

Farmacosmo

Sector: E-Commerce



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Fine tuning the business model

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

FY23 financials lower than our forecasts

FY23 financial results came out lower than our forecasts. Value of Production stood at €72.6mn (up 9% y/y, but down -6% on a l-f-l basis) while profitability was negative (EBITDA at -€285k and EBIT at -€3.2mn), mainly affected by lower revenues, ContactU start-up costs, ProfumeriaWeb turnaround yet to be finalized, higher G&A and goodwill amortization charges. Net Debt came out at €1.2mn (vs. Net Cash of €5.2mn as of FY22 and Net Debt of €1.3mn in 1H23) due to ca. €4.0mn Net Working Capital absorption, M&A cash-out, and investments to sustain future growth.

2024: Focus on optimization

Over FY22-FY23, Farmacosmo has finalized many M&A deals aimed at pivoting the business model from a “products only” approach to an integrated “products + services” one. Such pivoting has not been finalized yet, as the integration process is going to be fully exploited in 2024. Furthermore, those strategies are also receiving some fine-tuning actions (Innovation Pharma disposal, revision of ContactU growth ambitions) where the response from the market has not been the desired one.

Estimates review: OpFCF at breakeven from 2025E

Weak macroeconomic conditions, business challenges and the strategy to avoid non profitable growth, prompted us to fine tune downwards our forecasts, with over €20mn lower Revenues in FY24E. In 2026E we now expect: (i) Value of Production at €90.1mn, growing at 7% CAGR_{23A-26E}; (ii) EBITDA at €2.4mn and EBITDA Margin at 2.7%; (iii) OpFCF/EBITDA at 68%, (>0 in 2025E) and €3.7mn Net Debt.

Fair Value at €1.28 p/s (from €1.50 p/s)

We adjust Farmacosmo fair value at €1.28 p/ (from €1.50 p/s) on the back of downward revised estimates partially offset by higher foreign peers' multiples (e-prescriptions became mandatory in Germany).

Underestimated synergies size, ContactU take up, news on the regulatory side could be favorable optionalities.

At fair value Farmacosmo would trade at 0.70-0.63x EV/Sales 2024E-25E.

Fair Value (€)	1.28
Market Price (€)(*)	0.93
Market Cap. (€mn)(*)	36.1

KEY FINANCIALS (€mn)	2023A	2024E	2025E
VALUE OF PRODUCTION	72.6	74.5	81.5
EBITDA	-0.3	0.7	1.4
EBIT	-3.2	-1.9	-1.2
NET PROFIT	-3.2	-2.3	-1.8
EQUITY	15.4	12.6	10.4
NET FIN. POS.	-1.2	-2.1	-2.0
EPS ADJ. (€)	-0.08	-0.06	-0.05
DPS (€)	0.00	0.00	0.00

Source: Farmacosmo (historical figures)
Value Track (2024E-25E estimates)

KEY RATIOS (*)	2023A	2024E	2025E
EBITDA MARGIN (%)	-0.4	1.0	1.8
EBIT MARGIN (%)	-4.4	-2.6	-1.4
NET DEBT / EBITDA (x)	nm	2.8	1.4
NET DEBT / EQUITY (x)	0.1	0.2	0.2
EV/SALES (x)	0.61	0.51	0.47
EV/EBITDA (x)	nm	nm	26.9
EV/EBIT (x)	nm	nm	nm
P/E ADJ. (x)	nm	nm	nm

Source: Farmacosmo (historical figures)
Value Track (2024E-25E estimates)

STOCK DATA (*)	
FAIR VALUE (€)	1.28
MARKET PRICE (€)	0.93
SHS. OUT. (m)	38.9
MARKET CAP. (€m)	36.1
FREE FLOAT (%)	26.48
AVG. 20D VOL. (#)	18,576
RIC / BBG	COSMO.MI / COSMO IM
52 WK RANGE	0.63 – 1.35

Source: Stock Market Data, (*) Price as of 24/04 market close

EQUITY RESEARCH PRODUCED ON BEHALF OF MIT SIM ACTING AS SPECIALIST ON FARMACOSMO SHARES



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 boast a physical pharmacy and digital health services.

Key Financials

€mn	2023A	2024E	2025E	2026E
Value of Production	72.6	74.5	81.5	90.1
y/y (%)	9.0%	2.6%	9.4%	10.5%
EBITDA	-0.3	0.7	1.4	2.4
EBITDA Margin (%)	-0.4%	1.0%	1.8%	2.7%
EBIT	-3.2	-1.9	-1.2	-0.1
EBIT Margin (%)	-4.5%	-2.6%	-1.4%	-0.2%
Net Profit	-3.2	-2.3	-1.8	-1.0
y/y (%)	nm	-28.6%	-19.8%	-45.8%
Adjusted Net Profit	-3.2	-2.3	-1.8	-1.0
y/y (%)	nm	-28.6%	-19.8%	-45.8%
Net Fin. Position	-1.2	-2.1	-2.0	-3.7
Net Fin. Pos. / EBITDA (x)	nm	2.8	1.4	1.6
Capex	-2.2	-0.9	-0.9	-0.9
OpFCF b.t.	-6.6	-0.5	1.1	1.6
OpFCF b.t. as % of EBITDA	nm	-63.7%	74.2%	67.7%

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

Investment case

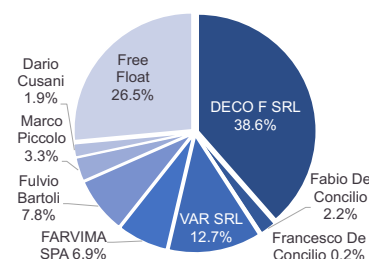
Strengths / Opportunities

- ◆ 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 pharmacy and digital health services;
- ◆ End-to-end customer centric approach resulting in high conversion rate and above competition average order value (AOV).

Weaknesses / Risks

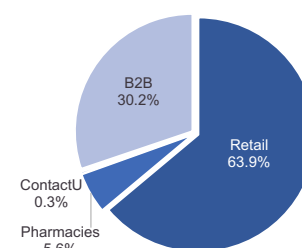
- ◆ Increasing competition trying to exploit current low online penetration;
- ◆ Risk of potential changes in current legal and regulatory framework;
- ◆ Risk of sales concentration, operating in B2B channel with one major client.

