

FINE FOODS

OUTPERFORM

Price (Eu): 10.75

Target Price (Eu): 14.10

SECTOR: Industrials

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Entering New Adjacent Segments and Cosmetics Through Pharmatek Acquisition

■ **Pharmatek is now part of Fine Foods Group.** Following the binding term sheet signed in mid-November, Fine Foods (FF) has finally completed the acquisition of 100% of Pharmatek PMC S.r.l. (PMC) for c. Eu17.7mn (EV). PMC is a Lombardy-based firm active in the production of biocides, cosmetics and medical devices; in FY20E PMC is supposed to have generated c. Eu17mn in revenues (Eu7mn in FY19) and c. Eu3.4mn EBITDA. Entry into other adjacent segments represents a transformational opportunity for FF, over and above the valuation multiples (PMC 5.2x vs. 8x for FF) which are somewhat influenced by last year's additional business from the production of hand sanitiser gel, which is not recurring (or at least not in the long term). We believe the PMC acquisition is still accretive even assuming a much lower recurring EBITDA (i.e. Eu2.4mn, c.70% of reported EBITDA, with profitability at 20% vs. 13-14% at FF) as it would imply a multiple of 7x EV/EBITDA'20E. Thanks to the deal, FF will enjoy double-digit organic growth in the cosmetic segment (on top of a higher gross margin compared to solid oral forms) and cross-fertilisation opportunities from the increase in share-of-wallet related to existing clients and constant expansion of the client base thanks to the integration of the respective commercial portfolios.

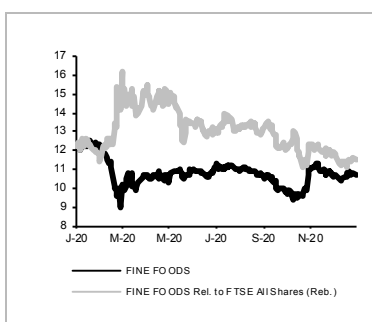
■ **Speculative appeal from recent surge in sector M&A:** The European and Italian CDMO sectors are somewhat fragmented and set for consolidation in the short to medium term, as highlighted by the recent surge in M&A activity: in particular, Procemsa's acquisition of OFI in Italy and EQT's friendly takeover bid on Swedish company Recipharm, which also has an extensive presence in Italy. We estimate FF has c.Eu100mn of M&A firepower, considering the current solid NFP (c.Eu36mn as at YE21E, including the full cashout for PMC), a mark-to-market valuation of c.Eu9mn for treasury shares (3.5% of the capital), and the possibility of increasing leverage to a comfort zone of 1.5-2x (c.Eu35-50mn), not far off the sector average.

■ **Change in estimates:** We assume full consolidation of Pharmatek in FY21, driving FY21/22E revenues up by c.7.5%/6.4% and adj. EBITDA by 11%/9%, with the group margin improving c.0.3/0.4pp, remaining above 14% in both years. Taking into account higher D&A, this would increase 2021/22E EPS by +11%/8%.

■ **OUTPERFORM confirmed; target to Eu14.1 (from Eu13.0).** After a temporary slowdown in 1H20 (shift in production due to Covid-19), the return to double-digit revenue growth experienced in 3Q20, in line with historical trends, supports visibility on a strong recovery in FY20, while for FY21 we expect further improvements, leveraging on Pharmatek's solid positioning in new complementary sectors (such as biocides, cosmetics and medical devices) and new forms (liquid/semiliquid). In the near future, FF is well placed to enjoy solid operating trends thanks to highly visible customer demand and the additional capacity secured through investments, as well as the ability to seize further M&A opportunities for quality assets in adjacent markets or to act as a natural aggregator domestically. Meanwhile, the potential migration to the MTA segment (and eventually the STAR) by 1H21 will be a positive future catalyst for the stock, enhancing the liquidity profile.

Next event:
FY20 Results out March 2021

FINE FOODS - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 13.00 to 14.10

Ch. in Adj.EPS est: 2020E 2021E
0.0% 10.8%

STOCK DATA

Reuters code: FF.MI
Bloomberg code: FF IM

Performance	1m	3m	12m
Absolute	0.0%	8.1%	-12.6%
Relative	-2.3%	-7.4%	-5.7%
12 months H/L:	12.50/9.00		

SHAREHOLDER DATA

No. of Ord. shares (mn): 24
Total No. of shares (mn): 24
Mkt Cap Ord (Eu mn): 253
Total Mkt Cap (Eu mn): 253
Mkt Float - ord (Eu mn): 104
Mkt Float (in %): 41.0%
Main shareholder:
Eigenfin Srl + M. Eigenmann 51.9%

BALANCE SHEET DATA

2021
Book value (Eu mn): 161
BVPS (Eu): 6.84
P/BV: 1.6
Net Financial Position (Eu mn): 36
Enterprise value (Eu mn): 208

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on the last page of this report

Key Figures	2018A	2019A	2020E	2021E	2022E
Sales (Eu mn)	139	160	177	216	237
Ebitda (Eu mn)	19	18	22	30	35
Net profit (Eu mn)	9	6	9	13	16
EPS - New Adj.(Eu)	0.370	0.352	0.431	0.562	0.674
EPS - Old Adj.(Eu)	0.370	0.352	0.431	0.507	0.625
DPS (Eu)	0.098	0.120	0.142	0.185	0.223
Ratios & Multiples	2018A	2019A	2020E	2021E	2022E
P/E Adj.	29.0	30.6	25.0	19.1	15.9
Div. Yield	0.9%	1.1%	1.3%	1.7%	2.1%
EV/Ebitda Adj.	10.6	9.8	8.7	6.9	5.5
ROCE	12.6%	6.6%	9.4%	14.1%	15.9%

