

Company: **Arterra Bioscience** Rating: **Buy** Target Price: **€3.2 (unchanged)** Sector: **Health Care, Biotech**

## Record Cosmetics sales, volumes. Valuable marginality.

 October, 18<sup>th</sup> 2024 at 18:00

### 1H24: sales growth recovery grounded. EBITDA improves on better revenue mix

In 1H24, Turnover rose by over 40% yoy to €2.25mln driven by 49% growth in Cosmetics sales. It was 60% of our previous FY24 estimates [Company Update on April, 24<sup>th</sup> 2024]. Selling volumes started to recover in 3Q23, with a pause (-6% yoy) in 4Q23, and showed robust growth in 1Q and 2Q24 (+30% and +72% yoy). In 1H24, Cosmetics selling volumes and turnover reached their half-year historical record at respectively 7,500 kgs and €1.9mln. Yet, Total revenue rose by 9% yoy only for lower contribution of Research grants (€310k vs €660k in 1H23), due to smaller MISE financing on key research projects and to the end of IPO grants. Nevertheless, 1H24 EBITDA rose by more than 30% yoy to €486k, improving marginality by 4% to 21% thanks to: i) higher concentration of compounds in Cosmetics and higher incidence of make-up vs skincare or a better revenue mix; ii) lower incidence of cost of services (39% vs 42% in 1H23) and iii) of labour (37% vs 38% in 1H23). In 1H24, for the first time ever, EBITDA was mostly driven by Cosmetics sales and to a less extent by grants which reached their minimum contribution ever to turnover (3% vs a six year average above 20%).

### Industry trends: less growth but still growing.

Arterra's portfolio is now entirely compliant to Chinese new rigid limits on active ingredients to be used in Chinese cosmetics. Yet, demand recovery from China remains not appreciable. In Western countries, Cosmetics demand remains solid, especially for functional make-up. Global Cosmetics sales keeps growing: following a 3% CAGR in 2013-2023, estimates are for 4.1% CAGR over the next five years. Moreover, consumers have significantly increased their spending in Medical Aesthetics and Arterra's recent findings on plant-based Exosomes properties are very well positioned for disruptive applications. Following a general reduction in sales growth in 2023 (+16% in 2022; +4.5% in 2023), Arterra's top listed clients, have been experiencing growth recovery in 1H24. In terms of competitive scenario, 2023 was a very complex year for all players in the Industry. Yet, Arterra's Total revenue declined by less than 7% yoy compared to an almost -50% of peers' average. Even in 2023, Arterra confirmed its higher EBITDA margin compared to its listed comparables (32% vs a median at 24%).

### Strategy and Research activities update. Consolidating projects and partnerships on Medical Devices and Agrifood. JV with Economics SpA.

Since 2023, 16 new products and 7 patents have been launched in Cosmetics, and a new patent for active ingredients to stimulate hair growth has been filed in Haircare. Research led also to new contracts in Agrifood, Nutraceutical and Medical Devices. With Monte Carlo Fruit, the upcycle of the mango waste led to new products in Baby Food; with ADL and ABR, new valid natural products for skin Acne, Atopic rash and Irritable Bowel Syndrome have been developed. A new potentially disruptive biotech proprietary technology based on Lactobacillus might lead to innovative compounds in numerous industrial applications. Arterra's research on Extracellular Vesicles, such as Exosomes, has led to several complex biological functions and claimed properties to be used in Cosmetics, Medical Aesthetics and Medical treatments. In July, the plant Exosomes technology led to a JV with Exosomics SpA,

### 2024E-2026E estimates revision on lower grants and better revenue mix.

We raised 2023-2026E Cosmetics sales CAGR to 21% (from 20%); our 2024E turnover will be the best ever, above €3.9mln. In October, grants reached €600k, well below our FY24 forecast at €1.7mln. We then cut our Total Revenue projections to €4.9mln in 2024 (from €5.6mln) and reduced 2023-2026E CAGR to 11% (from 13%). 1H24 lower Research grants disappointed our previous FY24 EBITDA forecast at above €2mln, which we then reduced to €1.6mln. Yet, we appreciate our new 32% EBITDA margin (from 36%) as more valuable and sustainable, since it comes from a better revenue mix (more Cosmetics sales, less grants). We now see 15% EBITDA CAGR 2023-2026E (from 22%) and 4pp margin improvement to 36% (from 8pp; 40%).

### Valuation: BUY confirmed; price target confirmed.

Market multiples have re-rated both in terms of EV/SALES and EV/EBITDA. The sample of listed international peers now trades at an average of 4.1x EV/SALES and 13.8x EV/EBITDA 2025 vs previous 2.5x and 12.6x respectively. Our DCF valuation (€3.9mln cumulated FCFs 2025-2027 and €1.1mln annual average; 8.4% WACC) confirms an Equity Value of €27mln. We then confirm both our BUY recommendation and 12-month target price to €3.2.

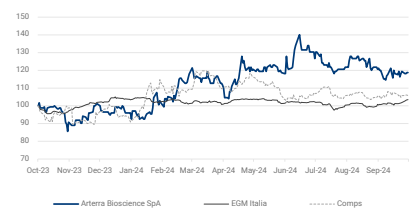
Target Price **3.2 €** Unchanged  
Recommendation **BUY** Unchanged

Company Profile		
Ticker	ARBS IM (BBG)	ABS-IT (Factset)
Reference Industry	Health Care - Biotech	
Stock Exchange	Italian Stock Exchange - Euronext Growth	
Reference Index	FTSE Italia Small Cap	
Market Data		
Price as of	16/10/2024	2.0
Number of shares (mln)		6.7
Market capitalization (€, mln)		13.0
Max / Min		4.8/1.4
Average daily volumes (1Y)		16,575

Key financials	2021	2022	2023E	2024E	2025E	2026E
€'000						
Total revenue	4,608	5,303	4,951	4,979	5,802	6,780
yoy (%)	7%	15%	-7%	1%	17%	17%
EBITDA	1,735	2,133	1,591	1,605	1,968	2,442
margin (%)	38%	40%	32%	32%	34%	36%
EBIT	1,248	1,601	1,059	1,235	1,488	1,882
margin (%)	27%	30%	21%	25%	26%	28%
Net Income	1,111	1,414	1,076	1,233	1,415	1,738
margin (%)	24%	27%	22%	25%	24%	26%
Net Debt	(4,199)	(3,796)	(5,672)	(6,099)	(6,737)	(7,603)
Equity	9,473	10,467	10,752	11,478	12,312	13,384
Capex	609	184	83	704	400	400
FCFs	385	779	1,328	587	994	1,299

Source: Banca Profilo estimates and elaborations, Company data.

### 1-Year Performance



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## 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 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

### WEAKNESSES

- Small size of the business
- End-markets concentration
- Non optimal cash management

### OPPORTUNITY

- 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 Medical Devices and Agri-food

### THREATS

- Effective end-markets diversification within the planned time frame
- Potential difficulty in maintaining the independence from global multinational brands

# The Industry

## China restrictions on cosmetics ingredients. Strong demand of functional make-up from US

Chinese restrictions on active compounds imports  
Recovery still slow

China released the final version of CSAR, which introduced new rigid limits on active ingredients to be used in Chinese cosmetics formulas. The changes included new cosmetics definitions, scope and classifications; efficacy claims requirements; safety assessments for cosmetics and rules for the management of new cosmetic ingredients.

Consequently, Arterra had to adapt and test its active compounds according to new Chinese rules. Moreover, the rest of the value chain had significant stock piling that need to be sold in the rest of the world, contracting the demand for active ingredients outside China. Finally, Arterra’s entire portfolio of active ingredients is CSAR compliant. Nevertheless, recovery from China is still very slow.

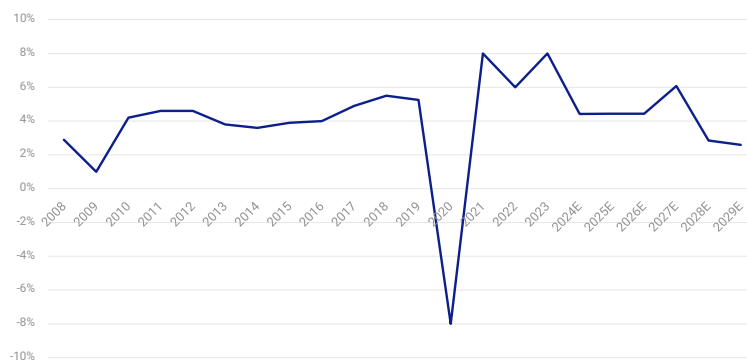
Robust demand for functional make-up

In Western countries, Cosmetics demand has remained solid, especially for functional make-up in the US.

Cosmetics demand robust growth

Apart from a decrease in 2020 due to the pandemic, global Cosmetics sales have been rising over the twenty years showing a 3% CAGR in 2013-2023. According to Statista, this growth will likely continue at 4.1% CAGR over the next five years.

Figure 1: Global Cosmetics sales 2013-2029E



Source: Banca Profilo elaborations on Statista 2024

In terms of Arterra’s compounds industrial applications, consumers have been significantly increasing their spending in Medical Aesthetics and Arterra’s findings on plant-based Exosomes might have applications in this field.

Figure 2: Global Medical Aesthetics sales 2017-2027E



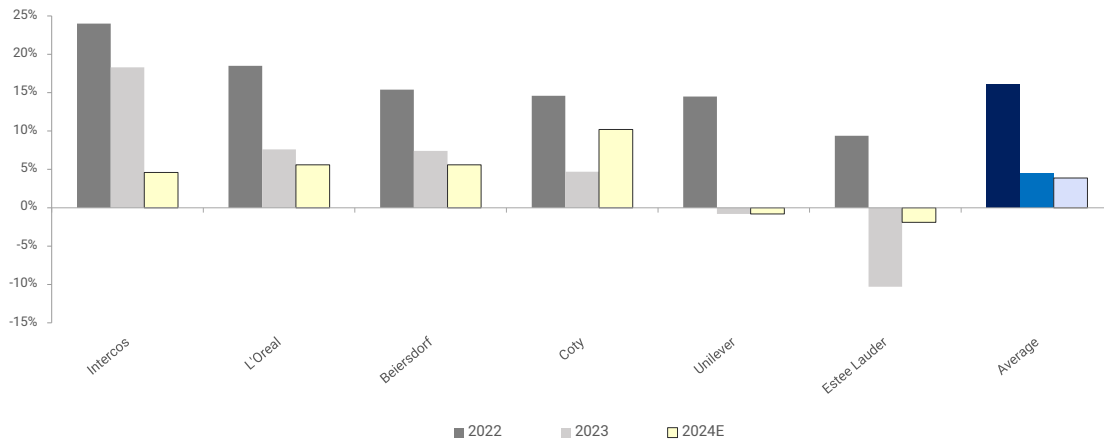
Sources: American Society of Plastic Surgeons; American Med Spa Association; Clarivate; BCG proprietary provider survey; BCG analysis.

Source: Company data

**Growth recovery expected by listed top Arterra's clients**

In terms of end-markets, listed top Arterra's clients, following a general reduction in sales growth or, in few cases, a sales decline in 2023 (for the reasons above explained) have been experiencing growth recovery this year. On average, in 2022 sales growth was over 16% yoy, it declined to 4.5% in 2023, which represents also the expected growth this year.

