

# Farmacosmo

Sector: E-commerce



## Health, Beauty, Wellness, directly at home

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Farmacosmo is a Health&Beauty e-retailer for OTC & SOP pharmaceuticals (“over the counter”, i.e. that do not need prescriptions) and BPC products (“beauty and personal care” such as cosmetics) based in Italy.

### Farmacosmo at a glance

Farmacosmo boasts a leading domestic position as H&B e-retailers, proven by €87mn top line FY22E, €96 Average Order Value (FY22E, much higher than competition), >60% of orders from recurring clients, nihil return rate. This is driven by a striking business model based on what the Company defines as I(ea)n strategy: 1) Customer centric approach; 2) Profit-oriented commercial strategy; 3) Fully integrated internally developed technological platform; 4) Strong ties with suppliers and “zero warehouse” policy; 5) Valuable customer data exploitation; 6) Pro-active ESG approach aimed to achieve (inter alia) carbon neutrality, while linking up management incentive policies to ESG objectives.

### Huge market ahead and well selected growth strategies

Farmacosmo is best positioned to profit from growth potential of the reference market, estimated to be worth ~€1.5bn and to keep growing double digit driven by increasing demand for H&B products and by Italian online penetration lower than abroad but steadily rising. Possible regulatory approval of prescription drugs online sales would also give a boost.

We expect Farmacosmo to ride this market opportunity by focusing on: 1) Increasing marketing investments; 2) Entering new verticals, i.e. high-quality premium cosmetics and pet industry; 3) Pursuing an omnichannel strategy, with a selected network of physical pharmacies engaged via commercial agreements; 4) Introducing value-added services in digital H&B; 5) Exploiting M&A opportunities.

### High growth company with low capital needs

We forecast: 1) Top Line to grow at 32% CAGR<sub>21A-24E</sub> to ca. €133mn in 2024E; 2) EBITDA to grow at 61% CAGR (€6.5mn in 2024E, EBITDA margin at 4.9%); 3) Close to 90% OpFCF/EBITDA conversion, with Net Cash Position 2024E at €19.2mn (out of which €15mn are IPO proceeds), thanks to asset light business model.

### Fair Equity Value at €2.91 per share (€2.69 Fully Diluted)

Averaging DCF model and Peers' Analysis, we land to ca. €109mn fair equity value, that implies €2.91 Fair Equity Value p/s if calculated on outstanding number of shares and €2.69 Fully Diluted Fair Equity Value p/s if we take into consideration a fully diluted scenario with the conversion of warrants, bonus shares and stock grant shares.

**Market Price (€)** 2.44  
**Fair Value p.s. (€)** 2.91  
**Market Capitalization (€mn)** 91.6

KEY FINANCIALS (€mn)	2021A	2022E	2023E
REVENUES FROM SALES	58.0	86.8	109.3
EBITDA	1.6	2.7	4.4
EBIT	1.1	2.1	3.8
NET PROFIT	0.4	1.0	2.2
EQUITY	1.0	16.9	19.1
NET FIN. POS.	0.8	14.5	15.8
EPS ADJ. (€)	0.01	0.03	0.06
DPS (€)	0.00	0.00	0.00

Source: Farmacosmo (historical figures)  
Value Track (2022E-23E estimates)

KEY RATIOS	2021A	2022E	2023E
EBITDA MARGIN (%)	2.7	3.1	4.1
EBIT MARGIN (%)	1.8	2.4	3.5
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/SALES (x)	1.2	0.9	0.7
EV/EBITDA (x)	nm	28.7	17.1
EV/EBIT (x)	nm	36.9	20.1

Source: Farmacosmo (historical figures)  
Value Track (2022E-23E estimates)

STOCK DATA	
FAIR VALUE (€)	2.91
MARKET PRICE (€)	2.44
SHS. OUT. (m)	37.6
MARKET CAP. (€m)	91.6
FREE FLOAT (%)	23.7
AVG. -20D VOL. (#)	13,646
RIC / BBG	COSMO.MI / COSMO IM
52 WK RANGE	2.24-2.60

Source: Stock Market Data \*Fully-Diluted Scenario

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## Business Description

Farmacosmo is a e-retailer for OTC & SOP pharmaceuticals (“over the counter”, i.e. that do not need prescriptions) and BPC products (“beauty and personal care” such as cosmetics) in Italy. Thanks to a wide catalogue with over 63k references, long shelf-life products selling at discount vs. physical stores and end-to-end customer-centric approach, Farmacosmo is generating ever improving KPIs also boosted by its B2B exposure, as Farmacosmo is tier 1 supplier for one of the leading e-commerce of the Western world.

## Key Financials

€mn	2021A	2022E	2023E	2024E
<b>Revenues from Sales</b>	<b>58.0</b>	<b>86.8</b>	<b>109.3</b>	<b>133.1</b>
Chg. % YoY	31.7%	49.6%	26.0%	21.7%
<b>Value of Production</b>	<b>58.5</b>	<b>87.3</b>	<b>109.9</b>	<b>133.8</b>
<b>EBITDA</b>	<b>1.6</b>	<b>2.7</b>	<b>4.4</b>	<b>6.5</b>
EBITDA Margin (As a % of Sales)	2.7%	3.1%	4.1%	4.9%
<b>EBIT</b>	<b>1.1</b>	<b>2.1</b>	<b>3.8</b>	<b>5.7</b>
EBIT Margin (As a % of Sales)	1.8%	2.4%	3.5%	4.3%
<b>Net Profit</b>	<b>0.4</b>	<b>1.0</b>	<b>2.2</b>	<b>3.4</b>
Chg. % YoY	10.9%	nm	nm	59.3%
<b>Adjusted Net Profit</b>	<b>0.4</b>	<b>1.0</b>	<b>2.2</b>	<b>3.4</b>
Chg. % YoY	10.9%	nm	nm	59.3%
<b>Net Fin. Position</b>	<b>0.8</b>	<b>14.5</b>	<b>15.8</b>	<b>19.2</b>
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	-0.8	-1.8	-1.3	-1.1
<b>OpFCF b.t.</b>	<b>-0.4</b>	<b>-0.2</b>	<b>2.9</b>	<b>5.7</b>
OpFCF b.t. as % of EBITDA	-24.4%	-8.5%	65.4%	87.2%

Source: Farmacosmo(historical figures), Value Track (estimates)

## Investment case

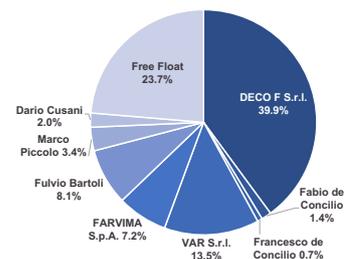
### Strengths / Opportunities

- ◆ Very high flexibility to demand thanks to “Sell & Buy” approach and almost non-existent inventory risk due to the “zero warehouse” policy;
- ◆ Huge growth potential of reference market;
- ◆ End-to-end customer centric approach resulting in high conversion rate and above competition average order value (AOV);

### Weaknesses / Risks

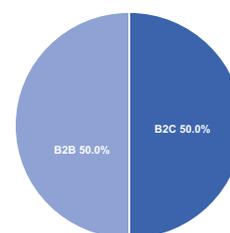
- ◆ Increasing competition trying to exploit current low online penetration;
- ◆ Risk of potential changes in current legal and regulatory framework;
- ◆ Risk of sales concentration, operating in B2B channel with one major client.

## Shareholders Structure



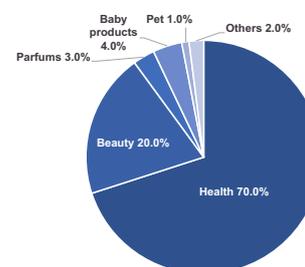
Source: Farmacosmo

## FY21 Sales breakdown by Business



Source: Farmacosmo

## FY20 Sales breakdown by Product Category



Source: Farmacosmo

## Stock multiples @ €2.91 Fair Value

	2022E	2023E
EV / SALES (x)	1.09	0.86
EV / EBITDA (x)	35.3	21.0
EV / EBIT (x)	45.3	24.8
EV / CAP.EMP. (x)	38.7	28.2
OpFCF Yield (%)	-0.2	3.1
P / E (x)	112.2	50.7
P / BV (x)	6.5	5.7
Div. Yield. (%)	0.0	0.0

Source: Value Track

# Table of Contents

<b>Executive Summary</b>	<b>Pag.4</b>
<b>Business Profile</b>	<b>Pag.7</b>
<b>Huge market opportunity ahead, with some challenges</b>	<b>Pag.20</b>
<b>Farmacosmo best-positioned to profit from market opportunities</b>	<b>Pag.28</b>
<b>Growth Strategy</b>	<b>Pag.35</b>
<b>Forecasts 2022E-24E</b>	<b>Pag.38</b>
<b>Valuation</b>	<b>Pag.44</b>
<b>Appendix</b>	<b>Pag.51</b>

## Executive Summary

### Farmacosmo at a glance

Farmacosmo is a e-retailer for OTC & SOP pharmaceuticals (“over the counter”, i.e. that do not need prescriptions) and BPC products (“beauty and personal care” such as cosmetics) in Italy. Over the years Farmacosmo has established a leading position as H&B e-retailer, thanks to so called l(ea)n strategy and a striking value proposition:

- ◆ Featuring an integrated offer of both pharmaceuticals and cosmetics (“**Farma**” + “**Cosmo**”) on the Italian market, that is still underdeveloped compared to the rest of Europe;
- ◆ Boasting a very broad catalogue with over **63,000 active SKUs and 4,000 brands** clustered in **15 product categories**;
- ◆ Selling **long shelf-life products at huge discount** compared to physical retailers;
- ◆ Dedicated to **B2C and B2B clients**, including one of the leading e-commerce in the Western world;
- ◆ Offering an **end-to-end customer-centric approach** with:
  - Six languages multichannel (phone, social, tickets, chats) customer care;
  - Independent and verified service reviews;
  - User-friendly e-commerce, with immediate and vocal search engine;
  - Fidelity programs;
  - High-quality and eco-friendly packaging coupled with carbon compensation initiatives, according with ESG company approach.

Thanks to such an outstanding offer, Farmacosmo has been able to achieve an **above competition €92 AOV** (Average Order Value), **high conversion rate** (over **3%** out of 11mn site visits corresponding to 348k orders in 2021), **low costs of acquisition (3.4%** of revenues), **nihil return rate (0.05%)**, **increasing incidence of recurring orders (62%** of total orders) and to deliver impressive growth in terms of financials.

Indeed, as of FY21A, Farmacosmo reported **€58mn Revenues**, meaning a 54% CAGR<sub>16A-21A</sub>, and **positive €1.6mn EBITDA**, almost 5x if compared to 2018FY.

### Reference market: huge opportunity ahead, with some challenges

The **Italian online market of H&P products is estimated to be worth ~€1.5bn** in 2021E, growing at full speed y/y (+43.3%), despite the massive increase already experienced in 2020 (i.e. +86.6% y/y). Basically, the market has nearly tripled in the latest two years.

As far as future outlook is concerned, expected growth rates remain double digit, driven by: 1) ever-increasing adoption of e-commerce as a way to purchase all types of goods (and services); 2) increasing demand for OTC & SOP/PEC/Beauty products; 3) growing adoption of mobile health apps; 4) Italian OTC & SOP online market penetration lower than abroad.

In such fast-growing reference market, we believe that the most interesting opportunities to ride are:

- ◆ **Online sales of prescription drugs.** In Italy, online sale of prescription drugs is not allowed yet and only OTC & SOP and medicines without prescription obligation can be sold online, provided that behind the website there is a real drugstore. However, things are moving. Electronic prescription (**eRx**) – the innovative tool through which the clinician prescribes medicines and specialist visits online without using the classic paper form – has been introduced back in 2016. So, the remaining missing step is the possibility for patients to order drugs remotely and to have them shipped at home.
- ◆ **End-to-end online clinical experience (telemedicine).** Covid-19 has accelerated trends that were already growing, like the adoption of telemedicine or online consultation with doctors

and pharmacists. Telemedicine integrates an ever-growing set of technologies to create a true omnichannel experience for patients.

As far as the main market challenges that the market might pose to Farmacosmo we highlight:

- ◆ **Possible deregulation** of the e-pharmacy retail market, allowing the entry of more and more competitors;
- ◆ **Logistic challenges**, as clients ask for shorter and shorter delivery times and lower shipping fees;
- ◆ **Increasing competition** from domestic and foreign market trying to profit from current low online penetration.

### Farmacosmo best positioned to profit from such market opportunities

We believe that Farmacosmo is optimally positioned in order to profit from the huge growth potential of the underlying reference markets thanks to its business model, which the company defines as the L(ea)N strategy. The model is fueled by mutual contamination and based on three strategic streams: Logistics, Intelligence (commercial strategy), Node (proprietary and internally developed software infrastructure). The main features are shown below:

- ◆ **Strong ties with suppliers**, allowing breadth of product offering, scalability, fast provisioning, low working capital absorption and low risk of write off. In the case of two of the main suppliers, this relationship is also directly or indirectly strengthened at shareholders value;
- ◆ **Profit oriented commercial strategy**, based on: 1) very high €79.9 minimum order for granting free shipping costs to clients, boasting a much higher AOV (ca. €92) if compared to competitors and lower incidence of logistics, packaging, shipping and back-office costs, and; 2) lower than peers budget devoted to acquire online traffic, driving a low CAC incidence (roughly 3.4% on 2021A revenues, compared to the higher than 5% for competitors);
- ◆ **Customer centric approach** in terms of: 1) price positioning; 2) user experience (UX); 3) payment approach; 4) support services to clients; 5) customer loyalty techniques, driving best in class reputation, (not only from direct clients but also from consumers associations), and boosting clients' loyalty thus leading to higher and higher number of repeat orders (**62% of total generating more than 70% of total revenues**);
- ◆ **Fully integrated internally developed technological platform**, as Farmacosmo has autonomously developed a whole series of proprietary software for the optimization and automatization of the interaction between customers, suppliers, and the company itself (internally), for the real-time monitoring of all the business KPIs and of the daily work of all collaborators. From this point of view, Farmacosmo can be seen as a software house that sells H&B products;
- ◆ **Valuable customer data**, gained over the years not only in the B2C field but also in the B2B one, boasting enormous value for business development and not shared with suppliers.

At the same time, we note that there are some features of Farmacosmo's business profile that are going to be optimized:

- ◆ No mobile app yet;
- ◆ Logistic facilities mainly based in South of Italy;
- ◆ Last mile distribution points in key urban areas;
- ◆ Dependence upon key suppliers;
- ◆ B2B customer concentration.

### Carefully selected growth strategies

In the short-term, we expect Farmacosmo management to focus on the following growth drivers / strategies:

- ◆ **Increasing the investments in marketing activities** to further boost B2C growth in terms of number of active clients, order frequency / customer loyalty, Average Order Value (AOV);
- ◆ **Enlarging the number of “verticals” addressed** with its e-retailing platforms, that’s to say entering: 1) high-quality premium cosmetics, as the company already owns the domain registration of “Profumeriaonline.it”, to be launched in 2H22; 2) the pet industry, and in particular for veterinary use, expected to post a healthy growth pace going forward.
- ◆ **Pursuing an omnichannel strategy**, i.e. set up of a small and selected network of physical pharmacies (mainly via commercial agreements with Farvima shareholder) aimed at: 1) improving brand awareness, (flagship stores branded Farmacosmo); 2) enhancing the customer journey with additional value-added services, such as the fulfilment of online orders and the pick-up and return of online purchases; 3) preparing the ground for the eRx opportunity, and for the provisioning of telemedicine services; 4) further reducing delivery times, thus unlocking a powerful quick-commerce value proposition.
- ◆ **Introduction of value-added services in digital health** (telemedicine and home delivery care services) and beauty (development of a face recognition tool for the beauty and skin care world, which will make it possible to try "live" the cosmetic & skin care products in the cart);
- ◆ **Exploitation of M&A opportunities** in Italy and abroad, with the targets being: 1) firms involved in the e-pharma / e-cosmetic field; 2) Big Data & Machine Learning startups.

### Financial profile

In our view, there are three main points to underline about Farmacosmo’s financial profile:

1. Top line has been consistently increasing at double digit rates in the recent past (54% CAGR<sub>16A-21A</sub> to €58mn as of FY21) and we expect this trend to continue ahead, with **Revenues from Sales** up at **32% CAGR<sub>21A-24E</sub>** to ca. **€133mn in 2024E**, mainly boosted by the B2C revenues stream;
2. Operating profitability is positive and continuously improving thanks to the high “free shipping” threshold and to excellent control of SG&A costs. Indeed, **EBITDA margin** stood at 2.7% in FY21 and we expect it to increase at **4.9% in 2024E (€6.5mn in 2024E, ca. 61% CAGR<sub>21A-24E</sub>)**;
3. The business model is asset light and cash-generative, thanks to almost “zero-inventory” policy, to efficient management of DPO-DSO spread and to very limited CapEx requirements. We forecast **close to 90% Operating Free Cash Flow / EBITDA conversion**, with Net Cash Position 2024E at €19.2mn, (including €15mn worth of net IPO proceeds).

### Valuation

We calculate a fair equity value at ca. €109mn obtained by averaging: 1) DCF model (€126mn); 2) Relative market multiples (ca. €93mn). We note that:

- ◆ **Relative market multiples** method necessarily focuses on EV/Sales, as the majority of peers show negative EBITDA margin;
- ◆ **DCF model** captures Farmacosmo’s medium-term growth potential and above average cash generation capability driven by its favorable working capital dynamics and low capital requirements.

Based on the outstanding number of shares, €109.4mn would translate into a **Fair Equity Value per share of €2.91**, while considering the fully-diluted scenario, we would get a **Fully-Diluted Fair Equity Value per share of €2.69**.

## Business Profile

*Farmacosmo is a e-retailer for OTC & SOP pharmaceuticals and cosmetics in Italy. Thanks to a wide catalogue with over 63k references, long shelf-life products selling at discount vs. physical stores and end-to-end customer-centric approach, Farmacosmo is generating ever improving KPIs also boosted by its B2B exposure, as Farmacosmo is tier 1 supplier for one of the leading e-commerce of the Western world.*

### Farmacosmo at a glance today

Farmacosmo (“the Company”) is the only 100% online “health, beauty (H&B) and wellness e-retailer” active in the Italian market of OTC & SOP medicines (“over the counter”, i.e. that do not need prescriptions) and BPC products (“beauty and personal care”).

With ca. 200k customers, Farmacosmo is one of the leading H&B e-retailer, thanks to so called I(ea)n strategy and a striking value proposition:

- ◆ Featuring an integrated offer of both pharmaceuticals and cosmetics (“**Farma**” + “**Cosmo**”) on the Italian market, that is still underdeveloped compared to the rest of Europe;
- ◆ Almost **100% online**, with just one brick and mortar parapharmacy, which is the minimum requirement of the Italian regulation to sell OTC & SOP medications online;
- ◆ Boasting a very broad catalogue with over **63,000 active SKUs and 4,000 brands** clustered in **15 product categories**;
- ◆ Selling **long shelf-life products at discount** compared to physical retailers;
- ◆ Dedicated to **B2C and B2B clients**, including one of the leading e-commerce of the Western world;
- ◆ Offering an **end-to-end customer-centric approach** with:
  - Six languages multichannel (phone, social, tickets, chats) customer care;
  - Independent and verified service reviews;
  - User-friendly e-commerce, with immediate and vocal search engine;
  - Fidelity programs;
  - High-quality and eco-friendly packaging.