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FINE FOODS - KEY FIGURES

		2018A	2019A	2020E	2021E	2022E
	Fiscal year end	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
PROFIT & LOSS (Eu mn)	Sales	139	160	177	216	237
	EBITDA	19	18	22	30	35
	EBIT	10	7	10	16	20
	Financial income (charges)	0	1	2	1	1
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	10	8	12	17	20
	Taxes	(2)	(2)	(3)	(4)	(4)
	Tax rate (%)	16.7%	21.4%	21.5%	21.5%	22.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	9	6	9	13	16
	Total extraordinary items	0	2	1	0	0
	Ebitda excl. extraordinary items	19	21	23	30	35
	Ebit excl. extraordinary items	10	10	11	16	20
	Net profit restated	9	8	10	13	16
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	23	23	24	24	24
	EPS stated fd	0.370	0.259	0.397	0.562	0.674
	EPS restated fd	0.370	0.352	0.431	0.562	0.674
	BVPS fd	6.360	6.322	6.420	6.838	7.324
	Dividend per share (ord)	0.098	0.120	0.142	0.185	0.223
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	25.7%	45.0%	35.8%	33.0%	33.0%
CASH FLOW (Eu mn)	Gross cash flow	17	18	21	26	30
	Change in NWC	(19)	2	(0)	(5)	(3)
	Capital expenditure	(32)	(20)	(11)	(10)	(11)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(33)	(1)	10	12	17
	Acquisitions, divestments & others	32	1	1	(17)	1
	Dividend	0	(2)	(3)	(3)	(4)
	Equity financing/Buy-back	100	(5)	(4)	0	0
	Change in Net Financial Position	67	(7)	5	(8)	13
BALANCE SHEET (Eu mn)	Total fixed assets	83	93	92	106	101
	Net working capital	21	19	19	24	27
	Long term liabilities	0	(2)	(4)	(4)	(4)
	Net capital employed	102	109	107	125	123
	Net financial position	47	40	45	36	50
	Group equity	149	148	151	161	173
	Minorities	0	0	0	0	0
	Net equity	149	148	151	161	173
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	253	253	253	253	253
	Adjustments (associate & minorities)	9	9	9	9	9
	Net financial position	47	40	45	36	50
	Enterprise value	198	205	200	208	195
RATIOS(%)	EBITDA margin*	13.4%	13.0%	13.1%	14.0%	14.8%
	EBIT margin*	7.3%	6.1%	6.3%	7.5%	8.3%
	Gearing - Debt/equity	-31.3%	-26.8%	-29.5%	-22.4%	-28.8%
	Interest cover on EBIT	nm	nm	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	12.6%	6.6%	9.4%	14.1%	15.9%
	ROE*	9.2%	4.1%	6.2%	8.4%	9.5%
	EV/CE	2.4	1.9	1.9	1.8	1.6
	EV/Sales	1.4	1.3	1.1	1.0	0.8
	EV/Ebit	19.4	21.1	17.9	12.8	9.9
	Free Cash Flow Yield	-13.4%	-0.4%	4.1%	4.8%	6.9%
GROWTH RATES (%)	Sales	16.6%	14.6%	10.7%	22.1%	9.9%
	EBITDA*	11.7%	11.3%	11.1%	31.2%	16.1%
	EBIT*	0.2%	-4.7%	15.0%	45.9%	21.4%
	Net profit	40.3%	-30.1%	53.4%	41.5%	20.0%
	EPS restated	26.9%	-5.0%	22.4%	30.5%	20.0%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Acquisition of Pharmatek

Following the binding term sheet signed in mid-November, Fine Foods (FF) has finally completed the acquisition of 100% of Pharmatek PMC S.r.l. (PMC) for c. Eu17.7mn (EV). PMC is a Lombardy-based firm active in the production of biocides, cosmetics and medical devices; in FY20E PMC is supposed to have generated c. Eu17mn in revenues (Eu7mn in FY19) and c. Eu3.4mn EBITDA. Entry into other adjacent segments represents a transformational opportunity for FF, over and above the valuation multiples (PMC 5.2x vs. 8x for FF) which are somewhat influenced by last year's additional business from the production of hand sanitiser gel, which is not recurring (or at least not in the long term), but we flag that:

- **FF is well placed to benefit from constant double-digit growth at organic level in the cosmetics segment;**
- **the multiple is quite attractive (5.2x vs. 8x for FF) and we believe the PMC acquisition would still be accretive even when assuming much lower 2020E recurring EBITDA** (i.e. Eu2.4mn, c.70% of the reported figure of Eu3.4mn, with profitability at 20% vs. 13-14% at FF) as it would imply a multiple of **7x EV/EBITDA'20E**.
- **Fine Foods can benefit from huge cross-fertilisation synergies with PMC** thanks to: 1) **overlap of existing clients**: FF could broaden the product range offered to existing clients, with liquid/semiliquid forms especially for dermo cosmetics and other products (e.g. Bioscalin by Giuliani for male hair treatment); 2) **additional clients** through the integration of the two customer portfolios.

Pharmatek – Key Figures and Estimates

Pharmatek (Eu mn)	2019A	2020E	2021E	2022E	2023E
Revenues	7.0	17.0	15.1	14.4	15.2
YoY growth		143%	-11%	-5%	6%
o/w recurring (estimate)	7.0	12.0	12.6	13.9	15.2
YoY growth		71%	5%	10%	10%
o/w not recurring (estimate)		5.0	2.5	0.5	0.0
EBITDA (post IFR16)	1.4	3.4	3.0	2.9	3.0
o/w recurring (estimate)	1.4	2.4	2.5	2.8	3.0
o/w not recurring (estimate)	0.0	1.0	0.5	0.1	0.0
EBITDA margin	20.0%	20.0%	20.0%	20.0%	20.0%
o/w recurring (estimate)	20.0%	20.0%	20.0%	20.0%	20.0%
o/w not recurring (estimate)		20.0%	20.0%	20.0%	20.0%
Enterprise Value		17.7			
Equity value		17.2			
net debt		0.5			
EV/EBITDA		5.2x	5.9x	6.2x	5.8x
EV/EBITDA recurring		7.4x	7.0x	6.4x	5.8x

Source: Company Data (A), Intermonte Estimates (E)

Key messages from conference call with FF management team on 16th November 2020, following the signing of the binding term sheet:

- **Top line and margins**: Pharmatek revenues grew from Eu7mn in FY19 (EBITDA c.Eu0.5-0.6mn but under ITA GAAP, therefore including leasing costs; we assume c.Eu1.4mn post IFRS16, hinting at a 20% margin) to Eu17mn this year (EBITDA c.Eu3.4mn). We assume c.Eu5mn in non-recurring revenues for FY20E (i.e. c.30% of the total) from the production of hand sanitiser gel.
- **Customer base**: Very loyal client base with a solid and long-standing relations;
- **Key segments**: established presence in dermo cosmetics creams (moisturising cream, skin scrubs, face cream cleansing milk), but also oral products such as mouthwash, toothpaste and a very distinctive product in the form of disinfectant tablets for dentures;
- **Personnel**: 60 employees (increasing from c.20 at YE19, due to higher effort on hand sanitiser gels) compared to c. 700 employees at Fine Foods.
- **Production sites**: HQ in Cremosano (Crema), relatively close (<30km) to Fine Foods headquarters in Brembate/Zingonia (Bergamo);
- **CapEx**: FF's management has not ruled out further possible investments to modernise production plants and machinery, as and when needed;

- **Management:** Mr. Pessah, Pharmatek's sole shareholder, has a solid background in the CDMO industry, is a very passionate manager and will stay in his role as Pharmatek General Manager for 3 years after closing (earn-out);
- **Debt:** Eu0.5m debt is a prudent preliminary indication pending confirmatory due diligence, as the company is expected to have a small positive NFP in FY20.
- **Presence of retail brands:** Pharmatek has some proprietary retail brands such as "pharma qui" (<http://www.pharmaqui.com/>) and "Pharma Intimo" (<http://www.pharmaintimo.com/>) and PMC (<http://www.pharmatek-pmc.com/prodotti.php#>)
- **Cash-out:** The deal foresees an all-cash payment of a maximum of Eu17.2mn for 100% of Pharmatek, split between a fixed sum of Eu11.2mn and a maximum variable payment of Eu6mn (earn-out) to be paid within the next 3 financial years.

