LIGHTHOUSE
INSTITUTO ESPAÑOL DE ANALISTAS

Laboratorio Reig Jofre

EQUITY - SPAIN
Sector: Pharmaceuticals

Closing price: EUR 2.78 (24 May 2024)
Report date: 27 May 2024 (13:00h)

Initiation of Coverage
Independent Equity Research

Laboratorio Reig Jofre (RJF) a pharmaceutical company headquartered in Barcelona (Spain) specialised in research, manufacturing, and marketing of pharmaceutical products (injectables and generic antibiotics) and food supplements at its development and logistics centres (Barcelona, Toledo and Malmö). With an international footprint (> 50% of revenue). Managed and controlled by the Reig family (63% of share capital).

Luis Esteban Arribas, CESGA – luis.esteban@institutodeanalistas.com
+34 915 904 226

Better not miss the boat

Market Data

Market Cap (Mn EUR and USD)	221.4	240.1
EV (Mn EUR and USD) (1)	281.0	304.7
Shares Outstanding (Mn)	79.6	
-12m (Max/Med/Mín EUR)	2.85 / 2.46 / 2.15	
Daily Avg volume (-12m Mn EUR)	0.03	
Rotation(2)	3.3	
Factset / Bloomberg	RJF-ES / RJF SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Reig Jofre Investments	62.8
Kaizaharra Corp	10.1
Onchena	6.1
Quaero Capital	3.0
Free Float	18.0

Financials (Mn EUR)	2023	2024e	2025e	2026e
Adj. nº shares (Mn)	78.8	79.6	79.6	79.6
Total Revenues	316.1	348.6	378.9	408.4
Rec. EBITDA	33.3	36.6	41.8	46.4
% growth	*21.5*	*10.0*	*14.3*	*10.8*
% Rec. EBITDA/Rev.	*10.5*	*10.5*	*11.0*	*11.4*
% Inc. EBITDA sector(3)	*0.6*	*18.7*	*16.4*	*11.7*
Net Profit	9.4	11.3	14.7	17.3
EPS (EUR)	0.12	0.14	0.18	0.22
% growth	*14.3*	*18.5*	*30.6*	*17.8*
Ord. EPS (EUR)	0.12	0.14	0.18	0.22
% growth	*14.3*	*18.5*	*30.6*	*17.8*
Rec. Free Cash Flow(4)	4.3	5.3	6.2	9.2
Pay-out (%)	*-0.4*	*-0.7*	*-0.7*	*-0.7*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	44.7	39.5	33.3	24.3
ND/Rec. EBITDA (x)	1.3	1.1	0.8	0.5
ROE (%)	*4.7*	*5.4*	*6.6*	*7.3*
ROCE (%)(4)	*3.8*	*4.6*	*5.7*	*6.5*

Ratios & Multiples (x)(5)				
P/E	23.3	19.7	15.1	12.8
Ord. P/E	23.3	19.7	15.1	12.8
P/BV	1.1	1.0	1.0	0.9
Dividend Yield (%)	*n.a.*	*n.a.*	*n.a.*	*n.a.*
EV/Sales	0.89	0.81	0.74	0.69
EV/Rec. EBITDA	8.4	7.7	6.7	6.1
EV/EBIT	26.7	20.7	16.1	13.8
FCF Yield (%)(4)	*2.0*	*2.4*	*2.8*	*4.1*

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

A DIVERSIFIED BUSINESS MODEL WITH HIGH BARRIERS TO ENTRY… with 3 divisions: (i) Pharmaceutical Technologies (generic penicillin-derived antibiotics, injectables, and lyophilisates); (ii) Specialty Pharmacare (prescription and over-the-counter medicines); and (iii) Consumer Healthcare (food supplements, OTC products). This further reduces business risk (in a defensive/anti-cyclical industry). Sales outside Spain accounted for 55% of revenue for 2023.

…AND SUSTAINED GROWTH (CAGR 2023-2026E: 8.9%), albeit somewhat slower than -4y (CAGR 2019-2023: 12.1%). The launch of new products such as Ciclo-Tech (dermatology; Specialty Pharma) and the long-term focus on injectables and lyophilisates (Pharma Tech: plus the sale of up to 30% of capacity to the European Commission) will be the drivers of revenue growth until 2026e. This would lead to ending 2026e with revenue of EUR 408Mn (+29.1% vs 2023).

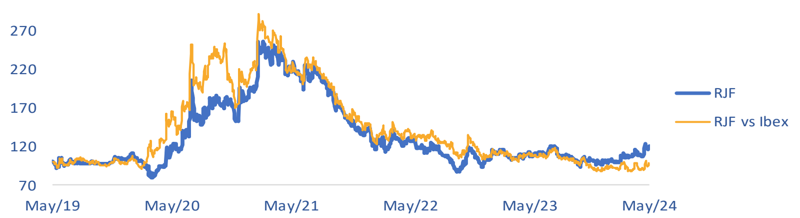
WITH A FOCUS ON EXPECTED IMPROVED PROFITABILITY. Powered by: (i) a shift in the revenue mix towards more profitable products, (ii) continued vertical integration through the joint venture with Syna (biosimilars development), (iii) further outsourcing of production (CDMO) and iv) a return to normal of wages and inflation. This should translate into an EBITDA margin 2026e of 11.4% (vs. 10.5% 2023).

THE KEY IS FOR EBIT AND ROCE TO TAKE OFF. Operational improvement and lower capitalisation should be catalysts to see EBIT take off, almost doubling to EUR 20.4Mn (vs EUR 10.5Mn in 2023; ROCE 2026e: 6.5%). Net profit will also shoot up as a result (CAGR 2023-2026e: 22.6%).

WITH NO FINANCIAL RISK (POSITIVE FCF, LOW DEBT). Despite R&D needs, net debt is set to decline to EUR 24.3Mn by 2026e (net debt/ recurring EBITDA 0.5x). Leaving the door open for investment opportunities and M&A-led growth.

WITH THE SHARE PRICE FAR OFF ITS HIGHS (-55% VS 2021 HIGHS), THE TIME IS NOW. As a potential investment idea, the time to think about RJF is now: share price at low ebb, objectively sound fundamentals (high visibility), substantiated margin upside over the next two years and low risk (operational, business, financial). A unique investment idea in the pharmaceutical sector. EV/rec. EBITDA 2024e: 7.7x. Not long after: P/E ratio 2026e 12.8x. Better not miss the boat with RJF.

Relative performance (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	11.6	20.2	7.4	25.0	-44.6	20.4
vs Ibex 35	9.5	8.3	-12.5	12.3	-54.6	-1.8
vs Ibex Small Cap Index	4.2	6.6	-5.9	13.0	-45.4	-8.4
vs Eurostoxx 50	10.6	16.3	-9.1	12.3	-55.6	-19.9
vs Sector benchmark(3)	7.1	15.2	-1.1	13.2	-56.1	-19.9

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

A pharma company that's done its homework: the question at the heart of the equity story is, can it now swiftly deliver profitability?

Laboratorio Reig Jofre (RJF), a listed pharmaceutical firm (market cap of EUR 221.4Mn) headquartered in Barcelona, Spain, engaged in the research, manufacturing, and marketing of pharmaceutical products and nutritional supplements. Founded in 1929 by Ramon Reig Jofre, the Reig family still controls 62.8% of capital. Through the reverse merger with Natraceutical in 2014, the company obtained a listing on the Spanish Stock Exchange (continuous market).

Founded in 1929, RJF is Spain's fifth-largest listed pharma company by revenue..

RJF is Spain's fifth-largest listed pharmaceutical firm by revenue. The group operates directly in eight countries and extends its reach to over 70 other countries through distribution agreements. Sales outside Spain accounted for close to 55% of the total in 2023 (vs 59% en 2015). This shows that an international focus is a key component of RJF's business model. Total revenue for 2023 came in at EUR 316Mn (+16.6%; vs. EUR 271Mn in 2022).

… conducted by its production and logistics centers (one in Barcelona and two in Toledo in Spain and one in Malmö, Sweden

RJF's business model focuses on the development, manufacturing and sale of antibiotics (generic, off-patent) and injectable and lyophilised products, medicinal products (prescription and over-the-counter) and food supplements and OTC products. Business is conducted through the company's specialised production and logistics centers (one in Barcelona and two in Toledo in Spain and one in Malmö, Sweden). In a departure from the typical pharmaceutical blueprint focused on R&D and subsequent patent monetisation, this firm takes a distinctive approach. RJF diverges from both traditional pharmaceutical firms and the biotech sector by leveraging a business model characterised by (i) lower R&D investment needs, (ii) less risk and heightened recurring revenue, albeit with (iii) margin constraints and lower structural profitability.

What is RJF today? What factors have placed the company in such a strong position in the Spanish pharmaceutical sector?

A) 2015-2023: leap in scale at the top end of the P&L (revenue in 2023: EUR 316Mn; 2x 2015) that has not so far translated into improved profitability (EBIT, net profit)

A business model with 3 divisions: i) Pharma Tech, ii) Specialty Pharma y iii) Consumer Healthcare

RJF operates a diversified business model. The company is divided into three divisions: (i) Pharmaceutical Technologies (44% of revenue in 2023), which focuses on the manufacture, development, and marketing of beta-lactam antibiotics (generic penicillin-derived), injectables, and aseptic lyophilisates (analgesics or painkillers); (ii) Specialty Pharmacare (33% of revenue in 2023), which produces drugs generally marketed through medical recommendations, with or without prescription depending on the product and country; and (iii) Consumer Healthcare (23% of revenue in 2023), which concentrates on developing and marketing food supplements, OTC, and personal care products under the Forté Farma label, which has strong brand recognition in France and Belgium.

- **2015-2019: Hefty investment.** RJF's business model is CAPEX-heavy for capacity building, process improvement and new product development. Starting in 2015, the company has strategically focused its investments on: (i) industrial technology (by boosting production plant capacity), (ii) diversifying its product portfolio (through the marketing of Natraceutical products and acquiring BioIbérica's osteoarticular health unit), and (iii) investing in R&D with vertical integration (exemplified by the Syna Therapeutics joint venture with LeanBio to develop and produce biosimilars).

Mid-digit revenue growth until 2019 (+6,3% CAGR 2015-2019)

In quantitative terms, this translated into mid-single digit growth in revenue to EUR 200Mn in 2019 (CAGR 2015-2019: 6.3%). There was no impact on the gross margin due to the change in the business mix. However, the sharp increase in OPEX and the post-acquisition integration of BioIbérica weighed down the EBITDA margin to 8.2% in 2019 (including IFRS 16 effect) vs 10.9% in 2015. The strong investment in upgrading plant capacity raised net debt in 2019 to EUR 64.9Mn (vs EUR 21.8Mn in 2018; 2019 net debt/recurring EBITDA 3.9x vs 2015 net debt/recurring EBITDA of 0.7x).

In 2023, RJF signed an agreement up to 30% for

- **Over the following years (2019-2023), adaptability to product demand in response to the pandemic acted as a tailwind (revenue growing at a 12.1% CAGR over the 2019-2023 period).** The uniquely challenging health emergency drove RJF to focus its efforts on injectables (vaccines) and essential medicines (lower-margin antibiotics).

reserved capacity at the Barcelona plant

This benefited the company in terms of volume and visibility and led to the signing of the contract for the development of the Janssen vaccine, which ultimately was not renewed as it was not selected for commercial distribution. Additionally, in 2023, the company signed an agreement with the European Commission's Health Emergency Preparedness and Response Authority (HERA) for reserved capacity at the Barcelona plant. The higher usage of production plants offset the impact of cost inflation and supply chain disruption. Recurring EBITDA in 2023 reached EUR 33Mn (EBITDA margin 10.5%).

In summary, the 2015-2023 period ended with revenue (2023) of EUR 316Mn (CAGR 2015-2023: 9.1%). The Specialty Pharma segment experienced substantial growth (CAGR 2015-2023: 18.2%), representing 33% of total revenue in 2023 (vs. 17.5% in 2015). International business accounted for 55% of sales in 2023.

This powerful growth over the last few years has involved a huge investment effort (CAPEX>EUR 120Mn)

This powerful growth over the last few years has involved a huge investment effort. CAPEX exceeded EUR 120Mn and M&A activity came close to EUR 50Mn over the 2015-2023 period. Net debt peaked in 2019 at EUR 64.9Mn, falling to EUR 44.7Mn in 2023 (net debt/recurring EBITDA 1.3x) on the back of cash generation and EBITDA growth.

What is the real scope for organic business growth? And what about profitability? How much investment and funding will be needed to sustain the current strong position?

B) 2023-2026e: Leverage structure and capacity the firm has already developed in the bid to improve profitability.

We forecast that, after 2024e, RJF will move into a "payback" stage, as the extensive investments undertaken in the previous eight years start to generate returns. Strategy focuses on developing increasingly complex, higher value-added drugs. There appears to be an opportunity to monetise the expected moderate growth in revenue over the next few years in terms of margins. The key factors on which we base our 2024e-2026e projections are:

Both Specialty Pharma and the focus on injectables and lyophilisastes will be the main drivers until 2026e

- **The Specialty Pharma line will be one of the organic growth drivers...** However, in our view, BioIbérica's Osteoarticular portfolio is peaking after the growth seen -3y (CAGR: 32.2%). Growth until 2026e will be fuelled by new products like Ciclo-Tech (dermatology) and a strong focus on injectables and lyophilisates (Pharma Tech), bolstered by a four-year agreement to sell up to 30% of capacity to the European Commission. We expect the Specialty Pharma division to contribute c.50% of total growth in revenues 2024e-2026e.

- **International footprint.** A broad international footprint provides the opportunity for product cross-selling. Potential for introducing product offerings into new markets becomes more available.

With potential for improved margins, especially on the lowr part of the P&L

- **And with potential for improved margins...** thanks to operational leverage from increased usage of production sites. This, combined with (i) a shift in the revenue mix towards more profitable products, (ii) continued vertical integration through the joint venture with Syna (biosimilars development), (iii) further outsourcing of production (CDMO) and iv) normalisation of wages and inflation, should lead to a gradual improvement in profitability to recurring EBITDA margin levels of 11.4% by 2026e (vs. 10.5% in 2023).

- **...especially in the lower part of the P&L.** RJF's business model is highly capital-intensive, driven by its reliance on R&D and the ongoing expansion of production capacity. This has considerably increased depreciation and amortisation expenses, thereby putting pressure on EBIT. Operational improvement and lower capitalisation should be catalysts to see EBIT take off, almost doubling to EUR 20.4Mn (vs EUR 10.5Mn in 2023). And, therefore, feeding through to net profit (CAGR 2023-2026e: 22.6%) which is expected to reach EUR 17.3Mn (vs. EUR 9.4Mn) in 2026e.

- **And cash generation will leave the door open to new investment opportunities.** This will reduce the level of indebtedness to EUR 24.3Mn of net debt by 2026e (ND/recurring EBITDA of 0.5x). EBITDA growth will continue to generate cash. We estimate recurring FCF by 2024e of EUR 5.3Mn, rising to EUR 9.2Mn by 2026e.

Looking ahead to 2024e, our numbers envisage revenue of EUR 348.6Mn (+10.3% vs 2023) and recurring EBITDA of EUR 36.6Mn (recurring EBITDA margin of 10.5%, in line with 2023). Net debt will continue to decline to EUR 39.5Mn (-11.7%; net debt/EBITDA 2024e 1.1x).

Revenues 2026e: EUR 408Mn and EBITDA EUR 46.4Mn

What about 2026e? We anticipate a company with revenue of EUR 408.4Mn. The scenario assumes moderate revenue growth (CAGR 2023-2026e: 8.9%). RJF should focus on profitability, targeting a 2026e EBITDA level of c. EUR 46.4Mn (2026e EBITDA margin: 11.4%). With capitalised expenses of c.EUR 2Mn, it could aim to generate an EBIT margin of 5% (vs 3.3% in 2023). The marked improvement in RJF's cash generation would imply FCF Yield 2026e of 4.1% and net debt/EBITDA 0.5x.

Table 1. Headline figures (2022-2026e)

EUR Mn	2022	2023	2024e	2025e	2026e
Pharma Tech	125.0	138.7	148.1	158.2	168.9
Speciality pharma	80.0	105.1	123.5	138.7	152.3
Consumer	66.2	72.3	77.0	82.0	87.1
Total Sales	**271.2**	**316.1**	**348.6**	**378.9**	**408.4**
Gross Margin	-113.1	-133.7	-147.6	-158.4	-170.4
Gross Margin	**158.1**	**182.4**	**201.0**	**220.5**	**238.0**
% over total sales	*58.3%*	*57.7%*	*57.7%*	*58.2%*	*58.3%*
OPEX	-130.7	-149.1	-164.4	-178.7	-191.6
EBITDA rec.	**27.4**	**33.3**	**36.6**	**41.8**	**46.4**
EBITDA Margin (%)	10.1%	10.5%	10.5%	11.0%	11.4%

C) In conclusion: A unique idea in the Spanish pharmaceutical sector. And an option to aim for very low 2026e multiples on low-risk, upside-to-upside terms.

RJF has the ability to squeeze new value from process improvements

In a sector where growth expectations are modest, we see RJF as having both the opportunity and capacity to grow its market share, notably in antibiotics. The investments already made will ensure the company continues to squeeze new value from process improvements. The real opportunity is to monetise growth, making it more profitable. This would enable the company to achieve net profit 2026e of EUR 17.3Mn (P/E ratio 2026e of 12.8x). RJF's equity story therefore hinges on its ability to accelerate growth at the low end of the P&L in the face of moderate revenue growth expectations and a period of lower investment.

Analysis of RJF's business model provides a number of insights:

A business with high barriers to entry and in a defensive/anti-cyclical industry

- **The necessary heavy investment in R&D and know-how** (via specialisation in antibiotics and injectables) gives RFJ a leading position that will enable it to bid for larger contracts.
- **A business with high barriers to entry and intense specialisation…** The product portfolio, inelastic demand for its products and the ability to adapt the offer to changing consumer trends offer protection against market fluctuations and provide opportunities for growth in several areas. This reduces business risk in an already defensive/anti-cyclical industry. A vivid example is the comparison between medically recommended products (basic/necessary consumption) and personal care products (with a discretionary consumption profile). And the company's strong international presence gives it access to a larger number of customers, again reducing business risk. But from the less cyclical and therefore less risky segment of the pharma sector.

