

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

FY23 results: as expected

April, 23rd 2024 at 18:00

FY23: slowing Cosmetics turnover (as expected); EBITDA margin strongly recovered above our forecast. Robust cash generation confirmed.

Arterra Bioscience released FY23 results: turnover declined 7% yoy to €3.3mln, bang in line with our estimate [Company Update on October, 16th 2023]. Cosmetics turnover lost 10% yoy and came in at €2.7mln, matching our projection. The decrease was primarily due to demand contraction in China, where recovery struggles to take off. Cosmetics volumes were down by 12% yoy to 10.6k due to lower sales in China, whereas both in Europe and North America demand for make-up ingredients was strong. Cosmetics volumes had started to decline in the 3Q22 and had been declining for four consecutive quarters until the 2Q23 at an average above -30%. In the 3Q23 Cosmetics volumes rebounded by almost 50% yoy and this trend inversion partially stopped with a -6% yoy in the 4Q23. According to management, the 1Q24 volumes trend leads to positive expectations for this year. In the 2H23, EBITDA margin significantly improved from 17% in the 1H23 to 32% in FY23, beating our estimate at 26%. At the end of December, despite 25% EBITDA contraction, Net cash rose to €5.7mln from €5.5mln a year earlier confirming Arterra's robust cash generation. In 2017-2023 time frame, the Company generated Free Cash flows at an average of 45% of EBITDA.

Industry trends: Chinese restrictions on Cosmetics; declining sales and lower margins.

In 2023, China introduced new rules on active ingredients to be used in Chinese cosmetics; therefore, global players, including Arterra, had to adapt and test its active compounds according to new Chinese rules. This process has finally ended and now Arterra's entire portfolio is China's compliant. Most of listed peers have been experiencing similar impacts in 2023 with declining turnover and contracting EBITDA margin. Arterra's best peers have been growing above 20% on average in 2018-2022. In 2023, their revenue declined by more than 45% on average with contracting marginality. Since 2018, Arterra had always showed EBITDA margin above its peers' average; in 2023 Arterra's EBITDA margin was 32% vs the average at 24%.

Strategy and Research activities update.

New products have been launched in Cosmetics; in Haircare, new extracts for stimulating hair growth are in the pending process for being patented. In-vitro research, especially on skin and on the intestine, led to new contracts in Agri-Food with Monte Carlo Fruit and new products and clinical studies in Medical Device with ADL and ABR for treating acne, atopic rash and Irritable Bowe Syndrome. Finally, a new potentially disruptive proprietary enabling technology based on a new bacterial system has great odds for innovative compounds in Medical Devices and Pharma.

2024E-2025E estimates fine tuning. Adding 2026E. Back to growth this year.

Amid FY23 results in line with our estimates [Company Update on October, 16th 2023], we fine tuned our projections 2024-2025 and added 2026E. According to management, end of 2023 and the beginning of 2024 have showed signs of demand recovery. We expect this path to continue and confirm our 9% 2022-2025E Cosmetics sales CAGR. We also added 2026E and end with a 20% 2023-2026E Cosmetics sales CAGR with 2024 reaching the best turnover ever above €3.8mln. Despite on-going research projects beyond Cosmetics, we confirm no significant turnover before 2026. We project EBITDA margin improvement from 32% in 2023 to 40% in 2026, back to 2022. Cumulated Free Cash Flows are seen at €3.7mln in 2024-2026, including some €1.6mln capex for new production spaces, plants and equipment.

Valuation: BUY confirmed; price target confirmed.

Market multiples have re-rated since our last report both in terms of EV/SALES and EV/EBITDA. The sample of listed international peers now trades at an average of 2.9x EV/SALES and 13.5x EV/EBITDA 2024-2025 vs previous 2.4x and 10.8x respectively. We 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 | 23/04/2024 | 1.8 |
| Number of shares (mln) | | 6.7 |
| Market capitalization (€, mln) | | 12.0 |
| Max / Min | | 5.0/1.5 |
| Average daily volumes (1Y) | | 15,434 |

| Key financials | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E |
|----------------|---------|---------|---------|---------|---------|---------|---------|
| €/000 | | | | | | | |
| Total revenue | 4,308 | 4,608 | 5,303 | 4,951 | 5,578 | 6,327 | 7,206 |
| yoy (%) | 19% | 7% | 15% | -7% | 13% | 13% | 14% |
| EBITDA | 1,602 | 1,735 | 2,133 | 1,591 | 2,010 | 2,389 | 2,877 |
| margin (%) | 37% | 38% | 40% | 32% | 36% | 38% | 40% |
| EBIT | 1,201 | 1,248 | 1,601 | 1,059 | 1,408 | 1,677 | 2,065 |
| margin (%) | 28% | 27% | 30% | 21% | 25% | 27% | 29% |
| Net Income | 1,108 | 1,111 | 1,414 | 1,076 | 1,344 | 1,566 | 1,887 |
| margin (%) | 26% | 24% | 27% | 22% | 24% | 25% | 26% |
| Net Debt | (4,066) | (4,199) | (3,796) | (5,672) | (6,042) | (6,793) | (7,855) |
| Equity | 8,181 | 9,473 | 10,467 | 10,752 | 11,429 | 12,278 | 13,343 |
| Capex | 383 | 609 | 184 | 100 | 600 | 500 | 500 |
| FCFs | 507 | 385 | 779 | 1,311 | 819 | 1,243 | 1,649 |

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

In 2023, China introduced restrictions on active ingredients imports. In details, the Country introduced new rigid limits on active ingredients to be used in Chinese cosmetics formulas. China State Council released a final version of rules which replaced the existing Cosmetics Hygiene Supervision Regulations. China’s new regulation in Cosmetics includes many changes: i) new cosmetics definitions, scope, and classifications; ii) new management of cosmetics ingredients; iii) additional efficacy claims requirements; iv) safety assessments for cosmetics products and new requirements for safety assessors.

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.

This process has finally ended and now Arterra’s entire portfolio of active ingredients is China compliant. Nevertheless, recovery from China is still very slow.

Robust demand for functional make-up

Opposite, Cosmetics demand from Western countries remains solid especially for functional make-up in the US.

Arterra Bioscience competitive arena: strategic positioning and competitive advantages

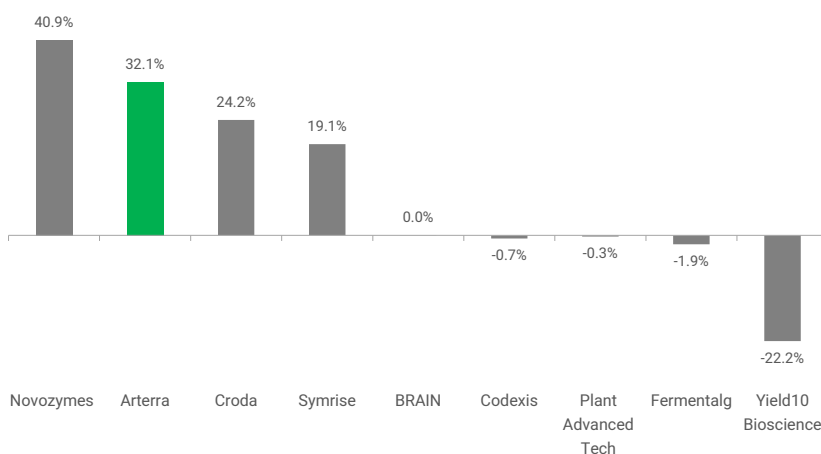
European and US listed biotech

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 1: Main international listed players in the Industry – EBITDA margin in 2023



Source: Banca Profilo elaborations on Company data, Factset

The negative EBITDA margin has been divided by 100 in order to make a graphic representation of the competitive arena

In 2023 Arterra showed second to the highest 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 2023, Arterra reported 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.

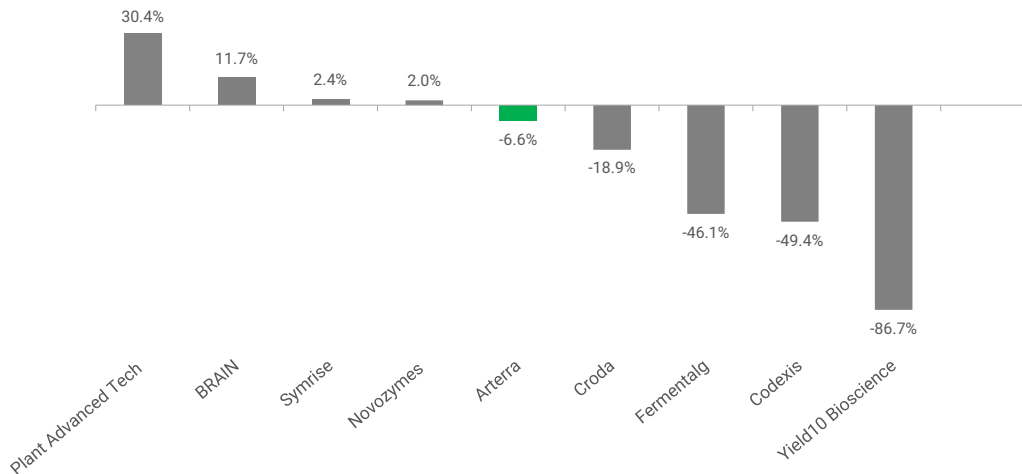
Croda (UK)
GBP 1.7bn turnover
24% EBITDA margin

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 2: Main international listed players in the Industry – yoy growth in 2023



Source: Banca Profilo on Company data, Factset

B.R.A.I.N. (DE)
€57mIn 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
 USD -48mln 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.