Shareholders Structure



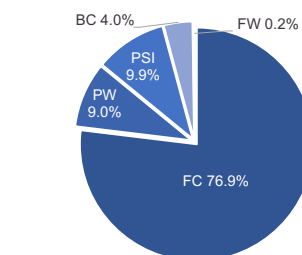
Source: Farmacosmo

Revenues by Business Line



Source: Farmacosmo, FY23

Retail Revenues by Portal



Source: Farmacosmo, FY23

Stock Multiples @ €1.28 Fair Value

	2024EE	2025E
EV / SALES (x)	0.70	0.63
EV / EBITDA (x)	nm	nm
EV / EBIT (x)	nm	nm
EV / CAP.EMP. (x)	3.5	4.1
OpFCF Yield (%)	nm	2.1
P / E (x)	nm	nm
P / BV (x)	4.6	5.5
Div. Yield. (%)	0.0	0.0

Source: Value Track

FY23 Financial Results

Key Financials & Messages

Partly due to the deteriorating macroeconomic scenario and partly to adapt to a more competitive environment, back in 2023 (and more in 2H23) Farmacosmo has decided to pivot its strategic approach to online retail by focusing its efforts on the most profitable core business, favoring margins on sales rather than pure growth in turnover.

Such different strategic approach partially explains FY23 financial results that came out lower than our forecasts both at the top and bottom-line levels, affected by Farmacosmo decisions to:

- ◆ voluntarily downsize the B2B business, where margins are not satisfactory anymore;
- ◆ put a higher and higher focus on those consumer products where margins are higher, despite their lower volumes;
- ◆ move on a buy-to-sell approach on some high-value products thus building-up some inventory while protecting gross margin.

In addition, FY23 results were burdened by:

- ◆ the macroeconomic weakness in Q423 negatively impacting on core B2C online revenues;
- ◆ the integration process of the activities acquired back in 2022-2023 that has requested additional one-off costs to pivot their business model;

Going more in details, FY23 key figures are:

- ◆ **Value of Production at €72.6mn**, i.e., +9.0% y/y (entirely driven by the full year consolidation of acquired marketplaces and pharmacies, pro-forma growth is negative by -6%);
- ◆ **EBITDA at -€285k** (Farmacosmo SpA at €281k) vs. ca. €43k in FY22, burdened by the activities acquired back in 2022-2023;
- ◆ **EBITDA Adjusted** (for one-off components) **at ca. €200k** vs. ca. €500k in FY22;
- ◆ **Net Debt at €1.2mn** vs. €1.3mn as of June '23 and vs. Net Cash of €5.2mn as of FY22, with the difference being due to the abovementioned decision to increase inventory, to M&A, and to investments (logistics, ContactU) to sustain future growth.

Farmacosmo: Key Financials FY22-FY23

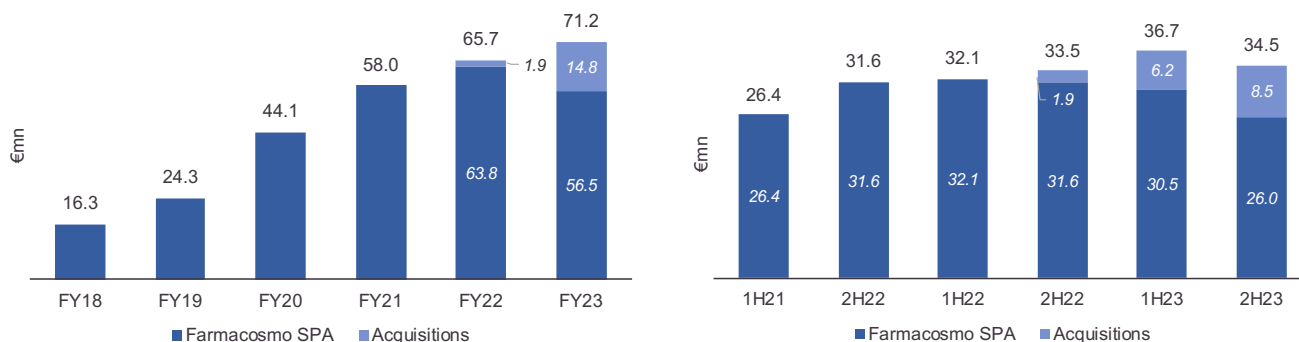
(IT GAAP, €mn)	FY22A	FY22PF	FY23A	y/y	y/y (PF)	FY23E	A/E
Value of Production	66.6	77.3	72.6	9%	-6%	80.7	-10%
EBITDA	0.0	-0.4	-0.3	nm	nm	1.5	nm
EBITDA Margin (%)	0.1%	-0.5%	-0.4%	-60bps	10bps	1.9%	-230bps
EBITDA Adj.	0.5	na	0.2	-59%	na	1.5	-87%
EBITDA Adj. Margin (%)	0.7%	na	0.3%	-40bps	na	1.9%	-160bps
Net Fin Pos [Debt(-)/Cash(+)]	5.2	5.2	-1.2	-6.5	-6.5	1.0	-2.2

Source: Farmacosmo, Value Track Analysis

Top line affected by B2B voluntarily decrease

Farmacosmo reported FY23 **Revenues from Sales at €71.2mn** (-7% vs. FY22PF). As far as last semesters' top line evolution is concerned, we calculate that ca. €14.8mn of FY23's top line come from the contribution of the acquisitions settled by the Group (€6.2mn in 1H23 and €8.5mn in 2H23), while ca. €56.5mn were generated by Farmacosmo SpA (-11% y/y on a l-f-l basis).

