

BioDue Spa

Sector: Healthcare



Valentina Romitelli

valentina.romitelli@value-track.com

Marco Greco

marco.greco@value-track.com

Pietro Nargi

pietro.nargi@value-track.com

Bye Bye BioDue

BioDue is a leading player in the Italian nutraceutical market. It develops, manufactures and distributes food supplements, cosmetics, medical devices and herbal products. Following the acquisition of the majority stake in the company at €6.50 per share, the bidder is expected to launch shortly a public tender offer at the same price on all the outstanding shares. Stock price has quickly adjusted.

1H 2019 results: a mixed picture

While 1H results are relatively supportive at top line (+3.3% y/y), they may appear weak at margin level (-160bp for EBITDA margin). However, we believe this has been mostly driven by i) the temporary inefficiencies of the industrial reorganization; ii) the launch of the new soft-gel production in June; iii) the figurative cost of the stock options attributed in Q2 (€310k or 1.4% of 1H Revenues). As expected, Net debt increased by €2.5mn in 1H, due to demanding capex (€3.4mn) and to pay-out (€1.1mn).

Fine tuning for our 2019-2021E forecasts

Following the release of interim results, we have updated our model and fine tuned our forecasts, with FY2019E revenues cut by 2% and bottom line by 4%. Net debt is also adjusted upward, due to slightly lower OpFCF and small capital injections into subsidiaries. We expect FCF to turn back positive in FY2020E, as capex is seen to normalize down to €1.9mn or 4% of Revenues (from average 14% over FY2018-FY2019).

Take over bid due shortly at €6.50/sh. Stock price aligned

Following the closing of the acquisition of the majority stake (48.6%) by the vehicle of Armònia Italy Fund (announced in August), a public tender offer will be promoted at the same price. This values BioDue at 10.0x EV/EBITDA, 14.0x EV/EBIT and 15.1x P/E (2019E). These multiples compare to peers' group of 9.7x, 12.9x and 18.6x respectively - the relatively higher P/E of peers is also inflated by a few cash-rich names among them.

Delisting implies a good return to shareholders since IPO

Despite the price agreed by Mr. Benedetti did not imply a material premium to our April 2019 fair value (€6.20), it implied a 25% premium to the average stock price of 6-12 months prior to the announcement. Also, if we consider the whole listing period, shareholders will get an overall return of 91% (including dividends) relatively to the IPO price of May 2015 (17% p.a.).

Fair Value (€) n.m.
Market Price (€) 6.44
Market Cap. (€m) 71.8

KEY FINANCIALS (€mn)	2018A	2019E	2020E
REVENUES	41.5	44.4	48.6
EBITDA	7.4	8.5	10.2
EBIT	5.4	6.1	7.7
NET PROFIT	4.0	4.8	6.0
EQUITY	21.4	27.3	32.4
NET FIN. DEBT	10.5	13.0	8.1
EPS (€)	0.36	0.43	0.54
DPS (€)	0.10	0.11	0.12

Source: BioDue (historical figures),
Value Track (2019E-20E estimates)

RATIOS & MULTIPLES	2018A	2019E	2020E
EBITDA MARGIN (%)	17.8%	19.1%	21.1%
EBIT MARGIN (%)	12.9%	13.7%	15.9%
NET DEBT / EBITDA (x)	1.4	1.5	0.8
NET DEBT / EQUITY (%)	45%	47%	25%
EV/EBITDA (x)	9.2	10.0	8.0
EV/EBIT (x)	12.7	14.0	10.6
P/E ADJ. (x)	14.4	15.1	12.0
DIV YIELD (%)	1.9	1.7	1.8

Source: BioDue (historical figures),
Value Track (2019E-20E estimates)

STOCK DATA

FAIR VALUE (€)	n.m.
MARKET PRICE (€)	6.44
SHS. OUT. (m)	11.1
MARKET CAP. (€m)	71.8
FREE FLOAT (%)	21.0
AVG. -20D VOL. (#)	3,426
RIC / BBG	BIO2.MI / BIO2.IM
52 WK RANGE	4.62-6.46

