

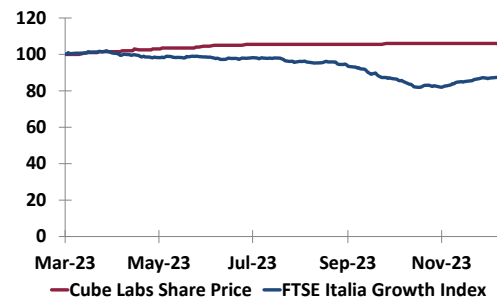
# CUBE LABS

**NEUTRAL**

**Current Share Price (€): 2.11**

**Target Price (€): 2.00**

## Cube Labs - Performance since IPO



Source: S&P Capital IQ - Note: 21/03/2023=100 (IPO date)

## Company data

ISIN number	IT0005532483
Bloomberg code	CUBE IM
Reuters code	CUBE.MI
Industry	Health care
Stock market	Euronext Growth Milan-PRO
Share Price (€)	2.11
Date of Price	28/12/2023
Shares Outstanding (m)	17.6
Market Cap (€m)	37.1
Market Float (%)	14.8%
Daily Volume	10,000
Avg Daily Volume since IPO	733
Target Price (€)	2.00
Upside (%)	-5%
Recommendation	NEUTRAL

## Share price performance

	1M	3M	IPO
Cube Labs - Absolute (%)	-0.5%	0.0%	5.5%
FTSE Italia Growth Index (%)	5%	-1%	-11%
IPO Range H/L (€)	2.12	2.00	
IPO Change (€) / %	0.11	5%	

Source: S&P Capital IQ

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## On the planned path

### Stock performance: overperforming the market

Since IPO Cube Labs share price reached €2.12, +5.5%, while in the same period the FTSE Italia Growth index lost 11%.

### H1 2023: Intercompany service revenues, IPO proceeds and charges

H1 2023 revenues were €752k, +41% on H1 2022, according to management almost fully generated by services billed to - non-consolidated - portfolio companies. Period expenses, including IPO activities, brought H1 2023 EBIT to €(0.2)m vs €0.1m in H1 2022. Net loss at €0.3m. Working capital was €3.9m from €3.1m as of year-end 2022, due to higher receivables from portfolio companies; according to management, Cube Labs has collected almost €120k of portfolio companies' receivables in H1 2023. Net financial debt from €3.3m as of year-end 2022 decreased to €1.3m as of June 2023, after IPO proceeds. Cube Labs raised €1m through two share capital increase of €0.5m each (July and December, both at €2.00 per share) to support growth and €0.6m in October, after warrant exercise.

### Portfolio expansion

To date, Cube Labs has added two new startups to its portfolio: MyrtoViva (Nutraceutical) and Regenerabioma (MedTech). Myrtoviva is developing a controlled-release delivery system for food supplements and cosmetic products with antioxidant and anti-inflammatory properties containing Myrtus Communis L, in order to further develop products that maintain the physiological state of stem cells and to counteract skin aging. Regenerabioma is developing a system based on biocompatible materials, with a patented hydrogel and bacteria-based formulation, for local treatment on the skin microbiome of complex, e.g., chronic or diabetes-related wounds. Both projects are currently in intellectual property and technology development; Cube Labs will initially support each company proof of concept validation with at least €150k. Cube Labs and INBB respectively hold a 65% and 5% stake in both companies, while inventor partners hold 30%.

### Management guidelines

As of June 2023, according to management, target performance will require €4.5m cash availability in the next 12 months, which are not fully covered by IPO funding and the following capital raised. Management is looking for additional financial resources to cope with targets' need.

### Target price of €2.00 and rating NEUTRAL confirmed

We recall that Cube Labs value resides in its portfolio companies and in the advancement of their research projects; according to management these are not yet close to a revenue generating phase of development. Consistently with current stage of portfolio advancement, we confirm our previous €2.00 target price and the NEUTRAL rating.