Farmacosmo: Revenues from Sales by Legal Entities



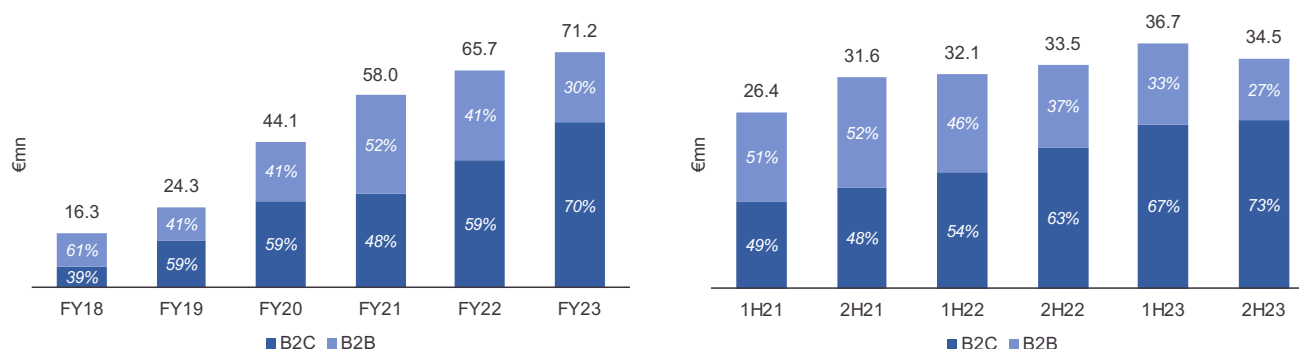
Source: Farmacosmo, Value Track Analysis

Thanks to new online retail portals, physical pharmacies and the digital health service offered through ContactU, the Group is diversifying its revenues streams and strongly reducing the dependence from its main **B2B** client (-20% y/y, with third semester in a row with declining revenues), which now contributes to only 30% of revenues (vs. 52% in FY21).

The aim is to increase the Group profitability thanks to a stronger focus on the highest-margins products of the B2C leg.

The lower revenues of the Farmacosmo.it marketplace (€35.0mn vs. €36.7mn in FY22, -5% y/y) are also explained by this rationale on pushing those SKUs that could drive enhanced profitability vs. a less targeted volume strategy.

Farmacosmo: Revenues from Sales Evolution B2C and B2B



Source: Farmacosmo, Value Track Analysis

In more details, the Group B2C leg reported the following results:

- ◆ **Retail** (including Farmacosmo.it and the new portals acquired in 2H22/FY23 such as ProfumeriaWeb, Pharmasi, BauCosmesi, FarmaWow) reporting sales for ca. €45.5mn, i.e. +19% y/y vs. FY22 consolidated figures (+1% y/y vs. FY22 Pro-Forma);
- ◆ **Physical Pharmacies** (i.e. the #3 pharmacies of Innovation Pharma, acquired back in November-December 2022) reporting ca. €4.0mn revenues;
- ◆ **ContactU** (online platform acquired in March that is starting to provide online psychology and psychotherapy services) recording ca. €194k revenues.

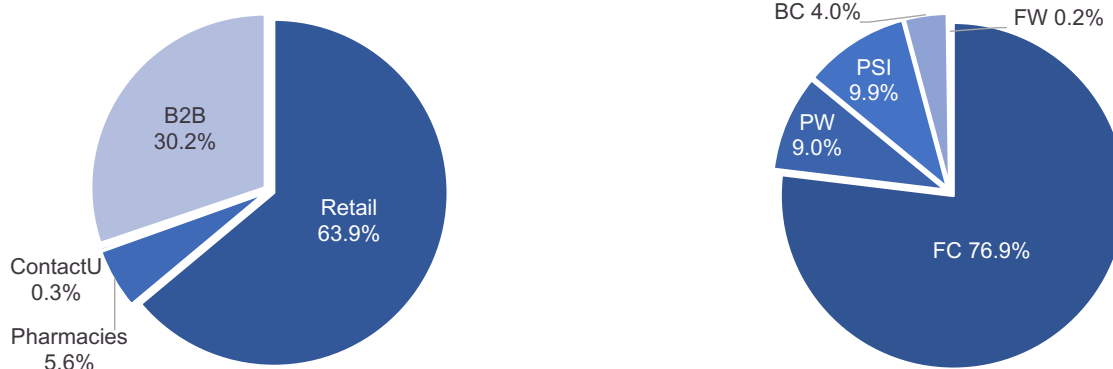
We underline that, in our view, BauCosmesi is the subsidiary that has achieved the most remarkable results primarily due to the catalog expansion with new dietary supplements and pet-friendly products, the addition of new suppliers, and the establishment of high-yield traffic channels.

Farmacosmo: Value of Production breakdown

(IT GAAP, €mn)	FY22	FY22PF	FY23	y/y	y/y (PF)
Retail	38.2	45.0	45.5	19%	1%
<i>o/w Farmacosmo</i>	36.7	36.7	35.0	-5%	-5%
<i>o/w ProfumeriaWeb</i>	0.9	4.8	4.1	>100%	-14%
<i>o/w Pharmasi</i>	0.6	3.5	4.5	>100%	29%
<i>o/w BauCosmesi</i>	//	//	1.8	nm	nm
<i>o/w FarmaWow</i>	//	//	0.1	nm	nm
Physical Pharmacies	0.4	4.3	4.0	>100%	-8%
ContactU	//	//	0.2	nm	nm
B2B	27.0	27.0	21.5	-20%	-20%
Revenues from Sales	65.7	76.4	71.2	8%	-7%
Δ Fixed Assets	0.8	0.8	0.9	13%	13%
Other Revenues	0.2	0.2	0.5	>100%	>100%
Value of Production	66.6	77.3	72.6	9%	-6%

Source: Farmacosmo, Value Track Analysis

Farmacosmo: Revenues from Sales by Business Line and Retail Revenues by Portal



Source: Farmacosmo, Value Track Analysis

Behind the significant growth of FY23 online retail channel, we highlight improving KPIs:

- ◆ **Number of Orders** increasing by **+44% y/y**;
- ◆ **Number of Clients** and **Recurring Clients** growing by **+47%** and **+36% y/y**, respectively;
- ◆ **Farmacosmo.it AOV more than €100** vs. €95 in FY22.

