

1H22: a new record high in Cosmetics



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1H results: a new record high

The Group released 1H22 results beating its 1H21 record in Cosmetics sold volumes, turnover, EBITDA margin and net income. Sales rose by 25% yoy to €2.1m in 1H22 vs €1.7m a year earlier. Growth was entirely driven by the selling of cosmetic ingredients which turnover increased by 28% to €1.8m from €1.4m a year earlier. In the 1H22 volumes peaked at 7,407kgs compared to previous record at 5,913kgs in 1H21 (+25% yoy) with an average price of €246 (€241 in 1H21). Total revenue, including research contracts and research grants, rose by 34% yoy to €2.8m. EBITDA surged from €641k in 1H21 to €1.2m in 1H22 or 44% margin from 31% respectively. Net income increased to 25% of Total Revenue from 19% a year earlier.

Net cash at the end of June 2022 was €4.9m from €4.1m at the end of December 2021. Free Cash Flow was above €1m in the semester, another record high.

Estimates revision: raising 2022E-2024E following 1H22 results above our projections

According to management, 1H22 revenue trend is confirmed by current orders intake. Our previous *[Please refer to our Company Update on February, the 4th 2022]* FY22 cosmetic turnover forecast was €3.7m (+14% yoy), which looks conservative amid 1H22 strong growth. We projected a 40% EBITDA margin in 2022; our forecast looks prudent on the back of the 44% EBITDA margin reached in the first semester. Finally, we expected €4.9m net cash at the end of December, including €600k capex and some €200k change in NWC. Following the dynamics of Net Working Capital at the end of June 2022, we might be too optimistic on NWC cash absorption, as the Company planned stock piling for cost hedging and for reducing the risk of procurement bottlenecks. We then revised our 2022-2024 estimates to include higher growth and marginality but also higher Net Working Capital.

We now expect Total Revenue to grow 20% on average (CAGR 21-24E) vs previous 13%. Moreover, we now project EBITDA margin at 44% for the FY22, in line with 1H22 (vs previous 40%) and to reach 48% in 2024, some 3% above our previous expectations. Finally, we forecast net cash at €4.9m at the end of 2022 including €400k net working capital absorption and €600k capex, which might seem too high amid €170k investments made in the 1H22; however, a standing-by investment for expanding the physical space might occur at the end of this year.

Main downside risk to our estimates remains Arterra's effective capacity to reach a relevant scale in new end-markets diversification; yet it has been showing its capability to strongly grow in Cosmetics even beyond Intercos, through Vitalab, which was our additional concern. Main upside risk is on our 2022 VdP projection which might look conservative amid 1H22 results; however, the raw materials scarcity (from compounds to glycerine, softener and packaging) in Cosmetics has been slowing Arterra's active ingredients orders from third parties' producers and even from multinational companies. Moreover, active compounds demand from China has been slowing down in recent months. We thus prefer to stay conservative.

Strategy update

Arterra keeps working on its corporate strategy to diversify into new-end markets and grow in Cosmetics even beyond Intercos and through Vitalab. In fact, the Company set up a team of experienced managers in research and extraction processes (V. Fogliano), production optimization (G. Ferrante) and business development (B. Cicatiello).

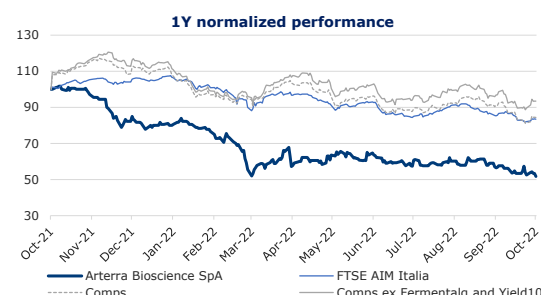
Valuation: BUY confirmed 12-month target reduced to €4.8

We run a DCF approach on a Terminal Value FCF of €1.5m and set a 8.5% WACC (from previous 7.1%). Regarding the relative valuation, market multiples have significantly decreased since our last report. *[Please refer to our Company Update on February, the 4th 2022]* The sample of listed international peers now trades at an average of 4.3x EV/SALES and of 12.5x EV/EBITDA 2022-2023 vs previous 7.7x and 15.8x respectively. Arterra trades well below its best peers at 1.5x the average EV/SALES 2022-2023 and at 3.3x the average EV/EBITDA 2022-2023, despite higher margins. Despite increasing Free Cash Flows expectations and very robust record results, we are led to reduce our 12-month price target to € 4.8/share from our previous €5.2/share, amid higher risk-free rate and derating market multiples. Nevertheless, given the relevant potential upside on Arterra's price, we confirm our BUY recommendation.

Target Price	4.8 €	from 5.2 €
Recommendation	BUY	Confirmed
Company Profile		
Ticker	ABS IM (BBG)	ABS-IT (Factset)
Reference Industry	Health Care - Biotech	
Stock Exchange	Italian Stock Exchange - Euronext Growth	
Reference Index	FTSE Italia Small Cap	
Market Data		
Price as of	07/10/2022	18
Number of shares (mln)		6.7
Market capitalization (€mln)		12.2
Max / Min		5.2/18
Average daily volumes		10,583

Main Financials	2020	2021	2022E	2023E	2024E
€/000)					
VoP	4,308.5	4,608.2	5,557.5	6,587.4	7,969.2
yoy (%)	19%	7%	21%	19%	21%
EBITDA	1,601.7	1,735.5	2,453.0	2,999.7	3,812.3
margin (%)	37%	38%	44%	46%	48%
EBIT	1,201.3	1,248.2	1,844.9	2,271.5	2,964.1
margin (%)	28%	27%	33%	34%	37%
Net Income	1,108.5	1,110.5	1,382.1	1,701.9	2,218.7
margin (%)	26%	24%	25%	26%	28%
Net Debt	(4,066)	(4,199)	(4,823)	(5,955)	(7,449)
Equity	8,180.9	9,472.7	10,521.9	11,809.4	13,518.0
Capex	382.6	609.1	600.0	600.0	600.0
FCFs	446.9	322.7	992.1	1,548.1	2,008.0

Source: BancaProfilo estimates and elaborations, Company data.



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SWOT analysis

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

1H22 results: a new record high

Historical performance analysis

1H22: selling volumes peaked at 7.5k kgs

The Group released 1H22 results beating its 1H21 record in Cosmetics sold volumes, turnover, EBITDA margin and net income.

Sales rose by 25.5% yoy to €2.1m in 1H22 vs €1.7m a year earlier. Growth was entirely driven by the selling of cosmetic ingredients which turnover increased by 28% to €1.8m from €1.4m a year earlier. In the 1H22 volumes peaked at 7,470kgs compared to previous record at 5,913kgs in 1H21 (+25% yoy) with an average price of €246 (€241 in 1H21). Total revenue, including research contracts and research grants, rose by 34% yoy to €2.8m.

1H22 EBITDA margin improved to 44% from 31% in 1H21 driven by production process optimization

EBITDA surged from €641k in 1H21 to €1.2m in 1H22 with margin improving 13 pp to 44% driven not only by sales growth but also by production process optimisation and production capacity scale up. In fact, the incidence of raw material and services costs declined from 32% (1H21) to 27% (1H22) of VoP. Net income increased to 25% of Total Revenue from 19% a year earlier.

Table 1: 1H22 P&L

Profit & Loss					
	€/000	1H19	1H20	1H21	1H22
Cosmetic turnover		1,269	1,234	1,423	1,822
yoy		19%	-3%	15%	28%
Research contracts and services		270	273	256	272
yoy			1%	-6%	6%
Total turnover		1,539	1,507	1,695	2,126
yoy		45%	-2%	12%	25%
cosmetic volumes (kg)		4,902	4,239	5,913	7,407
yoy		60%	-14%	39%	25%
avg cosmetic price (€/kg)		259	291	241	246
Research grants and stock changes		334	567	372	640
% on sales		22%	38%	22%	30%
Total Revenue		1,873	2,074	2,066	2,766
yoy		40%	11%	0%	34%
raw materials cost		(213)	(297)	(149)	(229)
cost of services		(314)	(455)	(507)	(507)
% on total revenue		-28%	-36%	-32%	-27%
cost of labour		(551)	(604)	(684)	(754)
% on total revenue		-29%	-29%	-33%	-27%
lease		(43)	(43)	(43)	(44)
other operating costs		(55)	(40)	(42)	(28)
EBITDA		743	616	641	1,205
margin		40%	30%	31%	44%
# employees		22	30	29	32
labor cost per unit		(25)	(20)	(24)	(24)
D&A		(49)	(182)	(222)	(268)
% on total revenue		-4%	-10%	-12%	-11%
EBIT		694	435	422	937
margin		37%	21%	20%	34%
net financial income (expenses)		4	(3)	0	(5)
% on total revenue		0.2%	-0.2%	0.0%	-0.2%
EBT		697	431	419	932
margin		37%	21%	20%	34%
taxes		(69)	(87)	(28)	(253)
tax rate		-10%	-20%	-7%	-27%
Net income		628	344	391	679
% on total revenue		34%	17%	19%	25%

Source: Banca Profilo elaborations on Company data

*Net cash up to €4.9mln
at the end of June*

Net cash at the end of June 2022 was €4.9mln from €4.2mln at the end of December 2021.