**Figure 3: top 7 listed clients – sales growth 2022-2024E**



Source: Banca Profilo elaborations on Company data, Factset

**Arterra Bioscience competitive arena: strategic positioning and competitive advantages**

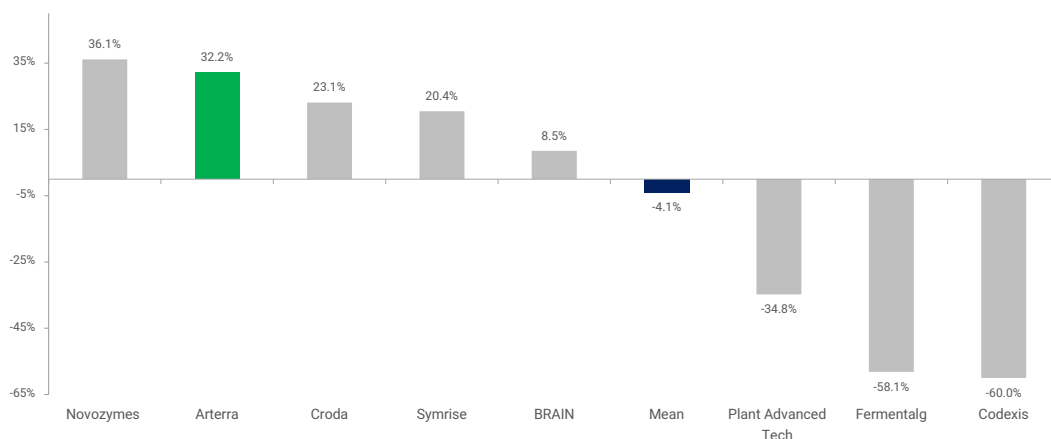
**European and US listed biotech**

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

**Arterra profitable business model differs from peers**

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.

**Figure 4: Main international listed players in the Industry – projected EBITDA margin in 2024**



Source: Banca Profilo elaborations on Company data, Factset

The negative EBITDA margin has been divided by 100 to make an effective and readable graphic representation of the competitive arena

**Arterra showed second to the highest 2024E EBITDA margin**

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 Danish Novozymes, the British Croda, the German Symrise and Brain, the French Fermentalg and Plant Advanced Techonogy, 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 Lonza, Ashland, OCI and Wacker Chemie.

In 2024, Arterra is expected to show 32% EBITDA margin, second to the highest among peers' sample.

**Novozymes (DK)**  
DKK 17.5bn turnover  
41% 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.

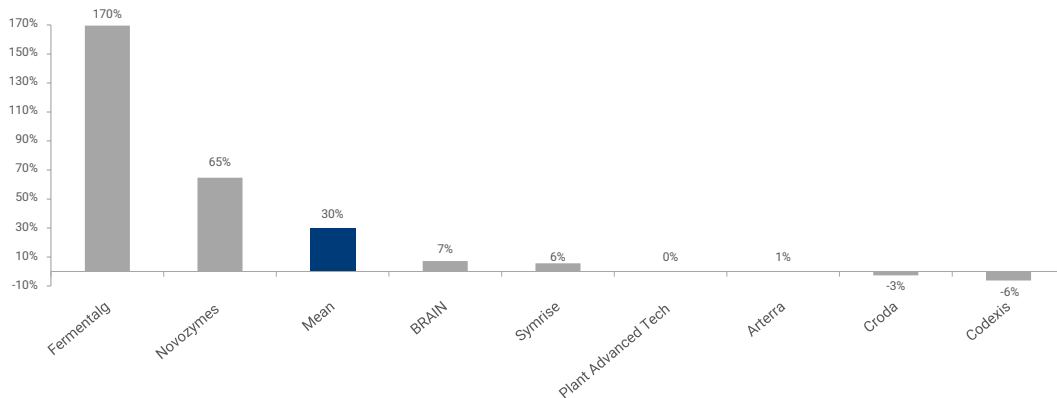
**Croda (UK)**  
GBP 1.7bn turnover  
24% EBITDA margin

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)**  
€4.7bn turnover  
19% 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.

**Figure 5: Main international listed players in the Industry – yoy projected growth in 2024**



Source: Banca Profilo on Company data, Factset

**B.R.A.I.N. (DE)**  
€57mln turnover -  
€93k 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.

**Codexis (USA)**  
USD 70mln turnover

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

**USD -48mIn EBITDA**

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.

**Plant Advanced (FR)  
€3mIn turnover  
€ -800k 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.

**Fermentalq (FR)  
€4mIn turnover  
€ -8mIn EBITDA**

Fermentalq 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 molecules 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.

**Yield10 Bioscience  
USD 100k turnover  
USD -13mIn 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.

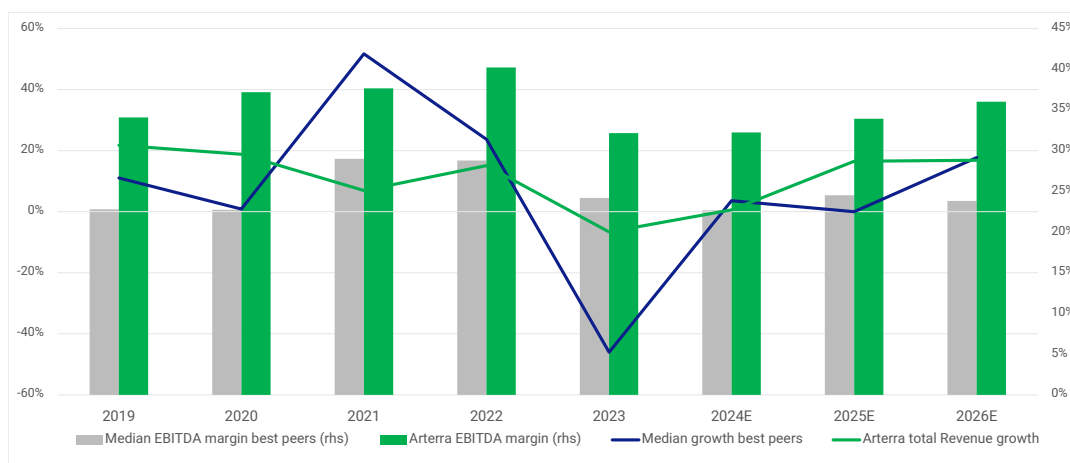
**In 2024 Arterra is seen to show flat sales**

In 2024, we see Arterra reporting basically flat Total revenue, which compares to the peers' sample projected average growth of 30%.

**2023 a complex year for all. Arterra revenue loss and EBITDA margin better than peers'**

2023 was a complex year within persisting uncertain scenarios for all players in the Industry. Arterra's best peers have lost almost 50% of their sales value, whereas Arterra's Total revenue declined by less than 7% yoy. Historically, Arterra has shown EBITDA margin above the peers' median and this was confirmed in 2023 with an EBITDA margin at 32% which compared to median at 24%.

**Figure 6: Sales growth and marginality 2018-2025E – Sample average vs Arterra**



Source: Banca Profilo on Company data, Factset

## 1H24 results

### Back to growth. Record Cosmetics sales and volume drive valuable EBITDA margin

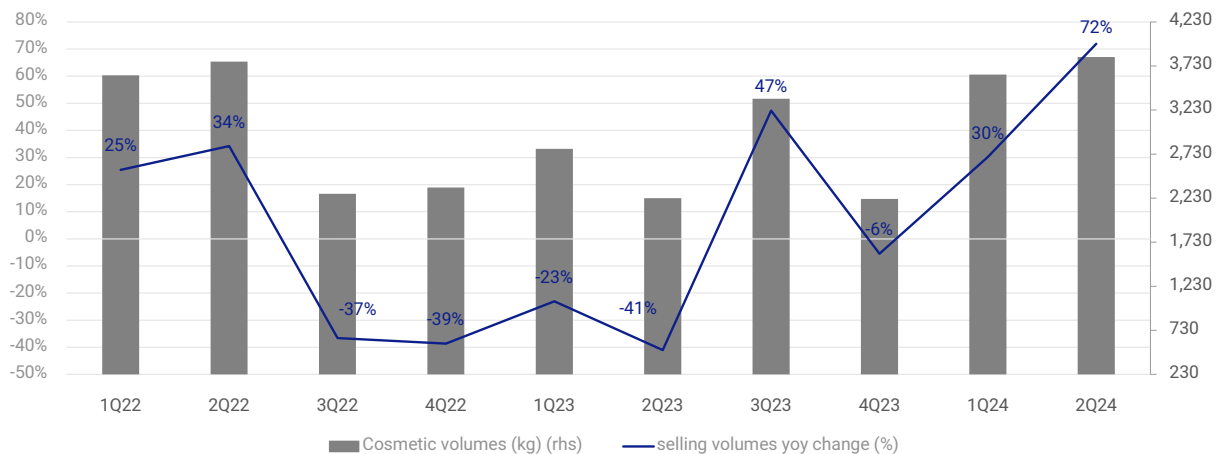
**1H24:  
Cosmetic volumes  
and turnover +49%  
yoy at their half year  
record**

In 1H24, Turnover increased by over 40% yoy to €2.25m driven by 49% growth in Cosmetics sales which reached €1.9m. 1H24 turnover was 60% of our FY24 estimates, a bit higher than the average over the past six years (55%).

Following a 30% yoy increase in 1Q24, cosmetic volumes rose by 72% yoy in the 2Q24 reaching 7,500 kgs of cosmetics ingredients sold in the first six months of the year (+49% yoy) at an average unit price of €256/kg, which was basically stable compared to 1H23.

Selling volumes started to recover in 3Q23, with a pause (-6% yoy) in 4Q23, and, also thanks to the easy comparable base, the first two quarters have shown significant growth (+30% and +72% yoy respectively). Cosmetics selling volumes and turnover have reached their half-year historical record at respectively 7,500 kgs and €1.9m. If this trend continues, it is very likely we will see Arterra returning to its 2021 turnover level, above €3.8m.

**Figure 7: Arterra volumes and price quarterly trends 2022-2023**



Source: Banca Profilo on Company data

**Totale revenue +9%  
yoy only for lower  
grants in 1H24**

Despite significant growth in turnover, Total revenue rose 9% yoy only, to €2.3m which is less than what we expect on a full-year basis. We were surprised on the downside on Research grants which accounted for €310k only in the first semester. According to management, the decrease (compared to €660k in the 1H23) derives from lower financing by MISE on research projects where financial support has been reduced. More in detail, Arterra had a reduction to 50% of financial support by MISE on its biggest on-going project. This will be only partially recovered in the second part of the year. Furthermore, in 2024 the benefit to Total revenue from IPO grants has ended and there is no R&D tax credit planned for this year.

**EBITDA margin  
improvement driven  
by better revenue  
mix**

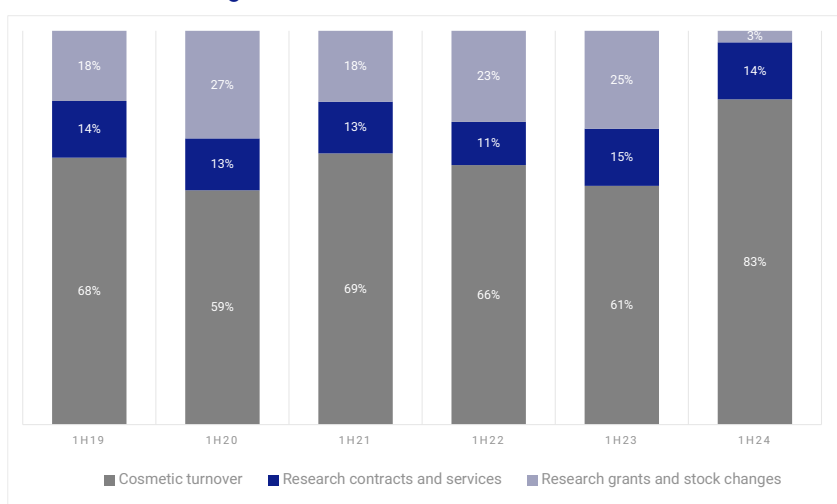
Nevertheless, in 1H24, EBITDA increased by more than 30% yoy to €486k, improving marginality by 4% to 21% thanks to: i) higher concentration of compounds in Cosmetics and higher incidence of make-up vs skincare or a better revenue mix; ii) lower incidence of cost of services (39% vs 42% in 1H23) and iii) of labour (37% vs prior 38%).

