Reig Jofre

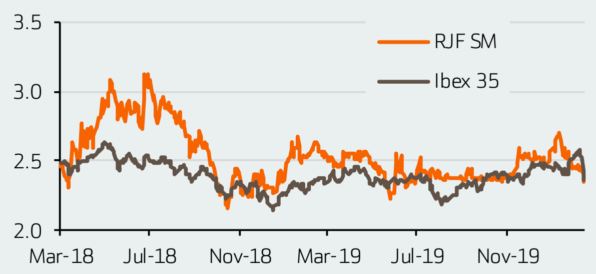
Adjusted EBITDA increased +17% in 2019 and guidance is 2x in a five-year plan

Key data (FECHA Y HORA)

Price (€)	2.28	Nº shares (m)	76.1
Ticker Bloomberg	RJF SM	M. Cap. (€m)	173.4
Free-float (%)	37.3	Daily vol. (€m)	0.1

(€mn)	2019	2020e	2021e	2022e
Net group profit	4.9	11.3	15.7	25.2
% inc.	*-46.7*	*129.5*	*38.8*	*60.6*
EBITDA	19.7	29.9	35.5	46.7
% inc.	*20.1*	*51.8*	*18.7*	*31.5*
EPS (€)	0.06	0.15	0.21	0.33
% inc.	*-46.7*	*129.5*	*38.8*	*60.6*
DPS (€)	0.00	0.00	0.00	0.00
% inc.	*n.a.*	*n.a.*	*n.a.*	*n.a.*
P/E (x)	39.0	15.4	11.1	6.9
EV/EBITDA	12.3	7.4	5.7	3.8
Div. Yield (%)	0.0	0.0	0.0	0.0
P/BV (x)	1.1	0.9	0.8	0.8

Price performance (€)



Performance (%)	1 m.	3 m.	12 m.
Absolute	-6.6	-9.5	-8.8
Relative	17.7	11.9	10.0

Source: Bloomberg and Bankinter Securities Research

Growth in sales and adjusted EBITDA accelerated in 2019 after a strong 4Q19

Sales **in 2019** were €200.2mn (+10.9%), the breakdown per divisions is: Antibiotics and injectables €99.5mn (+2.2%), consumer healthcare €49.0mn (+5.8%), specialty pharma €51.7mn (+40.5%, fuelled by a product portfolio acquired in 3Q19). Adjusted EBITDA €22.0mn (+17.2%), the adjusted EBITDA margin increased to 11.0% (10.4% in 2018). EBITDA €19.7mn (+20.1%), EBIT €6.3mn (−36.9%), adjusted PBT €7.6mn (−19.5%), PBT 5.3mn (−44.1%), net profit €4.9mn (−46.7%), net cash flow €12.7mn (+17.2%). Acquisition expenses and higher depreciation (+108%) distort the comparison. NFD/EBITDA increased to 2.7x (2.6x in 9M19, 1.5x in 2018) following the portfolio acquisition. **In 4Q19** sales were €53.1mn (+12.7% yoy), EBITDA €7.3mn (+35.7%), EBIT €2.9mn (−35.8%), PBT €2.6mn (-42.2%), net profit €2.7mn (-47.3%), net cash flow €5.4mn (+14.5%).

Higher margins coupled to lower capex in the coming years to boost free cash flow

The €37.5mn **capex programme** to increase capacity in the Toledo (antibiotics and penicillin products) and Barcelona (lyophilized and liquid vials) plants will be completed in 2020, we expect only maintenance capex going forward. Products launches in the last two years ensure that the new capacity will run at high rates of utilization while we foresee higher margins. We expect the **EBITDA margin** to increase to 18.0% in 2024e from 9.8% in 2019 and the **free cash-flow** to reach €26.0mn in 2024e, up from €6.7mn in 2019, a 15.5% prospective FCF yield. The 2025 **guidance** of €300mn sales and €44mn EBITDA (a 15% margin) looks conservative, we estimate €59mn EBITDA in 2024e.

Valuation: Our target price is unchanged at €3.80/share

Our target price is unchanged at €3.80/share. Our valuation considers the possibility that **Spain may stop subsidizing** drugs used for the relief of osteoarthritis, as it happened in most of the EU. The portfolio acquired from Bioibérica in July 2019 includes such drugs.

Pedro Echeguren

Adjusted EBITDA growth of +17.2% is blurred by acquisition expenses and higher depreciation