Table 2: 1H22 Balance Sheet

Balance Sheet						
€/000	2019	30.06.20	2020	30.06.21	2021	30.06.22
tangibles	1278	1334	1400	1452	1662	1624
intangibles	706	653	567	522	442	346
financials	452	452	452	812	949	949
Fixed assets	2,437	2,440	2,419	2,786	3,052	2,919
other current net receivables	452	678	912	712	914	779
receivables from grants	495	287	585	611	755	294
trade receivables	414	530	339	528	806	716
inventories	425	491	570	455	488	872
trade payables	(500)	(204)	(188)	(212)	(250)	-218
Net operating Working Capital	834	1,105	1,306	1,382	1,798	1,665
Net Working Capital	1,286	1,782	2,218	2,094	2,711	2,444
Capex	1,897	186	383	305	609	56
<i>tangible</i>	1,143	157	342	270	541	56
<i>intangibles</i>	754	29	40	34	68	0
Provisions	(504)	(476)	(522)	(540)	(490)	(550)
Invested Capital	3,218	3,747	4,115	4,340	5,273	4,813
shareholders' equity	327	329	330	330	333	333
reserves	5,926	6,668	6,742	7,851	8,029	8720
net income	857	344	1,108	391	1,111	679
Equity	7,110	7,341	8,181	8,572	9,473	9,731
Net debt (cash)	(3,892)	(3,594)	(4,066)	(4,232)	(4,199)	(4,919)

Source: Banca Profilo elaborations on Company data

*1H22 Free Cash Flow
above €1mln*

Free Cash Flow was above €1mln in the semester, another record high, coming not only from increasing EBIT, but also from low capex (net capex at €56mln for the disposal of a completely amortized machinery) and cash generation from Operating Working Capital (mainly grants reduction more than offsetting planned stock piling).

Table 3: 1H22 Free Cash Flows

Cash Flows					
	€/000	1H19	1H20	1H21	1H22
EBIT		694	435	422	937
tax (figurative)		(173)	(109)	(106)	(234)
D&A		49	182	222	268
change in Net Working Capital		(204)	(270)	(202)	133
capex		(949)	(186)	(305)	(56)
Free Cash Flow		-584	52	32	1,048

Source: Banca Profilo elaborations on Company data

Strategy and estimates

Strategy update: production scaled up, organization strengthening and first steps into Medical Devices

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

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

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

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

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

- Research activity has been expanded attracting new specialized resources, including prof. V.Fogliano as Scientific Coordinator, appointing Ms. M.Bimonte as Grant & IP Director and Ms. A.Tito as Cell & Molecular Biology Director. The organization has been strengthened and now it can count on 32 employees;
- Research activity has been expanded in Cosmetics, active ingredients and technological platforms have been addressed towards new end-markets applications, mostly Nutraceutical/Medical Devices and Agri-food. In Cosmetics, sold volumes increased from just above 9,000kgs in 2019 to more than 13,000kgs in 2021 and 7,407kgs in the 1H22 only.
- Production capacity has been doubled, outsourcing reduced and productivity has been significantly increased from 9kgs/day to 21kgs/day with consequent positive effects in terms of costs and effectiveness, releasing quality, of raw materials. In fact, raw materials incidence on Cosmetics turnover decreased from more than 20% in 2019 to less than 10% in 2021.
- A one-year collaboration with Ing. B. Cicatello has been signed for Business Development and diversification into Medical Devices, Agri-Food and Agri-pharma mostly through research partnerships. The stake in ADL has been increased whereas the partnership with MonteCarlo Fruit has been expanding from mango puree to other food-waste to extract value especially in underdeveloped countries (especially Far East) in a "Fruit for Peace" larger project.

Focus now stays on: end market diversification

Thus, now focus is mostly on: i) developing new natural compounds addressable to Cosmetics, diversifying in new markets, mainly Medical Devices, especially through partnerships with companies having already the sector's regulatory expertise, and Agri-Food; iii) external growth through M&A.

2022E-2024E estimates revision: raised amid 1H22 results

We raised projected revenue in 2021 and over on the back 1H22 picking selling volumes in Cosmetics and rising research grants

We increased EBITDA margin to 44% in line with 1H22

Higher expectations on revenue growth driven by higher expected Cosmetics selling volumes

In this report we update our previous 2022-2023 estimated and add 2024 projections.

According to management, 1H22 revenue trend is confirmed by current orders intake. Our previous [Please refer to our Company Update on February, the 4th 2022] FY22 cosmetic turnover forecast was €3.7mln (+14% yoy), which looks conservative amid 1H22 strong growth. We projected a 40% EBITDA margin in 2022; our forecast looks prudent on the back of the 44% EBITDA margin reached in the first semester. Finally, we expected €4.9mln net cash at the end of December, including €600k capex and some €200k change in NWC. Following the dynamics of Net Working Capital at the end of June 2022, we might be too optimistic on NWC cash absorption, as the Company planned stock piling for cost edging and for reducing the risk of procurement bottlenecks. Overall, we revised our 2022-2024 estimates to include higher growth and marginality but also higher Net Working Capital.

We now expect total revenue to grow 20% on average (CAGR 21-24E) vs previous 13% deriving mostly from higher selling volumes in Cosmetics in 1H22. Our previous expectation on average selling volumes in 2022-2023 was 16,422, whereas we now expect 18,000. We forecast a modest contribution to turnover by new end-markets (Nutraceutical and Agri-food), starting from next year.

Table 4: Arterra P&L estimates revision 2022-2024

Profit & Loss											
	€/000	2017	2018	2019	2020	2021	2022E old	2022E new	2023E old	2023E new	2024E new
Cosmetic turnover		1,503	1,868	2,167	2,281	3,253	3,723	4,014	4,281	4,816	5,780
yoy			24%	16%	5%	43%	14%	23%	15%	20%	20%
Nutraceutical/medical devices turnover		0	0	0	0	0	150	0	300	300	600
Agriculture/Agri-food		0	0	0	0	0	0	0	0	0	0
Research contracts and services		551	559	542	541	573	537	544	564	571	600
Licences and royalties		0	0	0	0	0	0	0	100	0	0
Total turnover		2,054	2,427	2,709	2,822	3,826	4,410	4,558	5,245	5,688	6,979
yoy			18%	12%	4%	36%	15%	19%	19%	25%	23%
cosmetic volumes (kg)		5,690	7,142	8,839	9,117	13,342	15,295	16,312	17,589	19,575	23,490
yoy			90%	26%	24%	46%	15%	22%	15%	20%	20%
avg cosmetic price (€/kg)		264	262	245	250	244	243	246	243	246	246
Research grants and stock changes		692	551	917	1,487	783	900	1,000	900	900	990
% on sales		34%	23%	34%	53%	20%	20%	22%	17%	16%	10%
Total Revenue		2,746	2,978	3,627	4,309	4,609	5,310	5,558	6,145	6,588	7,969
yoy		45%	8%	22%	19%	7%	15%	21%	16%	19%	21%
raw materials cost		(210)	(259)	(455)	(525)	(318)					
cost of services		(466)	(533)	(726)	(873)	(986)	(1,674)	(1,478)	(1,937)	(1,687)	(1,961)
% on total revenue		-25%	-27%	-33%	-32%	-28%	-32%	-27%	-32%	-26%	-25%
cost of labour		(736)	(847)	(1,025)	(1,128)	(1,228)	(1,385)	(1,483)	(1,465)	(1,758)	(2,053)
% on total revenue		-27%	-28%	-28%	-26%	-27%	-26%	-27%	-24%	-27%	-26%
lease		(123)	(146)	(146)	(151)	(158)	(54)	(87)	0	(87)	(87)
other operating costs		(43)	(53)	(38)	(30)	(184)	(84)	(56)	(84)	(56)	(56)
EBITDA		1,167	1,140	1,236	1,602	1,736	2,113	2,453	2,659	3,000	3,812
margin		43%	38%	34%	37%	38%	40%	44%	43%	46%	48%
# employees		n.a.	20	28	30	35	35	37	37	39	41
labor cost per unit			(42)	(37)	(38)	(35)	(40)	(40)	(40)	(45)	(50)
D&A		(143)	(73)	(296)	(400)	(487)	(616)	(608)	(736)	(728)	(848)
% on total revenue		-5%	-2%	-8%	-9%	-11%	-12%	-11%	-12%	-11%	-11%
EBIT		1,024	1,067	940	1,201	1,249	1,497	1,845	1,923	2,272	2,964
margin		37%	36%	26%	28%	27%	28%	33%	31%	34%	37%
net financial income (expenses)		(7)	6	1	(2)	26	4	42	21	51	64
% on total revenue		-0.2%	0.2%	0.0%	0.0%	0.6%	0.1%	0.7%	0.3%	0.8%	0.8%
EBT		1,017	1,073	941	1,199	1,274	1,501	1,887	1,944	2,323	3,029
margin		37%	36%	26%	28%	28%	28%	34%	32%	35%	38%
taxes		(272)	(29)	(83)	(91)	(163)	(401)	(504)	(691)	(621)	(810)
tax rate		-27%	-3%	-9%	-8%	-13%	-27%	-27%	-36%	-27%	-27%
Net income		745	1,044	857	1,109	1,111	1,099	1,382	1,253	1,702	2,219
% on total revenue		27%	35%	24%	26%	24%	21%	25%	20%	26%	28%

