2020 challenge soft impact: slightly on revenues, operating profits and net income keep going as expected and production capacity doubling almost complete.

NEUTRAL

Current Share Price (€): 0.281
Target Price (€): 0.323

Pierrel – Share Price Performance

Source: S&P Capital IQ - Note: 01/02/2020=100

Company data

ISIN number	IT0004007560
Bloomberg code	PRL IM
Reuters code	PRL.MI
Sector	Pharma & Healthcare
Stock market	MTA (Italy)
Share Price (€)	0.281
Date of Price	19/05/2021
Shares Outstanding (m)	228.9
Market Cap (€m)	64.3
Market Float (%)	28.6%
Daily Volume	615,525
Avg Daily Volume YTD	408,878
Target Price (€)	0.323
Upside (%)	15%
Recommendation	NEUTRAL

Share price performance

	1M	3M	1Y
Pierrel - Absolute (%)	1%	23%	64%
FTSE Italia Small Cap (%)	3%	14%	57%
1Y Range H/L (€)		0.190	0.115
YTD Change (€)/%		0.103	57%

Source: S&P Capital IQ

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Lockdowns affect revenues but not EBITDA; sound cash generation sustains capex

FY2020 revenues were €18.3m vs. €21.9m in 2019, -17% YoY, impacted by slowdowns in international orders and delivery delays. Partial recovery in Q4 especially in North America (+16% in sales of Orabloc® vs. Q4 2019). EBITDA was €3.2m, 17.5% margin only slightly below 2019 level of 20% thanks to cost management; net income of €1.9m did not suffer from 2020 uncertainty. Sound P/L cash flow generation sustained €4.2m capex for increase in production capacity.

On the balance sheet, net working capital was in line with 2019 at €0.2m, recording increases in receivables and inventory, typically linked to domestic and international lockdowns, offset by €2.3m of advances on year-end orders. Cash used for planned investments resulted in €7.8m net debt from €6.8m as of year-end 2019.

Industry outlook: distributors delay then recover orders, Pharma gains momentum

In 2020 Pierrel's industry experienced conflicting trends. While some healthcare distributors lost revenues due to delays of non-urgent dental care and only partially recovered in Q4, Pierrel's peers saw their revenues and margins unaffected by Covid-19 and were often rewarded by market in terms of higher multiples. Pierrel's performance lies between the two groups since it experienced revenue slowdown in 2020, while its share price outperformed, reducing its gap versus average industry multiples.

Doubling production capacity to catch coming opportunities

Pierrel, as aseptic injectable drugs specialist both authorized by EMA and FDA, is in the right position to cash in on the momentum gained from Pharma industry and on its marketing effort. In this regard, the investment plan undertaken in the last two years to double production capacity is enabling Pierrel to catch future market trends. For these reasons, we are assuming recovery from 2021 onwards.

Target Price €0.323 per share, from €0.246, NEUTRAL rating (from OUTPERFORM)

The DCF valuation, which reflects the revised short-term estimates, yields a Target Price of €0.323 per share (from €0.246), +15% potential upside on the current share price. We assign a NEUTRAL rating on the stock (from OUTPERFORM).

Key financials and estimates

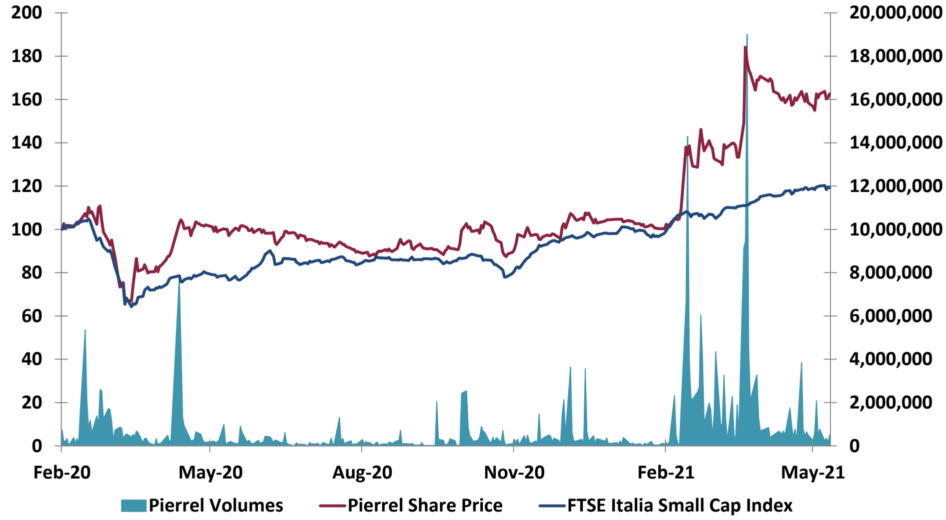
€m	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Revenues	**17.3**	**20.4**	**21.9**	**18.3**	**24.0**	**34.1**	**39.5**
YoY %	*19.2%*	*17.7%*	*7.8%*	*-16.8%*	*31.4%*	*42.0%*	*15.9%*
EBITDA	**2.1**	**3.4**	**4.4**	**3.2**	**5.0**	**7.9**	**9.9**
Margin	*12.3%*	*16.5%*	*20.1%*	*17.5%*	*21.0%*	*23.1%*	*25.1%*
EBIT	**1.0**	**2.3**	**3.3**	**2.0**	**3.4**	**6.1**	**8.1**
Margin	*5.9%*	*11.3%*	*15.0%*	*10.9%*	*14.1%*	*18.0%*	*20.6%*
Net Income (Loss)	**(2.5)**	**0.8**	**2.3**	**1.9**	**2.4**	**4.9**	**6.8**
Net (Debt) Cash	**(11.4)**	**(3.7)**	**(6.8)**	**(7.8)**	**(7.9)**	**(3.1)**	**4.3**
Equity	**2.3**	**11.3**	**13.5**	**15.4**	**17.8**	**22.7**	**29.5**