Figure 1. Summary results

€mn	4Q18	1Q19	2Q19	3Q19	4Q19	yoy %	2018	2019	yoy %
Antibiotics & Injectables	26.2	24.3	24.4	23.9	26.9	2.7	97.4	99.5	2.2
Specialty pharma	10.1	9.7	8.7	16.7	16.6	64.4	36.8	51.7	40.5
Consumer healthcare	10.9	15.4	10.3	13.7	9.6	-11.9	46.3	49.0	5.8
Sales	47.1	49.3	43.4	54.3	53.1	12.7	180.5	200.2	10.9
Gross profit	**29.6**	**31.8**	**28.2**	**30.9**	**35.4**	**19.7**	**112.8**	**126.3**	**11.9**
% of sales	*62.7*	*64.5*	*64.9*	*56.9*	*66.6*		*62.5*	*63.1*	
Other income	1.4	1.3	1.5	1.1	1.8		5.7	5.7	
Operating expenses	-25.6	-27.5	-26.1	-28.8	-29.9		-102.1	-112.3	
EBITDA adjusted							**18.8**	**22.0**	**17.2**
% of sales							*10.4*	*11.0*	
EBITDA	**5.4**	**5.6**	**3.6**	**3.2**	**7.3**	**35.7**	**16.4**	**19.7**	**20.1**
% of sales	*11.4*	*11.4*	*8.4*	*5.8*	*13.7*		*9.1*	*9.8*	
Depreciation & Impairment	-0.8	-2.5	-2.7	-3.9	-4.4	n.m.	-6.4	-13.3	107.8
EBIT	**4.5**	**3.1**	**1.0**	**-0.7**	**2.9**	**-35.8**	**10.0**	**6.3**	**-36.9**
% of sales	*9.6*	*6.3*	*2.3*	*-1.3*	*5.5*		*5.6*	*3.2*	
Net financial expenses	-0.1	-0.2	-0.3	-0.2	-0.4		-0.7	-1.1	
Equity income	0.2	0.0	0.0	0.0	0.1		0.2	0.1	
Profit before taxes adjusted							**9.5**	**7.6**	**-19.5**
Profit before taxes	**4.5**	**2.9**	**0.7**	**-0.9**	**2.6**	**-42.2**	**9.5**	**5.3**	**-44.1**
Taxes	0.5	-0.4	-0.1	0.1	0.0		-0.2	-0.4	
Net group profit	5.1	2.4	0.6	-0.8	2.7	-47.3	9.3	4.9	-46.7
Net cash flow (net profit + Depreciation)	4.7	3.7	1.7	2.0	5.4	14.5	10.8	12.7	17.2
Net cash flow							14.8	18.1	22.3
OWC							0.0	-6.4	
CF from operations							**14.8**	**11.7**	**-20.9**
Recurrent capex							-4.8	-5.0	
Free cash flow							**10.0**	**6.7**	**-33.0**
Growth capex							-16.2	-45.4	
Cash flow after growth capex							**-6.2**	**-38.7**	
Dividends							-0.4	-0.4	
Equity issue								24.0	
IFRS-16 and Other							0.4	-13.0	
Change in net financial debt							**6.2**	**28.1**	
Net financial debt	24.5	30.2	7.6	46.4	52.6		24.5	52.6	114.7
NFD/LTM EBITDA (x)	1.5	1.7	0.4	2.6	2.7		1.5	2.7	

Source: Company and Bankinter Research

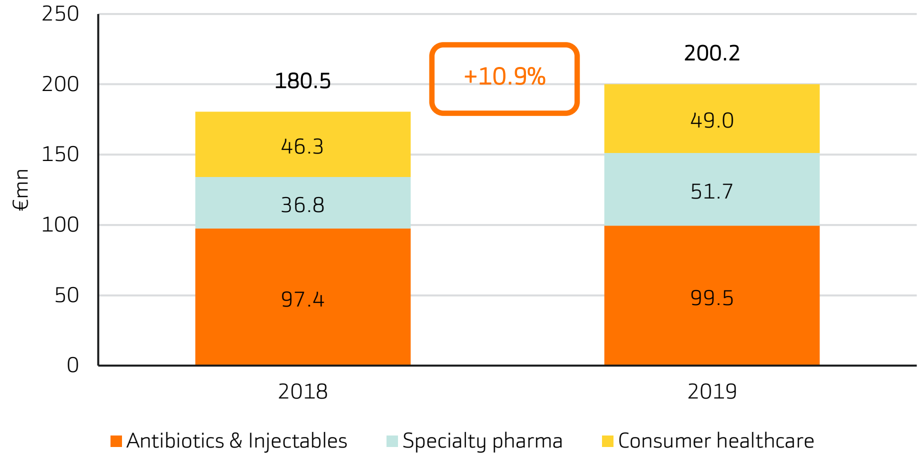
Sales growth of +10.9% is driven by specialty pharma and consumer healthcare

Sales increased in 2019 to €200.2mn (+10.9%). Sales per division are: Antibiotics and injectables €99.5mn (+2.2%), Specialty pharma €51.7mn€ (+40.5%, organic +5%) and Consumer healthcare €49.0mn. Specialty pharma was fuelled by the €48mn acquisition of licenses for prescription products primarily for treating arthritis joint pain from Bioibérica in July that added €13mn to sales. Antibiotics and injectable recovered from a -2% dip in sales in 1H19 caused by ramp-ups. **Sales growth accelerated in 4Q19** to €53.1mn (+12.7% yoy) from +10.4% yoy in 9M19. All divisions reported higher sales:

- **Antibiotics and injectable** sales of €99.5mn (+2.2%) recovered from a -2% dip in sales in 1H19 caused by a stoppage in its two plants to adapt the equipment to the EU-s anti-counterfeiting regulation and by a scheduled stoppage in the Barcelona plant to prepare for the new manufacturing lines under construction. The new line in Toledo will run close to full capacity in 2020.
- **Specialty pharma** sales of €51.7mn (+40.5%. +5% organic) rose strongly following the acquisition of licenses from Bioibérica.
- **Consumer healthcare** sales of €49.0mn (+5.8%) increased following product launches from its nutrition and weight loss brand Forté Pharma and higher sales of OTC products.

