

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. There is a long and successful track record of **acquisitions**, the most recent closed in July 2019. Reig Jofre 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 comes gradually on stream 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 +13% in 2019e driven by nutrition sales and the last acquisition. 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 +8% sales CAGR in 2019e–

2023e. Our estimates do not include the possibility of additional 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 **double the EBITDA margin** to 18.0% in 2023e from 9.1% in 2018 and as a result, the EBITDA may increase at a +20.7% CAGR in 2018–2024e.

Acquired a portfolio from Bioibérica in 3Q19

In 2Q19, the company raised **€24mn of equity** partly used to finance the acquisition in 3Q19 for **€46mn** plus milestone payments of portfolio of products from Bioibérica with year sales of €23mn and focused on the treatment of arthritis and arthrosis plus a range of nutrition products. In our opinion, this acquisition is earnings accretive and adds €0.52/share to our target price.

Valuation

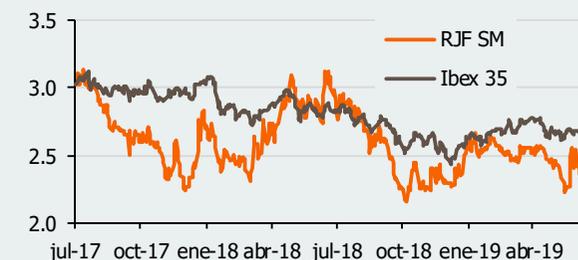
We use a **SOTP valuation** that revolves around a DCF-model. Our **target price is €3.92 per share**. Reig Jofre's 2019e multiples are at a more than a 20% average discount to the peer group.

Key data at 23rd July 2019. 10:55h

Price (€)	2.42	Nº shares (m)	76.1
Ticker Bloomberg	RJF SM	M. Cap. (€m)	184.1
Free-float (%)	37.3	Daily vol. (€m)	0.1

(€mn)	2018	2019e	2020e	2021e
Net group profit	9.2	6.7	10.9	15.0
% inc.	5.3	-27.4	62.4	37.9
EBITDA	16.4	20.9	29.9	35.5
% inc.	3.8	27.4	43.3	18.6
EPS (€)	0.12	0.09	0.14	0.20
% inc.	5.3	-27.4	62.4	37.9
DPS (€)	0.05	0.00	0.00	0.00
% inc.	-3.5	n.a.	n.a.	n.a.
P/E (x)	18.8	27.5	16.9	12.3
EV/EBITDA	12.0	10.8	7.6	6.1
Div. Yield (%)	2.0	0.0	0.0	0.0
P/BV (x)	1.2	1.0	1.0	0.9

Price performance (€)



Performance (%)	1 m.	3 m.	12 m.
Absolute	0.8	-3.2	-12.6
Relative	0.3	-0.9	-7.6

Source: Bloomberg and Bankinter Securities Research

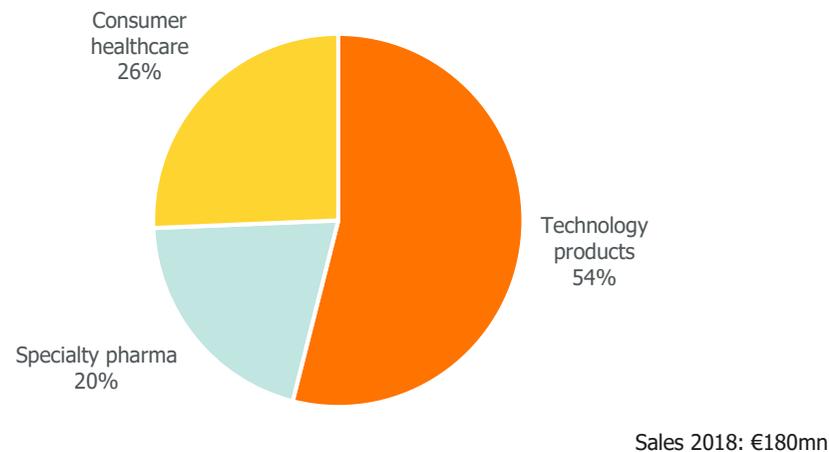
Reig Jofre at a glance

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 technology products -antibiotics, injectables and lyophilized medicaments- (54% of sales), consumer healthcare and specialty pharma (46%). There is a **bias towards OTC** products (96 references in this category) while prescription pharma has 69 specialties. **Sales per geography** are split between Spain (41%), other EU countries (47%) and ROW (13%). The company employs 1,100 **workers** in Toledo and Barcelona (**Spain**), Malmoe (**Sweden**) and in a **nutrition** company (Forté Pharma) based in **Monaco** that is the market leader in France. In 3Q19, Reig Jofre **acquired** from Bioibérica a **portfolio of products** primarily focused on the treatment of arthrosis and arthritis. The **pipeline** combines new products and biosimilars. It comprises developments in injectables, antibiotics and liophilized. A new penicillin-based vaccine against *A. Baumannii* is expected to be launched in 2019, while there are other research works on optimisation for betalamic antibiotics against *H. Pylori*, derma (psoriasis) and gynaecology (product extensions and female cancer detection).

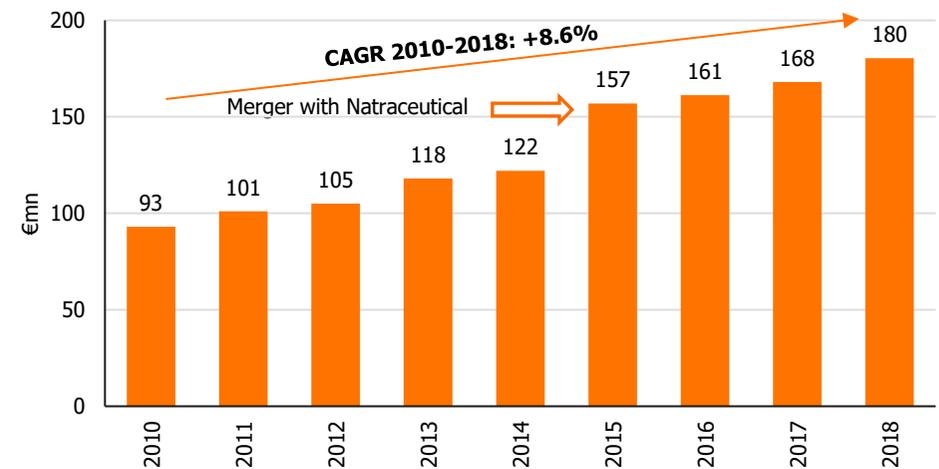
Reig Jofre was set up in 1929. In 2014, it merged with Natraceutical, a company that was listed in 2002. Its main **shareholder** is the Reig Jofre family who owns 72% of the shares. Natra (also listed and former owner of Natraceutical) owns 13% and has announced its intention to sell its stake. The resulting **free-float** is 26%. Traded volumes are only moderate, having averaged €49,200 per day in the last 12 months.

