

Focus on: end-markets diversification and process optimization



February, the 4th 2022 at 19:00

Corporate strategy: most of announced IPO proceeds use has been done. Focus is now on: end-market diversification, processes optimization and M&A

In 2019-2021, Arterra: i) significantly invested in production capacity increasing productivity and optimizing the process; ii) strengthened its organization by introducing a COO, an R&D coordinator, a Grant&IP Director and a Cell&Molecular Biology Director; iii) moved first steps into Medical Devices and Agri-food. Arterra is now more focused on i) developing new natural compounds for Cosmetics, mostly via Vitalab; ii) diversifying further in Medical Devices, through partnerships with companies having the Sector's regulatory expertise, and in Agri-Food; ii) optimizing further research and production processes; iii) M&A.

Following the agreement with ADL, more to come in Medical Devices and Agri-Food

Regarding end-market diversification, Arterra signed its first agreement in Medical Devices with ADL Farmaceutici for a 5-year production and licence of a mix of 4 active compounds against skin acne. This is only the beginning of a larger partnership with ADL, which is skilled and experienced in Nutraceutical. In fact, Arterra bought a 7% stake in ADL; moreover, ADL and Arterra are working together on a new active ingredient to treat atopic dermatitis. Arterra partners also with Materias on two projects: i) in Medical Devices, a peptide with strong bactericidal abilities to treat acne; ii) in Agriculture, a peptide owing bio stimulating abilities to defend plants from biotic stress. In Agri-Food, Arterra and Montecarlofruit signed a research agreement for the up-cycling of mango waste. Finally, Arterra innovated with 4 new patents in Cosmetics, where Arterra is expanding even beyond Intercos, via Vitalab. For what concerns processes optimization, Arterra scaled up production, reduced outsourcing procurement, simplified, and streamlined research and production processes. Today, research activity is better oriented to new products/technologies for a quick time-to-market. Today, production process allows for raw materials savings and higher quality.

2021E-2023E: fine tuning following 1H21 results.

In the 1H21, Arterra reached its record in Cosmetics sold volumes at almost 6,000 kgs (+39% yoy). Vitalab almost tripled its turnover driven by a great contribution of multinational brands and it is expected to get close to €3m revenue in 2021. On the back of these results, we raised our projections on Arterra's Cosmetics selling volumes by 3,000 kgs, to over 13,000 kgs in 2021 to reach over 17,500 kgs in 2023 (vs previous 16,000 kgs). The average selling price decreased to €243/kg (vs €290/kg) for a strategic commercial policy which includes discounts for large and planned orders. We now see 2021 turnover at €3.75m (+33% yoy) vs previous at €3.15m (+11% yoy). In 1H21 research grants slackened for a stop to public tenders; consequently, we cut research grants to €900k in 2021 (vs previous €1.4m) and kept this lower amount for the next two years. This led to lower EBITDA margin. Moreover, despite significant savings in raw materials (halved to €150k in 1H21), thanks to optimized production processes, production scale up and reduced external procurement, the increase of other services and labour cost had a negative impact on EBITDA margin. To sum up, in 2020-2023E: i) revenue CAGR stays basically the same at 13%; ii) we cut EBITDA CAGR to 18% from previous 27%; iii) cumulated Free Cash Flows consequently declined by some 20%. At the end of 2023, net cash is expected to close to €6m from €4.3m at the end of 2021E and €3.6m at the end of 2020. Dividend distribution is planned to start from 2021. Main risk to our estimates remains Arterra's effective capacity to diversify into new end-markets, within the planned time to market, and to strongly grow in Cosmetics even beyond Intercos.

Valuation confirmed: 12-month target price at €5.2; BUY

We run a DCF approach on a Terminal Value FCF of €1.3m and set a 7.1% WACC. We run a relative market multiples valuation on a suitable sample of listed international companies on 2022E EV/SALES at 7.7x and EV/EBITDA at 15.8x. Despite DCF and market multiples valuation return higher valuation compared to our previous Company Update, we keep our 12-month target price unchanged at €5.2/share to assess the sustainability of Vitalab upgrade. BUY confirmed.

Target price	€5.2	unchanged
Recommendation	BUY	unchanged
Price February, the 2nd (€)		2.80
Number of shares (mln)		6.6
Market capitalization (€mln)		18.5
Performance from IPO		+8%
Max/min		4.95/1.97
Average daily volumes		17,902

(€/000)	2019	2020	2021E	2022E
Revenue	3,627	4,309	4,649	5,310
yoy change	22%	1%	8%	14%
EBITDA	1,236	1,602	1,912	2,467
margin (%)	34%	37%	37%	40%
Net income	857	1,109	1,096	1,099
margin (%)	24%	26%	24%	21%
Fixed assets	2,437	2,419	2,896	2,851
Net Working Capital	834	1,682	1,829	2,009
Adj (net cash)	(3,439)	(3,727)	(4,214)	(5,909)
Shld Equity	7,110	8,181	8,977	9,776
Capex	1,897	385	586	600
Free Cash Flow	641	68	671	958

Source: Banca Profilo estimates and elaborations, Company data.



Francesca Sabatini

Head of Equity Research

francesca.sabatini@bancaprofilo.it

+39 02 58408 461

Sales Desk +39 02 58408 478

Contents

SWOT analysis	3
Strategy update	4
<i>Corporate strategies well on track: production scaled up, organization strengthened and first steps into Medical Devices</i>	<i>4</i>
<i>Focus on: research and production process optimization.....</i>	<i>4</i>
<i>Focus on: diversifying in Medical Devices and Agri-Food; expanding in Cosmetics via Vitalab.....</i>	<i>6</i>
Estimates update.....	8
<i>2021E-2023E: estimates fine tuning on the back of 1H21 results.....</i>	<i>8</i>
ESG	12
<i>FY20 Sustainability Report</i>	<i>12</i>
<i>Sustainability for Arterra</i>	<i>12</i>
<i>Materiality Assessment.....</i>	<i>13</i>
Valuation	15
<i>DCF valuation</i>	<i>15</i>
<i>Arterra competitive arena: strategic positioning and competitive advantages</i>	<i>16</i>
<i>Relative market multiples valuation</i>	<i>18</i>
APPENDIX	21
Arterra’s reference Industry: biotech serving the irreversible trend of product sustainability.....	21
Arterra overview and business model.....	23
<i>Company overview and activities</i>	<i>23</i>
<i>A scalable and profitable business model.....</i>	<i>25</i>
<i>Shareholders’ structure, Management and Human Resources: long experience and sounded know-how</i>	<i>26</i>
DISCLAIMER	31

SWOT analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Outstanding R&D and high qualified Technology Team • A global market reach with limited sales force investments thanks to the partnership with Intercos and the equity stakes in Vitalab and ADL • Scalable business model as products and the in-house developed IPs can be applied simultaneously to different end-markets • Profitable business model, since its set up, for a very low cost of raw materials and an efficient and light organizational structure 	<ul style="list-style-type: none"> • Small size of the business • End-markets concentration
OPPORTUNITY	THREATS
<ul style="list-style-type: none"> • Bioscience great momentum as product sustainability has become the key mission of many industries • Significant growth potential and resilience of main end-market, the cosmetic industry • Rich opportunities in Nutraceutical and Agri-food 	<ul style="list-style-type: none"> • Effective end-markets diversification within the planned time frame • Potential difficulty in maintaining the independence from global multinational brands

Strategy update

Corporate strategies well on track: production scaled up, organization strengthened and first steps into Medical Devices

Arterra keeps working hard toward its strategic targets: to grow in Cosmetics and beyond Cosmetics

During its IPO process, Arterra declared the following corporate strategy:

- To expand its research activity attracting specialised resources, from scientists in the reference end-markets, to business developers to better reach new industries, to production specialists and technicians to adopt smarter, more effective and automatized production processes;
- To extend the application of its technological platforms and active ingredients to end markets, the most active in bio innovation such as Nutraceutical/medical devices and agri-food;
- To invest in new production equipment to scale up the production capacity and develop its valuable molecules production well over its current capacity of some 10,000kgs/year;
- To grow externally through the acquisition of bio technologies, mainly in delivery systems (for example for the gradual release of the active ingredient) to enhance the value of Arterra's active compounds and its competitive advantage in various sectors.

Most of R&D expansion and production scale up has been done

Arterra is very well on track to the above-mentioned goals:

- Research activity has been expanded attracting new specialized resources, including prof. V.Fogliano as Scientific Coordinator, appointing Ms. M.Bimonte as Grant & IP Director and Ms. A.Tito as Cell & Molecular Biology Director. The organization has been strengthened and now it can count on 34 employees;
- Research activity has been expanded in Cosmetics, active ingredients and technological platforms have been addressed towards new end-markets applications, mostly Nutraceutical/Medical devices and Agri-food. In Cosmetics, sold volumes increased from just above 9,000kgs in 2019 to more than 13,000kgs in 2021.
- Production capacity has been doubled, outsourcing reduced and productivity has been significantly increased from 9kgs/day to 21kgs/day with consequent positive effects in terms of costs and effectiveness, releasing quality, of raw materials. In fact, raw materials incidence on Cosmetics turnover decreased from more than 20% in 2019 to less than 10% in 2021.

Focus now stays on: end market diversification and processes optimization

Thus, now focus is mostly on: i) developing new natural compounds addressable to Cosmetics, diversifying in new markets, mainly medical devices, especially through partnerships with companies having already the sector's regulatory expertise, and agri-food; ii) production processes optimization; iii) external growth through M&A

Focus on: research and production process optimization

Over €2mIn capex since 2019 to enhance research capabilities, scale up production and increase productivity

Since 2019, Arterra increased its production capacity and research activity investing over €2mIn. In 2021, The Company extended further its production plant, bought additional equipment, and invested in technology to enhance cellular growth. Among relevant investments: i) equipment for "ex vivo" tests on skin and human tissues for innovation in Nutraceutical and medical devices; ii) new lyophilizers; iii) expanding chemical laboratories for cellular growth. These investments will lead to an increase in productivity from 21kgs/day in 2021 to 50kgs/day in FY22.

Figure 1: Arterra new laboratories



Year	Fulfilled orders (kg)	Productivity kg/day	Productivity Euro/day	Outsourcing (Euro)	
				Cell Culture	Lyophilization
2019	8860	9	3150	147.800	8.800
2020	9117	21	7350	272.636	8.000
2021	Es. 14.500	21	7350	14.400	20.000
2022		50	17.500		

Source: Company data

Simplifying and streamlining research and production processes

In 2020 and 2021 Arterra strengthened its organization by appointing a COO, an R&D Coordinator, a Grant & IP Director and a Cell & Molecular Biology Director. Moreover, the Company simplified and streamlined research and production processes.

Within this new organization, research ideas arise from multidisciplinary research units with all processes managed by an internal technical-scientific Committee.

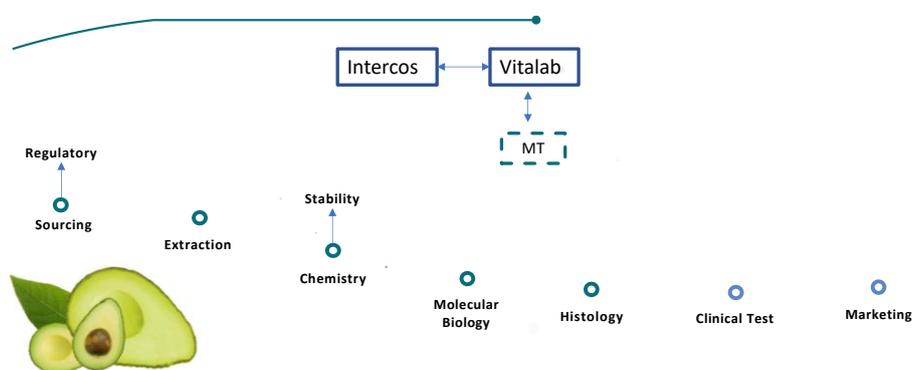
Once an idea has been validated, the Research Unit:

- starts with the sourcing of raw materials;
- proceeds with chemical extraction;
- analyse and tests on molecular and cellular for scientific validation;
- sends samples for clinical testing;
- studies preliminary data;
- compares ingredients with market benchmarks;
- launches the product on the market

This process is constantly on track to catch new opportunities. Every 15 days, the Company takes part to the seminar "Science for Breakfast" on new topics, with the aim to find hints and ideas for the next project.

Each research unit is market oriented, and the scientific idea must bring to a product or a technology to be either approved or rejected. In Cosmetics, the time to market is between 3-4 months.

Figure 2: Arterra research process – the Vita AvoCare case study



Vita AvoCare

3 months research project

Source: Company data

Focus on: diversifying in Medical Devices and Agri-Food; expanding in Cosmetics via Vitalab

First steps into Medical Devices: 5-year production licence with ADL

Regarding end-market diversification, in April 2021, Arterra signed its first agreement in Medical Devices with ADL Farmaceutici for a 5-year production and licence of mix of four active compounds named "ArterraBio Complex I" against skin acne. This is only the beginning of a potentially larger partnership with ADL, which is skilled and experienced in Nutraceutical, that might lead to new active compounds. In fact, in June 2021 Arterra subscribed the capital increase by ADL acquiring a 6.81% stake.

Arterra owning 6.8% of ADL

Following the entrance in Medical Devices with ADL more has to come:

ADL and Arterra will also work together for the development of a product for the treatment of atopic dermatitis, both through topical and oral use. As regards to the topical use, Arterra is evaluating with specialists in dermatology which kind of clinical test should be carried out in order to have sufficient data for a new dermatological product that can be launched in the market by the end of 2023. As regards to the oral use, time to market could be longer as Arterra must be accredited as a producer of raw materials for ingested products, register the product and finally proceed with a clinical trial for oral use.

Arterra-ADL collaboration on the natural treatment of atopic dermatitis

Figure 3: Arterra's first product in Medical Device



Source: Company data

Arterra-MATERIAS partnership in projects for Medical Devices and Agriculture

Arterra partners with Materias on two projects. The first project concerns the validation of the use of a synthetic peptide with strong bactericidal abilities to treat acne, as a potential substitute for benzoyl peroxide in anti-acne products in Medical Device. The second project concerns the possibility of expressing in a bacterial system, other than E.coli, a peptide with bio stimulating activity for plants to be used in Agriculture. The peptide has been chemically synthesized and it has increased the defence response of plants to biotic stress. Furthermore, the acquisition of Isagro by Croda might lead to opportunities for bio-solutions in Agriculture.

Patents in Medical Devices

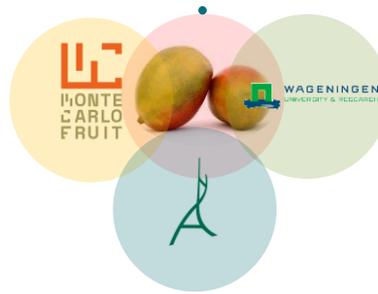
In 2020-2021, two extracts have been patented: olive and prickly pear leaf extract for preventing and treating atopic dermatitis; Punica granatum peels extract for treating viral infections.

Arterra-MONTECARLOFRUIT Research addressed to agri-food

Moreover, Arterra's research is continuing in agri-food. In June 2021, Arterra and Montecarlofruit signed a research agreement for the up cycling of the mango waste. Montecarlofruit is active in the production of aseptic mango fruit purea for baby food, in Mali.

In 2021, a research unit (RU) within Arterra was launched and named "Beat the best": about 80 extracts have been analysed to identify those that exceeded a selected benchmark in effectiveness. As estimated, a new fat-soluble active from avocado waste was selected. Fruits that are grown in Sicily and do not have the right size for being put into the market, will be used. Furthermore, an ethanolic extract from Jasminum officinale cells was fully characterized for its anti-glycation, antiox and anti-inflammatory activities through cell and skin explant assays.

Figure 4: Research agreement Arterra-Montecarlofruit



Source: Company data

Consolidating in Cosmetics

Expanding even through suggestions driven by Vitalab-Intercos co-working

As regards to Cosmetics segment, Arterra innovated with 4 patents in 2020-2021: extracts deriving from *Oenothera Biennis* cell cultures for Cosmetics use; extracts coming from *Portulaca grandiflora* stem cells for treating skin signs due to skin ageing; essence from *Pelargonium capitatum* stem cells for Cosmetics use; extract derived from *Cannabis Sativa* cell culture for use in Cosmetics, pharma and Nutraceutical.

Since 2021, Research has been also worked driven by specific suggestions provided by Vitalab thanks to continuous inputs received from Intercos. In 2022 Arterra will development new active ingredients to support specific activities driven by its partners.

Figure 5: Cosmetics – new products

New Products on the Market



NC55 Vita Ray-Immune
Pelargonium capitatum stem cells



NC56 Anchoryl Vita
Scabiosa arvensis stem cells



NC57 Vita Adren-Align
Ficus carica stem cells



NC59 Vita BotaniGuard.
Punica granatum peels extract



NC60 Vita Up-Gravity
Oenothera Biennis stem cells



NC61 Vita Avocare:
Persea gratissima pulp extract

Source: Company data

Estimates update

2021E-2023E: estimates fine tuning on the back of 1H21 results

We raised projected revenue in 2021 and over on the back 1H21 picking selling volumes in Cosmetics

In the 1H21 Arterra reached its record in Cosmetics sold volumes at almost 6,000 kgs (+39% yoy). Vitalab almost tripled its turnover driven by a great contribution of multinational brands and it is expected to get close to €3mln revenue in 2021. On the back of these results, we raised our projections on Arterra's Cosmetics selling volumes by 3,000 kgs, to over 13,000 kgs in 2021 to reach over 17,500 kgs in 2023 from our previous estimate at just above 16,000 kgs. The average selling price decreased in the first six months of 2021 from over €290/kg to over €240/kg for a strategic commercial policy which includes discounts for large and planned orders for optimizing production planning. We also included turnover from research contracts from ADL and Montecarlo fruit. Therefore, we now see 2021 turnover at €3.75mln (+33% yoy) compared to our previous estimate at €3.15mln (+11% yoy).

We reduced EBITDA margin in 2021 and over following the slackening of public research grants

For what concerns research grants, in the 1H21 they amounted to €510k for a stop to public tenders for research projects in 2021. According to Company management, tendering will start again during 2022. Therefore, we cut research grants to €900k from previous €1.4mln and kept this amount for the next two years. Research grants estimates cut led to lower EBITDA margin; in fact, their contribution to revenue have been decreasing from 35% in 2020 to 20% in 2021 and it is expected at 15% thereafter.

Table 1: Arterra P&L estimates revision 2021-2023

Profit & Loss										
	2017	2018	2019	2020	2021E old	2021E new	2022E old	2022E new	2023E old	2023E new
	€/000									
Cosmetic turnover	1,503	1,868	2,167	2,281	2,588	3,237	3,236	3,723	4,044	4,281
Nutraceutical/medical devices turnover	0	0	0	0	0	0	150	150	300	300
Agriculture/Agri-food	0	0	0	0	0	0	0	0	0	0
Research contracts and services	551	559	542	541	557	511	574	537	591	564
Licences and royalties	0	0	0	0	0	0	100	0	300	100
Total turnover	2,054	2,427	2,709	2,822	3,146	3,749	4,060	4,410	5,236	5,245
yoy		18%	12%	4%	11%	33%	29%	18%	29%	19%
cosmetic volumes (kg)	5,690	7,142	8,839	9,117	10,348	13,300	12,935	15,295	16,169	17,589
yoy		90%	26%	24%	3%	14%	46%	25%	15%	15%
avg cosmetic price (€/kg)	264	262	245	250	250	243	250	243	250	243
Research grants and stock changes	692	551	917	1,487	1,387	900	1,187	900	1,087	900
% on sales	34%	23%	34%	53%	44%	24%	29%	20%	21%	17%
Total Revenue	2,746	2,978	3,627	4,309	4,533	4,649	5,247	5,310	6,323	6,145
yoy		45%	8%	22%	19%	5%	8%	16%		16%
raw materials cost	(210)	(259)	(455)	(525)						
cost of services	(466)	(533)	(726)	(873)	(1,199)	(1,466)	(1,283)	(1,674)	(1,546)	(1,937)
% on total revenue	-25%	-27%	-33%	-32%	-26%	-32%	-24%	-32%	-24%	-32%
cost of labour	(736)	(847)	(1,025)	(1,128)	(1,240)	(1,306)	(1,315)	(1,385)	(1,391)	(1,465)
% on total revenue	-27%	-28%	-28%	-26%	-27%	-28%	-25%	-26%	-22%	-24%
lease	(123)	(146)	(146)	(151)	(87)	(87)	(54)	(54)	0	0
other operating costs	(43)	(53)	(38)	(30)	(84)	(84)	(84)	(84)	(84)	(84)
EBITDA	1,167	1,140	1,236	1,602	1,922	1,706	2,510	2,113	3,302	2,659
margin	43%	38%	34%	37%	42%	37%	48%	40%	52%	43%
# employees	n.a.	20	28	30	33	33	35	35	37	37
labor cost per unit		(42)	(37)	(38)	(38)	(40)	(38)	(40)	(38)	(40)
D&A	(143)	(73)	(296)	(400)	(499)	(498)	(619)	(616)	(739)	(736)
% on total revenue	-5%	-2%	-8%	-9%	-11%	-11%	-12%	-12%	-12%	-12%
EBIT	1,024	1,067	940	1,201	1,423	1,208	1,891	1,496	2,563	1,923
margin	37%	36%	26%	28%	31%	26%	36%	28%	41%	31%
net financial income (expenses)	(7)	6	1	(2)	13	3	16	4	21	5
% on total revenue	-0.2%	0.2%	0.0%	0.0%	0.3%	0.1%	0.3%	0.1%	0.3%	0.1%
EBT	1,017	1,073	940	1,199	1,436	1,212	1,908	1,500	2,584	1,928
margin	37%	36%	26%	28%	32%	26%	36%	28%	41%	31%
taxes	(272)	(29)	(83)	(91)	(137)	(116)	(510)	(401)	(691)	(515)
tax rate	-27%	-3%	-9%	-8%	-10%	-10%	-27%	-27%	-27%	-27%
Net income	745	1,044	857	1,109	1,299	1,096	1,398	1,099	1,893	1,412
% on total revenue	27%	35%	24%	26%	29%	24%	27%	21%	30%	23%

Source: Banca Profilo elaborations and estimates on Company data

Moreover, despite significant savings in raw materials (from €300k in 1H20 to €150k in 1H21), driven by optimized production processes and by production scale up, with consequent reduction of external buying, increasing other services costs had a negative impact on EBITDA margin. More in details, we project raw materials cost at €300k, down from over €520k in 2020, but we raised cost of services, structure, and labour for new hirings. We now see EBITDA margin at 37% in 2021 compared to our previous estimate at 42% and we project 43% in 2023 (vs previous 52%).

Balance Sheet: equity participation in ADL; loan to Vitalab has been repaid; dividend distribution

Regarding Balance Sheet estimates we: i) added the equity stake in ADL for €360k in the financial assets; ii) kept capex at some €600k a year; iii) we cashed in the short-term loan to Vitalab that repaid it in 2021 and iv) we assumed €300k a year as dividend distribution.

Finally, the reduction in expected marginality had a negative effect on Free Cash Flows that we now see at €3mln in the 21-23 period (vs previous €3.8mln).

2020-2023E: 13% revenue CAGR to €6.1mln and 5% Nutraceutical contribution

To sum up, in 2020-2023E: i) revenue CAGR stays basically the same at 13% to more than €6mln; ii) EBITDA CAGR has been cut to 18% from previous 27% and, consequently, iii) cumulated Free Cash Flows have been reduced by some 20%. Adjusted net cash is expected to get close to €7mln from projected €4.5mln at the end of 2021 and €3.6mln at the end of 2020.

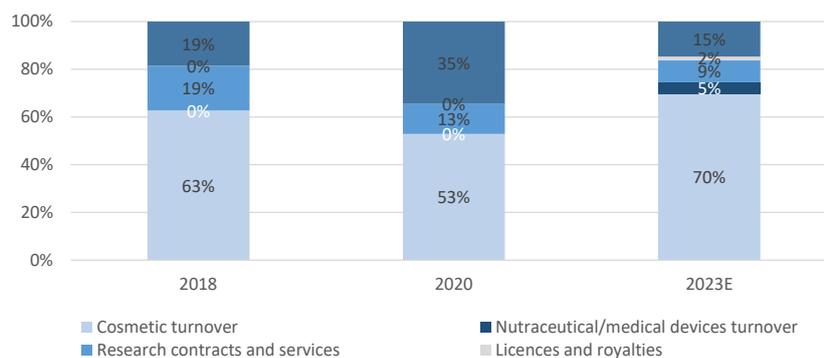
2023E revenue to €6.1mln of which: Cosmetics 70% Nutraceutical 5% research grants at 15% of total turnover

We expect Arterra to grow its selling volumes in Cosmetics to Intercos and to Vitalab to reach global multinational brands in skincare; we estimate Cosmetics turnover to move from 53% in 2020 to 70% of total revenue in 2023.

Regarding Arterra diversifying in Medical Devices, we estimate a 5% contribution to turnover in 2023 at €300k.

Furthermore, we confirm our previous projection of research contracts to finance bio innovation with a target just below €600k in 2023 or 9% of total revenue. As the turnover from the selling of active compounds, royalties and research contracts increases, we estimate a lower incidence of research grants, which we see unchanged at €900k in 2023 or 15% of total revenue, from €1.5mln in 2020 or 35% respectively.

Figure 6: Arterra revenue trend by type 2018, 2020 and 2023E



Source: Banca Profilo elaborations and estimates on Company data

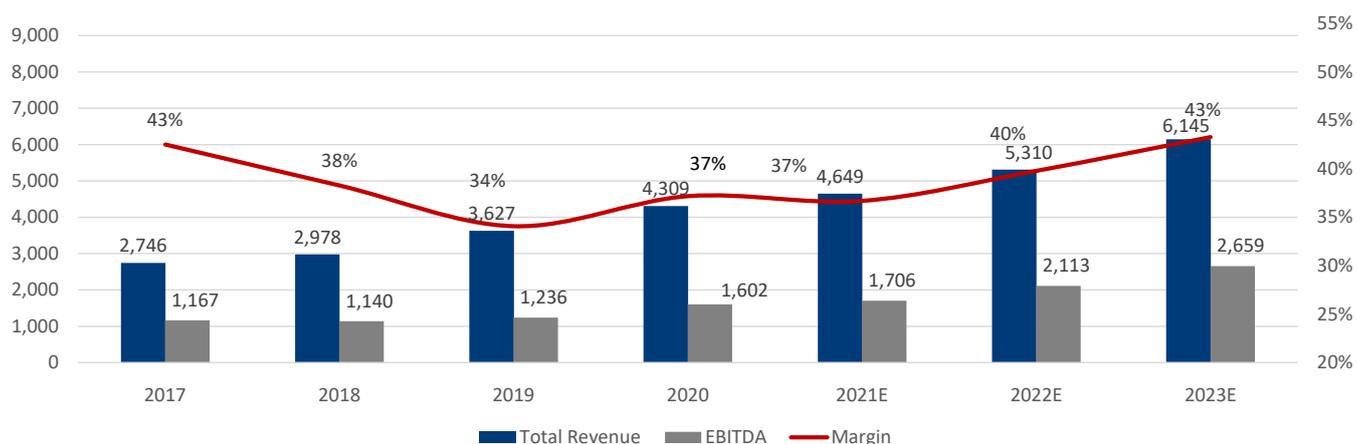
In 2021, we estimate total revenue +8% yoy Cosmetics at 70%, research contracts

More in details, in 2021 we project €4.6mln of total revenue (+8% yoy), which includes €3.2mln of Cosmetics turnover (13,300 kgs at an average price of €243/kg, vs previous 10,300kgs and €250/kg), €511k of research contracts turnover and €900k of research grants, down from our previous estimate at €1.4k, as we assumed the tenders for Research projects financing will start gradually during 2022.

We expect 13% and 18% CAGR 2020-2023E in revenue and EBITDA; margin to 43%

In 2020-2023E, we expect Arterra to increase revenue from €4.3mln to €6.1mln (CAGR 13%) and its EBITDA from €1.6mln to €2.7mln (CAGR 18%) with EBITDA margin to improve from 37% to 43%. In this period, we increased raw materials and services from 26% to 32% of total revenue, in line with 2020 and 1H21, including a limited recourse to procurement outsourcing, optimized production processes, operating leverage, but also increasing services, structure and labour costs.

Figure 7: Revenue, EBITDA and margin 2017-2023E



Source: Banca Profilo elaborations and estimates on Company data

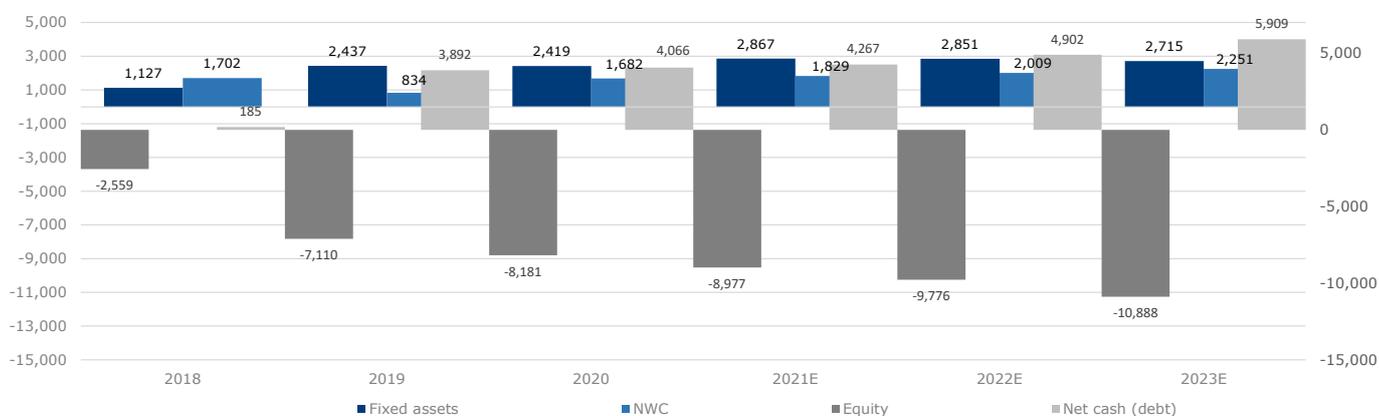
D&A is seen increasing in line with capex

Over 2020-2023E, we estimate increasing D&A from €400k to €736k (unchanged) and an incidence on total revenue from 9% to 12% for continuing investing in bio-factories.

Tax rate still low for both fiscal credit and tax incentives. Tax credit on R&D to decline by 2022

Finally, Arterra is seen to be able to reach a net income above €1.4mln in 2023, including a reduced tax rate at 10% in 2021, given the fiscal credit and assuming persisting tax incentives for supporting a post-Covid recovery. Starting from 2022 tax credit on R&D is estimated down from 45% to 10%; therefore, we kept tax rate at 27%.

Figure 8: Balance Sheet evolution 2018-2023E



Source: Banca Profilo elaborations and estimates on Company data

Balance Sheet projections: cumulated capex unchanged at €1.8mln as the first round of investments is completed

Regarding our revised projections (2021E-2023E) of the Company Balance Sheet, we have included:

- €1.8mln cumulated capex in three years (unchanged) as a significant first phase of investments has been already done since 2019;
- €570k of operating working capital cash absorption in three years, marginally lower than our previous estimate (€632k).

Net cash €4.2mln in 2021E and €6mln in 2023E including dividend distribution

Consequently, adjusted net cash is seen rising from €3.7mln at the end of 2020 to just below €6mln at the end of 2023 (vs €8mln in our previous expectation mainly for lower EBITDA and dividend distribution).

Table 2: Arterra Balance Sheet estimates revision 2021-2023

Balance Sheet											
	€/000	2017	2018	2019	2020	2021E old	2021E new	2022E old	2022E new	2023E old	2023E new
tangibles		185	567	1278	1400	1,501	1531	1,505	1538	1,414	1449
intangibles		27	108	706	567	567	525	543	501	495	454
financials		462	452	452	452	452	812	452	812	452	812
Fixed assets		675	1,127	2,437	2,419	2,520	2,867	2,501	2,851	2,362	2,715
other current net receivables		131	177	452	535	535	535	535	535	535	535
receivables from grants		1,176	1,062	495	585	546	471	467	471	428	471
trade receivables		303	630	414	716	923	900	1,068	1,028	1,287	1,190
inventories		263	267	425	570	599	615	694	702	836	812
trade paybles		(161)	(257)	(500)	(188)	(207)	(157)	(196)	(192)	(236)	(222)
Net operating Working Capital		1,582	1,702	834	1,682	1,861	1,829	2,033	2,009	2,315	2,251
% on total revenue		58%	57%	23%	39%	41%	39%	39%	38%	37%	37%
receivables from grants (% grants)		170%	193%	54%	39%	39%	52%	39%	52%	39%	52%
trade receivables (% revenue)		11%	21%	11%	17%	20%	19%	20%	19%	20%	19%
inventories (% revenue)		10%	9%	12%	13%	13%	13%	13%	13%	13%	13%
trade paybles (% COGS)		24%	32%	42%	13%	17%	11%	15%	11%	15%	11%
Capex		50	536	1,897	385	600	586	600	600	600	600
tangible		28	447	1143	345	500	529	500	500	500	500
intangibles		22	89	754	40	100	57	100	100	100	100
% on total revenue		2%	18%	52%	9%	13%	13%	11%	11%	9%	10%
Provisions		(629)	(630)	(504)	(522)	(504)	(522)	(630)	(522)	(630)	(522)
Invested Capital		1,757	2,375	3,218	4,115	4,412	4,709	4,439	4,874	4,582	4,979
shareholders' equity		250	250	327	330	330	330	330	330	330	330
reserves		720	1,265	5,926	6,742	7,851	7,551	9,150	8,347	10,548	9,146
net income		745	1,044	857	1,109	1,299	1,096	1,398	1,099	1,893	1,412
Equity		1,715	2,559	7,110	8,181	9,480	8,977	10,878	9,776	12,771	10,888
Net debt (cash)		42	(185)	(3,892)	(4,066)	(5,068)	(4,267)	(6,439)	(4,902)	(8,189)	(5,909)
cash and cash equivalents		(249)	(738)	(4,669)	(4,536)						
short term loans to equity participated		(340)	(340)	(225)	(340)						
bank debt		630	893	1,002	809						
leasing (IFRS 16)		389	309	228							
adj Net debt (cash)		771	464	(3,439)	(3,727)	(5,068)	(4,267)	(6,439)	(4,902)	(8,189)	(5,909)

Source: Banca Profilo elaborations and estimates on Company data

**Free Cash Flows €3mIn
in three years
Including €1.8mIn
normalized capex**

In terms of cash flow generation, we now project €3mIn of cumulated Free Cash Flows in 2021E-2023E, some €800k below our previous estimate, for margins contraction. We introduce a dividend policy according to new management assumptions. We estimate some €300k annual dividend distribution.

**Main risks to our
estimates**

Main risk to our estimates is Arterra's effective capacity to significantly diversify into new end-markets, within the projected time to market, to strongly grow in Cosmetics beyond Intercos, through the commercial and distribution strength of Vitalab. Another risk might be the difficulty to maintain the independence of its active compounds in terms of applications.

Table 3: Arterra Free Cash Flows estimates revision 2021-2023

Cash Flows											
	€/000	2017	2018	2019	2020	2021E old	2021E new	2022E old	2022E new	2023E old	2023E new
EBIT		1,024	1,067	940	1,201	1,423	1,208	1,891	1,496	2,563	1,923
tax (figurative)		(256)	(267)	(235)	(300)	(356)	(302)	(473)	(374)	(641)	(481)
D&A		143	73	296	400	499	498	619	616	739	736
change in Net Working Capital		(219)	(120)	868	(848)	(178)	(146)	(172)	(180)	(282)	(242)
capex		(50)	(536)	(1,153)	(385)	(600)	(586)	(600)	(600)	(600)	(600)
Free Cash Flow		642	217	715	68	788	671	1,265	958	1,779	1,336

Source: Banca Profilo elaborations and estimates on Company data

ESG

FY20 Sustainability Report

ESG and the Sustainability of Competitive Advantage

Every active investor seeking value should be aware of how companies deal with environment, social and governance issues, since are factors which can improve or erode security value. In a world where companies are increasingly confronted with environmental issues, such as climate change and pollution, as well as social factors such as diversity and inclusion, gender balance and product safety, attention to ESG issues is increasingly becoming a competitive advantage.

The first Sustainability Report

To best involve stakeholders and to communicate in an increasingly transparent way its ESG goals, Arterra has published its first Sustainability Report. The report mainly relates to the FY20 period, but some information contained can refer to the first months of 2021. The Company has issued the report in accordance with both GRI standards and SDGs.

Sustainability for Arterra

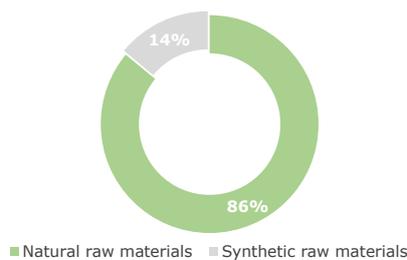
Arterra, a biological and molecular R&D company applied to cells of natural origin

Beyond sustainability standards and goals Arterra has set, the Company naturally generates positive externalities with its core activities. Arterra Bioscience operates in the research and development sector of biological molecules to develop and produce innovative active ingredients mainly for cosmetic use but with potential applications in the fields of agriculture, Nutraceuticals and pharmaceutical as well. Since its establishment, Arterra has always focused on green biotechnologies as a tool for sustainable innovation and a potential boost to the circular economy. More in detail, the Company develops sustainable products, such as active ingredients from plant-based raw material and uses certified sustainable production processes.

Arterra is leader in the biological and molecular research on plant-based raw materials

Arterra's main production process consists of the processing of raw materials in liquid culture, a process free of any type of microbiological contaminant or environmental pollutant. Moreover, used raw materials are on average 86% natural. To increase the incidence of natural raw materials and seek constant innovation, Arterra has recently launched a project in collaboration with Montecarlo Fruit, a supplier of quality fruit and vegetables on a global scale, for the development of active ingredients starting from fruit waste.

Figure 9: Raw materials breakdown between natural and synthetic ones



Source: Banca Profilo elaborations on Company data

Materiality Assessment

Materiality Assessment The Company has carried out a Materiality Assessment to identify priority sustainability disclosure items. The purpose of the materiality analysis is to determine the most relevant issues for the company and its stakeholders, and to decide which issues should be included in the report and on which the Company will have to report.

Figure 10: Materiality Assessment

Macro Area	Items	SDGs																	Priority valuation	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Stakeholder	Arterra
BUSINESS & FINANCIALS	Product / service quality																		5.0	4.8
	Responsible selection of suppliers																		3.0	2.8
	Customer satisfaction																		5.0	3.5
	Digitization																		3.0	2.5
	R&D and Innovation																		5.0	4.8
	Data security																		3.0	3.5
	Reputation																		5.0	3.3
	Profitability																		5.0	3.0
	Financial balance																		5.0	2.8
	Claims management																		5.0	4.3
	Internationalization																		5.0	4.8
	E	Responsible use of resources and waste																	3.0	5.0
Raw materials quality & product sustainability																		5.0	4.8	
Biodiversity protection																		5.0	5.0	
Sustainable water management																		5.0	3.3	
S (External)	Human rights protection																	5.0	5.0	
	Fight against corruption																	5.0	4.5	
	Beware of demographic and social changes																	3.0	3.0	
	Development of the territory																	5.0	5.0	
S (Internal)	Attraction and development of talents																	5.0	3.8	
	Employee welfare																	5.0	4.8	
	Employee engagement																	5.0	4.3	
	Diversity, inclusion and equality among employees																	5.0	4.8	
	Staff training and enhancement of the personnel																	5.0	2.8	
	Staff incentives																	5.0	3.5	
	Health and safety at work																	5.0	5.0	
	Safeguard workers' rights																	5.0	4.8	
G	Transparency																	5.0	4.5	
	Ethics and integrity																	5.0	5.0	

Source: Banca Profilo elaborations on Company data

SDGs vs corporate goals: n. 8, 1, 11, and 12 are those Arterra is more sensitive to

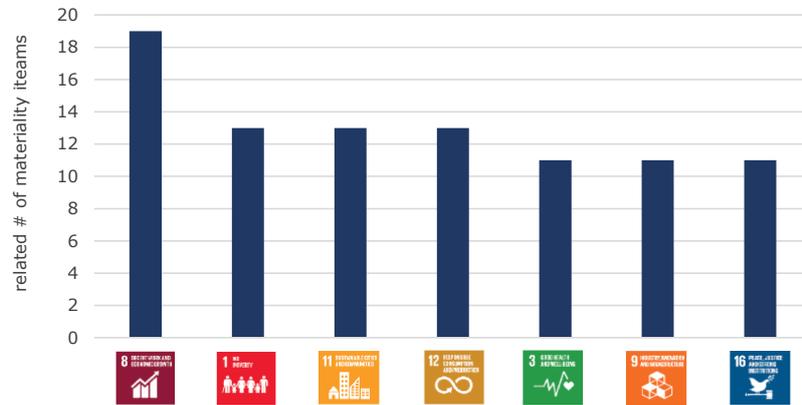
By relating the material topics identified through the Materiality Map to the seventeen Sustainable Development Goals (SDGs), it emerges that SDGs 8, 1, 11, and 12 are the more sensitive ones for Arterra.

1. Goal 8 promotes inclusive and sustainable economic growth as well as decent work for all. This goal is particularly sensitive for the Company as Arterra guarantees higher levels of economic productivity mainly through technological upgrading and R&D, promotes development-oriented policies that support productive activities, decent job creation, creativity, and innovation. Moreover, Arterra particularly cares to progressively improve global resource efficiency in production and responsibly select suppliers.
2. Goal 1 promotes to end poverty in all its forms everywhere. Arterra promotes this goal mainly by implementing appropriate social protection systems and granting equal rights to economic resources.
3. Goal 11 makes cities and human settlements inclusive, safe, resilient and sustainable. Arterra promotes this goal mainly thanks to the strong connection with the Neapolitan and Campania territory, from which Arterra obtains natural raw materials used in its processes. Arterra is also promoter of

Est(ra)Moenia, an association aimed at implementing projects that enhance the Naples surrounding areas and East Naples.

4. Goal 12 ensures sustainable consumption and production patterns. Arterra promotes this goal mainly by achieving the sustainable management and efficient use of natural resources and the sound management of chemicals and all wastes throughout their life cycle.

Figure 11: SDGs Arterra is more sensitive to



Source: Banca Profilo elaborations on Company data

Valuation

DCF approach well appraises the cash generating business

Given Arterra's cash generating business model, a DCF method well adapts as a valuation approach.

Market multiples approach can also be used

For what concerns the market multiples approach, the listed international research-based companies represent a fitting panel of comparables for suggesting an appropriate relative valuation using market multiples.

DCF valuation

DCF assumptions:

€4.1mln of cumulated FCFs

To run a DCF model, we use our projected FCFs for the 2022E-24E explicit period: cumulated FCFs for over €4.1mln (vs previous €3.7mln) or about €1.3mln (vs previous €1.2mln) as yearly average in 2022E-2024E. The increase om FCFs depends on the additional 2024 to the explicit period.

€1.3mln as Terminal Value cash flow

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

- an annual FCF generation of €1.3mln (vs €1.2mln in our previous Company Update), corresponding to the average FCF in 2022E-2024E;
- perpetual growth rate of 2% (unchanged).

In order to get to the Equity Valuation we would consider the adjusted net cash at the end of December 2021 (€4.2mln vs €3.7mln at the end of 2020 in our previous Company Update).

Table 4: DCF valuation

DCF Valuation	2022E	2023E	2024E	over
Free Cash Flows (€/000)	958	1,336	1,784	1,359
years	1	2	3	
discount factor	0.93	0.87	0.81	
NPV Cash flows (€/000)	895	1,166	1,453	
Sum of NPVs (€/000)				3,514
Terminal Value (€/000)				26,830
NPV Terminal Value (€/000)				21,860
Enterprise Value (€/000)				25,375
pheriferal assets: Vitalab (@40%)				8,675
Net debt 2021 (€/000)				-4,214
Equity Value (€/000)				38,264
number of shares (mln)				6.6
Per share value (€)				5.8

Source: Banca Profilo estimates and elaborations

7.1% WACC confirmed

We confirm WACC at 7.1% which includes:

- risk free rate at 3%, as implicitly expected by consensus on the 30Y Italian BTP yield curve;
- market risk premium at 5.5%;
- beta at 1, as the average of chosen listed peers to Arterra;
- debt to equity target structure with an 80% weight on Equity.

Table 5: 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
KE	8.7%
costo del debito	1%
tax rate	25%
KD	1%

Source: Banca Profilo estimates and elaborations

DCF Equity valuation: €38.3mln driven by Vitalab upgrade

We run the DCF model and end up with and Enterprise Value of €34mln (vs previous €28.5mln) and, therefore an Equity Value of €38.3mln (vs previous €32.3mln) or

€5.8/share (vs previous €4.9/share). Main difference from our previous Company update derives from: i) higher FCFs for having added 2024E; ii) higher net cash and mostly iii) higher Vitalab valuation as its revenue moved up from about €1mIn in 2020 to €2.8mIn in 2021.

Arterra competitive arena: strategic positioning and competitive advantages

European and US listed biotech companies

The competitive scenario comprises European and US listed biotech companies active in the research and development of natural substances for industrial green applications.

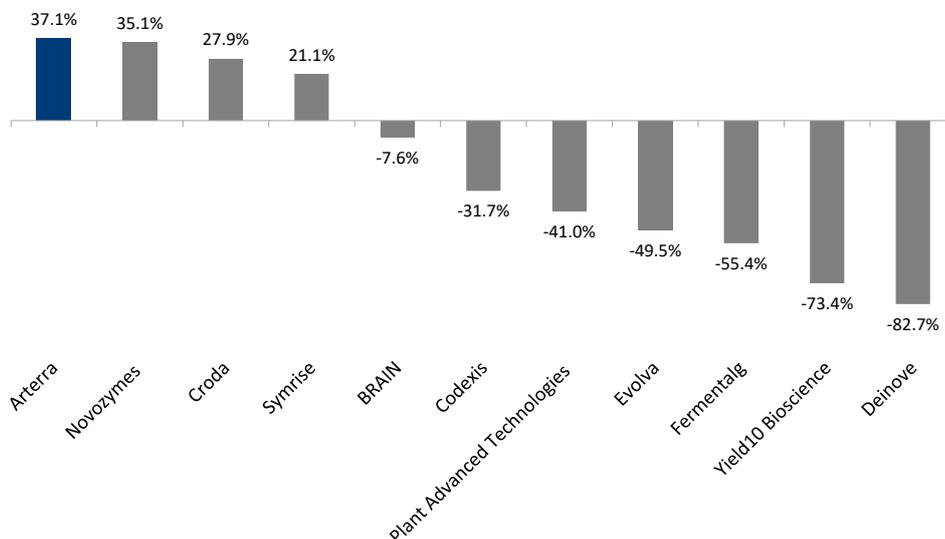
A profitable business model is the difference between Arterra and its international listed competitors

Main difference between Arterra and its comparables is profitability. Furthermore, Arterra has funded its research, investments and growth through research grants (at the beginning) with no additional either funds or venture capital needed. Since its foundation, in 2004, Arterra has been showing positive EBITDA, whereas its peers show either negative marginality or much lower profitability than Arterra. We set a sample of listed peers which includes the German Brain and Symrise, the British Croda, the French Fermentalg and Plant Advanced Techonogy, the Swiss Evolva, the Danish Novozymes and the US Codexis and Yield 10 Bioscience. Moreover, we added more mature specialty chemicals companies that have little operations in Natural Resources, such as Clariant, Evonik, Lonza and Ashland.

In 2020 Arterra showed the highest EBITDA margin among peers

In 2020, Arterra reported 37% EBITDA margin, highest among peers' sample. Expectations on 2021, to be announced yet, are similar, with Novozymes possibly matching Arterra's EBITDA margin at some 37%.

Figure 12: Main international listed players in the Industry – EBITDA margin in 2020



Source: Banca Profilo elaborations on Company data, Factset
The negative EBITDA margin has been divided in order to make a graphic representation of the competitive arena

B.R.A.I.N. (DE)
€40mIn turnover
-€3mIn EBITDA

Biotechnology Research and Information Network AG, is a German industrial biotech company active in both BioSciences, for research and development, and BioIndustrial, for the development, of own products addressed to companies or end consumers. Main products are enzymes, biocatalysts, strains and bioactive natural substances. The Company discovers and develops biotech compounds and microbial producer strains. Its end markets are mainly: Chemicals, Cosmetics, Food and Medical technology, as well as Energy companies, Consumer goods manufacturers and the green Mining sector.

Croda (UK)
GBP 1.4bn turnover
28% EBITDA margin

Croda International Plc, is an English holding of a group of companies that develop specialty chemicals, including oleochemicals (derived from natural oils) and industrial chemicals. Its main end markets are: Consumer Care (35%), including Personal care (natural ingredients for hair, skin especially anti-aging, sun care), Life science (health

care and Agriculture with ingredients and formulation to pharma and nutritional markets such as dermatology and animal health and to agrochemical companies); Performance Technologies (34%), to which it delivers high-added value additives such as lubricants for the Automotive and Industrial sectors, coatings and polymers serving Oil & Gas, Water treatment, Packaging sector and Home care ingredients serving Households product manufacturers; Industrial Chemicals (11%) including process additives (fatty acids, glycerin...) to Textiles and other Industrials such as Engineering and Automotive. It is mostly exposed in Western Europe (40%), North America and Asia Pacific.

Symrise (DE)
 €3.4bn turnover
 20% EBITDA margin

Symrise AG, is a German developer of fragrance bases, perfume oils, cosmetic raw materials and active ingredients, plant extracts, aroma chemicals, flavorings, fruit powders and seasonings, mostly based on natural raw materials. It addresses mainly to: Cosmetics, Personal care, Household care, Food & Beverage and Pharmaceuticals. Half of its sales come from Europe.

Deinove (FR)
 €300k turnover
 €-14m EBITDA

Deinove SA, is a French company that develops compounds originated from bacteria. Its main clients are active in: Health Care, Nutrition and Cosmetics. Among its products there are: bio actives or active ingredients of natural origin to invent the new generation of sustainable Cosmetics (mostly anti-aging) and to new products for the nutrition and health care products; organic acids, anti-infective molecules responding to the global challenge and major health threat of antibiotic resistance (mostly severe gastrointestinal infections), ethanol and biofuels.

Evolva (CH)
 CHF 7.5m turnover
 CHF -17m EBITDA

Evolva Holding SA is a Swiss biotech firm that manufactures sustainable ingredients for use in Food, Nutrition, Personal Care and Agriculture. Mostly uses biosynthetic and evolutionary technologies to create and optimize small molecule compounds and their production routes. Main products/ingredients: stevia sweeteners, nootkatone and resveratrol. Their processes start from plants (sugar from wheat or maize) and use yeast through fermentation.

Fermentalg (FR)
 €2.2m turnover
 € -6.7m EBITDA

Fermentalg SA, is a French industrial biotechnology company that obtain active ingredients from micro algae. It is an expert in microalgae culture and their industrial fermentation processes. Its main products are molecule including Omega 3 fatty acids, natural pigments antioxidants, proteins and biopolymers. It addresses its production to the following end-markets: Agri-food, Healthcare, Nutrition (human and animal) and Petrochemical industries.

Plant Advanced Technologies (FR)
 €1.3m turnover
 € -0.8m EBITDA

Plant Advanced Technologies SA is a French plant biotechnology firm manufacturing rare new actives for Cosmetics, Pharmaceutical and Agriculture. Its main products are proteins from the liquid of carnivorous plants and other actives from the roots of various plants.

Novozymes (DK)
 DKK 14bn turnover
 35% EBITDA margin

Novozymes, a Danish biotech-based company that research, develops and obtain enzymes for Industrial usage and addresses them to the technical enzyme market, the food enzyme market and the animal feed enzyme market.

Codexis (USA)
 USD 69m turnover
 USD -22m EBITDA

Codexis Inc. is an American developer of protein and biocatalysts through an easy-on-the-environment technology that allows to scale-up and implement biocatalytic solutions for chemical processing. Relevant end-markets include Pharmaceuticals and Chemicals. It has a research agreement with Shell (half of Codexis' sales) to develop new ways of converting biomass into biofuel. It is also working to use its technology to manage carbon emissions from coal-fired power and treat wastewater. Some of its biocatalysts and enzymes are used to produce cholesterol-fighting drugs, allergy drugs and antidepressants. Americas represent almost 60% of Codexis' sales.

Yield10 Bioscience
 USD 800k turnover
 USD -9.4m EBITDA

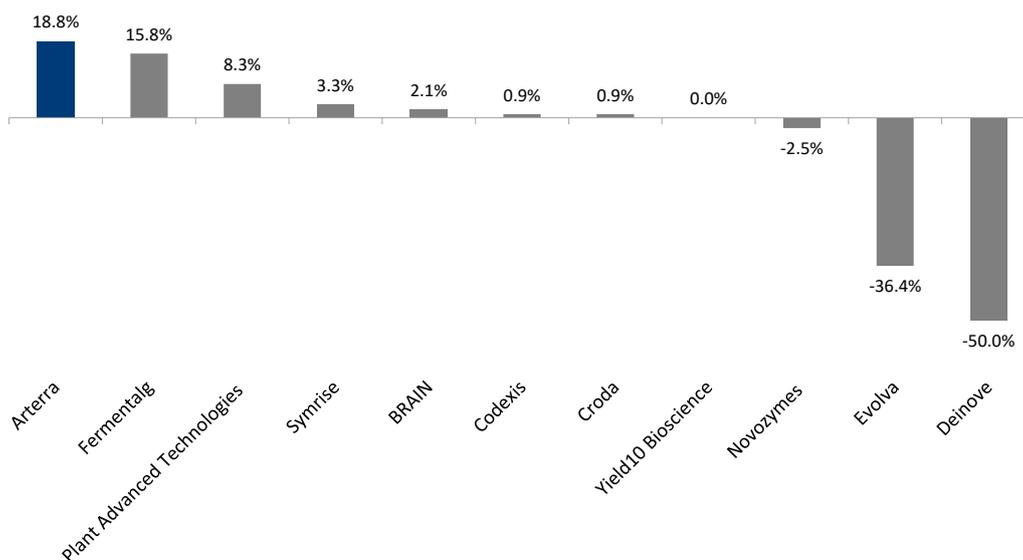
Yield10 Bioscience Inc. is an American agricultural bioscience company which focuses on the development of disruptive plant biotechnologies to improve crop productivity and seed yield and enhance global food security. The goal is to improve

fundamental elements of plant metabolism through enhanced photosynthetic efficiency and directed carbon utilization. Most of its treatments are applied to canola, soybean, and corn to increase tolerance to drought, flooding and heat and thus raise their food productivity.

In 2020 Arterra showed the highest revenue growth among peers

In 2020, Arterra reported 19% yoy revenue growth, the highest among peers' sample and well above the average of -3.5%.

Figure 13: Main international listed players in the Industry – yoy growth in 2020



Source: Banca Profilo elaborations on Company data, Factset

Sales growth over 100% have been divided in order to make a graphic representation of the competitive arena

Relative market multiples valuation

EV/SALES and EV/EBITDA used to assess the market multiples valuation of Arterra according to two selected sub-samples

To assess a relative valuation of Arterra through the market multiples approach, we divided our panel of comparables in to two set of peers:

- a first sub-sample of Arterra's peers, mostly by business and potential growth, but with negative EBITDA margin, including BRAIN, Evolva, Fermentalg, Plant Advanced Technologies, Codexis and Yield10 Bioscience;
- a second sub-sample of Arterra's peers, mainly by margins and cash flow generation, including Croda, Symrise, Novozymes, Clariant, Evonik, Lonza and Ashland.

Table 6: Sample benchmarking on revenue growth and EBITDA margin

Company	Currency	Market Cap (mln)	Enterprise Value (mln)	Sales growth					EBITDA margin				
				2018	2019	2020	2021E	2022E	2018	2019	2020	2021E	2022E
28/01/2022													
BRAIN	EUR	207	209	22.6%	24.8%	-0.5%	4.2%	16.0%	-16.7%	-7.3%	-9.2%	-5.6%	-1.2%
Croda	GBP	10,846	11,650	1.0%	-0.7%	0.9%	32.8%	4.7%	28.5%	28.8%	27.9%	30.3%	31.0%
Symrise	EUR	14,711	15,817	5.3%	8.0%	3.3%	8.2%	9.1%	20.0%	20.3%	21.1%	21.4%	20.9%
Evolva	CHF	138	133	30.9%	32.3%	-36.1%	47.4%	91.6%	-260.4%	-103.4%	-222.3%	-163.9%	-19.9%
Fermentalg	EUR	114	117	-46.6%	n.m.	16.3%	131.8%	92.4%	-3002.0%	-501.9%	-306.3%	-127.0%	-53.4%
Plant Advanced Technologies	EUR	19	23	37.5%	9.1%	4.7%	79.1%	44.4%	-218.2%	-183.3%	-95.5%	-31.1%	-9.2%
Novozymes	DKK	103,103	108,325	-1.0%	-0.1%	-2.5%	6.0%	6.8%	35.8%	36.7%	35.1%	36.7%	35.7%
Codexis	USD	1,219	1,123	21.1%	13.0%	0.9%	48.2%	21.5%	-3.8%	-10.8%	-31.8%	-22.9%	-32.0%
Yield10 Bioscience	USD	18	3	-38.2%	45.0%	-0.9%	-30.0%	877.2%	-1508.0%	-1026.8%	-1175.5%	-2088.1%	-233.6%
Clariant	CH	6,436	7,850	3.9%	-33.6%	-12.3%	11.8%	6.6%	15.4%	16.8%	16.0%	17.1%	17.6%
Evonik Industries	DE	13,547	16,494	4.2%	-12.8%	-6.9%	19.8%	4.2%	17.3%	16.4%	15.6%	16.5%	16.9%
Lonza Group	CH	46,841	49,949	8.6%	6.8%	4.5%	-12.5%	12.0%	27.3%	26.8%	22.7%	30.8%	32.0%
Ashland	USA	5,429	6,854	1.4%	-28.4%	-4.6%	n.a.	n.a.	18.8%	21.6%	22.2%	n.a.	n.a.
Median best peers				21.9%	24.8%	0.2%	47.8%	68.0%	20.0%	21.6%	22.2%	25.9%	25.9%
Arterra	ITA	18.8	15.2	8.4%	21.8%	18.8%	7.9%	14.2%	38.3%	34.1%	37.2%	36.7%	39.8%

Source: Banca Profilo estimates and elaborations on Factset

EV/SALES: 7.7x
EV/EBITDA: 15.8x

Consistently with our sample split up, we decided to use EV/SALES 2022E at 7.7x (vs previous 8x) of the first sub-sample and EV/EBITDA 2022E at 15.8x (vs previous 15.5x). We apply the mean multiple to our estimates of Arterra sales and EBITDA in 2022. Arterra currently trades more than 50% below the first sub-sample mean and 40% discount on the second sub-sample, despite its revenue growth and EBITDA margin were the highest among peers in 2020 and are to be confirmed in 2021.

Table 7: Market multiples

Company	EV / Sales		EV / EBITDA	
	2022E	2023E	2022E	2023E
28/01/2022				
BRAIN	4.5x	3.8x	n.m.	n.m.
Croda	6.0x	5.8x	19.5x	19.1x
Symrise	3.8x	3.6x	18.2x	16.9x
Evolva	6.3x	3.4x	n.m.	n.m.
Fermentalg	11.9x	7.0x	n.m.	n.m.
Plant Advanced Technologies	7.0x	5.0x	n.m.	n.m.
Novozymes	6.8x	6.6x	19.1x	18.3x
Codexis	9.0x	8.4x	n.m.	n.m.
Yield10 Bioscience	0.5x	0.1x	n.m.	n.m.
Clariant			9.7x	9.0x
Evonik Industries	n.m.		6.4x	6.1x
Lonza Group			25.7x	22.4x
Ashland			12.1x	11.0x
Mean best peers	7.7x	5.5x	15.8x	14.7x
Arterra	3.5x	3.3x	9.5x	8.9x
premium (discount) on best peers	-54%	-41%	-40%	-39%

Source: Banca Profilo estimates and elaborations, Factset

Market multiples valuation: €38mln

We end up with an Equity Value of €37.7mln, higher than previous market multiple valuation (€36mln) mainly for increasing valuation on Vitalab (€8.7mln vs previous €5.7mln).

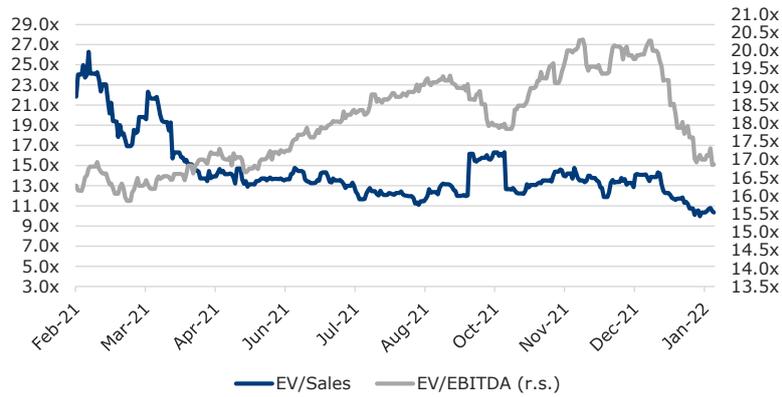
Table 8: Market multiples valuation

Valuation on market multiples (€'000)			
Arterra on EV/SALES (business + growth)	2022E	Arterra on EV/EBITDA (margins + cash flow generation)	2022E
EV/Sales best peers	7.7x	EV/EBITDA best peers	15.8x
sales 2021E	4,649	EBITDA 2021E	1,706
net debt 2020	-4,214	net debt 2020	-4,214
EV	36,007	EV	26,990
Equity	40,221	Equity	31,204
Vitalab (@ 40%) on EV/SALES	2021	Vitalab (@ 40%) on EV/SALES	
EV/Sales	7.7x		
sales	2,800		
net debt (adj)			
EV	21,688		
Equity	21,688		
(40% stake)	8,675		8,675
Arterra (including Vitalab @40%)	2022E	Arterra (including Vitalab @40%)	2022E
liquidity discount	15%		15%
	41,562		33,897
Average 2022E EV/SALES - EV/EBITDA			
37,730			

Source: Banca Profilo estimates and elaborations, Factset

Market multiples valuation includes a 15% liquidity discount and an Equity valuation of Vitalab (at 40% stake) on the same mean EV/SALES 2022 (7.7x) on its sales in 2021 (€2.8mln), leading to a value of €8.7mln.

Figure 14: Sample market multiples evolution (one year analysis)



Source: Banca Profilo elaborations, Bloomberg

Valuation:
12-month TP confirmed
€5.2

BUY confirmed

Despite higher DCF and market multiples valuation compared to our previous Company Update, we keep our 12-month target price unchanged at €5.2/share to assess the sustainability of Vitalab growth and thus rerating.

Given the relevant potential upside on Arterra's price, we confirm our BUY recommendation.

Figure 15: Target Price vs stock price since IPO



Source: Banca Profilo elaborations, Bloomberg

APPENDIX

Arterra’s reference Industry: biotech serving the irreversible trend of product sustainability

Product environmental sustainability has become the mission of any industry

Biotechnology is living a great momentum to find solutions to green products

Arterra: know-how in biological science to develop active innovative compounds for green processes and eco-friendly products

Nature contains a treasure trove of ingredients that can improve health, wellness and nutrition. Plants, animals and human cells that make these ingredients are often too rare, too hard to grow or do not reproduce enough of the ingredients by themselves to allow sustainable sourcing at the right quality and price. The plant kingdom is recognized as one of the most diverse and abundant sources of potentially active compounds.

Bioscience studies and screens to discover active molecules in nature and Biotechnology finds methods to make them reproduce to become an enough sustainable resource for specific applications.

Arterra Bioscience is an Italian, innovative SME, research-based biotech company with a strong know-how in biological science and an extensive experience in screening for the discovery of new active compounds able to have potential multiple industrial applications, such in Cosmetics, Nutraceutical, Agriculture and Agri-food. By studying signal transduction mechanisms in plants, animals and human cells, Arterra uses its technological platforms to verify the existence of molecular activity in various type of natural resources (from plants to microalgae to food by-products), which might have simultaneous industrial applications.

Figure 16: Biotech sources of research and fields of application



Source: Company data

Arterra: strong know-how and experience for simplifying needs of many industries in the persisting search for clean substitutes to chemicals

Arterra’s research activity is focused on the so-called Green Biotech (from plants and agricultural processes to innovative active ingredients) and White Biotech (from raw materials to valuable compounds). Other Biotech source of research are: the sea and its organism (Blue Biotech) and genetics (Red Biotech). Arterra also uses algae and microalgae in the Blue Biotech, whereas from Red Biotech it acquires all data and information on genetics and drug discovery and uses them for potential innovation and discovery addressable to other needing sectors. Arterra’s main areas of activity are: technological screening platforms; plants and cellular farming to brew or modify in order to obtain rich molecules; process innovation mostly in the extraction phases.

Arterra's bio factories and biomass production have applications in various fields simultaneously: the Company's core and current end market is the Cosmetics, whereas new and potential sectors are Nutraceuticals, functional food and Agri-food processing.

Arterra: ready to serve the most active sectors in the global trend to sustainability.

*Ongoing research projects on rich biomolecules for application in:
Medical Devices
Nutraceutical
Agriculture
Agri-food*

The global industry is in an irreversible trend of finding ways to sustainable products and processes. Arterra is ready to serve the most active sectors in this global trend, through both its innovative technologies and its range of bio-sustainable active ingredients that can be applied not only to various end-markets but also to different segments in the same sector (from mass green to prestige luxury products, mostly in skincare).

The most active market is Cosmetics, Arterra's core end-market, followed by Pharmaceutical, Nutraceutical, Agriculture and Agri-food.

The Pharmaceutical industry is investing in researching new applications using natural ingredients which are easier to be absorbed by the organism. Arterra has several ongoing research projects to find ways to add natural ingredients in the recipes of different Medical Devices (as any product that acts physically and mechanically, not biologically), mostly treatments addressed to the gastrointestinal, respiratory, and nervous systems.

The Nutraceutical industry is experiencing a growing demand of food supplements to add to one's diet, when lacking some key nutrients. Arterra is developing methods to enhance quality and concentration of natural ingredients to be added to food supplements based on solid research, effective screening, and robust tests.

Agriculture is gradually shifting towards sustainability as consumers are increasing their attention towards organic food and key players are introducing sustainable techniques for producing and protecting crops in place of chemical pesticides and fertilizers. Arterra is developing tools to enhance the use of bio solutions for pest control, for protecting the plants from climate stress, for quality improvement.

In the Agri-food industry there is a strong and increasing interest for natural food preservatives and additives as the attention of the consumers on both the production and conservation of food has been significantly increasing. Main players have begun investing in biological molecules that can act as natural preservatives or coloring. Arterra is working on various active ingredients acting as antioxidant to be used for natural preservation of fresh food.

A focus on Arterra's core end-market: Cosmetics (53% of total revenue)

Cosmetics is Arterra's core end-market, reached both through a partnership agreement with Intercos, which buys Arterra's active compounds and put them into its products, (mostly sold to make-up and skincare global brands of various positioning, from mass, to private label to prestige brands), and an equity co-participation in the joint venture Vitalab (25% Arterra and 75% Intercos), which distributes Arterra's active ingredients mostly to skincare multinational global and luxury global brands. In 2020, the turnover coming from Cosmetics (skincare) was 53% of total revenue.

High productivity and quick time to market of the active compounds in skincare

The productivity of the active compounds in the skincare is particularly high: using 1kg of active compound it is possible to produce from 200kg (in the suggested formulas) to 1000kg of final product (if used for mass market/marketing purposes). The time to market in Cosmetics is shorter than in other end markets: there are typically from 3 to 6 new active ingredients every year, which compares to 3 to 5 years in Agriculture, as an example.

Finally, whatever the direction the final demand takes in a scenario of global change of customers' perceptions and lifestyle, especially post Covid-19 outbreak, Arterra will promptly respond since its active compounds are able to serve from the luxury to the mass market.

Arterra overview and business model

Company overview and activities

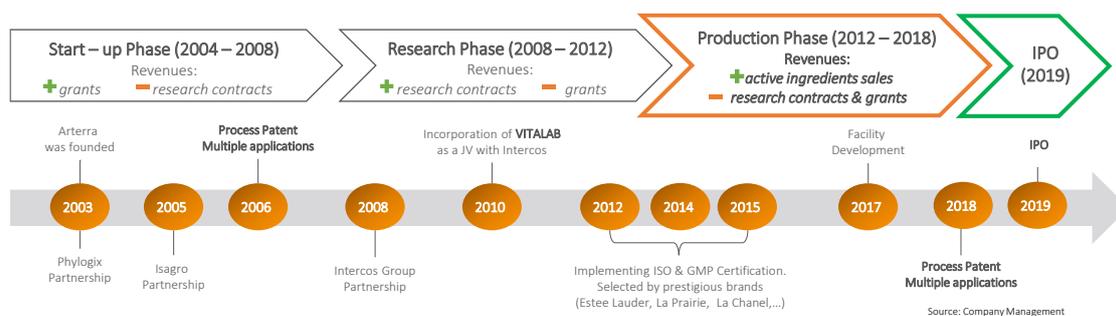
Founded in 2004 by Gabriella Colucci in Naples, as a spin-off of Arena Pharma Biology division (San Diego, USA). A key partner for bio innovation to various end-markets.

Arterra Bioscience was founded in 2004 in Naples by Gabriella Colucci, an Italian Scientist who returned to Italy after more than four years as Senior Research Scientist at Arena Pharmaceuticals (a listed company on NASDAQ), leading the Plant Biology Team. Arterra is a spin-off of Arena Pharmaceuticals from which it took the biotechnology developed by Ms. Colucci during the years spent in the US Company. Arterra has started bio research for industrial applications more than 15 years ago, anticipating an urgent need, a mandatory and irreversible global trend today. Other than being Ms. Colucci native city, Naples has been chosen as Arterra's headquarter for: i) its competitive R&D costs (including labour, leasing, transportation, and utilities); ii) being in the South and thus having an easier access to substantial support by the EU funds for Bioscience research; iii) the local presence of accredited universities and Research Centers from which highly qualified scientists come out.

From a small research group to a profitable biotech company. New active ingredients sale at 53% of turnover in 2020

At the beginning of its activity, in 2004, Arterra's main sources of revenue were the research grants from public institutions (Regione Campania, MISE, MIUR and the European Union). In 2005, Isagro invested a 22% stake in Arterra and became financing the bio research for innovation in agriculture. Arterra's first patent was in this field, but immediately the Company discovered its perfect fit and application to Cosmetics. In 2007, research grants contributed for about 55% and research contracts for less than 20% of total revenue. Starting from 2008, both the agreement with Intercos for developing new active compounds for skincare green products and the setting up of the joint venture, Vitalab, for the distribution to clients different from Intercos', marked the shifting of revenue from mainly public research grants to research contracts.

Figure 17: from a research group to a profitable biotech company



Source: Company data

In 2020, turnover for the selling of active compounds contributed for more than 50% of revenue, that for research contracts weighed 13% and public grants reduced their contribution to sales to 35%. Starting from 2017, the bio facility was extended and further developed and Arterra started the production of new active bio ingredients for different end-markets, thanks to a new process patent with multiple industrial applications. Starting from the second half of 2019, a first round of significant investments, using IPO proceeds, have been made for doubling production capacity and optimizing production processes. Moreover, the organizational structure has been strengthened appointing an R&D coordinator (V. Fogliano), a Chief Operating Officer (G. Ferrante) a Grant & IP Director (M. Bimonte) and a Cell & Molecular Biology Director (A.Tito)

Arterra: research and technology to get valuable molecules from nature and active ingredients from food and agriculture waste. Plant extraction and Agri-food by-products in-house transformation processed to get active ingredients for multiple industrial applications. From 1kg of raw materials to >5kgs of active ingredients and up to 1000kgs of skincare finished goods.

Supported by an excellent research and tech team (most of them hold a Phd in Biology, Biotech, LifeScience or Genetics) and by the long experience and endless passion of Gabriella Colucci, Arterra uses cells from plants or algae as bio-factories to extract and produce, through sustainable procedures, active and valuable molecules (Plants Extraction production process). Typically, from 1kg of raw materials the transformation process can obtain more than 5kgs of finished product. Moreover, Arterra uses waste from food and agriculture to search for and develop new active ingredients (Agri-food by-products production process). The Agri-food by-products in-house transformation and production process to get to active compounds from food and agriculture waste includes: Agri-food-by-products, washing and freezing phases, extraction, lyophilisation, and dissolution in glycerol. Typically, from 1kg of raw materials the transformation process can obtain about 10kgs of finished product in the so-called upcycling process (creating value from food waste, much more than simply recycling food waste). Rich molecules and active compounds have various and simultaneous industrial applications in Cosmetics, Food supplements, Agriculture and Medical Devices. Furthermore, depending on the quantity of active compounds used in the products formulas (skincare products, in Cosmetics, for example), 1kg of active compounds can obtain from 200kgs (luxury, prestige skincare product) up to 1000kgs of finished goods (mass market, marketing-based skincare product).

Profitability and production capacity are main reasons to choose between product Production or IP Licencing

To summarize, Arterra’s revenue come from different sources: research grants, research contracts, product selling and licencing royalties. Active compounds might be either produced and sold or their related in-house Intellectual Property (IP) might be licenced out. The decision depends on the potential of the end-market applications. Typically, Cosmetics is a high-tech industry, made of small volumes, but very high margins; it is an end-market to be well addressed by Arterra’s current and potential bio-factories. On the other hand, agriculture is an industry of typically large volumes, low margins, and a very long time to market; it can be well served by Arterra’s through the licencing of its IPs. Moreover, in terms of time to market, in Cosmetics this is much quicker than in any other industry: 3 to 6 new active compounds are introduced every year in Cosmetics, whereas in agriculture the time for a new active ingredient to land on the market can range from 3 to 5 years.

Figure 18: Arterra’s reach of global brands in Cosmetics



Source: Company data

Key partnerships: Isagro and Intercos

In Agriculture, Arterra has been selected by Isagro, that in 2005, invested directly a 22% stake, which went down to 16.5% after the IPO. Isagro has become the right channel for the licencing of Arterra’s patented technology in Agrochemical. However, so far, no significant bio-solutions have been applied to Agriculture. In 2020 Isagro was acquired by Croda; this might bring new opportunities in the field. In Cosmetics, Arterra has been selected by Intercos as its research partner and preferred supplier of innovative active ingredients to be applied especially in skincare. According to their agreement, Arterra has a research contract with Vitalab worth more than €500k to develop three active ingredients every year; in the first year Intercos

has the exclusive right to use the active ingredient in its products; starting from the second year the active compound is commercialized through Vitalab. Intercos owns an 8.7% of Arterra.

The distribution in Cosmetics is demanded to Intercos and Vitalab. Clients range from multinational to SME, from mass to prestige skincare or make up brands

Intercos and Arterra founded the commercial joint venture, Vitalab, with the purpose to distribute Arterra's active compounds into the global cosmetic market. Arterra owns 25% of Vitalab with a call option up to 40%, whereas Intercos owns the remaining 75%. According to their agreement, Arterra's ingredients for Cosmetics products are sold through either Intercos or Vitalab, which interact directly with global brands. Thanks to this agreement, Arterra can reach multinational global and prestige brands, make-up and skincare brands having a mass to private labelled to luxury positioning thanks to multiple and democratic applications of Arterra's valuable molecules. In 2019, Arterra core Cosmetics end-market weighted 60% of total turnover and Intercos' contribution was over 80%. Vitalab significantly increased its contribution from €1.3mln in 2019 to almost €3mln in 2021.

Figure 19: Arterra key partnerships and distribution agreements



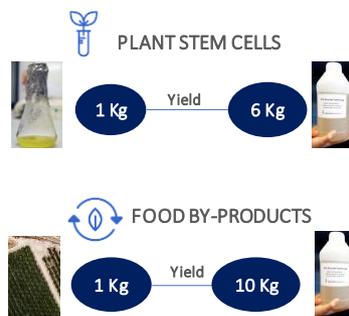
Source: Company data

A scalable and profitable business model

Biomass production is a replicable and a low cost process allowing outstanding yields

Arterra's business model is scalable and replicable: R&D activity is for either production and sales of active ingredients (through Intercos and Vitalab) or for licensing to third parties of in-house developed Intellectual Property (IP) to be applied simultaneously to different end markets and positioning within them (cross sector, cross technology and from mass to luxury products). Applications vary from the anti-age compounds in Cosmetics, to natural pesticides in agriculture to natural preservatives in fresh food to a bio gastrointestinal defender. The business model is profitable as biomass production to get innovative active ingredients is a very low-cost process. Bio-factories allow for outstanding yields with relatively limited expenses and investments. Typically, from 1kg of plant stem cells, Arterra's bio farms produce more than 5kgs of active compound, via cells reproduction, that can be sold in a range of 4x to 10x the cost of raw materials. In the same way, from 1kg of Agri-food by-products Arterra's bio farms can typically develop about 10kgs of active ingredients that can be sold between 20x and 50x the cost of raw materials.

Figure 20: Profitable and scalable business model (p17)



Source: Company data

In addition, the distribution phase of the value chain and the reach of global brands, mainly in Cosmetics, is set on a win-win partnership with Intercos and through an

equity participation (together with Intercos) in the commercial joint venture Vitalab. No investment in sales force is made with the focus on research and tech scientists.

Shareholders' structure, Management and Human Resources: long experience and sounded know-how

Listed on the AIM on October 28th at €2.6

The Company was listed on the AIM segment of the Italian Stock Exchange on October the 28th 2019 at €2.6/share. The share capital is represented by 6.6mln shares, following the exercise of 26,313 warrants and the issue of the same number of shares.

€6.6mln shares
26% floating

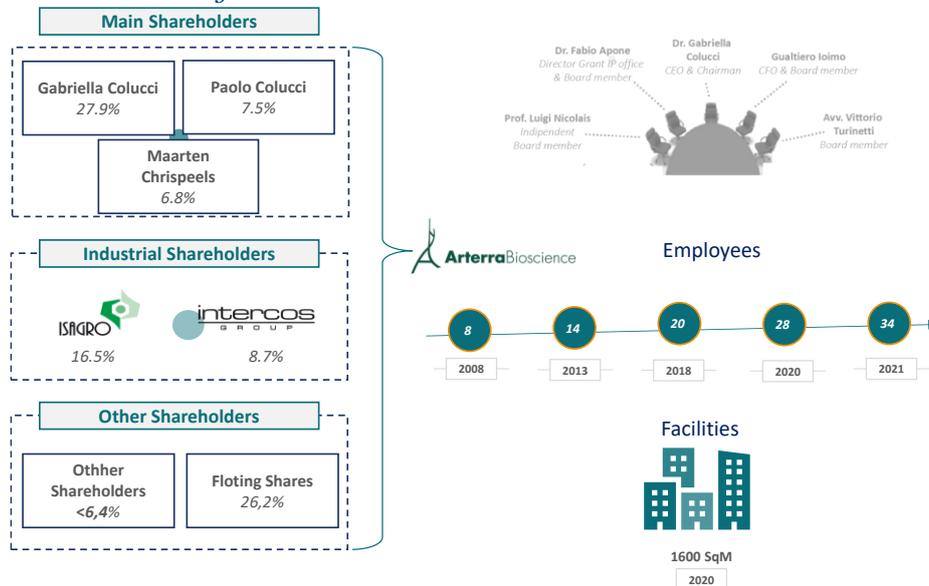
The Company is owned by:

- executive shareholders, the founder Gabriella Colucci with 27.9%,
- industrial shareholders, Isagro with 16.5%, partner in Agriculture and co-owner in ADL (Arterra with 6.81%; G.Basile with 34.63%), Cosmetics Intercos with 8.7%, partner in Cosmetics and co-owner in Vitalab;
- other shareholders, Gabriella Colucci's brother Paolo Colucci with 7.5% and Professor Martin Chrispeels (an expert of plant biology, Professor at UCSD and member of the National Academy Society) with 6.8%;
- other shareholders with a total stake lower than 6.4%.

Gabriella Colucci:
Founder, Chairman and CEO
A rare mastermind leaving US and returning to Italy

Arterra's founder and CEO Gabriella Colucci built more than 30 years of Academic research experience in Italy, Nigeria, USA and Australia. She is the author of more than 40 scientific publications and 18 patents. She worked for more than 4 years in San Diego as Senior Research Scientist at Arena Pharmaceuticals, leading the Plant Biology group. In 2003, she left San Diego and returned to its native Naples, where she founded Arterra Bioscience, as a spin-off of Arena Pharmaceuticals. She won the Marisa Bellisario Prize, the EU Prize for Women Innovations in 2018 and the Rising Star in Cosmetics Global in 2019.

Figure 21: Arterra shareholders and board members



Source: Company data. According to Vitalab's by-laws, Arterra is entitled to obtain 40% of Vitalab's distributed income until 10.10.2020. The agreement has been signed because if Arterra held a 40% stake in Vitalab it would lose its status of SME and would need to consolidate all Intercos group, according to the European laws of research funding.

The Board of Directors

Gabriella Colucci, Fabio Apone, Gualtiero Ioimo sit in the Board of Directors of Arterra which also includes the lawyer Vittorio Turinetti and Professor Luigi Nicolais, an independent board member. He is an expert of materials compounds; he was Ministry of Internal Affairs in Italy and Chairman of Centro Nazionale di Ricerca.

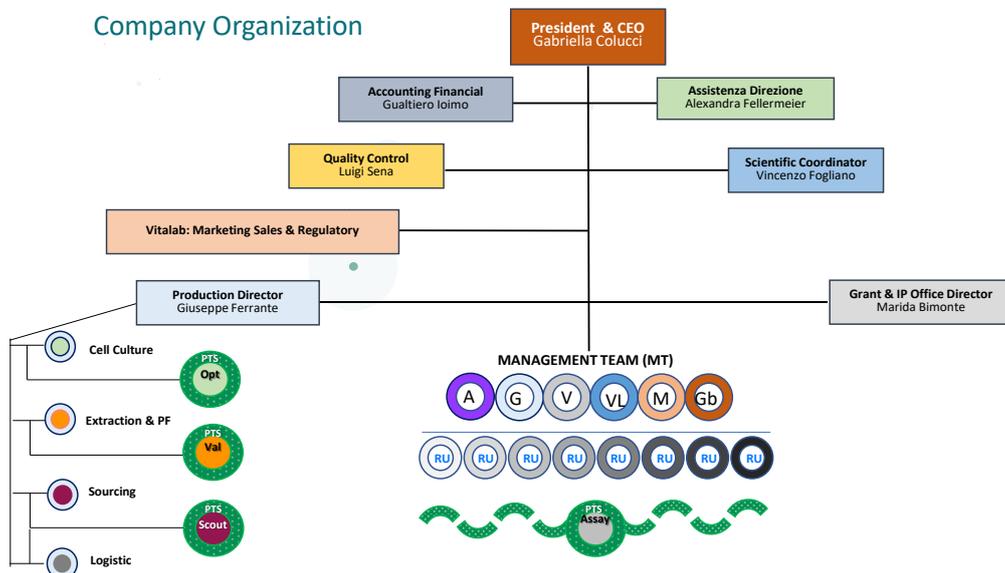
Key partnerships: Isagro, Intercos and Vitalab

In 2005, Isagro acquired a 22% of Arterra and they started a partnership for research-based bio innovation in agriculture. In 2008, Arterra signed an agreement with Intercos and became its biotech research arm in Cosmetics. Arterra develops 3 active compounds every year in either skincare or make up. The active ingredients are bought by Intercos that has the exclusive use for the first year; thereafter, the same ingredients are distributed globally through the joint venture Vitalab.

In 2010, Intercos and Arterra set up a joint venture, Vitalab, to sell active ingredients mainly to global and prestige brands in skincare. The joint venture is 25% owned by Arterra (with an option to go up to 40% and with the right to receive 40% of Vitalab's distributed income) and the remaining by Intercos.

In 2019, through the IPO process, Intercos became a shareholder in Arterra.

Figure 22: Arterra organization



Source: Company data

An outstanding R&D and highly qualified Tech Team

Gabriella Colucci set up an outstanding R&D and highly qualified technology team supported by a Scientific Advisory Board. Vincenzo Fogliano is the Scientific Coordinator. Among 34 employees (including 3 stageurs), there are 11 PhDs, 7 with a Master of Science and the remaining with either a bachelor's degree in Science or a Tech Diploma. The Research Team has been divided by the R&D phases, but all units are market oriented so that each new project must release either a product or a technology to be brought forward. The Scientific Advisory Board meets every two months and includes Dr. L.Declerq, Prof. Vincenzo Fogliano, Prof. Alessandro Vitale. Every year Professor Maarten Chrispeels joins the Scientific Advisory Board.

Figure 23: Arterra production evolution

Production Capabilities

Year	Fulfilled orders (kg)	Productivity kg/day	Productivity Euro/day	Outsourcing (Euro)	
				Cell Culture	Lyophilization
2019	8860	9	3150	147.800	8.800
2020	9117	21	7350	272.636	8.000
2021	Es. 14.500	21	7350	14.400	20.000
2022		50	17.500		

Source: Company data

COO appointed for production scale up and process optimization

In line with Company guidance released during the IPO process at the end of 2019, on top of expanding the R&D team, Arterra hired a Chief Operating Officer, with solid experience in key industrial groups and manufacturing sectors, to manage production growth. He managed production scale up and process optimization: since the IPO, production capacity went from 9kgs/day to more than 20kgs/day and raw materials costs have been significantly reduced by reducing outsourcing with further positive effect on raw materials effectiveness and production quality.



Arterra "ID Card"

Recommendation

BUY

Target Price

5.2 €

Upside

84%

Company Overview

Arterra Bioscience is an Italian research-based biotech company with a strong know-how in biological science and an extensive experience in screening for the discovery of new active compounds able to have various potential industrial applications in multiple end markets, such as cosmetics, nutraceutical, agriculture and agrifood. By studying signal transduction mechanisms in plants, animals and human cells, Arterra uses its technological platforms to verify the existence of molecular activity in various type of natural resources (from plants, to microalgae to food waste), which might have simultaneous industrial applications. Arterra, thus, represents an ideal partner to cross-sector companies who have not the financial or cultural strength to develop innovative technologies and bio-sustainable products, mainly in cosmetics (skin care and make up), food (supplements, functional food, natural preservatives), medical devices (acting on stomach, skin, brain, breathing and vascular systems), and agriculture (crop protection and yield enhancement). Since its foundation in 2004 Arterra has been showing strong revenue growth (>20%) and positive EBITDA (current margin at 40%), in a competitive scenario of international players with negative marginality.

SWOT Analysis

Strengths

- Outstanding R&D and high qualified Technology team
- A global market reach with limited sales force investments thanks to the partnership with Intercos and the equity participation in Vitalab
- Scalable business model as products and in houd developed Ips can be applied simultaneously to different end-markets
- Profitable business model since its set up for a very low cost of raw materials and an effective and light organizational structure

Opportunities

- Bioscience great momentum as product sustainability has become the key mission of many industries
- Significant growth potential and resilience of Arterra's main end-market, the cosmetic industry

Weaknesses

- Small size of the business
- End-markets concentration, mostly cosmetics
- Not yet structured management for business development

Threats

- Effective end-markets diversification within the planned time frame

Main catalysts

- 👍 Profitability improvement driven by the scaling up of production
Significant growth fuelled by the needed bio innovation across industries

Main risks

- 👎 Effective end-market diversification within the business plan time frame
Becoming dependent on global multinational brands



Arterra "ID Card"

feb, 04 2022 - 12:29

Recommendation

BUY

Target Price

5.2 €

Upside

84%

Main Financials

(€/000)	2019	2020	2021E	2022E	2023E
Total revenue	3,627	4,309	4,649	5,310	6,145
yoy change	21.8%	18.8%	7.9%	14.2%	15.7%
EBITDA	1,236	1,602	1,706	2,113	2,659
EBITDA margin (%)	34.1%	37.2%	36.7%	39.8%	43.3%
EBIT	940	1,201	1,208	1,496	1,923
EBIT margin (%)	25.9%	27.9%	26.0%	28.2%	31.3%
Net income	857	1,109	1,096	1,099	1,412
Margin (%)	23.6%	25.7%	23.6%	20.7%	23.0%
Adjusted net debt (cash)	(3,892)	(4,067)	(4,267)	(4,902)	(5,909)
Shareholders Equity	7,110	8,181	8,977	9,776	10,888
Net Operating Working Capital	834	1,682	1,829	2,009	2,251
Capex and acquisitions	1,897	385	586	600	600
Free Cash Flow	715	68	671	958	1,336

Company Description

Company Sector	BioScience
Price (€)	2.8
Number of shares (mln)	6.6
Market Cap (€ mln)	18.8
Reference Index	FTSE AIM ITALIA
Main Shareholders	Gabriella Colucci, Isagro
Main Shareholder stake	27.9%
Free Float	26.2%
Daily Average Volumes	17,902
Sample of comparables	BRAIN, Croda, Symrise, Deinove, Evolva, Fermentalg, Plant Advanced Technologies, Novozymes, Codex, Yield10 Bioscience

Breakdown by business unit

(% of total sales)	2019	2020	2021E	2023E
Cosmetic turnover	60%	53%	70%	70%
Nutraceutical/medical devices turnover	0%	0%	0%	5%
Research contracts and services	15%	13%	11%	9%
Licences and royalties	0%	0%	0%	2%
Research grants	25%	35%	19%	15%

Data of peers

	2019	2020	2021E	2022E
Revenue Growth (yoy)	25%	0.2%	48%	68%
EBITDA Margin	22%	22%	26%	26%

Average data

Solvability Ratios

	2019	2020	2021E	2022E	2023E
Net debt (cash) / EBITDA	-3.1x	-2.5x	-2.5x	-2.3x	-2.2x
Net debt (cash) / Equity	-0.5x	-0.5x	-0.5x	-0.5x	-0.5x

Financial and Operative ratios

	2019	2020	2021E	2022E	2023E
Tax rate	-9%	-8%	-10%	-27%	-27%
ROIC	29%	29%	26%	31%	39%
ROE	12%	14%	12%	11%	13%
Capex/Sales	52%	9%	13%	11%	10%
D&A to capex	26%	104%	85%	103%	123%

Source: Factset, Banca Profilo estimates and elaborations

Multiples of peers

	2022E	2023E
Best peers (business and potential growth)		
EV / SALES	7.7x	5.5x
Best peers (margins and cash flows)		
EV / EBITDA	15.8x	14.7x

DISCLAIMER

ANALYST'S AND BANK'S INFORMATION

THIS DOCUMENT CONCERNING INTRED 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 [February, 7th, 8:30].

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").