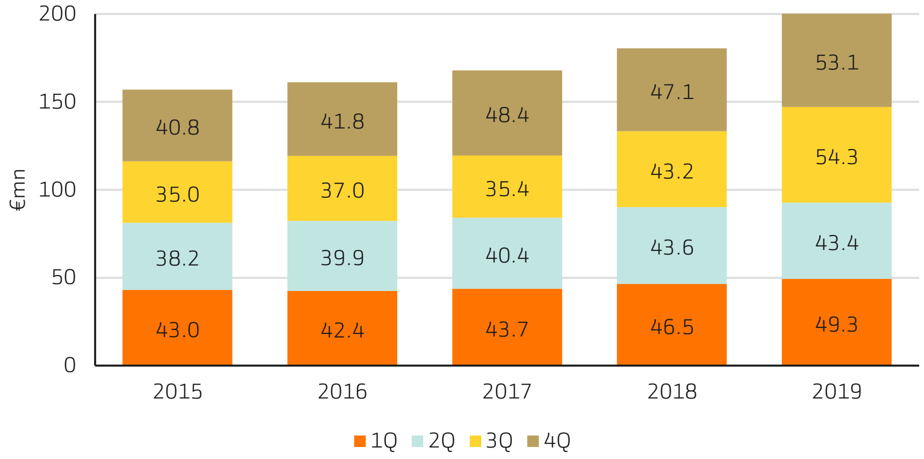
Contract manufacturing accounted for 18% of sales (22% in 2018) as more production capacity was dedicated to own products.

Figure 2. Sales per product line



Source: Company and Bankinter Research

Figure 3. Sales per quarter

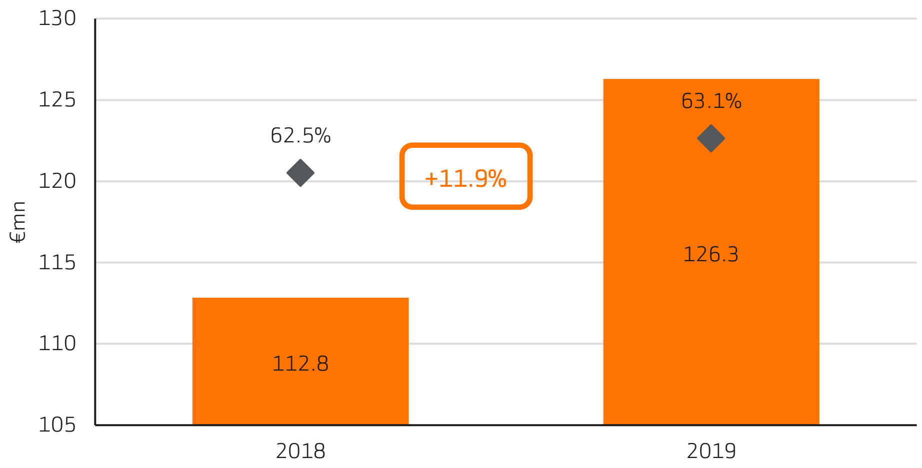


Source: Company and Bankinter Research

Gross profit increased +11.9%

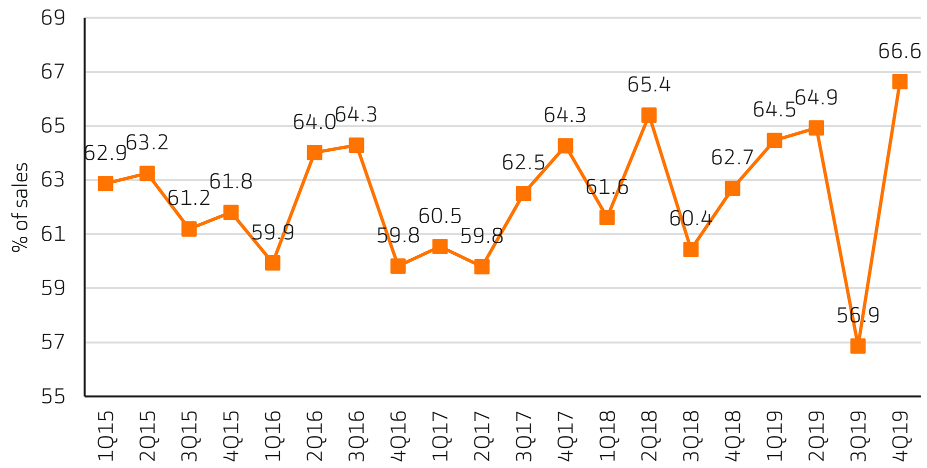
- The **gross profit** increased **in 2019** to €126.3mn (+11.9%), above the growth rate of sales. **In 4Q19** it was €35.4mn (+19.7% yoy), this compares favourably against +9.1% yoy in 9M19.
- The **gross margin** increased **in 2019** to 63.1% from 62.5% in 2018. **In 4Q19**, it was 66.6% (a five-year high), up from 61.8% in 9M19.

