Labiana Health

EQUITY - SPAIN
Sector: Pharmaceuticals

Closing price: EUR 2.14 (15 Nov 2024)
Report date: 18 Nov 2024 (14:40h)

Initiation of Coverage
Independent Equity Research

Labiana Health (LAB) LAB is a small pharmaceutical company based in Madrid (Spain), specialised in proprietary and third-party (CDMO) manufacturing and marketing of medicines for animal (veterinary) and human health. It has a strong international footprint (>70% of revenue from outside Spain). Founded in 1958, the company is managed (and controlled) by CEO Manuel Ramos, who holds a 56% stake.

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The "gear shift" has occurred. EBITDA could grow by as much as 23%

A DEFENSIVE AND DIVERSIFIED BUSINESS SET TO DELIVER DOUBLE-DIGIT GROWTH TO 2026E... with operations in two large areas: animal and human health. LAB operates in a defensive industry, with strong tailwinds (high-double digit growth). The company's diversified business mix implies even less risk. After spending a tough few years "out in the wilderness" (CAGR 2020-2023 for revenue of 0.1%), the debt reorganisation alleviates the credit crunch, so we expect 2024e to usher in a new era of strong topline growth (CAGR 2023-26e: 12.5%).

...AND A "MEANINGFUL" INCREASE IN PROFITABILITY. We already saw some margin expansion in the 1H24 earnings (rec. EBITDA margin 1H24: 16.6% vs 1.3% in 1H23). Greater capacity utilisation at LAB's two plans (max cap: EUR 100Mn) and a recovery in gross margin to 60.8% (vs an average of 55% over the past three years) should drive progressively strong EBITDA growth to 2026e (CAGR 2024-26e for recurring EBITDA: 23%). And enable LAB to achieve bottom line profit "already" in 2024e.

A RESILIENT BUSINESS MODEL for several reasons: (i) a broad portfolio of products marketed outside Europe (presence in >110 countries and 73% of revenue generated outside Spain in 2023; (i) specialisation in complex (niche) pharmaceutical products and medium batch production (which expands the target customer base) and (iii) a broad base of recurring customers (and high switching costs).

CASH GENERATION (POSITIVE FCF IN 2025E) SHOULD HELP BRING DOWN DEBT OVER THE MEDIUM TERM. Momentum in EBITDA—despite CAPEX needs—should translate into positive cash flow generation from 2025e (recurring FCF 25e: EUR 1Mn) and a further reduction in debt (ND/EBITDA 26e: 2.1x vs 3.6x in 2024e), LAB's main risk and what is constricting its growth.

LAB'S EQUITY STORY RESTS ON SUSTAINING HEALTHY EARNINGS MOMENTUM BEYOND 2024E. P/E 2025E OF 5X. The set of 1H24 earnings were key because they showcased LAB's opportunities and the real potential of its business model (overshadowed the past four years) and are suggestive of a "gear shift": growth and wider margins. While the market seems to be pricing this in (share price: +71.2% YTD), our baseline scenario (excluding a potential debt reorganisation) puts LAB trading at an EV/EBITDA 24e of 5x (vs 10x by its comps) and a P/E 2025 of 5x. From a purely business standpoint, LAB enjoys excellent momentum, as underpinned by its 1H24 earnings. And its multiples remain low. We see LAB as an investment idea that at the very least should be considered and analysed. The time is ripe now.

Market Data

Market Cap (Mn EUR and USD)	15.5	16.3
EV (Mn EUR and USD) (1)	44.3	46.7
Shares Outstanding (Mn)	7.2	
-12m (Max/Med/Mín EUR)	3.18 / 2.04 / 1.09	
Daily Avg volume (-12m Mn EUR)	n.m.	
Rotation(2)	9.6	
Factset / Bloomberg	LAB-ES / LAB SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

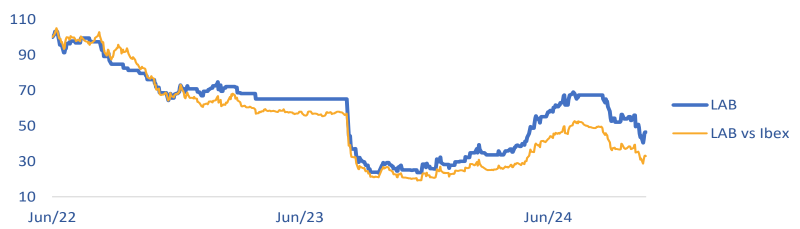
Manuel Ramos	56.5
John Williams	13.0
Other executives	10.4
Treasury stock	3.1
Free Float	17.0

Financials (Mn EUR)	2023	2024e	2025e	2026e
Adj. nº shares (Mn)	7.2	7.2	7.2	7.2
Total Revenues	58.5	66.4	74.4	83.3
Rec. EBITDA	2.8	8.7	10.5	13.2
% growth	*106.9*	*217.0*	*19.7*	*26.4*
% Rec. EBITDA/Rev.	*4.7*	*13.2*	*14.1*	*15.9*
% Inc. EBITDA sector(3)	*0.5*	*13.9*	*14.2*	*16.0*
Net Profit	-4.4	1.1	3.0	5.2
EPS (EUR)	-0.61	0.15	0.42	0.72
% growth	*n.a.*	*123.8*	*188.7*	*71.6*
Ord. EPS (EUR)	-0.60	0.15	0.42	0.72
% growth	*n.a.*	*124.1*	*188.7*	*71.6*
Rec. Free Cash Flow(4)	-4.2	-1.0	1.0	2.7
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	38.8	31.8	30.8	28.1
ND/Rec. EBITDA (x)	14.1	3.6	2.9	2.1
ROE (%)	*n.a.*	*28.6*	*55.4*	*54.3*
ROCE (%)(4)	*n.a.*	*12.0*	*16.8*	*21.5*

Ratios & Multiples (x)(5)				
P/E	n.a.	14.7	5.1	3.0
Ord. P/E	n.a.	14.7	5.1	3.0
P/BV	4.5	3.9	2.2	1.3
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	0.76	0.67	0.60	0.53
EV/Rec. EBITDA	16.1	5.1	4.2	3.3
EV/EBIT	n.a.	7.7	5.8	4.3
FCF Yield (%)(4)	*n.a.*	*n.a.*	*6.3*	*17.5*

(1) Please refer to Appendix 3.
(2) Rotation is the % of the capitalisation traded - 12m.
(3) Sector: Stoxx Europe 600 Health Care.
(4) Please see Appendix 2 for the theoretical tax rate (ROCE) and rec. FCF calculation.
(5) Multiples and ratios calculated over prices at the date of this report.

Relative performance (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	-13.7	-31.0	89.4	71.2	n.a.	n.a.
vs Ibex 35	-11.5	-35.4	56.9	48.6	n.a.	n.a.
vs Ibex Small Cap Index	-10.7	-27.3	81.2	69.7	n.a.	n.a.
vs Eurostoxx 50	-11.0	-30.8	70.4	61.4	n.a.	n.a.
vs Sector benchmark(3)	-5.6	-22.0	74.3	64.5	n.a.	n.a.

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Factset and Lighthouse.

Labiana Health (LAB) is a BME Growth company

BME Growth is the segment of BME MTF Equity aimed at small and medium sized companies, directed and managed by the Spanish stock market and is subject to the CNMV supervision. BME MTF Equity is not a Regulated Market but instead falls within the classification of a Multilateral Trading Facility (MTF) as defined under the Markets in Financial Instruments Directive (MiFID). In July 2020, BME Growth obtained the status of SME Growth Market, a new category of EU regulations, which in Spain is called Mercado de Pymes en Expansión.

BME Growth is the Spanish equity market for companies of reduced capitalization which aim to grow, with a special set of regulations, designed specifically for them, and with costs and process tailored to their particular features. Operations in BME Growth (former MAB) started in July 2009. There are currently c.140 companies listed on it. Companies listed on the MAB can choose to present their financial statements under IFRS or the General Accounting Plan (PGC) and Royal Decree 1159/2010 (NOFCAC).

Debt reorganisation (2023) brings an end to (four years of) stagnation, positioning LAB for robust EBITDA growth (CAGR 2024-2026e: 23%).

Labiana Health (LAB), a small pharmaceutical company (market cap: EUR 15.5Mn) based in Madrid, develops, manufactures, and markets products for both animal (veterinary) and human health. Founded in 1958, LAB underwent a management buy-out in 2013 led by CEO Manuel Ramos, who currently holds a 56.5% share in the company. LAB has been listed on BME Growth in June 2022.

Specialised in the sale of proprietary products and product manufacturing for third parties (CDMO)

LAB's core business centres on the proprietary manufacture and sale of products. Its leading brands include Fosfomycin (for human use) and Precyst, Labiprofen, and Labimycin (for veterinary use). The company also provides a comprehensive suite of services covering the entire pharmaceutical value chain: i) research and development (R&D), ii) drug manufacturing, iii) regulatory services and iv) logistics services. LAB's proprietary products are sold through two types of agreements, 'Licensing-out' (i.e., agreements with third parties for distribution in other countries) and 'Licensing-in' (i.e., acquisition by LAB of the rights to market a third-party product in Spain).

Two factories in Spain with revenue generation capacity of c.EUR 100Mn

As of this writing, both of the company's manufacturing plants (in Terrasa and Corbera de Llobregat) are GMP-certified. Total production capacity is valued at EUR 100Mn (with capacity utilisation of c.59% in 2023). LAB operates directly in five countries, while its products are available in over 110 markets worldwide. Geographically, Europe (ex-Spain) is the company's main market (61% of revenue in 2023), followed by Spain (27.5%) and the rest of the world (11.5%). Diversification is one key driver of LAB's equity story, supporting a low-risk business model.

A) 2019-2023: a period shaped by Covid-19 and M&A (revenue 2023: EUR 58.5Mn; CAGR 19-23: 4.9%). The debt reorganisation marks the beginning of a new era, 'already' visible in 2024e

MBO in 2013, leaving Manuel Ramos (CEO) as the largest shareholder, with an interest of 56.5%

Two phases in LAB's history: 2013-2020 - revenue growth (CAGR: +12.5%) and 2020-2023 – stagnation

From the time the management team took over at the helm in 2013 until 2020, LAB achieved sustained growth (CAGR 2013-2020 for revenue of 12.5%). In 2019, LAB acquired Serbian company Zavod and Turkish company Zoleant, aiming to expand its international footprint and broaden its range of medicines. However, it was unable to achieve the expected synergies. This led to a period of stagnation (2020-2023), with growth coming to a halt (CAGR 2020-2023: 0.1%) because of Covid-19 impacts on the supply chain, inflation, and the war in Ukraine. Net debt rose sharply (ND 2021: EUR 42.2Mn vs EUR 18.4Mn in 2018), putting a considerable strain on liquidity and severely undermining LAB's operational (and, therefore, growth) capacity.

After the M&A activity of 2019, Covid-19 and hyperinflation in Turkey, LAB ended 2022 with a challenging financial situation...

As a result, the company used the IPO (2022) as a means of paying down debt. However, margin compression kept LAB's profitability below the industry average (recurring EBITDA margin: c.5% on average in 2019-2023 vs 19.4% of comps). This, combined with impairment losses on investments in investees, unsuccessful M&A deals and hyperinflation in Turkey, led to lower-than-expected proceeds from LAB's listing (EUR 5Mn vs EUR 20Mn), leaving the company with a shaky balance sheet at the end of 2022. In addition, cumulative operating losses of EUR 15Mn reported over the past three years (2020-2023) prompted LAB to reorganise its debt with Blantyre and Miralta in 2023.

...Alleviated in 2023 thanks a debt reorganisation agreed with Blantyre and Miralta

The company reported revenue in 2023 of approximately EUR 58.5Mn (+0.5% vs 2022) and recurring EBITDA of EUR 2.8Mn (vs EUR 1.3Mn in 2022; EBITDA margin 2023: 4.7% vs 2.3% in 2022). Net debt and equity at year-end stood at EUR 38.8Mn and EUR 3.4Mn, respectively.

A well-diversified and low-risk business model...

Despite LAB's disappointing operating performance over the past four years, we identify several qualitative strengths in its business model that have been "overshadowed" (in terms of the P&L) by the business situation, but that still set the company apart. The strategic focus and key business drivers position LAB as a pharma company with (objectively) low risk thanks to its diversified model, which can be summarised as follows:

- **Broad portfolio and extensive international reach:** LAB offers a diversified (human and animal pharma) product range, with a presence in over 100 international markets.

- **Market niche and know-how:** LAB specialises in complex pharmaceutical products and medium batch production, leaving the company positioned to tap higher added-value, niche markets.

…with high entry and exit barriers and a broad base of recurring customers

- **Entry/exit barriers and recurring customer base.** Significant CAPEX requirements for medicine manufacturing pose strong entry barriers (inherent to the overall pharma industry). Additionally, high supplier-switching costs and LAB's long-standing customer relationships strengthen exit barriers, helping ensure a stable, recurring customer base.

- **Flexibility and adaptability:** LAB's extensive experience in production transfers, product development, and the technological flexibility enabled by CDMO agreements allow it to adapt to a broad range of products and services.

- **Integrated service provider:** The company is an integrated service provider (one-stop shop), offering services across the entire value chain.

The debt reorganisation with Blantyre and Miralta (2023) reduced short-term debt to 27% (from 52% in 2022), alleviating the liquidity crunch

The debt reorganisation agreed with Blantyre and Miralta and signed in August 2023 reduced current gross debt as a percentage of total gross debt to 27% from 52% in 2022. Meanwhile, LAB divested in its Serbian subsidiary in 1H24 (through dilution in its stake to 10% vs 100% through a capital increase, resulting in its exclusion from the scope of consolidation). With it, the company was able to reduce costs and deconsolidate c.EUR 8.5Mn of debt. These strategic actions significantly eased the debt bottleneck that had been putting pressure on working capital, which, in turn, had hindered operations, profitability, and growth. They also mark a new chapter for LAB. The impact of the debt reorganisation was already visible in the company's 1H24 earnings (recurring EBITDA margin: 16.6%; +15.3pp vs 1H23) and leaves us with two key questions. Is 1H24's financial performance sustainable? What can we expect for LAB in the near term (2024e-2026e)?

B) 2023-2026e: return to double-digit growth (CAGR 2023-2026 for revenue: 12.5%), accompanied by a "leap" in profitability (recurring EBITDA margin >10%).

The 1H24 financial results evidence the recovery in growth (revenue 1H24: +23.3% vs 1H23)…

…and reveal a massive jump in profitability (EBITDA 1H24: EUR 5.8Mn vs EUR 0.4Mn in 1H23 and EUR 2.8Mn in 2023)

The progress shown in the 1H24 earnings marked an inflection point in LAB's situation of the past three years and bodes well for the start of a new stage of profitable growth. 1H24 revenue reached EUR 35.1Mn (+23.3% vs 1H23), driven mainly by the start-up of CDMO (third-party manufacturing) contracts with existing customers, with growth of 32.6%. The biggest takeaway from 1H24, however, is the operational leverage showcased (not visible in the last three years): growth in H124 enabled LAB to report recurring EBITDA (excluding capitalised costs) of EUR 5.8Mn (vs EUR 0.4Mn in 1H23 and EUR 2.8Mn in 2023; 1H24 recurring EBITDA margin of 16.6%). LAB also posted a net profit (EUR 1.4Mn) for the first time in three years. In our opinion, these financial results shed some light on LAB's potential.

Our 2024e-2026e projections in a nutshell:

- **Double-digit topline growth (CAGR 2023-2026e: 12.5%)…** We expect double-digit growth in revenue across both business lines. In Human Health (CAGR of 14.6%) through CDMO contract wins to capitalise on production capacity, and in Animal Health (CAGR of 10.2%) from both animal and pet medicine industry tailwinds. Our estimates call for growth in consolidated revenue (CAGR 2023-2026e: 12.5%) to EUR 83.3Mn. Investment in proprietary products looks set to become a long-term business driver.

CAGR in revenue and EBITDA 2023-2026e: +12.5% and +68.6%, respectively, accompanied by reasonable margins from 2024e (EBITDA margin 2026e: 16%)

- **…positioning LAB to leverage its existing cost structure to achieve a 'meaningful' increase in profitability.** Our estimates point to an improvement in profitability over the medium term driven primarily by: i) gross margin (with scope to reach 60.8% vs an average of 55% for the last five years) and ii) higher plant utilisation, which will lower the weight of personnel expenses. Therefore, 2024e marks a paradigm shift (in which the impact of a less leveraged capital structure on growth capacity materialises), leaving LAB positioned to achieve a recurring EBITDA margin 2026e of around 15.9% (vs 13.2% in 2024e and 4.7% in 2023) and deliver a real jump in recurring EBITDA 2026e to EUR 13.2Mn (vs EUR 2.8Mn in 2023).

- **Trickling all the way down to the bottom line.** Despite the fact interest expense is expected to have a significant impact on EBIT (c.80%) in the near term, these costs should get diluted over time, to c.40% in 2026e, with D&A charges (EUR 4Mn) and income from capitalisations stable (EUR 1.3Mn). In parallel, the growth in EBIT (EUR 10.4Mn in 2026e vs EUR 5.8Mn in 2024e) will further reduce the weight of finance costs (without considering the scope for a potential debt renegotiation once certain KPIs are met, which is not factored into our numbers). As a result, our estimates point to net profit of EUR 5.2Mn in 2026e (compared to a loss in 2023).

