

Farmacosmo

Sector: E-Commerce



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2Q-1H23 KPIs on track

Farmacosmo is a Health, Pharma & Beauty e-retailer for OTC and SOP pharmaceuticals (without prescription) and BPC (beauty and personal care) SKUs. Farmacosmo now also boasts pharmacies and digital health services.

2Q-1H23 KPIs

Farmacosmo's 2Q23 **Group Revenues** are €17.9mn leading to **€36.7mn in 1H23** (up 17% y/y), driven by Online Retail growth (+33% y/y). Key Retail channel KPIs are: orders 35% y/y, about 4.6mn items sold in 1H23, 11mn+ visitors, and 420k clients in 1H23. Average Order Values remained strong, with farmacosmo.it surpassing €100 (VAT included) in July at an all-time high of €108. Only negative sign relates to B2B revenues, down -17% y/y in 1H.

Business and Corporate development

The integration of the companies acquired in the latest quarters is on track, due to Pharmasi, Bau Cosmesi and physical pharmacies (i.e., Farmacia De Leo and Innovation Pharma) positive contribution. On the other hand, ProfumeriaWeb is still in a turnaround phase, while the take up of ContactU should take place starting as of October.

Farmacosmo strategy is confirmed: i) value proposition extension in the online retailing business; ii) strengthening of the competitive positioning thanks to omnichannel approach; iii) setup of full round health services digital platform.

2023E-25E estimates unchanged

We are **maintaining unchanged our 2023E-25E estimates**, although some fine-tuning may be needed downward by a couple of million revenues. However, we prefer to make this adjustment post full 1H release to gain additional 2/3 months visibility for 2023.

Fair value unchanged at €1.90 p/s (€1.81 Fully Diluted)

We maintain our current fair value unchanged. However, it is crucial to acknowledge the following: i) the upward trend in B2C Peers multiples (EV/Sales 24E increasing from 0.54x to 0.61x); ii) on May 1.2mn bonus shares were issued; iii) the potential downward fine tuning of company's estimates. All these factors will be duly considered in the post-1H23 update. Thus, based on the previous number of shares and estimates, for the time being we confirm Farmacosmo **fair equity value p/s at €1.90**, and the **fully diluted fair equity value p/s. at €1.81**.

Fair Value (€) **1.90**
Market Price (€) **1.00**
Market Cap. (€mn) **40.0**

| KEY FINANCIALS (€mn) | 2022A | 2023E | 2024E |
|----------------------|-------|-------|-------|
| REVENUES FROM SALES | 65.7 | 89.9 | 116.7 |
| EBITDA | 0.0 | 2.5 | 4.1 |
| EBIT | -1.6 | 0.5 | 1.8 |
| NET PROFIT | -0.7 | -0.4 | -0.2 |
| EQUITY | 19.0 | 18.6 | 19.0 |
| NET FIN. POS. | 5.2 | 3.2 | 4.4 |
| EPS ADJ. (€) | -0.02 | -0.01 | -0.01 |
| DPS (€) | 0.00 | 0.00 | 0.00 |

Source: Farmacosmo (historical figures)
Value Track (2023E-24E estimates)

| KEY RATIOS | 2022A | 2023E | 2024E |
|-----------------------|-------|-------|-------|
| EBITDA MARGIN (%) | 0.1 | 2.8 | 3.5 |
| EBIT MARGIN (%) | nm | 0.6 | 1.5 |
| NET DEBT / EBITDA (x) | nm | nm | nm |
| NET DEBT / EQUITY (x) | nm | nm | nm |
| EV/SALES (x) | 0.68 | 0.51 | 0.38 |
| EV/EBITDA (x) | nm | 18.3 | 11.0 |
| EV/EBIT (x) | nm | nm | 24.7 |
| P/E ADJ. (x) | nm | nm | nm |

Source: Farmacosmo (historical figures)
Value Track (2023E-24E estimates)

STOCK DATA

| | |
|-------------------|---------------------|
| FAIR VALUE (€) | 1.90 |
| MARKET PRICE (€) | 1.04 |
| SHS. OUT. (m) | 38.9 |
| MARKET CAP. (€m) | 40.4 |
| FREE FLOAT (%) | 26.5 |
| AVG. 20D VOL. (#) | 25,150 |
| RIC / BBG | COSMO.MI / COSMO IM |
| 52 WK RANGE | 0.73 - 2.34 |

Source: Stock Market Data

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Business Description

Farmacosmo is a e-retailer for OTC and 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 70k references, long shelf-life products selling at discount vs. physical stores and end-to-end customer-centric approach, Farmacosmo is generating ever improving KPIs. Thanks to recent M&A, Farmacosmo now also boasts physical pharmacies and digital health services.