Source: Stock Market Data

THIS EQUITY RESEARCH IS PRODUCED IN THE NAME AND ON BEHALF OF INVEST BANCA S.P.A. THAT IS ACTING AS SPECIALIST ON BIODUE SHARES



Business Description

BioDue is a leading player in the Italian nutraceutical market: it develops, manufactures and distributes food supplements, cosmetics, medical devices and herbal products. It operates as a manufacturer for third parties (national and international pharmaceutical players) as well as for its own brands, Pharcos, Biofta and Selerbe with a well-defined focus on dermatological, ophthalmic and herbal products respectively. It is also a supplier of vegetal extracts (LaBiotre), ranging from liquid extracts to soft and granular dry extracts. The main distribution channel for all BioDue products is the pharmacy/parapharmacy channel, and in marginal part herbalists, mostly served with private labels.

Key Financials

€'000	2017A	2018A	2019E	2020E
Net Revenues	36.3	41.5	44.4	48.6
Chg. % YoY	5%	14.5%	6.8%	9.5%
EBITDA	4.6	7.4	8.5	10.2
EBITDA Margin (% of Net Revenues)	12.6%	17.8%	19.1%	21.1%
EBIT	3.2	5.4	6.1	7.7
EBIT Margin (% of Net Revenues)	8.7%	12.9%	13.7%	15.9%
Net Profit	4.1	4.0	4.8	6.0
Chg. % YoY	87%	-2.7%	20.0%	26.0%
Adjusted Net Profit	2.1	4.0	4.8	6.0
Chg. % YoY	-4%	90.1%	20.0%	26.0%
Net Fin. Debt	6.1	10.5	13.0	8.1
Net Fin. Debt / EBITDA (x)	1.3	1.4	1.5	0.8
Capex	2.3	6.0	6.0	1.9
OpFCF b.t.	0.8	-0.2	0.8	8.3
OpFCF b.t. as % of EBITDA	18.5%	n.m.	9.9%	80.9%

Source: BioDue SpA (historical figures), Value Track (estimates)

Investment case

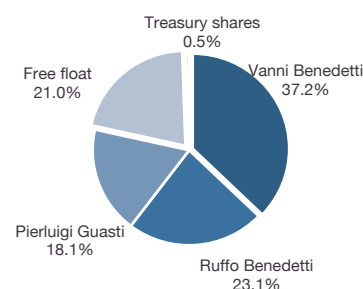
Strengths / Opportunities

- ◆ Leading player in the Italian nutraceutical market with young and committed shareholders and management;
- ◆ High level of diversification (clients, functional areas, products);
- ◆ Highly attractive reference market, seen keep growing in coming years;
- ◆ Demanding investment phase due to end in 2H19;

Weaknesses / Risk

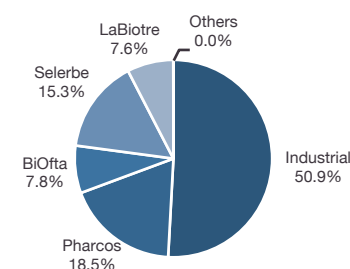
- ◆ Increasing competition from large multinational of the pharma industry;
- ◆ Potential risks from possible introduction of stricter rules for “hybrid products” (e.g. food supplements) and liberalization of pharmacy sector.