Figure 1. Sales breakdown in 2018



Source: Company and Bankinter Research

Figure 2. Evolution of sales



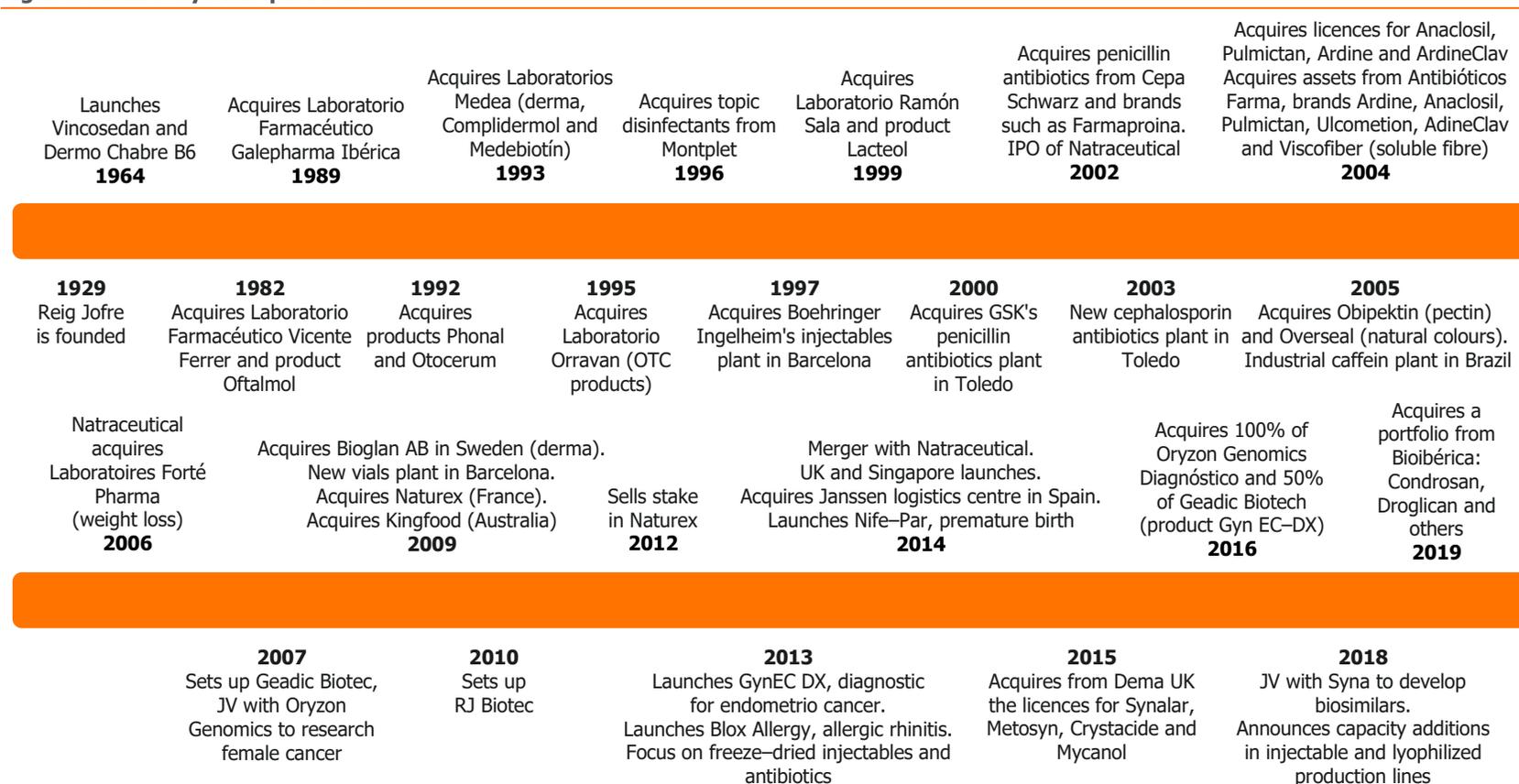
Source: Company and Bankinter Research

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 Research

Three product divisions: Technology, Specialty and Healthcare

The product line-up combines OTC (96 references) and prescription pharma (69 references). It is structured in three divisions:

- 1. Technology:** Antibiotics, injectables and lyophilized pharma products represented 54% of sales in 2018.
- 2. Specialty:** Accounts for 20% of sales. This division comprises derma, ORL, gastro, gynaecology and others.
- 3. Healthcare:** This division accounts for the remaining 26% of sales. It covers OTC and nutrition products. 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 22% of sales in 2018, own products 73% and in-licensed represented the remaining 5%).

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 (2018)

Division	Specialty	Key products	Sales 2018 (€mn)	%
Technology	Antibiotics	Anaclosil, Ardine, Britapen, Farmaproina, Orbenin	97.4	54
	Injectables & lyophilized	Sulfadiazina, Bivalirudina, Heparina, Fluconazol		
Specialty	Derma	Doxipil, Mometasona Mede, Ciclopirox, Ony-Tec	36.8	20
	ORL	Otocerum, Otospray, Halazon, Budesonida Pulmictan, Milrosina		
	Gastro, gynaecology, others	Orvan gel, GyneC DX, Nife-Par, Citrocil		
Healthcare	Nutrition	Forté Pharma products	46.3	26
Total sales			180.4	100
Spain			73.6	41
Other EU countries			84.0	47
Rest of Europe			2.7	1
ROW			20.1	11

