

Euro Cosmetic: ready to unleash its own branded products



May 11, 2021, at 19:00

FY20: record results

The economic consequences of the crisis triggered by Covid-19 has had a limited impact on Euro Cosmetic business, mainly thanks to the Company's ability to take up opportunities from increasing demand for sanitizing products, which 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. In FY20, Euro Cosmetic Value of Production surged by 23% yoy to €27.8m, while EBITDA margin improved by 530 basis points to 18%, mainly thanks to: i) better product mix and ii) volumes growth leading to operating leverage stand out.

FY21 starting on a weaker pace but improvement is expected in the 2H21

In 1Q21, turnover rose by 0.9% yoy to €6.6m, despite 1Q20 benefited from additional orders for hand sanitizers and from increased demand by superstores and supermarkets. The Company has not changed its 2021 guidance: Value of Production at €29.0m (+4% yoy) and EBITDA at €5.1m, with 18% EBITDA margin. 2021 Company's guidance is based on: i) extending the production plant by 5,000 square meters, to reach a total surface of 21,500 sqm (€4.6m capex of which 900k in 2021), ii) product range thanks expansion through R&D and new product certifications; iii) new clients acquisition thanks to the enhanced production capacity. In addition, the net IPO proceeds, worth €7.2m, are going to be used to launch a branded skin care product line, intended for online sales, and to finance M&A opportunities aimed at strengthening market positioning within the pharmaceutical sector.

Our 2021E-2023E revised estimates

Since our Initial Coverage (January 22, 2021), the advent of the third wave of Covid-19 infections between February and March has led the Government to ramp up restrictions on social life, by imposing limitations on non-essential travel and forced closures on certain economic activities. Consequently, we believe that Q1 figures were still affected by the weakness of the Professional sector (hotellerie and beauty salons), which will presumably also affect Q2 results, leading to an yoy contraction in the 1H; this contraction will also be induced by a negative comparable base effect, as 1H20 included some €3.5m of revenue from hand sanitizers. We expect the comparison with 2020 to return positive in the second half of the year, when the Company will see the first results of the expansion of the production plant and the launch of new product lines, in particular the skincare line with proprietary brand. Overall, we revised downward our expectations on 2021 turnover, from €28.4m to €27.9m, due to a delay in the recovery of the Professional sector. As regards to EBITDA, we project an 18% margin, in line with FY20, with EBITDA revised to €5m from €4.9m of our previous estimate. In 2022E-2023E we made no significant amendments to our framework assumptions, except for a slight downward revision on the expected Value of Production, mainly due to uncertainties regarding the start and extent of the recovery of the Professional segment. According to our new estimates, the VoP is seen growing at a 5% 2020-2023E CAGR to €31.8m (vs our previous estimate of €32.1m). 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) the potential loss of competitiveness.

Valuation: BUY and 12-months TP confirmed

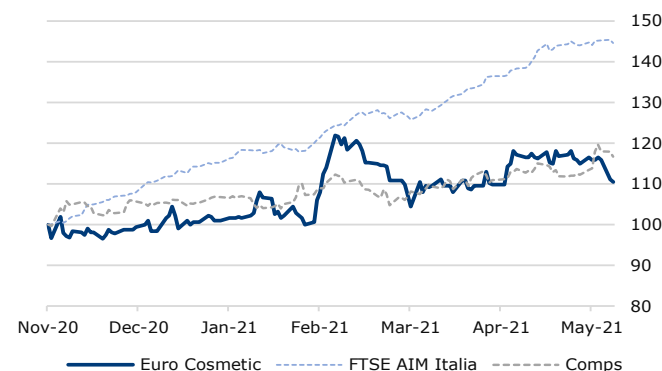
We confirm our BUY recommendation with a 12-month Target Price of €10.7, computed as the simple average of DCF valuation and market multiples valuation on 2022E-2023E average EV/EBITDA of 10.3x. The target price results unchanged from our Initial Coverage, as the increase in the price implicit in the multiples (from €10.5 to €11.2) is offset by the drop in the target price from DCF (from €11.0 to €10.3), attributable to the lowering of cumulative cash flows and the terminal cash flow. For the relative valuation we maintained a 15% liquidity discount given the low level of turnover velocity ratio of the stock.

Target Price (€)	10.7
Recommendation	BUY
Price as of May 11, 2021	6.9
Number of shares (mln)	4.8
Market capitalization (€, mln)	33.0
Performance	from IPO
Absolute	+10%
Max / Min	7.8/5.8
Average daily volumes	10,625

(€mln)	2019	2020E	2021E	2022E	2023E
Revenue	22.0	27.1	27.9	29.8	31.3
yoy change (%)	14%	23%	3%	7%	5%
VoP	22.6	27.8	28.3	30.3	31.8
yoy change (%)	17%	23%	2%	7%	5%
EBITDA	2.8	4.9	5.0	5.3	5.5
margin (%)	12%	18%	18%	18%	18%
EBIT	1.4	3.5	3.5	3.6	3.7
margin (%)	6%	13%	12%	12%	12%
Net income	1.0	2.5	2.9	2.6	2.7
margin (%)	4%	9%	10%	9%	8%
Net debt(cash)	3.7	(5.9)	(5.7)	(7.8)	(10.3)
Sh. Equity	6.4	15.6	18.1	20.1	22.3
Capex	1.2	1.2	2.0	1.0	1.0
Free Cash Flow	2.8	2.8	1.3	2.7	3.2

Source: Banca Profilo estimates and elaborations, Company data.

Normalized Performance since IPO



Francesca Sabatini

Head of Equity Research
francesca.sabatini@bancaprofilo.it
+39 02 58408 461

Benedetta Sorge

Equity Research Analyst
benedetta.sorge@bancaprofilo.it
+39 02 58408 570

Sales Desk

+39 02 58408 478

Contents

Executive summary	3
<i>Euro Cosmetic in a nutshell</i>	3
<i>Main Financial data and estimates (2021E-2023E)</i>	4
<i>Valuation: DCF and market multiples approach</i>	5
<i>Key risks</i>	5
SWOT analysis	7
Historical operating and financial performance	8
<i>Main operating and financial data</i>	8
Strategy and estimates	14
<i>Company’s strategy and guidance</i>	14
<i>Our 2021E-2023E estimates</i>	14
<i>Key risks</i>	19
Valuation	21
<i>DCF Valuation</i>	21
<i>Relative market multiples valuation</i>	23
APPENDIX	24
<i>Euro Cosmetic’s history and activities</i>	24
<i>Ownership structure</i>	27
<i>Management</i>	27
DISCLAIMER	31

Executive summary

Euro Cosmetic in a nutshell

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 (~50% of FY20 revenue), including shower gels, soaps, hand sanitizers and shampoos;
- oral hygiene products (~30%), like toothpastes and mouthwashes;
- fragrances (~13%), such as *eau de parfum*, after-shaves and deodorants;
- skin care products (~8%), 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 (~40% of FY20 revenue);
- industrial companies, both large multinational and small and medium-sized companies with their own brands (~33%);
- cosmetic companies specializing in high quality products intended for beauty salons, hair salons and hotels (~14%);
- pharmaceutical companies (~14%).

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 15% CAGR, reaching €27.8mIn in 2020, experiencing strong growth rates even during the 2008-2009 financial crisis. The historical double-digit growth rate is attributable to four 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, iii) the penetration into new markets and iv) the launch of innovative products in the wake of new consumption habits (such as hand sanitizer in 2020).

2020 in a nutshell:

- VoP at €27.8mIn, +23% yoy
- EBITDA margin up 530bps to 18%

In 2020 alone, the Company recorded a 23% yoy growth in the VoP, driven by increasing demand for detergents. The consequences of the crisis triggered by Covid-19 has had a 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. EBITDA margin on revenue improved by 530 basis points to 18%, thanks to: i) the growth in total volumes which has led to efficiency in purchases of raw materials, ii) the launch of the hand sanitizing gel, with an estimated margin of about 21-22%, iii) the increase in sales in the pharmaceutical sector and iv) the decrease in the incidence of fixed costs, mainly labour costs.

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 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 €4.6mIn, 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 €0.7mIn, 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 €28.7mIn, +6% yoy, VoP of €29.0mIn, +4% 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 its market share on the pharmaceutical sector.

1Q21 and our FY21 estimate revision

In 1Q21 Euro Cosmetic recorded revenue from finished products of €6.6mIn (data not subject to statutory audit), up 0.9% yoy; we believe that Q1 figures were still affected by the weakness of the Professional sector (hotellerie and beauty salons), which will presumably also affect Q2 results, leading to an yoy contraction in the 1H; this contraction will also be induced by a negative comparable base effect, as 1H20 included some €3.5mIn of revenue from hand sanitizers. We expect the comparison with 2020 to return positive in the second half of the year, when the Company will see the first results of the expansion of the production plant and the launch of new product lines, in particular the skincare line with proprietary brand. Overall, we have revised down by 500k our expectations on 2021 turnover, from €28.4mIn to €27.9mIn, due to the prolonged economic closures that we estimate have delayed the recovery of the Professional sector. As regards EBITDA, we expected 2021 EBITDA margin to remain at

18%, in line with that recorded in 2020, as the drop in marginality related to the physiological slowdown in hand sanitizers sales will be offset by operating efficiencies and by the launch of new high-margin products, mainly proprietary brand skincare products expected from the last quarter of 2021.