Speculative appeal from recent surge in Sector M&A

There was a significant resurgence in M&A activity in the Italian CDMO sector in December:

- **Procemsa, an Italian CDMO owned by Investistindustrial, announced the acquisition of Officina Farmaceutica Italiana (OFI)**, a Bergamo-based CDMO, located close to Fine Foods and active in nutraceuticals as well as pharma, with **turnover of c. Eu20m in FY19** and 68 employees. Procemsa's headquartered are at Nichelino in Turin province, and the company employs 115 people. Thanks to this acquisition, group turnover will reach Eu50mn (vs. c. Eu180mn for Fine Foods in FY20E). The group will concentrate on expansion in markets with high growth potential, especially the USA, China and Asia.
- **Swedish fund EQT has launched a friendly takeover bid on Recipharm**, also from Sweden, for \$2.1bn, a + 23% premium to the last closing price pre-bid. Recipharm is a pharma segment CDMO, with over Eu1.1bn in turnover of which over 80% from CMDO for pharma clients. **Italy is Recipharm's second largest market, in which it generated revenues of c. Eu190mn in FY19 (similar in size to Fine Foods), accounting for 17.8% of consolidated turnover (just below Sweden at 18.2%).** At current prices (SEK225.6, slightly above the SEK220 bid), Recipharm is trading at 16/14x '20/21E EV/EBITDA (Fine Foods 9/7x) vs. 13/11x pre-bid. The takeover has Recipharm management's consent (management has 25.7% of the share capital and 74.3% of voting rights) and the EQT offer was immediately accepted. The offer is conditional on obtaining 90% of the share capital with the aim of de-listing the stock. Faced with higher investments to satisfy client demand and sector consolidation opportunities taking place through M&A, both EQT and Recipharm management are convinced the Group could benefit from operating as a private firm in the years to come. In November 2019, Recipharm bought Consort Medical for c.Eu620mn in cash (c. SEK 6.3bn), an EV /EBITDA multiple of 13.3x, taking over 9 Consort plants in the UK, Italy and Germany.

Our view: The European and Italian CDMO sectors are somewhat fragmented and set for consolidation in the short-medium term. Fine Foods is well placed to take advantage of its twin presence in the nutraceutical sector (75% of Group revenues: Fine Foods is the largest European CDMO in the food supplements sector while Recipharm does not participate in the nutraceutical segment) and in pharma; from this year it will be able to access the attractive cosmetics segment thanks to finalisation of the acquisition of Pharmatek. **We estimate M&A firepower for Fine Foods of c.Eu100mn, considering the current solid NFP (c.Eu36mn as at YE21E, including the full cashout for Pharmatek), a mark-to-market valuation of c.Eu9mn for its treasury shares (3.5% of the share capital), and the possibility of increasing leverage to a comfort zone of 1.5-2x (c.Eu35-50mn), not far off the sector average.**

Change in Estimates

We assume full consolidation of Pharmatek in FY21, driving FY21/22E revenues up by c.7.5%/6.4% and adj. EBITDA by 11%/9%, with the group margin improving c.0.3/0.4pp, remaining above 14% in both years. Taking into account higher D&A, this would **increase 2021/22E EPS by +11%/8%**.

Fine Foods – Changes to Estimates

(Eu mn)	'19A	New Estimates				Old Estimates				'20E	'21E	'22E	'23E
		'20E	'21E	'22E	'23E	'20E	'21E	'22E	'23E				
Food	119.2	133.5	153.5	172.0	185.7	133.5	153.5	172.0	185.7				
Pharma	40.5	43.3	47.2	51.0	53.1	43.3	47.2	51.0	53.1				
Pharmatek	0.0	0.0	15.1	14.4	15.2	0.0	0.0	0.0	0.0				
Revenues	159.7	176.8	215.9	237.3	254.0	176.8	200.8	223.0	238.8	0.0%	7.5%	6.4%	6.4%
YoY growth	14.6%	10.7%	22.1%	9.9%	7.0%	10.7%	13.5%	11.1%	7.1%				
Adj. EBITDA	20.8	23.1	30.3	35.2	38.9	23.1	27.3	32.3	35.8	0.0%	11.1%	8.9%	8.5%
Adj. EBITDA Margin	13.0%	13.1%	14.0%	14.8%	15.3%	13.1%	13.6%	14.5%	15.0%				
Adj. EBIT	9.7	11.2	16.3	19.8	22.4	11.2	14.7	18.3	20.8	0.0%	11.2%	8.2%	7.6%
Adj. EBIT Margin	6.1%	6.3%	7.5%	8.3%	8.8%	6.3%	7.3%	8.2%	8.7%				
Net Profit	6.1	9.3	13.2	15.8	17.6	9.3	11.9	14.7	16.4	0.0%	10.8%	7.9%	7.4%
Adj. Net profit	8.2	10.1	13.2	15.8	17.6	10.1	11.9	14.7	16.4	0.0%	10.8%	7.9%	7.4%
Adj. EPS (€/share)	0.35	0.43	0.56	0.67	0.75	0.43	0.51	0.62	0.70	0.0%	10.8%	7.9%	7.4%
Op. FCF	2.4	12.1	15.7	21.8	25.3	12.1	11.2	19.0	22.7	0.0%	40.1%	14.5%	11.3%
as % of Adj. EBITDA	11%	52%	52%	62%	65%	52%	41%	59%	63%				
Equity FCF	(0.9)	10.1	11.6	16.8	19.6	10.1	7.5	14.4	17.3	0.0%	55.6%	16.9%	12.7%
Net Cash (Debt)	39.8	44.6	36.2	49.6	65.0	44.6	49.7	61.2	74.7				
Net Cash/Adj. EBITDA	1.9x	1.9x	1.2x	1.4x	1.7x	1.9x	1.8x	1.9x	2.1x				

Source: Company Data (A), Intermonte Estimates (E)

New Estimates 2020-23 (including Pharmatek)