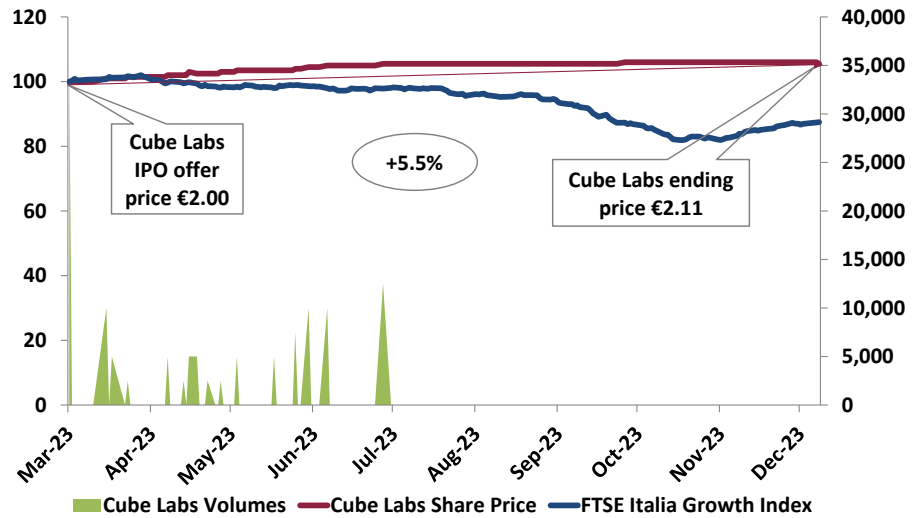
## KEY FINANCIALS

€m	2019	2020	2021	2022
<b>Revenues</b>	<b>0.6</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>
YoY%	-	67.3%	18.6%	1.4%
<b>EBIT</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.0</b>
Margin	41.1%	34.9%	36.0%	4.2%
<b>Net Income (Loss)</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>(0.1)</b>

Source: Company data 2019-22A

## Market update

### Cube Labs - Share price performance and trading volumes since IPO



Source: EnVent Research on S&P Capital IQ - Note: 21/03/2023=100 (IPO date)

Trading price range €2.00-2.12 per share

+5.5% for Cube Labs, vs -11% of the Italia Growth Index

Fostering life sciences with an innovative approach

Strategy

## Investment case

Cube Labs, listed on Euronext Growth Milan - Professional segment, is an Italian venture builder specialized in healthcare & life sciences technologies R&D projects, identified through a network of partners - university and research centers - and a partnership with the Italian Istituto Nazionale Biostrutture e Biosistemi (INBB). Cube Labs selects academic research projects that have passed proof of concept, contributing to their industrial development and promoting scientific research and technological development activities. The present portfolio currently consists of 12 companies. As a venture builder, Cube Labs operates the entire product development lifecycle up to go-to-market, for an undefined period depending on market opportunities and the maturity and advancement of the technology under development.

Strategic goals are to invest in new biotech projects and to support portfolio companies in a long-term horizon to exploit the early-stage funding, carrying on further research stages and contributing to their industrial development.

## Drivers

### Industry drivers

**An appealing industry backed by government initiatives.** Despite a drop in biotech IPO and venture capital (VC) funding in 2022, investments in biotech startups have consistently remained robust and above pre-pandemic levels (source: McKinsey & Company, *What early-stage investing reveals about biotech innovation*, 2023). These figures corroborate the idea of a long-lasting trend, backed by substantial government

incentives: in the USA, Health and Human Services R&D funding by Federal government constantly grew from 2016 with a further boost after the pandemic (source: GAO Report to Congressional Addressees, *Federal Research and Development. Funding Has Grown since 2012 and Is Concentrated within a Few Agencies*, December 2022), while in 2020 EU launched EU4Health Programme to address the resilience of European healthcare systems, aiming to improve medical devices and services.

**Focus on innovative and domestic companies.** Sovereign Wealth Funds are increasingly exposed to the technology sector by investing in startups alongside VCs and other financial institutions: between 2015 and 2021, investments in young companies increased from 19 (\$0.5bn) to 133 (\$5.7bn). Such investments also target technology-reliant companies in healthcare, consumer goods, and renewable energy sector, which SWF expect to experience strong long-term growth. For domestically focused SWF, investments in these companies are an opportunity to transfer considerable skills and technologies into their local economy (Source: International Forum of Sovereign Wealth Funds, *Investing in Uncertain Times: IFSWF Annual Review 2022, 2023*). Most countries are looking to fit Venture Builder into their innovation ecosystem, and it's expected that in 3–7 years they will become ordinariness (Source: Boston Consulting Group, *The Venture Builder Strategy for Principal Investors*, 2022).

