First steps towards end-markets diversification

ArterraBioscience

May, the 14th 2021 at 18:00

Corporate strategy well on track

Covid-19 outbreak was an opportunity for focusing on: i) increasing production capacity; ii) process optimization; iii) expanding and diversifying research activity to new end-markets; iv) organization strengthening. Significant investments were made in bio-farms, laboratories and equipment, COO and R&D Coordinator joined the Company.

Arterra enters Medical Devices and starts end-markets diversification

Arterra signed its first partnership in Medical Devices with ADL Farmaceutici for a 5-year production and licence of a mix of four active compounds against acne. This is only the beginning of further agreements with ADL, which is skilled and experienced in Nutraceutical. Moreover, the acquisition of Isagro by Croda might lead to opportunities for bio-solutions in Agriculture. Finally, Arterra's research is continuing in Agri-food with the aim to bring into the market natural preservatives for fresh food, as good substitutes to nitrates.

2020: production capacity increase and structure strengthening. Results above our estimates

In 2020, Arterra grew both in terms of turnover and marginality despite the emergency scenario, which limited travelling and thus business development. Cosmetic turnover (53% of total revenue), rose by 4% yoy to €2.8mln, whereas total revenue increased by 19% yoy to €4.3mln driven by research grants (35% of total revenue), above our projection at €3.6mln. EBITDA rose 30% yoy to €1.6mln, improving margin by 300bps to 37%, above our forecast at €904k and 25% respectively. EBITDA increased despite i) an increase in raw materials supply for fear of scarcity during pandemic; ii) an increase in production of active compounds which were temporarily stocked; iii) higher recourse to outsourcing; iv) raising labour costs, as the Company scaled up its research and production teams. Arterra's Balance Sheet remains extremely solid with room to stretch its financial structure. At the end of December 2020, adjusted net cash rose to €3.7mln (€3.4mln in 2019), in line with our expectations.

2021E-2023E: estimates upwards revision

Arterra's 2020 results showed its growth capacity even in an extremely tough scenario and great focus on production scale up and research diversification, beyond Cosmetics. These are key drivers from 2021 onward. Marginality is expected to improve faster than previously expected thanks to lower recourse to outsourcing and enhanced operating leverage obtained by doubling production and optimizing processes. Thus, we revised upward our 2021-2023 estimates mostly in terms of higher marginality and lower capex. We kept growth mostly unchanged but postponed Medical Devices substantial turnover to 2022. We now expect a 14% revenue 2020-2023 CAGR to €6.3mln (vs previous 16%) and a 14% EBITDA margin improvement to 51% in 2023 (vs 50%) with most improvement concentrated in 2021 (42% vs previous 35%). We then project cumulated Free Cash Flows of €3.7mln (or €1.2mln as yearly average) in 2021-2023, higher than our previous €3mln (or €1mln), mainly for lower Capex (€1.8mln vs previous €2.4mln), as the first phase of significant investments has been completed in 2020.

Main risk to our estimates remains Arterra's effective capacity to diversify into new end-markets, within the planned time to market, and to strongly grow in Cosmetics even beyond Intercos.

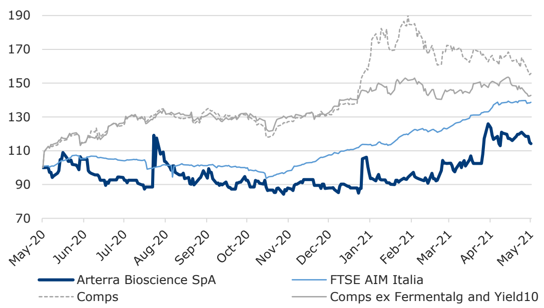
Valuation raised: 12-month target price at €5.2 from €4.3; BUY confirmed

We run a DCF approach on a Terminal Value FCF of €1.2mln and set a 7.1% WACC. The international competitive arena includes a suitable sample of listed comparable: we run a relative market multiples valuation on 2022E EV/SALES at 8x and EV/EBITDA at 15.5x. We raise our 12-month target price to €5.2/share. Given the potential upside on Arterra's price, we keep our BUY recommendation.

Target price	**from €4.3**	**to 5.2**
Recommendation	**from BUY**	**to BUY**
Price as of May, the 12th (€)		3.84
Number of shares (mln)		6.6
Market capitalization (€mln)		25.35
Performance from IPO		+48%
Max/min		4.95/1.97
Average daily volumes		23,289

(€/000)	**2019**	**2020**	**2021E**	**2022E**
Revenue	**3,627**	**4,309**	**4,533**	**5,247**
yoy change	*22%*	*1%*	*21%*	*23%*
EBITDA	**1,236**	**1,602**	**1,912**	**2,467**
margin (%)	*34%*	*37%*	*42%*	*47%*
Net income	**857**	**1,109**	**1,290**	**1,366**
margin (%)	*24%*	*26%*	*28%*	*26%*
Fixed assets	2,437	2,419	2,520	2,501
Net Working Capital	834	1,682	1,861	2,033
Adj (net cash)	**(3,439)**	**(3,727)**	**(5,077)**	**(6,290)**
Shld Equity	7,110	8,181	9,471	10,937
Capex	1,897	385	600	600
Free Cash Flow	**641**	**68**	**781**	**1,233**

Source: Banca Profilo estimates and elaborations, Company data.



Arterra: 1Y relative performance

Francesca Sabatini
Head of Equity Research
francesca.sabatini@bancaprofilo.it
+39 02 58408 461

Sales Desk
+39 02 58408 478

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Arterra in a nutshell: key investment drivers

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

Arterra Bioscience (hereinafter "Arterra" or the "Company") 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 potential multiple industrial applications, such in cosmetics, nutraceutical, agriculture and agri-food. By studying signal transduction mechanisms in plants, animals and human cells, Arterra uses its technological platforms to verify the existence of molecular activity in various type of natural resources (from plants, to microalgae to food by-product), which might have simultaneous industrial applications.

Arterra: ready to serve the most active sectors in the global trend to bio innovation and eco 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 within the same sector (from mass green to prestige luxury products, mostly in skincare).

Cosmetics is Arterra's core end-market: resilient high tech high marginality consistently growing industry

Among the most resilient, yet consistently growing and highly profitable market, 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 2019, the turnover coming from cosmetics (skincare) was higher than €2.2mln, representing 60% of Arterra's total revenue.
Cosmetics is one of the most profitable end-market: in skincare, from 1kg of active compounds it is possible to obtain from 200kgs (luxury, prestige skincare product) up to 1000kgs of finished goods (mass market, marketing-based skincare product).
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. In cosmetics Arterra owns some 50 active compounds

Covid-19: an opportunity to focus on science innovation mostly in medical devices

Covid-19 outbreak and related lockdown has been so far an opportunity for Arterra to focus on: i) scaling up production capacity; ii) optimizing production processes; iii) expanding and diversifying research activity to new end-markets; iv) organization strengthening. Significant investments were made in bio-farms, laboratories and equipment; a COO and an R&D Coordinator joined the Company.

Founded in 2004 by the Italian scientist Gabriella Colucci, a rare mastermind returned from San Diego to Naples

Arterra Bioscience was founded in 2004 in Naples by Gabriella Colucci, an Italian Scientist which returned to Italy after more than eight years in San Diego, including four years as Senior Research Scientist at Arena Pharmaceuticals (a listed company at NASDAQ), leading the Plant Biology Team. Arterra has started bio research for industrial applications more than 15 years ago, anticipating an urgent need, a mandatory and irreversible trend in many industries today.
Arterra is participated by Gabriella Colucci with 28.1%, Isagro (16.7%), Intercos (8.7%) Paolo Colucci (7.6%), Maarten Chrispeels (6.8%), Fabio Apone (2.7%), Arena Pharmaceuticals (2%) and Gualtiero Ioimo (1.9%). Free float is then 25.5%.

Key competitive advantage: a replicable and profitable business model

Arterra's business model is scalable and replicable: research and development in the biofactories are for either production and sales of active ingredients (through Intercoss and Vitalab) or for licencing to third parties of in-house developed Intellectual Property (IP) to be applied simultaneously to different end markets and positioning within them (cross sector, cross technology and from mass to luxury products). Arterra has set an extremely profitable research at manufacturing business model, where 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 that can be sold in a range of 4x to 10x the cost of raw materials. In the same way, from 1kg of agrifood 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.

Arterra: the most profitable within the listed peers

The competitive scenario comprises European and US listed biotech companies active in the research and development of natural substances for industrial green applications. Main difference between Arterra and its comparables lays in the profitability. Furthermore, Arterra has funded its research, investments and growth by research grants (at the beginning) with no additional funds or venture capital. Since its foundation, in 2004, Arterra has been showing positive EBITDA, whereas its peers show either negative marginality or much lower profitability. We selected a sample of listed peers which includes the German Brain and Deinove, the British Croda, the French Deinove, Fermentalg and Plant Advanced Techonogy, the Swiss Evolva, the Danish Novozymes and the US Codexis and Yield 10 Bioscience. Moreover, we added more mature and profitable specialty chemicals companies that have some operations in Natural Resources, such as Clariant, Evonik, Lonza and Ashland.

Arterra is very well on track to its strategic goals

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

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

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

- Research activity has been expanded attracting new specialized resources and hiring prof. V. Fogliano as Scientific Coordinator,
- Research activity has been diversified towards new end-markets applications, mostly nutraceutical and agri-food;
- Production has been doubled and processes optimized though significant plant and equipment investments and the hiring of a COO;
- Active ingredients and technological platforms have been applied to new end markets

Starting from 2H19 Arterra has been investing in production capacity and addressing research activity and business development to new end-markets, especially Nutraceutical and Agri-food. This brought to the first agreement in Medical Devices with ADL Farmaceutici for a 5-year production and licence of mix of four active compounds (named "ArterraBio Complex I") against skin acne. This is only the beginning of a potentially larger partnership with ADL, which is skilled and experienced in nutraceutical, that might lead to new active compounds, mostly linked to gastro protection. Moreover, the acquisition of Isagro by Croda might bring to opportunities in the researching of bio-solutions in agriculture.

Finally, Arterra's research is continuing in agri-food with the aim to bring into the market natural preservatives for fresh food (especially meat and fish) which might be good substitutes to nitrates. Further expansion (even nonorganic) has been postponed to 2022 due to the limited possibility to travel.

Main financial data (FY20) and our estimates (2021E-2023E)

2004-2020: Double digit revenue (>20%) and EBITDA (>30%) growth

Since its foundation, in 2004, Arterra has reported an average revenue growth above 20% (CAGR 2004-2020 at 23%) from €164k to €4.3mln, well above its main reference market, the global cosmetic industry, and its main international competitors. Revenue includes mainly turnover from the selling of active compounds (53% of total revenue in 2020), from research grants (35%) and research contracts (13%). During the same period EBITDA increased from €18k to €1.6mln with EBITDA margin improving from 11% in 2004 to 37% in 2020. Net income stood at €1.1mln in 2020.

2020: focus on production scale-up and optimization; first phase of investment plan completed

In 2020, during Covid-19 outbreak and consequent lockdowns, Arterra focused on: i) production capacity optimization and extension; opening new research lines. Arterra completed the first phase of the investment plan announced during its IPO (€1.5mln) mostly in new plants and equipment setting up a new chemical facility, new farms for plants cultures and a new microbiology laboratory. In 2020 the research activity has been mostly focused on nutraceutical and agri-food. Six patents were either registered or extended, seven scientific works were written, two new active ingredients were brought into the cosmetic market.