Figure 4. Gross profit and margin



Source: Company and Bankinter Research

Figure 5. Gross margin per quarter

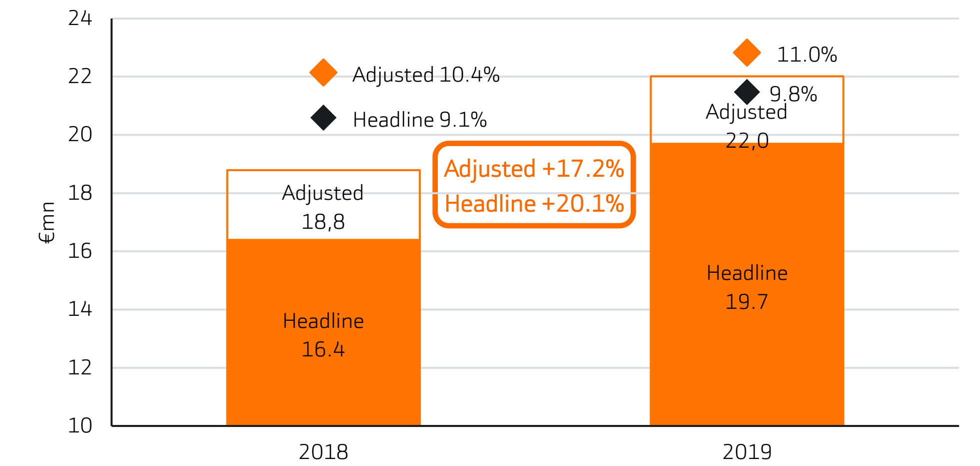


Source: Company and Bankinter Research

The adjusted EBITDA increased +17.2% and headline EBITDA +20.1%

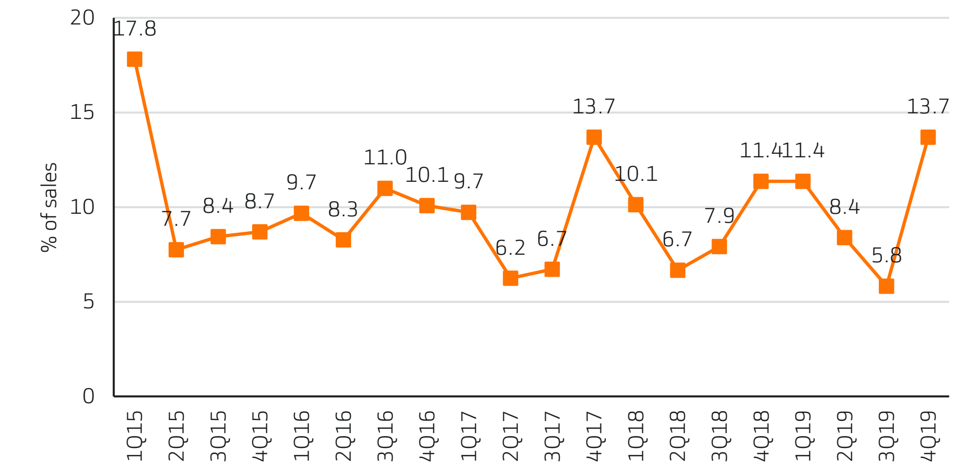
- The **adjusted EBITDA in 2019** was €22.0mn (+17.2%). The **adjusted EBITDA margin** increased in 2019 to 11.0% from 10.4% in 2018. Higher margins are driven by superior sales growth in specialty pharma where marketing and labour costs as a percentage of sales are lower than in the other divisions.
- The **adjustments** to EBITDA include a +€2.4mn effect from IFRS-16 accounting and –€2.3mn of non-recurrent expenses from the June 2019 rights issue and other one–off costs related to the licenses acquired from Bioibérica in July 2019.
- The **headline EBITDA** increased in 2019 to €19.7mn (+20.1%) and the headline EBITDA margin to 9.8% from 9.1%. Labour costs and other expenses (+10%) increased at a slower pace than sales. Growth accelerated **in 4Q19** as the headline EBITDA increased at a superior pace (€7.3mn, +35.7% yoy) than in 9M19 (+12.6% yoy).

