

Reig Jofre

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An undiscovered pharma stock

A pharma group focused on injectables

Reig Jofre is a Spanish pharma group that manufactures and markets **proprietary prescription and OTC pharma products**, distributes **licensed** products and provides **contract manufacturing**. It has a strong **bias** towards **injectables**, antibiotics, and liophilized products. Other specialties are derma, ORL, gynaecology and nutrition. The company was founded in 1929, and is controlled and managed by the founding Reig Jofre family. The company has a long and successful track record of **acquisitions**. It gained a **market listing** through the acquisition and subsequent merger with Natraceutical in 2014.

Capacity additions and new launches to generate growth in sales

Capacity utilisation is presently high, a situation that will change as new capacity is to added in 2019e and 2020e. Capacity expansions will enable to increase sales of the current portfolio and also to launch new products. We expect sales to increase +7% in 2018e as supply constraints of some key raw materials has been successfully addressed while sales should remain almost unchanged in 2019e. We expect higher growth after that year as the **capacity additions** coming on stream in 2019e and 2020e combined with

product **launches** drive growth. We expect a +7% sales CAGR in 2019e–2023e. Our estimates do not include the possibility of corporate acquisitions or licensing—in new medicaments.

Margin expansion

An on-going **capex programme** combines the acquisition of new and more efficient capacity with upgrading existing equipment that dates back to acquisitions from Boehringer and GSK in 1997 and 2000. The expansion and renovation should enable to **increase the EBITDA margin** from 9.4% in 2017 to 15.9% in 2023e and as a result, the EBITDA may increase at a +16.0% CAGR in 2017–2023e.

We expect that earnings will decline moderately in 2018e and 2019e reflecting higher depreciation as new capacity comes on stream. We expect the net profit to recover after 2019e and to almost treble in 2019e–2022e.

Valuation

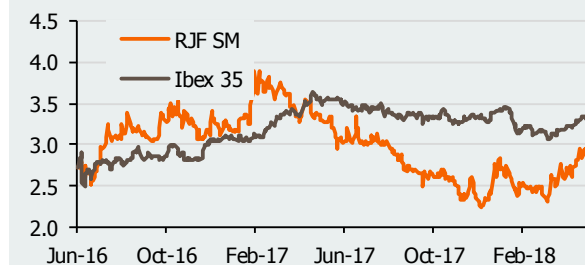
We use a **DCF valuation** and a 7.2% WACC. This results in a **target price of €3.30 per share**. Reig Jofre's 2018e multiples are at a more than a 30% average discount to the peer group.

Key data at 19th June 2018, 15:25h

Price (€)	2.81	Nº shares (m)	64.2
Ticker Bloomberg	RJF SM	M. Cap. (€m)	180.3
Free-float (%)	14.7	Daily vol. (€m)	0.1

(€mn)	2017	2018e	2019e	2020e
Net group profit	8.8	7.2	6.7	10.2
% inc.	14.8	-17.4	-7.9	52.8
EBITDA	15.8	17.0	18.0	23.7
% inc.	0.6	7.9	5.8	31.7
EPS (€)	0.14	0.11	0.10	0.16
% inc.	14.8	-17.4	-7.9	52.8
DPS (€)	0.00	0.00	0.00	0.00
% inc.	n.a.	n.a.	n.a.	n.a.
P/E (x)	17.1	24.9	27.0	17.7
EV/EBITDA	10.6	12.3	12.4	9.5
Div. Yield (%)	0.0	0.0	0.0	0.0
P/BV (x)	1.1	1.2	1.2	1.1

Price performance (€)



Performance (%)	1 m.	3 m.	12 m.
Absolute	-8.2	19.6	-7.3
Relative	-4.8	18.6	3.0

Source: Bloomberg and Bankinter Securities Research

Reig Jofre at a glance

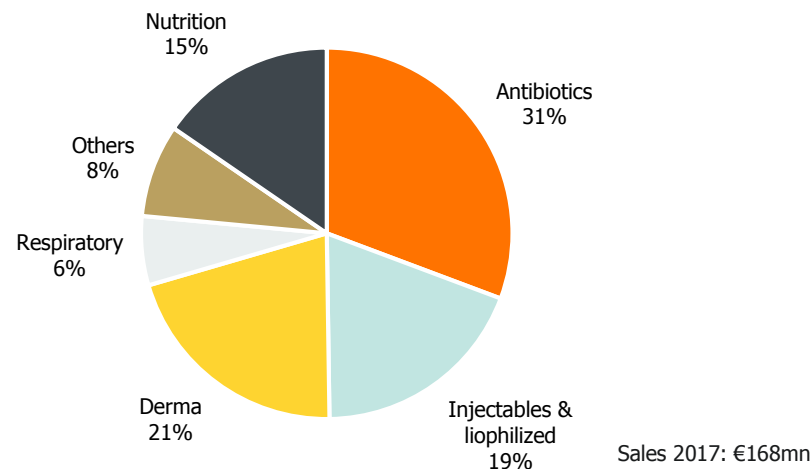
Reig Jofre is a pharmaceutical group that **(1) researches, manufactures, fills and markets its own medicaments, (2) distributes products under license agreements** and provides **(3) contract manufacturing** in the fields of sterile and lyophilized products as well as penicillin and cephalosporin antibiotics. Reig Jofre is the **sixth largest** listed pharma group in Spain per market capitalization.

The **product focus** is on antibiotics, injectables and lyophilized medicaments (50% of sales). The remaining 50% is accounted for in derma, respiratory, nutrition and other specialties. There is a **bias towards OTC** products with 111 references marketed in this category as opposed to prescription pharma where 90 specialties are marketed. **Sales per geography** are split between Spain (43%), other EU countries (40%) and ROW (17%). The company employs 900 **workers** in its **plants** in Toledo and Barcelona (**Spain**), Malmoe (**Sweden**) and in a **nutrition** company (Forté Pharma) based in **Monaco** that is the market leader in France.

The **pipeline** combines new products and biosimilars. It comprises developments in injectables (a new analgesic will be launched in 2018), antibiotics (a new penicillin-based is expected to be launched in 2019, other research works on optimisation for betalamic antibiotics), derma (psoriasis) and gynaecology (product extensions and female cancer detection).