The momentum in EBITDA should translate into positive cash flow generation from 2025e…

- **Positive FCF generation already from 2025e.** Despite being a capital intensive business, due to reliance on R&D, the need to continually upgrade productive facilities and the effort required to maintain production permits, LAB should be able to generate positive recurring FCF from 2025e (recurring EBITDA 2025e: EUR 10.5Mn).

Paving the way for deleveraging (ND/EBITDA 26e: 2.1x) and opening the door to a new debt renegotiation

- **Significantly reducing the company's borrowings (key to the equity story)** thanks to both cash generation and the improvement in the leverage ratio via earnings growth (ND/EBITDA 2026e: 2.1x vs 1.5 from comps).

In quantitative terms, following the 1H24 earning release, we are looking for revenue of EUR 66.4Mn in 2024e (we expect to see some seasonality in 2H24 due to a slowdown relative to 1H), driven by the CDMO business, which is the short-term catalyst, even though the long-term driver should be own product development. We expect to see a massive jump in EBITDA to EUR 8.7Mn in 2024e (vs EUR 2.8Mn in 2023; EBITDA margin 2024e: 13.2%), with some of the work already done in 1H24. And the company should deliver a positive net profit in 2024e (EUR 1.1Mn), despite the finance costs derived from the debt reorganisation with Blantyre and Miralta. The exit from Serbia, coupled with EBITDA growth, should leave ND/EBITDA at 3.6x in 2024e.

Table 1. Key indicators (2021-2026e)

P&L (EUR Mn)	2021	2022	2023	2024e	2025e	2026e	CAGR 23-26e
Human Health	25.0	27.2	30.3	35.3	40.1	45.6	*14.6%*
Animal Health	32.0	30.5	28.2	31.1	34.2	37.7	*10.2%*
Total Revenue	**57.0**	**57.7**	**58.5**	**66.4**	**74.3**	**83.3**	***12.5%***
Var. y/y	*-2.3%*	*1.2%*	*1.4%*	*13.5%*	*12.0%*	*12.0%*	
Rec. EBITDA	**3.1**	**1.3**	**2.8**	**8.7**	**10.5**	**13.2**	***68.6%***
Var. y/y	*-2.4%*	*-57.4%*	*106.9%*	*217.0%*	*19.7%*	*26.4%*	
Rec. EBITDA / Revenue (%)	5.5%	*2.3%*	*4.7%*	*13.2%*	*14.1%*	*15.9%*	
EBIT	**0.6**	**-2.5**	**-1.6**	**5.8**	**7.6**	**10.4**	
EBIT/ Revenue (%)	*1.1%*	*-4.3%*	*-2.7%*	*8.7%*	*10.3%*	*12.4%*	
Rec. Free Cash Flow	**-4.6**	**-1.9**	**-4.2**	**-1.0**	**1.0**	**2.7**	
Net Debt	**42.2**	**36.0**	**38.8**	**31.8**	**30.8**	**28.1**	

C) In conclusion: Earnings momentum (2024) suggestive of a "gear shift". The equity story is the chance to combine growth and profitability (following 4 years of stagnation), with EBITDA set to "take off" (CAGR 2024-2026e: +23%)

A defensive business model that proved resilient between 2020 and 2023

LAB's business model clearly proved its resilience between 2020 and 2023. However, its growth was constricted by the increase in leverage (starting in 2019), which impeded it from realising its full potential. In a markedly defensive industry, with high entry barriers, LAB's diversification reduces risk even further. Moreover, the pharmaceutical industry is poised to deliver mid-single-digit growth in both the animal and human health segments. There are strong tailwinds in the medium term: rising number of pets, growing consumption of meat (due to population growth) and increasing life expectancy.

There are credible arguments for expecting the growth seen in 1H24 to continue

In our opinion, there are three credible reasons for expecting LAB to continue to grow (beyond what we already saw in the 1H24 results): i) installed capacity in excess of current capacity utilisation; ii) focus on the development of niche medicines where the growth potential via increased supply is considerable; and iii) the development and sale of proprietary products where there is untapped earnings upside outside of Europe and in Spain. LAB's big challenge is to maintain its current double-digit growth. We think it can until 2026e.

Moreover, we think that the strong forecast growth will be accompanied by a substantial improvement in profitability, unlocked by operational gearing. The strategic focus is on continuing to boost the business' profitability (gradually from 2024e).

A rare combination of growth, margin expansion and potential deleveraging.

The leap in profitability expected to materialise in 2024e will leave LAB with a recurring EBITDA margin (13.2%) that is still well below that of its comps in both human pharma (20.3% on average) and animal pharma (17%), suggesting considerable upside. On top of all that, the company's ROCE looks headed for 12% (having been negative for 2020-2023), above LAB's cost of capital for the first time. A sign of systematic value creation.

The risk is that the 1H24 results will prove the exception rather than the norm

At LAB, as with any company, this radical business turnaround, which implies such an unusual combination of growth, margin expansion and deleveraging, is not without its risks. The biggest risk continuing to face LAB is its current level of debt and the opportunity cost implied by the debt reorganisation with Blantyre and Miralta, which has left it with borrowing costs >10%.

Without significant growth in operating profit and positive cash generation, i.e., if the real business potential fails to materialise in the medium and long term, the momentum that is palpable in the 1H24 results could prove the "exception".

The 1H24 results support our estimates. If it can keep the current momentum up, LAB would be trading at eye-catching multiples. Looking to 2024e, for example, we are talking about a P/E multiple of c.15x and an

If our estimates for 2025e are on target P/E 25e: 5x

EV/EBITDA multiple of c.5x (vs c.10x for its comps). However, if our 2025e forecasts prove correct, despite the share price rally over the last 12 months (+89.4%), LAB is trading at a P/E 2025e of 5x. A clear and powerful signal that the company is undervalued.

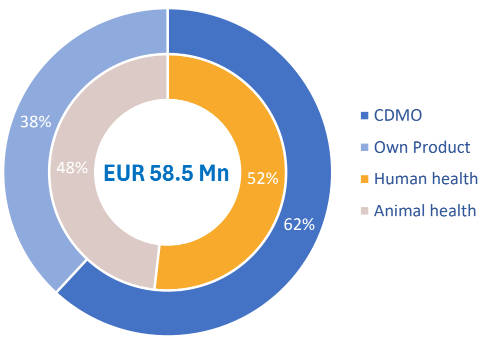
In short, "on paper", LAB is a company with a low-risk business model, which has already embarked this year on a new cycle of profitable growth that, if sustained (and there are risks, as mentioned above), suggests that the worst is in the past and the best has yet to come.

The 1H24 results show that LAB is moving from contemplation to action.

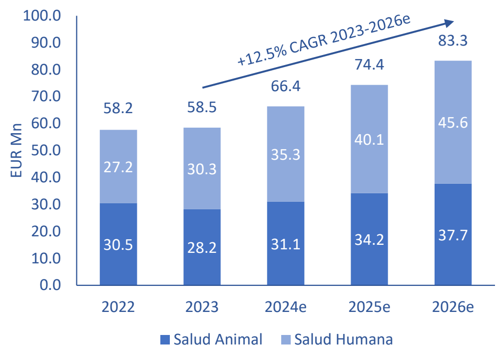
The 1H24 results were very important for LAB's share price performance as they showed two things: 1) excellent earnings momentum once the vice on growth implied by its debt had been released; and 2) the credible prospect of a leap in EBITDA, underpinned by simple maths, if revenue growth tops (a feasible) 10%. The 1H24 results show that LAB is moving from contemplation to action.

The company in 8 charts

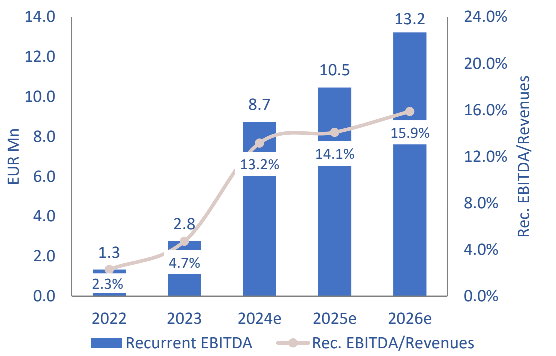
A diversified business (animal and human health) in an inherently defensive industry...



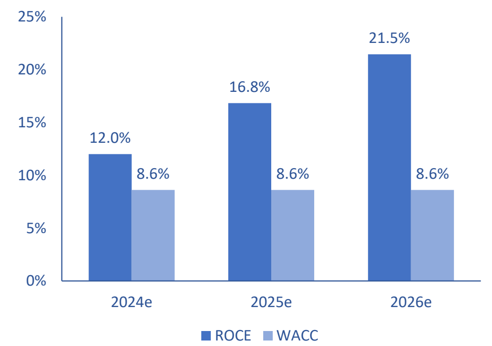
... which we expect to enter a strong double-digit growth phase until 2026e (+12.5% CAGR 2023-2026e)



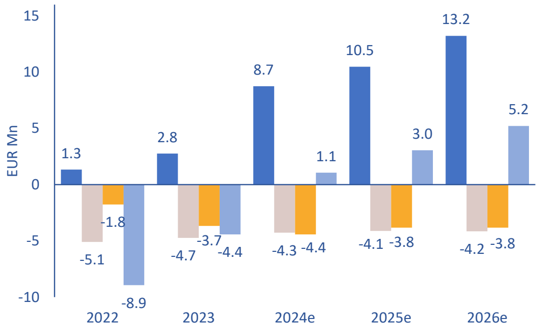
And crystallize on a leap in profitability levels as early as 2024e



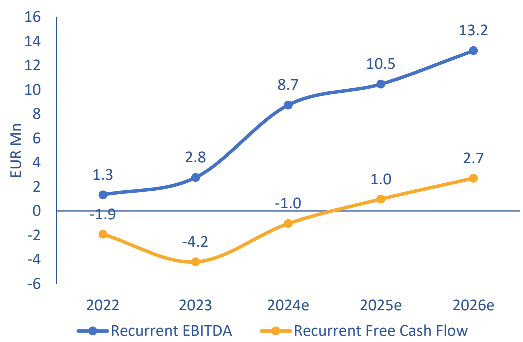
Which will enable a clear generation of value from the business model (ROCE 2024e: 12.0% vs WACC 2024e: 8.6%)



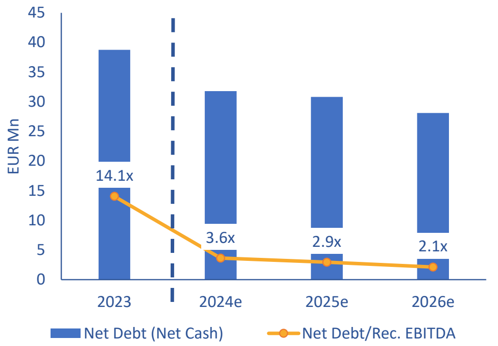
The inertia of EBITDA growth will mitigate the effect of financial expenses, unblocking Net Profit...



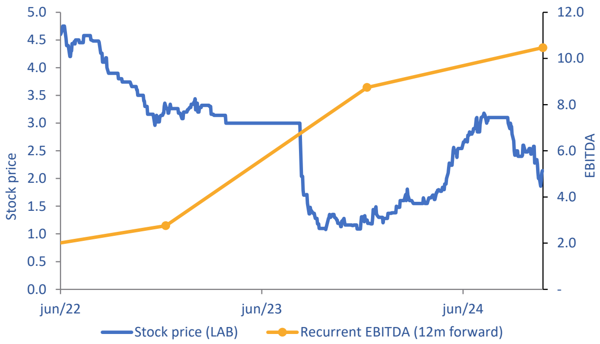
... And with the capacity to generate positive recurring FCF starting in 2025e (Recurring FCF 2025e: EUR 1.0Mn)...



... Reducing the debt level to (DN/EBITDA 2026e: 2.1x)



Trading at objectively very low multiples: P/E 2025e 5x vs sector 16x



A well-diversified pharma player with strong potential for margin expansion that only really needs to deleverage

Chart 1. Revenues (2013-2023)

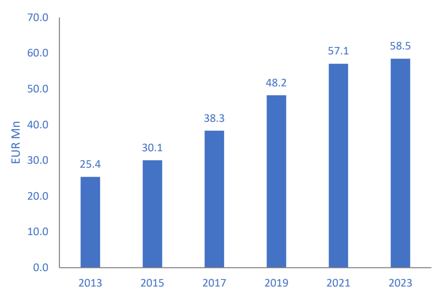
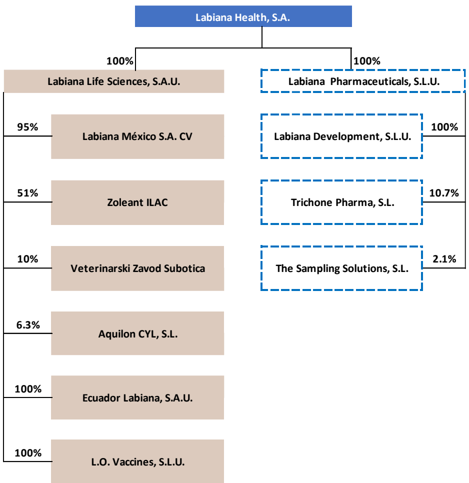


Chart 2. Corporate Structure



Labiana Health (LAB), a Spanish pharmaceutical company (market cap: EUR 15.5Mn) based in Madrid, Spain develops, manufactures and sells both animal (veterinary) and human health products. LAB's operations are divided up between: (i) proprietary manufacture and sale of products (Fosfomycin, Precyst, Labiprofen, Labimycin) and (ii) third-party development and manufacture (operating as a contract development and manufacturing organisation or CMDO) of medicines in a wide variety of presentations, specialising in solid, sterile, solution and lyophilised pharmaceutical forms.

In 2023, LAB reported revenue of EUR 58.5Mn (CAGR 2019-2023: 4.9%; Figure 1) and recurring EBITDA of EUR 2.8Mn (recurring EBITDA margin: 4.3%). LAB has a clearly international profile, with 72.5% of its revenue generated outside Spain, mostly through CDMO manufacturing services (62% of revenue).

At year-end 2023, production was split up between: (i) animal health products, with five plants—one located in Terrasa, specialising in injectables, solids and non-sterile liquids, and four in Serbia (arising from the acquisition of Zavod and Zoleant in 2019)—specialising in the production of liquid medicines, and bacterial and viral vaccines, and (ii) human medicines, with a facility in Corbera de Llobregat (currently its production centre for human health products, including oral solids, non-sterile liquids and sterile solution and lyophilised products).

In 1H 2024, the company divested its Serbian plants (through dilution from a EUR 3Mn capital increase, leaving it with a 10% stake in its Serbian subsidiary, Zavod, vs 100% previously, and therefore resulting in its exclusion from the scope of consolidation). It kept the Terrasa and Corbera de Llobregat plants in Spain, both of which have European GMP (Good Manufacturing Practices) certificates. The Terrasa plant is one Europe's largest injectable plants (for animal health), with a surface area of 10,430m^2. The slightly smaller Corbera de Llobregat plant (9,000m^2) focuses on human health (and veterinary medicine authorisations). From what we see, current production capacity easily outstripped capacity utilisation in 2023 (estimated maximum cap: EUR 100Mn of revenue; c.50% of 2023 capacity utilisation).

1958-2023: Resilience and several 'changes of hands'

LAB boasts nearly 70 years of experience. It was founded in 1958 in Terrasa (Barcelona) as a specialist manufacturer of nutritional products for animals. In 1980, the founding family sold Labiana to BASF (1980), after which it became a veterinary company (geared toward production animals). In 1993, its started marketing CDMO services. In the ensuing years, several private equity firms (3iGroup, ABN Amro) acquired shares in LAB's capital, driving a sharp increase in leverage. In 2023, the company entered the human medicine manufacturing business.

In 2006, the company filed for insolvency and a year later sold its entire capital to Dutch bank, Rabobank, which then carried out a series of asset disposals to bring debt down. 2013 featured the management buy-out led by current CEO Manuel Ramos and the insolvency proceedings ended in 2016. LAB began trading on BME Growth in 2022, raising EUR 5Mn of 'new' money (below the EUR 20Mn expected) so the company could seek out new ways to reorganise its burgeoning debt level (pre-IPO net debt 2021: EUR 42.2Mn and net debt 2022: EUR 36Mn). The following year it entered into a debt reorganisation agreement with Blantyre and Miralta.