Source: Company and Bankinter 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	Linezolide
			Antibiotics	Orbenin	Cloxaciline
			Antibiotics	Piperacilina Tazobactam	Piperaciline
			Antibiotics	Sodiopen	Bencilpeniciline
	Antibiotics	Sulfato de Estreptomicina	Estreptomicine		
	Antibiotics	Teicoplanina	Teicoplanine		
	Antibiotics	Vancomicina	Vancomicine		
	Injectables & lyophilized	Prescription	Anti bacterial	Sulfadiazina	Sulfamide
			Anticoagulant	Bivalirudina	Bivalirudine
			Anticoagulant	Heparina	Heparine
			Antiemetic	Palonosetron	Palonosetrone
			Cardiovascular	Aleudrina	Isoprenaline
			Derma	Fluconazol	Fluconazole
			NCS	Midazolam	Midazolam
NCS			Remifentanilo	Remifentanile	
Osteomuscular			Cisatracurio	Cisatracure	
Urology			Furosemida	Furosemide	

Division	Specialty	Distribution	Treatment	Product name	Active principle		
Therapeutic	Derma	Prescription	Skin care	Deripil	Eritromicine		
			Skin care	Dermomyose líquido	Fuchsine		
			Skin care	Doxipil	Doxiciline		
			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		
	Respiratory	OTC	Respiratory	Antirrinum adultos	Oximetazoline		
			Respiratory	Potassic clorate	Potassium clorate		
			Respiratory	Halazon, h intense	Menthol		
			Respiratory	Otocerum	Chlorine		
			Respiratory	Otospray	Docusate		
			Respiratory	Parlatos	Dextrometorfane		
			Respiratory	Phonal, P spray	Polimixin		
			Respiratory	Sterimar, S bebé, S Mn	Sea water		
			Derma	Suero fisiológico	Sodiumclorate		
			Respiratory	Budesonida Pulmictan	Budesonide		
			Respiratory	Milrosina	Resorcin		
			Gynaecology	Prescription	Gynaecology	Orvan gel	-
					Gynaecology	GyneC DX	-
					Gynaecology	Nife-Par	Nifedipine
Gynaecology	Pre-par ampollas	Ritodrin					
Other	OTC	Gastro	Citrocil	Dihidroestreptomicine			
	Prescription	Urology	Desmopresina Mede	Desmopresine			

Division	Specialty	Distribution	Treatment	Product name	Active principle
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	Dermo Chabre-B6	-
			Hair care	Dermocutil	-
			Hair care	Mede-H	-
			Hair care	Resorpil	-
			Hair care	Tri-Hachemina	-
			Hair and nail care	Vincogelatin, plus	-
			Hemorroids	Cohortan	Tirotricine
	Disinfectant	OTC	Disinfectant	Alcohol 70°, 96°	Ethyl alcohol
			Disinfectant	Iodina	Povidone
			Disinfectant	Menalcol reforzado	Clorhexidine
			Disinfectant	Menalmina	Clorhexidine
			Disinfectant	Oximen	Hidrogen peroxide
	Other	OTC	Antiseptic	Tintura de yodo	Iodine
			Gastro	Ricine oil	Ricine oil
			Chemist	Distilled water	Water
			Osteo	Alcohol camphor, rosemary	Ethyl alcohol
			Gastro	Lacteol	Lactobacillus
			Derma	Suentillas	Sodium clorate

Division	Specialty	Distribution	Treatment	Product name	Active principle
			Weight loss	Xtra Slim	-
			Weight loss	Peso Redux	-
			Weight loss	Turboslim	-
			Weight loss	Capto Redux	-
			Vitamins	Vitalité 4G	-
			Vitamins	Energy Taurina	-
			Vitamins	Energy Multivit	-
			Nutrition supplement	Forté Jalea Real	-
			Nutrition supplement	Forté Propolis	-
			Nutrition supplement	Forté Stress	-
Healthcare	Nutrition	OTC	Nutrition supplement	Forté Magnesio Marino	-
			Nutrition supplement	Forté Melatonina	-
			Nutrition supplement	Forté Memorex	-
			Nutrition supplement	Forté Lixifior	-
			Skin care	Expert Hialurónico	-
			Skin care	Expert Queratina	-
			Skin care	Expert Capilar	-
			Skin care	Expert Solar	-
			Skin care	Expert Autobronceador	-
			Hair care	Expert Anticaída	-
			Hair care	Expert Queratina	-
Bioibérica portfolio (selected key products)	Muscular relief	Prescription	Arthrosis, arthritis	Condrosan, Cartesan	Chondroitin sulfate
	Nutrition	OTC	Arthrosis, arthritis	Droglican	Chondroitin sulfate
			Nutrition supplement	Bitali range	-

Source: Company and Bankinter Research

The current portfolio

The product portfolio currently marketed by Reig Jofre includes 165 **pharma products** that are sold at chemists or supplied directly to hospitals. There are 96 over-the-counter, **OTC**, or non-prescription products marketed and 69 **prescription pharma products**. Prescription medicines are partly subsidized by the Spanish social security system after a selection process. In addition, there is a portfolio of products acquired from Bioibérica in July 2019 that are covered separately in this report.

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 63 countries. The company signed three distribution agreements during 2018 in South Korea, Indonesia and Panama.

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 **2018, sales** increased +7% to €180mn. Per division, **technology products** increased +6% to €97mn, **specialty** declined -3% to €37mn and **healthcare** dipped -4% to €24mn. Sales of specialty pharma products suffered from a combination of price cuts in Spain and forex headwinds as the Swedish Kroner fell 3% versus the Euro, affecting derma sales. In 1Q19 sales increased +6% to €49mn. Per division, technology dipped -4% to €24mn, specialty increased +6% to €10mn and healthcare surged +28% to €15mn.

Our view is that the **sales of the existing portfolio will increase +4% in 2019e** to €188mn, driven by higher sales of nutrition products. Sales in the other divisions should be unchanged as production is near its full capacity utilisation and prices are likely to remain stable. Sales from the current portfolio may well be stay at €188mn in 2020e-2024e, while growth should stem from capacity additions, product launches and from the Bioibérica portfolio.

Contract manufacturing accounts for 22% 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 19% of sales in 2024e...

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 completed in 4Q18 a €7.5mn investment in **Toledo** to **increase penicillin manufacturing and filling capacity** by 33%. We expect that this plant will gradually become operational in 2019e.