Shareholders Structure (pre deal)



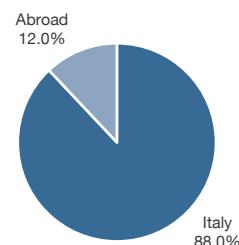
Source: BioDue SpA

Sales by product line in 1H19



Source: BioDue SpA

Sales by geography in 1H19



Source: BioDue SpA

Multiples @ €6.5 (Offer Price)

	2019E	2020E
EV / SALES (x)	1.9	1.7
EV / EBITDA (x)	10.0	8.0
EV / EBIT (x)	14.0	10.6
EV / CAP.EMP. (x)	2.1	2.0
OpFCF Yield (%)	1.0	10.1
P / E (x)	15.1	12.0
P / BV (x)	2.9	2.4
Div. Yield. (%)	1.7	1.8

Source: Value Track

Steady and healthy business outlook

Interim results provide the evidence that the company keeps growing “healthy”, with strategies undertaken by the management in the last couple of years which are definitely starting to deliver their objectives, also supported by a strong market demand. Inefficiencies raised for the finalization of production capacity expansion and for the new outsourced packaging policy are expected to be mostly offset by the profitability improvements expected in the second half of the year, once new production lines and the whole revised process is up and running. On the other hand, the impact of the capacity expansion (plants, automated warehouse and administration offices for total capex of €4.7mn in 2019) is expected from 2020 onwards. Our 2019-2021E forecasts have been fine tuned accordingly.

Interim results offer a mixed picture: read with care

Top-line growing at single-digit pace

Revenues from sales reached ca. €21.5mn +3.2% YoY, as result of the increasing brands awareness and market share of BioDue “own brands” (+4.2% YoY), the steady demand met by the Industrial division (+1.7% YoY) and the strong performance of LaBiotre (+16% YoY).

These results confirmed the successful business strategy put in place by the company, aimed at i) strengthening the Own brands division which currently account for ca. 42% of Revenues; ii) increasing LaBiotre volumes, which are steadily growing at double-digit rates quarter by quarter, despite not yet benefitting from the launch of the soft gel business line, occurred in the middle of June.

Among the Own brands, BiOfta is recording the highest growth (+16.3% YoY), as result of the increasing brand recognition and penetration in the ophthalmologist specialist channel, supported also by new products’ launch. On the other side, Selerbe and Pharcos highlighted moderate growth rates, with the former continuing to get strong results in the private label field, and the latter penalized by lower orders from the JV active in Latam, which almost offset the strong performance achieved in the domestic field (€3.5mn, +12.8% YoY). As a result of the trends outlined, foreign sales drop by 12.5% YoY, while domestic sales increased by 5.8% YoY.

BioDue: Revenues evolution by divisions

(€'000)	1Q18	2Q18	1H18	1Q19	2Q19	1H19
Industrial division	5,544	5,237	10,781	5,293	5,667	10,960
YoY Change (%)	9.0%	-2.7%	3.0%	-4.5%	8.2%	1.7%
Selerbe	1,650	1,525	3,175	1,684	1,609	3,293
YoY Change (%)	15.5%	16.3%	15.9%	2.1%	5.5%	3.7%
Pharcos	1,407	2,567	3,974	1,511	2,473	3,984
YoY Change (%)	4.9%	-0.2%	1.5%	7.4%	-3.7%	0.3%
BiOfta	553	888	1,441	646	1,030	1,676
YoY Change (%)	10.4%	12.1%	11.4%	16.8%	16.0%	16.3%
Own brands division	3,610	4,980	8,590	3,841	5,112	8,953
YoY Change (%)	10.4%	6.5%	8.1%	6.4%	2.7%	4.2%
Other Sales	10	97	107	5	0	5
LaBiotre	584	824	1,408	749	884	1,633
YoY Change (%)	nm	nm	20.0%	28.3%	7.3%	16.0%
Total Revenues from Sales	9,748	11,138	20,886	9,888	11,663	21,551
YoY Change (%)	16.6%	10.2%	13.3%	1.4%	4.7%	3.2%

Source: Company figures, Value Track Analysis

All the above said, it is worth to point out that sometimes quarterly data may be influenced by the timing of deliveries (especially at the end of Q2, i.e. before summer), with “2Q orders” that may be delivered in early July or “3Q orders” that are anticipated in late June. These factors may explain the apparent stop&go trends of some brands or division.