Source: Banca Profilo elaborations and estimates on Company data

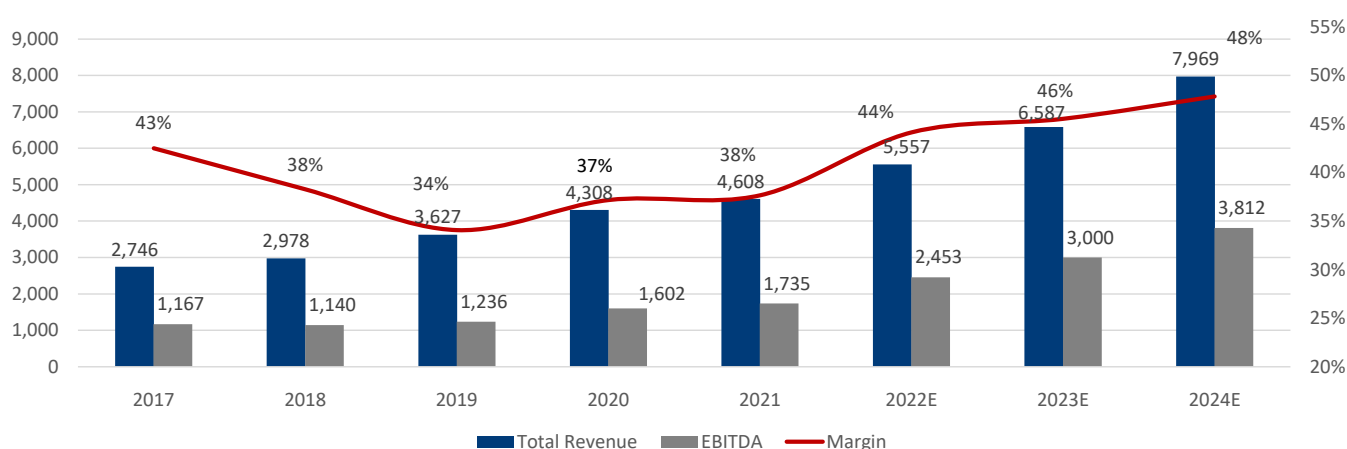
Raw materials and services costs continue their efficiency-gain path thanks to process optimization

Net income at 25% of Total Revenue in 2022E in line with 1H22 to reach 28% in 2024E

Moreover, we now project EBITDA margin at 44% for the FY22, in line with 1H22 (vs previous 40%) and to reach 48% in 2024, some 3% above our previous expectations. The optimization of research and production processes and the scaling up of production capacity, with consequent reduction of external buying, has been leading to persisting savings in raw materials and services costs which decreased their aggregated incidence on Total Revenue from 33% in 2019 to 28% in 2021 and to 27% in 1H22, which is also our target in 2020E to continue declining to 25% in 2024E.

Therefore, all the remaining P&L metrics being mainly unchanged, we forecast a 26% net income 2021-2024E CAGR up from previous 4% with net margin seen at 25% in 2022 (in line with 1H22) and to 26%-28% in 2023-2024 (vs previous 20%)

Figure 1: Revenue, EBITDA and margin 2017-2023E

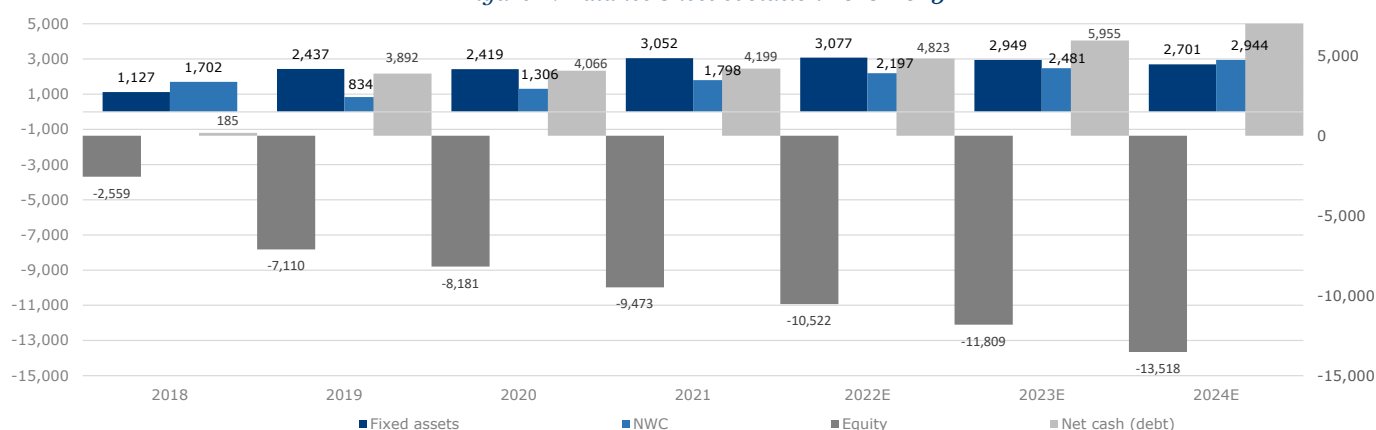


Source: Banca Profilo elaborations and estimates on Company data

Balance Sheet: updated equity participation in ADL; planned stock piling; unchanged dividend policy

Regarding Balance Sheet estimates we: i) updated the equity stake in Del&Bas Pharma (ex ADL) for €35k in the financial assets which is Arterra's participation at the capital increase; ii) kept capex at some €600k a year, assuming the planned (and now in standby) acquisition of more physical space will be made in the 2H22; iii) increased the Net Working Capital according to the planned stock piling for cost hedging and protection against procurement constraints iv) assumed €300k a year as dividend distribution.

Figure 2: Balance Sheet evolution 2018-2023E



Source: Banca Profilo elaborations and estimates on Company data

Net cash €4.9mln in 2022E including unchanged dividend distribution

Consequently, adjusted net cash is seen rising from €4.2mln at the end of 2021 to just below €4.9mln at the end of 2022 (basically in line with the end of June and with our previous expectations amid higher EBIT, but also higher Net Working Capital).

Table 5: Arterra Balance Sheet estimates revision 2022-2024

Balance Sheet											
	€/000	2017	2018	2019	2020	2021	2022E old	2022E new	2023E old	2023E new	2024E new
tangibles		185	567	1278	1400	1662	1,538	1675	1,414	1592	1414
intangibles		27	108	706	567	442	501	420	495	375	305
financials		462	452	452	452	949	812	982	452	982	982
Fixed assets		675	1,127	2,437	2,419	3,052	2,851	3,077	2,362	2,949	2,701
other current net receivables		131	177	452	912	914	535	914	535	914	914
receivables from grants		1,176	1,062	495	585	755	471	330	428	342	396
trade receivables		303	630	414	339	806	1,028	1,095	1,287	1,298	1,571
inventories		263	267	425	570	488	702	1,266	836	1,303	1,417
trade paybles		(161)	(257)	(500)	(188)	(250)	(192)	(494)	(236)	(462)	(439)
Net operating Working Capital		1,582	1,702	834	1,306	1,798	2,009	2,197	2,315	2,481	2,944
% on total revenue		58%	57%	23%	30%	39%	38%	40%	38%	38%	37%
receivables from grants (% grants)		170%	193%	54%	39%	96%	52%	33%	48%	38%	40%
trade receivables (% revenue)		11%	21%	11%	8%	17%	19%	20%	21%	20%	20%
inventories (% revenue)		10%	9%	12%	13%	11%	13%	23%	14%	20%	18%
trade paybles (% COGS)		24%	32%	42%	13%	19%	11%	33%	12%	27%	22%
Capex		50	536	1,897	383	609	600	600	600	600	600
tangible		28	447	1143	342	541	500	500	500	500	500
intangibles		22	89	754	40	68	100	100	100	100	100
% on total revenue		2%	18%	52%	9%	13%	11%	11%	10%	9%	8%
Provisions		(629)	(630)	(504)	(522)	(522)	(522)	(522)	(630)	(522)	(630)
Invested Capital		1,757	2,375	3,218	4,115	5,241	4,874	5,666	4,582	5,822	5,928
shareholders' equity		250	250	327	330	333	330	333	330	333	333
reserves		720	1,265	5,926	6,742	8,029	8,347	8,807	10,548	9,775	10,966
net income		745	1,044	857	1,108	1,111	1,099	1,382	1,893	1,702	2,219
Equity		1,715	2,559	7,110	8,181	9,473	9,776	10,522	12,771	11,809	13,518
Net debt (cash)		42	(185)	(3,892)	(4,066)	(4,232)	(4,902)	(4,856)	(8,189)	(5,988)	(7,590)
cash and cash equivalents		(249)	(738)	(4,669)	(4,536)						
short term loans to equity participated		(340)	(340)	(225)	(340)						
bank debt		630	893	1,002	809						
leasing (IFRS 16)		389	309	228							
adj Net debt (cash)		771	464	(3,439)	(3,727)	(4,232)	(4,902)	(4,856)	(8,189)	(5,988)	(7,590)

Source: Banca Profilo elaborations and estimates on Company data

*Free Cash Flows
€4.5mln in three years
Including €1.8mln
normalized capex*

In terms of cash flow generation, we now project €4.1mln of cumulated Free Cash Flows in 2022E-2023E, some €700k above our previous estimate, for margins improvements more than compensating higher cash absorption by Net Working Capital. In 2024E we see additional €2mln Free Cash Flow. We keep unchanged the dividend policy assuming €300k annual dividend distribution.