The foucs should be on improving value creation (ROCE)

- **…with a focus on improving value creation (ROCE 2026e: 6.5%).** The main drawback of the business model is the return on capital employed (ROCE), which is under pressure due to the difficulty of transferring growth (revenue and EBITDA) to EBIT. This is a consequence of the CAPEX needs and the huge gap compared to its peers in terms of EBIT margin (average EBIT margin peers 27% vs RJF 3.9% in 2024e). And "mathematically" or in theory, this creates the option to start narrowing the profitability gap vs the sector.

Does today's share price reflect RJF's expected performance and its diversified business model in the coming years? After the high stock prices triggered by the pandemic and the race to develop vaccines, the RJF share is far off its peak (c.-55%).

We pose a strictly theoretical exercise to estimate a potential store of value. To understand the real potential of RJF, we need to assign higher multiples to the highest value business line (Specialty Pharma).

We start from our 2024e estimates where: (i) Pharma Technologies would reach revenue of EUR 148.1Mn (vs EUR 138.7Mn in 2023), (ii) Specialty Pharma of EUR 123.5Mn (vs EUR 105.1Mn) and (iii) Consumer Healthcare of EUR 77.0Mn (vs EUR 72.3Mn). And we take as a reference the EV/sales 2024e multiple of main peers by business line (adjusted by the EBITDA margin gap between peers vs RJF):

- **Pharma Technologies:** Viatris (EV/sales 2024e 2.0x), Teva (EV/sales 2.3x) and Sandoz (EV/sales 1.8x). With an average EV/sales multiple of 2.0x and average EBITDA margin of 27.3% (vs. 10.5% for RJF).

- **Specialty Pharma:** Incyte Corporation (EV/sales 2024e 2.2x), Novartis (EV/Sales 2024e 4.5x) with an average EBITDA margin of 32% (vs. 10.5% RJF).

- **Consumer Healthcare:** Herbalife (EV/sales 2024e 0.6x), Hain Celestial (EV/sales 0.8x) and Nu Skin (EV/sales 0.6x). With an average EV/sales multiple of 0.7x and an average EBITDA margin of 9.9%.

Table 2. Valuation of RJF by segment

Revenues by business line (EUR Mn)	2024e	Avg. EV/Sales from peers	Avg. EBITDA Mg. From peers	Adjusted multiple to EBITDA Mg. from RJF	EV
Pharma Technologies	148.1	2.0x	27.3%	0.8x	114.3
Specialty Pharma	123.5	3.4x	32.0%	1.1x	136.9
Consumer healthcare	77.0	0.7x	9.9%	0.7x	55.4
				Enterprise Value	306.6

This would lead to a total Equity Value of RJF (adjusted for net debt, minoritary interest, other L/T liabilities…) of EUR 247Mn. Above the current market cap (close to EUR 221Mn).

This is ultimately a highly theoretical exercise. Nonetheless, it suggests that if our revenue estimates for 2024e (with a low risk of revision) are on target, particularly in Specialty Pharma with a projected growth of 17.5% compared to 2023, the potential upside relative to the fundamental value at current prices would be about 15%. Share performance YTD is +25% in absolute value and +12.3% vs IBEX 35, but "poor" -12m (in line with sector and -12.5% vs Ibex35).

Ideal timing for a company experiencing a lowe ebb …

Not to mention that this valuation exercise does not incorporate the expected leap in profitability and EBITDA in the period 2024e-2026e.

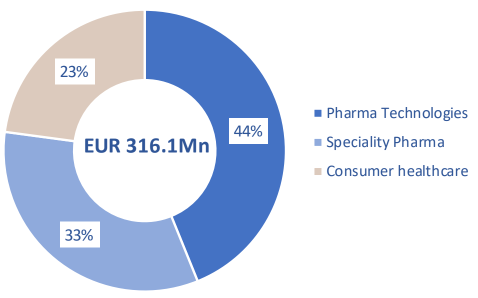
…unveiling a significant value reserve and a proven ability to enhance margins

The timing seems ideal for a company whose share price is experiencing a low ebb. Yet this is a time when the fundamentals show a robust case for growth, in an industry with inelastic demand (c.40% of the firm's revenue). Furthermore, RJF is poised to continue improving its profitability. RJF is trading at an estimated EV/recurring EBITDA 2024e of 7.6x. This is in line with Pharma Technologies and Consumer Healthcare comps, but below Incyte Corporation (Specialty Pharma; EV/EBITDA 9.0x). The market seems to have overlooked the fact that 35% of expected sales by 2024e (a weight that we expect to increase to 37% by 2026e) should result from the higher value-added business line (Specialty Pharma). This logically implies a higher multiple and explains the significant store of value we have found.

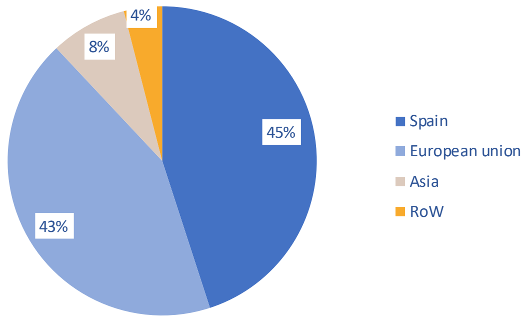
2024e seems key to see if the improvement in margins seen on paper is real. This in itself would be a powerful catalyst for bringing the share price closer to its fundamental value.

The company in 8 charts

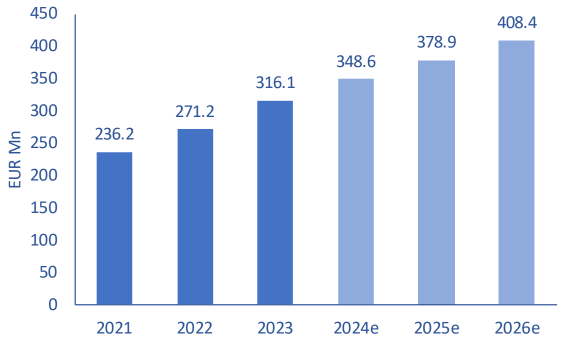
RJF's ability to produce a broad range of products enables its three business lines to contribute positively to revenue



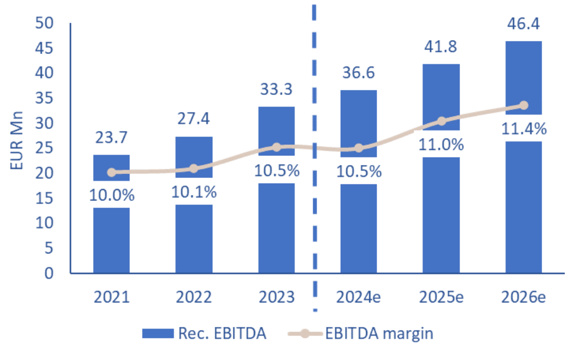
Exposure to Asia (8% in 2023) provides (also) geographical diversification (c. 55% in 2023)



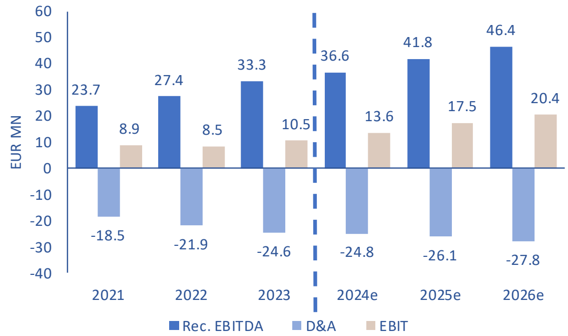
We expect high-single digit revenue growth to 2026e (CAGR 2023-26e: +8.9%)...



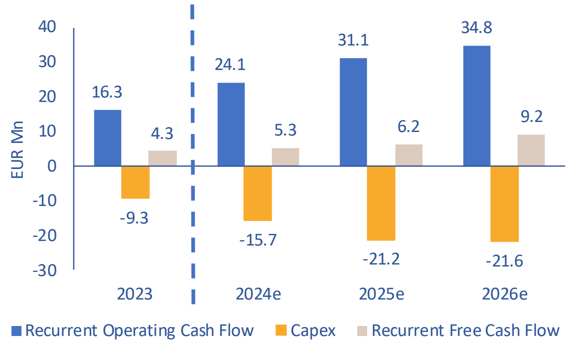
...and operational gearing to unlock profitability (EBITDA margin 2026e: 11.4%; despite the pressure on gross margin)



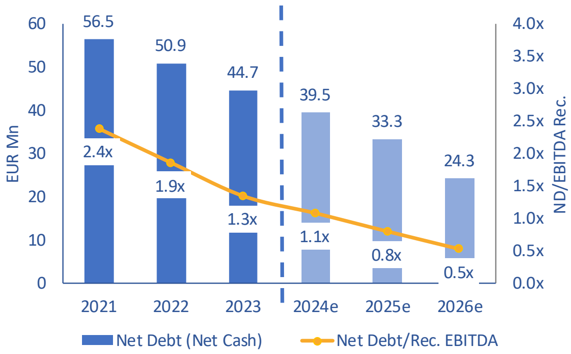
EBITDA growth (CAGR 2023-26e: 11.7%) will mitigate depreciation and amortisation and leave room to double EBIT in 2026e to EUR 20.1Mn



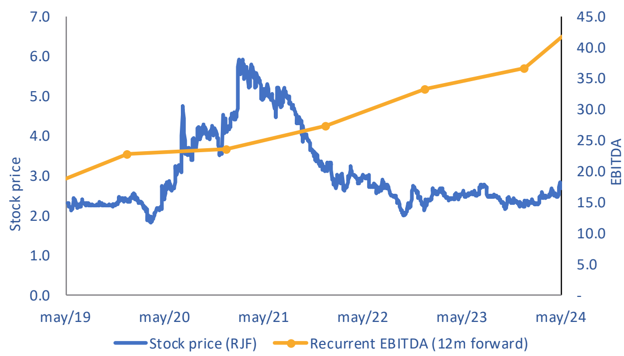
An extremely CAPEX-intensive business (5% of revenue), which will continue to shape cash generation (FCF 2026e: EUR 9.2Mn))



...all while keeping debt in check (ND 2026e: EUR 24.3Mn; ND/EBITDA 2026e: 0.5x)



An opportunity to capitalise on investment made (-8y) and with the share price well off its peak of 2021



Business description

A resilient pharmaceutical company showcasing a proven ability to expand within a market featuring formidable entry barriers

Laboratorio Reig Jofre (RJF), a listed pharmaceutical firm (markt cap of EUR 221.4Mn) headquartered in Barcelona, Spain, is involved in the research, manufacturing, and marketing of pharmaceutical products and nutritional supplements. Laboratorio Reig Jofre (RJF), founded by Ramon Reig Jofre in 1929, is now headed by Ignacio Biosca Reig, who is the third-generation CEO of the company. With a history spanning 95 years, RJF has positioned itself as a leading European manufacturer of injectables and lyophilisates, specialising in the development, registration, and marketing of generic antibiotics. The Reig family controls 63% of the capital.

Through the reverse merger with Natraceutical in 2014, the company was listed on the Spanish Stock Exchange (continuous market). Reig Jofre is the fifth largest pharmaceutical company by revenue in the Spanish market, behind Grifols, Almirall, Rovi and Faes Farma.

At year-end 2023, 87% of revenue in 2023 came from own-brand products (23% from food supplements, including Forté Pharma; Chart 1) and 13% from CDMO (contract development and management organisation of services/products with third parties) arrangements. RJF's main strengths are: (i) a diversified product portfolio and strong brand recognition, (ii) expertise in the production and development of complex drugs and injectables, (iii) high barriers to entry due to significant investments exceeding EUR 150Mn since 2015 in (incremental) R&D and in enhancing the efficiency, production capacity, and technology of its production and logistics centers, and (iv) substantial international presence, with over 50% of revenue generated from global markets.

Chart 1. Revenues by product type

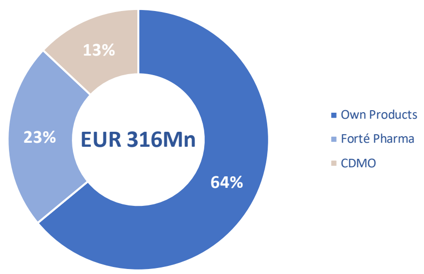


Chart 2. Revenues by line of business

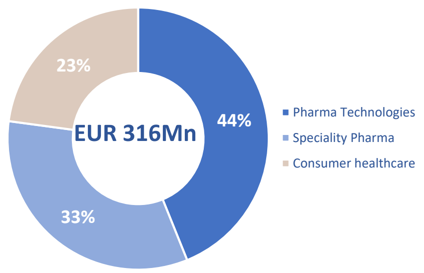


Chart 3. Pharmaceutical Technologies revenues (2015-2023)

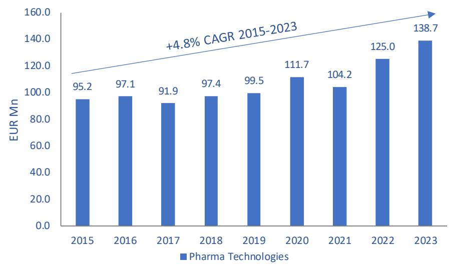
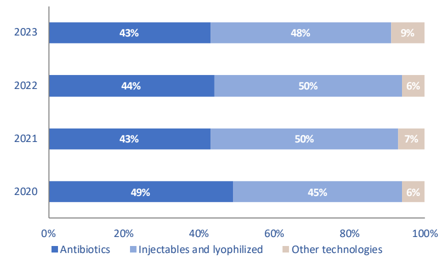


Chart 4. Pharma Technologies revenue mix evolution (2020-2023)



A diversified business model with high barriers to entry...

RJF's business model diverges from the traditional pharmaceutical approach of patent research and development, instead focusing on the development and manufacture of generic, off-patent antibiotics and injectables. This strategy is supported by its specialised development and logistics centers in Barcelona, two in Toledo, and one in Malmö, Sweden. In addition, M&A has played a strategic role in expanding its other two business lines (Consumer Healthcare and Specialty Pharma).

The RJF's main business divisions are divided into:

- **Pharmaceutical Technologies (44% of revenue in 2023).** The business line includes beta-lactam antibiotics, such as penicillin and cephalosporins, and penicillin-derived generics. These accounted for 43% of total Pharma Tech and 19% of consolidated revenue in 2023 (Chart 4). The firm draws on its experience and know-how in the manufacture of complex medicinal products. Hospitals are the main customers of this line. Operating in a regulated industry with prices controlled by the Spanish government, these products have limited scope for profitability improvement but offer high recurrence.

  RJF also manufactures aseptic lyophilised injectables, including analgesics, representing 48% of Pharma Tech's total and 21% of consolidated revenue in 2023. This requires significant investment in production plants to comply with European manufacturing and quality standards. In 2023, RJF entered into an agreement with the European Commission's Health Emergency Preparedness and Response Authority to allocate up to 30% of its Barcelona plant's production capacity for health emergencies, specifically for pandemic vaccine production. This involved the formulation and manufacture of vaccine doses. RJF generates 58% of its sales internationally, with c.80% of its production dedicated to its own-brand products.

- **Specialty Pharmacare (33% of revenue 2023).** RJF produces medical products that are available either with or without a prescription, contingent on the product and the country. The main customers are pharmacies and parapharmacies. The weight of speciality products in the mix has shifted between 2014 and 2023. Dermatology, pulmonary and gynecology accounted for the bulk of revenue (c.90%) until 2018.

Chart 5. Specialty Pharma revenues (2015-2023)

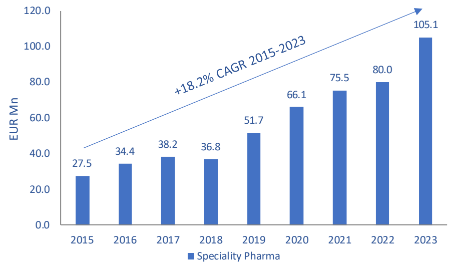


Chart 6. Consumer Healthcare revenue (2015-2023)

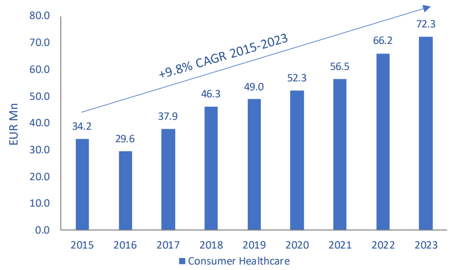


Chart 7. Geographic mix revenue 2023

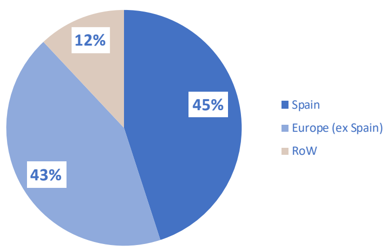
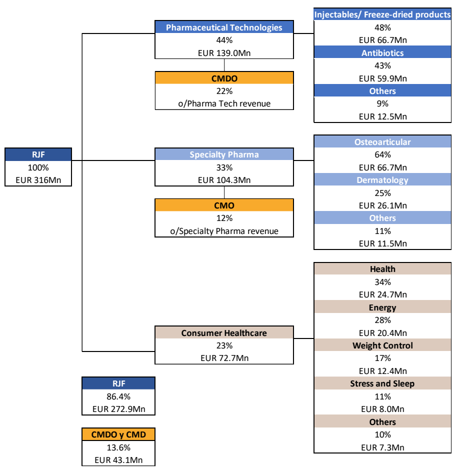


Chart 8. Revenue Mix RJF 2023



In 2023, osteoarticular (64% of total Specialty Pharma and 21% of consolidated revenue in 2023) and dermatology (25% of total Specialty Pharma; 8% of consolidated revenue in 2023) were the core products of this division.

Product innovation (R&D) (incremental innovation for the improvement and development of new formulations, and clinical trials to improve efficacy) and anticipation of new trends are the main drivers of this business line. 62% of sales are made in Spain and 11% of manufacturing consists of third-party products.

- **Consumer Healthcare (23% of revenue 2023).** This line focuses on the development and marketing of food supplements, over the counter (OTC) products and personal care products under the Forté Farma brand, which is recognised primarily in France and Belgium. These OTC products are distributed through pharmacies and specialised outlets. The weight in the consolidated revenue mix remained at around 23% to 25% of revenue since 2015. 75% of sales are made outside Spain. The online channel is one of the main growth catalysts and accounts for c.12% of revenue in 2023 (vs 0% in 2017).