Plant Advanced (FR)
 €3mln 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.

Fermentalg (FR)
 €4mln turnover
 € -8mln 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.

Yield10 Bioscience
 USD 100k turnover
 USD -13mln 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.

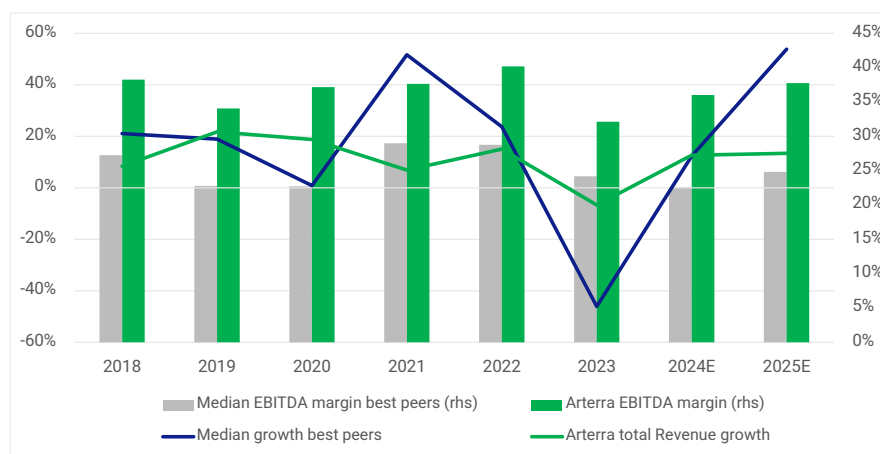
In 2023 Arterra lower decline than the average

In 2023, Arterra reported 7% yoy total revenue decline, which compares to the peers' sample average of -18%.

2023 a complex year for all. Arterra revenue growth and EBITDA margin above average

2023 was a complex year within persisting uncertain scenario for all players in the Industry. Arterra's best peers have been growing above 20% on average in 2018-2022. In 2023, their revenue declined by more than 45% on average with contracting marginality. Since 2018, Arterra has showed EBITDA margin above the peers' median and this was confirmed in 2023 with an EBITDA margin at 32% which compared to median at age at 24%.

Figure 3: Sales growth and marginality 2018-2025E – Sample average vs Arterra



Source: Banca Profilo on Company data, Factset

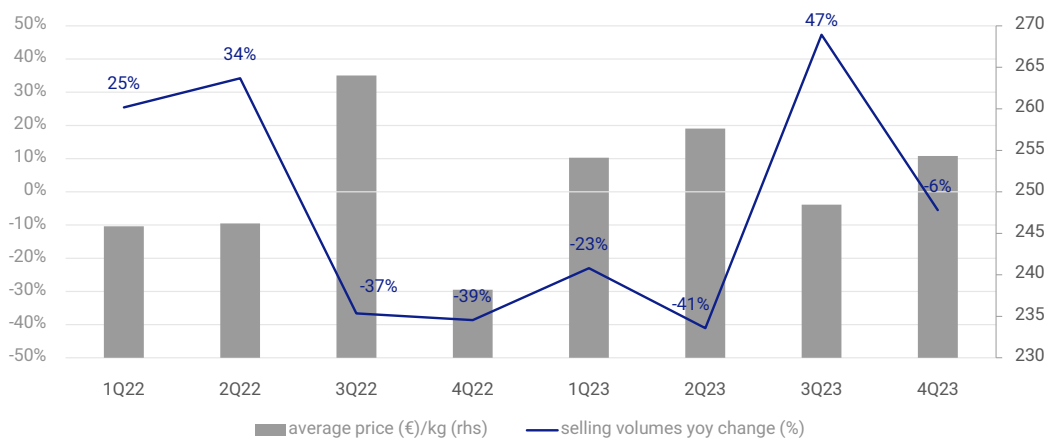
FY23 results

Slowing cosmetic turnover; EBITDA margin hit by low volumes. Strong cash generation, still.

2023:
Cosmetic turnover
-10% yoy
Total revenue
-7% yoy
in line with forecast

Arterra Bioscience released FY23 results: turnover declined 7% yoy to €3.3m, in line with our forecast [*Company Update on October, 16th 2023*]. Cosmetics turnover lost 10% yoy to €2.7m, matching our estimate. The decrease is primarily due to demand contraction in China, where recovery is still slow. Cosmetics volumes were 10.6k down by 12% yoy due to lower sales in China, whereas sales rose both in Europe and North America where demand for make-up ingredients had been growing. Cosmetics volumes had started to decline in the 3Q22 and had been declining for four consecutive quarters until the 2Q23 at an average above -30%. In the 3Q23 Cosmetics volumes rebounded by almost 50% yoy and this trend inversion partially stopped with a -6% yoy in the 4Q23. According to management, the 1Q24 volumes trend leads to positive expectations for this year.

Figure 4: Arterra volumes and price quarterly trends 2022-2023



Source: Banca Profilo on Company data

Raw materials, service and labor costs above 4-year average

Raw Materials and Services costs increased their weight on Total Revenue to 35% in 2023, which compares to past 6-year average below 30% and 31% in 2022. Lower incidence of Raw Materials costs has been more than offset by higher cost of Services mostly related to Research advisory for projects, especially those financed by the University.

Even Labour cost increased its weight on Total Revenue to 30% from a 6-year average of 27% and 26% in 2022. This increase comes from wages increases and adjustments. In fact, with 34 employees, the Labour cost per unit rose from €39k in 2022 to €43k in 2023.

EBITDA margin weakened to 32%; yet above estimate

Declining volumes and Revenue hit EBITDA to €1.6m from €2.1m a year earlier and margin weakened to 32% from 40% in 2022. Nevertheless, EBITDA significantly improved in the 2H23 from 17% in the 1H23, better than our forecast at 26%.

Robust cash generator, still

At the end of December 2025, despite 25% EBITDA contraction, Net cash rose to €5.7m from €5.5m a year earlier confirming Arterra's robust cash generation. Free Cash Flows rose to €1.3m in 2023 from €780k in 2022 driven by lower Net Working Capital, which more than offset lower EBIT.

Table 1: Arterra P&L 2017-2023

| Profit & Loss | | | | | | | | |
|--|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | €/000 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Cosmetic turnover | | 1,503 | 1,868 | 2,167 | 2,281 | 3,253 | 2,984 | 2,683 |
| Nutraceutical/medical devices turnover | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Agriculture/Agrifood | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Research contracts and services | | 551 | 559 | 542 | 541 | 573 | 580 | 621 |
| Licences and royalties | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total turnover | | 2,054 | 2,427 | 2,709 | 2,822 | 3,825 | 3,564 | 3,304 |
| | yoy | | 18% | 12% | 4% | 36% | -7% | -7% |
| cosmetic volumes (kg) | | 5,690 | 7,142 | 8,839 | 9,117 | 13,342 | 12,036 | 10,599 |
| | yoy | | 90% | 26% | 24% | 3% | 46% | -10% |
| avg cosmetic price (€/kg) | | 264 | 262 | 245 | 250 | 244 | 248 | 253 |
| Research grants and stock changes | | 692 | 551 | 917 | 1,487 | 783 | 1,740 | 1,647 |
| | % on total revenue | | 25% | 19% | 25% | 35% | 17% | 33% |
| Total Revenue | | 2,746 | 2,978 | 3,627 | 4,308 | 4,608 | 5,303 | 4,951 |
| | yoy | | 45% | 8% | 22% | 19% | 7% | 15% |
| raw materials cost | | (210) | (259) | (455) | (525) | (318) | (507) | (425) |
| cost of services | | (466) | (533) | (726) | (873) | (986) | (1,140) | (1,292) |
| | % on total revenue | | -25% | -27% | -33% | -32% | -28% | -31% |
| cost of labour | | (736) | (847) | (1,025) | (1,128) | (1,228) | (1,391) | (1,476) |
| | % on total revenue | | -27% | -28% | -28% | -26% | -27% | -30% |
| lease | | (123) | (146) | (146) | (151) | (158) | (83) | (82) |
| other operating costs | | (43) | (53) | (38) | (30) | (184) | (51) | (85) |
| EBITDA | | 1,167 | 1,140 | 1,236 | 1,602 | 1,735 | 2,133 | 1,591 |
| | margin | | 43% | 38% | 34% | 37% | 38% | 40% |
| # employees | | n.a. | 20 | 28 | 30 | 35 | 36 | 34 |
| labor cost per unit | | | (42) | (37) | (38) | (35) | (39) | (43) |
| D&A | | (143) | (73) | (296) | (400) | (487) | (532) | (532) |
| | % on total revenue | | -5% | -2% | -8% | -9% | -11% | -10% |
| EBIT | | 1,024 | 1,067 | 940 | 1,201 | 1,248 | 1,601 | 1,059 |
| | margin | | 37% | 36% | 26% | 28% | 27% | 30% |
| net financial income (expenses) | | (7) | 6 | 1 | (2) | 26 | 197 | 243 |
| | % on total revenue | | -0.2% | 0.2% | 0.0% | 0.0% | 0.6% | 3.7% |
| EBT | | 1,017 | 1,073 | 940 | 1,199 | 1,274 | 1,797 | 1,302 |
| | margin | | 37% | 36% | 26% | 28% | 28% | 34% |
| taxes | | (272) | (29) | (83) | (91) | (163) | (383) | (226) |
| | tax rate | | -27% | -3% | -9% | -8% | -13% | -21% |
| Net income | | 745 | 1,044 | 857 | 1,108 | 1,111 | 1,414 | 1,076 |
| | % on total revenue | | 27% | 35% | 24% | 26% | 24% | 22% |

Source: Banca Profilo on Company data

Net working capital at 53% of Total Revenue for stock piling.