2020: revenue +19% yoy to €4.3mln; beating our forecast and highest growth vs peers

Arterra posted FY2020 results above our estimates and grew both in terms of turnover and marginality despite the complex and emergency scenario which limited travelling and thus business development. In fact, cosmetic turnover, coming from the selling of active compounds (53% of total revenue), rose by 4% yoy to €2.8mln, whereas total revenue increased by 19% yoy to €4.3mln driven by research grants (from 25% to 35% of total revenue), above our projection at €3.6mln. In 2020, research grants significantly rose, from €917k in 2019 to €1.5mln in 2020. These positive results in a very complex and uncertain scenario were also coming from the restarting of activities in China.

EBITDA improved by 300bps to 37%, above our estimates and the highest among peers

In 2020, EBITDA rose 30% yoy to €1.6mln, improving margin by 300bps to 37%, well above our forecast at €904k and 25% respectively. The increase in EBITDA has been reached despite i) an increase in raw materials supply for fear of scarcity during pandemic; ii) an increase in production of active compounds which have been temporarily stocked; iii) higher recourse to outsourcing and advisory, mainly for the IPO process; iv) raising labour costs for new hiring, as the Company scaled up its research and production teams.

Balance Sheet: room to stretch its financial structure

Arterra's Balance Sheet remains extremely stable and solid with room to stretch its financial structure. At the end of December 2020, adjusted net cash rose to €3.7mln, in line with our expectations and up from €3.4mln at the end of 2019.

We raised our 21-23 estimates mostly in terms of marginality driven by production scale up, processes optimization and less recourse to outsourcing

Arterra's 2020 results showed growth capacity even in an extremely tough scenario and great focus on production scale up and research diversification, beyond cosmetics. These are key drivers from 2021 onward. Marginality is expected to improve faster than previously expected thanks to lower recourse to outsourcing and enhanced operating leverage obtained by doubling production and optimizing processes.
Therefore, we revised upward our 2021-2023 estimates mostly in terms of higher marginality and lower capex. We kept growth mostly unchanged but postponed Medical Devices substantial turnover to 2022 as new agreement with ADL.

2020-2023E: 14% revenue CAGR (from 16%) to €6.3mln and 5% Nutraceutical contribution
1 year delay od significant contribution of new end-markets

Concerning total revenue, we now expect a 14% 2020-2023 CAGR from €4.3mln to €6.3mln (vs previous 16% and €6.8mln respectively), including a delay of significant contribution of Nutraceutical. In our previous estimates, Nutraceutical reached almost 10% of turnover in 2023; we now project a 5% contribution in 2023 at €300k and a 10% in 2024 at €600k. In terms of research grants, even if the assumption is unchanged of a lower weight on total revenue in the future, we increased it in 2021E-2023E (from 7% to 17% in 2023E) as we assume the Recovery Plan will keep financing Research.

Research grants still good contributors to total revenue

EBITDA margin at 51% in 2023E (from 50%) and at 42% already in 2021E (from 35%)

Cumulated FCFs 2021E-2023E raised to €3.7mln from €3mln

In 2020-2023E, we now expect a 14% EBITDA margin improvement to 51% in 2023, which compares to previous 13% and 50% respectively. EBITDA margin improvement is mostly concentrated in 2021 (42% vs previous 35%) as production has been doubled and process optimized to release more operating leverage and as outsourced production will be reduced.
Finally, we project cumulated Free Cash Flows of €3.7mln (or €1.2mln as yearly average) in 2021-2023, higher than our previous projection at €3mln (or €1mln), mainly for lower Capex (€1.8mln vs previous €2.4mln), as most of the planned significant investments have been completed in 2020.

Estimates execution risks

Main risk to our estimates remains Arterra’s effective capacity to diversify into new end-markets, within the planned time to market, and to strongly grow in cosmetics even beyond Intercos, through the commercial and distribution strength of Vitalab.

Valuation: DCF and market multiples approach

DCF approach well appraises a cash generating model

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

A suitable sample of international comparables add a valuable market multiples approach
EV/SALES 8x
EV/EBITDA 15.5x

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.
Consistently with our sample split up, we use EV/SALES 2022E at 8x of the first sub-sample (peers mainly on business and growth) and EV/EBITDA 2022E at 15.5x of the second sub-sample (peers mainly on profitability), but we apply those multiples to to our estimates of Arterra sales and EBITDA 2021. We excluded 2021E multiples as they show a significant rerating compared to our last Update with EV/SALES moving from 7x to 16x and EV/EBITDA from 15x to 17x.
We end up with an Equity Value of €36mln, higher than previous market multiple valuation (€29mln).

DCF assumptions:
Terminal Value FCF at €1.2mln
WACC 7.1%

We also run a DCF model assuming cumulated FCFs of €3.7mln for the explicit 2021E-2023E period (vs our previous estimate at €3mln) and the Terminal Value FCF of €1.2mln (vs previous €1.5mln). We use a WACC of 7.1% (unchanged) and a perpetual growth rate of 2% (unchanged). We end to an Equity Value of €32.3mln (vs previous €31mln) or €4.9mln/share (vs previous €4.7/share).

Valuation:
12-month TP raised to €5.2
BUY recommendation confirmed

Given higher DCF and market multiples valuation compared to our previous Company Update (November, the 5th 2020) we raise our 12-month target price to €5.2/share (vs previous €4.3/share) as we move away from the developing phase of Arterra’s business, the structuring phase of its management team and the set-up phase of its production scale-up, which have been completed. Our 12-month target price is the weighted average of DCF valuation (50%) and market multiples valuation (50%).
Given more than 30% upside on Arterra’s price (€3.84 as of May, the 12th), we confirm our BUY recommendation.

SWOT analysis

STRENGTHS	WEAKNESSES
• 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 participation in Vitalab • 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	• Small size of the business • End-markets concentration

OPPORTUNITY	THREATS
• Bioscience great momentum as product sustainability has become the key mission of many industries • Significant growth potential and resilience of main end-market, the cosmetic industry • Rich opportunities in Nutraceutical and Agri-food	• Effective end-markets diversification within the planned time frame • Potential difficulty in maintaining the independence from global multinational brands • Complexity of further production and distribution scale up to satisfy growing demand

Historical operating and financial performance

Main operating and financial data: production capacity increase and structure strengthening in 2020. Results above our estimates

2020: doubled production capacity New research fields

In 2020, during Covid-19 outbreak and consequent lockdowns, Arterra focused on: i) production capacity optimization and extension; opening new research lines. Arterra completed the investment plan announced during its IPO mostly in new plants and equipment setting up a new chemical facility, new farms for plants cultures and a new microbiology laboratory. In 2020 the research activity has been mostly focused on nutraceutical and agri-food. Six patents were either registered or extended, seven scientific works were written, two new active ingredients were brought into the cosmetic market.

FY20: +4% yoy cosmetic turnover; +19% yoy total revenue

Arterra posted FY2020 results above our estimates and grew both in terms of turnover and marginality despite the complex and emergency scenario which limited travelling and thus business development. In fact, cosmetic turnover, coming from the selling of active compounds (53% of total revenue), rose by 4% yoy to €2.8mln, whereas total revenue increased by 19% yoy to €4.3mln driven by research grants (from 25% to 35% of total revenue), above our projection at €3.6mln. In 2020, research grants significantly rose, from €917k in 2019 to €1.5mln in 2020. These positive results in a very complex and uncertain scenario were also coming from the restarting of activities in China.

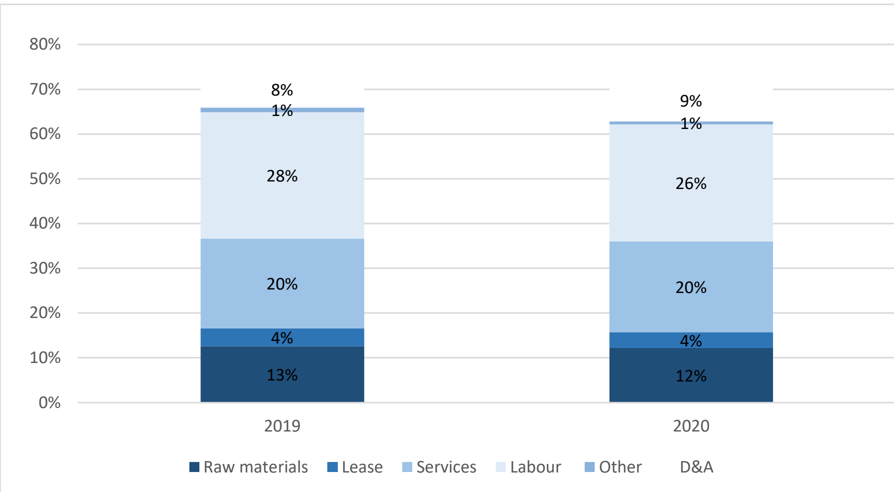
FY20: EBITDA margin up 300bps to 37% despite larger recourse to outsourcing and hiring

In 2020, EBITDA rose 30% yoy to €1.6mln, improving margin by 300bps to 37%, well above our forecast at €904k and 25% respectively. The increase in EBITDA has been reached despite i) an increase in raw materials supply for fear of scarcity during pandemic; ii) an increase in production of active compounds which have been temporarily stocked; iii) higher recourse to outsourcing and advisory, mainly for the IPO process; iv) raising labour costs for new hiring, as the Company scaled up its research and production teams.

Cost structure: >50% raw materials and services

Raw material costs basically consist of reagents functional to research, screening and production activities. Cost of services include the partially outsourced production, the cost of the CEO and different advisory fees linked to the IPO process. Their total weight on revenue slightly declined to 32% in 2020 from 33% a year earlier.

Figure 1: Cost incidence on total revenue in 2019 and 2020



Source: Banca Profilo elaborations on Company data

Cost structure: about 30% labour partially financed by research projects

Even labour cost slightly lowered its weight on total revenue to 26% from 28% in 2019. Total employees rose to 30 units, from 28 at the end of 2019. The entrance of the engineer Mr. Ferrante as Head of Production has significantly improved production performance and effectiveness and the quality of final products. Furthermore, prof. V. Fogliano joined Arterra as R&D Coordinator: he is the Director of Food Quality & Design Department at the University of Wageningen in Netherlands and one of the most influential scientists worldwide. Finally, Mr G.Ioimo became CFO and Investors Relations Manager.