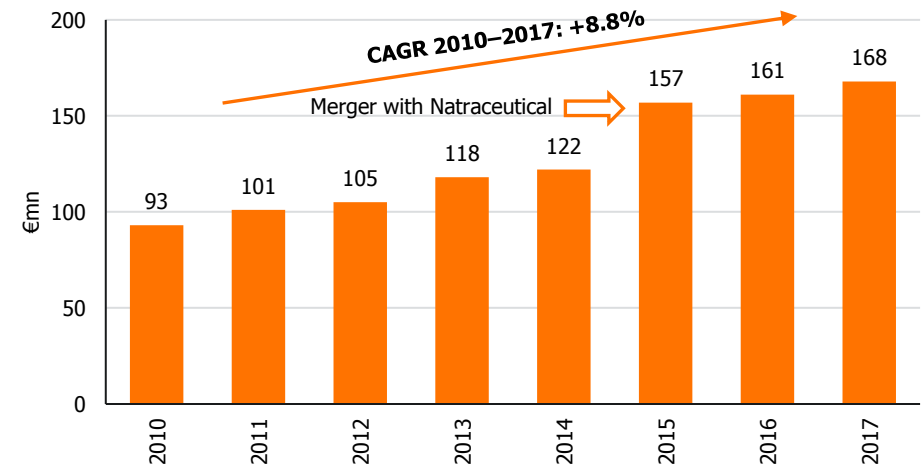
Reig Jofre was set up in 1929. In 2014, it merged with Natraceutical, a company that was listed in 2002. Its main **shareholder** is the Reig Jofre family who owns 73% of the shares. Natra (also listed and former owner of Natraceutical) owns 12% and has announced its intention to sell its stake. The resulting **free-float** is 15%. As a result, traded volumes are low having averaged €68,000 per day in the last 12 months.

Figure 1. Sales breakdown in 2017



Source: Company and Bankinter Securities Research

Figure 2. Evolution of sales



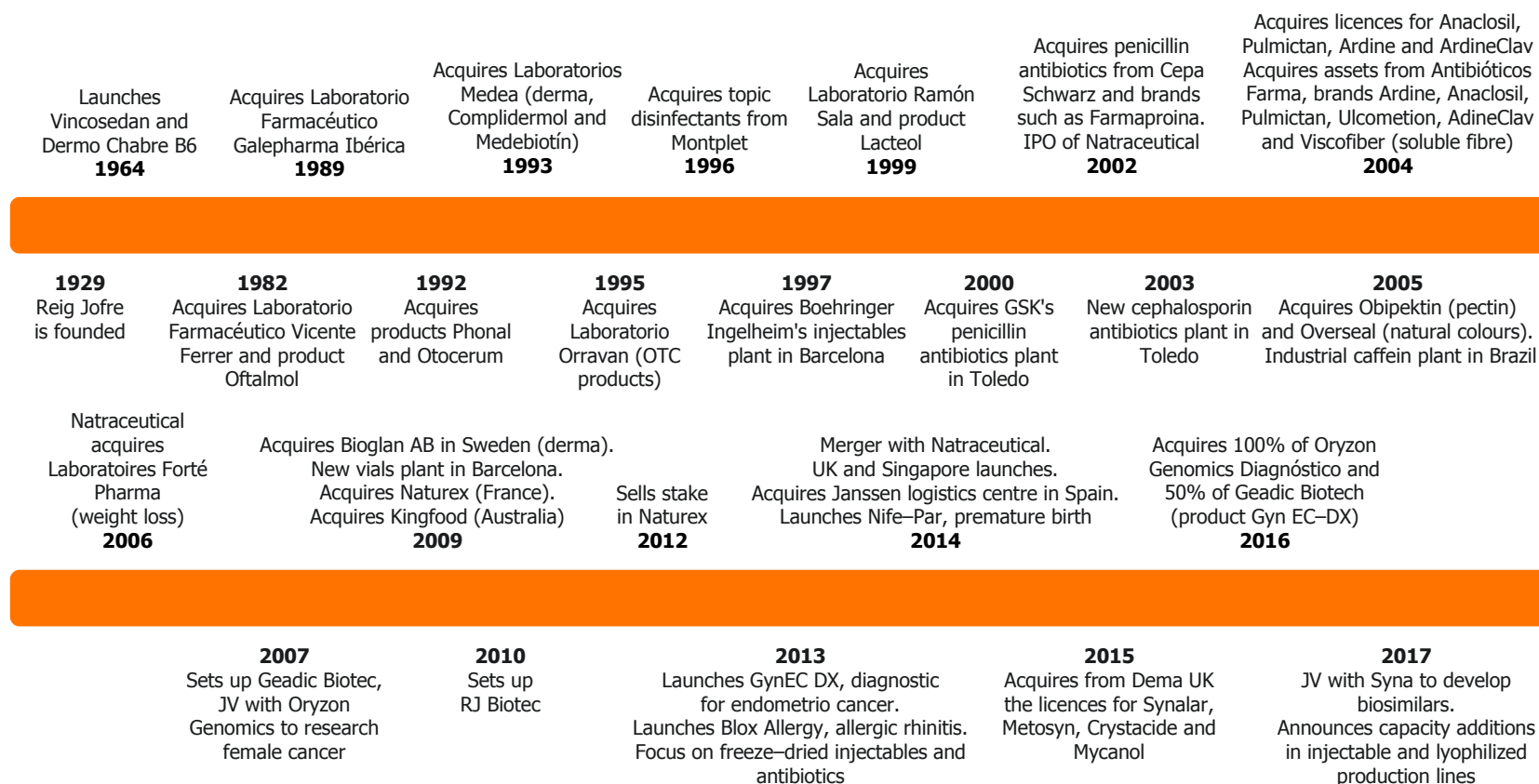
Source: Company and Bankinter Securities Research

Reig Jofre has three **manufacturing plants**. All of them combine own and third party manufacturing:

- **Toledo:** It is dedicated to filling antibiotics (penicillin and cephalosporine). The forms are injectable vials (powder based), orals, sachets and syrups.
- **Barcelona:** Fills lyophilized products, injectables, solid oral forms, liquids and syrups.
- **Malmö:** Manufactures derma products, mostly creams and lotions in semi solid forms for topic use.

The company has been active in **acquisitions** of pharma groups, assets and product licenses. It merged with Natraceutical in 2014.

Figure 3. A history of acquisitions



Source: Company and Bankinter Securities Research

Two product divisions: Technology and Therapeutic & healthcare

The product line-up combines OTC (111 references) and prescription pharma (90 references). It is structured in two divisions:

- 1. Technology:** Antibiotics, injectables and lyophilized pharma products represented 50% of sales in 2017.
- 2. Therapeutic & healthcare:** These accounts for the remaining 50% of sales. this division is split in Derma (21% of sales), ORL (6%), Other (8%) and nutrition (15%). The nutrition arm markets nutrition supplements and weight-loss specialties. Its nutrition brand Forté Pharma is the market leader in France.

Contract manufacturing is offered to other pharmaceutical companies who outsource their manufacturing processes. Products span a wide range of pharmaceutical forms, including prefilled penicillanic antibiotics (in all dosage forms), cephalosporin antibiotics (powder in vials), lyophilized vials, ampoules and vials, liquids, semi-solids and oral solid forms. This activity represented 23% of sales in 2017 (and sales of own products represented the remaining 77%).

Production capacity in the plant where it fills lyophilized and liquid vials is 15mn vials per year. In 2Q18, Reig Jofre announced it will invest €30mn until 2020 to add 25mn per year of capacity to reach 40mn vials per year.

