

Euro Cosmetic: everyone's beauty routine



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The perfect industrial partner in the Personal Care industry

Euro Cosmetic is the perfect industrial partner for all private labels, multinational brands and pharmaceutical companies that seek to project and manufacture on an industrial scale any kind of personal care product, except for the make-up. The long list of Euro Cosmetic's products includes toothpastes, detergents, sanitizing gels, creams and perfumes, among others, for which the Company offers the wide range of services, starting from engineering and formulating active ingredients to the delivery of final product. This high range of both products and services offered has allowed the Company to ensure high flexibility to all its clients and therefore to constantly expand its customer portfolio. The Company stands out for its quality and innovation: quality is guaranteed by several national and international certifications – such as Cosmos Organic and the Italian PMC, among others, –, while innovation is reflected in its 4.0 production plants as well as in its R&D and product development activities.

A solid Company with a resilient business model

In 2007-2019 Euro Cosmetic's Value of Production grew at a 14% CAGR, experiencing strong growth rates even during the 2008-2009 financial crisis, thanks to the resilient and defensive nature of its reference industry and to the wide range of first necessity products that Euro Cosmetic produces. A big chunk of Euro Cosmetic's growth is attributable to the current ownership of the Company, which took office in 2011, when Daniela Maffoni, the current CEO, and Carlo Ravasio, the current Chairman, acquired 76.8% of the Company's shares; since then, the VoP has increased by 75% to €22.6m in 2019, thanks to both the capture of new customers and the successful investments made in the expansion of the production plant.

A quick look at the year just ended and at the current one

The economic consequences of the crisis triggered by Covid-19 has had very limited impact on the Company's business, mainly thanks to its ability to take up opportunities from increasing demand for sanitizing products. For the FY2020, according to the freshly released Company's guidance, VoP is forecast to reach €27.4m, +21% yoy, and EBITDA margin is expected to improve from 12% to about 17.5%, while for the current fiscal year VoP is estimated at €29.0m (+5.8% yoy) with EBITDA margin at 17.6%.

Strategic development and our 2021E-2023E estimates

FY2021 Company's guidance is based on a strategic plan consisting of the following four pillars: i) extending the production plant by 5,000 square meters, to reach a total surface of 21,500 sqm, ii) launching a niche skincare line products to be sold online, and intended for the retail market, iii) expanding the product range thanks to continuous investments in R&D, and iv) acquiring new customers thanks to the increase in production capacity. In addition to financing the aforementioned expansion of the production site (estimated investment of €4.6m) and launch of the new line of skin care products (estimated expenses of €0.7m), the net IPO proceeds, worth €7.2m, are going to be used to finance M&A opportunities aimed at strengthening the market positioning within the pharmaceutical sector. According to our stand-alone 2021E-2023E estimates, VoP is expected to increase at a 2019-2023E CAGR of 9% to over €32m in 2023, while the EBITDA is estimated just below €6m in 2023, with margin improving from 12% in 2019 to 18% in 2023. We project cumulated 2021E-2023E FCFs at €7.6m or a yearly average of €1.9m, including €3.9m of cumulated capex and €2.6m of NOWC needs. The main risks to our estimates are linked to i) the concentration of revenue per customer (in 2019, 27% of revenue was generated only from one customer) and ii) a potential unexpected decline in demand.

Valuation: 12-month Target Price at €10.7; BUY

We initiate our coverage with a BUY recommendation and a target price of €10.7 as the average of DCF and relative market multiple valuations, implying a significant potential upside on current stock price. Through cumulated cash flows of €7.6m and a Terminal Value FCF of €2.5m, we get to an Enterprise Value of €46.4m and to an Equity Value of €52.2m, which led us to a Fair Value of €11.0/share. Our relative valuation based on the average 2021E-2022E EV/EBITDA multiple (10.8x), led to an Equity Value of €49.9m or €10.5/share, already including a 15% liquidity discount.

Target Price (€) **10.7**

Recommendation **BUY**

Price as of January 21, 2021 6.4

Number of shares (mln) 4.8

Market capitalization (€, mln) 30.5

Performance **from IPO**

Absolute +2%

Max / Min 7.0/5.8

Average daily volumes 9,472

(€mln)	2019	2020E	2021E	2022E
Value of Production	22.6	27.4	28.9	30.6
yoy change (%)	17%	21%	6%	6%
EBITDA	2.8	4.8	4.9	5.4
margin (%)	12%	17%	17%	18%
EBIT	1.4	3.4	3.5	3.7
margin (%)	6%	13%	12%	12%
Net income	1.0	2.5	2.9	2.6
margin (%)	4%	9%	10%	9%
Net Debt/(cash)	3.7	(5.7)	(6.3)	(8.4)
Shareholders' Equity	6.4	15.8	18.1	20.2
Capex	1.2	0.9	2.0	1.0
Free Cash Flow	2.8	2.4	1.5	2.7

Source: Banca Profilo estimates and elaborations, Company data.

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Executive summary

Euro Cosmetic in a nutshell

From Trezzano to Palazzo Mezzanotte

Euro Cosmetic was founded in Tortona in 2002 and then relocated to Trezzano (Brescia) in 2007; in 2011, the current CEO, Daniela Maffoni, and Chairman, Carlo Ravasio, acquired 76.8% of the Company's shares, becoming major shareholders; since then, the Value of Production has increased by 75%, from €12.6mIn to €22.6mIn in 2019, and the factory has been expanded by 13,500 square meters, to reach the current surface of 16,500 sqm. In 2017, Mrs. Maffoni and Mr. Ravasio took over the remaining shares of the Company and in 2020 started the IPO process on the AIM Italia market, to enhance Euro Cosmetic's business and its brand, and to take the Company to the next level.

Euro Cosmetic's wide product range: from cleansers to skin care products

Euro Cosmetic brands itself as the ideal industrial partner which, on behalf of third parties, projects, develops and industrializes a wide range of beauty & personal care products, with the only exception of make-up. Euro Cosmetic's products fall into four main categories:

- cleansers and detergents (~39% of FY19 revenue), including shower gels, soaps, hand sanitizers and shampoos;
- oral hygiene products (~35%), like toothpastes and mouthwashes;
- fragrances (~15%), such as *eau de parfum*, after-shaves and deodorants;
- skin care products (~10%), like lotions, toners, creams, and sunscreens.

Production flexibility which allows the Company to satisfy different customers' needs

Thanks to its high flexible production system, Euro Cosmetic offers the wide range of services for each of its product category, starting from engineering and formulating active ingredients, to mixing, filling and labeling, to the delivery of the final products. The Company is thus able to satisfy different customers' needs, such as:

- private labels of large retail store chains (~43% of FY19 revenue);
- industrial companies, both large multinational and small and medium-sized companies with their own brands (~28%);
- cosmetic companies specializing in high quality products intended for beauty salons, hair salons and hotels (~25%);
- pharmaceutical companies (~4%).

A consolidated, resilient and quality business

The diversification both by product category and by type of client is a main competitive advantage of the Company, and other strengths can be added to this: a proven business model, long-lasting relationship with its customers, and a resilient business which can guarantee stability even during periods of economic crisis, thanks to the wide range of the first necessity products offered. Moreover, Euro Cosmetic is characterized by quality and innovation, the first being guaranteed by several national and international certifications, while the second is reflected in a 4.0 production plants as well as in R&D investments and product development activities.

R&D is key to product innovation

R&D activities are at the basis of the Beauty & Personal Care industry, as they are essential to match or anticipate new consumer needs, who requires every time more quality products. To be always in line with new market trends and new industry regulations, Euro Cosmetic's R&D activities are based on two cornerstones:

- the implementation of the most up-to-date European and international legislations, even soft law rules;
- a non-stop research and development, which allows the Company to have a range of already tested and ready-to-use formulas.

Main Financial data and estimates (2021E-2023E)

14% VoP CAGR in 2007-2019

Since the relocation to Trezano (2007), Euro Cosmetic's Value of Production has grown at a 14% CAGR, to reach €22.6mln in 2019, experiencing strong growth rates even during the 2008-2009 financial crisis. The historical double-digit growth rate is attributable to three main growth drivers: i) the constant capture of new customers, including major multinationals and large retailers with their own private labels, ii) the scale up of production capacity following the expansion of the production plant in 2015, and iii) the penetration into new markets.

2019, the year of redemption:

- VoP at €22.6mln, +17% yoy
- EBITDA margin up 180bps to 12.4%

After two years of stalemate, Euro Cosmetic returned to growth in 2019, due to the strengthening of its competitive positioning both on the pharmaceutical sector and in quality products intended for hotels and beauty salons; the Value of Production reached €22.7mln in 2019, which made an increase of 17% yoy, and the EBITDA margin on VoP improved by 180 basis points to 12.4%, thanks to: i) optimization of raw materials purchases, ii) increase in minimum batches for skincare products, and iii) higher focus on high margins products and sectors.

FY2020 guidance:

- VoP at €27.4mln, +21% yoy
- EBITDA margin up more than 500bps to 17.5%

The consequences of the crisis triggered by Covid-19 has had a little to none impact on Euro Cosmetic's business, not only thanks to the essentiality of its daily care products, but also thanks to the Company's ability to take on opportunities generated by the sudden change in consumers' habits: the need to frequently wash or sanitize hands has generated a strong demand in sanitizers and cleansers, an opportunity that Euro Cosmetic has seized by formulating a hand sanitizer that sold more than 4.5mln pieces between February and June, with 6M20 related revenues of about €3.6mln. After having recorded 9M finished products revenue of €20.9mln, +26.7% yoy, according to the guidance published on January 14, the Company expects FY20 revenue from finished products of €26.8mln, +22% yoy, and VoP of €27.4mln, +21% yoy, with EBITDA margin on VoP improving from 12.4% in 2019 to about 17.5%.

IPO Proceeds (€7.2mln) are going to be used to:

- enlarge the production plant
- enter the BTC market
- finance potential M&As.

For the next years, Euro Cosmetic is set to expand its business further, through both organic and external growth. As for organic growth, the Company's development and growth plan is based on the following four pillars:

- i) enlargement of the production plant by 5,000 square meters, to reach a total surface of 21,500 sqm (estimated investment of about €4.6mln, of which €900k will be invested in 2021 and the rest will be spread over a period of twelve years);
- ii) launch of a niche skincare line products to be sold online, directly to the final customer (estimated total expenses of €0.7mln, to be invested over the next two years, including an advertising partnership for the launch of the product with The Blonde Salad agency);
- iii) expansion of the product range thanks to continuous investments in R&D and the freshly obtained PMC certification (the certification of the Italian "Presidio Medico Chirurgico", a specific category of medical devices such as disinfectants, insecticides and insect repellents);
- iv) capture of new customers, thanks both to the increase in production capacity and the strengthening of Euro Cosmetic brand following the IPO.

Based on this growth plan, the Company has given the following guidance for the FY2021: finished products revenue of €28.7mln, +7.1% yoy, VoP of €29.0mln, +5.8% yoy, EBITDA margin on VoP of 17.6%, EBIT margin of 12.4%, and capex of about €2mln. Moreover, the Company intends to grow also by external lines, and some of the net IPO proceeds, worth €7.2mln, are going to be used to finance M&A opportunities aimed at strengthening its market share on the pharmaceutical sector. According to our stand-alone 2021E-2023E estimates, VoP is expected to continue increasing, at a 9% 2019-2023E CAGR to over €32mln in 2023, while the EBITDA is expected just below €6mln in 2023, with margin on VoP improving from 12.4% in 2019 to about 18% in 2023. Excluding the 2020 revenue surge, we believe sustainable growth is to be about 6% over the next three years.

Valuation: DCF and market multiples approach

DCF assumptions:

- €7.6mIn of cumulated FCFs
- €2.5mIn as Terminal Value cash flow
- 7.1% WACC

Given Euro Cosmetic's cash generating business model, a DCF method well adapts as a valuation approach. To run a DCF model, we used our projections of FCF for the 2021E-23E explicit period: cumulated cash flows of €7.6mIn, a Terminal Value FCF of €2.5mIn, a perpetual growth rate of 2% and a WACC of 7.1%. In order to get to the Equity Valuation we considered the estimated Net Financial Position as of the end of 2019, equal to -€5.7mIn (cash). The DCF method leads us to an Enterprise Value of €46.4mIn and an Equity Value of €52.2mIn, equal to a Fair Value of €11.0 per share.

Relative market multiples approach: EV/EBITDA 2021E-2022E of 10.8x

In order to assess a relative valuation of Euro Cosmetic through the market multiples approach, we selected a sample of listed international companies specialized in the production and distribution of cosmetic products: Sarantis, L'Occitane, PZ Cussons, Colgate-Palmolive, Beiersdorf, Johnson & Johnson and L'Oreal. Among these, we have narrowed the sample to the first three, as they are better comparable to Euro Cosmetic in terms of business, dimension and product comparability. Our best sample shows an average 2021E-2022E EV/EBITDA of 10.8x, which led to an Equity Value of €49.9mIn, equal to €10.5 per share.

12-month TP equal to €10.7; BUY

We then set our Target Price at €10.7/share, computed as a simple average between the Fair Value from DCF and the result of the relative valuation, implying a potential upside higher than 60% as of market close on January 21. We initiate our coverage with a BUY recommendation.

Key risks

Main identified risks:

The main risks to our estimates are linked to: i) the concentration of revenue per customer, ii) a potential decline in demand, iii) a potential loss of competitiveness, iv) a potential products' defects, v) a potential loss of qualified personnel essential for the success of the business; vi) a potential appreciation of raw materials and vii) the family-oriented ownership model.

Risk related to the concentration of revenue per customer:

- medium-low likelihood
- high impact

The risk we have evaluated to have the highest potential impact on Euro Cosmetic's business and financials, is the one related to the concentration of revenue per customer. In 2019, 27% of revenue was generated only from one customer, while the top 10 clients represented more than 90% of total revenue. This risk is partially offset by the strong stability and duration that the Company has historically been showing in customer relations. Moreover, one of the main growth strategies of the Company is the expansion of the customer portfolio and consequently the reduction in the dependence of revenues on individual customers. We evaluate this risk with a medium-low likelihood of that occurring but with a high potential impact on the business.