Table 6: Arterra Free Cash Flows estimates revision 2021-2023

Cash Flows											
	€/000	2017	2018	2019	2020	2021	2022E old	2022E new	2023E old	2023E new	2024E new
EBIT		1,024	1,067	940	1,201	1,249	1,497	1,845	1,923	2,272	2,964
tax (figurative)		(256)	(267)	(235)	(300)	(312)	(374)	(461)	(481)	(568)	(741)
D&A		143	73	296	400	487	616	608	736	728	848
change in Net Working Capital		(219)	(120)	868	(472)	(492)	(180)	(400)	(306)	(284)	(463)
capex		(50)	(536)	(1,153)	(383)	(609)	(600)	(600)	(600)	(600)	(600)
Free Cash Flow		642	217	716	447	323	958	992	1.273	1.548	2.008

Source: Banca Profilo elaborations and estimates on Company data

To sum up, compared to our previous three-year forecast, in 2021-2024E we: i) increased revenue CAGR to 20% (vs previous 13%) to some €8mln; ii) rose EBITDA margin from 40% to 44% in 2022E to 48%, iii) we moved up average yearly Free Cash Flows to €1.5mln from previous €1.1mln.

Main risks to our estimates

Main downside risk to our estimates remains Arterra's effective capacity to reach a relevant scale in new end-markets diversification; yet it has been showing its capability to strongly grow in Cosmetics even beyond Intercos, which was our additional concern. In fact, Vitalab has demonstrated its ability to sell active ingredients to clients not served and out of Intercos reach. Our potential impact on turnover of a potential further delay in end-market diversification (not offset by increasing sales in Cosmetics) is €300k and €600k in respectively 2023E and 2024E.

Main upside risk is on our 2022 VdP projection which might look conservative amid 1H22 results; however, the raw materials scarcity (from compounds to glycerol, emulsifier, and packaging) in Cosmetics has been slowing Arterra's active ingredients orders from third parties' producers and even from multinational companies. Moreover, active compounds demand from China has been slowing down in recent months.

ESG Analysis

Sustainability Report

ESG and the Sustainability of Competitive Advantage

Every active investor seeking value should be aware of how companies deal with environment, social and governance issues, since these are factors that can improve corporate value. In a world where companies are increasingly facing environmental issues, such as climate change and pollution, as well as social factors such as diversity and inclusion, gender balance and product safety, attention to ESG issues has become a competitive advantage.

Arterra Sustainability Report

To best involve stakeholders and to communicate in an increasingly transparent way its ESG goals, Arterra published its Sustainability Report in 2020 in accordance with both GRI and SDGs standards.

Sustainability for Arterra

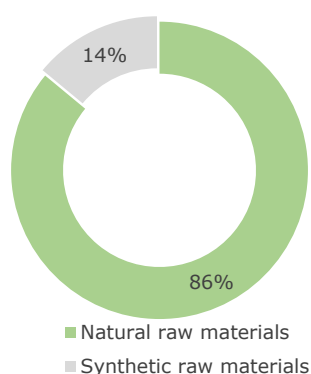
Arterra, a biological and molecular R&D company applied to cells of natural origin

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

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

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

Figure 3: Raw materials breakdown between natural and synthetic ones



Source: Banca Profilo elaborations on Company data

Materiality Assessment

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

Figure 4: Materiality Assessment

Source:
Profilo

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

Banca

elaborations on Company data

The Materiality matrix Through a two-dimension analysis, internal (top management expectations) and external (stakeholders' expectations), the Company assigned a score to each material topics according to their importance.

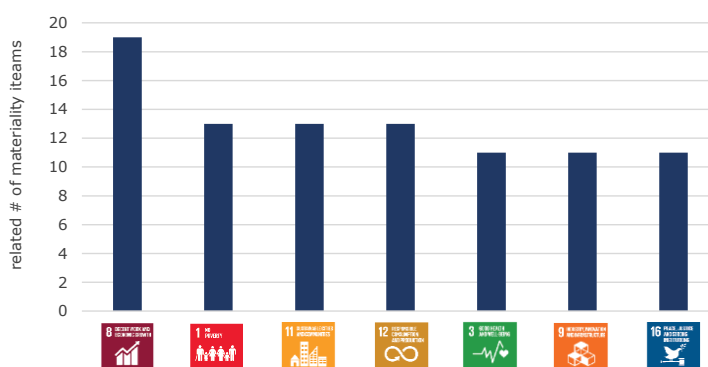
SDGs vs corporate goals: n. 8, 1, 11, and 12 are those Arterra is more sensitive to

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

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

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

Figure 5: SDGs Arterra is more sensitive to



Source: Banca Profilo elaborations on Company data

Environmental sustainability

Raw materials

Arterra does not use dangerous or toxic solvents. The entire production process uses 86% of natural raw materials (including plants, food-by-products and glycerine) whereas the rest is synthetic raw materials.

Energy consumption

Arterra is a non-energy eater. On average energy consumption is just above 262 MWh per year, totalling just above €40k. More than 80% of Energy comes from renewable sources.

GHG Emission monitoring

There are no emissions in the plants: all equipment using either chemical or biological materials have carbon filters which are wasted according to current rules.

Water consumption

The average water consumption is some 530 m3 a year or below €2k.

Waste management

No waste from the Company production processes is dangerous for human or the environment. The waste coming from cell collection is the same liquid (salty and thus sterile solution) where the cells grow. All reagents are included in the finished goods therefore there is no waste.



Social issues



Human capital

Human capital is central in Arterra. The Company culture is for totally inclusive Human Resources, far from discrimination and prejudice aiming at talent enhancement. Arterra commits to engage all its employees into firm activity and strategic decisions mainly through meetings among top management, department supervisors and lab technicians. At the end of 2021, Arterra employed 34 people of which:

- more than 70% women;
- more than 50% between 36 and 50 years old
- more than 60% holding either a PhD or a bachelor's degree.

Benefits and Welfare

In June 2020 Arterra distributed 600 stocks for free to each employee and added 100 stocks for each year of work to stress the fact that human capital is a strategic asset for Arterra. Furthermore, the Company developed a Welfare plan including Health Insurance for his employees.

Training and skills development

Human Resources training comprises both Security courses and Specific technical courses according to each employee's job.

Research and Innovation

Arterra is a Biotech company funded on Bioscience research. Arterra core business is the Research and Development of new technologies to discover new active ingredients which can have industrial applications in Agriculture, Cosmetics, Nutraceuticals and Pharma. Raw materials production comes from stem cells liquid farming. The production processes are highly valuable: cells farming, and food-by-products are processed in minimum quantities (grams) and through highly technological biotech processes they create tons of finished products. The relevance of Arterra Research turns into national and international scientific works, patents, registered active ingredients brands and industrial applications (new active ingredients brought into markets mainly Cosmetics)

Partner in Research and Innovation

Arterra's partnerships with Universities, Corporates and Research Centres are key for Innovation. Arterra ensures Innovation in Bioscience also through investments in chemicals laboratories including equipment and new production spaces. Material capex were €540k in 2019, €250k in 2020 and €200k in 2021. Innovation is finally reached through investing in human capital; Arterra's scientists and technicians have increased by 14% in 2020 and by 32% in 2021.

Est(ra)Moenia promoter

Arterra is, among others, promoter of Est(ra) Moenia, which is an association aiming at attracting national and international investors in the Historical Centre and the Eastern part of Naples. This association is supported by the Architecture Department of the University of Naples, which is developing a research project to give a "scientific" reading of the territory for urban renewal and social inclusion.

Governance



A traditional Governance system

Arterra adopts a traditional Governance system, which includes a BoDs (5 members) appointed by the Shareholders and a Board of Auditors (5 members). KPMG is the Accounting Firm.

Governing bodies composition

The presence of men and women in the Governing Bodies is in line with the recommendations of Borsa Italiana. In particular, the new Corporate Governance Code states that at least one-third of the BoD should be made up of members of the less represented gender.

Valuation

*DCF approach well appraises the cash generating business
Market multiples approach can also be used*

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

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

DCF valuation

DCF assumptions:

€4.5mln of cumulated FCFs

€1.5mln as Terminal Value cash flow

To run a DCF model, we use our projected FCFs for the 2022E-24E explicit period: cumulated FCFs for over €4.5mln (vs our previous Company Update in February 2022 €4.1mln) or about €1.5mln (vs previous €1.3mln) as yearly average in 2022E-2024E. To assess the Terminal Value, we factor in:

- an annual FCF generation of €1.5mln (vs €1.3mln in our previous Company Update), corresponding to the average FCF in 2022E-2024E;
- perpetual growth rate of 2% (unchanged).

In order to get to the Equity Valuation we would consider the adjusted net cash at the end of June 2022 (€4.9mln vs €4.2mln at the end of 2021 in our previous Company Update).

Table 7: DCF valuation

DCF Valuation	2022E	2023E	2024E	over
Free Cash Flows (€/000)	992	1,548	2,008	1,516
years	1	2	3	
discount factor	0.92	0.85	0.78	
NPV Cash flows (€/000)	915	1,316	1,574	
Sum of NPVs (€/000)				3,805
Terminal Value (€/000)				23,465
NPV Terminal Value (€/000)				18,391
Enterprise Value (€/000)				22,196
peripheral assets: Vitalab (@40%)				5,070
Net debt June 2022 (€/000)				-4,919
Equity Value (€/000)				32,185
number of shares (mln)				6.7
Per share value (€)				4.8

Source: Banca Profilo estimates and elaborations

Updated WACC at 8.5% according to higher risk-free rate

We updated WACC to include higher risk-free rate. We end up with 8.5% WACC vs previous 7.1%.