Key Financials

| €mn | 2022A | 2023E | 2024E | 2025E |
|---------------------------------|--------------|-------------|--------------|--------------|
| Revenues from Sales | 65.7 | 89.9 | 116.7 | 143.7 |
| y/y (%) | 13.2% | 36.9% | 29.8% | 23.2% |
| Value of Production | 66.6 | 90.5 | 117.4 | 144.5 |
| EBITDA | 0.0 | 2.5 | 4.1 | 7.5 |
| EBITDA Margin (As a % of Sales) | 0.1% | 2.8% | 3.5% | 5.2% |
| EBIT | -1.6 | 0.5 | 1.8 | 4.9 |
| EBIT Margin (As a % of Sales) | -2.4% | 0.6% | 1.5% | 3.4% |
| Net Profit | -0.7 | -0.4 | -0.2 | 1.0 |
| y/y (%) | -261.4% | -33.5% | -54.5% | -575.7% |
| Adjusted Net Profit | -0.7 | -0.4 | -0.2 | 1.0 |
| y/y (%) | -261.4% | -33.5% | -54.5% | -575.7% |
| Net Fin. Position | 5.2 | 3.2 | 4.4 | 6.0 |
| Net Fin. Pos. / EBITDA (x) | nm | nm | nm | nm |
| Capex | -17.0 | -3.7 | -2.3 | -2.4 |
| OpFCF b.t. | -14.7 | -1.1 | 2.6 | 5.6 |
| OpFCF b.t. as % of EBITDA | - | -42.6% | 64.6% | 74.7% |

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

Investment case

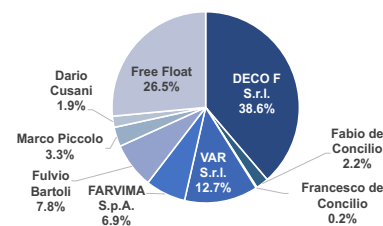
Strengths / Opportunities

- ◆ Very high flexibility to demand thanks to “sell and buy” approach and almost non-existent inventory risk due to the “zero warehouse” policy;
- ◆ All-around value proposition in the Health, Beauty & Pharma industry with online portals, physical pharmacies and digital health services;
- ◆ End-to-end customer centric approach resulting in high conversion rate and above competition average order value (AOV).

Weaknesses / Risks

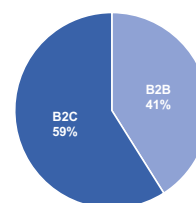
- ◆ Increasing competition trying to exploit current low online penetration;
- ◆ Risk of potential changes in current legal and regulatory framework;
- ◆ Risk of sales concentration, operating in B2B channel with one major client.

Shareholders Structure



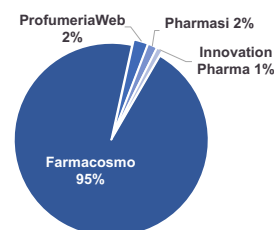
Source: Farmacosmo

FY22 Revenues by Typology



Source: Farmacosmo, Value Track Analysis

FY22 Revenues by Legal Entity (*)



Source: Farmacosmo, Value Track Analysis (*)
PW, PH, IP consolidated as of 4Q23

Stock Multiples @ €1.90 Fair Value

| | 2023E | 2024E |
|-------------------|-------|-------|
| EV / SALES (x) | 0.76 | 0.58 |
| EV / EBITDA (x) | 27.3 | 16.5 |
| EV / EBIT (x) | nm | 37.2 |
| EV / CAP.EMP. (x) | 4.4 | 4.6 |
| OpFCF Yield (%) | <0 | 4.0 |
| P / E (x) | nm | nm |
| P / BV (x) | 4.2 | 4.3 |
| Div. Yield. (%) | 0.0 | 0.0 |

Source: Value Track

2Q-1H23 KPIs

In 2Q23 Farmacosmo reported Group Revenues at ca. €17.9mn, leading to **ca. €36.7mn Revenues in 1H23** (up 17% y/y). The growth is driven by the Online Retail component (+33% y/y).