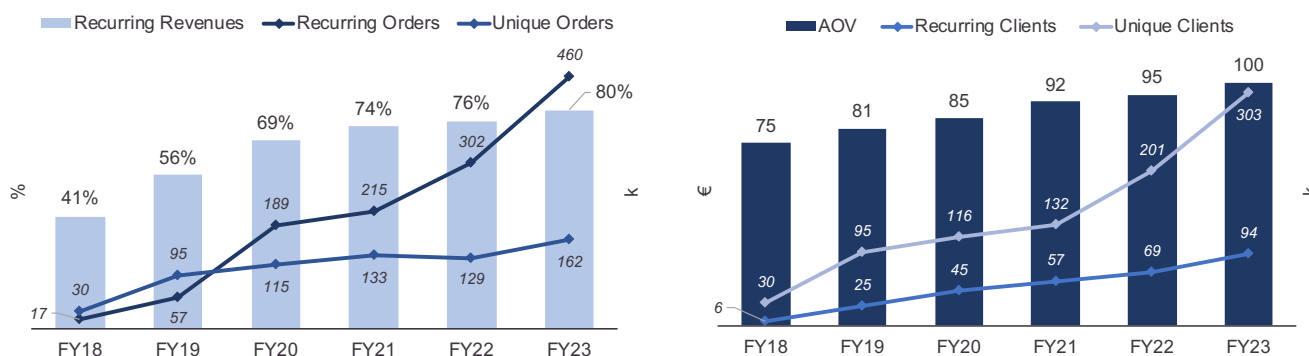
Looking at the other portals, the AOV for ProfumeriaWeb, Pharmasi, FarmaWow.it and Bau Cosmesi stood respectively at €77, €63, €87 and €40 during FY23.

Farmacosmo: Online Retail KPIs (*)

(IT GAAP, €mn)	FY21	FY22	FY23	y/y
Orders (k)	348	432	621	44%
Recurring Orders (%)	62%	70%	74%	52%
Revenues from Recurring Orders (%)	74%	76%	80%	400bps
Clients (k)	189	270	397	47%
Recurring Clients (k)	132	201	303	36%
AOV (€, Gross of VAT) (**)	92	95	100	5%

Source: Farmacosmo, (*) Some KPIs are based on Value Track calculations, (**) Only Farmacosmo.it

Farmacosmo: Main KPIs Evolution



Source: Farmacosmo, Value Track Analysis

Profitability drops due to unfinished integration of efficiencies

While the contribution from latest acquisitions benefitted the Group top line, the outcome was different on operating and net profits. Indeed, most of them brought negative EBITDA given (i) the start-up phase of ContactU, (ii) pre-synergies and pre-turnaround stance of ProfumeriaWeb and (iii) strategic initiatives for the development of physical pharmacies (Innovation Pharma). On the opposite, we highlight the remarkable BauCosmesi positive contribution (ca. €168k) to Group’s EBITDA.

Overall, in FY23 Farmacosmo reported negative €285k EBITDA (positive €200k EBITDA adjusted for one-off expenses related to M&A), broken down as follows:

- ◆ **Farmacosmo SPA** at €281k vs. €67k (+320% y/y), implying an EBITDA Margin at 0.5% vs. 0.1% of FY22;
- ◆ **ProfumeriaWeb** at €-107k, still missing logistic efficiencies as the transfer to the Group distribution hub of Nola took place only in July;
- ◆ **BauCosmesi** at ca. €168k, despite significant investments and the start-up phase but guest of the Group distribution center since March;
- ◆ **Innovation Pharma + ContactU** at ca. €-545k, due to structural and project launch costs, respectively.

Farmacosmo: EBITDA breakdown

(IT GAAP, €mn)	FY22	FY22PF	FY23
Farmacosmo SpA (B2B+B2C)	0.07	0.07	0.28
ProfumeriaWeb	-0.12	-0.77	-0.11
BauCosmesi	//	//	0.17
Other	0.09	0.29	-0.59
Group EBITDA	0.04	0.04	-0.29

Source: Farmacosmo, Value Track Analysis

In terms of Opex incidence on top line, we note more burdening Services and Labour Costs following (i) heightened shipping (affected by inflation) and marketing expenditures, (ii) upper listing expenses not impacting 1Q22 last year and (iii) the strengthening of the key management.

Surging D&As (€2.8mn vs. €1.5mn in FY22) due to listing capitalized costs and goodwill amortization drove **EBIT at -€3.2mn** (-€1.6mn in FY22).

Net Financial Charges stood upwards vs. FY22 at €-1.0mn (o/w €0.8mn of transaction fees) and offset by €0.2mn of taxes and €0.7mn of minorities, thus implying a **Net Profit of €-3.2mn**.

Farmacosmo: P&L FY21-FY23

(IT GAAP, €mn)	FY21	FY22	FY23	y/y
Value of Production	58.5	66.6	72.6	9%
Raw Materials (incl. Δ Inventory)	-50.0	-56.4	-56.5	0%
Costs of Services	-5.1	-7.7	-11.5	50%
Labour Costs	-1.6	-2.3	-4.0	73%
Other Operating Expenses	-0.3	-0.3	-0.9	>100%
EBITDA	1.6	0.0	-0.3	nm
EBITDA Margin (%)	2.7%	0.1%	-0.4%	-50bps
D&A	-0.5	-1.6	-2.9	81%
EBIT	1.1	-1.6	-3.2	nm
EBIT Margin (%)	1.8%	-2.4%	-4.5%	-210bps
Net Financial Charges	-0.4	-0.6	-1.0	65%
Taxes	-0.2	0.2	0.2	59%
Minorities	0.0	0.7	0.7	5%
Net Profit	0.4	-1.3	-3.2	nm

Source: Farmacosmo, Value Track Analysis

Net Financial Position mainly affected by working capital absorption

With nihil operating profitability, Farmacosmo free cash flow generation was dependent on working capital dynamics, facing adverse seasonality. Hence, the Group reported **€1.2mn Net Debt** at the end of December, compared to €5.2mn Net Cash of the previous year:

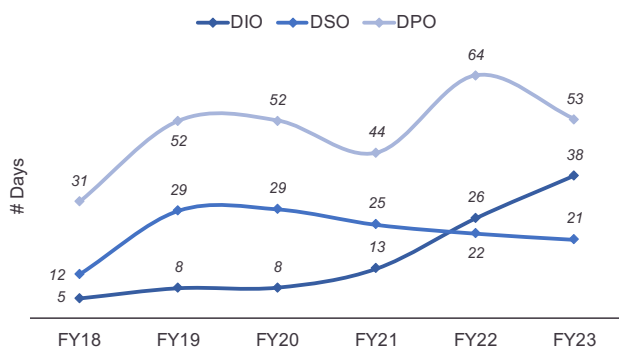
- ◆ **Net Working Capital** absorbing ca. €4.0mn, mainly due to €2.6mn inventory increase (related to the decision to increase Gross Margin by building some stock of high-selling products) and the simultaneous decrease of trade payables (€1.7mn).
- ◆ **Capex** standing at ca. €2.2mn, of which €2.1mn intangible investments mainly due to IPO capitalized costs, goodwill on FY23 acquisitions, patent rights (website development), investments for the launch of ContactU and revitalization of ProfumeriaWeb.