Profitability slightly hit by some temporary inefficiencies

Reported EBITDA came in at €3.3mn in 1H19 (-6.5% YoY), or €3.6mn (+2.2% YoY) if adjusted for the figurative cost related to the stock option assignment. EBITDA margin was at 15.3%, falling by 160bps YoY, or by ca. 20bps. if adjusted for the above mentioned non-monetary costs.

Reported EBIT decreased by 15.5% YoY, also due to higher D&A charges resulting from the development capex plan expected to be finalized by the end of 2019YE.

Yet, the slight drop in operating profitability has been affected by some temporary inefficiencies related to:

- ◆ The new business policy for the packaging activity, moved to outsourcing in 2Q;
- ◆ The launch of the soft gel plant, which required some additional costs to train new labour force and became operative only in mid-June, i.e. a few months later than initially planned;

However, such one-off inefficiencies are expected to vanish across the second half, leaving the floor to an overall improvement in operating profit.

BioDue: 1H19 Income statement

(€ mn)	1H18	1H19	Change YoY
Revenues from Sales	20.9	21.6	3.2%
Other Revenues	0.1	0.1	
Total Revenues	20.9	21.6	3.3%
COGS	-14.0	-14.5	
Other Costs	-0.6	-0.6	
EBITDA	3.5	3.3	-6.5%
<i>EBITDA margin (%)</i>	<i>16.9%</i>	<i>15.3%</i>	<i>-160bps</i>
EBITDA Adj. for stock options	3.5	3.6	2.2%
<i>EBITDA Adj. margin (%)</i>	<i>16.9%</i>	<i>16.7%</i>	<i>-17bps</i>
D&A	-1.0	-1.2	
EBIT	2.5	2.2	-15.3%
EBIT margin	12.2%	10.0%	
Net Interest income / expense	-0.1	-0.1	
Non-Operating Income	0.0	0.3	
Pre-tax profit	2.5	2.4	-4.3%
Taxes	-0.6	-0.5	
Tax rate	26.1%	19.5%	
Group Net profit before minorities	1.8	1.9	
Minorities	-0.1	0.0	
Net Profit (Loss)	1.8	1.9	10.5%

Source: Company figures, Value Track Analysis

Net Financial Debt close to €15mn at peak of capex plan

At the Balance Sheet / Cash Flow Statement level, we consider worthy of note the following items:

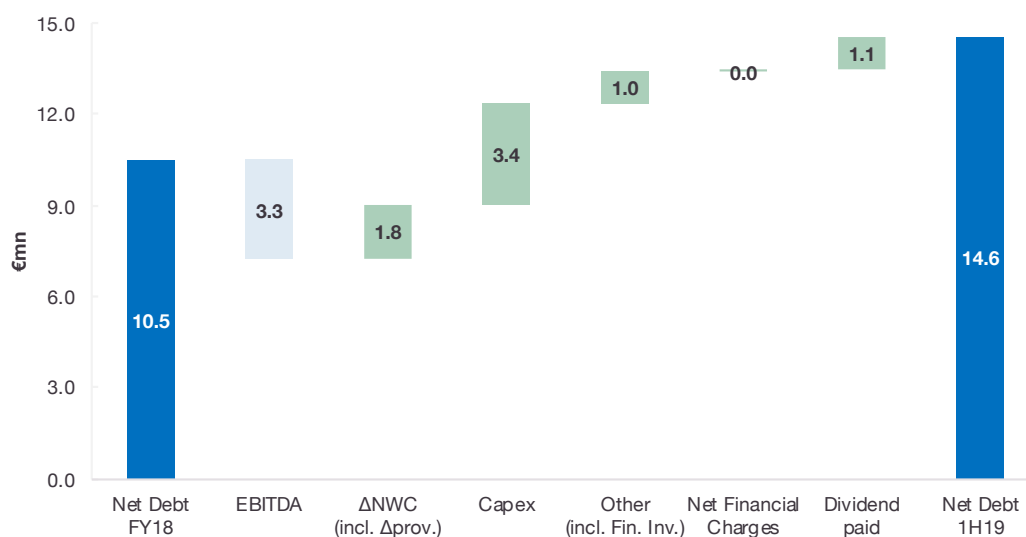
- ◆ **Net Working Capital** from €11.2mn to €13.3mn in 1H19, as a result of an increase in volumes and the worsening of NWC/sales from 26.7% of 1H18 to 30.7% of 1H19;
- ◆ **Worsening Net Debt** position standing at €14.6mn, ca. €4mn above Dec 2018 level, mainly due to the negative NWC dynamics, the €1.1mn cash out for dividend payment and the cash out of €0.4mn for the recapitalization of related companies (including ALSystem, entered in April 2019 with a 40% stake);
- ◆ the **Capex was particularly high** in the first half (€3.4mn or 100% of EBITDA) for the overlapping of the completion of LaBiotre plant (soft-gel) whose production started in June, and the capacity expansion of BioDue main premises announced in February 2019 and due for completion by year end. In FY2019 BioDue will invest €6mn (13.5% of revenues).