The main business KPIs of the retail channel are shown below:

- ◆ Retail channel orders filled in 1H23 grew by more than 35% y/y (vs. +50% y/y in 1Q23);
- ◆ The total number of items sold in 1H23 amounted to about 4.6mn, compared with about 4mn on a l-f-l basis;
- ◆ Approx. 11mn visitors, up more than 85% y/y;
- ◆ The number of clients in the offline / online channels amounted to ca. 420k in 1H23;
- ◆ Total customers and loyal customers +45% y/y and +30% y/y in 1H23, respectively;
- ◆ The Average Order Value of farmacosmo.it, among the highest in the market, consolidates at a value of 98€ (vs €96 in 1Q23); profumeriaweb.com at 74€; baucosmesi.it at 40€, and phàrmasi.it at 60€;
- ◆ The Average Order Value for the month of July of farmacosmo.it exceeded the 100€ threshold, touching all-time-high 108€, up 16€ since the end of 2021.

Only negative sign y/y is related to B2B, down 17% y/y: as of 1H23. The weight of B2B revenues was 33% compared to 56% recorded at the date of listing.

Farmacosmo.it : AOV evolution

| | FY19 | FY20 | FY21 | FY22 | 1Q23 | 1H23 | July '23 |
|-----------------------|------|------|------|------|------|------|----------|
| AOV (€, Gross of VAT) | 81.3 | 84.8 | 91.9 | 95.0 | 96.0 | 98.0 | 108.0 |

Source: Farmacosmo, Value Track Analysis

Farmacosmo vs. Peers: KPIs

| Key Financials (€mn) | Talea Group | DocMorris | RedCare Pharmacy | Farmacosmo |
|---------------------------------|-----------------|-----------|--------------------|-------------|
| Revenues from Sales 1H23 | 75.3 (*) | na | ~733.0 (**) | 36.7 |
| y/y | 37.2% | na | ~24% | ~17% |
| Revenues from Sales 1Q23 | 36.6 (*) | na | ~361.0 (**) | 17.9 |
| y/y | 29.5% | na | ~26% | na |
| FY22 AOV (€) | 51 | 40 | 58 | 95 |
| y/y | -1.0% | 2.6% | -4.6% | 3.3% |

Source: Farmacosmo, Value Track Analysis, (*) Including revenues pertaining to co-marketing activities recognized partly as a reduction of Cost of Sales and partly as a reduction of Costs related to Selling & Distribution (**) Excluding the sales of MediService AG completed in mid-May with Galenica AG

Business & Corporate Development

We remind that over FY22 and 1Q23, Farmacosmo has finalized many M&A deals aimed at building a 360° value proposition in the Health, Pharma & Beauty space and at pivoting the business model from a “products only” approach to an integrated “products + services” one, a pivoting that, if successful, should offer much higher profitability in the coming years.

Strategies

Overall, Farmacosmo updated strategy should now develop around three main guidelines:

- 1. Value proposition extension in the online retailing business**, thanks to the acquisition of *ProfumeriaWeb*, *Pharmasi*, *Bau Cosmesi*;
- 2. Strengthening the competitive positioning via an omnichannel approach**, gained thanks to the acquisition of *Farmacia De Leo* and of *Innovation Pharma*;
- 3. Building a leading digital platform providing health services**, out of which the recently acquired *ContactU* is an example.

To note that the company has formally endorsed the 2022 sustainability report, underscoring its resolute commitment to increasingly integrating ESG considerations into its strategic initiatives.