### Farmacosmo at a glance

## FARMACOSMO+



100% Online

Health, Beauty and Wellness e-commerce marketplace



Low-Cost Advantage

Long shelf-life OTC & BPC products at discount vs. traditional retailers



Brilliant KPIs\*

- 188.7k Clients
- 62% Recurring Orders
- € 92 AOV (Gross of VAT)



B2B Exposure

Supplier of one of the largest e-commerce marketplace of the Western world

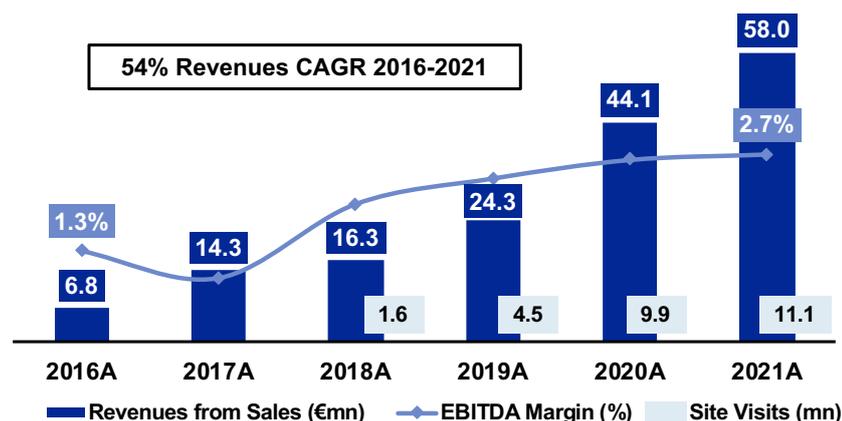
Source: Value Track analysis, Farmacosmo

\* KPIs referred to Sept. 2020-2021 period

Thanks to such an outstanding offer, Farmacosmo has been able to achieve an **above competition €92 AOV** (Average Order Value), **high conversion rate** (over **3%** out of 12mn site visits), **low costs of acquisition** (**3.4%** of revenues), **nihil return rate (0.05%)**, **increasing incidence of recurring orders** (**62%** of total orders) and to deliver impressive growth in terms of financials.

Indeed, as of FY21 Farmacosmo reached **€58mn Revenues** (equally split between B2C and B2B business), meaning a 54% CAGR<sub>16A-21A</sub>, and **positive €1.6mn EBITDA**.

#### Farmacosmo: Revenues, EBITDA Margin and Site Visits evolution FY16-FY21



Source: Value Track analysis, Farmacosmo

## Business model

Farmacosmo's business model differs from most of its competitors due to the type of clients covered (B2C and B2B), the kind of products and services offered, and the external parties involved in sourcing and distribution processes of Farmacosmo's "Sell & Buy" approach.

### B2C vs B2B

Despite Farmacosmo was established with the intent of pursuing a B2C-only strategy in the H&B area, the proposal to become a supplier of groceries, household cleaners and of other large-scale retail ("LSR") SKUs towards one of the leading marketplaces in the Western world became a too promising opportunity to reject.

Therefore, over the last years, revenues from B2B have accelerated and total turnover is now almost equally split between the two business units, with B2C and B2B accounting for ca. 50% of total revenues as of FY21.

Worthy to note, both the B2C and B2B logistic processes are managed in Farmacosmo's facility based within Interporto, (based in Nola, 30 km on the outskirts of Naples), one of the most important trading center and intermodal logistic structures in Europe that offers a combined transport system (rail, road, air, and sea), integrating storage and handling of goods.

Main features of the B2C and B2B businesses are as follows:

#### B2C –e-retailing

- ◆ Stream almost 100% online, with only one physical store due to the Italian law requirement of at least one retail shop to sell OTC & SOP drugs online.

- ◆ Wide catalogue of long-lasting OTC & SOP and PBC products sold at material discount vs. traditional retailers. Indeed, regulation demands for a corresponding price for the same product no matter if sold online or offline. Hence, less physical stores imply lower fixed costs, thus providing Farmacosmo a light, floating and flexible cost strategy advantage vs. competitors;
- ◆ Orders are placed directly by the final consumer on the Company website;
- ◆ Logistics processes are automated throughout the Italian and foreign territory by Delivery Manager, Farmacosmo's proprietary software platform that enable fast picking and packaging procedures thus allowing to manage around 2,500-3,000 orders per day, potentially to be increased up to 12,000 per day.

### B2B – Wholesale

- ◆ Farmacosmo also acts as a wholesaler for one of the leading online marketplaces of the Western world. Thanks to this long-lasting collaboration, low return rates and efficient logistics, Farmacosmo has also gained access to the highly restricted European group of “Stellar Suppliers”;
- ◆ Products differs from the B2C offer and are tailored to the very strict needs of the client, that usually comprehends groceries, household cleaners and of other large-scale retail (“LSR”) SKUs;
- ◆ Orders are placed automatically by the client platform, however Farmacosmo caps the supply at 30% of the request, in order not to be too dependent;
- ◆ The entire B2B logistics process (from receipt of orders to delivery services in one of their 16 Italian clients' warehouses) is automatically managed by Farmavendor, another Farmacosmo's proprietary software.

### Farmacosmo: B2C vs. B2B business models

Features	B2C	B2B
<b>Business Model</b>	E-retailer	Wholesale
<b>Products</b>	OTC & SOP, PBC	LSR
<b>2021FY Revenues Breakdown %</b>	50%	50%
<b># Total Customers</b>	189k	n.m.
<b>Online / Offline</b>	Online	n.m.
<b>Main Software</b>	Delivery Manager	Farmavendor
<b>Logistic Center</b>	Nola, 1 <sup>st</sup> Floor	Nola, Ground Floor

Source: Value Track analysis, Farmacosmo

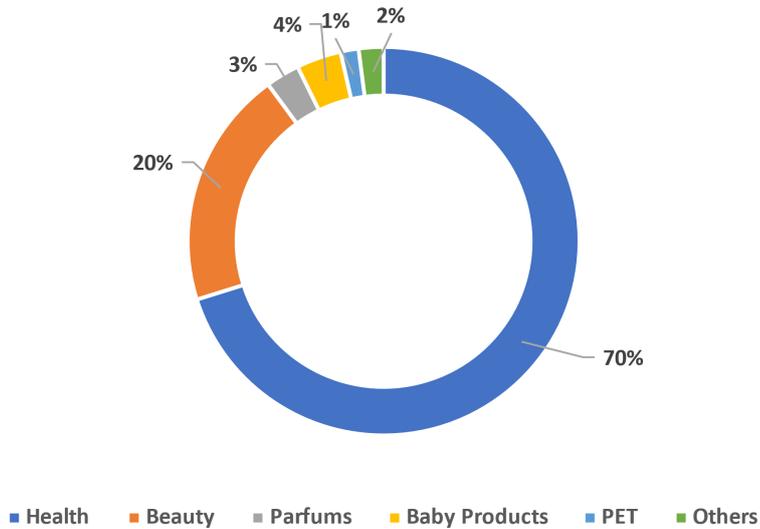
Since the B2B customer is a primary global importer, reaches millions of active users and forwards ca. 100k SKUs for each order to Farmacosmo, Farmacosmo can process data, understand new consumers' preferences, and monitor new market trends in real time. More, thanks to the compatibility of Farmavendor and Delivery Manager, Farmacosmo can also adjust its sourcing strategy, acknowledge which suppliers could potentially provide the desired products for the B2B client and eventually decide if the product could also be viable for the B2C marketplace.

### Products & Services

The main difference between B2C and B2B businesses is about the products offered to final consumers on one hand and the supply service provided to the global player on the other.

Farmacosmo's B2C marketplace offers over 63,000 SKUs owned by 4,000 brands and divided into **15 product categories**.

**Farmacosmo: FY20 B2C Revenues breakdown by products categories**



Source: Value Track analysis, Farmacosmo

Looking at the top 10 B2C products sold during FY21, we get a discount compared to their retail prices.

**Farmacosmo: FY20 B2C Top 10 sold categories**

Product	Category	Incidence on Sales (%)
Product #1	Supplements	0.80%
Product #2	OTC & SOP	0.54%
Product #3	Supplements	0.43%
Product #4	OTC & SOP	0.41%
Product #5	Supplements	0.39%
Product #6	Supplements	0.36%
Product #7	Supplements	0.32%
Product #8	Supplements	0.30%
Product #9	Supplements	0.29%
Product #10	Supplements	0.25%

Source: Value Track analysis, Farmacosmo

With regard to B2B activities, Farmacosmo acts as an intermediary, offering a **distribution** service to its client by providing large-scale distribution-related products. B2B products are not usually suitable for the B2C marketplace as mostly are groceries, but some exceptions could happen (e.g., homecare goods).

## The Enlarged Group / Related Parties

One of the key winning points of Farmacosmo's business model (see next chapters for more details) has to do with the solid relationships established with related parties, i.e. suppliers, brand manufacturers and outsourcing partners.

### Inbound logistics partners

The logic of selling first and buy later applies to both B2C and B2B models, as for the nature of suppliers. Indeed, Farmacosmo purchases mainly from wholesale suppliers.

- ◆ More, as far as B2C is concerned, buying from wholesalers and not from brands owners allows to pick up only the desired goods and not undesired bundles, which would in turn increase the inventory and the risk of write-offs. Indeed, since the average B2C order accounts for ca. 7-8 units, it is crucial for Farmacosmo to purchase only the products it has already sold through its website;
- ◆ On the contrary in the B2B business, Farmacosmo acts as a broker and purchases the precise quantities from brands substantially on behalf of the B2B client.

Both in B2C and B2B activities, Farmacosmo selects its suppliers carefully, analyzing their process automation, speed, and quality in the fulfilment of orders, price competitiveness, breadth of product offering and available quantities.

On the other hand, suppliers find a stable and reliable partner, with high automation and constant growth of intermediated volumes. As a consequence, Farmacosmo is able to establish solid relationships. Indeed, in the case of two of the main suppliers, this relationship is also directly or indirectly strengthened at shareholders value.

Thanks to such careful approach, both B2C and B2B **inventories remain at minimal levels** ("zero warehouse" policy).

### Operations and outbound logistics (outsourcing) partners

Operations and outbound logistics are entirely outsourced to different partners, depending on the type of service:

- ◆ **Operations** – manpower service for logistics outsourced to a cooperative whose cost is hourly, flexible and dynamic, with a constant redistribution of resources according to the needs of the moment. Farmacosmo's operations personnel counts only 10 workers;
- ◆ **Shipping / Delivery of orders** - the Company relies on three Tier 1 carriers that cover Italy and the rest of Europe. However, to avoid a negative correlation between return costs from non-EU countries and sales, Farmacosmo prefers not to ship out of the EU. However, Farmacosmo has got IATA certification, allowing Farmacosmo to ship its products by air;
- ◆ **Drop shipping** – sales activity outsourced only to few suppliers with advanced tech infrastructure that allow them to work as an "operating arm" of the Company. These suppliers are provided with software that simulates packaging and delivery from Farmacosmo's logistics.

### B2C Non-Financial KPIs

Farmacosmo has very interesting KPIs that represent a solid base to further take off and get closer to Italian and international peers and competitors.

### Farmacosmo: B2C Non-Financial KPIs evolution

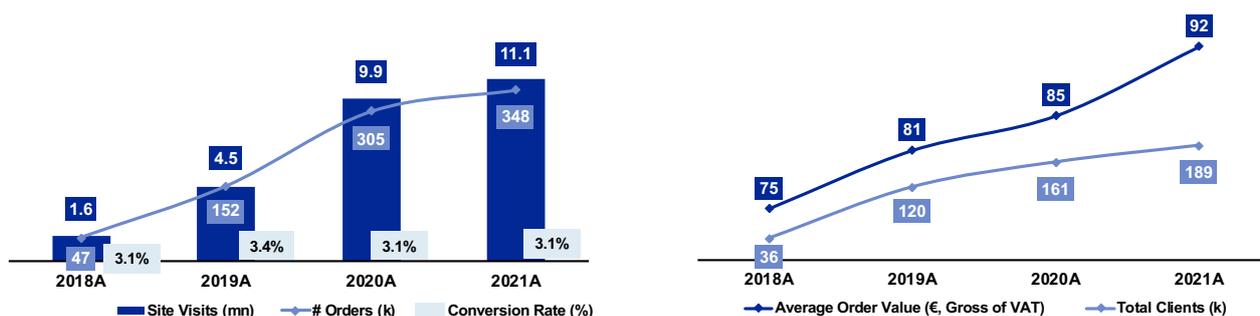
Farmacosmo B2C KPIs	2018YE	2019YE	2020YE	2021YE
Site Visits	1.6mn	4.5mn	9.9mn	<b>11.1mn</b>
# Orders	47.3k	152.2k	304.6k	<b>348k</b>
Conversion Rate (%)	3.0%	3.4%	3.1%	<b>3.1%</b>
Average Order Value (AOV) Gross *	€ 75	€ 81	€ 85	<b>€ 92</b>
Recurring Orders	37%	38%	62%	<b>62%</b>
Units Sold	248k	879k	2.09mn	<b>2.71mn</b>
Total Clients	36k	120k	161k	<b>189k</b>
Recurring Clients	6k	25k	46k	<b>56k</b>
Revenue from Recurring Clients (%)	41%	56%	69%	<b>74%</b>
Cost of Acquisition (COA, % of Sales)	3.3%	3.2%	3.4%	<b>3.4%</b>
Return Rate	na	na	na	<b>0.05%</b>
# Annual Orders / Recurring Client	2.8x	2.2x	4.1x	<b>3.9x</b>
# Units Sold / Order	5.2x	5.7x	7.0x	<b>7.8x</b>

Source: Value Track analysis, Farmacosmo \*Gross of VAT

Among all, we want to highlight:

- ◆ **Site visits** growing at double digit rate every year from 2018, reaching **11mn** in 2021;
- ◆ **Conversion rate** stable around **3%**, meaning orders increasing hand in hand with site visits and amounting to ca. **348k orders** in 2021;
- ◆ **Average order value at €92 (ca. €110 for recurring clients)**, the highest among both Italian and foreign players (standing at ca. €30-€50);
- ◆ **Recurring orders at 62%** of the total in 2021 from 37% in 2018.

### Farmacosmo: Site Visits and Conversion Rate (lhs) and AOV and Active Clients (rhs)



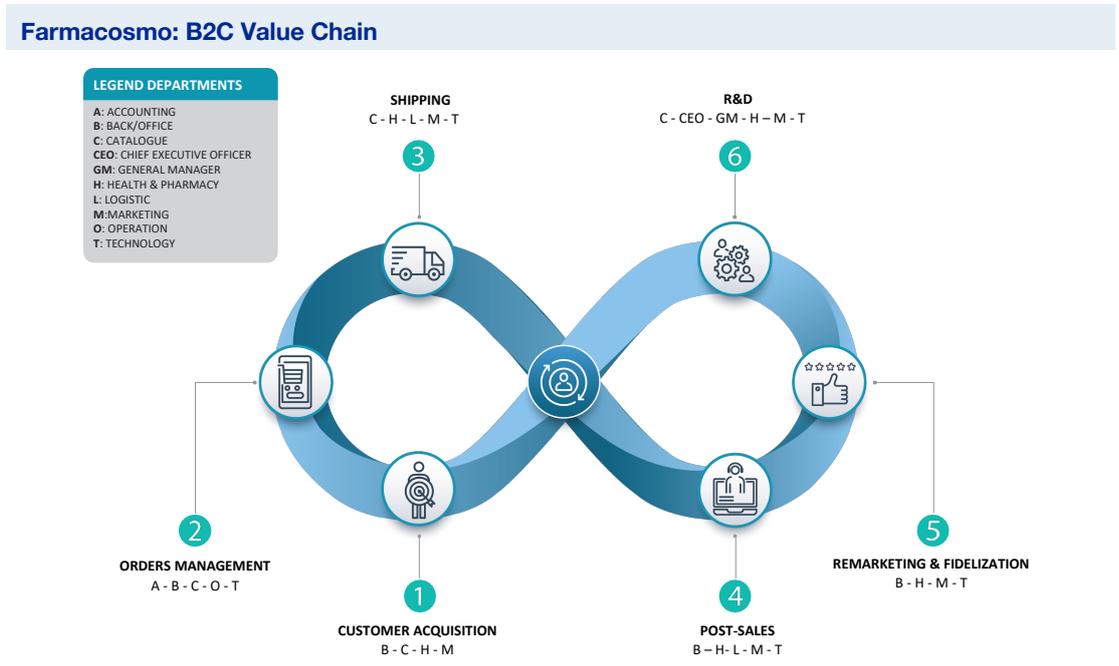
Source: Value Track analysis, Farmacosmo

### Value Chain(s) step by step

As briefly anticipated, B2C and B2B business models have different logistics processes, coordinated by distinct proprietary software (however interlinked). Here we highlight the main steps of Farmacosmo's two separate value chains.

### B2C Value Chain

The B2C value chain can be split in six subsequent and continuous steps, with ten departments involved all having the same priority of satisfying every need of the final consumer.



Source: Farmacosmo

#### 1. Customer acquisition

Farmacosmo is able to attract customers thanks to its **multichannel marketing strategy** based on value content, competitive prices, exclusive discounts and a “nurturing” process that makes consumers feel part of a community, supported by pre- and post-sales services aimed at 100% customer satisfaction. However, inbound traffic is technically conveyed as a result of direct and indirect (paid) specific digital tools, such as:

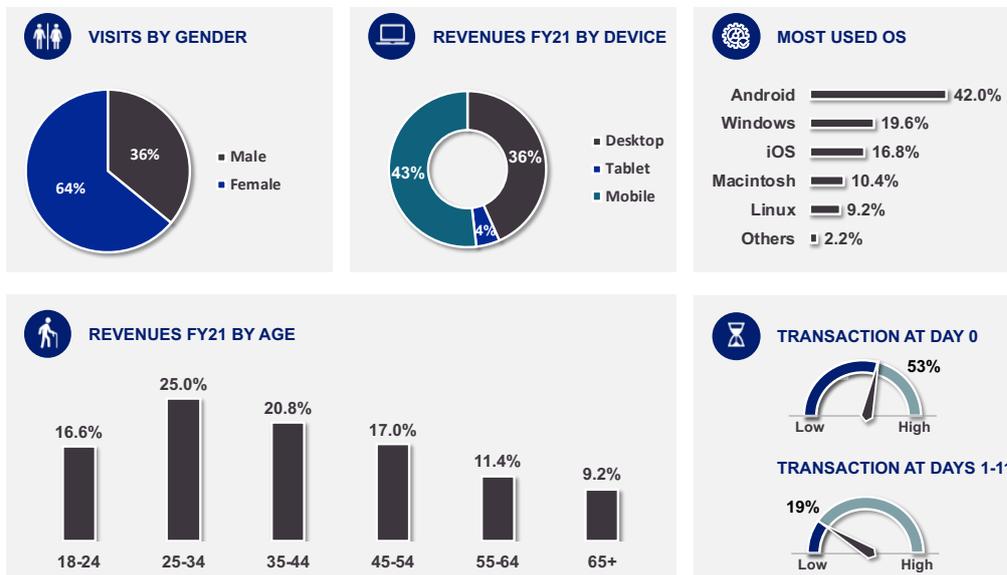
- ◆ SEO – contents are optimized to be more and more present and useful to users (organic);
- ◆ SEM - based on seasonality, display and search network campaigns are carried out (paid);
- ◆ Social Media - constant dialogue with the community and the promotion of exclusive content;
- ◆ Content Marketing - created to communicate in the simplest and clearest way;
- ◆ E-mail Marketing - every week, over 300k newsletter subscribers receive an exclusive discount code on brands and/or categories
- ◆ TV - commercials have been created for precise targets, aired on Mediaset and Sky;
- ◆ Digital PR – Group’s reputation is constantly monitored online. Influencers have been identified to convey Farmacosmo’s values;
- ◆ Cashback – presence on most important cashback websites.

