

KOLINPHARMA

A strong set of 1H 2019 results

1H 2019 results: KOLINPHARMA released a strong set of 1H 2019 results with sales up by +14%, in a market which in the same period grew by +3.1% (Federsalus), implying a continuous increase in market share of the Company. Growth rate was however below that of last year's (+97%) as the business is evolving into a more mature phase, and as Management has been concentrating on the consolidation of the business in line with commercial strategy aimed at increase negotiating power vs. clients (wholesalers), and improve profitability.

EBITDA was of Euro 0.4 m (Euro 0.5 m adjusted for non-recurring expenses), +29% vs. prior year. Net loss of the period was of Euro 1.0 m. Management confirmed strategies announced in IPO and in the 2019-2021 Strategic plan announced in April, and continued to focus on R&D activities, launch of new products (MILEDIX® in 1H 2019) and internationalization with the registration of three patents in the US.

Following 1H 2019 results, and the increase in medical prescriptions in the period (+29%), one of the key drivers for our estimates, our outlook for KOLINPHARMA remains very positive. We fine-tuned our revenue estimates for 2019 on the back of more conservative commercial approach (-11%), whereas we confirm profitability targets for the year (FY 2019 EBITDA of 23%). We have left our growth rates and profitability targets unchanged for 2020-2021.

Company Description: KOLINPHARMA 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 urogynecological 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.

Valuation: we updated our model to factor in new estimates and market multiples and set a new target price of Euro 12.33 p.s. providing an upside of 23%. to the current share price and obtained by weighting equally a DCF and a multiple comparison analysis.

Sector: Healthcare

Target Price (Euro)	12.33 (9.37pr)
Market Price (Euro)	10.00
Market Cap (Euro m)	15
EV (Euro m)	16
<i>(as of October 21st, 2019)</i>	

Share Data

Market	AIM Italia
Reuters/Bloomberg	KIP.MI / KIP IM
ISIN	IT0005322950
N. of Shares	1639571
Free Float	27.57%
Main Shareholder	Rita Paola Petrelli (52.61%)
CEO	Rita Paola Petrelli

AIM Positioning

FY 2018	Company	AIM Sector	AIM Italia
Revenues (Eu m)	7	47	44
Revenues YoY	76%	27%	30%
EBITDA Margin	20%	18%	14%
NFP/EBITDA (x)	0,1	0,4	4,0

Market Data (Eu m)	Company	AIM Sector	AIM Italia
Capitalisation	15	92	51
Perf. YTD	39%	11%	6%
Free Float	28%	31%	35%
ADTT YTD (Eu)	84.083	92.590	144.041

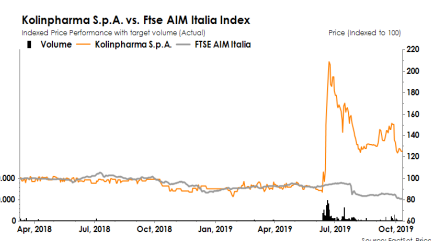
Performance

	1M	3M	6M
Absolute	-2%	-12%	55%
Relative (TSE AIM Italia)	2%	2%	77%
52-week High/Low (Eu)	15,60	/	5,71

IR TOP RESEARCH

Luisa Primi – l.primi@irtop.com

T +39 02 89056957



Key Figures (Eu m)	Sales	Yoy %	EBITDA	EBITDA %	EBIT	EBIT %	Net Profit	Net Debt
2018A	7.2	+76%	1.4	19%	0.5	8%	0.3	0.1
2019E	8.6	+20%	2.0	23%	0.8	9%	0.5	0.5
2020E	11.2	+30%	2.8	26%	1.3	12%	0.9	0.1
2021E	14.5	+30%	3.8	26%	1.9	13%	1.3	(1.2)

AIM POSITIONING

We position Kolinpharma within the AIM Italia “**Healthcare**” sector which includes 7 companies with average capitalization of Euro 92 m, an average free float of 31% and an average performance from IPO of +22%.