Source: Company data 2017-20A, EnVent Research 2021-22E

Market update

Pierrel's share price gained 61% since February 2020, outperforming FTSE Italia Small Cap index, which in the same period increased by 20%. YTD at 55% vs. Small Cap index 23%.

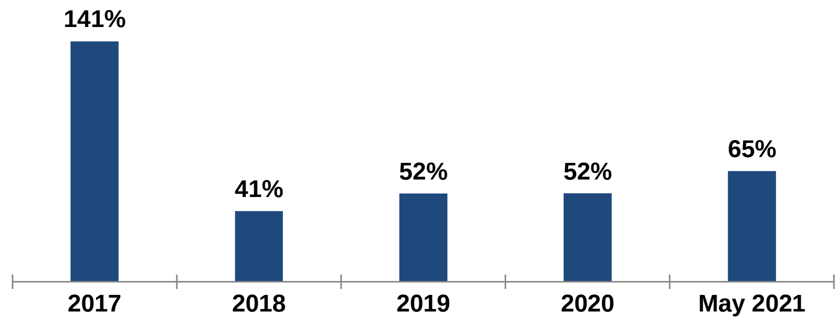
Pierrel - 1Y Share price performance and trading volumes



Source: EnVent Research on S&P Capital IQ - Note: 01/02/2020=100

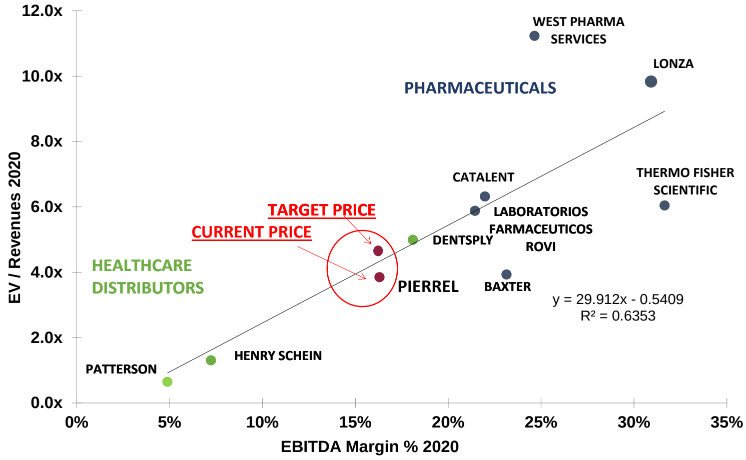
Sharp increase in traded volumes in the first part of 2021

Pierrel - Liquidity analysis and velocity turnover



Source: EnVent Research - Note: Velocity turnover on total shares: ratio of total traded shares to total ordinary shares in a given period

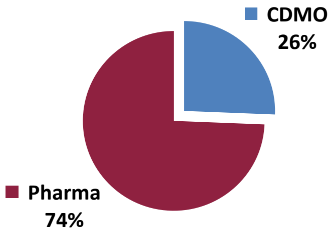
Peer group - Regression analysis and Pierrel target positioning



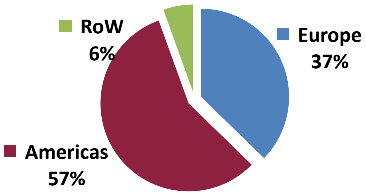
Source: EnVent Research on S&P Capital IQ, May 2021

FY20 impact: revenue -17% for orders slowdown; operating profit and net income just slightly below 2019 excellent performance.

Revenues by BU, 2020



Revenues by geography, 2020



Source: Company data

In 2020, Pierrel consolidated revenues were €18.3m vs. €21.9m in 2019, -17% YoY, reflecting the impact of Covid-19 on international orders. BU Pharma, representing 74% of sales, experienced a minor decrease (-10% YoY), thanks to demand recovery in Q4 especially in the North American market (+16% in sales of Orabloc® vs. Q4 2019). EBITDA at €3.2m vs. €4.4m in FY19, despite lower sales nearly kept the same margin (17.5% vs. 20% in FY19), thanks to increasing share in higher gross margin revenues. EBIT was €2.0m (11% margin vs. 15% in 2019) and net income €1.9m (€2.3m in FY19). On the balance sheet, net working capital was in line with 2019 at €0.2m, recording increases in receivables and inventory, typically linked to domestic and international lockdowns, offset by €2.3m of advances on year-end orders.