WACC includes:

- risk free rate at 4.5% (vs previous 3%), according to higher interest rate (100-day 30-year BTP yield moving average) and the expected path of BCE monetary tightening (at least +75bps to come);
- market risk premium at 5.5% (unchanged);
- beta at 1, as the average of chosen listed peers to Arterra (unchanged);
- debt to equity target structure with an 80% weight on Equity (unchanged).

Table 8: WACC calculation

WACC Calculation	
perpetual growth rate	2.0%
WACC	8.5%
risk free rate (30Y)	4.5%
equity risk premium	5.5%
beta	1.0
KE	10.1%
costo del debito	2%
tax rate	25%
KD	2%

Source: Banca Profilo estimates and elaborations

**DCF Equity valuation:
€32.5mIn**

We run the DCF model and end up with an Enterprise Value of €28mIn (vs previous €34mIn) and, therefore an Equity Value of €32.5mIn (vs previous €38.3mIn) or €4.9/share (vs previous €5.8/share). Main difference from our previous Company update derives from: i) higher FCFs; ii) higher net cash, not offsetting iii) higher WACC.

Arterra competitive arena: strategic positioning and competitive advantages

European and US listed biotech companies

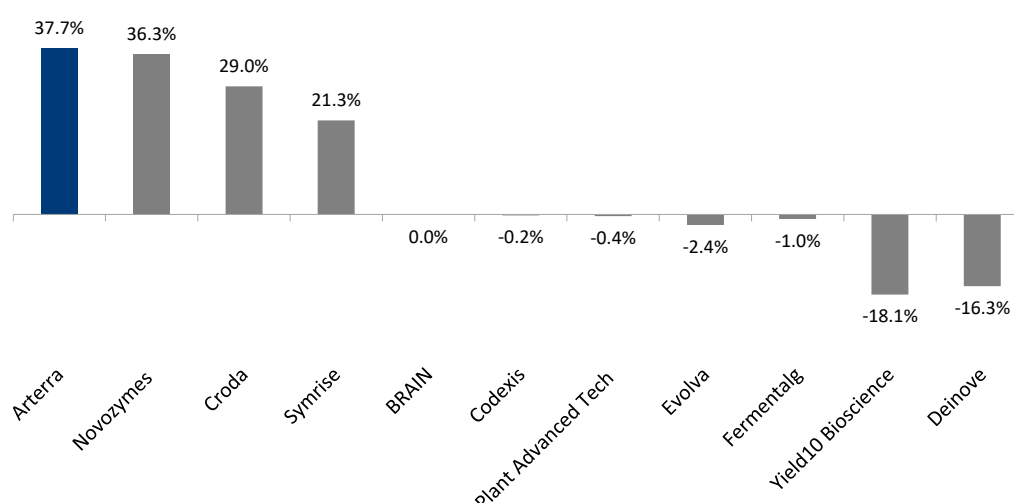
The competitive scenario comprises European and US listed biotech companies active in the research and development of natural substances for industrial green applications.

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

Main difference between Arterra and its comparables is profitability. Furthermore, Arterra has funded its research, investments and growth through research grants (at the beginning) with no additional either funds or venture capital needed. Since its foundation, in 2004, Arterra has been showing positive EBITDA, whereas its peers show either negative marginality or much lower profitability than Arterra. We set a sample of listed peers which includes the German Brain and Symrise, the British Croda, the French Fermentalg and Plant Advanced Technology, 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 2021, Arterra reported 38% EBITDA margin, highest among peers' sample.

In 2020 Arterra showed the highest EBITDA margin among peers

Figure 6: Main international listed players in the Industry – EBITDA margin in 2021



Source: Banca Profilo elaborations on Company data, Factset
The negative EBITDA margin has been divided BY 100 in order to make a graphic representation of the competitive arena

**B.R.A.I.N. (DE)
€41mIn turnover -
€2mIn 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 1.9bn turnover
29% EBITDA margin**

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

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

Symrise (DE)
 €3.8bn turnover
 21% 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)
 €400k turnover
 €-6mIn 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 10mIn turnover
 CHF -24mIn EBITDA

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

Fermentalg (FR)
 €5.6mIn turnover
 € -6mIn 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)
 €2.3mIn turnover
 € -0.9mIn 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 15bn turnover
 36% 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 105mIn turnover
 USD -19mIn EBITDA

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

Yield10 Bioscience
 USD 600k turnover
 USD -11mIn EBITDA

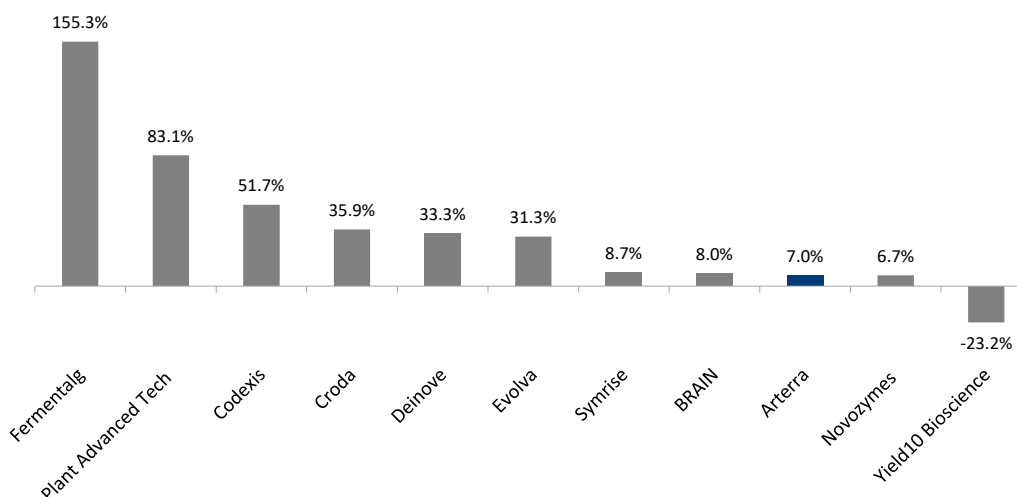
Yield10 Bioscience Inc. is an American agricultural bioscience company which focuses on the development of disruptive plant biotechnologies to improve crop productivity and seed yield and enhance global food security. The goal is to improve fundamental elements of plant metabolism through enhanced photosynthetic

efficiency and directed carbon utilization. Most of its treatments are applied to canola, soybean, and corn to increase tolerance to drought, flooding and heat and thus raise their food productivity.

In 2021 Arterra showed slower growth than peers

In 2021, Arterra reported 7% yoy total revenue growth, which compares to the peers' sample average of 36%.

Figure 7: Main international listed players in the Industry – yoy growth in 2021



Source: Banca Profilo elaborations on Company data, Factset

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

Relative market multiples valuation

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

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

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

Table 9: Sample benchmarking on revenue growth and EBITDA margin

Company	Currency	Market Cap (mln)	Enterprise Value (mln)	Sales growth						EBITDA margin					
				2018	2019	2020	2021	2022E	2023E	2018	2019	2020	2021	2022E	2023E
06/10/2022															
BRAIN	EUR	113	116	22.6%	24.8%	-0.5%	8.0%	26.5%	16.7%	-16.7%	-7.3%	-9.1%	-5.0%	-1.2%	4.5%
Croda	GBP	9,423	10,258	1.0%	-0.7%	0.9%	35.9%	3.0%	-6.7%	28.5%	28.8%	27.9%	29.0%	30.7%	31.3%
Symrise	EUR	14,236	15,631	5.3%	8.0%	3.3%	8.7%	18.3%	5.8%	20.0%	20.3%	21.1%	21.3%	20.9%	20.8%
Evolva	CHF	94	90	30.9%	32.3%	-36.1%	31.3%	52.0%	55.9%	-260.4%	-103.4%	-222.3%	-240.9%	-112.4%	-51.3%
Fermentalg	EUR	64	48	-46.6%	n.m.	16.3%	155.3%	41.8%	41.5%	-3002.0%	-501.9%	-306.3%	-103.6%	-106.3%	-74.8%
Plant Advanced Technologies	EUR	18	22	37.5%	9.1%	4.7%	83.1%	30.4%	35.0%	-218.2%	-91.7%	-47.8%	-37.0%	0.0%	22.2%
Novozymes	DKK	89,925	95,525	-1.0%	-0.1%	-2.5%	6.7%	16.4%	6.0%	35.8%	36.7%	35.1%	36.3%	35.6%	34.3%
Codexis	USD	385	316	21.1%	13.0%	0.9%	51.7%	30.8%	-35.8%	-3.8%	-10.8%	-31.8%	-18.6%	-19.8%	-80.2%
Yield10 Bioscience	USD	14	1	-38.2%	45.0%	-0.9%	-23.2%	-18.2%	696.8%	-1508.0%	-1026.8%	-1175.5%	-1811.6%	-2678.7%	-338.9%
Lonza Group	CH	37,830	40,938	8.6%	6.8%	4.5%	-12.5%	14.6%	11.6%	27.3%	26.8%	22.7%	30.8%	31.7%	32.5%
Ashland	USA	5,279	6,704	1.4%	-28.4%	-4.6%	n.a.	n.a.	n.a.	18.8%	21.6%	22.2%	21.8%	24.8%	25.3%
OCI NV	NL	8,745	14,051	56.3%	-2.6%	1.8%	95.2%	82.9%	-19.5%	28.6%	22.8%	24.0%	40.1%	41.2%	36.6%
Wacker Chemie AG	DE	5,562	6,412	1.2%	-1.0%	-4.8%	32.3%	32.8%	-11.0%	18.7%	15.8%	14.2%	24.8%	25.4%	18.1%
Median best peers				21.9%	24.8%	0.2%	41.5%	30.6%	38.2%	27.3%	22.8%	22.7%	29.0%	30.7%	31.3%
Arterra	ITA	12.5	8.9	8.4%	21.8%	18.8%	7.0%	20.6%	18.5%	38.3%	34.1%	37.2%	37.7%	44.1%	45.5%

Source: Banca Profilo estimates and elaborations on Factset

EV/SALES: 4.3x
EV/EBITDA: 12.5x

Consistently with our sample split up, we use EV/SALES 2022-23E at 4.3x, well below our previous at 7.7x [Please refer to our Company Update on February, the 4th 2022] of the first sub-sample and EV/EBITDA 2022-23E at 12.5x, again lower than in our previous research at 15.8x [Please refer to our Company Update on February, the 4th 2022]. Arterra currently trades 65% below the first sub-sample mean and some 70% discount on the second sub-sample, despite its highest EBITDA margin in 2021, to be confirmed in the following years.