Fine Foods – Income Statement

(Eu mn)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Total Revenues	102.0	113.1	119.6	139.4	159.7	176.8	215.9	237.3	254.0
Total Operating Costs	(88.7)	(98.0)	(104.1)	(120.7)	(141.7)	(154.7)	(185.5)	(202.1)	(215.1)
EBITDA	13.3	15.1	15.5	18.7	18.0	22.1	30.3	35.2	38.9
% EBITDA Margin	13%	13%	13%	13%	11%	13%	14%	15%	15%
Depr. Prov's. and Write-down	(5.2)	(5.8)	(6.6)	(8.5)	(11.1)	(11.9)	(14.0)	(15.4)	(16.5)
EBIT	8.1	9.3	9.0	10.2	6.9	10.2	16.3	19.8	22.4
% EBIT Margin	7.9%	8.2%	7.5%	7.3%	4.3%	5.7%	7.5%	8.3%	8.8%
Net Financial Charges	(0.3)	(0.2)	(0.4)	0.2	0.8	1.7	0.5	0.5	0.5
Other Charges and Income	-	-	-	-	-	-	-	-	-
Net Operating Margin	7.8	9.0	8.5	10.4	7.7	11.9	16.8	20.3	22.9
Taxes	(3)	(3)	(2)	(2)	(2)	(3)	(4)	(4)	(5)
Tax Rate %	-32%	-31%	-27%	-17%	-21%	-22%	-22%	-22%	-23%
Net Income	5.3	6.2	6.2	8.7	6.1	9.3	13.2	15.8	17.6

Source: Company data (A) and Intermonte SIM estimates (E)

Fine Foods – Balance Sheet

(Eu mn)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Fixed assets:									
- Intangible	2.2	1.9	1.7	4.5	3.6	3.4	3.4	3.4	3.4
- Tangible	38.9	41.6	57.3	78.6	89.3	88.8	102.2	97.4	92.4
- Financial	-	-	-	-	-	-	-	-	-
Total Fixed Assets	40.3	42.9	58.6	82.9	92.8	92.3	105.6	100.9	95.8
Net working capital	10.3	10.3	2.0	20.6	19.0	19.3	24.2	27.0	29.1
Gross inv. capital	50.7	53.2	60.6	103.5	111.8	111.6	129.9	127.9	124.9
Severance provision	(0.0)	(0.0)	-	-	(2.3)	(3.9)	(3.8)	(3.8)	(3.8)
Net invested capital	49.3	51.9	59.4	102.5	108.5	106.7	125.0	123.0	120.1
Group sharehold. equity	31.5	32.7	38.9	149.2	148.3	151.4	161.2	172.7	185.1
Minority interests	-	-	-	-	-	-	-	-	-
Net Debt /(Net Cash)	17.8	19.3	20.4	(46.7)	(39.8)	(44.6)	(36.2)	(49.6)	(65.0)
Total cover	49.3	51.9	59.3	102.5	108.5	106.7	125.0	123.0	120.1

Source: Company data (A) and Intermonte SIM estimates (E)

Fine Foods – Cash Flow Statement

(Eu mn)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Net fin position beg of year	(14.3)	(17.8)	(19.3)	(20.4)	46.7	39.8	44.6	36.2	49.6
Net income	5.3	6.2	6.2	8.7	8.2	10.1	13.2	15.8	17.6
Depreciation	5.2	5.8	6.6	8.5	11.1	11.9	14.0	15.4	16.5
Change in working capital	(6.5)	0.0	8.3	(18.6)	1.7	(0.4)	(4.9)	(2.7)	(2.1)
Others	0.0	-	-	0.3	(1.8)	(1.0)	(1.0)	(1.0)	(1.0)
FCF before capex	4.0	12.1	21.1	(1.1)	19.2	20.7	21.3	27.5	31.0
Investments	(7.5)	(10.0)	(21.9)	(31.7)	(20.1)	(10.6)	(9.7)	(10.7)	(11.4)
Equity FCF	(3.5)	2.1	(0.8)	(32.8)	(0.9)	10.1	11.6	16.8	19.6
Acquisitions	-	-	-	-	-	-	(17.7)	-	-
Disposals	-	-	0.0	0.0	1.0	1.0	1.0	1.0	1.0
Dividends	-	(5.0)	-	-	(2.2)	(2.7)	(3.3)	(4.4)	(5.2)
Share Buy-back	-	-	-	-	(4.7)	(3.5)	-	-	-
Rights Issue/ ipo	-	-	-	100.0	-	-	-	-	-
Other	7.4	11.5	21.5	31.6	-	-	-	-	-
Cash flow	3.9	8.6	20.7	98.8	(6.8)	4.8	(8.4)	13.5	15.3
Net fin position end of year	(17.8)	(19.3)	(20.4)	46.7	39.8	44.6	36.2	49.6	65.0

Source: Company data (A) and Intermonte SIM estimates (E)

(Eu mn)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
EBITDA adjusted	13.3	15.1	16.7	18.7	20.8	23.1	30.3	35.2	38.9
Capex	(7.5)	(10.0)	(21.9)	(31.7)	(20.1)	(10.6)	(9.7)	(10.7)	(11.4)
Delta WKC	(6.5)	0.0	8.3	(18.6)	1.7	(0.4)	(4.9)	(2.7)	(2.1)
Op.FCF	(0.7)	5.1	3.1	(31.6)	2.4	12.1	15.7	21.8	25.3
as % of Adj. EBITDA	n.m.	34%	19%	n.m.	11%	52%	52%	62%	65%
Interest&Taxes	(2.8)	(3.1)	(4.0)	(1.5)	(1.5)	(1.1)	(3.1)	(4.0)	(4.8)
Other	-	-	-	0.3	(1.8)	(1.0)	(1.0)	(1.0)	(1.0)
Equity FCF	(3.5)	2.1	(0.8)	(32.8)	(0.9)	10.1	11.6	16.8	19.6

Source: Company data (A) and Intermonte SIM estimates (E)

Fine Foods: Enhancing Reputation on ESG Themes

Fine Foods was subject to an ESG audit by Nummus.info S.p.A., a company operating in the monitoring of investment portfolios from the point of view of sustainability and active as a research centre for ethical and sustainable finance, as well as a member of the Forum for Sustainable Finance and subscriber to the United Nations Principles for Responsible Investment (UN PRI).

Nummus auditors went to Fine Foods's Zingonia-Verdellino plant in person, attended a company presentation based mainly on aspects of sustainability and ethics, and were provided with a guided tour of the entire production chain.

Based on the publicly available information on the Nummus.info website, the information obtained during the meeting with top management and on the basis of the visit to the production site, **Nummus.info S.p.A. rated Fine Foods & Pharmaceuticals NTM S.p.A. an ESG LEADER, the highest possible ranking.**

Fine Foods – ESG leading ranking according to Nummus.info



Source: Nummus.info, Fine Foods

Valuation

We use a DCF approach to value Fine Foods, restricting the comparison with peers' multiples to a mere sanity check, given the lack of significance of the peer group due to very high diversification in terms of size, level of vertical integration, geographical footprint, capital structure, and profitability.

DCF Valuation

We assume the following parameters in our DCF valuation:

- WACC at 7.3% (previously: 7.5%), which reflects a 2.0% risk-free rate (previously: 2.5%);
- Terminal growth rate of 1.5% (unchanged);
- Long-term EBITDA margin of 14.5% (previously: 14.0%),
- CapEx/sales ratio at c.4.5% (unchanged), in line with usual level of maintenance CapEx.