**Cosmetics brings in  
valuable marginality  
Grants contribution  
at their minimum**

In 1H24, for the first time ever, EBITDA marginality was mostly driven by Cosmetics and to a less extent by grants which reached their minimum contribution ever on turnover (3% vs a six year average of more than 20%). Hence, there is more implicit value in the compounds sold this 1H24 and this is partially reflected in a higher price per kg at an average of €256 more than €253 in FY23 and more increase to come, according to management.



Figure 8: Arterra revenue mix 1H19-1H24



Source: Banca Profilo on Company data

Financial income,  
Vitalab dividends and  
low taxes drive Net  
Income to 22% margin

EBIT margin improved further to 14% in 1H24 from 5% for the end of IPO costs amortization. Financial income (both from cash investment and dividends from Vitalab) and low taxes drove Net income significant increase in the first semester when it reached €517k or 22% margin from respectively €249k and 12% margin in 1H23.

Table 1: Arterra Profit and Loss 1H19 – 1H24

Profit & Loss							
	€/000	1H19	1H20	1H21	1H22	1H23	1H24
Cosmetic turnover		1,269	1,234	1,423	1,822	1,285	1,915
yoy		19%	-3%	15%	28%	-30%	49%
weight on FY		59%	54%	44%	67%	48%	58%
Research contracts and services		270	273	272	304	308	336
yoy		1%	0%	12%	1%	9%	
<b>Total turnover</b>		<b>1,539</b>	<b>1,507</b>	<b>1,695</b>	<b>2,126</b>	<b>1,593</b>	<b>2,251</b>
yoy		45%	-2%	12%	25%	-25%	41%
cosmetic volumes (kg)		4,902	4,239	5,913	7,407	5,019	7,465
yoy		60%	-14%	39%	25%	-32%	49%
avg cosmetic price (€/kg)		259	291	241	246	256	256
Research grants and stock changes		334	567	372	640	527	68
% on total revenue		22%	38%	22%	30%	33%	3%
<b>Total Revenue</b>		<b>1,873</b>	<b>2,074</b>	<b>2,066</b>	<b>2,766</b>	<b>2,119</b>	<b>2,318</b>
yoy		40%	11%	0%	34%	-23%	9%
raw materials cost		(213)	(297)	(149)	(229)	(210)	(218)
cost of services		(314)	(455)	(507)	(507)	(678)	(692)
% on total revenue		28%	36%	32%	27%	42%	39%
cost of labour		(551)	(604)	(684)	(754)	(800)	(853)
% on total revenue		29%	29%	33%	27%	38%	37%
lease		(43)	(43)	(43)	(44)	(36)	(44)
other operating costs		(9)	(59)	(41)	(28)	(29)	(25)
<b>EBITDA</b>		<b>743</b>	<b>616</b>	<b>641</b>	<b>1,205</b>	<b>366</b>	<b>486</b>
margin		40%	30%	31%	44%	17%	21%
weight on FY		60%	38%	37%	56%	23%	30%
# employees		22	30	29	32	37	30
labor cost per unit		(25)	(20)	(24)	(24)	(22)	(28)
D&A		(49)	(182)	(222)	(268)	(262)	(160)
% on total revenue		4%	10%	12%	17%	13%	8%
<b>EBIT</b>		<b>694</b>	<b>434</b>	<b>419</b>	<b>937</b>	<b>104</b>	<b>327</b>
margin		37%	21%	20%	34%	5%	14%
net financial income (expenses)		4	(3)	0	(5)	161	306
% on total revenue		0.2%	-0.2%	0.0%	-0.2%	7.6%	13.2%
<b>EBT</b>		<b>697</b>	<b>431</b>	<b>419</b>	<b>932</b>	<b>265</b>	<b>632</b>
margin		37%	21%	20%	34%	12%	27%
taxes		(69)	(87)	(28)	(253)	(16)	(115)
tax rate		10%	20%	7%	27%	6%	18%
<b>Net income</b>		<b>628</b>	<b>344</b>	<b>391</b>	<b>679</b>	<b>249</b>	<b>517</b>
% on total revenue		34%	17%	19%	25%	12%	22%

Source: Banca Profilo on Company data

At the end of June, reported net cash was €5.6mln, basically in line with the end of December 2023, yet including just below €200k of capex. Our adjusted net cash was €3.1mln, which excludes financial short term assets.

**Table 2: Arterra Balance Sheet and Free Cash Flows 1H19 – 1H24**

<b>Balance Sheet</b>						
€/000	30.06.19	30.06.20	30.06.21	30.06.22	30.06.23	30.06.24
tangibles	765	1334	1452	1624	1382	1251
intangibles	238	653	522	346	116	46
financials	452	452	812	949	982	982
<b>Fixed assets</b>	<b>1,456</b>	<b>2,440</b>	<b>2,786</b>	<b>2,919</b>	<b>2,480</b>	<b>2,279</b>
other current net receivables	343	678	712	779	336	798
receivables from grants	530	287	611	294	1,174	1,053
trade receivables	396	530	528	716	463	862
inventories	274	491	455	872	1,014	1,102
trade payables	(161)	(204)	(212)	(218)	(185)	(285)
<b>Net operating Working Capital</b>	<b>1,039</b>	<b>1,105</b>	<b>1,382</b>	<b>1,665</b>	<b>2,466</b>	<b>2,732</b>
<b>Net Working Capital</b>	<b>1,382</b>	<b>1,782</b>	<b>2,094</b>	<b>2,444</b>	<b>2,802</b>	<b>3,530</b>
<b>Capex</b>	<b>949</b>	<b>186</b>	<b>305</b>	<b>56</b>	<b>21</b>	<b>185</b>
<i>tangible</i>	572	157	270	56	21	166
<i>intangibles</i>	377	29	34	0	0	19
<b>Provisions</b>	<b>(550)</b>	<b>(476)</b>	<b>(540)</b>	<b>(550)</b>	<b>(718)</b>	<b>(762)</b>
<b>Invested Capital</b>	<b>2,288</b>	<b>3,747</b>	<b>4,340</b>	<b>4,813</b>	<b>4,564</b>	<b>5,047</b>
shareholders' equity	250	329	330	333	333	333
reserves	2,009	6,668	7,851	8,720	9,468	9,753
net income	628	344	391	679	249	517
<b>Equity</b>	<b>2,888</b>	<b>7,341</b>	<b>8,572</b>	<b>9,731</b>	<b>10,050</b>	<b>10,603</b>
<b>Net debt (cash)</b>	<b>(600)</b>	<b>(3,595)</b>	<b>(4,232)</b>	<b>(4,919)</b>	<b>(5,486)</b>	<b>(5,556)</b>
<b>Adjusted net debt (cash)</b>	<b>2</b>	<b>(3,075)</b>	<b>(3,796)</b>	<b>(4,919)</b>	<b>(3,815)</b>	<b>(3,084)</b>
<b>Free Cash Flows</b>						
€/000	1H20	1H21	1H22	1H23	1H24	
<b>EBIT</b>	<b>694</b>	<b>434</b>	<b>419</b>	<b>937</b>	<b>104</b>	<b>327</b>
tax (figurative)	(139)	(87)	(84)	(187)	(21)	(65)
D&A	49	182	222	268	262	160
change in Net Working Capital	663	(270)	(75)	133	182	(115)
capex	(949)	(186)	(305)	(56)	(21)	(185)
<b>Free Cash Flow</b>	<b>73</b>	<b>177</b>	<b>1,095</b>	<b>507</b>	<b>121</b>	

Source: Banca Profilo on Company data

## Strategy Update

### Research and partnerships in Medical Devices and Agri-food. Expanding in Cosmetics via Vitalab.

<p><b>Production capacity expansion</b></p> <p><b>Process optimization</b></p> <p><b>Organization streamlining</b></p>	<p>Since its IPO, in 2019 Arterra invested in production capacity and research activity expansion. In 2021, The Company extended further its production plant, bought additional equipment, and invested in technology to enhance cellular growth. This process is ongoing with new investments in headquarter expansion and new production equipment.</p> <p>Furthermore, in 2020-2022 Arterra strengthened its organization by appointing a COO (Giuseppe Ferrante), an R&amp;D Coordinator (Vincenzo Fogliano), a Grant &amp; IP Director (Marida Bimonte), a Cell &amp; Molecular Biology Director (Annalisa Tito) and a Marketing &amp; Sales Project Manager (Maura Angelillo). In 2023, Arterra introduced a new organizational layer, the Middle management to streamline research and production processes.</p>
<p><b>New products in Cosmetics</b></p> <p><b>End-market diversification: a new patent in Haircare</b></p> <p><b>Diversification in Medical Devices and Agri-Food</b></p> <p><b>New proprietary IP Exosomes Technology</b></p>	<p>Since 2023, 16 new products and 7 patents have been launched in Cosmetics (skincare and makeup), including ingredients specifically addressed to China. Furthermore, a new patent for active ingredients able to stimulate hair growth has been filed in Haircare.</p> <p>In-vitro research, especially on skin and on the intestine, led to new contracts in Agrifood, Nutraceutical and Medical Devices. With Monte Carlo Fruit, the upcycle of the mango waste led to new products in the Bay Food; with ADL and ABR new valid natural products for skin acne, atopic rash and Irritable Bowel Syndrome have been developed;</p> <p>A new potentially disruptive biotech proprietary technology based on the Lactobacillus might lead to innovative compounds in numerous industrial applications.</p> <p>Finally, the research on Extracellular Vesicles, such as Exosomes has led to several complex biological functions and claimed properties to be used in Cosmetics, Medical Aesthetics and Medical treatments. The plant Exosomes technology drove to a JV with Exosomics SpA in July.</p>
<p><b>Diversification Medical Devices: Arterra-ADL</b></p>	<p>Moving into Medical Devices, in April 2021, Arterra signed its first agreement with ADL Farmaceutici for a 5-year production and license of mix of four active compounds named "ArterraBio Complex I" against skin acne. This first agreement became a stake acquisition when, in June 2021, Arterra subscribed to the capital increase by ADL acquiring a 6.81% stake.</p>
<p><b>Patents in Medical Devices</b></p>	<p>Arterra and ADL are also working for the development of a product for the treatment of atopic dermatitis, both through topical and oral use.</p> <p>In 2020-2023, 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.</p>
<p><b>Arterra- ABR</b></p>	<p>Finally, Arterra and ABR (Croda Group) are starting a clinical study for co-development of a valid natural product able to treat the Irritable Bowel Syndrome.</p>

**Figure 9: Arterra's diversification into Medical Device**



Source: Company data

**Agrifood:**  
**Arterra-**  
**MONTECARLOFRUIT**

Arterra continues with research in Agri-food. In June 2021, Arterra and Montecarlofruit signed a research agreement for the up cycling of mango waste. Montecarlofruit is active in the production of aseptic mango fruit puree for baby food, in Mali. Further development into Nutraceutical is ongoing.