In 2018, 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 Remikaf, a new **anaesthesia** launched 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%, 95% and 100% in 2021e–2024e. For the capacity addition in Toledo, we have modelled a 25% capacity utilisation in 2019e increasing to 50%, 70%, 95% and 100% in 2019e–2024e.

We expect that pricing will be unchanged from the existing contracts. This translates in €55mn of **incremental sales** in 2024e (19% 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 +8% to €152mn in 2023, up from €97mn in 2018 and **represent 53% of the total** in 2024e, from 54% in 2018.

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 35% and that equipment upgrades may lift the EBITDA margin in the existing lines to 16% 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** will double to 18.0% in 2023e from 9.1% in 2018 as a result of adding more cost-efficient capacity, making improvements in the existing lines and the contribution from the product portfolio recently acquired.

... the products in the pipeline 3% 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 c.€9.5mn in 2018 represented c. 5% of sales. Approximately 50% of this expense was capitalized. We expect that R&D expenses will stay unchanged at €9.5mn per year in 2019e–2024e.

The company plans to introduce in 2019 a **new penicillin-based antibiotic** in the **US**. A veterinary vaccine against **leishmaniosis** is also expected to be launched soon. 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 2024e, or 3% of the total sales.

Figure 6. Products in the pipeline

	Main features	Product	Description	Partner
Innovation	High implied risk	Biosimilar	Joint venture	Syna Therapeutics
	High potential return	Vaccine acinetoclinic. Injectable liophilized	First vaccine against Acinetobacter Baumannii resistance	Vaxdyn
	Open to collaboration	Betalamic antibiotic	Mucosal drug delivery of particles against helicobacter H. Pylori	Bionanoplus
Biosimilars	Low implied risk	Six projects related to antibiotics, injectables and liophilized under development		
	Specific market opportunities	Expect to submit four applications for product registration in 2019		
	Adequate potential return			

Source: Reig Jofre

... and the recently acquired Bioibérica 11% of sales...

In July 2019, Reig Jofre announced it had closed the **acquisition** from Bioibérica of a **portfolio of prescription products primarily for the treatment of arthrosis and arthritis for €46mn**. There are potential additional payments linked to milestones. The best-selling medicaments are Condrosan and Droglican (chondroitin sulfate) with an estimated 50% market share in Spain and are not subject to patents. There is also a line of **nutrition products**. In the last twelve months, the portfolio generated **sales of €26mn** that are stable, approximately 10% are exports with Finland, France and Portugal being the main markets. Bioibérica will continue manufacturing the active ingredients for Reig Jofre although Reig Jofre may eventually take over manufacturing. This move would benefit obtaining additional economies of scale that we have forecasted may reach 16% of the operating costs. Reig Jofre will incorporate 51 employees from Bioibérica.

This acquisition will be **financed** with a combination of the funds from the recent €24mn equity issue and financial debt.

Our **estimates** consider that sales in 2H19e stay unchanged and increase at a 4.4% CAGR to €31mn in 2019e516

2023e. We estimate a 26.0% EBITDA margin in 2019e for this portfolio, this may increase to 37.8% in 2023e as synergies are generated. Our estimate assumes that operating costs are trimmed conservatively –16% by 2023e. Consequently, EBITDA may grow at a 14.6% CAGR in 2019e-2023e to €12mn.

This acquisition should complement Reig Jofre's portfolio of prescription pharma while the nutrition arm should be rapidly integrated in the Forté Pharma product range. It also gives exposure to a higher margin line-up of products and the company should be able to boost the margin of the acquired portfolio by generating economies of scale.

Figure 7. Bioibérica portfolio estimates

€mn	2H19e	2020e	2021e	2022e	2023e	2024e	19-23e %CAGR
Sales	13.0	27.3	28.9	30.1	30.8	30.8	4.4
% chg.	0.0	5.0	6.0	4.0	2.5	0.0	
Operating costs	-9.6	-20.2	-21.4	-22.3	-22.8	-22.8	
EBITDA before synergies	3.4	7.1	7.5	7.8	8.0	8.0	4.4
EBITDA margin before synergies	26.0	26.0	26.0	26.0	26.0	26.0	
Synergies	–	1.0	2.1	3.6	3.7	3.7	
Synergies as % of operating costs	–	5.0	10.0	16.0	16.0	16.0	
EBITDA after synergies	3.4	8.1	9.7	11.4	11.7	11.7	14.6
EBITDA margin after synergies (%)	26.0	29.7	33.4	37.8	37.8	37.8	
Depreciation (assets and PPA)	-2.3	-4.6	-4.6	-4.6	-4.6	-4.6	
EBIT	1.1	3.6	5.1	6.8	7.1	7.1	33.4
EBIT margin (%)	8.6	13.0	17.6	22.6	22.9	22.9	

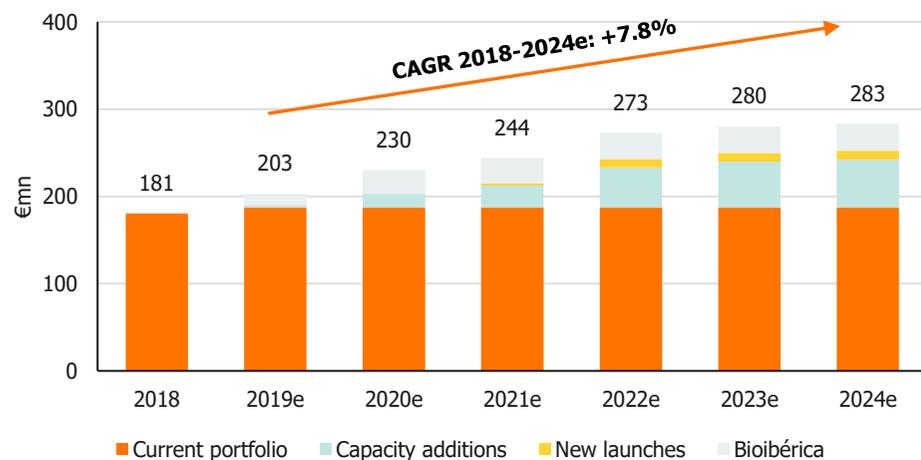
Source: Bankinter Research

Sales growth of 8% CAGR in 2018–2024e...