2022E-2023E revised estimates

For 2022E-2023E projections we have made no significant amendments in our framework assumptions, except for a slight downward revision on the expected Value of Production, due to the downward revisions carried out by independent international organizations on the Italian GDP in 2022 and 2023, and to the uncertainties related to the start and extent of the recovery of the Professional segment. According to our new estimates, the VoP is estimated to grow at a 2020-2023E CAGR of 5%, to €31.8mIn in 2023 (vs our previous estimate of €32.1mIn).

Valuation: DCF and market multiples approach

12-months Target Price unchanged at €10.7

We confirm our BUY recommendation with a 12-month Target Price of €10.7, computed as the simple average of DCF valuation and market multiples valuation on 2022E-2023E average EV/EBITDA of 10.3x. The target price results unchanged from our Initial Coverage, as the increase in the price implicit in the multiples (from €10.5 to €11.2) is offset by the drop in the target price from DCF (from €11.0 to €10.3), attributable to the lowering of cumulative cash flows and the terminal cash flow.

DCF assumptions:

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

To run a DCF model, we used our projections of unlevered FCFs for the 2021E-2023E explicit period equal to a cumulated value of €7.2 (vs €7.6mIn of our previous estimate), already including cumulated capex of €3.9mIn and cumulated NOWC needs of €3.0mIn. The cut in the cumulative cash flow is attributable to two factors: 1) the downward revision of the Value of Production from 2021 to 2023 and, consequently, of the NOPAT, and 2) the new estimates on the operating working capital needs which reflect a trend of trade payables more in line with historical performance. Lastly, we have considered the net cash position as of the end of December 2020 (€5.9mIn), a growth rate of 2% (unchanged from the Initial Coverage) and a WACC of 7.1% (unchanged). The DCF method leads us to an Enterprise Value of €43.4mIn (vs €46.4mIn of the Initial Coverage) and an Equity Value of €49.3mIn or €10.3/share (vs €52.2mIn and €11.0/share of the Initial Coverage)

Relative market multiples approach: EV/EBITDA 2022E-2023E of 10.3x

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 can be better compared to Euro Cosmetic in terms of business, dimension and product comparability. Our best sample shows an average 2022E-2023E EV/EBITDA of 10.3x, which led to an Equity Value of €52.9mIn, equal to €11.1 per share, already including a 15% liquidity discount given Euro Cosmetic's low level of turnover velocity ratio.

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

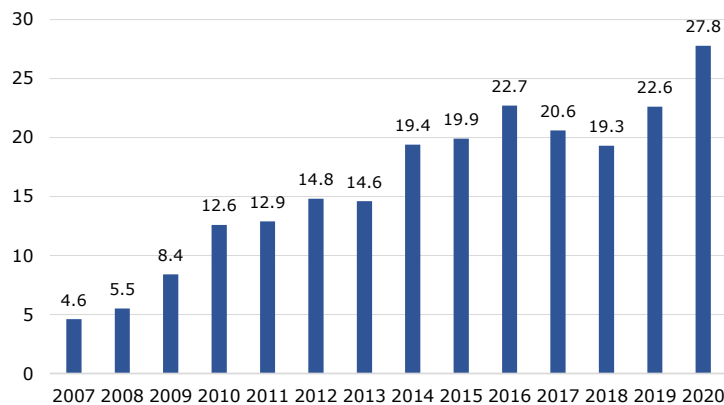
Historical operating and financial performance

Main operating and financial data

Since 2007, VoP has grown at a 15% CAGR

From 2007 to 2020, Euro Cosmetic's Value of Production has grown at a 15% CAGR, reaching €27.8mln in 2020, 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, who took office in 2011; since then, the VoP has increased by 115%, thanks to both the acquisition of new customers and the investments made in expanding the factory plant. In 2020 alone, the Company recorded a 23% yoy growth in the VoP, driven by demand for detergents. The consequences of the crisis triggered by Covid-19 has had a 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.

Figure 1: VoP evolution from 2007 to 2020 (€, mln)

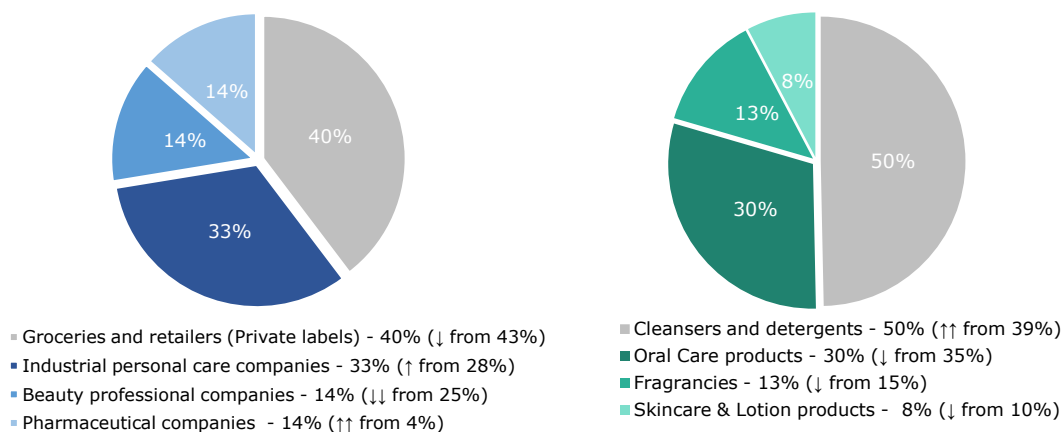


Source: Banca Profilo elaborations on Company data

2020 Revenue breakdown

Looking at revenue breakdown by type of client, in 2020, 40% of revenues came from large retail store chains (down from 43% in 2019), 33% from multinational personal care companies (up from 28% in 2019), 14% from cosmetic companies specializing in high quality products for beauty salons (well below 25% in 2019), while the remaining 14% came from pharmaceutical companies (up from 4% in 2019).

Figure 2: Euro Cosmetic's 2020 revenue breakdown by type of client and by product type (%)



Source: Banca Profilo elaborations on Company data

2020 Revenue breakdown

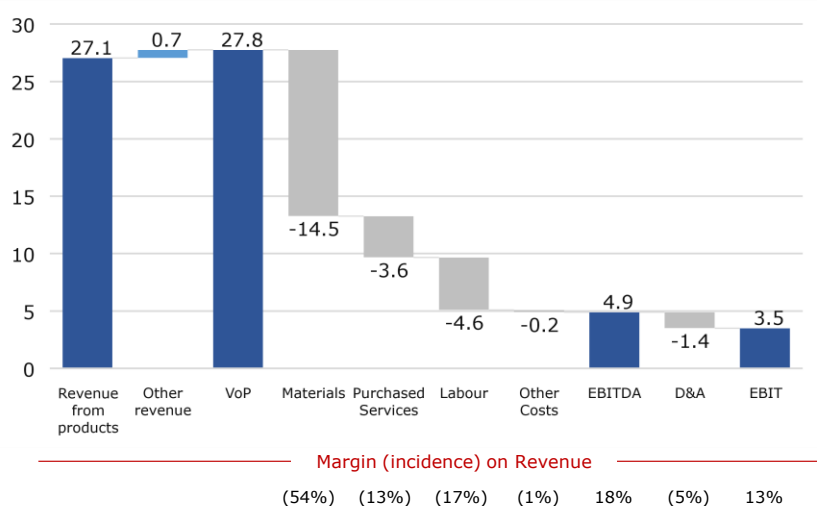
As expected, the breakdown has changed significantly during the year, due to both the decline in revenue from quality products intended for beauty professional companies and the surge in demand for hand sanitizers, which boosted sales in the pharmaceutical sector. As the breakdown by type of client considerably changed, also that by type of product did. Detergent products increased their impact on total turnover by 10% to 50%, to the detriment of other product categories.

Cost of goods sold breakdown: 54% raw materials (ingredients and packaging)

In 2020, cost of goods sold stood at €22.9mln, with an incidence on revenue equal to 84%, significantly below the 90% in 2019, mainly thanks to the lower incidence of raw materials. The breakdown into single voices was the following:

- raw materials (54% on revenue, 63% of 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 (13% on revenue, 16% of COGS), mainly related to outsourced product assembly services and freight transport logistics and services;
- labour cost (17% on revenue, 20% of COGS), divided between structure administrative staff and production staff;
- other costs (1% on revenue, 1% of COGS), including costs for the use of third-party assets.