Figure 6. EBITDA and margin



Source: Company and Bankinter Research

Figure 7. Headline EBITDA margin per quarter



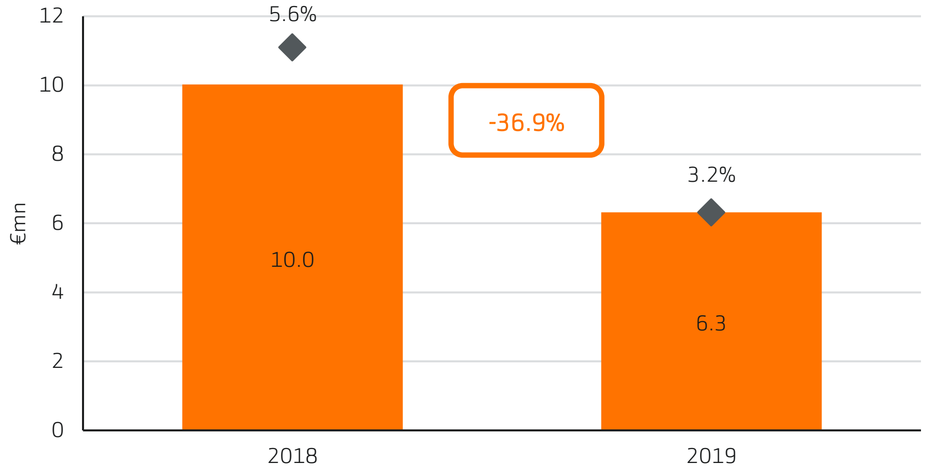
Source: Company and Bankinter Research

A +108% hike in depreciation is reflected in the EBIT declining -36.9%,

- **EBIT** fell in **2019** to €6.3mn (–36.9%) as a +108% hike in depreciation (to €13.1mn from €7.6mn) and impairment offset the growth in EBITDA. This hike stems from a combination of €2.7mn from IFRS accounting, €2.4mn from the acquisition of the products licenses from Bioibérica in July 2019, and €0.4mn from capex in 2019 (the main investment is a new antibiotics line in Toledo that was started-up that year). Impairment was -€0.2mn (€1.2mn in 2019).

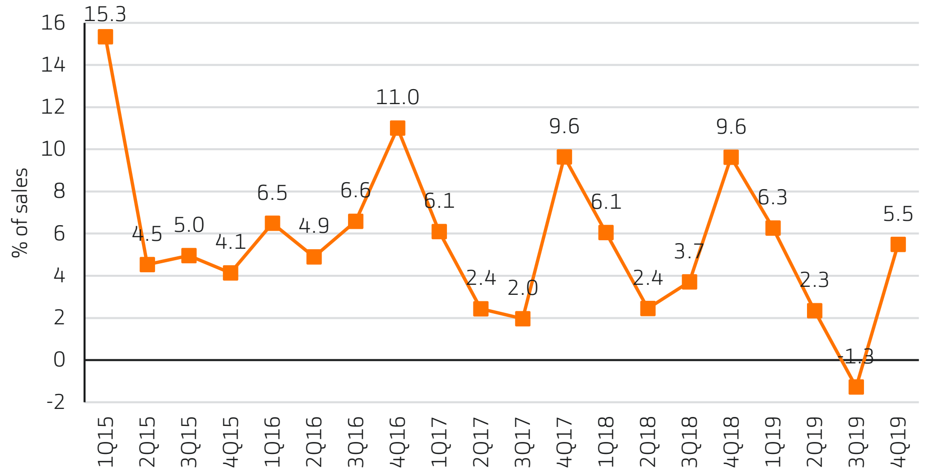
- The **EBIT margin** fell in **2019** to 3.2% of sales from 5.6% in 2018. It is worth highlighting that the EBIT margin recovered to 5.5% in **4Q19** (2.3% in 9M19).

Figure 8. EBIT and margin



Source: Company and Bankinter Research

Figure 9. EBIT margin per quarter



Source: Company and Bankinter Research

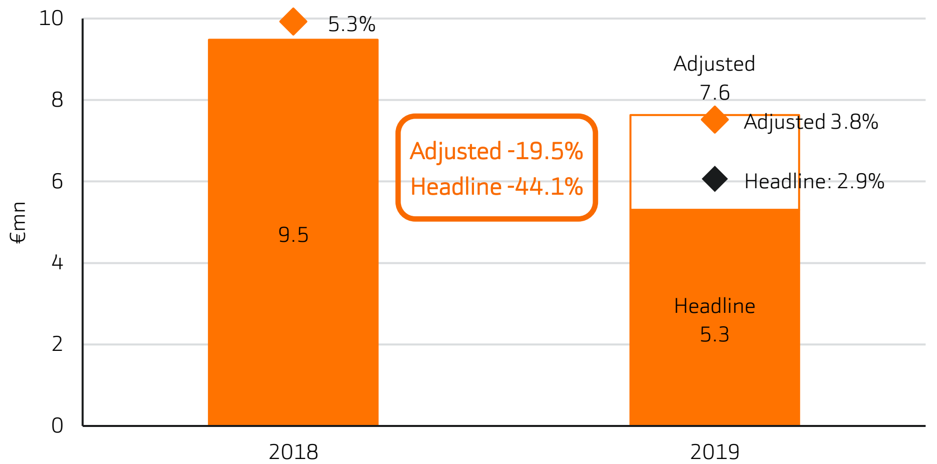
Profit before taxes and net profit fell c.-45%, while the net cash flow was up +17.2%

- In **2019**, the **adjusted profit before taxes** fell to €7.6mn (–19.5%) and the **headline** figure to €5.3mn (-44.1%). The adjusted PBT includes the same adjustments as the EBITDA, higher depreciation and one-offs costs related to the equity issue and the acquisition of licenses.

- In **2019**, the **net profit** fell at a similar rate as the PBT to €4.9mn (–46.7%).