**Figure 10: Research agreement Arterra-Montecarlofruit**

**AGRIFOOD Co-Development**



**Up-cycling of the mango waste**



Source: Company data

**New proprietary enabling Technology**

Finally, a new potentially disruptive proprietary enabling technology based might lead to innovative compounds in Agriculture, Medica Devices, Agri-food and even Pharma. It concerns the possibility of expressing in a bacterial system, more common, more “acceptable” and less “dangerous” than currently used E.coli. This can be an alternative tool for synthetic biology and precision fermentation. 3 new proprietary lactobacilli strains, which have been isolated from raw buffalo milk and Sardinian Pecorino cheese, have been registered and a patent on genetic elements has been filed to produce proteins, nucleic acids and new metabolic streams for numerous industrial applications, together with prospect partners in pharma and biotech.

**Figure 11: New Proprietary Enabling Technology**

**New Proprietary Enabling Technology**

Lactobacillus as a tool for synthetic biology & Precision Fermentation

**Pathogen control - dsRNA**

**Bio-stimulants - Recombinant peptides**

**Fermented foods - Smart Lactobacilli**

Source: Company data

**Consolidating in Skincare and makeup**  
**A new industrial application: Haircare**

In Cosmetics, since 2023 Arterra has brought 16 new products on the market and 7 patents. More recently and driven by the acquisition of Cosmit by Intercos, Arterra started research for a new industrial application: Haircare. A patent for some active ingredients able to stimulate hair growth has been filed.

Figure 12: Innovation in Cosmetics - Haircare

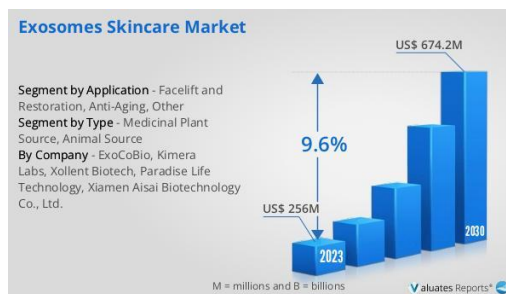
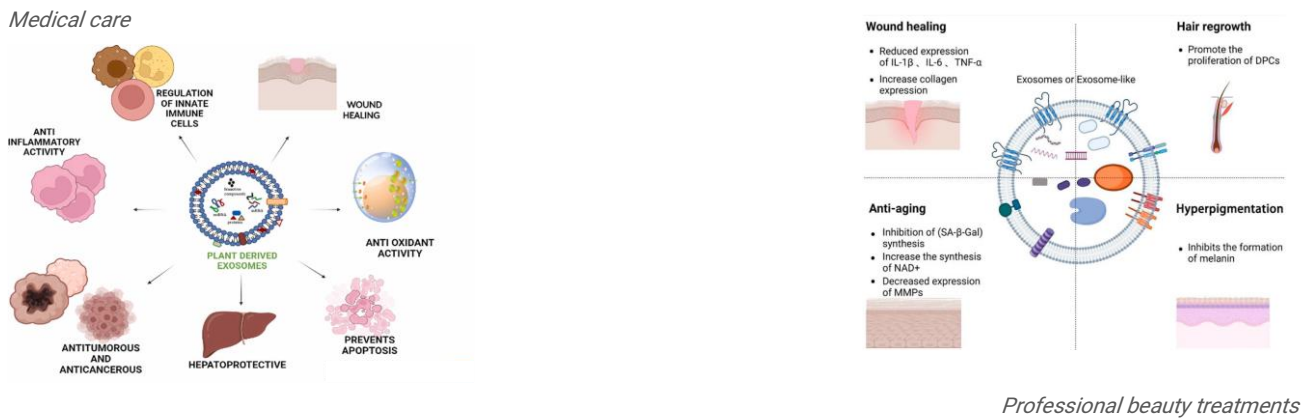


Source: Company data

**Innovation in Cosmetics**  
**Extracellular vesicles**  
**Plant Exosomes**

In 2023, further innovation has been started in Cosmetics including: i) powder active ingredients for make-up application, which is ready for the market; ii) recombinant peptides using molecular farming technology, such as Vegan Collagen, which will be ready by the end of this year; iii) post biotics using precision fermentation technology leading to three new proprietary strains which are ready for industrialization; iv) new delivery systems and iv) plant-based extracellular vesicles, such as plant Exosomes, having a number of complex biological functions and containing components with relevant claimed properties including anti-inflammatory, anti-tumorous and anti-cancerous activity and hepatoprotective action in medical care or wound healing, hair regrowth, anti-aging and hyperpigmentation action to be used in Skincare and professional beauty treatments.

Figure 13: Innovation in Cosmetics - plant Exosomes, claimed properties and their industrial applications



Source: Company data

**JV on Exosomes with Exosomics SpA**

The Exosomes technology is leading to partnerships. In July 2024, Arterra signed a key strategic partnership with Exosomics SpA to set up a Joint Venture for developing active ingredients based on plant exosomes to be addressed to the Medical Aesthetics, Medical Devices and Bio medics.

## Estimates update

### 2024-2026 estimates revision

**We raised  
Cosmetics sales  
growth and reduced  
EBITDA margin  
improvement.**

**Cosmetics turnover  
growth recovery is  
grounded.**

**Potentially the best  
year even in 2024**

**Sales CAGR 2023-  
2026E at 21%**

**Selling volumes  
above 18,000 in  
2026E**

In this report we update our previous 2024-2026 projections [*Company Update on April, the 24<sup>th</sup> 2024*], amid 1H24 results and according to strategic development and management guidance.

According to management, since the end of 2023 there have been signs of recovery mainly from Europe and US where demand for functional make-up had been strongly growing and to a much less extent from China's still slow recovery. We expect this path to continue this year and raised 2023-2025E Cosmetics sales CAGR to 21% from previous 20%, including 2024 reaching the best turnover ever above €3.9mln (from our previous forecast at 3.8mln).

Amid 1H24 49% yoy increase in Cosmetics sales and their 60% weight of our previous FY24 estimates, being higher than the average over the past six years (55%), we decided to raise our FY24 turnover forecast.

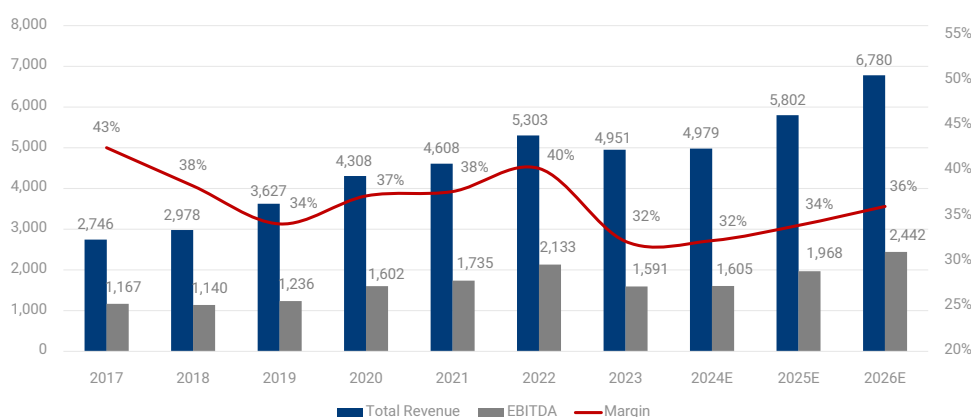
Considering the selling volumes this year with 10,600 kgs sold up to October and +2,000 kgs to come, according to management expectations, we are confident Arterra will easily reach our almost 13,000 kgs selling volumes estimate for FY24.

Nevertheless, we might be conservative in terms of selling price per kg at €250. We then decided to move to €260, tracking 1H24 increase to €256 from €253 average in 2023 and considering an increasing concentration of compounds in each kg and larger contribution of more expensive ingredients addressed to make-up. Furthermore, we keep unchanged our selling volumes evolution with above 18,000kgs expected in 2026E.

Therefore, we now expect Turnover to increase by 20% yoy to €3.98mln in 2024 from our previous forecast at €3.85mln, leading Arterra to return to its 2021's turnover level, above €3.8mln and to its record sales ever above €3.9mln. We keep this trend in 2025 and 2026 ending with a 2023-2026E sales CAGR of 21% to €5.68mln vs previous 20% or €5.3mln.

We confirm no relevant contribution to Turnover by other end-markets than Cosmetics, such as Medical Devices and Agri-food.

**Figure 14: Revenue, EBITDA and margin 2017-2026E**



Source: Banca Profilo on Company data

**Reduced EBITDA on  
lower grants  
contribution  
Marginality driven  
by better revenue  
mix**

With respect to other revenue, in 1H24 grants were particularly low for lower financial support (at some 50% from the previous 80%) to Arterra's biggest research project, no tax credit for R&D and the expiration of IPO's contribution.

However, for the first time ever, EBITDA margin improvement in 1H24 to 21% from 17% has been mostly driven by Cosmetics sales and to a much less extent by grants which reached their minimum weight ever to Turnover (3% vs first-semester historical average above 20%).

**EBITDA CAGR  
2023-2026E at 15%  
with +4pp margin**

In October, grants reached €600k, well below our FY24 forecast at €1.7mln. We then cut our Total Revenue projection to €4.9mln in 2024E from our previous €5.6mln with 20243-2026E CAGR reduced to 11% from our prior 13%.

This disappoints our EBITDA forecast for the full year at above €2mln or 36% margin. However, this will be likely compensated for higher marginality of selling Cosmetics volumes for higher concentration of ingredients in each kg of final products and for a better revenue mix with more make-up vs skincare sales.

Hence, we reduced our FY24 EBITDA estimate to €1.6mln from previous €2mln or respectively 32% vs 36% margin. Yet, there is more value added on sold compounds than before thanks to better revenue mix. We appreciate this 32% margin as more valuable and sustainable than the previous 4bps higher.

Overall, for the 2024-2026E period we forecast 15% EBITDA CAGR vs previous 22% and 4pp margin improvement to 36% vs prior 8% and 40% respectively.

**Net Income CAGR  
2023-2026E at 17%;  
margin above 20%**

The remaining P&L metrics see a lower D&A as the IPO costs amortization ends and higher financial income coming from both liquidity investments and some €200k of yearly dividends from Vitalab; 20% tax rate is confirmed.

Net income is now seen growing at 17% CAGR in 2023-2026E to reach €1.7mln or 26% margin, which compares to respectively €1.8mln and same perspective marginality.