This yields an increased target price of Eu14.1 (from Eu13), which already reflects the share count of 24.5mn adjusted for warrant and special share conversion. At our TP, the stock would trade at 9.9x/8.1x EV/EBITDA 2021E/'22E (current prices: 6.9x/5.5x), still at a discount compared to the overall sector, but broadly in line with current Labomar multiples (9.2x/8.0x).

Fine Foods – DCF Model

(Eu mn)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
Net Revenues	176.8	215.9	237.3	254.0	268.9	281.7	293.0	302.8	310.7	316.7	322.4	327.1
YoY growth	10.7%	22.1%	9.9%	7.0%	5.9%	4.7%	4.0%	3.3%	2.6%	1.9%	1.8%	1.5%
EBITDA	23.1	30.3	35.2	38.9	40.9	42.5	44.0	45.1	46.0	46.6	47.1	47.3
% margin	13.1%	14.0%	14.8%	15.3%	15.2%	15.1%	15.0%	14.9%	14.8%	14.7%	14.6%	14.5%
D&A	(12.9)	(14.0)	(15.4)	(16.5)	(16.9)	(17.3)	(17.5)	(17.7)	(17.9)	(18.1)	(18.3)	(14.7)
EBIT	10.2	16.3	19.8	22.4	24.0	25.2	26.4	27.4	28.1	28.4	28.8	32.5
% margin	5.7%	7.5%	8.3%	8.8%	8.9%	9.0%	9.0%	9.1%	9.0%	9.0%	8.9%	10.0%
Taxes	(2.4)	(3.9)	(4.7)	(5.4)	(5.8)	(6.1)	(6.3)	(6.6)	(6.7)	(6.8)	(6.9)	(7.8)
tax rate	-24.0%	-24.0%	-24.0%	-24.0%	-24.0%	-24.0%	-24.0%	-24.0%	-24.0%	-24.0%	-24.0%	-24.0%
Change in WC	(0.4)	(4.9)	(2.7)	(2.1)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(2.2)
Capex	(10.6)	(9.7)	(10.7)	(11.4)	(12.1)	(12.7)	(13.2)	(13.6)	(14.0)	(14.3)	(14.5)	(14.7)
Unlevered FCF	9.7	11.8	17.0	19.9	19.0	19.8	20.4	20.9	21.3	21.5	21.7	22.5
TV												385.2
year	0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
Discounted WACC	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.5
Discounted Free cash flow	9.7	11.0	14.8	16.1	14.4	13.9	13.4	12.8	12.1	11.4	10.7	177.5

Discounted FCF '21E-30E	130.6
Terminal value	177.5
Total EV (with DCF)	308.0
NFP/(Debt) at YE20E	44.6
Acquisitions	(17.7)
Minorities	0.0
Treasury shares	8.9
Total EQUITY (Eu mn)	343.9
No. of shares fully diluted (mn)	24.5
Fair value (Eu/share)	14.1
current price (Eu/share)	10.75
upside/downside vs current price	30.7%

Source: Company Data (A), Intermonte estimates (E)

Fine Foods – TP Sensitivity to WACC (%) and g (%)

		g										
		1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%
WACC	6.3%	14.7	14.8	15.0	15.2	15.4	15.6	15.7	15.9	16.2	16.4	16.6
	6.5%	14.4	14.6	14.7	14.9	15.0	15.2	15.4	15.6	15.8	16.0	16.2
	6.7%	14.1	14.3	14.4	14.6	14.7	14.9	15.1	15.2	15.4	15.6	15.8
	6.9%	13.9	14.0	14.2	14.3	14.4	14.6	14.7	14.9	15.1	15.2	15.4
	7.1%	13.7	13.8	13.9	14.0	14.2	14.3	14.5	14.6	14.8	14.9	15.1
	7.3%	13.4	13.6	13.7	13.8	13.9	14.1	14.2	14.3	14.5	14.6	14.8
	7.5%	13.2	13.4	13.5	13.6	13.7	13.8	13.9	14.1	14.2	14.3	14.5
	7.7%	13.1	13.2	13.3	13.4	13.5	13.6	13.7	13.8	14.0	14.1	14.2
	7.9%	12.9	13.0	13.1	13.2	13.3	13.4	13.5	13.6	13.7	13.8	14.0
	8.1%	12.7	12.8	12.9	13.0	13.1	13.2	13.3	13.4	13.5	13.6	13.7
	8.3%	12.5	12.6	12.7	12.8	12.9	13.0	13.1	13.2	13.3	13.4	13.5

Source: Intermonte SIM estimates (E)

Peer Multiples

The reference table on the last page of this report provides a comparison with some players in the CDMO sector and/or in healthcare product manufacturing. Given the limited relevance of the peer group due to high diversification in terms of size, level of vertical integration, geographical footprint, capital structure and profitability when compared to Fine Foods, we do not take the peers multiples method into account in our valuation. **At current prices, Fine Foods trades at 6.9x/5.5x EV/adj. EBITDA'21/'22, at a discount of c.55/60% to the peer group.**

Fine Foods – Peer Multiples

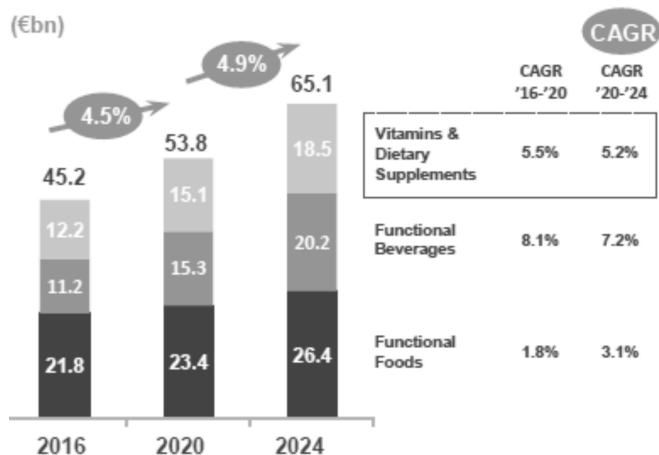
Company	Currency	Price	Mkt. Cap (Eu mn)	Abs. Perf. (%)			EV/Sales (x)			EV/EBITDA (x)			EV/EBIT (x)			Adj. P/E (x)			Div. Yield (%)		
				1m	6m	Ytd	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Fine Foods	EUR	10.8	253	-3.2%	-1.4%	-10.4%	1.1	1.0	0.8	8.6	6.9	5.5	17.9	12.8	9.9	25.1	19.2	16.0	1.3%	1.7%	2.1%
FF @TP (Outperf.)	EUR	14.1	344				1.6	1.4	1.2	12.6	9.9	8.1	26.0	18.3	14.4	34.1	26.1	21.7	1.0%	1.3%	1.6%
Catalent	USD	116.90	15,863	11.3%	49.4%	87.1%	6.9	5.7	5.1	28.6	23.0	20.0	38.6	30.4	26.8	55.0	41.6	35.9	0.0%	0.0%	0.0%
Labomar SpA	EUR	7.19	133	-4.7%	0.0%	0.0%	2.2	2.0	1.7	11.4	9.2	8.0	17.6	13.9	12.2	22.2	19.9	17.3	1.3%	1.5%	1.7%
PharmaNutra S.p.A.	EUR	38.10	369	18.3%	61.3%	2.9%	6.0	5.4	4.9	22.3	22.7	19.2	25.8	25.5	21.4	34.5	35.1	30.2	1.3%	1.4%	1.5%
Recipharm AB Class B	SEK	225.60	2,251	43.5%	88.8%	66.6%	2.8	2.6	2.4	16.2	13.8	12.2	37.8	27.3	22.6	49.1	32.7	26.2	0.7%	0.9%	1.1%
Siegfried Holding AG	CHF	629.50	2,542	-1.2%	45.9%	34.4%	3.7	3.0	2.7	22.0	17.1	14.7	35.1	26.0	21.6	41.7	31.8	27.0	0.5%	0.5%	0.6%
Strides Pharma	INR	907.25	916	18.3%	101.5%	135.9%	2.8	2.4	2.0	13.5	10.8	8.9	19.4	15.1	12.1	26.1	18.4	14.0	0.7%	0.6%	0.7%
Peer Group							3.3	2.8	2.6	19.1	15.4	13.4	30.5	25.7	21.5	38.1	32.3	26.6	0.7%	0.7%	0.9%

