

## ADL Bionatur

# BUY

Positive evidence mounts following 3Q19

Target Price: €3.20

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7am, 6th November 2019

- The operational performance of ADL Bionatur remains robust and in the right direction following the release of the 3Q19 operational results update. The numbers were in line with our expectations and on course to meet our 2019 estimates.
- The reported adjusted (excl. one time items) Ebitda was €1.6 million (-€2.3 million in 3Q18), lifted by a doubling of sales to €12.5 million (€6.1 million). The Ebitda margin stood at 13%.
- The underlying driver behind group growth continues to be the CMO division, with a tripling of sales to €9.9 million (€3.3 million in 3Q18).
- We expect CMO sales of €14 million in 4Q19 to reach our estimate of €40 million for the whole of 2019. The customer contracts and the necessary Capex are already in place for continued growth.
- The Pharma API's division held its ground in 3Q19 with an 8% sales increase to €1.6 million. We expect sales to accelerate significantly in 2020, due in part to the recent €13 million 5-year contract with a Japanese pharma company.
- The smaller R&D services and licensing division fell prey to seasonality and dropped 87% during the quarter to €115k. The accumulated 9M19 was up 22% to €1.4 million and on course to meet or exceed our 2019 estimates.
- **We look for a 48% upside in our 12 month target price of €3.20. We recently published (6th November 2019) a review of our forecasts for 2019 and 2020 and these quarterly results come to confirm our positive outlook.**

### Equities

### Spain Biotechnology

Price (4pm 14/11/19): €2.16

RIC: ADL.MC

**Target Price (12 months): €3.20**

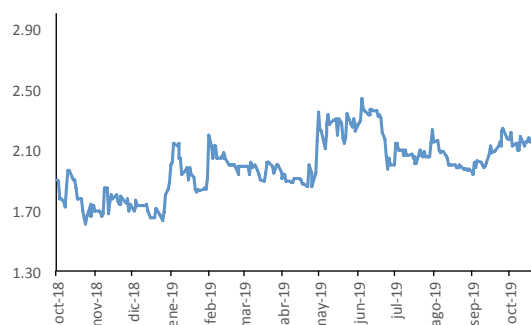
52 week range (€): 1.61 - 2.60

Mkt Cap (€ millions): 85.1

No. Shares (millions): 39.4

Avg Daily vol (€ LTM): 30,769

### Share Price Chart (LTM)



(€ millions)	2018e	2019f	2020f	2021f
<b>Sales</b>	25,3	49,7	72,0	83,8
<b>Ebitda</b>	-8,7	3,6	15,3	23,1
<b>Net Income</b>	-16,7	-6,5	4,0	11,5
<b>EPS (cents)</b>	-0,42	-0,16	0,10	0,29
<b>Net Debt</b>	41,7	63,7	68,1	69,4
<b>P/E (x)</b>	n.m.	-13,2	21,5	7,4
<b>EV/EBITDA (x)</b>	n.m.	41,9	10,0	6,7
<b>EV/Sales (x)</b>	5,0	3,0	2,1	1,8

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## Reported operational updates in 2019

Income & EBITDA by Business Areas						
€'000	Q3 2019	Q3 2018	Δ %	9M 2019	9M 2018	Δ %
Fermentation (CMO)	9,947	3,266	205%	25,960	8,792	195%
APIs (Pharma)	1,645	1,519	8%	3,538	3,233	9%
R&D and Licensing Services	119	924	-87%	1,362	1,113	22%
Other divisions	801	410	95%	2,325	1,484	57%
<b>Total Income</b>	<b>12,512</b>	<b>6,119</b>	<b>104%</b>	<b>33,185</b>	<b>14,622</b>	<b>127%</b>
Fermentation (CMO)	80%	53%		78%	60%	
Pharma	13%	25%		11%	22%	
R&D and Licensing Services	1%	15%		4%	8%	
Other divisions	6%	7%		7%	10%	
<b>Adjusted EBITDA</b>	<b>1,568</b>	<b>(2,243)</b>		<b>2,163</b>	<b>(8,212)</b>	