Figure 4. Sales per activity (2017)

Division	Specialty	Key products	Sales 2017 (€mn)	%
Technology	Antibiotics	Anaclosil, Ardine, Britapen, Farmaproina, Orbenin	51.6	31
	Injectables & lyophilized	Sulfadiazina, Bivalirudina, Heparina, Fluconazol	32.0	19
Therapeutic & healthcare	Derma	Doxipil, Mometasona Mede, Ciclopirox, Ony-Tec, Synalar	34.8	21
	ORL	Otocerum, Otospray, Halazon, Budesonida Pulmictan, Milrosina	10.1	6
	Other	Orvan gel, GyneC DX, Nife-Par, Citrocil	13.6	8
	Nutrition	Forté Pharma products	25.9	15
Total sales			168.0	100
Spain			72.1	43
Other EU countries			67.3	40
Rest of Europe			3.3	2
ROW			25.3	15

Source: Company and Bankinter Securities Research

Figure 5. Product range

Division	Specialty	Distribution	Treatment	Product name	Active principle
Technology	Antibiotics	Prescription	Antibiotics	Anaclosil	Cloxaciline
			Antibiotics	Ardine	Amoxiciline
			Antibiotics	Ardineclav	Amoxiciline
			Antibiotics	Benoral	Fenoximetilpeniciline
			Antibiotics	Benzetacil	Bencilpeniciline
			Antibiotics	Britapen	Ampiciline
			Antibiotics	Cefazolina	Cefazoline
			Antibiotics	Cefepima	Cefepime
			Antibiotics	Cefotaxima	Cefotaxime
			Antibiotics	Ceftazidima	Ceftazidime
			Antibiotics	Ceftriaxona	Ceftriaxone
			Antibiotics	Cefuroxima	Cefuroxime
			Antibiotics	Farmaproina	Bencilpeniciline
			Antibiotics	Linezolid	Linezolid
			Antibiotics	Orbenin	Cloxaciline
			Antibiotics	Piperacilina Tazobactam	Piperaciline
			Antibiotics	Sodiopen	Bencilpeniciline
			Antibiotics	Sulfato de Estreptomicina	Estreptomicine
			Antibiotics	Teicoplanina	Teicoplanine
	Antibiotics	Vancomicina	Vancomicine		
	Injectables & lyophilized	Prescription	Ant bacterial	Sulfadiazina	Sulfamide
			Anticoagulant	Bivalirudina	Bivalirudine
			Anticoagulant	Heparina	Heparine
			Antiemetic	Palonosetron	Palonosetrone
			Cardiovascular	Aleudrina	Isoprenaline
			Derma	Fluconazol	Fluconazole
			CNS	Midazolam	Midazolam
			CNS	Remifentanilo	Remifentanile
Osteomuscular			Cisatracurio	Cisatracure	
Urology	Furosemida	Furosemide			

Division	Specialty	Distribution	Treatment	Product name	Active principle	
Therapeutic & healthcare	Derma	OTC	Skin care	Almond oil	Almonds	
			Skin care	Amniolina, Amnioplus H2O	Zinc oxide	
			Skin care	Mede–baby	–	
			Skin care	Nutridermis	–	
			Skin care	Saliodex	–	
			Skin care	Vaselina	Vaseline	
			Hair care	Complidermol, 5a, 5a PLUS	Vitamins	
			Hair care	Derma Chabre–B6	–	
			Hair care	Dermocutil	–	
			Hair care	Mede–H	–	
			Hair care	Resorpil	–	
			Hair care	Tri–Hachemina	–	
			Hair and nail care	Vincogelatin, plus	–	
			Haemorrhoids	Cohortan	Tirotricine	
			Skin care	Crystacide	Hydrogen peroxide	
		Prescription	Skin care	Deripil	Eritromicine	
			Skin care	Dermomyose líquido	Fuchsine	
			Skin care	Doxipil	Doxiciclina	
			Skin care	Eridosis	Eritromicine	
			Skin care	Mometasona, M Mede	Mometasone	
			Hair care	Ciclopirox Olamina Capitec	Ciclopirox	
			Nail care	Medebiotin fuerte	Biotine	
			Nail care	Ony–Tec	Ciclopirox	
			Other	Belladona	Belladona	
			Skin care	Synalar	Fluocinonide	
			Skin care	Metosyn	Fluocinonide	
			Skin care	Acyclovir	Acyclovir	
Therapeutic & healthcare	Respiratory	OTC	ORL	Antirrinum adultos	Oximetazoline	
			ORL	Potassic clorate	Potassium clorate	
			ORL	Halazon, h intense	Menthol	
			ORL	Otocerum	Chlorine	
			ORL	Otospray	Docusate	
			ORL	Parlatos	Dextrometorfane	
			ORL	Phonal, P spray	Polimixin	
			ORL	Sterimar, S bebé, S Mn	Sea water	
			Derma	Suero fisiológico	Sodiumclorate	
			Prescription	ORL	Budesonida Pulmictan	Budesonide
	ORL	Milrosina		Resorcin		
	Gynaecology	Prescription	OTC	Gynaecology	Orvan gel	–
				Gynaecology	GyneC DX	–
				Gynaecology	Nife–Par	Nifedipine
				Gynaecology	Pre–par ampollas	Ritodrin
Other	Prescription		Gastro	Citrocil	Dihidroestreptomicine	
			Urology	Desmopresina Mede	Desmopresine	

Division	Specialty	Distribution	Treatment	Product name	Active principle
Therapeutic & healthcare	Disinfectant	OTC	Disinfectant	Alcohol 70°, 96°	Ethyl alcohol
			Disinfectant	Iodina	Povidone
			Disinfectant	Menalcol reforzado	Clorhexidine
			Disinfectant	Menalmina	Clorhexidine
			Disinfectant	Oximen	Hydrogen peroxide
			Antiseptic	Tintura de yodo	Iodine
	Other	OTC	Gastro	Ricine oil	Ricine oil
			Chemist	Distilled water	Water
			Osteomuscular	Alcohol camphor, rosemary	Ethyl alcohol
			Gastro	Lacteol	Lactobacillus
			Derma	Suentillas	Sodiumchlorate
		Prescription	Gastro	Omeprazol	Omeprazole
			Gastro	Pantoprazol	Pantoprazole
	Nutrition	OTC	Weight loss	Xtra Slim	-
			Weight loss	Turboslim	-
			Weight loss	Turboslim Drenante	-
			Weight loss	Turboslim Calorilight	-
			Vitamins	Energy Vitalité 4	-
			Nutrition supplement	Magne 300 Marin	-
			Nutrition supplement	Forté Jalea Real	-
Nutrition supplement			Forté Propolis	-	
Skin care			Expert Hialurónico	-	
Insomnia			Forté Nuit	-	
Hair care			Expert Capilar	-	

Source: Company and Bankinter Securities Research

The current portfolio

The product portfolio currently marketed by Reig Jofre includes 201 **pharma products** that are sold at chemists. There are 111 over-the-counter, **OTC**, or non-prescription products marketed and 90 **prescription pharma products**. Prescription medicines are partly subsidized by the Spanish social security system after a selection process.