Source: Intermonte Estimates (E), Factset Consensus

Appendix

Focus on Key Reference Markets

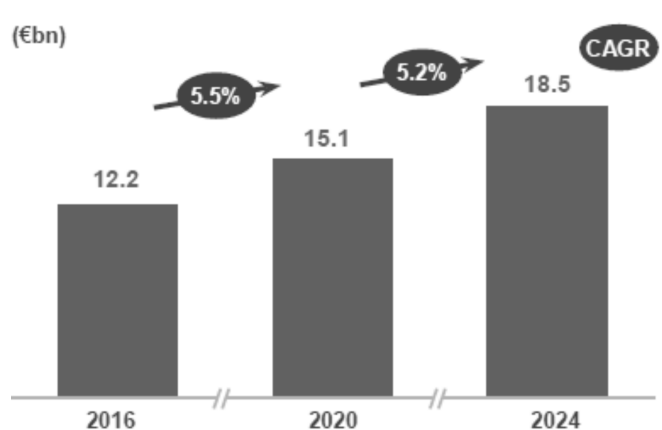
EU Pharmaceutical Market Value – € bn



The European Nutraceuticals market has shown high, steady growth, and is expected to accelerate in coming years

Source: company presentation

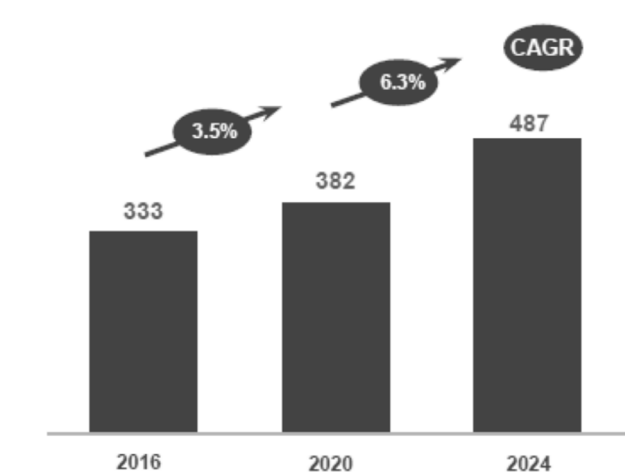
EU Pharmaceutical CDMO Market Value – € bn



The Vitamins & Dietary Supplements segment has consistently shown strong growth in the last 4 years, expected to continue in coming years. CDMO-driven development and manufacturing, mostly outsourced

Source: company presentation

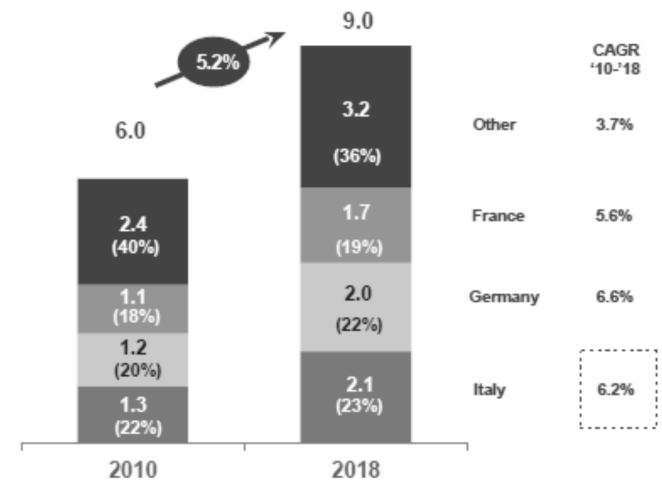
EU Pharmaceutical Market Value – € bn



The European Pharmaceuticals market has been showing consistent non-cyclical growth

Source: company presentation

EU Pharmaceutical CDMO Market Value – € bn



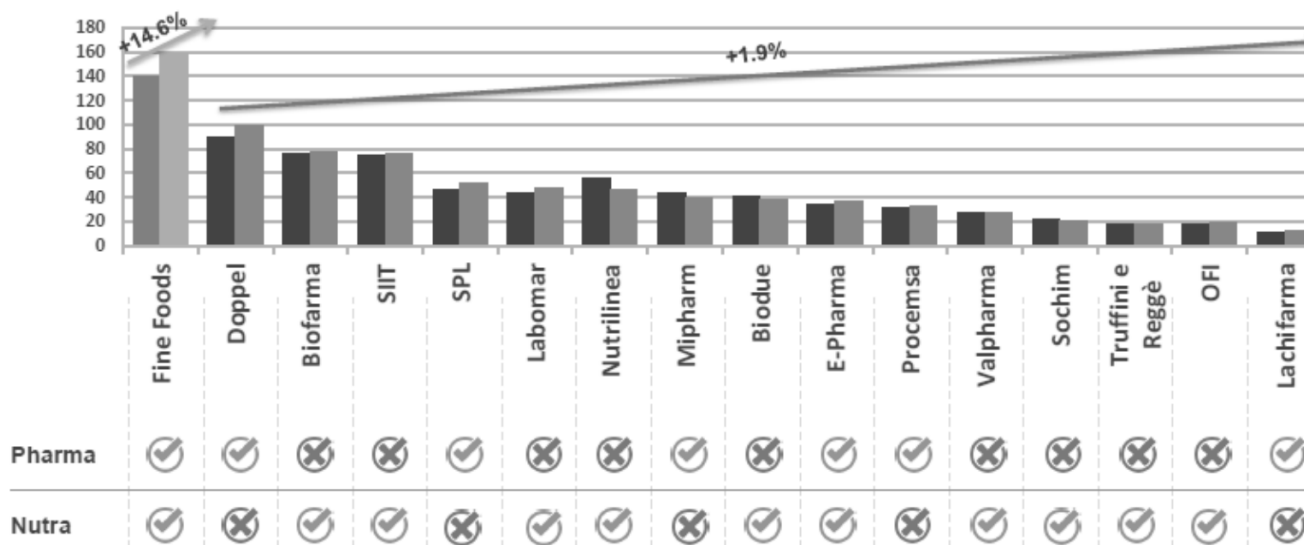
CDMO CAGR 5.2% VS PHARMA CAGR 3.5% between 2010 and 2018: Plenty of space for CDMOs to grow further along the outsourcing trend
Italy is confirmed at first place in Europe with a market share of 23%