**Table 3: P&L estimates old vs new 2024E-2026E**

Profit & Loss														
	€/000	2017	2018	2019	2020	2021	2022	2023	2024E old	2024E new	2025E old	2025E new	2026E old	2026E new
Cosmetic turnover		1,503	1,868	2,167	2,281	3,253	2,984	2,683	3,180	3,307	3,816	3,968	4,579	4,762
	yoy		24%	16%	5%	43%	-8%	-10%	19%	23%	15%	20%	15%	20%
Nutraceutical/Medical Devices		0	0	0	0	0	0	0	0	0	0	0	0	0
Agriculture/Agri-food		0	0	0	0	0	0	0	0	0	0	0	0	0
Research contracts and services		551	559	542	541	573	580	621	669	672	696	783	721	915
Licences and royalties		0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total turnover</b>		<b>2,054</b>	<b>2,427</b>	<b>2,709</b>	<b>2,822</b>	<b>3,826</b>	<b>3,563</b>	<b>3,304</b>	<b>3,849</b>	<b>3,979</b>	<b>4,512</b>	<b>4,752</b>	<b>5,299</b>	<b>5,677</b>
	yoy		18%	12%	4%	36%	-7%	-7%	17%	20%	13%	19%	12%	19%
cosmetic volumes (kg)		5,690	7,142	8,839	9,117	13,342	12,036	10,599	12,719	12,719	15,262	15,262	18,315	18,315
	yoy		90%	26%	3%	46%	-10%	-12%	20%	20%	20%	20%	20%	20%
avg cosmetic price (€/kg)		264	262	245	250	244	248	253	250	260	250	260	250	260
Research grants and stock changes		692	551	917	1,487	783	1,740	1,647	1,729	1,000	1,816	1,050	1,906	1,103
	% on sales		25%	18%	25%	35%	17%	33%	31%	20%	29%	18%	26%	16%
<b>Total Revenue</b>		<b>2,746</b>	<b>2,978</b>	<b>3,627</b>	<b>4,309</b>	<b>4,609</b>	<b>5,303</b>	<b>4,951</b>	<b>5,578</b>	<b>4,979</b>	<b>6,327</b>	<b>5,802</b>	<b>7,206</b>	<b>6,780</b>
	yoy		45%	8%	22%	19%	7%	15%	-7%	13%	1%	14%	17%	14%
raw materials cost		(210)	(259)	(455)	(525)	(318)	(507)	(425)						
cost of services		(466)	(533)	(726)	(873)	(986)	(1,140)	(1,292)	(1,711)	(1,752)	(1,878)	(1,983)	(2,067)	(2,250)
	% on total revenue		25%	27%	33%	32%	28%	31%	35%	31%	35%	30%	34%	29%
cost of labour		(736)	(847)	(1,025)	(1,128)	(1,228)	(1,391)	(1,476)	(1,690)	(1,485)	(1,893)	(1,713)	(2,096)	(1,951)
	% on total revenue		27%	28%	28%	26%	27%	26%	30%	30%	30%	30%	29%	29%
lease		(123)	(146)	(146)	(151)	(158)	(83)	(82)	(82)	(88)	(82)	(88)	(82)	(88)
other operating costs		(43)	(53)	(38)	(30)	(184)	(51)	(85)	(85)	(50)	(85)	(50)	(85)	(50)
<b>EBITDA</b>		<b>1,167</b>	<b>1,140</b>	<b>1,236</b>	<b>1,602</b>	<b>1,736</b>	<b>2,133</b>	<b>1,591</b>	<b>2,010</b>	<b>1,605</b>	<b>2,389</b>	<b>1,968</b>	<b>2,877</b>	<b>2,442</b>
	margin		43%	38%	34%	37%	38%	40%	32%	36%	32%	38%	34%	40%
# employees		n.a.	20	28	30	35	36	34	36	31	38	33	40	35
labor cost per unit			(42)	(37)	(38)	(35)	(39)	(43)	(47)	(48)	(50)	(52)	(52)	(56)
D&A		(143)	(73)	(296)	(400)	(487)	(532)	(532)	(602)	(369)	(712)	(480)	(812)	(560)
	% on total revenue		5%	2%	8%	9%	11%	10%	11%	7%	11%	8%	11%	8%
<b>EBIT</b>		<b>1,024</b>	<b>1,067</b>	<b>940</b>	<b>1,201</b>	<b>1,249</b>	<b>1,601</b>	<b>1,059</b>	<b>1,408</b>	<b>1,236</b>	<b>1,677</b>	<b>1,488</b>	<b>2,065</b>	<b>1,882</b>
	margin		37%	36%	26%	28%	27%	30%	21%	26%	25%	26%	26%	28%
net financial income (expenses)		(7)	6	1	(2)	26	197	243	232	306	241	280	254	291
	% on total revenue		-0.2%	0.2%	0.0%	0.6%	3.7%	4.9%	4.2%	6.1%	3.8%	4.8%	3.5%	4.3%
<b>EBT</b>		<b>1,017</b>	<b>1,073</b>	<b>941</b>	<b>1,199</b>	<b>1,274</b>	<b>1,797</b>	<b>1,302</b>	<b>1,640</b>	<b>1,541</b>	<b>1,918</b>	<b>1,769</b>	<b>2,319</b>	<b>2,173</b>
	margin		37%	36%	26%	28%	28%	34%	26%	29%	31%	30%	30%	32%
taxes		(272)	(29)	(83)	(91)	(163)	(383)	(226)	(296)	(308)	(352)	(354)	(432)	(435)
	tax rate		27%	3%	9%	8%	13%	21%	17%	18%	20%	18%	20%	19%
<b>Net income</b>		<b>745</b>	<b>1,044</b>	<b>857</b>	<b>1,109</b>	<b>1,111</b>	<b>1,414</b>	<b>1,076</b>	<b>1,344</b>	<b>1,233</b>	<b>1,567</b>	<b>1,415</b>	<b>1,887</b>	<b>1,738</b>
	% on total revenue		27%	35%	24%	26%	24%	27%	22%	24%	25%	25%	24%	26%

Source: Banca Profilo estimates and Company data

Balance Sheet:  
Capex  
NWC optimization  
Generous dividend  
distribution

Regarding the Balance Sheet estimates for 2024-2026, we: i) reduced cumulated capex to €1.5mln from previous €1.6mln, but increased investments in 2024 for headquarter expansion and new equipment; ii) improved Net Operating Working Capital optimization to €710k cumulated cash absorption from prior €935k including some worsening in 2024 amid 1H trend and some (very old) inventories revaluation and iii) kept a generous dividend distribution (some 50% of consolidated net income) for the next three years, in line with 2023.

Table 4: Balance Sheet old vs new estimates 2024E-2026E

Balance Sheet													
€/000	2017	2018	2019	2020	2021	2022	2023	2024E old	2024E new	2025E old	2025E new	2026E old	2026E new
tangibles	185	567	1278	1400	1662	1535	1232	1,230	1566	1,024	1513	728	1388
intangibles	27	108	706	567	442	204	40	40	40	34	14	17	-21
financials	462	452	452	452	949	982	982	982	982	982	982	982	982
<b>Fixed assets</b>	<b>675</b>	<b>1,127</b>	<b>2,437</b>	<b>2,419</b>	<b>3,052</b>	<b>2,722</b>	<b>2,254</b>	<b>2,252</b>	<b>2,588</b>	<b>2,040</b>	<b>2,508</b>	<b>1,727</b>	<b>2,349</b>
other current net receivables	131	177	452	912	914	227	869	869	869	869	869	869	869
receivables from grants	1,176	1,062	495	585	755	905	816	805	696	845	730	869	756
trade receivables	303	630	414	339	806	774	695	1,117	997	1,267	1,162	1,443	1,358
inventories	263	267	425	570	488	1,157	1,356	1,304	1,264	1,416	1,356	1,541	1,517
trade payables	(161)	(257)	(500)	(188)	(250)	(188)	(250)	(300)	(272)	(292)	(288)	(300)	(304)
<b>Net operating Working Capital</b>	<b>1,582</b>	<b>1,702</b>	<b>834</b>	<b>1,306</b>	<b>1,798</b>	<b>2,648</b>	<b>2,617</b>	<b>2,926</b>	<b>2,684</b>	<b>3,237</b>	<b>2,960</b>	<b>3,552</b>	<b>3,326</b>
% on total revenue	58%	57%	23%	30%	39%	50%	53%	52%	54%	51%	51%	49%	49%
receivables from grants (% grants)	170%	193%	54%	39%	96%	52%	50%	47%	70%	47%	70%	46%	69%
trade receivables (% revenue)	11%	21%	11%	8%	17%	15%	14%	20%	20%	20%	20%	20%	20%
inventories (% revenue)	10%	9%	12%	13%	11%	22%	27%	23%	25%	22%	23%	21%	22%
trade payables (% COGS)	24%	32%	42%	13%	19%	11%	15%	18%	16%	16%	15%	15%	14%
<b>Capex</b>	<b>50</b>	<b>536</b>	<b>1,897</b>	<b>383</b>	<b>609</b>	<b>184</b>	<b>83</b>	<b>600</b>	<b>704</b>	<b>500</b>	<b>400</b>	<b>500</b>	<b>400</b>
tangible	28	447	1143	342	541	179	66	540	666	435	379	435	379
intangibles	22	89	754	40	68	5	17	60	37	65	21	65	21
% on total revenue	2%	18%	52%	9%	13%	3%	2%	11%	14%	8%	7%	7%	6%
<b>Provisions</b>	<b>(629)</b>	<b>(630)</b>	<b>(504)</b>	<b>(522)</b>	<b>(522)</b>	<b>(522)</b>	<b>(659)</b>	<b>(659)</b>	<b>(762)</b>	<b>(659)</b>	<b>(762)</b>	<b>(659)</b>	<b>(762)</b>
<b>Invested Capital</b>	<b>1,757</b>	<b>2,375</b>	<b>3,218</b>	<b>4,115</b>	<b>5,241</b>	<b>5,075</b>	<b>5,080</b>	<b>5,387</b>	<b>5,379</b>	<b>4,534</b>	<b>5,575</b>	<b>5,488</b>	<b>5,781</b>
shareholders' equity	250	250	327	330	333	333	333	333	333	333	333	333	333
reserves	720	1,265	5,926	6,742	8,029	8,720	9,343	9,912	9,912	10,539	10,565	11,283	11,313
net income	745	1,044	857	1,108	1,111	1,414	1,076	1,184	1,233	1,406	1,415	1,727	1,738
<b>Equity</b>	<b>1,715</b>	<b>2,559</b>	<b>7,110</b>	<b>8,181</b>	<b>9,473</b>	<b>10,467</b>	<b>10,752</b>	<b>11,429</b>	<b>11,478</b>	<b>12,278</b>	<b>12,312</b>	<b>13,343</b>	<b>13,384</b>
<b>Net debt (cash)</b>	<b>42</b>	<b>(185)</b>	<b>(3,892)</b>	<b>(4,066)</b>	<b>(4,232)</b>	<b>(5,392)</b>	<b>(5,672)</b>	<b>(6,042)</b>	<b>(6,099)</b>	<b>(7,744)</b>	<b>(6,737)</b>	<b>(7,855)</b>	<b>(7,603)</b>
adj Net debt (cash)	771	464	(3,439)	(3,727)	(4,199)	(3,796)	(3,300)	(6,042)	(6,099)	(7,744)	(6,737)	(7,855)	(7,603)

Source: Banca Profilo estimates and Company data

Net cash €2.9mln in  
2024E-2026E

2024E-2026E Cumulated Free Cash Flows are now at €2.9mln, some 20% below our previous forecast (€3.7mln), for lower cumulated EBIT at €4.6mln vs prior €5.2mln, mainly deriving from lower Research grants, which we reduced to cumulated €3.1mln from previous €5.4mln.