We expect sales to reach €283 in 2024e, a +7.8% CAGR from 2018. Our view is that sales of the **current portfolio** (excluding capacity additions) will not increase from 2019e as capacity utilisation is high and pricing should be stable. Growth should be driven by **capacity increases** in antibiotics and injectables, the contribution from the **Bioibérica portfolio** and to a lesser extent **product launches**.

- Sales of **technology excluding capacity additions** may be unchanged in 2018-2024e at €97mn. We understand that the factories in this division are operating near their full capacity and that unless selling prices increase (we do not expect this to happen), sales may well stay unchanged. In 1Q19, sales dipped -4% reflecting a scheduled stoppage in the plant in Barcelona. The company expects to recover this decline in production and sales during this year.
- **Specialty and healthcare** may experience a similar pattern as technology. We have only considered the existing product portfolio, although we would expect Reig Jofre to buy distribution licenses to add new medicines to its product range.
- **Capacity additions in technology**: Capacity will increase in injectables as 25mn vials per year are added to the existing 15mn in 2020e and penicillin manufacturing and filling capacity increases by 33% from 2019e. We expect that pricing will be unchanged from the existing contracts. This translates in €55mn of incremental sales in 2024e, 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 2024e.
- **Bioibérica**: We expect moderate sales growth primarily in the nutrition products. Sales may reach €31mn or 11% of sales in 2024e.

Figure 8. Evolution of sales



Source: Company and Bankinter Research

Figure 9. Sales forecasts

€mn	2018	2019e	2020e	2021e	2022e	2023e	2024e	%CAGR 18-24e
Technology	97.4	97.4	97.4	97.4	97.4	97.4	97.4	
Specialty	36.8	36.8	36.8	36.8	36.8	36.8	36.8	
Healthcare	46.3	53.3	53.3	53.3	53.3	53.3	53.3	
Current portfolio	180.5	187.5	187.5	187.5	187.5	187.5	187.5	
Antibiotics Toledo		2.5	5.0	7.0	9.5	9.5	10.0	
Injectables Barcelona			10.2	18.0	36.0	42.8	45.0	
Capacity additions	–	2.5	15.2	25.0	45.5	52.3	55.0	
Derma				1.4	5.4	5.4	5.4	
Gynaecology				1.1	4.5	4.5	4.5	
New launches	–	–	–	2.5	9.9	9.9	9.9	
Bioibérica portfolio	–	13.0	27.3	28.9	30.1	30.8	30.8	
Total sales	180.5	203.0	230.0	243.9	273.0	280.5	283.2	7.8
yoy chg (%)	7.5	12.5	13.3	6.0	11.9	2.7	1.0	

Source: Company and Bankinter Research

... while EBITDA increases 21% CAGR on higher margins

Reig Jofre has a **similar gross margin** versus its domestic comparables (Almirall, Rovi and Faes). The average **gross margin** for the peer group is 65.6%, this is above Reig Jofre's 62.5% margin.

However, **EBITDA margins** differ. In the peer group, it averages 22.5% with a 9%–28% range and the average would be 26% when normalized (Rovi increased R&D expenditure by 85% in 2016-2018 to support primarily a key development in late phase III). Reig Jofre has the lowest EBITDA margin at 9.1%. 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 10. Gross margin and EBITDA margin peer comparison in 2018

% of sales	Almirall	Rovi	Faes	Peer group average	Reig Jofre	Comments
Sales (€mn)	756.9	303.2	324.3	461.5	180.5	
Gross margin	69.9%	57.6%	62.9%	65.6%	62.5%	Average margin is 65.6%
Capitalized expenses	–	–	–	–	2.7%	
Other income	7.1%	0.5%	4.8%	5.1%	0.5%	ALM, FAE: license-out revenues
R&D	-11.6%	-10.7%	-0.9%	-8.9%	-5.3%	ROVI increased R&D +85% in 2016-2018
Labour & Other expenses	-37.8%	-37.7%	-44.6%	-39.4%	-51.3%	Higher costs to sales in Reig Jofre
EBITDA	27.7%	9.7%	22.3%	22.5%	9.1%	Room for improvement in RJF

Source: Company and Bankinter Research

We expect that as a result of adding more efficient capacity, revamping some of its older manufacturing facilities, launching internally developed products and the contribution from Bioibérica and its synergies, Reig Jofre's **EBITDA margin will climb to 18.0%** in 2023e, from the current 9.1%, but still below the peer group's average. As a result of increasing sales in 2018–2024e and rising EBITDA margins, the **EBITDA may increase at a 20.8% CAGR** in 2018–2024e, well ahead of sales growth. This increase in EBITDA is a key feature of Reig Jofre.

Figure 11. EBITDA margin estimates

€mn	2018	2019e	2020e	2021e	2022e	2023e	2024e	%CAGR 18-24e
EBITDA margins (%)								
Current portfolio	9.1	9.6	11.5	13.0	13.0	13.0	12.8	
Capacity additions: Antibiotics Toledo	–	-5.0	8.0	15.0	20.0	25.0	25.0	
Capacity additions: Injectables Barcelona	–	–	-5.0	15.0	20.0	25.0	25.0	
New launches: Derma	–	–	–	-10.1	16.7	23.2	25.0	
New launches: Gynaecology	–	–	–	-10.1	16.7	23.2	25.0	
Bioibérica portfolio	–	26.0	29.7	33.4	37.8	37.8	37.8	
EBITDA margin (%)	9.1	10.3	13.0	14.5	17.1	18.0	17.9	
Sales (€mn)	180.5	203.0	230.0	243.9	273.9	280.5	283.2	7.8
EBITDA (€mn)	16.4	20.9	29.9	35.5	46.7	50.5	50.8	20.7