**Venture builders' approach.** A Venture Builder can create projects for different customer requests and needs, for both corporate and individual clients. This is an appealing model for active investors, looking forward to control projects. Also, collaboration among VB is increasing, thus building networks that generate a prolific environment for start-ups to exchange expertise, skills, knowledge, at the same time becoming more attractive for specialists and financing.

**Sounding track records.** A VB is totally focused on value, thus accelerating creation process and creating value faster: according to venture building studio Grai, VB-backed companies have 3x faster path to seed, 2x faster path and 30% higher chance to reach series A's phase (source: Grai, *What any investor needs to know about venture building studios*, 2021).

### **Company drivers**

**Venture builder approach.** Cube Labs' investment strategy ensures a high degree of control on the project from the early stages, with a gradual opening of subsidiaries capital to investors, while preserving guidance on industrial and commercial development.

**Network.** Strategic partnership with INBB, with access to technologies, facilities, expertise and associated universities, direct relationships with leading research institute, and the input provided by the Company's Strategic Advisory Board, composed of members with international experience in life-sciences companies and academic institutions, support Cube Labs preferential access to target research projects.

**Management skills.** Cube Labs' management consists of entrepreneurs and professionals with experience in healthcare & life science who actively contribute to projects development based on the number of patents and licenses obtained.

### Challenges

**Huge investments and barriers to success.** R&D costs and timing are biotech companies' major challenges. Those are hardly predictable and can significantly differ from plans. Also, revenues are not guaranteed and anyway postponed at the end of the development process, or during progress at advanced phases. A common mitigating factor is sharing financial risk through partnership with other industry players which may help support R&D programs.

**Improving commercial and development execution.** According to McKinsey, biotechs have to improve pace and quality of their clinical development, which is critical in meeting investors' expectations and securing funding: as innovation goes on, so does competition for clinical-trial sites and investigator capacity (source: McKinsey & Company, *What's ahead for biotech: Another wave or low tide?*, 2021).

**Lack of talents.** Biotechnologies are unpredictable and thus it isn't easy to predict what skills will be in-demand by the industry: this is one of the reasons why partnerships are made between universities and health care/life sciences companies. Many companies struggle to attract and retain executives with experience. Moreover, many biotech clusters are experiencing fierce local competition: there are more job postings than candidates prepared to fill them, so talents are shifting between companies in the same hub, making retention a challenge.

**Scarcity of financial resources.** Biotech sector experienced a period of record-low interest rates, a bull run in equity markets and freewheeling investors. The most recent macroeconomic projections are not so bright: the current economic slowdown effects are expected far more severe than the past ones, many biotech startups are now facing harder pricing terms, warrant deals coming back and low valuations. Given that financial debt is hardly practicable for early-stage companies that cannot easily generate revenue while conducting expensive clinical trials, it looks like raising cash is going to be harder in the next future.

**Hard times on capital markets.** According to Financial Times, investors are more interested in promising drug pipelines rather than cash strapped start-ups, unsatisfied by many biotechs listed before reaching key development milestones. So far in 2022, many biotechs globally are trading below their cash reserves value and more than half of listed companies that completed follow-on fundraising had to offer investors incentives to back their deals (source: Financial Times, *Biotechs face 'funding Sahara' as cash dries up*, 2022).

## H1 2023 results

### Profit and Loss

€m	H1 2022	H1 2023
Services billed to subsidiaries	0.5	0.8
Other income	0.1	0.0
<b>Total Revenues</b>	<b>0.6</b>	<b>0.8</b>
YoY %	11.5%	20.1%
Services	(0.5)	(0.9)
Personnel	(0.1)	(0.0)
Other operating costs	(0.0)	(0.1)
D&A	(0.0)	(0.1)
Write-down receivables	0.0	0.0
<b>EBIT</b>	<b>0.1</b>	<b>(0.3)</b>
Interest	(0.1)	(0.1)
<b>EBT</b>	<b>0.0</b>	<b>(0.4)</b>
Income taxes	(0.0)	0.1
<b>Net Income (Loss)</b>	<b>0.0</b>	<b>(0.3)</b>
Margin	0.6%	-42.5%