Table 1. LAB storyline

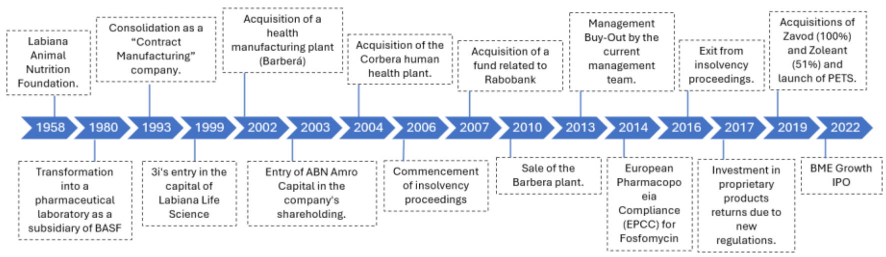


Chart 3. Stage Gate methodology in R&D

Chart 4. Revenues by type (2023)

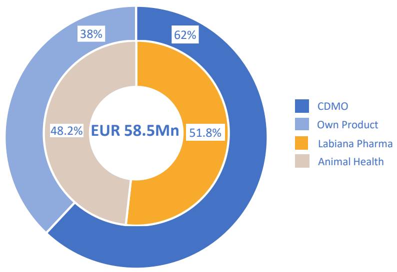


Chart 5. CDMO Revenue Mix (2019-2023)

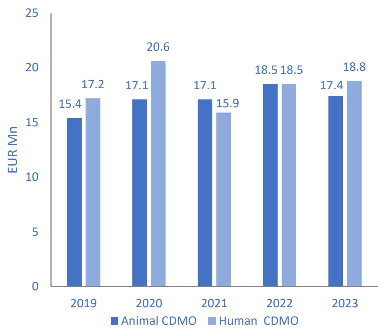
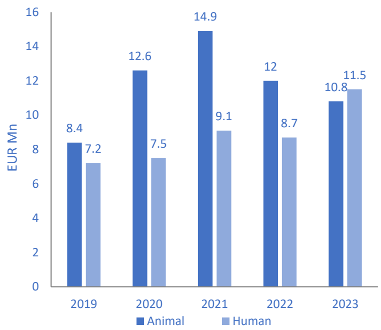


Chart 6. Own Product Revenue Mix (2019-2023)



A business model that combines CDMO (62% of revenue) and proprietary (38%) product manufacturing in an industry with high entry barriers

LAB engages in multidisciplinary activities dedicated to advancing both human and animal health, providing its customers with end-to-end services across the entire value chain:

- **Research and development (R&D):** for new proprietary and third-party medicines. LAB operates its own laboratories (Corbera and Terrasa) for galenic development (transformation of active ingredients into pharmaceutical forms, ensuring their stability) and analytical development (design and testing of pharmaceutical formulas for quality assessment). The Group has adopted the 'Stage Gate' process, a methodology that organises the research into the following phases: (i) go - move on to the next stage, (ii) kill - abandon the project, (iii) hold - the project is kept in standby or (iv) recycle - the project changes and the progress is used to come up with a different product.

- **Manufacturing medicines (proprietary and CDMO)**, including chemical and (since 2019) biological products. LAB specialises in sterile dosage forms (vials and ampoules), while also possessing the capability of manufacturing capabilities for a variety of other formats (e.g., oral solid dosage forms and non-sterile liquids). Both of its facilities are GMP certified, ensuring adherence to the highest production standards. The company is also capable of manufacturing a broad range of end products.

- **Regulatory services:** LAB has a dedicated regulatory department responsible for obtaining the necessary Marketing Authorisations for medicinal products, ensuring that (both proprietary and third-party) products can be launched in each territory.

- **Logistics service:** access to a retail network spanning over 150 countries. It is organised from collection ('picking') to destination.

Each (human and animal) business line offers outsourcing services for other companies (CDMO) and proprietary or in-house production. In 2023, CDMO services accounted for 62% of revenue, while proprietary products contributed 38% (supported by a portfolio of >50 products.

CDMO: outsourcing services to other pharmaceutical companies and industry partners for the development and manufacturing of medicines (above all sterile pharmaceutical forms and oral solid dosage forms).

This business is organised into two key categories: (i) Contract Development (creating new formulations and products) and (ii) Contract Manufacturing (providing manufacturing services to pharmaceutical companies that outsource the production of their medicines). CDMO contracts are generally for terms of 3-5 years. One of LAB's strengths is the longevity of its contracts (customers with relationships of >25 years). Revenue from CDMO services in 2023 totalled EUR 36.2Mn (62% of the total).

Proprietary products: LAB invests in R&D to develop new generic medicines, generics featuring galenic or technological innovations, and niche products. It distributes its own medicinal products through 'Licensing-out' (i.e., agreements with third parties for distribution in other countries) and 'Licensing-in' (i.e., where LAB acquires the rights to market a product in Spain from a third party) agreements. Proprietary product revenue in 2023 amounted to EUR 22.3Mn (38% of the total). The company's number one product is Fosfomycin trometamine. At year-end 2023, LAB had 16 products under development in its pipeline to 2025.

The overall animal health business covers 10 therapeutic areas (e.g., anti-infectives, anti-inflammatories, nutritional products, antiparasitics, vitamin products, and vaccines). Its portfolio comprises over 50 proprietary products. Revenue from this division in 2023 came to EUR 28.2Mn (48.2% of the total; -7.5% vs 2022), of which EUR 17.4Mn related to CDMO services and EUR 10.8Mn to proprietary products.

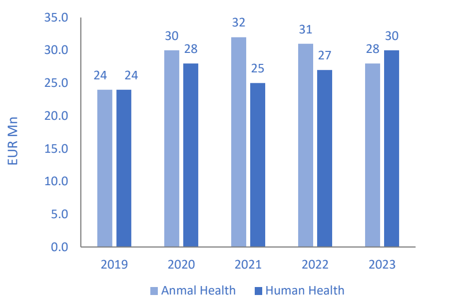
The main revenue drivers in the Human Health business line are Fosfomycin trometamine (a proprietary product) and the CDMO services (third-party development and manufacturing of new products) utilising the company's existing capacity Revenue from this division amounted to EUR 30.3Mn in 2023 (51.8% of the total; +11.4% vs 2022), of which EUR 18.8Mn related to CDMO services and EUR 11.5Mn to proprietary products.

What sets LAB apart from other players?

LAB boasts extensive expertise in manufacturing products with a wide range of active ingredients, gained through its intensive work in production transfers and product development, particularly in sterile solutions and lyophilised products. Moreover, LAB's versatility in utilising various technologies enables it to adapt to a broader spectrum of products. Unlike other pharmaceutical companies that also offer CDMO services (e.g., Reig Jofre or Laboratorios Hipra), LAB also stands out by accepting production orders that (because their size or high production complexity) cannot be handled other companies (mid-small scale).

High authorisation ('switching') costs for customers pose a strong exit barrier, as evidenced by the long-term relationships with some customers (>10 years).

Chart 7. Revenue Mix (2019-2023)



All of these factors, coupled with an extensive commercial network, a comprehensive range of services across the entire value chain (one-stop shop), and the ability to leverage its fixed costs following investments in current plants, leave LAB positioned to scale back up and provide it with strong competitive advantages.

The acquisitions of foreign companies in 2019, along with licensing-out agreements, have enabled LAB to expand its footprint to over 110 markets. LAB has registered proprietary products in >100 countries. Geographically, the EU (ex-Spain) contributed 61.6% of revenue, Spain 27.5%, North America 5.1% and the rest of the world (ROW) 5.8% of revenue in 2023.

Chart 8. Global reach of LAB products

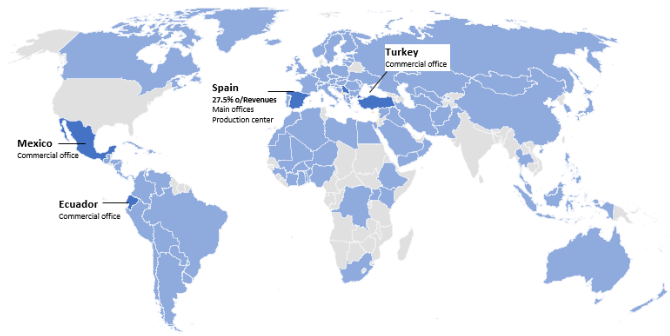
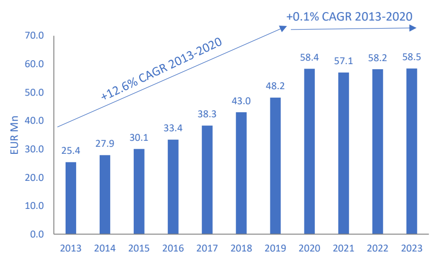


Chart 9. Revenues (2013-2023)

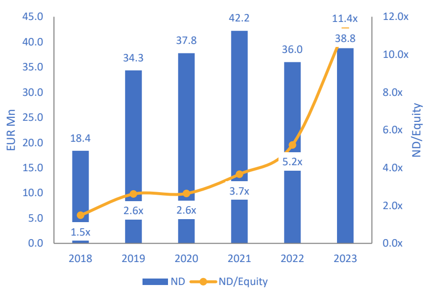


After several years of sustained growth (CAGR 2013-2020: +12.5%), LAB's capacity to grow further is currently constrained by its level of leverage

LAB's history can be characterised by two distinct periods. One is from the MBO in 2013 to 2022, when LAB delivered double-digit organic growth (CAGR 2013-2020: 12.5%), reaching revenue of EUR 58.4Mn in 2020 (vs EUR 25.4Mn in 2013; Chart 9). The focus was geared towards driving the CDMO business, leaving a 60-65% CDMO/35-40% proprietary product revenue mix.

We see the following as the main catalysts behind this growth: (i) a controlled debt level (net debt/equity <1.5x in 2018) despite not generating positive cash flow, (ii) a strategic focus on CDMO, driven by the manufacture of generics and branded products, (iii) product diversification towards medicines for pets (previously focused on production animals, such as cattle) with the creation of the PETS division in 2019, (iv) international expansion and enhancement of the commercial network, and (v) growth in sales of third-party products under license (licensing-in).

Chart 10. Net Financial Debt (2019-2023)



The second period started as of 2020, when the defensive nature of LAB's business was further strengthened by the full consolidation of the two companies acquired in 2019: Zoleant (a Turkish company providing pet products and access to Asia, acquired in April 2019 and first consolidated in 2021, with revenue of EUR 1.6Mn) and Zavod (a Serbian company providing biologically-based medicines and access to new markets acquired in November 2019, with revenue of EUR 4.7Mn). The companies were acquired for a total of EUR 9.5Mn and accounted for about 40% of consolidated revenue growth in 2020 (EUR 58.4Mn; +21.1% vs 2019).

The M&A deals carried out in 2019, coupled with a CAPEX/sales ratio of 10% between 2019 and 2020, pushed up net debt to EUR 42.2Mn in 2021 (ND/equity: 3.7x). The post-Covid-19 situation has been marked by a lack of resources needed to sustain operations, compounded by high levels of debt (particularly short-term debt, which accounted for around 50% of gross debt in 2022). This combination has somewhat undermined the company's operational and growth capacity since 2020.

Chart 11. Gross Margin (2019-2023)

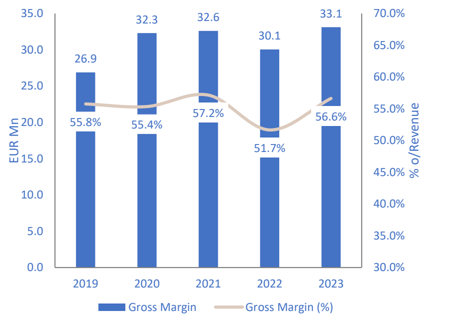


Chart 12. Rec. EBITDA vs Rec. EBITDA Mg. (2019-2023)

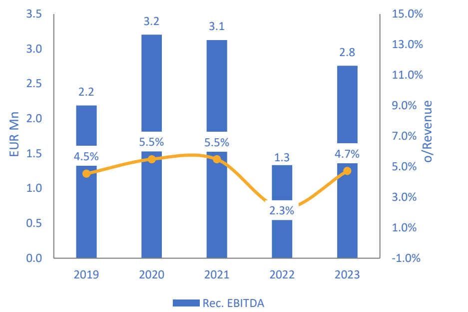


Chart 13. Capitalized R&D expenses vs amortization vs EBIT (2019-2023)

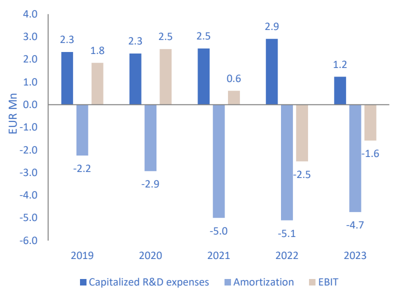


Chart 14. Gross Debt (2019-2023)

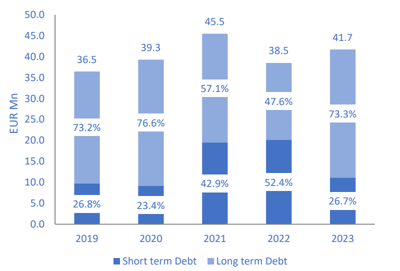
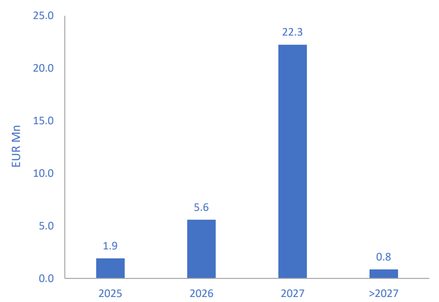


Chart 15. Gross Debt Maturity (2023)



LAB reported flat revenue between 2020-2023 (EUR 58.5Mn in 2023 vs EUR 58.4Mn in 2020), maintaining a balanced revenue distribution (c. 50% from its human health and animal health businesses).

High fixed costs are weighing on profitability (recurring EBITDA margin: c.5%)

The main costs of goods sold are the APIs (active principle ingredients), excipients and other primary and secondary inputs needed to make medicines. The gross margin has averaged 55-57% (which is slightly below that of its comps: c.60%), with the exception of 2022, when sharp depreciation of the Turkish lira lowered the gross margin to 51.7%.

Below gross profit, growth in wages has been set through collective bargaining agreements (the general agreement applicable to the chemical industry), such that staff costs have been stable as a percentage of revenue since 2019 (c. 32.5% of revenue; +/-1% vs 2019). Other operating expenses, shaped by non-recurring charges such as those derived from the listing on BME Growth, the contract executed with Miralta & Blantyre, the aborted acquisition of Laboratorios Ovejero in 2022 and the cost of the advisors hired to reorganise the company's debt in 2023.

Total operating expenses (OPEX) accounted for c.52% of revenue in 2023, in line with the level observed in 2019-2020. The stagnation in sales has prevented the company from building economies of scale and unlocking profitability gains; its margins are below the sector average. As a result, LAB has reported an EBITDA margin of c.5% (without capitalized expenses) over the last five years, which means that EBITDA has trended in line with revenue (CAGR 2019-2023 rec. EBITDA: +5.9%), amounting to c. EUR 2.8Mn in 2023 (vs CAGR 2019-2023 in revenue of +4.9%).

R&D is fundamental to defending the company's position in an investment-intensive industry (c.EUR 11Mn of capitalised R&D costs since2019); that, and corporate deals (particularly in 2019), have increased D&A charges over net assets by 7p.p. between 2020 and 2023, to 16.6%. That increase, coupled with stagnant sales for the last three years, has kept EBIT above break-even.

High leverage levels, mitigated by the debt reorganisation completed in 2023

Following the acquisitions completed in 2019, leverage (ND/equity) spiked to 2.6x in 2020 (vs 1.5x in 2018). LAB's inability to generate positive FCF caused it problems as in 2021, its current borrowings amounted to 42% of total gross debt.

Following the listing on BME Growth, in which the company raised c. EUR 5Mn (of the originally targeted EUR 20Mn), extraordinary charges (impairment losses on interests in investees and non-recurring charges in 2022) eroded equity significantly, to leave it at EUR 3.4Mn in 2023. That "forced" LAB to search for alternative sources of financing. In 2023, it refinanced EUR 25Mn of debt with Blantyre Capital and Miralta Finance. As a result, at year-end 2023, gross debt amounted to EUR 41.7Mn (of which 26.7% was current debt, compared to 52% in 2022), alleviating the financial situation and giving LAB space to continue to operate and the ability to finance its working capital.

The EUR 25Mn refinancing agreement (due 2027; Chart 15) was structured into two tranches: tranche A of EUR 20Mn (75% to cancel debt and 25% for working capital and R&D investments); and tranche B of EUR 5Mn (for CAPEX). The agreement includes the issuance of 2,256,643 warrants (one warrant converts to one share) to Blantyre and Miralta giving them the option of purchasing up to 2,256,643 shares in LAB at a conversion price of EUR 3.9 per share.

Table 2. Impact of the conversion of LAB's warrants on the shareholder structure

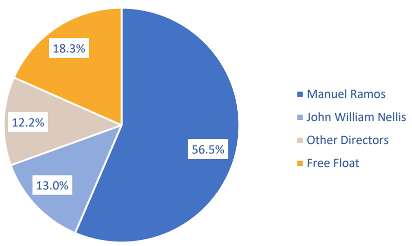
Shareholder	Number of Shares today	Warrants conversion	Number of shares post-conversion	Shareholder	Number of Shares today (%)	Warrants conversion	Dilution (%)
Manuel Ramos Ortega	4,076,398	0	4,076,398	Manuel Ramos Ortega	56.5%	43.0%	-23.8%
Sandra Villagrasa Clemente	939,485	0	939,485	Sandra Villagrasa Clemente	13.0%	9.9%	-23.8%
Ignacio Yañez Minondo	753,177	0	753,177	Ignacio Yañez Minondo	10.4%	7.9%	-23.8%
Financial entities	0	2,256,643	2,256,643	Financial entities	0.0%	23.8%	100.0%
Treasury stock	223,137	0	223,137	Treasury stock	3.1%	2.4%	-23.8%
Free Float	1,229,058	0	1,229,058	Free Float	17.0%	13.0%	-23.8%
Total Shares	**7,221,255**	**2,256,643**	**9,477,898**	**Total Shares**	**100.0%**	**100.0%**	***n.a***

If all of the warrants are converted at EUR 3.9 per share, for a total of EUR 8.8Mn, the financial institutions would take an equity interest in the company of around c.24%, implying dilution of up to c.24% for LAB's current shareholders.