  As in the Specialty Pharma division, RJF has proven to be able to pivot its offerings according to changing trends in demand. In 2015, the weight-loss segment accounted for 54% of the mix (17% in 2023) compared to health and energy (<20% in 2015), which now account for >50% of the division's revenue.

RJF maintains a widely diversified product range: its leading product accounts for only 5%-10% of sales, and the firm annually refreshes its lineup with new launches. Diversification lowers risk and creates more opportunities for growth.

...and a broad international footprint (one of the cornerstones of its strategy)

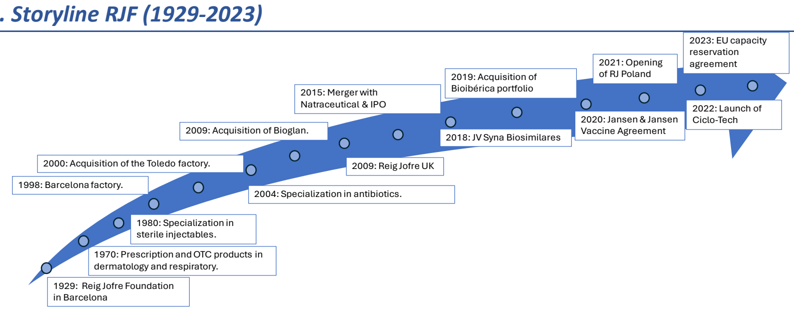
RJF operates directly in eight countries and extends its reach to over 70 other countries through distribution agreements. In 2023, sales outside Spain comprised approximately 55% of the total revenue, compared to 59% in 2015 (Chart 7), with a notable emphasis on Asian countries (Asia: of 8% of revenue in 2023; the company starting marketing an injectable analgesic in Japan, where it has since sold >15 million units in all).

International focus is a key component of the business model. 75% of sales of the Consumer Healthcare line and >50% of Pharma Technologies are made outside Spain. In addition, following the acquisition of BioIbérica's osteoarticular line, sales in new markets have been the main growth driver in this segment. In our opinion, RJF's significant international presence stands as one of its primary competitive advantages. This global footprint provides access to a broader customer base, reducing reliance on its primary market (Spain) and enabling the cross-selling of new medicines and treatments in established markets where a commercial network is already in place.

2015-2019: Heavy investment in capacity and process efficiency

RJF has historically focused on developing and manufacturing specialised antibiotics and injectables and speciality pharmaceutical products. This business is capex-heavy for capacity building, process improvement and new product development. From 2015, the strategic drivers of investment in the period can be summarised as (i) industrial technology (capacity upgrading), (ii) product (enhancing the product portfolio) and (iii) R&D.

Table 1. Storyline RJF (1929-2023)



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- The Barcelona plant is dedicated to the production of lyophilised injectables. It successfully manufactured 20 million doses in 2016 (50 million in 2019 and based on our estimations, investments in the plant are poised to enhance its capacity to 80 million doses by 2023. Today, it is the plant with the largest capacity in Europe. It also manufactures nutritional supplements.
- The Toledo plant, which specialises in the production of beta-lactam antibiotics, had a manufacturing capacity of 30 million units in 2016 (we estimate a capacity of close to 60 million in 2023).
- The Malmö (Sweden) plant specialises in the development and manufacture of topical pharmaceuticals and cosmetics; it had a proven production capacity of 5 million units in 2016. We expect it to have expanded its capacity fourfold by 2023 following the acquisition of BioIbérica, as this is the fastest growing business line (CAGR 2015-2023: 18.2%).

Chart 9. Company structure

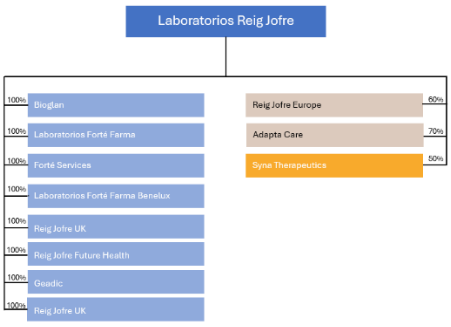


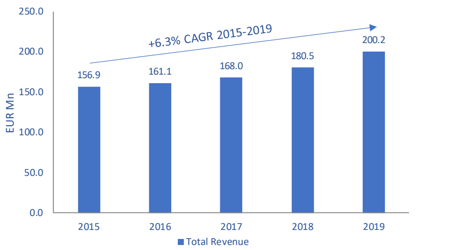
Table 2. Production facilities

	Production facilities		
	Barcelona	Toledo	Malmö
Surface area (m2)	19,799	15,297	5,900
Specialization	Manufacture of sterile lyophilized injectable forms, nutritional supplements, oral solids, semi-solids and liquids.	Development and manufacture of belactam antibiotics in two production units (Penicillins and Cephalosporins).	Manufacture of dermatological, cosmetic, semi-solid and clinical trial material products.
Capacity (2016)	20Mn	30Mn	5Mn
Capacity (2023)*	80Mn	60Mn	20Mn

* 2016 capacity extracted from corporate presentation. 2023 capacity estimated by LH.

Regarding investments to diversify the product portfolio, key highlights include: (i) the integration of Natraceutical's food supplements portfolio (pro forma revenue around EUR 25Mn in 2015) and (ii) the acquisition of the joint health unit from BioIbérica (pro forma revenues of EUR 32Mn, up 30% from 2019).

Chart 10. Total Revenue 2015-2019



Advances in disease research drive continuous evolution within the pharmaceutical industry. This means strong R&D investment needs for the development of new medicines that remain at the cutting edge of technology. A milestone is the establishment of the Syna Therapeutics joint venture with LeanBio set up to develop and manufacture biosimilars. These biosimilars employ organic active ingredients based on molecules such as proteins, in contrast to chemical active ingredients like penicillin.

At consolidated level, the strong investment made has enabled RJF to deliver mid-single digit revenue growth (CAGR 2015-2019: 6.3%) to EUR 200Mn (Chart 10). This achievement maintains gross margin (63%) intact, driven by shifts in the product mix. Specialty Pharma, propelled by successful dermatology and respiratory products, has upped its share (26% in 2019 compared to 17.5% in 2015) relative to Pharma Technologies (antibiotics and injectables). However, the increase in OPEX (ex-COGS) required for the business and the partial integration of BioIbérica left the recurring EBITDA margin for 2019 (ex-IFRS 16 effect) at 6.9% (vs. 10.9% in 2015; recurring EBITDA margin for 2019 at 8.2% including the IFRS 16 effect). This translates to a short-term efficiency decline in processes, arising from development and investment activities undertaken during the period, with the aim of leveraging the structure for anticipated growth in the coming years. The BioIbérica acquisition (total EV: EUR 48Mn) and the strong investment in upgrading plant capacity raised net debt in 2019 to EUR 64.9Mn (vs EUR 21.8Mn in 2018; 2019 net debt/recurring EBITDA 3.9x vs 2015 net debt/recurring EBITDA of 0.7x).

Chart 11. Rec. EBITDA vs. Rec. EBITDA Mg. 2015-2019

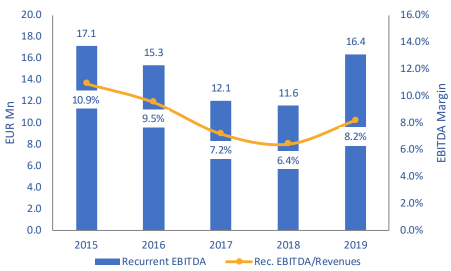
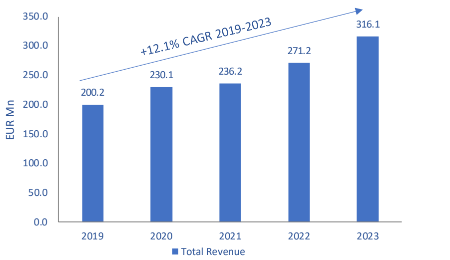


Chart 12. Total Revenue 2019-2023



2019-2023: Covid-19, as a tailwind, boosted RJF's volume

The emergence of Covid-19 derailed RJF's initial growth projections, prompting the company to prioritise the production of injectables (vaccines) and medicines (lower-margin antibiotics) to fulfil the urgent demands of Spanish hospitals amid the crisis. This boosted the company's sales volume. The year 2020 was marked by the full integration of BioIbérica and double-digit growth in injectables (43.6% vs 2019; for the first time in five years).

The higher level of occupancy at the Barcelona plant marked the beginning of the recovery of operating profitability. We identify two post-pandemic effects. RJF signed a contract to develop the Janssen vaccine —it was not renewed due to the dominance of RNA vaccines over Janssen's Vector Virus in the market— and garnered recognition and acclaim at the European level, paving the way for the contract signed in 2023 with the European Commission (HERA) to reserve capacity at the Barcelona plant.

Chart 13. Rec. EBITDA vs OPEX 2019-2023

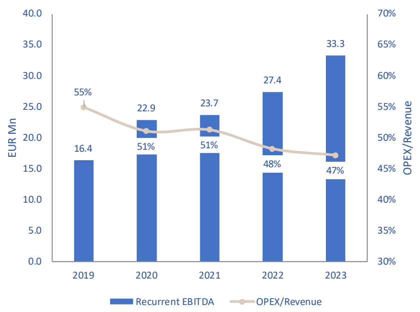


Chart 14. Total revenues 2015-2023

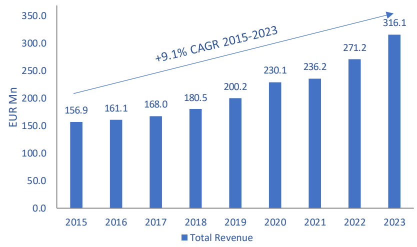


Chart 15. Rec. EBITDA vs Amortization vs NI

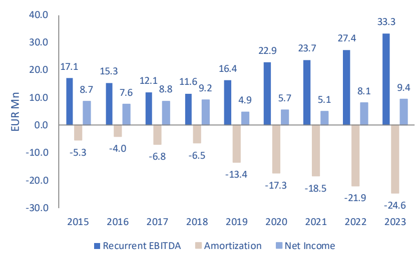


Chart 16. Net Debt (2015-2023)

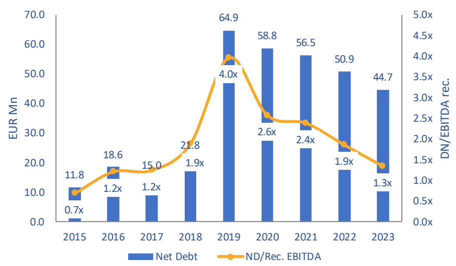
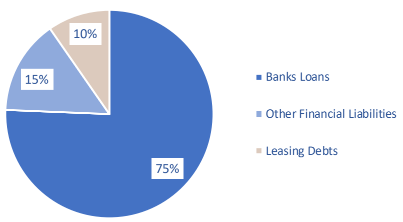


Chart 17. Gross Debt Composition 2023



Nevertheless, the post-pandemic period was marked by supply chain disruptions and cost inflation, particularly in active pharmaceutical ingredients (APIs), the primary components of antibiotics. In our view, inflation has had a very significant impact on RJF's profitability levels, especially in the Pharma Technologies line (43% of revenue in 2023), as it is a regulated industry that does not allow for price increases to be passed on to buyers. We estimate a reduction of c.10p.p. in the gross margin of this line in the 2019-2023 period. The growth of the osteoarticular line (acquired in 2019) is accelerated by the internationalisation of the product (CAGR 2020-2023: 32%).

Moreover, higher utilisation of production facilities and enhanced efficiency levels contributed to offsetting the contraction in gross margin at the consolidated level. This translated into significant growth in recurring EBITDA for 2023 (EUR 33Mn; EBITDA 2023 margin of 10.5%).

A leap in scale (revenue in 2023: EUR 316Mn; 2x 2015) that has not yet materialized at the lower end of the P&L

If we examine RJF in the 2015-2023 period, we draw the following conclusions:

- A real leap in scale in terms of revenue growth (benefiting from Covid-19 and M&A), with revenue in 2023 of EUR 316Mn (CAGR 2015-2023: 9.1%; Chart 14). RJF has successfully capitalized on and leveraged synergies from the acquired osteoarticular portfolio in 2019, with revenue from osteoarticular products reaching EUR 4.9Mn in 2023 compared to EUR 3.5Mn in 2019. The Specialty Pharma segment experienced substantial growth (CAGR 2015 to 2023: 18.2%), representing 33% of total revenue in 2023 compared to 17.5% in 2015.

- In terms of operating profitability, the investment made in the production capacity of the centers and in improving processes enabled the OPEX/revenue ratio to drop to 47.2% (-4p.p. vs 2015). As a result, it achieved an EBITDA margin of 10.9% in 2023, compared to 10.7% in 2015, despite the contraction in gross margin observed since 2019 (-5.4p.p.). This can be attributed to two primary reasons: (i) an increased focus on the (lower margin) injectables and antibiotics segment, and (ii) the inability to offset the impact of inflation on costs through price adjustments, given the regulated nature of the industry.

- The lower part of the P&L has been affected by RJF's investments geared towards enhancing efficiency, particularly evidenced by capitalized R&D expenditure (approximately EUR 27Mn since 2015). Furthermore, corporate deals have raised depreciation and amortization (especially amortization of intangible assets) by 5p.p. since 2017. EBIT margin in 2023 decreased to 3.3% (vs 7.5% in 2015), which prevented passing on the growth seen in revenue and EBITDA (both have increased by c.2x since 2015) to net profit (net profit in 2023: EUR 9.4Mn vs EUR 8.7Mn in 2015).

Reducing leverage to 1.3x net debt/EBITDA 2023

The pharmaceutical industry is inherently capital-intensive. RJF's leap in size over the last few years has involved a huge investment effort. CAPEX exceeded EUR 120Mn and M&A activity came close to EUR 50Mn over the 2015-2023 period.

High capital requirements increased indebtedness to its peak in 2019 (net debt 2019: EUR 64.9Mn; net debt/recurring EBITDA 2019: 4.0x; Chart 16). In 2023, net debt stood at EUR 44.7Mn, and EBITDA growth reduced the leverage level to net debt/EBITDA 2023 of 1.3x thanks to cash generation and EBITDA growth.

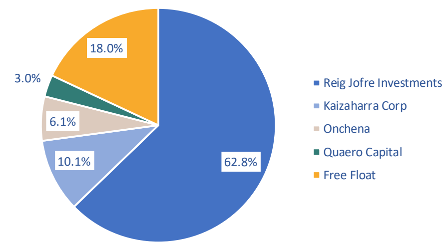
Looking at gross debt at year-end 2023 (EUR 51.2Mn), we see it comprised:

- Loans and credit lines banks drawn down (75.6% of total) bearing interest at market rates and maturing in 2024 and 2026.

- Other financial liabilities (14.7%), corresponding essentially to CDTI loans (ICO and Spanish Ministry of Industry). These liabilities carry interest at a rate of less than 1%.

- Lease liabilities (not affected by IFRS 16; 14.7% of the total), relating to long-term leases of machinery.

Chart 18. Shareholder structure



Ownership and management in the same hands: the Board of Directors controls close to 69% of capital

The Board of Directors directly and indirectly represents c.69% of capital. Specifically, the founding Reig Jofre family controls 62.8% of capital. They both have seats on the Board of Directors and management team (holding the position of CEO). Onchena, also a board member, owns 6.1%.

The controlling shareholders have not changed since the IPO in 2014 and have a real commitment to stay in the company. Changes in shareholder structure are not, on the face of it, a factor to be taken into account.

The remaining ownership is divided between the Kaizaharra funds with 10.1% and Quaero Capital with 3%. Free float stands at 18%.

In conclusion, RJF boasts a resilient business model capable of achieving high growth in a regulated/defensive industry with margins (until now) under pressure

RJF stands out as a robust pharmaceutical firm with a good track record of growth, both organically and through strategic M&A, securing for itself a favourable competitive standing in the sector. The company enjoys a diversified business model (with inelastic and recurring demand across various product lines), invests significantly in R&D (a strong barrier to entry at present) and a (growing) international footprint. Specifically, the snapshot of RJF today can be summarised as:

- **Diversified revenue:** RJF's business is not dependent on a single line of business or product. This provides protection against market fluctuations and allows it to seize growth opportunities in different areas. In addition, the Specialty Pharma and Consumer Health lines have proven their ability to adapt to changes in demand.

- **Focus on generic and injectable antibiotics and lyophilisates:** A high degree of specialisation in the production of these medicinal products has given it a leading position in a market with high barriers to entry.

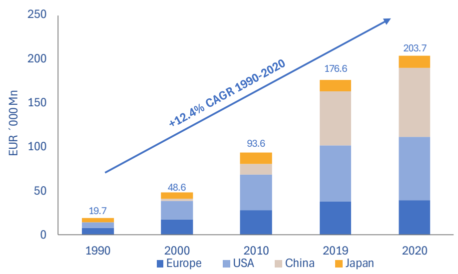
- **Wide international footprint:** As of 2019, c.55% of RJF's revenue comes from outside Spain. This gives access to a larger number of clients.

- **Heavy investment in R&D:** Low-risk incremental innovation and new product development are essential in a highly competitive and constantly evolving market. This implies high levels of investment and indebtedness. And pressure on margins: EBIT 2023 margin 3.3%.

The current opportunity lies in leveraging past investments to optimise production efficiency levels across plants, as illustrated by the 66% occupancy rate at the Barcelona plant in 2023. This strategic initiative aims to offset the unfavourable trend of cost inflation affecting essential medicines operating within a regulated market. The ability to develop new products and anticipate new consumer trends will be key in the coming years. For RJF, following the substantial growth experienced in recent years, the challenge ahead is distinctive: to translate the potential improvement in margins into reality, by diluting overhead and raising utilisation rates of existing installed capacity.

Over the long term, the industry will be driven by the ageing of the population and advances in research

Chart 19. R&D investment by country (1990-2020)



Source: Efpia (2022).

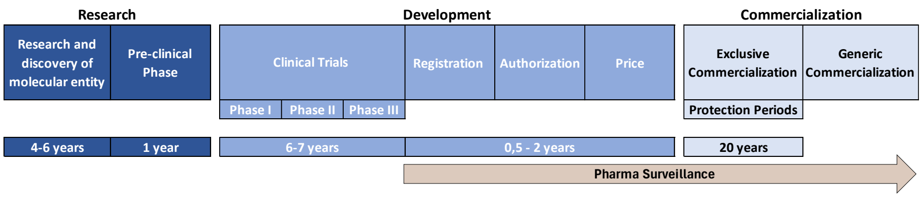
The main characteristics of the pharmaceutical sector are: (i) defensiveness driven by inelastic demand, (ii) considerable fragmentation, (iii) heavy investment, and strict (iv) regulatory oversight. Growth is propelled by the pipeline of newly developed drugs and treatments. Before medicinal products can be marketed, they require prior authorisation from regulatory bodies that assess their efficacy and safety. This calls for heavy investment and entails high barriers to entry.