Source: Company and Bankinter Research

Figure 12. P&L forecasts

€mn	2018	2019e	2020e	2021e	2022e	2023e	2024e	%CAGR 18-24e	Comment
Current portfolio	180.5	187.5	187.5	187.5	187.5	187.5	187.5		
Capacity additions	–	2.5	15.2	25.0	45.5	52.3	55.0		
New launches	–	–	–	2.5	9.9	9.9	9.9		
Bioibérica portfolio	–	13.0	27.3	28.9	30.1	30.8	30.8		
Sales	180.5	203.0	230.0	243.9	273.0	280.5	283.2	7.8	New capacity, launches and Bioibérica
Purchases	-67.6	-73.0	-82.5	-85.2	-94.3	-96.9	-97.9		
Gross margin	112.8	130.1	147.5	158.7	178.7	183.6	185.3	8.6	
% margin	62.5	64.1	64.1	65.1	65.4	65.4	65.4		Moderate gain in margin
Capitalized items	4.8	5.0	5.1	5.3	5.5	5.6	5.8		
Other income	0.8	0.9	0.9	0.9	0.9	1.0	1.0		
Labour	-52.1	-59.0	-62.7	-64.9	-67.3	-69.8	-71.1		Increased manpower
R&D	-9.5	-9.5	-9.5	-9.5	-9.5	-9.5	-9.5		Stable at €9.5mn per year
Other expenses	-30.6	-33.7	-35.4	-38.6	-44.9	-43.6	-43.9		
Marketing	-9.9	-12.9	-16.0	-16.4	-16.6	-16.8	-16.8		
EBITDA	16.4	20.9	29.9	35.5	46.7	50.5	50.8	20.7	Steady growth
% margin	9.1	10.3	13.0	14.5	17.1	18.0	17.9		More efficient capacity, Bioibérica and Product launches boost the margin
Depreciation	-7.6	-12.3	-16.2	-16.9	-17.6	-18.4	-19.3		
Other	1.2	0	0	0	0	0	0		
EBIT	10	8.6	13.7	18.6	29.1	32.0	31.5	21.1	Follows EBITDA growth
% margin	5.6	4.2	6.0	7.6	10.6	11.4	11.1		
Financial income	0.1	0.0	0.0	0.1	0.1	0.1	0.2		
Financial expenses	-0.8	-1.1	-1.3	-1.3	-1.4	-1.1	-1.0		
Change in financial values	0	0	0	0	0	0	0		
Net financial result	-0.7	-1.1	-1.2	-1.3	-1.3	-1.0	-0.8	2.7	Debt is not an issue
Equity income	0.2	0.2	0.2	0.2	0.2	0.2	0.2		
PBT	9.5	7.6	12.6	17.5	28.0	31.2	30.9	21.7	High-growth
Taxes	-0.2	-0.9	-1.8	-2.5	-3.8	-5.4	-5.3		We foresee a higher tax rate
<i>Tax rate (%)</i>	-2.4	-12.1	-14.0	-14.1	-13.5	-17.2	-17.3		
Minorities	0	0	0	0	0	0	0		
Net group profit	9.3	6.7	10.9	15.0	24.2	25.8	25.5	18.3	

Source: Company and Bankinter Research

Leverage will increase to finance capex

We forecast €48mn **capex** (11.0% of sales) in 2019e–2020e as the company completes its program to add capacity. After 2020e, we foresee capex declining to c. €10-12mn per year or 4-5% of sales. R&D may represent 43% of our capex estimate.

Figure 13. Capex estimates

€mn	2018	2019e	2020e	2021e	2022e	2023e	2024e	19e-24e	% of total
Recurrent	3.4	3.8	3.9	4.0	4.5	5.0	5.0	26.2	27.5
New capacity: Toledo	2.5	–	–	–	–	–	–	0.0	0.0
New capacity: Barcelona	10.0	10.0	10.0	–	–	–	–	20.0	21.0
R&D	5.2	5.6	5.8	6.0	6.5	7.1	9.5	40.5	42.6
IFRS-16	–	8.5	–	–	–	–	–	8.5	8.9
Capex	21.1	27.9	19.7	10.0	11.0	12.1	14.5	95.2	100.0
% of sales	11.7	13.8	8.6	4.1	4.0	4.3	5.1	6.3	

Source: Company and Bankinter Research

The OWC/Sales ratio may gradually decline to 18% of sales from 22% in 2018, 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.

The **net financial debt** was €25mn in 2018. In 2Q19, the company raised €24mn in **equity** that will be dedicated to partly pay the €46mn acquisition of Bioibérica's portfolio. After the equity issue and considering additional debt to finance this acquisition, we now expect NFD to peak at €45mn in 2020e. Debt is not a concern, the NFD/EBITDA is likely to reach a moderate high of 2.0x in 2019e and we expect that the company will be free of NFD in 2023e. Our estimates do not consider other acquisitions than the Bioibérica portfolio.

Figure 14. Cash flow forecasts

€mn	2018	2019e	2020e	2021e	2022e	2023e	2024e	Comment
EBITDA	16.4	20.9	29.9	35.5	46.7	50.5	50.8	
Net financial cost	-0.7	-1.1	-1.2	-1.3	-1.3	-1.0	-0.8	
Taxes	-0.2	-0.9	-1.8	-2.5	-3.8	-5.4	-5.3	
Other from operations	0.8	-0.4	–	–	–	–	–	
OWC	0.0	-5.8	-0.8	-0.4	-1.7	-0.6	0.0	2019e marked by build-up post acquisition
Operating cash flow	16.3	12.7	26.2	31.3	40.0	43.4	44.7	
Capex & Bioibérica acquisition	-21.0	-54.2	-29.3	-19.6	-19.1	-12.6	-15.2	
Free cash flow to equity	-4.7	-41.5	-3.1	11.7	20.9	30.9	29.5	Positive after 2020e
Equity issue	–	24.0	–	–	–	–	–	Partly finances the Bioibérica acquisition
Change in net debt	4.7	17.5	3.1	-11.7	-20.9	-30.9	-29.5	We expect €16mn of new NFD in 2018-
Net financial debt	24.5	42.0	45.1	33.4	12.5	-18.4	-47.9	NFD peaks at €45mn, then set to decline
NFD/EBITDA (x)	1.5	2.0	1.5	0.9	0.3	-0.4	-0.9	Peaks at 2.0x, debt is not an issue

Source: Company and Bankinter Research

Our valuation is €3.92 per share

We value Reig Jofre using a sum-of-the parts model that revolves around a **DCF-model**. We value separately (1) the company excluding the recently acquired Bioibérica portfolio and (2) this portfolio. Our assumed **WACC for (1) the company is 7.2% and (2) for the Bioibérica portfolio 10.0%**. We use a **terminal growth "g" rate of 0.0%** for the company and **-0.2%** for the Bioibérica portfolio. Our **EV estimate is €350mn** and our **equity value estimate is €298mn**.