In addition, pre-sales activities also include a customer support service for health- or beauty care-related questions directed by Farmacosmo’s **medical team** and that can be contacted by phone, e-mail, chat, ticket.

Through this extensive process, Farmacosmo has access to an indefinite amount of data (e.g., purchasing categories, demographic, behavioral patterns, specific interests) that after thorough

analysis helps to enhance targeting strategies, create ideal audience segments, improve customer’s experience and KPIs.

**Farmacosmo – Examples of useful consumers’ data collected to support marketing strategies**



Source: Value Track analysis, Farmacosmo

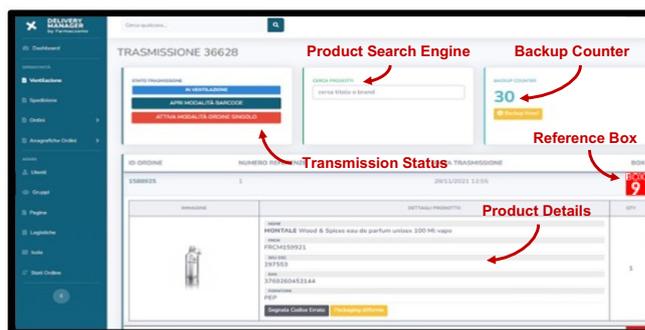
**2. Orders management**

After customers place the order on Farmacosmo’s website, the software **Switch** elaborates the data and automatically transmits the request to a specific supplier. Selection is based on suppliers’ inventory level, on availability and on the amount of the same reference demanded by different customers (i.e., different orders).

**Farmacosmo: “Isle system” (lhs) and Delivery Manager interface (rhs)**



Source: Value Track analysis, Farmacosmo



Switch is interconnected to **Delivery Manager**, proprietary software that coordinates the entire B2C logistics process and enables fast picking and packaging procedures based on physical “isle system” divided between red and blue boxes (i.e. inbound products and products to be delivered).

Orders management is also supported by the accounting department (clients’ data check) and back-office (management of criticalities before shipping).

### 3. Shipping

Once the clients' orders are assembled by securing perfect temperature and space conditions, (and some free samples are added), they are shipped thanks to tier 1 couriers.

### 4. Post-Sales

Services are many and divided across several departments:

- ◆ Accounting – handling refund applications and issuing invoices for deduction purposes;
- ◆ Back-office – problem-solving on platforms issues;
- ◆ Health – clients' assistance via phone, e-mail, chat and ticket (same as pre-sales service);
- ◆ Logistic – receiving and checking returned products and deciding whether to send them back to suppliers or selling them in the outlet section.

### 5. Remarketing & Fidelization

At this point, the goal of Farmacosmo is to either convert casual into recurring customers or strengthen fidelization with experienced clients.

By analysing users' patterns on the platform, the marketing department creates tailored display advertisement that can encourage the purchase for new users (e.g., adv with products in the cart but not bought yet) or additional orders for casual customers (e.g., adv with products bought on the previous order).

Fidelization is facilitated by continuous after-sales support and by listening to customers' feedback. Still, Farmacosmo also offers fidelity programs to registered users, guaranteeing promotions and discounts while increasing the active customer base.

### 6. Research & Development.

Research & Development is performed with the contribution of all departments and entails the following activities:

- ◆ Identification of new references (and suppliers) to be added in the catalogue;
- ◆ Optimization of product sheets;
- ◆ Study of statistical analysis for new market trends;
- ◆ Marketing contents and website improvements through AI tools for customer acquisition and management;
- ◆ Platform performance and cyber security analyses.

## B2B Value Chain

Farmacosmo's B2B value chain as well is very structured. Out of the main steps, it is worth to focus on:

### Orders reception

Farmacosmo receives the order amount from the Client. To avoid the risk of an excessive inventory and write-offs, Farmacosmo make a thorough valuation of the quantity demanded and with the support of the proprietary software Farmavendor elaborates the request and confirms a percentage (usually at ca. 30% of the volumes ordered).

References are evaluated and selected by Farmacosmo's software based on:

- a. Quantity already in stock;
- b. Markup potential;
- c. Availability at suppliers' (brand manufacturers) inventories;
- d. Volumes ordered;
- e. Presence of standard barcode symbology (EAN, or European Article Number).

### Picking and packaging

Once the amount and references to ship to the Client are settled, Farmacosmo proceeds to order them from suppliers (Sell & Buy approach). After all the batches from suppliers arrive at the logistics center, Farmacosmo arranges specific packaging bundles following client's instructions. Packages differs depending on the type of reference: liquid, glass, or perishable goods.

Packages are shown to the Client directly from Farmavendor in the scanning phase (pre-shipping) to act as an insurance in case of defective goods. Each batch also carries an external scannable label that allows the Client to know its contents without it being opened.

Despite plenty of requirements, the necessity to keep up with the Client in terms of packaging and attention to details has been conveyed to the B2C stream, helping to deliver an all-around excellent customer service.

### Returns and claims management

B2B products returns is low single digit percentage, out of which only a very small part is made of damaged products and the remaining is made of undamaged ones.

- ◆ Damaged – all the returned damaged goods are contested and do not have an economic impact on the Company's P&L. These products are either sent back to the client or scrapped;
- ◆ Undamaged – undamaged goods are either sent back to suppliers (ca. 2%) or becoming part of Farmacosmo's inventory. In this case, Farmacosmo sends it to the client with a new order or is added to the B2C marketplace.

### Research & Development

As for the B2C value chain, R&D represents the engine of the entire business model.

The use of Farmavendor has allowed Farmacosmo to store millions of data with a huge value for business development.

Indeed, analysing B2B orders, Farmacosmo can anticipate the type of products expected to be the most demanded by B2C clients in a given period. Sharing this information with brand owners allows to set prices in advance.

## Historical Financials

Farmacosmo's 2018A-2021A financials are built in accordance with Italian OIC accounting principles (IT GAAP) and substantially on a like-for-like basis, as no material change in the consolidation perimeter took place in the period.

### Key Points

In our view, there are three main points to underline about Farmacosmo's financial profile:

1. **Top line** consistently **increasing at 54% CAGR<sub>16-21</sub> to €58mn as of FY21**;
2. Positive and improving profitability: **EBITDA margin** around **2.0%-2.7%** between FY18-FY21;

- Asset light and cash-generative business model, with a **Net Cash Position at €0.8mn** as of December 2021.

More in details:

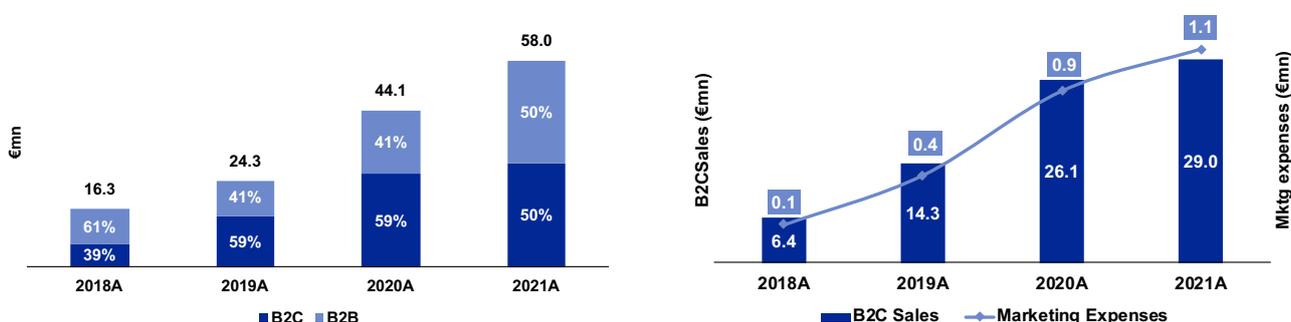
### 1. Top line historically growing high double digit

Farmacosmo has been able to grow organically at **54% CAGR<sub>16-21</sub>**, reaching **€58.5mn** as of FY21. In FY20, Farmacosmo reported sales for €44.1mn, implying a y/y increase of over 31.7%.

Although historically the B2C revenues stream has always outperformed the B2B, FY21 shows a rebalancing of the sales structure, which are equally distributed among the two business segments.

B2C stream is driven by Farmacosmo’s state of the art multichannel marketing strategy, that up to 2021 year-end only included Farmacosmo.it marketplace and resulted to be tremendously efficient over the last few periods, as outlined in the chart below (rhs).

**Farmacosmo: Revenues from Sales contribution (lhs) and Marketing / B2C Sales correlation (rhs)**



Source: Value Track analysis, Farmacosmo

### 2. Positive and steady profitability: an exception in the e-retail market

Small players entering the e-retail market usually sacrifice their profitability in favour of market share, i.e. focusing on turnover while shrinking EBITDA.

Farmacosmo, on the contrary, has been able to achieve excellent results in terms of top line growth without compromising margins thanks to the high “free shipping” threshold (€79.90).

For FY19-FY21 we report:

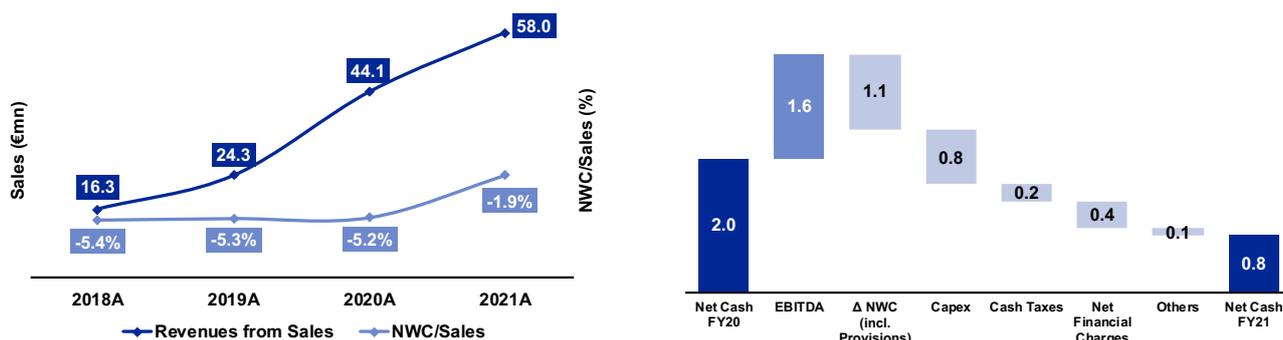
- ◆ **Gross Profit** increasing at a lower rate than top line due to a worse revenues mix: (i) lower sales of PBC products (cosmetics, i.e. higher profitability than OTC & SOP) in FY20-FY21 vs. FY19 due to lockdowns; (ii) higher incidence of B2B in FY21 vs. FY19-FY20, characterized by higher procurement costs. Gross Profit stands at **€8.5mn** as of FY21, with **Gross Margin at 14.7%**;
- ◆ **EBITDA** at **€1.6mn** as of FY21 and **EBITDA margin at 2.7%**, slightly improved despite heavy marketing investments to acquire and retain clients, improve KPIs and gain market share.

### 3. Asset light and cash-generative business model despite ever increasing volumes

Farmacosmo has always reported a positive Net Financial Position (Net Cash of €0.8mn as of FY2021), mainly thanks to:

- ◆ Efficient management of inventories (zero warehouse policy thanks to suppliers’ network in proximity of Farmacosmo’s logistic center), trade receivables and payables (average DPO-DSO spread of 30 days and highly technological approach to procurement), yielding to **negative working capital** of ca. -€1.1mn as of FY21;
- ◆ Light asset base and very **limited CapEx** requirements, with Net Fixed Assets at ca. 3% of sales;
- ◆ **Positive bottom line**, with Net Profit at ca. €0.4mn building up Farmacosmo Net Equity.

Farmacosmo: Revenues from Sales vs. Net Working Capital (lhs) and Net Cash Position bridge FY20-FY21 (rhs)



Source: Value Track analysis, Farmacosmo

P&L, Balance Sheet, Cash Flow Statement historical evolution

Farmacosmo: P&L 2020A-21A

(€mn, IT GAAP)	2019FY	2020FY	2021FY	Δ y/y (%)
<b>Revenues from Sales</b>	<b>24.3</b>	<b>44.1</b>	<b>58.0</b>	<b>31.7%</b>
o/w B2C stream	14.3	26.1	29.0	11.2%
As a % of Sales	58.8%	59.3%	50.0%	-925bps
o/w B2B stream	10.0	18.0	29.0	61.6%
As a % of Sales	41.2%	40.7%	50.0%	925bps
Other Revenues	0.0	0.0	0.1	nm
Increases in Fixed Assets	0.0	0.4	0.3	nm
<b>Value of Production</b>	<b>24.3</b>	<b>44.5</b>	<b>58.5</b>	<b>31.5%</b>
Chge in Raw Materials Inventories	0.3	0.4	1.1	nm
Raw Materials	-20.1	-37.2	-51.1	37.2%
<b>Gross Profit</b>	<b>4.5</b>	<b>7.7</b>	<b>8.5</b>	<b>10.5%</b>
Gross Margin (%)	18.3%	17.5%	14.7%	-283bps
Services Costs	-2.9	-4.9	-5.1	3.9%
Use of Third Parties' Assets	-0.1	-0.1	-0.1	11.4%
G&A	-0.1	-0.1	-0.1	0.7%
Labour Costs	-0.9	-1.4	-1.6	13.9%
<b>EBITDA</b>	<b>0.6</b>	<b>1.1</b>	<b>1.6</b>	<b>35.7%</b>
EBITDA Margin (%)	2.3%	2.6%	2.7%	8bps
D&A	-0.2	-0.3	-0.5	75.0%
<b>EBIT</b>	<b>0.4</b>	<b>0.9</b>	<b>1.1</b>	<b>23.0%</b>
EBIT Margin (%)	1.6%	2.0%	1.8%	-13bps
Net Financial Charges	-0.2	-0.3	-0.4	18.2%
<b>Pre tax profit</b>	<b>0.2</b>	<b>0.5</b>	<b>0.7</b>	<b>0.3</b>
Taxes	-0.1	-0.1	-0.2	0.6
<b>Net Profit</b>	<b>0.1</b>	<b>0.4</b>	<b>0.4</b>	<b>10.9%</b>

Source: Farmacosmo, Value Track Analysis

**Farmacosmo: Balance Sheet Structure FY19-FY21**

(€mn, IT GAAP)	2019FY	2020FY	2021FY
Net Fixed Assets	0.8	1.0	1.5
Net Working Capital	-1.3	-2.3	-1.1
<i>As % of Sales</i>	-5.3%	-5.2%	-1.9%
Provisions	0.1	0.2	0.2
<b>Total Capital Employed</b>	<b>-0.6</b>	<b>-1.4</b>	<b>0.1</b>
<i>As % of Sales</i>	-2.5%	-3.2%	0.2%
Group Net Equity	0.4	0.6	1.0
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)]</b>	<b>1.0</b>	<b>2.0</b>	<b>0.8</b>

Source: Farmacosmo, Value Track Analysis

**Farmacosmo: Cash Flow Statement FY19-FY21**

(€mn, IT GAAP)	2019FY	2020FY	2021FY
EBITDA	0.6	1.1	1.6
CapEx	-0.4	-0.5	-0.8
Net Working Capital requirements	0.4	1.0	-1.2
Change in Provisions	0.0	0.1	0.1
<b>OpFCF b.t.</b>	<b>0.6</b>	<b>1.7</b>	<b>-0.4</b>
<i>As a % of EBITDA</i>	106.2%	148.4%	-24.4%
Cash Taxes	-0.1	-0.1	-0.2
<b>OpFCF a.t.</b>	<b>0.5</b>	<b>1.5</b>	<b>-0.6</b>
Net Financial Charges	-0.2	-0.3	-0.4
Dividends paid	0.0	0.0	0.0
Others	0.0	-0.2	-0.1
<b>Net Cash generated (absorbed)</b>	<b>0.3</b>	<b>1.0</b>	<b>-1.1</b>
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)]</b>	<b>1.0</b>	<b>2.0</b>	<b>0.8</b>

Source: Farmacosmo, Value Track Analysis

## Huge market opportunity ahead, with some challenges

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*In our view, the on-going penetration of OTC & SOP and PBC e-commerce is for sure the main opportunity that Farmacosmo (and other e-pharmacies) must exploit to accelerate their growth path, being either related to the digital revolution or linked to the regulatory environment.*

*On the other side, we believe that Farmacosmo might face some downside risks related to i) a possible deregulation of the e-pharma market, and the no longer need of a brick-and-mortar pharmacy to sell online OTC & SOP medications, 2) the increasing competition from domestic and foreign players, and 3) the rise of possible logistic challenges.*

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As already seen in the company overview section, Farmacosmo operates as:

- ◆ B2C online “health, beauty and wellness e-retailer” active on the market of OTC & SOP medicines (“over the counter”, i.e. that do not need prescriptions) and BPC products (“beauty and personal care”);
- ◆ B2B wholesaler for one of the leading online marketplace of the Western world, regarding groceries, household cleaners and other large-scale retail (“LSR”) SKUs.

Given the various products typologies managed by Farmacosmo (the company, not the website alone), it is not so straightforward to identify a unique reference market.

At first look, the reference market may appear wide as includes many products, different application areas and different distribution channels (online vs offline), B2B and B2C features.

However, as B2B activities are not the core business of Farmacosmo but only a way to have a better feeling of e-commerce trends and to exploit some interesting profit generating opportunities, we believe that focusing on the B2C market segment better fits Farmacosmo strategic positioning and the bulk of its expected medium-long term growth perspective.

