CHECKPOINT

ADL Bionatur BUY

Eyes on 2020 for continued value creation Target Price: €3.20

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- ADL Bionatur sales growth continues to be driven by a hungry customer base that demands fermentation capacity to fulfil its own production requirements. We now expect sales to rise by 44% in 2020, on top of a 100% increase in 2019

- ADL Bionatur has signed a €25 million (+€5 million) 4-year financial instrument to enable the financing of the next stage of capacity expansion and working capital requirements.

- The 2019 financial resource bottleneck has delayed the execution of ADL customer order backlog. We are bringing our 2019 forecasts closer to the company guidance, but momentum remains unabated.

- Despite the resulting financial debt increase to €65 million, we believe it to be sustainable once the fermentation starts to run at full capacity. We expect Ebitda/Financial Cost ratio to reach 3.7x in 2021, even with the 12% interest rate on the new debt facility.

- In recent weeks, ADL Bionatur has announced new contracts (Japanese pharma company) and contract extensions (Amyris) that underpin our confidence in our sales growth projections. The management continues to demonstrate its ability to create value by acquiring its customer base anywhere in the global market place.

- **We look for a 47% upside in our 12 month target price of €3.20. We expect the market to begin to focus on the outlook for 2020 once the 3Q19 results are announced and we come close to the calendar end of the year.**

Equities

Spain
Biotechnology

Price (4pm 5/11/19): €2.18
RIC: ADL.MC
Target Price (12 months): €3.20

52 week range (€):	1.61 - 2.60
Mkt Cap (€ millions):	85.9
No. Shares (millions):	39.4
Avg Daily vol (€ LTM):	30,769

Share Price Chart (LTM)

(€ millions)	2018e	2019f	2020f	2021f
Sales	25,3	49,7	72,0	83,8
Ebitda	-8,7	3,6	15,3	23,1
Net Income	-16,7	-6,5	4,0	11,5
EPS (cents)	-0,42	-0,16	0,10	0,29
Net Debt	41,7	63,7	68,1	69,4
P/E (x)	n.m.	-13,3	21,7	7,5
EV/EBITDA (x)	n.m.	42,1	10,0	6,7
EV/Sales (x)	5,1	3,0	2,1	1,9

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Plenty of sales and earnings momentum for 2020

ADL Bionatur fundamentals will continue to gain strength both in terms of revenue growth and profitability, as we move into next year. Following an expected doubling of sales in 2019, we estimate a 44% increase in 2020 to €72 million with a further 17% in 2021 ro €84 million. 2020 reported Ebitda is expected to rise four-fold to €15.3 million from the expected €3.6 million in 2019, and then again by 51% in 2021.

Our current target enterprise value of €183 million places ADL Bionatur on a EV/Ebitda multiple of 13x and 9x for 2020 and 2021, which we consider justified. Using the current share price, the forward EV/Ebitda multiples are still on 10x and 7x respectively.

The breakdown of value is distributed between the CMO division with €136 million, the other operating divisions (API´s, Licencing and R&D Services) with €34 million and others (currently the rent to Wacker Chemie and eventually the sale of water treatment services to third parties) with €13 million.

We remain confident of strong levels of growth going forwards.

CMO Division

Industrial fermentation products, the CMO division, are expected to bring in almost 80% of the expected revenues in 2020 and 2021. There is a high certainty in our 2020 projection of 41% revenue growth given the existing client commitments, normally planned at least a year in advance. Availability of capacity was the only bottleneck and that is now being solved with the signing of the €25 million debt facility.

ADL Bionatur particularly benefits from the rise in demand globally for biobased products matched by the rising supply driven by innovation. Innovation in this area has partly come from newly created companies developing products with genetically modified strains, facilitated by the emergence of genetic toolkits and DNA sequencing technology.

These relatively new industrial biotech companies like Jannewein, Amyris or Fermentalg (clients of ADL Bionatur) prefer not to sink their own capital in expensive production facilities and do value partnering with specialists to get help on scale up solutions.

A further example of the kind of global demand is that Wacker Chemie AG is currently renting some of the industrial space at ADL Bionatur facilities, in itself another source of revenue for the company. Another example of a global company using ADL Bionatur facilities is DSM, yet another indication of the global shortage.

ADL Bionatur is also investing in building up its own portfolio of biobased products in order to balance the risk profile of its customer order book.

We value the CMO division in €136 million, which represents a sales multiple of 2.4x on 2020 expected sales. We base our valuation on projected long term Gross Profit and Ebitda margins of 60% and 20% respectively, consistent with our views of the potential profitability of this kind of industrial fermentation business.

Pharma, licensing and R&D services

These divisions are expected to bounce strongly in 2020 driven by the beta-lactam API production, new contracts in R&D services and new product launches in Animal Health. We estimate all divisions combined to deliver some €13 million in 2020 from an estimated €7 million in 2019. The projected €13 million is expected to be made up of €6.5 million of APIs (+85%), €4.0 million in licensing (+96%) and €2.3 million in R&D services (+53%).

API production has lagged till now (a legacy business from Antibióticos) as regulatory dossiers (necessary for the re-start of operations under ADL Biopharma) are prepared and completed to enable new production. The recent news of a €13 million 5 year contract for the production of APIs at ADL Bionatur facilities, underpins our confidence in the expected rebound in sales going forward.

Despite the competition for antibiotics production coming from Asia, the sterile versions (mostly used in the hospital setting) are less price sensitive and production in developed geographies is normally preferred. ADL Bionatur has the expertise and a high quality customer portfolio from which to continue to grow the API business, in an environment where Pharma companies are increasingly outsourcing the production of generic products.

In addition, ADL Bionatur continues to focus its efforts on monetizing its own product portfolio for the animal market, particularly in pets. The company is currently drawing revenues from a microbiome-modulator product for the canine market.

Earlier in the year, ADL Biounatur obtained MUMS (Minor Use/Minor Species) from the European Medicines Agency for its MUPIPET product, which will allow for the registration and subsequent commercialisation of a novel canine piodermatitis therapeutic product. We also expect the BNT005, a vaccine for canine visceral leishmaniasis, to be licensed going into 2020 that has already shown very promising results in clinical trials. In parallel, ADL Bionatur has a portfolio fo already developed anti-invectives (BNT006, 007,010 and 015) for Poultry and Swine which are also expected to be licensed or sold to third parties.

The other two areas of related to R&D services (Zebra fish animal model) and the technology platforms for the universal purification of proteins and the development of second generation vaccines, are self sufficient and profitable. In these areas, there are strong revenue prospects going into 2020.

We value all these divisions combined at €34 million, a multiple of 2.6x estimated 2020 sales. Divisional profits are not disclosed by the company but we estimate 2020 Ebitda (ex-capitalisations) to reach €2.4 million leaving the EV/Ebitda multiple on 14x, consistent with the growth and still hidden value behind these divisions.

What the 1H19 numbers have spoken…

ADL Bionatur released on October 10th first half 2019 numbers with a loss of 7 cents per share (vs a loss of 21 cents in 1H18), a reflection of the positive trend towards profitability. The positive results were largely expected by the market.

At the operational level, overall revenues increased by 138% to €22.6 million, not too disimilar to the reported 134% sales increase in 1Q19. Both 1Q19 and 2Q19 were fairly similar in terms of sales.

Normalised Ebitda was reported at €595k vs a loss of €6.0 million in 1H18. The reported net profit of a loss of €2.8 million was lower than the reported loss of €8.4 million in 1H18. The operational leverage of ADL Bionatur is self evident with the reported 1H19 numbers.

With more capital at hand, following the issuance of the €25 million debt instrument, we would expect 3Q19 and 4Q19 to be comparatively stronger than 1H19.

Profit and loss account (€ millions)	**2018**	**2019e**	**2020f**	**2021f**
CMO	15,7	40,6	57,0	64,8
Propietary Products	5,6	5,5	10,5	13,8
R&D Services	1,7	1,5	2,3	2,4
Other	2,3	2,1	2,2	2,7
Revenues	**25,3**	**49,7**	**72,0**	**83,8**
Cost of good sold	10,6	21,1	29,1	32,1
Gross Profit	**14,6**	**28,6**	**43,0**	**51,6**
Gross Margin	*58 %*	*58 %*	*60 %*	*62 %*
Capitalized R+D	1,9	3,0	3,1	3,2
Personnel costs	13,4	15,9	17,4	18,1
Other SG&A	11,9	12,1	13,3	13,7
Depreciation	2,7	4,1	5,2	5,5
Operating profit	**-11,4**	**-0,6**	**10,1**	**17,6**
Operating Margin	*-45 %*	*-1 %*	*14 %*	*21 %*
Ebitda	**-8,7**	**3,6**	**15,3**	**23,1**
Margin	*-34 %*	*7 %*	*21 %*	*28 %*
Ebitda (ex-cap) *	**-10,6**	**0,6**	**12,2**	**19,9**
Margin	-42 %	1 %	17 %	24 %
Extraordinaries	-3,5	-1,5	0,0	0,0
Financial income	0,0	0,1	0,2	0,1
Financial Expenses	1,9	4,4	6,3	6,2
Income before tax	**-16,8**	**-6,5**	**4,0**	**11,5**
Income tax	-0,1	0,0	0,0	0,0
Net profit	**-16,7**	**-6,5**	**4,0**	**11,5**

* excludes capitalised R&D. Source: Checkpoint, ADL Bionatur

Balance Sheet (€ millions)	**2018**	**2019e**	**2020f**	**2021f**
Fixed Assets	**58,6**	**66,3**	**70,3**	**72,7**
Intanglible assets	14,1	15,4	16,6	17,9
Tangible assets	37,4	45,2	48,9	50,9
Real Estate investments	1,1	1,1	1,1	1,1
Long term financial investments	1,3	1,3	1,3	1,3
Deferred taxation	4,8	3,4	2,4	1,6
Current Assets	**20,6**	**37,2**	**33,5**	**33,2**
Inventory	6,6	10,6	12,5	10,2
Commercial and other debtors	8,9	9,5	11,8	13,8
Short term financial investments	1,2	1,2	1,2	1,2
Cash	4,0	16,0	8,0	8,1
Assets	**79,2**	**103,5**	**103,8**	**106,0**
Shareholders funds	**21,2**	**14,7**	**17,7**	**19,0**
Long term liabilities	**38,2**	**60,7**	**55,1**	**56,0**
Long term financial debt	30,7	54,6	54,5	55,5
Long term debt (w/ related parties)	7,0	5,5	0,0	0,0
Deferred taxation	0,5	0,5	0,5	0,5
Current liabilities	**19,9**	**28,1**	**31,0**	**30,9**
Short term financial debt	8,8	20,3	22,4	22,8
Commercial and creditors	10,5	7,3	8,1	7,5
Liabilities	**79,2**	**103,5**	**103,8**	**106,0**

Sum of the parts valuation

Division	Unit	DCF (€)	Year	Target EV / Sales	Target EV / Ebitda	5 yr Sales Growth	Long term Sales Growth
CMO	N4	**125,6**	**2020**	2,3	13,6	36 %	2 %
			2021	2,1	8,4		
	N3	**10,0**	**2020**	3,9	-28,9	n.m.	**2 %**
			2021	2,6	17,8		
Propietary Products		**24,2**	**2020**	2,3	18,5	27 %	**5 %**
			2021	1,8	12,3		
R&D Services		**9,5**	**2020**	4,1	8,6	20 %	**4 %**
			2021	3,9	8,4		
Other		**13,2**	**2020**	6,1	12,6	17 %	**4 %**
			2021	4,8	8,8		
Sum of Parts		**182,5**	**2020**	**3,7**	**14,8**	**34 %**	**3 %**
			2021	**2,5**	**9,1**		

* *The Ebitda used in our sum of the parts valuation excludes R&D capitalisations and is therefore smaller than the reported accounting Ebitda.*

Source: Checkpoint Partners

Checkpoint Recommendation System

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- **Buy:** the stock is expected to generate total return of over 20% during the next 12 months time horizon
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- **Neutral:** the stock is expected to generate total return of -20% to +20% during the next 12 months time
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- **Sell:** the stock is expected to generate total return under -20% during the next 12 months time horizon.

Our rating system applies to companies with market capitalizations of near or below €50 million that in most cases refer to stocks that are illiquid and more volatile than its larger sized peers.

History of recommendations

Date	Recommen.	Price (€)	Target P.(€)	Period	Analyst
11.2.2019	BUY	2.12	3.20	12 months	Guillermo Serrano
08.4.2019	BUY	2.16	3.20	12 months	Guillermo Serrano
6.11.2019	BUY	2,21	3.20	12 months	Guillermo Serrano

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Frequency of analyst reports

At present Checkpoint has committed to a quarterly update of ADL Bionatur financial and operational performance.

Investment horizon

Our reports focus mainly on small capitalization and illiquid stocks where standard Venture Capital investment criteria should apply. An investment into a sub or near €50 million market capitalization stock, specially if it is illiquid, should be done on a 3-5 year time horizon in order to realize the full potential of the investment opportunity.

Date of publication

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