

## BioDue (BIO2.IM)

Sector: Healthcare

### FY2017: BioDue Group has been established

April 16<sup>th</sup>, 2018

#### Investment summary

- BioDue S.p.A. develops, manufactures and markets cosmetics, solid and liquid food supplements and medical devices both for of national and international third parties (Industrial division) and under its own brands (Pharcos, BiOfra, Selerbe).
- In 2017 the BioDue Group was set up; the companies included in the consolidation area are BioDue Spa (parent company), LaBiotre S.r.l. (51.2% controlled and fully consolidated), Pharcomed Corp. and Two Bee S.r.l. (both 50% owned and consolidated using the equity method).
- In August 2017, BioDue announced that it has started the feasibility study and the structuring of an operation aimed at transferring the Company from AIM Italia to the MTA, possibly the STAR segment. The top management of the company sees in the birth of the BioDue Group and the consequent consolidation of the latent capital gains the conditions for the acceleration of the process for the transition to the STAR.

#### Latest news

- In 2017 BioDue revenues amounted to 35.7M€, up 4.2% on the previous year.
- The analysis of the values highlights the confirmation of the strategic orientation aimed at favoring the sales of the own brands *Pharcos*, *Selerbe* and *BiOfra*, totaling 45.4% of turnover (43.0% in 2016).
- The Industrial Division reported revenues of 19.5M€, -0.5% than the previous year whereas the own brands grew by 10.2% to 16.2M€ of total revenues.
- Consolidated EBITDA of 4.6M€, representing 12.6% of total revenues, remained almost unchanged compared to FY2016 (4.6M€, 13.5% EBITDA margin), discounting (i) some delays in order fulfillment (ii) a slight increase in indirect costs (personnel & services). Consolidated EBIT amounted to 3.2M€.
- At the consolidation date, the revaluation at fair value of the equity investments already held in the subsidiary LaBiotre led to the recording of a revaluation income of 2.0M€ in the Income Statement. The Group's result therefore stands at 4.1M€ (2.2M€ in 2016).

#### Valuation

- In light of consolidated financial results 2017 and the publication of the new industrial plan, we have updated the evaluation model, the current fair value is equal to 7.59€ per share.

#### Risks

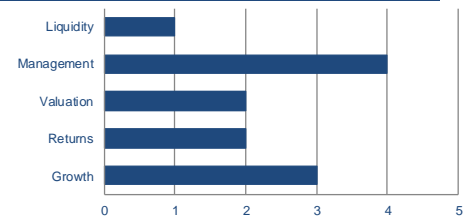
- Difficulties to finalize and manage external growth process and the transition to MTA market.

Forecast	17A	18E	19E	20E
Sales (€M)	38.3	41.1	44.6	49.1
EBIT (€M)	3.2	5.5	6.8	8.6
NET RESULT	4.1	3.5	4.3	5.7
NFP	6.1	6.7	3.2	-2.3
Valuation	17A	18E	19E	20E
SHARE PRICE	5.09	5.08	8.21	8.76
EV/EBITDA	13.8	8.7	10.7	8.9
P/E	13.8	16.2	21.1	17.2
Dividend yield	1.2%	1.5%	1.2%	1.5%

#### Key Data

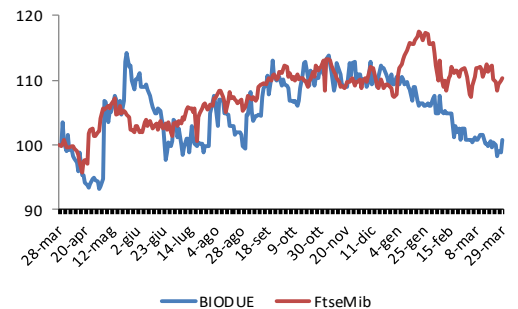
Price (€)	5.08
Market cap (€M)	56.6
Fair Equity Val. (€M)	84.6
<b>Fair Value (€)</b>	<b>7.59</b>
P/E LTM	13.5
P/E TTM	13.5

#### Investment Profile from 1 worst to 5 best



#### Stock data

Ticker Bloomberg	BIO2.IM
N° of shares (M)	11.1
Free float	21.5%
Main shareholder	Benedetti family (60.3%)
Daily trading volume	3,210 shares



Share Price perf (%)	3M	6M	1A
Absolute	-9.1%	-7.6%	3.1%
Rel. to FtseMib	-10.4%	-6.8%	-7.8%

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## Latest results (FY2017)

On December 31<sup>st</sup> 2017, the Company closed its first consolidated financial statements registering the following results:

- Consolidated revenues increased 5.3% yoy to 36.3M€, the revenues from sales amounted to 35.7M€ twelve months before they were equal to 34.6M€.
- Foreign revenues amounted to 4.2M€ in FY2017, +9.2% yoy; in line with the strategic orientation aimed at strengthening the process of internationalization and the opening of new markets. The increase in foreign revenues derives from an increase in sales of own brands from a total of 0.7M€ in 2016 to 1.3M€ in 2017 (+ 83.0% yoy).
- Finally, among Other Revenues, the Company has recorded additional flows related to its REWCAP patent: (i) Royalties, deriving from the concession to third parties of the production license, for 0.06M€, (ii) extraordinary sales of REWCAP machines built in economy for 0.3M€ with final destination the Chinese market.
- The consolidated EBITDA was positive for 4.6M€, representing 12.6% EBITDA margin; substantially in line with the previous year due (i) some slowdowns in order fulfillment resulting from the reorganization of the production and logistics structure (ii) a slight increase in indirect costs (personnel and services) in connection with investment activities in the production structure and optimization of logistics and Commercial network.
- The consolidate EBIT was positive for 3.2M€, 8.7% EBIT margin, after D&A for 1.4M€, growing due to the significant investments started in 2016 and completed in 2017.
- On the consolidation date, the revaluation at fair value of the equity investments already held in the subsidiary LaBiotre led to a 2.0M€ revaluation income recognized in the income statement. The Group's result therefore stands at 4.1M€ (2.2M€ in 2016).
- The consolidation of LaBiotre has involved:
  1. the revaluation at fair value of minority interests with the effect on the income statement of 2.0M€;
  2. the recognition of LaBiotre's net assets at current values, with a positive net effect of 3.1M€;
  3. the recognition of goodwill deriving from the acquisition equal to 1.4M€;
  4. the allocation to the minorities of assets of 2.0M€.
- The Group's capital structure at 31/12/2017 is more solid than in FY2016, with a net invested capital of 27.6M€. NFP FY2017, totaled debt for 6.3M€ (5.5M€ in 2016). The increase is mainly due to the liquidity used for the investments, the acquisition of control of LaBiotre and dividends payment.

M€	FY2017	FY2016	% var
<b>Consolidated Revenues</b>	<b>36.3</b>	<b>34.5</b>	<b>+5.3%</b>
Ebitda	4.6	4.6	-1.7%
<i>Ebitda margin</i>	12.6%	13.5%	
Ebit	3.2	3.4	-5.6%
<i>Ebit margin</i>	8.7%	9.7%	
<b>Net Result</b>	<b>4.1</b>	<b>2.2</b>	<b>+87.0%</b>
<b>NFP debt/(cash)</b>	<b>6.3</b>	<b>5.5</b>	

## FINANCIALS

Income statement (€M)	17A	18E	19E	20E
<b>Sales</b>	<b>38.3</b>	<b>41.1</b>	<b>44.6</b>	<b>49.1</b>
COGS	16.5	18.6	19.9	21.3
Gross Profit	21.8	22.6	24.8	27.7
<b>EBITDA</b>	<b>4.6</b>	<b>7.3</b>	<b>8.9</b>	<b>10.8</b>
Depreciation, Amortization	1.4	1.8	2.1	2.2
<b>EBIT</b>	<b>3.2</b>	<b>5.5</b>	<b>6.8</b>	<b>8.6</b>
Net Financial Results	0.0	-0.2	-0.2	-0.1
Income tax	-1.0	-1.8	-2.2	-2.8
<b>Net result</b>	<b>4.1</b>	<b>3.5</b>	<b>4.3</b>	<b>5.7</b>
<b>EPS (€)</b>	<b>0.37</b>	<b>0.31</b>	<b>0.39</b>	<b>0.51</b>
<b>DPS (€)</b>	<b>0.06</b>	<b>0.08</b>	<b>0.10</b>	<b>0.13</b>

Balance sheet (€M)	17A	18E	19E	20E
FIXED ASSETS	17.9	21.7	20.7	19.0
WC	9.7	9.1	9.8	10.3
<b>CAPITAL EMPLOYED</b>	<b>27.6</b>	<b>30.8</b>	<b>30.5</b>	<b>29.3</b>
EQUITY	18.5	21.1	24.4	28.6
MINORITY INTEREST	2.0	2.0	2.0	2.0
PROVISIONS	0.7	0.7	0.7	0.7
PENSIONS (e.g. TFR)	0.3	0.3	0.3	0.3
NET DEBT	6.1	6.7	3.2	-2.3
<b>CAPITAL INVESTED</b>	<b>27.6</b>	<b>30.8</b>	<b>30.5</b>	<b>29.3</b>