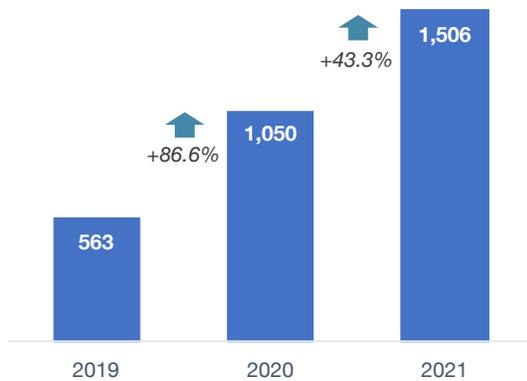
### Health and Pharma online market worth ca. €1.5bn

The Health and Pharma (H&P) (i.e. previously named as health & beauty) online market segment includes the sale of OTC & SOP medicines and well-being products including cosmetic, cleaning and care products as well as nutritional products. According to the latest available market survey published by Netcomm (“Digital Health & Pharma – Report 2021”), we highlight the following:

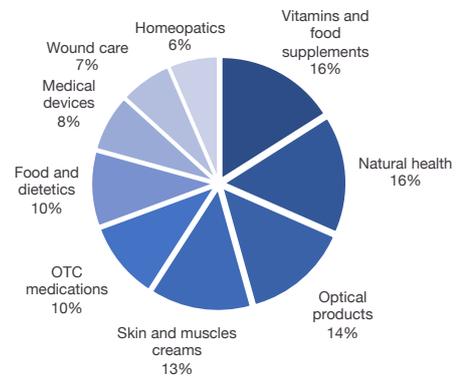
- ◆ The **Italian online market of H&P products is estimated to be worth ~€1.5bn**, growing at full speed y/y (+43.3%), despite the massive increase already experienced in 2020 (i.e. +86.6% y/y). Basically, the market has nearly tripled in the latest two years;
- ◆ Products that develop the most value of online purchases are vitamins – along with supplements and sport enhancers products – natural health, and optical products (eyeglasses and contact lenses);
- ◆ The main driver boosting online shopping is the actual price discount vs brick-and-mortar pharmacy stores. Other points driving the choice between a player or another one are the safety and reliability of the web site, the speed and efficiency of delivery, and the breadth of product offering;
- ◆ Generalist e-retailers and online pharmacies have the highest market shares, 48% and 38% of total respectively.

**Italian Digital Health & Pharma – €1.5bn annual market turnover split by product type (€mn) (\*)**

Digital Health & Pharma – Market Turnover and y/y trend



Digital Health & Pharma – Market Turnover by product type



Source: Digital Health & Pharma – Report 2021 – Netcomm (\*) Data refer to LTM figures as of September

**Italian Digital Health & Pharma – Volumes by distribution (lhs) and consumers’ preferences (rhs)**

Health e-Pharma – volumes by distribution channel



Health e-Pharma – drivers of consumers’ preferences



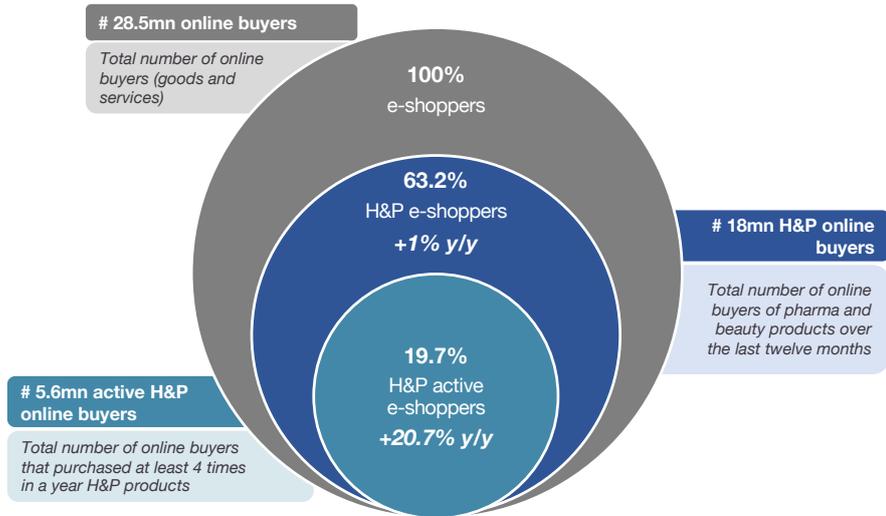
Source: Digital Health & Pharma – Report 2021 – Netcomm

**5.6mn H&P active H&P shoppers growing 2-digit y/y**

More, starting from the same data collected by Netcomm, we outline that:

- ◆ 28.5mn Italian e-shoppers made at least an online purchase in the last twelve months;
- ◆ Ca. 18mn e-shoppers (63.2% of total) made at least one purchase of health and well-being products (H&P);
- ◆ Ca. 30% of H&P e-shoppers (5.6mn individuals) are repeat buyers as they made at least 4 orders within a year. The number of repeat buyers kept growing at sound double-digit rate (+20.7% y/y in 2021), following the impressive increase of 2020 (+72% y/y);
- ◆ Repeat e-shoppers of H&P products are 31% of total and develop 42% of total purchases;
- ◆ The average value of H&P e-commerce per online buyer is close to €80, while it reaches €112 for repeat shoppers (€21 higher than in 2020).

### Number of Italian online buyers of Health & Pharma products



Source: Digital Health & Pharma – Report 2021 – Netcomm

### Focus #1: E-pharma, ca. €700mn turnover

The Italian pharmacy retailing market is in the middle of a disruptive channel shift, from the offline to the online, with the e-pharma gaining strong momentum thanks to Covid-19 pandemic and its impact on consumption behaviors.

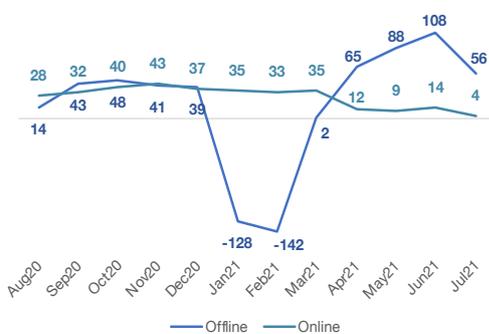
The fast-growing number of pharmacies and parapharmacies that received the authorization to sell their products online is a proof of the online phenomena, with ~1,300 e-pharmacies registered at the end of September'21, from 900 in 2018 to (Source: farmakom website).

Moving to numbers, **e-pharma total turnover increased by €285mn in 2018 to ca. €700mn in 2020** (Source: Netcomm), and positive momentum endured also in 2021, with online revenues at €509mn as of July, i.e. ca. 70% of what achieved in an entire calendar year in 2020.

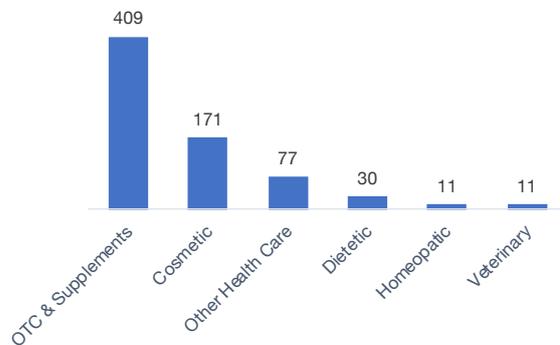
All product categories grew materially: OTC & SOP and Supplements (€409mn in 2020 and €300mn as of July 2021) represent the main product lines, followed by cosmetics (€171mn in 2020 and €121mn as of July 2021), while smaller market shares refer to dietary foods and supplements, health products, homeopathic and veterinary.

### Digital Health & Pharma – €1.5bn Market Turnover split by product type (€mn)

e-Pharma – y/y monthly growth (€mn) by distribution channel



e-Pharma – 2020 market turnover by product type



Source: Digital Health & Pharma – Report 2021 – Netcomm

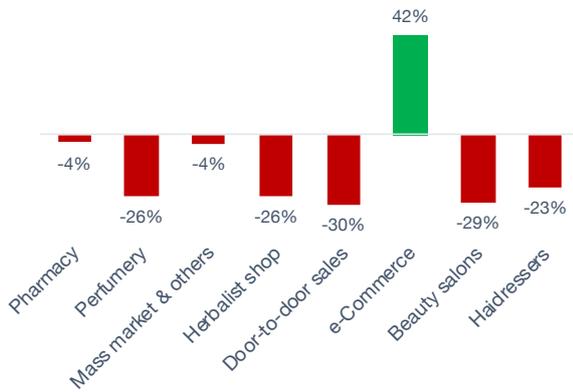
**Focus #2: E-Beauty, ca. €700mn turnover as well**

The Italian beauty market recorded a total sales amount of €9.8bn in 2020, decreasing by 12% if compared to 2019, and basically due to covid-19 outbreak and its negative implications on consumers behaviours.

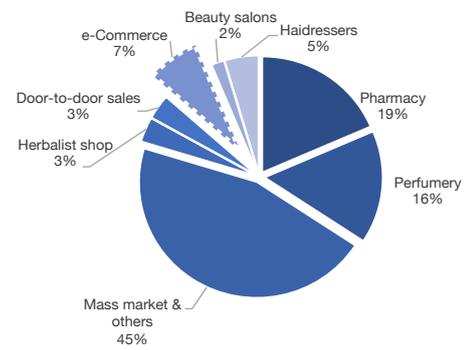
On the positive side, the online sales of beauty products kept growing at sound pace even in 2020, posting a 42% y/y growth, with volume exceeding €700mn. Indeed, according to the latest annual report released by *Cosmetica Italia*, the forced lockdowns, the entry of new international sales platform, as well as the gradual shift from the brick and mortar to the online channel are furtherly accelerating the online penetration rate, currently at 7% of total.

**Italian Beauty Market – €10bn Market Turnover in 2020**

Italian Beauty – y/y annual growth (%) by distribution channel



Italian Beauty – FY20 turnover by distribution channel



Source: Digital Health & Pharma – Report 2021 – Netcomm

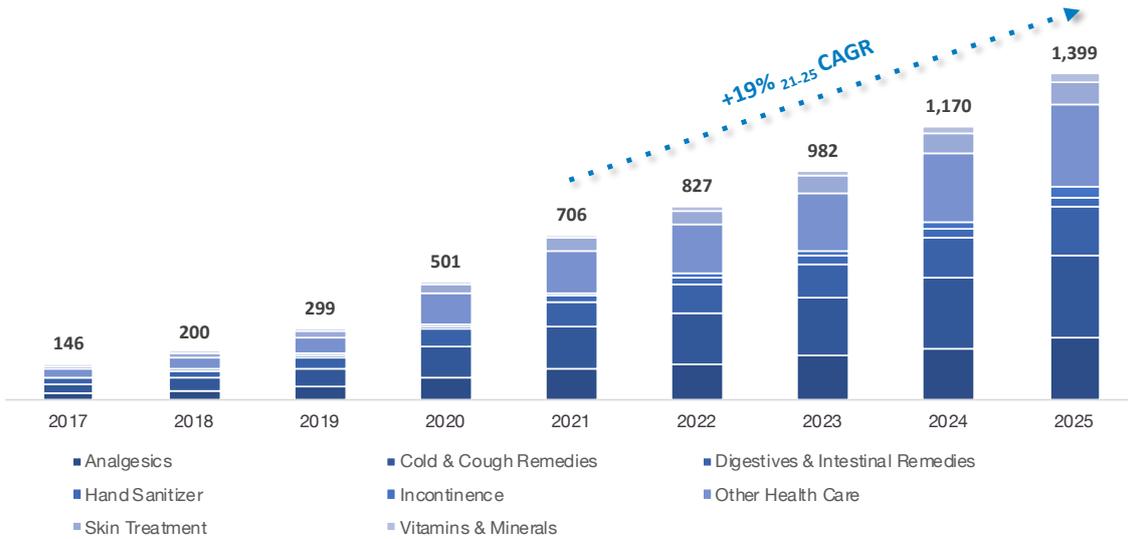
**Short-term growth opportunity: higher OTC & SOP online market penetration**

According to Statista’s forecasts published back in October 2021, the Italian online market for OTC & SOP products should increase at 19% CAGR by 2025E, thus doubling its size (to €1.4bn) vs. 2021E.

The main drivers behind the higher and higher penetration of online OTC & SOP sales on total relate to:

- ◆ **Ever-increasing adoption of e-commerce as a way to purchase all types of goods (and services)**, and this affects e-pharmacies as well, also due to Covid-19 outbreak impact;
- ◆ **Increasing demand for OTC & SOP/PEC/Beauty products**, driven by older population and by higher consumers’ responsiveness to wellbeing and beauty themes;
- ◆ **Growing adoption of mobile health apps**, as people are increasingly utilizing them for tracking health metrics, self-diagnosis and real-time health monitoring;
- ◆ **Italian OTC & SOP online market penetration lower than abroad**. Indeed, the Italian OTC & SOP online market should account for mid-single digit percentage of total, while in Germany it stands at 22% of total (>2.5x over the past ten years) and in Austria at 14% of total, (ca. 2x over the last 4 years).

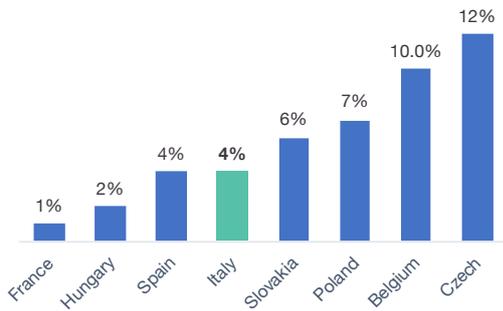
**Italian e-commerce HealthCare products (\*)**



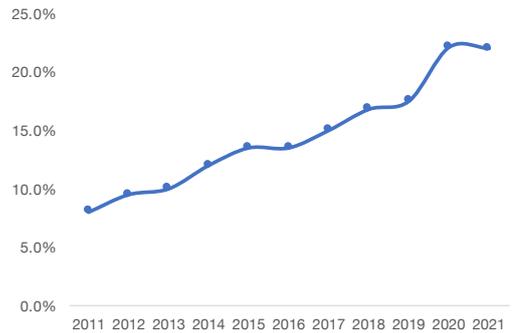
Source: Statista, (\*) Besides medicines, this market segment also includes nutrition food, dietary supplements as well as medical products for private use (e.g., blood pressure monitors, disinfectants, and dressings).

**Current online penetration across European market and German OTC & SOP penetration since 2011**

**OTC & SOP market – 2020 Online penetration rate (%)**



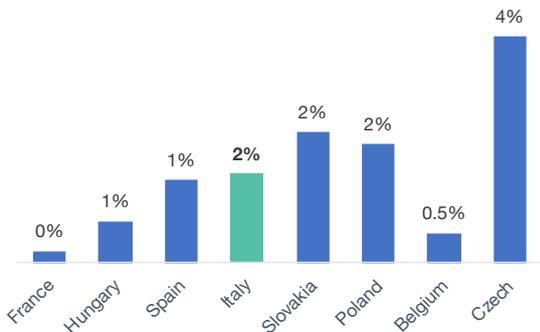
**Germany OTC & SOP market – online penetration over the last 10y**



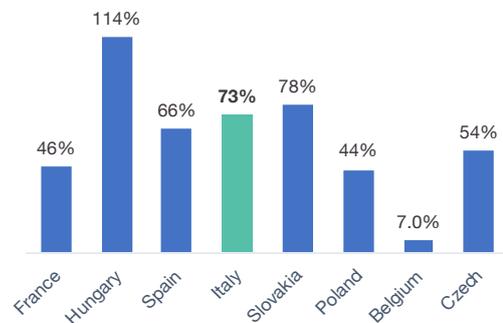
Source: Various, Value Track analysis

**Current online penetration across European market and y/y growth**

**OTC & SOP market – 2020 vs 2019 Online penetration rate increase (%)**



**OTC & SOP market – 2020 y/y Online penetration rate growth (%)**



Source: Various, Value Track analysis

## Medium-term growth opportunity #1: Online sales of prescription drugs

### EU regulatory scenario on online sale of prescription drugs is fragmented

Legislation and local specific rules are shaping the e-commerce health care market, with different regulation impacting e-pharmacy business model across countries. At European level we highlight:

- ◆ **EU harmonisation on specific requirements** – e-pharmacies must be authorized and show a common EU logo on every page of the website;
- ◆ **Single countries might set their own regulation** on what products (prescriptions and non-prescription OTC & SOP) can be sold online and by whom, thus leading to a fragmented regulatory landscape.

As a result, European countries boast different rules, with some countries applying tighter restrictions (Italy / France / Spain / Austria), while other ones being more permissive (Germany / Netherlands), i.e. the online sale of prescription medications is already permitted.

Lastly, in certain Balkan countries, only food-supplements and medical devices can be sold online, being the OTC & SOP regulation either not defined, or almost unclear.

### Italy, behind the curve for the time being

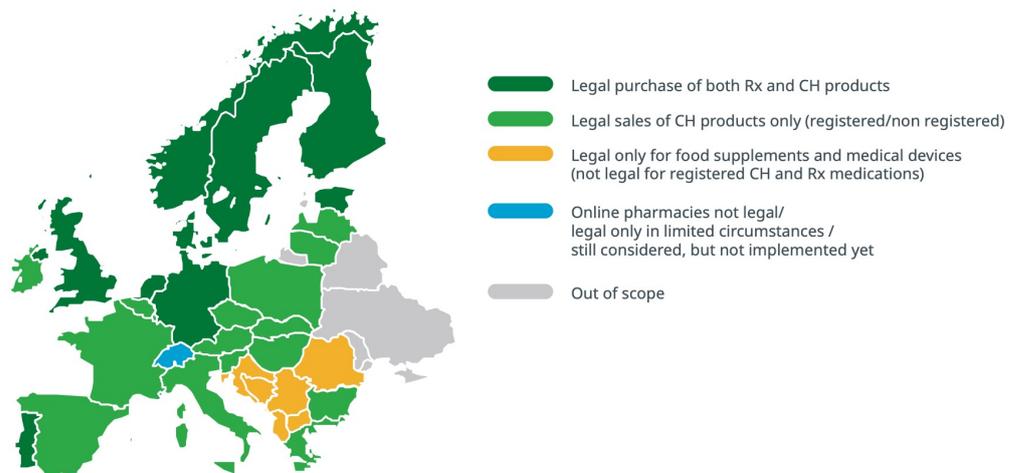
In Italy, online sale of prescription drugs is not allowed (yet) and only OTC & SOP and medicines without prescription obligation can be sold online, provided that behind the website there is a real drugstore.

Concerns in terms of safety and efficacy for online sale of prescription drugs, (e-shoppers must access healthcare products safely and must be reassured on the right product for their healthcare issue), have been so far a key barrier.

However, things are moving. Electronic prescription (**eRx**) – the innovative tool through which the clinician prescribes medicines and specialist visits online without using the classic paper form – has been introduced back in 2016. So, the remaining missing step is the possibility for patients to order drugs remotely and to have them shipped at home.

For sure, the possible introduction of more accommodating rules for prescription medications is one of the next “big” opportunities for the e-pharma industry.

**Map of what Healthcare Products can be sold by product Class and Market \***



Source: IQVIA – Deep Dive into Pharmacy e-Commerce (\*) CH stands for OTC & SOP (Over the Counter) , PAC (Parapharmaceuticals), PEC (Personal Care), NUT (Nutritional Supplements) (registered / non-registered products)

## Short-Medium-term growth opportunity #2: End-to-end online clinical experience (telemedicine)

Covid-19 has accelerated trends that were already growing, like the adoption of telemedicine or online consultation with doctors and pharmacists. Telemedicine integrates an ever-growing set of technologies to create a true omnichannel experience for patients.