Robust cash generation confirmed

Concerning the Balance Sheet, Fixed assets declined to €2.2mln at the end of December 2023 from €2.7mln a year earlier mainly for total amortization of IPO costs (4 years). Net operating Working Capital rose to 53% of Total Revenue at the end of 2023 from 50% a year earlier for increasing inventories, mostly Raw materials, which were not completely offset by lower receivables and higher paybles. However, Net operating working capital was basically flat yoy at €2.6mln. These dynamics led to a slight increase of net cash at the end of the year to €5.7mln from €5.5mln at the end of 2022

Table 2: Arterra Balance Sheet and FCFs 2017-2023

| Balance Sheet | | | | | | | | |
|---|-------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|
| | €/000 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| tangibles | | 185 | 567 | 1278 | 1400 | 1662 | 1535 | 1232 |
| intangibles | | 27 | 108 | 706 | 567 | 442 | 204 | 40 |
| financials | | 462 | 452 | 452 | 452 | 949 | 982 | 982 |
| Fixed assets | | 675 | 1,127 | 2,437 | 2,419 | 3,052 | 2,722 | 2,254 |
| other current net receivables | | 131 | 177 | 452 | 912 | 914 | 227 | 869 |
| receivables from grants | | 1,176 | 1,062 | 495 | 585 | 755 | 905 | 816 |
| trade receivables | | 303 | 630 | 414 | 339 | 806 | 774 | 695 |
| inventories | | 263 | 267 | 425 | 570 | 488 | 1,157 | 1,356 |
| trade paybles | | (161) | (257) | (500) | (188) | (250) | (188) | (250) |
| Net operating Working Capital | | 1,582 | 1,702 | 834 | 1,306 | 1,798 | 2,648 | 2,617 |
| % on total revenue | | 58% | 57% | 23% | 30% | 39% | 50% | 53% |
| receivables from grants (% grants) | | 170% | 193% | 54% | 39% | 96% | 52% | 50% |
| trade receivables (% revenue) | | 11% | 21% | 11% | 8% | 17% | 15% | 14% |
| inventories (% revenue) | | 10% | 9% | 12% | 13% | 11% | 22% | 27% |
| trade paybles (% COGS) | | 24% | 32% | 42% | 13% | 19% | 11% | 15% |
| Capex | | 50 | 536 | 1,897 | 383 | 609 | 184 | 100 |
| <i>tangible</i> | | 28 | 447 | 1143 | 342 | 541 | 179 | 90 |
| <i>intangibles</i> | | 22 | 89 | 754 | 40 | 68 | 5 | 10 |
| % on total revenue | | 2% | 18% | 52% | 9% | 13% | 3% | 2% |
| Provisions | | (629) | (630) | (504) | (522) | (490) | (632) | (659) |
| Invested Capital | | 1,757 | 2,375 | 3,218 | 4,115 | 5,273 | 4,965 | 5,080 |
| shareholders' equity | | 250 | 250 | 327 | 330 | 333 | 333 | 333 |
| reserves | | 720 | 1,265 | 5,926 | 6,742 | 8,029 | 8,720 | 9,343 |
| net income | | 745 | 1,044 | 857 | 1,108 | 1,111 | 1,414 | 1,076 |
| Equity | | 1,715 | 2,559 | 7,110 | 8,181 | 9,473 | 10,467 | 10,752 |
| Net debt (cash) | | 42 | (185) | (3,892) | (4,066) | (4,199) | (5,502) | (5,672) |
| cash and cash equivalents | | (249) | (738) | (4,669) | (4,536) | (4,814) | (4,393) | |
| short term loans to equity participated | | (340) | (340) | (225) | (340) | 0 | 0 | |
| bank debt | | 630 | 893 | 1,002 | 809 | 614 | 489 | |
| financial short term assets | | | | | | | (1,598) | |
| leasing (IFRS 16) | | 389 | 309 | 228 | 107.3 | 107.6 | 107 | |
| adj Net debt (cash) | | 771 | 464 | (3,439) | (3,619) | (4,092) | (3,796) | (5,672) |
| Free Cash Flows | | | | | | | | |
| | €/000 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| EBIT | | 1,024 | 1,067 | 940 | 1,201 | 1,248 | 1,601 | 1,059 |
| tax (figurative) | | (205) | (213) | (188) | (240) | (250) | (320) | (212) |
| D&A | | 143 | 73 | 296 | 400 | 487 | 532 | 532 |
| change in Net Working Capital | | (219) | (120) | 868 | (472) | (492) | (850) | 31 |
| capex | | (50) | (536) | (1,153) | (383) | (609) | (184) | (100) |
| Free Cash Flow | | 693 | 270 | 762 | 507 | 385 | 779 | 1,311 |

Source: Banca Profilo on Company data

2017-2023 : Free Cash Flows at 45% EBITDA Analysing a 6-year P&L timeframe we can appreciate that i) Total Revenue, EBITDA and Net Income grew at similar 13-14% CAGR; ii) EBITDA margin stayed on average above 35% and iii) cumulated Free Cash Flows were close to €5mln or 45% the EBITDA on average.

Strategy Update

Focus on: research and production processes optimization

Over €3mIn 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 €3mIn. 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. Arterra has planned further investments this year in production plants and equipment not only for expansion but also for optimization.

Table 3: 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 5: Arterra top management



Gabriella Colucci
CEO



Vincenzo Fogliano
CSO



Giuseppe Ferrante
COO



Marida Bimonte
Grant & IP
Director



Annalisa Tito
Cell & Mol Biol.
Director



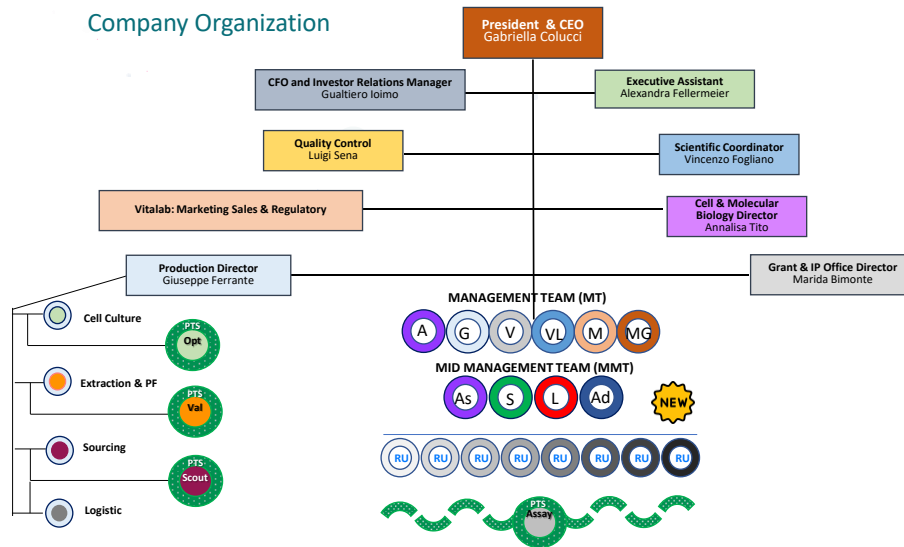
Maura Angelillo
Marketing & Sales Project
Manager

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.