Table 10: Market multiples

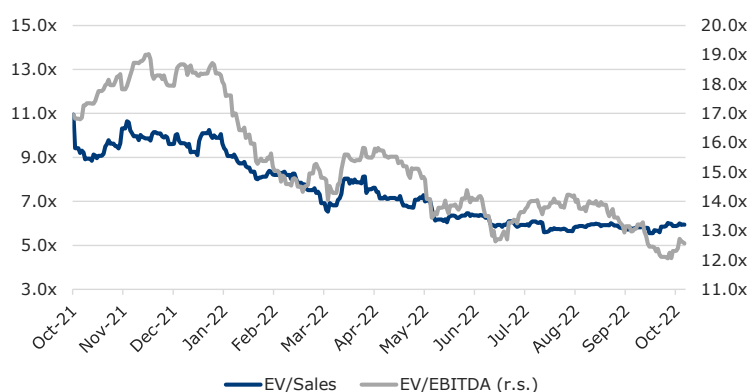
Company	EV / Sales		EV / EBITDA	
	2022E	2023E	2022E	2023E
06/10/2022				
BRAIN	2.2x	1.9x	n.m.	n.m.
Croda	5.3x	5.7x	17.2x	18.1x
Symrise	3.5x	3.3x	16.5x	15.7x
Evolva	6.0x	3.8x	n.m.	n.m.
Fermentalg	6.0x	4.2x	n.m.	n.m.
Plant Advanced Technologies	7.3x	5.4x	n.m.	n.m.
Novozymes	5.5x	5.2x	15.4x	15.1x
Codexis	2.3x	3.6x	n.m.	n.m.
Yield10 Bioscience	2.9x	0.4x	n.m.	n.m.
Lonza Group			20.9x	18.2x
Ashland			11.2x	10.6x
OCI NV			3.4x	4.7x
Wacker Chemie AG			3.1x	4.8x
Mean best peers	4.8x	3.8x	12.5x	12.5x
Arterra	1.6x	1.4x	3.6x	3.0x
premium (discount) on best peers	-66%	-64%	-71%	-76%

Source: Banca Profilo estimates and elaborations, Factset

Market multiples derating

Our Sample's market multiples have derated significantly over the past year.

Figure 8: Sample market multiples evolution (one year analysis)



Source: Banca Profilo elaborations, Bloomberg

Market multiples valuation: € 31.6mln

Market multiples valuation includes a 15% liquidity discount and an Equity valuation of Vitalab (at 40% stake) on the same mean EV/SALES 2022 (4.3x) on its sales in 2021 (€2.8mln), leading to a value of €5mln.

We end up with an Equity Value of €31.6mln (vs previous €37.7mln)

Table 11: Market multiples valuation

Valuation on market multiples (€/000)			
Arterra on EV/SALES (business + growth)	22-23E	Arterra on EV/EBITDA (margins + cash flow generation)	22-23E
EV/Sales best peers	4.3x	EV/EBITDA best peers	12.5x
sales 2022E	5,557	EBITDA 2022E	2,453
net debt June 2022	-4,919	net debt 2021	-4,919
EV	23,728	EV	30,635
Equity	28,646	Equity	35,554
Vitalab (@ 40%) on EV/SALES	22-23E	Vitalab (@ 40%) on EV/SALES	
EV/Sales	4.3x		
sales	2,969		
net debt (adj)			
EV	12,676		
Equity	12,676		
(40% stake)	5,070		5,070
Arterra (including Vitalab @40%)	2022E	Arterra (including Vitalab @40%)	2022E
liquidity discount	15%		15%
	28,659		34,530
Average 2022E EV/SALES - EV/EBITDA			
31,595			

Source: Banca Profilo elaborations, Bloomberg

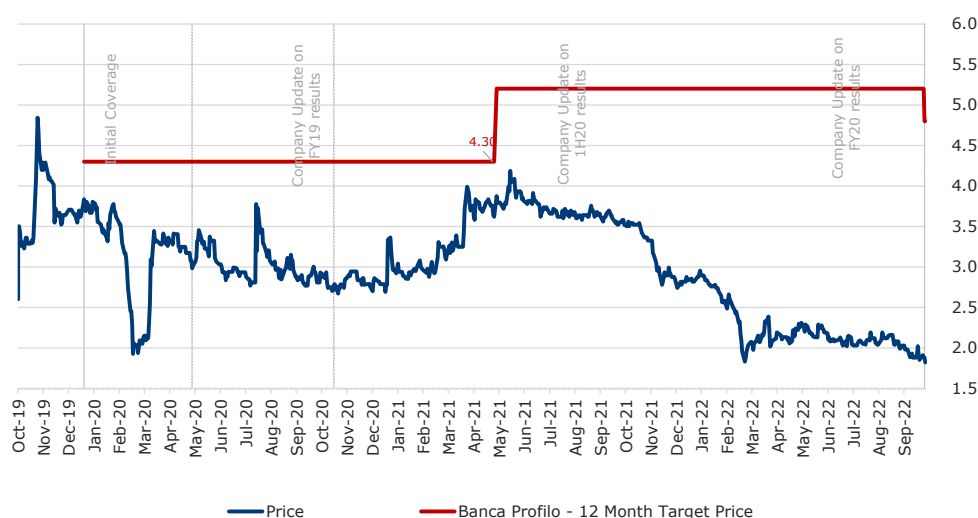
Valuation:
BUY confirmed

12-month TP reduced
to €4.8/share

Despite increasing Free Cash Flows expectations and very robust record results, we are led to reduce our 12-month price target to € 4.8/share from our previous €5.2/share, amid higher risk-free rate and derating market multiples.

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

Figure 9: Target Price vs stock price since IPO



Source: Banca Profilo elaborations, Bloomberg

APPENDIX

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

Product environmental sustainability has become the mission of any industry

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

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

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

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

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

Figure 10: Biotech sources of research and fields of application



Source: Company data

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

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

Arterra's bio factories and biomass production have applications in various fields simultaneously: the Company's core and current end market is Cosmetics, whereas

new and potential sectors are Nutraceuticals, functional food and Agri-food processing.

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

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

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

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

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

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

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

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

A focus on Arterra's core end-market: Cosmetics (85% of 2021 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 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 2021, the turnover coming from Cosmetics (skincare) was 85% of revenue, the remaining coming from Research contracts and other Services.

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

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

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

Arterra overview and business model

Company overview and activities

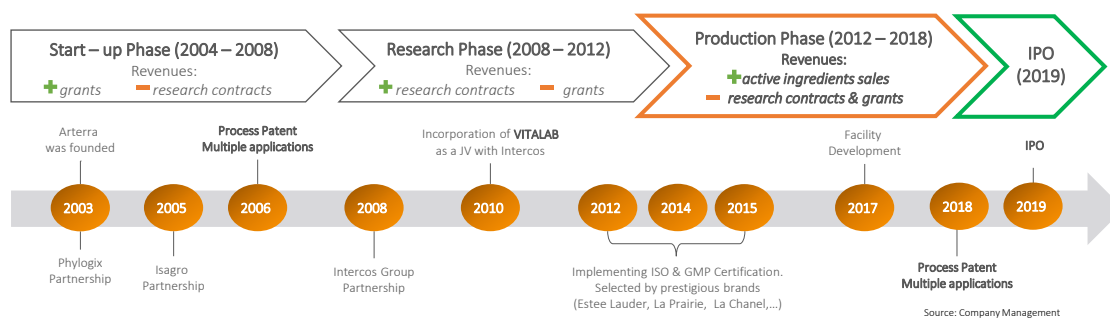
Founded in 2004 by Gabriella Colucci in Naples, as a spin-off of Arena Pharma Biology division (San Diego, USA). A key partner for bio innovation to various end-markets.

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

From a small research group to a profitable biotech company.

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 11: from a research group to a profitable biotech company



In 2021, turnover for the selling of active compounds contributed for more than 70% of Total Revenue, that for research contracts weighed 12% and public grants reduced their contribution to sales to 17%. Starting from 2017, the bio facility was extended and further developed and Arterra started the production of new active bio ingredients for different end-markets, thanks to a new process patent with multiple industrial applications. Starting from the second half of 2019, a first round of significant investments, using IPO proceeds, have been made for doubling production capacity and optimizing production processes. Moreover, the organizational structure has been strengthened appointing: an R&D coordinator (V. Fogliano), a Chief Operating Officer (G. Ferrante), a Grant & IP Director (M. Bimonte), a Cell & Molecular Biology Director (A. Tito) and a business developer (B. Cicatiello).