Figure 3: 2020 cost structure (€, mln)



Source: Banca Profilo elaborations on Company data

2020 EBITDA margin at 18%, up from an already improving 13% in 2019

In 2020, EBITDA margin on revenue improved by 530 basis points to 18%, thanks to: i) the growth in total volumes which has led to efficiency in purchases of raw materials, ii) the launch of the hand sanitizing gel, with an estimated margin of about 21-22%, iii) the increase in sales in the pharmaceutical sector and iv) the decrease in the incidence of fixed costs, mainly labour costs. Already in 2019, the Company had recorded a 215bp increase in EBITDA margin, to 13%, driven by: 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 9% in 2020

Counting 2020 D&A equal to €1.4mln, unchanged from 2019, EBIT stood at €3.5mln, with margin on revenue up from 7% in 2019 to 13%. Net financial expenses were almost unchanged, as well as tax rate, at 25%, thanks tax benefits on super-amortization. Finally, 2020 Net Income stood at €2.5mln, +151% yoy, with margin on revenue improving from 5% in 2019 to 9% in 2020.

Table 1: Euro Cosmetic Profit & Loss 2018-2020 (€ mln)

Profit & Loss (€ mln)			
	2018	2019	2020
Revenue from finished products	19.3	22.0	27.1
<i>yoy</i>		14%	23%
Changes in unfinished & finished goods	(0.1)	0.2	0.5
Other Revenues	0.1	0.4	0.2
Value of Production	19.3	22.6	27.8
<i>yoy</i>		17%	23%
Cost of raw materials & changes in inventories	(11.6)	(13.2)	(14.5)
<i>% on revenue</i>	60%	60%	54%
Cost of purchased services	(2.0)	(2.5)	(3.6)
<i>% on revenue</i>	10%	11%	13%
Costs for the use of third-party assets	(0.0)	(0.0)	(0.0)
<i>% on revenue</i>	0%	0%	0%
Labour cost	(3.5)	(4.0)	(4.6)
<i>% on revenue</i>	18%	18%	17%
Other operating costs	(0.2)	(0.2)	(0.2)
<i>% on revenue</i>	1%	1%	1%
Cost of goods sold	(17.3)	(19.8)	(22.9)
EBITDA	2.1	2.8	4.9
<i>EBITDA margin on revenue</i>	11%	13%	18%
<i>EBIT margin on VoP</i>	11%	12%	18%
<i>yoy</i>		37%	75%
D&A	(1.4)	(1.4)	(1.4)
<i>% on revenue</i>	7%	6%	5%
Write-downs	-	(0)	(0)
EBIT	0.7	1.4	3.5
<i>EBIT margin on revenue</i>	4%	7%	13%
<i>EBITDA margin on VoP</i>	4%	6%	13%
<i>yoy</i>		104%	145%
Net financial income (expenses)	(0.1)	(0.1)	(0.2)
<i>% on revenue</i>	1%	0%	1%
EBT	0.6	1.3	3.3
<i>EBT margin on VoP</i>	3%	6%	12%
Income Tax Expense	(0.3)	(0.3)	(0.8)
<i>Tax rate</i>	45%	25%	25%
Net Income	0.3	1.0	2.5
<i>Net Income margin on revenue</i>	2%	5%	9%
<i>Net Income margin on VoP</i>	2%	4%	9%
<i>yoy</i>		217%	151%

Source: Banca Profilo elaborations on Company data

A production plant worth €8.4mln

On the Balance Sheet side, at the end of 2020, Euro Cosmetic had €8.6mln of fixed assets, broadly in line with 2019 (€8.9mln), of which approximately 97% was represented by tangible fixed assets (€8.4mln), split in half between property, plant and equipment and right of use.

NOWC stood at €3.1mln in 2020, with a 12% incidence on revenue

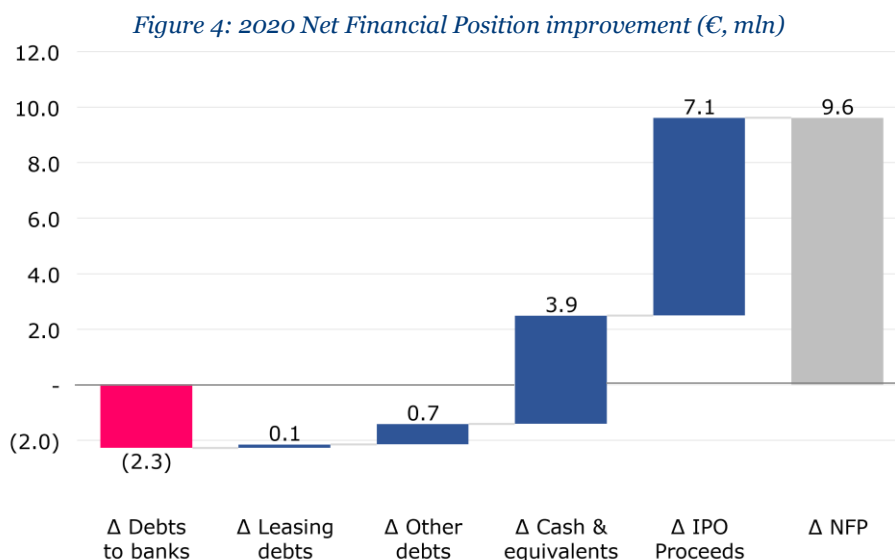
Net Operating Working Capital stood at €3.1mln in 2020 (12% of revenue vs 13% in 2019), of which €5.3mln of inventories (20% on revenues from 18% in 2019), €3.5mln of trade receivables (13% on revenues from 19% in 2019), and €5.7mln of trade payables (21% of revenues from 23% in 2019). Among the items of operating working capital, the trend in trade receivables showed a well better than expected management: in this regard, factoring is now to be considered a recurring operation from year to year; in 2020, the Company assigned trade receivables for €3.96mln, equal to 53% of total trade receivables.

Shareholders' equity: €15.6mln in 2020, up €9.2mln

Shareholders' equity amounted to €15.6mln in 2020 compared to €6.4mln in 2019. The €9.2mln increase in shareholders' equity can be broken down into: i) €2.5mln of 2020 net income, ii) €7.1mln of net proceeds from the IPO, and iii) -€400k for the payment of dividends.

Net Financial Position improvement of €9.6mln

As a result of net invested capital decreasing by €300k to €9.9mln, and shareholders' equity up by €9.2mln to €15.6mln, the net financial position improved by €9.6mln, becoming positive for €5.9mln (cash). The NFP can be broken down as follows: €5.1mln of debts to banks (+€2.3mln from 2019, relating to new loans for investments, prior to the capital increase), €2.6mln of leasing debts (-€0.1mln from 2019), €0.0mln of other debts (-€0.7mln from 2019) and €13.5mln of cash and cash equivalents (+€11.0mln from 2019, of which €7.1mln deriving from the capital increase and €3.9mln from the company's operating cash generation). The graph below shows the €9.6mln improvement in the net financial positions broken down into individual items: a negative figure stands for an increase in debt, while a positive figure represents a reduction in debt or an increase in cash and cash equivalents.



Source: Banca Profilo elaborations on Company data.

Table 2: Euro Cosmetic Balance Sheet 2018 – 2020 (€ mln)

Balance Sheet (€ mln)			
	2018	2019	2020
Intangible Assets	0.2	0.2	0.2
Tangible Assets	8.8	8.6	8.4
PP&E	4.3	4.5	4.4
Right of use	4.5	4.2	4.0
Financial Assets	-	-	-
Fixed Assets	9.0	8.9	8.6
Trade Receivable	5.8	4.1	3.5
Inventories	3.8	3.9	5.3
Trade Payable	(5.3)	(5.1)	(5.7)
Net Operating Working Capital	4.3	2.9	3.1
<i>NOWC % on revenue</i>	22%	13%	12%
trade receivables (% on revenue)	30%	19%	13%
inventories (% on revenue)	20%	18%	20%
trade paybles (% on COGS)	31%	25%	25%
Other current assets	0.6	0.9	0.6
Other current liabilities	(0.8)	(1.1)	(0.9)
Non current assets	0.0	0.0	0.1
Non current liabilities	(1.1)	(1.3)	(1.6)
Of which Funds	(0.9)	(1.1)	(1.4)
Invested Capital	12.0	10.2	9.9
Capex	0.7	1.2	1.2
<i>Intangible</i>	0.2	0.0	0.1
<i>Tangible</i>	0.5	1.2	1.1
<i>% on revenue</i>	4%	6%	4%
Share capital	1.2	1.2	1.6
Reserves and Retained Earnings	4.3	4.2	11.5
Net Income	0.3	1.0	2.5
Shareholders' equity	5.8	6.4	15.6
Net debt (cash)	6.2	3.7	(5.9)
Cash and cash equivalents	(2.5)	(2.5)	(13.5)
Of which net IPO Proceeds			(7.1)
Debts to banks	5.6	2.8	5.1
Leasing debts	3.0	2.7	2.6
Other debts	0.0	0.7	0.0

Source: Banca Profilo elaborations on Company data

Free Cash Flow was positive for €2.8mIn in 2020

In 2020, Euro Cosmetic kept being cash generative, with a Free Cash Flow positive for €2.8mIn, unchanged from 2019, including Net Operating Working Capital needs for €0.2mIn and €1.2mIn of capex.