Net financial debt increased to €7.8m, from €6.8m as of year-end 2019.
Breakdown:
- €3.9m cash from €5.5m in FY19; decrease related to planned investments.
- €0.5m bank debt
- €2.1m short-term financial debt
- €9.1m other financial debt

Operating cash flow, after working capital and capex of €6.4m, offset by €3.1m P/L cash generation and €2.3m of advances on year-end orders, resulted in a net financial debt increase of €1.0m.

Business update

USA demand recovery in Q4

- Q4 2020 recorded a 16% growth in sales of the product Orabloc® in the USA vs Q4 2019; confirming a 23% market share.

Orabloc® international expansion

- Pierrel added authorizations to market Orabloc®, its flagship dental anesthetic based on Articaine, in Bangladesh and Qatar.

Launch of GOCCLES®

- GOCCLES®, glasses for oral cancer light exposed early screening, awarded as preferred product 2021 by Dental Advisor (USA magazine).

Outlook: marketing effort and new investments drive growth

Industry update: not impacted by pandemic, and in some cases boosted. Distributors lose revenues for delay of non-urgent dental care

As expected, FY2020 results suffered from delayed non-urgent dental care in reference markets during Covid-19 lockdowns, as per revenue loss of distributors included in our industry performance and multiples analysis (See annex charts). We concur with management that the impact is expected to be temporary, as testified by orders increase in Q4. Anyway, a certain degree of uncertainty about backlashes in 2021 remains while there can be a recovery in the second part of the year.
We envisage further growth opportunities for Pierrel. The Pharma industry as a

whole has gained momentum because of the pandemic challenges and uncertainties. Pierrel, as injectables specialist which has just completed doubling its production capacity, has an increasing potential to cash in on marketing efforts. Moreover, by being authorized both by EMA and FDA for aseptic injectable drugs, Pierrel is expected to benefit from the growth in outsourcing market and by investments in new production lines and efficiency, to meet Orabloc®'s increase in orders.

Thus, we assume recovery in 2021 onwards, driven by constant marketing effort and PPE investments, together with positive cash flows.

Updated Management Guidance (April 2021)			
€m	**2019A**	**2020A**	**2021E**
Revenues	21.9	18.3	24.0
YoY%	8%	*-17%*	*31%*
EBITDA	4.4	3.2	4.9
Margin	20%	*17%*	*20%*

Prior Management Guidance (September 2020)			
€m	**2019A**	**2020E**	**2021E**
Revenues	21.9	19.1	28.4
YoY%	*8%*	*-13%*	*49%*
EBITDA	4.4	2.7	6.4
Margin	*20%*	*14%*	*23%*

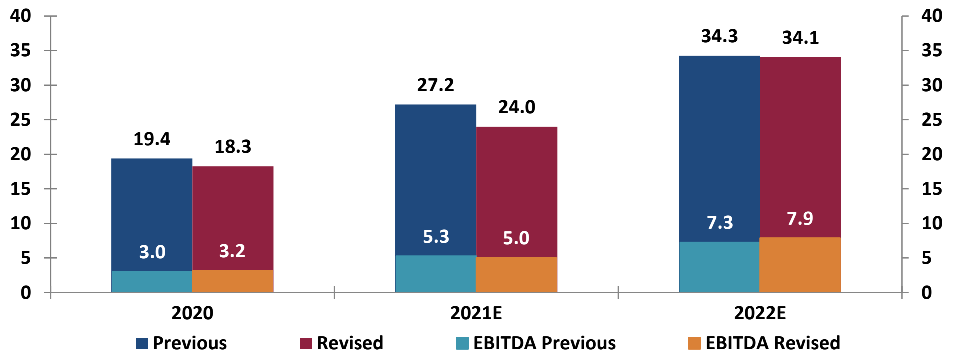
Source: Company data

Estimates revision

Since Covid-19 is expected to cause no harm to future growth opportunities, we are adjusting our estimates for 2021 to factor in 2020 actual figures and time required to recover pre-Covid sales levels. 2021 revenue and operating profit are in line with updated management guidelines, proven fairly reliable for prior periods. For the following years, we overall confirm our previous estimates in view of the progressive utilization of the additional production capacity coming from last two years' investments. We have also added 2023E to the forecasting period assuming consistent growth.

Change in estimates

Revenues and EBITDA (€m) - Previous vs. Revised estimates



	Revised				Previous			Change %		
€m	2020	2021E	2022E	2023E	2020E	2021E	2022E	2020	2021E	2022E
Revenues	18.3	24.0	34.1	39.5	19.4	27.2	34.3	-6%	-12%	-1%
EBITDA	3.2	5.0	7.9	9.9	3.0	5.3	7.3	6%	-5%	8%
Margin	*17%*	*21%*	*23%*	*25%*	*15%*	*19%*	*21%*			
EBIT	2.0	3.4	6.1	8.1	1.7	3.9	5.8	17%	-14%	6%
Margin	*11%*	*14%*	*18%*	*21%*	*9%*	*14%*	*17%*			
Net Income	1.9	2.4	4.9	6.8	0.9	2.9	4.6	113%	-17%	6%
Net (Debt) Cash	(7.8)	(7.9)	(3.1)	4.3	(5.7)	(3.5)	0.8			
Net Debt / EBITDA	*2.5x*	*1.6x*	*0.4x*	*nm*	*1.9x*	*0.7x*	*nm*			