Table 1: Profit & Loss 2017-2020

Profit & Loss					
€/000	**2017**	**2018**	**2019**	**2020E**	**2020**
Cosmetic turnover	1,503	1,868	2,167	2,358	2,281
Nutraceutical/medical devices turnover	0	0	0	0	0
Agriculture/Agri-food	0	0	0	0	0
Research contracts and services	551	559	542	546	541
Licences and royalties	0	0	0	0	0
Total turnover	**2,054**	**2,427**	**2,709**	**2,904**	**2,822**
yoy		*18%*	*12%*	*7%*	*4%*
cosmetic volumes (kg)	5,690	7,142	8,839	9,068	9,117
yoy	*90%*	*26%*	*24%*	*3%*	*3%*
avg cosmetic price (€/kg)	264	262	245	260	250
Research grants and stock changes	692	551	917	750	1,487
% on sales	*34%*	*23%*	*34%*	*26%*	*53%*
Total Revenue	**2,746**	**2,978**	**3,627**	**3,654**	**4,309**
yoy	*45%*	*8%*	*22%*	*1%*	*19%*
raw materials cost	(210)	(259)	(455)		(525)
cost of services	(466)	(533)	(726)	(1,354)	(873)
% on total revenue	*-25%*	*-27%*	*-33%*	*-37%*	*-32%*
cost of labour	(736)	(847)	(1,025)	(1,228)	(1,128)
% on total revenue	*-27%*	*-28%*	*-28%*	*-34%*	*-26%*
lease	(123)	(146)	(146)	(150)	(151)
other operating costs	(43)	(53)	(38)	(18)	(30)
EBITDA	**1,167**	**1,140**	**1,236**	**904**	**1,602**
margin	*43%*	*38%*	*34%*	*25%*	*37%*
# employees	n.a.	20	28	31	30
labor cost per unit		(42)	(37)	(40)	(38)
D&A	(143)	(73)	(296)	(525)	(400)
% on total revenue	*-5%*	*-2%*	*-8%*	*-14%*	*-9%*
EBIT	**1,024**	**1,067**	**940**	**379**	**1,201**
margin	*37%*	*36%*	*26%*	*10%*	*28%*
net financial income (expenses)	(7)	6	1	2	(2)
% on total revenue	*-0.2%*	*0.2%*	*0.0%*	*0.1%*	*0.0%*
EBT	**1,017**	**1,073**	**940**	**381**	**1,199**
margin	*37%*	*36%*	*26%*	*10%*	*28%*
taxes	(272)	(29)	(83)	(77)	(91)
tax rate	*-27%*	*-3%*	*-9%*	*-20%*	*-8%*
Net income	**745**	**1,044**	**857**	**304**	**1,109**
% on total revenue	*27%*	*35%*	*24%*	*8%*	*26%*

Source: Banca Profilo elaborations and estimates on Company data

Operating leverage (already extremely high) has been enhanced by production doubling and process optimization

Since bio farms are highly productive (from 1kg of plant stem cells to more than 5kgs of active compound or from 1kg of agri-food by-products Arterra's bio farms can typically develop about 10kgs of active ingredients) and profitable (compounds can be sold in a range of 4x to 10x, in the case of plant stem, and between 20x and 50x in the case of agri-food by-products), the EBITDA margin is rich.
Moreover, since between 60% and 80% of the labour cost (scientists and technicians)

is linked to single projects and thus partially financially supported by research contracts and projects, the value generation becomes even higher. In other terms, both the productivity and profitability of raw materials and the marginal need of human resources give Arterra's business model an extremely high operating leverage leading typically to a stronger increase of EBITDA than revenue growth.
Moreover, the increase and optimization of production sites and processes, which has been completed in 2020, will allow a much lower recourse to production outsourcing and will lead to further marginality improvement.

Despite significant capex started in 2H19 and related increasing D&A, EBIT rose 28% yoy to €1.1mln

EBIT rose 28% yoy to €1.21mln in 2020 from €940k in 2019 and margin from 26% to 28%, despite the increase in D&A from €296k to €400k (deriving from cumulated capex of €1.5mln in the past two years). Finally, Net income stood at €1.1mln or 26% margin, well above our estimates at €300k mostly due to a much lower than expected tax rate (20% vs 8% respectively) for higher tax credit on R&D and lower IRAP as Covi-19 support measure.

Table 2: Arterra Balance Sheet 2017-2020

Balance Sheet					
€/000	**2017**	**2018**	**2019**	**2020E**	**2020**
tangibles	185	567	1278	1,165	1400
intangibles	27	108	706	684	567
financials	462	452	452	452	452
Fixed assets	**675**	**1,127**	**2,437**	**2,301**	**2,419**
other current net receivables	131	177	452	678	535
receivables from grants	1,176	1,062	495	375	585
trade receivables	303	630	414	548	716
inventories	263	267	425	548	570
trade paybles	(161)	(257)	(500)	(474)	(188)
Net operating Working Capital	**1,582**	**1,702**	**834**	**997**	**1,682**
% on total revenue	*58%*	*57%*	*23%*	*27%*	*39%*
receivables from grants (% grants)	*170%*	*193%*	*54%*	*50%*	*39%*
trade receivables (% revenue)	*11%*	*21%*	*11%*	*15%*	*17%*
inventories (% revenue)	*10%*	*9%*	*12%*	*15%*	*13%*
trade paybles (% COGS)	*24%*	*32%*	*42%*	*35%*	*13%*
Capex	**50**	**536**	**1,897**	**390**	**385**
tangible	28	447	1143	307	345
intangibles	22	89	754	83	40
% on total revenue	*2%*	*18%*	*52%*	*11%*	*9%*
Provisions	**(629)**	**(630)**	**(504)**	**(504)**	**(522)**
Invested Capital	**1,757**	**2,375**	**3,218**	**3,472**	**4,115**
shareholders' equity	250	250	327	330	330
reserves	720	1,265	5,926	6,668	6,742
net income	745	1,044	857	304	1,109
Equity	**1,715**	**2,559**	**7,110**	**7,303**	**8,181**
Net debt (cash)	**42**	**(185)**	**(3,892)**	**(3,831)**	**(4,066)**
cash and cash equivalents	(249)	(738)	(4,669)		(4,536)
short term loans to equity participated	(340)	(340)	(225)		(340)
bank debt	630	893	1,002		809
leasing (IFRS 16)	389	309	228		
adj Net debt (cash)	**771**	**464**	**(3,439)**	**(3,831)**	**(3,727)**

Source: Banca Profilo elaborations on Company data

A solid and well-balanced financial structure: €3.7 mln net cash at the end of December

Arterra's Balance Sheet remains extremely stable and solid with room to stretch its financial structure. At the end of December 2020, adjusted net cash rose to €3.7mln, in line with our expectations and up from €3.4mln at the end of 2019. Adjusted net cash includes €2.4mln of fixed assets, €1.7mln of net working capital, €8.1mln of net equity and excludes the interest baring loan to Vitalab. The 2019 IPO proceeds have been only mostly used for scaling up production and optimize processes through new plants, software, and equipment, setting up a new chemical facility, new farms for plants cultures and a new microbiology laboratory. During 2020 operating Net Working Capital absorbed about €850k coming from: i) for stock piling due to Arterra's strategic increase in production and raw material supply, anticipating a potential scarcity during Covid-19 outbreak (inventories from 12% to 13% of total revenue); ii) a significant reduction of trade payables (from 42% to 13% of COGS); iii) an increase in grants receivables, despite their decline compared to grants (from 54% to 39%), as they are now accounted as a percentage of Research and Development expenses in the same year and not, as previously accounted, as a percentage of the three year average R&D expenses; and iii) an increase in trade receivables (from 11% to 17% of total revenue).

Table 3: Arterra Cash Flows 2017-2020

Cash Flows					
€/000	**2017**	**2018**	**2019**	**2020E**	**2020**
EBIT	1,024	1,067	940	379	1,201
tax (figurative)	(256)	(267)	(235)	(95)	(300)
D&A	143	73	296	525	400
change in Net Working Capital	(219)	(120)	868	(163)	(848)
capex	(50)	(536)	(1,153)	(390)	(385)
Free Cash Flow	**642**	**217**	**715**	**257**	**68**

Source: Banca Profilo elaborations on Company data

Free Cash Flow in 2020 at €70k for significant NWC absorption and capex

In 2020 Arterra generated some €70k Free Cash Flow, lower than €715k accounted in 2019 for higher absorption by Net Working Capital only marginally offset by the increase in EBIT, D&A and by lower Capex compared to 2019.

Strategy and estimates

Corporate strategies well on track: production doubled and first agreement in Medical Devices

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

Focus on investments in: resources and equipment to scale up production and research to be diversified towards evolving demand in nutraceutical and agri-food

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

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

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

- Research activity has been expanded attracting new specialized resources and hiring prof. V. Fogliano as Scientific Coordinator,
- Research activity has been diversified towards new end-markets applications, mostly nutraceutical and agri-food;
- Production has been doubled and processes optimized though significant plant and equipment investments and the hiring of a COO;
- Active ingredients and technological platforms have been applied to new end markets

First agreement in Medical Device for a mix of 4 active compounds against skin acne

More in details, during Covid-19 outbreak and related lockdown, Arterra had the opportunity for investing in production capacity and addressing research activity and business development to new end-markets, especially nutraceutical and agri-food. This brought to the first agreement in Medical Devices with ADL Farmaceutici for a 5-year production and licence of mix of four active compounds named "ArterraBio Complex I" against skin acne. This is only the beginning of a potentially larger partnership with ADL, which is skilled and experienced in nutraceutical, that might lead to new active compounds, mostly linked to gastro protection.
Moreover, the acquisition of Isagro by Croda might bring to opportunities in the researching of bio-solutions in agriculture.
Finally, Arterra's research is continuing in agri-food with the aim to bring into the market natural preservatives for fresh food (especially meat and fish) which might be good substitutes to nitrates.

Further expansion (even nonorganic) has been postponed to 2022 due to the limited possibility to travel.

Our estimates 2021E-2023E: an upward revision mostly on marginality

We raised our 21-23 estimates mostly in terms of marginality driven by production scale up, processes optimization and less recourse to outsourcing

Arterra's 2020 results showed growth capacity even in an extremely tough scenario and great focus on production scale up and research diversification, beyond cosmetics. These are key drivers from 2021 onward. Marginality is expected to improve faster than previously expected thanks to lower recourse to outsourcing and enhanced operating leverage obtained by doubling production and optimizing processes.

Therefore, we revised upward our 2021-2023 estimates mostly in terms of higher marginality and lower capex. We kept growth mostly unchanged but postponed Medical Devices substantial turnover to 2022 as new agreement with ADL.

2020-2023E: 14% revenue CAGR (from 16%) to €6.3mln

Concerning total revenue, we now expect a 14% 2020-2023 CAGR from €4.3mln to *and 5% Nutraceutical contribution*

1 year delay od significant contribution of new end-markets

Research grants still good contributors to total revenue

EBITDA margin at 51% in 2023E (from 50%) and at 42% already in 2021E (from 35%)

€6.3mln (vs previous 16% and €6.8mln respectively), including a delay of significant contribution of Nutraceutical. In our previous estimates, Nutraceutical reached almost 10% of turnover in 2023; we now project a 5% contribution in 2023 at €300k and a 10% in 2024 at €600k. In terms of research grants, even if the assumption is unchanged of a lower weight on total revenue in the future, we increased it in 2021E-2023E (from 7% to 17% in 2023E) as we assume the Recovery Plan will keep financing Research.

In 2020-2023E, we now expect a 14% EBITDA margin improvement to 51% in 2023, which compares to previous 13% and 50% respectively. EBITDA margin improvement is mostly concentrated in 2021 (42% vs previous 35%) as production has been doubled and process optimized to release more operating leverage and as outsourced production will be reduced.