As life expectancy rises, the population is gradually ageing, which will boost demand for medicines and lead to greater healthcare expenditure by governments. From 2002 to 2022, the average age of the European population rose from 38.6 to 44.4 years. Demographics, national health spending budgets and government policies are the key factors shaping the pharmaceutical market.

The uneven performance of pharmaceutical companies over time is explained by the development of new processes and products through patents, which require significant R&D investment. Pharmaceutical companies are usually engaged either in developing a key product or launching it in the market. This poses an additional difficulty when analysing companies in the sector. Some pharmaceutical companies, moreover, diversify their core business by expanding into other segments of the healthcare market, such as cosmetics, dermatology, vitamins, and more.

The pharmaceutical industry is broadly segmented into two categories: (i) companies making significant R&D investments to develop new prescriptions or drugs, leveraging patents for a competitive advantage lasting approximately 20 years (e.g. Novartis, Gilead Sciences, AstraZeneca, AbbVie), and (ii) firms specialising in the mass production of generic drugs without patent protection, such as RJF, Teva, Sandoz.

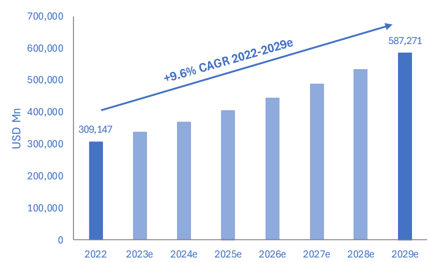
Table 3. Phases in the R&D process leading to a new drug



Source: Farmaindustria.

Generic drugs benefit from inelastic demand and will grow at high single digits (CAGR 2024-2029e: 9.6%)

Chart 20. Generic market 2022-2029e



Source: Research & Markets (2022).

Generic medicines secure approval for production and marketing by demonstrating bioequivalence to another drug whose patent has expired. According to Research and Markets, the global generics market was sized at USD 309,147Mn in 2022. We expect it to maintain growth at a CAGR of 9.6% until 2029e. The main global players in this field are Teva, Sandoz and Sun Pharma.

This sector profited from the outbreak of the Covid-19 pandemic in 2020. The need to treat Covid-19 infections increased the demand for generic drugs (especially intravenous treatments and steroids). The US Food and Drug Administration (FDA) and the European Medicines Agency (EMA) rolled out initiatives and programmes aiding pharmaceutical companies in developing such drugs, speeding up market growth in the final stages of the pandemic.

The generic pharmaceutical market has a bright outlook for the coming years. Inflation and rising healthcare costs are driving increased demand for cheaper drugs. Generic manufacturers are investing heavily in building up their capability to meet patient demand.

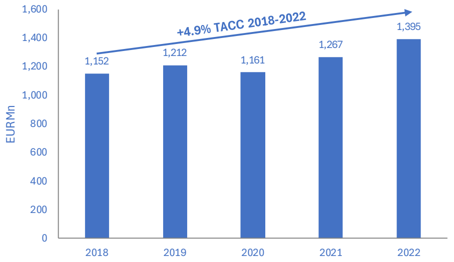
Regulators are looking for ways to streamline the approval and marketing processes for generic medicines. This trend is expected to continue. The market is forecast to grow at a CAGR 2024e-2029e of 9.6% and reach close to USD 587,000Mn by 2029e.

Spain's pharma sector in healthy shape following the pandemic

The pharmaceutical industry holds strategic importance in the Spanish economy, ranking as the eighth largest industrial sector in the country and contributing 6.8% to GDP. Data from healthcare consultancy IQVIA reveals that in 2021 Spain placed as the ninth largest pharmaceutical market globally by size, accounting for 1.9% of the global market share and 7.8% at the European level.

The significance and size of the industry has increased significantly over the last few years. Between 2018 and 2022, exports saw a remarkable 2.5-fold increase, propelling medicinal products to the third spot among Spain's most exported goods in 2022, according to the Ministry of Industry, Trade and Tourism. Furthermore, R&D spend on for new product development grew at a CAGR of 4.9% during this period, making the pharmaceutical sector the second-largest recipient of R&D investment, trailing only the automotive sector.

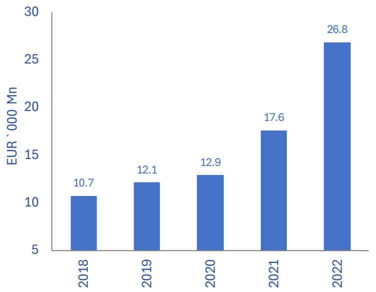
Chart 21. R&D investment by the pharma industry in Spain (2018-2022)



Source: Farmaindustria 2022.

The sector also generates a substantial number of jobs, both directly through highly qualified professionals and indirectly via the pharmacy network and healthcare system in the Spanish economy. In 2021, the pharmaceutical sector directly employed nearly 49,000 people, according to the European Federation of Pharmaceutical Industries and Associations (EFPIA). When accounting for indirect and induced jobs, total employment in the sector was around 210,000. The report Implantación industrial del sector farmacéutico en España by ManageArt and Farmaindustria (2022) states that the Spanish pharmaceutical industry has 103 production plants dedicated to manufacturing medicines for human use, mostly located in Catalonia.

Chart 22. Exports by the Spanish pharma industry (2011-2022)



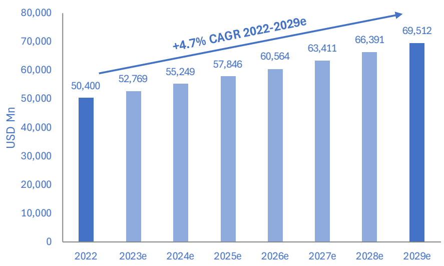
Source: Ministerio de Industria, Comercio y Turismo.

In 2022, Spain invested EUR 92,072Mn in health spending, equivalent to 6.8% of GDP and EUR 1,927 per capita. The pharmaceutical sector received EUR 13,535Mn (14.7% of the total), reflecting a 5.4% increase from 2021. Germany ranks first in Europe for health expenditure relative to GDP, at 10.7%, with the Netherlands and Sweden following at 9.9% and 9.7%, respectively. Luxembourg, Denmark, and Sweden top the list for health expenditure per capita, with each country spending more than EUR 5,000 per person.

The antibiotics market, having suffered setbacks during the pandemic, appears to be on the mend, with an anticipated CAGR of 4.7% from 2024 to 2029e, approaching pre-Covid levels

Antibiotics are drugs used in the treatment of bacterial infections. The market faces the pressure of price regulation imposed by government bodies. Inflation in recent years has eroded manufacturers' margins, cutting profitability and compelling producers to pursue higher-margin businesses, thus shifting their focus away from antibiotic manufacturing.

Chart 23. Global antibiotics market (2022-2029e)



Source: Research & Markets (2022).

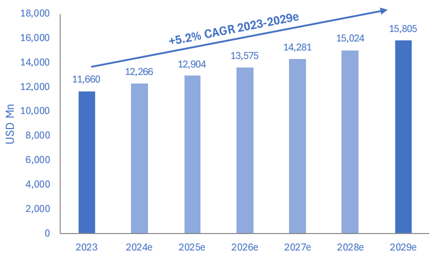
However, 2023 saw a reactivation of the antibiotics market. During the pandemic, social distancing and mask usage led to fewer winter infections and a consequent decline in the need for antibiotics. The market reached USD 50,400Mn in 2022 and is expected to grow at a CAGR of 4.7% from 2024 to 2029, driven mainly by the ageing population and the return to normal use of face masks, reaching USD 70,000Mn by 2029 (according to data from Research and Markets).

The Spanish Ministry of Health has proposed a reform of the statute on drug safety, aiming to promote generics and biosimilars. These sectors have stagnated over the past decade - especially in recent years - due to inflation. Spain's policy of setting the same price for equivalent drugs hinders the growth of generics and biosimilars. Enactment of the reform would mean RJF would be able to boost the profitability of this line of business.

Injectables: a booming market growing at mid-single digits (CAGR 2023-2029e 5.2%)

The market for injectables has sustained high growth in recent years. During the pandemic, pharmaceutical companies developed drugs to fight Covid-19. The main vaccines were delivered through injection, leading to increased demand for this format.

Chart 24. Global injectables market (2023-2029e)



Source: Intravenous (iv) Solutions Market.

The injectables market is worth USD 11,660Mn (Intravenous IV Solutions Market). The segment is projected to sustain its positive trajectory over the coming years, with an estimated CAGR of 5.2% from 2023 to 2029, primarily propelled by the rise in chronic diseases such as cancer and diabetes.

- **Lyophilised injectables** are drugs that are prepared in a dry, solid form to enhance their stability and prolong shelf life. Lyophilisation (freeze-drying) boosts the stability and shelf life of medicinal products, presenting a formidable competitive advantage for their storage and application.

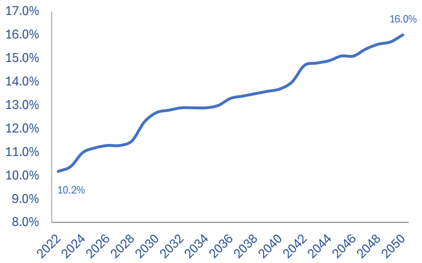
  Demand for these medicines is poised for promising medium- and long-term growth, propelled by the uptick in chronic diseases, the ageing population, advancements in technology that support production and delivery of new drugs, and the rising popularity of biologics, known for their improved stability and durable efficacy.

  The pandemic spurred swift market expansion, driving up demand for freeze-dried injectables essential for vaccine and therapeutic development. Over the next few years, the freeze-dried injectables market is expected to grow at a CAGR 24e-31e of 9.0%.

The growth of osteoarticular medicine will be primarily fuelled by the increasing geriatric population

The osteoarthritis treatment market is fiercely competitive. Major pharmaceutical companies such as Sanofi, Pfizer, Bayer and Abbott spend a significant amount of their R&D outlay on developing new products and treatments for arthritis.

Chart 25. Estimated % of population over 65 years old (2022-2050e)



Source: United Nations Organization.

The pandemic impacted the osteoarticular market, leading to (i) treatment cancellations, (ii) reduced diagnosis of new diseases, and (iii) delays in research and development activities. From 2021 onwards, the market gradually regained traction.

The ageing demographic will be the main driver of this market. The elderly population is particularly vulnerable to this type of disease, with osteoarthritis affecting 10% of individuals over the age of 60.

The dermatological market is evolving into a more interdisciplinary field

Growing demand is leading to new companies entering the market. The most active pharmaceutical firms in this sector include Novartis AG, AbbVie Inc. and Almirall.

Key factors driving growth are: (i) rising incidence of dermatological disorders, (ii) heightened awareness about dermatological conditions, and (iii) expansion of the elderly demographic. Ageing correlates with higher susceptibility to skin-related diseases owing to alterations in connective tissue, decreased epidermal properties, and reduced sebaceous gland activity.

According to Market Data Forecast, the dermatology market size will reach USD 264,500Mn in 2029 (CAGR 2024-2029e of 8.2%).

Innovation is a spur to M&A

The pharmaceutical industry is a sector that tends to concentrate. Large players such as Pfizer or Abbvie, in particular, use M&A to expand their product line and accelerate the research phase of their drugs. The year 2023 saw fewer but larger transactions. Anticipated in the coming years is a further resurgence in the M&A market driven by (i) macroeconomic improvements such as lower inflation, and (ii) companies' strategic imperatives to expand and adapt.

M&A deals in this sector frequently target companies, particularly biotechs, capable of offering a competitive edge through innovations and breakthroughs that facilitate the development of new products. Major pharma players, looking to expand their product portfolio, are expected to focus on small biotechs.

Table 4. Transactions in 2024-2023

Country	Year	Target	Sector	Buyer	Price (EUR Mn)
USA	2024	ImmunoGen	Pharma	Abbvie	8,237
Switzerland	2024	IFM Due	Pharma	Novartis	835
USA	2024	Rayzebio	Pharma	Bristol Myers	3,284
Switzerland	2023	Televant Holding	Pharma	Roche	7,250
USA	2023	Seagen	Pharma	Pfizer	41,250
Germany	2023	Caraway Therapeutics	Biotechnology	Merck & Co	610
USA	2023	Lucira Health	Medical Specialties	Pfizer	36
Spain	2023	Laser	Pharma	Italfarmaco	500
Spain	2023	mAbxience	Pharma	Fresenius	495

Source: CapCorp 2023, Facset.

In essence, it is a counter-cyclical sector with moderate growth forecasts, usually in the mid-single digits, underpinned by demographic ageing. It also trends toward concentration

The pharmaceutical sector is back to normal after two years in the eye of the storm. The sector's importance was reinforced by the pandemic, leading to increased valuations, exemplified by companies such as Reig Jofre, Pfizer, and Moderna. The race to develop new drugs and treatments is the key driver of the industry's growth. In summary, the future development of the pharmaceutical industry will be shaped by:

- **Demographic ageing.** According to the UN, the world's population over the age of 65 is expected to increase from 10% (2022) to 16% in 2050e. The percentage of people over the age of 60 will thus double by 2050e. This will translate into heightened demand for healthcare, medicines and treatments.

- **Technological advances.** Research and development serves as one of the key drivers for eventual enhancements in the efficacy of health products and treatments. Technological advances will be key in the search for a competitive edge. Furthermore, artificial intelligence is transforming the pharmaceutical industry by automating medical record analysis, predicting disease behaviour patterns, accelerating timelines, and mitigating risks during trials.

- **A patchwork sector.** In the aftermath of the pandemic, there was an increase in the level of health awareness among the public. And not only in terms of specific medicines and treatments as a consequence of a disease. Increasingly, the focus is on prevention rather than cure. This encourages the use of food supplements and skin care products and underscores the importance of self-care by encouraging the use of products that contribute to improving consumer health. This presents RJF with a significant opportunity to position itself for emerging trends.

Therefore, we expect mid-single digit growth rates in a highly segmented industry such as pharmaceuticals. In this highly mature sector, the main players are far ahead of the rest. Innovation and ongoing renewal of the product offer will be essential for the development of the business and the only constant for gaining an edge. In Spain, the industry accounts for almost 7% of GDP. The ageing of the population will be a major catalyst for the company in the medium to long term. RJF generates c.45% of its revenue in this segment, which will also benefit from strong government investment in healthcare.

Moderate revenue growth expectations, but a clear opportunity to capitalise on investment (-5y) and improve margins

The exceptional healthcare scenario in recent years has catalysed growth for RJF, which closed 2023 with revenue of EUR 316Mn (CAGR 2019-2023: 12.1%; vs EUR 200Mn in 2019). Heavy investment and tight focus has led to a leading position in the manufacture and development of medicines at European level. This is a key factor in harnessing the trends towards the development of new and increasingly complex drugs.

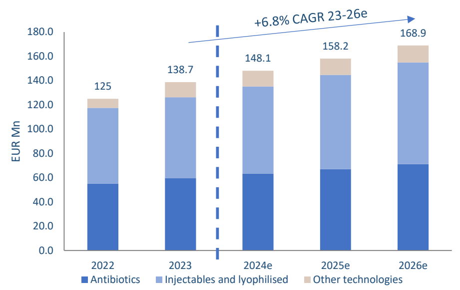
The 1Q24 earnings were proof of this. While showing a slight slowdown in the growth seen in recent years (1Q24 revenue: c.+10% vs. 1Q23), they are still essentially driven by the Specialty Pharma line (+26% vs. 1Q23), the main growth driver -4y. In terms of profitability, operating improvements from reduced OPEX (-1.4 p.p. compared to 1Q24) due to enhanced manufacturing efficiency have mitigated the impact on gross margin, which nevertheless remains under pressure. This has resulted in a recurring EBITDA margin of 11.3% (vs 11,1% 1Q23). But this figure is amplified in terms of EBIT margin 1Q24 5.2% (+1 p.p. vs 1Q23).

This raises three crucial questions: i) What are reasonable growth expectations for RJF post-pandemic in both the short and long term; ii) How can operational improvements in production plants and new products be converted into profitability; and iii) What investment and financing levels will be required to maintain RJF's leading position in the European market? Answering these questions calls for a systematic analysis of RJF's statement of profit and loss and balance sheet, which, in the case of this company, involves three business divisions.

Pharma Tech: Facing the challenge of positioning itself as a major player in antibiotics, injectables and lyophilised products

Antibiotics have shown an anomalous trend in recent years, partly due to Covid-19-related social distancing measures that reduced infection rates. In 2023, RJF's antibiotic revenue exceeded its pre-pandemic level. The market remains heavily regulated in terms of prices, which are outdated despite the inflationary pressures of the past three years. This has driven several pharmaceutical companies to leave the generic antibiotics market, mainly because of low profitability levels, which should enable RJF to capture additional market share.

Chart 26. Pharma Tech revenues (2022-2026e)



Despite ongoing debate over potential price increases, the low visibility of new regulations suggests stable prices until 2026e, with the risk of an upward revision if the price update materialises. We estimate a CAGR 2023-2026e of 6% antibiotics revenue, slightly above the market average (CAGR: 4.7%).

Table 5. Pharma Tech (2022-2026e)

Pharma Technologies	2022	2023	2024e	2025e	2026e
Antibiotics	55.0	59.6	63.2	67.0	71.0
Var. (%) a/a	*22.8%*	*8.4%*	*6.0%*	*6.0%*	*6.0%*
Injectables and lyophilised	62.5	66.6	71.9	77.7	83.9
Var. (%) a/a	*20.0%*	*6.5%*	*8.0%*	*8.0%*	*8.0%*
Other technologies	7.5	12.5	13.0	13.5	14.0
Var. (%) a/a	*2.8%*	*66.4%*	*4.0%*	*4.0%*	*4.0%*
Total Pharma Technologies	**125**	**138.7**	**148.1**	**158.2**	**168.9**
Var. (%) a/a	*20.0%*	*11.0%*	*6.8%*	*6.8%*	*6.8%*
% over total sales	**46.1%**	**43.9%**	**42.5%**	**41.7%**	**41.4%**

In our view, RJF's focus on injectables and lyophilised products will be a major catalyst for long-term growth. The main reasons are: (i) the competitive edge provided by the storage capacity and lower cost of lyophilisates, and (ii) the advantages of using and administering medicines through this method.