Source: EnVent Research; Company data 2021

Financial projections

Consolidated Profit and Loss

€m	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Revenues	**17.3**	**20.4**	**21.9**	**18.3**	**24.0**	**34.1**	**39.5**
YoY %	*19%*	*18%*	*8%*	*-17%*	*31%*	*42%*	*16%*
COGS	(6.0)	(7.4)	(7.6)	(5.9)	(8.2)	(11.6)	(13.4)
Gross profit	**11.3**	**12.9**	**14.4**	**12.4**	**15.8**	**22.5**	**26.1**
Margin	*65.2%*	*63.5%*	*65.5%*	*67.8%*	*66.0%*	*66.0%*	*66.0%*
Personnel	(5.0)	(5.8)	(6.1)	(5.5)	(6.3)	(8.2)	(9.1)
G&A	(3.2)	(2.6)	(2.5)	(2.5)	(2.8)	(3.2)	(3.6)
Marketing & Sales	(0.4)	(0.5)	(0.6)	(0.5)	(0.7)	(1.7)	(2.0)
Other operating costs	(0.6)	(0.7)	(0.8)	(0.7)	(1.0)	(1.5)	(1.5)
EBITDA	**2.1**	**3.4**	**4.4**	**3.2**	**5.0**	**7.9**	**9.9**
Margin	*12.3%*	*16.5%*	*20.1%*	*17.5%*	*21.0%*	*23.1%*	*25.1%*
D&A	(1.1)	(1.0)	(1.1)	(1.2)	(1.6)	(1.8)	(1.8)
EBIT	**1.0**	**2.3**	**3.3**	**2.0**	**3.4**	**6.1**	**8.1**
Margin	*5.9%*	*11.3%*	*15.0%*	*10.9%*	*14.1%*	*18.0%*	*20.6%*
Interest	(1.2)	(0.9)	(0.8)	(0.0)	(0.7)	(0.7)	(0.7)
Exchange gain (loss)	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-recurring items	(3.1)	(0.3)	0.0	0.0	0.0	0.0	0.0
EBT	**(2.3)**	**1.1**	**2.5**	**2.0**	**2.6**	**5.4**	**7.4**
Margin	*-13.1%*	*5.5%*	*11.3%*	*10.7%*	*11.0%*	*15.8%*	*18.8%*
Income taxes	(0.2)	(0.3)	(0.2)	(0.0)	(0.2)	(0.5)	(0.7)
Net Income (Loss)	**(2.5)**	**0.8**	**2.3**	**1.9**	**2.4**	**4.9**	**6.8**
Margin	*-14.5%*	*4.2%*	*10.3%*	*10.5%*	*10.0%*	*14.4%*	*17.1%*

Source: Company data 2017-20A; EnVent Research 2021-23E

Consolidated Balance Sheet

€m	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Inventory	2.8	3.8	3.3	4.1	4.6	5.6	6.0
Trade receivables	3.3	3.3	2.4	3.7	4.4	5.7	5.9
Trade payables	(4.9)	(4.5)	(3.0)	(2.8)	(3.4)	(4.8)	(5.5)
Trade Working Capital	1.2	2.6	2.8	4.9	5.6	6.5	6.4
Other assets (liabilities)	(4.0)	(4.0)	(2.4)	(4.7)	(2.5)	(2.5)	(2.5)
Net Working Capital	**(2.8)**	**(1.4)**	**0.3**	**0.2**	**3.1**	**4.0**	**3.9**
Intangible assets	1.4	2.0	2.3	3.2	3.3	3.3	3.3
Property, plant and equipment	10.2	9.5	12.7	14.9	14.3	13.7	13.2
Deferred tax assets	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Financial assets	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Non-current assets	**17.0**	**16.8**	**20.3**	**23.3**	**22.9**	**22.3**	**21.8**
Provisions	**(0.5)**	**(0.4)**	**(0.3)**	**(0.3)**	**(0.4)**	**(0.5)**	**(0.5)**
Net Invested Capital	**13.7**	**15.0**	**20.3**	**23.2**	**25.7**	**25.8**	**25.1**
Net Debt (Cash)	**11.4**	**3.7**	**6.8**	**7.8**	**7.9**	**3.1**	**(4.3)**
Equity	**2.3**	**11.3**	**13.5**	**15.4**	**17.8**	**22.7**	**29.5**
Sources	**13.7**	**15.0**	**20.3**	**23.2**	**25.7**	**25.8**	**25.1**