Margin (%)	17A	18E	19E	20E
Gross Margin	54.9%	54.9%	55.5%	56.5%
EBITDA Margin	11.9%	17.7%	19.9%	22.0%
EBIT Margin	8.3%	13.3%	15.2%	17.5%
Net Margin	10.8%	8.5%	9.7%	11.6%

Growth (%)	17A	18E	19E	20E
Sales growth	10.5%	7.6%	8.5%	9.9%
EBIT growth	-5.6%	73.4%	23.3%	27.1%
Net growth	87.1%	-15.4%	24.1%	30.8%

Cash Flow statement (€M)	17A	18E	19E	20E
Cash Flow	5.5	5.3	6.4	7.9
+/- Var. Working Capital	-2.4	0.6	-0.8	-0.5
<b>Operating Cash Flow</b>	<b>3.1</b>	<b>5.9</b>	<b>5.7</b>	<b>7.4</b>
Op. Cash Flow / Sales	8.1%	14.4%	12.7%	15.1%
Capex	-2.3	-5.6	-1.1	-0.5
<b>FCF</b>	<b>0.8</b>	<b>0.3</b>	<b>4.6</b>	<b>6.9</b>
FCF / Sales	2.1%	0.8%	10.2%	14.0%

Stock data	17A	18E	19E	20E
Number of Shares (M)	11.1	11.1	11.1	11.1
Share price	5.09	5.08	8.28	8.83
<b>Market cap (€M)</b>	<b>56.8</b>	<b>56.6</b>	<b>92.3</b>	<b>98.5</b>

Ratios	17A	18E	19E	20E
<b>ROCE after tax</b>	<b>6.9%</b>	<b>10.7%</b>	<b>14.2%</b>	<b>18.9%</b>
ROE	22.3%	16.5%	17.8%	19.8%
<b>Capital Turnover</b>	<b>1.4</b>	<b>1.3</b>	<b>1.6</b>	<b>1.8</b>
<b>Net Debt / EBITDA</b>	<b>1.4</b>	<b>1.0</b>	<b>0.4</b>	<b>-0.2</b>
Gearing	34.6%	32.9%	14.3%	-7.0%
<b>WC / Sales</b>	<b>25.3%</b>	<b>22.0%</b>	<b>22.0%</b>	<b>21.0%</b>
Amortization / Sales	3.7%	4.4%	4.7%	4.5%
<b>Capex / Sales</b>	<b>6.0%</b>	<b>13.6%</b>	<b>2.5%</b>	<b>1.0%</b>
EPS growth	87.1%	-15.4%	24.1%	30.8%
<b>PEG</b>	<b>15.8</b>	<b>n.m.</b>	<b>88.5</b>	<b>56.4</b>

Valuation	17A	18E	19E	20E
<b>EV/Sales</b>	<b>1.7</b>	<b>1.5</b>	<b>2.1</b>	<b>2.0</b>
EV/EBITDA	13.8	8.7	10.8	8.9
EV/EBIT	20.0	11.6	14.2	11.2
<b>P/E</b>	<b>13.8</b>	<b>16.2</b>	<b>21.3</b>	<b>17.4</b>
P/B	3.1	2.7	3.8	3.4
<b>EV/CE</b>	<b>2.3</b>	<b>2.1</b>	<b>3.4</b>	<b>3.5</b>
<b>FCF Yield</b>	<b>1.4%</b>	<b>0.6%</b>	<b>4.9%</b>	<b>7.0%</b>
<b>Dividend yield</b>	<b>1.2%</b>	<b>1.5%</b>	<b>1.2%</b>	<b>1.4%</b>

Source: Company data, Twice estimates

## Valuation

We valued the Company based on 3 years cash flow projections and terminal value computed using *Twice's Sustainable Growth Adjusted P/E* ("SGAP") methodology. We have introduced in the evaluation a **synthetic index** that aims to measure the ability of the company to generate value for stakeholders sustainable over time that integrates factors with value content (**ESG**) with financial metrics. The Index can determine an increase or decrease of up to 10% of the fair value. The model points out a 7.59€ fair value.