LAB is controlled by the management team, which is fully aligned with the minority shareholders' interests. Free float: 17%

In 2013, seven LAB executives completed a management buy-out (MBO) of 100% of the company from Rabobank through Seven Pharma (in which Bluecolt owned 61%, with Manuel Ramos, the current CEO, controlling 100% of Bluecolt). In 2019, Manuel Ramos' investment vehicle increased its shareholding to 80%. In 2020, the shares were split (1 for 58) and a non-cash capital increase was undertaken to give John Williams Nellis (a veterinarian with an excellent international reputation) a 13.0% shareholding. Manuel Ramos' indirect shareholding decreased as a result.

Chart 16. Shareholder Structure



Today, Manuel Ramos retains control with a 56.5% shareholding (via Bluecolt) and is fully involved in the company's management. John Williams has a 13.0% shareholding, and the other executives hold 10.4% between them. Therefore, Manuel Ramos has held a majority stake for >10 years, clearly demonstrating his long-term commitment (a stake that, together with that of his management committee, implies and guarantees full alignment with the minority shareholders' interests). The free float currently stands at 17%; full conversion of the warrants held by Blantyre and Miralta would reduce it to 13.3%.

In conclusion: What is LAB and where is it today?

LAB is a small-cap pharma play. It is highly diversified, offering health solutions for humans and animals, selling its own products as well as providing services for third parties (CDMO). Since 2020, it has defended annual revenues of over EUR 50Mn thanks to a proven resilient business model.

However, the last few years have been marked by a series of events (acquisitions, inflation, pandemic, BME Growth listing) which, coupled with high debt levels, have limited its ability to fulfil its full organic growth potential. Nevertheless, LAB boasts a series of strengths that position it well for the future and constitute an objectively low-risk model thanks to diversification:

- **Ample portfolio.** LAB sells a wide range of products and services (human + animal pharma), giving it a broader customer reach.
- **Strong international presence.** An international footprint consolidated by strategic acquisitions in Turkey that give the company access to emerging markets.
- **Entry/exit barriers and a recurring customer base.** The high costs of switching supplier in medicine manufacturing and its long-term relationships with its customers are some of LAB's most compelling competitive advantages. Moreover, the highly complex nature of the technology involved, and specific expertise required mean there are fewer laboratories in these areas and, therefore, less competition.
- **Market niche.** The company's deep know-how in pharmaceutical presentations that are complex to produce, derived from intense licence transfer and product development activity, coupled with the size of the median batch, creates the opportunity to make niche products that add a lot of value.

There is significant room to increase margins, implying an opportunity for value creation in the long term. Despite the reorganisation of 2023, the company's Achilles' heel remains managing its net debt and reducing the cost of its liabilities. That is the only bottleneck holding it back. The (partial or total) resolution of this issue would in itself be a catalyst for the share price.

Human/animal pharma: a defensive play, dependent on R&D and capable of delivering medium to high single-digit growth

The pharmaceutical industry (human and veterinarian) is defensive and non-cyclical. Consumption of medicines and health treatments tends to be stable, irrespective of the economic cycle. Population ageing is the key driver of the human health industry; in the veterinarian segment, the main driver is population growth, which translates into growth in demand for food products of animal origin, and a rising number of pets. In 2023, LAB's revenue mix was 51.8% human pharma and 48.2% animal pharma.

The industry's defining characteristics (which in turn act as barriers to entry for new competitors) include a heavy CAPEX requirement, the complexity of the product development process and the length of time needed for the latter.

In the US, the Food and Drug Administration (FDA), and in Europe, the European Medicines Agency (EMA), are the main supervisory authorities. New medicines require their approval, which involves a long period of testing, before they can be marketed and afterwards they remain subject to constant supervision. Pharma companies' catalogues of medicines and treatments and their pipelines are key catalysts, determining each company's growth expectations.

The sector is highly fragmented, with many players covering different areas of the health sector. In human health, the major pharmaceutical players such as Novo Nordisk (Novo; Denmark), AstraZeneca (AZN; UK) and Roche (ROG; Switzerland) are stable players and control a large chunk of the market. The key players in the animal health industry are: Boehringer Ingelheim (Germany), Zoetis (ZTS; US), Covetrus (CVET; US), Elanco (ELAN; US), IDEXX Laboratories (IDEXX; US), Animalcare (ANCR; UK), Vetoquinol (VETO; France) and Virbac (VIRB; France). Some of the human pharmaceutical majors, like Merck (MRK; US) and Bayer (BAYN; Germany) cover both fields.

In Spain, the pharmaceutical industry is a strategic and growing industry (it is the country's eighth largest industrial sector, contributing 6.8% to GDP). According to the main sector association, Farmaindustria, the sector employs c.260,000 people (direct, indirect and induced; 53% women), is the country's third-biggest exporting industry and accounts for 20% of nationwide R&D. In 2023, public expenditure on healthcare accounted for 7.8% of GDP, which is equivalent to EUR 2,001 per inhabitant. Spain is home to 173 pharmaceutical factories (of which 103 make human medicines, 46 make APIs and 24 make veterinarian products).

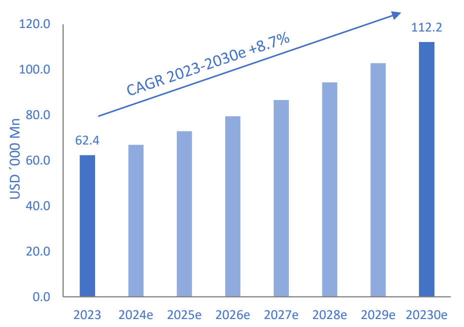
Growth prospects in the animal health market are good (CAGR 2023-2030: +8.7%)

The animal health industry encompasses a wide range of medicines, including antibiotics, vaccines and anti-parasitic products designed to prevent and treat animal illnesses. The market can be divided into two segments:

- **Pets:** growth in both the pet population (according to Madrid's association of pet veterinarians, 49% of Spanish households had a pet in 2024) and expenditure on their care are the two key drivers.
- **Livestock:** This segment includes cattle and pigs, bred mainly for the food industry. Spain is Europe's largest pork producer. According to the recent count provided by Spain's Ministry of Agriculture, Fishing and Food, Spain has c.33.8Mn pigs, a cattle population of 6.9Mn and 13.6Mn sheep.

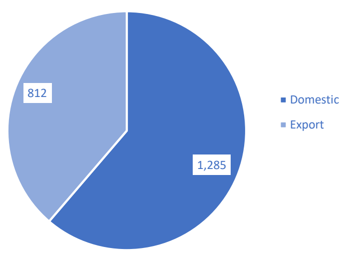
The size of the global animal health market is estimated at USD 62.4Bn and is expected to register CAGR of 8.7% to reach USD 112.2Bn by 2030e (Grandview Research). Large multinationals such as Merck (MRK; US), Bayer (BAYN; Germany), Boehringer Ingelheim and Zoetis (ZTS; Germany) lead the market with a presence in several business lines. In parallel, smaller-sized companies tend to specialise in specific niches within the industry. LAB's closest comps in terms of size and market focus are Livisto (Poland), Syva (Spain), Calier (Spain), SP Veterinaria (Spain), Laboratorios Karizoo (Spain) and DFV (Spain).

Chart 17. Global animal health market



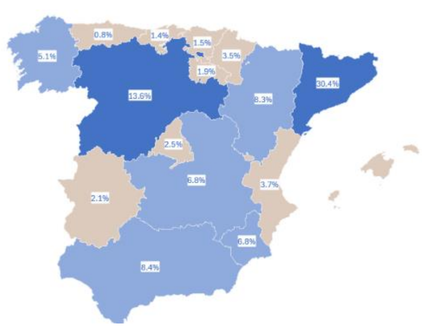
Source: Grand View Research

Chart 18. Spain veterinary market size



Source: Veterindustria

Chart 19. Veterinary market in Spain.



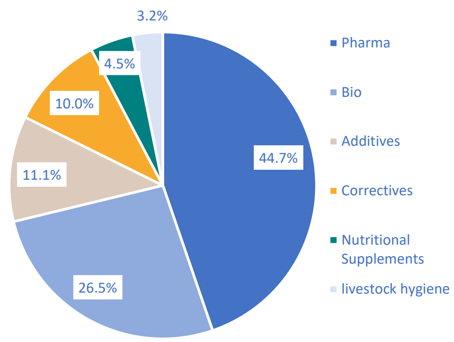
Source: Veterindustria

Tightening of regulations and controls over food products of animal origin in recent years has led to more exacting standards and a drop in the number of sector players. In contrast to the human health market, there are no regulations governing price setting in the animal health industry.

Growth in the global population is set to drive growth in demand for products of animal origin for human consumption. Global trends around wellbeing, preventative medicine and demand for sustainable products are creating awareness about the importance of animal health to facilitating a healthy and sustainable diet. In recent years, there has been a shift from mass medication of livestock (primarily with antibiotics) towards more individualised treatments (injected medicines). Technological advances in the development of new vaccines (incremental innovation) are playing a crucial role in progress around treatments.

In Spain, turnover in the animal health and nutrition industry amounted to EUR 2.1Bn in 2023 (+7.5% vs 2022; EUR 1.29Bn of national product sales and EUR 812Mn of exports). Pet products (cats and dogs) account for 36.1%, with the rest of the market accounted for by livestock. Pharmacological products account for the largest share of sales, at 44% of the market, followed by biological products (26%) and additives (11%). Catalonia is the most active region, representing turnover of EUR 391.2Mn (30.4% of the total) last year.

Chart 20. Veterinary products sales in Spain 2023



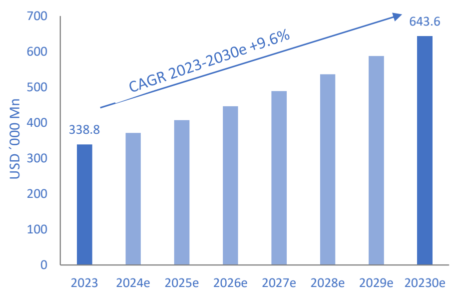
Source: Veterindustria

Patent expiration is the short- and medium-term catalyst in the generic human medicines segment

A generic is a lower-priced medication created to be the same as an already marketed brand-name drug in dosage form, safety, strength, route of administration, quality, performance characteristics, and intended use whose patent has expired.

Since the pandemic, the generics segment has benefitted from stronger demand for treatments for infections and regulatory efforts to facilitate their manufacture and shorten approval processes. Growth in expenditure on health worldwide, population ageing and an increased incidence of chronic illnesses have increased demand for more affordable pharmaceutical options. Moreover, the pharmaceutical companies' R&D efforts have been focusing on technological advances designed to improve the efficiency and quality of generics.

Chart 21. Generic drug market

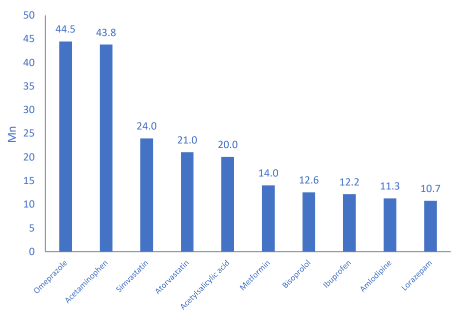


Source: Research & Market

Expiry of a significant number of patents is set to provide a catalyst in the years to come. This should spark competition and the arrival of new generic medicines on to the market in the near and medium term. According to FiercePharma, pharmaceutical patents worth c.EUR 4Bn are set to expire in 2024, including Sprycel (Bristol Myers), Tysabri (Biogen), Myrbetriq (Astellas) and Victoza (Novo Nordisk).

The size of the global generics market was estimated at USD 309.15Bn in 2022. It is expected to register a CAGR of 9.6% until 2029e (Research and Market; Chart 21). The biggest producers of generic medicines are Novanovarrtis (Switzerland), Pfizer (US), Teva (Israel) and Viatris (US). LAB's closest competitors in human health products in Europe include Reig Jofre (Spain), SAG Manufacturing (Spain), Recipharm (Sweden) and SynerLab (France).

Chart 22. Most consumed generic drugs in Spain (Number of packages)



Source: Ministry of health

According to health consultant, IQVIA, the penetration of generics varies by region. In cardiovascular health, for example, the penetration of generics in the UK stands at 93%, compared to 63% in Spain. Spain has one of the world's most restrictive pharmaceutical policies. When patents expire, the prices of branded products correct automatically to the generic products' prices. Spain has strict policies around reference prices and reimbursements which influence the penetration of generics.

Nationwide, there are 21 factories devoted to making generic medicines (30% of their production is exported). According to Spain's generic medicines agency, AEMG, half of the generic medicines sold in Spain retail for less than EUR 1.60. Moreover, 40% of the publicly-financed medicines sold in Spain are generics (compared to a European average of 70%). It is estimated that the sector employs over 40,000 people directly and indirectly. The best-selling generic medicines in Spain are omeprazol and paracetamol according to the Ministry of Health (Chart 22).

CDMO: An innovation ally for pharmaceutical companies

A contract development and manufacturing organisation (CDMO) provides a combination of medicine manufacturing and research services to third parties with a particular focus on sterile and lyophilised pharmaceutical presentations and biological products.
Their services are fundamental in the medicine supply and production chain as they allow the pharmaceutical companies to outsource several stages of the new medicine development process. CDMOs provide benefits such as cost reduction, access to advanced technologies, manufacturing flexibility and economies of scale.

In response to growing demand and new market requirements, CDMOs have been shifting away from a role as pharmaceutical product service providers to one of leaders in technological innovation in recent years. This transformation has come about thanks to organic growth and M&A activity that has allowed CDMOs to expand their technological and production capabilities.

In parallel, the CDMOs are expanding the breadth of their contracts along the value chain, fuelled by demand from small biotech firms for one-stop-shop services that encompass the entire process, from medicine development through to its marketing.

According to the portal, PMFarma, the CDMO industry is expected to register CAGR of 7.8% to reach EUR 240Bn in 2028e, thanks to growth in clinical trials and the restructuring trend among pharmaceutical companies looking to free up internal capacity to focus on their more complex proprietary products.

Chart 23. CDMO supply chain

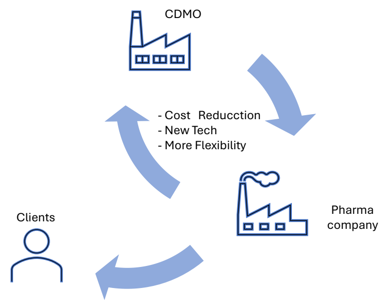
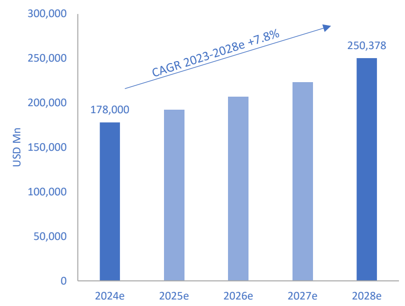


Chart 24. Evolution of CDMO growth 2024-2028e



Source: PMFarma

High market fragmentation bodes for M&A activity in the pharma sector (human and animal)

The animal and human health industries are highly fragmented. There is a sizeable population of SMEs specialised in different subsectors of the market. The large pharma players often see these niche companies as opportunities to: (i) diversify their product catalogues; (ii) expand their geographical footprints; (iii) access new technology; and (iv) generate operational synergies.

Indeed, the CDMO market has been marked by constant consolidation, driven by the need to master new technologies. According to the report by EY Parthenon, "How CDMOs are leading innovation for pharmaceutical partners", of 244 M&A transactions analysed between 2017 and 2021, one-third were related with innovative areas such as gene and cell therapies.

Sector consolidation is expected to continue over the coming years, driven by the technological transformation shaping the sector and an improved macroeconomic environment.

Table 3. Main M&A transactions in the health sector

Country	Year	Target	Buyer	Sector	Deal Value
USA	2023	Seagen	Pfizer	Human Health	USD 43,000Mn
Germany	2023	BioNtech	Pfizer	Human Health	EUR 14,000Mn
USA	2023	Elanco	Zoetis	Animal Health	EUR 5,000Mn
Germany	2023	Abaxis	Bayer	Animal Health	EUR 3,000Mn
Germany	2023	Agrana	Boehringer	Animal Health	EUR 2,000Mn
Switzerland	2023	GenMark Diagnostic	Roche	Human Health	EUR 4,500Mn
France	2022	Translate Bio	Sanofi	Human Health	EUR 11,000Mn
USA	2021	PPD	Thermo Fisher	Human Health	USD 17,400Mn

In short, the pharma sector is constantly innovating and capable of delivering mid-single-digit growth in the long term

The pharmaceutical industry is at the cutting edge of innovation and technological development. Although the majors dominate much of the market, the small and medium-sized pharmaceutical companies play a crucial role in niches of the health industry. They have the opportunity to produce specific medicines that the large pharmaceutical players decide to outsource.