Based on a customer-centric approach and e-consultations, pharmacists are remotely connected with patients and a network of healthcare professionals to provide medication management services ensuring the correct and safe use of medicines.

We believe e-pharmacies are well-positioned to exploit new revenue streams linked to telemedicine, delivering a new set of solutions and services beyond just selling OTC & SOP, beauty, and personal care products.

### Challenges to face

The main market challenges that Farmacosmo might face in the medium-long term relate to:

1. Possible deregulation of the e-pharmacy retail market;
2. Logistic challenges;
3. Increasing competition from domestic and foreign market.

#### 1. Possible deregulation with “no need” of offline pharmacy to sell online

A possible withdrawal of the need to manage a brick-and-mortar pharmacy to be allowed to sell online OTC & SOP medications represents a downside risk for e-pharmacy market players, as it could trigger a creeping competition from the entrance of large distribution chains and therefore shrink consistently the market share of small e-pharmacies.

However, we view such risk as quite low, since the removal of barrier to pharmacy ownership might have unavoidable consequences to the overall market.

#### 2. Logistic challenges of e-pharmacy

A recent market research published by IQVIA identifies some barriers that e-pharmacy retailers might face in meeting shopping expectations, such as:

- ◆ **Lengthy delivery times**, however, as penetration increases and logistic improves, delivery times are likely to narrow. To this point, the last mile delivery is becoming more and more common in urban areas, as it allows for very short delivery times (2-4 hours);
- ◆ **Higher shipping fees limiting low-cost item** online purchase – as many e-pharmacies apply free shipping fees for basket above a certain amount. On the positive side, it helps increasing the average order value (AOV);
- ◆ **Restrictions on certain products classes** prevent online ordering and shipping, as many buyers need to visit a brick-and-mortar pharmacy before to fulfil their orders.

#### 3. Increasing competition from domestic and foreign players

The Italian e-pharma market is high polarized, with a few players dominating a very fragmented space. Indeed, according to our calculations there are three main players weighting 18-20% of total e-pharmacy market and several hundred small players covering the remaining part.

Farmaè is so far the Italian market leader, and Farmacosmo's main competitor. It has acquired in the latest months the 100% share capital of AmicaFarmacia, thus consolidating its market leadership.

We also highlight the presence of Shop Apotheke, a European leader that entered the Italian market through the acquisition of Farmaline back in 2016.

In the table below we provide a brief benchmarking analysis on key metrics of the Farmacosmo B2C business division and its main competitors, Farmaè and AmicaFarmacia (now part of the same Group). We highlight that Farmacosmo in 2021:

- ◆ Managed a higher number of SKUs;
- ◆ Set higher free shipping threshold;
- ◆ Recorded lower number of website visits but with similar conversion rate;
- ◆ Collected lower number of orders, but recorded much higher average order value and higher incidence of recurring customers (based on repeated orders).

#### Brief Comparison of Farmacosmo B2C with Farmaè and AmicaFarmacia

	Main features	Farmaè (+ AmicaFarmacia*)	Farmacosmo – B2C
<b>Location / Offerings / Market Share</b>	Market share by FY21 Sales	1 <sup>st</sup> (+3 <sup>rd</sup> )	2 <sup>nd</sup>
	Location and offering	Italy (OTC & SOP & PBC)	Italy (OTC & SOP & PBC)
	Physical stores	#9	#1
	SKUs	-55k	-63k
<b>Business KPIs</b>	Free Shipping threshold	€29.9	€79.9
	Website visits in 2021	>43mn	11.1mn
	Online orders	1.7mn	~350k
	Products sold	8.5mn	2.7mn
	Repeated orders per year	2.5x	3.9x
	Conversion rate	3.9%	>3.0%
<b>Size / actual growth / Basket Value</b>	Sales FY21	€82.5 (including 3 months of AmicaFarmacia)	€29.0mn
	4-yr CAGR (%)	58%	46%
	Average Order Value (AOV)	€48**	€92.0 **

Source: Value Track analysis, Farmacosmo, Farmaè corporate presentation (\*) AmicaFarmacia acquired by Farmaè in September 21' (\*\*) Net of VAT

## Farmacosmo best positioned to profit from market opportunities

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*We believe that Farmacosmo is optimally positioned in order to profit from the huge growth potential of the underlying reference markets, thanks to several key winning points of its business model, such as: strong ties with suppliers, profit oriented commercial strategy, customer centric approach, fully integrated internally developed technological platform, valuable customer data. At the same time, we note that there are some features of Farmacosmo's business profile that still deserve to be optimized, such as: lack of mobile app, logistic facilities totally based in South of Italy, no "last mile" distribution points in key urban areas, dependence upon key suppliers, B2B customer concentration.*

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Farmacosmo is optimally positioned in order to profit from the huge growth potential of the underlying reference markets, thanks to the following key winning points of its business model:

- ◆ Strong ties with suppliers;
- ◆ Profit oriented commercial strategy;
- ◆ Customer centric approach;
- ◆ Fully integrated internally developed technological platform;
- ◆ Valuable customer data.

At the same time, we note that there are some features of Farmacosmo's business profile that are going to be optimized:

- ◆ No mobile app yet;
- ◆ Logistic facilities totally based in South of Italy;
- ◆ "Last mile" distribution points in key urban areas;
- ◆ Dependence upon key suppliers;
- ◆ B2B customer concentration.

### Key winning points of Farmacosmo business model

#### Strong ties with suppliers

Farmacosmo has structured a very efficient sourcing strategy, from both an operational and financial point of view, based on three pillars:

1. Purchasing its inventory from leading wholesale suppliers rather than brands manufacturers;
2. Sell (first) & Buy (later) approach;
3. Establishing as tight as possible relationships with key suppliers. In the case of the two current main suppliers, this relationship is also strengthened at shareholders value (see Appendix);

Among the main operational advantages of such strategy, we highlight the following ones:

- ◆ Breadth of product offering with access to preferential listings, dedicated inventories, sectorial know-how;
- ◆ Scalability, as Farmacosmo can virtually satisfy unlimited demand thanks to its partners' huge inventories;
- ◆ Fast provisioning, as partners' inventories are located in the same logistic district as for Farmacosmo, thus leading to fast delivery times.

On the financial side, the key winning points deriving from Farmacosmo’s approach are:

- ◆ Low working capital absorption, as proprietary inventories are substantially abated to zero, in favour of partners’ inventories;
- ◆ Low risk of write off, as buying from wholesalers and not from brands allows to pick up only the desired goods and not undesired bundles.
- ◆ Zero cost strictly related in buying in advance goods; i.e. specialized personnel, expired goods to be returned, occupied warehouse space.

**Profit oriented commercial strategy**

Farmacosmo has always been extremely focused on profitably growing its business by maintaining a profit oriented commercial strategy, whose two most important pillars are:

1. Very high threshold for granting free shipping costs to clients;
2. Lower than peers budget devoted to acquire online traffic, entirely addressed to profiled traffic.

As far as the first point is concerned, we remind that Farmacosmo has set to €79.9 the minimum value of clients’ orders allowed to obtain free shipping costs.

This compares to €19.9 threshold set by most of competitors (only Lloyds Farmacia has set to a higher €35.0 such threshold).

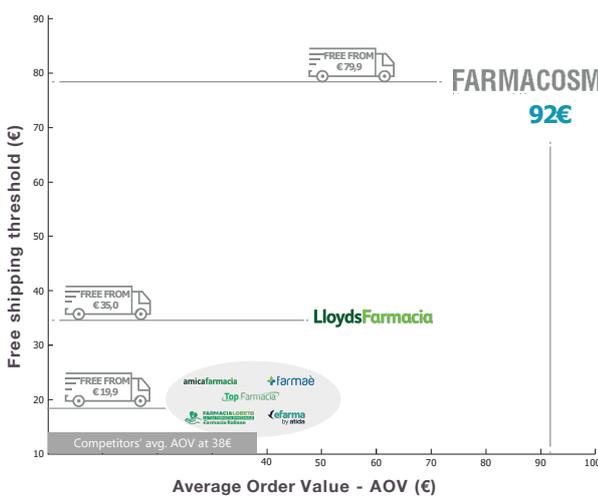
Farmacosmo’s very high “free shipping” threshold has a twofold positive effect on profitability. On the one side, it drives a lower incidence on revenues of:

- ◆ Logistics costs;
- ◆ Packaging costs;
- ◆ Back Office costs;
- ◆ Shipping costs.

On the other side, a higher “free shipping” threshold urges clients to purchase more products thus increasing the Average Orders Value (AOV).

Indeed, Farmacosmo boasts a much higher AOV (ca. €92) if compared to both its direct competitors (ca. €38).and world averages for Health & Beauty players.

**Farmacosmo’s AOV much higher than both direct peers and world H&B averages (\*)**



e-Commerce vertical	AOV
Beauty, Makeup (World)	70.49\$
Beauty, Skincare (World)	76.18\$
Beauty, Hair (World)	81.78\$
Health and Beauty (World)	53.06\$
<b>Farmacosmo at 2021</b>	<b>104.07\$ (92€)</b>

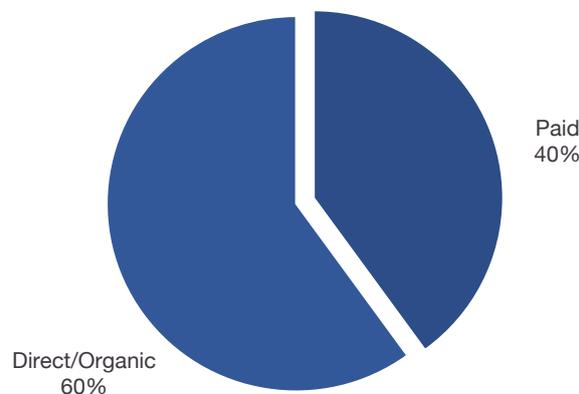
Source: Value Track analysis, Farmacosmo (\*) All values including VAT

As far as the second point is concerned, we note that Farmacosmo devotes lower than peers' budget to acquire online traffic for its website, as "paid" traffic generates lower conversion rate and, consequently, higher Customer Acquisition Cost (CAC) / lower profitability.

Indeed, we note that roughly 60% of total traffic to Farmacosmo website is direct / organic while only the remaining 40% is "paid" and generated by Referrals (e.g. price comparison engines such as Trovaprezzi.it) and by other digital marketing tools such as Google ADS, Social Network campaigns, affiliate marketing and so on.

As an effect, if we compare Farmacosmo's metrics with those reported by its most important Italian competitor, we note that while conversion rates are almost similar, on the contrary Farmacosmo's CAC is estimated to have an incidence of roughly 3.76% on 2021A revenues, compared to the higher than 5% for its competitors.

#### Farmacosmo.it website: Breakdown between paid and organic / direct traffic



Source: Value Track analysis, Farmacosmo

### Customer centric approach

Farmacosmo boasts a 100% customer centric approach, in terms of:

- ◆ Price positioning, as products are sold at huge discount vs offline retail prices;
- ◆ User experience (UX), as the website is extremely easy to surf, also for people with disabilities;
- ◆ Payment approach, as several payment options are available, and it possible also to split payments in three parts with no interest (this is a service provided by Scalapay);
- ◆ Support services to clients, such as: 1) advice from pharmacists and experts in related product categories (childhood-make-up), 2) customer care in six languages (Italian, English, German, French, Polish, Spanish), 3) listening of clients' needs / feedbacks, also trough social, ticket, chat and clients' reviews;
- ◆ Customer loyalty techniques, based on loyalty programs, cash back provisioning, complimentary gifts.

Thanks to such customer centric approach, Farmacosmo enjoys best in class reputation, not only from direct clients but also from consumers associations such as Unione Nazionale Consumatori and Altroconsumo.

**Farmacosmo: Very positive feedbacks from direct and indirect clients**

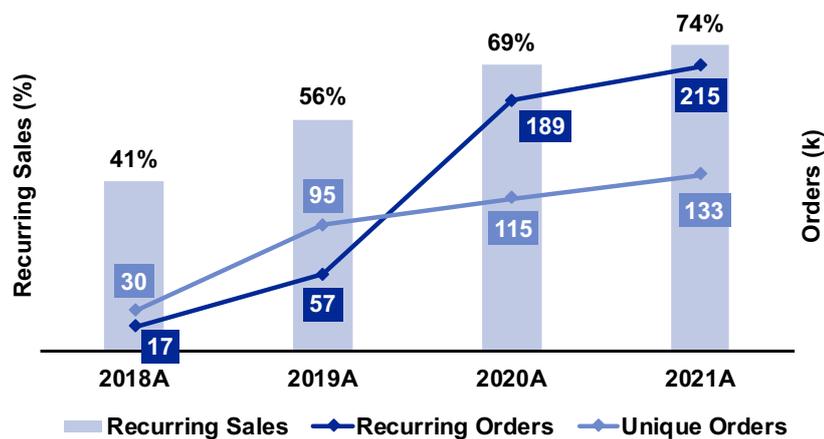


Source: Value Track analysis, Farmacosmo

More important, the positive feedback from clients is boosting their loyalty thus leading to higher and higher number of repeat orders.

Indeed, **as of 2021A the number of repeat orders should stand at ca. 62% of total, an ever-increasing incidence year by year.** Interestingly, these 62% recurring orders generated ca. 74% of total revenues. In addition, it is estimated that Farmacosmo clients, on average, should finalize ca. 4.19 orders per annum in 2021A, up from 3.88x as of 2020.

**Repeat orders and sales ever increasing their incidence on total**



Source: Value Track analysis, Farmacosmo

Last but not least, we note that Farmacosmo enjoys very positive reputation in its B2B wholesale activities as well. Indeed, Farmacosmo’s main B2B clients ranks Farmacosmo as "stellar" supplier and commercial relationship is lasting for over five years.

### Fully integrated internally developed technological platform

Farmacosmo's superior performance in all steps of the value chain (including the possibility to sell to one of the leading marketplace in the world with substantially no claims / risks) is, in our view, also driven by the fact that over the years the company has internally developed a whole series of proprietary software for the optimization and automatization of the interaction between customers and the company, for the real-time monitoring of all the business KPIs and of the daily work of all collaborators.

From this point of view, Farmacosmo can be seen as a software house that sells H&B products.

Among the software tools internally developed by Farmacosmo we highlight:

- ◆ **Importer**, used to acquire the suppliers price lists;
- ◆ **Switch**, managing suppliers' availability and selecting them;
- ◆ **Report**, automatically creating semi-finished product sheets (up to 300 per day) which are then finished by hand;
- ◆ **Price Intelligence System**, dynamic pricing tool used to attract customers;
- ◆ **Delivery Manager**, allowing Farmacosmo to manage B2C logistics process throughout the Italian and foreign territory;
- ◆ **Farmavendor**, managing the entire process, from receipt of orders to delivery, of B2B wholesale activities. It is aimed at optimizing the workflow with every kind of B2B customer.

### Valuable customer data

Over the years Farmacosmo has gained millions of data that have enormous value for business development.

We note that these data are gained not only in the B2C field but also in the B2B one, thanks to Farmavendor that naturally collects huge number of orders, thus making Farmacosmo able to anticipate which products will be most requested by the market in a given period.

## Features of Farmacosmo's business profile that are going to be optimized

### No mobile app yet

There's no need to say that for an e-commerce business being able to sell also with its own branded application is becoming mandatory as it allows to reach customers wherever they are, directly within their smartphones, with better User Experience, higher ease of purchase and higher customer loyalty.

Farmacosmo has not developed its own app yet, but is studying how to make an icon appear in clients' smartphones in order to recreate the app UX.

### "Last mile" distribution points in key urban areas

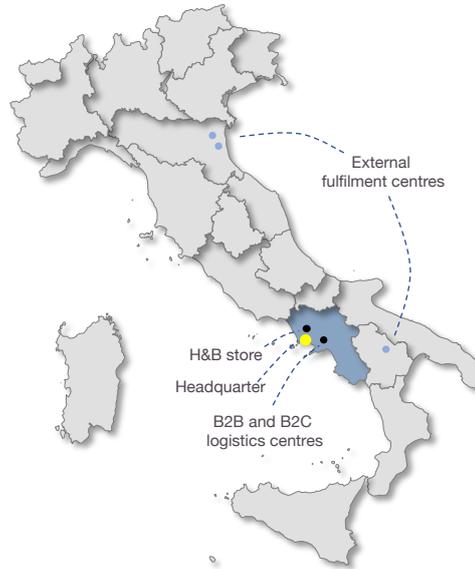
Farmacosmo business model mainly relies on "traditional" package delivery methodologies based on nationwide "long distance" couriers. Such methodologies boast a competitive advantage in non-urban deliveries but going forward could be less competitive in intra-urban delivery. We note, however, that Farmacosmo has already signed an agreement with a specialized last-mile online courier platform.

### Logistic facilities totally based in South of Italy

Farmacosmo is based in Campania region, with headquarters positioned in Naples and logistic centres located within the Interporto Campano logistics hub. External fulfilment centres are based in Emilia Romagna and Basilicata.

While the positioning in the Interporto Campano is strategic as it ensures proximity with main suppliers, at the same time the distance with Northern Italy cities may become a disadvantage if competition on delivery times intensifies.

**Geographic positioning of Farmacosmo headquarter and facilities**

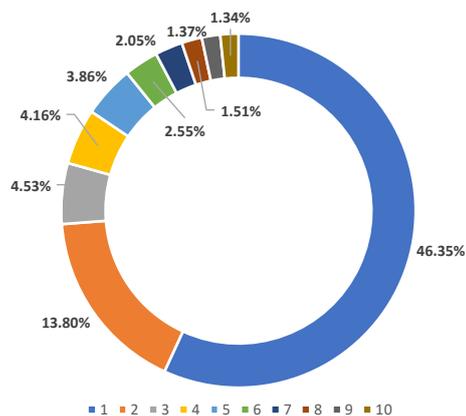


Source: Value Track analysis, Farmacosmo

**Dependence upon key suppliers**

Farmacosmo’s most important supplier accounts for ca. 46% of total Cost of Goods Sold, while first ten suppliers account for ca. 75% of total.