Source: Company data 2017-20A; EnVent Research 2021-23E

Consolidated Cash Flow

€m	2017A	2018A	2019A	2020A	2021E	2022E	2023E
EBIT	**1.0**	**2.3**	**3.3**	**2.0**	**3.4**	**6.1**	**8.1**
Current taxes	(0.2)	(0.3)	(0.2)	(0.0)	(0.2)	(0.5)	(0.7)
D&A	1.1	1.0	1.1	1.2	1.6	1.8	1.8
Provisions	(0.0)	(0.2)	(0.0)	(0.0)	0.0	0.1	0.0
Cash flow from P&L operations	**1.8**	**2.9**	**4.2**	**3.1**	**4.8**	**7.5**	**9.3**
Trade Working Capital	(1.8)	(1.4)	(0.2)	(2.2)	(0.7)	(0.9)	0.1
Other assets and liabilities	3.2	(0.0)	(1.6)	2.3	(2.2)	0.0	0.0
Capex	(0.9)	(0.8)	(4.6)	(4.2)	(1.2)	(1.2)	(1.2)
Deferred tax assets	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Operating cash flow after workin	**2.4**	**0.7**	**(2.2)**	**(1.0)**	**0.7**	**5.5**	**8.2**
Interest	(1.2)	(0.9)	(0.8)	(0.0)	(0.7)	(0.7)	(0.7)
Exchange gain (loss)	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-recurring items	(3.1)	(0.3)	0.0	0.0	0.0	0.0	0.0
Capital increase (decrease)	12.3	8.2	(0.1)	(0.0)	0.0	0.0	0.0
Net cash flow	**11.4**	**7.8**	**(3.1)**	**(1.0)**	**(0.1)**	**4.7**	**7.5**
Net (Debt) Cash - Beginning	(22.9)	(11.4)	(3.7)	(6.8)	(7.8)	(7.9)	(3.1)
Net (Debt) Cash - End	(11.4)	(3.7)	(6.8)	(7.8)	(7.9)	(3.1)	4.3
Change in Net (Debt) Cash	**11.4**	**7.8**	**(3.1)**	**(1.0)**	**(0.1)**	**4.7**	**7.5**

Source: Company data 2017-20A; EnVent Research 2021-22E

Ratio analysis

KPIs	2017A	2018A	2019A	2020A	2021E	2022E	2023E
ROE	-112%	7%	17%	12%	14%	22%	23%
ROS (EBIT/Revenues)	6%	11%	15%	11%	14%	18%	21%
ROIC (NOPAT/Invested Capital)	6%	11%	12%	6%	9%	17%	23%
DSO	58	49	33	60	55	50	45
DPO	144	121	78	89	80	80	80
DOI	59	68	56	81	60	60	55
TWC/Revenues	7%	13%	13%	27%	23%	19%	16%
NWC/Revenues	-16%	-7%	1%	1%	13%	12%	10%
Net Debt / EBITDA	5.4x	1.1x	1.5x	2.5x	1.6x	cash	cash
Cash flow from P&L operations /	86%	87%	94%	99%	96%	95%	94%
FCF / EBITDA	115%	22%	neg.	neg.	14%	69%	83%
EPS	neg.	0.00	0.01	0.01	0.01	0.02	0.03

Source: Company data 2017-20A; EnVent Research 2021-22E

Valuation: industry peers keep their performance, 2020 slowdowns among distributors.

We have carried on and updated our DCF valuation model. We have also updated market multiples and the regression analysis and noticed limited fluctuations in multiples of the industry as a whole. Pierrel operating profit performance sustains implied multiples consistent with industry range resulting from our analysis.

Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.5% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, April 2021)
- Market return: 12.6% (3Y average. Source: Bloomberg, April 2021)
- Market risk premium: 11.1%
- Beta: 1 (Median of core business peers. Source: Bloomberg)
- Cost of equity: 12.9%
- Cost of debt: 3.5%
- Tax rate: 24% IRES
- 50% debt/(debt + equity) as target capital structure
- WACC calculated at 7.8%, according to above data
- Perpetual growth rate after explicit projections 2.5%
- Terminal Value assumes EBITDA margin at 20% and EBIT margin at 17%

DCF Valuation

€m		2017A	2018A	2019A	2020A	2021E	2022E	2023E	Perpetuity
Revenues		**17.3**	**20.4**	**21.9**	**18.3**	**24.0**	**34.1**	**39.5**	**40.4**
EBITDA		**2.1**	**3.4**	**4.4**	**3.2**	**5.0**	**7.9**	**9.9**	**8.1**
Margin		*12.3%*	*16.5%*	*20.1%*	*17.5%*	*21.0%*	*23.1%*	*25.1%*	*20.0%*
EBIT		**1.0**	**2.3**	**3.3**	**2.0**	**3.4**	**6.1**	**8.1**	**6.9**
Margin		*5.9%*	*11.3%*	*15.0%*	*10.9%*	*14.1%*	*18.0%*	*20.6%*	*17.0%*
Taxes		(0.2)	(0.7)	(1.0)	(0.6)	(1.0)	(1.8)	(2.4)	(2.0)
NOPAT		**0.8**	**1.6**	**2.3**	**1.4**	**2.4**	**4.3**	**5.8**	**4.9**
D&A		1.1	1.0	1.1	1.2	1.6	1.8	1.8	1.2
Provisions		(0.0)	(0.2)	(0.0)	(0.0)	0.0	0.1	0.0	0.1
Cash flow from P&L operations		**1.8**	**2.5**	**3.4**	**2.6**	**4.1**	**6.2**	**7.6**	**6.2**
Trade Working Capital		(1.8)	(1.4)	(0.2)	(2.2)	(0.7)	(0.9)	0.1	(0.2)
Other assets and liabilities		3.2	(0.0)	(1.6)	2.3	(2.2)	0.0	0.0	0.0
Capex		(0.9)	(0.8)	(4.6)	(4.2)	(1.2)	(1.2)	(1.2)	(1.2)
Unlevered free cash flow		**2.3**	**0.3**	**(2.9)**	**(1.5)**	**(0.1)**	**4.2**	**6.5**	**4.8**
WACC	7.8%								
Long-term growth (G)	2.5%								
Discounted Cash Flows						**(0.1)**	**3.6**	**5.2**	
Sum of Discounted Cash	8.7								
Terminal Value									**90.3**
Discounted TV	72.1								
Enterprise Value	**80.8**								
Net Debt as of 31/12/20	(7.8)								
Short-term tax relief	0.9								
Equity Value	**73.9**								