Company	Capitalisation (Eu m)	Free Float	Perf. From IPO	ADIT YTD (Eu)
BioDue	72	21%	+81%	38,811
Fine Foods NTM	191	45%	+7%	126,178
Friulchem	13	31%	-7%	71,649
Health Italia	78	46%	+3%	44,966
KOLINPHARMA	14	28%	+25%	84,083
Pharmanutra	194	33%	+43%	105,580
Shedir Pharma Group	81	13%	+1%	176,865
Healthcare goods & services	92	31%	+22%	92,590
AIM Italia	51	35%	-11%	144,041

Source: Osservatorio AIM Italia, as of October 9th, 2019 on Factset Data.

When compared to the “**Healthcare goods & services**” sector KOLINPHARMA shows:

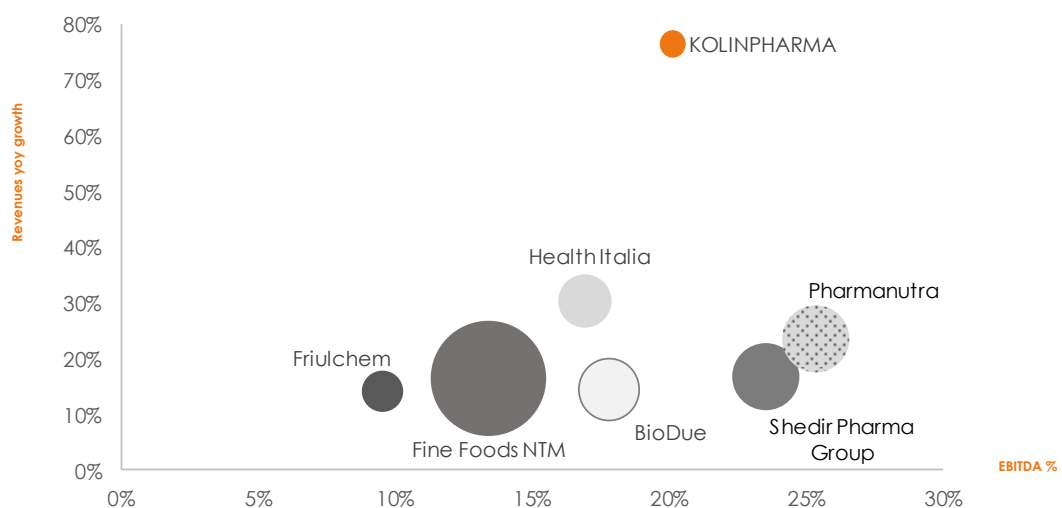
- Lower revenues (Euro 7 m vs. Euro 47 m) but higher growth level (+76% vs 27%);
- Higher EBITDA Margin (20% vs 18%);
- Higher performance from IPO (+25% vs +22%);
- Better Net Debt/EBITDA (0.1 vs. 0.4).

2018 Data (Eu m)	Revenues	yoy	EBITDA%	EV/EBITDA	Net Debt/EBITDA
BioDue	42	14%	18%	11.1	1.4
Fine Foods NTM	139	17%	13%	7.7	(2.5)
Friulchem	17	14%	10%	9.9	1.6
Health Italia	30	30%	17%	17.3	1.7
KOLINPHARMA	7	76%	20%	10.0	0.1
Pharmanutra	47	23%	25%	15.4	(1.0)
Shedir Pharma Group	47	17%	24%	8.6	1.3
Healthcare goods & services	47	27%	18%	11.4	0.4
AIM Italia	44	30%	14%	18.1	4.0

Source: Osservatorio AIM Italia, EV as of October 9th, 2019 on Factset Data.

AIM Italia Healthcare Sector

Size of the bubble: 2018 Revenues



BUSINESS UPDATE

Kolinpharma released a strong set of 1H 2019 results with sales up by +14%, in a market which in the same period grew by +3.1% (Federsalus), implying a continuous increase in market share by the Company. Growth rate was however below that of last year's (+97%) as the business is evolving into a more mature phase, and as Management has been concentrating on the consolidation of the business in line with commercial strategy aimed at increase negotiating power vs. clients (wholesalers), and improve profitability.