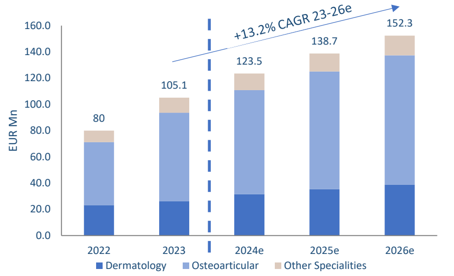
We anticipate short-term growth potential driven by the full consolidation by 2024e of the sale of capacity agreed between RJF and European Commission (HERA). The deal places up to 30% of the capacity of the Barcelona injectables plant at HERA disposal. The space could also be used for shorter-term projects, enabling simultaneous utilisation of that capacity.

In 2023, the new plant was operating at 67% of capacity. The degree of specialisation of the plant should attract increasingly large-scale projects. We forecast a gradual increase in usage to 80% by 2026. Alongside an uptick in activity as a contract development and manufacturing organisation (CDMO), which could provide an additional medium-term catalyst, this is expected to result in a CAGR of 8% from 2023 to 2026. On a consolidated basis, we expect revenue from this business line to reach EUR 168.9Mn by 2026e (vs EUR 138.7Mn in 2023) and continue to reduce the weight in the mix (in line with the past eight years) to 41.4% in 2026e vs c.44% in 2023 and 60.7% in 2015.

Specialty Pharma: Incremental innovation is the key to maintaining double-digit growth (CAGR 2023-2026e: 13.2%)

The Specialty Pharma line has been RJF's main growth driver in recent years, mainly due to the osteoarticular portfolio acquired from BioIbérica in 2019. This has led to a significant increase in its share of the revenue mix (33.2% of revenue in 2023 vs. 25.8% in 2022). Most of these products are sold domestically (62% of revenue in 2023) and 88% of the products are developed under the company's own brand.

Chart 27. Specialty Pharma revenues (2022-2026e)



The growth drivers of this line can be summarised as: i) expansion of the product portfolio through incremental innovation (substantial improvement in the effects of new products), ii) cross-selling across geographies (in 2023, international sales accounted for 38% of the total of this line), and iii) anticipation of new trends (offering new products that match new demand).

We expect the osteoarticular line to continue to grow at high rates in 2024e (18% vs 2023) before slowing to 2026e. The dermatology line will grow due to the launch of the new Ciclo-Tech product in new markets (sales so far have mainly come from Spain). The revamping of the product portfolio is vital to the growth of this division. In addition, RJF's ability to capture the price increase will mean a higher level of profitability than Pharma Tech.

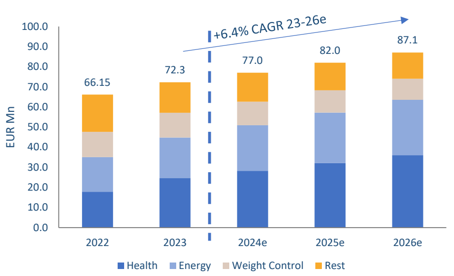
Tabla 6. Specialty Pharma (2022-2026e)

Speciality pharma	2022	2023	2024e	2025e	2026e
Dermatology	23.2	26.3	31.5	35.3	38.7
Var. (%) a/a	*-23.2%*	*13.2%*	*20.0%*	*12.0%*	*9.6%*
Osteoarticular	48.0	67.3	79.4	89.7	98.6
Var. (%) a/a	*51.4%*	*40.1%*	*18.0%*	*13.0%*	*10.0%*
Other Specialities	8.8	11.6	12.6	13.7	15.0
Var. (%) a/a	*-35.2%*	*31.4%*	*9.0%*	*9.0%*	*9.0%*
Total Specialty Pharma	**80**	**105.1**	**123.5**	**138.7**	**152.3**
Var. (%) a/a	*6.0%*	*31.4%*	*17.5%*	*12.3%*	*9.8%*
% over total sales	**29.5%**	**33.2%**	**35.4%**	**36.6%**	**37.3%**

Consumer Healthcare: Stable growth expectations (CAGR 2023-26e: 6.4%) driven by Forté Farma's brand recognition and positioning

This business line is the most highly segmented due to its wide range of products, including weight loss, health, energy, respiratory and other OTC products. In 2023, weight loss, health and energy accounted for 79% of revenue. Forté Farma's strong brand positioning and recognition is concentrated in France and Belgium. This division generates 75% of its revenue outside Spain. The 1Q24 results showed a slowdown in the growth of this business line (-1% vs. 1Q23) due to discontinuation of distribution of third-party brands in the French market in order to focus on more profitable own-brand products (Forté Farma).

Gráfico 28. Consumer Healthcare revenues (2022-2026e)



RJF's focus remains on the international area as a key growth driver alongside the online channel (18% of revenue in 2026e vs. 12% in 2023). Adaptability to changes in demand and the ability to develop new products will be essential to the growth of this division.

The weight loss line is expected to face ongoing pressure amid the current market dynamics, dominated by the emergence of substitutes like Ozempic or Wegovy. However, we anticipate growth in the Energy and Health lines, both of which have experienced growth rates exceeding 25% over the past two years. This growth is driven by consumers' increasing inclination towards prevention over remediation through the consumption of food supplements, personal care, and OTC products.

In-house production and distribution in new regions of the Forté Farma brand enable the company to target consolidated CAGR 2023-2026e pf 6.4% to EUR 87.1Mn by 2026e. The division is set to maintain a weight of close to 22% of revenue over the entire forecast period.

Table 7. Consumer Healthcare (2022-2026e)

Consumer Healthcare	2022	2023	2024e	2025e	2026e
Weight Control	12.6	12.3	11.7	11.1	10.5
Var. (%) a/a	*5.9%*	*-2.2%*	*-5.0%*	*-5.0%*	*-5.0%*
Energy	17.2	20.2	22.7	25.1	27.6
Var. (%) a/a	*12.7%*	*17.7%*	*12.0%*	*10.8%*	*9.7%*
Health	17.9	24.6	28.3	32.1	36.0
Var. (%) a/a	*21.5%*	*37.6%*	*15.0%*	*13.5%*	*12.2%*
Rest	18.5	15.2	14.4	13.7	13.0
Var. (%) a/a	*26.0%*	*-18.0%*	*-5.0%*	*-5.0%*	*-5.0%*
Total Consumer Healthcare	**66.2**	**72.3**	**77.0**	**82.0**	**87.1**
Var. (%) a/a	*17.0%*	*9.3%*	*6.6%*	*6.4%*	*6.2%*
% over total sales	**24.4%**	**22.9%**	**22.1%**	**21.6%**	**21.3%**

Chart 29. Consolidated revenues (2022-2026e)

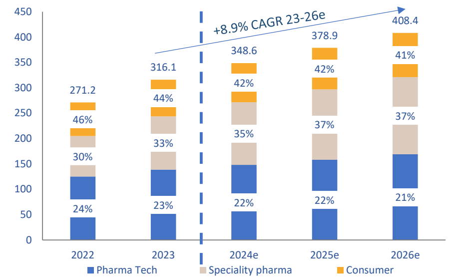


Chart 30. Consolidated revenues mix (2023-2026e)

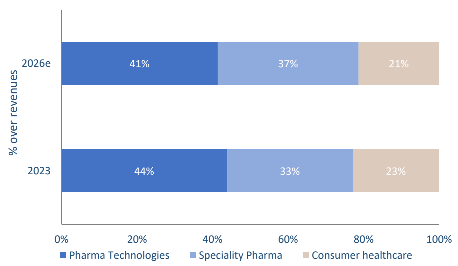


Chart 31. Revenues vs Gross Mg. (2022-2026e)

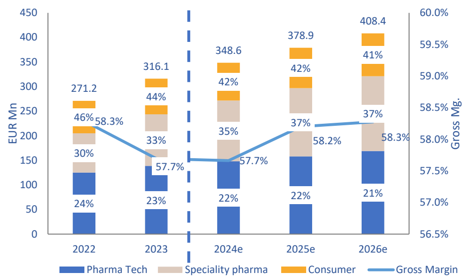
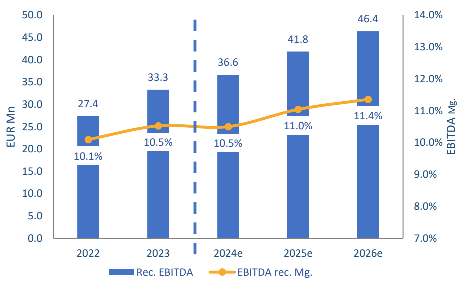


Chart 32. EBITDA vs EBITDA Mg.(2022-2026e)



At the consolidated level, RJF's operating leverage should amplify revenue growth (CAGR 2023-26e: 8.9%) in EBITDA (CAGR 2023-26e: 11.7%)

We expect RJF to achieve consolidated revenue in 2024e of EUR 348Mn (+10.3% vs 2023; Chart 39). By 2026e, we expect revenue to exceed EUR 400Mn, of which the Specialty Pharma line will account for close to 50% of the total revenue growth until 2026e (and 37.3% of total revenue 2026e).

COGs comprises the cost of sales of active pharmaceutical ingredients (APIs), raw materials and energy required for the manufacture and development of RJF's range of products. In recent years, the (fixed) price of medicines (Pharma Tech) has kept consolidated gross margin under pressure (and we do not expect this to change in the medium term). The 1Q24 earnings showed a contraction of around 1 p.p. vs. 1Q23.

However, we expect that by the end of 2024e, the gross margin will stand at 57.7% (in line with 2023). In our view, the drivers of the improvement in gross margin are: (i) the greater weight in the mix of injectables and the rest of the business lines with higher unit gross margins (Chart 29), (ii) the improved terms and conditions with suppliers and (iii) the increase in the provision of services to third parties (CDMO; higher value-added products). The above three factors combined should bring gross margin 2026e to 58.3%.

Staff costs will be impacted in 2024e by the expected wage increase in Spain due to the application of the FEIQUE (chemical industry) agreement to bring wages in line with the consumer price index. This will result in a 10% increase (vs. 2023). Personnel expenses for c.24% of revenue. Other operating expenses are mostly allocated to trials management, temporary help agencies and marketing costs (especially for the Consumer Healthcare line).

Expected growth in 2024e (10.3%) should translate into similar EBITDA growth to EUR 36.6Mn (+10% vs 2023; recurring EBITDA margin of 10.5%; in line with 2023).

For the following years, we expect that improved utilisation of the new plants completed in 2023 will bring some operating leverage. Factors include gradually increasing plant occupation, enhanced efficiency in production processes and vertical integration through Syna's biosimilars development, and a return to normal of wages and inflation. This should boost recurring EBITDA to EUR 46.4Mn by 2026e (CAGR 2023-2026e: 11.7%) and translate into an EBITDA margin improvement to 11.4% (vs. 10.5% in 2023).

After the investments made over the past five years, these EBITDA levels seem reasonably achievable. The opportunity to leverage the structure created since 2018 should start to become visible from 2025e and over the next three financial years.

Table 8. Revenue to EBITDA (2022-2026e)

EUR Mn	2022	2023	2024e	2025e	2026e
Pharma Tech	125.0	138.7	148.1	158.2	168.9
Speciality pharma	80.0	105.1	123.5	138.7	152.3
Consumer	66.2	72.3	77.0	82.0	87.1
Total Sales	**271.2**	**316.1**	**348.6**	**378.9**	**408.4**
Gross Margin	-113.1	-133.7	-147.6	-158.4	-170.4
Gross Margin	**158.1**	**182.4**	**201.0**	**220.5**	**238.0**
% over total sales	*58.3%*	*57.7%*	*57.7%*	*58.2%*	*58.3%*
OPEX	-130.7	-149.1	-164.4	-178.7	-191.6
EBITDA rec.	**27.4**	**33.3**	**36.6**	**41.8**	**46.4**
EBITDA Margin (%)	10.1%	10.5%	10.5%	11.0%	11.4%

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

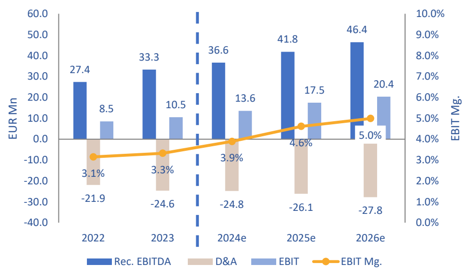


Chart 34. Peers Mg. EBIT (2022-2026e)

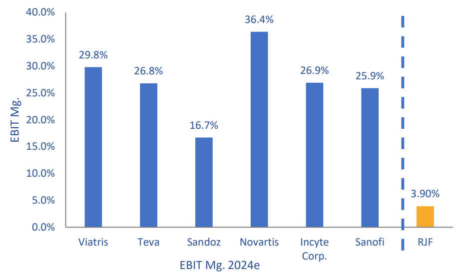


Chart 35. Net profit vs ROE (2022-2026e)

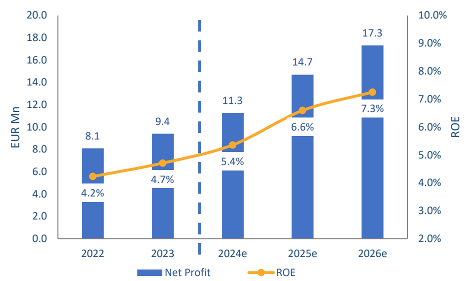


Chart 36. Rec. EBITDA vs rec. FCF (2022-2024e)

Operational improvements should mitigate the burden of depreciation and amortisation on EBIT and improve ROCE (6.5% by 2026e)...

RJF operates in a capital-intensive sector, requiring substantial investment to upgrade its plants and production facilities. A significant move in this direction was announced in 2023 when the company revealed plans to bolster its drug development capabilities in Toledo. In addition, the company continuously capitalises its R&D costs, which are necessary to overhaul its product portfolio.

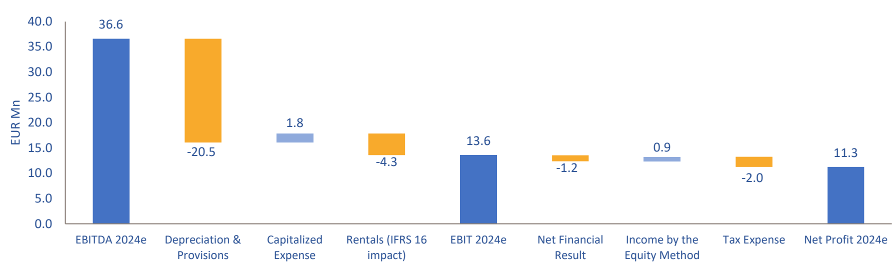
We estimate the rate of annual depreciation and amortisation on net assets to continue to increase to 15.1% by 2026e (vs. 12.9% in 2023), essentially due to capitalisation of CAPEX and R&D costs. We estimate R&D capitalisation of c. EUR 1.8Mn YoY for the forecast period (vs. >EUR 3Mn in 2022). Although D&A will continue to weigh on the bottom line, our numbers point to RJF reaching EBIT levels of close to EUR 13.6Mn by 2024e (Chart 30), with the potential to leap to c. EUR 20.4Mn by 2026e (CAGR 2023-2026e: 24.7%; EBIT margin 26e of 5%). This should de facto improve ROCE to 6.5% by 2026e (vs. 3.8% in 2023). However, RJF is still far behind its peers in terms of profitability (average EBIT margin: 27%). This suggests there is significant room for improvement, which is a clear highpoint of RJF's equity story.

…anticipating a leap in profit (ROE 2026e: 7.3%)

For the 2024e-2026e period, the key items between EBITDA and ordinary net profit are:

- **Finance costs.** Some 80% of RJF's gross debt is at fixed rates. Coupled with cash generation, this will reduce borrowing costs in the coming years. The reduction in net debt will leave finance cost at around EUR 1Mn until 2026e.
- **Share of profit or loss of equity-accounted entities:** Earnings from the 50% stake in the joint venture between Syna Therapeutics and LeanBio. We estimate that the milestones achieved will translate into an equity-accounted profit of EUR 1Mn per year. In 2024, RJF made an investment commitment of EUR 6.8Mn, comprising a mix of equity and debt, aimed at bolstering vertical integration within its biotech product production chain.
- **Tax rate (15%).** Our estimates factor in a tax rate (10-12% over the past three years) close to 15%. Mainly for two reasons: i) the recognition of unused tax losses of EUR 17.5Mn and the carry forward of unused tax losses of EUR 8.2Mn and ii) R&D tax credits.

Table 9. EBITDA down to net profit (2024e)

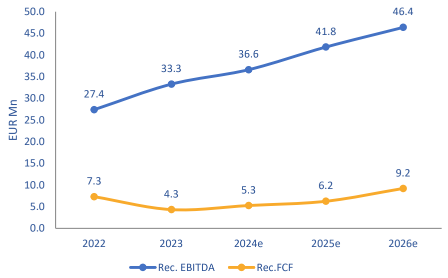


We estimate net profit for 2024e of EUR 11.3Mn. For 2025e and 2026e we forecast net profit of EUR 14.7Mn and EUR 17.3Mn (almost doubling the 2023 figure: ROE 2026e: 7.3%).

And with the capacity to generate FCF despite CAPEX needs...

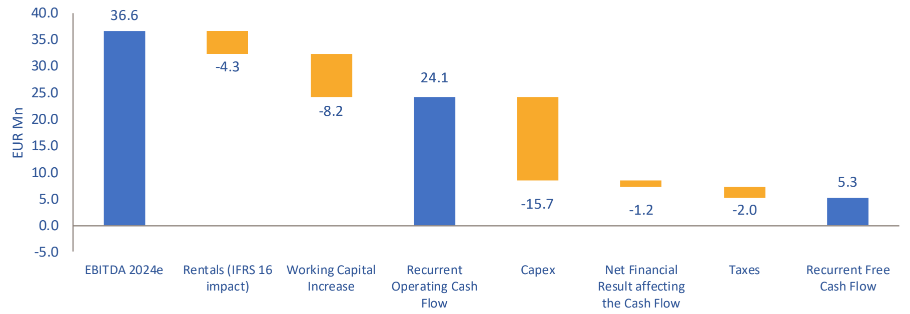
RJF's working capital needs will be maintained at a working capital/revenue ratio of c.22%. We do not expect significant variations in average collection/payment periods.