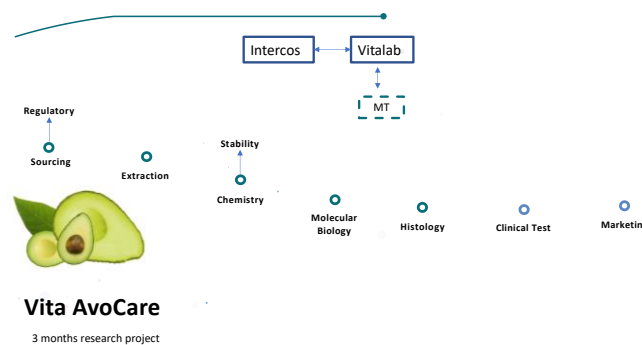
Figure 6: Arterra top management



Source: Company data

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 7: Arterra research process – the Vita Avocare case study



Source: Company data

Focus on: diversifying in Medical Devices and Agri-food while expanding in Cosmetics via Vitalab

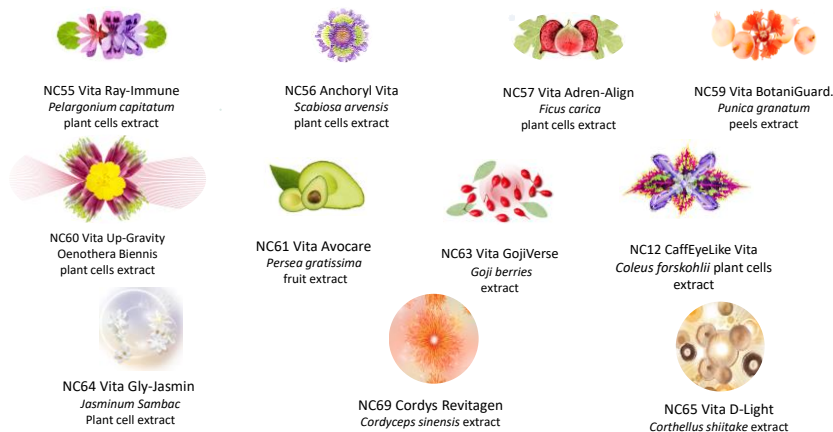
- New products in Cosmetics
- End-market diversification: a new patent in Haircare
- Diversification in Medical Devices and Agri-Food
- New proprietary IP

During our recent Company Visit in Arterra, the founder and CEO, Gabriella Colucci together with her whole team, led by Vincenzo in the Scientific Committee and Giuseppe as the Head of Production, showed us the in-depth research and production of the two main branches: plant extraction and molecular research. In Cosmetics (skincare and makeup), new products have been launched, including three ingredients specifically addressed to China. In-vitro research, especially on skin and on the intestine, led to new contracts with Food companies such as Monte Carlo Fruit and in Nutraceutical with ABR; this research led also to the development of new medical devices for atopic rash and to a new industrial application in Haircare in which a new patent has been filed. Finally, a new potentially disruptive biotech proprietary technology based on the Lactobacillus might lead to innovative compounds in Medical Devices and pharma.

Consolidating in Skincare and makeup Vitalab-Intercos co-working

As regards to Cosmetics, Arterra innovated with 11 extracts from plants, fruit and peels, including extracts deriving from i) *Oenothera Biennis* cell cultures for Cosmetics use; ii) *Portulaca grandiflora* stem cells for treating skin signs due to skin ageing; iii) *Pelargonium capitatum* stem cells for Cosmetics use and iv) *Cannabis Sativa* cell culture for use in Cosmetics, Pharma, and Nutraceutical. Since 2021, Research has been also driven by specific suggestions provided by Vitalab thanks to continuous inputs received from Intercos.

Figure 8: Innovation in Cosmetics - Skincare and Makeup

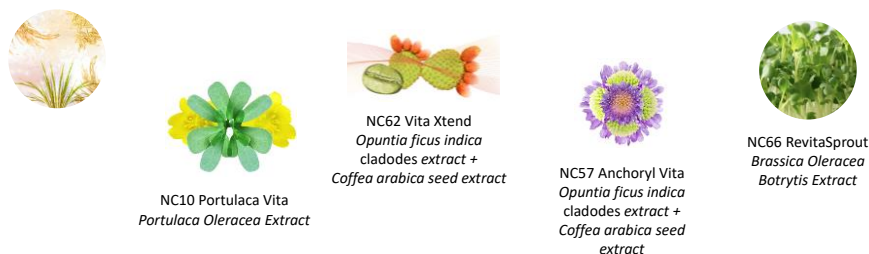


Source: Company data

A new industrial application: Haircare

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 at stimulating hair growth has been filed.

Figure 9: Innovation in Cosmetics - Haircare



Source: Company data

Medical Devices: Arterra-ADL

Moving into Medical Devices, in April 2021, Arterra signed its first agreement with ADL Farmaceutici for a 5-year production and licence 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 the capital increase by ADL acquiring a 6.81% stake.

Patents in Medical Devices

Arterra and ADL are also working for the development of a product for the treatment of atopic dermatitis, both through topical and oral use.

Arterra-University of Florence

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.

Arterra- ABR

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.

Figure 10: Arterra's diversification into Medical Device



**Agri-food:
Arterra-
MONTECARLOFRUIT**

Arterra continues with research 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 puree for baby food, in Mali. Further development into Nutraceutical is ongoing.

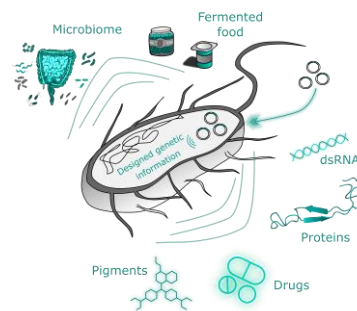
Figure 11: Research agreement Arterra-Montecarlofruit



**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 strains have been registered and a patent on genetic elements is almost ready to be filed.

Figure 12: New Proprietary Enabling Technology



Source: Company data

Estimates update

2024-2025 estimates fine tuning. Adding 2026E

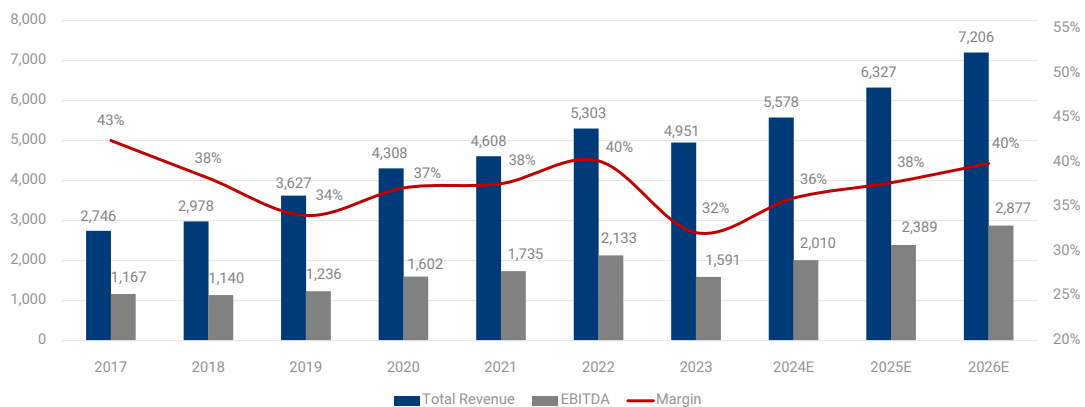
We fine-tuned our estimates on the back of FY23 results

In this report we update our previous 2023-2025 projections [*Company Update on October, the 16th 2023*], amid FY23 results and added 2026 forecast, according to strategic development and management guidance. As FY23 came in line with our projections and the strategic development has been following its path, we simply fine-tuned our previous estimates.

Cosmetics turnover growth recovery from 2H23. Potentially the best year even in 2024

According to management, last months of 2023 and the beginning of 2024 have showed some signs of recovery mainly from Europe and US where demand for functional make-up had been strongly growing and to a much less extend from China's still slow recovery. We expect this path to continue this year and confirm our 9% 2022-2025E Cosmetics sales CAGR. We also added 2026E and end with a 20% 2023-2026E Cosmetics sales CAGR, including 2024 reaching the best turnover ever above €3.8mln.

Figure 13: Revenue, EBITDA and margin 2017-2026E



Source: Banca Profilo on Company data

We confirmed the ramp up of new-end markets beyond 2025

More in details, we target over 18,000 kgs in Cosmetics selling volumes by 2026 and confirm our expectation of no significant contribution to turnover by new end-markets (Medical Devices and Agri-food) before 2026.

EBITDA margin back to 40% in 2026E

Following expected volumes growth, we now project EBITDA margin recovering from 32% in 2023 to 40% in 2026, back to 2022. Raw Materials and Services will reduce their incidence on Total revenues to below 30% in 2026 from their peak at 35% in 2023. Labour cost weight on Total revenues is estimated basically flat at 30% in the three-year period.

Net income margin back to above 20%

The remaining P&L metrics confirm some €200k of yearly dividends from Vitalab, 20% tax rate. Net income is expected to reach €1.7mln in 2026 or 24% margin, basically in line with 2021.