DCF - Implied multiples	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**
EV/Revenues	4.0x	3.7x	4.4x	3.4x	2.4x
EV/EBITDA	24.1x	18.3x	25.3x	16.1x	10.2x
EV/EBIT	35.0x	24.5x	40.6x	23.9x	13.2x
P/E	87.3x	32.8x	38.5x	30.7x	15.0x

Source: EnVent Research

Target Price

Our valuation of Pierrel on updated estimates is at €0.323 per share, compared to our prior target price of €0.246, with a potential upside of 15% on the current share price. Thus, we assign a NEUTRAL recommendation on the stock (from OUTPERFORM).

Please refer to important disclosures at the end of this report.

Pierrel Price per Share	
Target Price	**0.323**
Current Share Price (19/05/2021)	0.281
Premium (Discount)	**15%**

Source: EnVent Research

Annex

Peer Group - Market Multiples

Company	EV/REVENUES				EV/EBITDA				EV/EBIT				P/E			
	2019	2020	2021E	2022E	2019	2020	2021E	2022E	2019	2020	2021E	2022E	2019	2020	2021E	2022E
Pierrel	2.1x	3.6x	2.6x	2.1x	10.5x	23.6x	13.3x	9.7x	14.1x	40.7x	18.0x	12.2x	17.6x	70.8x	21.6x	13.6x
Core business peers																
Lonza	7.1x	9.8x	9.0x	8.2x	21.0x	30.7x	28.2x	24.7x	32.3x	45.7x	35.8x	31.1x	40.7x	47.1x	41.9x	36.5x
Catalent	4.4x	5.9x	5.0x	4.5x	21.0x	27.4x	19.5x	16.7x	37.2x	44.4x	25.4x	21.7x	60.8x	73.0x	33.7x	27.7x
West Pharmaceutical Services	6.0x	11.2x	8.9x	8.2x	27.6x	45.6x	30.4x	27.7x	37.2x	57.4x	36.0x	32.6x	46.0x	70.1x	44.4x	41.2x
Laboratorios Farmaceuticos ROVI	3.6x	6.4x	5.2x	4.5x	24.7x	29.0x	22.3x	19.4x	32.6x	34.5x	27.3x	22.9x	34.4x	43.5x	29.1x	26.9x
Baxter International	4.0x	3.9x	3.6x	3.4x	16.4x	17.0x	14.9x	14.3x	22.8x	24.4x	19.3x	17.2x	42.7x	38.4x	23.3x	20.6x
Thermo Fisher Scientific	5.7x	6.0x	5.4x	5.4x	22.4x	19.1x	16.7x	18.6x	34.3x	24.7x	17.9x	20.4x	35.2x	28.4x	20.3x	23.2x
Mean	**5.1x**	**7.2x**	**6.2x**	**5.7x**	**22.2x**	**28.1x**	**22.0x**	**20.2x**	**32.7x**	**38.5x**	**26.9x**	**24.3x**	**43.3x**	**50.1x**	**32.1x**	**29.3x**
Median	**5.0x**	**6.2x**	**5.3x**	**5.0x**	**21.7x**	**28.2x**	**20.9x**	**19.0x**	**33.5x**	**39.4x**	**26.3x**	**22.3x**	**41.7x**	**45.3x**	**31.4x**	**27.3x**
Customers/Distributors																
Patterson	0.5x	0.6x	0.7x	0.7x	10.1x	13.2x	12.7x	12.0x	14.9x	19.1x	14.6x	13.8x	23.0x	neg	16.8x	16.3x
Henry Schein	1.2x	1.3x	1.1x	1.1x	12.6x	18.0x	13.1x	12.6x	15.8x	24.1x	16.1x	15.7x	14.0x	27.6x	19.1x	18.3x
Dentsply	3.4x	5.0x	3.9x	3.7x	17.3x	27.6x	16.2x	14.8x	29.2x	61.5x	18.6x	17.0x	47.9x	neg	22.6x	20.4x
Mean	**1.7x**	**2.3x**	**1.9x**	**1.8x**	**13.3x**	**19.6x**	**14.0x**	**13.1x**	**20.0x**	**34.9x**	**16.4x**	**15.5x**	**28.3x**	**27.6x**	**19.5x**	**18.3x**
Median	**1.2x**	**1.3x**	**1.1x**	**1.1x**	**12.6x**	**18.0x**	**13.1x**	**12.6x**	**15.8x**	**24.1x**	**16.1x**	**15.7x**	**23.0x**	**27.6x**	**19.1x**	**18.3x**