Table 4: Arterra estimates revision 2021-2023

Profit & Loss							
€/000	2020	2021E old	2021E new	2022E old	2022E new	2023E old	2023E new
Cosmetic turnover	2,281	2,947	2,588	3,684	3,236	4,605	4,044
Nutraceutical/medical devices turnover	0	150	0	300	150	600	300
Agriculture/Agri-food	0	0	0	0	0	0	0
Research contracts and services	541	562	557	579	574	597	591
Licences and royalties	0	100	0	300	100	500	300
Total turnover	**2,822**	**3,760**	**3,146**	**4,863**	**4,060**	**6,302**	**5,236**
yoy	*4%*	*29%*	*11%*	*29%*	*29%*	*30%*	*29%*
cosmetic volumes (kg)	9,117	11,335	10,348	14,169	12,935	17,711	16,169
yoy	*3%*	*25%*	*14%*	*25%*	*25%*	*25%*	*25%*
avg cosmetic price (€/kg)	250	260	250	260	250	260	250
Research grants and stock changes	1,487	650	1,387	550	1,187	500	1,087
% on sales	*53%*	*17%*	*44%*	*11%*	*29%*	*8%*	*21%*
Total Revenue	**4,309**	**4,410**	**4,533**	**5,413**	**5,247**	**6,802**	**6,323**
yoy	*19%*	*21%*	*5%*	*23%*	*16%*	*26%*	*21%*
raw materials cost	(525)						
cost of services	(873)	(1,370)	(1,199)	(1,411)	(1,283)	(1,704)	(1,546)
% on total revenue	*-32%*	*-31%*	*-26%*	*-26%*	*-24%*	*-25%*	*-24%*
cost of labour	(1,128)	(1,347)	(1,240)	(1,426)	(1,315)	(1,505)	(1,391)
% on total revenue	*-26%*	*-31%*	*-27%*	*-26%*	*-25%*	*-22%*	*-22%*
lease	(151)	(150)	(151)	(150)	(151)	(150)	(151)
other operating costs	(30)	(18)	(30)	(18)	(30)	(18)	(30)
EBITDA	**1,602**	**1,525**	**1,912**	**2,409**	**2,467**	**3,424**	**3,205**
margin	*37%*	*35%*	*42%*	*44%*	*47%*	*50%*	*51%*
# employees	30	34	33	36	35	38	37
labor cost per unit	(38)	(40)	(38)	(40)	(38)	(40)	(38)
D&A	(400)	(644)	(499)	(804)	(619)	(964)	(739)
% on total revenue	*-9%*	*-15%*	*-11%*	*-15%*	*-12%*	*-14%*	*-12%*
EBIT	**1,201**	**882**	**1,414**	**1,605**	**1,848**	**2,460**	**2,466**
margin	*28%*	*20%*	*31%*	*30%*	*35%*	*36%*	*39%*
net financial income (expenses)	(2)	11	13	14	16	18	21
% on total revenue	*0.0%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*
EBT	**1,199**	**893**	**1,427**	**1,619**	**1,865**	**2,478**	**2,487**
margin	*28%*	*20%*	*31%*	*30%*	*36%*	*36%*	*39%*
taxes	(91)	(88)	(136)	(433)	(498)	(663)	(665)
tax rate	*-8%*	*-10%*	*-10%*	*-27%*	*-27%*	*-27%*	*-27%*
Net income	**1,109**	**805**	**1,290**	**1,186**	**1,366**	**1,816**	**1,822**
% on total revenue	*26%*	*18%*	*28%*	*22%*	*26%*	*27%*	*29%*

Source: Banca Profilo elaborations and estimates on Company data

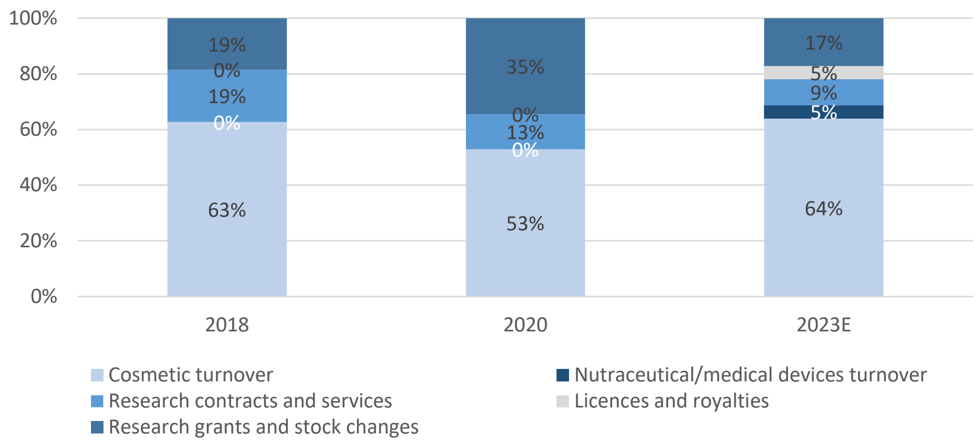
Cumulated FCFs 2021E-2023E raised to €3.7mln from €3mln

Finally, we project cumulated Free Cash Flows of €3.7mln (or €1.2mln as yearly average) in 2021-2023, higher than our previous projection at €3mln (or €1mln), mainly for lower Capex (€1.8mln vs previous €2.4mln), as most of the planned significant investments have been completed in 2020.

2023E revenue to €6.3mln of which: cosmetics 64% nutraceutical 5% royalties from IPs at €300k research grants below 20% of total turnover

We expect Arterra to grow its selling volumes in cosmetics to Intercos and to Vitalab to reach global multinational brands in skincare; we estimate cosmetics turnover to move from 53% in 2020 to 64% of total revenue in 2023. Given the emergency scenario and as Arterra just entered Medical Devices, we delayed the goal of reaching €600k in 2024 or 9% of total revenue (we now expect €300k or 5% of total revenue in 2023E). For the same reasons we postponed the selling of IPs to 2022 with a goal by royalties at €500k in 2024 or 6% of total revenue (we now expect €300k or 5% in 2023). Furthermore, we confirm our previous projection of research contracts to finance bio innovation with a target just below €600k in 2023 or 9% of total revenue. As the turnover from the selling of active compounds, royalties and research contracts increases, we estimate a lower incidence of research grants, which we see at €1mln in 2023 or 17% of total revenue, from €1.5mln in 2020 or 35% of total revenue. Consequently, we project a 14% revenue 2020-2023E CAGR for the Company to over €6.3mln in 2023. Selling volumes of active compounds are seen above 16,000 kgs in 2023E (vs previous 17,700) from 9,117 kgs in 2020.

Figure 2: Arterra revenue trend by type 2018, 2020 and 2023E



Source: Banca Profilo elaborations and estimates on Company data

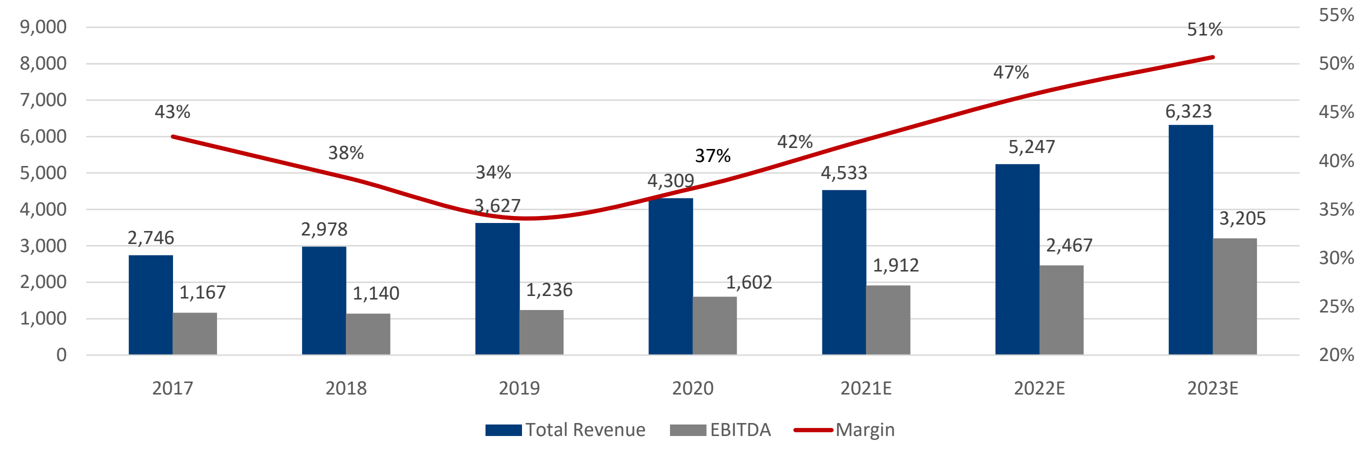
In 2021, we estimate total revenue +5% yoy cosmetics at 57%

More in details, in 2021 we estimate €4.5mln of total revenue (+5% yoy), which includes €2.6mln of cosmetic turnover (10,300 kgs of cosmetics selling volumes at an average price of €250/kg, vs our previous projection at respectively 11,300kgs and €260/kg), €557k of research contracts turnover (unchanged) and €1.4mln of research grants (and stock changes), up from our previous estimate at €650k as we assume the Recovery Plan will continue to finance Research.

We expect 26% CAGR 2020-2023E in EBITDA to €3.2mln; EBITDA margin to improve to 51% thanks to stronger operating leverage

In 2020-2023E, we expect Arterra to increase its EBITDA from €1.6mln to €3.2mln (CAGR 26% vs previous €3.4mln and 29% respectively) and EBITDA margin to improve from 37% to 51%. In the period, we lowered raw materials and services at an average of 25% of total revenue (32% in 2020) for a limited recourse to production outsourcing; we increased the number of employees from 30 in 2020 to 37 in 2023, including new scientists and technicians, with labour cost to reduce its weight on total revenue from 26% in 2020 to 22% in 2023.

Figure 3: Revenue, EBITDA and margin 2017-2023E



Source: Banca Profilo elaborations and estimates on Company data

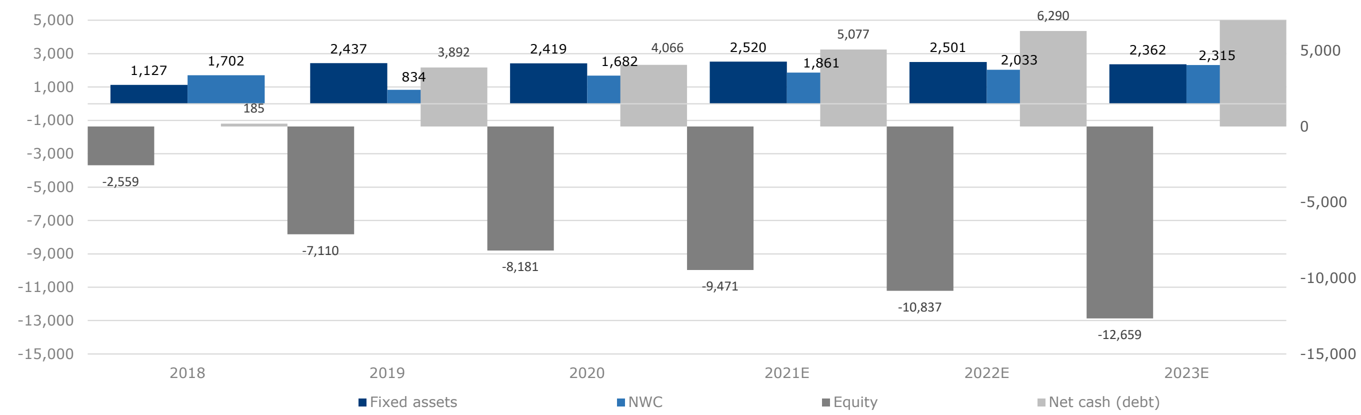
D&A is seen increasing in line with capex

Over 2020-2023E, we estimate increasing D&A from €400k to €739k (vs our previous projection just below €1mln, for reduced Capex) and an incidence on total revenue from 9% to 12% for continuing investing in bio-factories.

Tax rate still low for both fiscal credit and tax incentives

Finally, we confirm Arterra will be able to reach a net income above €1.8mln in 2023, including a reduced tax rate at 10% in 2021 given the fiscal credit and assuming persisting tax incentives for supporting a post-Covid recovery.