CAPEX will be the main item reducing FCF generation. We estimate an average CAPEX (2024e-2026e) of 5% of revenue. Although it will be higher in 2025e and 2026e once capacity upgrades at the Toledo plant get underway. CAPEX plays a crucial role in renovating drug prototypes and enhancing efficiency in production processes, particularly those subject to regulated pricing. We have not considered the investment in LeanBio in our figures as the execution date has not been disclosed (EUR 6.8Mn).



The scenario we envisage should lead RJF to generate recurring FCF of EUR 5.3Mn by 2024e, which, due to the momentum of EBITDA growth, will increase to EUR 9.2Mn by 2026e (FCF yield 2026e c. 4.1%; Chart 33).

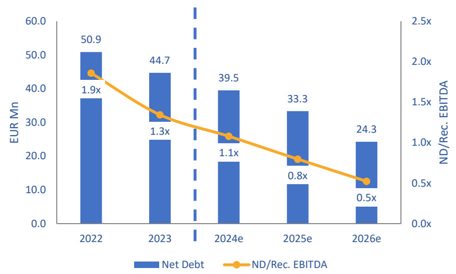
Table 10. From EBITDA to rec. FCF (2024e)



...which will feed through to a reduction of leverage (net debt 2026e: EUR 24.3Mn; net debt/ recurring EBITDA 2026e 0.5x

RJF has been immersed in a financial deleveraging process since 2019 (net debt 2019: EUR 64.9Mn; net debt/EBITDA c.4x). At the end of 2023, RJF's net debt stood at EUR 44.7Mn (net debt/rec. EBITDA. 1.3x). Cash generation will continue to reduce the level of indebtedness to EUR 24.3Mn of net debt by 2026e (net debt/rec. EBITDA 0.5x). This ensures a comfortable position for further investment and opens the door to possible M&A deals to expand the product portfolio or raise production capacity.

Chart 37. ND vs ND/EBITDA (2020-2024e)



Our estimates do not envisage a cash dividend in the medium term.

In sum: considering the outlook for stable revenue growth (CAGR 2023-26e: 8.9%), the crux of the equity story is unlocking return on investment and expanding margins

RJF is a pharmaceutical firm that has "done its homework". And with a strong position in its sector, it can be confident of raising its profitability. This position is vindicated by the agreement with Jansen to develop the Covid-19 vaccine and, more recently, the agreement with the European Commission to reserve capacity at the Barcelona plant. RJF operates in a tightly regulated market (e.g. price-setting in antibiotic sales) to guarantee the essential conditions for production, with its pros and cons, e.g. (i) a barrier to entry, but (ii) high (structural) investment requirements. The manufacture and development of injectables is especially CAPEX-intensive. Overall, our financial projections (2023-2026e) can be summarised in six points:

- **A diversified business model with unparalleled production capacity...** RJF boasts a broad product range, leaving scope for cross-selling across the various geographies in which it does business. It is strongly positioned to benefit from changes in consumer habits. Of total revenue, 55% comes from outside Spain (75% from Europe).

- **...which we expect to continue showing mid-digit growth to 2026e.** Our baseline scenario envisages moderate revenue growth (CAGR 2023-26e: 8.9%), driven by the Specialty Pharma line (CAGR 2023-26e: 13.2%) and long-term commitment to injectables and lyophilised products (CAGR 2023-26e: 8%).

- **Reasons to expect further margin expansion.** In our view, there are four factors that bode well for margin expansion: i) increase in the weight of higher-margin products in the revenue mix, ii) vertical integration via the JV with Syna, iii) increased production outsourcing (CDMO) and iv) efficiency gains and higher occupancy of the production plant (currently c.70%).

- **The real opportunity lies in increasing EBIT.** RJF's business model is very capital intensive (given its reliance on R&D and continuous production capacity increases), resulting in a sharp increase in the weight of depreciation and amortisation and pressure on EBIT. The ability to leverage EBITDA growth is crucial for improving ROCE.

The improvement in profitability, on paper, is doable, as it has all the ingredients to turn this growth in revenue into profit based on the operating structure in place. This in without question the real challenge and cornerstone of RJF's equity story.

- **Cash generation, despite investment requirements, is set to increase to EUR 9.2Mn in 2026e…** On our estimates, recurring FCF will increase from EUR 5.3Mn in 2024e to EUR 9.2Mn in 2026e. Key to achieving this will be: i) working capital management, and ii) investment needs (c.5% of annual revenues) for facility maintenance and further investment in incremental innovation (for renewal of the product offer).

- **…which bodes well for a sharp drop in debt (ND/EBITDA 2026e: 0.5x).** RJF should be able to reduce debt continuously over the forecast period. This opens the door to investment opportunities so the company can maintain its product portfolio.

In short, the thesis around RJF is predicated on a business model that enjoys high barriers to entry and an established position in the market for injectables and lyophilisates. Indeed, the growth levers seen -3y are still in place (Specialty Pharma, focus on lyophilisates, penetrating new markets, renewing the product offer, low-risk incremental innovation, etc.). After a period of hefty investment (-8y), resulting in healthy growth in top part of the P&L (revenue and EBITDA), the equity story will depend on the ability to convert this at the lower end of the P&L. So, in our opinion, RJF as it is today has all the tools to do this. RJF's equity story rests on the materialisation of operational improvements, i.e. considerable improvement in margins that would drive a sharp increase in ROCE.

Valuation inputs

Inputs for the DCF Valuation Approach

	2024e	2025e	2026e	Terminal Value [1]		Best Case	Worst Case
Free Cash Flow "To the Firm"	**6.4**	**7.3**	**10.1**	**151.2**			
Market Cap	**221.4**	At the date of this report					
Net financial debt	**48.5**	Debt net of Cash (3m Results 2024)					
Cost of Debt	2.0%	Net debt cost				1.8%	2.3%
Tax rate (T)	20.0%	T (Normalised tax rate)				=	=
Net debt cost	**1.6%**	**Kd = Cost of Net Debt * (1-T)**				**1.4%**	**1.8%**
Risk free rate (rf)	3.3%	Rf (10y Spanish bond yield)				=	=
Equity risk premium	6.0%	R (own estimate)				5.5%	6.5%
Beta (B)	1.0	B (own estimate)				0.9	1.1
Cost of Equity	**9.5%**	**Ke = Rf + (R * B)**				**8.5%**	**10.7%**
Equity / (Equity + Net Debt)	82.0%	E (Market Cap as equity value)				=	=
Net Debt / (Equity + Net Debt)	18.0%	D				=	=
WACC	**8.1%**	**WACC = Kd * D + Ke * E**				**7.2%**	**9.1%**
G "Fair"	**2.0%**					**2.0%**	**1.5%**

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

Inputs for the Multiples Valuation Approach

Company	Ticker Factset	Mkt. Cap	P/E 24e	EPS 24e-26e	EV/EBITDA 24e	EBITDA 24e-26e	EV/Sales 24e	Revenues 24e-26e	EBITDA/Sales 24e	FCF Yield 24e	FCF 24e-26e
Viatris	VTRS-US	11,428.1	3.8	1.2%	6.1	-0.8%	2.0	-1.0%	32.2%	23.6%	-0.7%
Teva	TEVA-US	17,469.3	6.8	9.2%	7.6	5.5%	2.3	3.0%	29.9%	10.3%	25.5%
Sandoz	SDZ-CH	13,913.0	12.9	16.8%	9.0	13.2%	1.8	5.8%	19.7%	3.5%	47.8%
Generics and Injectables			7.9	9.1%	7.6	6.0%	2.0	2.6%	27.3%	12.4%	24.2%
Incyte Corporation	INCY-US	11,881.3	13.7	19.3%	9.1	31.8%	2.2	10.1%	24.3%	7.9%	13.3%
Eli Lilly	LLY-US	707,528.9	59.2	35.7%	49.5	32.8%	18.5	20.6%	37.4%	1.2%	42.7%
Novartis	NOVN-CH	202,540.6	13.9	5.8%	11.4	4.0%	4.5	2.7%	39.6%	6.1%	9.2%
Specialty Pharma			28.9	20.3%	23.3	22.9%	8.4	11.2%	33.8%	5.1%	21.7%
Herbalife	HLF-US	990.8	6.3	38.3%	5.9	15.0%	0.6	4.6%	10.9%	10.9%	n.a.
HAIN Celestial	HAIN-US	573.2	23.8	40.5%	9.4	7.8%	0.8	1.4%	8.8%	12.5%	14.1%
Nu Skin	NUS-US	606.3	12.0	n.a.	5.6	n.a.	0.6	n.a.	10.0%	7.9%	n.a.
Cosumer Healthcare			14.0	39.4%	7.0	11.4%	0.7	3.0%	9.9%	10.4%	14.1%
Abbvie	ABBV-US	255,713.8	14.0	9.1%	12.7	8.6%	6.0	6.3%	47.8%	6.8%	16.8%
Sanofi	SAN-FR	113,364.8	11.7	11.9%	8.8	9.9%	2.6	6.4%	29.2%	6.3%	20.4%
Pfizer	PFE-US	150,886.2	12.3	10.6%	10.6	7.5%	3.7	2.1%	34.6%	6.4%	16.2%
Global Players			12.6	10.5%	10.7	8.6%	4.1	4.9%	37.2%	6.5%	17.8%
RJF	RJF-ES	221.4	19.7	24.1%	7.7	12.6%	0.8	8.2%	10.5%	2.4%	32.1%

Free Cash Flow sensitivity analysis (2025e)

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

Scenario	EBITDA/Sales 25e	EBITDA 25e	EV/EBITDA 25e
Max	**12.1%**	**46.0**	**6.1x**
Central	**11.0%**	**41.8**	**6.7x**
Min	**9.9%**	**37.7**	**7.5x**

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

Rec. FCF EUR Mn	CAPEX/Sales 25e		
EBITDA 25e	5.0%	5.6%	6.2%
46.0	**12.7**	**10.4**	**8.1**
41.8	**8.5**	**6.2**	**4.0**
37.7	**4.3**	**2.1**	**(0.2)**

Scenario	Rec. FCF/Yield 25e		
Max	**5.7%**	**4.7%**	**3.7%**
Central	**3.8%**	**2.8%**	**1.8%**
Min	**2.0%**	**0.9%**	**n.a.**

What could go wrong?

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

1. **Supply chain risk.** RJF engages in the manufacture and placement on the market of medicinal products, injectables and ancillary products. This means the business model is highly dependent on supply chains. If a supply chain were disrupted, the company could be unable to deliver on its commitments to its customers. A decrease in revenue growth of 3 p.p. by 2024e (7.3% vs. 10.3% estimated) would reduce estimated EBITDA by 7.6% (EUR 33.8Mn vs. EUR 36.6Mn).
2. **Inflation in the prices of materials needed to produce medicinal products (active ingredients) and in energy prices.** Inflation also affects the prices of active ingredients. These include the materials required for the manufacture of medicinal products and injectables. Energy prices are of course also a factor. By 2024e, we expect gross margin to be in line with the 57.7% level seen in 2023. A 1 p.p. decline (2024e) in gross margin compared to our estimates would imply a decrease of 9.3% in our EBITDA estimates.
3. **Reputational risk and quality control.** The development and placement on the market of pharmaceutical products involves an inherent risk. Such risk must be addressed with heavy investment so as to comply with the quality standards imposed by the EMA (European Medicines Agency). A defect in a product line could trigger a recall, which would hurt the reputation of the brand.
4. **Authorization of medicinal products by government bodies.** Before it can be put up for sale, a medicinal product must be authorized by a government regulatory body. If this requirement were to delay the launch of a new product, estimated growth for the period could be slowed down.
5. **Regulation of the antibiotics market.** The antibiotics line (19% of revenue in 2023) operates in a regulated market where firms are restricted in their ability to raise prices. Inflation has therefore hurt profits over the past few years. If inflation remains high, RJF's profitability could come under even further pressure.
6. **Significant presence of on-balance sheet R&D intangible assets.** As of 31 December 2023, RJF had EUR 45.5Mn in patents and development (close to 65% of its net intangible assets) on its balance sheet. The risk inherent in capitalising R&D exposes RJF to potential impairment losses. A gradual rise in amortisation costs could impact earnings. This would put pressure on ROCE (around 4% 2024e vs 8.1% WACC).
7. **Emergence of substitute products.** The weight-loss market has been transformed by the emergence of products such as Wegovy and Ozempic (GLP-1, a synthesised intestinal hormone, the main component of both drugs). These products have cornered the market. Product innovation is key in the face of ongoing investment by competitors seeking to gain a distinctive edge and capture more market share. Innovation also drives up CAPEX requirements and thus the need for financing and borrowings.
8. **High investment needs.** The pharmaceutical industry thrives on continuous technological progress and rigorous scientific exploration. The push to enhance facilities and ensure compliance with the highest quality benchmarks could lead to extra CAPEX, which is currently unaccounted for in the figures we have seen. We estimate CAPEX at approximately 5% of revenue. However, further capacity expansions or production efficiency improvements would call for additional investment. If CAPEX were 6.5% of revenue 2024e (vs. 5% estimated), free cash flow 2024e would drop to break-even (vs. EUR 5.3Mn in our baseline scenario).
9. **Talent attraction and collective wage deals.** The company anticipates a significant wage increase due to the application of the FEIQUE CPI (inflation) adjustment agreement in Spain. Wages accounted for 24% of revenue in 2023. A further increase in this item would impact operating performance in the medium to long term.

10. **Successful investment in biotech firms.** RJF has a stake in Syna, a biotech company that focuses on biosimilars research. Since the business model is based on research and milestone achievement, failure to hit milestones could have an impact on RJF's bottom line. Specifically, failure to meet the 2024e milestones (equity-accounted income EUR 0.9Mn) would hurt profit 2024e by 7% (vs. our estimates).

IEAF Servicios de Análisis – Calle Núñez de Balboa, 108 1ª Planta oficina izquierda, 28006 Madrid, España – Tel. +34 91 563 19 72 – institutodeanalistas.com

The third generation of the founding family controls the board and manages the company

The Reig family (which founded the company in 1929) remains the core shareholder, with a total shareholding of 62.8% (all of the family members hold their interests through Reig Jofre Investments). Involved in the company since it was created (third generation at the helm), the family holds three of the board's eight spots (one carries out executive duties). Corporate governance highlights:

Table 11. Board of Directors

Board Member	Category	Position	Date	% Capital
Isabel Reig López*	Propietary	President	2023	62.8%
Alejandro García Reig*	Propietary	Board Member/CFO	2014	0.0%
Ignasi Biosca Reig*	Propietary	Board Member/CEO	2014	0.0%
Alvaro Ybarra Zubiria[1]	Propietary	Board Member	2020	6.1%
Mª Luisa Francolí Plaza	Independent	Board Member	2014	0.0%
Ramón Gomis I de Barbará	Independent	Board Member	2014	0.0%
Ramiro Martínez-Pardo del Valle	Independent	Board Member	2014	0.0%
Emilio Moraleda Martínez	Independent	Board Member	2014	0.0%
			% Total	68.9%

Note: The % shareholdings include the interests held directly and indirectly, through companies.
Note*: The three family members hold their interests through Reig Jofre Investments, which owns 62.8% of Reig Jofre.
Note 1: Proprietary director in representation of Onchena (6.1% shareholding).

1. **Director and minority shareholder interests are aligned…** The board is controlled by the Reig family. Four of the eight directors are proprietary, representing 68.9% of the company's shares, leaving the board significantly exposed to the company's share price performance.

2. **… with the board relatively stable since 2014.** The board has been relatively stable since the IPO (via a reverse merger with the former Natraceutical in 2015). The only change in the last c.10 years was the departure of Antón Costas, an independent director, and the arrival of Álvaro Ybarra, to represent Onchena (c.6% shareholding).

   In 2023, Reig Jofre Investments (represented by Isabel Reig López, with 62.8% of direct voting rights) left the board and was replaced by Isabel Reig López (natural person). However, the three members of the Reig family are shareholders in Reig Jofre Investments, which makes them *de facto* proprietary directors (with 62.8% of the indirect voting rights).

3. **The company has no pure executive directors (i.e. without any direct or indirect shareholding).** The Board of Directors is made up of: four proprietary directors (one of whom is an executive, Ignasi Biosca Reig, CEO, with shares in Reig Jofre Investments) and four independent directors. The bylaw-stipulated maximum tenure for directors is four years. Directorships may be renewed for equal periods of four years and there is no limit to the number of terms a director can serve.

Table 12. Key corporate governance indicators

KPI	2021	2022	2023
% of independent board members	50.0%	50.0%	50.0%
% of propietary board members	50.0%	50.0%	50.0%
% of executive board members*	0.0%	0.0%	0.0%
% of women on the board of	25.0%	25.0%	25.0%
% of women out of total workforce	57.9%	58.5%	58.4%
Board + senior management	2.8%	3.0%	2.6%
Number of confirmed corruption	0.0%	0.0%	0.0%

*Note: In addition to his role as proprietary director, Ignasi Biosca Reig is the company's CEO.

4. **Director remuneration has been stable at c.1.5% of staff costs.** In 2023, director remuneration totalled EUR 1.1Mn (c.1.5% of staff costs, in line with the previous two years). The independent directors received EUR 72k in 2023 (fixed remuneration of EUR 55k plus attendance fees and supplements for committee membership of EUR 9k).

   The CEO (Ignasi Biosca Reig) accrued annual remuneration of EUR 650k in 2023. That total breaks down between: i) fixed annual remuneration of EUR 300k; and ii) variable remuneration that can be up to 150% of his fixed remuneration.

   The bonus is calculated on the basis of the following parameters, established by the Appointments and Remuneration Committee: i) 70% depends on the company's earnings performance (revenue and EBITDA growth and delivery of the budget); and ii) 30% depends on achieving strategic and business targets. In addition, he receives remuneration in his capacity as proprietary director (EUR 28k). The CEO's contract includes clawback and malus clauses.

Table 13. Audit, Compliance and Conflicts of Interest Committee

Comission Member	Category	Position
Ramón Gomis I de Barbará	Independent	President
Alejandro García Reig	Propietary	Member
Ramiro Martínez-Pardo del Valle	Independent	Secretary

Table 14. Appointments and Remuneration Committee

Comission Member	Category	Position
Mª Luisa Francolí Plaza	Independent	President
Isabel Reig López	Propietary	Member
Emilio Moraleda Martínez	Independent	Secreatry

5. **Golden parachute clauses**. Ignasi Biosca Reig (CEO) has a golden parachute clause whereby, if he is discontinued, he receives the equivalent of 39 days of total remuneration (fixed + variable) for every year performing executive duties at the company.

6. **Senior officer remuneration.** The senior management team received around EUR 0.9Mn of remuneration in each of 2023 and 2022. That team is made up of three members (excluding the executive director). There is no additional remuneration for pensions. There are no stock options and no sureties or guarantees have been extended on behalf of the directors or senior offices.

7. **Female participation: 25% of directors and c.60% of the headcount.** The board approved its director selection and diversity policy in July 2021. Currently, 25% of its members are female (vs a national average of 32% and the recommended minimum of 30% as per the CNMV's good governance recommendations). The board has signalled its intention to search for an additional female director in the future. 58.4% of the workforce was female in 2023, including the board's chair.

8. **A board with 50% independent members.** The independent directors hold four seats on the board (50% of the total; in line with the CNMV's good governance recommendations).

   They also make up 66.7% of the members of the Audit, Compliance and Conflicts of Interest Committee and the Appointments and Remuneration Committee. The weight of independent directors is an important counterweight and check against the owners' decisions.

9. **Sustainability and ESG policies.** As well as publishing a non-financial statement (NFS), RJF takes a proactive stance towards sustainability and governance. The company's ESG targets are supervised at the board level (commitment to the SDGs), and it has approved specific policies around: (i) the environment (reducing waste and managing it properly); (ii) sustainability; (iii) anti-bribery; (iv) ethics (money laundering, health and safety, whistleblowing channel); (v) remuneration; and (vi) risk control (transparency). RJF has had an equality plan since 2009 (internal promotions, work-life balance, prevention harassment).

10. **Shareholder remuneration via scrip dividends.** The company has no cash dividend policy at the time of writing and we do not expect it to formulate one in the medium term. However, it does remunerate its shareholders in the form of scrip dividends (one new share for every 62 held declared against 2023 profits and 1-in-62 in 2022). If it were to pay out the full scrip dividend in cash, the implied payout would be 35%. In 2022, holders of 97.5% of share capital received the newly issued shares (1.2Mn).

11. **Related party balances and transactions.** The main related party balance at year-end 2023 was the sum of EUR 0.5Mn due to senior officers and directors. The most significant related party transactions related to lease payments of EUR 1Mn to Reig Jofre Investments in 2023.

Appendix 1. Financial Projections

Balance Sheet (EUR Mn)	2019	2020	2021	2022	2023	2024e	2025e	2026e
Intangible assets	98.2	93.0	88.9	81.6	72.6	74.3	76.1	77.9
Fixed assets	71.6	75.1	81.2	82.5	82.1	77.2	76.8	75.4
Other Non Current Assets	15.8	16.1	13.8	11.9	10.3	10.3	10.3	10.3
Financial Investments	1.9	2.2	2.4	4.0	5.0	5.9	6.8	7.7
Goodwill & Other Intangilbles	29.7	30.0	29.8	29.0	28.0	28.0	28.0	28.0
Current assets	85.3	88.3	102.8	105.4	126.1	139.9	150.8	162.1
Total assets	**302.5**	**304.8**	**318.9**	**314.3**	**324.1**	**335.7**	**348.8**	**361.3**
Equity	178.2	184.5	188.6	194.6	204.4	215.6	230.2	247.4
Minority Interests	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Provisions & Other L/T Liabilities	5.7	6.0	6.3	6.7	6.4	6.4	6.4	6.4
Other Non Current Liabilities	12.8	10.5	11.6	11.0	9.8	9.8	9.8	9.8
Net financial debt	64.9	58.8	56.5	50.9	44.7	39.5	33.3	24.3
Current Liabilities	40.9	44.9	56.0	51.2	58.9	64.5	69.1	73.5
Equity & Total Liabilities	**302.5**	**304.8**	**318.9**	**314.3**	**324.1**	**335.7**	**348.8**	**361.3**

									CAGR	
P&L (EUR Mn)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024e**	**2025e**	**2026e**	**19-23**	**23-26e**
Total Revenues	**200.2**	**230.1**	**236.2**	**271.2**	**316.1**	**348.6**	**378.9**	**408.4**	*12.1%*	*8.9%*
Total Revenues growth	*10.9%*	*14.9%*	*2.7%*	*14.8%*	*16.6%*	*10.3%*	*8.7%*	*7.8%*		
COGS	(73.9)	(89.8)	(91.5)	(113.1)	(133.7)	(147.6)	(158.4)	(170.4)		
Gross Margin	**126.3**	**140.3**	**144.7**	**158.1**	**182.4**	**201.0**	**220.5**	**238.0**	*9.6%*	*9.3%*
Gross Margin/Revenues	*63.1%*	*61.0%*	*61.3%*	*58.3%*	*57.7%*	*57.7%*	*58.2%*	*58.3%*		
Personnel Expenses	(57.1)	(66.4)	(64.2)	(70.5)	(75.9)	(83.8)	(91.2)	(97.4)		
Other Operating Expenses	(52.8)	(51.0)	(56.9)	(60.2)	(73.2)	(80.6)	(87.5)	(94.2)		
Recurrent EBITDA	**16.4**	**22.9**	**23.7**	**27.4**	**33.3**	**36.6**	**41.8**	**46.4**	*19.4%*	*11.7%*
Recurrent EBITDA growth	*41.5%*	*39.7%*	*3.6%*	*15.6%*	*21.5%*	*10.0%*	*14.3%*	*10.8%*		
Rec. EBITDA/Revenues	*8.2%*	*9.9%*	*10.0%*	*10.1%*	*10.5%*	*10.5%*	*11.0%*	*11.4%*		
Restructuring Expense & Other non-rec.	(2.3)	-	-	-	-	-	-	-		
EBITDA	**14.1**	**22.9**	**23.7**	**27.4**	**33.3**	**36.6**	**41.8**	**46.4**	*24.0%*	*11.7%*
Depreciation & Provisions	(10.8)	(14.9)	(15.5)	(18.2)	(20.6)	(20.5)	(21.6)	(23.1)		
Capitalized Expense	5.6	3.7	3.6	3.1	1.9	1.8	1.8	1.8		
Rentals (IFRS 16 impact)	(2.6)	(2.4)	(3.0)	(3.7)	(4.1)	(4.3)	(4.5)	(4.7)		
EBIT	**6.3**	**9.2**	**8.9**	**8.5**	**10.5**	**13.6**	**17.5**	**20.4**	*13.5%*	*24.7%*
EBIT growth	*-36.3%*	*45.8%*	*-4.0%*	*-3.7%*	*23.1%*	*29.1%*	*28.8%*	*16.5%*		
EBIT/Revenues	*3.2%*	*4.0%*	*3.8%*	*3.1%*	*3.3%*	*3.9%*	*4.6%*	*5.0%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(1.1)	(2.9)	(3.2)	(1.4)	(1.0)	(1.2)	(1.1)	(0.9)		
Income by the Equity Method	0.1	0.1	0.1	1.6	1.0	0.9	0.9	0.9		
Ordinary Profit	**5.3**	**6.4**	**5.8**	**8.8**	**10.5**	**13.2**	**17.3**	**20.4**	*18.6%*	*24.7%*
Ordinary Profit Growth	*-43.5%*	*21.0%*	*-9.9%*	*51.4%*	*19.7%*	*26.1%*	*30.6%*	*17.8%*		
Extraordinary Results	-	-	-	-	-	-	-	-		
Profit Before Tax	**5.3**	**6.4**	**5.8**	**8.8**	**10.5**	**13.2**	**17.3**	**20.4**	*18.6%*	*24.7%*
Tax Expense	(0.4)	(0.8)	(0.7)	(0.7)	(1.1)	(2.0)	(2.6)	(3.1)		
Effective Tax Rate	*7.0%*	*11.8%*	*12.3%*	*7.6%*	*10.5%*	*15.0%*	*15.0%*	*15.0%*		
Minority Interests	-	-	-	-	-	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**4.9**	**5.7**	**5.1**	**8.1**	**9.4**	**11.3**	**14.7**	**17.3**	*17.4%*	*22.6%*
Net Profit growth	*-46.2%*	*14.7%*	*-10.3%*	*59.6%*	*15.9%*	*19.7%*	*30.6%*	*17.8%*		
Ordinary Net Profit	**7.1**	**5.7**	**5.1**	**8.1**	**9.4**	**11.3**	**14.7**	**17.3**	*7.3%*	*22.6%*
Ordinary Net Profit growth	*-22.8%*	*-20.0%*	*-10.3%*	*59.6%*	*15.9%*	*19.7%*	*30.6%*	*17.8%*		

									CAGR	
Cash Flow (EUR Mn)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024e**	**2025e**	**2026e**	**19-23**	**23-26e**
Recurrent EBITDA						**36.6**	**41.8**	**46.4**	*19.4%*	*11.7%*
Rentals (IFRS 16 impact)						(4.3)	(4.5)	(4.7)		
Working Capital Increase						(8.2)	(6.3)	(6.9)		
Recurrent Operating Cash Flow						**24.1**	**31.1**	**34.8**	*22.3%*	*28.8%*
CAPEX						(15.7)	(21.2)	(21.6)		
Net Financial Result affecting the Cash Flow						(1.2)	(1.1)	(0.9)		
Tax Expense						(2.0)	(2.6)	(3.1)		
Recurrent Free Cash Flow						**5.3**	**6.2**	**9.2**	*20.0%*	*28.5%*
Restructuring Expense & Other non-rec.						-	-	-		
- Acquisitions / + Divestures of assets						-	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**5.3**	**6.2**	**9.2**	*19.8%*	*28.5%*
Capital Increase						-	-	-		
Dividends						(0.0)	(0.1)	(0.1)		
Net Debt Variation						**(5.2)**	**(6.2)**	**(9.1)**		

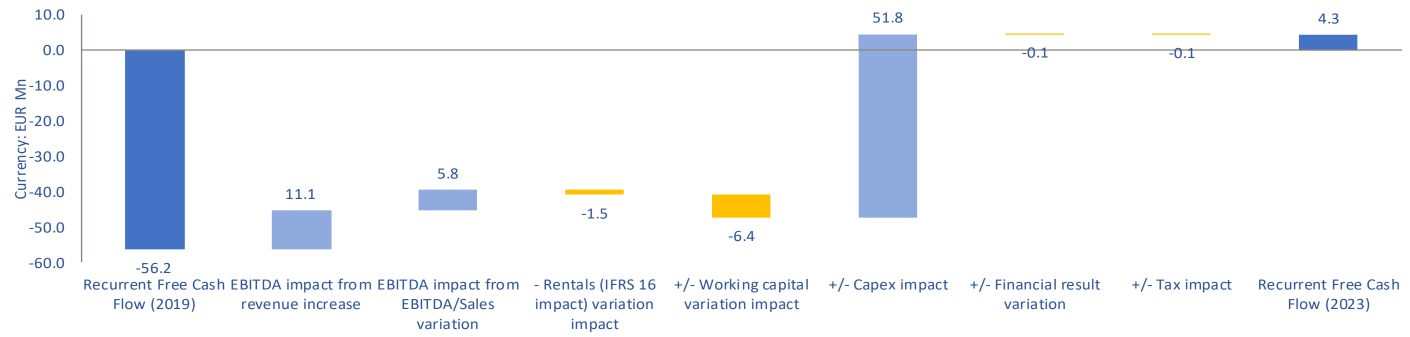
Appendix 2. Free Cash Flow

A) Cash Flow Analysis (EUR Mn)	2020	2021	2022	2023	2024e	2025e	2026e	CAGR 20-23	CAGR 23-26e
Recurrent EBITDA	**22.9**	**23.7**	**27.4**	**33.3**	**36.6**	**41.8**	**46.4**	*13.3%*	*11.7%*
Recurrent EBITDA growth	*39.7%*	*3.6%*	*15.6%*	*21.5%*	*10.0%*	*14.3%*	*10.8%*		
Rec. EBITDA/Revenues	*9.9%*	*10.0%*	*10.1%*	*10.5%*	*10.5%*	*11.0%*	*11.4%*		
- Rentals (IFRS 16 impact)	(2.4)	(3.0)	(3.7)	(4.1)	(4.3)	(4.5)	(4.7)		
+/- Working Capital increase	1.0	(3.3)	(7.5)	(12.9)	(8.2)	(6.3)	(6.9)		
= Recurrent Operating Cash Flow	**21.4**	**17.4**	**16.2**	**16.3**	**24.1**	**31.1**	**34.8**	*-8.7%*	*28.8%*
Rec. Operating Cash Flow growth	*194.4%*	*-18.8%*	*-6.8%*	*0.5%*	*48.3%*	*28.8%*	*11.9%*		
Rec. Operating Cash Flow / Sales	*9.3%*	*7.4%*	*6.0%*	*5.1%*	*6.9%*	*8.2%*	*8.5%*		
- CAPEX	3.4	1.2	(7.1)	(9.3)	(15.7)	(21.2)	(21.6)		
- Net Financial Result affecting Cash Flow	(1.0)	(0.9)	(0.9)	(1.2)	(1.2)	(1.1)	(0.9)		
- Taxes	(1.6)	(0.9)	(0.9)	(1.5)	(2.0)	(2.6)	(3.1)		
= Recurrent Free Cash Flow	**22.2**	**16.8**	**7.3**	**4.3**	**5.3**	**6.2**	**9.2**	*-42.0%*	*28.5%*
Rec. Free Cash Flow growth	*139.4%*	*-24.3%*	*-56.6%*	*-40.7%*	*21.6%*	*18.6%*	*47.1%*		
Rec. Free Cash Flow / Revenues	*9.6%*	*7.1%*	*2.7%*	*1.4%*	*1.5%*	*1.6%*	*2.2%*		
- Restructuring expenses & others	2.1	0.2	-	-	-	-	-		
- Acquisitions / + Divestments	(15.0)	(15.0)	(2.0)	-	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow	**9.2**	**2.0**	**5.3**	**4.3**	**5.3**	**6.2**	**9.2**	*-22.3%*	*28.5%*
Free Cash Flow growth	*112.1%*	*-78.7%*	*169.6%*	*-18.3%*	*21.6%*	*18.6%*	*47.1%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*10.0%*	*7.6%*	*3.3%*	*2.0%*	*2.4%*	*2.8%*	*4.1%*		
Free Cash Flow Yield (s/Mkt Cap)	*4.2%*	*0.9%*	*2.4%*	*2.0%*	*2.4%*	*2.8%*	*4.1%*		

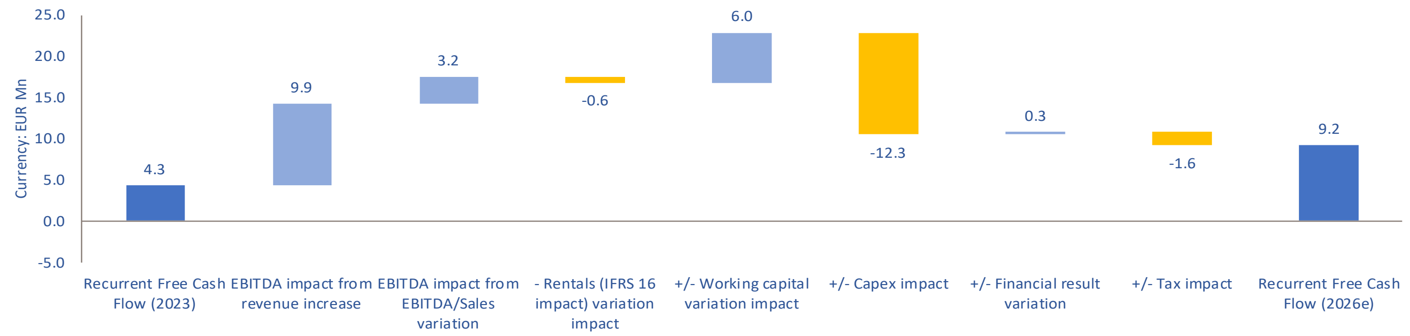
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2020	2021	2022	2023	2024e	2025e	2026e
Recurrent FCF(FY - 1)	**(56.2)**	**22.2**	**16.8**	**7.3**	**4.3**	**5.3**	**6.2**
EBITDA impact from revenue increase	2.4	0.6	3.5	4.5	3.4	3.2	3.3
EBITDA impact from EBITDA/Sales variation	4.1	0.2	0.2	1.4	(0.1)	2.1	1.3
= Recurrent EBITDA variation	**6.5**	**0.8**	**3.7**	**5.9**	**3.3**	**5.2**	**4.5**
- Rentals (IFRS 16 impact) variation impact	0.1	(0.6)	(0.7)	(0.4)	(0.2)	(0.2)	(0.2)
+/- Working capital variation impact	7.5	(4.3)	(4.2)	(5.4)	4.7	1.9	(0.6)
= Recurrent Operating Cash Flow variation	**14.1**	**(4.0)**	**(1.2)**	**0.1**	**7.9**	**7.0**	**3.7**
+/- CAPEX impact	64.5	(2.2)	(8.3)	(2.2)	(6.4)	(5.5)	(0.5)
+/- Financial result variation	0.1	0.1	(0.0)	(0.3)	(0.0)	0.1	0.2
+/- Tax impact	(0.3)	0.7	0.0	(0.6)	(0.5)	(0.6)	(0.5)
= Recurrent Free Cash Flow variation	**78.4**	**(5.4)**	**(9.5)**	**(3.0)**	**0.9**	**1.0**	**2.9**
Recurrent Free Cash Flow	**22.2**	**16.8**	**7.3**	**4.3**	**5.3**	**6.2**	**9.2**