Risk related to the decline in demand:

- medium-low likelihood
- medium impact

The business of Euro Cosmetic, like any other company, is exposed to the potential risk of contraction in demand deriving from: a reduction in the activity of the main customers, worsening of macroeconomic conditions, or a potential exogenous event. This risk is partially offset by the essential nature of Euro Cosmetic's business, thanks to the wide range of first necessity products offered. With regard to the potential impact on our 2021E-2023E estimates, the major risk is associated to a possible overestimation of revenue coming from the "professional" sector, which, in case of new strict lockdown measures, could be one of most affected sectors. We evaluate this risk with a medium-low likelihood of that occurring and a medium potential impact on the business.

SWOT analysis

STRENGTHS

- Long-lasting client relationship
- Resilience of Euro Cosmetic's reference industry and business
- Product certification and 4.0 production plant as barriers to entry
- Production flexibility in terms of quantity, timing and customization
- R&D activities releasing a consistent range of already tested and ready to use formulas

WEAKNESSES

- Net working capital cash absorption
- High revenue concentration by client company

OPPORTUNITIES

- Expansion in the B2C market through the launch of a proprietary branded skincare line products
- Increasing demand for cleansers and sanitizing products after Covid-19 outbreak
- Market positioning strengthening within the pharmaceutical sector thanks to the freshly obtained PMC certification
- Diversification of the product range and increase in turnover through potential M&A

THREATS

- High level of competition and market saturation in the Personal Care industry
- Risk of cannibalization of a product line by the giants of the sector

The reference market

The Global Beauty & Personal Care market

Main types of beauty & personal care products

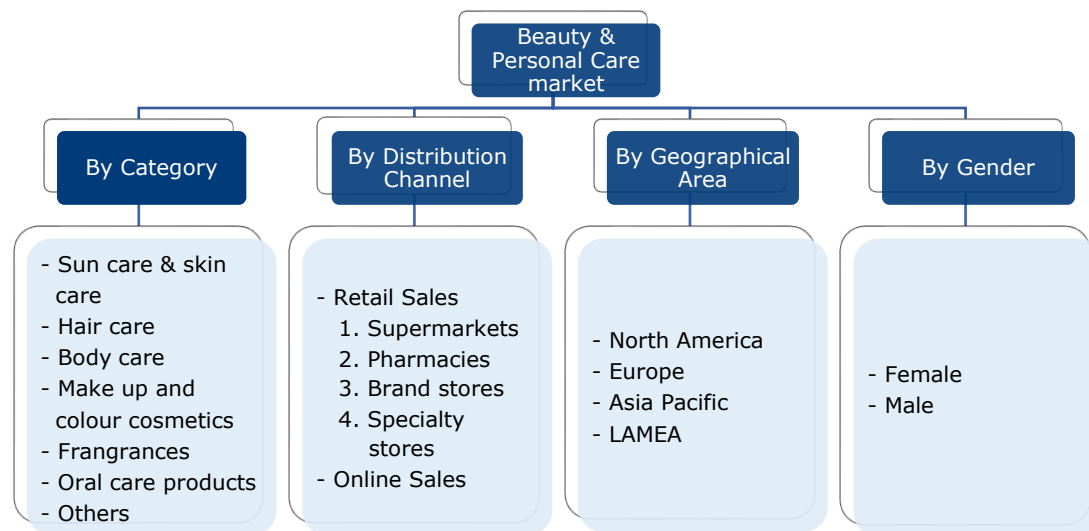
Global Beauty & Personal Care is Euro Cosmetic’s main reference market. Personal care products are consumer goods used to enhance the appearance or odor of the human body, such as skin care products, hair care products, deodorants, makeup, fragrances and oral care products. Euro Cosmetic’s revenues by product, at the end of 2019, were broken down as follows:

- 39% in cleansers and detergents (shampoo, soap, shower gel, sanitizers, intimate wash, etc.),
- 35% in oral care products (toothpaste, mouthwash, breath spray),
- 15% in fragrances (scented waters, perfumes, deodorants, etc.), and
- 10% in skincare & lotions (body lotions, sun creams, toners, scrubs, etc.).

Global Beauty & Personal Care market: over \$505bn in 2019

In 2019, Global Beauty & Personal Care market was worth \$505bn and, thanks to its resilience and defensive nature, it is expected to decrease by 4% only in 2020, to \$497bn, to then grow at a 5% CAGR from 2020 to 2023. Regarding the geographical breakdown, the most valuable market is the United States, with 2019 estimated revenues at \$80bn, but, from a regional point of view, Asia Pacific occupies the largest share of the market, with only China and Japan together having a market share of around \$95bn. Europe was worth €79bn at retail sales price in 2019, with Italy, Euro Cosmetic’s main reference market, accounting for about €12bn. Regarding distribution channels, cosmetics are sold through various networks, from luxury spas and saloons to online and television shopping; however, main distribution channels are supermarkets, specialty stores, perfumeries, pharmacies and exclusive brand outlets, with online channels also gaining popularity among consumers.

Figure 1: Beauty & Personal Care market’s main segmentations



Source: Allied Market Research

Beauty & Personal Care value-chain

The Beauty & Personal Care Industry value chain comprises:

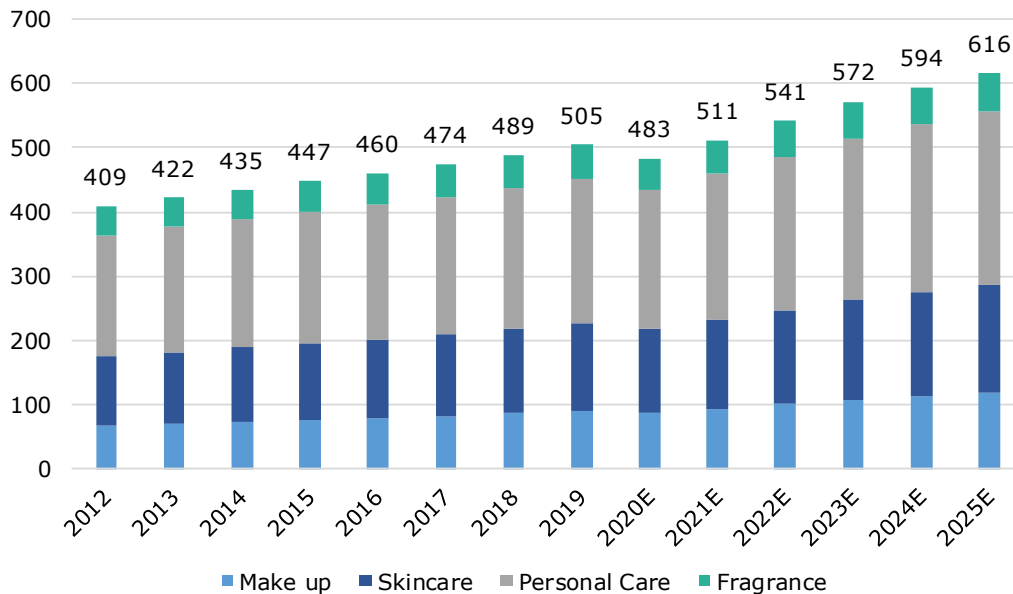
1. Raw materials suppliers to cosmetic and personal care manufacturers, which procure products ranging from active ingredients to packaging,
2. Manufacturers, which industrialize product formulations,
3. Distribution, wholesale and logistics companies that deal with transport and warehousing,
4. Beauty retailers, such as salons, department stores, online stores and pharmacies, and
5. Consumers, those who represent the final link in the value chain.

Euro Cosmetic, being a manufacturing company covering all stages of the production cycle, from R&D activities to the delivery of the final product, belongs to the second phase of the value chain and, partially, to the third one.

R&D is key to product innovation

The constant research for product innovation stands among the key feature of this sector, therefore, expenses in research and development are typically relevant. On average, cosmetic companies spend about 3.5% of their annual turnover on R&D, a figure that, on the total value of the market's value in 2019, would be equal to \$18bn. R&D is also a key driver for Euro Cosmetic which invests on average between 1% and 2% of its turnover to develop a wide set of formulas that can be used both to create new products and to renew existing ones. R&D expenses include the cost of related specialized personnel, the costs for chemical-physical and microbiological tests and the cost of product certifications, among others.

Figure 2: Beauty & Personal Care market's revenue, 2012-2023E (\$, bn)



Source: Statista

2020E-2025E: global revenue at €616bn in 2025, +5% CAGR

Revenue in the Beauty & Personal Care market are expected to decrease by 4% only in 2020, to then grow at a 5% CAGR thereafter (2020E-2025E), thanks to different structural growth drivers. People have been using cosmetics for thousands of years, but, over the years, the usage frequency has increased considerably and it is expected to continue to do so, as people increasingly use this type of products to protect their health, enhance their well-being and boost their self-esteem. In addition to the standard of living improvement and the surge in health awareness and beauty concerns, the launch of innovative products and the increasing use of digital channels have been creating new opportunities. In particular, main market trends are expected to be: i) a greater consumer attention to natural or organic products, and ii) the use, by manufacturers and retailers, of new communication channels to create new marketing strategies for customers engagement, especially among younger consumers.

The persisting search for BIO

Within the Beauty & Personal Care market, consumers are increasingly focused on product effectiveness and ingredients rather than on price, and a win in the fight over product superiority comes from the marketing use of the words "natural" and "organic". Fear over chemicals potential damages to skin and the environment has fueled the consumers' switch to organic and natural alternatives, but since the EU and FDA still have no legal definition of natural for beauty products, brands can greenwash with little regulation. However, thanks to several national and international standards and certifications, the attention that consumers place in reading the labels and understanding the ingredients is growing over time, and this raises the opportunities for manufacturing companies to create innovative products that are increasingly in line with the new standards required by consumers. Turning to numbers, the global natural cosmetics market size is expected to reach a value of \$48bn by 2025, growing at a CAGR of 5% from 2019 to 2025. On this aspect, Euro Cosmetic has integrated various disciplines related to the organic world into its production standards and has obtained two of the

most important international certifications that certify the product as organic and BIO, Cosmos Organic and Cosmos Natural.

The power of social media marketing

Social media marketing across Instagram, YouTube, Snapchat and Facebook represent the new way to introduce new products to younger generations. What used to be walking through malls with associates applying makeup samples for free, is now replaced by bloggers and influencers doing social media tutorials that demonstrate the use of the product, the final yield, and what they think about it. An example that perfectly explains the powerful of these instruments is the business case of Kylie Cosmetics: Kylie Jenner, by posting YouTube videos of her makeup routines and sharing her looks on social media, had positioned herself as a leading voice in the beauty world: so, when she founded the Kylie Cosmetics line, the lip-kits sold out in less than a minute, and the company was valued at \$1.2bn at the time Coty acquired 51% of the shares (estimated EV/Sales of about 6x). The growth in popularity and effectiveness of influence marketing has gone hand in hand with a growth in online sales, and has reached its peak during the pandemic. On the heels, Euro Cosmetic is almost ready to launch its brand new niche skincare line products, to be sold directly to the final consumer through online channel; thanks to this new line of products, the Company will officially enter the B2C market, with its own brand and its own e-commerce platform. To promote the product launch, Euro Cosmetic has signed a partnership with The Blonde Salad, the digital publishing and marketing Company founded and directed by Chiara Ferragni.

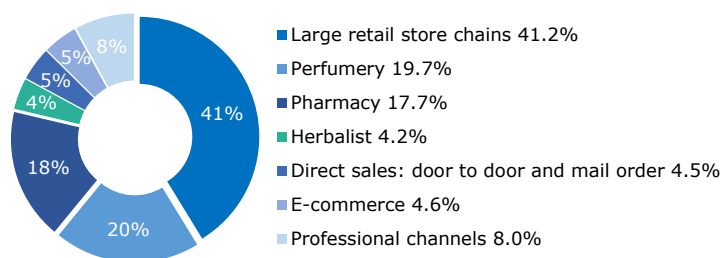
Focus on the Italian Market

The Italian cosmetics market was worth \$12bn in 2019

In 2019, the Italian cosmetics industry was worth €12bn, showing a 1.5% growth on 2018, and is estimated to reach €16.1bn in 2023. If we consider the value of the demand for cosmetics in Italy, total consumption stood at €10.5bn at the end of 2019, showing an annual growth of 2.2%. Analyzing consumption breakdown by distribution channels, Italians shop cosmetic mainly at large retailers (41%), such as hypermarkets and supermarkets, while to a much lesser extent, Italians buy cosmetics at perfumeries (19.7%) and pharmacies (17.8%); all the other distribution channels record an incidence of total consumption of less than 10% as of the end of 2019.

Consumption by distribution channel: >40% in large-scale DOS

Figure 3: Italian cosmetic consumptions' breakdown by distribution channel (%)



Source: Cosmetica Italiana

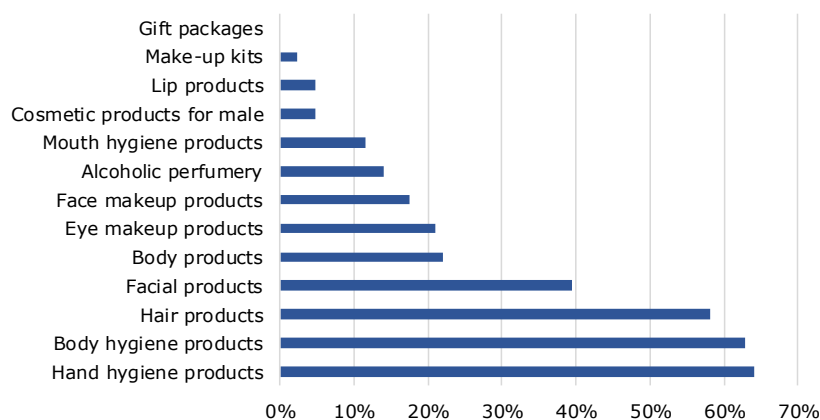
*Covid-19 has increased Italians usage of hand cleansers
Detergents will stand out in Euro Cosmetic's turnover*

As a result of the significant changes in consumers' habits during the pandemic, we expect Euro Cosmetic's revenue breakdown to have changed significantly in 2020, concerning both distribution channel and product category. According to a survey carried out by Cosmetica Italia (February-June 2020), two specific trends emerged during the first 6 months of the year:

- regarding product categories, hand products have experienced a surge in sales, with more than 60% of Italians who declared to have purchased this type of product;
- regarding distribution channels, only e-commerce grew (+40% yoy), while the most penalized stores were professional salons (-47% yoy), herbalists (-40% yoy) and perfumeries (-38.5% yoy).