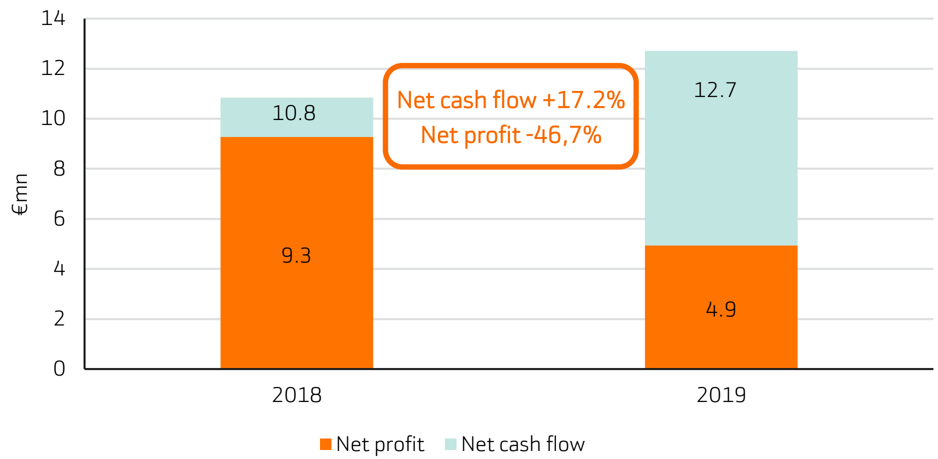
- The **net cash flow** (net profit + depreciation + impairment on fixed assets – capitalized R&D expenses) increased in **2019** to €12.7mn (+17.2%). **In 4Q19**, its growth was +14.5% yoy (to €5.4mn). **In our opinion, this is a key indicator to assess the evolution of Reig Jofre's results.**

Figure 10. Profit before taxes



Source: Company and Bankinter Research

Figure 11. Net profit and cash flow (net profit + depreciation + impairment)



Source: Company and Bankinter Research

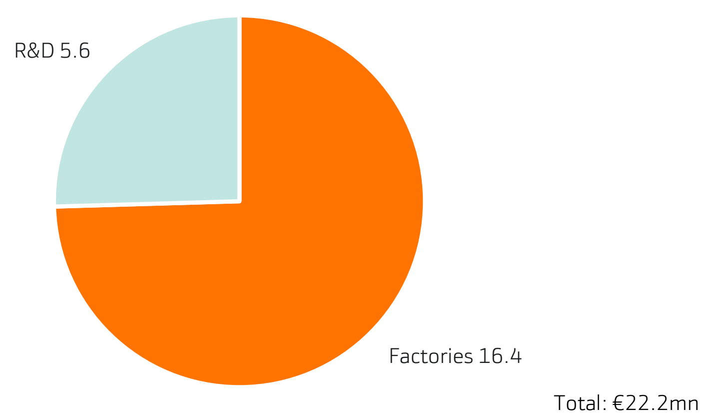
Capex and net financial debt

- **Capex** in **2019** increased to €22.2mn (+2.3% yoy) or 11% of sales. This splits in €17.1mn factory capex (the company is building a new plant in its factory in Barcelona) and €5.0mn of recurrent capex. In addition, the company acquired for €48.1mn licenses from Bioibérica. In addition, there were €1.2mn financial investments.

- In June 2019, Reig Jofre **raised €24mn of equity** that was used to partly finance the acquisition of Bioibérica, a deal that closed in the first week of July 2019. The balance has been financed with debt. **Cash flow** from operations declined to €11.7mn (-20.9%) reflecting a combination of higher cash flow and the build-up of OWC after the acquisition. **Capex payments** were –€50.4mn. **Dividends** paid were –€0.4mn and **IFRS16 and others** –€13.0mn. As a result, the **net financial debt** increased in 2019 +€28.1mn to €52.6mn. The NFD / EBITDA is 2.7x, this is not a concern as we expect only maintenance capex going forwards (this may decline to €5.8mn in 2020e) and the focus will soon be to reduce debt.

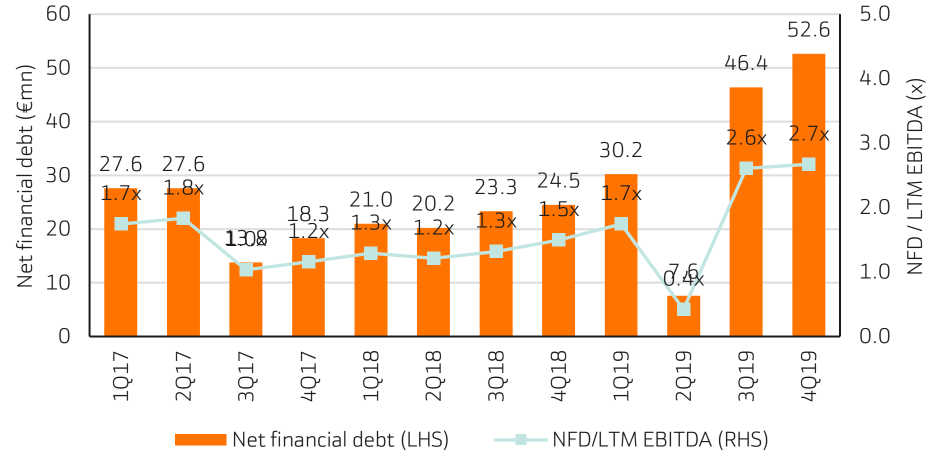
- **OWC/ sales** remained largely unchanged at c. 23% of sales. In 2H19, the company had to build–up working capital following the acquisition of the licenses.