Source: Company data

### Balance Sheet

€m	2022	H1 2023
Receivables	3.4	4.3
Payables	(0.3)	(0.4)
Working Capital	3.1	3.9
Other assets (liabilities)	(0.0)	0.2
<b>Net Working Capital</b>	<b>3.1</b>	<b>4.0</b>
Intangible assets	0.3	1.1
Equity investments and financial assets	52.3	52.3
<b>Non-current assets</b>	<b>52.7</b>	<b>53.5</b>
<b>Provisions</b>	<b>(0.0)</b>	<b>(0.0)</b>
<b>Net Invested Capital</b>	<b>55.7</b>	<b>57.5</b>
<b>Net Debt (Cash)</b>	<b>3.3</b>	<b>1.3</b>
<b>Equity</b>	<b>52.5</b>	<b>56.2</b>
<b>Sources</b>	<b>55.7</b>	<b>57.5</b>

### Cash Flow

€m	H1 2022	H1 2023
<b>EBIT</b>	<b>0.1</b>	<b>(0.3)</b>
Current taxes	(0.0)	0.1
D&A	0.0	0.1
<b>Cash flow from P&amp;L operations</b>	<b>0.1</b>	<b>(0.1)</b>
Trade Working Capital	(0.3)	(0.7)
Other assets and liabilities	(0.2)	(0.2)
Portfolio Investments	(0.1)	(0.0)
<b>Operating cash flow after WC and capex</b>	<b>(0.9)</b>	<b>(2.0)</b>
Interest	(0.1)	(0.1)
Capex - IPO Costs	0.0	0.0
IPO Proceeds	0.0	4.1
Paid-in Capital (Assets write-up)	0.2	0.0
Changes in Equity	0.0	0.0
<b>Net cash flow</b>	<b>(0.7)</b>	<b>2.0</b>
Net (Debt) Cash - Beginning	(1.8)	(3.3)
Net (Debt) Cash - End	(2.5)	(1.3)
<b>Change in Net (Debt) Cash</b>	<b>(0.7)</b>	<b>2.0</b>

Source: Company data

### Ratio analysis

	H1 2022	H1 2023
ROE	0%	neg.
ROS	14%	neg.
ROIC	0%	0%
DSO	664	839
DPO	91	69
DOI	0	0
TWC/Revenues	232%	317%
NWC/Revenues	223%	332%
Net Debt / EBIT	34.2x	neg.
Net Debt / Equity	0.0x	0.0x
Net Debt / (Net Debt+Equity)	0.0x	0.0x
Cash flow from P&L operations / EBIT	98%	44%
FCF / EBIT	neg.	703%

Note: H1 KPIs calculated on LTM economics

## Business update

- May 2023: 7 months agreement between Biodiapers (Cube Labs subsidiary) and Sicam, operating in the textile and non-woven fabrics industry, to develop a clay-based prototype for a wide range of applications. Agreement consideration: €22k, plus eventually €70k for prototype testing.
- June 2023: the United States Patent and Trademark Office (USPTO) has accepted the patent application filed by Cartilago (Cube Labs subsidiary) for dermal chondroprotection and regeneration molecules.
- September 2023: Memorandum of Understanding with Modi Sciences Foundation, an Indian foundation which promotes research in various fields of Science and Technology, to foster and develop healthcare technology innovation in India

## Corporate period facts

- July 2023: share capital increase worth €0.5m
- October 2023: 300,000 Cube Labs 2023-25 warrants (IT0005532608) have been exercised in the first exercise period between October 9-20, 2023, at a strike price of €2.00, with a conversion ratio of 1 share : 1 warrants, for a total amount of 300,000 shares and €600k raised
- December 2023: share capital increase worth €0.5m

## Financial projections and Valuations

### Feasibility of estimates

Currently and in the near-term perspective, Cube Labs revenues are made by services billed to portfolio companies, whose research projects range from Pre-clinical to Phase III stage of development. As a consequence, any forecast of projects pay-back would be too subjective as per timing and size, while coverage of financing would need periodical update. In this framework, the unavailability of relevant information undermines any projections and estimates. We also note that pro-forma consolidated financial statements availability would be useful to have a more comprehensive view of intercompany dynamics and figures.