The **distribution channels** combine sales to wholesalers, chemists and hospitals. Reig Jofre sells its products directly in Spain, Portugal, France, UK, Belgium, Sweden and Singapore and has 130 distribution agreements in another 67 countries.

Proprietary products comprise a portfolio that ranges from antibiotics, injectables, lyophilized applications and specialty pharma (derma, respiratory, gynaecology, disinfectants and others) to nutrition supplements, vitamins and weight-loss products. We understand that patents have expired in the majority of its products but are unlikely to attract competing biosimilars due to the limited size of their market.

Sales of **distributed pharma** include an array of OTC and specialty products licensed that are marketed through the same channels as Reig Jofre's own products. Most licenses did not require an upfront payment but there have been exceptions, such as Synalar, Metosyn, Crystacide and Mycanolthat whose distribution in the UK was licensed from Dema in 2014.

In **2017**, sales increased +4% to €168mn. Per division, **technology products** increased +6% to €84mn (antibiotics fell -2% to €52mn and injectable products increased +24% to €32mn), **therapeutic & healthcare** increased +2% to €84mn (derma increased +6% to €35mn, respiratory +14% to €10mn, nutrition fell -4% to €26mn, while others declined -2% to €14mn). Sales of technology products suffered from a shortage of raw materials, a problem now solved as the company has added new suppliers. In 1Q18 sales of technology increased +12% to €24mn, a signal that this problem has been overcome, while therapeutic & healthcare increased +1% to €23mn. Total sales increased in 1Q18 +6% to €47mn.

Our view is that the **sales of the existing portfolio will increase +7% in 2018e** to €180mn underpinned by a recovery in technology products as supply constraints have been eliminated. We expect that **in 2019e, sales will be almost unchanged** as production is near its full capacity utilisation and prices are likely to remain stable. Sales from the current portfolio may well be unchanged at €180mn in 2017-2023e, while growth should stem from capacity additions and from product launches.

Contract manufacturing accounts for 23% of sales. This activity spans a wide range of pharmaceutical forms, including penicillanic antibiotics (all dosage forms), cephalosporin antibiotics (powder in vials), lyophilized vials, ampoules and vials, liquids, semi-solids and oral solid forms. Contract manufacturing sales are reported as part of the two product divisions.

New capacity in injectables and antibiotics may represent 22% of sales in 2023e...

Reig Jofre owns a plant in **Barcelona** that was acquired from Boehringer Ingelheim in 1997 where it fills **lyophilized and liquid vials** with a **capacity** of 15mn vials per year. The plant in **Toledo** was acquired from GSK in 2000 and enlarged in 2003, where it fills antibiotics and penicillin products. We understand that **capacity utilisation** in both locations is high and that the company cannot respond efficiently to demand growth and to new launches.

The company is to complete in 2018e a €7.5mn investment in **Toledo** to **increase penicillin manufacturing and filling capacity** by 33%.

In 2Q18, Reig Jofre announced it will invest €30mn in its **Barcelona** plant until 2020 to add 25mn vials per year of **capacity** and reach 40mn vials per year. This investment consists of two new lines that will come on stream in 2020e and preparing a third new line for 10mn vials per year that will require additional capex to be operational.

The new capacity will be dedicated to increase production of the existing range, to manufacture a new **anaesthesia** to be marketed in 2018 in Indonesia and to manufacture **a new antibiotic** to be launched in the US in 2019. A new veterinary vaccine against **leishmaniosis** to be licensed out to MSD but manufactured by Reig Jofre will also absorb part of the new capacity. Some product launches in derma and gynaecology products are also likely.

Our **modelware** considers that the new production lines in Barcelona will run at 23% of capacity in the first year (2020e) increasing to 40%, 80% and 95% in 2021e–2023e. For the capacity addition in Toledo, we have modelled a 25% capacity utilisation in 2018e increasing to 50%, 70% and 95% in 2019e–2023e.

We expect that pricing will be unchanged from the existing contracts. This translates in €52mn of incremental sales in 2023e (22% of sales) arising from the **capacity increases**.

As a result of the announced capacity additions, **sales of technology** (antibiotics and injectable products) may increase CAGR +10% to €148mn in 2023, up from €96mn in 2017 and **represent 61% of the total** in 2023e, from 53% in 2017.

We expect that the new lines will be more **cost efficient** than the older capacity that dates to the Boehringer Ingelheim's acquisition in 1997 and GSK's in 2000 and that margins will increase. We estimate that when the new lines are at near full capacity utilisation, they will generate an EBITDA margin of 25% and that equipment upgrades may lift the EBITDA margin in the existing lines to 13% from the current 9%. This is consistent with the margins seen in some of its comparables.

Our model assumes that the current portfolio's **EBITDA margin** of 9.4% in 2017 will increase to 15.9% in 2022e–2023e as a result of adding more cost-efficient capacity and making improvements in the existing lines.

...and the products in the pipeline 4% of sales

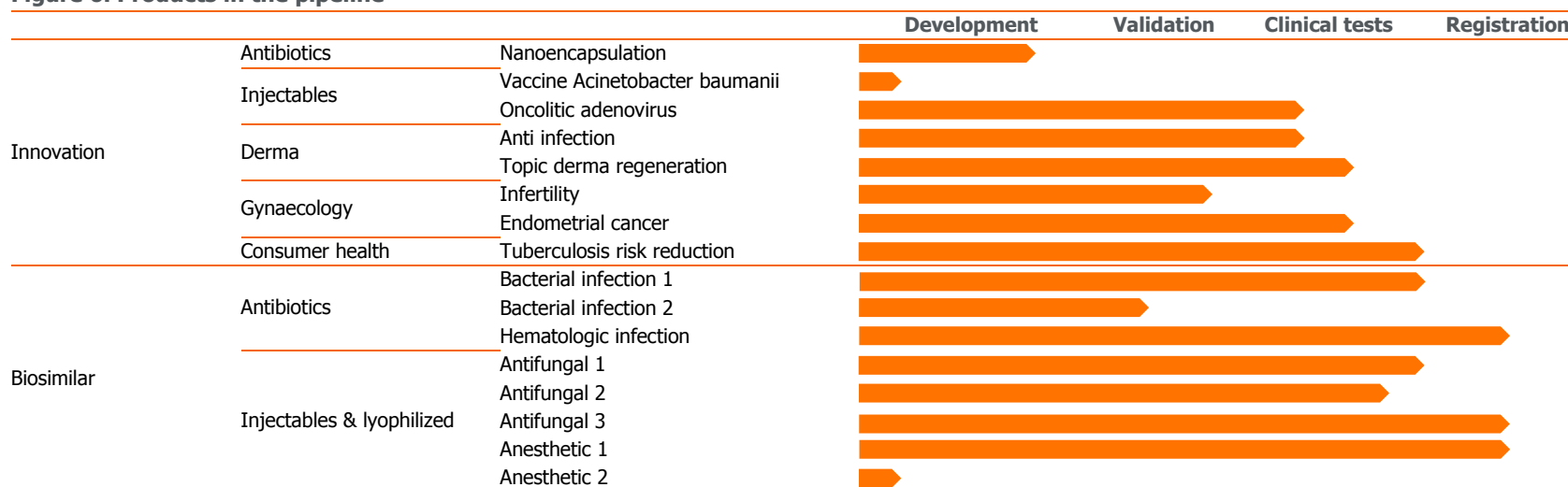
Reig Jofre has sixteen products in its **pipeline** in various stages of development. The company focuses R&D on new applications using known active principles and on improving the dosage. It researches new products and biosimilars and also seeks developments in injectable products, antibiotics, derma (psoriasis) and gynaecology (product extensions, premature birth and female cancer detection).