**Weight of main suppliers on total Cost of Goods Sold (%)**



Source: Value Track analysis, Farmacosmo

However, we deem that concentration risk is lower than it might appear at a first glance as:

- ◆ The most important supplier, active in the cosmetics “vertical”, is bound not only by specific contractual agreements but is also a direct shareholder of Farmacosmo, with a 20% stake;
- ◆ Farmacosmo is an ideal and stable partner for all suppliers, thanks to its reliability, the high level of automation and the constant growth of intermediated volumes;

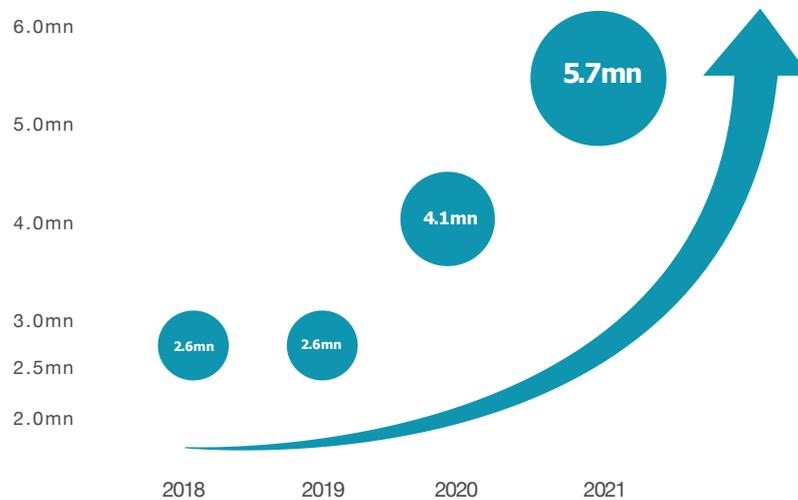
- ◆ Farmacosmo's suppliers are carefully chosen on the basis of their process automation, speed and quality in the fulfilment of orders, price competitiveness, breadth of product offering and available quantities;
- ◆ Farmacosmo is negotiating a bound distribution agreement with one of the top three Italian distributors in the categories relating to Health.

### B2B customer concentration

As far as the B2B business is concerned, we remind that 100% of revenues are coming from one single client, that's to say one of the leading e-commerce marketplaces in the Western world, that in 2021A accounted for:

- ◆ Ca. €29mn revenues, nearly double vs. the €16mn as of 2020FY;
- ◆ Ca. 5.7mn units shipped, more than doubled in the latest three years.

#### B2B units shipped annually by Farmacosmo



Source: Value Track analysis, Farmacosmo

Despite the extremely high concentration of B2B revenues, we view risks of unwinding of such a tight relationship with the main client as low. Indeed:

- ◆ The commercial relationship with the client has lasted for over five years;
- ◆ Claims from the client are almost close to zero thanks to Farmacosmo's orders' receipt and fulfilment process entirely based on proprietary software solutions;
- ◆ The customer satisfaction is extremely high, as certified by the achievement of "stellar supplier" ranking.

## Growth Strategy

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*In order to keep growing at high double-digit pace, we expect management to pursue the following strategies: 1) push investing in marketing activities to boost B2C growth and improve business KPIs, 2) expand product offering also through the launch of Profumeriaonline.it, dedicated exclusively to high-quality cosmetics 3) pursue an omnichannel strategy through the commercial partnership with the shareholder Farvima to improve brand awareness and enhance CX through quick-commerce delivery services, 4) introduce value-added services towards digital health and beauty, and 5) exploit possible M&A opportunities to consolidate its market position and improve data analytics.*

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We believe Farmacosmo even on a pre-IPO money basis has the skills and the opportunity to expand its market shares on the domestic field, as well as enter new European markets, and ultimately integrate its product offering with new value-added services. The recent IPO and related proceeds represent a further source of upside potential that may be exploited to support additional growth.

In the next future, we expect management to focus on the following growth drivers / strategies:

- ◆ Increasing the investments in marketing activities to boost B2C growth;
- ◆ Enlarging the number of “verticals” addressed with its e-retailing platforms, and at the same time enlarging the numbers of SKUs of existing verticals;
- ◆ Pursuing an omnichannel strategy;
- ◆ Adopting a pro-active ESG approach;
- ◆ Introducing value-added services in the digital health and beauty space;
- ◆ Exploiting M&A opportunities in Italy and abroad.

### Increasing the investments in marketing activities to boost B2C growth

As already seen before, marketing expenditures represent the most important growth driver for a B2C e-retailer, regardless the reference sector and/or specific product.

To this point we expect management to increase marketing efforts both online (Adwords, campaigns on social networks and so on) and offline (brand awareness campaigns on traditional media such as TV one) with the aim to boost and improve business KPIs as follows:

- ◆ **Increase the number of active clients** through well-defined investments in SEO, SEM, social media, e-mail marketing, mass media advertising and lastly influencer marketing;
- ◆ **Enhance order frequency and customer loyalty**, as investments in marketing intelligence should drive an increase in order frequency (i.e. users that purchase several times during the year), and customer loyalty, to be pursued not only through specific campaigns, but also the (i) entry into the field of digital health and (ii) the introduction of subscription services;
- ◆ **Improve the average order value (AOV)**, as the growing number of recurring buyers (repeated order) and the launch of new premium products line, should further boost the already above average shopping cart.

### New “verticals” to be addressed: premium cosmetic and pet industry

Farmacosmo management aims to extend product offering by adding new categories currently not properly covered, particularly in the beauty premium field. We recall the company already owns the domain registration of “Profumeriaonline.it”, that we expect will be launched by 2H22.

The new website should be dedicated exclusively to high-quality cosmetics, as Farmacosmo is currently signing new commercial agreements with TIER1 brands in the beauty luxury space.

As such, Farmacosmo and Profumeriaonline websites should not cannibalize themselves as there would be no overlap in terms of offering but, on the contrary, they should strengthen each other thanks to cross-selling opportunities on both customer bases driven by cross marketing strategies.

We also expect that the web site will offer the possibility to utilize a face recognition tool for the beauty and skin care world, which will make it possible to try "live" the cosmetic & skin care products in the cart.

Last but not least, we hint that the company might also look to broaden its catalogue in the pet industry, and in particular for veterinary use, expected to post a healthy growth pace going forward.

### Pursuing an omnichannel strategy: Farvima industrial partnership

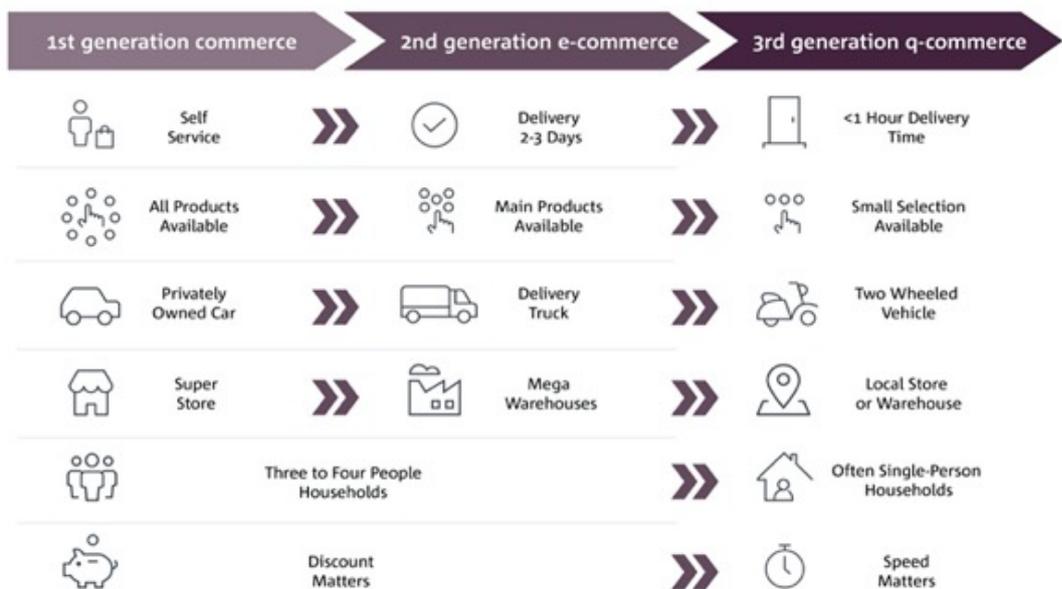
Farmacosmo runs its business activities mainly through the online channel, as it operates just one brick-and-mortar store, located in Naples. Anyway, unlike its main competitors that were born offline and are now progressively moving online, Farmacosmo is expected to move the other way round, pursuing an **omnichannel strategy** (set up of a small network of physical pharmacies) through the commercial partnership with the shareholder Farvima, and aimed at:

- ◆ Improving brand awareness, (flagship stores branded Farmacosmo);
- ◆ Enhancing the customer journey with additional value-added services, such as the fulfilment of online orders and the pick-up and return of online purchases;
- ◆ Preparing the ground for the eRx opportunity, and for the provisioning of telemedicine services;
- ◆ Further reducing delivery times, thus unlocking a powerful quick-commerce value proposition.

Indeed, quick-commerce (or **q-commerce**, i.e. delivery to urban customers in 60 minute or less, twenty-four seven) is expected to be the next level of the customer experience / need, with busy lifestyle, ageing population and Covid-19 driving the willingness to pay a higher price.

If properly finalized, such strategy would let the Farmacosmo business model evolve from an "Amazon-like" or 2<sup>nd</sup> generation e-commerce to a "Glovo-like" or 3<sup>rd</sup> generation q-commerce one.

### q-commerce: all-in under 60 minutes



Source: Delivery Hero

In our expectations, such omnichannel strategy should be based on the following pillars:

- ◆ **New business agreements with leading pharma distributors**, with activities spread nationwide and several logistics centers close to heavily populated areas;
- ◆ Renting (or buying) a selected number (not more than a dozen) **brick-and-mortar pharmacies** within the most heavily populated areas, through the commercial partnership with the shareholder Farvima;
- ◆ Empowering the **last mile ultrafast delivery service**, also with some commercial agreement with specialized “fast delivery” market players, as one recently signed and active.

### Pro-active ESG approach

In particular, it is the intention of the company: (1) to pursue a carbon compensation policy up to neutrality (2) to continue to reduce the use of plastic in the logistics process, and in the scouting of cardboard material with a lower environmental impact (3) to define forms of incentives at the forefront of management parameterized on ESG objectives, such as the well-being expressed by the direct structures (4) define supplementary forms of remuneration in terms of welfare.

### Introduction of value-added services in the digital health space

Over the next years, we also expect Farmacosmo to develop its business model by developing / introducing new value-added services to enable an advance user experience based on a customer-centric approach.

In the Digital health space, we expect the company to sign collaboration agreements with specialized players in order to offer, to its clients, services such as:

- ◆ Virtual rooms where pharmacists remotely connect with patients and provide drug management services ensuring the correct and safe use of medicines;
- ◆ Telemedicine services, also including “home delivery care devices” possibly managed thanks to commercial partnerships with specialized market players, and based on a subscription business model (“as a service”).

### Exploitation of M&A opportunities, in Italy and abroad, to expand market share and improve data analytics

Farmacosmo might seize M&A opportunities across two main directions, with the target being:

- ◆ **National & foreign firms involved in the e-pharma field** – as already seen before, Farmacosmo operates in a fragmented market – with ca. 1,300 players with small market shares at domestic level, thus leaving room to possible M&A transactions aimed at strengthening Farmacosmo’s leading positioning.

The company is also looking for foreign targets, with a particular focus towards south European markets similar to the Italian one, in terms customer habits, online penetrations and regulatory framework;

- ◆ **Big Data & Machine Learning start-up** – since inception Farmacosmo has collected a huge number of orders that naturally translate in millions of data (on both B2C and B2B business lines). The adoption of big data and machine learning technologies would allow Farmacosmo to optimize marketing campaigns and eventually improve customer acquisition.

## Forecasts 2022E-24E

We expect Farmacosmo to keep growing double digit with a 32% CAGR<sub>21A-24E</sub>, to €133mn turnover in 2024E boosted by B2C revenues stream, including increasing marketing expenditures for Farmacosmo.it, the launch of Profumeriaonline.it marketplace and the execution of the omnichannel strategy. Better sales mix (B2B decreasing its incidence) and positive operating leverage should also raise margins at EBITDA, EBIT and Net Profit levels, while low CapEx requirements and negative working capital should lead to ca. 90% OpFCF/EBITDA conversion rates.

### Introduction

As far as 2022E-24E Farmacosmo's financial forecasts are concerned, we note that our estimates are:

- ◆ Built in accordance with IT GAAP principles;
- ◆ Based on current consolidation perimeter, thus not factoring any future M&A;
- ◆ Developed bottom-up, driven by the evolution of KPIs for the B2C streamline.

### 2022E-24E at a glance

For 2022E-24E fiscal years, we forecast:

- ◆ **Revenues from Sales** to keep growing at a sound double digit **32% CAGR<sub>21A-24E</sub>** to ca. **€133mn in 2024E**;
- ◆ **Gross Margin** recovering period after period towards historical average thanks to enhanced revenues mix (B2C weighting more on top line) and getting to **15.4% in 2024E**;
- ◆ **EBITDA** being driven by positive operating leverage and reaching **€6.5mn in 2024E**, with **EBITDA margin** going from 2.7% to **4.9% in 2024E**;
- ◆ **Net Cash** to increase by €18.3mn on a cumulative basis (including €15mn worth of IPO net proceeds) and standing at **€19.2mn in 2024E**.

#### Farmacosmo: Key forecasts 2021A-24E

(€mn, IT GAAP)	2021A	2022E	2023E	2024E	CAGR 21A-24E (%)
<b>Revenues from Sales</b>	<b>58.0</b>	<b>86.8</b>	<b>109.3</b>	<b>133.1</b>	<b>31.9%</b>
Gross Profit	8.5	13.1	16.7	20.5	33.9%
Gross Margin (%)	14.7%	15.1%	15.3%	15.4%	70bps
<b>EBITDA</b>	<b>1.6</b>	<b>2.7</b>	<b>4.4</b>	<b>6.5</b>	<b>61.4%</b>
EBITDA Margin (%)	2.7%	3.1%	4.1%	4.9%	223bps
<b>Net Profit</b>	<b>0.4</b>	<b>1.0</b>	<b>2.2</b>	<b>3.4</b>	<b>102.6%</b>
<b>Net Fin. Pos. [Net Debt (-) Cash (+)]</b>	<b>0.8</b>	<b>14.5</b>	<b>15.8</b>	<b>19.2</b>	<b>nm</b>

Source: Value Track analysis

Key features of such a brilliant evolution of Farmacosmo's financial profile are, in our view:

1. Enhanced **Revenues mix**;
2. Sizeable **marketing investments**, but positive **operating leverage** effect;
3. Very low capital requirement leading to **~90% Operating Free Cash Flow conversion**.

### Focus on B2C to keep growing high double digit

After the 2021A rebound of the B2B revenues stream, we expect Farmacosmo to push on its B2C activities to continue growing at sound rates. Overall, we expect Farmacosmo to post a **32% CAGR<sub>21A-24E</sub>**, to **€133mn in 2024E**, with the B2C leg growing much faster than the B2B one.

Indeed, we assume Farmacosmo's B2C revenues to increase by ca. 50% annually compared to 7% of the B2B, because of:

1. Increasing **marketing expenditures** for further development of Farmacosmo.it;
2. Launching of **Profumeriaonline.it** marketplace (expected in July 2022), adding a new B2C revenues stream focused on luxury beauty SKUs;
3. Executing the omnichannel strategy with a **q-commerce offer** through the commercial partnership with Farmiva in the Italian cities of Napoli, Caserta, Milano, Roma.

As a consequence, the B2C stream should gain ca. 23 percentage points of incidence on total revenues, going from 50% in 2021A to 73% in 2024E.

#### Farmacosmo: Revenues from Sales breakdown in 2021A (lhs) and 2024E (rhs)



Source: Value Track analysis

Focusing on the B2C business on a standalone basis, we underline that our revenues model was built bottom-up starting from assumptions on the amount of marketing investments to drive new website visits, clients and orders for both marketplaces (Farmacosmo.it, Profumeriaonline.it).

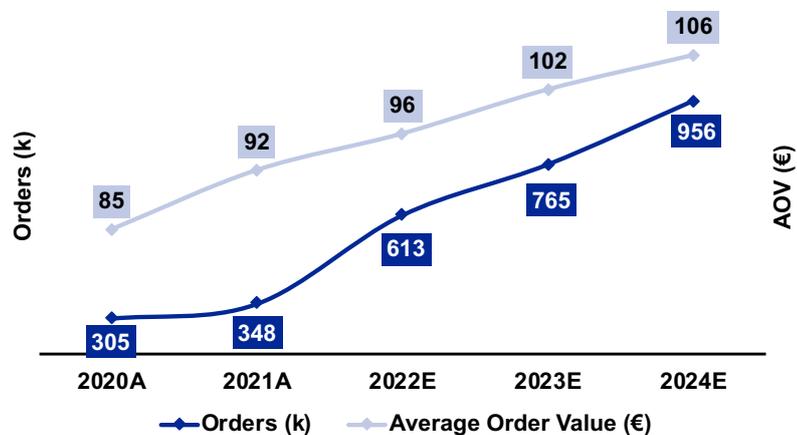
#### Farmacosmo: B2C Farmacosmo.it evolution 2021A-24E

(mn, %, k, €, €mn, IT GAAP)	2021A	2022E	2023E	2024E
Site Visits (mn) (a)	11.1	20.1	25.1	31.3
Conversion Rate (%) (b)	3.1%	3.1%	3.1%	3.1%
Orders (k) (c)=(a)*(b)	348	613	765	956
Average Order Value (€) (d)	91.9	96.3	101.6	105.7
Farmacosmo.it Revenues (e)=(c)*(d)	32.0	59.0	77.7	101.0
Third Party's Marketplace Revenues	0.6	0.7	0.7	0.7
<b>B2C Farmacosmo.it Revenues (Gross of VAT)</b>	<b>32.6</b>	<b>59.7</b>	<b>78.4</b>	<b>101.7</b>
<b>B2C Farmacosmo.it Revenues</b>	<b>29.0</b>	<b>53.7</b>	<b>70.6</b>	<b>89.5</b>

Source: Value Track analysis

Hence, regarding Farmacosmo.it, we assume a steady 3% conversion rate and an increasing AOV driven by the number of units purchased per order, forecasted to expand in line with the growing number of recurring buyers and the launch of new premium product lines.

#### Farmacosmo: B2C Farmacosmo.it Revenues drivers 2020A-24E



Source: Value Track analysis.

About Profumeriaonline.it, we expect a lower conversion rate than the Group historical marketplace, however starting from an already high AOV due to the high-end nature of products sold (including luxury beauty brands).

#### Farmacosmo: B2C Profumeriaonline.it evolution 2021A-24E

(mn, %, k, €, €mn, IT GAAP)		2021A	2022E	2023E	2024E
Site Visits (mn)	(a)	0.0	1.0	2.5	3.4
Conversion Rate (%)	(b)	0.0%	2.5%	2.6%	2.7%
Orders (k)	(c)=(a)*(b)	0	25	65	92
Average Order Value (€)	(d)	0.0	90.0	94.5	99.2
<b>B2C Farmacosmo.it Revenues (Gross of VAT)</b>		<b>0.0</b>	<b>2.3</b>	<b>6.1</b>	<b>9.1</b>
<b>B2C Farmacosmo.it Revenues</b>		<b>0.0</b>	<b>2.0</b>	<b>5.5</b>	<b>8.0</b>

Source: Value Track analysis

Overall, the higher incidence of B2C over B2B implies a more profitable revenues mix, especially in the personal and beauty care category that is expected to recover after Covid-19 lockdowns.

As a consequence, Gross Margin should pick up from 2021A levels and stabilize around 15.0%-15.5%.