### Valuation carryforward

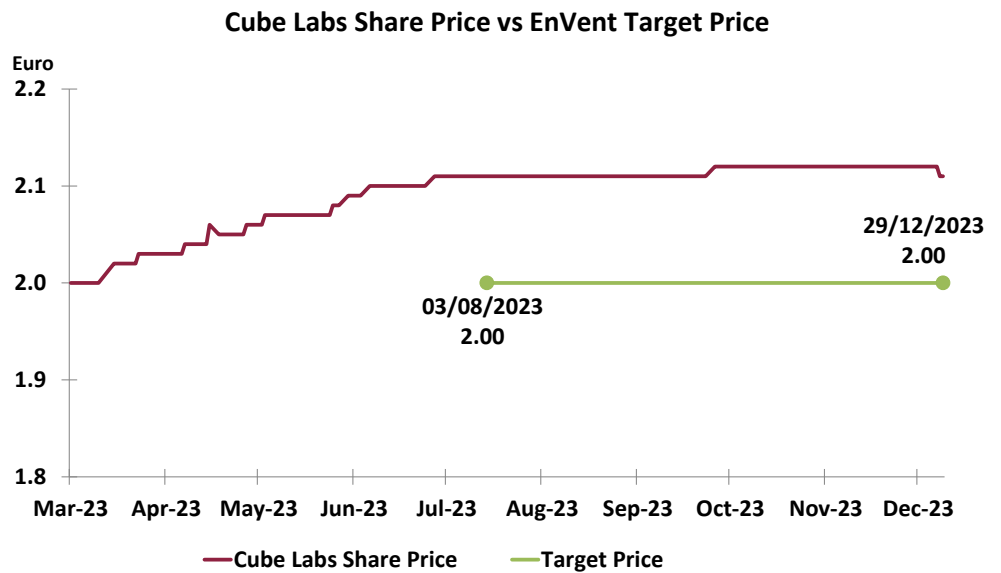
We recall that Cube Labs value resides in its portfolio companies and in the advancement of their research projects, which are not yet close to a revenue generating phase of development, according to management. New projects MyrtoViva and Regenerabioma are in an extremely early stage and thus to date there are no adequate information on further development to include them in our valuation. As Cube Labs has not disclosed any advancement for any portfolio company, we assume that project development is analogous to that at our initiation report and we thus confirm our previous valuation, whose details are enclosed as annex.

## Target Price

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

<b>Cube Labs Price per Share</b>	<b>€</b>
<b>Target Price</b>	2.00
<b>Current Share Price (28/12/2023)</b>	2.11
<b>Premium (Discount)</b>	-5%

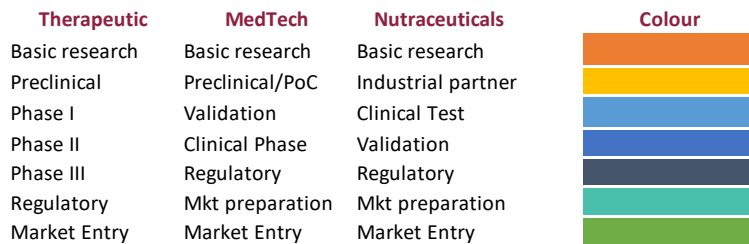
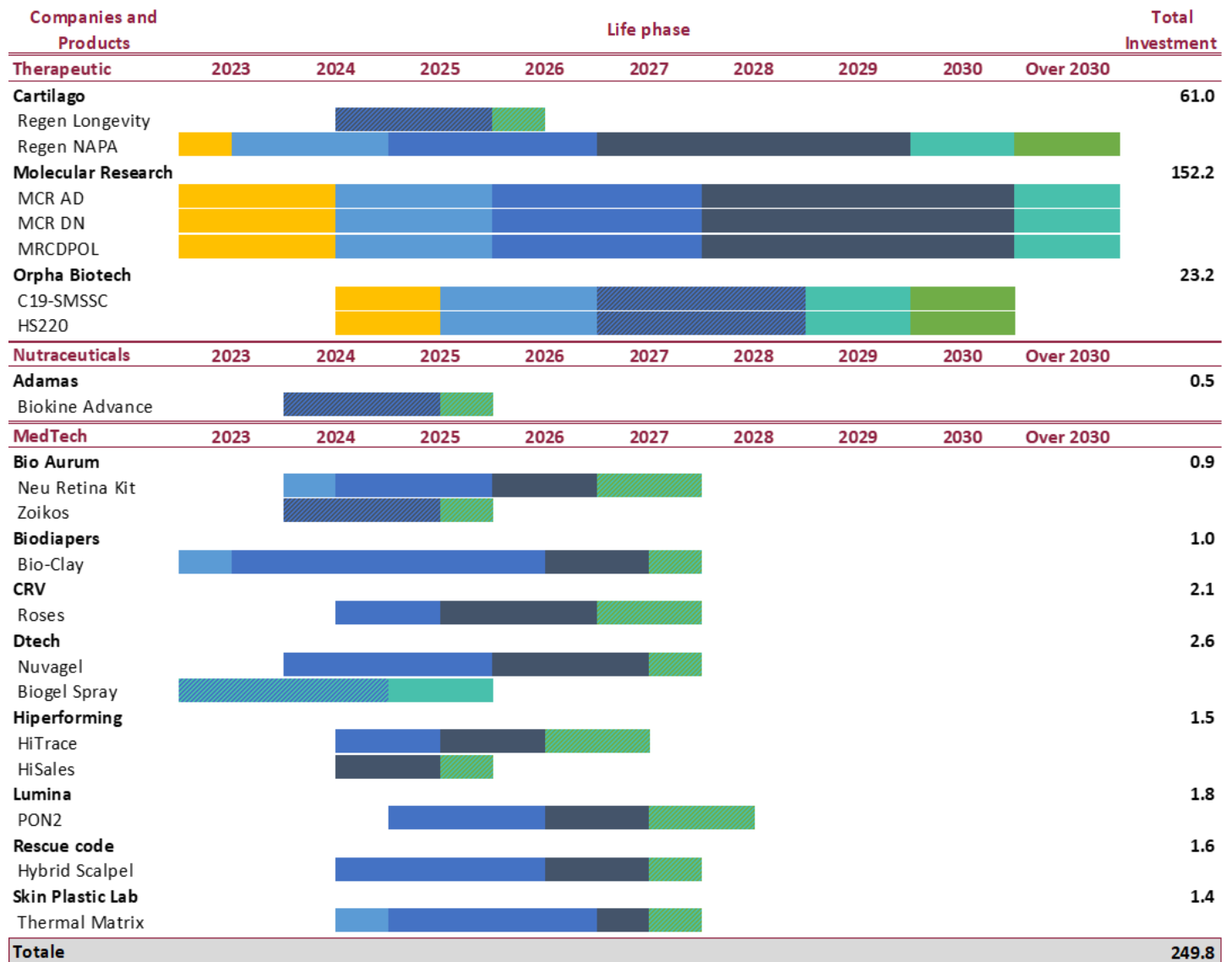
Source: EnVent Research