Arterra: research and technology to get valuable molecules from nature and active

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

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.

(Plants Extraction production process). Typically, from 1kg of raw materials the transformation process can obtain more than 5kgs of finished product. Moreover, Arterra uses waste from food and agriculture to search for and develop new active ingredients (Agri-food by-products production process). The Agri-food by-products in-house transformation and production process to get to active compounds from food and agriculture waste includes: Agri-food-by-products, washing and freezing phases, extraction, lyophilisation, and dissolution in glycerol. Typically, from 1kg of raw materials the transformation process can obtain about 10kgs of finished product in the so-called upcycling process (creating value from food waste, much more than simply recycling food waste). Rich molecules and active compounds have various and simultaneous industrial applications in Cosmetics, Food supplements, Agriculture and Medical Devices. Furthermore, depending on the quantity of active compounds used in the products formulas (skincare products, in Cosmetics, for example), 1kg of active compounds can obtain from 200kgs (luxury, prestige skincare product) up to 1000kgs of finished goods (mass market, marketing-based skincare product).

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

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

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

Moreover, in terms of time to market, in Cosmetics this is much quicker than in any other industry: 3 to 6 new active compounds are introduced every year in Cosmetics, whereas in Agriculture the time for a new active ingredient to land on the market can range from 3 to 5 years.

Figure 12: Arterra's reach of global brands in Cosmetics



Source: Company data

Key partnerships: Isagro and Intercos

In Agriculture, Arterra has been selected by Isagro, that in 2005, invested directly a 22% stake, which went down to 16.5% after the IPO. Isagro has become the right channel for the licencing of Arterra's patented technology in Agrochemical. However, so far, no significant bio-solutions have been applied to Agriculture. In 2020 Isagro was acquired by Gowan, a worldwide provider of agricultural products and in April 2022 Isagro disposed the whole stake increasing Arterra floating shares.

In Cosmetics, Arterra has been selected by Intercos as its research partner and preferred supplier of innovative active ingredients to be applied especially in skincare. According to their agreement, Arterra has a research contract with Vitalab worth more than €500k to develop three active ingredients every year; in the first year Intercos has the exclusive right to use the active ingredient in its products; starting from the second year the active compound is commercialized through Vitalab. Intercos owns an 8.7% of Arterra.

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

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

Figure 13: Arterra key partnerships and distribution agreements



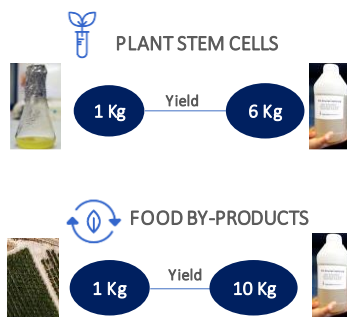
Source: Company data

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

Figure 14: 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 Euronext Growth segment of the Italian Stock Exchange on October the 28th 2019 at €2.6/share. The share capital is represented by 6.6mln shares.

€6.6mln shares
49% floating following the exit of Isagro

The Company is owned by:

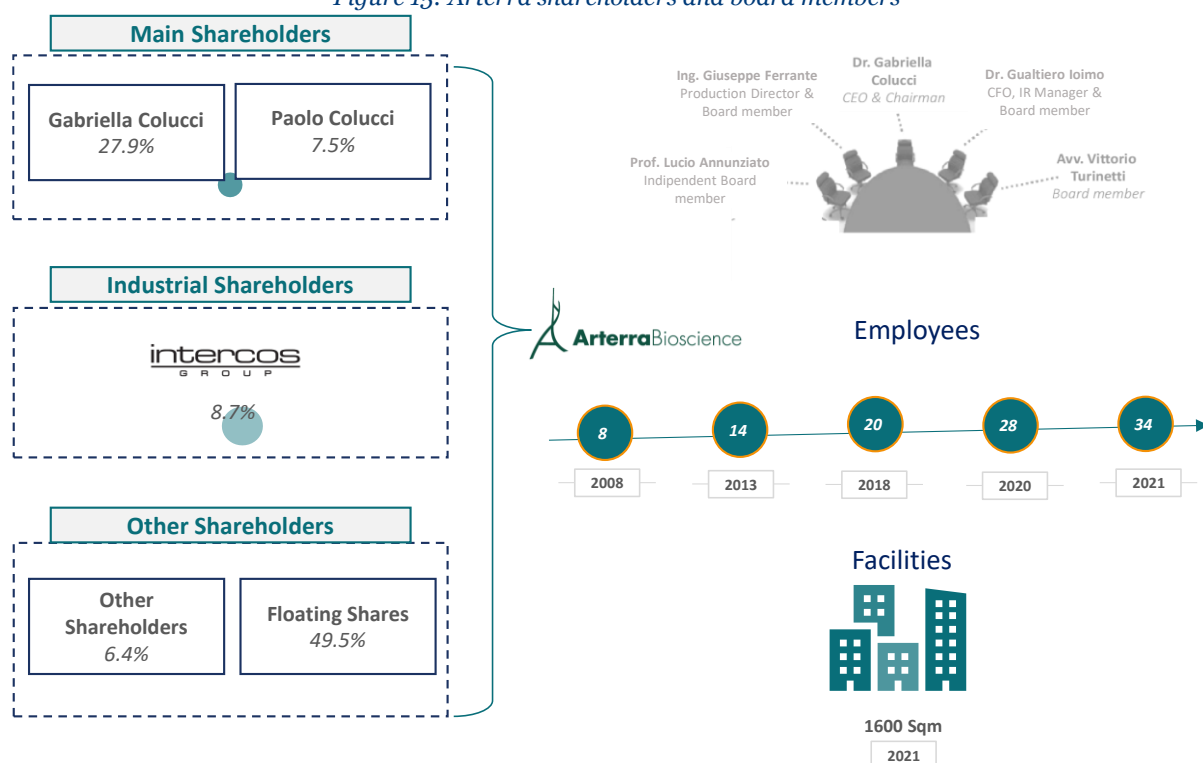
- executive shareholders, the founder Gabriella Colucci with 27.9%,
- industrial shareholders, Isagro sold its 16.5% stake in April 2022, but it remained co-owner in ADL (Arterra with 6.81%; G.Basile with 34.63%), Intercos with 8.7%, partner in Cosmetics and co-owner in Vitalab;
- other shareholders, Gabriella Colucci's brother Paolo Colucci with 7.5%;
- other shareholders with a total stake lower than 6.4%.

Floating shares are then 49.5% of the total.

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

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

Figure 15: Arterra shareholders and board members



Source: Company data

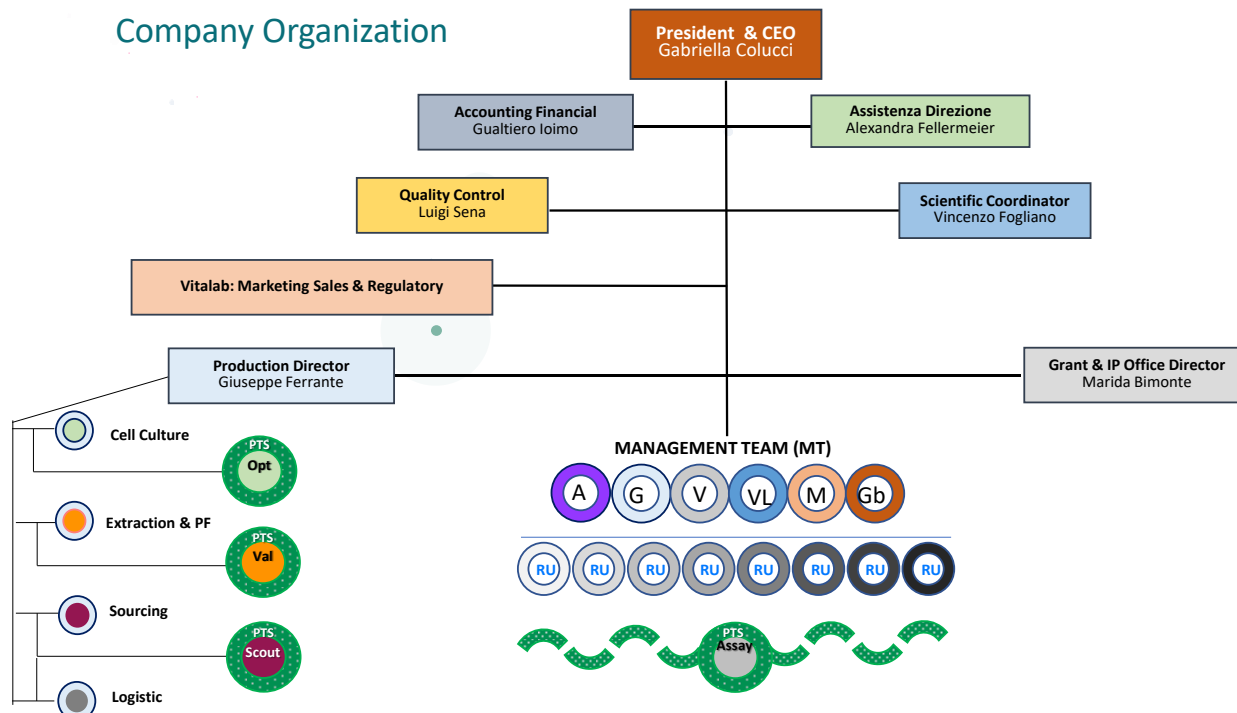
The Board of Directors

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

Key partnerships:
Isagro, Intercos and Vitalab

In 2005, Isagro acquired a 22% of Arterra to partner for research-based bio innovation in Agriculture. In 2008, Arterra signed an agreement with Intercos and became its biotech research arm in Cosmetics. Arterra develops 3 active compounds every year in either Skincare or Make up. The active ingredients are bought by Intercos that has the exclusive use for the first year; thereafter, the same ingredients are distributed globally through the joint venture Vitalab (25% owned by Arterra - with an option to go up to 40% and with the right to receive 40% of Vitalab's distributed income - and the remaining by Intercos). In 2019, through the IPO process, Intercos became a shareholder in Arterra.

