance along all product lines, and in particularly Ivuxur that grew by +86% and Milesax (+81%).

Breakdown Product lines FY 2018 vs. FY 2017

	FY 2018 (Eu m)	FY 2018 (%)	FY 2017 (Eu m)	FY 2017 (%)	Yoy 2018/2017
Milesax	2.1	29.6%	1.2	28.5%	81.3%
Ivuxur	1.2	16.9%	0.6	15.9%	85.7%
Dolatrox	1.1	15.5%	0.7	17.1%	58.3%
Xinepa Easy	1.9	26.8%	1.1	26.9%	73.8%
Almetax Easy	0.8	11.3%	0.5	11.6%	69.7%
Total	7.2	100.0%	4.1	100.0%	76.5%

Total Production Value was of 9.0 Eu m, +68% vs. FY 217 (+18 vs. our estimates) and includes internally generated Fixed assets for a total of 1.7 Eu m (1.2 Eu m in FY 2017) mostly related to development of new products, start-up and consolidation expenses of the ISM network, and IPO related costs.

Eu m – IAS/IFRS	FY 2017A	FY 2018A	Var % 17PF-18A	FY 2018E	Var % 18A-18E
Sales	4.1	7.2	76%	6.7	7%
YoY growth	62%	76%		65%	
Total Production Value	5.3	9.0	68%	7.6	18%
EBITDA	0.6	1.4	129%	1.4	-1%
EBITDA%	14.8%	19.3%		21.6%	
EBIT	0.03	0.6	n.m.	0.5	14%
EBIT%	0.8%	7.7%		7.1%	
EBT	(0.04)	0.5	n.m.	0.5	-7%
Net Profit	(0.07)	0.3	n.m.	0.4	-31%

Net Working Capital (NWC)	0.6	0.8	29%	0.6	39%
Fixed net assets	3.1	4.0	29%	3.5	16%
Funds	(0.05)	(0.09)	86%	(0.03)	209%
Net Capital Employed	3.7	4.8	28%	4.1	17%
Net Debt (Cash)	2.5	0.1	-94%	(0.7)	114%
Equity	1.2	4.7	273%	4.8	-2%
Sources	3.7	4.8	28%	4.1	17%

EBITDA came in at 1.4 Eu m, vs. 0.6 Eu m in FY 2017 (1.4 Eu m as of our estimates) and with an **EBITDA margin of 19%** up by 440 bps (15% in FY 2017) despite an increase of 0.7 Eu m in personnel costs after the strengthening of corporate functions (two new Product Managers and hiring of MSIs). Average number of employees in FY 2018 was of 27 vs. 12 in FY 2017. EBITDA margin was slightly below our estimates (22%) following higher than expected personnel costs.

After D&As of 0.8 Eu m (0.6 Eu m in FY 2017) **EBIT stood at 0.6 Eu m** (0.03 Eu m in FY 2017), and the Company reached break-even with a Net profit of 0.3 Eu m (-0.07 Eu m in FY 2017 and 0.4 Eu m as of our estimates).

Net debt was 0.1 Eu m (vs. 2.5 Eu m in FY 2017) after IPO proceeds of 3.1 Eu m (March 2018), and investments of 1.3 Eu m (net of IPO costs) related to the consolidation of MSIs network, development of new products, and registration of certifications, trademarks and patents.

We believe the **business plan announced by the Company to be reliable and we have LARGELY aligned our estimates to the plan**. Overall, our revisions resulted in an average increase in revenues by 10%, but with a slight decrease in profitability (EBITDA and EPS of -6% and -6% respectively) following the change in cost structure from the hiring of high-performing MSIs, which however should boost revenues and allow the Company to increase market share. We also added 2021 to our estimates.

We assumed total Capex of 3.6 Eu m in the three year period and Working capital requirements in line with FY 2018. We further assumed a tax rate of 19% in FY 2019 as the Company should benefit from IPO related tax credits, and c. 30% in 2020-2021.