Integration of the recently acquired companies

In 2Q23 the integration of the newly acquired companies appears to be on track. Specifically:

- ◆ Commencing on the 1st of July, the logistics operations of *ProfumeriaWeb.com* have been relocated to Nola. This coincides with the upcoming launch of the renewed portal, scheduled for publication in the forthcoming months;
- ◆ The *pharmasi.it* portal experienced a remarkable surge during the 2Q23, attributed to its centralized strategic marketing policies and integrated business model. Notably, the platform achieved an impressive year-on-year increase of 100% in the month of June alone;
- ◆ *Baucosmesi.it* achieved a significant triple-digit growth in its revenues, with a remarkable 136% y/y increase, reaching an impressive total of approximately €260k in less than five months;
- ◆ The strategic decision to venture into the pet industry using an established brand with considerable added value has proven successful, as evidenced by several cost synergies already in place. These include rate adjustments to align with those of *farmacosmo.it*, catalog expansion, and a steadily growing brand awareness of the portal;
- ◆ The integration of Fidelity cards between the *farmacosmo.it* portal and pharmacies is set to enhance the customer journey and improve the overall shopping experience;
- ◆ *ContactU* has successfully provided parental and couples telepsychology services through a network of over 100 active professionals. Notably, more than 500 therapies have been conducted, and the company has launched its first set of B2B services called 'Psychological Wellness in the Company' in collaboration with three corporate entities.

Shareholders' structure

As far as the Shareholders' structure is concerned, we note that:

- 1.** Back in May the company announced the issue of ca. 1.2mn bonus shares;
- 2.** Main shareholders are increasing their stakes;
- 3.** The company owns some 111,992 shares (0.3% of share capital);
- 4.** In June, the BoD identified 16 beneficiaries among the company's employees for the 2nd round of the 2022-2024 Stock Grant Plan, awarding them 175k rights to receive ordinary shares.

Forecasts 2023E-25E

We are **maintaining unchanged our 2023E-25E estimates**, although fine-tuning may be needed to revise turnover downward by a couple of million. However, we prefer to eventually make this adjustment post full 1H release to gain additional 2/3 months visibility for 2023.

Our 2023E-25E estimates are as follows:

- ◆ **Revenues from Sales growing at higher than 20% CAGR_{22PF-25E}**, driven by the B2C leg and by the ramp-up of the Digital Health business line;
- ◆ **EBITDA Margin – EBIT Margin landing at ca. 5.2% and 3.4% respectively in 2025E**, up more than 500bps compared to 2022A thanks to operating leverage and to more profitable business mix;
- ◆ **OpFCF remaining negative in 2023E, while getting positive in 2024E** once EBITDA becomes enough to cover capex and WC needs;
- ◆ **Net Cash at €6.0mn in 2025E**, thanks to OpFCF and assuming no dividends pay-out.

Farmacosmo: P&L 2022A-25E

| (IT GAAP, €mn) | 2022A | 2023E | 2024E | 2025E | CAGR _{22A-25E} |
|-----------------------------------|--------------|-------------|--------------|--------------|-------------------------|
| Revenues from Sales | 65.7 | 89.9 | 116.7 | 143.7 | 30% |
| Δ Fixed Assets | 0.8 | 0.6 | 0.7 | 0.8 | 1% |
| Other Revenues | 0.2 | 0.0 | 0.0 | 0.0 | nm |
| Value of Production | 66.6 | 90.5 | 117.4 | 144.5 | 29% |
| Raw Materials (incl. Δ Inventory) | -56.4 | -75.5 | -96.8 | -118.2 | 28% |
| Costs of Services | -7.7 | -8.4 | -9.9 | -11.0 | 13% |
| Costs of Rent | -0.2 | -0.2 | -0.3 | -0.4 | 28% |
| G&A | -0.1 | -1.1 | -2.9 | -3.3 | nm |
| Labour Costs | -2.3 | -2.8 | -3.4 | -4.1 | 21% |
| EBITDA | 0.0 | 2.5 | 4.1 | 7.5 | nm |
| <i>EBITDA Margin (%)</i> | <i>0.1%</i> | <i>2.8%</i> | <i>3.5%</i> | <i>5.2%</i> | <i>518bps</i> |
| D&A, Impairments, Provisions | -1.6 | -2.0 | -2.2 | -2.6 | 18% |
| EBIT | -1.6 | 0.5 | 1.8 | 4.9 | nm |
| <i>EBIT Margin (%)</i> | <i>-2.4%</i> | <i>0.6%</i> | <i>1.5%</i> | <i>3.4%</i> | <i>580bps</i> |
| Net Financial Charges | -0.6 | -0.9 | -1.0 | -1.2 | 27% |
| Taxes | 0.2 | 0.0 | -0.4 | -1.2 | nm |
| Minorities | 1.3 | 0.0 | -0.6 | -1.5 | nm |
| Net Profit | -0.7 | -0.4 | -0.2 | 1.0 | nm |