Figure 16: Arterra organization



Source: Company data

An outstanding R&D and highly qualified Tech Team

Gabriella Colucci set up an outstanding R&D team supported by a Scientific Advisory Board which meets every two months, and it is coordinated by Vincenzo Fogliano. Among 34 employees, there are 11 PhDs, 7 with a Master of Science and the remaining with either a bachelor's degree in Science or a Tech Diploma. The Research Team has been divided by the R&D phases, but all units are market oriented so that each new project must release either a product or a technology to be brought forward.

COO appointed for production scale up and process optimization

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

Business Developer for end markets diversification

Furthermore, the Company signed a one-year collaboration contract with a Business Developer, Ing. Bruno Cicatiello, for end-markets diversification. In fact, he has experience in food transformation and will focus on developing and diversifying Arterra's business into Nutraceutical, Agri-food and Agri-pharma.

Strategy update

Focus on: research and production process optimization

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

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

Figure 17: Arterra new laboratories



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

Source: Company data

Simplifying and streamlining research and production processes

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

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

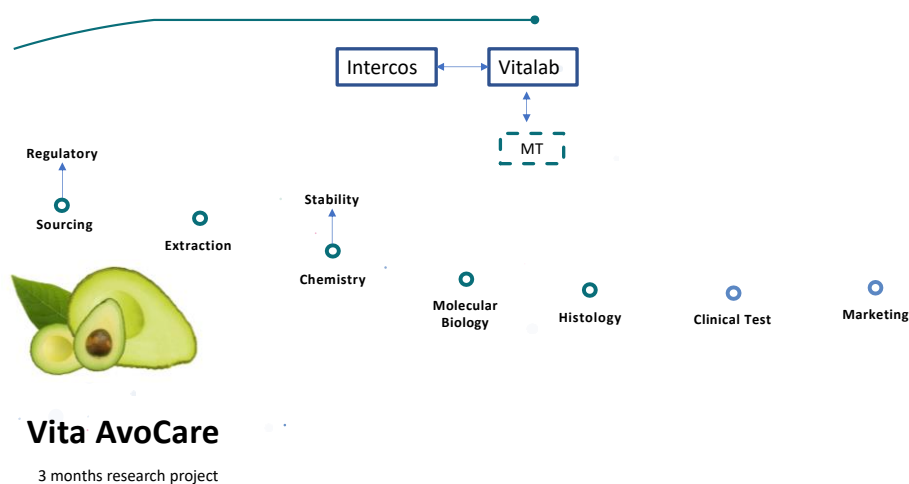
Once an idea has been validated, the Research Unit:

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

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

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

Figure 18: Arterra research process – the Vita AvoCare case study



Source: Company data

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

Appointed a Business Developer for end-markets diversification

Regarding end-market diversification, in the 1H22, Arterra signed a one-year collaboration with a Business Developer, Ing. Bruno Cicatiello, who will focus on developing into Nutraceutical, Agri-food and Agri-pharma

*First steps into Medical Devices:
5-year production licence with ADL
Arterra owning 6.8% of ADL*

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

Figure 19: Arterra's first product in Medical Device



Source: Company data

Following the entrance in Medical Devices with ADL more has to come: Arterra-ADL collaboration on the natural treatment of atopic dermatitis

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

Arterra-MATERIAS partner in projects for Medical Devices and Agriculture

In addition, Arterra partners with MATERIAS on two projects. The first project concerns the validation of the use of a synthetic peptide with strong bactericidal abilities to treat acne, as a potential substitute for benzoyl peroxide in anti-acne products in Medical Device. The second project concerns the possibility of expressing in a bacterial system, other than E.coli, a peptide with bio stimulating

activity for plants to be used in Agriculture. The peptide has been chemically synthesized and it has increased the defence response of plants to biotic stress.

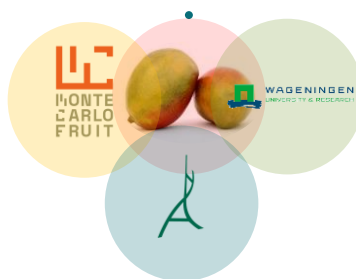
Patents in Medical Devices

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

Arterra-MONTECARLOFRUIT Research addressed to agri-food

Moreover, Arterra's research is continuing in Agri-food. In June 2021, Arterra and Montecarlofruit signed a research agreement for the up cycling of the mango waste. Montecarlofruit is active in the production of aseptic mango fruit puree for baby food, in Mali. In 2021, a research unit (RU) within Arterra was launched and named "Beat the best": about 80 extracts have been analysed to identify those that exceeded a selected benchmark in effectiveness. As estimated, a new fat-soluble active from avocado waste was selected. Fruits that are grown in Sicily and do not have the right size for being put into the market, will be used. Furthermore, an ethanolic extract from Jasminum officinale cells was fully characterized for its anti-glycation, antiox and anti-inflammatory activities through cell and skin explant assays.

Figure 20: Research agreement Arterra-Montecarlofruit



Source: Company data

Consolidating in Cosmetics

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

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

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

Figure 21: Cosmetics – new products



Source: Company data



Arterra "ID Card"

Recommendation

BUY

Target Price

4.8 €

Upside

155%

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 house developed Ips can be applied simultaneously to different end-markets
- Profitable business model since its set up for a very low cost of raw materials and an effective and light organizational structure

Weaknesses

- Small size of the business
- End-markets concentration

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 difficulty in maintaining the independence from global multinational brands

Main catalysts

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

Main risks

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



Arterra "ID Card"

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Recommendation

BUY

Target Price

4.8 €

Upside

155%

Main Financials

(€/000)	2019	2020	2021	2022E	2023E	2024E
Total revenue	3,627	4,308	4,608	5,557	6,587	7,969
yoy change	21.8%	18.8%	7.0%	20.6%	18.5%	21.0%
EBITDA	1,236	1,602	1,735	2,453	3,000	3,812
EBITDA margin (%)	34.1%	37.2%	37.7%	44.1%	45.5%	47.8%
EBIT	940	1,201	1,248	1,845	2,272	2,964
EBIT margin (%)	25.9%	27.9%	27.1%	33.2%	34.5%	37.2%
Net income	857	1,108	1,111	1,382	1,702	2,219
Margin (%)	23.6%	25.7%	24.1%	24.9%	25.8%	27.8%
Adjusted net debt (cash)	(3,892)	(4,067)	(4,199)	(4,823)	(5,955)	(7,449)
Shareholders Equity	7,110	8,181	9,473	10,522	11,809	13,518
Net Operating Working Capit.	834	1,306	1,798	2,197	2,481	2,944
Capex and acquisitions	1,897	383	609	600	600	600
Free Cash Flow	715	447	323	992	1,548	2,008

Company Description

Company Sector	Health Care - Biotech
Price (€)	1.8
Number of shares (mln)	6.7
Market Cap (€ mln)	12.2
Reference Index	Euronext Growth
Main Shareholders	Gabriella Colucci, Intercos
Main Shareholder stake	27.9%
Free Float	49.5%
Daily Average Volumes	10,583
Sample of comparables	BRAIN, Croda, Symrise, Deinove, Evolva, Fermentalg, Plant Advanced Technologies, Novozymes, Codexis

Breakdown by business unit

(% of total sales)	2019	2020	2021	2023E
Cosmetic turnover	60%	53%	71%	73%
Nutraceutical/medical devices turnover	0%	0%	0%	5%
Research contracts and services	15%	13%	12%	9%
Licences and royalties	0%	0%	0%	0%
Research grants	25%	35%	17%	14%

Data of peers

	2019	2020	2021	2022E
Revenue Growth (yoy)	25%	0.2%	42%	31%
EBITDA Margin	23%	23%	29%	31%

Average data

Solvability Ratios

	2019	2020	2021	2022E	2023E
Net debt (cash) / EBITDA	-3.1x	-2.5x	-2.4x	-2.0x	-2.0x
Net debt (cash) / Equity	-0.5x	-0.5x	-0.4x	-0.5x	-0.5x

Multiples of peers

	2022E	2023E
Best peers (business and potential growth)		
EV / SALES	4.8x	3.8x
Best peers (margins and cash flows)		
EV / EBITDA	12.5x	12.5x

Financial and Operative ratios

	2019	2020	2021	2022E	2023E
Tax rate	-9%	-8%	-13%	-27%	-27%
ROIC	29%	29%	24%	32%	39%
ROE	12%	14%	12%	13%	14%
Capex/Sales	52%	9%	13%	11%	9%
D&A to capex	26%	105%	80%	101%	121%

Source: Factset, Banca Profilo estimates and elaborations

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