Our estimates do not include M&A transactions

MAIN FINANCIAL INDICATORS

Eu m		18A	19E Old	19 New	20E Old	20E New	21E New
Sales		7.2	9.0	9.7	11.2	12.6	16.4
	yoy	76%	34%	35%	24%	30%	30%
EBITDA		1.4	2.4	2.2	3.3	3.2	4.3
	margin	19%	27%	23%	30%	25%	26%
EBIT		0.5	1.1	1.0	1.8	1.7	2.3
	margin	8%	12%	11%	16%	13%	14%
Pre tax profit		0.5	1.1	1.0	1.8	1.7	2.3
Net Profit		0.3	0.8	0.8	1.2	1.1	1.6
	yoy	4%	n.m.	206%	n.m.	33%	45%
EPS		0.17	0.53	0.52	0.75	0.69	1.00

Eu m		18A	19E Old	19 New	20E Old	20E New	21E New
Net Working Capital (NWC)		0.8	0.7	1.6	0.8	2.3	3.2
Fixed net assets		4.1	3.5	4.0	3.1	3.9	3.0
Funds		(0.1)	(0.04)	0.0	(0.04)	(0.04)	(0.04)
Net Capital Employed		4.8	4.2	5.6	3.9	6.2	6.2
Net Debt (Cash)		0.1	(1.5)	0.1	(2.9)	(0.5)	(2.1)
Equity		4.7	5.6	5.5	6.9	6.6	8.3
Sources		4.8	4.2	5.6	3.9	6.2	6.2

Source: Company data (ITA GAAP) for FY 2018 and IR Top Research estimates for FY 2019-21
n.a. = not available; n.m. = not meaningful

We have updated our valuation for KOLINPHARMA and in particular:

- the DCF to include the new estimates and up-to-date risk free rate and ERP;
- the relative valuation to reflect current market multiples for a peer group consisting of international nutraceutical companies (adjusted by AIM positioning) and AIM listed peers (without discount). We have, in addition, updated our AIM Positioning to reflect the higher transparency following the release of the business plan. The new discount is of 27.25%.

As FY 2018 EBITDA of 1.4 Eu m exceeded the profitability target of the price adjustment shares (PAS), these were not cancelled and our valuation is hence based on a total number of 1,639,571 shares.

2019-2021 ESTIMATES

KOLINPHARMA can grow Sales at a 2018-2021 CAGR of +32% and EBITDA at a 2018-2021 CAGR of +46%

VALUATION

Our valuation yields a Target Price of 9.37 Eu per share

AIM Positioning discount of 27.25%

MULTIPLES

Based on a peer group of selected industry players our relative valuation, using 2019-2020 EV/EBITDA multiples, yields a fair value of KOLINPHARMA's shares of 9.87 Eu p.s..

Eu m	Country	Capitalisation	Revenues 2017	yoy	EBITDA % 2017A	EBITDA % 2018E
KOLINPHARMA	Italy	9	4	+62%	15%	23%
Balchem	USA	2,810	527	+5%	24%	24%
Boiron SA	France	919	618	0%	24%	22%
Enervit S.p.A.	Italy	62	56	+3%	12%	11%
GNC Holdings, Inc. Class A	USA	186	2,200	-4%	11%	9%
Herbalife Ltd.	USA	6,915	3,925	-3%	15%	16%
Ingredion Incorporated	USA	5,505	5,170	0%	19%	17%
Royal DSM NV	Netherlands	18,641	8,632	+9%	14%	19%
USANA Health Sciences, Inc.	USA	1,742	928	+2%	14%	18%
Median International Peers		2,276	1,564	+1%	15%	18%
BioDue	Italy	56	36	4%	12%	18%
Finefoods	Italy	186	120	n.a.	13%	14%
Pharmanutra	Italy	166	38	15%	26%	25%
Median AIM Peers		166	38	10%	13%	18%

Source: Company Data for KOLINPHARMA and Factset data for comparables, as of April 16th, 2019

EV/EBITDA (x)	19E	20E
KOLINPHARMA	4.0	2.6
Median International Peers	8.3	7.5
Median AIM Peers	7.1	5.7
Discount/Premium to International Peers	-52%	-65%
Discount/Premium to AIM Peers	-44%	-54%

Source: IR Top Estimates for KOLINPHARMA and Factset data for comparables, as of April 16th, 2019

DCF

Main assumptions are:
 - Perpetual growth: 2.0%
 - Risk Free interest rate: 2.70%
 - ERP: 8.56%
 - WACC: 10.7%

+Sum of PV 2019-2021 FCF – Eu m	1.7	12%
+Terminal Value – Eu m	12.9	88%
=Total Enterprise Value – Eu m	14.7	100%
-Net Debt (Cash) – Eu m (as of FY 2018)	0.14	
=Total Equity Value – Eu m	14.5	
Number of shares outstanding – m	1.6	
Fair Value per share – Eu	8.86	

Source: Company Data and IR Top Estimates

Our DCF valuation yields a target price of 8.86 Eu per share.