Population growth and ageing, coupled with a rising pet population and growing demand for products of animal origin for human consumption, are the key factors driving mid-single-digit growth in the sector. In the years to come, the sector is expected to be shaped by the following developments:

- **Technological advances.** This is the main catalyst for the sector. The pharmaceutical companies will continue to invest in R&D in response to new trends, to develop innovative products and improve the quality and efficiency of their services. Emerging technologies such as artificial intelligence are likely to revolutionise diagnostic methods and disease treatment, further transforming the sector.

- **Patent expiry.** A significant number of patents are due to expire in the next few years, particularly in molecule medicines made using chemical synthesis, the main driver of the generic medicine market. Also, Spain's Ministry of Health is expected to continue to promote the use of generic and biosimilar medicines. According to a study by Biopharma Dive, the 30 best-selling medicines in 2023 (Xarelto, Sterala, Eylea, Eliquis, etc.) stand to lose patent protection within the next 13 years.

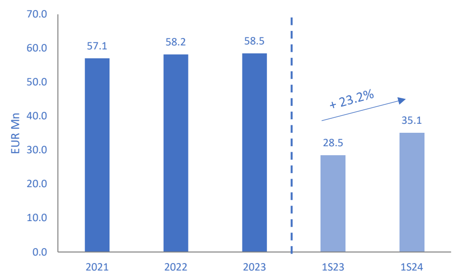
- **Growing demand for CDMO services.** Population growth spells growth in demand for medicines. In response, the major pharmaceutical companies will focus on researching and developing processes that add value, while seeking to lower costs and boost efficiency by outsourcing services to CDMOs. In parallel, the small biotechnology firms, which lack the necessary infrastructure, will use them for services to allow them to cover the entire value process, from design to marketing.

- **Rising pet population.** Growth in the pet population will remain a sector driver. According to a Morgan Stanley report from 2019, the sector is expected to double in size between 2020 and 2030e, to EUR 3.8Bn. According to Spain's national association of pet food makers, the country has > 30Mn pets, including 9.3Mn dogs and 5.8Mn cats.

In short, we are talking about a mature and defensive industry which nevertheless presents healthy growth prospects in the medium and longer term. The major pharmaceutical players command a significant market share. However, there are opportunities for small companies like LAB to make a difference and grow in niche markets. In parallel, government policies are encouraging use of generic medicines to reduce costs for the population. In other words, the small pharma companies with exposure to growing subsectors (generics, CDMOs, pet food, animal products for human consumption) are capable of eking out mid to high single-digit growth (sector average: c.8%) in the medium and long term.

2024 marks an inflexion point, with LAB finding its way back to growth (CAGR 23-26e revenue: 12.5%)

Chart 25. Revenues 2021-1H24



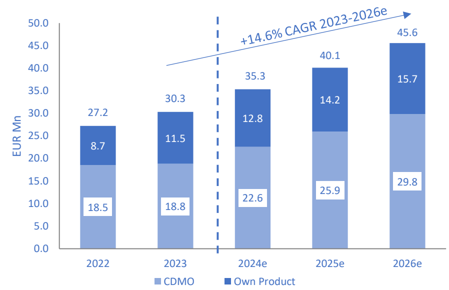
LAB is a small-sized pharmaceutical company with a presence in both the human health (c.52% of 2023 revenue) and animal health (c.48%) segments. It has spent the last four years "out in the wilderness" following the acquisitions in Serbia and Turkey in 2019 (Zavod and Zoleant, respectively).

These transactions had the effect of leaving the company significantly more leveraged while the anticipated synergies failed to materialise in full, curbing the company's ability to generate FCF and invest. Moreover, disruptions in the supply chain (ampoules and vials) and working capital tensions curtailed its ability to capitalise on the opportunity that arose in the wake of the Covid-19 pandemic (in contrast to other Spanish pharmaceutical companies like Laboratorio Reig Jofre). Revenue stagnancy over the past four years (CAGR: +4.9%) and depressed margins (recurring EBITDA margin: c.5% on average in the last 4 years) have kept LAB from realising its full potential.

In our opinion, the 1H24 results mark a turning point for LAB, confirming the positive impact of the debt reorganisation with Blantyre and Miralta (2023). 1H24 revenue jumped to EUR 35.1Mn (+23.2% vs 1H23; Chart 25). However, the really good news from the interim numbers was the very positive trend in LAB's margins: The gross margin came in at 62.7% (+4.9p.p. vs 1H23) so that EBITDA expanded by more than revenue. Specifically, EBITDA amounted to EUR 5.8Mn (vs EUR 0.4Mn in 1H23, implying a recurring EBITDA margin of 16.6% in 1H24 vs 1.3% in 1H23). A noteworthy recovery that evidences Lab's ability to grow profitably, returning to "business as normal" after years of working capital stress that limited its ability to grow.

Lab's current situation therefore raises three key questions in our mind: Is the growth observed in 1H24 sustainable? What should we expect in terms of profits and cash generation? And where could LAB go in the medium term?

Chart 26. Human health revenue (2022-2026e)



Human health: the long-term growth drivers are sales of fosfomycin tromethamine and proprietary product development

LAB boasts >20 years making medicines for human health and today has an extensive portfolio of > 350 products articulated around a variety of active principles. Its most important product is fosfomycin tromethamine (treatment of serious urinary tract infections in adult and adolescent women), which accounts for the majority of its own product sales. LAB sells this product under licensing-out arrangements (under which the licensees sell the product under their own brands). It also sells it under Lab's own brand. Given its wide use as a generic in the treatment of this type of infection, we think this business line will continue to register growth.

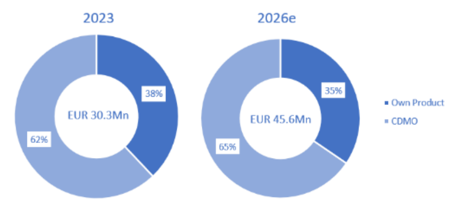
In addition to fosfomycin tromethamine, LAB continues to invest in the development of new medicines, focused mainly on complementing its current portfolio and taking advantage of the opportunity to cross-sell new products to existing customers. We are forecasting growth in revenue from own product sales to EUR 15.7Mn in 2026e (CAGR 23-26e: +11.0%).

***Table 4.* Breakdown of revenue in human health line (2022-2026e)**

Human Health (EUR Mn)	2022	2023	2024e	2025e	2026e	CAGR 23-26e
Own Product (Hh)	**8.7**	**11.5**	**12.8**	**14.2**	**15.7**	***11.0%***
var. (%) y/y	*-4.4%*	*32.2%*	*11.0%*	*11.0%*	*11.0%*	
CDMO (Hh)	**18.5**	**18.8**	**22.6**	**25.9**	**29.8**	***16.6%***
var. (%) y/y	*16.4%*	*1.6%*	*20.0%*	*15.0%*	*15.0%*	
Human Health Total Revenue	**27.2**	**30.3**	**35.3**	**40.1**	**45.6**	***14.6%***
var. (%) y/y	*8.8%*	*11.4%*	*16.6%*	*13.6%*	*13.6%*	
% over total sales	***46.7%***	***51.8%***	***53.2%***	***53.9%***	***54.7%***	
% Own Product	*32.0%*	*38.0%*	*36.1%*	*35.3%*	*34.5%*	
% CDMO	*68.0%*	*62.0%*	*63.9%*	*64.7%*	*65.5%*	

We expect that the development and manufacture of products for third parties (as a CDMO) will remain the company's flagship business line in the short and medium term, driven by new contracts from existing customers.

Chart 27. Human health mix (2023-2026e)



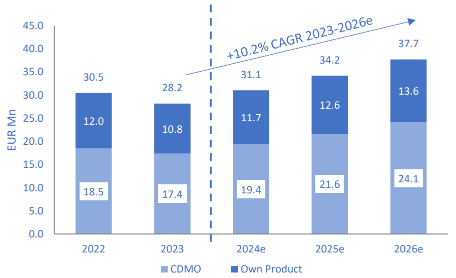
LAB boasts a wide range of services (>20 therapeutic areas), expertise in complex products (sterile and lyophilised formats, for example) and authorisation to produce controlled substances. We are forecasting growth in revenue from CDMO sales to EUR 29.8Mn in 2026e (CAGR 23-26e: +16.6%).

At the consolidated level, we expect the human health division to extend the growth observed in 1H24 to deliver aggregate revenue of EUR 45.6Mn in 2026e (vs EUR 30.3Mn in 2023; CAGR 23-26e: +14.6%). We are estimating revenue in the human health division of EUR 35.3Mn in 2024e (+16.6% vs. 2023).

Animal health: clean page following the exit from Serbia

During its time as part of BASF, LAB acquired significant know-how around injectable vitamins and injectable and oral solutions and suspensions. In 2023, the animal health division was split between proprietary (38%) and CDMO products (62%). Following the sale of its operations in Serbia (1H24), where it had four factories, Lab's production is now concentrated at its factory in Terrassa, for which it has special permits to make psychotropic, hormonal and high-potency products. The exit from Serbia comes as a breath of fresh air for LAB: it will allow it to deleverage (via deconsolidation of this investee's debt even though it retains a c.10% interest) and lift profitability in its animal health division significantly.

Chart 28. Animal Health revenue (2022-2026e)



We see more upside in the CDMO business in the medium and long term for two reasons: (i) the animal health market is smaller in size than the human health market, reinforcing Lab's positioning (and allowing it to attract new customers to use its facilities as it is a niche player); and (ii) higher market penetration due to entry into the petcare segment (where tailwinds are strong) in addition to the livestock segment.

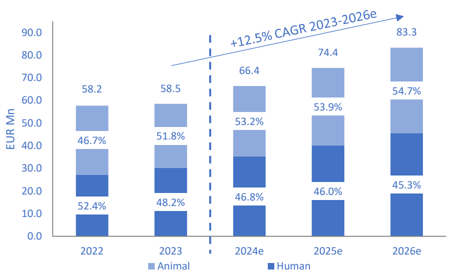
The animal health division covers >15 species and covers a wide variety of different products for third parties (for which it acts as a one-stop-shop). LAB has extensive experience developing its own products, having developed >50 (notably including Labiprofen, Labimycin, Tolfelab and Bruprelab), and expertise handling >200 active principles (with over 681 molecules under development).

We are looking for revenue in the animal health division of EUR 31.1Mn in 2024e (+10.2% vs 2023). Looking to 2026e, we think the CDMO line will grow at a CAGR of 11.5% and the proprietary product line at a CAGR of 8%. Combined, we are therefore estimating revenue in the animal health line of EUR 37.7Mn in 2026e. We expect the CDMO business to gradually gain weight in the mix to 63.9% in 2026e (vs 61.7% in 2023).

Table 5. Breakdown of revenue in animal health line (2022-2026e)

Animal Health (EUR Mn)	2022	2023	2024e	2025e	2026e	CAGR 23-26e
Own product (Ah)	**12.0**	**10.8**	**11.7**	**12.6**	**13.6**	**8.0%**
var. (%) y/y	*-19.5%*	*-10.0%*	*8.0%*	*8.0%*	*8.0%*	
CDMO (Ah)	**18.5**	**17.4**	**19.4**	**21.6**	**24.1**	**11.5%**
var. (%) y/y	*8.2%*	*-5.9%*	*11.5%*	*11.5%*	*11.5%*	
Animal Health Total Revenue	**30.5**	**28.2**	**31.1**	**34.2**	**37.7**	**10.2%**
var. (%) y/y	*-4.7%*	*-7.5%*	*10.2%*	*10.2%*	*10.2%*	
% over total sales	***52.9%***	***48.2%***	***46.8%***	***46.0%***	***45.3%***	
% Own Product	*39.3%*	*38.3%*	*37.5%*	*36.8%*	*36.1%*	
% CDMO	*60.7%*	*61.7%*	*62.5%*	*63.2%*	*63.9%*	

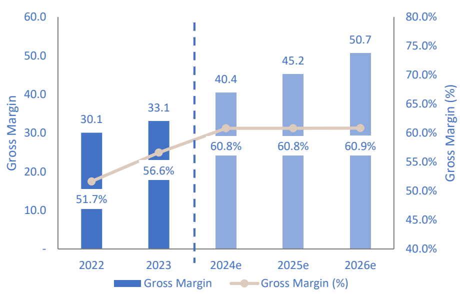
Chart 29. Consolidated Revenues (2022-2026e)



Due to the significant share of fixed costs in Lab's cost structure, the return of topline growth should allow EBITDA to really take off (CAGR 23-26e: +68.6%)

At the consolidated level, we are estimating revenue growth to c.EUR 66.4Mn in 2024e (+13.6% vs 2023; Chart 29). We also think the company will be able to continue to post double-digit growth in the following years, with revenue expected to reach EUR 83.3Mn in 2026e (CAGR 2023-26e: +12.5%).

Chart 30. Gross Margin (2022-2026e)



We are projecting significant gross margin expansion in 2024e, to 60.8% (vs 56.6% in 2023, in line with the performance in 1H24), as a result of lower material procurement costs and better terms with suppliers (especially financing terms, thanks to resolution of Lab's liquidity issues). In recent years, a shortage of production materials exerted continuous pressure on the gross margin (average of c.55% last four years). We believe that going forward LAB will be able to pass cost increases on its customers. For 2024e-2026e, we are projecting an average gross margin of 60.8%.

Chart 31. EBITDA vs OPEX (2022-2026e)

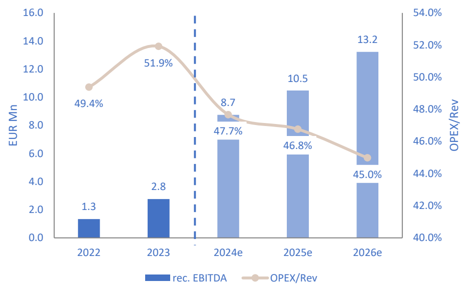


Chart 32. EBITDA vs EBITDA Mg. (2022-2026e)

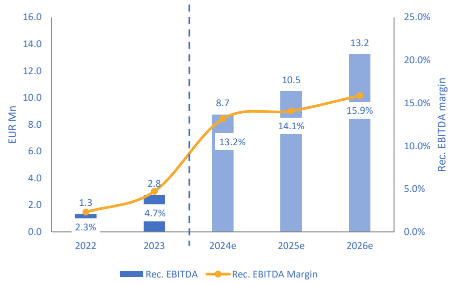
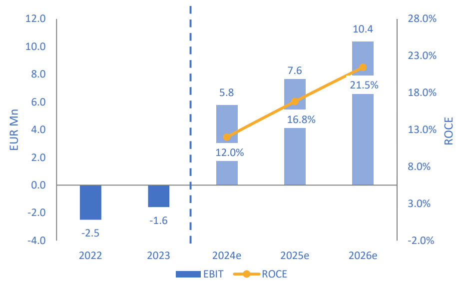


Chart 33. EBIT vs ROCE (2022-2026e)



Revenue stagnation during the last four years stunted Lab's ability to build economies of scale. Its results for 1H24 evidence its potential in terms of operational gearing (revenue 1H24: +23.3% vs 1H23; EBITDA 1H24: EUR 5.8Mn vs EUR 0.4Mn in 1H23).

We think LAB has what it takes to bring its EBITDA margin back up above 10%. We believe the company has the capacity to dilute its operating expenses by c.4.2p.p. in 2024e for two reasons: (i) orders for new and more value-added products that will dilute fixed staff costs relative to production costs (we estimate that c.35% of staff costs are variable); and ii) higher factory utilisation (installed capacity: EUR 100Mn of revenue) will further dilute overhead.

In short, the anticipated improvement in profitability (the crux of this equity story) is based on three drivers:

- **Revenue growth** unlocked by resolution of the company's working capital tensions, while its exit from Serbia has made it possible for LAB to go back to doing business as "normal", now with a focus on national production and reduction of the related fixed costs (CAGR 2023-2026e revenue: +12.5%)
- **Recovery in gross margins (60.8% in 2024e - 2026e)** to closer to the level seen around 2018 (before embarking on M&A activity, the gross margin was c.59%).
- **Dilution of fixed costs.** Thanks to operational gearing, we think OPEX will fall to 45% of revenue in 2026e (-6.9p.p. vs 2023).

The revenue growth anticipated in 2024e (+13.6%) should push recurring EBITDA to EUR 8.7Mn (vs EUR 2.8Mn in 2023 for a recurring EBITDA margin of 13.2% vs 4.7% in 2023). The 2024e results should kick-start a genuine structural leap in EBITDA in the coming years. We think the EBITDA margin could rise to 15.9% in 2026. Our estimates for 2024e and 2025e assume a gradual improvement in the EBITDA margin to 13.2% and 14.1%, respectively.