Figure 4: Balance Sheet evolution 2018-2023E



Source: Banca Profilo elaborations and estimates on Company data

Balance Sheet projections: cumulated capex reduced to €1.8mln as the first round of investments is completed and cash shield is needed in a highly complex scenario

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

- €1.8mln cumulated capex in three years, reduced from previous €2.4mln as a significant first phase of investments has been already concluded and a conservative cash shield is needed in a complex and still highly uncertain scenario;
- €630k of operating working capital cash absorption in three years, marginally lower than our previous estimate (€677k).

Consequently, adjusted net cash is seen rising from €3.7mln at the end of 2020 to just below €8mln at the end of 2023 (vs €7mln in our previous expectation mainly for lower capex).

Table 5: Arterra Balance Sheet evolution 2020-2023E

Balance Sheet							
€/000	2020	2021E old	2021E new	2022E old	2022E new	2023E old	2023E new
tangibles	1400	1,350	1501	1,407	1505	1,336	1414
intangibles	567	655	567	594	543	502	495
financials	452	452	452	452	452	452	452
Fixed assets	**2,419**	**2,457**	**2,520**	**2,453**	**2,501**	**2,289**	**2,362**
other current net receivables	535	678	535	678	535	678	535
receivables from grants	585	299	546	253	467	230	428
trade receivables	716	661	923	812	1,068	1,020	1,287
inventories	570	661	599	812	694	1,020	836
trade paybles	(188)	(479)	(207)	(494)	(196)	(597)	(236)
Net operating Working Capital	**1,682**	**1,143**	**1,861**	**1,383**	**2,033**	**1,674**	**2,315**
% on total revenue	*39%*	*26%*	*41%*	*26%*	*39%*	*25%*	*37%*
receivables from grants (% grants)	*39%*	*46%*	*39%*	*46%*	*39%*	*46%*	*39%*
trade receivables (% revenue)	*17%*	*15%*	*20%*	*15%*	*20%*	*15%*	*20%*
inventories (% revenue)	*13%*	*15%*	*13%*	*15%*	*13%*	*15%*	*13%*
trade paybles (% COGS)	*13%*	*35%*	*17%*	*35%*	*15%*	*35%*	*15%*
Capex	**385**	**800**	**600**	**800**	**600**	**800**	**600**
tangible	345	700	500	700	500	700	500
intangibles	40	100	100	100	100	100	100
% on total revenue	*9%*	*18%*	*13%*	*15%*	*11%*	*12%*	*9%*
Provisions	**(522)**	**(504)**	**(522)**	**(630)**	**(522)**	**(630)**	**(522)**
Invested Capital	**4,115**	**3,773**	**4,394**	**3,884**	**4,547**	**4,011**	**4,690**
shareholders' equity	330	330	330	330	330	330	330
reserves	6,742	6,973	7,851	7,777	9,141	8,963	10,507
net income	1,109	805	1,290	1,186	1,366	1,816	1,822
Equity	**8,181**	**8,107**	**9,471**	**9,293**	**10,837**	**11,109**	**12,659**
Net debt (cash)	**(4,066)**	**(4,334)**	**(5,077)**	**(5,409)**	**(6,290)**	**(7,098)**	**(7,969)**
cash and cash equivalents	(4,536)						
short term loans to equity participated	(340)						
bank debt	809						
leasing (IFRS 16)							
adj Net debt (cash)	**(3,727)**	**(4,334)**	**(5,077)**	**(5,409)**	**(6,290)**	**(7,098)**	**(7,969)**

Source: Banca Profilo elaborations and estimates on Company data

Free Cash Flows €3.7mln in three years Including €1.8mln normalized capex

In terms of cash flow generation, we now project €3.7mln of cumulated Free Cash Flows in 2021E-2023E, some €700k above our previous estimate, as we reduced Capex.
We confirm no dividend distribution, assuming the Company's policy is to retain most of its net profit for growth.

Main risks to our estimates

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

The recruiting process of new managers has started

> €1.5mln capex in

In line with the Use of Proceeds declared during the IPO process, Arterra has expanded the Research & Production team, hiring a Chief Operating Officer, with solid experience in key industrial groups and manufacturing sectors, to manage production growth. He has already improved production productivity, effectiveness and quality.
Concerning the scaling up of research activity and production, more than €1.5mln

physical space, research and production equipment

investments have been done since the 2H19, mostly in plants and equipment to enhance research activity including a tool to allow for “ex vivo” testing on human tissues for developing active compounds not only in cosmetics but also in medical devices.

Furthermore, Arterrra chose an historical member of the Scientific Advisory Board, professor Vincenzo Fogliano, as the Company R&D coordinator.

Table 6: Arterra Free Cash Flows evolution 2020-2023E

Cash Flows *€/000*	2020	2021E old	2021E new	2022E old	2022E new	2023E old	2023E new
EBIT	1,201	882	1,414	1,605	1,848	2,460	2,466
tax (figurative)	(300)	(220)	(353)	(401)	(462)	(615)	(617)
D&A	400	644	499	804	619	964	739
change in Net Working Capital	(848)	(145)	(178)	(241)	(172)	(291)	(282)
capex	(385)	(800)	(600)	(800)	(600)	(800)	(600)
Free Cash Flow	**68**	**360**	**781**	**967**	**1,233**	**1,718**	**1,707**

Source: Banca Profilo elaborations and estimates on Company data

Valuation

DCF approach well appraises the cash generating business

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

Market multiples approach can also be used

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

DCF valuation

DCF assumptions:

€3.7mln of cumulated FCFs

€1.2mln as Terminal Value cash flow

To run a DCF model, we use our projected FCFs for the 2021E-23E explicit period: cumulated FCFs for over €3.7mln (vs previous €3mln) or about €1.2mln (vs previous €1mln) as yearly average in 2021E-2023E.
In order to assess the Terminal Value, we factor in:

- an annual FCF generation of €1.2mln (vs €1.5mln in our previous Company Update), corresponding to the average FCF in 2021E-2023E;
- perpetual growth rate of 2% (unchanged).

In order to get to the Equity Valuation we would consider the adjusted net cash at the end of December 2020 (€3.7mln vs €3.1mln at the end of June 2020 in our previous Company Update).

Table 7: DCF valuation

DCF Valuation	2021E	2022E	2023E	over
Free Cash Flows (€/000)	**781**	**1,233**	**1,707**	**1,240**
years	1	2	3	3
discount factor	0.93	0.87	0.81	0.81
NPV Cash flows (€/000)	729	1074	1,388	
Sum of NPVs (€/000)				3,190
Terminal Value (€/000)				24,118
NPV Terminal Value (€/000)				19,610
Enterprise Value (€/000)				**22,800**
pheriferal assets: Vitalab (@40%)				**5,737**
Net debt 2020 (€/000)				-3,727
Equity Value (€/000)				**32,264**
number of shares (mln)				6.6
Per share value (€)				**4.9**

Source: Banca Profilo estimates and elaborations

7.1% WACC confirmed

We confirm WACC at 7.1% which includes:

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

Table 8: WACC calculation

WACC Calculation	
perpetual growth rate	2.0%
WACC	**7.1%**
risk free rate (30Y)	3.0%
equity risk premium	5.5%
beta	1.0
KE	**8.7%**
costo del debito	1%
tax rate	25%
KD	**1%**

Source: Banca Profilo estimates and elaborations

DCF valuation: Equity €32.3mln or €4.9/share

We run the DCF model and end up with and Enterprise Value of €28.5mln (vs previous €27.9mln) and, therefore an Equity Value of €32.3mln (vs previous €31mln) or €4.9/share (vs previous €4.7/share).

Arterra competitive arena: strategic positioning and competitive advantages

European and US listed biotech companies

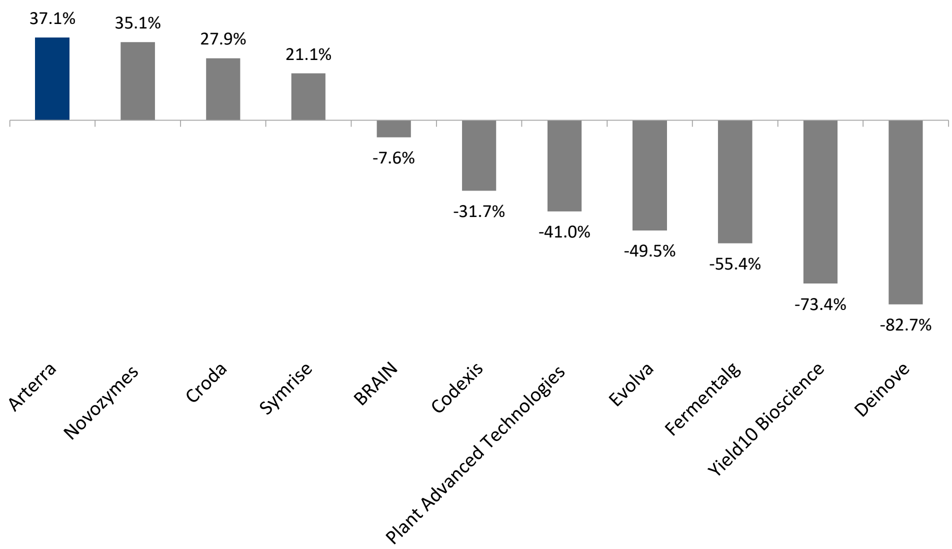
The competitive scenario comprises European and US listed biotech companies active in the research and development of natural substances for industrial green applications.

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

In 2020 Arterra showed the highest EBITDA margin among peers

Main difference between Arterra and its comparables is profitability. Furthermore, Arterra has funded its research, investments and growth by research grants (at the beginning) with no additional either funds or venture capital needed.
Since its foundation, in 2004, Arterra has been showing positive EBITDA, whereas its peers show either negative marginality or much lower profitability than Arterra. We set a sample of listed peers which includes the German Brain and Deinove, the British Croda, the French Deinove, Fermentalg and Plant Advanced Techonogy, the Swiss Evolva, the Danish Novozymes and the US Codexis and Yield 10 Bioscience. Moreover, we added more mature specialty chemicals companies that have little operations in Natural Resources, such as Clariant, Evonik, Lonza and Ashland.
In 2020, Arterra reported 37% EBITDA margin, highest among peers' sample.

Figure 5: Main international listed players in the Industry – EBITDA margin in 2020



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

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

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

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

Croda International Plc, is an English holding of a group of companies that develop specialty chemicals, including oleochemicals (derived from natural oils) and industrial chemicals. Its main end markets are: Consumer Care (35%), including personal care (natural ingredients for hair, skin especially anti-aging, sun care), life science (health care and agriculture with ingredients and formulation to pharma and nutritional markets such as dermatology and animal health and to agrochemical companies);

Performance Technologies (34%), to which it delivers high-added value additives such as lubricants for the automotive and industrial sectors, coatings and polymers serving oil and gas, water treatment, packaging sector and home care ingredients serving households product manufacturers; Industrial Chemicals (11%) including process additives (fatty acids, glycerin...) to textiles and other Industrials such as Engineering and Automotive. It is mostly exposed in Western Europe (40%), North America and Asia Pacific.

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

Symrise AG, is a German developer of fragrance bases, perfume oils, cosmetic raw materials and active ingredients, plant extracts, aroma chemicals, flavorings, fruit powders and seasonings, mostly based on natural raw materials. It addresses mainly to: cosmetics, personal care, household care, food&beverage and pharmaceuticals. Half of its sales come from Europe.

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

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

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

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

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

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

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

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

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

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

Codexis (USA)
USD 69mln turnover
USD -22mln 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 pharmaceutical and fine chemicals industries. It has a research agreement with Shell (half of Codexis' sales) to develop new ways of converting biomass into biofuel. It is also working to use its technology to manage carbon emissions from coal-fired power and treat wastewater. Some of its biocatalysts and enzymes are used to produce cholesterol-fighting drugs, allergy drugs and antidepressants. Americas represent almost 60% of Codexis' sales.