VALUATION SUMMARY

Weighting the 2 valuation approaches equally we increase our target price by 18% to 9.37 Eu (previous 7.94 Eu), implying an upside of 46% and an implicit EV/EBITDA 2019 and 2020 multiple of 8.1x and 5.6 x, respectively.

Method	Price (Eu)
DCF	8.86
Multiple analysis	9.86
Target Price	9.37

KOLINPHARMA ON AIM

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 16th, 2019)

Code: KIP

Bloomberg: KIP IM

Reuters: KIP.MI

ISIN ordinary shares: IT0005322950

ISIN PAS: IT0005322968

Shares: 1,639,571

Price: 6.40 Eu

Performance from IPO: -9%

Capitalisation: 9 Eu m

Free Float: 27.6%

NomAd: EnVent Capital Markets Ltd

Specialist: BANCA AKROS- Gruppo Banco BPM

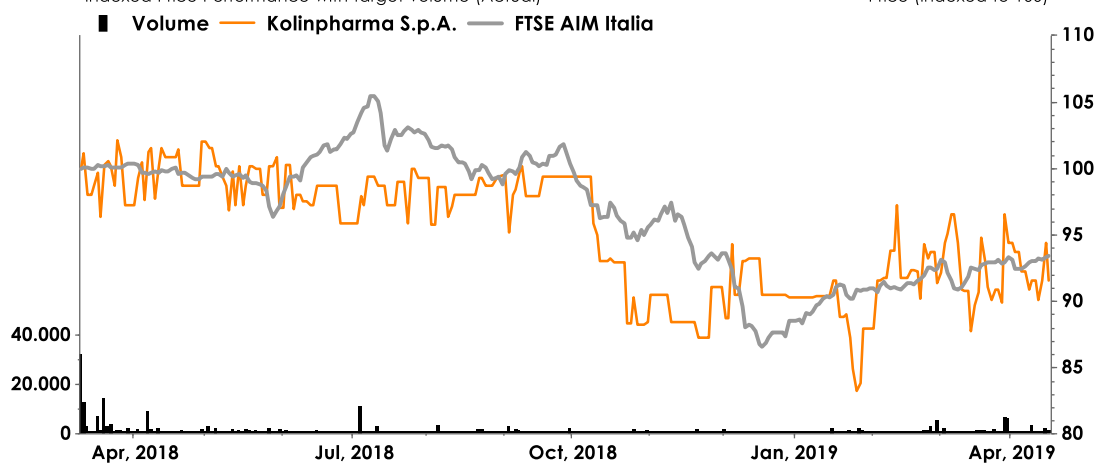
Shareholder	N° of shares	%
Rita Paola Petrelli	862,571	52.61%
Emanuele Lusenti	315,000	19.21%
Anna Laura Lanza	10,000	0.61%
Market	452,000	27.57%
Total	1,639,571	100.00%

Source: Company data

Kolinpharma S.p.A. vs. Ftse AIM Italia Index

Indexed Price Performance with target volume (Actual)

Price (Indexed to 100)