Revenues mix could be furtherly enhanced by the potential upside Farmacosmo is likely to experience from the success of its additional future growth strategies, such as digital health and beauty services (telemedicine) and M&A targets. However, sales from these streams are not yet factored in our estimates.

**Farmacosmo: Value of Production and Gross Profit evolution 2021A-24E**

(€mn, IT GAAP)	2021A	2022E	2023E	2024E	CAGR 21A-24E (%)
<b>B2C Revenues</b>	<b>29.0</b>	<b>55.8</b>	<b>76.1</b>	<b>97.5</b>	<b>49.8%</b>
As a % of Sales	50%	64%	70%	73%	2329bps
o/w Farmacosmo.it	29.0	53.7	70.6	89.5	45.6%
o/w Profumeriaonline.it	0.0	2.0	5.5	8.0	nm
<b>B2B Revenues</b>	<b>29.0</b>	<b>31.0</b>	<b>33.2</b>	<b>35.5</b>	<b>7.0%</b>
As a % of Sales	50%	36%	30%	27%	-2329bps
<b>Revenues from Sales</b>	<b>58.0</b>	<b>86.8</b>	<b>109.3</b>	<b>133.1</b>	<b>31.9%</b>
Other Revenues	0.1	0.0	0.0	0.0	nm
Increases in Fixed Assets	0.3	0.5	0.6	0.7	26.1%
<b>Value of Production</b>	<b>58.5</b>	<b>87.3</b>	<b>109.9</b>	<b>133.8</b>	<b>31.7%</b>
Chge in Raw Materials Inventories	1.1	0.9	1.1	1.4	nm
Raw Materials	-51.1	-75.1	-94.3	-114.6	nm
<b>Gross Profit</b>	<b>8.5</b>	<b>13.1</b>	<b>16.7</b>	<b>20.5</b>	<b>33.9%</b>
<b>Gross Margin (%)</b>	<b>14.7%</b>	<b>15.1%</b>	<b>15.3%</b>	<b>15.4%</b>	<b>70bps</b>

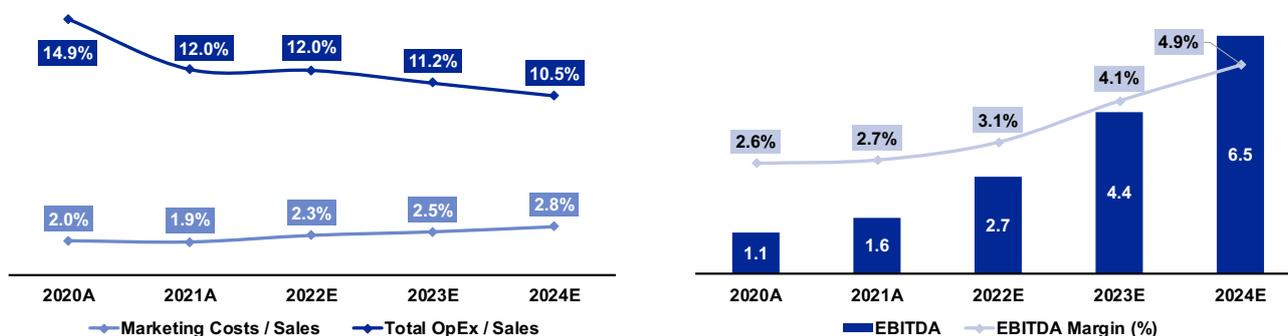
Source: Value Track analysis

**Positive operating leverage despite marketing-centric business**

Profitability should improve as well in the coming years, with **EBITDA** growing more than proportionally with respect to turnover, ca. **61% CAGR<sub>21A-24E</sub>**, to **€6.5mn in 2024E**. **EBITDA Margin** should improve by ca. 220 bps, to **4.9% in 2024E**.

While marketing expenditures should increase their incidence on sales being the most important growth driver for B2C stream, all the remaining operating expenses should witness greater efficiency and a positive operating leverage effect, specifically on shipping and labour costs.

**Farmacosmo: Marketing and Total OpEx (excl. COGS) incidence on Sales (lhs) and EBITDA evolution 2021A-24E (rhs)**



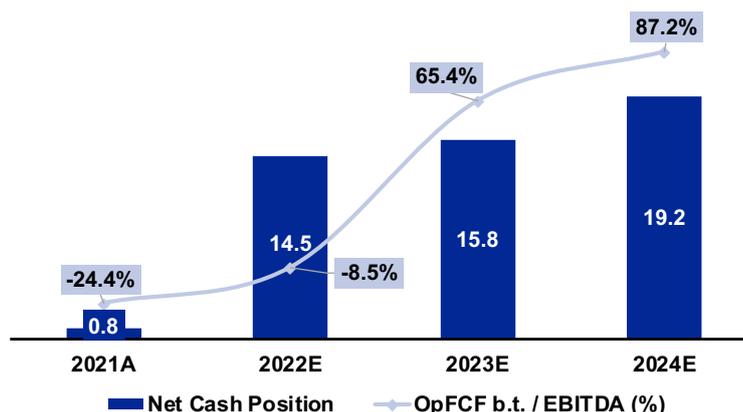
Source: Value Track analysis

### Targeting 90% Operating Free Cash Flow conversion

Given the heightening profitability of Farmacosmo’s marketplace, the low capital expenditures requirements and the negative correlation between revenues growth and working capital expansion, we expect Farmacosmo to enjoy a strong free cash flow generation over the next years. As a consequence, we expect Operating FCF (before taxes) to stand at **ca. 90% of EBITDA in 2024E**.

**Net Cash Position should get to €19.2mn**, hinting at ca. €18.3mn of cumulative free cash flow between 2022E and 2024E, however strongly influenced by €15.0mn worth of IPO net proceeds.

#### Farmacosmo: Net Cash and OpFCF conversion evolution 2021A-24E



Source: Value Track analysis,

#### Farmacosmo: P&L 2021A-24E

(€mn, IT GAAP)	2021A	2022E	2023E	2024E
<b>Revenues from Sales</b>	<b>58.0</b>	<b>86.8</b>	<b>109.3</b>	<b>133.1</b>
<b>Value of Production</b>	<b>58.5</b>	<b>87.3</b>	<b>109.9</b>	<b>133.8</b>
Chge in Inventories	1.1	0.9	1.1	1.4
Raw Materials	-51.1	-75.1	-94.3	-114.6
<b>Gross Profit</b>	<b>8.5</b>	<b>13.1</b>	<b>16.7</b>	<b>20.5</b>
Gross Margin (%)	14.7%	15.1%	15.3%	15.4%
Services Costs	-5.1	-7.9	-9.5	-10.8
Use of Third Parties' Assets	-0.1	-0.2	-0.3	-0.3
G&A	-0.1	-0.3	-0.4	-0.4
Labour Costs	-1.6	-2.0	-2.2	-2.4
<b>EBITDA</b>	<b>1.6</b>	<b>2.7</b>	<b>4.4</b>	<b>6.5</b>
<b>EBITDA Margin (%)</b>	<b>2.7%</b>	<b>3.1%</b>	<b>4.1%</b>	<b>4.9%</b>
D&A	-0.5	-0.6	-0.7	-0.8
<b>EBIT</b>	<b>1.1</b>	<b>2.1</b>	<b>3.8</b>	<b>5.7</b>
<b>EBIT Margin (%)</b>	<b>1.8%</b>	<b>2.4%</b>	<b>3.5%</b>	<b>4.3%</b>
Net Financial Charges	-0.4	-0.6	-0.6	-0.8
<b>Pre tax profit</b>	<b>0.7</b>	<b>1.5</b>	<b>3.2</b>	<b>5.0</b>
Taxes	-0.2	-0.5	-1.0	-1.5
<b>Net Profit</b>	<b>0.4</b>	<b>1.0</b>	<b>2.2</b>	<b>3.4</b>

Source: Value Track Analysis

**Farmacosmo: Balance Sheet Structure 2021A-24E**

(€mn, IT GAAP)	2021A	2022E	2023E	2024E
Net Fixed Assets	1.5	2.7	3.3	3.6
Net Working Capital	-1.1	0.0	0.4	0.1
As % of Sales	-1.9%	0.1%	0.3%	0.1%
Provisions	0.2	0.3	0.3	0.4
<b>Total Capital Employed</b>	<b>0.1</b>	<b>2.4</b>	<b>3.3</b>	<b>3.4</b>
Group Net Equity	1.0	16.9	19.1	22.5
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)]</b>	<b>0.8</b>	<b>14.5</b>	<b>15.8</b>	<b>19.2</b>

Source: Value Track Analysis

**Farmacosmo: Cash Flow Statement 2021A-24E**

(€mn, IT GAAP)	2021A	2022E	2023E	2024E
EBITDA	1.6	2.7	4.4	6.5
CapEx	-0.8	-1.8	-1.3	-1.1
Net Working Capital requirements	-1.2	-1.2	-0.3	0.2
Change in Provisions	0.1	0.0	0.0	0.0
<b>OpFCF b.t.</b>	<b>-0.4</b>	<b>-0.2</b>	<b>2.9</b>	<b>5.7</b>
<b>As a % of EBITDA</b>	<b>-24.4%</b>	<b>-8.5%</b>	<b>65.4%</b>	<b>87.2%</b>
Cash Taxes	-0.2	-0.5	-1.0	-1.5
<b>OpFCF a.t.</b>	<b>-0.6</b>	<b>-0.8</b>	<b>1.9</b>	<b>4.2</b>
Net Financial Charges	-0.4	-0.6	-0.6	-0.8
Dividends paid	0.0	0.0	0.0	0.0
Others	-0.1	15.0	0.0	0.0
<b>Net Cash generated (absorbed)</b>	<b>-1.1</b>	<b>13.7</b>	<b>1.3</b>	<b>3.4</b>
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)]</b>	<b>0.8</b>	<b>14.5</b>	<b>15.8</b>	<b>19.2</b>

Source: Value Track Analysis

## Valuation

DCF returns a fair equity value of €126mn, while peers' multiples lead to €93mn fair equity value.

The average between DCF and Peers values leads to €109mn fair equity value that based on the outstanding number of shares means €2.91 fair value per share, while based on the fully diluted number of shares means €2.69 fair value per share.

We calculate a fair equity value at ca. €109mn obtained by applying: 1) DCF model; 2) Relative market multiples. These two methods lead to slightly different fair values (€126.0mn DCF and €92.7mn Peers' Analysis) as:

- ◆ **Relative market multiples** method necessarily focuses on EV/Sales, as the majority of peers show negative EBITDA margin;
- ◆ **DCF model** captures Farmacosmo's medium-term growth potential and above average cash generation capability driven by its favorable working capital dynamics and low capital needs;

Based on the outstanding number of shares, €109.4mn implies **€2.91 Fair Equity Value per share**, while considering the fully-diluted scenario, we calculate **€2.69 Fully-Diluted Fair Equity Value per share**.

### Farmacosmo: Sensitivity of implicit stock trading multiples between €2.3 and €3.5 (Outstanding number of shares)

Equity Value p/s (€)	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT (x)	
	2022E	2023E	2022E	2023E	2022E	2023E
€ 2.3	0.8	0.6	26.9	16.0	34.6	18.8
€ 2.5	0.9	0.7	29.7	17.7	38.2	20.8
€ 2.7	1.0	0.8	nm	19.4	nm	22.8
<b>€ 2.9</b>	<b>1.1</b>	<b>0.9</b>	<b>nm</b>	<b>21.0</b>	<b>nm</b>	<b>24.8</b>
€ 3.1	1.2	0.9	nm	22.7	nm	26.8
€ 3.3	1.3	1.0	nm	24.4	nm	28.7
€ 3.5	1.3	1.1	nm	26.1	nm	30.7

Source: Value Track Analysis

### Farmacosmo: Sensitivity of implicit stock trading multiples between €2.1 and €3.3 (Fully-Diluted number of shares)

Equity Value p/s (€)	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT (x)	
	2022E	2023E	2022E	2023E	2022E	2023E
€ 2.1	0.8	0.6	25.6	15.2	32.8	17.8
€ 2.3	0.9	0.7	28.8	17.1	37.0	20.2
€ 2.5	1.0	0.8	nm	19.1	nm	22.5
<b>€ 2.7</b>	<b>1.1</b>	<b>0.9</b>	<b>nm</b>	<b>21.0</b>	<b>nm</b>	<b>24.8</b>
€ 2.9	1.2	0.9	nm	23.0	nm	27.1
€ 3.1	1.3	1.0	nm	25.0	nm	29.4
€ 3.3	1.4	1.1	nm	26.9	nm	31.7

Source: Value Track Analysis

## Peers' analysis

**Peers' analysis leads to ca. €93mn fair Equity Value** based on the average EV/Sales 2022E of Direct B2C peers and B2B wholesalers.

### Choice of comparables

We take into consideration three clusters, as follows:

- ◆ **Direct B2C Peers** i.e. e-retailers with leading positions in pharma and beauty verticals (Farmaè Group, Zur Rose and Shop Apotheke) and in the cosmetic one (Adore);
- ◆ **Other B2C e-retailers** focused on different market verticals like Mister Spex (optical products), Giglio.com (apparel) and Hellofresh (meal kits' distribution);
- ◆ **B2B wholesale** – within this cluster we spot two wholesale food distributors (Marr and Sysco Corporation) that are somehow similar to Farmacosmo B2B segment in terms of business model, market trends and profitability ratios, even if their clients are mainly offline ones.

### Farmacosmo: Peers' Business Profile

**Farmaè Group** –Italy-based company specialized in the sale of healthcare and wellness products: OTC drugs; orthopedics and homeopathic products, parapharmaceuticals, medical devices, products for children, diet, and pet products.

**Zur Rose Group** –Switzerland-based company engaged in drug distribution, whose activities are divided into two business segments: the Zur Rose division includes wholesale business, while the DocMorris division manages the mail-order business for drug retail. The Company is active in Switzerland, Germany, and the Netherlands.

**Shop Apotheke** –Company based in the Netherlands that distributes pharmaceutical products online. It focuses on OTC, BPC and Rx (prescription drugs), being active in Belgium, Spain, Italy, France, Austria, Netherlands, and Germany.

**Adore** –Australia-based online cosmetic retailer. It is an integrated content, marketing and electronic commerce retail platform that partners with beauty and personal care brands.

**Hellofresh** –Germany-based company that specializes in meal kits' online distribution, providing fresh, healthy, and personalized meal solutions. It is the largest meal-kit provider in the US, with operations also in Australia, Canada, Denmark, New Zealand, Sweden, and Western Europe.

**Mister Spex** –Online store that sells various brands of glasses and contact lenses in Germany. Its product range includes over 5,000 different glasses, sunglasses, sports eyewear, contact lenses and additional services such as eye examinations for glasses and annual checks of contact lenses.

**Giglio.com** –Italy-based company engaged in the online fashion retailing business. It provides fashion and luxury brands across womenswear, menswear, and kidswear to customers in Italy and internationally.

**MARR** –Italy-based company specialized in the distribution of food products to the non-domestic catering sector (restaurants, hotels, pizza restaurants, resorts, and canteens), with a wider product offering.

**Sysco Corporation** –Distributor of food and related products primarily to the foodservice or food-away-from-home industry, i.e. restaurants, healthcare, and educational facilities.

Source: Various, Value Track Analysis

### Farmacosmo vs. Direct B2C Peers: overview

Looking at the main business-related KPIs and sales composition of peers directly engaged in the online sale of healthcare and wellness products, we underline:

- ◆ Zur Rose and Shop Apotheke are the undisputed European leaders, in terms of i) market coverage – they have leading market shares across different countries; ii) product offering as they operate in some markets where Rx drugs can be sold online; iii) business maturity, i.e. they have already developed digital health services, iv) business size based on the number of website visits, customers and order amounts;
- ◆ Farmaè is so far the main comparable of Farmacosmo as: i) it shares a similar business strategy aimed at strengthening the omnichannel customer experience, ii) it is exposed to domestic market trends and iii) it focuses exclusively on OTC and PBC products (we recall that the online sale of prescription medicines is not allowed yet by the Italian regulation);
- ◆ Zur Rose is also involved in the wholesale business, as it provides drugs to medical doctors, health insurance companies, hospitals, and healthcare companies, anyway its product offering completely differs from the one provided by Farmacosmo in the B2B division, that is tailored to strict needs of the sole client, and usually comprehends groceries, household cleaners and of other large-scale retail SKUs.

### Farmacosmo vs Direct B2C Peers on business KPIs

	Farmaè	Zur Rose Group	Shop Apotheke	Farmacosmo
<b>Key info and ratios</b>				
Location	Italy	CH-GER-NL	Europe-wide	Italy
Offering	OTC / PBC	OTC / PBC / RX	OTC / PBC / RX	OTC / PBC
Digital Health Services	NOT	YES	YES	NOT
Website visits (mn)	>43.0	265.0	280.0	>12.0
Online orders (mn)	1.7	16.6	19.7	0.4
Online customers (mn) <sup>(1)</sup>	0.9	12.4	7.9	0.2
AOV (€)	48.0 <sup>(2)</sup>	39.0 <sup>(2)</sup>	61.1 <sup>(2)</sup>	92.0 <sup>(3)</sup>
Repeat Orders (%)	na	74%	82%	62%
<b>Sales split by customer</b>				
Retail (B2C)	100.0%	65.1%	100.0%	50.0%
B2B	0.0%	30.4%	0.0%	50.0%
Marketplace	0.0%	4.5%	0.0%	0.0%

Source: Value Track Analysis (1) Defined as total number of online buyers during over the full-year (2) Only OTC (3) Net of VAT

In addition, we note that the Australian company Adore is a pureplay in the online sale of cosmetic products, and as a consequence represent a useful benchmark for the soon to be launched profumeriaonline.it business.

## Farmacosmo vs peers: growth and margins above e-pharma and e-beauty players

Comparing Farmacosmo key financials, we highlight:

- ◆ Farmacosmo is expected to post higher than peers' sales growth on the B2C segment, lagging just behind Farmaè 2022E, that is positively impacted by the integration of recently acquired company Amicafarmacia.

On the B2B side, Farmacosmo is likely to increase at 7% 3y CAGR<sub>21A-24E</sub>, hence, between MARR and Sysco Corporation.

- ◆ At profitability level, we expect Farmacosmo to mark a positive EBITDA margin – likely to increase by roughly 220bps by 2024E – thus higher than selected e-pharma and e-beauty players.