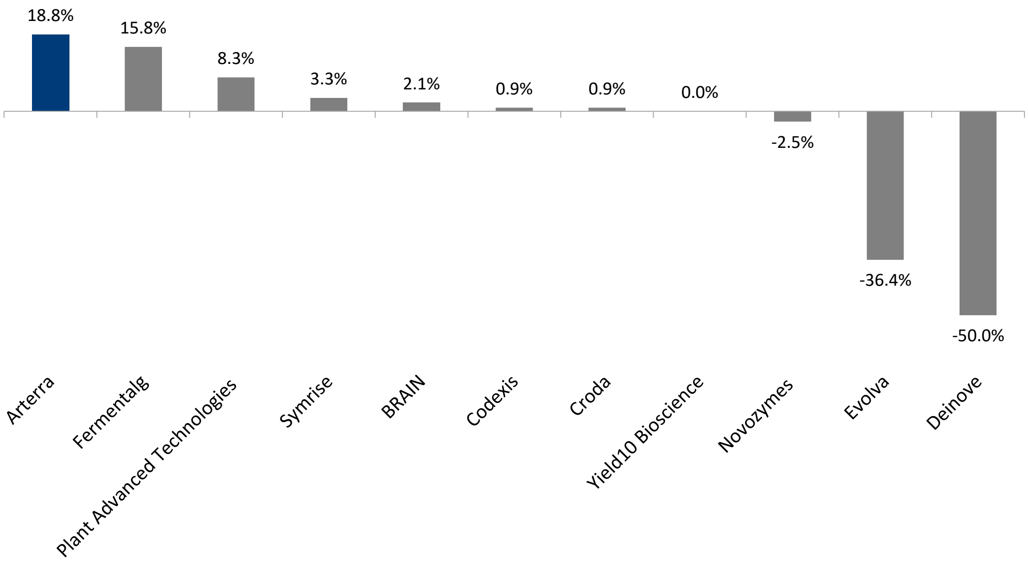
Yield10 Bioscience
USD 800k turnover
USD -9.4mln EBITDA

Yield10 Bioscience Inc. is an American agricultural bioscience company which focuses on the development of disruptive plan biotechnologies to improve crop productivity and seed yield and enhance global food security. The goal is to improve fundamental elements of plant metabolism through enhanced photosynthetic efficiency and directed carbon utilization. Most of its treatments are applied to canola, soybean and corn to increase tolerance to drought, flooding and heat and thus raise their food productivity.

In 2020 Arterra showed the highest revenue growth among peers

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

Figure 6: Main international listed players in the Industry – yoy growth in 2019



Source: Banca Profilo elaborations on Company data, Factset
Sales growth over 100% have has been divided in order to make a graphic representation of the competitive arena

Relative market multiples valuation

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

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

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

Table 9: Sample benchmarking on revenue growth and EBITDA margin

Company	Currency	Market Cap (mln)	Enterprise Value (mln)	Sales growth					EBITDA margin				
12/05/2021				**2018**	**2019**	**2020**	**2021E**	**2022E**	**2018**	**2019**	**2020**	**2021E**	**2021E**
BRAIN	EUR	197	215	*22.6%*	*24.8%*	*2.1%*	*11.5%*	*15.8%*	*-16.7%*	*-7.3%*	*-7.5%*	*0.6%*	*6.3%*
Croda	GBP	9,055	9,825	*1.0%*	*-0.7%*	*0.9%*	*20.5%*	*5.0%*	*28.5%*	*28.8%*	*27.9%*	*28.7%*	*29.8%*
Symrise	EUR	14,139	15,485	*5.3%*	*8.0%*	*3.3%*	*5.1%*	*5.9%*	*20.0%*	*20.3%*	*21.1%*	*21.5%*	*21.5%*
Evolva	CHF	171	160	*30.9%*	*32.3%*	*-36.1%*	*97.5%*	*78.2%*	*-260.4%*	*-103.4%*	*-222.5%*	*-101.9%*	*-21.2%*
Fermentalg	EUR	90	100	*-46.6%*	*n.m.*	*16.3%*	*131.8%*	*111.0%*	*-3002.0%*	*-501.9%*	*-306.3%*	*-132.9%*	*-45.4%*
Plant Advanced Technologies	EUR	25	29	*37.5%*	*9.1%*	*4.7%*	*35.4%*	*123.5%*	*-218.2%*	*-183.3%*	*-63.7%*	*-141.2%*	*0.0%*
Novozymes	DKK	100,798	104,158	*-1.0%*	*-0.1%*	*-2.5%*	*4.2%*	*4.0%*	*35.8%*	*36.7%*	*35.1%*	*35.5%*	*35.8%*
Codexis	USD	1,147	1,030	*21.1%*	*13.0%*	*0.9%*	*20.6%*	*20.6%*	*-3.8%*	*-10.8%*	*-31.8%*	*-43.4%*	*-47.1%*
Yield10 Bioscience	USD	39	32	*-38.2%*	*45.0%*	*-0.9%*	*31.4%*	*201.0%*	*-1508.0%*	*-1026.8%*	*-1175.5%*	*-997.4%*	*-352.4%*
Clariant	CH	6,466	7,880	*3.9%*	*-33.6%*	*-12.3%*	*3.7%*	*5.0%*	*15.4%*	*16.8%*	*16.0%*	*16.9%*	*17.4%*
Evonik Industries	DE	13,775	16,722	*4.2%*	*-12.8%*	*-6.9%*	*8.1%*	*3.6%*	*17.3%*	*16.4%*	*15.6%*	*17.3%*	*17.7%*
Lonza Group	CH	41,583	44,687	*8.6%*	*6.8%*	*4.5%*	*-19.2%*	*11.0%*	*27.3%*	*26.8%*	*22.7%*	*31.8%*	*32.8%*
Ashland	USA	5,115	6,540	*1.4%*	*-28.4%*	*-4.0%*	*n.a.*	*n.a.*	*18.8%*	*21.6%*	*23.0%*	*n.a.*	*n.a.*
Median best peers				***21.9%***	***24.8%***	***1.5%***	***33.4%***	***94.6%***	***20.0%***	***21.6%***	***22.7%***	***25.1%***	***25.6%***
Arterra	***ITA***	***25.3***	***21.6***	***8.4%***	***21.8%***	***18.8%***	***5.2%***	***15.7%***	***38.3%***	***34.1%***	***37.2%***	***42.2%***	***47.0%***

Source: Banca Profilo estimates and elaborations on Factset

EV/SALES: 8x
EV/EBITDA: 15.5x

Consistently with our sample split up, we decided to use EV/SALES 2022E at 8x of the first sub-sample and EV/EBITDA 2022E at 15.5x and not the same multiples 2021E for their significant rerating since our last Update with EV/SALES 2021E moving from 7x to 16x and EV/EBITDA 2021E from 15x to 17x. However, we apply the mean multiple to our estimates of Arterra sales and EBITDA in 2021. Arterra currently trades 40% below the first sub-sample mean and some 30% discount on the second sub-sample, despite its revenue growth and EBITDA margin were the highest among peers in 2020.

Table 10: Market multiples

Company	EV / Sales		EV / EBITDA	
12/05/2021	**2021E**	**2022E**	**2021E**	**2022E**
BRAIN	4.9x	4.2x	n.m.	n.m.
Croda	5.9x	5.6x	20.5x	18.8x
Symrise	4.2x	4.0x	19.5x	18.4x
Evolva	10.7x	6.0x	n.m.	n.m.
Fermentalg	19.7x	9.3x	n.m.	n.m.
Plant Advanced Technologies	17.2x	7.7x	n.m.	n.m.
Novozymes	7.1x	6.9x	20.1x	19.1x
Codexis	12.4x	10.2x	n.m.	n.m.
Yield10 Bioscience	30.9x	10.3x	n.m.	n.m.
Clariant	n.m.		11.7x	10.8x
Evonik Industries			7.3x	6.9x
Lonza Group			28.1x	24.6x
Ashland			10.7x	9.7x
Mean best peers	**16.0x**	**8.0x**	**16.8x**	**15.5x**
Arterra	**5.0x**	**4.8x**	**13.5x**	**11.3x**
premium (discount) on best peers	*-69%*	*-40%*	*-20%*	*-27%*

Source: Banca Profilo estimates and elaborations, Factset

Market multiples valuation: €36mln vs previous €29mln

We end up with an Equity Value of €36mln, higher than previous market multiple valuation (€29mln).

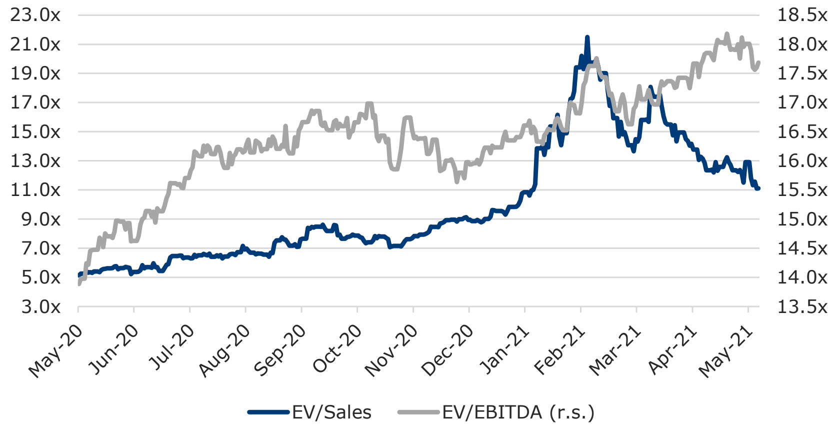
Table 11: Market multiples valuation

Valuation on market multiples (€/000)			
Arterra on EV/SALES (business + growth)	**2022E**	**Arterra on EV/EBITDA (margins + cash flow generation)**	**2022E**
EV/Sales best peers	**8.0x**	**EV/EBITDA best peers**	**15.5x**
sales 2021E	4,533	EBITDA 2021E	1,912
net debt 2020	-3,727	net debt 2020	-3,727
EV	36,119	EV	29,564
Equity	**39,846**	**Equity**	**33,290**
Vitalab (@ 40%) on EV/SALES	**2020**	**Vitalab (@ 40%) on EV/SALES**	
EV/Sales	8.0x		
sales	1,800		
net debt (adj)			
EV	14,343		
Equity	14,343		
(40% stake)	**5,737**		**5,737**
Arterra (including Vitalab @40%)	**2022E**	**Arterra (including Vitalab @40%)**	**2022E**
liquidity discount	*15%*		*15%*
	38,746		**33,173**
Average 2022E EV/SALES - EV/EBITDA			
35,959			

Source: Banca Profilo estimates and elaborations, Factset

Market multiples valuation includes a 15% liquidity discount and an Equity valuation of Vitalab (at 40% stake) on the same mean EV/SALES 2022 (8x) on its sales in 2020 €1.8mln), leading to a value of €5.7mln.