The Company has continued to work on the product portfolio which currently counts six products after the commercial launch of MILEDIX®, in 1H 2019. In the first 6 months of 2019, Management continued to operate in line with strategic guidelines by continuing investments in R&D to further expand the product portfolio (focus remains on therapeutic classes with high expected growth rates), and by obtaining three patents for the US market (XINEPA® (formulation and technological process) and IVUXUR®), in order to prepare for international expansion.

At the end of July, shareholders approved a stock option plan to incentivize key employees and approved a dedicated capital increase (without option rights) of 138,462 ordinary shares. The Board has resolved to allocate 46,154 option rights for FY 2019 (conversion rate 1:1).

1H 2019 RESULTS

In 1H 2019, Kolinpharma continued to benefit from a growth trend, **revenues grew by 6.4% to Euro 4.4 m** (Euro 4.1 m in 1H 2018). More in detail, **net sales grew by 15% to Euro 3.1 m** (vs Euro 2.7 m in 1H 2018), driven in particular by a good performance of Milesax, which in the period reached the top 2 position in the Italian market of muscle relaxants with a market share of 31% (IQUVIA Solutions Italy – June 2019), and the commercial launch of MILEDIX®.

Eu m – ITA GAP	1H 2019	1H 2019 %	1H 2018	1H 2018 %	Var % 18-19
Milesax	1.1	36%	0.8	30.2%	35.4%
Ivuxur	0.4	14%	0.4	15.5%	2.6%
Dolatrox	0.5	16%	0.4	14%	29.8%
Xinepa Easy	0.7	22%	0.8	27.7%	-9.7%
Almetax Easy	0.3	9%	0.3	12.6%	-18.8%
Miledix	0.1	3%	-	-	-
Total	3.1	100%	2.7	100%	+15%

Source: IR Top elaboration on Company data

EBITDA adjusted for approx. Euro 150 k of non-recurring expenses, came in at Euro 0.5 m (non-adjusted EBITDA was of Euro 0.4 m), up by 29% vs. 1H 2018 (Euro 0.3 m) EBITDA adjusted margin was of 18% (12.7% non-adjusted), up from 11.2% in 1H 2018 despite an increase in personnel costs of Euro 0.4 m (+68%) after an increase in employees from an average of 24 in 1H 2018 to 57 in 1H 2019, in order to adapt the corporate structure to higher sales volumes. Nonrecurring expenses were mainly related to the non-compete agreement with the former CEO.

EBIT was negative of **Euro -0.1 m** after D&As of Euro 0.5 m (Euro 0.4 in 1H 2018). **Group's Net loss was of Euro -0.1 m**, vs. Euro -0.2 m in 1H 2018.

Net Debt at the end of June 2019, stood at Euro 0.4 m, up from Euro 0.1 m at year end 2018 after investments in the period of Euro 0.7 m.

Eu m – ITA GAP	1H 2018	1H 2019	Var % 18-19
Sales	2.7	3.1	13.6%
Revenues (VoP)	4.1	4.4	6.4%
EBITDA	0.3	0.4	29.2%
Margin %	11.2%	12.7%	
EBIT	(0.1)	(0.1)	-9.2%

Margin %	n.a.	n.a.	
EBT	(0.2)	(0.1)	-16.4%
Net Profit	(0.2)	(0.1)	-16.3%

Eu m – ITA GAP	FY 2018	1H 2018	1H 2019
Net Working Capital (NWC)	0.8	1.1	0.8
Fixed net assets	4.1	3.9	4.2
Funds	(0.1)	(0.1)	(0.1)
Net Capital Employed	4.8	4.9	4.9
Net Debt (Cash)	0.1	0.8	0.4
Equity	4.7	4.2	4.5
Sources	4.8	4.9	4.9

Source: Company Data

ESTIMATES 2019-2021

Our outlook for Kolinpharma remains very 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 (+29% in 1H 2019). On the back of a more conservative commercial strategy aimed at further increase profitability, we have however slightly revised our revenue estimates for 2019 (-11%), whereas we confirm profitability targets for the year (FY 2019 EBITDA of 23%). We have left our growth rates and profitability targets unchanged for 2020-2021.