R&D expenses of €8mn in 2017 represented c. 5% of sales. Approximately 50% of this expense was capitalized. We expect that R&D expenses will stay unchanged at €8mn per year in 2018e–2023e.

The company plans to launch in 2018 a new **anaesthesia** to be marketed in Indonesia. In 2019 it expects to introduce a **new penicillin-based antibiotic** in the **US**. A new veterinary vaccine against **leishmaniosis** is also in the final stages of development. The capacity additions in the Toledo and Barcelona plants will be partly dedicated to the new launches. Other research works on optimisation for betalamic antibiotics, derma products (psoriasis and anti-infection applications) and gynaecology (product extensions and female cancer detection).

Our model assumes that the pipeline generates €10mn **sales** in 2023e, or 4% of the total sales.

Figure 6. Products in the pipeline



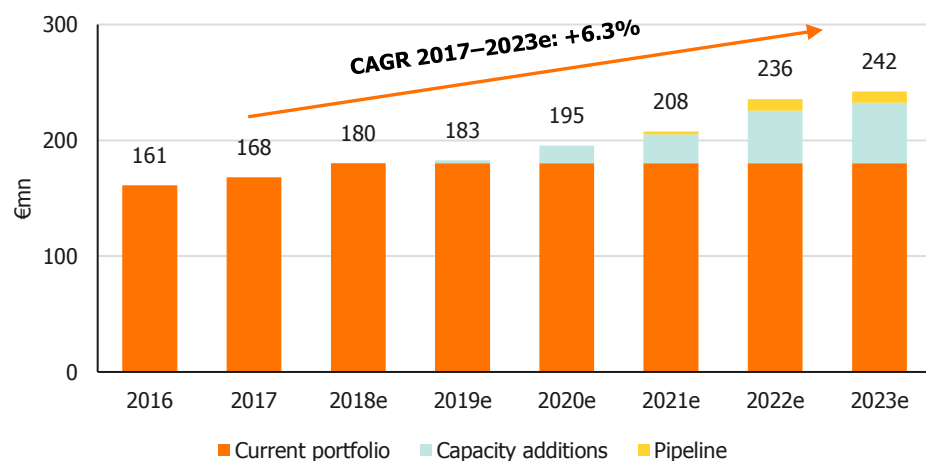
Source: Reig Jofre

Sales growth of 6% CAGR in 2017e–23e...

We expect sales to reach €242 in 2023e, a +6.3% CAGR from 2017. Our view is that sales of the **current portfolio** (excluding capacity additions) will not increase from 2018e as capacity utilisation is high and pricing should be stable. **Capacity increases** in antibiotics (2018e) and injectables (2020e) and to a lesser extent **product launches** should be reflected in total sales increasing at a 6.3% CAGR in 2017–2023e. We expect to see a combination of the following:

- Sales of **antibiotics** (this excludes capacity additions) should increase +18% from € to €61mn in 2018e and stay unchanged to 2023e. We expect to see a recovery in 2018e as the supply constraints on raw materials have been successfully addressed, something that was seen in the 1Q18 results.
- **Injectables** may experience a similar pattern as antibiotics, a +9% recovery in 2018e to €35mn and subsequently stable sales to 2023e. We have only considered the existing product portfolio, although we would expect that Reig Jofre buys distribution licenses to add new medicines to its product range.
- **Capacity additions in injectables**: Capacity will increase as 25mn vials per year are added to the existing 15mn in 2020e. We expect that pricing will be unchanged from the existing contracts. This translates in €52mn of incremental sales in 2023e, or 22% of the total.
- **New launches**: We expect that sales of own products in the last stages of development may reach €10mn or 4% of sales by 2023e.

Figure 7. Evolution of sales



Source: Company and Bankinter Securities Research

Figure 8. Sales forecasts

€mn	2017	2018e	2019e	2020e	2021e	2022e	2023e	%CAGR 17–23e
Antibiotics	51.6	60.9	60.9	60.9	60.9	60.9	60.9	2.8
Injectables	32.0	34.9	34.9	34.9	34.9	34.9	34.9	1.4
Technology	83.6	95.8	95.8	95.8	95.8	95.8	95.8	2.3
Therapeutic & healthcare	84.4	84.4	84.4	84.4	84.4	84.4	84.4	0.0
Current portfolio	168.0	180.1	180.1	180.1	180.1	180.1	180.1	1.2
Antibiotics Toledo	–	–	2.5	5.0	7.0	9.5	9.5	
Injectables Barcelona	–	–	–	10.2	18.0	36.0	42.8	
Capacity additions			2.5	15.2	25.0	45.5	52.3	
Derma	–	–	–	–	1.4	5.4	5.4	
Gynaecology	–	–	–	–	1.1	4.5	4.5	
New launches					2.5	9.9	9.9	
Total sales	168.0	180.1	182.6	195.4	207.6	235.5	242.3	6.3
<i>yoy chg (%)</i>	<i>4.3</i>	<i>7.2</i>	<i>1.4</i>	<i>7.0</i>	<i>6.3</i>	<i>13.4</i>	<i>2.5</i>	

Source: Company and Bankinter Securities Research

... while EBITDA increases 16% CAGR on higher margins

Reig Jofre has a **similar gross margin** versus its comparables (Almirall, Rovi and Faes). The average **gross margin** for the peer group is 64%, this is marginally above Reig Jofre's 62% margin.

However, **EBITDA margins** differ. In the peer group, it averages 19% with a 11%–22% range and 17%–22% when normalized (Rovi increased marketing and R&D expenditure by 27% in 2H17 vs 1H17 to support product launches and a key development in late phase III). Reig Jofre has the lowest margin at 9%. This reflects above average labour & other expenses: 51% of sales, versus a 45% average for the peer group, a situation that we believe is partly a reflection of the age of its production facilities.