***Table 6. From* Revenue to EBITDA (2024e-2026e)**

P&L	2022	2023	2024e	2025e	2026e	CAGR 23-26e
Human Health	27.2	30.3	35.3	40.1	45.6	*14.6%*
Animal Health	30.5	28.2	31.1	34.2	37.7	*10.2%*
Total Revenue	**58.2**	**58.5**	**66.4**	**74.4**	**83.3**	***12.5%***
Change y/y	*2.0%*	*0.5%*	*13.6%*	*12.0%*	*12.0%*	
COGS	-28.1	-25.4	-26.0	-29.1	-32.6	
Gross Margin	**30.1**	**33.1**	**40.4**	**45.2**	**50.7**	***15.3%***
Gross Margin / Revenue (%)	51.7%	56.6%	60.8%	60.8%	60.9%	
Rec. EBITDA	**1.3**	**2.8**	**8.7**	**10.5**	**13.2**	***68.6%***
Change y/y	*-57.4%*	*106.9%*	*217.0%*	*19.7%*	*26.4%*	
Rec. EBITDA / Revenue (%)	*2.3%*	*4.7%*	*13.2%*	*14.1%*	*15.9%*	

...and push its ROCE to 17% in 2025e (vs WACC of 8.6%)

The medicine manufacturing business is capital intensive, especially investment in manufacturing processes and the certifications needed to ensure the safety and other standards required to sell medicines in the European Union. The resulting high depreciation charges compress EBIT margins.

The last few years, shaped the acquisitions closed in 2019 (Serbia and Turkey), have kept EBIT in the red. However, from 2024e, the "scale leap" in EBITDA, coupled with the exit from Serbia, should lift the EBIT margin to 8.7% that year. Marking an inflexion point in the company's ROCE (12%). And if our estimates materialise, in 2025e we would be looking at a ROCE of c.17%. All of which depends on Lab's ability to keep up the profitable growth observed in 1H24.

Assuming a WACC of 8.6% (refer to page 22), LAB would be generating a premium over its cost of capital of 8.6p.p. by 2025e. That would imply renewed value creation at LAB, reinforcing our thesis that the company is on the cusp of a new era (more similar to that of 2013-2018 than that of 2019-2023).

However, finance costs are expected to impact the bottom line.

Below EBITDA, the main line items driving our estimates for the 2024e-2026e period are as follows:

- **Depreciation and amortisation (D&A) of EUR 4.2Mn/year (c. 19% of net assets).** The annual D&A charge is likely to decrease temporarily following the exit from Serbia to an average of c. EUR 4.2Mn. This includes primarily amortisation of patents (intellectual property) and depreciation of proprietary product development expenditure and the machinery required to run the business.

Chart 34. EBIT vs Net Profit (2022-2026e)

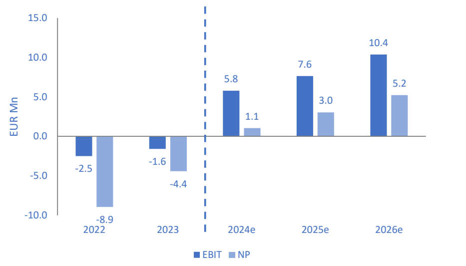


Chart 35. EBITDA vs Rec. Free Cash Flow (2022-2026e)

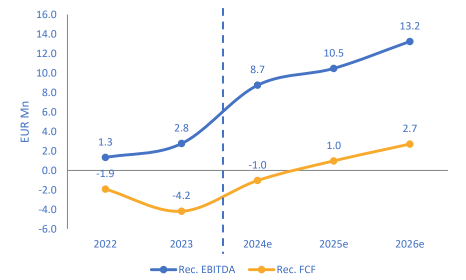
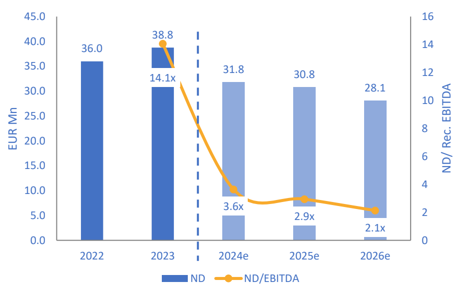


Chart 36. ND vs ND/Rec. EBITDA (2022-2026e)

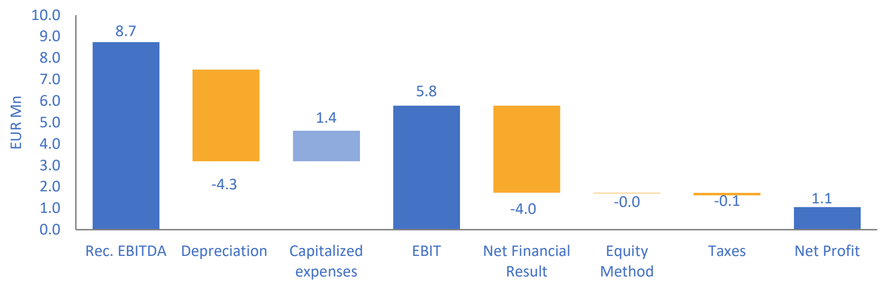


- **Capitalised R&D costs (EUR 1.3Mn/year).** These expenses reflect man-hours for proprietary product development and investment in R&D projects.
- **Reduced debt pressure, but still high finance costs.** Thanks to the debt reorganisation agreement with Blantyre and Miralta for EUR 25Mn (equivalent to 60% of gross debt), LAB is now positioned to reinvest in operations and manage working capital more effectively as the reclassification of c.60% of gross borrowings as non-current has alleviated short-term liquidity pressures.

  However, in addition to the issuance of warrants and their potential dilutive impact (see page 11) the following interest will accrue under the agreement: EURIBOR +5% and PIK (Payment in Kind) interest of 7% on both drawn and committed but undrawn principal amounts. While PIK interest does not imply any cash outflow, it results in an accounting expense that is capitalised and added to the principal balance.
- **Income tax rate of c. 20%.** LAB has unused tax losses and tax credits of >EUR 1Mn, which should reduce the effective income tax rate to around 20%, at least for the next three years.

Therefore, the expected "jump" in EBITDA should put the company in the black as of 2024e, with net profit projected to reach EUR 5.2Mn in 2026e (compared to losses in 2021-2023). At the time of writing, finance costs remain the primary constraint on net profit, making the debt reorganisation essential for addressing the current situation.

Table 7. From EBITDA to Net Profit (2024)



Positive FCF generation from 2025e...

On our estimates, LAB is set to achieve breakeven in recurring FCF by 2025, driven by forecast EBITDA of EUR 10.5Mn. However, for FY24e, FCF will still be largely dependant on CAPEX and interest expenses.

Our FCF estimates reflect the impact of: (i) significant CAPEX, comprising both plant maintenance costs (EUR 1.6Mn/year; EUR 0.8Mn for each factory) and expansion CAPEX (c. EUR 2.4Mn/year) to support growth, (ii) working capital needs, with a WC/revenue ratio of c. 20 %, and (iii) finance costs, including PIK interest, which is capitalised as an increase in the principal amount, causing a similar effect to a cash outflow in our model by effectively implying an increase in net debt).

For 2026e, we project recurring FCF of EUR 2.7Mn. These estimates do not factor in the potential debt reorganisation (which would come into effect when the company achieves certain KPIs; e.g., EBITDA >EUR 9.5Mn). This would automatically enhance LAB's recurring FCF generation capacity.

...which should bring the company's high level of net debt at present (ND/recurring EBITDA 2024e: 3.6x).

LAB's net debt will fall sharply in 2024e, thanks primarily to the divestment in Serbia (decrease in shareholding from 100% to c. 10% through a capital increase). This move led to the deconsolidation of the subsidiary's debt, effectively giving rise to a cash inflow by reducing net debt by c. EUR 8,5Mn) and putting the company on track to end 2024e with net debt of EUR 31.8Mn (vs EUR 38.8Mn in 2023). Of this total, EUR 25Mn is attributable to debt with Blantyre and Miralta.

Cash generation will drive net debt down further, to EUR 28.1Mn in 2026e (ND/EBITDA 26e: 2.1x). Even with this, LAB's equity position stands out (net equity 2023: EUR 3.4Mn; of which EUR 1.3Mn is an accounting item for the future issue of warrants). Looking ahead, LAB's key priorities are shore up (and extend) the health financial performance momentum seen in 1H24, which entails reducing net debt and reorganising the terms of its debt with Blantyre and Miralta (cost of debt >10%).

In conclusion, LAB's 1H24 earnings provided a breath of fresh air for the company, indicating that it is back on a profitable profit path (recurring EBITDA margin 2026e: 15.9%). Reducing debt (and borrowing costs) remains key.

The 2020-2024 period has been extremely challenging for LAB, especially in terms of financing and operational capacity. Liquidity pressures have prevented the company from fulling capitalising on the opportunities arising from its business model. And its equity position needs to be addressed.

Nonetheless, LAB's current snapshot is one of a "revamped" company. It now appears to have the right conditions to deliver double-digit growth—within a genuinely defensive sector—as it did in 1H24. Through it all, LAB's business never really lost any of its intrinsic appeal. We would highlight:

- **Diversified business (animal and human health).** LAB's business spans both human and animal health. In human pharma, it benefits from the inelastic demand for the medicine it produces and has the capability to produce specialised medicines. In animal health, the company serves both the livestock and pet sectors (where tailwinds are strong). LAB not only produces its own medicines, but also manufactures products for third parties (as a CDMO), which its sells under licensing-in and licensing-out arrangements.

- **And niche player.** LAB's size positions it well to attract mid-market customers. It can leverage the required capabilities and GMP (Good Manufacturing Practices) certificates to operate its facilities effectively. The company also enjoys strong retention rates driven by high switching costs. We expect double-double-digit topline growth to 2026e (CAGR: +12.5%).

- **Installed capacity will be instrumental in LAB's ability to scale its operating costs and capture growth to expand margins.** One key element of LAB's equity story is reaching full capacity utilisation at its two plants. This would reinforce the idea that LAB is a company with potential to grow by expanding margins (EBITDA margin 2024e: 13.2% vs 4.7% in 2023).

- **Positive FCF generation in 2025e**. Despite its CAPEX needs and the weight of finance costs, LAB should be able to convert growth in recurring EBITDA (to >EUR 9.5Mn in 2025e) into positive recurring FCF in 2025e.

- **With a continued focus on leverage (ND/EBITDA 24e: 3.6x).** LAB needs to continue investing if it wants to stay ahead of legislative developments and industry innovations, yet it should still be able to deliver more reasonable leverage metrics thanks to the exit from Serbia and the growth in recurring EBITDA (ND/EBITDA 2024e: 3.6x, before easing to c. 2.1x in 2026e vs 1.6x for comps in 2024e).

All this underpins an equity story that presents a dual opportunity: i) the ability to sustain growth through margin expansion up to 2026e and ii) the potential opportunity over the mid-term for debt reorganisation (not currently factored in our current estimates). This would lift financial constraints, positioning LAB for profitability in 2025e-2026e, not to mention having a clear and immediate impact on the company's fundamental valuation.

Nevertheless, this will ultimately depend on whether the company can develop and execute the pipeline, as well as on order intake to continuously raise its profitability. Its (extremely healthy) 1H24 earnings suggest that this is achievable. And we anticipate it extending into 2025. From a purely business standpoint—and therefore based on our estimates— LAB enjoys excellent momentum.

Valuation inputs

Inputs for the DCF Valuation Approach

	2024e	2025e	2026e	Terminal Value [1]
Free Cash Flow "To the Firm"	**11.0**	**4.0**	**5.8**	**88.7**

			Best Case	Worst Case
Market Cap	**15.5**	At the date of this report		
Net financial debt	**30.6**	Debt net of Cash (6m Results 2024)		
Cost of Debt	10.5%	Net debt cost	10.3%	10.8%
Tax rate (T)	20.0%	T (Normalised tax rate)	=	=
Net debt cost	**8.4%**	**Kd = Cost of Net Debt * (1-T)**	**8.2%**	**8.6%**
Risk free rate (rf)	3.1%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	6.0%	R (own estimate)	5.5%	6.5%
Beta (B)	1.0	B (own estimate)	0.9	1.1
Cost of Equity	**9.1%**	**Ke = Rf + (R * B)**	**8.0%**	**10.2%**
Equity / (Equity + Net Debt)	33.5%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	66.5%	D	=	=
WACC	**8.6%**	**WACC = Kd * D + Ke * E**	**8.1%**	**9.1%**
G "Fair"	**2.0%**		**2.0%**	**1.5%**

(1) The terminal value reflects the NAV of FCF beyond the period estimated with the WACC and G of the central scenario.

Inputs for the Multiples Valuation Approach

Company	Ticker Factset	Mkt. Cap	P/E 24e	EPS 24e-26e	EV/EBITDA 24e	EBITDA 24e-26e	EV/Sales 24e	Revenues 24e-26e	EBITDA/Sales 24e	FCF Yield 24e	FCF 24e-26e
Laboratorio Reig Jofre	RJF-ES	234.6	17.4	16.8%	7.6	11.7%	0.8	7.5%	10.9%	1.1%	n.a.
Enanta	ENTA-US	191.7	n.a.	-3.7%	n.a.	-23.3%	2.8	4.7%	n.a.	n.a.	-31.9%
Laboratorios Rovi	ROVI-ES	3,184.3	19.7	22.2%	13.8	20.3%	4.1	10.7%	29.7%	4.1%	20.2%
Human Health			18.5	11.8%	10.7	2.9%	2.6	7.6%	20.3%	2.6%	-5.8%
Elanco	ELAN-US	6,560.1	15.2	8.1%	11.9	4.9%	2.4	3.8%	20.5%	13.3%	-27.4%
Veoquinol	VETO-FR	975.5	17.5	8.5%	8.0	7.1%	1.5	4.3%	19.2%	6.3%	4.7%
Virbac	VIRP-FR	2,752.1	17.8	10.4%	10.7	9.5%	2.1	6.0%	19.9%	4.4%	18.0%
ECO Animal Health Group	EAH-GB	55.2	43.8	42.4%	5.2	12.2%	0.4	5.4%	8.4%	3.5%	22.4%
Animal Health			23.6	17.3%	8.9	8.4%	1.6	4.8%	17.0%	6.9%	4.4%
LAB	LAB-ES	15.5	14.7	n.a.	5.1	23.0%	0.7	12.0%	13.2%	n.a.	-39.8%

Free Cash Flow sensitivity analysis (2025e)

A) Rec. EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 25e	EBITDA 25e	EV/EBITDA 25e
Max	**15.5%**	**11.5**	**3.8x**
Central	**14.1%**	**10.5**	**4.2x**
Min	**12.7%**	**9.4**	**4.7x**

B) Rec. FCF sensitivity to changes in EBITDA and CAPEX/sales

Rec. FCF EUR Mn	CAPEX/Sales 25e		
EBITDA 25e	**4.9%**	**5.5%**	**6.1%**
11.5	**2.5**	**2.0**	**1.6**
10.5	**1.4**	**1.0**	**0.5**
9.4	**0.4**	**(0.1)**	**(0.5)**

Scenario	Rec. FCF/Yield 25e		
Max	**15.9%**	**13.1%**	**10.2%**
Central	**9.2%**	**6.3%**	**3.4%**
Min	**2.5%**	**n.a.**	**n.a.**

What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly for operating profit and free cash flow:

1. **Supply chain risk.** LAB's business model centres on the manufacture and sale of animal and human health products, making the company heavily reliant on supply chains for the procurement of essential production materials. Reliable access to these supply chains is critical to meet customer commitments. We witnessed this risk during Covid-19. A decrease in revenue growth of 3p.p. for 2024e (+10.6% vs 13.6% estimated) would reduce estimated EBITDA by 11.4% (EUR 7.8Mn vs EUR 8.7Mn in our baseline scenario).

2. **Capacity utilisation risk.** Economies of scale will be key to realising efficiency gains and achieving higher margins. Our estimates point to a reduction in fixed overhead (OPEX) taking the total (personnel expenses + other operating expenses) to 47.7% of revenue in 2024e (vs c.52% in 2023). Optimal installed capacity utilisation should enable LAB to drive operational leverage. If overhead were to remain at c.50% of revenue, our estimate for recurring EBITDA in 2024e would be EUR 7.2Mn (vs EUR 8.7Mn initially).

3. **Product regulatory approval risk.** LAB's products must be approved by public regulators before they can be put up for sale. Any delay in obtaining approvals for new products could adversely impact an estimated growth rate for the period and result in the impairment of on-balance sheet assets.

4. **High debt and interest rates.** LAB ended 2023 with gross debt of EUR 41.7Mn (of which c.55% was attributable to Blantyre and Miralta) and net debt of EUR 38.8Mn. The divestment in Serbia resulted in a marked reduction in net debt, to EUR 30.6Mn at the end of 1H24. The reorganisation of the debt with Blantyre and Miralta would imply a high interest rate (between the actual interest rate and PIK—Payment in Kind—capitalisable interest). Therefore, the finance costs would have an adverse impact on the company's bottom line. We estimate EUR 4.4Mn of finance costs in 2024e (c. 75% of EBIT). Any decrease in estimated EBIT 2024e (EUR 5.8Mn) below EUR 5Mn would jeopardise LAB's ability to end the year in the black, as we are currently estimating.

   The amount of finance costs poses a short-, medium- and long term rise since nearly all of debt is currently fixed at a rate of >9%.