BioDue: 1H19 Balance Sheet

(€ mn)	1H18	FY18	1H19
Net Fixed assets	21.3	24.5	26.7
Net Working Capital	11.2	11.2	13.3
Severance pay and other funds	1.8	1.7	1.1
Total Capital Employed	30.6	34.1	38.9
Group Net Equity	21.6	23.5	24.3
Net Fin. Position [Net debt (-) / Cash (+)]	-9.0	-10.5	-14.6

Source: Company figures, Value Track Analysis

BioDue: Net Debt evolution in 1H19 (€mn)



Source: Company figures, Value Track Analysis

Fine-tuning 2019E-21E forecasts

Interim results came in broadly aligned to our FY2019E forecasts and the outlook remains unchanged compared to the one depicted in our previous update, released back on April.

That said, **we are just fine tuning our 2019E-21E estimates**, in details:

- ◆ Top line revised downwards (-2.4% on average in the forecasted period), as a result of lower growth rates expected from the industrial division, and the slowdown in sales abroad;
- ◆ Profitability revised slightly downwards as a result of the figurative cost of the stock options attributed in 2Q and inefficiencies related to the industrial reorganization;
- ◆ Forecasted tax rate reduced in 2019-21 (from previous 28% estimate to ca. 25%), mainly due to the introduction of the lower corporate income tax rate (IRES at 22.5%) on retained earnings.

BioDue: New vs. Old estimates

(€mn)	2019E			2020E			2021E		
	Old	New	Change	Old	New	Change	Old	New	Change
Total Revenues	45.4	44.4	-2.4%	49.8	48.6	-2.5%	54.0	52.7	-2.4%
EBITDA	9.1	8.5	-6.9%	10.6	10.2	-3.0%	12.0	11.6	-3.1%
<i>EBITDA margin</i>	20.0%	19.1%	-93bps.	21.2%	21.1%	-12bps.	22.3%	22.1%	-16bps
EBIT	6.7	6.1	-9.4%	8.1	7.7	6.7	9.4	9.0	-4.2%
<i>EBIT margin</i>	14.7%	13.7%	-106bps.	16.2%	15.9%	-25bps.	17.5%	17.2%	-24bps
Net Profit	5.0	4.8	-3.6%	5.9	6.0	1.7%	7.5	7.2	-3.8%
Group Net Equity	27.5	27.3		32.5	32.4		38.6	38.6	
Net Fin. Pos.	-11.7	-13.0		-7.9	-8.1		-3.1	-3.3	

Source: Value Track Analysis

Take-over agreement with Armònia

As of August 6th, BioDue and Aurora Dodici Spa – a company controlled by Armònia SGR and affiliate of Fidim (the holding company of the Rovati family) – entered into an agreement for the acquisition of 5.42mn BioDue shares at €6.50 per share. According to the agreement, Vanni Benedetti, i.e. the main shareholder and current Chairman and CEO of BioDue, together with the minority shareholder Pierluigi Guasti, will sell part of their shares and remain as minority shareholders.