Source: S&P Capital IQ, May 2021

Peer Group – Key Data

Company	Revenues 2019 (€m)	Revenues 2020 (€m)	Rev. YoY 20-19 %	Rev. CAGR '20-22E	EBITDA % 2020	EBITDA % Avg. 5Y	EBITDA % Min 5Y	EBITDA % Max 5Y
Core business peers								
Lonza	3,871	4,165	8%	10%	32%	28%	22%	34%
Catalent	2,213	2,750	24%	14%	21%	20%	19%	21%
West Pharmaceutical Services	1,640	1,755	7%	17%	25%	22%	21%	25%
Laboratorios Farmaceuticos ROVI	381	420	10%	22%	22%	13%	9%	22%
Baxter International	10,125	9,543	-6%	7%	23%	22%	19%	24%
Thermo Fisher Scientific	22,760	26,338	16%	5%	32%	27%	25%	32%
Mean			**10%**	**13%**	**26%**	**22%**	**19%**	**26%**
Median			**9%**	**12%**	**24%**	**22%**	**20%**	**25%**
Customers/Distributors								
Patterson	4,994	5,085	2%	0%	5%	6%	5%	8%
Henry Schein	8,936	8,304	-7%	9%	7%	9%	7%	9%
Dentsply	3,590	2,732	-24%	16%	18%	19%	17%	21%
Mean			**-10%**	**8%**	**10%**	**11%**	**10%**	**13%**
Median			**-7%**	**9%**	**7%**	**9%**	**7%**	**9%**

Source: S&P Capital IQ, May 2021

Investment case

Company

Pierrel SpA (PRL) is a global supplier of dental anesthetics and other products, specializing in CMO (Contract Manufacturing Organization) of injectable products under their proprietary brands or distributor-branded products. The CMO Business Unit provides a range of manufacturing services for injectable formulations for pharmaceutical companies that have chosen to outsource their production processes. The Pharma BU manages the registration and marketing of proprietary dental anesthetics branded Pierrel, entirely manufactured in-house, as well as the development and marketing of innovative medical devices and new drugs. Pierrel recently completed its operational and financial turnaround after the divestment of a loss-making non-core business.

- Sales (2020): €18.3, 15% CAGR 2016-2019
- Geographical breakdown (2020): North America 57%, Europe 37%, RoW 6%
- Market share of the flagship product Orabloc® in the dental anesthetics market based on Articaine in the USA (2020): 23%
- Employees (2019): 96

Revenue drivers

Pierrel, as one of the largest global producers of Articaine and Lidocaine and the only FDA authorized outside the USA, is a first choice supplier for North American and international dental products distributors which see room to rebalance market shares in a segment where the market leader has its own distribution and a market share higher than 50% in the US and even more internationally.

Pierrel's business model implies high visibility on the top line, which is driven by sales of large and well-established distributors to end customers. Major distribution contracts in this industry last several years, with an history of recurring and growing orders. Additional agreements with distributors are mid/long-term too. As such, a substantial portion of Pierrel's revenues over the years comes consistently from recurring major customers.

Drivers

Industry drivers

Dental anesthesia market steadily growing. The increasing dental health checkups, introduction of new products, new investments in dental research and increasing geriatric population are the key factors driving growth of the dental anesthesia market, expected to grow steadily at a moderate pace globally.

Dental anesthetics coverage shows room for growth. The dental anesthesia market is segmented mainly into Articaine, Lidocaine, Mepivacaine, Prilocaine, Bupivacaine. In the USA the use of Lidocaine exceeds that of Articaine, because Lidocaine was introduced in 70s, while

Articaine in 2000s; in addition, Articaine is more expensive than Lidocaine. Articaine is the market leader in Europe, Russia, CIS countries. Articaine and Lidocaine share the market equally in the USA. Lidocaine is the market leader in emerging markets. Pierrel, as one of the largest global producers of Articaine and Lidocaine, is in the best position to enter new markets and benefit of the growing demand.

On the tail of pharma trend, CMO on the rise. As incomes rise and populations age, drugs costs continue to rise and the growing demand for lower cost alternatives to novel therapies surges, due to time and investment necessary to bring complex drugs to market. Since many traditional pharma companies lack such expertise, they often turn to CMOs who have the expertise in developing and manufacturing generics and biologic drugs.

Product and service quality driving demand for CMO. CMO accelerates product development timeframes and go-to-market, reduces costs in order to better compete internationally and efficiently addresses regulatory and compliance issues. Key factors are product and service quality, while price is a second-tier selection criteria.

Patent expiry. The expirations of patents in the mid-term will affect several products made by originators, representing new growth opportunities for CMO players. As aging patents begin to expire and competition heats up, pharma firms are recognizing the urgency in leveraging novel, proprietary technologies to achieve product differentiation - expertise and resources provided by CMOs.