Table 4: P&L estimates fine-tuning 2024-2026

| Profit & Loss | | | | | | | | | | | | | | |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2023E | 2024E old | 2024E new | 2025E old | 2025E new | 2026E new | |
| €/000 | | | | | | | | | | | | | | |
| Cosmetic turnover | 1,503 | 1,868 | 2,167 | 2,281 | 3,253 | 2,984 | 2,683 | 2,677 | 3,212 | 3,180 | 3,855 | 3,816 | 4,579 | |
| yoy | | 24% | 16% | 5% | 43% | -8% | -10% | -10% | 20% | 19% | 20% | 20% | 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 | 616 | 627 | 669 | 656 | 696 | 721 | |
| Licences and royalties | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Total turnover | 2,054 | 2,427 | 2,709 | 2,822 | 3,826 | 3,563 | 3,304 | 3,293 | 3,840 | 3,849 | 4,511 | 4,512 | 5,299 | |
| yoy | | 18% | 12% | 4% | 36% | -7% | -7% | -8% | 29% | 17% | 17% | 17% | 17% | |
| cosmetic volumes (kg) | 5,690 | 7,142 | 8,839 | 9,117 | 13,342 | 12,036 | 10,599 | 10,555 | 12,666 | 12,719 | 15,200 | 15,262 | 18,315 | |
| yoy | | 90% | 26% | 24% | 3% | 46% | -10% | -12% | 20% | 20% | 20% | 20% | 20% | |
| avg cosmetic price (€/kg) | 264 | 262 | 245 | 250 | 244 | 248 | 253 | 254 | 254 | 250 | 254 | 250 | 250 | |
| Research grants and stock changes | 692 | 551 | 917 | 1,487 | 783 | 1,740 | 1,647 | 1,320 | 1,386 | 1,729 | 1,455 | 1,816 | 1,906 | |
| % on sales | | 25% | 18% | 25% | 35% | 17% | 33% | 33% | 29% | 27% | 31% | 24% | 29% | |
| Total Revenue | 2,746 | 2,978 | 3,627 | 4,309 | 4,609 | 5,303 | 4,951 | 4,613 | 5,226 | 5,578 | 5,967 | 6,327 | 7,206 | |
| yoy | | 45% | 8% | 22% | 19% | 7% | 15% | -7% | -13% | 13% | 14% | 13% | 21% | |
| raw materials cost | (210) | (259) | (455) | (525) | (318) | (507) | (425) | | | | | | | |
| cost of services | (466) | (533) | (726) | (873) | (986) | (1,140) | (1,292) | (1,847) | (1,570) | (1,711) | (1,793) | (1,878) | (2,067) | |
| % on total revenue | | 25% | 27% | 33% | 32% | 28% | 31% | 40% | 30% | 31% | 30% | 30% | 29% | |
| cost of labour | (736) | (847) | (1,025) | (1,128) | (1,228) | (1,391) | (1,476) | (1,446) | (1,522) | (1,690) | (1,598) | (1,893) | (2,096) | |
| % on total revenue | | 27% | 28% | 28% | 26% | 27% | 26% | 30% | 31% | 29% | 30% | 27% | 30% | |
| lease | (123) | (146) | (146) | (151) | (158) | (83) | (82) | (73) | (73) | (82) | (73) | (82) | (82) | |
| other operating costs | (43) | (53) | (38) | (30) | (184) | (51) | (85) | (57) | (57) | (85) | (57) | (85) | (85) | |
| EBITDA | 1,167 | 1,140 | 1,236 | 1,602 | 1,736 | 2,133 | 1,591 | 1,190 | 2,003 | 2,010 | 2,446 | 2,389 | 2,877 | |
| margin | | 43% | 38% | 34% | 37% | 38% | 40% | 32% | 26% | 38% | 36% | 41% | 38% | |
| # employees | n.a. | 20 | 28 | 30 | 35 | 36 | 34 | 38 | 40 | 36 | 42 | 38 | 40 | |
| labor cost per unit | | (42) | (37) | (38) | (35) | (39) | (43) | (38) | (38) | (47) | (38) | (50) | (52) | |
| D&A | (143) | (73) | (296) | (400) | (487) | (532) | (532) | (560) | (645) | (602) | (770) | (712) | (812) | |
| % on total revenue | | 5% | 2% | 8% | 9% | 11% | 10% | 11% | 12% | 12% | 11% | 13% | 11% | |
| EBIT | 1,024 | 1,067 | 940 | 1,201 | 1,249 | 1,601 | 1,059 | 630 | 1,358 | 1,408 | 1,676 | 1,677 | 2,065 | |
| margin | | 37% | 36% | 26% | 28% | 27% | 30% | 21% | 14% | 26% | 25% | 28% | 27% | |
| net financial income (expenses) | (7) | 6 | 1 | (2) | 26 | 197 | 83 | 21 | 23 | 72 | 27 | 81 | 94 | |
| % on total revenue | | -0.2% | 0.2% | 0.0% | 0.0% | 0.6% | 3.7% | 1.7% | 0.5% | 0.4% | 1.3% | 0.4% | 1.3% | |
| EBT | 1,017 | 1,073 | 941 | 1,199 | 1,274 | 1,797 | 1,142 | 651 | 1,381 | 1,480 | 1,702 | 1,758 | 2,159 | |
| margin | | 37% | 36% | 26% | 28% | 28% | 34% | 23% | 14% | 26% | 27% | 28% | 30% | |
| taxes | (272) | (29) | (83) | (91) | (163) | (383) | (226) | (139) | (295) | (296) | (363) | (352) | (432) | |
| tax rate | | 27% | 3% | 9% | 8% | 13% | 21% | 20% | 21% | 21% | 20% | 21% | 20% | |
| Net income | 745 | 1,044 | 857 | 1,109 | 1,111 | 1,414 | 916 | 512 | 1,087 | 1,184 | 1,339 | 1,407 | 1,727 | |
| % on total revenue | | 27% | 35% | 24% | 26% | 24% | 27% | 19% | 11% | 21% | 21% | 22% | 24% | |

Source: Banca Profilo estimates and Company data

2024: +20% selling volumes; turnover at more than €3.8mln

More in details, in 2024 we expect more than 12.5kg of selling volumes in Cosmetics or +20% yoy at an average unit price of €250. We add €670k of Research contracts and services turnover and some €1.7mln of research grants, ending with €5.5mln Total revenue or +13% yoy. This compares to €5.2mln previously projected. Thanks to lower costs of Raw Materials and Services and stable incidence of Labour costs we project EBITDA to improve to 36%.

Balance Sheet:

**Capex
NWC optimization
Generous dividend distribution**

Regarding the Balance Sheet estimates for 2024-2026, we confirm: i) cumulated capex at €1.6mln including those needed for production plant expansion and equipment improvement in 2024; and ii) further improvement of Net Working Capital turnover as inventories return to their normalized levels. We kept a generous dividend distribution (some 50% of consolidated net income) for the next three years in line with 2023.