5. **Regulatory developments and CAPEX risk.** The pharmaceutical industry is highly capital-intensive, requiring substantial investment for companies to remain at the forefront of technological advancements and scientific research. The push to enhance facilities and ensure compliance with the highest quality benchmarks and with the necessary regulatory requirements for marketing pharmaceuticals could lead to extra CAPEX, which is currently unaccounted for in the figures we have. We estimate annual CAPEX of c.EUR 4Mn. If external or internal factors resulted in higher investment needs, taking CAPEX up to EUR 5Mn, the company would not reach breakeven in recurring FCF until 2026e (vs 2025e in our baseline scenario).

6. **Competition risk.** The competition landscape in the pharma industry is intense, amplified by the growing (and ageing) animal and human population. Pharmaceutical products that obtain approval for additional indications could overlap with LAB's products. This poses a commercial risk through customer churn and new competitors offering cheaper drugs with similar therapeutic effects (putting pressure on revenue and squeezing margins).

7. **Significant presence of on-balance sheet R&D intangible assets:** At 31 December 2023, LAB had EUR 7.1Mn of registered patents and developments (c. 93% of its net intangible assets). The inherent risk of capitalising R&D expenditures exposes LAB to potential impairment losses (e.g., from the emergence of substitute products, new regulations) and a gradual risk and D&A charges, with an adverse impact on profit or loss (pressure on EBIT margin).

8. **Lack of M&A discipline**. M&A activity in the pharma industry is inherently complex given the difficulty in finding the right strategic fit between the acquirer and the acquiree's business models. This, combined with regulatory factors and rigorous production standards, pose challenges for integration and a risk of medium- and long-term value destruction.

9. **Additional dilution risk.** LAB's business model is highly capital-intensive and recurring EBITDA margin over the past few years has averaged just around 5% (excluding capitalisations). Thin margins prevent cash generation. The current level of debt (net debt 1H24: EUR 30.6Mn; ND/EBITDA 2024e 3.6x) suggests that additional capital will be required to support rising investment needs as new products are developed or if debt reduction efforts stall. This points to a high probability of further equity issues, which would result in additional—and potentially substantial—dilution for existing shareholders.

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Ownership and management in the same hands

Founded in Barcelona in 1958, LAB started out as a specialists manufacturer of nutritional products for animals, before gradually transitioning to becoming a producer of medicines for both humans and animals. Control shifted to the management team through the management buy-out (MBO) of 2013. LAB has been listed on BME Growth since June 2022. Manuel Ramos (CEO and Chairman) is the main shareholder (and owner), with a shareholding of >50%. Highlights on the governance front:

1. **A board of directors "tied" to the share price...** Directors control a combined 76.5% of LAB's share capital. This ensures full alignment with the minority shareholders' interests (Free Float c.17%). In accordance with the company's bylaws, directors' term of office is six years. They may be re-elected, with no limits on the number of terms of office or the power of the general meeting to remove them. The composition of LAB's board has not changed since its BME Growth listing (June 2022).

2. **…fully involved in the company's management.** Two members carry out executive duties: Manuel Ramos, LAB's biggest shareholder and CEO, and Sandra Villagrasa, managing director and head of Human Health. This also aligns managements' interests with minority shareholders' interests.

3. **Presence of independent directors, providing a counterbalance to ownership-driven decisions:** A revamped board prior to the IPO. The number of directors increased to six in 2022 (vs five in 2021). The percentage of independent directors rose to 33% (in line with the recommendation in the CNMV's Good Governance Code when a company is not highly capitalised). They also make up 66.7% of the members of the audit, compliance and conflicts of interest committee and the appointments and remuneration committee.

Table 8. Board of directors

Board Member	Category	Position	Date	% Capital
Manuel Ramos Ortega	Propietary	President	2022	56.5%
Sandra Villagrasa Clemente	Propietary	Board Member	2022	3.2%
Ignacio Yañez Minondo	Propietary	Board Member	2022	3.9%
John Wiliams Nellis	Propietary	Board Member	2022	13.0%
Juan Manuel Gil de Escobar	Independiente	Board Member	2022	0.0%
Wolfgang Johannes Storf	Independiente	Board Member	2022	0.0%
			% total	76.5%

Table 9. Audit Committee

Committee Member	Category	Position
Juan Manuel Gil de Escobar	Independent	President
John Wiliams Nellis	Propietary	Member
Wolfgang Johannes Storf	Independent	Member

Table 10. Appointments and Compensation Committee

Committee Member	Category	Position
Wolfgang Johannes Storf	Independent	President
John Wiliams Nellis	Propietary	Member
Juan Manuel Gil de Escobar	Independent	Member

Table 11. Key corporate governance indicators

KPI	2021	2022	2023
% of independent board members	20.0%	33.3%	33.3%
% of propietary board members	40.0%	66.6%	66.6%
% of executive board members*	0.0%	0.0%	0.0%
% of women on the board of directors	20.0%	16.7%	16.7%
% of women out of total workforce	54.4%	53.5%	55.3%
Board + senior management remuneration/staff costs	2.6%	3.0%	3.9%
Number of confirmed corruption cases	0	0	0

*Note: In addition to service as proprietary director, Manuel Ramos and Sandra Villagrasa carries out executive duties in his capacity as CEO and Managing director, respectively. Therefore, two directors discharge executive duties (33% of the total; 50% in 2022).

4. **Increasing director and senior management remuneration, but still less than 4% of total personnel expenses.** Director remuneration as per by the company's bylaws comprises a fixed amount per director (EUR 10k) and a fixed amount for committee membership or chairmanship, plus fees for attending board meetings. In 2023, total remuneration paid to the board of directors six members) and senior management was EUR .7Mn (+31.5% vs 2022; c. 3.9% of total personnel expenses).

   We expect director and senior management remuneration to continue to hover around 4% of total personnel expenses. CEO Manuel Ramos' contract contains a golden parachute clause, with severance pay equal to two years' of his total remuneration in the event of termination by the company without due cause or a change in control. The board has capped total annual director remuneration at EUR 674k. Senior management members are entitled to variable remuneration, with a percentage (which varies per manager) linked to EBITDA and the remainder to certain KPIs and specific targets, weighted individually.

5. **No explicit diversity policy in director selection.** LAB does not have a director selection and diversity policy. Female directors currently represent 16.7% of total numbers, below Spain's 32% national average and the minimum 40% recommended in the CNMV's Good Governance Code.

   LAB does, however, have a board-approved equality plan (2020-2024) and non-discrimination and anti-gender-based harassment protocols.

   The percentage of female directors has held steady over the past two years (16.7% of the total), as has the percentage of female employees (c. 54%, in line with the Spanish pharma sector average of 56.1%).

6. **We do not expect any dividend payment for 2024e-2026e.** In our opinion, LAB is currently focused on organic business growth. Its attention (in the short and medium term) is therefore centred on accelerating growth and lifting profitability. Accordingly, we expect a pay-out of 0% for at least the next three years.

7. **Environmental pledge.** LAB publishes a non-financial statement (NFS) and also has: (i) environmental and occupational health & safety management systems (Health Animal is ISO14001:2015 certified), (ii) equality plan (including environmental criteria for supplier selection), (iii) training plan and (iv) work-life balance measures. Although there is no dedicated sustainability committee, senior management is responsible for overseeing the commitment to the 2030 Agenda and ESG matters.

8. **Related party balances and transactions.** These are not material. The main balance sheet item is related party receivables (Ortega Farming, which is wholly owned by CEO Manuel Ramos), which had a balance at year-end 2023 of EUR 0.2Mn. There were no significant related party transactions in either 2023 or 2022

Appendix 1. Financial Projections

Balance Sheet (EUR Mn)	2019	2020	2021	2022	2023	2024e	2025e	2026e
Intangible assets	9.9	11.4	11.5	9.0	7.7	9.0	10.3	11.6
Fixed assets	18.0	20.3	20.4	20.6	19.8	11.0	11.0	11.0
Other Non Current Assets	1.5	2.2	1.4	0.9	1.8	1.8	1.8	1.8
Financial Investments	2.5	3.1	4.4	1.4	0.9	0.9	0.9	0.8
Goodwill & Other Intangilbles	0.7	0.6	1.3	-	(0.0)	(0.0)	(0.0)	(0.0)
Current assets	25.8	26.9	26.1	26.2	26.0	28.7	31.2	34.3
Total assets	**58.3**	**64.5**	**65.1**	**58.3**	**56.2**	**51.4**	**55.1**	**59.5**
Equity	13.1	14.3	11.5	6.9	3.4	4.0	7.0	12.2
Minority Interests	-	-	-	-	-	-	-	-
Provisions & Other L/T Liabilities	0.7	0.7	0.4	0.5	0.4	0.4	0.4	0.4
Other Non Current Liabilities	-	-	-	-	-	-	-	-
Net financial debt	34.3	37.8	42.2	36.0	38.8	31.8	30.8	28.1
Current Liabilities	10.1	11.7	11.0	14.9	13.6	15.2	16.9	18.7
Equity & Total Liabilities	**58.3**	**64.5**	**65.1**	**58.3**	**56.2**	**51.4**	**55.1**	**59.5**

									CAGR	
P&L (EUR Mn)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024e**	**2025e**	**2026e**	**19-23**	**23-26e**
Total Revenues	**48.2**	**58.4**	**57.1**	**58.2**	**58.5**	**66.4**	**74.4**	**83.3**	***4.9%***	***12.5%***
Total Revenues growth	*12.1%*	*21.1%*	*-2.3%*	*2.0%*	*0.5%*	*13.6%*	*12.0%*	*12.0%*		
COGS	(21.3)	(26.1)	(24.4)	(28.1)	(25.4)	(26.0)	(29.1)	(32.6)		
Gross Margin	**26.9**	**32.3**	**32.6**	**30.1**	**33.1**	**40.4**	**45.2**	**50.7**	***5.3%***	***15.3%***
Gross Margin/Revenues	*55.8%*	*55.4%*	*57.2%*	*51.7%*	*56.6%*	*60.8%*	*60.8%*	*60.9%*		
Personnel Expenses	(15.3)	(17.5)	(17.7)	(18.0)	(19.1)	(19.8)	(21.7)	(23.1)		
Other Operating Expenses	(9.4)	(11.6)	(11.7)	(10.7)	(11.3)	(11.9)	(13.1)	(14.3)		
Recurrent EBITDA	**2.2**	**3.2**	**3.1**	**1.3**	**2.8**	**8.7**	**10.5**	**13.2**	***5.9%***	***68.6%***
Recurrent EBITDA growth	*59.3%*	*46.4%*	*-2.4%*	*-57.4%*	*106.9%*	*217.0%*	*19.7%*	*26.4%*		
Rec. EBITDA/Revenues	*4.5%*	*5.5%*	*5.5%*	*2.3%*	*4.7%*	*13.2%*	*14.1%*	*15.9%*		
Restructuring Expense & Other non-rec.	(0.5)	(0.1)	(0.0)	(1.6)	(0.8)	-	-	-		
EBITDA	**1.7**	**3.1**	**3.1**	**(0.3)**	**1.9**	**8.7**	**10.5**	**13.2**	***2.7%***	***90.2%***
Depreciation & Provisions	(2.2)	(2.9)	(5.0)	(5.1)	(4.7)	(4.3)	(4.1)	(4.2)		
Capitalized Expense	2.3	2.3	2.5	2.9	1.2	1.3	1.3	1.3		
Rentals (IFRS 16 impact)	-	-	-	-	-	-	-	-		
EBIT	**1.8**	**2.5**	**0.6**	**(2.5)**	**(1.6)**	**5.8**	**7.6**	**10.4**	***-30.2%***	***n.a.***
EBIT growth	*10.8%*	*35.4%*	*-74.9%*	*-504.5%*	*36.6%*	*465.0%*	*32.4%*	*35.6%*		
EBIT/Revenues	*3.8%*	*4.2%*	*1.1%*	*n.a.*	*n.a.*	*8.7%*	*10.3%*	*12.4%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(1.1)	(1.9)	(2.7)	(1.8)	(3.7)	(4.4)	(3.8)	(3.8)		
Income by the Equity Method	-	-	-	-	-	(0.0)	(0.0)	(0.0)		
Ordinary Profit	**0.8**	**0.5**	**(2.1)**	**(4.3)**	**(5.3)**	**1.3**	**3.8**	**6.5**	***-72.7%***	***48.0%***
Ordinary Profit Growth	*-28.4%*	*-29.1%*	*-491.6%*	*-101.1%*	*-23.3%*	*125.0%*	*188.7%*	*71.6%*		
Extraordinary Results	-	-	-	(3.6)	-	-	-	-		
Profit Before Tax	**0.8**	**0.5**	**(2.1)**	**(7.8)**	**(5.3)**	**1.3**	**3.8**	**6.5**	***-72.7%***	***48.0%***
Tax Expense	0.1	0.5	0.0	(1.3)	0.8	(0.3)	(0.8)	(1.3)		
Effective Tax Rate	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*20.0%*	*20.0%*	*20.0%*		
Minority Interests	(0.2)	-	0.3	0.2	0.1	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**0.7**	**1.1**	**(1.8)**	**(8.9)**	**(4.4)**	**1.1**	**3.0**	**5.2**	***-71.8%***	***47.1%***
Net Profit growth	*-4.3%*	*63.0%*	*-265.2%*	*-403.7%*	*50.5%*	*123.8%*	*188.7%*	*71.6%*		
Ordinary Net Profit	**1.0**	**0.6**	**(1.8)**	**(2.5)**	**(4.4)**	**1.1**	**3.0**	**5.2**	***-58.8%***	***47.3%***
Ordinary Net Profit growth	*-27.8%*	*-37.9%*	*-387.3%*	*-38.1%*	*-76.8%*	*124.1%*	*188.7%*	*71.6%*		

									CAGR	
Cash Flow (EUR Mn)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024e**	**2025e**	**2026e**	**19-23**	**23-26e**
Recurrent EBITDA						**8.7**	**10.5**	**13.2**	***5.9%***	***68.6%***
Rentals (IFRS 16 impact)						-	-	-		
Working Capital Increase						(1.1)	(0.8)	(1.2)		
Recurrent Operating Cash Flow						**7.6**	**9.6**	**12.0**	***30.2%***	***93.4%***
CAPEX						(4.0)	(4.1)	(4.2)		
Net Financial Result affecting the Cash Flow						(4.4)	(3.8)	(3.8)		
Tax Expense						(0.3)	(0.8)	(1.3)		
Recurrent Free Cash Flow						**(1.0)**	**1.0**	**2.7**	***16.4%***	***38.3%***
Restructuring Expense & Other non-rec.						-	-	-		
- Acquisitions / + Divestures of assets						8.5	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**7.5**	**1.0**	**2.7**	***27.4%***	***36.4%***
Capital Increase						(0.5)	-	-		
Dividends						-	-	-		
Net Debt Variation						**(7.0)**	**(1.0)**	**(2.7)**		

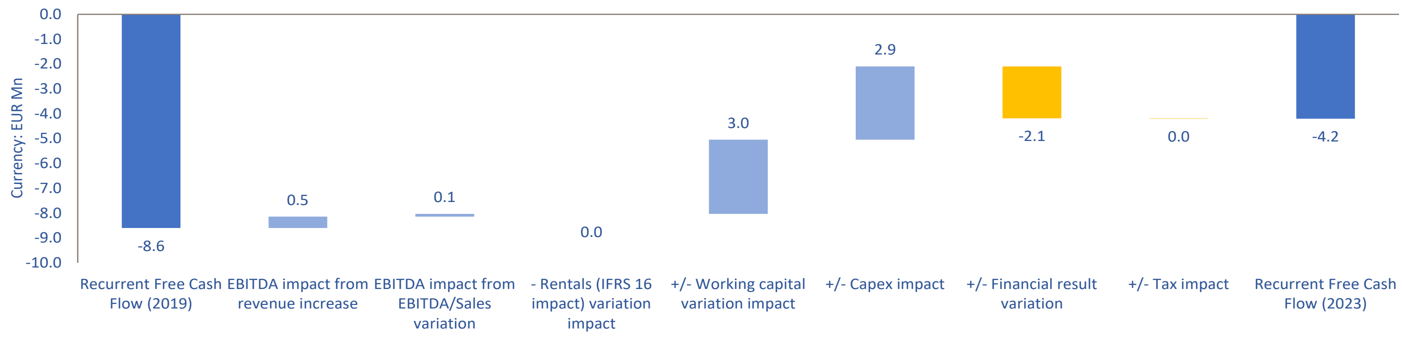
Appendix 2. Free Cash Flow

A) Cash Flow Analysis (EUR Mn)	2020	2021	2022	2023	2024e	2025e	2026e	CAGR 20-23	CAGR 23-26e
Recurrent EBITDA	**3.2**	**3.1**	**1.3**	**2.8**	**8.7**	**10.5**	**13.2**	*-4.9%*	*68.6%*
Recurrent EBITDA growth	*46.4%*	*-2.4%*	*-57.4%*	*106.9%*	*217.0%*	*19.7%*	*26.4%*		
Rec. EBITDA/Revenues	*5.5%*	*5.5%*	*2.3%*	*4.7%*	*13.2%*	*14.1%*	*15.9%*		
- Rentals (IFRS 16 impact)	-	-	-	-	-	-	-		
+/- Working Capital increase	0.5	0.1	3.8	(1.1)	(1.1)	(0.8)	(1.2)		
= Recurrent Operating Cash Flow	**3.7**	**3.2**	**5.2**	**1.7**	**7.6**	**9.6**	**12.0**	*-23.5%*	*93.4%*
Rec. Operating Cash Flow growth	*294.5%*	*-13.3%*	*60.9%*	*-67.8%*	*361.1%*	*26.2%*	*24.3%*		
Rec. Operating Cash Flow / Sales	*6.3%*	*5.6%*	*8.9%*	*2.8%*	*11.5%*	*13.0%*	*14.4%*		
- CAPEX	(6.5)	(4.8)	(5.5)	(2.5)	(4.0)	(4.1)	(4.2)		
- Net Financial Result affecting Cash Flow	(1.9)	(2.0)	(1.5)	(3.3)	(4.4)	(3.8)	(3.8)		
- Taxes	(0.2)	(1.1)	(0.1)	(0.0)	(0.3)	(0.8)	(1.3)		
= Recurrent Free Cash Flow	**(5.0)**	**(4.6)**	**(1.9)**	**(4.2)**	**(1.0)**	**1.0**	**2.7**	*5.4%*	*38.3%*
Rec. Free Cash Flow growth	*42.3%*	*6.6%*	*58.7%*	*-119.1%*	*75.3%*	*194.3%*	*176.9%*		
Rec. Free Cash Flow / Revenues	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*1.3%*	*3.2%*		
- Restructuring expenses & others	-	-	(1.6)	(0.8)	-	-	-		
- Acquisitions / + Divestments	(0.6)	1.3	-	-	8.5	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	3.4	-	-	-	-		
= Free Cash Flow	**(5.6)**	**(3.4)**	**(0.1)**	**(5.0)**	**7.5**	**1.0**	**2.7**	*3.2%*	*36.4%*
Free Cash Flow growth	*69.3%*	*39.2%*	*96.8%*	*n.a.*	*248.3%*	*-86.9%*	*176.9%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*6.3%*	*17.5%*		
Free Cash Flow Yield (s/Mkt Cap)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*48.3%*	*6.3%*	*17.5%*		