The key elements of the agreement are the following:

- ◆ At the closing **Aurora Dodici will become the main shareholder of BioDue, with a stake of 48.6%**, Vanni Benedetti and Pierluigi Guasti will hold a 17.2% and 13.0% stake respectively, while the market would continue to hold 20.7% of company shares.
- ◆ Following the closing of the transaction, expected in the upcoming days, Aurora Dodici will launch a **take-over bid on the remaining 2.31mn shares at the same price, i.e. €6.50 per share.**
- ◆ The takeover will be **aimed at the delisting of BioDue** shares from the AIM Italia market. That is why, if Aurora Dodici at the end of the public tender offer will hold at least a 90% stake (also including the shares held by Vanni Benedetti and Pierluigi Guasti as “persons acting in concert”), a free float sufficient to ensure regular trading will not be restored.
- ◆ Given the fundamental role played by **Vanni Benedetti** also as Managing Director, he has agreed with his counterparties **to retain his MD position beyond to remain as a minority shareholder** of the Company.
- ◆ In addition, with the sole purpose of establishing an incentive mechanism for the Managing Director and aligning his interests with those of Armònia, at the Closing they will sign an incentive agreement based on the development and growth to be achieved by the company.

Acquisition price aligned to peers’ stock multiples and recent M&A

The announced offer price of €6.50 implies a premium of ca. 25% with respect to the average BioDue stock price in the six and twelve months preceding the announcement date. At such price, BioDue shares are trading at 10x EV/EBITDA, 14x EV/EBIT and 15.1x P/E 2019E, almost aligned to the stock multiples of our peers’ group (see our previous notes), with the exception of P/E. However, we believe that the relatively higher rating of peers on P/Es (compared to EV multiples) is due to the fact that two out of three comparables report positive cash positions and this affects /inflates their P/Es – and on a “levered P/E” basis, BioDue discount would be much lower.

BioDue: Peers stocks' trading multiples vs BioDue at offer price (*)

Company	EV / EBITDA		EV / EBIT		P / E	
	2019E	2020E	2019E	2020E	2019E	2020E
Pharmanutra	14.6	12.6	15.7	13.5	23.3	20.4
Kolinpharma	5.9	3.9	12.9	7.3	16.2	11.8
Fine Foods	9.7	7.3	19.8	14.5	30.7	23.8
Sarantis Group	10.8	9.4	12.9	11.0	15.1	13.9
Enervit	9.6	8.6	16.1	13.7	25.2	21.6
Herbalife	10.2	8.8	11.9	10.2	16.2	13.9
Midsona	13.1	9.6	18.9	12.6	19.5	11.2
Boiron	3.4	3.0	5.9	5.9	14.1	12.3
Usana	9.3	8.8	10.5	9.2	18.6	16.4
Average	9.6	8.0	13.8	10.9	19.9	16.1
Median	9.7	8.8	12.9	11.0	18.6	13.9
BioDue @ offer price	10.0	8.0	14.0	10.6	15.1	12.0

Source: Market Consensus, Value Track Analysis (*)Naturhouse (included in peers' group in our previous report) was removed for lack of consensus

Finally, we have compared the deal multiples of BioDue to those disclosed for the business combination between **Fine Foods & Pharmaceuticals N.T.M.** and Innova Italy 1 (announced back in May 2018). This has been in fact the main deal in the domestic food supplement industry and may represent another useful benchmark, despite it shows a few differences compared to this case and which may have offset each other to some extent, i.e.

- mainly the size and market share of the target (Fine Foods had €120m revenues in FY2017) and its nature of pure contract manufacturer with no own brands;
- the recapitalization, via the merger with the SPAC, with a €100m pile of cash;
- the lack of change of control, as the major shareholder Mr Eingenmann did not sell shares and kept the controlling stake);
- last but not least the fact that these combinations are a form of “listing” and not of “delisting”.