Table 3: Euro Cosmetic's Cash Flow 2018-2020 (€ mIn)

Cash Flows (€ mIn)			
	2018	2019	2020
EBIT	0.7	1.4	3.5
Tax rate	45%	25%	25%
NOPAT	0.4	1.1	2.6
D&A	1.4	1.4	1.4
Operating Cash Flow	1.7	2.4	4.0
Changes in Funds	0.1	0.2	0.2
Changes in Operating NWC	0.6	1.4	(0.2)
Capex	(0.7)	(1.2)	(1.2)
Free Cash Flow	1.6	2.8	2.8

Source: Banca Profilo estimates and elaborations on Company data

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.

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 product, with its own brand and its own e-commerce platform in the second half of 2021. 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 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:

- 6% yoy growth in revenue
- 4% 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 FY21: revenue from finished products of €28.7mIn, +6% yoy, VoP of €29.0mIn, +4% yoy, EBITDA margin on VoP at 17.6%, 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 enlarging the customer portfolio and the product range, as well as strengthening the market positioning mainly within the pharmaceutical sector.

Our 2021E-2023E estimates

1Q21 and FY21 estimate revision

In 1Q21 Euro Cosmetic recorded revenue from finished products of €6.6mIn (data not subject to statutory audit), up 0.9% yoy, despite the first quarter of last year benefited from the first orders for hand sanitizers and the growth in revenues at large retail chains and supermarkets. For 1H21 we expect a double-digit yoy contraction, due to a professional sector still penalized by the closure of economic activities in April, and a negative comparable base effect, as the first half of 2020 included approximately €3.5mIn of revenue from hand sanitizers. We expect the comparison with 2020 to return positive in the second half of the year, when the Company will see the first results of the expansion of the production plant and the launch of new product lines, in particular the skincare line with proprietary brand. Overall, we have revised down by 500k our expectations on 2021 turnover, from €28.4mIn to €27.9mIn, due to the prolonged economic closures that we estimate have delayed the recovery of the professional sector. As regards EBITDA, we aligned the expected marginality for 2021 to the historical one achieved in 2020, equal to 18%, with an EBITDA revised to €5mIn from €4.9mIn of our previous estimate.

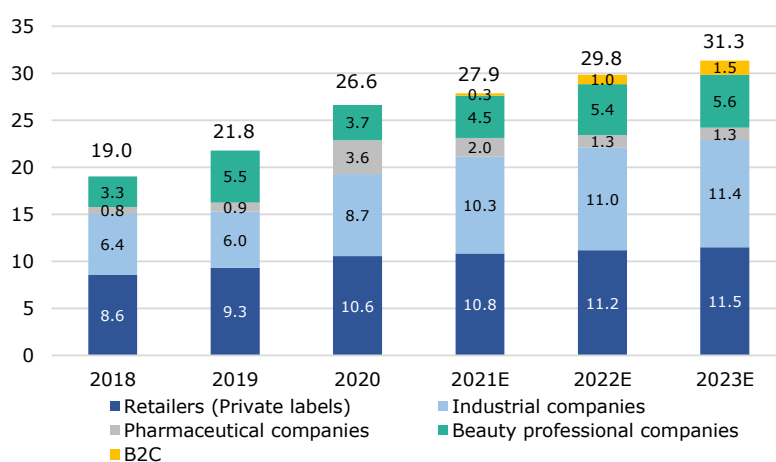
VoP is estimated to grow at a CAGR of 5% over 2020-2023E

For 2022E-2023E projections we have made no significant amendments in our framework assumptions, except for a slight downward revision on the expected Value of Production, due to the downward revisions that several independent international organizations have carried out on the Italian GDP in 2022 and 2023, and due to the uncertainties related to the start and extent of the recovery of the Professional segment. According to our new estimates, the VoP is estimated to grow at a 2020-2023E CAGR of 5%, to €31.8mIn in 2023 (vs our previous estimate of €32.1mIn). In terms of business, 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 in the following years. 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 surge in revenue in 2020;
 - iv) a return to growth in revenues from professional products in 2021, thanks to the gradual reopening of the economic activities concerned (hotels, hairdressers and beauty salons);
 - v) approximately €2.8mln of cumulative revenue between 2021 and 2023 generated by the entry into the BTC market.

Figure 5: 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 remain, on average, at 84% (in line with 2020 figure)

The incidence of cost of goods sold on finished products revenue is expected to remain, on average, at 84%, equal to the incidence recorded in 2020 (in line with our previous estimates).

- Cost of materials: due to the change in the product mix towards higher margins products, the incidence of cost of raw materials on revenue dropped from 60% in 2019 to 54% in 2020 (in line with our estimate); we confirm our previous estimates which see that incidence to remain at 54% also over the next few years;
- Cost of purchased services: in 2020 the incidence on revenue increased by 200bps at about 13%, due to the strong rise in external processing services needed for the production of hand 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 (in line with our previous estimates);
- Labour costs: in line with Company's recruitment plan, we have assumed 10 new hires in 2021 and other 10 between 2022 and 2023; with a broadly unchanged average cost per employee (estimated at 44k), such assumptions lead to a 2021E-2023E average incidence on revenue equal to about 17% (in line with our previous estimates);
- Other operating costs: we assume for the all period under analysis an incidence on revenue in line with the 2019-2020 average, equal to 0.7%.

EBITDA:

- 20-23E CAGR of 4%
- average 21E-23E margin at about 18%

Based on our revenue and cost assumptions, EBITDA is estimated to grow at a 2020-2023E CAGR of 4%, to €5.5mln 2023 (vs 5% of CAGR and €5.7mln 2023 EBITDA of our previous estimate, following the revision of projections on VoP); EBITDA margin on revenue is expected to remain constant at 18%, as the drop in marginality related to the physiological slowdown in hand sanitizers sales will be offset by operating

D&A has to reflect a 21E-23E estimated capex plan of €3.9mIn

efficiencies and by the launch of new high-margin products, mainly proprietary brand skincare products expected from the last quarter of 2021.

From 2021 onwards, D&A should remain at about 5.5% of revenue, with an average 9% annual increase due to an estimated investment plan equal to total capex in the three-year period 2021-2023 of €3.9mIn (in line with our previous estimates). 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% (in line with our previous estimates).

8.5% Net Income margin is to be considered sustainable

Net income is estimated to grow at a 2020-2023E CAGR of 2% to just below €3mIn in 2023 (almost in line with our previous estimate). On average, net income margin is expected to be sustainable at 8.5% (vs our previous estimate of 9%).

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

Profit & Loss (€ mln)										
	2018	2019	2020		2021E		2022E		2023E	
			Old	Actual	Old	New	Old	New	Old	New
Revenue from finished products	19.3	22.0	26.8	27.1	28.4	27.9	30.2	29.8	31.7	31.3
<i>yoy</i>		14%	22%	23%	6%	3%	6%	7%	5%	5%
Changes in unfinished & finished goods	(0.1)	0.2	0.2	0.5	0.2	0.2	0.2	0.2	0.1	0.1
Other Revenues	0.1	0.4	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Value of Production	19.3	22.6	27.4	27.8	28.9	28.3	30.6	30.3	32.1	31.8
<i>yoy</i>		17%	21%	23%	6%	2%	6%	7%	5%	5%
Cost of raw materials & changes in inventories	(11.6)	(13.2)	(14.6)	(14.5)	(15.5)	(14.9)	(16.3)	(16.1)	(17.1)	(17.0)
<i>% on revenue</i>	60%	60%	54%	54%	54%	54%	54%	54%	54%	54%
Cost of purchased services	(2.0)	(2.5)	(3.4)	(3.6)	(3.4)	(3.3)	(3.6)	(3.5)	(3.8)	(3.8)
<i>% on revenue</i>	10%	11%	13%	13%	12%	12%	12%	12%	12%	12%
Costs for the use of third-party assets	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<i>% on revenue</i>	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Labour cost	(3.5)	(4.0)	(4.4)	(4.6)	(4.9)	(4.9)	(5.1)	(5.1)	(5.3)	(5.3)
<i>% on revenue</i>	18%	18%	17%	17%	17%	17%	17%	17%	17%	17%
Other operating costs	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
<i>% on revenue</i>	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Cost of goods sold	(17.3)	(19.8)	(22.6)	(22.9)	(23.9)	(23.3)	(25.2)	(25.0)	(26.4)	(26.3)
EBITDA	2.1	2.8	4.8	4.9	4.9	5.0	5.4	5.3	5.7	5.5
<i>EBITDA margin on revenue</i>	11%	13%	18%	18%	17%	18%	18%	18%	18%	18%
<i>EBIT margin on VoP</i>	11%	12%	17%	18%	17%	18%	18%	18%	18%	17%
<i>yoy</i>		37%	70%	75%	3%	2%	9%	6%	6%	4%
D&A	(1.4)	(1.4)	(1.3)	(1.4)	(1.5)	(1.5)	(1.7)	(1.7)	(1.8)	(1.8)
<i>% on revenue</i>	7%	6%	5%	5%	5%	5%	5%	6%	5%	6%
Write-downs	-	(0)	(0)	(0)	-	-	-	-	-	-
EBIT	0.7	1.4	3.4	3.5	3.5	3.5	3.7	3.6	3.9	3.7
<i>EBIT margin on revenue</i>	4%	7%	13%	13%	12%	13%	12%	12%	12%	12%
<i>EBITDA margin on VoP</i>	4%	6%	13%	13%	12%	12%	12%	12%	12%	12%
<i>yoy</i>		104%	141%	145%	2%	0%	7%	3%	6%	3%
Net financial income (expenses)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
<i>% on revenue</i>	1%	0%	1%	1%	1%	1%	1%	1%	1%	1%
EBT	0.6	1.3	3.3	3.3	3.3	3.3	3.5	3.5	3.7	3.5
<i>EBT margin on VoP</i>	3%	6%	12%	12%	12%	12%	12%	11%	12%	11%
Income Tax Expense	(0.3)	(0.3)	(0.8)	(0.8)	(0.4)	(0.4)	(0.9)	(0.9)	(0.9)	(0.9)
<i>Tax rate</i>	45%	25%	25%	25%	13%	13%	25%	25%	25%	25%
Net Income	0.3	1.0	2.5	2.5	2.9	2.9	2.6	2.6	2.8	2.7
<i>Net Income margin on revenue</i>	2%	5%	9%	9%	10%	10%	9%	9%	9%	8%
<i>Net Income margin on VoP</i>	2%	4%	9%	9%	10%	10%	9%	9%	9%	8%
<i>yoy</i>		217%	148%	151%	16%	16%	-8%	-11%	6%	2%