Table 5: Balance Sheet estimates fine-tuning 2024-2026

| Balance Sheet | | | | | | | | | | | | | | |
|--------------------------------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2023 | 2024E | 2024E | 2025E | 2025E | 2026E | |
| €/000 | | | | | | | | | old | new | old | new | new | |
| tangibles | 185 | 567 | 1278 | 1400 | 1662 | 1535 | 1232 | 1177 | 1,336 | 1230 | 1,170 | 1024 | 72 | |
| intangibles | 27 | 108 | 706 | 567 | 442 | 204 | 40 | 102 | 48 | 40 | (56) | 34 | 1 | |
| financials | 462 | 452 | 452 | 452 | 949 | 982 | 982 | 982 | 982 | 982 | 982 | 982 | 98 | |
| Fixed assets | 675 | 1,127 | 2,437 | 2,419 | 3,052 | 2,722 | 2,254 | 2,261 | 2,366 | 2,252 | 2,096 | 2,040 | 1,721 | |
| other current net receivables | 131 | 177 | 452 | 912 | 914 | 227 | 869 | 227 | 227 | 869 | 227 | 869 | 86 | |
| receivables from grants | 1,176 | 1,062 | 495 | 585 | 755 | 905 | 816 | 687 | 693 | 805 | 699 | 845 | 86 | |
| trade receivables | 303 | 630 | 414 | 339 | 806 | 774 | 695 | 817 | 1,135 | 1,117 | 1,295 | 1,267 | 1,44 | |
| inventories | 263 | 267 | 425 | 570 | 488 | 1,157 | 1,356 | 1,007 | 983 | 1,304 | 944 | 1,416 | 1,54 | |
| trade paybles | (161) | (257) | (500) | (188) | (250) | (188) | (250) | (211) | (179) | (300) | (204) | (292) | (300) | |
| Net operating Working Capital | 1,582 | 1,702 | 834 | 1,306 | 1,798 | 2,648 | 2,617 | 2,300 | 2,632 | 2,926 | 2,733 | 3,237 | 3,551 | |
| % on total revenue | 58% | 57% | 23% | 30% | 39% | 50% | 53% | 50% | 50% | 52% | 46% | 51% | 49% | |
| receivables from grants (% grants) | 170% | 193% | 54% | 39% | 96% | 52% | 50% | 52% | 50% | 47% | 48% | 47% | 46% | |
| trade receivables (% revenue) | 11% | 21% | 11% | 8% | 17% | 15% | 14% | 18% | 22% | 20% | 22% | 20% | 20% | |
| inventories (% revenue) | 10% | 9% | 12% | 13% | 11% | 22% | 27% | 22% | 19% | 23% | 16% | 22% | 21% | |
| trade paybles (% COGS) | 24% | 32% | 42% | 13% | 19% | 11% | 15% | 11% | 11% | 18% | 11% | 16% | 15% | |
| Capex | 50 | 536 | 1,897 | 383 | 609 | 184 | 100 | 100 | 750 | 600 | 500 | 500 | 500 | |
| tangible | 28 | 447 | 1143 | 342 | 541 | 179 | 90 | 90 | 675 | 540 | 450 | 435 | 43 | |
| intangibles | 22 | 89 | 754 | 40 | 68 | 5 | 10 | 10 | 75 | 60 | 50 | 65 | 6 | |
| % on total revenue | 2% | 18% | 52% | 9% | 13% | 3% | 2% | 2% | 14% | 11% | 8% | 8% | 7% | |
| Provisions | (629) | (630) | (504) | (522) | (522) | (522) | (522) | (522) | (632) | (632) | (522) | (522) | (522) | |
| Invested Capital | 1,757 | 2,375 | 3,218 | 4,115 | 5,241 | 5,075 | 5,217 | 4,266 | 4,593 | 5,414 | 4,534 | 5,623 | 5,623 | |
| shareholders' equity | 250 | 250 | 327 | 330 | 333 | 333 | 333 | 333 | 333 | 333 | 333 | 333 | 33 | |
| reserves | 720 | 1,265 | 5,926 | 6,742 | 8,029 | 8,720 | 9,343 | 9,468 | 9,739 | 9,912 | 10,314 | 10,539 | 11,28 | |
| net income | 745 | 1,044 | 857 | 1,108 | 1,111 | 1,414 | 1,076 | 512 | 1,087 | 1,184 | 1,339 | 1,406 | 1,72 | |
| Equity | 1,715 | 2,559 | 7,110 | 8,181 | 9,473 | 10,467 | 10,752 | 10,313 | 11,159 | 11,429 | 11,986 | 12,278 | 13,341 | |
| Net debt (cash) | 42 | (185) | (3,892) | (4,066) | (4,232) | (5,392) | (5,535) | (6,047) | (6,565) | (6,015) | (7,451) | (6,656) | (7,717) | |

Source: Banca Profilo estimates and Company data

Net cash €3.7m in 2024E-2026E

Cumulated Free Cash Flows are projected at €3.7m in 2024-2026, including some €1.6m in capex for new spaces and production equipment for plant and offices reorganization and optimization.

Table 6: Free Cash Flows estimates fine tuning 2024-2026

| Free Cash Flows | | | | | | | | | | | | | | |
|-------------------------------|------------|------------|------------|------------|------------|------------|--------------|--------------|------------|------------|--------------|--------------|--------------|--|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2023 | 2024E | 2024E | 2025E | 2025E | 2026E | |
| €/000 | | | | | | | | | old | new | old | new | new | |
| EBIT | 1,024 | 1,067 | 940 | 1,201 | 1,249 | 1,601 | 1,059 | 630 | 1,358 | 1,408 | 1,676 | 1,677 | 2,065 | |
| tax (figurative) | (205) | (213) | (188) | (240) | (250) | (320) | (212) | (126) | (272) | (282) | (335) | (335) | (413) | |
| D&A | 143 | 73 | 296 | 400 | 487 | 532 | 532 | 560 | 645 | 602 | 770 | 712 | 812 | |
| change in Net Working Capital | (219) | (120) | 868 | (472) | (492) | (850) | 31 | 348 | (332) | (309) | (101) | (310) | (315) | |
| capex | (50) | (536) | (1,153) | (383) | (609) | (184) | (100) | (100) | (750) | (600) | (500) | (500) | (500) | |
| Free Cash Flow | 693 | 270 | 763 | 507 | 385 | 779 | 1,311 | 1,312 | 649 | 819 | 1,510 | 1,244 | 1,649 | |

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 reduced capex. And finally, we are projecting a sustainable recovery starting this year; this has to be confirmed by 1Q24 results which are scheduled to be disclosed on May the 6th.

Valuation

DCF approach well appraises Arterra 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

DCF assumptions: To run a DCF model, we use our projected FCFs for the 2024E-26E explicit period: cumulated FCFs of €3.7m (vs previous €3.4m) or €1.2m (vs previous €1.1m) as yearly average in 2024E-2026E. [*Company Update on October, 16th 2023*].

€3.7m of cumulated FCFs

To assess the Terminal Value, we factor in:

- an annual FCF generation of €1.2m, corresponding to the average FCF in 2024E-2026E;
- perpetual growth rate of 2% (unchanged).

€1.2m as Terminal Value cash flow

To get to the Equity Valuation, we would consider the reported net cash at the end of December 2023 at €5.7m (€5.5m as of June 2023 in our previous Company Update).

Table 7: DCF valuation

| DCF Valuation | 2024E | 2025E | 2026E | over |
|-----------------------------------|------------|--------------|--------------|---------------|
| Free Cash Flows (€/000) | 819 | 1,243 | 1,649 | 1,237 |
| years | 1 | 2 | 3 | |
| discount factor | 0.92 | 0.85 | 0.78 | |
| NPV Cash flows (€/000) | 753 | 1,051 | 1,282 | |
| Sum of NPVs (€/000) | | | | 3,086 |
| Terminal Value (€/000) | | | | 18,308 |
| NPV Terminal Value (€/000) | | | | 15,478 |
| Enterprise Value (€/000) | | | | 18,564 |
| peripheral assets: Vitalab (@40%) | | | | 2,303 |
| Net debt December 2023 (€/000) | | | | -5,672 |
| Equity Value (€/000) | | | | 26,539 |
| number of shares (mln) | | | | 6.7 |
| Per share value (€) | | | | 4.0 |

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 8.8% (vs previous 8.7%).

WACC includes:

- risk free rate at 4.4%, down from previous 5.2%, 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 (vs previous 0.9), as the average of chosen listed peers to Arterra;
- debt to equity target structure with an 80% weight on Equity (unchanged).

Table 8: WACC calculation

| WACC Calculation | |
|-----------------------|--------------|
| perpetual growth rate | 2.0% |
| WACC | 8.8% |
| risk free rate (30Y) | 4.4% |
| equity risk premium | 5.5% |
| beta | 1.1 |
| KE | 10.7% |
| cost of debt | 1% |
| tax rate | 20% |
| KD | 1% |

Source: Banca Profilo estimates and Company data

DCF Equity valuation: We run the DCF model and end up with an Enterprise Value of €18.6m (vs previous €16m) and an Equity Value of €26.5m (vs previous €24m) or €4/share (vs previous €3.6). Main difference from our previous Company update derives from: i) higher cumulated FCFs (+9%); ii) higher Terminal Value FCF (+9%); iv) marginally higher WACC.

€26m

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, 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 9: Sample benchmarking on revenue growth and EBITDA margin