Source: company presentation

Fine Foods – Benchmarking Analysis ITALY

- Fine Foods is the largest Italian CDMO
- Fine Foods is one of the few players active in both Pharmaceuticals and Nutraceuticals
- Fine Foods revenues increased 12.6% more than average competitors growth

SELECTED FINE FOODS' COMPETITORS AT ITALIAN LEVEL – 2019 and 2018 REVENUES (€M)



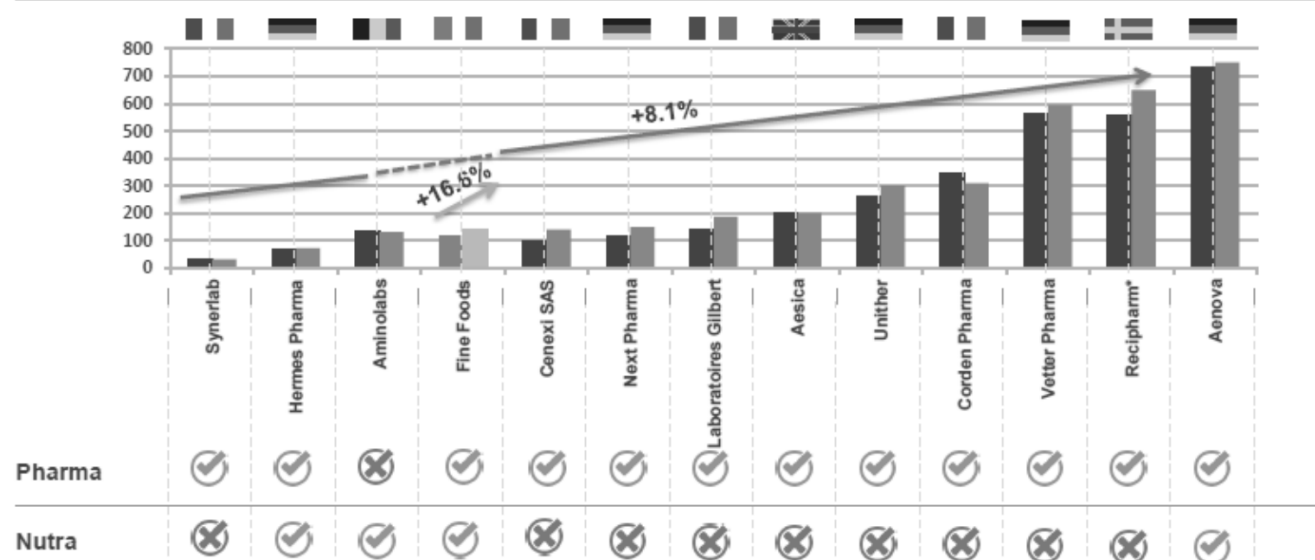
Note: Nutrilinea, Doppel, Biofarma, Nutrilinea, Mipharm, Procemsa and OFI are controlled by Private Equity Investors
Source: Management elaboration on publicly retrievable selected information

Source: Company presentation

Fine Foods – Benchmarking Analysis EUROPE

- Fine Foods' goal is to achieve premium European positioning, leveraging (i) its business mix and solid business model, and (ii) a strong financial position enabling inorganic growth
- In general, the largest European CDMOs are focused almost exclusively on Pharmaceuticals
- Fine Foods revenues increased 8.5% more than average competitors growth

SELECTED FINE FOODS' COMPETITORS AT EUROPEAN LEVEL – 2018 and 2017 REVENUES (€M)



*Listed companies
Source: Management elaboration on publicly retrievable selected information

Source: Company presentation

Appendix

Peer Group Description

Catalent

Catalent, Inc. is a holding company that engages in the provision of delivery technologies and development solutions for drugs, biologics, and consumer and animal health products. It operates through the following segments: Softgel Technologies; Biologics and Specialty Drug Delivery; Oral Drug Delivery; and Clinical Supply Services. The Softgel Technologies segment formulates, develops, and provides manufacturing services for soft capsules. The Biologics and Specialty Drug Delivery segment develops and provides manufacturing services for blow-fill-seal unit doses, prefilled syringes, vials, and cartridges; analytical development and testing services for large molecules; inhaled products for delivery via metered dose inhalers, dry powder inhalers, and intra-nasal sprays. The Oral Drug Delivery segment focuses on formulation, development and manufacturing technologies and related solutions including: clinical development and commercial manufacturing of a range of oral dose forms, including proprietary fast-dissolve Zydys tablets, and conventional immediate and controlled release tablets, capsules, and sachet products. The Clinical Supply Services segment includes packaging, labelling, storage, distribution, and inventory management for drugs and biologics in clinical trials. The company was founded in April 2007 and is headquartered at Somerset, NJ.

Labomar

Labomar is a CDMO active in Food Supplements, Medical Devices, Food markets for Special Medical Purposes, Functional Cosmetics and Non-Functional Cosmetics, falling within the broader sector of nutraceuticals. Labomar stands out for being an advanced and research-driven CDMO, as in addition to the activities that typically connote a CDMO, it is able to offer its customers control of the entire value chain (full service), starting upstream with complex internal research activities, able to propose proprietary formulas and technologies with a proactive approach to the market. Furthermore, Labomar in its own judgment guarantees high quality products and high added value. Following completion of the ImportFab Transaction, the Issuer, through the Canadian subsidiary ImportFab - CMO (Contract Manufacturing Organization), active in the production and packaging of liquid forms and semi-solid products for the pharmaceutical industry, the cosmetic industry and the nutraceutical industry - has expanded its offer portfolio and the reference geographical market. On a residual basis, the Group also provides consultancy services in R&D area and regulatory consultancy services in the United States of America and Canada through ImportFab. The Labomar Group supplies its products to companies in the pharmaceutical, nutraceutical, cosmetic and medical devices.