Farmacosmo: Balance Sheet FY22-FY23

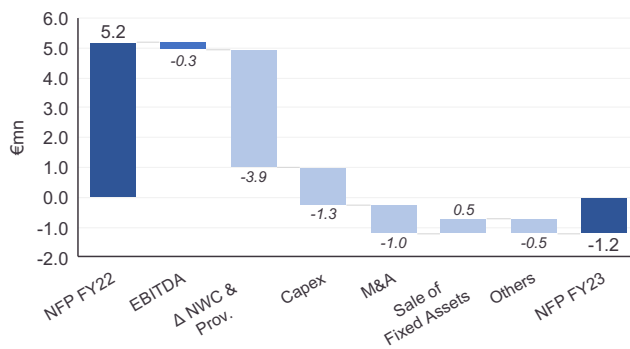
(IT GAAP, €mn)	FY22	1H23	FY23
Net Fixed Assets	17.4	16.6	16.3
Net Working Capital	-3.0	2.3	1.0
Provisions	0.6	0.6	0.7
Total Capital Employed	13.8	18.3	16.6
Group Net Equity	19.0	16.9	15.4
Net Financial Position	5.2	-1.3	-1.2

Source: Farmacosmo, Value Track Analysis

Farmacosmo: Operating Working Capital Evolution & Cash Flow Statement FY23



Source: Farmacosmo, Value Track Analysis



Business & Corporate development

Recap of 2022-23 strategy

We remind that over FY22-FY23, 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, which, if successful, should offer much higher profitability in coming years. Overall, Farmacosmo updated strategy has developed around three main guidelines:

- 1. Value proposition extension in the online retailing business**, thanks to the acquisition of *ProfumeriaWeb*, *Pharmasi*, *Bau Cosmesi* and lately, *FarmaWow*.
- 2. Pursuing an omnichannel approach**, now targeting specific and profitable pharmacies, such as *Farmacia De Leo*;
- 3. Building a leading digital platform providing health services**, out of which the recently acquired *ContactU* is an example.

However, we note that the above-mentioned strategies have not been fully finalized yet, as the integration process is going to be fully exploited in 2024. Furthermore, those strategies are also receiving some fine-tuning actions where the answer from the market has not been the desired one.

Farmacosmo: Value Proposition & Business Model

FARMACOSMO+
L'e-commerce del benessere a portata di click

An integrated wellness ecosystem

Farmacosmo is a health, pharma & beauty ecosystem, listed on the EGM in March 2022.

Our goal is to becoming a benchmark in the area of services, as well as products, for people's wellness thanks to our Cosmo


- 5 portals for wellness and beauty of people and their friends
- Development of telemedicine service. Online psychotherapy already launched
- 3 Physical pharmacies +1 para pharmacy to improve the "customer journey" with additional value-added services

FARMACOSMO+
L'e-commerce del benessere a portata di click

A unique business model: I(ean) strategy

Farmacosmo is a Health, Pharma & Beauty ecosystem. Its model is fueled by mutual combination of three strategic streams, which make a I(ean) strategy: **Logistics, Intelligence, Node**. The company pursues ESG guidelines and is approaching the market with a sustainability report.

- AOV 98€**
Among the highest on the market (> 100€ from July)
- Warehouse**
The direct purchase of the main high-selling products to increase margins
- Fast Delivery**
Up to 12k orders per day, up to 20 hours
- Collection Points**
25k collection points active from September



Source: Farmacosmo (Illimity Novas Conference October 2023)

Farmacosmo: IPO Strategies & Achievements

FARMACOSMO+
L'e-commerce del benessere a portata di click

Post IPO achievements

Successfully launched the strategies described in the listing prospectus...

Premium Beauty

- Acquisition of **ProfumeriaWeb**, a leading e-commerce portal in the **perfumery and beauty** sector also in the **luxury segment**
- Launch of the **integration plan**, with revenue and cost synergies

Pharmasi

Omnichannel

- Acquisition of **Pharmasi** and of the pharmacy holding company **Innovation Pharma**
- Launch of the **logistics pharmacies project** (3 selling points: Turin, Verbanica, Messina) for an **omnichannel offer** and **fast delivery services**

FARMAWOW
L'e-commerce del benessere a portata di click

INNOVATION PHARMA

Pet world

- Acquisition of **Baucosmesi**, specialized in **own-brand premium products** in the **pet world**

bàu

Digital Health

- ContactU** is of great strategic significance as it marks Farmacosmo's entry into the field of **Telepsychology** and accelerates the process of evolution of the Company into an **integrated ecosystem** of high added value services, dedicated to **personal care and well-being**

contactU
il primo psicologo Farmacosmo

The Farmacosmo has increased the team to support horizontal integration strategy, preparatory to the creation a fully integrated platform for wellness and beauty

Source: Farmacosmo (Illimity Novas Conference October 2023)

M&A integration processes: Ongoing

Almost all the acquired entities are on the way of increasing efficiencies, with the elimination of cost redundancies and the relocation of their logistics to Farmacosmo center in Nola. More specifically:

- ◆ Starting 1st July, the logistics operations of **ProfumeriaWeb.com** have been relocated to Nola;
- ◆ **Pharmasi.it** experienced a remarkable surge attributed to its centralized strategic marketing policies and integrated business model properly designed to enhance brand awareness;
- ◆ **Baucosmesi.it** is the subsidiary that achieved the most brilliant FY23 results. Cost synergies included either relocating logistics from Milan to Nola in April and achieving economies of scale in electronic payment fees and packaging for shipments;
- ◆ The integration of fidelity cards between the **Farmacosmo.it** portal and **Farmacia De Leo** is set to enhance the customer journey and improve the overall shopping experience;
- ◆ From mid-Jan '24, **FarmaWow** (further details of the deal in our report of October) features the medical line of Laboratorio Farmaceutico Erfo, showcasing innovative nutraceutical products; integration efforts in IT development and marketing strategies are also nearing close to boost the Farmacosmo synergies, enhancing growth rates in the nutraceutical market.