KEY FINANCIALS

Eu m	18A	19E Old	19 New	20E Old	20E New	21E Old	21E New
Sales	7.2	9.7	8.6	12.6	11.2	16.4	14.5
yoy	76%	35%	20%	30%	30%	30%	30%
EBITDA	1.4	2.2	2.0	3.2	2.8	4.3	3.8
margin	19%	23%	23%	25%	26%	26%	26%
EBIT	0.5	1.0	0.8	1.7	1.3	2.3	1.9
margin	8%	11%	9.4%	13%	12%	14%	13%
Pre tax profit	0.5	1.0	0.7	1.7	1.3	2.3	1.8
Net Profit	0.3	0.8	0.5	1.1	0.9	1.6	1.3
yoy	4%	206%	90%	33%	73%	45%	41%
EPS	0.17	0.52	0.32	0.69	0.55	1.00	0.78

Eu m	18A	19E Old	19 New	20E Old	20E New	21E Old	21E New
Net Working Capital (NWC)	0.8	1.6	1.7	2.3	2.4	3.2	3.2
Fixed net assets	4.1	4.0	4.0	3.9	3.9	3.0	3.0
Funds	(0.1)	0.0	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Net Capital Employed	4.8	5.6	5.7	6.2	6.2	6.2	6.2
Net Debt (Cash)	0.1	0.1	0.5	(0.5)	0.1	(2.1)	(1.2)
Equity	4.7	5.5	5.2	6.6	6.1	8.3	7.4
Sources	4.8	5.6	5.7	6.2	6.2	6.2	6.2

Source: Company data (Italian accounting principles) for FY 2018, IR Top Research estimates for FY 2019-2021

VALUATION

We have updated our valuation for Kolinpharma and in particular:

- The DCF to include new estimates and up-to-date risk-free rate and ERP;
- The relative valuation to reflect current market multiples for our two different peer groups: (i) international players active in the nutraceutical market adjusted for AIM Positioning and (ii) AIM Italia listed peers (without discount). We have, in addition, updated our AIM Positioning Discount to reflect FY 2018 results for the AIM Italia market, which however remains at 27.25%.

MARKET MULTIPLES

	Country	Market Cap (Eu m)	2018 revenue (Eu m)	Yoy	2019E revenue (Eu m)	2018 EBITDA margin	2019E EBITDA margin
Balchem	USA	2,933	546	3%	605	24%	24%
Boiron SA	France	562	604	-2%	564	21%	17%
Enervit S.p.A.	Italy	54	61	11%	n.a.	8%	n.a.
Herbalife Ltd.	USA	5,360	4,146	6%	4,444	16%	15%
USANA Health Sciences, Inc.	USA	1,396	1,008	9%	952	17%	15%
AVERAGE		2,061	1,273	5%	1,642	17%	18%

KOLINPHARMA	Italy	15	7	+76%	8.6	19.3%	22.9%
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	EV/EBITDA (x)		P/E (x)	
	19 E	20E	19E	20E
Balchem	21.1	20.0	36.9	33.1
Boiron SA	4.2	4.0	15.2	14.1
Enervit S.p.A.	n.a.	n.a.	n.a.	n.a.
Herbalife Ltd.	9.5	8.7	14.7	12.5
USANA Health Sciences, Inc.	9.4	8.8	18.4	15.7
AVERAGE	11.3	10.4	21.3	18.9
Kolinpharma	8.0	5.7	20.6	13.0
Discount/Premium to peers	-29%	-45%	-3%	-31%

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	72	41	15%	44	17%	19%
Fine Foods NTM	Italy	193	139	10%	152	13%	13%
Pharmanutra	Italy	191	47	24%	53	25%	14%
Shedir Pharma Group	Italy	84	47	17%	55	23%	24%
Friulchem	Italy	14	16	1%	17	11%	10%
AVERAGE		111	58	13%	64	18%	16%