Figure 7: Market multiples rerating (one year analysis)



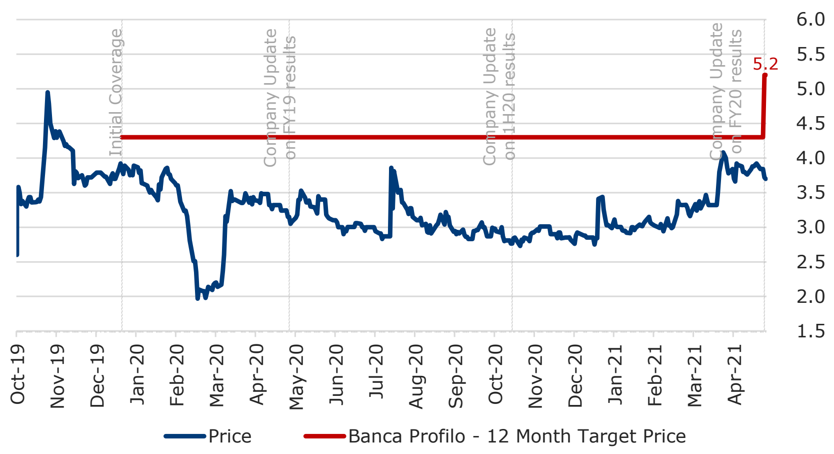
Source: Banca Profilo elaborations, Bloomberg

Valuation:
12-month TP raised to €5.2

BUY confirmed

Given higher DCF and market multiples valuation compared to our previous Company Update (November, the 5th 2020) we raise our 12-month target price to €5.2/share (vs previous €4.3/share) as we move away from the developing phase of Arterra's business, the structuring phase of its management team and the set-up phase of its production scale-up, which have been completed. Our 12-month target price is the weighted average of DCF valuation (50%) and market multiples valuation (20%).
Given more than 30% upside on Arterra's price (€3.84 as of May, the 12th), we confirm our BUY recommendation.

Figure 8: Target Price vs stock price since IPO



Source: Banca Profilo elaborations, Bloomberg

APPENDIX

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

Product environmental sustainability has become the mission of any industry

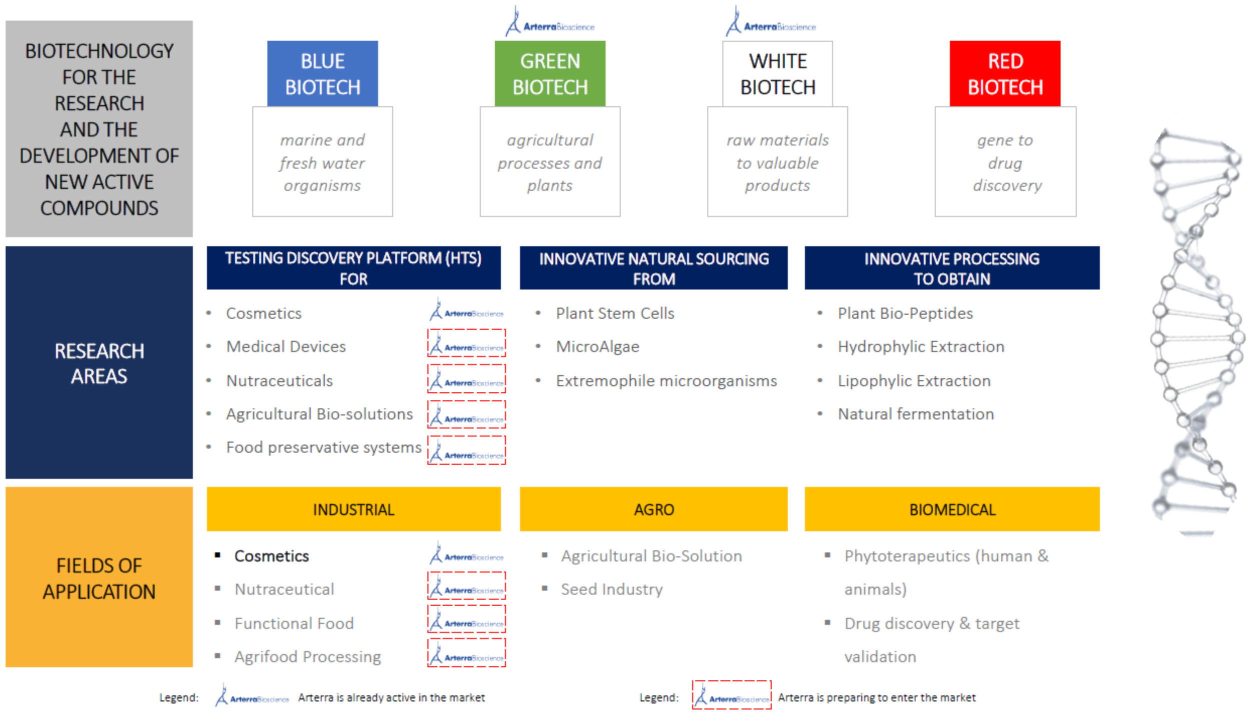
Biotechnology is living a great momentum to find solutions to green products

Nature contains a treasure trove of ingredients that can improve health, wellness and nutrition. Plants, animals and human cells that make these ingredients are often too rare, too hard to grow or do not reproduce enough of the ingredients by themselves to allow sustainable sourcing at the right quality and price. The plant kingdom is recognized as one of the most diverse and abundant sources of potentially active compounds.
Bioscience studies and screens to discover active molecules in nature and Biotechnology finds methods to make them reproduce in order to become an enough sustainable resource for specific applications.

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

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

Figure 9: 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 uses also algae and microalgae in the Blue Biotech, whereas from Red Biotech it acquires all data and information on genetics and drug discovery and uses them for potential innovation and discovery addressable to other needing sectors. Arterra's main areas of activity are: technological screening platforms; plants and cellular farming to brew or modify

in order to obtain rich molecules; process innovation mostly in the extraction phases.
Arterra's bio factories and biomass production have applications in various fields simultaneously: the Company's core and current end market is the cosmetics, whereas new and potential sectors are nutraceuticals, functional food and agri-food processing.

Arterra: ready to serve the most active sectors in the global trend to sustainability.
Ongoin research projects on rich biomolecules for application in:
Medical devices
Nutraceutical
Agriculture
Agrifood

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

The most active market is Cosmetics, Arterra's core end-market, followed by Parmaceutical, Nutraceutical, Agriculture and Agrifood.
The Pharmaceutical industry is investing in researching new applications using natural ingredients which are easier to be absorbed by the organism. Arterra has several ongoing research projects to find ways to add natural ingredients in the recipes of different medical devices (as any product that acts physically and mechanically, not biologically), mostly treatments addressed to the gastrointestinal, respiratory and nervous systems.
The Nutraceutical industry is experiencing a growing demand of food supplements to add to one's diet, when lacking some key nutrients. Arterra is developing methods to enhance quality and concentration of natural ingredients to be added to food supplements based on solid research, effective screening and robust tests.
The Agriculture industry is shifting gradually 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 biosolutions for pest control, for protecting the plants from climate stress, for quality improvement. Isagro is one of the most important players in the Industry and has a 22% stake in Arterra; it is a partner to which Arterra will potentially licence out its Intellectual Property on biostimulants.
In the Agrifood industry there is a strong and increasing interest for natural food preservatives and additives as the attention of the consumers on both the production and conservation of food has been significantly increasing. Main players have begun investing in biological molecules that can act as natural preservatives or coloring. Arterra is working on various active ingredients acting as antioxidant to be used for natural preservation of fresh food.

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

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

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

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

Covid-19 hitting the most resilient market especially in the make-up segment

Covid-19 emergency and lockdown has been challenging the ever-resilient Cosmetics industry, which had been growing more than 4% in 2010-2017 and was expected to reach 5% growth in 2015-2020E with active ingredients projected to reach €3bn in 2020 from €2.4bn in 2015. The most hit segment, withing Cosmetics is make up.

Covid-19 has put greater focus on scientific research

However, Covid-19 emergency and lockdown has put greater focus on scientific research. Big multinational players in various sectors are looking for scientific innovation and need the solid experience of a biotech company such as Arterra. Furthermore, whatever the direction the final demand takes in a scenario of global change of customers' perceptions and lifestyle, Arterra will promptly respond since its active compounds are able to serve from the luxury to the mass market. Therefore, Arterra confirms its strategy in terms of scientific innovation, sectors diversification and production scale-up.

Arterra overview and business model

Company overview and activities

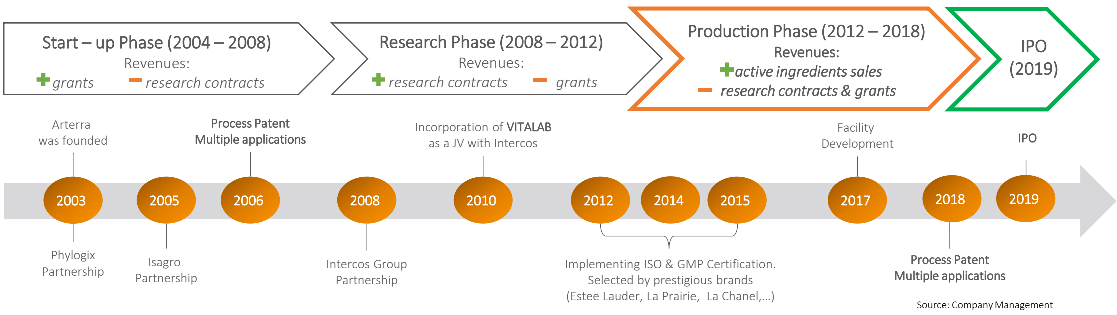
Founded in 2004 by Gabriella Colucci in Naples, as a spin-off of Arena Pharma Biology division (San Diego, USA). A key partner for bio innovation to various end-markets.

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

From a small research group to a profitable biotech company. New active ingredients sale at 60% of turnover in 2019

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

Figure 10: from a research group to a profitable biotech company



Source: Company data

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

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

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

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

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

Figure 11: Arterra's reach of global brands in cosmetics

Source: Company data

Key partnerships: Isagro and Intercos

In Agriculture, Arterra has been selected by Isagro, which invested directly a 22% stake in the Company in 2005. Isagro has become the right channel for the licencing of Arterra's patented technology in Agrochemical. However, so far no significant bio-solutions have been applied to Agriculture. In 2020 Isagro was acquired by Croda; this might bring new opportunities in the field.

In Cosmetics, Arterra has been selected by Intercos as its research partner and preferred supplier of innovative active ingredients to be applied especially in skincare. According to their agreement, Arterra has a research contract with Vitalab worth more than €500k to develop three active ingredients every year; in the first year Intercos has the exclusive right to use the active ingredient in its products; starting from the second year the active compound is commercialized through Vitalab.

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

Intercos and Arterra founded the commercial joint venture, Vitalab, with the purpose to distribute Arterra's active compounds into the global cosmetic market. Arterra owns 25% of Vitalab with a call option up to 40%, whereas Intercos owns the remaining 75%. According to their agreement, Arterra's ingredients for cosmetics products are sold through either Intercos or Vitalab, which interact directly with global brands. Thanks to this agreement, Arterra can reach multinational global and prestige brands, make-up and skincare brands having a mass to private labelled to luxury positioning thanks to multiple and democratic applications of Arterra's valuable molecules. Thanks to this agreement, Arterra is able to sit next to the Head of Research of the most prestigious brands worldwide; this opens the possibility of extending the relationship and find needs and solutions for other industrial applications within the same multinational groups. As on now, Arterra core end-market is cosmetics and with €2.2mln turnover in 2019, skincare accounted 60% of total sales. Intercos' contribution to this turnover was over 80%.