Source: Farmacosmo, Value Track Analysis

Farmacosmo: Balance Sheet 2022A-25E

| (IT GAAP, €mn) | 2022A | 2023E | 2024E | 2025E |
|--|-------------|-------------|-------------|-------------|
| Net Fixed Assets | 17.4 | 19.2 | 19.2 | 20.5 |
| Net Working Capital | -3.0 | -3.2 | -4.0 | -4.4 |
| Provisions | 0.6 | 0.6 | 0.7 | 0.7 |
| Total Capital Employed | 13.8 | 15.4 | 14.6 | 15.4 |
| Group Net Equity | 19.0 | 18.6 | 19.0 | 21.4 |
| Net Fin. Pos. [Net debt (-) / Cash (+)] | 5.2 | 3.2 | 4.4 | 6.0 |

Source: Farmacosmo, Value Track Analysis

Farmacosmo: Net Working Capital 2022A-25E

| (IT GAAP, €mn) | 2022A | 2023E | 2024E | 2025E |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Inventory | 4.7 | 6.4 | 8.6 | 11.0 |
| Trade Receivables | 4.9 | 6.9 | 8.9 | 11.0 |
| Trade Payables | 13.6 | 18.5 | 24.2 | 29.7 |
| Operating Working Capital | -4.0 | -5.2 | -6.7 | -7.6 |
| Other Current Assets / Liabilities | 0.9 | 2.1 | 2.7 | 3.2 |
| Net Working Capital | -3.0 | -3.2 | -4.0 | -4.4 |
| As a % of Revenues from Sales | -4.6% | -3.5% | -3.4% | -3.0% |

Source: Farmacosmo, Value Track Analysis

Farmacosmo: Cash Flow Statement 2022A-25E

| (IT GAAP, €mn) | 2022A | 2023E | 2024E | 2025E |
|---------------------------------|--------------|-------------|------------|------------|
| EBITDA | 0.0 | 2.5 | 4.1 | 7.5 |
| Δ NWC (incl. Provisions) | 2.3 | 0.2 | 0.9 | 0.5 |
| Capex | -17.0 | -3.7 | -2.3 | -2.4 |
| OpFCF (b.t.) | -14.7 | -1.1 | 2.6 | 5.6 |
| As a % of EBITDA | <i>nm</i> | -42.6% | 64.6% | 74.7% |
| Cash Taxes | 0.2 | 0.0 | -0.4 | -1.2 |
| Capital Injections | 17.2 | 0.0 | 0.0 | 0.0 |
| Others (incl. Fin. Investments) | 2.7 | 0.0 | 0.0 | -1.5 |
| Net Financial Charges | -0.6 | -0.9 | -1.0 | -1.2 |
| Dividends Paid | -0.4 | 0.0 | 0.0 | 0.0 |
| Δ Net Financial Position | 4.4 | -2.0 | 1.2 | 1.6 |

Source: Farmacosmo, Value Track Analysis

Valuation

We shall maintain our current rating unchanged, adhering to the April 2023 update. However, it is crucial to acknowledge the following: **i)** the upward trend in B2C Peers multiples (EV/Sales 24E increasing from 0.54x to 0.61x); **ii)** on May 1.2mn bonus shares were issued; **iii)** the potential downward fine tuning of the company's estimates. Both these factors will be duly considered in the post-1H23 update.

Thus, based on the previous number of shares and estimates, for the time being we confirm Farmacosmo **fair equity value p/s. at €1.90**, and the **fully diluted fair equity value p/s. at €1.81**. Such fair value is built bottom-up with a **Sum-Of-the-Parts approach** in order to take into account the different profile of the various business units / legal entities belonging to Farmacosmo group. As a matter of fact, we've applied the following valuation criteria:

- ◆ Online H&B portals (Farmacosmo.it, ProfumeriaOnline, ProfumeriaWeb): Peers analysis based on average EV/Sales 2024E multiple;
- ◆ Bau Cosmesi and the physical pharmacies recently acquired: Valued at M&A price;
- ◆ ContactU: Peers analysis based on similar transactions recently finalized.