Table 5: Free Cash Flows old vs new estimates 2024E-2026E

Free Cash Flows													
€/000	2017	2018	2019	2020	2021	2022	2023E	2024E old	2024E new	2025E old	2025E new	2026E old	2026E new
EBIT	1,024	1,067	940	1,201	1,249	1,601	1,059	1,408	1,236	1,677	1,488	2,065	1,882
tax (figurative)	(205)	(213)	(188)	(240)	(250)	(320)	(212)	(282)	(247)	(335)	(298)	(413)	(376)
D&A	143	73	296	400	487	532	532	602	369	712	480	812	560
change in Net Working Capital	(219)	(120)	868	(472)	(492)	(850)	31	(309)	(67)	(310)	(276)	(315)	(366)
capex	(50)	(536)	(1,153)	(383)	(609)	(184)	(83)	(600)	(704)	(500)	(400)	(500)	(400)
<b>Free Cash Flow</b>	<b>693</b>	<b>270</b>	<b>763</b>	<b>507</b>	<b>385</b>	<b>779</b>	<b>1,328</b>	<b>819</b>	<b>587</b>	<b>1,244</b>	<b>994</b>	<b>1,649</b>	<b>1,300</b>

Source: Banca Profilo estimates and Company data

Main risks to our  
estimates

Main downside risk to our estimates remains Arterra's effective capacity to reach a relevant scale in new end-markets. We also see the lack of net cash optimization with persisting cumulating cash and low capex. Main upside risk to our estimates is an appreciable contribution by new end markets to turnover by 2026E.



## Valuation

### DCF: Arterra cash generating business

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

### Market multiples 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

### DCF assumptions:

To run a DCF model, we moved to use our projected FCFs for the 2025E-27E explicit period from previous 2024E-2026E. Cumulated FCFs are now €3.9m (vs previous €3.7m) or €1.1m (vs previous €1.2m) as yearly average in 2024E-2027E. [*Company Update on April, 24th 2024*].

### €3.9m of cumulated FCFs

To assess the Terminal Value, we factor in:

### €1.1m as Terminal Value cash flow

- an annual FCF generation of €1.1m (vs previous €1.2m), corresponding to the average FCF in 2024E-2027E;
- perpetual growth rate of 2% (unchanged).

To get to the Equity Valuation, we would consider the reported net cash at the end of December 2024 at €6.1m (€5.7m as expected in December 2023 in our previous Company Update).

**Table 6: DCF valuation**

DCF Valuation	2024E	2025E	2026E	2027E	over
Free Cash Flows (€/000)	587	994	1,299	1,698	1,145
years		1	2	3	
discount factor		0.92	0.85	0.79	
NPV Cash flows (€/000)		917	1,106	1,333	
Sum of NPVs (€/000)					3,356
Terminal Value (€/000)					17,876
NPV Terminal Value (€/000)					14,033
<b>Enterprise Value (€/000)</b>					<b>17,389</b>
peripheral assets: Vitalab (@40%)					3,585
Net debt December 2024E (€/000)					-6,099
<b>Equity Value (€/000)</b>					<b>27,073</b>
number of shares (mln)					6.7
<b>Per share value (€)</b>					<b>4.1</b>

Source: Banca Profilo estimates and Company data

### Updated WACC at 8.8% according to expectations on interest rates path

We adjusted WACC to include updates on the risk-free rate and ended up with 8.4% (vs previous 8.8%), which includes:

- risk free rate at 4.3%, down from previous 4.4%, according to 100-day 30-year BTP yield moving average and to the expected path of BCE monetary easing policy.
- market risk premium at 5.5% (unchanged);
- beta at 1.1 (unchanged), as the average of chosen listed peers to Arterra;
- debt to equity target structure with an 80% weight on Equity (unchanged).

**Table 7: WACC calculation**

WACC Calculation	
perpetual growth rate	2.0%
<b>WACC</b>	<b>8.4%</b>
risk free rate (30Y)	4.3%
equity risk premium	5.5%
beta	1.1
<b>KE</b>	<b>10.2%</b>
cost of debt	1%
tax rate	20%
<b>KD</b>	<b>1%</b>

Source: Banca Profilo estimates and Company data

**DCF Equity valuation:** We run the DCF model and end up with an Enterprise Value of €17.4mIn (vs previous €18.6mIn) and an Equity Value of €27.1mIn or €4.1/share (unchanged) as higher cumulated DCF explicit Free Cash Flows, lower WACC and larger net cash were offset by lower Terminal Value.

€26mIn

## 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 the relative valuation of Arterra through the market multiples approach, we divided our panel of comparables into 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, 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, Lonza, Ashland, OCI and Wacker Chemie.

**Table 8: Sample benchmarking on revenue growth and EBITDA margin**

Company	Currency	Market Cap (min)	Enterprise Value (min)	Sales growth							EBITDA margin									
				2019	2020	2021	2022	2023	2024E	2025E	2026E	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
15/10/2024																				
BRAIN	EUR	52	74	24.8%	-0.5%	7.6%	23.7%	9.9%	7.2%	13.1%	17.7%	-16.7%	-7.3%	-9.1%	-4.2%	0.1%	2.5%	8.5%	11.8%	17.0%
Croda	GBP	5,328	5,855	-0.7%	0.9%	35.9%	10.6%	-18.9%	-3.1%	6.0%	6.0%	28.5%	28.8%	27.9%	29.0%	28.8%	24.2%	23.0%	24.6%	26.1%
Symrise	EUR	16,982	18,873	8.0%	3.3%	8.7%	20.7%	2.4%	5.7%	5.3%	6.6%	20.0%	20.3%	21.1%	21.3%	20.0%	19.1%	20.5%	21.2%	21.4%
Fermentalg	EUR	33	42	n.m.	16.3%	155.3%	35.1%	-46.1%	169.5%	46.1%	46.1%	n.m.	n.m.	n.m.	n.m.	n.m.	-190.2%	-58.1%	-27.2%	-12.7%
Plant Advanced Technologies	EUR	16	22	9.1%	4.7%	83.1%	0.0%	0.0%	0.0%	0.0%	0.0%	n.m.	n.m.	n.m.	-37.0%	-34.8%	-34.8%	-34.8%	-34.8%	
Novozymes	DKK	194,260	207,023	-0.1%	-2.5%	6.7%	17.4%	2.0%	64.8%	6.9%	7.4%	35.8%	36.7%	35.1%	36.3%	34.6%	52.7%	36.0%	37.7%	37.8%
Codexis	USD	240	209	13.0%	0.9%	51.7%	32.3%	-49.4%	-6.6%	-2.3%	48.8%	-3.8%	-10.8%	-31.8%	-18.6%	-13.3%	-68.3%	-64.2%	n.a.	
Yield10 Bioscience	USD	1	2	-10.4%	-0.9%	-23.2%	-26.2%	-86.7%	n.m.	0.0%	0.0%	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	
Lonza Group	CH	38,814	42,697	6.8%	4.5%	-12.5%	14.6%	8.3%	-0.6%	17.9%	11.3%	27.3%	26.8%	22.7%	30.8%	32.2%	29.8%	28.2%	28.5%	29.8%
Ashland	USA	4,248	5,181	-28.4%	-4.6%	1.7%	-1.7%	-7.2%	-2.1%	1.4%	n.a.	18.8%	21.6%	22.2%	21.8%	23.8%	21.2%	22.7%	24.8%	n.a.
OCI NV	NL	5,390	4,422	-2.6%	1.8%	95.2%	64.0%	-48.5%	-61.9%	7.0%	3.4%	28.6%	22.8%	24.0%	40.1%	40.1%	24.2%	10.3%	17.5%	18.4%
Wacker Chemie AG	DE	4,459	5,054	-1.0%	-4.8%	32.3%	32.2%	-22.0%	-8.0%	9.7%	5.1%	18.7%	15.8%	14.2%	24.8%	25.3%	12.9%	12.7%	15.2%	16.3%
<b>Median best peers</b>				<b>11.0%</b>	<b>0.9%</b>	<b>51.7%</b>	<b>23.7%</b>	<b>-46.1%</b>	<b>3.6%</b>	<b>0.0%</b>	<b>17.7%</b>	<b>27.3%</b>	<b>22.8%</b>	<b>22.7%</b>	<b>29.0%</b>	<b>28.8%</b>	<b>24.2%</b>	<b>22.7%</b>	<b>24.6%</b>	<b>23.8%</b>
<b>Arterra</b>	<b>ITA</b>	<b>12.9</b>	<b>6.8</b>	<b>21.8%</b>	<b>18.8%</b>	<b>7.0%</b>	<b>15.1%</b>	<b>-6.6%</b>	<b>0.6%</b>	<b>16.5%</b>	<b>16.9%</b>	<b>38.3%</b>	<b>34.1%</b>	<b>37.2%</b>	<b>37.7%</b>	<b>40.2%</b>	<b>32.1%</b>	<b>32.2%</b>	<b>33.9%</b>	<b>36.0%</b>

Source: Banca Profilo estimates and elaborations on Factset

**EV/SALES: 4.1x from 2.5x**  
**EV/EBITDA: 13.6x from 12.6x**

Consistently with our sample split up, we use EV/SALES 2025E at 4.1x (vs previous 2.5x), on average of the first sub-sample and EV/EBITDA 2025E at 13.8x (vs previous 12.6x) Arterra trades more than 65% and 70% below the two sub-samples' mean respectively, despite better revenue perspective growth and EBITDA margin above peers' average.

**Table 9: Market multiples**

Company	EV / Sales		EV / EBITDA	
	2024E	2025E	2024E	2025E
15/10/2024				
BRAIN	1.2x	1.1x	14.4x	9.2x
Croda	3.6x	3.4x	15.5x	13.6x
Symrise	3.8x	3.6x	18.4x	16.9x
Fermentalg	3.8x	2.6x	n.m.	n.m.
Plant Advanced Technologies	9.5x	9.5x	n.m.	n.m.
Novozymes	7.0x	6.6x	19.5x	17.4x
Codexis	3.1x	3.1x	n.m.	n.m.
Yield10 Bioscience	2.1x	2.1x	n.m.	n.m.
Lonza Group			22.7x	19.0x
Ashland			10.8x	9.7x
OCI NV			24.1x	13.2x
Wacker Chemie AG			6.7x	5.1x
<b>Mean best peers</b>	<b>4.4x</b>	<b>4.1x</b>	<b>16.8x</b>	<b>13.6x</b>
<b>Arterra</b>	<b>1.3x</b>	<b>1.4x</b>	<b>4.2x</b>	<b>3.5x</b>
<i>premium (discount) on best peers</i>	<i>-71%</i>	<i>-66%</i>	<i>-75%</i>	<i>-74%</i>

Source: Factset. All multiples are calendarised

Source: Banca Profilo estimates and elaborations on Factset

**Market multiples significant rerating over the past year**

Over the past year, our Sample's market multiples have significantly risen in terms of EV/EBITDA 1Y-forward (+54% yoy). Furthermore, since our last report in April 2024, both the EV/Sales and the EV/EBITDA 1y-forward have increased by some 10%.