Figure 12: Arterra key partnerships and distribution agreements

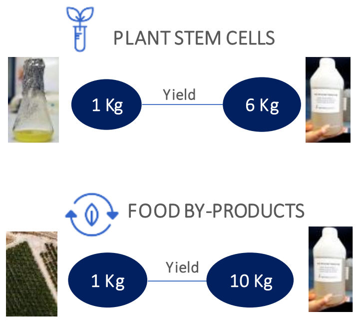
Source: Company data

A scalable and profitable business model

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

Arterra's business model is scalable and replicable: R&D activity is for either production and sales of active ingredients (through Intercoss and Vitalab) or for licensing to third parties of in-house developed Intellectual Property (IP) to be applied simultaneously to different end markets and positioning within them (cross sector, cross technology and from mass to luxury products). Applications vary from the anti-age compounds in cosmetics, to natural pesticides in agriculture to natural preservatives in fresh food to a bio gastrointestinal defender. The business model is profitable as biomass production to get innovative active ingredients is a very low-cost process. Bio-factories allow for outstanding yields with relatively limited expenses and investments. Typically, from 1kg of plant stem cells, Arterra's bio farms produce more than 5kgs of active compound, via cells reproduction, that can be sold in a range of 4x to 10x the cost of raw materials. In the same way, from 1kg of agri-food by-products Arterra's bio farms can typically develop about 10kgs of active ingredients that can be sold between 20x and 50x the cost of raw materials. In 2019, sold volumes in cosmetics were more than 8,800 kgs (+24% yoy) at an average price of €245; raw materials had 10% incidence on total revenue.

Figure 13: Profitable and scalable business model (p17)



Source: Company data

In addition, the distribution phase of the value chain and the reach of global brands, mainly in cosmetics, is set on a win-win partnership with Intercos and through an equity participation (together with Intercos) in the commercial joint venture Vitalab. No investment in sales force is made with the focus on research and tech scientists.

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

Listed on the AIM on October 28th at €2.6

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

€6.6mln shares

The Company is owned by:

- executive shareholders, the founder Gabriella Colucci with 28.1%, Fabio Apone, PhD in Cell Biology and Scientific Director in Arena with 2.7% and by the Company's CFO and Investors Relator Gualtiero Ioimo with 1.9%;
- industrial shareholders, the Italian listed company Isagro with 16.7%, the partner in Cosmetics Intercos with 8.7% and the US listed (NASDAQ) company Arena with 1.9%;
- other shareholders, Gabriella Colucci's brother Paolo Colucci with 7.6% and Professor Martin Chrispeels (an expert of plant biology, Professor at UCSD and member of the National Academy Society) with 6.8%.

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

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

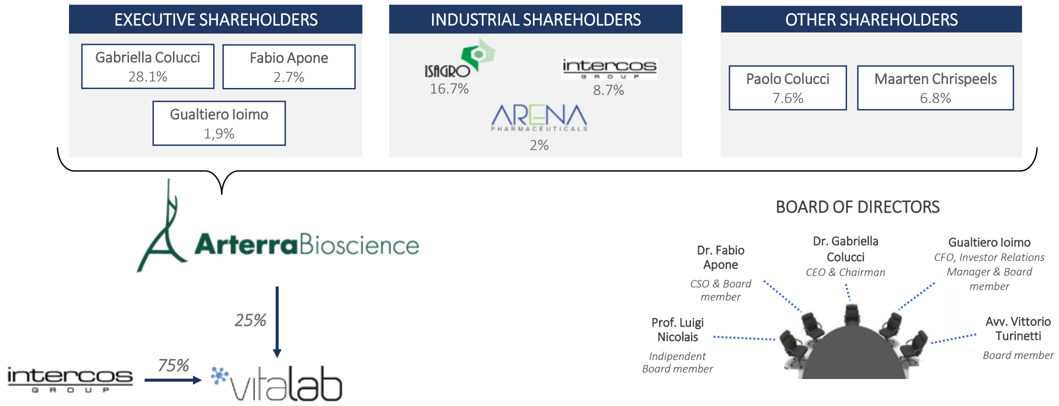
Paolo Colucci

Paolo Colucci, brother of Gabriella, founder of the LCA firm in 2004 and Freshfields Italian offices in 1996.

Gualtiero Ioimo: CFO and Investors Relator

Gualtiero Ioimo has been Arterra's business consultant since 1993. He is chartered accountant and auditor since 1995. In 2020 he became CFO and Investors Relator of Arterra.

Figure 14: Arterra shareholders and board members



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

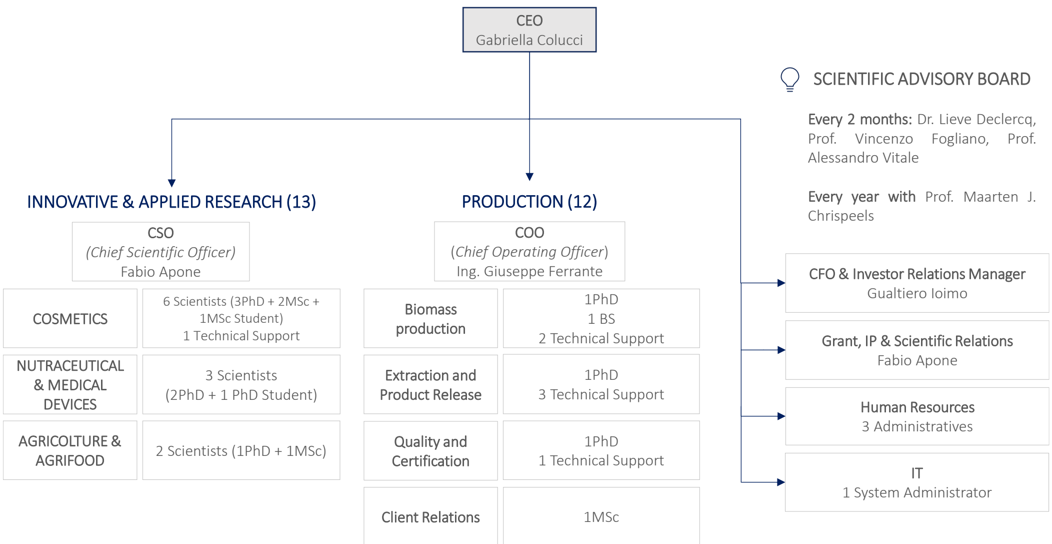
The Board of Directors

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

Key partnerships: Isagro, Intercos and Vitalab

In 2005, Isagro acquired a 22% of Arterrra and they started a partnership for research-based bio innovation in agriculture. In 2008, Arterra signed an agreement with Intercos and became its biotech research arm in cosmetics. Arterra develops 3 active compounds every year in either skincare or make up. The active ingredients are bought by Intercos that has the exclusive use for the first year; thereafter, the same ingredients is distributed globally through the joint venture Vitalab. In 2010, Intercos and Arterra set up a joint venture, Vitalab, to sell active ingredients mainly to global and prestige brands in skincare. The joint venture is 25% owned by Arterra (with an option to go up to 40% and with the right to receive 40% of Vitalab's distributed income) and the remaining by Intercos. In 2019, through the IPO process, Intercos became a shareholder in Arterra.

Figure 15: Arterra organization



Source: Banca Profilo elaborations on Company data

An outstanding R&D and highly qualified Tech Team

The process of hiring for managing research and production growth and business development has started

Gabriella Colucci set up an outstanding R&D and highly qualified technology team supported by a Scientific Advisory Board. Fabio Apone is the Chief Scientific Officer. Among 28 employees (including 3 stageurs), there are 9 PhDs, 4 with a Master of Science and the remaining with either a bachelor's degree in Science or a Tech Diploma. The Scientific Advisory Board meets every two months and includes Dr. L.Declerq, Prof. Vincenzo Fogliano, Prof. Alessandro Vitale. Every year Professor Maarten Chrispeels joins the Scientific Advisory Board. In line with the guidance given during the IPO process, during 2019 Arterra has expanded the Research & Production team and it is in an advanced phase for hiring a Business Developer. It hired a Chief Operating Officer, with solid experience in key industrial groups and manufacturing sectors, to manage production growth. In 2020, professor V. Fogliano joined the Company as R&D Coordinator.

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Arterra "ID Card"

Recommendation	Target Price	Upside
BUY	**5.2 €**	**35%**

Company Overview

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

SWOT Analysis

Strengths

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

Weaknesses

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

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

Threats

- Effective end-markets diversification within the planned time frame
- Potential diffculty in maintaing 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

Main risks

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

Arterra "ID Card"

mag, 14 2021 - 10:32

Recommendation	Target Price	Upside
BUY	5.2 €	35%

Main Financials

(€/000)	2019	2020	2021E	2022E	2023E
Total revenue	**3,627**	**4,309**	**4,533**	**5,247**	**6,323**
yoy change	*21.8%*	*18.8%*	*5.2%*	*15.7%*	*20.5%*
EBITDA	**1,236**	**1,602**	**1,912**	**2,467**	**3,205**
EBITDA margin (%)	*34.1%*	*37.2%*	*42.2%*	*47.0%*	*50.7%*
EBIT	**940**	**1,201**	**1,414**	**1,848**	**2,466**
EBIT margin (%)	*25.9%*	*27.9%*	*31.2%*	*35.2%*	*39.0%*
Net income	**857**	**1,109**	**1,290**	**1,366**	**1,822**
Margin (%)	*23.6%*	*25.7%*	*28.5%*	*26.0%*	*28.8%*
Adjusted net debt (cash)	**(3,892)**	**(4,067)**	**(5,077)**	**(6,290)**	**(7,969)**
Shareholders Equity	7,110	8,181	9,471	10,837	12,659
Net Operating Working Capital	834	1,682	1,861	2,033	2,315
Capex and acquisitions	1,897	385	600	600	600
Free Cash Flow	715	68	781	1,233	1,707

Company Description

Company Sector	BioScience
Price (€)	3.8
Number of shares (mln)	6.6
Market Cap (€ mln)	25.3
Reference Index	FTSE AIM ITALIA
Main Shareholders	Gabriella Colucci, Isagro
Main Shareholder stake	28.4%
Free Float	24.9%
Daily Average Volumes	23,289
Sample of comparables	BRAIN, Croda, Symrise, Deinove, Evolva, Fermentalg, Plant Advanced Technologies, Novozxymes, Codex, Yield10 Bioscience

Breakdown by business unit

(% of total sales)	2019	2020	2023E
Cosmetic turnover	60%	53%	64%
Nutraceutical/medical devices turnover	0%	0%	5%
Research contracts and services	15%	13%	9%
Licences and royalties	0%	0%	5%
Research grants	25%	35%	17%

Data of peers

	2019	2020	2021E	2022E
Revenue Growth (yoy)	*25%*	*1%*	*33%*	*95%*
EBITDA Margin	*22%*	*23%*	*25%*	*26%*

Average data

Solvibility Ratios

	2019	2020	2021E	2022E	2023E
Net debt (cash) / EBITDA	-3.1x	-2.5x	-2.7x	-2.5x	-2.5x
Net debt (cash) / Equity	-0.5x	-0.5x	-0.5x	-0.6x	-0.6x

Multiples of peers

	2021E	2022E
Best peers (business and potential growth)		
EV / SALES	16.0x	8.0x
Best peers (margins and cash flows)		
EV / EBITDA	16.8x	15.5x

Financial and Operative ratios

	2019	2020	2021E	2022E	2023E
Tax rate	*-9%*	*-8%*	*-10%*	*-27%*	*-27%*
ROIC	*29%*	*29%*	*32%*	*41%*	*53%*
ROE	*12%*	*14%*	*14%*	*13%*	*14%*
Capex/Sales	*52%*	*9%*	*13%*	*11%*	*9%*
D&A to capex	26%	104%	83%	103%	123%

Source: Factset, Banca Profilo estimates and elaborations

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