Figure 9. Gross margin and EBITDA margin peer comparison in 2017

% of sales	Almirall	Rovi	Faes	Peer group average	Reig Jofre	Comments
Gross margin	64.3	60.0	64.9	63.5	61.9	Average margin is 64%
Other income	18.2	0.6	2.8	10.6	1.5	ALM, FAE: license-out revenues
Capitalized expenses	0.0	0.7	0.0	0.2	2.2	Higher for RJF
R&D	-13.7	-10.2	-1.2	-10.0	-4.8	
Labour & Other expenses	-46.5	-40.1	-45.5	-44.8	-51.4	Higher costs to sales in Reig Jofre
EBITDA	22.2	11.1	21.0	19.4	9.4	Room for improvement in RJF

Source: Company and Bankinter Securities Research

We expect that as a result of adding more efficient capacity, revamping some of its manufacturing older facilities and launching internally developed products, Reig Jofre's **EBITDA margin will climb to 16%** in 2022e, from the current 9%, but still below the peer group's average. As a result of increasing sales in 2017–2023e sales and higher EBITDA margins, the **EBITDA may increase at a 16% CAGR** in 2017–2023e, above our estimated sales CAGR of +6% in the same years. The expected increase in EBITDA is a key feature of Reig Jofre.

Figure 10. EBITDA margin estimates

€mn	2017	2018e	2019e	2020e	2021e	2022e	2023e	% CAGR 17–23e
EBITDA margins (%)								
Current portfolio	9.4	9.5	10.1	13.0	12.7	13.1	12.8	
Capacity additions: Antibiotics Toledo	–	–	-8.0	-5.0	22.0	25.0	25.0	
Capacity additions: Injectables Barcelona	–	–	–	5.0	15.0	25.0	25.0	
New launches: Derma	–	–	–	–	-15.0	25.0	25.0	
New launches: Gynaecology	–	–	–	–	22.0	25.0	25.0	
EBITDA margin (%)	9.4	9.5	9.9	12.1	13.1	15.9	15.9	
Sales (€mn)	168.0	180.1	182.6	195.4	207.6	235.5	242.3	6.3
EBITDA (€mn)	15.8	17.0	18.0	23.7	27.2	37.5	38.5	16.0

Source: Company and Bankinter Securities Research

Figure 11. P&L forecasts

€mn	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e	% CAGR 17–23e	Comment
Current portfolio	161.1	168.0	180.1	180.1	180.1	180.1	180.1	180.1	1.2	
Capacity additions				2.5	15.2	25.0	45.5	52.3	n.m.	
Pipeline						2.5	9.9	9.9	n.m.	
Sales	161.1	168.0	180.1	182.6	195.4	207.6	235.5	242.3	6.3	Driven by capacity additions
Purchases	-61.4	-64.1	-68.5	-69.4	-68.4	-72.7	-82.4	-84.8	4.8	
Gross margin	99.8	103.9	111.7	113.2	127.0	135.0	153.1	157.5	7.2	
Margin (%)	61.9	61.9	62.0	62.0	65.0	65.0	65.0	65.0		<i>Moderate gain in margin</i>
Capitalized items	0.3	3.7	3.9	4.0	4.1	4.3	4.5	4.6	3.7	
Other income	3.8	2.4	2.5	2.5	2.6	2.6	2.7	2.7	2.0	
Labour	-46.0	-49.4	-51.3	-51.9	-59.2	-61.6	-64.1	-66.6	5.1	Increased manpower
R&D	-3.3	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	0.0	Stable at €8mn per year
Other expenses	-32.4	-31.5	-35.8	-35.9	-36.1	-38.0	-42.7	-43.4	5.5	
Marketing	-6.5	-5.5	-5.9	-6.0	-6.7	-7.1	-8.1	-8.3	7.2	In-line with gross margin
EBITDA	15.7	15.8	17.0	18.0	23.7	27.2	37.5	38.5	16.0	More efficient capacity and launches boost the margin
Margin (%)	9.7	9.4	9.5	9.9	12.1	13.1	15.9	15.9		
Depreciation	-4.0	-6.8	-7.9	-9.0	-10.6	-11.4	-12.1	-12.9	11.2	Reflects increasing capex
EBIT	11.7	9.0	9.2	9.0	13.1	15.8	25.3	25.6	19.0	On the rise
Margin (%)	7.3	5.4	5.1	4.9	6.7	7.6	10.8	10.6		
Financial income	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.1		
Financial expenses	-1.2	-0.9	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2		
Other financials	1.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Net financial result	0.2	-1.0	-1.1	-1.1	-1.2	-1.1	-1.1	-1.1	1.3	Debt is not an issue
PBT	12.0	8.0	8.0	7.8	12.0	14.7	24.2	24.5	20.5	High-growth
Taxes	-4.3	0.8	-0.8	-1.2	-1.8	-2.2	-4.8	-4.9	n.m.	Higher taxation
Net profit	7.7	8.8	7.2	6.7	10.2	12.5	19.4	19.6	14.3	

Source: Company and Bankinter Securities Research

Leverage will increase to finance capex

We forecast €82mn **capex** (7% of sales) in 2018e–2023e. Committed capacity additions represent 40%, recurrent capex (this fluctuates depending on equipment upgrades) 24% and capitalized R&D expenses 36%. We expect that 74% of the capex will be done in 2018e–2020e.

Figure 12. Capex estimates

€mn	2017	2018e	2019e	2020e	2021e	2022e	2023e	2018e–2023e	% of total
Recurrent	4.8	4.0	10.0	0.2	2.1	1.9	1.7	19.9	24
New capacity: Toledo	8.4	2.5	–	–	–	–	–	2.5	3
New capacity: Barcelona	–	10.0	10.0	10.0	–	–	–	30.0	37
Capitalized R&D, Other	4.4	4.5	4.6	4.8	4.9	5.1	5.3	29.3	36
Capex	17.6	21.0	24.6	15.0	7.0	7.0	7.0	81.6	100
% of sales	10.5	11.7	13.5	7.7	3.4	3.0	2.9	6.6	

Source: Company and Bankinter Securities Research

We expect that **OWC** requirements will increase to support sales growth. The OWC/Sales ratio should stay unchanged at 24–25% of sales, this ratio is consistent with the peer group.

We do not expect cash **dividends**. The company has done scrip issues in the last years, this policy is likely to be maintained.

We expect the **net financial debt** to increase by €28mn to finance its capacity expansion programme and recurrent investments in 2018e–2020e. The NFD should peak at €46mn in 2020e and NFD/EBITDA reach a high of 2.5x in 2019e to gradually fall to 0.1x in 2023e. We do not see the increase in leverage as a concern as the company should be able to service its debt comfortably.