| Company | Currency | Market Cap (mln) | Enterprise Value (mln) | Sales growth | | | | | | | EBITDA margin | | | | | | | | |
|-----------------------------|----------|------------------|------------------------|--------------|--------------|-------------|--------------|--------------|---------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E |
| 19/04/2024 | | | | | | | | | | | | | | | | | | | |
| BRAIN | EUR | 62 | 87 | 22.6% | 24.8% | -0.5% | 7.6% | 23.7% | 11.7% | 12.3% | 13.1% | -16.7% | -7.3% | -9.1% | -4.2% | 0.1% | 1.6% | 6.2% | 13.8% |
| Croda | GBP | 6,809 | 7,355 | 1.0% | -0.7% | 0.9% | 35.9% | 10.6% | -18.9% | 2.0% | 6.4% | 26.5% | 28.8% | 27.9% | 29.0% | 26.8% | 24.2% | 22.6% | 24.8% |
| Symrise | EUR | 14,732 | 16,938 | 5.3% | 8.0% | 3.3% | 8.7% | 20.7% | 2.4% | 4.2% | 6.1% | 20.0% | 20.3% | 21.1% | 21.3% | 20.0% | 19.1% | 20.3% | 21.0% |
| Fermentalg | EUR | 32 | 37 | -46.6% | n.m. | 16.3% | 153.3% | 35.1% | -46.1% | 139.0% | 64.3% | -3002.0% | -501.9% | -306.3% | -103.6% | -76.3% | -190.2% | -69.4% | -27.3% |
| Plant Advanced Technologies | EUR | 11 | 17 | 37.5% | 9.1% | -4.7% | 83.1% | 0.0% | 30.4% | -13.3% | 53.8% | -218.2% | -91.7% | -47.8% | -37.0% | -34.8% | -26.7% | 0.0% | 17.5% |
| Novozymes | DKK | 160,433 | 173,203 | -1.0% | -0.1% | -2.5% | 6.7% | 17.4% | 2.0% | 63.5% | 6.3% | 35.8% | 36.7% | 35.1% | 36.3% | 34.6% | 40.9% | 33.1% | 34.2% |
| Codexis | USD | 199 | 140 | 21.1% | 13.0% | 0.9% | 51.7% | 32.3% | -49.4% | -3.5% | -9.0% | -3.8% | -10.8% | -31.8% | -18.6% | -13.3% | -68.5% | -52.3% | -67.4% |
| Yield10 Bioscience | USD | 4 | 5 | -38.2% | 45.0% | -0.9% | -23.2% | -26.7% | -86.7% | 3650.0% | 77.8% | -1508.0% | -1026.8% | -1175.5% | -1811.6% | -2930.7% | -22218.3% | -458.8% | -273.8% |
| Lonza Group | CH | 37,443 | 38,636 | 8.6% | 6.8% | 4.5% | -12.5% | 14.6% | 8.3% | -0.9% | 13.3% | 27.3% | 26.8% | 22.7% | 30.8% | 32.2% | 29.8% | 27.4% | 28.9% |
| Ashland | USA | 4,809 | 5,742 | 1.4% | -28.4% | -4.6% | 1.7% | -1.7% | -6.4% | 1.6% | 5.3% | 18.8% | 21.6% | 22.2% | 21.8% | 23.8% | 21.1% | 22.3% | 24.6% |
| OCI NV | NL | 5,237 | 9,528 | 56.3% | -2.6% | 1.8% | 95.2% | 64.0% | -48.5% | 4.8% | 5.2% | 26.6% | 22.8% | 24.0% | 40.1% | 24.2% | 29.0% | 29.2% | |
| Wacker Chemie AG | DE | 5,719 | 6,374 | 1.2% | -1.0% | -4.8% | 32.3% | 32.2% | -23.0% | -2.3% | 6.9% | 18.0% | 15.8% | 14.2% | 24.8% | 25.3% | 19.9% | 12.2% | 15.6% |
| Median best peers | | | | 21.1% | 18.9% | 0.9% | 51.7% | 23.7% | -46.1% | 12.3% | 53.8% | 27.3% | 22.8% | 22.7% | 29.0% | 26.8% | 24.2% | 22.6% | 24.8% |
| Arterra | ITA | 12.1 | 8.8 | 8.4% | 21.8% | 18.8% | 7.0% | 15.1% | -6.6% | 12.7% | 13.4% | 38.3% | 34.1% | 37.2% | 37.7% | 40.2% | 32.1% | 36.0% | 37.8% |

Source: Banca Profilo estimates and elaborations on Factset

EV/SALES: 2.9x up from 2.4x
EV/EBITDA: 13.5x up from 10.8x

Consistently with our sample split up, we use EV/SALES 2024E at 3.4x and 2025E at 2.5x, on average higher than our previous EV/SALES 2023E at 2.4x of the first sub-sample and EV/EBITDA 2024E at 14.4x and 2025E at 12.6x on average higher than EV/EBITDA 2023E at 10.8x we used in our previous research [Company Update on October, the 16th 2023]. Arterra trades 50% below the first sub-sample mean and 70% on the second sub-sample, despite better revenue performance and higher EBITDA margin compared to its peers' average.

Table 10: Market multiples

| Company | EV / Sales | | EV / EBITDA | |
|----------------------------------|-------------|-------------|--------------|--------------|
| | 2024E | 2025E | 2024E | 2025E |
| 19/04/2024 | | | | |
| BRAIN | 1.4x | 1.2x | 21.9x | 8.7x |
| Croda | 4.3x | 4.0x | 18.8x | 16.1x |
| Symrise | 3.4x | 3.2x | 16.9x | 15.4x |
| Fermentalg | 3.7x | 2.3x | n.m. | n.m. |
| Plant Advanced Technologies | 6.4x | 4.2x | n.m. | n.m. |
| Novozymes | 5.9x | 5.6x | 17.9x | 16.3x |
| Codexis | 2.1x | 2.3x | n.m. | n.m. |
| Yield10 Bioscience | 2.2x | 1.3x | n.m. | n.m. |
| Lonza Group | | | 21.2x | 17.7x |
| Ashland | | | 11.5x | 10.0x |
| OCI NV | | | 6.7x | 6.3x |
| Wacker Chemie AG | | | 8.1x | 6.1x |
| Mean best peers | 3.4x | 2.5x | 14.4x | 12.6x |
| Arterra | 1.6x | 1.4x | 4.4x | 3.7x |
| premium (discount) on best peers | -54% | -44% | -70% | -71% |

Source: Banca Profilo estimates and elaborations on Factset

Market multiples significant
erating in the past six
months

Over the past year, our Sample's market multiples have significantly rose in terms of EV/EBITDA 1Y-forward. Since our October report the EV/Sales 1y-forward has moved from 2.4x to 3.4x and EV/EBITDA 1Y-forward from 10.8x to 14.4x.

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



Source: Banca Profilo elaborations, Bloomberg

EV/SALES and EV/EBITDA used to
assess the market multiples
valuation of Arterra 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 lastly known sales 2022, leading to a value of €2.3mIn (vs previous €2.2). We end up with an Equity Value of €26mIn (vs previous €18)

Table 11: Market multiples valuation

| Valuation on market multiples (€ /000) | | | | | |
|--|---------------|---------------|---|---------------|---------------|
| Arterra on EV/SALES (business + growth) | 2024E | 2025E | Arterra on EV/EBITDA (margins + cash flow generation) | 2024E | 2025E |
| EV/Sales best peers | 3.4x | 2.5x | EV/EBITDA best peers | 14.4x | 12.6x |
| sales | 5,578 | 6,327 | EBITDA | 2,010 | 2,389 |
| net debt December 2023 | | | -5,672 | | |
| EV | 18,962 | 15,713 | EV | 29,008 | 30,018 |
| Equity Value | 24,633 | 21,385 | Equity Value | 34,680 | 35,689 |
| Average Equity Value | 23,009 | | | 35,185 | |

| Vitalab (@ 40%) on EV/SALES | 2024 |
|-----------------------------|--------------|
| EV/Sales | 3.4x |
| sales 2023E | 1,694 |
| net debt (adj) | |
| EV | 5,757 |
| Equity | 5,757 |
| (40% stake) | 2,303 |

| Arterra (including Vitalab @40%) | 2023E | Arterra (including Vitalab @40%) | 2023E |
|-------------------------------------|---------------|-------------------------------------|-------|
| liquidity discount | 15% | 15% | |
| | 21,515 | 31,864 | |

| Average 2022E EV/SALES - EV/EBITDA |
|------------------------------------|
| 26,690 |

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 in October, 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-multiples 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.

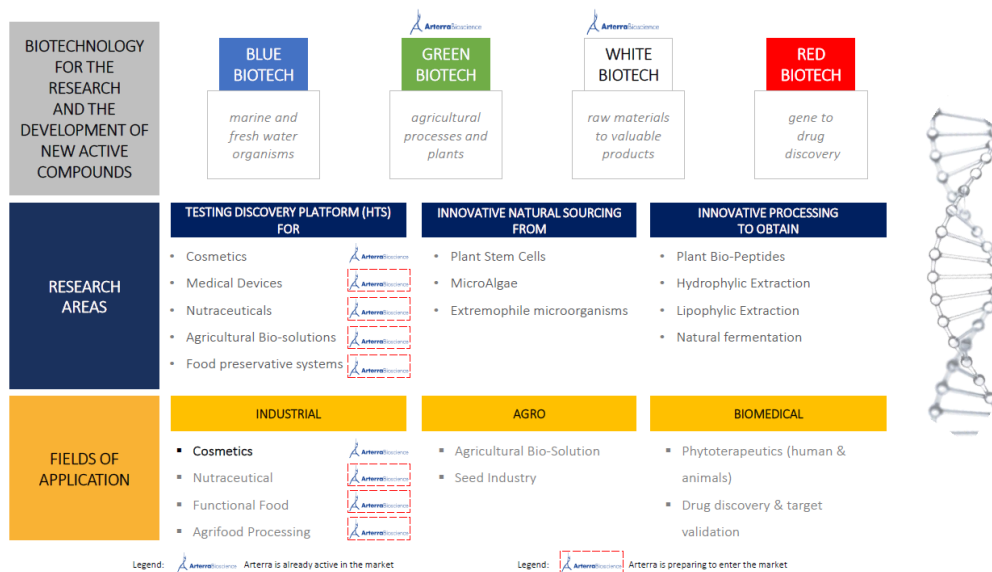
APPENDIX

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 15: 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 antioxidant 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

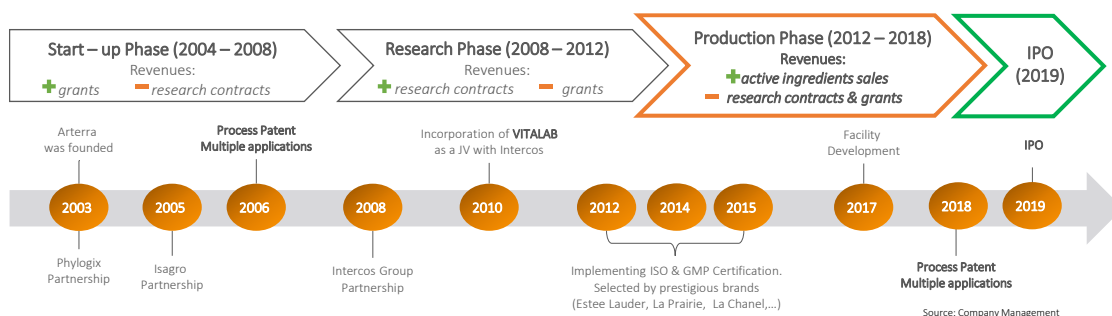
| | |
|---|--|
| <p>Founded in 2004 by Gabriella Colucci in Naples, as a spin-off of Arena Pharma Biology division (San Diego, USA). A key partner for bio innovation to various end-markets</p> | <p>Arterra Bioscience was founded in 2004 in Naples by Gabriella Colucci, an Italian Scientist who returned 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 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.</p> |
|---|--|

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 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 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, 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), a Cell & Molecular Biology Director (A. Tito) and a business developer (B. Cicatiello).