Our **target price of €3.92 per share** is for December 2019.

Figure 15. DCF model

€mn	2020e					2021e					2022e					2023e					2024e				
	Reig Jofre ex Bioibérica portfolio					Bioibérica																			
EBIT	10.1	13.5	22.3	25.0	24.4	3.6	5.1	6.8	7.1	7.1															
Tax rate on EBIT	-10%	-10%	-10%	-15%	-15%	-25%	-25%	-25%	-25%	-25%															
NOPLAT	9.1	12.2	20.0	21.2	20.8	2.7	3.8	5.1	5.3	5.3															
Depreciation	11.7	12.3	13.0	13.8	14.7	4.5	4.6	4.6	4.6	4.6															
OWC	-0.6	-0.1	-1.5	-0.5	0.0	-0.2	-0.3	-0.2	-0.1	0.0															
Capex	-19.7	-10.0	-11.0	-12.1	-14.7	-0.4	-0.4	-0.5	-0.5	-0.5															
Other						-1.5	-1.5																		
Free cash flow	0.6	14.4	20.6	22.4	20.8	5.1	6.2	9.0	9.3	9.4															
Terminal value					287.6					92.6															
EV/EBITDA terminal value					7.3					11.5															
Flow to discount	0.6	14.4	20.6	22.4	308.4	5.1	6.2	9.0	9.3	102.0															
Discount factor (x)	0.93	0.87	0.81	0.76	0.71	0.91	0.83	0.75	0.68	0.62															
NPV of flow	0.5	12.5	16.7	17.0	217.6	4.6	5.1	6.8	6.4	63.3															
	EV 264.3 WACC					7.2% "g" rate					0.0%														
	EV 86.2 WACC					10.0% "g" rate					-0.2%														

Source: Bankinter Research

Figure 16. Sum of the parts valuation

	Reig Jofre		Bioibérica		Total	
	€mn	€/share	€mn	€/share	€mn	€/share
EV	264.3	3.48	86.2	1.13	350.5	4.6
Financial assets (book value)	6.8	0.09			6.8	0.1
Equity accounted affiliates	2.3	0.03			2.3	0.0
Less: NFD 2019e	-14.5	-0.19	-27.5	-0.36	-42.0	-0.6
Less: provisions 2019e	-0.8	0.00			-0.8	0.0
EV of deferred purchase price			-19.1	-0.25	-19.1	-0.3
Equity value	258.0	3.40	39.7	0.52	297.7	3.92

Source: Bankinter Research

Figure 17. Sensitivity analysis (for Reig Jofre)

	WACC (%)					
	€/share	5.2	6.2	7.2	8.2	9.2
Terminal growth	1.5%	6.99	5.55	4.61	3.96	3.47
	1.0%	6.32	5.14	4.34	3.77	3.33
	0.5%	5.79	4.80	4.11	3.60	3.21
	0.0%	5.36	4.52	3.92	3.46	3.10
	-0.5%	5.00	4.28	3.74	3.33	3.00
	-1.0%	4.71	4.07	3.59	3.22	2.92
-1.5%	4.45	3.89	3.46	3.11	2.83	

Source: Bankinter Research

Figure 18. 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	2.42	184	220	0.0	-5.5	-4.7	-12.6
Rovi	ROVI SM	20.50	1,149	1,129	2.8	10.5	12.0	30.2
Faes	FAE SM	4.43	1,231	1,211	6.1	12.0	44.1	19.9
Almirall	ALM SM	17.05	2,976	3,462	9.9	17.5	17.8	47.9
Grifols	GRF SM	28.99	17,582	24,497	17.3	20.1	19.5	16.3

Name	P/E 2019e	P/E 2020e	EV/EBITDA 2019e	EV/EBITDA 2020e	P/CF 2019e	P/CF 2020e	P/Book	Dividend Yield %
Reig Jofre	22.0	17.3	12.8	10.7	10.1	8.3	1.0	1.9
Rovi	57.9	28.5	31.6	19.1	176.7	41.3	3.9	0.4
Faes	19.8	16.4	13.7	11.6	22.7	18.1	3.3	3.2
Almirall	21.0	18.4	11.8	10.9	11.5	12.4	2.4	1.2
Grifols	27.2	22.6	17.7	16.1	24.9	20.5	4.5	1.2
Average	29.6	20.6	17.5	13.7	49.2	20.1	3.0	1.6

Source: Bankinter 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 6.4%, 11.4% and 16.8% in 2021e, 2022e and 2023e.

Valuation methodology

Valuation method

We value Reig Jofre using a sum-of-the parts model that revolves around a DCF-model. This considers flows for 2020e–2024e and a terminal value. Our valuation is for December 2019. We value separately (1) the activity excluding the Bioibérica portfolio and (2) this portfolio.

Key assumptions

For the activity excluding the Bioibérica portfolio, we use a WACC of 7.2% and a terminal growth “g” rate of 0%. For the portfolio, we use a 10.0% WACC and a terminal growth “g” rate of –0.2%.

Price target scenarios

Base €3.92

- Stable sales of the current portfolio after 2019e
- New capacity at 95% of utilization in the 4th year of operation
- Product launches (pipeline) represent 4% of sales in 2024e
- EBITDA margin increases to 16% in 2023e, from 9% in 2018

Bull €4.87

- Sales of the current portfolio as in base
- New capacity at 95% of utilization in 2nd year of operation
- EBITDA margin peaks at 18% in 2023e

Bear €2.97

- Sales of the current portfolio as in base
- New capacity at 50% of utilization in the 4th year of operation
- EBITDA margin peaks at 14% in 2023e