KOLINPHARMA	Italy	15	7	+76%	8.6	19.3%	22.9%
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	EV/EBITDA (x)		P/E (x)	
	19 E	20E	19E	20E
BioDue	9.6	8.2	15.5	13.0
Fine Foods NTM	6.1	5.1	25.1	21.0
Pharmanutra	13.9	12.2	22.8	19.9
Shedir Pharma Group	6.1	5.3	10.7	8.9
Friulchem	9.0	6.2	58.7	11.6
MEDIAN	8.9	7.7	18.5	15.7
Kolinpharma	8.0	5.7	20.6	13.0
Discount/Premium to peers	-10%	-26%	11%	-17%

Considering 2019-2020 EV/EBITDA multiples, our relative valuation yields a **target price of Euro 11.55** per share.

DISCOUNTED CASH FLOW

WACC assumptions:

- Risk-free interest rate: 2.33% (24-month average of Italian 10y BTP yield)
- Perpetual growth: 1.5%
- Market risk premium: 9.03%
- Beta: 1.0
- WACC: 9.0%

Our DCF valuation yields a fair value of **Euro 13.11 per share**.

+ Sum of PV 2019-2022 FCFO (Eu m)	2.7	12%
+ Discounted Terminal Value (Eu m)	19.2	88%
= Enterprise Value (Eu m)	21.9	100%
- Net financial Debt (Cash) 1H 2019	(0.4)	
= Equity Value (Eu m)	21.5	
÷ Number of outstanding shares	1.6	
= TP per share (Eu)	13.11	

VALUATION SUMMARY

We updated our model to factor in new estimates and market multiples and set a new target price of Euro 12.33 p.s. providing an upside of 12%. 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 10.5x and 7.2x 2019 and 2020 EV/EBITDA respectively.

Method	Weight	Price (Eu)
Multiple analysis	50%	11.55
DCF	50%	13.11
Target Price	100%	12.33

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

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 October 21st, 2019)

Code: KIP
Bloomberg: KIP IM
Reuters: KIP.MI
ISIN ordinary shares: IT0005322950
ISIN PAS: IT0005322968
Shares: 1,639,571
Price: 10 Eu
Performance from IPO: -9%
Capitalisation: Euro15 m
Free Float: 27.6%
NomAd: EnVent Capital Markets Ltd
Specialist: BANCA AKROS- Gruppo Banco BPM