Consequently, we expect that the impact on Euro Cosmetic's total turnover will undergo significant changes during 2020, for which we expect detergency products to stand out, as well as revenues from the pharmaceutical sector.

Figure 4: The most purchased products by Italians from February to June



Source: Cosmetica Italiana

Note: Percentage values on multiple answers (participants could select up to four options)

Euro Cosmetic competitive arena: strategic positioning

Euro Cosmetic's selected competitors: Sarantis, L'Occitane, PZ Cussons, Colgate-Palmolive, Beiersdorf, Johnson & Johnson and L'Oreal.

There are not listed companies that can be considered as "perfectly comparable" to Euro Cosmetic, mainly due to relevant differences concerning the business model and the dimension of the company. Starting from a wide list of Personal Care listed companies, we conducted a comparative analysis based on four main macro-categories: business model, product categories, competitiveness of the brand in Italy and dimension of the company; based on the results obtained, we selected the following seven listed companies as "comparables": Sarantis, L'Occitane, PZ Cussons, Colgate-Palmolive, Beiersdorf, Johnson & Johnson and L'Oreal.

Figure 5: Euro Cosmetic's competitive arena

Competitive Arena					Field of analysis			
#	Score	Company	# of times Euro Cosmetic's revenue	Country	Business model	Product categories	Competitiveness of the brand in Italy	Dimension
1	75%	Sarantis SA	17	Greece	x	x		x
2	66%	L'Occitane International SA	65	Luxembourg		x	x	
3	62%	PZ Cussons PLC	31	UK	x	x		x
4	54%	Colgate-Palmolive Co	638	US		x	x	
5	49%	Beiersdorf AG	348	Germany		x	x	
6	47%	Johnson & Johnson	3336	US		x	x	
7	44%	L'Oreal SA	1360	France		x	x	

Source: Banca Profilo elaborations on Company data

Note: Data are at the end of 2019 and, if not available, at the end of 2018.

The "X" means "comparability indicator equal to or higher than 50%".

Sarantis (GR), FY19
€348mln revenue
13% EBITDA margin

Sarantis (Greece) is a manufacturer and distributor of consumer products, mainly fragrances and cosmetics. The company produces aftershave lotions and deodorants (for brands such as Adidas and C-THRU); household products, like food packaging, cleaning and shoe care products (under the brands Sanitas and Camel) and health and care products, which mainly comprise vitamins and food supplements. The company has also set up joint-ventures and strategic alliances with international companies in the cosmetics, health and beauty sectors, such as Estee Lauder, Kolastyna, Domet, Topstar and Clinique, for exclusive distribution of their products in Greece and Eastern Europe.

*L'Occitane
International (FR),
FY19 €1.4bn revenue
15% EBITDA margin*

L'Occitane International (Switzerland) is active in the production and sale of cosmetics and well-being products based on natural and organic ingredients sourced principally from or near Provence. The Company operates through three segments: i) Sell-out segment, which sells directly to final customers through a retail distribution and on-line, ii) Sell-in segment, which sells to intermediates, including distributors, wholesalers, television show channels and travel retailers, and iii) Business to Business segment, which sells its products to airline companies and hotels which provide the products as free amenities to final customers. Its brands include L'Occitane en Provence, Melvita, Le Couvent des Minimes, Erborian and L'Occitane en Bresil.

*PZ Cussons (UK), FY19
€774mln revenue
14% EBITDA margin*

PZ Cussons (UK) is a consumer products company focused on the manufacturing and distribution of soaps, detergents, toiletries, beauty products, pharmaceuticals, edible oils, fats and spreads, and nutritional products. Its oral and personal care products are sold under the following brands: Carex, Charles Worthington, Cussons Baby, Fudge, Fudge Urban, Imperial Leather, Premier, Mum & Me, Original Source, Sanctuary Spa, St. Tropez and Robb. While the company sells some internationally recognized brands, the majority of its products are branded and marketed for the numerous local markets it serves.

*Colgate-Palmolive
(US), FY19
\$15.7bn revenue
27% EBITDA margin*

Colgate-Palmolive (US) is a consumer products company which operates in two product segments: Oral, Personal and Home Care, and Pet Nutrition. Within the first division, company's products include toothpaste, toothbrushes, shampoos, deodorants, bar and liquid soaps, dishwashing liquid, marketed under several brands among which Colgate Total, Palmolive, Protex and Softsoap. The Company also manufactures and markets a range of pet nutrition products for dogs and cats through its Hill's Pet Nutrition segment. The company operates and sells on a global scale.

*Beiersdorf (DE), FY19
€7.2bn revenue
18% EBITDA margin*

Beiersdorf (Germany) is a manufacturer of chemical consumer goods, with a focus on personal products and cosmetics. The company operates through two business segments: Consumer and Tesa. The Consumer business segment provides skin and beauty care products, such as all-purpose skin creams, face, body and hand creams, lip care sticks, deodorants, soaps, shampoos, adhesive and other bandages, among others. The brand portfolio includes NIVEA, Eucerin and La Prairie, which constitute the company's core brands, as well as regional and local brands, such as Hansaplast, Labello, Florena and Hidrofugal, among others. The Tesa business segment is involved in developing, manufacturing and marketing self-adhesive products. The company has a worldwide presence with over 150 subsidiaries.

*Johnson & Johnson
(US), FY19
\$81.4bn revenue
37% EBITDA margin*

Johnson & Johnson (USA) researches, develops, manufactures and sales a range of products in the healthcare field. It operates through three business units: Consumer, Pharmaceutical and Medical Devices. Its primary focus is products related to human health and well-being, such as baby care, oral care, skin care and over-the-counter pharmaceutical products. Pharmaceutical is focused on five therapeutic areas and Medical Devices includes a range of products used in the orthopaedic, surgery, cardiovascular, diabetes care and vision care fields.

*L'Oreal (FR), FY19
\$26.7bn revenue
23% EBITDA margin*

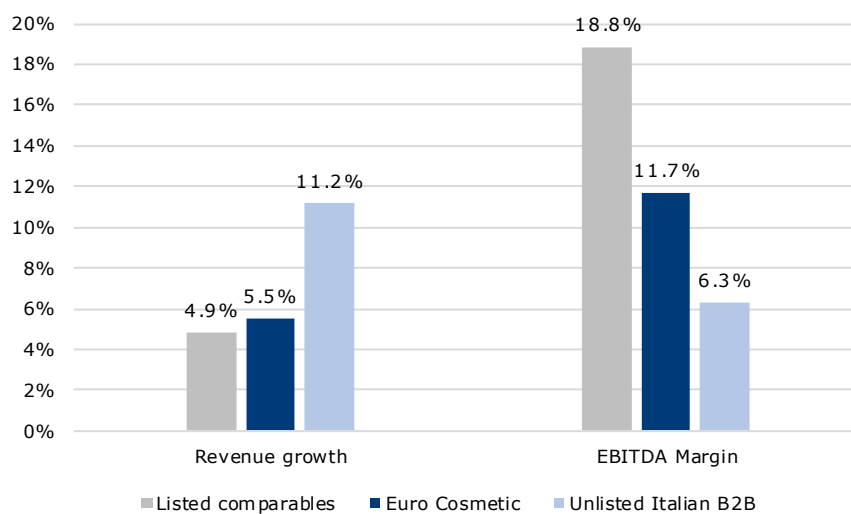
L'Oreal (France) is the world's largest manufacturer of beauty and hair products. It operates through the following segments: Professional Products, Consumer Products, L'Oréal Luxe, and Active Cosmetics. The Professional Products segment includes products which are used and sold in hair salons; the Consumer Products offers beauty and care products which are sold in mass market retail channels; the L'Oréal Luxe segment markets high-end skin care and beauty products which are sold in selective retail outlets such as department stores, perfumeries, and travel retail; and the Active Cosmetics segment offers dermo cosmetic skincare products which are sold in pharmacies and specialist sections of drugstores. The revenue breakdown shows: 35% of sales in skincare and sun protection; 26% in Makeup; 15% in Haircare; 10% in Hair colouring; 9% in Fragrances and 5% in other categories.

Euro Cosmetic competitive arena: benchmarking analysis

Benchmarking analysis We conducted a benchmarking analysis considering two different samples: the listed global companies selected as “comparables”, and the unlisted Italian companies operating as Personal Care manufacturers on behalf of third parties (Ondaline, C.D.B Cosmetici Dermo-Biologici e Areaderma). The analysis was conducted by averaging 2018 and 2019 data.

Euro Cosmetic margins above the average but still room for improvement As regards to revenue growth and margins, Euro Cosmetic stands between the two samples. The first sample includes large multinationals selling directly to consumers, while the second one consists of manufacturers and fillers on behalf of third parties which, having a B2B business model, have a limited markup and consequently a more compressed marginality. Euro Cosmetic stands out in terms of margins if compared to other B2B producers; yet if we consider the Company's 2020 guidance and forward strategy, Euro Cosmetic can head to even higher margins.

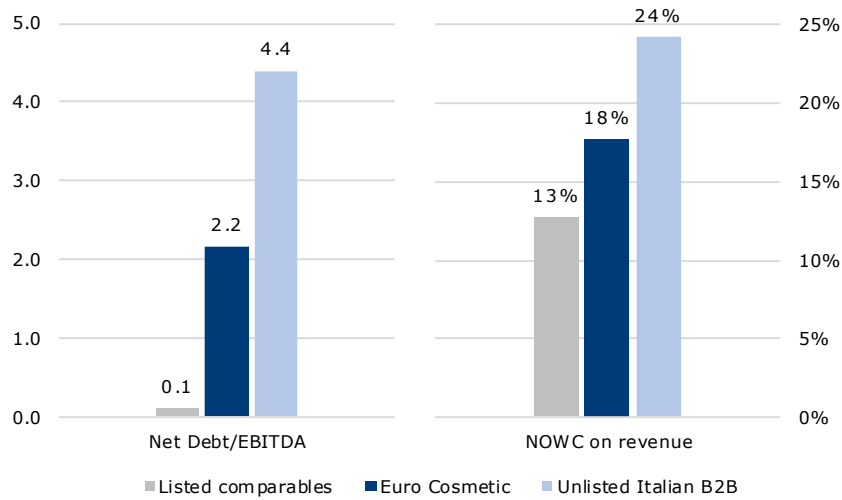
Figure 6: Benchmarking analysis on growth and marginality



Source: Banca Profilo elaborations on Company data, FactSet, Cerved

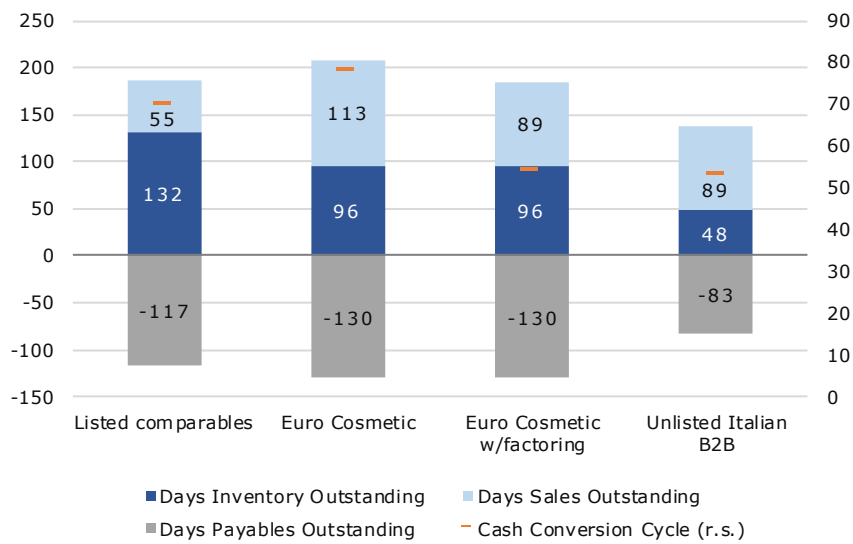
Sustainable debt level but working capital management to be improved Euro Cosmetic's net debt is considerable as sustainable, with an average Net Debt/EBITDA 2018-2019 of 2.2x, but with a clear improvement trend from 2018 (3.0x) to 2019 (1.3x). The incidence of working capital on turnover is halfway between the two samples. In terms of average days of management, Euro Cosmetic does worse than its competitors, as there is a marked disproportion in terms of DSO only partially offset by a greater delay in payment times: however, if we incorporate the positive effect of factoring operations in 2019 (with which 32% of total trade receivables have been assigned), Days Sales Outstanding decrease by 24 days, with a Cash Conversion Cycle in line with the sample of Italian B2B companies. Factoring was concluded at a cost of less than 1% and therefore we believe the Company will carry it out on a recurring basis.