Figure 12. Capex breakdown (in €mn)



Source: Company and Bankinter Research

Figure 13. Net financial debt



Source: Company and Bankinter Research

Our target price is unchanged at €3.80 per share

In our last reports, we valued Reig Jofre using a **sum-of-the parts** model that revolved around a **DCF–model.** We valued separately (1) the company excluding the portfolio recently acquired from Bioibérica (at €3.63 per share) and (2) this portfolio at €0.17 €/share. The company will not report separately the acquired licenses from the existing businesses, we change our method to a DCF model.

Our assumed **WACC** is 7.4% and the **terminal growth** "g" rate 0.0%. Our **target price is unchanged at €3.80 per share.** This is for December 2020.

Figure 14. DCF model

€mn	2021e	2022e	2023e	2024e
EBIT	18.6	29.1	32.1	31.5
Tax rate on EBIT	0.0	0.0	0.0	0.0
NOPLAT	**16.7**	**26.2**	**27.3**	**26.8**
Depreciation	16.9	17.6	18.4	19.3
OWC	-2.2	-4.6	-1.5	-0.7
Capex	-10.6	-12.0	-13.6	-18.4
Free cash flow	**20.8**	**27.2**	**30.6**	**27.0**
Terminal value				363.9
EV/EBITDA terminal value				7.2
Flow to discount	20.8	27.2	30.6	390.8
Discount factor (x)	0.93	0.87	0.81	0.75
NPV of flow	**19.4**	**23.5**	**24.7**	**293.7**
EV	361.3			

	Mn€	€/share
EV	361.3	4.75
Other investments	5.1	0.07
Equity accounted subsidiaries	1.7	0.02
Less: NFD 2020e	-50.4	-0.66
Less: Acquisition debt 2020e	-28.0	-0.37
Less: Provisions 2020e	-1.0	-0.01
Equity value	288.7	3.80

Source: Bankinter Research

Figure 15. Sensitivity analysis

		Terminal growth rate (%)						
	€/share	-1.5	-1.0	-0.5	0.0	0.5	1.0	1.5
WACC (%)	8.4	2.76	2.90	3.05	3.23	3.42	3.64	3.89
	7.9	2.97	3.12	3.30	3.49	3.72	3.97	4.27
	7.4	3.19	3.37	3.57	3.80	4.06	4.36	4.71
	6.9	3.44	3.65	3.88	4.14	4.45	4.81	5.23
	6.4	3.72	3.96	4.23	4.54	4.91	5.34	5.86

Source: Bankinter Research

Valuation methodology

Valuation method

We value Reig Jofre using a DCF-model. This considers flows for 2021e-2024e and a terminal value. Our valuation is for December 2020.

Key assumptions

We use a WACC of 7.4% and a terminal growth "g" rate of 0%.

Target price scenarios

Base €3.80

- Stable sales of the current portfolio after 2019e
- New capacity at 95% of utilization in the 4th year of operation
- EBITDA margin increases to 16% in 2023e, from 9.8% in 2018

Bull €4.75

- 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 €2.85

- 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

- Spain stopping subsidizing Sysadoa drugs (Symptomatic Slow Action Drugs for Osteoarthritis) used to treat arthrosis (marketed by Bioibérica).
- Pipeline risks

Figure 16. Profit and loss account and cash flow statement

(€mn)	2017	2018	2019	2020e	2021e	2022e
Profit and loss account						
Sales	168.0	180.5	200.2	230.0	243.8	273.0
% inc.	*4.3*	*7.4*	*10.9*	*14.9*	*6.0*	*12.0*
Cost of goods sold	-64.1	-67.6	-73.9	-82.8	-85.3	-95.6
Gross margin	103.9	112.8	126.3	147.2	158.5	177.5
Operating costs	-88.1	-96.5	-106.6	-117.3	-123.0	-130.8
EBITDA	15.8	16.4	19.7	29.9	35.5	46.7
% inc.	*0.6*	*3.8*	*20.1*	*51.8*	*18.7*	*31.5*
Depreciation	-6.8	-6.4	-13.4	-16.2	-16.9	-17.6
EBIT	8.9	10.0	6.3	13.7	18.6	29.1
% inc.	*-23.6*	*11.5*	*-36.9*	*117.9*	*35.3*	*56.6*
Net financial result	-1.0	-0.7	-1.1	-1.3	-1.3	-1.3
Equity accounted earnings	0.0	0.2	0.1	0.1	0.1	0.1
Other results	0.0	0.0	0.0	0.0	0.0	0.0
Profit before taxes	7.9	9.4	5.3	12.5	17.4	27.9
Corporate tax	0.8	-0.2	-0.4	-1.3	-1.7	-2.8
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	8.8	9.2	4.9	11.3	15.7	25.2
% inc.	*14.8*	*5.3*	*-46.7*	*129.5*	*38.8*	*60.6*
EPS (€)	0.12	0.12	0.06	0.15	0.21	0.33
% inc.	*14.8*	*5.3*	*-46.7*	*129.5*	*38.8*	*60.6*
DPS (€)	0.05	0.05	0.00	0.00	0.00	0.00
% inc.	*-2.2*	*-3.5*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Cash flow statement						
Net cash flow	15.6	15.6	18.3	27.5	32.6	42.8
% inc.	*34.3*	*0.2*	*17.1*	*50.0*	*18.7*	*31.2*
OWC change	14.6	1.3	8.2	-4.7	-2.2	-4.6
Capex	-9.2	-21.0	-50.4	-20.3	-10.6	-12.0
Free cash flow	21.0	-4.0	-23.9	2.4	19.8	26.1
Dividends paid	-0.1	-0.4	-0.4	0.0	0.0	0.0
Other variations	-9.9	-1.8	-3.9	-0.1	-0.1	-0.1
Change in net cash/(net financial debt)	11.0	-6.2	-28.2	2.3	19.6	26.0