Source: FactSet Prices

RATIOS

Eu m	2016A	2017A	2018E	2019E	2020E	2021E
Profit & Loss Statement						
Sales	2.5	4.1	7.2	9.7	12.6	16.4
Revenues (VoP)	3.8	5.3	9.0	10.8	13.7	17.5
EBITDA	0.3	0.6	1.4	2.2	3.2	4.3
EBIT	(0.3)	0.0	0.5	1.0	1.7	2.3
Financial Income (charges)	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)	0.0
Pre-tax profit (loss)	(0.4)	(0.0)	0.5	1.0	1.7	2.3
Taxes	0.0	(0.0)	(0.2)	(0.2)	(0.5)	(0.7)
Net profit (loss)	(0.4)	(0.1)	0.3	0.8	1.1	1.6
Balance Sheet						
Fixed assets	2.5	3.1	4.0	4.0	3.9	3.0
NWC	0.2	0.6	0.8	1.6	2.3	3.2
M/L Funds	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Net Capital Employed	2.6	3.7	4.8	5.6	6.2	6.2
Net Debt	2.5	2.5	0.1	0.1	(0.5)	(2.1)
Net Equity	0.1	1.2	4.7	5.5	6.6	8.3
Cash Flow						
EBIT	(0.3)	0.0	0.5	1.0	1.7	2.3
D&A	0.6	0.6	0.8	1.2	1.5	2.0
Taxes	0.0	(0.0)	(0.2)	(0.2)	(0.5)	(0.7)
Change in M/L Funds	0.0	0.0	0.0	(0.1)	0.0	0.0
Gross Cash Flow	0.3	0.6	1.2	2.0	2.7	3.6
Change in NWC	0.1	(0.4)	(0.2)	(0.8)	(0.7)	(0.9)
Operating Cash Flow	0.4	0.2	1.1	1.2	1.9	2.7
Capex	(1.0)	(1.2)	(1.7)	(1.2)	(1.4)	(1.1)
Change in other non-current asset	0.0	(0.0)	(0.0)	0.0	0.0	0.0
Financial income (charges)	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)	0.0
Free Cash Flow	(0.7)	(1.2)	(0.8)	0.0	0.6	1.6
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Change in Equity	0.1	1.2	3.1	0.0	0.0	0.0
Change in Net Debt (Cash)	(0.7)	(0.0)	2.4	0.0	0.6	1.6
Per Share Data						
Current Price			€ 6.40			
Total shares out (mln)	1.64					
EPS	n.m.	n.m.	0.17	0.52	0.69	1.00
DPS	n.m.	n.m.	0.0	0.0	0.0	0.0
FCF	n.m.	n.m.	(0.8)	0.0	0.6	1.6
Pay out ratio	0%	0%	0%	0%	0%	0%
Ratios						
EBITDA margin	10.5%	14.8%	19.3%	22.7%	25.3%	26.1%
EBIT margin	-13.0%	0.8%	7.7%	10.7%	13.2%	14.1%
Net Debt/Equity (Gearing)	1663.0%	200.3%	3.0%	2.4%	-6.8%	-24.9%
Net Debt/EBITDA	9.51	4.14	0.10	0.06	-0.14	-0.48
Interest cover EBIT	-4.91	0.42	6.34	27.68	192.30	n.m.
ROE	-244.8%	-5.3%	5.9%	15.4%	17.0%	19.8%
ROCE	-13.2%	1.4%	15.4%	21.2%	35.4%	48.1%
Free Cash Flow Yield	n.m.	n.m.	-11.7%	0.1%	8.9%	24.3%
Growth Rates						
Sales	99%	62%	76%	35%	30%	30%
EBITDA	70%	42%	68%	20%	27%	28%
EBIT	175%	130%	129%	59%	45%	34%
Net Profit (loss)	66%	110%	1670%	89%	60%	39%

Source: Company data (ITA GAAP) for FY 2016-18 and IR Top Research estimates for FY 2019-21
n.a. = not available; n.m. = not meaningful

DISCLAIMER**UPDATES**

This Research is an update coverage made by IR Top Consulting S.r.l. (IR Top) on KOLINPHARMA (the "Company"). Update frequency might depend on circumstances considered to be important (corporate events and changes of recommendation, etc.) or on further advisory commitment. Last Research on the same Company was released on April 4th 2018.

Opinions and estimates of this Research are as the date of this material and are subject to change. Information and opinions have been obtained from sources public and believed to be reliable, but no warranty is made as to their accuracy or correctness. Past performances of the Company are not guarantee of future results. During the last 12 months, the following indications have been disseminated:

Date	Target Price	Market Price	Validity Time
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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No other people or companies participated or anyhow contributed to the Research. Neither the members of the research team, nor any person closely associated with them have any relationships or are involved in circumstances that may reasonably be expected to impair the objectivity of the Research, including interests or conflicts of interest, on their part or on the part of any natural or legal person working for them, who was involved in producing the Research.

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