Figure 16: 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 come 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 17: 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 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. 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 18: 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 19: 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%,
- industrial shareholders, Isagro sold its 16.5% stake in April 2022, but it remained co-owner in ADL (Arterra with 6.81%; G.Basile with 34.63%), Intercos with 8.7%, partner in Cosmetics and co-owner in Vitalab;
- other shareholders, Gabriella Colucci’s brother Paolo Colucci with 7.5%;
- Zeus Capital with 5%;

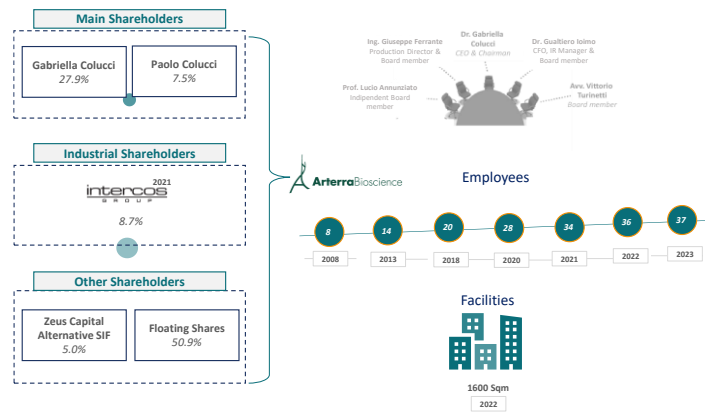
Floating shares are then 50.9% of the total.

Gabriella Colucci: Founder, Chairman 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

and CEO
 A rare mastermind
 leaving US and
 returning to Italy

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 20: 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 the 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.

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: second Sustainability Report in 2021

To best involve stakeholders and to communicate in an increasingly transparent way its ESG goals, Arterra published its Sustainability Report in 2021 in accordance with both GRI and SDGs standards.

Sustainability for Arterra

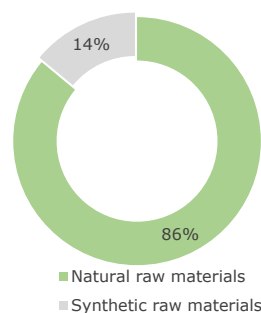
Arterra, a biological and molecular R&D company applied to cells of natural origin

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 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. 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 21: Raw materials breakdown between natural and synthetic ones



Source: Banca Profilo on Company data

Materiality assessment

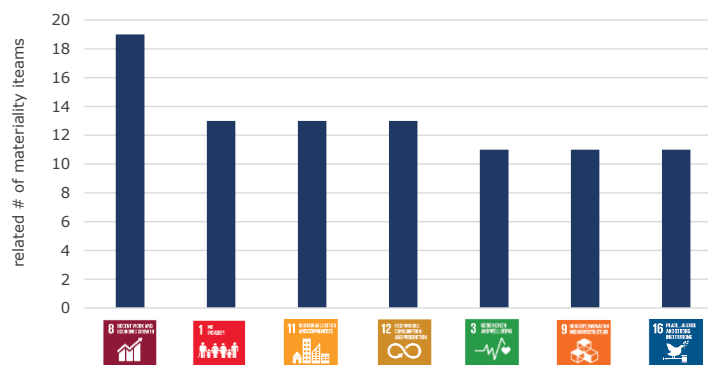
Arterra carried out a Materiality Assessment to identify priority sustainability disclosure items, set most relevant issues for the Company and its stakeholders, and finally to decide which issues should be included (and updated) in the Report.

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 22: Raw materials breakdown between natural and synthetic ones



Source: Banca Profilo on Company data



Arterra "ID Card"

Recommendation

BUY

Target Price

3.2 €

Upside

77%

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 hound 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

77%

Main Financials

| (€/000) | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total revenue | 4,308 | 4,608 | 5,303 | 4,951 | 5,578 | 6,327 | 7,206 |
| yoy change | 18.8% | 7.0% | 15.1% | -6.6% | 12.7% | 13.4% | 13.9% |
| EBITDA | 1,602 | 1,735 | 2,133 | 1,591 | 2,010 | 2,389 | 2,877 |
| EBITDA margin (%) | 37.2% | 37.7% | 40.2% | 32.1% | 36.0% | 37.8% | 39.9% |
| EBIT | 1,201 | 1,248 | 1,601 | 1,059 | 1,408 | 1,677 | 2,065 |
| EBIT margin (%) | 27.9% | 27.1% | 30.2% | 21.4% | 25.2% | 26.5% | 28.7% |
| Net income | 1,108 | 1,111 | 1,414 | 1,076 | 1,184 | 1,406 | 1,727 |
| Margin (%) | 25.7% | 24.1% | 26.7% | 21.7% | 21.2% | 22.2% | 24.0% |
| Adjusted net debt (cash) | (4,067) | (4,199) | (5,502) | (5,672) | (6,042) | (6,793) | (7,855) |
| Shareholders Equity | 8,181 | 9,473 | 10,467 | 10,752 | 11,429 | 12,278 | 13,343 |
| Net Operating Working Capital | 1,306 | 1,798 | 2,648 | 2,617 | 2,926 | 3,237 | 3,552 |
| Capex and acquisitions | 383 | 609 | 184 | 100 | 600 | 500 | 500 |
| Free Cash Flow | 507 | 385 | 779 | 1,311 | 819 | 1,243 | 1,649 |

Company Description

| | |
|------------------------|---|
| Company Sector | Health Care - Biotech |
| Price (€) | 1.8 |
| Number of shares (mln) | 6.7 |
| Market Cap (€ mln) | 12.0 |
| Reference Index | Euronext Growth |
| Main Shareholders | Gabriella Colucci, Intercos |
| Main Shareholder stake | 27.9% |
| Free Float | 49.5% |
| Daily Average Volumes | 15,434 |
| Sample of comparables | BRAIN, Croda, Symrise, Deinove, Evolva, Fermentaig, 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% | 57% | 60% | 64% |
| Nutraceutical/medical devices turnover | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Research contracts and services | 13% | 12% | 11% | 13% | 14% | 14% | 15% |
| Licences and royalties | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Research grants | 35% | 17% | 33% | 33% | 33% | 35% | 37% |
| Total revenue | 100.0% | 100.0% | 100.0% | 99.5% | 103.8% | 109.3% | 114.8% |

Data of peers

| | 2020 | 2021 | 2022 | 2023 | 2024E |
|----------------------|------------|------------|------------|------------|------------|
| Revenue Growth (yoy) | 0.9% | 52% | 24% | -46% | 12% |
| Arterra | 19% | 7% | 15% | -7% | 13% |
| EBITDA Margin | 23% | 29% | 29% | 24% | 23% |
| Arterra | 37% | 38% | 40% | 32% | 36% |

Average data

Solvability Ratios

| | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|
| Net debt (cash) / EBITDA | -2.5x | -2.4x | -2.6x | -3.6x | -3.0x | -2.8x | -2.7x |
| Net debt (cash) / Equity | -0.5x | -0.4x | -0.5x | -0.5x | -0.5x | -0.6x | -0.6x |

Multiples of peers

| | 2024E | 2025E |
|--|-------------|-------------|
| Best peers (business and potential growth) | | |
| EV / SALES | 3.4x | 2.5x |
| Arterra | 1.6x | 1.4x |
| Best peers (margins and cash flows) | | |
| EV / EBITDA | 14.4x | 12.6x |
| Arterra | 4.4x | 3.7x |

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% | 26% | 31% | 38% |
| ROE | 14% | 12% | 14% | 10% | 10% | 11% | 13% |
| Capex/Sales | 9% | 13% | 3% | 2% | 11% | 8% | 7% |
| D&A to capex | 105% | 80% | 290% | 532% | 100% | 142% | 162% |

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

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