C) "FCF to the Firm" (pre debt service) (EUR Mn)	2020	2021	2022	2023	2024e	2025e	2026e	CAGR 20-23	CAGR 23-26e
EBIT	**9.2**	**8.9**	**8.5**	**10.5**	**13.6**	**17.5**	**20.4**	*4.4%*	*24.7%*
** Theoretical Tax rate*	*11.8%*	*12.3%*	*7.6%*	*10.5%*	*15.0%*	*15.0%*	*15.0%*		
= Taxes (pre- Net Financial Result)	(1.1)	(1.1)	(0.6)	(1.1)	(2.0)	(2.6)	(3.1)		
Recurrent EBITDA	**22.9**	**23.7**	**27.4**	**33.3**	**36.6**	**41.8**	**46.4**	*13.3%*	*11.7%*
- Rentals (IFRS 16 impact)	(2.4)	(3.0)	(3.7)	(4.1)	(4.3)	(4.5)	(4.7)		
+/- Working Capital increase	1.0	(3.3)	(7.5)	(12.9)	(8.2)	(6.3)	(6.9)		
= Recurrent Operating Cash Flow	**21.4**	**17.4**	**16.2**	**16.3**	**24.1**	**31.1**	**34.8**	*-8.7%*	*28.8%*
- CAPEX	3.4	1.2	(7.1)	(9.3)	(15.7)	(21.2)	(21.6)		
- Taxes (pre- Financial Result)	(1.1)	(1.1)	(0.6)	(1.1)	(2.0)	(2.6)	(3.1)		
= Recurrent Free Cash Flow (To the Firm)	**23.7**	**17.5**	**8.4**	**5.9**	**6.4**	**7.3**	**10.1**	*-37.2%*	*19.7%*
Rec. Free Cash Flow (To the Firm) growth	*143.7%*	*-26.3%*	*-51.8%*	*-30.4%*	*9.6%*	*13.4%*	*38.1%*		
Rec. Free Cash Flow (To the Firm) / Revenues	10.3%	7.4%	3.1%	1.9%	1.8%	1.9%	2.5%		
- Acquisitions / + Divestments	(15.0)	(15.0)	(2.0)	-	-	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow "To the Firm"	**8.7**	**2.5**	**6.4**	**5.9**	**6.4**	**7.3**	**10.1**	*-12.3%*	*19.7%*
Free Cash Flow (To the Firm) growth	*111.7%*	*-71.7%*	*160.7%*	*-8.7%*	*9.6%*	*13.4%*	*38.1%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*8.4%*	*6.2%*	*3.0%*	*2.1%*	*2.3%*	*2.6%*	*3.6%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*3.1%*	*0.9%*	*2.3%*	*2.1%*	*2.3%*	*2.6%*	*3.6%*		

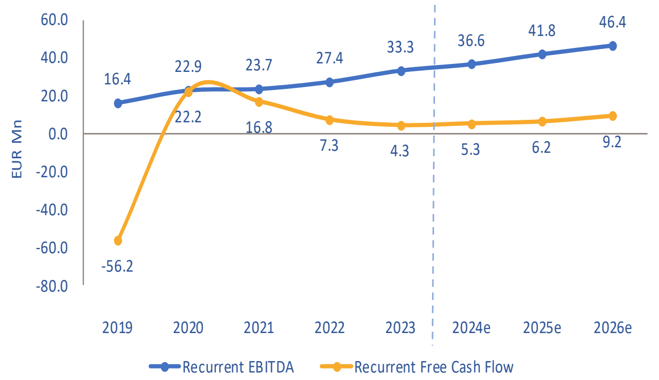
Recurrent Free Cash Flow accumulated variation analysis (2019 - 2023)



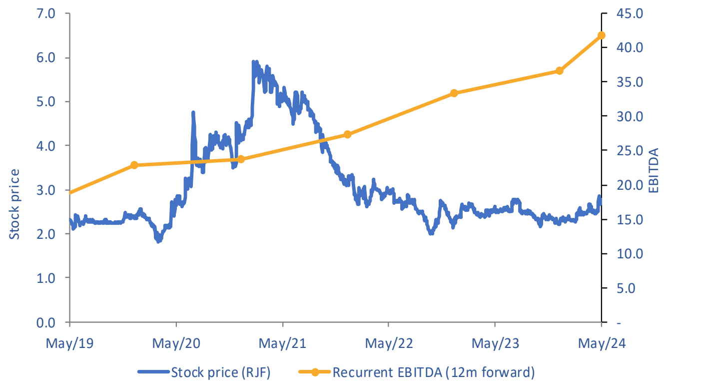
Recurrent Free Cash Flow accumulated variation analysis (2023 - 2026e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward



Appendix 3. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	221.4	
+ Minority Interests	0.1	3m Results 2024
+ Provisions & Other L/T Liabilities	15.7	3m Results 2024
+ Net financial debt	48.5	3m Results 2024
- Financial Investments	4.7	3m Results 2024
+/- Others		3m Results 2024
Enterprise Value (EV)	**281.0**	

Appendix 4. Historical performance(1)

Historical performance (EUR Mn)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e	CAGR 13-23	CAGR 23-26e
Total Revenues			**156.9**	**161.1**	**168.0**	**180.5**	**200.2**	**230.1**	**236.2**	**271.2**	**316.1**	**348.6**	**378.9**	**408.4**	*n.a.*	*8.9%*
Total Revenues growth			*n.a.*	*2.7%*	*4.3%*	*7.4%*	*10.9%*	*14.9%*	*2.7%*	*14.8%*	*16.6%*	*10.3%*	*8.7%*	*7.8%*		
EBITDA			**17.1**	**15.3**	**12.1**	**11.6**	**14.1**	**22.9**	**23.7**	**27.4**	**33.3**	**36.6**	**41.8**	**46.4**	*n.a.*	*11.7%*
EBITDA growth			*n.a.*	*-10.3%*	*-21.4%*	*-4.1%*	*21.6%*	*62.6%*	*3.6%*	*15.6%*	*21.5%*	*10.0%*	*14.3%*	*10.8%*		
EBITDA/Sales			*10.9%*	*9.5%*	*7.2%*	*6.4%*	*7.0%*	*9.9%*	*10.0%*	*10.1%*	*10.5%*	*10.5%*	*11.0%*	*11.4%*		
Net Profit			**8.7**	**7.6**	**8.8**	**9.2**	**4.9**	**5.7**	**5.1**	**8.1**	**9.4**	**11.3**	**14.7**	**17.3**	*n.a.*	*22.6%*
Net Profit growth			*n.a.*	*-13.3%*	*16.2%*	*4.1%*	*-46.2%*	*14.7%*	*-10.3%*	*59.6%*	*15.9%*	*19.7%*	*30.6%*	*17.8%*		
Adjusted number shares (Mn)			928.7	62.9	63.1	65.3	71.3	76.4	76.9	77.7	78.8	79.6	79.6	79.6		
EPS (EUR)			0.01	0.12	0.14	0.14	0.07	0.07	0.07	0.10	0.12	0.14	0.18	0.22	*n.a.*	*22.2%*
EPS growth			*n.a.*	*n.a.*	*15.8%*	*0.7%*	*-50.7%*	*7.1%*	*-10.9%*	*57.9%*	*14.3%*	*18.5%*	*30.6%*	*17.8%*		
Ord. EPS (EUR)			0.01	0.12	0.14	0.14	0.10	0.07	0.07	0.10	0.12	0.14	0.18	0.22	*n.a.*	*22.2%*
Ord. EPS growth			*n.a.*	*n.a.*	*15.8%*	*0.7%*	*-29.3%*	*-25.3%*	*-10.9%*	*57.9%*	*14.3%*	*18.5%*	*30.6%*	*17.8%*		
CAPEX			10.5	12.2	17.6	21.1	(61.1)	3.4	1.2	(7.1)	(9.3)	(15.7)	(21.2)	(21.6)		
CAPEX/Sales %)			*n.a.*	*n.a.*	*n.a.*	*n.a.*	*30.5%*	*n.a.*	*n.a.*	*2.6%*	*2.9%*	*4.5%*	*5.6%*	*5.3%*		
Free Cash Flow			**4.0**	**(12.2)**	**3.7**	**(1.1)**	**(76.2)**	**9.2**	**2.0**	**5.3**	**4.3**	**5.3**	**6.2**	**9.2**	n.a.	28.5%
ND/EBITDA (x)(2)			*0.7x*	*1.2x*	*1.2x*	*1.9x*	*4.6x*	*2.6x*	*2.4x*	*1.9x*	*1.3x*	*1.1x*	0.8x	0.5x		
P/E (x)			*n.a.*	*23.6x*	*15.5x*	*15.2x*	*34.6x*	*56.6x*	*47.6x*	*20.5x*	*18.6x*	*19.7x*	15.1x	12.8x		
EV/Sales (x)			*1.44x*	*1.36x*	*1.00x*	*0.96x*	*1.30x*	*1.74x*	*1.32x*	*0.83x*	*0.71x*	*0.81x*	0.74x	0.69x		
EV/EBITDA (x)(2)			*13.2x*	*14.3x*	*14.0x*	*15.0x*	*18.5x*	*17.5x*	*13.2x*	*8.2x*	*6.8x*	*7.7x*	6.7x	6.1x		
Absolute performance			*-6.2%*	*-9.6%*	*-24.1%*	*-1.2%*	*12.1%*	*75.5%*	*-25.2%*	*-32.0%*	*4.1%*	*25.0%*				
Relative performance vs Ibex 35			*1.0%*	*-7.7%*	*-29.3%*	*16.2%*	*0.3%*	*107.5%*	*-30.7%*	*-28.0%*	*-15.2%*	*12.3%*				

Note 1: The multiples are historical, calculated based on the price and EV at the end of each year, except (if applicable) in the current year, when multiples would be given at current prices. The absolute and relative behavior corresponds to each exercise (1/1 to 31/12). The source, both historical multiples and the evolution of the price, is Factset.

Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 5. Main peers 2024e

		Generics and Injectables				Specialty Pharma				Cosumer Healthcare				Global Players				
	EUR Mn	**Viatris**	**Teva**	**Sandoz**	**Average**	**Incyte Corporation**	**Eli Lilly**	**Novartis**	**Average**	**Herbalife**	**HAIN Celestial**	**Nu Skin**	**Average**	**Abbvie**	**Sanofi**	**Pfizer**	**Average**	**RJF**
Market data	**Ticker (Factset)**	VTRS-US	TEVA-US	SDZ-CH		INCY-US	LLY-US	NOVN-CH		HLF-US	HAIN-US	NUS-US		ABBV-US	SAN-FR	PFE-US		RJF-ES
	Country	USA	Israel	Switzerland		USA	USA	Switzerland		USA	USA	USA		USA	France	USA		Spain
	Market cap	11,428.1	17,469.3	13,913.0		11,881.3	707,528.9	202,540.6		990.8	573.2	606.3		255,713.8	113,364.8	150,886.2		221.4
	Enterprise value (EV)	27,205.3	33,520.1	16,820.1		8,365.4	729,389.5	204,705.6		3,019.6	1,329.7	916.3		307,320.3	122,185.5	204,257.9		281.0
Basic financial information	**Total Revenues**	13,918.8	14,708.4	9,479.9		3,763.3	39,473.9	45,406.9		4,735.2	1,601.3	1,635.1		50,815.9	47,270.2	55,781.3		348.6
	Total Revenues growth	*-1.9%*	*0.7%*	*5.2%*	*1.3%*	*10.4%*	*25.5%*	*10.3%*	*15.4%*	*1.5%*	*-3.3%*	*-9.9%*	*-3.9%*	*1.5%*	*9.8%*	*3.4%*	*4.9%*	*10.3%*
	2y CAGR (2024e - 2026e)	*-1.0%*	*3.0%*	*5.8%*	*2.6%*	*10.1%*	*20.6%*	*2.7%*	*11.2%*	*4.6%*	*1.4%*	*n.a.*	*3.0%*	*6.3%*	*6.4%*	*2.1%*	*4.9%*	*8.2%*
	EBITDA	4,478.9	4,396.1	1,865.9		916.2	14,743.8	17,992.9		514.4	141.0	162.8		24,269.8	13,819.1	19,303.3		36.6
	EBITDA growth	*2.7%*	*9.6%*	*17.6%*	*9.9%*	*35.3%*	*34.9%*	*-1.4%*	*22.9%*	*28.7%*	*13.1%*	*28.3%*	*23.4%*	*-1.7%*	*6.6%*	*98.9%*	*34.6%*	*10.0%*
	2y CAGR (2024e - 2026e)	*-0.8%*	*5.5%*	*13.2%*	*6.0%*	*31.8%*	*32.8%*	*4.0%*	*22.9%*	*15.0%*	*7.8%*	*n.a.*	*11.4%*	*8.6%*	*9.9%*	*7.5%*	*8.6%*	*12.6%*
	EBITDA/Revenues	*32.2%*	*29.9%*	*19.7%*	*27.3%*	*24.3%*	*37.4%*	*39.6%*	*33.8%*	*10.9%*	*8.8%*	*10.0%*	*9.9%*	*47.8%*	*29.2%*	*34.6%*	*37.2%*	*10.5%*
	EBIT	4,151.9	3,937.3	1,587.6		1,010.9	13,396.3	16,526.4		388.9	89.6	94.7		23,543.7	12,260.1	15,822.6		13.6
	EBIT growth	*119.3%*	*33.6%*	*42.8%*	*65.2%*	*68.2%*	*40.7%*	*53.7%*	*54.2%*	*31.8%*	*8.8%*	*50.9%*	*30.5%*	*41.2%*	*33.5%*	*305.2%*	*126.7%*	*29.1%*
	2y CAGR (2024e - 2026e)	*-0.3%*	*6.1%*	*14.8%*	*6.9%*	*24.0%*	*33.9%*	*4.2%*	*20.7%*	*19.0%*	*13.2%*	*n.a.*	*16.1%*	*8.8%*	*11.2%*	*8.7%*	*9.6%*	*22.5%*
	EBIT/Revenues	*29.8%*	*26.8%*	*16.7%*	*24.4%*	*26.9%*	*33.9%*	*36.4%*	*32.4%*	*8.2%*	*5.6%*	*5.8%*	*6.5%*	*46.3%*	*25.9%*	*28.4%*	*33.5%*	*3.9%*
	Net Profit	3,065.0	2,575.3	793.7		910.7	11,261.7	13,499.4		131.4	24.1	44.6		18,404.6	9,528.7	12,382.8		11.3
	Net Profit growth	*n.a.*	*599.7%*	*n.a.*	*599.7%*	*65.3%*	*133.1%*	*73.9%*	*90.8%*	*0.2%*	*122.4%*	*462.4%*	*195.0%*	*314.1%*	*76.5%*	*529.6%*	*306.7%*	*19.7%*
	2y CAGR (2024e - 2026e)	*0.3%*	*9.3%*	*23.0%*	*10.9%*	*19.3%*	*35.1%*	*4.2%*	*19.5%*	*45.8%*	*43.2%*	*n.a.*	*44.5%*	*9.0%*	*11.5%*	*9.8%*	*10.1%*	*24.1%*
	CAPEX/Sales %	*2.1%*	*3.2%*	*5.4%*	*3.6%*	*1.1%*	*7.3%*	*3.3%*	*3.9%*	*2.8%*	*2.3%*	*3.1%*	*2.7%*	*1.4%*	*5.3%*	*4.8%*	*3.8%*	*4.5%*
	Free Cash Flow	2,693.2	1,797.0	483.4		936.6	8,243.3	12,419.2		107.5	71.7	47.9		17,378.4	7,172.0	9,712.2		5.3
	Net financial debt	12,503.7	13,558.6	2,644.6		(3,608.0)	15,672.7	10,020.5		n.a.	643.6	177.0		52,650.5	4,685.5	53,511.0		39.5
	ND/EBITDA (x)	2.8	3.1	1.4	2.4	n.a.	1.1	0.6	0.8	n.a.	4.6	1.1	2.8	2.2	0.3	2.8	1.8	1.1
	Pay-out	*18.6%*	*0.0%*	*33.0%*	*17.2%*	*0.0%*	*39.3%*	*52.4%*	*30.6%*	*0.0%*	*n.a.*	*24.7%*	*12.3%*	*55.3%*	*50.6%*	*71.0%*	*59.0%*	*-0.7%*
Multiples and Ratios	**P/E (x)**	3.8	6.8	12.9	7.9	13.7	59.2	13.9	28.9	6.3	23.8	12.0	14.0	14.0	11.7	12.3	12.6	19.7
	P/BV (x)	0.6	2.0	1.6	1.4	2.3	n.a.	4.5	3.4	n.a.	0.7	n.a.	0.7	n.a.	1.5	1.9	1.7	1.0
	EV/Revenues (x)	2.0	2.3	1.8	2.0	2.2	18.5	4.5	8.4	0.6	0.8	0.6	0.7	6.0	2.6	3.7	4.1	0.8
	EV/EBITDA (x)	6.1	7.6	9.0	7.6	9.1	49.5	11.4	23.3	5.9	9.4	5.6	7.0	12.7	8.8	10.6	10.7	7.7
	EV/EBIT (x)	6.6	8.5	10.6	8.6	8.3	n.a.	12.4	10.3	7.8	14.8	9.7	10.8	13.1	10.0	12.9	12.0	20.7
	ROE	*15.5*	*29.1*	*12.7*	*19.1*	*16.5*	*67.5*	*32.4*	*38.8*	*n.a.*	*2.7*	*n.a.*	*2.7*	*215.2*	*12.4*	*15.3*	*81.0*	*5.4*
	FCF Yield (%)	*23.6*	*10.3*	*3.5*	*12.4*	*7.9*	*1.2*	*6.1*	*5.1*	*10.9*	*12.5*	*7.9*	*10.4*	*6.8*	*6.3*	*6.4*	*6.5*	*2.4*
	DPS	*0.47*	*0.00*	*0.61*	*0.36*	*0.00*	*4.91*	*3.41*	*2.77*	*0.00*	*n.a.*	*0.22*	*0.11*	*5.76*	*3.85*	*1.56*	*3.72*	*0.00*
	Dvd Yield	*4.9%*	*0.0%*	*1.9%*	*2.3%*	*0.0%*	*0.7%*	*3.7%*	*1.4%*	*0.0%*	*n.a.*	*1.8%*	*0.9%*	*4.0%*	*4.3%*	*5.9%*	*4.7%*	*n.a.*

Note 1: Financial data, multiples and ratios based on market consensus (Factset). In the case of the company analyzed, own estimates (Lighthouse).

Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

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Calle Núñez de Balboa, 108 1ª Planta
28006 Madrid
T: +34 915 904 226
institutodeanalistas.com/lighthouse

Alfredo Echevarría Otegui
Head of research
alfredo.echevarria@institutodeanalistas.com

Luis Esteban Arribas, CESGA
Equity research
luis.esteban@institutodeanalistas.com

Enrique Andrés Abad, CFA
Equity research
enrique.andres@institutodeanalistas.com

José Miguel Cabrera van Grieken
Equity research
Jose.cabrera@institutodeanalistas.com

Jesús López Gómez, CESGA
ESG Analyst & Data analytics
jesus.lopez@institutodeanalistas.com

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27-May-2024	n.a.	2.78	n.a.	n.a.	Initiation of Coverage	Luis Esteban Arribas, CESGA

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