Source: EnVent Research on S&P Capital IQ, 29/12/2023

## Annex

### Portfolio R&D development forecast



Source: EnVent elaboration on Company data, Cube Labs Initiation of Coverage (03/08/2023)



### Cube Labs Equity Value – Mean multiples

Company	Exit value	Financing	EV	Life Stage	Probability of success			Discounted value			CL & Trust %	Cube Labs value		
					Low	Base	High	Low	Base	High		Low	Base	High
<b>Therapeutics</b>														
Cartilago	382.0	(61.0)	321.1	Preclinical	7%	10%	13%	22.5	32.1	40.1	63%	14.2	20.2	25.3
Molecular Research	281.8	(152.2)	129.6	Preclinical	7%	10%	13%	9.1	13.0	16.2	65%	5.9	8.4	10.5
Orpha Biotech	79.3	(23.2)	56.2	Preclinical	7%	10%	13%	3.9	5.6	7.0	95%	3.7	5.3	6.7
<b>Nutraceuticals</b>														
Adamas Biotech	3.2	(0.5)	2.7	Validation	65%	70%	75%	1.8	1.9	2.1	55%	1.0	1.1	1.1
<b>MedTechs</b>														
Bio Aurum	1.6	(0.9)	0.6	Validation	40%	45%	50%	0.3	0.3	0.3	60%	0.2	0.2	0.2
Biodiapers	0.5	(1.0)	(0.4)	Preclinical/PoC	25%	30%	35%	(0.1)	(0.1)	(0.2)	85%	(0.1)	(0.1)	(0.1)
CRV Medical	10.0	(2.1)	7.9	Clinical Phase	55%	65%	75%	4.3	5.1	5.9	51%	2.2	2.6	3.0
Dtech	3.0	(2.6)	0.5	Validation + Clinical Phase	22%	29%	38%	0.1	0.1	0.2	60%	0.1	0.1	0.1
Hiperforming	3.4	(1.5)	1.9	Clinical + Regulatory	30%	36%	43%	0.6	0.7	0.8	60%	0.3	0.4	0.5
Lumina	8.0	(1.8)	6.2	Clinical Phase	55%	65%	75%	3.4	4.1	4.7	55%	1.9	2.2	2.6
Rescue Code	3.0	(1.6)	1.4	Validation	40%	45%	50%	0.5	0.6	0.7	60%	0.3	0.4	0.4
Skin Plastic Lab	1.2	(1.4)	(0.3)	Preclinical/PoC	25%	30%	35%	(0.1)	(0.1)	(0.1)	55%	(0.0)	(0.0)	(0.0)
<b>Total</b>	<b>777.2</b>	<b>(249.8)</b>	<b>527.3</b>					<b>46.3</b>	<b>63.3</b>	<b>77.7</b>		<b>29.6</b>	<b>40.8</b>	<b>50.2</b>