Recipharm

Recipharm AB engages in the manufacturing of pharmaceuticals and in contract development services for pharmaceutical companies. It operates in the following segments: Manufacturing Sterile and Inhalation (MFG-SI); Manufacturing Solids and Others (MFG-SO); Development and Technology (D&T); and Others and Eliminations. The MFG-SI segment includes manufacturing of products on behalf of pharmaceutical companies, and covers sterile and inhalation technologies as well as liquid vials and ampoules, lyophilisates, blow-fill-seal products, and inhalation. The MFG-SO segment makes products on behalf of pharmaceutical companies and covers tablets, capsules, semi-solids, and non-sterile liquids. The D&T segment focuses on pharmaceutical development services. The company was founded by Lars Rickard Backsell and Thomas Bengt Elderer in 1995 and has its headquarters in Stockholm, Sweden.

Siegfried Holding

Siegfried Holding AG engages in the development and manufacture of active pharmaceutical ingredients for pharmaceutical clients with research and development programmes, related intermediates, and controlled substances. It also provides development and production services for finished dosage forms including sterile filling. The company was founded by Samuel Benoni Siegfried in 1873 and is based in Zofingen, Switzerland.

Strides Pharma Science

Strides Pharma Science Ltd. engages in the development, manufacture and distribution of Internet Protocol-led generics and bio-pharmaceutical products. The company was founded by Arun N. Kumar on June 28, 1990 and has its headquarters in Bangalore, India.

FINE FOODS Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
FINE FOODS	10.75	EUR	253	0.0%	8.1%	-3.2%	2.4%	-12.6%	12.0%
BOIRON	36.70	EUR	643	-8.6%	-12.6%	8.4%	-11.2%	7.0%	-28.5%
CATALENT	115.50	USD	19,023	10.0%	25.0%	35.3%	11.0%	89.7%	224.3%
CLOVER CORP.	1.44	AUD	239	-7.1%	-28.7%	-35.7%	-13.5%	-46.1%	3.6%
DERMAPHARM	59.70	EUR	3,214	7.2%	37.2%	26.1%	4.8%	59.1%	159.5%
ICON	210.35	USD	11,101	8.3%	3.2%	11.5%	7.9%	19.7%	57.9%
JUBILANT LIFE SCIENCES	975.65	INR	155,403	26.2%	41.3%	43.7%	15.5%	71.6%	37.8%
LABORATORIOS FARM. R	43.30	EUR	2,399	11.9%	36.6%	35.3%	14.2%	69.1%	140.6%
LANXESS	63.86	EUR	5,514	2.0%	26.6%	33.0%	1.8%	13.3%	31.1%
PROBI	468.00	SEK	5,332	11.2%	33.7%	42.0%	10.9%	105.7%	27.5%
RECIPHARM	222.00	SEK	22,389	1.9%	42.7%	64.9%	1.2%	74.0%	114.4%
SIEGFRIED	618.00	CHF	2,566	-1.4%	-2.8%	35.6%	-5.1%	29.7%	67.9%
STRIDES PHARMA SCIENC	908.45	INR	81,429	16.7%	22.1%	112.7%	3.5%	134.9%	75.9%
Mean performance				6.0%	17.9%	31.5%	3.3%	47.3%	71.1%
Italy FTSE Mib	22,381.4	EUR		1.8%	15.4%	9.6%	0.7%	-7.3%	13.6%

Source: FactSet

FINE FOODS Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales 2021	EV/Sales 2022	EV/Ebitda 2021	EV/Ebitda 2022	EV/Ebit 2021	EV/Ebit 2022	P/E 2021	P/E 2022	Div Yield 2021	Div Yield 2022
FINE FOODS	10.75	EUR	253	1.0	0.8	6.9	5.5	12.8	9.9	19.1	15.9	1.7%	2.1%
BOIRON	36.70	EUR	643	0.8	0.8	4.0	3.5	6.4	5.2	17.5	14.8	2.4%	3.3%
CATALENT	115.50	USD	19,023	5.6	5.1	22.7	19.8	30.6	26.4	44.9	38.5	0.0%	0.0%
CLOVER CORP.	1.44	AUD	239	3.1	2.4	15.5	11.3	16.1	11.7	22.7	16.7	1.6%	2.2%
DERMAPHARM	59.70	EUR	3,214	4.1	3.8	15.6	13.9	19.5	17.1	24.6	21.8	2.1%	2.3%
ICON	210.35	USD	11,101	3.3	3.0	18.9	16.8	21.6	19.0	26.5	23.5	0.0%	0.0%
JUBILANT LIFE SCIENCES	975.65	INR	155,403	1.7	1.5	7.8	6.8	10.3	8.9	13.4	11.8	0.5%	0.6%
LABORATORIOS FARM. R	43.30	EUR	2,399	4.9	4.1	24.1	18.1	29.3	21.1	33.1	25.1	0.7%	1.0%
LANXESS	63.86	EUR	5,514	1.1	1.0	7.2	6.7	13.7	12.2	16.7	14.3	1.7%	1.9%
PROBI	468.00	SEK	5,332	6.7	6.0	23.4	20.7	34.6	29.2	45.2	38.7	0.5%	0.5%
RECIPHARM	222.00	SEK	22,389	2.6	2.4	13.6	12.1	27.0	22.4	31.5	25.2	0.9%	1.1%
SIEGFRIED	618.00	CHF	2,566	2.9	2.6	16.3	14.1	24.4	20.6	27.7	23.8	0.5%	0.5%
STRIDES PHARMA SCIENC	908.45	INR	81,429	2.4	2.0	10.9	9.0	15.4	12.5	19.1	14.5	0.6%	0.7%
Median				3.0	2.5	15.6	13.0	20.6	18.0	25.6	22.7	0.6%	0.9%

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

FINE FOODS - Estimates Comparison with Consensus

(Eu mn)	2021			2022		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	215.9	215.6	0.1%	237.3	243.0	-2.3%
Ebitda	30.3	31.1	-2.6%	35.2	36.4	-3.3%
Net Profit	13.2	14.4	-8.4%	15.8	18.2	-13.2%
EPS	0.562	0.611	-8.0%	0.674	0.773	-12.7%
Net Debt	36.2	46.8	-22.7%	49.6	59.8	-17.0%

Source: Intermonte SIM estimates and Factset consensus estimates

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	FINE FOODS		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	14.10	Previous Target (Eu):	13.00
Current Price (Eu):	10.75	Previous Price (Eu):	10.40
Date of report:	19/01/2021	Date of last report:	02/10/2020

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsworld.

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Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and - 10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	10.57 %
OUTPERFORM:	50.41 %
NEUTRAL:	34.95 %
UNDERPERFORM	04.07 %
SELL:	00.00 %

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BUY:	18.37 %
OUTPERFORM:	55.10 %
NEUTRAL:	26.53 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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IKF	0.57	SHORT
LIFE CARE CAPITAL	0.59	LONG
OLIDATA	0.74	SHORT

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