Fine tuning action # 1: Innovation Pharma disposal

Back in February 2024, Farmacosmo has decided to sell back its stake of Innovation Pharma (67%) to the original majority shareholder of the company (G&Ph Holding SRL).

We remind that Innovation Pharma was acquired by Farmacosmo on December 20th 2022, by giving in contribution its 67% stake of Farmacia De Leo plus a cash contribution of €1.1mn through a rights issue (total value of ca. €5.8mn for 67% of Innovation Pharma share capital).

The new transaction involved G&PH getting back to 100% of Innovation Pharma and its subsidiaries (Turin and Verbania pharmacies), while Farmacosmo retaining the 67% stake of Farmacia De Leo, now the only physical pharmacy of the Group. The deal was characterized by the following stages:

1. Farmacosmo sold its shares of Innovation Pharma to G&Ph for ca. €5.82mn; concurrently, Innovation Pharma sold its shares of Farmacia De Leo to Farmacosmo for ca. €5.31mn;
2. The gap emerging from the transaction, amounting to about €510k is being paid by G&Ph to Farmacosmo: (i) €150k at closing, (ii) €150k by 31/05/2024, (iii) €210k by 31/07/2024; regarding (i) and (ii), annual interest at Euribor 3M + 1.35% will accrue in favour of Farmacosmo.

At the closing date, G&Ph provided real guarantees to cover the credit of €360k owed to Farmacosmo; particularly, the pledge constituted on 50% of the capital of Innovation Pharma valid until the issuance of a bank guarantee by a leading banking institution in replacement of the same pledge.

The rationale of the disposal relies in divergence of interests on future strategies and weaker performance than expected. That said, we underline that Farmacosmo is not abandoning its omnichannel approach strategy, but the focus will now be targeted on a stronger development of Farmacia De Leo (leveraging on its substantial expertise).

Fine tuning action # 2: Revision of ContactU growth ambitions

Back in March 2023, Farmacosmo acquired a 51% stake of Telepsicologia Srl, that was subsequently rebranded as ContactU, with the aim to enter the telepsychology sector.

ContactU has started providing telepsychology services in 2H23, with a value proposition that covers the needs of both the patient and the therapist (combined B2C and B2P approach), also adding a B2B leg i.e., welfare services to corporates' employees.

The feedback from the market has been mixed. Demand from users is definitively high, but the costs to acquire customers and to pay the therapists are high as well due to tough competition (there are several online portals offering similar services in Italy, out of which a couple definitively well-funded by Venture Capital funds). As a result, ContactU is revising downwards its growth ambitions.

Forecasts 2024E-26E

Estimates Revision

FY23 results came out lower than expected, underlining on one hand the challenging macroeconomic landscape which has been responsible for the weak demand of the year and, on the other, the need for more time to finalize the integration of acquired companies.

Nonetheless, we appreciate Farmacosmo strategy on prioritizing margins over volumes and we are confident in a successful cost optimization, but on a longer-term horizon.

Hence, coupled with the uncertain macroeconomic and sector-related outlook, we are revising downwards our forecasts for the next three fiscal years. More in details:

- ◆ **Value of Production** revised down by ca. 25%-30% per annum due to: (i) weaker contribution from Farmacosmo SpA (especially on the B2B side); (ii) much lower ramp-up of ContactU; (iii) the disposal of pharmacies in Torino and Verbania. On the opposite, we are revising upward the forecasted contribution from Bau Cosmesi and Pharmasi;
- ◆ **EBITDA** down by ca. €3mn per year on average, (EBITDA margin 2024E-25E now seen below 2% vs. the previous forecasts pointing at ca. 5% in FY25E) as full integration should require some more time before starting to generate material cost synergies for all the recently acquired companies. Despite that, EBITDA margin should increase over the forecasted period thanks to (i) Farmacosmo and ProfumeriaWeb strategies focused on high-price SKUs (rather than volumes), (ii) logistics centers integration / cost redundancies elimination, and (iii) superior expected profitability of physical pharmacies (Farmacia De Leo). In the longer-term, the ramp-up of ContactU (digital health services) could drive additional margins expansion;
- ◆ **EBIT & Net Profit** less impacted due to a reduction in forecasted Capex and a decrease in Goodwill Amortization following the sale of Innovation Pharma two pharmacies;
- ◆ **Net Debt** affected by P&L lower bottom line and longer NWC normalization.

Farmacosmo: New vs Old Estimates

(IT GAAP, €mn)	2024E			2025E			2026E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Farmacosmo.it B2B	24.7	17.2	-30%	25.4	15.5	-39%	//	13.9	//
Farmacosmo.it B2C	44.9	38.4	-14%	51.1	44.2	-14%	//	50.8	//
BauCosmesi.it	1.8	2.8	56%	2.6	3.4	31%	//	4.1	//
ProfumeriaWeb.it	7.5	4.9	-35%	8.8	5.8	-34%	//	6.8	//
ContactU	3.0	1.8	-40%	8.0	2.4	-70%	//	3.0	//
Other	13.5	8.3	-39%	16.3	9.3	-43%	//	10.5	//
Total Revenue from Sales	95.4	73.5	-23%	112.2	80.5	-28%	//	89.1	//
Other Revenues	1.2	1.0	nm	1.1	1.0	nm	//	1.0	//
Value of Production	96.6	74.5	-24%	113.3	81.5	-29%	//	90.1	//
EBITDA	3.3	0.7	-77%	5.4	1.4	-74%	//	2.4	//
EBITDA Margin (%)	3.4%	1.0%	-240bps	4.7%	1.8%	-290bps	//	2.7%	//
EBIT	0.3	-1.9	nm	2.2	-1.2	nm	//	-0.1	//
EBIT Margin (%)	0.3%	-2.6%	-290bps	1.9%	-1.4%	-330bps	//	-0.2%	//
Net Profit	-1.2	-2.3	nm	-0.2	-1.8	nm	//	-1.0	//
Net Financial Position	1.1	-2.1	-3.2	1.5	-2.0	-3.6	//	-3.7	//