### Farmacosmo vs Peers on key financial metrics

Company	y/y Sales Growth (%)			EBITDA Margin (%)		
	2022E	2023E	2024E	2022E	2023E	2024E
<b>B2C e-retailers</b>						
Farmaè Group	44.6	19.5	17.8	3.4	3.8	4.2
Zur Rose Group	-2.7	23.6	16.2	<0	<0	<0
Shop Apotheke	16.2	18.6	20.9	0.9	1.1	2.3
Adore	16.2	20.2	19.2	2.4	3.2	3.4
Hellofresh	24.3	16.6	12.4	6.8	8.2	9.3
Mister Spex	19.6	25.0	25.5	3.6	6.9	8.5
Giglio.Com	38.0	40.3	36.0	<0	0.5	2.9
<b>Average</b>	<b>22.3</b>	<b>23.4</b>	<b>21.1</b>	<b>3.4</b>	<b>3.9</b>	<b>5.1</b>
<b>Farmacosmo B2C</b>	<b>92.2</b>	<b>36.5</b>	<b>28.1</b>	<b>3.1</b>	<b>4.1</b>	<b>4.9</b>
<b>B2B wholesalers</b>						
MARR	16.4	2.0	2.0	6.6	7.3	7.8
Sysco Corporation	28.4	6.8	4.2	5.0	5.8	6.1
<b>Average</b>	<b>22.4</b>	<b>4.4</b>	<b>3.1</b>	<b>5.8</b>	<b>6.5</b>	<b>7.0</b>
<b>Farmacosmo B2B</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>na</b>	<b>na</b>	<b>na</b>
<b>Farmacosmo</b>	<b>49.6</b>	<b>26.0</b>	<b>21.7</b>	<b>3.1</b>	<b>4.1</b>	<b>4.9</b>

Source: Value Track Analysis, Market Consensus

### Peers' stock trading multiples

As for trading multiples are concerned, we take into consideration 2022E as reference year and EV/Sales as the best multiple to assess the fair equity value of retails companies operating in an underpenetrated (online) market niche, where increasing market share is the short-term target for e-retailers, rather than just focusing on the profitability side.

We highlight the following key figures:

- ◆ B2C e-retailers “Direct Peers” on average trade at 0.96x EV/Sales, with EV/EBITDA multiples biased by not meaningful figures, as many players are not yet mature at profitability level;
- ◆ B2C “Other” e-retailers on average trade at 0.59x EV/Sales and 11.3x EV/EBITDA multiples;
- ◆ B2B wholesalers on average trade at 0.79x EV/Sales and 13.9x EV/EBITDA 2022E.

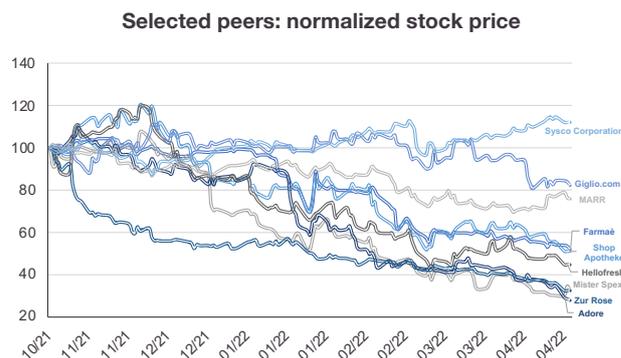
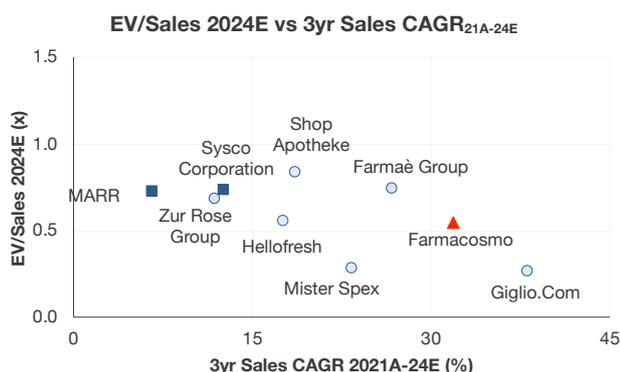
In order to value Farmacosmo B2C business we apply “Direct Peers” multiples, while in order to value Farmacosmo B2B business we apply “B2B wholesalers” ones.

**Farmacosmo: Peers' trading multiples based on the last trading month average price**

Company	EV / Sales (x)			EV / EBITDA (x)		
	2022E	2023E	2024E	2022E	2023E	2024E
<b>B2C e-retailers</b>						
Farmaè Group	1.12	0.91	0.74	nm	23.9	17.6
Zur Rose Group	1.00	0.75	0.69	nm	nm	nm
Shop Apotheke	1.11	0.98	0.83	nm	nm	nm
Adore	0.63	0.51	0.42	26.3	16.1	12.5
<b>Avg. Direct B2C Peers</b>	<b>0.96</b>	<b>0.79</b>	<b>0.67</b>	<b>26.3</b>	<b>20.0</b>	<b>15.0</b>
Hellofresh	0.82	0.67	0.56	12.2	8.2	6.0
Mister Spex	0.37	0.32	0.28	10.4	4.6	3.4
Giglio.Com	0.59	0.41	0.26	nm	nm	9.1
<b>Avg. Other E-retailers</b>	<b>0.59</b>	<b>0.47</b>	<b>0.37</b>	<b>11.3</b>	<b>6.4</b>	<b>6.1</b>
<b>B2B wholesalers</b>						
MARR	0.75	0.74	0.73	11.4	10.2	9.3
Sysco Corporation	0.82	0.77	0.73	16.4	13.2	12.0
<b>Average</b>	<b>0.79</b>	<b>0.75</b>	<b>0.73</b>	<b>13.9</b>	<b>11.7</b>	<b>10.7</b>

Source: Value Track Analysis, Market Consensus

**Farmacosmo: Peers' value map (lhs) and normalized (basis=100) 5-months stock price evolution (rhs)**



Source: Value Track Analysis, Market Consensus

**Farmacosmo: Valuation at fair multiples**

	<b>2022E</b>
<b>Fair Multiple – B2C</b>	<b>0.96x</b>
B2C Sales (€mn)	55.8
Fair EV (€mn)	53.8
<b>Fair Multiple – B2B</b>	<b>0.79x</b>
B2B Sales (€mn)	31.0
Fair EV (€mn)	24.4
<b>Total Fair Enterprise Value (€mn)</b>	<b>78.2</b>
Net Fin. Position 2022E (€mn)	14.5
<b>Farmacosmo Fair Equity Value (€mn)</b>	<b>92.7</b>

Source: Value Track Analysis

## Discounted Cash Flow Model

The outcome of our DCF calculation is **€126.0mn fair Equity value**, based on the following assumptions:

- ◆ 2.0% risk free rate in line with medium term target inflation;
- ◆ Unlevered Beta at 1.0 and Implied Italian Equity Risk premium ERP at 6.42% (Source: Damodaran on line web site);
- ◆ 2.5% Small Size Risk Premium, appropriate when dealing with private small sized companies;
- ◆ WACC corresponding to cost of Equity at 10.8%, as the company is currently cash positive;
- ◆ Terminal value at 2030YE obtained by applying a 2.5% Perpetuity Growth Rate.

We note that the execution of post IPO strategy could imply a more balanced Debt to Equity structure thus unlocking further upside value.

### Farmacosmo: DCF model

€mn	g=2.5%
PV of future cash flows (€mn)	34.1
PV of Terminal value (€mn)	77.5
TV / Sales 2030E (x)	0.45x
<b>Fair Enterprise value (€mn)</b>	<b>111.5</b>
Net Fin. Position 2022E	14.5
<b>Farmacosmo Fair Equity value (€mn)</b>	<b>126.0</b>

Source: Value Track Analysis

## M&A transactions as safety crosscheck

2018-2021 M&A transactions suggest an average acquisition multiple (FY0 EV/Sales) of 1.7x, almost in line with our valuation if applied to Farmacosmo's 2021A Revenues figure.

### Recent M&A deals: Implied market multiples

Date	Bidder	Target	EV	Sales FY0	EV/Sales (x)
Jul'18	Shop Apotheke	nu3	na	30	na
Aug'18	Zur Rose	Promofarma	44	19	2.3
Oct'18	Zur Rose	Medpex	176	139	1.3
Jan'20	Finbeauty	eFarma	20	9	2.2
Jul'20	Zur Rose	Teleclinic	44	16	2.7
Jul'20	Zur Rose	Apotal	75	157	0.5
Jan'21	Shop Apotheke	Smart patient	na	18	na
Jul'21	Farmaè Group	AmicaFarmacia	40	28	1.4
Oct'21	Atida	eFarma	na	30	na
<b>Average</b>					<b>1.7</b>
<b>Median</b>					<b>1.8</b>

Source: Value Track Analysis

## Farmacosmo Fair Equity Value per share

Averaging DCF and peers' analysis we get to €109.4mn Equity Value. Based on the outstanding number of shares, this would translate into **€2.91 Fair Equity Value per share**.

On the other hand, assuming the full conversion of Warrants, Short-Run Warrants, Bonus Shares and Stock Grant shares (more detailed in the Appendix) into ordinary Farmacosmo shares, we get a **Fully-Diluted Fair Equity Value per share of €2.69**.

### Farmacosmo: DCF model

€mn	Outstanding	Fully Diluted
Equity Value - DCF	126.0	126.0
Equity Value - Peers' Analysis	92.7	92.7
Average	109.4	109.4
Cap. Injection from Warrants	0	8.0 (*)
<b>Equity Value</b>	<b>109.4</b>	<b>117.4</b>
<b>NOSH</b>	<b>37.6</b>	<b>43.6</b>
<b>Fair Equity Value per share</b>	<b>2.91</b>	<b>2.69</b>

Source: Value Track Analysis (\*) Assuming all Warrants and Short Run to be converted at respective strike prices of first windows

# Appendix 1 - Corporate Profile

Farmacosmo was founded in 2014 by Fabio and Francesco De Concilio, who were already involved in the online marketplace business by selling consumer electronics products with the e-retailer Prezzoforte since 2009. From the initial goal of integrating the two companies on a unique platform, the growing consumers' appetite towards H&B pushed Farmacosmo to focus on Farmacosmo business. The Company is now owned by six shareholders, led by Fabio de Concilio, (CEO), with 40% of shares.

## A bit of History

Farmacosmo was incorporated back in 2012 by two brothers, Fabio and Francesco De Concilio, who were already active in the online marketplace business with **Prezzoforte**, a company they founded back in 2009 selling online consumer electronics products and household appliances.

Originally, the aim was to develop a unique pan-European platform providing an integrated offer of all product categories of Prezzoforte and Farmacosmo.

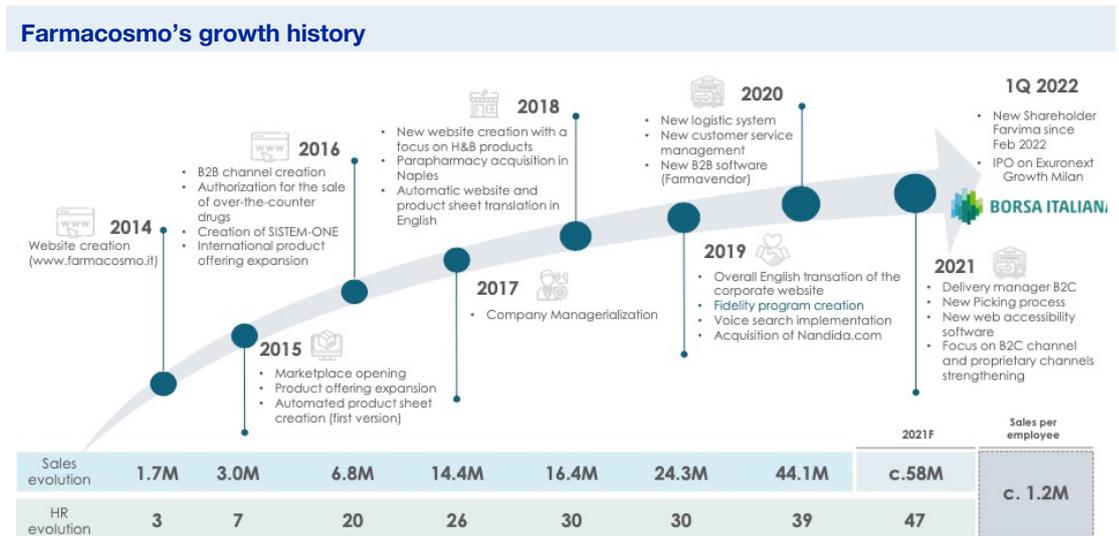
However, the need of ministerial authorization to sell OTC & SOP drugs online, the ever-increasing interest towards the H&B sector and the online electronics market saturation have called into question the initial project.

Since then, the business plan has focused on developing the growth of Farmacosmo's brand awareness and improving the Company's market share and profitability through the B2C and B2B streams.

For instance, during 2020, Farmacosmo decided to close its store on Amazon Italia giving up ca. 90k orders and €4mn turnover with the goal of increasing direct web traffic towards Farmacosmo.it.

The solidity of the business model has allowed not only to quickly recover the €4mn revenue, but also to enlarge Farmacosmo's customer base and boost the average order value well above competitors.

Key historical milestones are summarized in the timeline below.



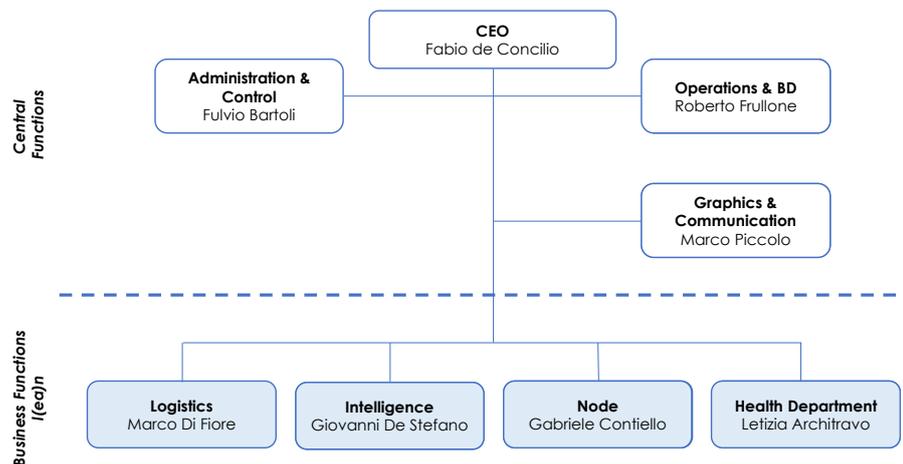
Source: Value Track analysis, Farmacosmo

## Top Management: Structure & Powers

Farmacosmo's top management includes:

- ◆ Fabio De Concilio – CEO and Founder of Farmacosmo and Profumeriaonline, with 10 years of combined experience in e-commerce and close to 30 in finance. Fabio has also served as Chairman of the Strategic Committee for Theorema AM, and as external consultant for various Italian institutions (including the Presidency of the Council of Ministers);
- ◆ Fulvio Bartoli – Cofounder and Managing Director, responsible for Farmacosmo's financial development, head of accounting and treasury, partners and banks relationships;
- ◆ Marco Piccolo – Art director and head of the graphic department, also supporting the marketing team for all the aspects concerning advertising and promotion;
- ◆ Roberto Frullone – General Manager responsible for Farmacosmo's commercial agreements with product and service suppliers. Also, activities of control, coordination and optimization between back-office, logistics, catalogue and marketing departments.

### Farmacosmo's Organizational Structure



Source: Value Track analysis, Farmacosmo

## Appendix 2 – Fully diluted capital structure

Farmacosmo was listed back as of March 23<sup>th</sup> 2022 on Euronext Growth Milan – the multilateral trading platform organized and managed by Borsa Italiana – with a total placement of ca. 10.2mn shares, valued at €2.25 IPO price. More in specific:

- ◆ 7.5mn newly issued ordinary shares resulting from a capital increase for a total of ca. €17mn;
- ◆ 1.3mn ordinary shares offered for sale by certain shareholders of the Company;
- ◆ 1.3mn ordinary shares deriving from the exercise of the over-allotment option granted to the Global Coordinator Illimity Bank S.p.A.

As result of the Initial Public Offering, Farmacosmo outstanding shares amount to ca. 37.6mn. Pre-existing shareholders have signed a lock-up agreement of 24 months on their shares

### Farmacosmo: Share capital and Shareholders

Shareholder	N. shares	% Sh. Capital	Vot. Rights	% Tot. Rights
DECO F S.r.l.(**)	15.000.438(*)	39,94%	23.190.568	50,69%
Fabio de Concilio (**)	533.328	1,42%	533.328	1,17%
Francesco de Concilio(**)	266.664	0,71%	266.664	0,58%
VAR S.r.l. (**)	5.083.329	13,54%	5.083.329	11,11%
FARVIMA Medicinali S.p.A. (**)	2.700.000	7,19%	2.700.000	5,90%
Fulvio Bartoli (**)	3.049.834	8,12%	3.049.834	6,67%
Marco Piccolo(**)	1.270.730	3,38%	1.270.730	2,78%
Dario Cusani(**)	762.357	2,03%	762.357	1,67%
Mercato	8.888.860	23,67%	8.888.860	19,43%
<b>Total</b>	<b>37.555.540</b>	<b>100%</b>	<b>45.745.670</b>	<b>100%</b>

Source: Farmacosmo, (\*) DECO F S.r.l. holds 4,095,065 Multiple Voting Shares, (\*\*) Shareholders subject to restrictions of lock-up.

The company has also issued additional financial instruments, as briefly described in the below table.

### Farmacosmo: Additional financial instruments issued at IPO

<p><b>Warrant</b> <b>2022 - 2025</b> <b>(IPO subscribers)</b></p>	<ul style="list-style-type: none"> <li>- "Warrant" in the ratio of 1 warrant for every 10 ordinary shares subscribed/purchased in the context of the Offering, allocated on the first day of trading.</li> <li>- <b>Strike Period:</b> 2 calendar weeks for each window, 15-31 Jan 2023, 15 – 31 Jan 2024, 15 – 31 Jan 2025</li> <li>- <b>Strike Ratio:</b> 1 newly issued <b>Ordinary Share</b> for every 1 "Warrant"</li> <li>- <b>Strike Price:</b> 1<sup>st</sup> window, IPO price; 2<sup>nd</sup> window, IPO price +35%; 3<sup>rd</sup> window, IPO price + 50%</li> <li>- <b>Expiry:</b> End of the last Strike Period (31 January 2025)</li> </ul>
<p><b>Short Run Warrant</b> <b>(IPO subscribers)</b></p>	<ul style="list-style-type: none"> <li>- "Short Run Warrant" assigned in the ratio of 1 warrant for every 4 ordinary shares subscribed in the context of the Offering, allocated on the first day of trading.</li> <li>- <b>Strike Period:</b> 1 June 2022 - 30 June 2022</li> <li>- <b>Strike Ratio:</b> 1 "Warrant" for every 1 new issued share"</li> <li>- <b>Strike Price:</b> IPO Price</li> <li>- <b>Expiry:</b> End of Strike Period</li> </ul>
<p><b>Bonus Shares</b> <b>(IPO subscribers)</b></p>	<ul style="list-style-type: none"> <li>- "Bonus Shares" in the ratio of 1 newly issued share for every 5 ordinary shares subscribed/purchased in the context of the Offering and possessed for 12 months continuously. Ordinary shares will be allocated 12 months after the IPO</li> </ul>
<p><b>Stock grant plan</b></p>	<ul style="list-style-type: none"> <li>- The Plan will be implemented through the assignment to the Grantees of up to a maximum number of 400,000 Shares. The Plan is divided into three annual cycles of Share allocation, which coincide with the accounting periods ending on 31 December 2022, 31 December 2023 and 31 December 2024 respectively.</li> </ul>

□Source: Farmacosmo, Value Track Analysis

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