With all this in mind, if we move to the multiples announced when the combination with the target company was presented, they were the following: EV/EBITDA of 9.1x (10.8x on a fully diluted basis), EV/EBIT of 15.7x (20x f.d.) and P/E of 17x (34x). All these multiples were based on FY2017A, last historical results, and compare to similar multiples for BioDue FY2018A at offer price: EV/EBITDA of 11.2x, EV/EBIT of 15.4x and P/E of 18.2x.

...and overall return for shareholders since IPO: +91%

Despite the price agreed by Mr. Benedetti did not imply a material premium to our April 2019 fair value (€6.20), if we consider the whole listing period of the stock, BioDue shareholders will get an overall return of 91% relatively to the IPO price of May 2015 (i.e. an annual compound return of 17%, including dividends). Over the same period the AIM Italia Index has fallen by 25%.

Appendix: Key financials 2017A-21E

BioDue: Income Statement 2017A-21E

(€mn)	2017A	2018A	2019E	2020E	2021E
Total Revenues	36.3	41.5	44.4	48.6	52.7
COGS	-25.2	-26.4	-27.7	-30.0	-32.2
Labour costs	-5.6	-6.7	-7.1	-7.1	-7.5
Other costs	-0.9	-1.0	-1.1	-1.3	-1.4
EBITDA	4.6	7.4	8.5	10.2	11.6
<i>EBITDA margin</i>	<i>12.6%</i>	<i>17.8%</i>	<i>19.1%</i>	<i>21.1%</i>	<i>22.1%</i>
D&A	-1.4	-2.1	-2.4	-2.5	-2.6
EBIT	3.2	5.4	6.1	7.7	9.0
<i>EBIT margin</i>	<i>8.9%</i>	<i>12.9%</i>	<i>13.7%</i>	<i>15.9%</i>	<i>17.2%</i>
Net Financial Charge	-0.2	-0.1	-0.2	-0.2	-0.2
Non-Recurring and other Items	2.2	0.1	0.6	0.8	1.2
Taxes	-1.0	-1.2	-1.6	-2.1	-2.5
Minorities	0.0	-0.1	-0.1	-0.2	-0.4
Net Profit (Loss)	4.1	4.0	4.8	6.0	7.2

Source: Company figures, Value Track Analysis

BioDue: Balance Sheet 2017A-21E

(€mn)	2017A	2018A	2019E	2020E	2021E
Net Fixed Assets	18.7	24.5	29.1	29.2	29.7
Net Working Capital	9.7	11.2	13.0	13.3	14.4
Severance pay and other funds	1.7	1.7	1.8	2.0	2.1
Total Capital Employed	26.7	34.1	40.3	40.5	41.9
o/w Group Net Equity	20.5	23.5	27.3	32.4	38.6
Net Fin. Position [Net debt (-) / Cash (+)]	-6.1	-10.5	-13.0	-8.1	-3.3

Source: Company figures, Value Track Analysis

BioDue: Cash Flows 2017A-21E

€mn	2017A	2018A	2019E	2020E	2021E
EBITDA	4.6	7.4	8.5	10.2	11.6
Working Capital Change	-1.5	-1.6	-1.8	-0.2	-1.1
Capex	-2.3	-6.0	-6.0	-1.9	-1.9
Change in Provisions	0.8	-0.1	0.1	0.1	0.1
Cash Taxes	-1.0	-1.2	-1.6	-2.1	-2.5
OpFCF a.t.	0.6	-1.5	-0.8	6.2	6.4
Share Buyback	0.0	-0.3	0.0	0.0	0.0
Other Op. Items (incl. Fin. Inv.)	-0.6	-1.8	-0.4	0.0	0.0
Net Financial Charges	-0.2	-0.1	-0.2	-0.2	-0.2
Dividends paid	-0.7	-0.7	-1.1	-1.2	-1.3
Net Cash generated	-0.8	-4.4	-2.4	4.8	4.8

Source: Company figures, Value Track Analysis

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