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 13% stake
- Pipeline risks

Figure 19. Profit and loss account and cash flow statement

(€mn)	2016	2017	2018	2019e	2020e	2021e
Profit and loss account						
Sales	161.1	168.0	180.5	203.0	230.0	243.9
<i>% inc.</i>	2.7	4.3	7.4	12.5	13.3	6.0
Cost of goods sold	-61.4	-64.1	-67.6	-73.0	-82.5	-85.2
Gross margin	99.8	103.9	112.8	130.1	147.5	158.7
Operating costs	-84.1	-88.1	-96.5	-109.2	-117.6	-123.2
EBITDA	15.7	15.8	16.4	20.9	29.9	35.5
<i>% inc.</i>	-8.3	0.6	3.8	27.4	43.3	18.6
Depreciation	-4.0	-6.8	-6.4	-12.3	-16.2	-16.9
EBIT	11.7	8.9	10.0	8.6	13.7	18.6
<i>% inc.</i>	0.0	-23.6	11.5	-14.3	60.1	35.8
Net financial result	0.2	-1.0	-0.7	-1.1	-1.2	-1.3
Equity accounted earnings	0.0	0.0	0.2	0.2	0.2	0.2
Other results	0.0	0.0	0.0	0.0	0.0	0.0
Profit before taxes	11.9	7.9	9.4	7.6	12.6	17.5
Corporate tax	-4.3	0.8	-0.2	-0.9	-1.8	-2.5
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	7.6	8.8	9.2	6.7	10.9	15.0
<i>% inc.</i>	-12.3	14.8	5.3	-27.4	62.4	37.9
EPS (€)	0.10	0.12	0.12	0.09	0.14	0.20
<i>% inc.</i>	-12.3	14.8	5.3	-27.4	62.4	37.9
DPS (€)	0.05	0.05	0.05	0.00	0.00	0.00
<i>% inc.</i>	n.a.	-2.2	-3.5	n.a.	n.a.	n.a.
Cash flow statement						
Net cash flow	11.6	15.6	15.6	19.0	27.1	31.9
<i>% inc.</i>	-17.7	34.3	0.2	21.7	42.5	17.7
OWC change	-23.3	14.6	1.3	-5.8	-0.8	-0.4
Capex	-13.6	-9.2	-21.0	-29.5	-28.9	-19.2
Free cash flow	-25.3	21.0	-4.0	-16.3	-2.6	12.3
Dividends paid	0.0	-0.1	-0.4	-0.4	0.0	0.0
Other variations	10.1	-9.9	-1.8	-0.9	-0.6	-0.6
Change in net cash/(net financial debt)	-15.2	11.0	-6.2	-17.5	-3.1	11.7

Source: Company and Bankinter Research

Figure 20. Balance sheet and margins

(€mn)	2016	2017	2018	2019e	2020e	2021e
Balance sheet						
Net fixed assets	96.7	107.0	121.4	183.3	187.1	180.6
Net financial assets	0.0	0.0	0.3	0.5	0.6	0.8
Operating working capital (OWC)	56.5	41.9	40.5	46.4	47.2	47.6
Other assets/(liabilities) net	9.4	11.0	11.9	-11.1	-3.4	4.2
Capital employed (CE)	162.6	159.9	174.2	219.0	231.5	233.2
Shareholders' equity	133.3	141.6	149.8	177.1	186.5	199.9
Minority interests	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Net financial debt	29.3	18.3	24.5	42.0	45.1	33.4
Margins (%)						
Gross margin/Sales	61.9	61.9	62.5	64.1	64.1	65.1
EBITDA/Sales	9.7	9.4	9.1	10.3	13.0	14.5
EBIT/Sales	7.3	5.3	5.5	4.2	6.0	7.6
Sales/Capital employed	99.1	105.1	103.6	92.7	99.4	104.6
EBITDA/Capital employed	9.6	9.9	9.4	9.5	12.9	15.2
ROCE	7.2	5.6	5.7	3.9	5.9	8.0
ROE	5.7	6.2	6.2	3.8	5.8	7.5
Gearing (x)						
Net financial debt/Capital employed	0.2	0.1	0.1	0.2	0.2	0.1
Net financial debt/EBITDA	1.9	1.2	1.5	2.0	1.5	0.9
EBIT/Net financial result	-54.9	8.9	14.4	7.8	11.3	14.4

Source: Company and Bankinter Research

Figure 21. Main shareholders

Family Reig Jofre:	62.7%
Natra:	10.8%
Onchena:	5.5%
Treasury stock:	0.4%

Source: Company and Bankinter Research

Figure 22. 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 Research

Figure 23. Market ratios

(€)	2016	2017	2018	2019e	2020e	2021e
EPS (€)	0.10	0.12	0.12	0.09	0.14	0.20
% inc.	-12.3	14.8	5.3	-27.4	62.4	37.9
CFPS (€)	0.15	0.21	0.21	0.25	0.36	0.42
% inc.	-17.7	34.3	0.2	21.7	42.5	17.7
DPS (€)	0.05	0.05	0.05	0.00	0.00	0.00
% inc.	n.a.	-2.2	-3.5	n.a.	n.a.	n.a.
BVPS (€)	1.75	1.86	1.97	2.33	2.45	2.63
% inc.	6.1	6.3	5.8	18.2	5.3	7.2
ROE (%)	5.7	6.2	6.2	3.8	5.8	7.5
Price (€)						
Max.	3.73	3.90	3.19	n.a.	-	-
Min.	2.52	2.24	2.12	n.a.	-	-
Last	3.12	2.34	2.28	2.42	2.42	2.42
P/E (x)						
Max.	37.1	33.8	26.3	-	-	-
Min.	25.1	19.4	17.5	-	-	-
Last	31.1	20.3	18.8	27.5	16.9	12.3
Relative	0.8	0.5	0.5	0.7	0.5	0.3
P/CF (x)						
Max.	24.4	19.0	15.5	-	-	-
Min.	16.5	10.9	10.3	-	-	-
Last	20.4	11.4	11.1	9.7	6.8	5.8
Relative	0.9	0.5	0.5	0.4	0.3	0.2
Yield (%)						
Max.	1.9	2.1	2.1	-	-	-
Min.	1.3	1.2	1.4	-	-	-
Last	1.5	2.0	2.0	0.0	0.0	0.0
Relative	2.0	2.5	2.5	0.0	0.0	0.0
P/BV (x)						
Max.	2.1	2.1	1.6	-	-	-
Min.	1.4	1.2	1.1	-	-	-
Last	1.8	1.3	1.2	1.0	1.0	0.9
Relative	0.7	0.5	0.5	0.4	0.4	0.4

Source: Company and Bankinter Research

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