INCOME BY BUSINESS AREA				
€'000	1H 2019	1H 2018	Δ	Δ (%)
Fermentation	16,013	5,526	10,487	190 %
Pharma	1,893	1,714	179	10 %
R&D and Licensing Services	1,243	189	1,054	558 %
Other Income	1,524	1,074	450	42 %
<b>SUBTOTAL</b>	<b>20,673</b>	<b>8,503</b>	<b>12,170</b>	<b>143 %</b>
Work performed by the company	1,378	887	491	55 %
Imputation of grants	539	116	423	363 %
<b>TOTAL</b>	<b>22,590</b>	<b>9,506</b>	<b>13,084</b>	<b>138 %</b>

Business Areas	Q1 2019	Q1 2018	(%)
€'000			
<b>Total Income</b>	<b>9.968</b>	<b>4.259</b>	<b>134%</b>
CMO	8.015	2.859	180%
APIs	903	1.055	-14%
Others	1.050	344	205%
<i>CMO (%total)</i>	<i>80%</i>	<i>67%</i>	
<i>APIs (%total)</i>	<i>9%</i>	<i>25%</i>	
<i>Others (%total)</i>	<i>11%</i>	<i>8%</i>	
<b>EBITDA</b>	<b>114</b>	<b>(2.850)</b>	

<b>Profit and loss account (€ millions)</b>	<b>2018</b>	<b>2019e</b>	<b>2020f</b>	<b>2021f</b>
CMO	15,7	40,6	57,0	64,8
Proprietary Products	5,6	5,5	10,5	13,8
R&D Services	1,7	1,5	2,3	2,4
Other	2,3	2,1	2,2	2,7
<b>Revenues</b>	<b>25,3</b>	<b>49,7</b>	<b>72,0</b>	<b>83,8</b>
Cost of good sold	10,6	21,1	29,1	32,1
<b>Gross Profit</b>	<b>14,6</b>	<b>28,6</b>	<b>43,0</b>	<b>51,6</b>
<i>Gross Margin</i>	<i>58 %</i>	<i>58 %</i>	<i>60 %</i>	<i>62 %</i>
Capitalized R+D	1,9	3,0	3,1	3,2
Personnel costs	13,4	15,9	17,4	18,1
Other SG&A	11,9	12,1	13,3	13,7
Depreciation	2,7	4,1	5,2	5,5
<b>Operating profit</b>	<b>-11,4</b>	<b>-0,6</b>	<b>10,1</b>	<b>17,6</b>
<i>Operating Margin</i>	<i>-45 %</i>	<i>-1 %</i>	<i>14 %</i>	<i>21 %</i>
<b>Ebitda</b>	<b>-8,7</b>	<b>3,6</b>	<b>15,3</b>	<b>23,1</b>
<i>Margin</i>	<i>-34 %</i>	<i>7 %</i>	<i>21 %</i>	<i>28 %</i>
<b>Ebitda (ex-cap) *</b>	<b>-10,6</b>	<b>0,6</b>	<b>12,2</b>	<b>19,9</b>
<i>Margin</i>	<i>-42 %</i>	<i>1 %</i>	<i>17 %</i>	<i>24 %</i>
Extraordinaries	-3,5	-1,5	0,0	0,0
Financial income	0,0	0,1	0,2	0,1
Financial Expenses	1,9	4,4	6,3	6,2
<b>Income before tax</b>	<b>-16,8</b>	<b>-6,5</b>	<b>4,0</b>	<b>11,5</b>
Income tax	-0,1	0,0	0,0	0,0
<b>Net profit</b>	<b>-16,7</b>	<b>-6,5</b>	<b>4,0</b>	<b>11,5</b>