Figure 13. Cash flow forecasts

€mn	2017	2018e	2019e	2020e	2021e	2022e	2023e	% CAGR 17–23e	Comment
EBITDA	15.8	17.0	18.0	23.7	27.2	37.5	38.5	16.0	
Net financial cost	–0.9	–1.1	–1.1	–1.2	–1.1	–1.1	–1.1	3.7	
Taxes	–1.4	–0.8	–1.2	–1.8	–2.2	–4.8	–4.9	23.2	
Capitalized items & Other	–1.5	–3.9	–4.0	–4.1	–4.3	–4.5	–4.6	21.2	
OWC	8.7	–3.2	–0.6	–2.6	–2.8	–6.4	–1.6	n.m.	OWC drains cash flow to encompass sales growth
Operating cash flow	20.7	8.0	11.2	14.1	16.8	20.6	26.3	4.1	
Capex	–9.2	–21.0	–24.6	–15.0	–7.0	–7.0	–7.0	–4.4	
Free cash flow to equity	11.5	–13.0	–13.5	–0.9	9.8	13.6	19.3	9.0	Recovers after the peak of capex
Other	–0.3	0.0	0.0	0.0	0.0	0.0	0.0	n.m.	
Change in net debt	–11.2	13.0	13.5	0.9	–9.8	–13.6	–19.3	9.5	We expect €27mn of new NFD
Net financial debt	18.3	31.3	44.7	45.6	35.9	22.3	2.9	–26.3	NFD likely to reach €46mn, then to decline
NFD/EBITDA (x)	1.2x	1.8x	2.5x	1.9x	1.3x	0.6x	0.1x		Peaks at 2.5x, debt is not an issue
OWC/Sales (%)	25%	25%	25%	25%	25%	24%	24%		Stable from 2017 and in-line with the peer group

Source: Company and Bankinter Securities Research

Our valuation is €3.30 per share

We value Reig Jofre using a **DCF-model** that considers flows for 2019e–2023e and a terminal value. Our assumed cost of equity is 8.5%, cost of debt (pre-tax) 2.5% and debt financing is 25%. The resulting **WACC is 7.2%**. We use a **terminal growth “g”** rate of 0%. Our **EV estimate** is €232mn and our **equity value estimate** is €215mn.

We have included a 1.6% **dilution** from the on-going 1 x 62 scrip issue that closes on June 28th. The company is buying back subscription rights at €0.046 that equals to a 1.6% yield. We have assumed that all the shareholders choose to receive new shares as 98% of the shareholders chose shares in the last scrip issue of June 2016. The new shares will start trading on July 31st.

Our **target price of €3.30 per share** is for December 2018.

Figure 14. DCF model

€mn	2019e	2020e	2021e	2022e	2023e
EBIT	9.0	13.1	15.8	25.3	25.6
Less capitalized expenses	-4.0	-4.1	-4.3	-4.5	-4.6
Tax rate on EBIT	-15%	-15%	-15%	-20%	-20%
NOPLAT	4.3	7.6	9.8	16.7	16.8
Depreciation	9.0	10.6	11.4	12.1	12.9
OWC	-0.6	-2.6	-2.8	-6.4	-1.6
Capex	-24.6	-15.0	-7.0	-7.0	-7.0
Free cash flow	-11.9	0.7	11.4	15.4	21.1
Terminal value					292.3
EV/EBITDA terminal value (x)					7.6
Flow to discount	-11.9	0.7	11.4	15.4	313.4
Discount factor (x)	0.93	0.87	0.81	0.76	0.71
NPV of flow	-11.1	0.6	9.2	11.7	221.1
EV	231.5				

Source: Bankinter Securities Research

Figure 15. Sum of the parts valuation

	€mn	€/share ⁽¹⁾
EV	231.5	3.55
Financial assets (book value)	8.2	0.13
Tax credit	7.0	0.11
Less: NFD 2018e	-31.3	-0.48
Less: provisions 2018e	-0.9	-0.01
Equity value	214.5	3.30

⁽¹⁾ Number of shares adjusted to the on-going scrip issue

Source: Bankinter Securities Research

Figure 16. Sensitivity analysis

		WACC (%)				
		5.2	6.2	7.2	8.2	9.2
Terminal growth	€/share ⁽¹⁾					
	1.5%	6.93	5.23	4.13	3.35	2.79
	1.0%	6.13	4.74	3.80	3.13	2.62
	0.5%	5.50	4.34	3.53	2.94	2.47
	0.0%	4.99	4.01	3.30	2.76	2.34
	-0.5%	4.57	3.72	3.09	2.61	2.23
	-1.0%	4.22	3.47	2.91	2.47	2.13
-1.5%	3.92	3.26	2.75	2.35	2.03	

Source: Bankinter Securities Research

Figure 17. Peer group comparison

Company name	Ticker	Price (€)	Mkt Cap (€mn)	EV (€mn)	1M Price Chg (%)	3M Price Chg (%)	6M Price Chg (%)	1 Yr Price Chg (%)
Reig Jofre	RJF SM	2.81	180	197	-8.2	19.6	22.1	-7.3
Rovi	ROVI SM	15.85	793	794	-6.2	-9.9	-2.6	2.9
Faes	FAE SM	3.48	940	949	-0.3	22.3	18.4	14.9
Almirall	ALM SM	10.98	1,909	1,922	-4.6	11.2	26.2	-27.3
Grifols	GRF SM	26.74	16,545	21,694	6.2	14.6	8.1	3.7

Name	P/E 2018e	P/E 2019e	EV/EBITDA 2018e	EV/EBITDA 2019e	P/CF 2018e	P/CF 2019e	P/Book	Dividend yield
Reig Jofre	24.9	27.0	12.3	12.4	11.9	11.5	1.2	0.0
Rovi	65.1	23.8	32.2	17.1	66.0	22.4	4.0	0.5
Faes	18.5	16.0	13.6	11.1	16.0	15.5	2.7	3.4
Almirall	35.2	23.6	11.4	9.1	11.9	9.7	1.6	1.7
Grifols	25.4	22.6	16.3	15.0	21.7	19.6	5.0	1.5
Average	33.8	22.6	17.2	12.9	25.5	15.7	2.9	1.4

Source: Bankinter Securities Research

The **multiples comparison** against the listed Spanish comparables also suggests good value for Reig Jofre.

The company does not pay cash **dividends**. Instead, it does scrip issues with a set price for buying back the subscription rights.

Its equity free cash flow becomes positive in 2021e and the **FCF yield** is 5.4%, 7.6% and 10.7% in 2021e, 2022e and 2023e.

Valuation methodology

Valuation method

We value Reig Jofre using a DCF-model that considers flows for 2019e–2023e and a terminal value. Our valuation is for December 2018.

Key assumptions

Our cost of equity is 8.5%, the cost of debt (pre-tax) is 2.5% and we assume that debt finances 25% of the capital employed. The resulting WACC is 7.2%. We use a terminal growth "g" rate of 0%. We have included a 1.6% dilution from the on-going scrip issue. The new shares are to start trading on 31st July.