Source: Banca Profilo elaborations and estimates

Balance Sheet projections

Capex 2021-2023:
€3.9mln

NOWC absorption of
€3.0mln 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 (almost in line with our previous estimate);
- 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 (unchanged);
- NOWC is estimated to increase by €3mln over 2021-2023 (vs €2.6mln of our previous estimate), with the incidence on revenue expected to be on average at 18%; the main change from previous estimates reflects the new projections on trade payables, whose trend has been set more in line with the historical one; positive effect coming from factoring operations are already included, as they are 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 €3.7mIn) spread over a period of twelve years (in line with our previous estimates);
 Consequently, the NFP is forecast to decline progressively, until reaching -€10.8mIn in 2023 (vs -€11.0mIn of our previous estimate), thanks to Euro Cosmetic cash generative business.

NFP to improve progressively

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

Balance Sheet (€ mln)										
	2018	2019	2020		2021E		2022E		2023E	
			Old	Actual	Old	New	Old	New	Old	New
Intangible Assets	0.2	0.2	0.3	0.2	0.4	0.4	0.5	0.5	0.5	0.5
Tangible Assets	8.8	8.6	8.3	8.4	8.8	8.9	8.1	8.3	7.4	7.5
PP&E	4.3	4.5	4.5	4.4	4.5	4.5	4.2	4.1	3.7	3.7
Right of use	4.5	4.2	3.8	4.0	4.2	4.5	4.0	4.2	3.7	3.9
Financial Assets	-	-	-	-	-	-	-	-	-	-
Fixed Assets	9.0	8.9	8.6	8.6	9.2	9.3	8.6	8.8	7.9	8.1
Trade Receivable	5.8	4.1	4.4	3.5	5.2	4.8	5.9	5.6	6.4	6.1
Inventories	3.8	3.9	5.4	5.3	5.9	5.8	6.5	6.4	6.8	6.8
Trade Payable	(5.3)	(5.1)	(6.2)	(5.7)	(6.5)	(6.0)	(6.8)	(6.5)	(7.1)	(6.8)
Net Operating Working Capital	4.3	2.9	3.5	3.1	4.7	4.6	5.6	5.5	6.2	6.1
NOWC % on revenue	22%	13%	13%	12%	17%	17%	19%	19%	19%	19%
trade receivables (% on revenue)	30%	19%	17%	13%	18%	17%	20%	19%	20%	20%
inventories (% on revenue)	20%	18%	20%	20%	21%	21%	21%	21%	22%	22%
trade payables (% on COGS)	31%	25%	28%	25%	27%	26%	27%	26%	27%	26%
Other current assets	0.6	0.9	0.9	0.6	0.9	0.9	1.0	1.0	1.1	1.0
Other current liabilities	(0.8)	(1.1)	(1.3)	(0.9)	(1.3)	(0.8)	(1.4)	(0.8)	(1.5)	(0.9)
Non current assets	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1
Non current liabilities	(1.1)	(1.3)	(1.7)	(1.6)	(1.6)	(1.8)	(2.0)	(2.2)	(2.2)	(2.4)
Of which Funds	(0.9)	(1.1)	(1.3)	(1.4)	(1.4)	(1.6)	(1.6)	(1.8)	(1.7)	(2.0)
Invested Capital	12.0	10.2	10.0	9.9	11.9	12.4	11.8	12.3	11.5	12.0
Capex	0.7	1.2	0.9	1.2	2.0	2.0	1.0	1.0	1.0	1.0
Intangible	0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Tangible	0.5	1.2	0.9	1.1	1.8	1.8	0.9	0.9	0.9	0.9
% on revenue	4%	6%	4%	4%	7%	7%	3%	3%	3%	3%
Share capital	1.2	1.2	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Reserves and Retained Earnings	4.3	4.2	14.2	11.5	13.6	13.6	16.0	16.0	18.1	18.0
Net Income	0.3	1.0	2.5	2.5	2.9	2.9	2.6	2.6	2.8	2.7
Shareholders' equity	5.5	5.4	15.8	15.6	18.1	18.1	20.2	20.1	22.5	22.3
Net debt (cash)	6.2	3.7	(5.7)	(5.9)	(6.3)	(5.7)	(8.4)	(7.8)	(11.0)	(10.3)
Cash and cash equivalents	(2.5)	(2.5)	(14.5)	(13.5)	(16.1)	(14.4)	(18.8)	(17.1)	(21.7)	(19.9)
Of which net IPO Proceeds			(7.2)	(7.1)	(7.2)	(7.2)	(7.2)	(7.2)	(7.2)	(7.2)
Debts to banks	5.6	2.8	5.7	5.1	5.9	5.3	6.3	5.7	6.3	5.8
Leasing debts	3.0	2.7	2.7	2.6	3.5	3.4	3.7	3.6	4.0	3.9
Other debts	0.0	0.7	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0

Source: Banca Profilo elaborations and estimates

Free Cash Flow of €7.2mIn from 2021 to 2023

According to our Profit & Loss and Balance Sheet estimates, we estimate €7.2mIn of cumulated Free Cash Flow in three years (vs our previous €7.5mIn), net of comprehensive of €3.9mIn of capex and €3.0mIn of NOWC needs. This downward revision is attributable to the previously mentioned revisions of the estimates on the VoP and, consequently, on the NOPAT, and on the trend in trade payables.

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

	Cash Flows (€ mln)									
	2018	2019	2020		2021E		2022E		2023E	
			Old	Actual	Old	New	Old	New	Old	New
EBIT	0.7	1.4	3.4	3.5	3.5	3.5	3.7	3.6	3.9	3.7
Tax rate	45%	25%	25%	25%	13%	13%	25%	25%	25%	25%
NOPAT	0.4	1.1	2.6	2.6	3.0	3.0	2.8	2.7	2.9	2.8
D&A	1.4	1.4	1.3	1.4	1.5	1.5	1.7	1.7	1.8	1.8
Operating Cash Flow	1.7	2.4	3.9	4.0	4.5	4.5	4.4	4.4	4.7	4.6
Changes in Funds	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Changes in Operating NWC	0.6	1.4	(0.7)	(0.2)	(1.2)	(1.5)	(0.9)	(0.9)	(0.5)	(0.6)
Capex	(0.7)	(1.2)	(0.9)	(1.2)	(2.0)	(2.0)	(1.0)	(1.0)	(1.0)	(1.0)
Free Cash Flow	1.6	2.8	2.4	2.8	1.5	1.3	2.7	2.7	3.3	3.2

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

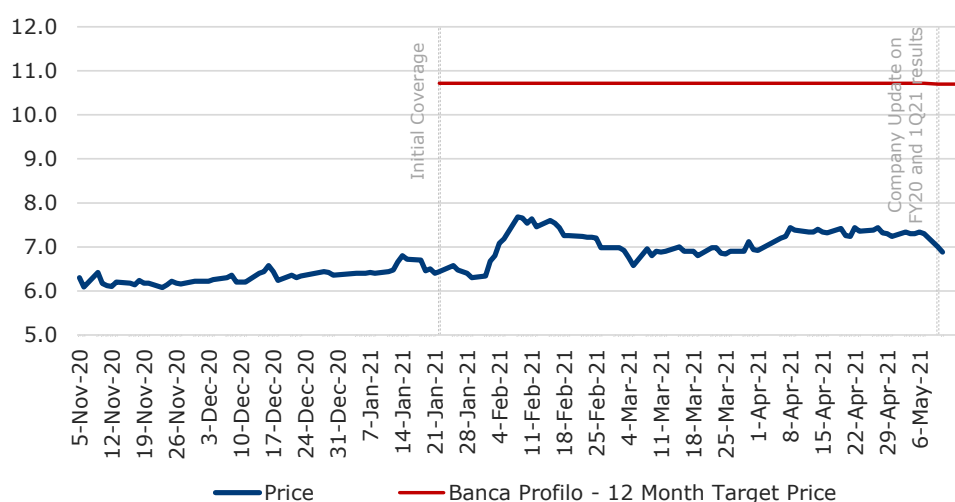
DCF method and market multiples

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.