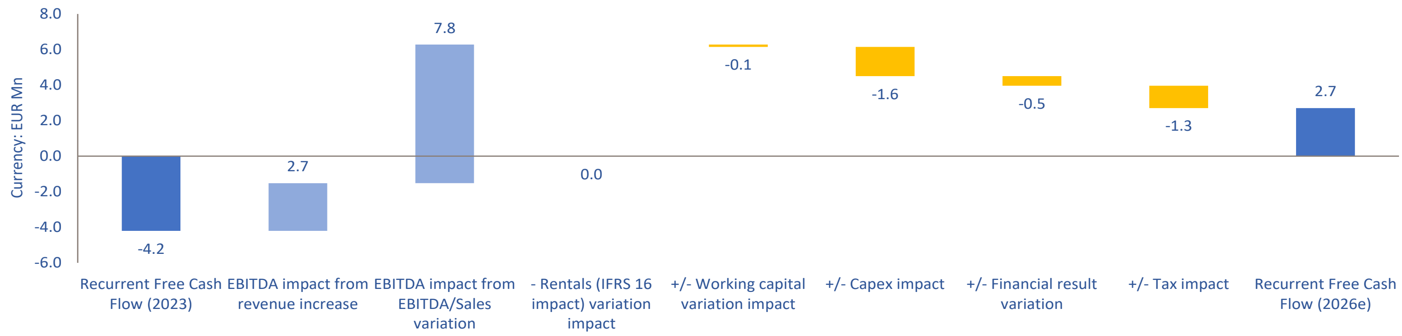
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2020	2021	2022	2023	2024e	2025e	2026e
Recurrent FCF(FY - 1)	**(8.6)**	**(5.0)**	**(4.6)**	**(1.9)**	**(4.2)**	**(1.0)**	**1.0**
EBITDA impact from revenue increase	0.5	(0.1)	0.1	0.0	0.4	1.0	1.3
EBITDA impact from EBITDA/Sales variation	0.6	(0.0)	(1.9)	1.4	5.6	0.7	1.5
= Recurrent EBITDA variation	**1.0**	**(0.1)**	**(1.8)**	**1.4**	**6.0**	**1.7**	**2.8**
- Rentals (IFRS 16 impact) variation impact	-	-	-	-	-	-	-
+/- Working capital variation impact	4.6	(0.4)	3.7	(4.9)	0.0	0.3	(0.4)
= Recurrent Operating Cash Flow variation	**5.6**	**(0.5)**	**2.0**	**(3.5)**	**6.0**	**2.0**	**2.3**
+/- CAPEX impact	(1.0)	1.7	(0.7)	2.9	(1.5)	(0.1)	(0.1)
+/- Financial result variation	(0.7)	(0.1)	0.5	(1.8)	(1.2)	0.6	-
+/- Tax impact	(0.2)	(0.9)	0.9	0.1	(0.2)	(0.5)	(0.5)
= Recurrent Free Cash Flow variation	**3.6**	**0.3**	**2.7**	**(2.3)**	**3.2**	**2.0**	**1.7**
Recurrent Free Cash Flow	**(5.0)**	**(4.6)**	**(1.9)**	**(4.2)**	**(1.0)**	**1.0**	**2.7**

C) "FCF to the Firm" (pre debt service) (EUR Mn)	2020	2021	2022	2023	2024e	2025e	2026e	CAGR 20-23	CAGR 23-26e
EBIT	**2.5**	**0.6**	**(2.5)**	**(1.6)**	**5.8**	**7.6**	**10.4**	*-38.3%*	*n.a.*
** Theoretical Tax rate*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*20.0%*	*20.0%*	*20.0%*		
= Taxes (pre- Net Financial Result)	-	-	-	-	(1.2)	(1.5)	(2.1)		
Recurrent EBITDA	**3.2**	**3.1**	**1.3**	**2.8**	**8.7**	**10.5**	**13.2**	*-4.9%*	*68.6%*
- Rentals (IFRS 16 impact)	-	-	-	-	-	-	-		
+/- Working Capital increase	0.5	0.1	3.8	(1.1)	(1.1)	(0.8)	(1.2)		
= Recurrent Operating Cash Flow	**3.7**	**3.2**	**5.2**	**1.7**	**7.6**	**9.6**	**12.0**	*-23.5%*	*93.4%*
- CAPEX	(6.5)	(4.8)	(5.5)	(2.5)	(4.0)	(4.1)	(4.2)		
- Taxes (pre- Financial Result)	-	-	-	-	(1.2)	(1.5)	(2.1)		
= Recurrent Free Cash Flow (To the Firm)	**(2.8)**	**(1.6)**	**(0.3)**	**(0.9)**	**2.5**	**4.0**	**5.8**	*32.4%*	*n.a.*
Rec. Free Cash Flow (To the Firm) growth	*62.0%*	*44.3%*	*80.9%*	*-190.3%*	*389.3%*	*60.8%*	*42.9%*		
Rec. Free Cash Flow (To the Firm) / Revenues	n.a.	n.a.	n.a.	n.a.	3.8%	5.4%	6.9%		
- Acquisitions / + Divestments	(0.6)	1.3	-	-	8.5	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	3.4	-	-	-	-		
= Free Cash Flow "To the Firm"	**(3.4)**	**(0.3)**	**3.1**	**(0.9)**	**11.0**	**4.0**	**5.8**	*36.6%*	*n.a.*
Free Cash Flow (To the Firm) growth	*79.9%*	*91.1%*	*n.a.*	*-127.6%*	*n.a.*	*-63.4%*	*42.9%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*5.7%*	*9.1%*	*13.0%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*n.a.*	*n.a.*	*7.1%*	*n.a.*	*24.9%*	*9.1%*	*13.0%*		

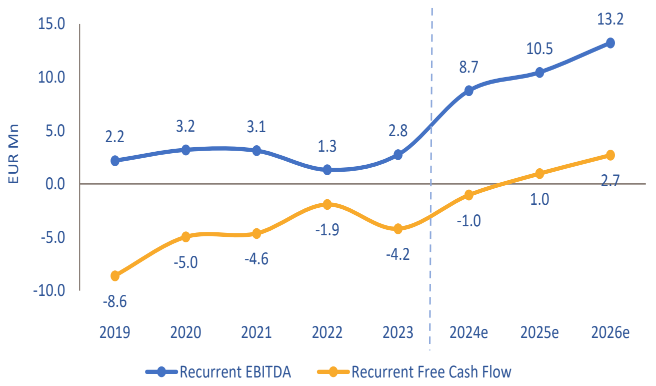
Recurrent Free Cash Flow accumulated variation analysis (2019 - 2023)



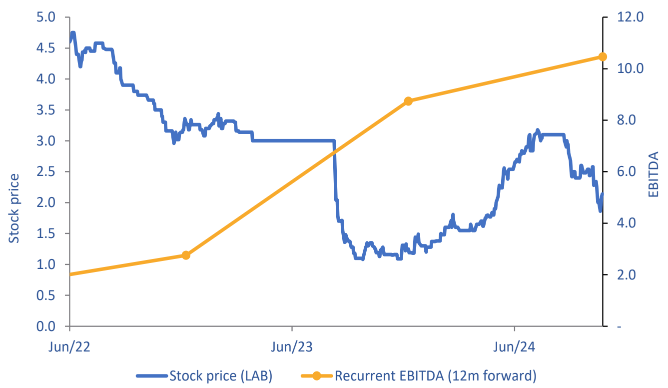
Recurrent Free Cash Flow accumulated variation analysis (2023 - 2026e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward



Appendix 3. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	15.5	
+ Minority Interests		6m Results 2024
+ Provisions & Other L/T Liabilities	0.0	6m Results 2024
+ Net financial debt	30.6	6m Results 2024
- Financial Investments	1.8	6m Results 2024
+/- Others		6m Results 2024
Enterprise Value (EV)	**44.3**	

Appendix 4. Historical performance(1)

Historical performance (EUR Mn)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	CAGR 13-23	CAGR 23-26e
Total Revenues	-	-	-	-	-	-	48.2	58.4	57.1	58.2	58.5	66.4	74.4	83.3	n.a.	12.5%
Total Revenues growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	21.1%	-2.3%	2.0%	0.5%	13.6%	12.0%	12.0%		
EBITDA	-	-	-	-	-	-	1.7	3.1	3.1	(0.3)	1.9	8.7	10.5	13.2	n.a.	90.2%
EBITDA growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	80.6%	0.0%	-109.6%	739.5%	354.7%	19.7%	26.4%		
EBITDA/Sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.6%	5.4%	5.5%	n.a.	3.3%	13.2%	14.1%	15.9%		
Net Profit	-	-	-	-	-	-	0.7	1.1	(1.8)	(8.9)	(4.4)	1.1	3.0	5.2	n.a.	47.1%
Net Profit growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	63.0%	-265.2%	-403.7%	50.5%	123.8%	188.7%	71.6%		
Adjusted number shares (Mn)	-	-	-	-	-	-	-	-	-	-	7.2	7.2	7.2	7.2		
EPS (EUR)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-0.61	0.15	0.42	0.72	n.a.	47.1%
EPS growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	71.6%		
Ord. EPS (EUR)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-0.60	0.15	0.42	0.72	n.a.	47.3%
Ord. EPS growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	71.6%		
CAPEX	-	-	-	-	-	-	(5.5)	(6.5)	(4.8)	(5.5)	(2.5)	(4.0)	(4.1)	(4.2)		
CAPEX/Sales %)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.3%	11.1%	8.4%	9.4%	4.3%	6.0%	5.5%	5.0%		
Free Cash Flow	-	-	-	-	-	-	(18.1)	(5.6)	(3.4)	(0.1)	(5.0)	7.5	1.0	2.7	n.a.	36.4%
ND/EBITDA (x)(2)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19.9x	12.1x	13.5x	n.a.	20.2x	3.6x	2.9x	2.1x		
P/E (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	14.7x	5.1x	3.0x		
EV/Sales (x)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.42x	0.15x	0.67x	0.60x	0.53x		
EV/EBITDA (x)(2)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.7x	5.1x	4.2x	3.3x		
Absolute performance	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-62.8%	71.2%				
Relative performance vs Ibex 35	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-69.7%	48.6%				

Note 1: The multiples are historical, calculated based on the price and EV at the end of each year, except (if applicable) in the current year, when multiples would be given at current prices. The absolute and relative behavior corresponds to each exercise (1/1 to 31/12). The source, both historical multiples and the evolution of the price, is Factset.
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 5. Main peers 2024e

		Human Health				Animal Health					
	EUR Mn	**Laboratorio Reig Jofre**	**Enanta**	**Laboratorios Rovi**	**Average**	**Elanco**	**Veoquinol**	**Virbac**	**ECO Animal Health Group**	**Average**	**LAB**
Market data	**Ticker (Factset)**	RJF-ES	ENTA-US	ROVI-ES		ELAN-US	VETO-FR	VIRP-FR	EAH-GB		LAB-ES
	Country	Spain	Jnited States	Spain		United State:	France	France	iited Kingdom		Spain
	Market cap	234.6	191.7	3,184.3		6,560.1	975.5	2,752.1	55.2		15.5
	Enterprise value (EV)	288.2	187.4	3,270.5		10,230.7	829.5	2,972.4	44.9		44.3
Basic financial information	**Total Revenues**	346.8	67.6	794.9		4,200.0	538.3	1,400.7	102.2		66.4
	Total Revenues growth	9.7%	-10.0%	-4.2%	-1.5%	0.2%	1.7%	12.3%	-4.7%	2.4%	13.6%
	2y CAGR (2024e - 2026e)	7.5%	4.7%	10.7%	7.6%	3.8%	4.3%	6.0%	5.4%	4.8%	12.0%
	EBITDA	37.8	(106.4)	236.2		863.0	103.1	278.3	8.6		8.7
	EBITDA growth	7.6%	16.9%	-3.1%	7.1%	-10.9%	5.9%	26.8%	-2.4%	4.9%	354.7%
	2y CAGR (2024e - 2026e)	11.7%	-23.3%	20.3%	2.9%	4.9%	7.1%	9.5%	12.2%	8.4%	23.0%
	EBITDA/Revenues	10.9%	n.a.	29.7%	20.3%	20.5%	19.2%	19.9%	8.4%	17.0%	13.2%
	EBIT	17.3	(112.7)	209.8		743.1	76.4	221.0	5.1		5.8
	EBIT growth	44.3%	13.4%	-4.4%	17.8%	140.1%	16.3%	28.5%	-7.5%	44.4%	465.0%
	2y CAGR (2024e - 2026e)	17.0%	-8.1%	22.0%	10.3%	5.2%	8.0%	9.6%	13.7%	9.1%	34.0%
	EBIT/Revenues	5.0%	n.a.	26.4%	15.7%	17.7%	14.2%	15.8%	4.9%	13.2%	8.7%
	Net Profit	10.6	(106.3)	165.3		431.9	62.1	152.2	2.0		1.1
	Net Profit growth	12.7%	16.3%	-3.0%	8.7%	137.0%	11.7%	25.4%	56.8%	57.8%	123.8%
	2y CAGR (2024e - 2026e)	25.1%	-17.2%	22.4%	10.1%	8.7%	9.4%	10.5%	15.0%	10.9%	n.a.
	CAPEX/Sales %	5.3%	12.7%	6.2%	8.1%	3.6%	3.5%	6.1%	4.0%	4.3%	6.0%
	Free Cash Flow	2.6	(78.3)	131.6		869.5	61.7	120.6	1.9		7.5
	Net financial debt	51.3	n.a.	28.4		3,787.0	(174.0)	171.4	(21.9)		31.8
	ND/EBITDA (x)	1.4	n.a.	0.1	0.7	4.4	n.a.	0.6	n.a.	2.5	3.6
	Pay-out	18.6%	n.a.	36.4%	27.5%	0.0%	16.5%	8.6%	0.0%	6.3%	0.0%
Multiples and Ratios	**P/E (x)**	17.4	n.a.	19.7	18.5	15.2	17.5	17.8	43.8	23.6	14.7
	P/BV (x)	1.1	1.1	5.3	2.5	1.1	1.7	2.6	0.5	1.5	3.9
	EV/Revenues (x)	0.8	2.8	4.1	2.6	2.4	1.5	2.1	0.4	1.6	0.7
	EV/EBITDA (x)	7.6	n.a.	13.8	10.7	11.9	8.0	10.7	5.2	8.9	5.1
	EV/EBIT (x)	16.7	n.a.	15.6	16.1	13.8	10.9	13.4	8.9	11.7	7.7
	ROE	6.2	n.a.	26.8	16.5	7.0	9.8	14.7	1.1	8.2	28.6
	FCF Yield (%)	1.1	n.a.	4.1	2.6	13.3	6.3	4.4	3.5	6.9	n.a.
	DPS	0.03	n.a.	1.16	0.59	0.00	0.87	1.55	0.00	0.60	0.00
	Dvd Yield	0.9%	n.a.	1.9%	1.4%	0.0%	1.1%	0.5%	0.0%	0.4%	0.0%

Note 1: Financial data, multiples and ratios based on market consensus (Factset). In the case of the company analyzed, own estimates (Lighthouse).
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
18-Nov-2024	n.a.	2.14	n.a.	n.a.	Initiation of Coverage	Luis Esteban Arribas, CESGA