Concerning the 3 years' business plan, according to the Company's estimates and after having completed the "pro-forma" Income Statement 2017 fully consolidating LaBiotre from 1 January 2017, we made the following assumptions:

- Revenues 2018 will grow 7.6% yoy to approx. 41.1M€, the organic turnover growth for the three-year plan will be equal to 9.2% CAGR.
- At profitability level, the planned investments, aimed at increasing production efficiency, will positively impact on the marginality of the Group which is expected to grow throughout the plan period, to reach an EBITDA margin 2020 higher than 22%.
- For the FY2018 capex of 5.6M€ are planned in real estate and to increase production and improve production efficiency. In the next two years further 1.6M€ capex is planned cumulatively.
- Working capital evolves in line with the dynamics of turnover. Cash flows generated by operations allow a progressive reduction of the NFP from 2019 to become positive in 2020.

Cash Flow	FY 2018	FY 2019	FY 2020
<b>Sales</b>	<b>41.1</b>	<b>44.6</b>	<b>49.1</b>
<i>Sales growth</i>	7.6%	8.5%	9.9%
<b>EBIT</b>	<b>5.5</b>	<b>6.8</b>	<b>8.6</b>
<i>Margin</i>	13.3%	15.2%	17.5%
<b>Taxes</b>	<b>1.8</b>	<b>2.2</b>	<b>2.8</b>
<i>Tax rate</i>	33.0%	33.0%	33.0%
<b>Net Result</b>	<b>3.5</b>	<b>4.3</b>	<b>5.7</b>
<b>Depreciation</b>	<b>1.8</b>	<b>2.1</b>	<b>2.2</b>
<i>% of sales</i>	4.4%	4.7%	4.5%
<b>Capex</b>	<b>-5.6</b>	<b>-1.1</b>	<b>-0.5</b>
<i>% of sales</i>	-13.6%	-2.5%	-1.0%
Var. Working Capital	0.6	-0.8	-0.5
Dividends	0.9	1.1	1.4
<b>Free Cash Flow after dividends</b>	<b>-0.6</b>	<b>3.5</b>	<b>5.5</b>

	Test response	Weighting
Management accountability	YES	0.11
Management Performance	YES	0.11
M&A Strategy & Execution	NEUTRAL	-0.004
ESG ranking	NO	-0.10
Organic Growth TTM 3y exp	9.2%	-0.06
Operating Leverage	4.8	-0.10
Financial Leverage	0.9	-0.01
ROS (in %)	11.9%	0.12
ROI (in %)	13.4%	0.13
<b>SYNTETHIC SCORE</b>		<b>+19.95</b>

<b>Cost of Equity</b>	<b>6.79%</b>
<b>NET RESULT</b>	<b>5.67</b>
SGA PE	17.20
SYNTHETIC SCORE	+1.995%
<b>SGA PE ADJUSTED</b>	<b>17.55</b>
TV ADJUSTED	99.45
<b>TV ADJ actualized</b>	<b>81.67</b>
Divid actualized	2.93
<b>EQUITY Value (€M)</b>	<b>84.60</b>
Number of Shares (M)	11.15
<b>Equity V. per share ADJ (€)</b>	<b>7.59</b>
<i>Upside/downside</i>	<i>+49.4%</i>

Sensitivity analysis		Net result CAGR 2017-2020				
		2.9%	8.5%	39.0%	33.3%	49.1%
<b>Mkt premium</b>	0.4%	8.5			15.9	31.2
	1.0%		7.8			
	<b>4.8%</b>			<b>7.59</b>		
	4.1%		3.7		7.4	
	6.0%	2.3				8.0

## SYNTHETIC INDEX EXPLANATION

CRITERIA	WEIGHT	YES/NO	THRESHOLD
1 Management accountability	11%	NO	
2 Management Performance	11%	SI	
3 M&A Strategy & Execution	8%	NO	
4 ESG ranking	10%	NO	
5 Organic Growth <i>TTM 3y exp</i>	12%		>10%
6 Operating Leverage	10%		<2
7 Financial Leverage	13%		>1
8 ROS (in %)	12%		>10%
9 EBIT/CIN (in %) - ROI	13%		>10%
	<b>100%</b>		

### LEGEND

- Management accountability: publication or not of the 3-ys BPlan
- Management Performance: over/under-performance vs. expectations / BPlan / consensus
- M&A Strategy & Execution (past track record in levels of activity e post integration performance)
- ESG ranking (relationship with the territory. open innovation. youth employment. corporate welfare energy efficiency. cybersecurity and sensitive data protection - industrial and commercial)
- Organic Growth TTM; 3ys expectations → (> 10%)
- Operating Leverage → (<2)
- Financial Leverage → (>1)
- ROS (in %) → (> 10%)
- ROI (in %) → (> 10%)