We note that the above-mentioned fair valuation might change rather materially in the next update, for the following reasons: 1) amount of synergies put in place among the various business units / legal entities; 2) take up of ContactU; 3) possible news on the regulatory side (eRx and so on).

Farmacosmo: Sum of the Parts Valuation

| | Valuation Criteria | Reference Multiple | Fair EV (€mn) | Stake (%) | Fair EV Pro-Quota (€mn) | As % Total EV (%) |
|--|--------------------|--------------------|---------------|-----------|-------------------------|-------------------|
| Farmacosmo.it | EV/Sales 24E | 0.56x | 47.6 | 100.0% | 47.6 | 69.7% |
| ProfumeriaWeb | EV/Sales 24E | 0.56x | 4.4 | 97.0% | 4.4 | 6.4% |
| ProfumeriaOnline | EV/Sales 24E | 0.56x | 1.1 | 100.0% | 1.1 | 1.6% |
| Bau Cosmesi | M&A price | nm | 0.7 | 67.0% | 0.5 | 0.7% |
| Physical Pharmacies | M&A price | nm | 6.8 | 67.0% | 4.6 | 6.7% |
| ContactU | Recent VC rounds | nm | 19.9 | 51.0% | 10.1 | 14.9% |
| Farmacosmo Group Fair EV | | | 80.6 | | 68.3 | 100.0% |
| Net Financial Position 2023YE | | | | | 3.23 | |
| Fair Equity Value | | | | | 71.5 | |
| Fair Eq. Value p.s. (€) | | | | | 1.90 | |
| Fair Eq. Value p.s. fully diluted (€) | | | | | 1.81 | |

Source: Value Track Analysis

Appendix – Peers Analysis

Herein, the revised Peers Analysis in comparison to the post-FY22 results, conducted in April 2023. Notably, three companies have undergone rebranding endeavours. To be specific, Farmaè has undergone a name change to Talea Group, Zur Rose now operates under the name DocMorris, and Shop Apotheke has assumed the new identity of RedCare Pharmacy.

Peer Analysis as of 25th July 2023

Farmacosmo: Peers' Trading Multiples

| Company | EV / Sales (x) | | EV / EBITDA (x) | |
|------------------------|----------------|-------------|-----------------|-------------|
| | 2023E | 2024E | 2023E | 2024E |
| B2C E-Retailers | | | | |
| Talea Group | 0.58 | 0.48 | 17.3 | 12.6 |
| DocMorris AG | 0.63 | 0.61 | nm | nm |
| RedCare Pharmacy NV | 1.21 | 0.93 | nm | nm |
| Median - B2C | 0.63 | 0.61 | 17.3 | 12.6 |
| B2B Wholesalers | | | | |
| MARR | 0.55 | 0.54 | 9.1 | 8.2 |
| Sysco Corporation | 0.63 | 0.61 | 12.2 | 11.2 |
| Median - B2B | 0.59 | 0.57 | 10.6 | 9.7 |

Source: Value Track Analysis, Market Consensus

Peer Analysis as of 28th April 2023

Farmacosmo: Peers' Trading Multiples

| Company | EV / Sales (x) | | EV / EBITDA (x) | |
|------------------------|----------------|-------------|-----------------|-------------|
| | 2023E | 2024E | 2023E | 2024E |
| B2C E-Retailers | | | | |
| Talea Group | 0.64 | 0.54 | 19.1 | 13.9 |
| DocMorris AG | 0.51 | 0.49 | nm | nm |
| RedCare Pharmacy NV | 1.22 | 0.99 | nm | nm |
| Median - B2C | 0.64 | 0.54 | 19.1 | 13.9 |
| B2B Wholesalers | | | | |
| MARR | 0.55 | 0.55 | 9.2 | 8.3 |
| Sysco Corporation | 0.63 | 0.60 | 12.0 | 10.9 |
| Median - B2B | 0.59 | 0.58 | 10.6 | 9.6 |

Source: Value Track Analysis, Market Consensus

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