Source: Value Track Analysis

New Forecasts

Key Estimates & Drivers

By 2026E, we now expect Farmacosmo to reach:

- ◆ **Value of Production at €90.1mn**, growing at 7% CAGR_{23A-26E} despite the continuous voluntarily decrease of B2B leg, more than offset by online retail sales and by the development of the digital health services business line;
- ◆ **EBITDA at €2.4mn** and **EBITDA Margin at 2.7%**, mainly boosted by Farmacosmo SpA (~50% of group EBITDA), Farmacia De Leo, ProfumeriaWeb and Bau Cosmesi (~400k each);
- ◆ **OpFCF / EBITDA at ~68%**, after reaching break-even in 2025E as EBITDA and NWC cycle should be enough to cover Capex (ca. €900k per year);
- ◆ **Net Debt at €3.7mn**, assuming the buy-out of Bau Cosmesi minorities in 2026E.

Farmacosmo: Revenues from Sales Breakdown 2023A-26E

(IT GAAP, €mn)	2023A	2024E	2025E	2026E	CAGR _{23A-26E}
Retail	45.5	52.4	60.4	69.8	15%
<i>o/w Farmacosmo</i>	35.0	38.4	44.2	50.8	13%
<i>o/w ProfumeriaWeb</i>	4.1	4.9	5.8	6.8	18%
<i>o/w Pharmasi</i>	4.5	5.2	6.0	6.8	15%
<i>o/w BauCosmesi</i>	1.8	2.8	3.4	4.1	31%
<i>o/w FarmaWow</i>	0.1	1.0	1.1	1.3	107%
Physical Pharmacies	4.0	2.1	2.2	2.3	-16%
ContactU	0.2	1.8	2.4	3.0	nm
B2B	21.5	17.2	15.5	13.9	-13%
Revenues from Sales	71.2	73.5	80.5	89.1	8%
Δ Fixed Assets	0.9	0.5	0.5	0.5	-17%
Other Revenues	0.5	0.5	0.5	0.5	-2%
Value of Production	72.6	74.5	81.5	90.1	7%

Source: Farmacosmo, Value Track Analysis

Farmacosmo: EBITDA Breakdown 2024E-26E

EBITDA Breakdown (IT GAAP, €mn)	2024E	2025E	2026E
Farmacosmo SPA	0.7	0.9	1.2
ProfumeriaWeb	0.1	0.2	0.4
BauCosmesi	0.3	0.3	0.4
FarmaWow	0.0	0.0	0.0
Farmacia De Leo (incl. Pharmasi)	0.1	0.2	0.4
ContactU	-0.5	-0.3	0.0
EBITDA	0.7	1.4	2.4

Source: Farmacosmo, Value Track Analysis

Financial Statements 2023A-26E

Farmacosmo: P&L 2023A-26E

P&L (IT GAAP, €mn)	2023A	2024E	2025E	2026E	CAGR _{23A-26E}
Value of Production	72.6	74.5	81.5	90.1	7%
Raw Materials (incl. Δ Inventory)	-56.5	-56.6	-62.2	-68.0	6%
Costs of Services	-11.5	-11.9	-12.2	-13.5	6%
Labour Costs	-4.0	-4.1	-4.3	-4.5	4%
Other Operating Expenses	-0.9	-1.1	-1.4	-1.7	242%
EBITDA	-0.3	0.7	1.4	2.4	nm
EBITDA Margin (%)	-0.4%	1.0%	1.8%	2.7%	310bps
D&A	-2.9	-2.6	-2.6	-2.5	-5%
EBIT	-3.2	-1.9	-1.2	-0.1	nm
EBIT Margin (%)	-4.5%	-2.6%	-1.5%	-0.2%	430bps
Net Financial Charges	-1.0	-0.9	-1.0	-1.1	3%
Taxes	0.2	0.0	0.0	0.0	-100%
Minorities	0.7	0.5	0.3	0.2	-34%
Net Profit	-3.2	-2.3	-1.8	-1.0	nm

Source: Farmacosmo, Value Track Analysis

Farmacosmo: Balance Sheet 2023A-26E

Balance Sheet (IT GAAP, €mn)	2023A	2024E	2025E	2026E
Net Fixed Assets	16.3	14.0	12.3	13.0
Net Working Capital	1.0	1.4	1.0	0.9
Provisions	0.7	0.8	0.8	0.9
Total Capital Employed	16.6	14.7	12.5	12.9
Group Net Equity	15.4	12.6	10.4	9.2
Net Financial Position	-1.2	-2.1	-2.0	-3.7

Source: Farmacosmo, Value Track Analysis

Farmacosmo: Cash Flow Statement 2023A-26E

Cash Flow (IT GAAP, €mn)	2023A	2024E	2025E	2026E
EBITDA	-0.4	0.7	1.4	2.4
Δ NWC (incl. Provisions)	-3.9	-0.3	0.5	0.1
Capex	-1.3	-0.9	-0.9	-0.9
OpFCF (b.t.)	-5.6	-0.5	1.1	1.6
As a % of EBITDA	nm	nm	74.2%	67.7%
Cash Taxes	0.2	0.0	0.0	0.0
Capital Injections	0.0	0.0	0.0	0.0
Others (incl. Fin. Investments)	-0.1	0.5	0.0	-2.2
Net Financial Charges	-0.9	-0.9	-1.0	-1.1
Dividends Paid	0.0	0.0	0.0	0.0
Δ Net Financial Position	-6.5	-0.9	0.1	-1.7

Source: Farmacosmo, Value Track Analysis

Valuation

We are revising Farmacosmo **Fair Equity Value at €1.28 p/s** (from €1.50 p/s) on the back of over €20mn lower Revenues in FY24E (mainly due to ContactU and to a more pronounced shift of strategy towards profitability enhancement rather than growth acceleration). Higher peers' multiples (e-prescriptions became mandatory in Germany) have partially offset the downward revision.