\* excludes capitalised R&D. Source: Checkpoint, ADL Bionatur

<b>Balance Sheet (€ millions)</b>	<b>2018</b>	<b>2019e</b>	<b>2020f</b>	<b>2021f</b>
<b>Fixed Assets</b>	<b>58,6</b>	<b>66,3</b>	<b>70,3</b>	<b>72,7</b>
Intangible assets	14,1	15,4	16,6	17,9
Tangible assets	37,4	45,2	48,9	50,9
Real Estate investments	1,1	1,1	1,1	1,1
Long term financial investments	1,3	1,3	1,3	1,3
Deferred taxation	4,8	3,4	2,4	1,6
<b>Current Assets</b>	<b>20,6</b>	<b>37,2</b>	<b>33,5</b>	<b>33,2</b>
Inventory	6,6	10,6	12,5	10,2
Commercial and other debtors	8,9	9,5	11,8	13,8
Short term financial investments	1,2	1,2	1,2	1,2
Cash	4,0	16,0	8,0	8,1
<b>Assets</b>	<b>79,2</b>	<b>103,5</b>	<b>103,8</b>	<b>106,0</b>
<b>Shareholders funds</b>	<b>21,2</b>	<b>14,7</b>	<b>17,7</b>	<b>19,0</b>
<b>Long term liabilities</b>	<b>38,2</b>	<b>60,7</b>	<b>55,1</b>	<b>56,0</b>
Long term financial debt	30,7	54,6	54,5	55,5
Long term debt (w/ related parties)	7,0	5,5	0,0	0,0
Deferred taxation	0,5	0,5	0,5	0,5
<b>Current liabilities</b>	<b>19,9</b>	<b>28,1</b>	<b>31,0</b>	<b>30,9</b>
Short term financial debt	8,8	20,3	22,4	22,8
Commercial and creditors	10,5	7,3	8,1	7,5
<b>Liabilities</b>	<b>79,2</b>	<b>103,5</b>	<b>103,8</b>	<b>106,0</b>

Source: Checkpoint, ADL Bionatur

### Sum of the parts valuation

Division	Unit	DCF (€)	Year	Target EV / Sales	Target EV / Ebitda	5 yr Sales Growth	Long term Sales Growth
<b>CMO</b>	N4	<b>125,6</b>	<b>2020</b>	2,3	13,6	36 %	<b>2 %</b>
			<b>2021</b>	2,1	8,4		
	N3	<b>10,0</b>	<b>2020</b>	3,9	-28,9	n.m.	<b>2 %</b>
			<b>2021</b>	2,6	17,8		
<b>Proprietary Products</b>		<b>24,2</b>	<b>2020</b>	2,3	18,5	27 %	<b>5 %</b>
			<b>2021</b>	1,8	12,3		
<b>R&amp;D Services</b>		<b>9,5</b>	<b>2020</b>	4,1	8,6	20 %	<b>4 %</b>
			<b>2021</b>	3,9	8,4		
<b>Other</b>		<b>13,2</b>	<b>2020</b>	6,1	12,6	17 %	<b>4 %</b>
			<b>2021</b>	4,8	8,8		
<b>Sum of Parts</b>		<b>182,5</b>	<b>2020</b>	<b>2,5</b>	<b>14,8</b>	<b>34 %</b>	<b>3 %</b>
			<b>2021</b>	<b>2,2</b>	<b>9,1</b>		

\* The Ebitda used in our sum of the parts valuation excludes R&D capitalisations and is therefore smaller than the reported accounting Ebitda.

Source: Checkpoint Partners

## Checkpoint Recommendation System

The Checkpoint Recommendation System is based on absolute returns, measured by the upside potential (including dividends and capital reimbursement) over a 12-month time horizon. Checkpoint recommendations (or ratings) for each stock comprises 3 categories: Buy (B), Neutral (N) and Sell (S).

- **Buy:** the stock is expected to generate total return of over 20% during the next 12 months time horizon
- 
- **Neutral:** the stock is expected to generate total return of -20% to +20% during the next 12 months time
- 
- **Sell:** the stock is expected to generate total return under -20% during the next 12 months time horizon.

Our rating system applies to companies with market capitalizations of near or below €50 million that in most cases refer to stocks that are illiquid and more volatile than its larger sized peers.

### History of recommendations

Date	Recommen.	Price (€)	Target P.(€)	Period	Analyst
11.2.2019	BUY	2.12	3.20	12 months	Guillermo Serrano
08.4.2019	BUY	2.16	3.20	12 months	Guillermo Serrano
6.11.2019	BUY	2,18	3.20	12 months	Guillermo Serrano
15.11.2019	BUY	2,16	3.20	12 months	Guillermo Serrano

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### Frequency of analyst reports

At present Checkpoint has committed to a quarterly update of ADL Bionatur financial and operational performance.

### Investment horizon

Our reports focus mainly on small capitalization and illiquid stocks where standard Venture Capital investment criteria should apply. An investment into a sub or near €50 million market capitalization stock, specially if it is illiquid, should be done on a 3-5 year time horizon in order to realize the full potential of the investment opportunity.

### Date of publication

7am, 15th November 2019

# CHECKPOINT