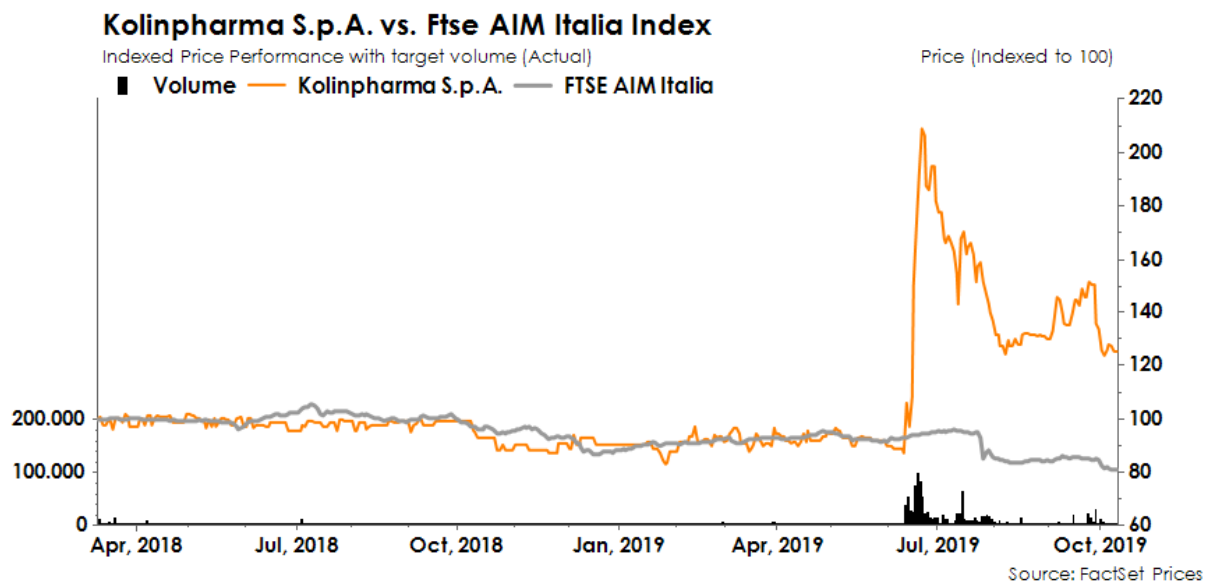
STOCK OPTION

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

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



KEY FINANCIALS

	2016A	2017A	2018E	2019E	2020E	2021E
Profit&Loss Statement						
Sales	2,5	4,1	7,2	8,6	11,2	14,5
Revenues (VoP)	3,8	5,3	9,0	9,7	12,3	15,7
EBITDA	0,3	0,6	1,4	2,0	2,8	3,8
EBIT	(0,3)	0,0	0,5	0,8	1,3	1,9
Financial Income (charges)	(0,1)	(0,1)	(0,1)	(0,1)	(0,0)	(0,0)
Pre-tax profit (loss)	(0,4)	(0,0)	0,5	0,7	1,3	1,8
Taxes	0,0	(0,0)	(0,2)	(0,2)	(0,4)	(0,5)
Net profit (loss)	(0,4)	(0,1)	0,3	0,5	0,9	1,3

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

Cash Flow						
EBIT	(0,3)	0,0	0,5	0,8	1,3	1,9
D&A	0,6	0,6	0,8	1,2	1,5	2,0
Tax	0,0	(0,0)	(0,2)	(0,2)	(0,4)	(0,5)
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	1,7	2,5	3,3
Change in NWC	0,1	(0,4)	(0,2)	(0,8)	(0,7)	(0,8)
Operating Cash Flow	0,4	0,2	1,1	0,8	1,8	2,4
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)	(0,1)	(0,0)	(0,0)
Free Cash Flow	(0,7)	(1,2)	(0,8)	(0,4)	0,4	1,3
Dividend	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	(0,4)	0,4	1,3

Per Share Data						
Current Price	€10,00					
Total shares out fully diluted (mn)	1,8					
EPS	n.m.	n.m.	0,16	0,29	0,51	0,72
DPS	n.m.	n.m.	0,0	0,0	0,0	0,0
FCF	n.m.	n.m.	(0,8)	(0,4)	0,4	1,3
Pay out ratio	0%	0%	0%	0%	0%	0%

Ratios						
EBITDA margin	10,5%	14,8%	19,3%	22,9%	25,5%	26,2%
EBIT margin	-13,0%	0,8%	7,7%	9,4%	11,8%	12,7%
Net Debt/Equity (Gearing)	1663,0%	200,3%	3,0%	9,7%	2,2%	-15,9%
Net Debt/EBITDA	9,51	4,14	0,10	0,26	0,05	-0,31
Interest cover EBIT	-4,91	0,42	6,34	13,57	43,99	61,68
ROE	-244,8%	-5,3%	5,9%	10,1%	14,9%	17,3%
ROCE	-13,2%	1,4%	15,4%	18,1%	27,5%	38,7%
Free Cash Flow Yield	n.m.	n.m.	-7,7%	-3,7%	3,7%	13,0%

Growth Rates						
Sales	99%	62%	76%	20%	30%	30%
Revenues (VoP)	70%	42%	68%	8%	27%	28%
EBITDA	175%	130%	129%	43%	45%	34%
EBIT	66%	110%	1670%	47%	64%	40%
Net Profit	51%	82%	516%	90%	73%	41%

Source: Company data (Italian accounting principles) for FY 2018 and IRTop Research estimates for FY 2019-2021

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 16th, 2019.

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
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

Luisa Primi, (Senior Analyst, AIAF Associated)

Andrea Praga (Analyst)

Chiara Cardelli, (Researcher)

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