**Figure 15: Sample market multiples evolution (one year analysis)**



Source: Banca Profilo elaborations, Bloomberg

**EV/SALES and EV/EBITDA according to two selected sub-samples**

Market multiples valuation includes a 15% liquidity discount and an Equity valuation of Vitalab (at 40% stake) on the mean EV/SALES 2024E at 3.4x on its projected 2024 sales at €2.2mln, leading to a value of €3.6mln (vs previous €2.3). We end up with an Equity Value of €29.6mln (vs previous €29)

**Table 10: Market multiples valuation**

Valuation on market multiples (€ /000)			
Arterra on EV/SALES (business + growth)	2025E	Arterra on EV/EBITDA (margins + cash flow generation)	2025E
<b>EV/Sales best peers</b>	<b>4.1x</b>	<b>EV/EBITDA best peers</b>	<b>13.6x</b>
sales	5,802	EBITDA	1,968
net debt December 2024E	-6,099		
EV	23,634	EV	26,736
<b>Equity Value</b>	<b>29,733</b>	<b>Equity Value</b>	<b>32,835</b>
<b>Average Equity Value</b>	<b>31,284</b>		

Vitalab (@ 40%) on EV/SALES	2025
EV/Sales	4.1x
sales 2024E	2,200
net debt (adj)	
EV	8,962
Equity	8,962
<b>(40% stake)</b>	<b>3,585</b>

Arterra (including Vitalab @40%)	2025E
liquidity discount	15%
	<b>29,638</b>

Average 2022E EV/SALES - EV/EBITDA
<b>29,638</b>

Source: Banca Profilo estimates, Factset

**Valuation: BUY confirmed 12-month TP confirmed at €3.2/share**

Despite the Equity Valuation deriving from DCF, but mostly from market multiples is higher than our previous Company Update [April, the 24<sup>th</sup> 2024], we confirm our 12-month target price at €3.2/share. We clearly need to have more confidence in 2024 effective and sustainable growth recovery before stepping up Arterra valuation.

Furthermore, recent market multiple significant re-rating must be much more reliable before supporting a new higher 12-month price target. Given the relevant potential upside on Arterra's price, we confirm our BUY recommendation.

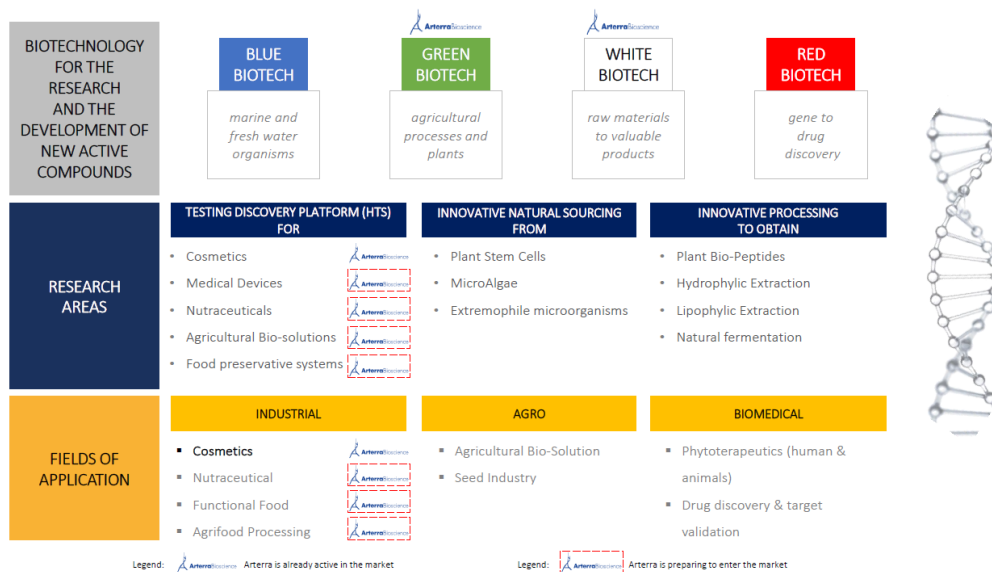
## APPENDIX

### Biotech serving the irreversible trend of product sustainability

Arterra: know-how in biological science to develop active innovative and green compounds

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 with 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, 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 data 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 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.

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).

Ongoing research projects on rich

<p>biomolecules for application in:</p> <p>Medical Devices</p> <p>Nutraceutical</p> <p>Agriculture</p> <p>Agri-food</p>	<p>The most active market is Cosmetics, Arterra's core end-market, followed by Pharmaceutical, Nutraceutical, Agriculture and Agri-food.</p> <p>The Pharmaceutical industry is investing in 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.</p> <p>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.</p> <p>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.</p> <p>In the Agri-food industry there is a strong and increasing interest for natural food preservatives and additives as consumers' attention 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 colouring. Arterra is working on various active ingredients acting as antioxidants to be used for natural preservation of fresh food.</p>
<p>Arterra's core end-market: Cosmetics</p>	<p>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 formulas, (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 2022, the turnover coming from Cosmetics (skincare) was 60% of revenue, the remaining coming from Research contracts and other Services.</p>
<p>High productivity and quick time to market of the active compounds in skincare</p>	<p>The productivity of the active compounds used in Skincare is particularly high: 1kg of active compound produces 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: from 3 to 6 new active ingredients have been released every year, which compares to 3 to 5 years in Agriculture, as an example.</p>

## Arterra : overview and business model

### History, overview and activities

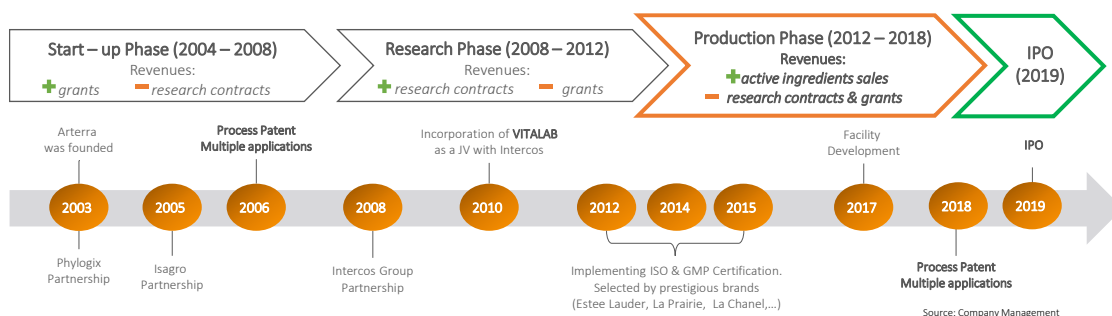
<p>Founded in 2004 by Gabriella Colucci in Naples, as a spin-off of Arena Pharma Biology division (San Diego, USA). A key partner for bio innovation to various end-markets</p>	<p>Arterra Bioscience was founded in 2004 in Naples by Gabriella Colucci, an Italian Scientist who returned to Italy after more 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 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&amp;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.</p>
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**From a small research group to a profitable biotech company**

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 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 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.

In 2022, turnover for the selling of active compounds contributed for almost 60% of Total Revenue, that for research contracts weighed 11% and public grants 33%. 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, the 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 by appointing: an R&D coordinator (V. Fogliano), a Chief Operating Officer (G. Ferrante), a Grant & IP Director (M. Bimonte), a Cell & Molecular Biology Director (A. Tito) and a business developer (B. Cicatiello).

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



Source: Company Data

**Research and technology to get active ingredients from food and agriculture waste. Plant extraction and Agri-food by-products in-house. 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, lyophilization, and dissolution in glycerol. Typically, from 1kg of raw materials the upcycling transformation process can obtain about 10kgs of finished product (creating value from food waste, much more than simply recycling food waste). Furthermore, depending on the quantity of active compounds used in the products formulas (skincare products, in Cosmetics, for example), 1kg of active compounds can lead to 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**

To summarize, Arterra’s revenue comes from different sources: research grants, research contracts, product selling and licencing royalties.

**product Production or IP Licencing** Active compounds might be either produced and sold or their related in-house Intellectual Property (IP) might be licenced out. The decision depends on end-market applications. Typically, Cosmetics is a high-tech industry, made of small volumes, but very high margins; thus, it can be well served with Arterra’s ingredients. Opposite, Agriculture is typically made of large volumes, low margins, and a very long time to market; it can be well served by Arterra’s Ips licencing.

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: Banca Profilo on 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 Gowan, a worldwide provider of agricultural products and in April 2022 Isagro disposed the whole stake increasing Arterra floating shares.

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 ingredients 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 of distributing 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 weighed 60% of total turnover and Intercos’ contribution was over 80%. Vitalab significantly increased its contribution from €1.3mIn in 2019 to almost €3mIn in 2021.

**Figure 19: Arterra with Intercos and Vitalab in Cosmetics**



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: R&D activity is for either production and sales of active ingredients (through Intercoss and Vitalab) or for licensing to third parties in-house developed Intellectual Property (IP) to be applied simultaneously to different end markets and positioning (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 Aood to a bio gastrointestinal defender in Medical Devices. 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**



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, Board of Directors and managers: long experience and sounded know-how

**Listed in 2019 at €2.6** The Company was listed on the Euronext Growth segment of the Italian Stock Exchange on October the 28th 2019 at €2.6/share. The share capital is represented by 6.6mln shares.

**€6.6mln shares** The Company is owned by:

- executive shareholders, the founder Gabriella Colucci with 27.9%;
- Alberto Previtali with 10.4%
- Intercos with 8.7%;
- Paolo Colucci with 6%;

Floating shares are then 47% of the total.

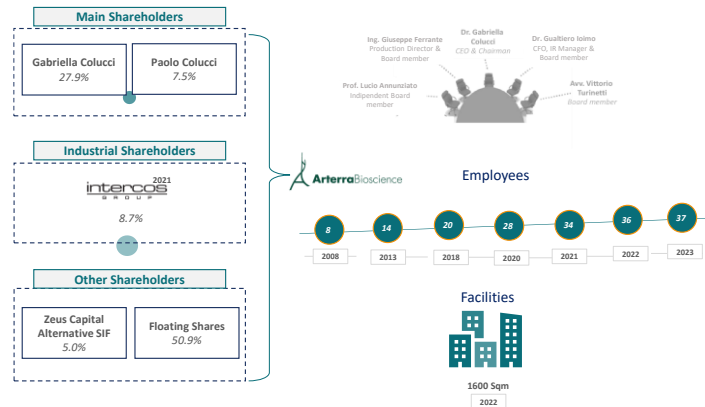
**Gabriella Colucci: Founder, Chairman and CEO** Arterra’s founder, Gabriella Colucci built more than 30 years of Academic research experience in Italy, Nigeria, USA and Australia. She is the author of more than 40 scientific publications and 18 patents. She worked for more than 4 years in San Diego 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



A rare mastermind leaving US and returning to Italy

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 BoD



Source: Company Data

**The Board of Directors**

Gabriella Colucci (founder, Chair and CEO), Gualtiero Ioimo (CFO, IR Manager) and Giuseppe Ferrante (Production Director) sit in the Board of Directors of Arterra which also includes the lawyer Vittorio Turinetti and Prof. Lucio Annunziato, as independent board members.

**Key partnerships: Isagro, Intercos and Vitalab**

In 2005, Isagro acquired a 22% of Arterra to partner 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 exclusive use for the first year; thereafter, the same ingredients are distributed globally through the joint venture Vitalab (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.

**Focus on: research and production processes optimization**

Over €3mln 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 €3mln. 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 led to an increase in productivity from 21kgs/day in 2021 to 50kgs/day in FY22.