Dental equipment market growing rapidly. The global dental equipment market is expected to grow steadily in the upcoming years, driven by the growing ageing population, increasing demand for cosmetic dentistry, increasing dental diseases, innovation in dental products, diagnostics and treatment-related technologies. North America is leading the global dental equipment market, Europe following closely. Asian countries, such as India, China, South Korea, Malaysia, Thailand, and Singapore are likely to provide a growing market due to their increasing per capita income and investments in healthcare.

Management of hedge risk and "gap capacity". Pharmaceutical companies often outsource to balance their risk and buy time until key milestones in clinical trials or market uptake are met and they can justify investing in-house. Also, outsourcing is a strategic option for large pharma companies switching over parts of their pipeline to biopharma and new market entrants and start-ups developing pharmaceuticals lacking existing manufacturing capabilities.

Company drivers

Reliable manufacturing capabilities and high product quality combined with strong FDA and EMA record. In the CMO business, state-of-the-art production plants and manufacturing of effective and quality products are key to obtain approvals from drugs associations. PRL leverages on this key competitive advantage as a fundamental requirement to enlarge customers portfolio and compete with the CMO leaders. Pierrel's production plant is authorized by AIFA (Italian Medicines Agency), EMA (European Medicines Agency) and FDA (US Food and Drug Administration) for the production of aseptic injectable drugs.

One-stop full service provider. Pierrel combines the development, registration and licensing of new drugs and medical devices with drug manufacturing in the dental anesthesia market, fully serving its customers. Offering a multitude of services creates the opportunity for Pierrel to sell more products to the same customer, as well as develop lock-in models through increased switching costs. In doing so, large and small customers are fully serviced improving time and costs efficiency.

Long-term relationships with main industry distributors, leading to high revenue visibility. Thanks to over 60 years of history, Pierrel relies on its well-established presence in Europe and North America. The nature of the business and Pierrel's track record give high visibility on the top-line, given that CMO contracts generally last a minimum of two years and Pharma contracts usually start from five years. In addition, both are often automatically renewed.

Established presence in Europe and USA and potential expansion into countries with rapid growth. Pierrel's flagship product, Orabloc®, dental anestethic based on Articaine, has a market share of 23% in the USA. Exports to North America account for 50% of 2019 revenues.

Technical know-how. Pierrel has technical capabilities in drug development, process development and scale-up, and is well-suited to production process development, able to increase yields while reducing COGS. In fact, a CMO's technical know-how is one of the most important factors to consider when selecting an outsourcer, along with its track record of quality, compliance inspection and supply flexibility.

Highly skilled and committed management team with a long track record in the pharmaceutical sector. Pierrel management team has post-graduate degrees in pharmaceutical and chemical majors. Around 35% of employees have specializations or proven pharmaceutical, chemical and quality control technical know-how.

Production capacity to double by 2020. In order to sustain the future demand and its marketing program in the USA and other selected countries, Pierrel has planned to increase its production capacity up to doubling, adding a new production line for cartridges. The start-up of the new production line is currently scheduled for 2020. The investment, estimated in €9m, includes around €2m development and registration costs for the marketing authorization of a new molecule to be marketed in North America.

Rationale of marketing strategy. In the CMO BU growth in the volume of cartridges and new pharmaceutical specialties on the North American market. In the Pharma BU, growth in sales of Orabloc® through agreements with the largest global US and European dental care distributors; launch of products in new markets (Far East, Middle East, CIS regions, Africa) where marketing authorizations have been already obtained.

Operational leverage. Overheads reduction in 2017-2018, together with the planned investment to double production capacity, should generate significant cost efficiencies, leading to an improved operational leverage and increasing operating margins.

Challenges

Revenue concentration. Europe and North America account for ca. 90% of consolidated revenues. The additional registrations and distributors in new geographies are going to decrease progressively customer concentration.

Contract duration. CMO and Pharma contracts, despite being long-term contracts generally lasting at least 2-5 years, are subject to renewal and in most cases do not require a minimum supply.

Execution delivery risk. Delivering products and services not in line with regulation and customer expectations due to cost/time overruns, and quality issues, may impact margins and reputation. Any unplanned interruption or limitation of the production capacity of the Capua plant could lead to delays or interruptions in the delivery of products.

Reliance on key suppliers. The choice of suppliers follows strict selection criteria that ensure adequate levels of service or that have particular skills or qualifications according to the GMP standards, as well as the necessary authorizations issued by AIFA and the Italian Ministry of Health. The authorization process for the selection of a qualified supplier or for its replacement can represent an issue as to time and charges and is subject to several authorizations.

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NOT RATED: no rating or target price assigned.

The stock price indicated is the reference price on the day indicated as "Date of Price" in the table on the front page of this publication.

DETAILS ON STOCK RECOMMENDATION AND TARGET PRICE

Pierrel

Date	Recommendation	Target Price (€)	Share Price (€)
13/09/2018	NOT RATED	n.a.	0.154
11/06/2019	NEUTRAL	0.267	0.175
18/09/2019	OUTPERFORM	0.271	0.164
08/05/2020	OUTPERFORM	0.247	0.170
13/10/2020	OUTPERFORM	0.246	0.286
19/05/2021	NEUTRAL	0.323	0.281

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