12-months Target Price unchanged at €10.7

We confirm our BUY recommendation with a 12-month Target Price of €10.7, computed as the simple average of DCF valuation and market multiples valuation on 2022E-2023E average EV/EBITDA of 10.3x. The target price results unchanged from our Initial Coverage, as the increase in the price implicit in the multiples (from €10.5 to €11.2) is offset by the drop in the target price from DCF (from €11.0 to €10.3), attributable to the lowering of cumulative cash flows and the terminal cash flow.

Figure 6: Euro Cosmetic market price vs 12-month Banca Profilo target price since IPO (€)



Source: Banca Profilo elaborations and estimates on FactSet data as of May 11, 2021

DCF Valuation

DCF assumptions:

- €7.2mIn of cumulated FCFs
- €2.4mIn as Terminal Value cash flow
- 7.1% WACC

To run a DCF model, we used our projections of unlevered FCFs for the 2021E-2023E explicit period equal to a cumulated value of €7.2mIn, already including cumulated capex of €3.9mIn and cumulated NOWC needs of €3.0mIn. As stated above, the cut in the cumulative cash flow from €7.5mIn to €7.2mIn is attributable to two factors: 1) the downward revision of the Value of Production from 2021 to 2023 and, consequently, of the NOPAT, and 2) the new estimates on the operating working capital needs which reflect a trend of trade payables more in line with historical performance. Lastly, we have considered the net cash position as of the end of December 2020 (€5.9mIn).

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

- an annual FCF generation of €2.4mIn (as a consequence of the decline in cash flows of the explicit period, the perpetual cash flow also decreased, from €2.5mIn to €2.4mIn, still calculated as the simple average of the 2021-2023 cash flows);
- perpetual growth rate of 2%.
- WACC of 7.1%

The WACC of 7.1%, unchanged from our previous estimates, is 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

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:
€10.3/share

The DCF method leads us to an Enterprise Value of €43.4mln (vs €46.4mln of the Initial Coverage) and an Equity Value of €49.3mln or €10.3/share (vs €52.2mln and €11.0/share of the Initial Coverage)

Table 9: DCF valuation

DCF Valuation (€ mln, except for the target price)	2021E	2022E	2023E	Over
Free Cash Flow (FCF)	1.3	2.7	3.2	2.4
Years	1.0	2.0	3.0	
Discount factor	0.9	0.9	0.8	
NPV Cash flows	1.2	2.4	2.6	
Sum of NPVs	1.2	3.6	6.2	
Terminal Value				45.8
NPV Terminal Value				37.2
Enterprise Value				43.4
Net Financial Position 2020E				(5.9)
Minorities				
Equity Value (€, mln)				49.3
Current outstanding shares				4.8
Equity Value per share (€)				10.3

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.

EV/EBITDA 2022E-2023E of 10.4x Considering the sample of closer to Euro Cosmetic's activity peers (Sarantis, L'Occitane and PZ Cussons), the average EV/EBITDA 2022E and 2023E are equal to 10.6x and 10.0x respectively (as of May 11, 2021), with a simple average of 10.3x; we derived an average Equity Value of €52.9m, equal to a per share value of €11.1 (vs our previous estimates of €49.9m and €10.5/share), already including a 15% liquidity discount given Euro Cosmetic's low level of turnover velocity ratio.

Table 10: Sample market multiples

Company	EV / EBITDA		EV / Sales			P / E		
	11/05/2021	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Sarantis SA		8.0x	1.5x	1.4x	1.3x	13.8x	12.6x	11.3x
L'Occitane International SA		10.4x	2.7x	2.5x	2.3x	25.6x	20.7x	N.A.
PZ Cussons PLC		11.5x	1.8x	1.8x	1.7x	19.5x	18.2x	N.A.
Beiersdorf AG		14.2x	2.6x	2.5x	2.4x	32.8x	29.9x	27.2x
Colgate-Palmolive Co		15.4x	4.4x	4.3x	4.1x	25.2x	23.6x	22.4x
Johnson & Johnson		11.8x	4.9x	4.7x	4.5x	17.7x	16.2x	15.2x
L'Oreal SA		22.1x	6.2x	5.8x	5.4x	42.1x	38.4x	35.5x
Average Best Peers		10.0x	2.0x	1.9x	1.8x	19.6x	17.2x	11.3x
Median Best Peers		10.4x	1.8x	1.8x	1.7x	19.5x	18.2x	11.3x
Average		13.3x	3.5x	3.3x	3.1x	25.2x	22.8x	22.3x
Median		11.8x	2.7x	2.5x	2.4x	25.2x	20.7x	22.4x
Euro Cosmetic		4.9x	1.0x	0.9x	0.9x	11.1x	12.5x	12.2x

Source: Banca Profilo estimates and elaborations on FactSet data (as of May 11, 2021)

Table 11: EV/EBITDA market multiple

Valuation on EV/EBITDA market multiple (€ mln, except for the target price)		
	2022E	2023E
Average EV/EBITDA Best Peers	10.6x	10.0x
Average 2021-2022		10.3x
EBITDA	5.3	5.5
Enterprise Value	56.3	54.8
Net Financial Position (cash) FY2020		(5.9)
<i>Liquidity Discount</i>		<i>15%</i>
Current Minorities	0.0	0.0
Equity Value	53.5	52.2
Average Equity Value		52.9
Current outstanding shares		4.8
Price per share (€)		11.1

Source: Banca Profilo estimates and elaborations on FactSet data (as of May 11, 2021)

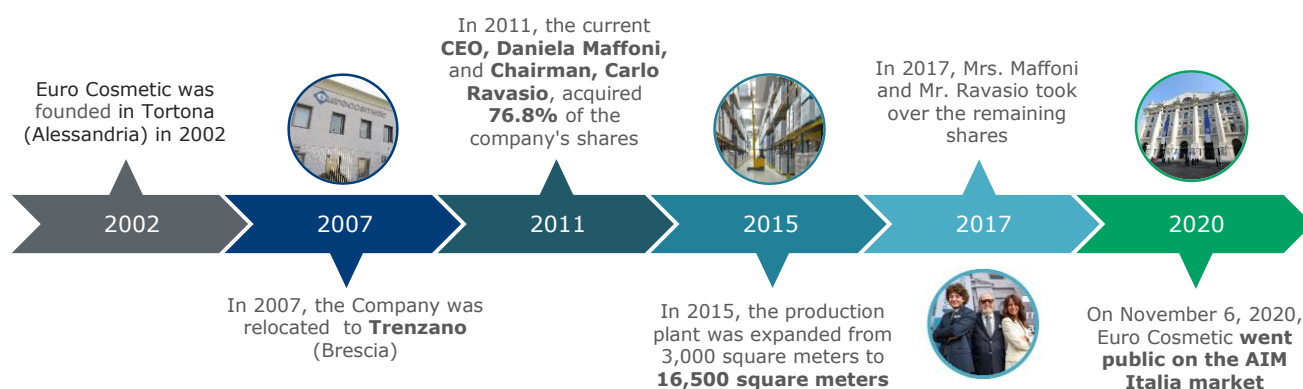
APPENDIX

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 7: 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:

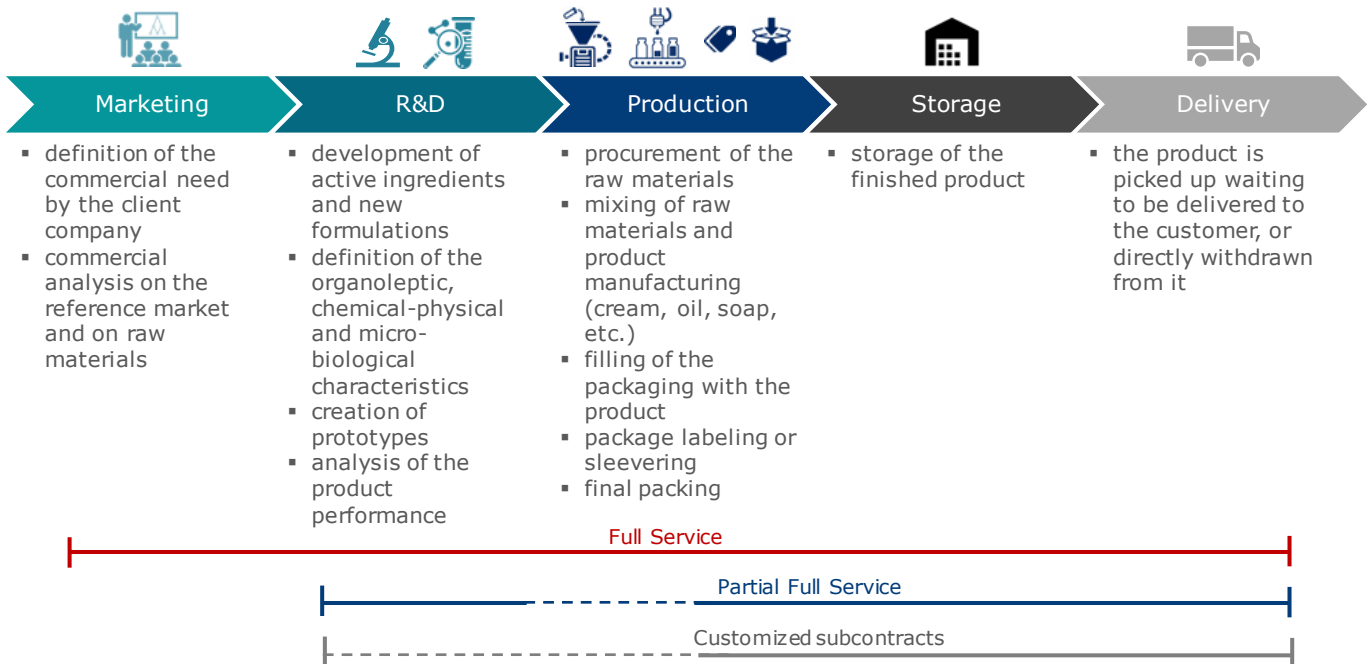
- an order-based production, in case of punctual and specific orders in terms of quantity and timing
- a warehouse-based production, in case of a long-term contract requiring recurring production and stock availability;

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 8: Euro Cosmetic's production process

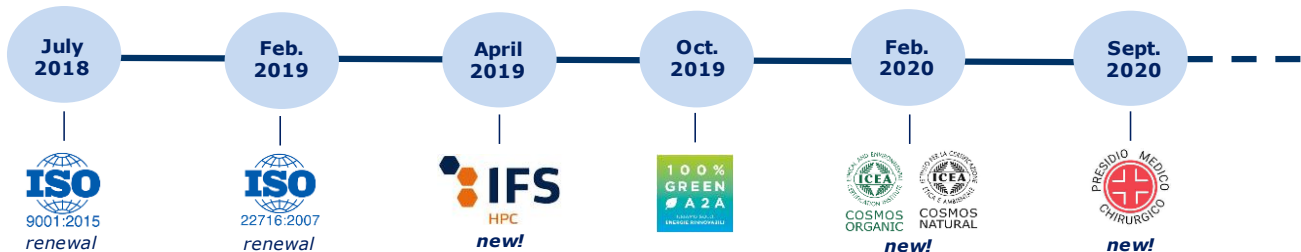


Source: Banca Profilo elaborations on Company data

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 9: 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.

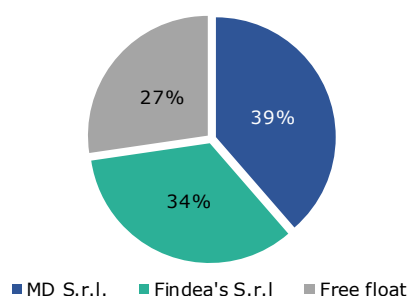
The production plant represents a strength of Euro Cosmetic as it is expensive to replicate, being composed by numerous machinery related to industry 4.0, and allows the Company to produce and fill any type of existing personal care product, from toothpaste to deodorant roll-on, passing through hand 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 10: 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 11: 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 12: 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



Euro Cosmetic "ID Card"

May 11, 2021 -19:00

Recommendation
BUY

Target Price
10.7

Upside
55%

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 (~50% of FY20 revenue), including shower gels and shampoos; ii) oral hygiene products (~30%), like toothpastes and mouthwashes; iii) fragrances (~13%), such as eau de parfum, after-shaves and deodorants; and iv) skin care products (~8%), 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 (~40% of FY20 revenue); ii) industrial companies, both large multinational and small and medium-sized companies with their own brands (~33%); iii) cosmetic companies specializing in high quality products intended for beauty salons, hair salons and hotels (~14%), and iv) pharmaceutical companies (~41%). Since the relocation to Trezano (2007), Euro Cosmetic's Value of Production has grown at a 15% CAGR, reaching €27.8mIn in 2020, experiencing strong growth rates even during the 2008-2009 financial crisis. In 2020 alone, the Company recorded a 23% yoy growth in the VoP, driven by increasing demand for detergents. 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) extending the production plant by 5,000 square meters, to reach a total surface of 21,500 sqm (€4.6mIn capex of which 900k in 2021), ii) product range thanks expansion through R&D and new product certifications; iii) new clients acquisition thanks to the enhanced production capacity; iv) entrance into the B2C market with its own branded skincare product line. According to our new estimates, the VoP is estimated to grow at a 2020-2023E CAGR of 5%, to €31.8mIn in 2023 (vs our previous estimate of €32.1mIn).

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
55%

May 11, 2021 -19:00

Main Financials					
(€ mln)	2019	2020	2021E	2022E	2023E
Value of Production	22.6	27.8	28.3	30.3	31.8
yoy change	17%	23%	2%	7%	5%
EBITDA	2.8	4.9	5.0	5.3	5.5
yoy change	37%	75%	2%	6%	4%
EBITDA margin (%)	12%	18%	18%	18%	17%
EBIT	1.4	3.5	3.5	3.6	3.7
EBIT margin (%)	6%	13%	12%	12%	12%
Net income	1.0	2.5	2.9	2.6	2.7
Net Income margin (%)	4%	9%	10%	9%	8%
Shareholders' Equity	6.4	15.6	18.1	20.1	22.3
yoy growth	10%	144%	16%	11%	11%
Net debt (cash)	6.2	3.7	(5.9)	(5.7)	(7.8)

Breakdown by business unit					
(€ mln)	2019	2020E	2021E	2022E	2023E
Detergents	6.1	13.6	13.5	14.2	14.7
Oral Care	6.7	8.0	7.9	8.2	8.5
Skincare & Lotion	2.7	2.1	2.8	3.8	4.4
Fragrances	3.5	3.4	3.6	3.7	3.8
Revenues from finished product	19.1	27.1	27.9	29.8	31.3

Solvability Ratios					
	2019	2020E	2021E	2022E	2023E
Net Debt (cash)/Equity	0.6x	-0.4x	-0.3x	-0.4x	-0.5x
Net Debt (cash)/EBITDA	1.3x	-1.2x	-1.1x	-1.5x	-1.9x
EBIT Interest Coverage Ratio	10.3x	21.5x	18.8x	18.2x	18.1x

Financial and Operative ratios					
	2019	2020E	2021E	2022E	2023E
Tax rate	25%	25%	13%	25%	25%
ROE	16%	16%	16%	13%	12%
ROIC	11%	27%	25%	22%	23%
Capex/VoP	5%	4%	7%	3%	3%
D&A/Capex	109%	120%	77%	171%	180%

Source: FactSet, Banca Profilo estimates and elaborations

Company Description	
Company Sector	Personal Care
Price (€)	6.92
Number of shares (mln)	4.76
Market Cap (€ mln)	32.95
Reference Index	FTSE AIM ITALIA
Main Shareholders	MD Srl; Findea's Srl
Main Shareholder stake	39%; 34%
Free Float	27%
Daily Average Volumes ('000)	10,737.2
Sample of best comparables	Sarantis, L'Occitane, PZ Cussons
Other selected comparables	Beiersdorf, L'Oreal, Johnson & Johnson and Colgate-Palmolive.

Data of best peers			
	2020	2021E	2022E
Revenue Growth (yoy)	-1%	8%	6%
EBITDA Margin	23%	22%	23%
<i>Average data</i>			

Multiples of best peers			
	2021E	2022E	2023E
Average EV/EBITDA Best Peers	11.5x	10.6x	10.0x
Median EV/EBITDA Best Peers	12.5x	11.2x	10.4x
Average EV/EBITDA	15.2x	14.1x	13.3x
Median EV/EBITDA	13.8x	12.7x	11.8x

DISCLAIMER**ANALYST'S AND BANK'S INFORMATION**

THIS DOCUMENT CONCERNING NEODECORTECH S.P.A. (THE "ISSUER" OR THE "COMPANY") HAS BEEN DRAFTED BY FRANCESCA SABATINI WHO IS EMPLOYED BY BANCA PROFILO S.P.A. ("THE BANK") AS FINANCIAL ANALYST; FRANCESCA SABATINI IS RESPONSIBLE FOR THE DRAFTING OF THE DOCUMENT.