Source: EnVent Research on Company data, Cube Labs Initiation of Coverage (03/08/2023)

### Cube Labs Equity Value – Median multiples

Company	Exit value	Financing	EV	Life Stage	Probability of success			Discounted value			CL & Trust %	Cube Labs value		
					Low	Base	High	Low	Base	High		Low	Base	High
<b>Therapeutics</b>														
Cartilago	225.8	(61.0)	164.9	Preclinical	7%	10%	13%	11.5	16.5	20.6	63%	7.3	10.4	13.0
Molecular Research	180.8	(152.2)	28.6	Preclinical	7%	10%	13%	2.0	2.9	3.6	65%	1.3	1.9	2.3
Orpha Biotech	51.2	(23.2)	28.1	Preclinical	7%	10%	13%	2.0	2.8	3.5	95%	1.9	2.7	3.3
<b>Nutraceuticals</b>														
Adamas Biotech	3.2	(0.5)	2.7	Validation	65%	70%	75%	1.8	1.9	2.1	55%	1.0	1.1	1.1
<b>MedTechs</b>														
Bio Aurum	1.6	(0.9)	0.6	Validation	40%	45%	50%	0.3	0.3	0.3	60%	0.2	0.2	0.2
Biodiapers	0.5	(1.0)	(0.4)	Preclinical/PoC	25%	30%	35%	(0.1)	(0.1)	(0.2)	85%	(0.1)	(0.1)	(0.1)
CRV Medical	10.0	(2.1)	7.9	Clinical Phase	55%	65%	75%	4.3	5.1	5.9	51%	2.2	2.6	3.0
Dtech	3.0	(2.6)	0.5	Validation + Clinical Phase	22%	29%	38%	0.1	0.1	0.2	60%	0.1	0.1	0.1
Hiperforming	3.4	(1.5)	1.9	Clinical + Regulatory	22%	29%	38%	0.4	0.6	0.7	60%	0.3	0.3	0.4
Lumina	9.2	(1.8)	7.4	Clinical Phase	55%	65%	75%	4.0	4.8	5.5	55%	2.2	2.6	3.0
Rescue Code	3.0	(1.6)	1.4	Validation	40%	45%	50%	0.5	0.6	0.7	60%	0.3	0.4	0.4
Skin Plastic Lab	1.2	(1.4)	(0.3)	Preclinical/PoC	25%	30%	35%	(0.1)	(0.1)	(0.1)	55%	(0.0)	(0.0)	(0.0)
<b>Total</b>	<b>493.0</b>	<b>(249.8)</b>	<b>243.2</b>					<b>26.8</b>	<b>35.3</b>	<b>42.8</b>		<b>16.5</b>	<b>22.0</b>	<b>26.8</b>

Source: EnVent Research on Company data, Cube Labs Initiation of Coverage (03/08/2023)

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Equity ratings and valuations are issued in absolute terms, not relative to market performance.

Rating system and rationale (12-month time horizon):

OUTPERFORM: stocks are expected to have a total return above 10%;

NEUTRAL: stocks are expected to have a performance between -10% and +10% consistent with market or industry trend and appear less attractive than Outperform rated stocks;

UNDERPERFORM: stocks are among the least attractive in a peer group, with the target price 10% below the current market price;

UNDER REVIEW: target price under review, waiting for updated financial data, or other key information such as material transactions involving share capital or financing;

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The stock price indicated in the report is the last closing price on the day of Production.

Date and time of Production: 28/12/2023 h. 6.15pm

Date and time of Distribution: 29/12/2023 h. 6.25pm

## DETAILS ON STOCK RECOMMENDATION AND TARGET PRICE

Date	Recommendation	Target Price (€)	Share Price (€)
03/08/2023	NEUTRAL	2.00	2.11
29/12/2023	NEUTRAL	2.00	2.11

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