Figure 7: Benchmarking analysis on and debt level and working capital management



Source: Banca Profilo elaborations on Company data, FactSet, Cerved

Figure 8: Cash Conversion Cycle breakdown



Source: Banca Profilo elaborations on Company data, FactSet, Cerved

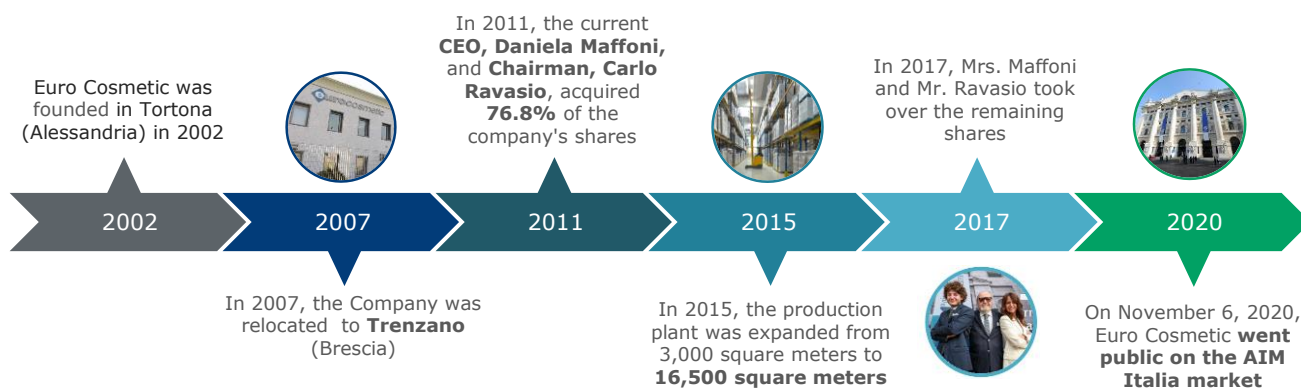
Euro Cosmetic overview and business model

Euro Cosmetic's history and activities

From Trezzano to Palazzo Mezzanotte

Euro Cosmetic is a Company active in the Beauty & Personal Care industry through the formulation and manufacturing of products for personal hygiene, well-being and perfuming, intended for private label operators, large multinationals, small and medium-sized companies with their own brands, and pharmaceutical companies. The Company was founded in Tortona (Alessandria) in 2002, but in 2007 it was relocated to Trezzano (Brescia), in a new building of 3k square meters. In 2011, current CEO, Daniela Maffoni, and Chairman, Carlo Ravasio, acquired 76.8% of the Company's shares, starting a period of strong expansion for Euro Cosmetic; since then, the VoP has increased by 75% to €22.6m in 2019, thanks to both the capture of new customers and the successful investments made in the expansion of the production plant. In 2017, Mrs. Maffoni and Mr. Ravasio took over the remaining shares of the Company and in 2020 started the IPO process on the AIM Italia market, to enhance Euro Cosmetic's business and its brand, and to take the Company to the next level.

Figure 9: Euro Cosmetic's main milestones



FY VoP timeline (€, mln)



Source: Banca Profilo elaborations on Company data

Euro Cosmetic: R&D, production and B2B sale of Personal Care

Euro Cosmetic develops and produces a wide variety of cosmetic products on behalf of third parties, with a focus on four categories:

1. detergents (~39% of FY19 revenue), such as hand sanitizers, shower gels, intimate wash, liquid soaps, shampoos, conditioners, and hair waxes;
2. oral hygiene (~35% of FY19 revenue), such as toothpaste and gel toothpaste, alcoholic and alcohol-free mouthwashes and specific products for breath;
3. fragrances (~15% of FY19 revenue), such as scented water for body, *eau de parfum*, after-shave and roll-on, stick or spray deodorants;
4. skin care & lotions (~10% of FY19 revenue) with products such as lotions and toners, scrub products, creams, oils and lotions, sunscreens and after sun creams.

Four different sales formats

The products are sold in four different formats:

1. bulk, loose product not yet bottled and labelled,
2. final product with customer brand, complete with packaging and labelling, ready to be put on the market,
3. private label products, entirely formulated and manufactured by Euro Cosmetic and sold at supermarkets or at other retail chains with their own private label,
4. products with brands registered by Euro Cosmetic that represent product tests which, if successful, are re-presented on the market under private label brands.

Euro Cosmetic's customer base: long duration of commercial partnerships; yet high concentration of revenues per customer

With a highly flexible production system, Euro Cosmetic offers different production services, both in terms of product type and packaging, and in terms of production time. The Company is thus able to satisfy different customers' needs, for:

- large retail store chains, with their own private labels,
- industrial companies, both large multinational and small and medium-sized companies with their own brands,
- cosmetic companies specialized in products intended for hotels and beauty salons,
- pharmaceutical companies.

At the end of 2019, Euro Cosmetic's total customers amounted to 35, rising to 47 at the end of June 2020, due to the numerous partnerships on sanitizing gels. The customer base is both Euro Cosmetic's strength and weakness: the 10 most important customers have a duration of 8.5 years indicating a high client retention and long lasting client loyalty, but, at the end of 2019, the same top 10 customers represented more than 90% of turnover, indicating a client concentration risk.

Business model and corporate structure

The perfect partner in the Personal Care industry

Euro Cosmetic brands itself as an industrial partner in the Personal Care industry with a highly flexible production capacity that allows the Company to quickly respond to different customers' needs. Thanks to a partner like Euro Cosmetic, client companies, whether they are beauty multinationals or large retail store chains, are able to quickly bring a wide range of new products of different nature to the market or to renew already existing ones, for example by using a new formulation or a new packaging.

A flexible production system

Euro Cosmetic's activities cover all stages of the production process, ranging from the definition of the marketing strategy to the delivery of the final product, passing through research, development and production. The production process, however, is not standardized for all product lines: client companies can decide whether to entrust the entire production process to Euro Cosmetic or whether to outsource only some phases. In Euro Cosmetic there are six different production lines, based on the order management method (two different types) and on the type of work required by the client (three different types), and each client can choose among the six different combinations.

Order management: order-based production and stock-based offering

As for the type of order management, Euro Cosmetic offers:

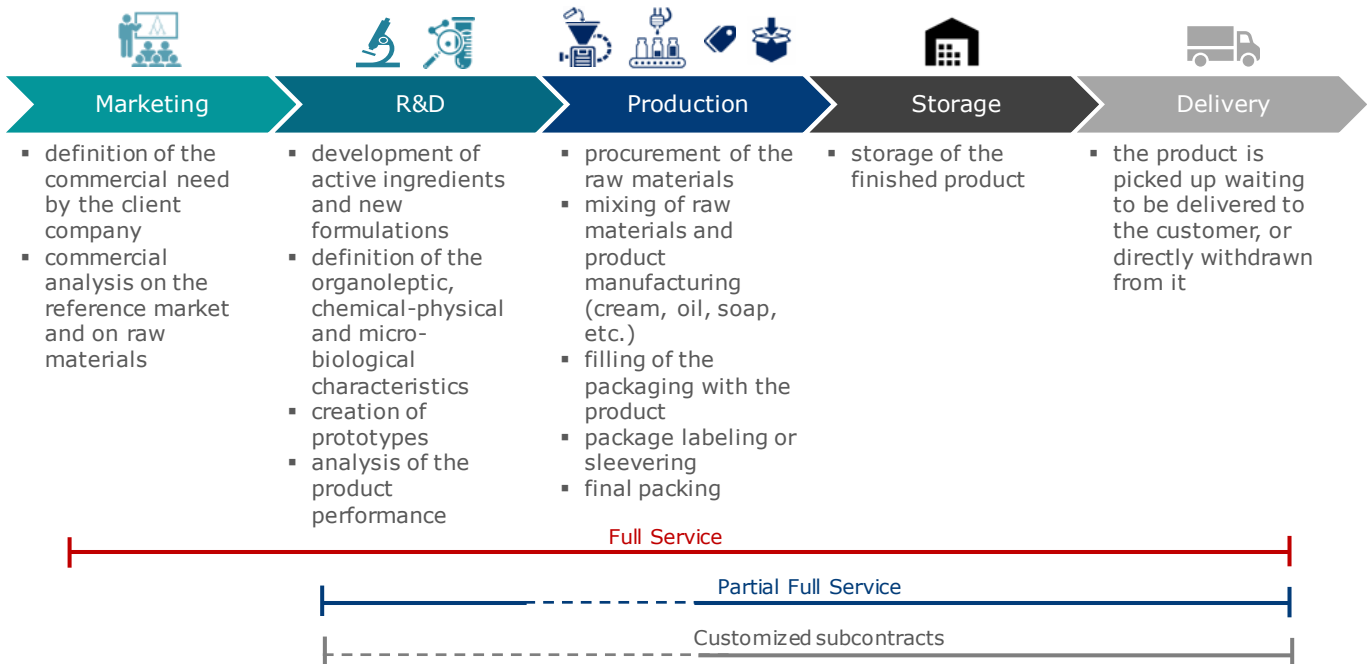
- an order-based production, in case of punctual and specific orders in terms of quantity and timing
- a warehouse-based production, in case of a long-term contract requiring recurring production and stock availability;

Types of processing: from all-inclusive to customized processing

As for the type of required manufacturing process, the Company operates through three different production regimes:

- The "full service" (about ~80% of the total) which provides for a 360° collaboration between Euro Cosmetic and the client company, starting from the project idea to the product delivery, passing through formulas research, development and testing, packaging selection and other production phases, including filling. A typical "full service" client is the large-scale private label distributor, which is not involved in the production process.
- The "partial full service" (~10%), a production regime that starts from a commercial need already defined by the client company, as well as from certain inputs already provided, such as formulas or packaging. Based on the inputs received, Euro Cosmetic carries out tests on the bulk and on its compatibility with the chosen packaging (R&D), to then deal with the entire production process. A typical "partial full service" client is a multinational company, which is already active in the sector and needs an industrial partner with high production capacities capable of industrializing a product on a large scale.
- Finally, there are some highly customized processes based on the needs of the client company (~10%) that can also coincide with a single phase of the production process, such as the formulation, the product test phase, or the filling one. This method is preferred by customers that need to outsource part of their production process, either due to the need for specific know-how, or for periods with peak demand.

Figure 10: Euro Cosmetic's production process

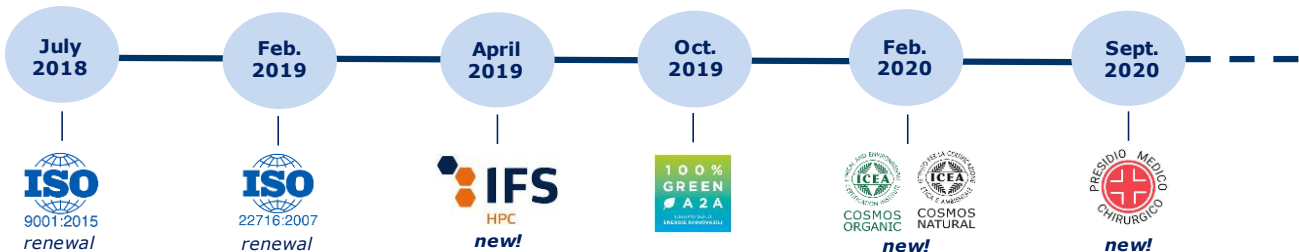


Source: Banca Profilo elaborations on Company data

R&D is key to product innovation

R&D activities stand among the key feature of the Beauty & Personal Care sector as they are necessary for the design of products in line with new consumption trends, which require ever more quality, efficiency and innovation. The R&D phase is extremely delicate both in terms of creating formulas and active ingredients, and in testing them. With the aim of always being in line with new market trends but without running the risk of excessively lengthening the time for creating a product, the definition of R&D activities in Euro Cosmetic is based on two cornerstones: the continuing search of new formulas, which allows the Company to have a range of already tested formulations, and the implementation of the most up-to-date European legislation and international certifications, even soft law rules. Among the most recent ones: in 2019 the Company obtained the IFS-HPC certification regarding the safety standards for products marketed by European large-scale retailers; in 2020 it obtained the Cosmos Bio and Cosmos Organic certifications from ICEA, attesting the product as natural or BIO, while in September 2020, the Company obtained the PMC certification (Presidio Medico Chirurgico), a certification that will allow Euro Cosmetic to produce a new category of products compared to those already in production, such as disinfectants, germicides and bactericides, repellents and insecticides, among others. Euro Cosmetic spends on average between 1% and 2% of turnover on R&D costs compared to an average of 2% of comparables – excluding Johnson & Johnson (13%) as present also in the pharmaceutical sector –.

Figure 11: Latest renewals and new certifications



Source: Banca Profilo elaborations on Company data

The main stages of R&D

In Euro Cosmetic, R&D is divided mainly into three groups of activities leading to the production of the bulk:

- Development of active ingredients and formulas and consequent definition of characteristics related to performance, chemical-physical and micro-biological structures;

- Testing phase, which involves the analysis of prototypes in a pilot environment, the analysis of the chemical-physical and microbiology stability of the formulation, and the analysis of the product performance (activity partially outsourced to specialized centers);
- Final control concerning the legal aspects, regarding the certifications, the documentation and the legislation in force, and the safety aspects for the consumer.

A valuable production plant

The second key fulcrum of Euro Cosmetic is its production plant, currently at 65% of its capacity:

- 12 machines for the bulk production with a capacity ranging from 20,000kgs to 300,000 kgs for a total daily production capacity of 100,000 kgs and 28,000 tons annually;
- 12 filling lines ranging from tubes fillers to bottle and vase fillers with a daily production capacity of 350,000 units and 80mln units per year.

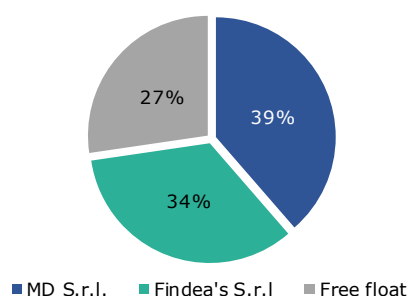
The production plant represents a strength of Euro Cosmetic as it is expensive to replicate, being composed by numerous machinery related to industry 4.0, and allows the Company to produce and fill any type of existing personal care product, from toothpaste to deodorant roll-on, passing through hand sanitizers and Marseille soap.

Ownership structure

A family-oriented company

Euro Cosmetic is a family-owned company, currently controlled by the Ravasio family through MD Srl and Findea's Srl. MD, the company holding 39% of the share capital of Euro Cosmetic, is wholly owned by Daniela Maffoni, CEO of Euro Cosmetic, while Findea's, the company holding 34% of Euro Cosmetic share capital, is 74% owned by Carlo Ravasio, Chairman of Euro Cosmetic. Free float stands at 27%.

Figure 12: Ownership structure



Source: Banca Profilo elaborations on Company data

Management

Euro Cosmetic corporate governance, a family-oriented company

Both Euro Cosmetic's Board of Directors and the Board of Statutory Auditors are made up of five members appointed up to the approval of the financial statements at 31 December 2022. Since 2007, Euro Cosmetic has been a family-oriented company and to date two out of the five BoD's members belong to the Ravasio family.

Figure 13: Composition of the Board of Directors

Board of Directors	Position	Executive	Independent	Minority	Birth year	Gender	Nationality
Daniela Maffoni	CEO	x			1973	F	Italian
Carlo Ravasio	Chairman				1945	M	Italian
Riccardo Alloisio	Director				1968	M	Italian
Alessandro Celli	Director				1966	M	Italian
Massimo Vannini	Director		x		1953	M	Italian

Source: Banca Profilo elaborations on Company data

Carlo Ravasio

Carlo Ravasio, Chairman of the Company, boasts numerous experiences in the entrepreneurial field. In 1970 he founded a cleaning and personal care company, which was successfully sold to a Private Equity fund in 2006, after having achieved a turnover of over €80mln. In 2011 he entered in the capital of Euro Cosmetic and became Chairman of the Board of Directors.

Daniela Maffoni

Daniela Maffoni, CEO of Euro Cosmetic, graduated from the University of Bergamo in foreign languages and literatures with a managerial economic orientation; subsequently she attended a management course at SDA Bocconi, School of Management. Before entering into Euro Cosmetic's capital in 2011, she gained experience in the home care and personal care sector, covering the role of director in Klaifer SpA and in the Emmegi Detergens Group.

Riccardo Alloisio

Riccardo Alloisio, director, graduated in Business Administration in 1992 from Bocconi University, and enrolled in the register of Chartered Accountants of Brescia in 1995 and in 1999 in the Register of Statutory Auditors. From 1993 to 1996 he held the role of auditor at Ernst & Young and from 1997 to 2011 he worked as a Partner at Pernigotto & Associati. Since 2011 he has been carrying out his professional activity at the Alloisio & Associati studio.

Alessandro Celli

Alessandro Celli, managing director, qualified as a geometer, is a consultant in the field of fire prevention, accident prevention and health and hygiene regulations. He has acquired several experiences at various municipal and provincial bodies of Brescia and Milan.

Massimo Vannini

Massimo Vannini, independent director, qualified as an accountant, has valuable experiences in numerous Italian banks, including Banca Popolare di Novara and Credito Emiliano. During his experience at Credito Emiliano he held various managerial roles up to becoming the head of Rolofinance, contributing to the realization of various acquisitions including Champion, Snaidero, Concorde and Kartogroup. Since 2014 he has worked at Cariparma, where he currently holds the role of sales manager for Italy, for the corporate division.

Figure 14: Other important roles

Other important roles	Position	Birth year	Gender	Nationality
Silvia Tosin	Investor Relator		F	Italian
Fabio Piga	Plant manager	1960	M	Italian
Cinzia Benigni	Technical manager	1961	F	Italian
Patrizia Loda	Administrative manager	1971	F	Italian

Source: Banca Profilo elaborations on Company data

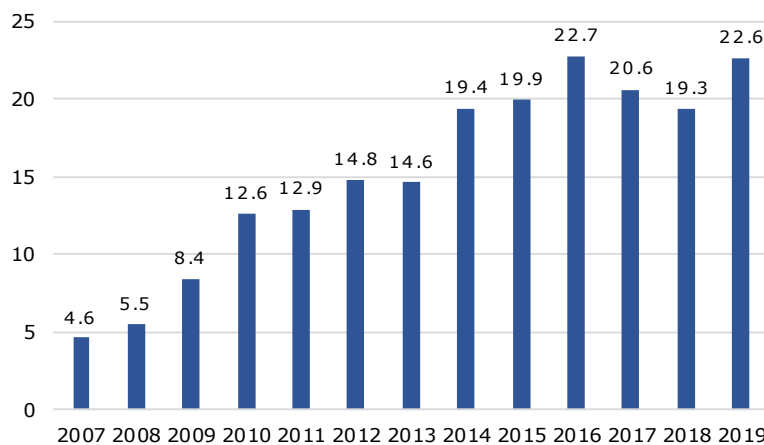
Historical operating and financial performance

Main operating and financial data

Since 2007, VoP has grown at a 14% CAGR

From 2007 to 2019, Euro Cosmetic's Value of Production has grown at a 14% CAGR, reaching €22.6mln in 2019, with strong growth rates even during the 2008-2009 financial crisis, an evidence of the resilience of the Company's business. A big chunk of Euro Cosmetic's growth is attributable to the current ownership of the Company, which took office in 2011; since then, the VoP has increased by 75%, thanks to both the acquisition of new customers and the successful investments made in expanding the factory plant.

Figure 15: VoP evolution over 2007 – 2019 (€, mln)

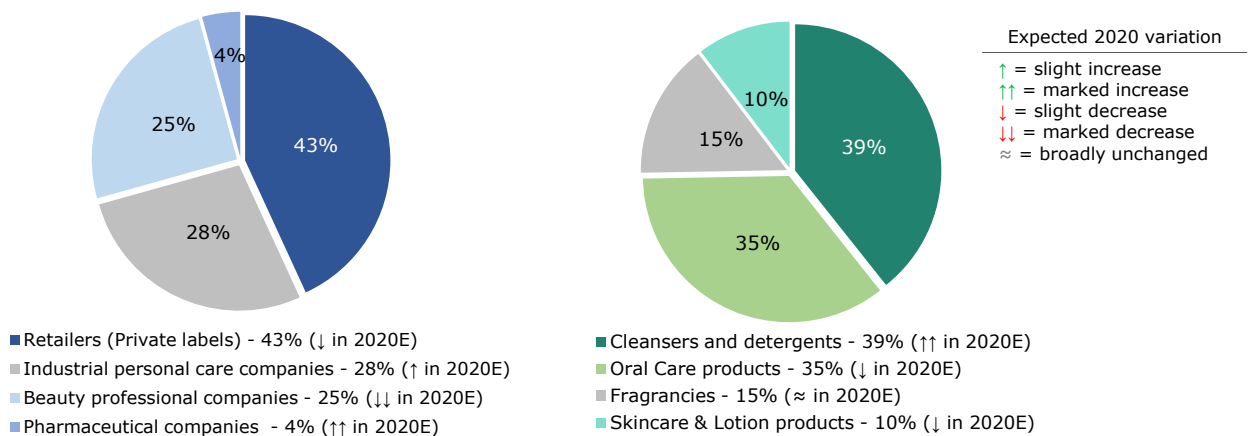


Source: Banca Profilo elaborations on Company data

2019 Revenue breakdown

Looking at revenue breakdown by type of client, in 2019, 43% of revenues came from large retail store chains, 28% from multinational personal care companies, 25% from cosmetic companies specializing in high quality products for beauty salons, hair salons and hotels, and remaining 4% from pharmaceutical companies. We expect however this breakdown to have changed significantly in 2020, due to both the decline in revenue from quality products intended for beauty professional companies and the surge in demand for hand sanitizers, which boosted sales in the pharmaceutical sector.

Figure 16: Euro Cosmetic's 2019 revenue breakdown by type of client and by product type (%)



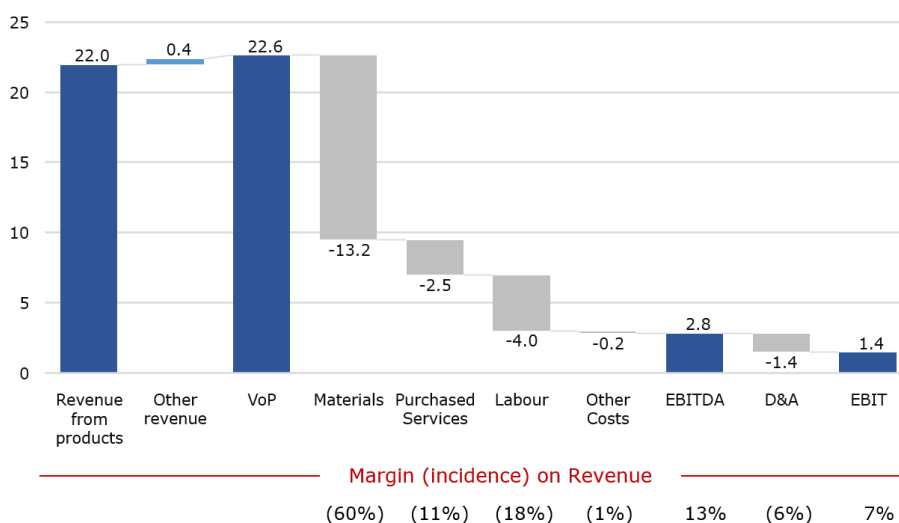
Source: Banca Profilo elaborations on Company data

Cost of goods sold breakdown: 60% raw materials (ingredients and packaging)

In 2019, cost of goods sold stood at €19.8mln, with an incidence on revenue equal to 90%, broadly in line with 2018 (89%). The breakdown into single voices was the following:

- raw materials (60% on revenue, 67% on total COGS), mainly ingredients used in the production and mixing phase (about 65% of the total), and packaging material used in the filling and labelling phase (about 35%);
- services (11% and 13%), mainly related to outsourced product assembly services and freight transport logistics and services;
- labour cost (18% and 20%), divided between structure administrative staff and production staff;
- other costs (1% and 1%), including costs for the use of third-party assets.

Figure 17: 2019 cost structure (€, mln)



Source: Banca Profilo elaborations on Company data

Average 2018-2019 EBITDA margin at 12%

In 2019, EBITDA margin on revenue improved by 215 basis points to 13%, thanks to: i) the optimization of raw materials purchases, ii) the increase in minimum batches for skincare products, and iii) the production mix shifting towards high margins products, mainly detergents and skincare products.

Net income margin at 5% in 2019

Finally, 2019 Net Income stood at €1mln, up €0.7mln, with margin on Revenue improving from 2% in 2018 to 5% in 2019. This increase was mainly due to the reduction of tax rate from 46% to about 25%, thanks tax benefits on super-amortization.

Table 1: Euro Cosmetic Profit & Loss 2018-2019 (€ mln)

Profit & Loss (€ mln)		
	2018	2019
Revenue	19.3	22.0
	<i>yoy</i>	14%
Changes in unfinished & finished goods	(0.1)	0.2
Other Revenues	0.1	0.4
Value of Production	19.3	22.6
	<i>yoy</i>	17%
Cost of raw materials & changes in inventories	(11.6)	(13.2)
	<i>% on revenue</i>	60%
Cost of purchased services	(2.0)	(2.5)
	<i>% on revenue</i>	10%
Costs for the use of third-party assets	(0.0)	(0.0)
	<i>% on revenue</i>	0%
Labour cost	(3.5)	(4.0)
	<i>% on revenue</i>	18%
# employees	-	90
Other operating costs	(0.2)	(0.2)
	<i>% on revenue</i>	1%
Cost of goods sold	(17.3)	(19.8)
EBITDA	2.1	2.8
	EBITDA margin on revenue	11%
	<i>yoy</i>	37%
D&A	(1.4)	(1.3)
	<i>% on revenue</i>	7%
Write-downs	-	(0)
EBIT	0.7	1.5
	EBIT margin on revenue	4%
	<i>yoy</i>	107%
Net financial income (expenses)	(0.1)	(0.1)
	<i>% on revenue</i>	1%
EBT	0.6	1.3
	EBT margin on revenue	3%
Income Tax Expense	(0.3)	(0.3)
	<i>Tax rate</i>	45%
Net Income	0.3	1.0
	Net Income margin on revenue	2%
	<i>yoy</i>	223%

Source: Banca Profilo elaborations on Company data

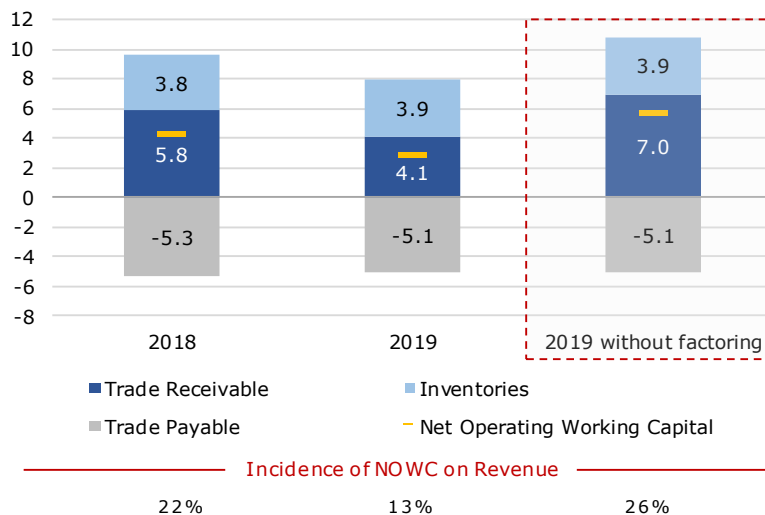
A production plant worth €8.8mln

On the Balance Sheet side, at the end of 2019, Euro Cosmetic had €8.8mln of fixed assets, broadly in line with 2018 (€9.0mln), of which approximately 97% was represented by tangible fixed assets, mainly plants, machineries, lands and buildings.

NOWC stood at €2.9m in 2019, with a 13% incidence on Revenue

Net Operating Working Capital stood at €2.9m in 2019 (13% of Revenue), down €1.4m from 2018 thanks to a non-recourse factoring operation on some 40% of total trade receivables, which generated a flow of immediate cash equal to approximately €2.9m; the cost of the transaction was lower than 1%. Without factoring, Net Operating Working Capital would have been equal to €5.7m (26% of Revenue).

Figure 18: Net Operating Working Capital breakdown, 2018-2019 (€, mln)

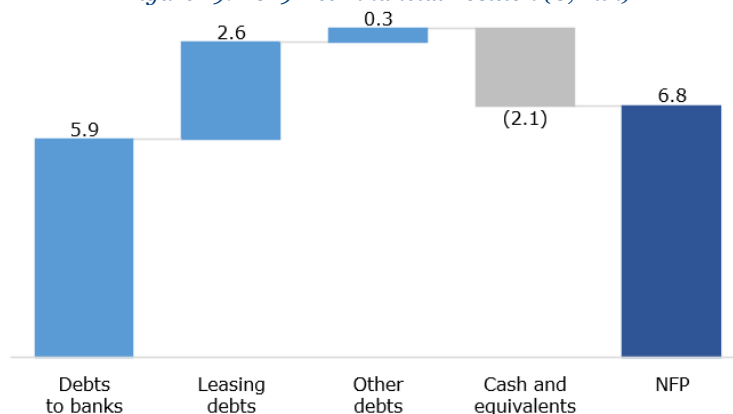


Source: Banca Profilo elaborations on Company data.

NFP equal to 1.3x the EBITDA at the end of 2019

Net Financial Position was equal to €3.7m at the end of 2019 (1.3x the EBITDA and 0.6x the Shareholders' Equity), down by €2.4m due to the decrease in trade receivables, following the factoring operation, as well as the termination of some leasing debts come to maturity. In the first half of 2020, NFP worsened by €3m mainly due to the deferral of the factoring transaction to the end of September; at the end of the nine months, following a new factoring transaction worth €3.5m, the NFP stood at €3.3m.

Figure 19: 2019 Net Financial Position (€, mln)



Source: Banca Profilo elaborations on Company data.

Shareholders' equity: €6.4m in 2019

Shareholders' equity amounted to €6.4m in 2019 compared to €5.8m in 2018, a change mainly attributable to the increase in net income, from €0.3m in 2018 to €1m in 2019.

Table 2: Euro Cosmetic Balance Sheet 2018 – 2019 (€ mln)

Balance Sheet (€ mln)		
	2018	2019
Intangible Assets	0.2	0.2
Tangible Assets	8.8	8.6
PP&E	4.3	4.5
Lands and buildings	4.5	4.2
Financial Assets	-	-
Fixed Assets	9.0	8.9
Trade Receivable	5.8	4.1
Inventories	3.8	3.9
Trade Payable	(5.3)	(5.1)
Net Operating Working Capital	4.3	2.9
<i>NOWC % on revenue</i>	22%	13%
trade receivables (% on revenue)	30%	19%
inventories (% on revenue)	20%	18%
trade paybles (% on COGS)	31%	25%
Other current assets	0.6	0.9
Other current liabilities	(0.8)	(1.1)
Non current assets	0.0	0.0
Non current liabilities	(1.1)	(1.3)
Of which Funds	(0.9)	(1.1)
Invested Capital	12.0	10.2
Capex	0.6	1.0
<i>Intangible</i>	0.2	0.0
<i>Tangible</i>	0.4	1.0
<i>% on revenue</i>	3%	5%
Share capital	1.2	1.2
Reserves and Retained Earnings	4.6	5.3
Shareholders' equity	5.8	6.4
Net debt (cash)	6.2	3.7
Cash and cash equivalents	(2.5)	(2.5)
Debts to banks	5.6	2.8
Leasing debts	3.0	2.7
Other debts	0.0	0.7

Source: Banca Profilo elaborations on Company data

Free Cash Flow was positive for €2.8mIn in 2019

In 2019, Euro Cosmetic's Free Cash Flow was positive for €2.8mIn, including Net Operating Working Capital cash generation for €1.4mIn and €1.2mIn of capex.

Table 3: Euro Cosmetic's Cash Flow 2018-2019 (€ mln)

Cash Flows (€ mln)		
	2018	2019
EBIT	0.7	1.5
Tax rate	45%	24%
NOPAT	0.4	1.1
D&A	1.4	1.3
Operating Cash Flow	1.7	2.4
Changes in Funds	0.1	0.2
Changes in Operating NWC	0.6	1.4
Capex	(0.7)	(1.2)
Free Cash Flow	1.6	2.8

Source: Banca Profilo estimates and elaborations on Company data

2020 expected closing

FY2020 Company's guidance:

- +21% yoy in VoP
- EBITDA margin at about 17.5%

The consequences of the crisis triggered by Covid-19 has had a very limited impact on Euro Cosmetic's business; actually, it has created a business opportunity, thanks to the high demand in its hand sanitizers and its exponential growth in the pharmaceutical sector. This has allowed the Company to more than offset the decline in revenue from the "professional segment" (beauty salons, hairdressers and hotels) affected by the forced closure during lockdowns. According to the Company's *guidance*, released on January 14, FY2020 VoP is forecast at €27.4mIn, +21% yoy, the EBITDA margin on VoP is expected to improve from 12.4% to about 17.5%, while the EBIT margin from 6.3% to 12.4%. The net improvement in margins is due to a greater incidence, on the product mix, of high-margin products, as well as to the strengthening of the market positioning in the pharmaceutical sector.

Our 2020 revenue breakdown estimate

As for revenue breakdown by type of client, we estimate: i) a consolidation of revenue from large retail chains, ii) a double-digit growth in revenue from industrial companies, iii) a triple-digit growth in the pharmaceutical sector due to the surge in demand for hand sanitizers, and iv) a decline of about 30% in revenue from specialized cosmetic companies, whose business has been affected by the forced closure of hotels, beauty salons and hairdressers during lockdowns.

Estimated net income margin at 9%

According to our Income Statement estimates, the Company is expected to close the full year with a net profit equal to €2.4mIn, with a margin of 9%. As for dividends, we have assumed a payout ratio of 20% of net profit, for an absolute value equal to about €500k.

Our Balance Sheet estimates

According to our Balance Sheet estimates:

- as regards fixed assets, no significant changes are expected;
- NOWC is estimated to have increased by €700k, in line with the growth in turnover;
- capex should have been equal to about €950k, mainly in tangible assets aimed at renewing the production plant;
- total debts are expected to be about €8.8mIn at the end of 2020 from €6.2mIn in 2019, due to new loans of approximately €3.5mIn signed in the first half of 2020;

Finally, the Company is expected to have ended the fiscal year with a net financial position of -€5.7mIn (cash), already including €7.2mIn of IPO Proceeds.

Strategy and estimates

Company's strategy and guidance

IPO Proceeds (€7.2mIn) are going to be used to:

- enlarge the production plant
- enter the BTC market
- finance potential M&As.

For the next years, Euro Cosmetic is set to expand its business further, through both organic and external growth. As for organic growth, the Company's strategic plan is based on the following four pillars:

- i) enlargement of the production plant by about 5,000 square meters, to reach a total surface of 21,500 sqm (estimated investment of about €4.6mIn, of which €900k will be invested in 2021 while the remaining part will be spread over a period of twelve years).
- ii) launch of a niche skincare line products, to be sold directly to the final consumer through online channels (estimated total expenses of €0.7mIn, to be spread over 2021 and 2022): thanks to this new line of products, the Company will officially enter the B2C market, with its own brand and its own e-commerce platform. To promote the product launch, Euro Cosmetic has signed a partnership with The Blonde Salad, the digital publishing and marketing Company founded and directed by Chiara Ferragni.
- iii) expansion of the product range thanks to continuous investments in R&D and the freshly obtained PMC certification (the certification of the Italian "Presidio Medico Chirurgico", a specific category of medical devices such as disinfectants, insecticides and insect repellents);
- iv) capture of new customers, thanks to both the increase in production capacity and the strengthening of Euro Cosmetic brand following the IPO.

FY2021 guidance:

- +7.1% yoy in VoP
- EBITDA margin at about 17.6%
- capex of about €2mIn

Based on this strategic plan, the Company has given the following guidance for the FY2021: revenue from finished products of €28.7mIn, +7.1% yoy, VoP of €29.0mIn, +5.8% yoy, EBITDA margin on VoP of 17.6%, EBIT margin of 12.4%, and capex of about €2mIn. Moreover, the Company intends to grow also by external lines, and some of the net IPO proceeds, worth €7.2mIn, are going to be used to finance M&A opportunities aimed at strengthening the market positioning within the pharmaceutical sector.

Our 2021E-2023E estimates

VoP is estimated to grow at a CAGR of 9% over 2019-2023E

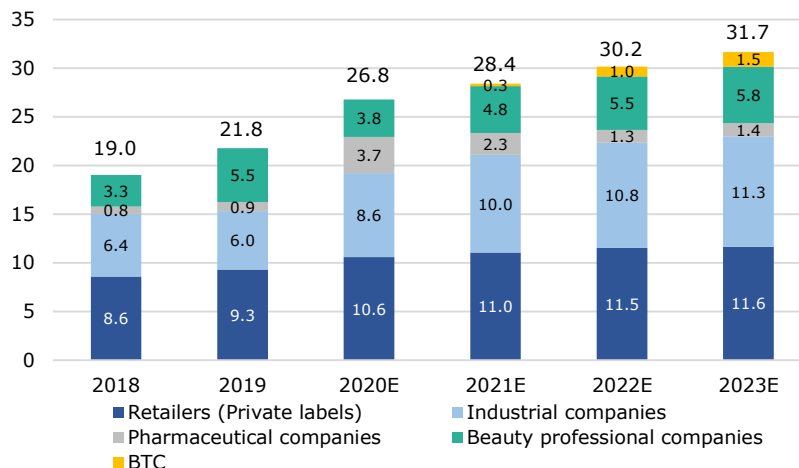
Our 2021E-2023E estimates are on Euro Cosmetic as is, stand alone, and are based on both macroeconomic and sectoral assumptions, as well as on estimates related to specific Company projects. We expect:

- i) a constant consolidation of revenue from large retail chains, given the already high number of partnerships Euro Cosmetic has with Private Labels;
- ii) a double-digit growth of revenue from the industrial sector in 2021, followed by a period of consolidation. The growth will be driven by both capture of new customers and consolidation of the relationship with actual clients, thanks to: 1) the strengthening of Euro Cosmetic brand after the IPO, 2) the increased production capacity following the enlargement of the production plant, and 3) the expansion of the product range, with: PMC products, products based on new certifications, and already existing products that can be renewed in their formulas by including new active ingredients;
- iii) a physiological slowdown in revenue from the pharmaceutical sector, in both 2021 and 2022, followed by a growth in line with the market in 2023: we expect the product range expansion, mainly thanks to PMC products, will only partially offset the physiological decline in the demand for hand sanitizers, after the revenue surge in 2020;
- iv) a return to growth in revenues from professional products, thanks to the gradual reopening of the economic activities concerned (hotels, hairdressers and beauty salons), after the forced closures of 2020; according to our estimates, with this type of customer, Euro Cosmetic will return to 2019 levels only in 2022;
- v) approximately €2.8mIn of cumulative revenue between 2021 and 2023 generated by the entry into the BTC market.

We estimate sustainable growth about 6% over the next three years

According to our stand-alone 2021E-2023E estimates, VoP is estimated to grow at a 2019-2023E CAGR of 9%, to over €32mln in 2023; excluding the 2020 revenue surge, we believe sustainable growth will be about 6% over the next three years.

Figure 20: Euro Cosmetic finished products revenue's trend over 2018-2023E (€, mln)



Source: Banca Profilo elaborations and estimates

Cost assumptions:
2021E-2023E incidence of COGS on revenue is estimated to decrease to 84%

The incidence of cost of goods sold on finished products revenue is expected to decrease from 90% in 2019 to an average 84% over the 2021-2023 period, in line with 2020, due to a decrease in the incidence of raw materials and labour cost, allowing a net improvement in margins.

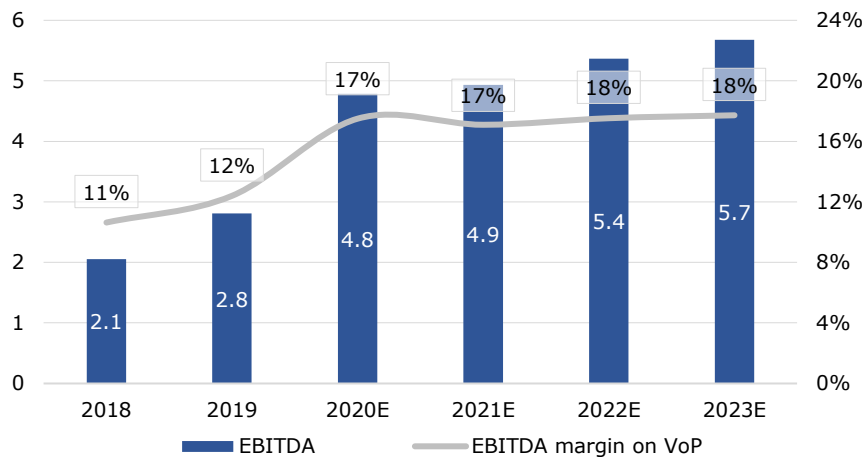
- Cost of materials: due to the change in the product mix towards higher margins products and to an estimated increase in bargaining power, we forecast the incidence of cost of raw materials on revenue to have been dropped from 60% in 2019 to about 54% from 2020 onwards. In addition, any appreciation of the cost of raw materials exceeding 3% has been contractually negotiated with client companies, guaranteeing an upward revision of final sales prices.
- Cost of purchased services: in 2020 we expect the incidence on revenue up by 125bps at about 13%, due to the strong rise in external processing services needed for the production of sanitizers; we expect only a small decrease in its incidence from 2021 onwards, as cost savings from expansion of the logistics area will partially be offset by the increase in marketing expenses.
- Labour costs: in line with Company's recruitment plan, we have assumed 20 hires between 2020 and 2021, and 10 hires between 2022 and 2023; with a broadly unchanged average cost per employee (estimated at 44k), such assumptions lead to a 2020E-2023E average incidence on revenue equal to about 17% (18% in both 2018 and 2019).
- Other operating costs: we assume for the all period under analysis an incidence on revenue in line with the 2018-2019 average, equal to 1%.

EBITDA:

- 2019-2023E CAGR of 19%
- 2023 margin at about 18%

Based on our revenue and cost assumptions, EBITDA is estimated to grow at a 2019-2023E CAGR of 19%, to just below €6mln in 2023, with margin on Value of Production improving from 12.4% to about 18% in 2023. Excluding the 2020 EBITDA surge, we believe sustainable growth will be about 6% over the next three years, thanks to increasing selling volumes and focusing on high-margin products.

Figure 21: EBITDA (€, mln) and EBITDA margin (%) 2018-2023E trend



Source: Banca Profilo elaborations and estimates

D&A has to reflect a 2021-2023 estimated cumulated capex plan of €3.9mln

D&A is expected to have slightly fallen in 2020 due to an estimated 22% decline in investments, with 2020 capex at about 950k from €1.2mln in 2019. From 2021 onwards, D&A should increase on average by 10% per year due to an estimated investment plan equal to total capex in the three-year period 2021-2023 of €3.9mln. On average, D&A refers for more than 90% to tangible assets.

Tax rate as little as 25% given the super-amortization; 13% in 2021 due to IPO-related tax credit

We estimate a tax rate of 25% until 2023, in line with the 2019 figure, except for 2021. In general, the tax relief is guaranteed by the investments both already made and planned in 4.0 machineries, which guarantee a reduction in the tax base thanks to the super-amortization. In 2021, the Company will have a tax credit of approximately 400k, relating to IPO costs (approximately half of the total costs incurred), with a consequent lowering of the tax rate to approximately 13%.

9% Net Income margin is to be considered sustainable; 20% payout ratio

Net income is estimated to grow at a 2019-2023E CAGR of 29% to just below €3mln in 2023. On average, net income margin is expected to be sustainable at 9%. As for dividends, we have assumed a payout ratio of 20% of net profit, for an absolute value equal on average to €500k.

Table 4: Euro Cosmetic Profit & Loss 2018-2023E (€ mln)

		Profit & Loss (€ mln)					
		2018	2019	2020E	2021E	2022E	2023E
Revenue from finished products		19.3	22.0	26.8	28.4	30.2	31.7
	yoy		14%	22%	6%	6%	5%
Changes in unfinished & finished goods		(0.1)	0.2	0.2	0.2	0.2	0.1
Other Revenues		0.1	0.4	0.3	0.3	0.3	0.3
Value of Production		19.3	22.6	27.4	28.9	30.6	32.1
	yoy		17%	21%	6%	6%	5%
Cost of raw materials & changes in inventories		(11.6)	(13.2)	(14.6)	(15.5)	(16.3)	(17.1)
	% on revenue	60%	60%	54%	54%	54%	54%
Cost of purchased services		(2.0)	(2.5)	(3.4)	(3.4)	(3.6)	(3.8)
	% on revenue	10%	11%	13%	12%	12%	12%
Costs for the use of third-party assets		(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
	% on revenue	0%	0%	0%	0%	0%	0%
Labour cost		(3.5)	(4.0)	(4.4)	(4.9)	(5.1)	(5.3)
	% on revenue	18%	18%	17%	17%	17%	17%
Other operating costs		(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
	% on revenue	1%	1%	1%	1%	1%	1%
Cost of goods sold		(17.3)	(19.8)	(22.6)	(23.9)	(25.2)	(26.4)
EBITDA		2.1	2.8	4.8	4.9	5.4	5.7
	EBITDA margin on revenue	11%	13%	18%	17%	18%	18%
	EBIT margin on VoP	11%	12%	17%	17%	18%	18%
	yoy		37%	70%	3%	9%	6%
D&A		(1.4)	(1.4)	(1.3)	(1.5)	(1.7)	(1.8)
	% on revenue	7%	6%	5%	5%	6%	6%
Write-downs		-	(0)	(0)	-	-	-
EBIT		0.7	1.4	3.4	3.5	3.7	3.9
	EBIT margin on revenue	4%	7%	13%	12%	12%	12%
	EBITDA margin on VoP	4%	6%	13%	12%	12%	12%
	yoy		104%	141%	0%	7%	6%
Net financial income (expenses)		(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
	% on revenue	1%	0%	1%	1%	1%	1%
EBT		0.6	1.3	3.3	3.3	3.5	3.7
	EBT margin on revenue	3%	6%	12%	12%	12%	12%
Income Tax Expense		(0.3)	(0.3)	(0.8)	(0.4)	(0.9)	(0.9)
	Tax rate	45%	25%	25%	13%	25%	25%
Net Income		0.3	1.0	2.5	2.9	2.6	2.8
	Net Income margin on revenue	2%	5%	9%	10%	9%	9%
	Net Income margin on VoP	2%	4%	9%	10%	9%	9%
	yoy		217%	148%	16%	-8%	6%
Dividends		0.4	0.3	0.5	0.6	0.5	0.6
	Payout ratio	127%	30%	20%	20%	20%	20%

Source: Banca Profilo elaborations and estimates

Balance Sheet projections

Capex 2021-2023: €3.9mln

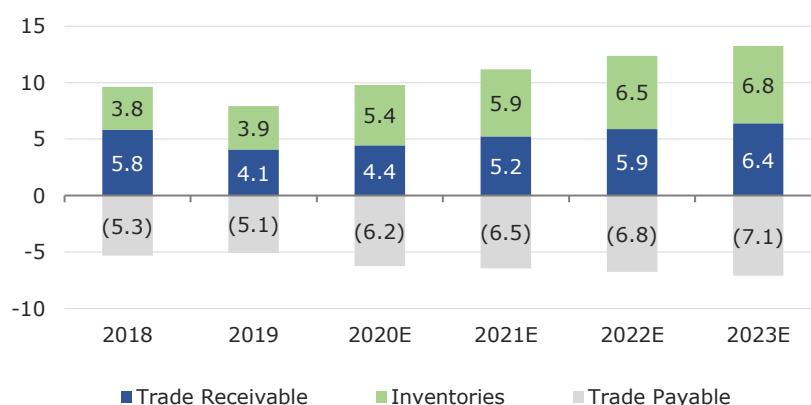
NOWC absorption of €2.7mln from 2021 to 2023

Regarding our Balance Sheet projections:

- as for fixed assets, we estimate a significant increase in 2021E, due to the rise in right of use which are related to the €900k increase in the lease;
- capex should total €3.9mln over the 2021-2023 period, with an annual average of €1.3mln. Investments will mainly be made in tangible assets, aimed at expanding and renewing the production plant;
- NOWC is estimated to increase by €2.6mln over 2021-2023 (€3.3mln over 2020-2023), with the incidence on revenue expected to be on average equal to 18%, already including the positive effect coming from factoring operations, estimated to be done on a recurring basis, given Euro Cosmetic's high rating profile and the consequent low cost of the transaction.
- as for debts, we have estimated a total recourse to debt equal to approximately €2.5mln, already including the lease for the expansion of the production plant, of which €900k in 2021 and the remaining part (approximately €3.7mln) spread over a period of twelve years;

Consequently, the NFP is forecast to decline progressively, until reaching -€11.0mln in 2023, thanks to Euro Cosmetic cash generative business.

Figure 22: Net working capital composition and dynamics over 2018-2023E (€, mln)



Source: Banca Profilo elaborations and estimates

Table 5: Euro Cosmetic Balance Sheet 2018-2023E (€ mln)

Balance Sheet (€ mln)						
	2018	2019	2020E	2021E	2022E	2023E
Intangible Assets	0.2	0.2	0.3	0.4	0.5	0.5
Tangible Assets	8.8	8.6	8.3	8.8	8.1	7.4
PP&E	4.3	4.5	4.5	4.5	4.2	3.7
Right of use	4.5	4.2	3.8	4.2	4.0	3.7
Financial Assets	-	-	-	-	-	-
Fixed Assets	9.0	8.9	8.6	9.2	8.6	7.9
Trade Receivable	5.8	4.1	4.4	5.2	5.9	6.4
Inventories	3.8	3.9	5.4	5.9	6.5	6.8
Trade Payable	(5.3)	(5.1)	(6.2)	(6.5)	(6.8)	(7.1)
Net Operating Working Capital	4.3	2.9	3.5	4.7	5.6	6.2
<i>NOWC % on revenue</i>	22%	13%	13%	17%	19%	19%
trade receivables (% on revenue)	30%	19%	17%	18%	20%	20%
inventories (% on revenue)	20%	18%	20%	21%	21%	22%
trade paybles (% on COGS)	31%	25%	28%	27%	27%	27%
Other current assets	0.6	0.9	0.9	0.9	1.0	1.0
Other current liabilities	(0.8)	(1.1)	(1.3)	(1.3)	(1.4)	(1.5)
Non current assets	0.0	0.0	0.0	0.0	0.0	0.0
Non current liabilities	(1.1)	(1.3)	(1.7)	(1.6)	(2.0)	(2.2)
Of which Funds	(0.9)	(1.1)	(1.3)	(1.4)	(1.6)	(1.7)
Invested Capital	12.0	10.2	10.0	11.9	11.8	11.4
Capex	0.7	1.2	0.9	2.0	1.0	1.0
<i>Intangible</i>	0.2	0.0	0.1	0.1	0.1	0.1
<i>Tangible</i>	0.5	1.2	0.9	1.8	0.9	0.9
<i>% on revenue</i>	4%	6%	4%	7%	3%	3%
Share capital	1.2	1.2	1.6	1.6	1.6	1.6
Reserves and Retained Earnings	4.6	5.3	14.2	16.5	18.6	20.9
Shareholders' equity	5.8	6.4	15.8	18.1	20.2	22.5
Net debt (cash)	6.2	3.7	(5.7)	(6.3)	(8.4)	(11.0)
Cash and cash equivalents	(2.5)	(2.5)	(14.5)	(16.1)	(18.8)	(21.7)
Of which net IPO Proceeds			(7.2)	(7.2)	(7.2)	(7.2)
Debts to banks	5.6	2.8	5.7	5.9	6.3	6.3
Leasing debts	3.0	2.7	2.7	3.5	3.7	4.0
Other debts	0.0	0.7	0.4	0.4	0.4	0.4

Source: Banca Profilo elaborations and estimates

Free Cash Flow of €7.6mln from 2021 to 2023

According to our Profit & Loss and Balance Sheet estimates, we estimate €7.6mln of cumulated Free Cash Flow in three years, net of comprehensive of €3.9mln of capex and €2.6mln of NOWC needs.

Table 6: Euro Cosmetic Free Cash Flow 2018-2023E (€ mln)

	Cash Flows (€ mln)					
	2018	2019	2020E	2021E	2022E	2023E
EBIT	0.7	1.4	3.4	3.5	3.7	3.9
Tax rate	45%	25%	25%	13%	25%	25%
NOPAT	0.4	1.1	2.6	3.0	2.8	2.9
D&A	1.4	1.4	1.3	1.5	1.7	1.8
Operating Cash Flow	1.7	2.4	3.9	4.5	4.4	4.7
Changes in Funds	0.1	0.2	0.1	0.2	0.2	0.2
Changes in Operating NWC	0.6	1.4	(0.7)	(1.2)	(0.9)	(0.5)
Capex	(0.7)	(1.2)	(0.9)	(2.0)	(1.0)	(1.0)
Free Cash Flow	1.6	2.8	2.4	1.5	2.7	3.3

Source: Banca Profilo elaborations and estimates

Key risks

Estimates execution risks

Main risks to our projections are linked to: i) the concentration of revenue per customer, ii) a potential drop in demand, iii) the loss of products' competitiveness, iv) product liability, v) the loss of qualified personnel; vi) the appreciation of raw materials and vii) the family-oriented model.

Risk related to the concentration of revenue per customer: - medium-low likelihood - high impact

Euro Cosmetic shows a high concentration of revenue per customer, with the top 10 client companies representing more than 90% of total revenue at the end of 2019, and the first customer about 27%. This concentration represents a strong risk in the moment in which one or more commercial relationships with client companies should be interrupted. This risk is partially offset by the high stability, duration and consolidation that the Company has been showing both in historical and current commercial relations with customers. We evaluate this risk with a medium-low likelihood of that occurring and a high potential impact on the business.

Risk related to the decline in demand: - medium-low likelihood - medium impact

The business of Euro Cosmetic, like any other company, is exposed to the potential risk of contraction in demand deriving from a reduction in the activity of the main customers, from the worsening of macroeconomic conditions, or from potential exogenous events. This risk is partially offset by the defensive nature of Euro Cosmetic's reference industry and business. We evaluate this risk with a medium-low likelihood of that occurring and a medium potential impact on the business.

Risk of losing products' competitiveness: - medium-low likelihood - medium impact

Euro Cosmetic's success partially depends on the ability to keep offering innovative products that meet customer needs and anticipate competing products on new market trends. It cannot be excluded that the Company makes evaluation or technical errors in the design, production and marketing of new products, but we believe that the current management, as demonstrated in recent years, will largely mitigate this risk through: i) the constant monitoring of reference markets, ii) the careful business administration and management and iii) a precise business expansion strategy. We evaluate this risk with a medium-low likelihood of that occurring and a medium potential impact on the business.

Risk related to product liability: - low likelihood - medium impact

Euro Cosmetic operates in a sector where the use of products by the final consumer could have side or undesirable effects on health conditions. Although the Company adopts high quality standards and is equipped with systems dedicated solely to quality control, this eventuality would expose the Company to potential legal actions by third parties who were able to demonstrate the causal link between the damage suffered and the activity of the Company. For this reason, Euro Cosmetic has taken out insurance policies to protect itself against this risk. We evaluate this risk with a low likelihood of that occurring and a medium potential impact on the business.

Risk of losing qualified personnel: - low likelihood - medium-low impact

The results of Euro Cosmetic depend to a significant extent on its management and on some key figures. The Company, should there be an interruption of the professional collaboration relationships with some key figures, could be exposed to a deterioration of its competitiveness, with repercussions on both demand and economic results. We evaluate this risk with a low likelihood of that occurring and a medium potential impact on the business.

Risk related to the appreciation of raw materials:

- medium likelihood
- medium-low impact

Euro Cosmetic's incidence of raw materials cost on turnover is over 50% and therefore the Company is exposed to its price fluctuations. However, the Company sets the price with suppliers about 6/7 months in advance, and any appreciation of raw materials cost exceeding 3% is by contract turned to final prices and therefore to client companies. We evaluate this risk with a medium likelihood of that occurring and a medium-low potential impact on the business.

Risk associated with the family-oriented model:

- low likelihood
- medium-low impact

Over the years, the family-oriented governance has ensured business stability and medium-long term corporate policies that have led Euro Cosmetic to expand the business. However, the overlap between ownership and management of the Company, and the will of perpetuating the business in the hands of next generations, indicates a risk of potential conflicts of interest and it cannot be excluded that management decisions may be influenced by the consideration of owners' personal interests. We evaluate this risk with a low likelihood of that occurring and a medium-low potential impact on the business.

Table 7: Risk matrix

Impact	Very high					
	High		Concentration of revenue per customer			
	Medium	Product liability; Loss of qualified personnel	Contraction of demand; Loss of products' competitiveness			
	Medium-Low	Family-oriented model		Appreciation of raw materials		
	Low					
Potential impact VS likelihood		Low	Medium-Low	Medium	High	Very high
		Likelihood				

Source: Banca Profilo elaborations on Company data

Valuation

DCF method and market multiples

A DCF method well adapts as a valuation approach, as allows us to better capture the value of Euro Cosmetic's expansion capex plan and its cash generating business model. Furthermore, we have selected a sample of listed international companies "comparables" to Euro Cosmetic, in order to suggest an appropriate sample for the relative valuation through market multiples.

DCF Valuation

DCF assumptions:

- €7.6mln of cumulated FCFs
- €2.5mln as Terminal Value cash flow
- 7.1% WACC

To run a DCF model, we would use our projections of FCF for the 2021E-23E explicit period: cumulated cash flows for €7.6mln or €1.9mln as yearly average.

In order to assess the Terminal Value, we factor in:

- an annual FCF generation of €2.5mln
- perpetual growth rate of 2%.

We would use a WACC of 7.1%, derived from:

- risk free rate equal to 3.0%, as implicitly expected by consensus on the 30Y Italian BTP yield curve (moving average of the last 100 days) with an estimated increase in interest rates;
- market risk premium equal to 5.5%;
- beta of 1.0, coming from the average of chosen listed peers;
- target debt to equity structure, with 80% weight of Equity

In order to get to the Equity Valuation we would consider our estimate for the Net Financial Position as of December 31, 2020, equal to -€5.7mln, in order to include both the IPO Proceeds and the effect on NWC of the factoring operations made.

Table 8: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
WACC	7.1%
Risk free rate (30Y)	3.0%
Equity Risk Premium	5.5%
Beta	1.0
Cost of Equity	8.5%
Cost of Debt (before tax)	1.6%
Tax rate	25.0%

Source: Banca Profilo estimates and elaborations

DCF Fair Value: €11.0/share

The DCF method leads us to an Enterprise Value of €46.4mln and an Equity Value of €52.2mln or €11.0/share.

Table 9: DCF valuation

DCF Valuation (€ mln, except for the target price)	2021E	2022E	2023E	Over
Free Cash Flow (FCF)	1.5	2.7	3.3	2.5
Years	1.0	2.0	3.0	
Discount factor	0.9	0.9	0.8	
NPV Cash flows	1.4	2.3	2.7	
Sum of NPVs	1.4	3.8	6.5	
Terminal Value				49.1
NPV Terminal Value				39.9
Enterprise Value				46.4
Net Financial Position 2020E				(5.7)
Minorities				
Equity Value (€, mln)				52.2
Current outstanding shares				4.8
Equity Value per share (€)				11.0

Source: Banca Profilo estimates and elaborations

Relative market multiples valuation

EV/EBITDA the multiple to be used In order to assess a relative valuation of Euro Cosmetic through the market multiples approach, we selected a sample of listed international companies specialized in the production and distribution of cosmetic products: Sarantis, L'Occitane, PZ Cussons, Colgate-Palmolive, Beiersdorf, Johnson & Johnson and L'Oreal. To implement the analysis, we divided the sample into two subgroups, with the first one consisting of those companies most similar to Euro Cosmetic by business model, dimension and margins, in accordance with our analysis on comparables.

Table 10: Sample benchmarking on revenue growth and EBITDA margin

Company	Currency	Market Cap (Mln)	EV	Sales growth					EBITDA margin				
				2018	2019	2020E	2021E	2022E	2018	2019	2020E	2021E	2022E
Sarantis SA	EUR	630	654	15%	8%	7%	7%	7%	14%	15%	16%	16%	16%
L'Occitane International SA	EUR	2,902	3,709	6%	13%	-1%	9%	8%	15%	16%	14%	16%	19%
PZ Cussons PLC	GBP	1,003	1,092	0%	-13%	-4%	3%	3%	14%	15%	15%	15%	16%
Beiersdorf AG	EUR	23,093	18,854	3%	6%	-8%	6%	4%	17%	17%	16%	17%	17%
Colgate-Palmolive Co	USD	68,745	76,763	1%	1%	4%	4%	3%	27%	27%	27%	27%	28%
Johnson & Johnson	USD	427,472	436,866	7%	1%	0%	9%	5%	33%	33%	34%	35%	35%
L'Oreal SA	EUR	164,375	161,959	4%	11%	-7%	9%	7%	22%	24%	23%	24%	24%
Average Best Peers				7%	3%	1%	6%	6%	14%	15%	15%	16%	17%
Median Best Peers				6%	8%	-1%	7%	7%	14%	15%	15%	16%	16%
Average				5%	4%	-1%	7%	5%	20%	21%	21%	22%	22%
Median				4%	6%	-1%	7%	5%	17%	17%	16%	17%	19%
Euro Cosmetic				-3%	14%	22%	6%	6%	11%	13%	17%	17%	18%

Source: Banca Profilo estimates and elaborations on Factset (as of January 20, 2021)

EV/EBITDA 2021E-2022E of 10.8x

Considering the first sample of closer to Euro Cosmetic's activity peers, the average EV/EBITDA 2021E and 2022E are equal to 11.5x and 10.1x respectively (as of January 20), with a simple average of 10.8x; we derived an average Equity Value of €49.9mln, equal to a per share value of €10.5, already including a 15% liquidity discount given Euro Cosmetic's low level of turnover velocity ratio.

Table 11: Sample market multiples

Company	EV / Sales			EV / EBITDA			P / E		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Sarantis SA	1.6x	1.5x	1.4x	10.3x	9.6x	9.0x	15.5x	14.2x	13.0x
L'Occitane International SA	2.4x	2.2x	2.0x	17.3x	13.3x	10.5x	29.2x	22.0x	17.7x
PZ Cussons PLC	1.8x	1.8x	1.7x	12.1x	11.5x	10.8x			
Beiersdorf AG	2.7x	2.5x	2.4x	17.0x	15.0x	13.8x	33.9x	28.8x	26.3x
Colgate-Palmolive Co	4.7x	4.5x	4.4x	17.5x	16.5x	15.8x	26.2x	24.6x	23.1x
Johnson & Johnson	5.3x	4.9x	4.7x	15.8x	14.1x	13.3x	20.4x	18.0x	16.6x
L'Oreal SA	5.8x	5.3x	5.0x	25.1x	22.2x	21.0x	41.0x	36.6x	33.8x
Average Best Peers	1.9x	1.8x	1.7x	13.2x	11.5x	10.1x	22.3x	18.1x	15.4x
Median Best Peers	1.8x	1.8x	1.7x	12.1x	11.5x	10.5x	22.3x	18.1x	15.4x
Average	3.1x	2.9x	2.8x	15.0x	13.3x	12.2x	25.0x	21.6x	19.3x
Median	2.7x	2.5x	2.4x	17.0x	14.1x	13.3x	27.7x	23.3x	20.4x
Euro Cosmetic	0.9x	0.9x	0.8x	5.4x	5.1x	4.7x	12.9x	10.8x	11.7x

Source: Banca Profilo estimates and elaborations, Factset (as of January 20, 2021)

Table 12: EV/EBITDA market multiple

Valuation on EV/EBITDA market multiple (€, mln)		
20/01/2021	2021	2022
Average EV/EBITDA Best Peers	11.5x	10.1x
Euro Cosmetic EBITDA	4.9	5.4
Enterprise Value	56.7	54.1
Net Financial Position 2020E	(5.7)	
Liquidity Discount		15%
Current Minorities		0.0
Equity Value	53.9	45.9
Average Equity Value	49.9	
Current outstanding shares	4.8	
Price per share (€)	10.5	

Source: Banca Profilo estimates and elaborations on Factset (as of January 20, 2021)

12-month Target Price at €10.7/share
BUY recommendation

We set our target price at €10.7/share as the average of the DCF Fair Value and the result from the relative valuations, implying a potential upside higher than 60% as of market close on January 21, 2020. We initiate our coverage with a BUY recommendation.


**Euro Cosmetic
"ID Card"**
**Recommendation
BUY**
**Target Price
10.7**
**Upside
66%**
Company Overview

Euro Cosmetic brands itself as the ideal industrial partner that, on behalf of third parties, projects, develops and produces a wide range of beauty & personal care products, with the only exception of make-up. Euro Cosmetic products fall into four main categories: i) cleansers and detergents (~39% of FY19 revenue), including shower gels and shampoos; ii) oral hygiene products (~35%), like toothpastes and mouthwashes; iii) fragrances (~15%), such as eau de parfum, after-shaves and deodorants; and iv) skin care products (~10%), such as lotions, toners, creams, oils and sunscreens. Thanks to its highly flexible production system, Euro Cosmetic offers the wide range of services for each of its product category, starting from engineering and formulating active ingredients, to mixing, filling and labeling, to the delivery of the final products. The Company is thus able to satisfy different customers' needs, mainly intended for: i) private labels of large retail store chains (~43% of FY19 revenue); ii) industrial companies, both large multinational and small and medium-sized companies with their own brands (~28%); iii) cosmetic companies specializing in high quality products intended for beauty salons, hair salons and hotels (~25%), and iv) pharmaceutical companies (~4%). The Company was founded in Tortona in 2002, but the current ownership entered in the Company's capital in 2011; since then, the Value of Production has increased by 75%, from €12.6mIn to €22.6mIn in 2019, and the factory has been expanded by 13,500 square meters, to reach the current surface of 16,500 sqm. As for 2020, after having recorded 9M finished products revenue of €20.9mIn, +26.7% yoy, according to the guidance published on January 14, the Company expects FY20 VoP to be €27.4mIn, +21% yoy, with EBITDA margin improving from 12.4% in 2019 to about 17.5%.

SWOT Analysis
Strengths

- Resilience of Euro Cosmetic's reference industry and business
- Products certification and 4.0 production plant as entry barriers
- Production flexibility in terms of quantity, timing and customization
- Long-lasting client relationship
- R&D investment releasing a consistent range of tested formulations and active ingredients

Opportunities

- Expansion in the B2C channel through the launch of an e-commerce platform for the marketing of niche products Euro Cosmetic branded
- Change in post-pandemic consumers' habits on hand and body hygiene
- Growth in the pharmaceutical channel, based on Euro Cosmetic certification for the production of medical-surgical devices (Italian "PMC")
- Diversification of the product range and increase in turnover through potential M&A

Weaknesses

- Net working capital cash absorption
- High revenue concentration by client company

Threats

- High level of competition in the Personal Care industry
- Risk of cannibalization of a product line by the giants of the sector

Main catalysts

- 👍 Market positioning strengthening in the pharmaceutical sector thanks to the freshly obtained PMC certification
- Product range expansion as regards to both cosmetics and surgical medical devices
- Launch of a B2C e-commerce platform for the sale and marketing of high-quality niche skincare product

Main risks

- 🗨️ Risk associated with customer concentration and the relative dependence of revenues on a few important customers

**Euro Cosmetic
"ID Card"**
**Recommendation
BUY**
**Target Price
10.7**
**Upside
66%**

January 21 -19:00

Main Financials					
(€ mln)	2018	2019	2020E	2021E	2022E
Value of Production	19.3	22.6	27.4	28.9	30.6
yoy change		17%	21%	6%	6%
EBITDA	2.1	2.8	4.8	4.9	5.4
yoy change		37%	70%	3%	9%
EBITDA margin (%)	11%	12%	17%	17%	18%
EBIT	0.7	1.4	3.4	3.5	3.7
EBIT margin (%)	4%	6%	13%	12%	12%
EBT	0.6	1.3	3.3	3.3	3.5
EBT Margin (%)	3%	6%	12%	11%	11%
Net income	0.3	1.0	2.5	2.9	2.6
Net Income margin (%)	2%	4%	9%	10%	9%
Net debt (cash)	6.2	3.7	(5.7)	(6.3)	(8.4)
Shareholders Equity	5.8	6.4	15.8	18.1	20.2
Changes in NOWC	0.6	1.4	(0.7)	(1.2)	(0.9)
Capex	(0.7)	(1.2)	(0.9)	(2.0)	(1.0)
Free Cash Flow	1.6	2.8	2.4	1.5	2.7

Breakdown by business unit					
(€ mln)	2018	2019	2020E	2021E	2022E
Detergents	6.1	8.6	12.9	13.4	13.7
Oral Care	6.7	7.7	8.3	8.4	8.8
Skincare & Lotion	2.7	2.3	2.0	2.8	3.7
Fragrances	3.5	3.3	3.5	3.8	3.9
Revenues from finished product	19.1	21.8	26.8	28.4	30.2

Solvability Ratios					
	2018	2019	2020E	2021E	2022E
Net Debt (cash)/Equity	1.1x	0.6x	-0.4x	-0.3x	-0.4x
Net Debt (cash)/EBITDA	3.0x	1.3x	-1.2x	-1.3x	-1.6x
EBIT Interest Coverage Ratio	4.7x	10.3x	18.7x	16.7x	16.8x

Financial and Operative ratios					
	2018	2019	2020E	2021E	2022E
Tax rate	25%	25%	25%	13%	25%
ROE	5%	16%	16%	16%	13%
ROIC	3%	11%	26%	25%	24%
Capex/VoP	4%	5%	3%	7%	3%
D&A/Capex	184%	109%	138%	75%	168%

Source: FactSet, Banca Profilo estimates and elaborations

Company Description	
Company Sector	Personal Care
Price (€)	6.40
Number of shares (mln)	4.76
Market Cap (€ mln)	30.47
Reference Index	FTSE AIM ITALIA
Main Shareholders	MD Srl; Findea's Srl
Main Shareholder stake	39%; 34%
Free Float	27%
Daily Average Volumes ('000)	9,472.0
Sample of best comparables	Sarantis, L'Occitane, PZ Cussons
Other selected comparables	Beiersdorf, L'Oreal, Johnson & Johnson and Colgate-Palmolive.

Data of best peers			
	2020E	2021E	2022E
Revenue Growth (yoy)	1%	6%	6%
EBITDA Margin	15%	16%	17%
<i>Average data</i>			

Multiples of best peers		
	2021E	2022E
Average EV/EBITDA	11.4x	9.9x
Median EV/EBITDA	10.0x	9.4x

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