Source: Company and Bankinter Research

Figure 17. Balance sheet and margins

(€mn)	2017	2018	2019	2020e	2021e	2022e
Balance sheet						
Net fixed assets	107.0	121.4	199.5	203.7	197.4	191.8
Net financial assets	0.0	0.3	1.2	1.3	1.4	1.6
Operating working capital (OWC)	41.9	40.5	32.3	37.1	39.3	43.9
Other assets/(liabilities) net	11.0	11.9	-2.3	-2.3	-2.3	-2.3
Capital employed (CE)	159.9	174.2	230.8	239.8	235.8	234.9
Shareholders' equity	141.6	149.8	178.2	189.5	205.2	230.3
Minority interests	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Net financial debt	18.3	24.5	52.6	50.4	30.7	4.7
Margins (%)						
Gross margin/Sales	61.9	62.5	63.1	64.0	65.0	65.0
EBITDA/Sales	9.4	9.1	9.8	13.0	14.6	17.1
EBIT/Sales	5.3	5.5	3.1	6.0	7.6	10.7
Sales/Capital employed	105.1	103.6	86.8	95.9	103.4	116.2
EBITDA/Capital employed	9.9	9.4	8.5	12.5	15.1	19.9
ROCE	5.6	5.7	2.7	5.7	7.9	12.4
ROE	6.2	6.2	2.8	6.0	7.6	10.9
Gearing (x)						
Net financial debt/Capital employed	0.1	0.1	0.2	0.2	0.1	0.0
Net financial debt/EBITDA	1.2	1.5	2.7	1.7	0.9	0.1
EBIT/Net financial result	8.9	14.4	5.6	10.5	14.4	23.0

Source: Company and Bankinter Research

Figure 18. Main shareholders

Family Reig Jofre:	62.7%
Kaizaharra:	10.1%
Onchena:	5.5%
Treasury stock:	0.5%

Source: Company and Bankinter Research

Figure 19. Company information

Address:	
	Av. de les Flors
	08970 Sant Joan Despí
	Spain
Website:	www.reigjofre.com
CEO:	Ignasi Biosca
COO:	Gabriel Roig
CFO:	Roser Gomila (+34 93 480 6710)

Source: Company and Bankinter Research

Figure 20. Market ratios

(€)	2017	2018	2019	2020e	2021e	2022e
EPS (€)	0.12	0.12	0.06	0.15	0.21	0.33
% inc.	*14.8*	*5.3*	*-46.7*	*129.5*	*38.8*	*60.6*
CFPS (€)	0.21	0.21	0.24	0.36	0.43	0.56
% inc.	*34.3*	*0.2*	*17.1*	*50.0*	*18.7*	*31.2*
DPS (€)	0.05	0.05	0.00	0.00	0.00	0.00
% inc.	*-2.2*	*-3.5*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
BVPS (€)	1.86	1.97	2.34	2.49	2.70	3.03
% inc.	*6.3*	*5.8*	*19.0*	*6.3*	*8.3*	*12.3*
ROE (%)	6.2	6.2	2.8	6.0	7.6	10.9
Price (€)						
Max.	3.90	3.19	2.76	n.a.	-	-
Min.	2.24	2.12	2.21	n.a.	-	-
Last	2.34	2.28	2.52	2.28	2.28	2.28
P/E (x)						
Max.	33.8	26.3	42.7	-	-	-
Min.	19.4	17.5	34.2	-	-	-
Last	20.3	18.8	39.0	15.4	11.1	6.9
Relative	0.5	0.5	1.1	0.4	0.3	0.2
P/CF (x)						
Max.	19.0	15.5	11.5	-	-	-
Min.	10.9	10.3	9.2	-	-	-
Last	11.4	11.1	10.5	6.3	5.3	4.1
Relative	0.5	0.5	0.4	0.3	0.2	0.2
Yield (%)						
Max.	2.1	2.1	0.0	-	-	-
Min.	1.2	1.4	0.0	-	-	-
Last	2.0	2.0	0.0	0.0	0.0	0.0
Relative	2.5	2.5	0.0	0.0	0.0	0.0
P/BV (x)						
Max.	2.1	1.6	1.2	-	-	-
Min.	1.2	1.1	0.9	-	-	-
Last	1.3	1.2	1.1	0.9	0.8	0.8
Relative	0.5	0.5	0.5	0.4	0.4	0.3

Source: Company and Bankinter Research

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