BANCA PROFILO S.P.A. IS A BANK AUTHORISED TO PERFORM BANKING AND INVESTMENT SERVICES; IT IS PART OF BANCA PROFILO BANKING GROUP (THE "GROUP") AND IT IS SUBJECT TO THE MANAGEMENT AND CO-ORDINATION OF AREPO BP S.P.A. (THE "PARENT COMPANY"). SATOR PRIVATE EQUITY FUND "A" LP (THE "PARENT ENTITY") HOLDS INDIRECT CONTROL PARTICIPATION INTERESTS IN BANCA PROFILO.

THE BANK IS REGISTERED WITH THE ITALIAN BANKING ASSOCIATION CODE NO. 3025 AND IS SUBJECT TO THE REGULATION AND SURVEILLANCE OF THE BANK OF ITALY AND OF CONSOB (COMMISSIONE NAZIONALE PER LE SOCIETÀ E LE BORSE). THE BANK HAS PREPARED THIS DOCUMENT FOR ITS PROFESSIONAL CLIENTS ONLY, PURSUANT TO DIRECTIVE 2004/39/EC AND ANNEX 3 OF THE CONSOB REGULATION ON INTERMEDIARIES (RESOLUTION N. 16190). THIS DOCUMENT IS BEING DISTRIBUTED AS OF MAY 12, 2021.

THE ANALYST FRANCESCA SABATINI WHO HAS DRAFTED THIS DOCUMENT HAS SIGNIFICANT EXPERIENCE IN BANCA PROFILO S.P.A. AND OTHER INVESTMENT COMPANIES. THE ANALYST AND ITS RELATIVES DO NOT OWN FINANCIAL INSTRUMENTS ISSUED BY THE ISSUER AND SHE DOES NOT ACT AS SENIOR MANAGER, DIRECTOR OR ADVISOR FOR THE ISSUER. THE ANALYST DOES NOT RECEIVE BONUSES, INCOME OR ANY OTHER REMUNERATION CORRELATING, DIRECTLY OR INDIRECTLY, TO THE SUCCESS OF THE INVESTMENT BANKING OPERATIONS OF BANCA PROFILO S.P.A.

A REDACTED VERSION OF THIS REPORT HAS BEEN DISCLOSED TO THE ISSUER TO PERMIT TO IT TO REVIEW AND COMMENT ON FACTUAL INFORMATION RELATING TO THE ISSUER AND THIS REPORT HAS BEEN AMENDED FOLLOWING SUCH DISCLOSURE PRIOR TO ITS FINAL DISSEMINATION.

THIS DOCUMENT IS BASED UPON INFORMATION THAT WE CONSIDER RELIABLE, BUT THE BANK HAS NOT INDEPENDENTLY VERIFIED THE CONTENTS HEREOF. THE OPINIONS, ESTIMATES AND PROJECTIONS EXPRESSED IN IT ARE AS OF THE DATE HEREOF AND ARE SUBJECT TO CHANGE WITHOUT NOTICE TO THE RECIPIENT. PAST PERFORMANCE IS NOT GUARANTEE OF FUTURE RESULTS.

THIS REPORT HAS BEEN PREPARED BY ITS AUTHORS INDEPENDENTLY OF THE COMPANY AND ITS SHAREHOLDERS, SUBSIDIARIES AND AFFILIATES. THE BANK HAS NO AUTHORITY WHATSOEVER TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION OR WARRANTY ON BEHALF OF THE COMPANY, ANY OTHER PERSON IN CONNECTION THEREWITH. IN PARTICULAR, THE OPINIONS, ESTIMATES AND PROJECTIONS EXPRESSED IN IT ARE ENTIRELY THOSE OF THE AUTHOR HEREOF.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE AS TO AND NO RELIANCE SHOULD BE PLACED ON THE FAIRNESS, ACCURACY, COMPLETENESS OR REASONABLENESS OF THE INFORMATION, OPINIONS AND PROJECTIONS CONTAINED IN THIS DOCUMENT, AND NONE OF THE BANK, THE COMPANY, NOR ANY OTHER PERSON ACCEPTS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM ANY USE OF THIS DOCUMENT OR ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION THEREWITH.

NO DUPLICATION

NO PART OF THE CONTENT OF THE DOCUMENT MAY BE COPIED, FORWARDED OR DUPLICATED IN ANY FORM OR BY ANY MEANS WITHOUT THE PRIOR CONSENT OF THE BANK. BY ACCEPTING THIS REPORT, YOU AGREE TO BE BOUND BY THE FOREGOING LIMITATIONS.

NO OFFER OR SOLICITATION

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION OR FORM PART OF AN OFFER, SOLICITATION OR INVITATION TO PURCHASE ANY SECURITIES, AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER.

RECIPIENTS

THIS DOCUMENT IS GIVEN TO YOU SOLELY FOR YOUR INFORMATION ON A CONFIDENTIAL BASIS AND MAY NOT BE REPRODUCED OR REDISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON. IN PARTICULAR, NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED IN OR INTO THE UNITED STATES (THE "U.S."), AUSTRALIA, CANADA OR JAPAN OR REDISTRIBUTED, DIRECTLY OR INDIRECTLY, IN THE U.S., AUSTRALIA, CANADA OR JAPAN. ANY FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF U.S., AUSTRALIAN, CANADIAN OR JAPANESE SECURITIES LAWS.

THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT, PERSONS WHO ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1) (E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC) (ALL SUCH PERSONS BEING REFERRED TO AS "RELEVANT PERSONS"). THIS DOCUMENT MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

IN CASE THAT THIS DOCUMENT IS DISTRIBUTED IN ITALY IT SHALL BE DIRECTED ONLY AT QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 100(1) (A) OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998, AS AMENDED, AND ARTICLE 34-TER, PARA. 1, LETT B), OF CONSOB REGULATION NO. 11971 OF 1999, AS AMENDED. THIS DOCUMENT IS NOT ADDRESSED TO ANY MEMBER OF THE GENERAL PUBLIC IN ITALY. IN NO CIRCUMSTANCES SHOULD THIS DOCUMENT CIRCULATE AMONG OR BE DISTRIBUTED TO (I) A MEMBER OF THE GENERAL PUBLIC, (II) INDIVIDUALS OR ENTITIES FALLING OUTSIDE THE DEFINITION OF "QUALIFIED INVESTORS" AS SPECIFIED ABOVE OR (III) TO DISTRIBUTION CHANNELS THROUGH WHICH INFORMATION IS OR IS LIKELY TO BECOME AVAILABLE TO A LARGE NUMBER OF PERSONS.

THE DISTRIBUTION OF THIS DOCUMENT IN OTHER JURISDICTIONS MAY BE RESTRICTED BY LAW AND PERSONS INTO WHOSE POSSESSION THIS DOCUMENT COMES SHOULD INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTION. ANY FAILURE TO COMPLY WITH THESE RESTRICTIONS MAY CONSTITUTE A VIOLATION OF THE LAWS OF ANY SUCH OTHER JURISDICTION.

CONFLICTS OF INTEREST

THE BANK MAY, FROM TIME TO TIME, DEAL IN, HOLD OR ACT AS MARKET MAKER OR ADVISER, BROKER OR BANKER IN RELATION TO THE FINANCIAL INSTRUMENTS, OR DERIVATIVES THEREOF, OF PERSONS, FIRMS OR ENTITIES MENTIONED IN THIS DOCUMENT, OR BE REPRESENTED IN THE GOVERNING BODIES OF THE COMPANY. IN FACT, THE BANK ACTED AS GLOBAL COORDINATOR IN THE IPO OF THE ISSUER, THE BANK IS PRESENTLY NOMAD, CORPORATE BROKER, LIQUIDITY PROVIDER AND SPECIALIST OF THE ISSUER.

BANCA PROFILO S.P.A. HAS ADOPTED INTERNAL PROCEDURES FOR THE PREVENTION AND AVOIDANCE OF CONFLICTS OF INTEREST WITH RESPECT TO THE RECOMMENDATIONS, WHICH CAN BE CONSULTED ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT), IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA".

EQUITY RESEARCH PUBLICATIONS IN LAST 12M

THE BANK PUBLISHES ON ITS WEBSITE WWW.BANCAPROFILO.IT, ON A QUARTERLY BASIS, THE PROPORTION OF ALL RECOMMENDATIONS THAT ARE 'BUY', 'HOLD', 'SELL' OR EQUIVALENT TERMS OVER THE PREVIOUS 12 MONTHS, AND THE PROPORTION OF ISSUERS CORRESPONDING TO EACH OF THOSE CATEGORIES TO WHICH SUCH PERSON HAS SUPPLIED MATERIAL SERVICES OF INVESTMENT FIRMS SET OUT IN SECTIONS A AND B OF ANNEX I TO DIRECTIVE 2014/65/EU OVER THE PREVIOUS 12 MONTHS.

ADDITIONAL INFORMATION

THE BANK PROVIDES ALL OTHER ADDITIONAL INFORMATION, ACCORDING TO ARTICLE 114, PARAGRAPH 8 OF LEGISLATIVE DECREE 58/98 ("FINANCIAL DECREE") AND COMMISSION DELEGATED REGULATION (EU) 2016/958 AS OF 9 MARCH 2016 (THE "COMMISSION REGULATION") ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT), IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA".