Arterra Bioscience

Sector: Biotech

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Business quite resilient so far

Arterra Bioscience is an Italian research-based biotech company listed on AIM Italia since 2019. It develops innovative molecules and manufactures bio-active ingredients for the cosmetic industry, with ready-to-go applications for nutraceutics, medical devices and agrochemicals.

Interim results impacted by lock down, but not more than expected

Arterra reported 1H Revenues (VoP) up 11% YoY to €2.1mn, supported by R&D grants and tax credits, while sales of active ingredients were 3% down. Orders in Q1 were impacted by China lock-down and in Q2 by stop of production at Intercos and core US clients but offset by Asian prompt recovery. 1H EBITDA was down 17% (30% margin vs 40% in 1H19); net profit halved to €0.3mn on higher D&A, labour cost and rising inventories. Net financial position remained positive and almost unchanged at €3.9m.

Earnings and diversification slow down on pandemic

Despite the collapse of global retailing and travelling, demand for Arterra actives has hold well in 1H and orders are on a steady recovery in recent months: hence our 2020E forecasts seem at reach. Yet, we have cautiously cut our growth assumptions over 2021E, given the worsening picture of the pandemic. Also, the prolonged stop in travels and fairs is likely to dilute the timing of client and segment diversification projects over 2022E.

Revised growth outlook mirrors cosmetic trends

The net impact on our 2021E forecasts of top line, EBITDA and net profit is –4%, 8% and –12% respectively, while NFP at 2021E year end remains positive and unchanged (€5m). This revision broadly mirrors the worsening in the cosmetic industry but in general the peers' revenues consensus has been falling, notwithstanding their end-markets. We still expect Arterra to post top line 2yr CAGR into 2021E of 10% (in ine with peers)

Fair value at €4.2per share: 4.3x 2021E EV/Sales and 7.1x EV/EBITDA

Our valuation is a combination of DCF and relative EV/Sales multiples and points to a fair value at €4.2 per share (from previous €3.8), driven by the sector rerating. At current market price, Arterra trades at 2.8x-2.2x EV/Sales and 9.5x-7.1x EV/EBITDA for 2020E-2021E respectively. Peers trade on large premium: 8.7x-6.4x on 2020E/2021E EV/Sales.

Fair Value (€)	**4.20**
Market Price (€)	**2.83**
Market Cap. (€m)	**18.5**

KEY FINANCIALS (€'000)	2019	2020E	2021E
REVENUES	3,626	3,756	4,405
EBITDA	1,236	1,086	1,372
EBIT ADJ.	939	732	982
NET PROFIT ADJ.	857	695	956
EQUITY	7,110	7,806	8,762
NET CASH POS.	4,007	4,426	5,003
OPFCF a.t	125	410	569
NET INV. CAP	3,103	3,380	3,759

Source: Arterra (historical figures), ITA GAAP
Value Track (2020E-21E estimates)

RATIOS & MULTIPLES	2019	2020E	2021E
EBITDA MARGIN (%)	34.1%	28.9%	31.1%
EBIT MARGIN ADJ. (%)	30.2%	23.6%	25.8%
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (%)	<0	<0	<0
EV/SALES (x)	3.0	2.8	2.2
EV/EBITDA (x)	8.7	9.5	7.1
P/E ADJ. (x)	11.0	23.0	17.4

Source: Arterra (historical figures), ITA GAAP
Value Track (2020E-21E estimates)

STOCK DATA	
FAIR VALUE (€)	4.2
MARKET PRICE (€)	2.83
SHS. OUT. (m)	6.5
MARKET CAP. (€m)	18.5
FREE FLOAT (%)	26.9
AVG. -20D VOL. (#)	5,125
RIC / BBG	ABS.MI / ABS IM
52 WK RANGE	1-97-5.34

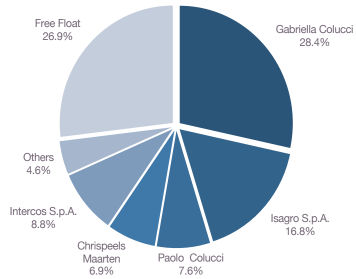
Source: Stock Market Data

Business Description

Arterra Bioscience is an Italian research-based biotech company ("PMI Innovativa") focused on developing innovative molecules and leveraging its expertise to manufacture bio-active ingredients for the cosmetics industry, with ready-to-go applications also for nutraceutics and agrochemicals.

Although today Cosmetics represent 100% of manufacturing revenues towards the exclusive partner Intercos Group, Arterra presents a strong growth potential due to the diversification into new end markets, as nutraceuticals and medical devices, and new partnerships through a flexible business model.

Shareholders Structure



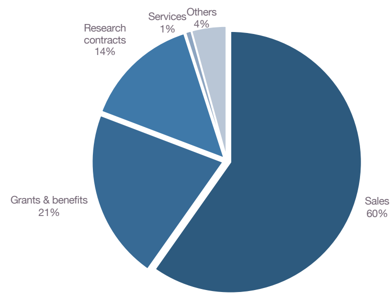
Source: Arterra SpA

Key Financials

€'000	2019A	2020E	2021E	2022E
Total Revenues (VoP)	**3,627**	**3,756**	**4,405**	**5,580**
Chg. % YoY	21.8%	3.6%	17.3%	26.7%
EBITDA	**1,236**	**1,087**	**1,372**	**1,961**
EBITDA Margin (% of Revenues)	34.1%	28.9%	31.1%	35.1%
EBIT	**940**	**733**	**983**	**1,551**
EBIT Margin (% of Revenues)	25.9%	19.5%	22.3%	27.8%
Net Profit	**857**	**696**	**956**	**1,358**
Chg. % YoY	-17.9%	-18.9%	37.5%	42.1%
Adjusted Net Profit	**967**	**806**	**1,066**	**1,468**
Chg. % YoY	-7.4%	-16.7%	32.4%	37.7%
Net Fin. Position	**4,007**	**4,426**	**5,003**	**5,775**
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	-1,618	-416	-431	-602
OpFCF b.t.	**209**	**456**	**604**	**964**
OpFCF b.t. as % of EBITDA	16.9%	41.9%	44.0%	49.1%

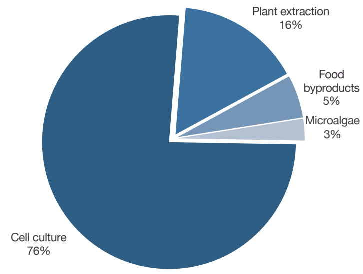
Source: Arterra (historical figures), Value Track (estimates)

Revenues breakdown 2019



Source: Arterra SpA

Sales breakdown 2019E



Source: Arterra SpA

Investment case

Strengths / Opportunities

- Cosmetic industry with existing partnership and growth in the Prestige category;
- New end markets with applications for nutraceutics and agrochemicals;
- Diversified business model via IP model when direct production does not suit;

Weaknesses / Risks

- The economic slowdown may reduce profitability in the S/T;
- Most of the revenues from sales depend on Intercos Group.
- The business remains volatile and difficult to plan

Stock multiples @ €4.20 Fair Value

	2020E	2021E
EV / SALES (x)	5.1	4.3
EV / EBITDA (x)	17.8	13.7
EV / EBIT (x)	26.4	19.1
EV / Cap. Empl. (x)	5.7	5.0
OpFCF Yield (%)	2.4	3.2
P / E Adj. (x)	34.1	25.8
P / BV (x)	3.5	3.1
Div. Yield. (%)	0.0	0.0

Source: Value Track

1H20 Interim results

Arterra reported a solid set of 1H20 results, with Total Revenues growing at double-digit rate. Company mitigated the impact of Covid-19 outbreak on performance by leveraging geographical diversification of sales and total revenues benefitted from strong R&D grants and contracts (as well as tax credits for IPO costs). Value of production also benefitted from the increase in inventories of finished and semifinished products. On the other hand, 1H20 results reflect company's efforts to support sizeable growth in the following years, with rising cost of labour and D&A.

More in details:

- **Total Revenues were up by ca. 11%** YoY, to €2.1mn vs €1.9mn 1H19
- EBITDA decrease by ca. 17% YoY and **EBITDA margin fell down to 29.7% from 39.6%** due to higher labour cost as well as a greater use of outsourcing services;
- **EBIT stood at €0.4mn (-37% YoY), reflecting higher D&A** charges as well as amortization of IPO costs (ca. €77k). EBIT Adjusted (for IPO amortization) was at €0.5mn (-26.2% YoY) and EBIT Adj. Margin was at 24.7% vs 37.0% 1H19;
- **Net financial position (positive for €3.9mn), broadly unchanged** with respect to €4mn as of Dec 2019 despite higher level of inventories and sizeable tax credits.

Arterra: 1H19 – 1H20 Key financials

€'000	1H19	1H20	Change YoY
Value of Production	1,873	2,074	10.8%
EBITDA	742	617	-16.9%
EBITDA Margin (%)	39.6%	29.7%	nm
EBIT	694	435	-37.3%
EBIT Adj. (*)	694	512	-26.2%
EBIT Adj. Margin (%)	37.0%	24.7%	
Net Profit Adj.(*)	628	399	-36.5%
Net Financial Position (cash)	949	3,935	nm

Source: Arterra, Value Track Analysis (*) In 1H20 D&A include €77k amortization of IPO costs

Revenues evolution

Arterra preserved its growth from the direct effects of Covid-19 outbreak, reporting a Value of production increasing by 11% YoY, i.e. €2.1m vs €1.9mn 1H19.

In particular, despite the adverse market conditions, Revenues from Sales remained almost flat at €1.2mn (-3% YoY). This was possible thanks to **geographical diversification of sales**, as slowdown of business activities in Asia over 1Q20 was offset by rising demand from the Western countries. The reverse was true in 2Q, as lack of demand from US and Italy (and the temporary closure of the Intercos domestic production sites) was counterbalanced by rising orders from China that, in the meanwhile, started reopening all business activities.

The tax credits' line benefitted from the so called "Bonus Sud", i.e. the government financial credits for investments made on machineries between 2017 and 2019 (for which the company received approval in February 2020) and the tax credits relative to the IPO charges.

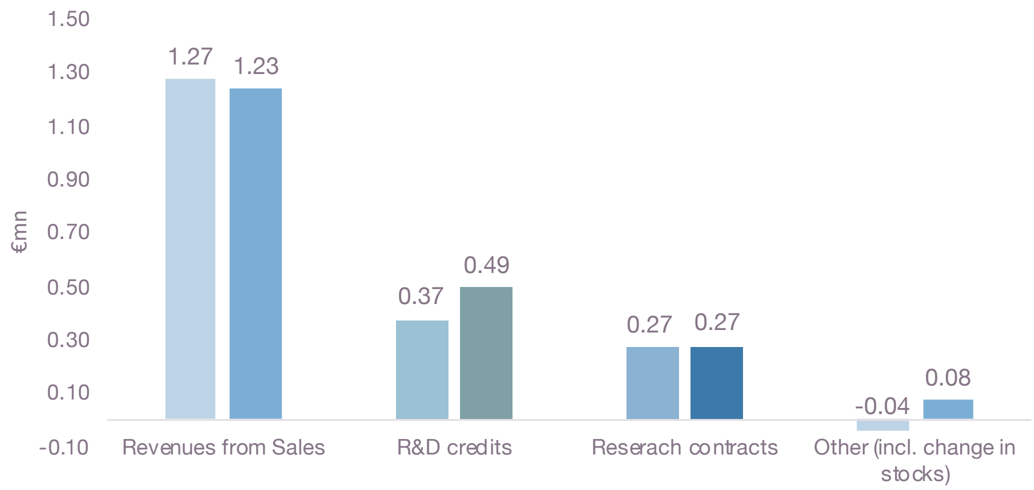
Finally the Value of Production was supported by the increase in inventories (including finished and semi-finished products) caused by the need of keeping a minimum stock in order to secure industrial continuity, optimise production process and meet contractual requirements by new clients of Vitalab.

Arterra: 1H19 – 1H20 Revenues Breakdown

€'000	1H19	1H20	Change YoY
Revenues from Sales	1,269	1,234	-2.8%
Grants & tax credits (R&D and others)	374	492	31.5%
Research contracts	270	273	1.2%
Other (incl. change in stocks)	-40	75	n.m.
Value of production (i.e. VoP)	**1,873**	**2,074**	**10.8%**

Source: Arterra, Value Track Analysis.

Arterra: Revenues (Value of Production) evolution 1H19 vs 1H20



Source: Arterra, Value Track Analysis. The change of stocks is included in "Others"

From EBITDA to Net Profit

EBITDA fell to €0.6mn vs €0.7mn in 1H19 and EBITDA margin was down to 29.7% vs 39.6%. **Profitability dilution** partially mirrored lower revenues from sales and it was **mainly attributable to rising operating expenses**:

- Raw materials and cost of services increased by 43.5% and 45% respectively, largely driven by the above mentioned trend of stocks and greater use of outsourcing service also due to the recent partnership with Demethra s.r.l.;
- Labour cost increased by ca. 10% due to recent new hirings to face expanding business and support a faster growth ahead.

Reported EBIT was down to €435k (-37% YoY) which also incorporated i) higher D&A, inflated by amortization of IPO costs and tangible assets that were recently bought to increase production capacity, and ii) higher costs linked to the new status of listed company. **Adjusting for IPO cost amortization, EBIT stood at €512k, i.e. -26% YoY,** with EBIT Margin at 24.7% vs 37.0% 1H19.

As a result, Net profit was down to €344k vs €628 1H19 (-45% YoY), also affected by higher tax rate (20% vs 10% 1H19). On adjusted basis, **Net profit would be at €399k, still -36% vs previous year**.

Arterra: P&L 1H19 – 1H20

€'000	1H19	1H20	Change YoY
Total Revenues	**1,873**	**2,074**	**10.8%**
Raw Materials	-213	-306	43.5%
Cost of services	-314	-455	44.6%
Labour costs	-551	-604	9.7%
EBITDA	**742**	**617**	**-16.9%**
EBITDA margin (%)	***39.6%***	***29.7%***	***n.m.***
Depreciation & Amortization	-49	-182	n.m.
EBIT	694	435	-37.3%
EBIT Adj.	**694**	**512**	**-26.2%**
EBIT margin Adj. (%)	***37.0%***	***24.7%***	***-n.m***
Net Financial Charges	4	-3	**n.m.**
Pre-tax Profit	**697**	**431**	**-38.1%**
Taxes	-69	-87	25.8%
Net Profit	**628**	**344**	**-45.2%**
Adjusted Net Profit	**628**	**399**	**-36.5%**

Source: Arterra (historical figures), Value Track (estimates)

Cash Flow Statement and Balance Sheet

Net Working Capital rose by 52% with respect to the end of 2019 and was mainly driven by higher tax credits and inventories, while capex accounted for €186k and was in line with the business plan. As a result, business activities over the first half of the year did not generate any positive free cash flow and **Net Cash position was almost unchanged at €3.9mn** vs €4mn as of the end of 2019.

Arterra: FY19 – 1H20 Balance Sheet structure

€'000	FY19	1H20
Working Capital	1,171	1,442
Net Fixed Assets	2,437	2,440
Provisions	504	476
Total Capital Employed	**3,103**	**3,747**
Group Net Equity	7,110	7,341
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	**4,007**	**3,935**

Source: Arterra, Value Track Analysis.

Arterra: 1H19 – 1H20 Cash Flow analysis

€'000	1H19	1H20
EBITDA	**742**	**617**
Op. WC requirements	885	-272
Capex (incl. IPO costs capitalization)	-378	-186
Change in Provisions	3	-16
OpFCF b.t.	**1,252**	**-196**
Cash Taxes	-69	-87
OpFCF a.t.	**1,183**	**-283**
Net Financial Charges	4	-3
Others	-413	-126
Change in Net Fin. Position	**774**	**-73**
Net Cash (Debt)	**949**	**3,935**

Source: Arterra, Value Track Analysis.

Key message

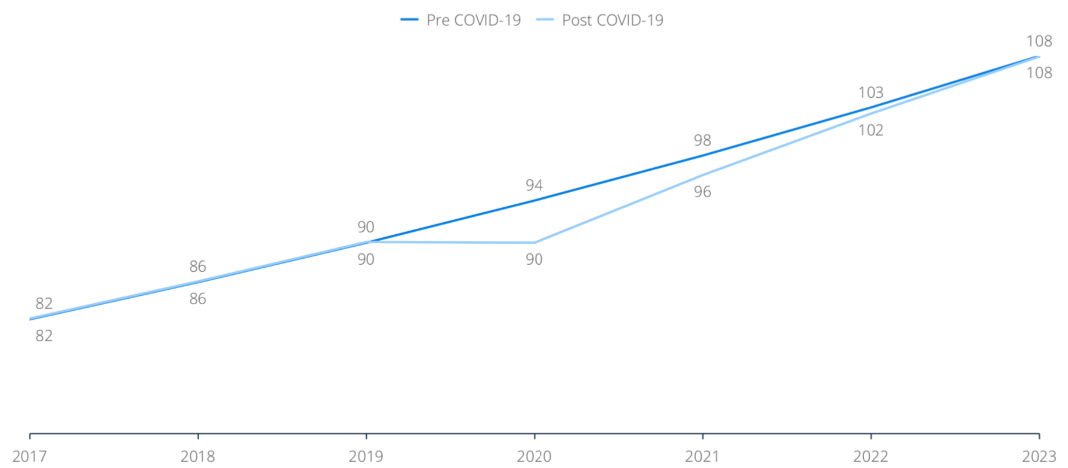
- **Arterra is still growing thanks** to sales diversification in terms of geography and market segments;
- Despite the sole direct client in cosmetics is the Intercos Group, Arterra supplies **leading brands in the skin care segments,** whose performance **has been resilient over 1H;**
- **Cost structure already reflects a production capacity significantly greater than the current output level**. Thus, as orders' volumes increase, operating margins would dramatically improve;
- **Major concerns about earnings and growth are moving towards 2021** and onwards, as 1) 2020E is shaping out relatively well but pandemic is not fading away as quickly as expected, and 2) steps to speed up the widening of the client base in cosmetics (via Vitalab) and the diversification process are postponed by persisting closures and travelling restrictions. This is the reason behind our 2021E earnings downgrade (see below).

Revised Forecasts 2020-2022E

Reference mkt outlook: demand recovery driven by Asia and online

The cosmetics sector suffered from the COVID-19 outbreak which led to a generalized drop in consumer good sales. Although companies focused on online shops to support sales, this solution did not provide a sizeable compensation for the closing of face-to-face stores. In China, which is the faster growing market, retail sector reported -20.5% revenues in retail trade over the first two months of 2020. Likewise, the luxury segment, which is usually more resilient to economic shocks, was significantly impacted by the pandemic and it is expected to report -13% revenues by the end of 2020E, as it is heavily exposed to travelling consumption and brick and mortar prestige stores. According to *Statista*, it is foreseen that the economic shock induced by pandemic will dissipate over the next years, leading to a v-shaped recovery.

Arterra: Worldwide Cosmetics revenue in billion US$



Source: Statista – Beauty & Personal Care Report 2020 – Cosmetics

China seems to be the only country to report a positive growth in 2020, indeed, Chinese demand for the cosmetic segment reported a +23% YoY in sales in August. Moreover, Chinese cosmetic market shows the highest expected grow in the next three years with 11.2% CAGR in 2020-23E Revenues. Estimates on other main countries are reported in the table below.

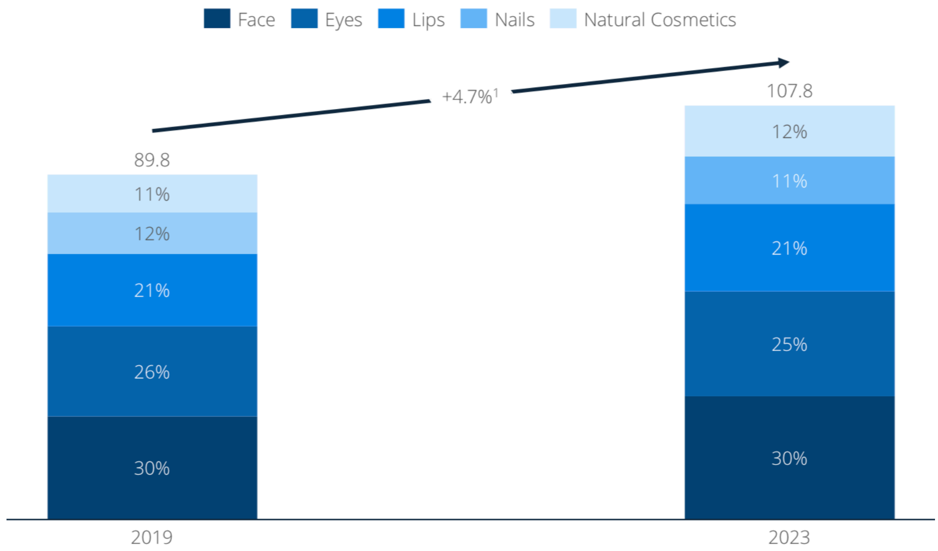
Arterra: Cosmetics Revenues Forecasts (2020-2023E)

Billion US$	2019A	2020E	2021E	2022E	2023E	$CAGR_{20-23E}$
Europe	20.4	20.1	21.4	22.4	23.4	5.2%
US	17.0	16.7	17.8	18.7	19.5	5.3%
China	13.0	13.6	15.2	16.9	18.7	11.2%
South America	4.4	4.5	4.9	5.3	5.6	7.6%

Source: : Statista – Beauty & Personal Care Report 2020 – Cosmetics

Skin care is expected to be the main driver for the segment over the next years and to account for $32bn by the end of 2023E. Here as well, Asia is foreseen to be the main market with Japan and South Korea, which reported the highest annual revenues per capita in 2019. We note that in June Intercos announced the acquisition of the minority interests in its 50/50 Korean JV with the South Korea's retail giant Shinsegae Group and this is likely to further strengthen Intercos Asian business.

Arterra: Worldwide Cosmetics revenues by product



Source: Statista – Beauty & Personal Care Report 2020 – Cosmetics

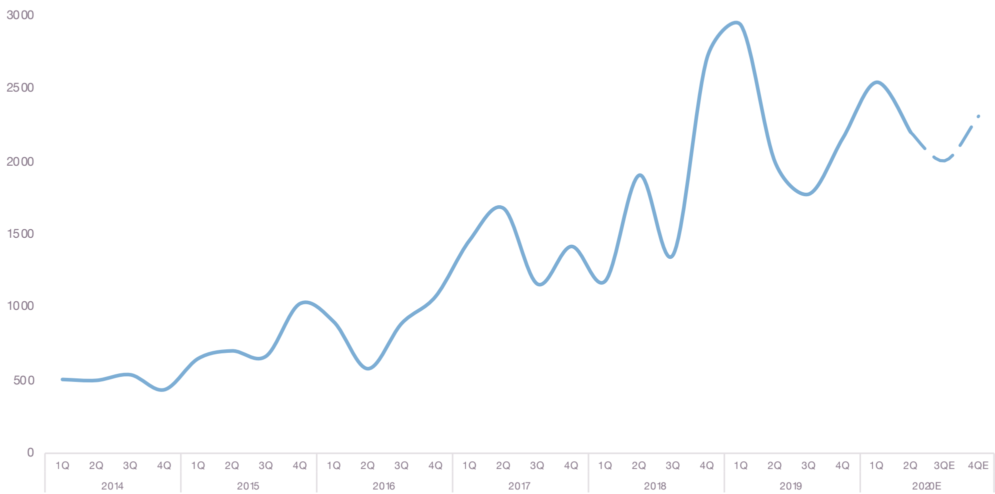
Revised assumptions for Arterra: still sailing in unchartered waters

The forecasts revision focuses on next year, as 2020E estimates seem at reach, and is due to the impact on revenues of COVID-19, which remains tough to fully capture. Most of the other assumptions on cost structure and capex have been left unchanged and we have introduced FY2022E.

As for the top line we highlight the following:

- Expected volumes sold in **2020E** remains virtually **unchanged post 1H results** and we confirm a 2% growth (after the 3.8% decline in 1H).

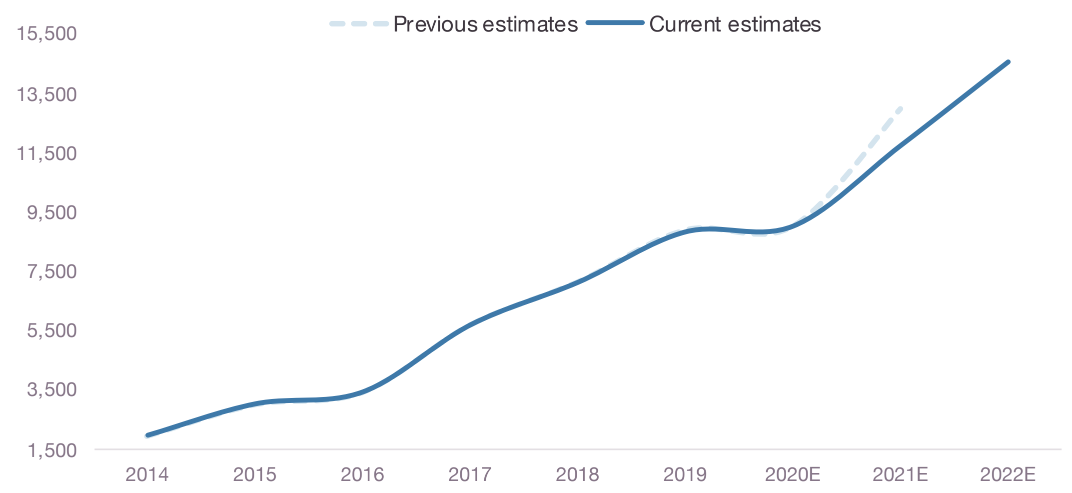
Arterra: Orders (kg) 2014 – 2020E



Source: Arterra, Value Track Analysis.

- On the contrary **volumes of sales** are further **reduced for 2021E**, as **high-end travelling retailing is still suffering a lot and we cannot rule out further closures.** Yet, these volume forecasts still imply a YoY growth of 35% (driven by the 29% growth in cosmetics and Vitalab in particular) after the hickup witnessed in 2020E. In fact we note that a) **the e-commerce channel** is experiencing a buoyant demand and skin care in particular is more resilient (vs makeup and fragrances) and b) the **Asian demand has resumed promptly with nearly all Asia/Pacific retail stores reopened.**
- **We have not factored the potential contribution of major diversifications,** as we only factor a marginal diversification outside the cosmetic industry in year 2021E, with a contribution of ca €100k (or 3% of total revenues from sales).
- The company has identified **a new natural extract** derived from a food-by product, for the binding of the Spike protein, thus preventing the infection of the SARS-CoV2(COVID-19). The results of the research findings were reported in a patent and according to management this discovery opens the way to the development of new products with potential for antiviral anti-infection applications in various industrial sectors, such as cosmetics, pharmaceuticals and agro-food. Pending further details about its efficacy and news about contacts with potential clients and/or partners we do not factor any additional contribution from this.

Arterra: Volumes sold in cosmetic active ingredients (kg)



Source: Arterra, Value Track Analysis.

- In addition, we remind that **among "Other revenues"** we include from 2020E onwards i) fiscal contributions related to investments made over 2017-2019, a €316k total benefit split over 5 years (i.e. annual recognition ranging between €25-90k per year); ii) Government contributions for the costs related to listing (total consideration of €314k and annual recognition of ca. €60k).

Arterra: 2020E-2022E Top-line drivers

	2020E			2021E		
€'000	**Old**	**New**	**Δ(%)**	**Old**	**New**	**Δ(%)**
Total Volumes, kg	9,009	9,033	0.3%	12,956	12,174	-6.0%
Avg. price €/kg	245	244	-0.4%	243	242	-0.3%
Total Sales	2,209	2,207	-0.1%	3,146	2,948	-6.3%
Grants & fiscal benefits	756	756	0.0%	762	762	0.0%
Research contracts	522	522	0.0%	527	527	0.0%
Services	25	25	0.0%	26	26	0.0%
Other (incl. change in inventories)	246	246	0.0%	143	143	0.0%
Total Revenues (VoP)	3,758	3,756	-0.1%	4,604	4,405	-4.3%

Source: Arterra (historical figures), Value Track (estimates)

The overall impact on previous forecasts and our revised estimates and drivers are summarised in the tables below:

Arterra: New vs Old estimates

	2020E			2021E		
€'000	**Old**	**New**	**Δ(%)**	**Old**	**New**	**Δ(%)**
Total Revenues (VoP)	**3,758**	**3,756**	**-0.1%**	**4,604**	**4,405**	**-4.32%**
EBITDA	**1,088**	**1,087**	**-0.1%**	**1,492**	**1,372**	**-8.05%**
EBITDA margin (%)	29.0%	28.9%	-19bps	32.4%	31.1%	-127bps
EBIT	**734**	**733**	**-0.2%**	**1,091**	**983**	**-9.90%**
EBIT margin (%)	19.5%	19.5%		23.7%	22.3%	-138bps
Net Profit	**751**	**696**	**-7.4%**	**1,096**	**956**	**-12.79%**
Adjusted Net Profit	**861**	**806**	**-6.5%**	**1,206**	**1,066**	**-11.62%**
OpFCF b.t.	399	456	**14.3%**	662	604	-8.76%
Net Cash Position	**4,423**	**4,426**	**0.1%**	**5,091**	**5,003**	**-1.72%**

Source: Arterra (historical figures), Value Track (estimates)

Arterra: P&L 2019-22E

€'000	2019A	2020E	2021E	2022E
Total volumes, kg	**8,839**	**9,033**	**12,174**	**17,087**
Sales	**2,167**	**2,207**	**2,948**	**4,111**
Grants & Tax credits (R&D)	763	756	762	768
Research contracts	517	522	527	532
Services	25	25	26	26
Other (incl. change in stock)	154	246	143	143
Total Revenues	**3,627**	**3,756**	**4,405**	**5,580**
OPEX	1,838	1,838	1,838	1,838
EBITDA	**1,236**	**1,087**	**1,372**	**1,961**
EBITDA margin (%)	34.1%	28.9%	31.1%	35.1%
Depreciation & Amortization	-296	-354	-389	-411
EBIT	**940**	**733**	**983**	**1,551**
EBIT Adj.	1,094	887	1,138	1,705
EBIT margin Adj. (%)	30.2%	23.6%	25.8%	30.6%
Net Financial Charges	-154	-147	-147	25
Pre-tax Profit	**940**	**741**	**991**	**1,730**
Taxes	-83	-45	-34	-372
Net Profit	**857**	**696**	**956**	**1,358**
Adjusted Net Profit	**967**	**806**	**1,066**	**1,468**

Source: Arterra (historical figures), Value Track (estimates)

Arterra: Balance Sheet figures 2019A-22E

€'000	2019A	2020E	2021E	2022E
Net Working Capital	1,888	1,171	1,500	1,884
Net Fixed Assets	2,437	2,499	2,540	2,732
Provisions	504	619	666	714
Total Capital Employed	**3,103**	**3,380**	**3,759**	**4,346**
Group Net Equity	**7,110**	**7,806**	**8,762**	**10,121**
Net fin. Position [i.e. Net debt(-) cash (+)]	**4,007**	**4,426**	**5,003**	**5,775**

Source: Arterra (historical figures), Value Track (estimates)

Arterra: 2019 – 2022E Cash Flow analysis

€'000	2019A	2020E	2021E	2022E
EBITDA	**1,236**	**1,087**	**1,372**	**1,961**
Op. WC requirements	717	-329	-384	-443
Capex (incl. IPO costs capitalization)	-1,618	-416	-431	-602
Change in Provisions	-127	114	47	48
OpFCF b.t.	**209**	**456**	**604**	**964**
Cash Taxes	-83	-45	-34	-372
Net Financial Charges	1	18	8	11
Capital Injections (gross)	4,000	0	0	0
Dividends paid	-300	0	0	0
Others	6	-9	0	169
Change in Net Fin. Position	**3,832**	**419**	**577**	**772**

Source: Arterra (historical figures), Value Track (estimates)

Valuation

We stick to the valuation criteria and peers' group identified in our previous report, but we update our valuation to incorporate the revised forecasts and current sector multiples. Despite the earnings downgrade **we increase our fair value to €4.2 per share** (from €3.8), as an average of the outcome of our DCF model (€4 per share, unchanged) and of peers' multiples relative valuation (€4.4 per share, up 22% on sector multiples' expansion).

The new fair value is back in line with our Initiation of Coverage of January 2020, and implies the following multiples: **4.3x 2021E EV/Sales** (compared to median of peers of 6.4x), 13.7x EV/EBITDA and 25.8x P/E. If we compare the EV of Arterra at fair value to those of its smaller European peers (in the revenues bracket below €5mn), it remains lower: €23mn vs peers' values of €24-47mn.

Discounted Cash Flow

We have updated **our DCF model, which gives a fair value of €4.0 per share (unchanged),** as lower earnings forecasts are balanced by lower WACC (due in turn to lower sector beta).

In this respect we confirm that the present model - with net cash keeping piling - probably does not fully value the Company's potential for further developments and diversification; however we also acknowledge that in this specific moment all these prospects suffer from a reduced visibility about the exact timing of execution. Here below follow all the key assumptions behind our model.

- **Arterra has a 24.99% stake in Vitalab** and **an option to take over an** additional 15.01% (overall potential holding: 40%). In our DCF model, we consider both the 24.99% stake and the option as peripheral assets, valued in line with the whole business;
- **Net Cash Position over the 2021E-27E period**. Therefore, **WACC** and Cost of Equity coincide throughout the entire model, with an estimated value of 11.8% (previous 12.6%);
- **FY2020E as reference point for valuation**, explicit projections into 2027E and terminal value at 2027YE obtained **applying a 2% Perpetuity Growth Rate (PGR)**.

Arterra: DCF model outcome

	€mn
PV of future Cash flow FY 2021E-27E	5.4
PV of Terminal Value with PGR at 2%	13.0
Enterprise Value	**18.5**
Implied EV/EBITDA 21E	13.5x
Peripheral assets: Vitalab stake and option	3.7
Net Cash Position 2020YE	4.4
Equity Value	**26.7**
Shares (mn)	6.5
Equity Value p. s. (€)	**4.0**

Source: Value Track Analysis

Peers Analysis

The most similar companies to compare to Arterra are mainly European middle-size players, with specialized business or divisions and **EV/Sales seems the most appropriate multiple**, given a few peers are relatively young and loss making. Also, we focus on 2021E multiples as they are less scattered. The peers' group reports a **sector median EV/Sales multiple of 6.4x in 2021E, which has expanded over the last 6 months, mostly due to consensus downgrades**.

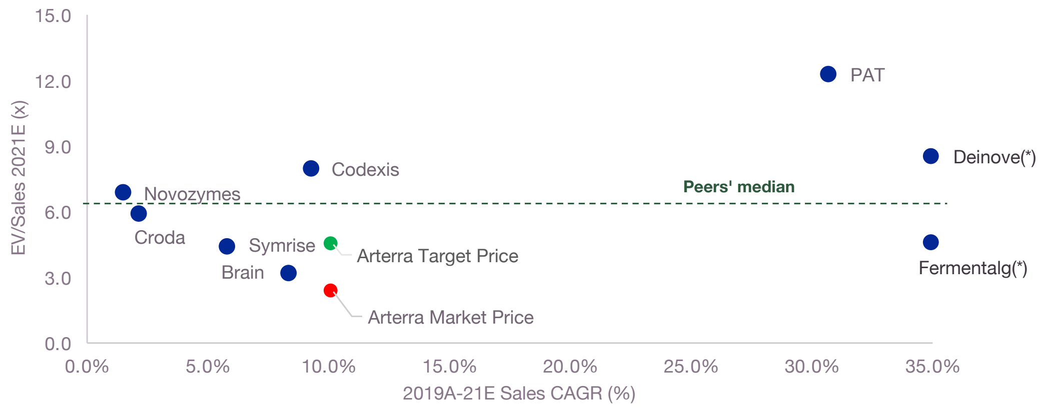
Arterra: Peers' EV/Sales vs Sales growth

	Market Capitalization (€mn)	Revenues 2019A	EV/Sales (x) 2020E	EV/Sales (x) 2021E	Sales 2yr CAGR 19A-21E
Brain	133.3	38.6	3.4	3.3	8.3%
Croda	8,978.9	1,543	6.4	6.0	2.1%
Symrise	1,5912.6	3,408	4.8	4.5	5.9%
PAT	21.9	1.2	20.4	12.3	30.7%
Deinove	11.1	0.6	19.6	8.6	170.6%
Fermentalg	26.2	1.9	17.9	4.6	95.0%
Novozymes	1,2605.7	1,868.6	7.1	6.8	1.5%
Codexis	648.0	62.3	9.3	8.0	9.3%
Average	**4792.2**	**865.5**	**11.1**	**6.8**	
Median	**390.6**	**50.5**	**8.2**	**6.4**	
Arterra	**18.5**	**3.6**	**2.8**	**2.2**	**10.3%**

Source: Value Track Analysis

Arterra currently trades at deep discount to peers, despite this does not seem justified by weaker growth prospects and the current stock ratings in the sector seem very much focused on growth.

Arterra: EV/Sales 2021E vs Sales CAGR 2019A-21E



Source: Value Track Analysis *(*)Deinove: Sales CAGR 170%, Fermentalg Sales CAGR 95%*

Having said the above, given Arterra small size and high execution risk (linked to expected growth rates and diversification opportunities), we apply a 30% discount to peers and obtain a **fair 2021E EV/Sales multiple of 4.5x.** This leads to an **Equity Value of €4.4 per share** which includes, consistently with the past, the value of the 25% stake (plus the option) in Vitalab, valued on the same multiple (see below).

Peers' Analysis: EV/Sales Valuation

€mn	€mn
Arterra Sales 2021E	4.4
EV/Sales multiple	4.5x
Arterra EV	19.7
Peripheral assets: Vitalab	4.0
Net Cash Position 2021E	5.0
Equity Value	**28.8**
Equity Value p.s. (€)	**4.4**

Source: Value Track Analysis

Scale-up peers valuation

Finally, we report in the table below the updated valuation in terms of **Enterprise Value** of a short list of smaller players within the peers' group. These are the European peers still in scale-up phase and their values **range within the €24-47mn range, despite** their top lines are marginal and still linked to pure R&D activity, their margins negative and all report net debt exposure.

Arterra: Absolute valuations of smaller peers

(€mn)	Mkt Cap	Net Debt 2020 & other adj. (*)	EV	Revenues 2020E
PAT	21.9	2.5	24.4	1.2
Deinove	11.1	18.4	29.5	1.5
Fermentalg	26.2	20.4	46.6	2.6
Average			**33.5**	
Arterra at mkt price	**18.5**	**-4.9**	**13.6**	**3.8**
Arterra at fair value	**27.5**	**-4.9**	**22.6**	**3.8**

Source: Value Track Analysis (*) The stake in Vitalab is valued at book

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