Price target scenarios

Base €3.30

- Stable sales of the current portfolio after 2018e
- New capacity at 95% of utilization in the 4th year of operation
- Product launches (pipeline) represent 4% of sales in 2023e
- EBITDA margin increases to 16% in 2022e

Bull €3.65

- Sales of the current portfolio as in base
- New capacity at 95% of utilization in 2nd year of operation
- Sales from new launches 2x from base
- EBITDA margin reaches 16% in 2021e

Bear €2.50

- Sales of the current portfolio as in base
- New capacity at 50% of utilization in the 4th year of operation
- Sales from new launches as in base
- EBITDA margin peaks at 15% in 2022e

Key drivers

- Sales growth driven by new capacity and product launches
- Increasing margins as more efficient capacity is added

Catalysts

- New license agreements
- Corporate acquisitions
- Roll out of the capex programme

Risk factors

- Disposal of Natra's 12% stake
- Pipeline risks

Figure 18. Profit and loss account and cash flow statement

(€mn)	2015	2016	2017	2018e	2019e	2020e
Profit and loss account						
Sales	156.9	161.1	168.0	180.1	182.6	195.4
% inc.	<i>n.a.</i>	2.7	4.3	7.2	1.4	7.0
Cost of goods sold	-59.1	-61.4	-64.1	-68.5	-69.4	-68.4
Gross margin	97.8	99.8	103.9	111.7	113.2	127.0
Operating costs	-80.7	-84.1	-88.1	-94.7	-95.2	-103.3
EBITDA	17.1	15.7	15.8	17.0	18.0	23.7
% inc.	<i>n.a.</i>	-8.3	0.6	7.9	5.8	31.7
Depreciation	-5.4	-4.0	-6.8	-7.9	-9.0	-10.6
EBIT	11.7	11.7	8.9	9.2	9.0	13.1
% inc.	<i>n.a.</i>	0.0	-23.6	2.4	-2.0	46.2
Net financial result	-0.7	0.2	-1.0	-1.1	-1.1	-1.2
Equity accounted earnings	0.0	0.0	0.0	0.0	0.0	0.0
Other results	0.0	0.0	0.0	0.0	0.0	0.0
Profit before taxes	11.0	11.9	7.9	8.0	7.8	12.0
Corporate tax	-2.3	-4.3	0.8	-0.8	-1.2	-1.8
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net group profit	8.7	7.6	8.8	7.2	6.7	10.2
% inc.	<i>n.a.</i>	-12.3	14.8	-17.4	-7.9	52.8
EPS (€)	0.14	0.12	0.14	0.11	0.10	0.16
% inc.	<i>n.a.</i>	-12.3	14.8	-17.4	-7.9	52.8
DPS (€)	0.00	0.05	0.00	0.00	0.00	0.00
% inc.	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Cash flow statement						
Net cash flow	14.1	11.6	15.6	15.1	15.7	20.8
% inc.	<i>n.a.</i>	-17.7	34.3	-3.1	4.0	32.3
OWC change	-33.2	-23.3	14.6	-3.2	-0.6	-2.6
Capex	-9.2	-13.6	-9.2	-21.0	-24.6	-15.0
Free cash flow	-28.2	-25.3	21.0	-9.1	-9.5	3.2
Dividends paid	0.0	0.0	-0.1	0.0	0.0	0.0
Other variations	14.1	10.1	-9.9	-3.9	-4.0	-4.1
Change in net cash/(net financial debt)	-14.1	-15.2	11.0	-13.0	-13.5	-0.9

Source: Company and Bankinter Securities Research

Figure 19. Balance sheet and margins

(€mn)	2015	2016	2017	2018e	2019e	2020e
Balance sheet						
Net fixed assets	85.9	96.7	107.0	124.0	143.5	152.1
Net financial assets	10.3	1.8	1.3	1.3	1.3	1.3
Operating working capital (OWC)	33.2	56.5	41.9	45.1	45.7	48.2
Other assets/(liabilities) net	10.4	7.7	9.6	9.6	9.6	9.6
Capital employed (CE)	139.8	162.6	159.9	180.0	200.2	211.2
Shareholders' equity	125.7	133.3	141.6	148.8	155.5	165.7
Minority interests	0.0	0.0	0.0	-0.1	-0.1	-0.1
Net financial debt	14.1	29.3	18.3	31.3	44.7	45.6
Margins (%)						
Gross margin/Sales	62.3	61.9	61.9	62.0	62.0	65.0
EBITDA/Sales	10.9	9.7	9.4	9.5	9.9	12.1
EBIT/Sales	7.5	7.3	5.3	5.1	4.9	6.7
Sales/Capital employed	112.2	99.1	105.1	100.1	91.2	92.5
EBITDA/Capital employed	12.2	9.6	9.9	9.5	9.0	11.2
ROCE	8.4	7.2	5.6	5.1	4.5	6.2
ROE	6.9	5.7	6.2	4.9	4.3	6.1
Gearing (x)						
Net financial debt/Capital employed	0.1	0.2	0.1	0.2	0.2	0.2
Net financial debt/EBITDA	0.8	1.9	1.2	1.8	2.5	1.9
EBIT/Net financial result	16.7	-54.9	8.9	8.1	7.9	11.3

Source: Company and Bankinter Securities Research

Figure 20. Main shareholders

Family Reig Jofre:	73.0%
Natra:	12.0%
Treasury stock:	0.3%

Source: Company and Bankinter Securities Research

Figure 21. Company information

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Website:	www.reigjofre.com
CEO:	Ignasi Biosca
COO:	Gabriel Roig
CFO:	Roser Gomila (+34 93 480 6710)

Source: Company and Bankinter Securities Research

Figure 22. Market ratios

(€)	2015	2016	2017	2018e	2019e	2020e
EPS (€)	0.14	0.12	0.14	0.11	0.10	0.16
% inc.	<i>n.a.</i>	-12.3	14.8	-17.4	-7.9	52.8
CFPS (€)	0.22	0.18	0.24	0.24	0.24	0.32
% inc.	<i>n.a.</i>	-17.7	34.3	-3.1	4.0	32.3
DPS (€)	0.00	0.05	0.00	0.00	0.00	0.00
% inc.	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
BVPS (€)	1.96	2.08	2.21	2.32	2.42	2.58
% inc.	<i>n.a.</i>	6.1	6.3	5.1	4.5	6.6
ROE (%)	6.9	5.7	6.2	4.9	4.3	6.1
Price (€)						
Max.	7.82	3.73	3.90	<i>n.a.</i>	-	-
Min.	3.43	2.52	2.24	<i>n.a.</i>	-	-
Last	3.45	3.12	2.34	2.81	2.81	2.81
P/E (x)						
Max.	57.6	31.3	28.6	-	-	-
Min.	25.3	21.2	16.4	-	-	-
Last	25.4	26.2	17.1	24.9	27.0	17.7
Relative	0.8	0.8	0.5	0.8	0.9	0.6
P/CF (x)						
Max.	35.6	20.6	16.0	-	-	-
Min.	15.6	13.9	9.2	-	-	-
Last	15.7	17.2	9.6	11.9	11.5	8.7
Relative	0.8	0.9	0.5	0.6	0.6	0.4
Yield (%)						
Max.	0.0	1.9	0.0	-	-	-
Min.	0.0	1.3	0.0	-	-	-
Last	0.0	1.5	0.0	0.0	0.0	0.0
Relative	0.0	2.0	0.0	0.0	0.0	0.0
P/BV (x)						
Max.	4.0	1.8	1.8	-	-	-
Min.	1.8	1.2	1.0	-	-	-
Last	1.8	1.5	1.1	1.2	1.2	1.1
Relative	0.9	0.7	0.5	0.6	0.6	0.5

Source: Company and Bankinter Securities Research

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