Since the strike price of the next warrant exercise period (€3.38 p/s) is above our fair value, we do not take into account the potential dilution.

Our valuation might change upward depending on (i) the size of synergies put in place among the various legal entities of the Group, (ii) the take up of ContactU and/or (iii) possible news on the regulatory side (e.g., eRx).

At €1.28 p/s, Farmacosmo would trade at 0.70-0.63x EV/Sales 2024E-25E, in line with the total average of comparables, considering both e-retailers and wholesalers.

Farmacosmo: Multiples Sensitivity at Various Stock Price Levels

Stock Market Price p/s (€)	EV/Sales (x)		EV/EBITDA (x)	
	2024E	2025E	2024E	2025E
€ 0.93	0.51	0.47	>30	26.9
€ 1.28	0.70	0.63	>30	>30

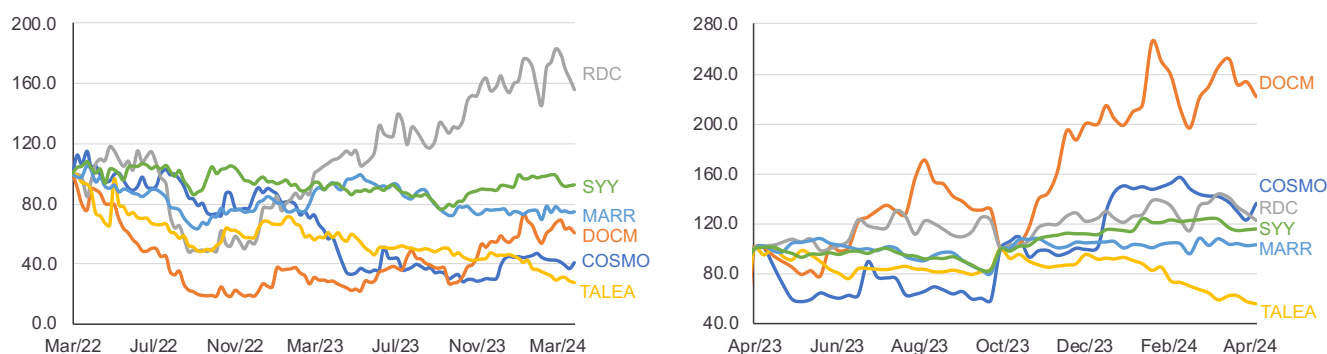
Source: Value Track Analysis

Sum of the Parts

We remind that over the latest months, all the three most similar peers of Farmacosmo have undergone rebranding endeavors, with Farmaè changing name to Talea Group, Zur Rose to DocMorris and Shop Apoteke to Redcare Pharmacy.

By looking at the relative stock performance of Farmacosmo vs. its comparables, we note that the Italian group experienced the second-best L6M performance of the whole cluster (after DocMorris, benefitting from the mandatory introduction of e-prescriptions in Germany), followed by Redcare Pharmacy (sales exposure to Germany), Sysco, and domestic peers MARR and Talea.

Farmacosmo: Stock Price Evolution since IPO & L6M



Source: Value Track Analysis

In terms of multiples, e-retailers are now trading at median 0.84x EV/Sales 2024E (vs. 0.50x as of our last report of October), while wholesalers at median 0.52x EV/Sales 2024E (vs. 0.48x). Compared to the total average, Farmacosmo is currently trading at 28% discount (vs. 55% of our latest report).

Farmacosmo: Peers Trading Multiples

Peers	EV/Sales (x)		EV/EBITDA (x)	
	2024E	2025E	2024E	2025E
B2C E-Retailers				
DocMorris	1.02	0.77	nm	nm
Redcare Pharmacy	1.05	0.86	nm	19.7
Talea Group	0.43	0.35	20.4	7.8
Average	0.84	0.66	20.4	13.7
Median	1.02	0.77	20.4	13.7
B2B Wholesalers				
Sysco Corporation	0.58	0.55	10.6	9.9
Marr	0.49	0.49	7.8	7.3
Average	0.54	0.52	9.2	8.6
Median	0.54	0.52	9.2	8.6
Total Average	0.72	0.60	12.9	11.2
Total Median	0.58	0.55	10.6	8.9
Farmacosmo	0.51	0.47	nm	26.9
Discount vs. Average (%)	-28%	-22%	nm	>100%

Source: Market Consensus, Value Track Analysis

Our fair value is built bottom-up with a **sum of the parts** model to consider the different profile of the various business lines/legal entities belonging to Farmacosmo group:

- ◆ **Retail:** relative valuation based on listed comparables EV/Sales 2024E multiple (0.75x, i.e. applying some 10% discount vs. B2C peers) for Farmacosmo.it, ProfumeriaWeb, Pharmasi (more mature platforms) and Farmacia De Leo. Given the higher growth potential of BauCosmesi and FarmaWow, we applied them 2.0x EV/Sales 2024E multiples;
- ◆ **ContactU:** given the substantial slow-down in short-term growth expectations, recent venture capital rounds are no longer meaningful. We therefore applied a 2.0x EV/Sales 2024E multiple, in line with BauCosmesi and FarmaWow ones;
- ◆ **B2B:** relative valuation based on listed wholesale peers.

Farmacosmo: Sum of the Parts Valuation

Fair Equity Value p/s (€)	FC B2C	FC B2B	Prof.Web	Pharmasi	De Leo	BauCosm.	FarmaWow	ContactU	Group
Fair EV/Sales 2024E	0.75	0.54	0.75	0.75	0.75	2.0	1.0	2.0	
Enterprise Value (€mn)	28.9	9.2	3.7	3.9	1.6	5.6	1.0	3.6	55.8
Stake (%)	100%	100%	67%	67%	67%	67%	51%	51%	
EV Pro-Quota (€mn)	28.9	9.2	3.7	2.6	1.1	3.8	0.5	1.8	51.7
Net Financial Position									-2.1
Fair Equity Value (€mn)									49.6
NOSH									38.9
Fair Equity Value p/s (€)									1.28

Source: Value Track Analysis

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