Table 11: Arterra new laboratories

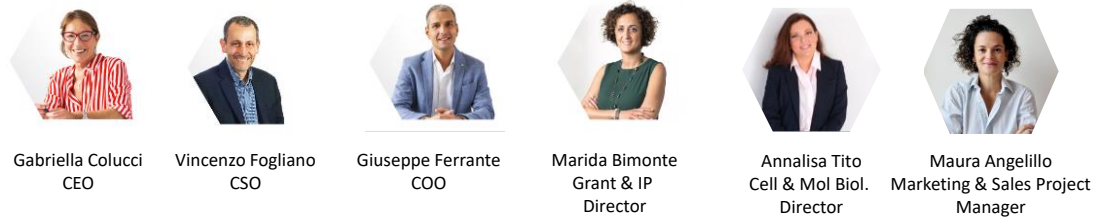
Year	Fulfilled orders (kg)	Productivity kg/day	Productivity Euro/day	Outsourcing (Euro)	
				Cell Culture	Lyophilization
2019	8860	9	3150	147.800	8.800
2020	9117	21	7350	272.636	8.000
2021	13.335	21	7.350	14.400	20.000
2022	E. 14.500	50	17.500	62.560	8000

Source: Company data

**Simplifying and streamlining research and production processes**

In 2020-2022 Arterra strengthened its organization by appointing a COO (Giuseppe Ferrante), an R&D Coordinator (Vincenzo Fogliano), a Grant & IP Director (Marida Bimonte), a Cell & Molecular Biology Director (Annalisa Tito) and a Marketing & Sales Project Manager (Maura Angelillo). At the end of June 2023, there were 37 employees, including 13 PhDs, 11 with a Master of Science and the remaining with either a bachelor's degree in science or a Tech Diploma.

**Figure 22: Arterra top management**

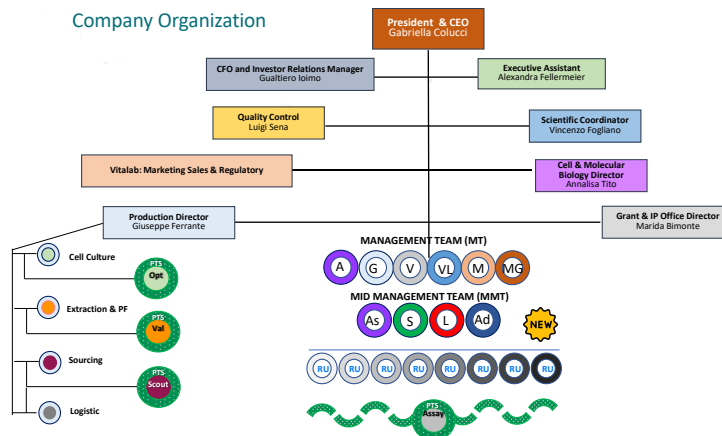


Source: Company data

**Introducing the Middle Management for better Research process transmission**

In 2023, Arterra introduced a new organizational layer, the Middle management, to streamline 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. 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.

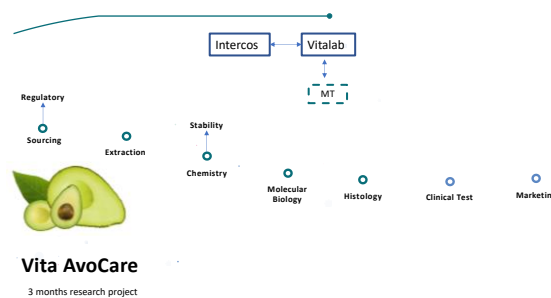
**Figure 23: Arterra top management**



Source: Company data

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

**Figure 24: Arterra research process – the Vita AvoCare case study**



Source: Company data

## ESG analysis

### 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 these are factors that can improve corporate value. In a world where companies are increasingly facing 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 has become a competitive advantage.

#### Arterra: Sustainability Report

To best involve stakeholders and to communicate in an increasingly transparent way its ESG goals, Arterra published its Sustainability Report in accordance with both GRI and SDGs standards.

### Sustainability for Arterra

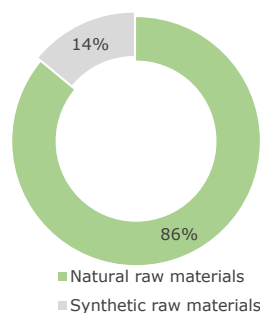
#### Arterra, a biological and molecular R&D company applied to cells of natural origin

Beyond sustainability standards and goals, Arterra naturally generates positive externalities with its core activities. In fact, the Company operates in the Research and Development of biological molecules to extract innovative active ingredients mainly for Cosmetics, but with potential applications in Agriculture, Nutraceuticals and Pharmaceutical. Arterra has always focused on green biotechnologies as a tool for sustainable innovation and a potential boost to the circular economy. The Company develops sustainable products, such as active ingredients from plant-based raw material and uses certified sustainable production processes.

#### Arterra is leader in 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. Raw materials are on average 86% natural, the remaining being synthetic. 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 producing active ingredients from fruit waste.

Figure 25: Raw materials breakdown between natural and synthetic ones



Source: Banca Profilo on Company data

#### Materiality assessment

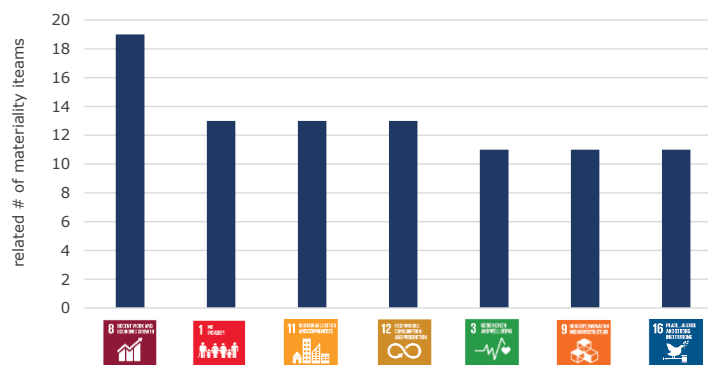
Arterra carried out a Materiality Assessment to identify priority sustainability disclosure items, set most relevant issues for the Company and its stakeholders, and finally to decide which issues should be included (and updated) in the Report.

**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 most sensitive ones for Arterra.

- 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.
- 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.
- 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.
- Goal 12 ensures sustainable consumption and production patterns. Arterra promotes this goal 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 26: Raw materials breakdown between natural and synthetic ones**



Source: Banca Profilo on Company data



## Arterra "ID Card"

Recommendation

**BUY**

Target Price

**3.2 €**

Upside

**64%**

### 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 robust EBITDA, 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 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 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
- Non-optimized financial structure

#### Threats

- Effective end-markets diversification within the planned time frame
- Potential difficulty in maintaining the independence from global multinational brands

### Main catalysts

- 👍 Profitability improvement driven by the scaling up of production
- Significant growth fuelled by the needed bio innovation across industries
- Growing demand for functional make-up and Haircare

### Main risks

- 👎 Effective end-market diversification within the business plan time frame
- Becoming dependent on global multinational brands
- China's path of recovery

Arterra  
"ID Card"

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Recommendation

BUY

Target Price

3.2 €

Upside

64%

## Main Financials

	(€/000)	2020	2021	2022	2023	2024E	2025E	2026E
<b>Total revenue</b>		<b>4,308</b>	<b>4,608</b>	<b>5,303</b>	<b>4,951</b>	<b>4,979</b>	<b>5,802</b>	<b>6,780</b>
yoy change		18.8%	7.0%	15.1%	-6.6%	0.6%	16.5%	16.9%
<b>EBITDA</b>		<b>1,602</b>	<b>1,735</b>	<b>2,133</b>	<b>1,591</b>	<b>1,605</b>	<b>1,968</b>	<b>2,442</b>
EBITDA margin (%)		37.2%	37.7%	40.2%	32.1%	32.2%	33.9%	36.0%
<b>EBIT</b>		<b>1,201</b>	<b>1,248</b>	<b>1,601</b>	<b>1,059</b>	<b>1,235</b>	<b>1,488</b>	<b>1,882</b>
EBIT margin (%)		27.9%	27.1%	30.2%	21.4%	24.8%	25.6%	27.8%
<b>Net income</b>		<b>1,108</b>	<b>1,111</b>	<b>1,414</b>	<b>1,076</b>	<b>1,233</b>	<b>1,415</b>	<b>1,738</b>
Margin (%)		25.7%	24.1%	26.7%	21.7%	24.8%	24.4%	25.6%
<b>Adjusted net debt (cash)</b>		<b>(4,067)</b>	<b>(4,199)</b>	<b>(5,502)</b>	<b>(5,672)</b>	<b>(6,099)</b>	<b>(6,737)</b>	<b>(7,603)</b>
Shareholders Equity		8,181	9,473	10,467	10,752	11,478	12,312	13,384
Net Operating Working Capital		1,306	1,798	2,648	2,617	2,684	2,960	3,326
Capex and acquisitions		383	609	184	83	704	400	400
Free Cash Flow		507	385	779	1,328	587	994	1,299

## Company Description

Company Sector	Health Care - Biotech
Price (€)	2.0
Number of shares (mln)	6.7
Market Cap (€ mln)	13.0
Reference Index	Euronext Growth
Main Shareholders	Gabriella Colucci, Previtalli
Main Shareholder stake	27.9%
Free Float	47.1%
Daily Average Volumes	16,575
Sample of comparables	BRAIN, Croda, Symrise, Deinove, Evolva, Fermentalg, Plant Advanced Technologies, Novozymes, Codexis

## Breakdown by business unit

(% of total sales)	2020	2021	2022	2023	2024E	2025E	2026E
Cosmetic turnover	53%	71%	56%	54%	66%	68%	70%
Nutraceutical/medical devices turnover	0%	0%	0%	0%	0%	0%	0%
Research contracts and services	13%	12%	11%	13%	14%	14%	14%
Licences and royalties	0%	0%	0%	0%	0%	0%	0%
Research grants	35%	17%	33%	33%	33%	20%	18%
Total revenue	100.0%	100.0%	100.0%	99.5%	113.2%	102.0%	101.8%

## Data of peers

	2020	2021	2022	2023	2024E
Revenue Growth (yoy)	0.9%	51.7%	23.7%	-46.1%	3.6%
<b>Arterra</b>	<b>18.8%</b>	<b>7.0%</b>	<b>15.1%</b>	<b>-6.6%</b>	<b>0.6%</b>
EBITDA Margin	23%	29%	29%	24%	23%
<b>Arterra</b>	<b>37%</b>	<b>38%</b>	<b>40%</b>	<b>32%</b>	<b>32%</b>

Average data

## Solvability Ratios

	2020	2021	2022	2023	2024E	2025E	2026E
Net debt (cash) / EBITDA	-2.5x	-2.4x	-2.6x	-3.6x	-3.8x	-3.4x	-3.1x
Net debt (cash) / Equity	-0.5x	-0.4x	-0.5x	-0.5x	-0.5x	-0.5x	-0.6x

## Multiples of peers

	2024E	2025E
Best peers (business and potential growth)		
EV / SALES	4.4x	4.1x
<b>Arterra</b>	<b>1.3x</b>	<b>1.4x</b>
Best peers (margins and cash flows)		
EV / EBITDA	16.8x	13.6x
<b>Arterra</b>	<b>4.2x</b>	<b>3.5x</b>

## Financial and Operative ratios

	2020	2021	2022	2023	2024E	2025E	2026E
Tax rate	-8%	-13%	-21%	-17%	-20%	-20%	-20%
ROIC	29%	24%	32%	21%	23%	27%	33%
ROE	14%	12%	14%	10%	11%	11%	13%
Capex/Sales	9%	13%	3%	2%	14%	7%	6%
D&A to capex	105%	80%	290%	644%	53%	120%	140%

Source: Factset, Banca Profilo estimates and elaborations, Company Data, Factset



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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)