

# Selvita

## Solid organic outlook with acquisitions upside

**Buy**  
(Recent: Buy)

**Target price: 104 PLN**  
**upside potential: +32%**

Selvita is currently one of the leading players in the European CRO market, and the favourable CRO market environment and plans to develop new laboratory space strengthen the company's prospects for further organic growth. With the results of 1H22, SLV's current results visibly surpasses the novel strategy assumptions with the business growth supported by the deterioration of the sentiment towards Asian CRO players and favoured global discovery market growth (2022-2026F CAGR at 12%), mainly in North America and Europe (2021-2026F CAGR at 14-16%). Further acquisition processes are an additional upside that provides an opportunity to develop the service offer and strengthen the competitive position of SLV. Analysing the current environment on the CRO services market, we believe that SLV may make further acquisitions in the coming 1-2 quarters. Our forecasts do not include further acquisitions at the moment, however, the prospects of solid organic growth imply a 12M TP price of PLN 104 / share with a "Buy" recommendation (+ 24% upside).

**Strong organic growth perspectives.** The current backlog of Selvita (as of 02/09/2022) amounts to over PLN 358 million - the order backlog for 2022 shows a positive impact of the increase in the number of regulatory projects (service segment), there is also a significant increase in interest in the bioinformatics segment. The current geopolitical and macroeconomic environment does not have a significant impact on the functioning of the group, and the favourable development prospects for the CRO market will positively affect the further contracting of the company's services by 2026.

**Financial forecasts for 2022-2024: assumptions of the average annual organic growth at the level of approx. 19% y/y and greater cost pressure conditioned by the growth of the business scale.** Throughout 2022, we assume the level of research services provided in Poland at PLN 209mln (+32% y/y) and the segment's EBITDA level adjusted by the costs of the incentive program at PLN 55mln (+53% y/y). In the segment of services provided in Croatia, we assume revenues at PLN 152mln (+19% y/y) with an estimated EBITDA of PLN 49mln (+25% y/y). In the Bioinformatics segment, we estimate revenues '22 at PLN 46mln (+31% y/y) assuming the EBITDA level of PLN 7mln (-29% y/y). In 2023, we assume an increase in operating income and EBITDA levels, assuming a new laboratory facility in Krakow to be operational from 1Q23. In subsequent years of forecasts, we assume that the dynamics of revenues from research services will stabilize to the level of approx. 15% y/y, assuming an increase in operating costs (average dynamics of +20% y/y), conditioned by an increase in direct costs of CRO activity.

**Upside on next acquisitions.** In 2020, Selvita signed an agreement to take over the Croatian company Fidelta from Galapagos for EUR 31.2mln. In 2020, Fidelta's revenues and normalized EBITDA amounted to EUR 26mln and EUR 6.5mln, respectively, implying transaction multiples of EV / Sales and EV / EBITDA of 1.2x and 4.8x, respectively. SLV has approx. 20 companies on the list of acquisition targets. SLV is targeting companies of EUR 5-35 million annual revenues 30-250 employees. SLV assumes obtaining additional PLN 150-250mln in revenues thanks to acquisitions.

**Potential SLV acquisitions - Trigon assumptions.** In our opinion, the company's goal will be to acquire an entity from the UK or US market, which will enable the expansion of the volumes of services provided on markets with different regulatory requirements. We assume that in 2023-2025, Selvita will be able to complete the acquisition of at least two companies- CDMO or preclinical CRO to complement the currently missing areas of SLV activity (including the pre-formulation competencies, small clinical batches production, API production and GMP scale-up). Analysing the current environment on the CRO services market, we believe that SLV may make further acquisitions in the coming 1-2 quarters. In our opinion, the potential transaction multipliers will not be as favourable as in the Fidelta's acquisition - we assume potential multipliers of CDMO / preclinical CRO acquisitions in the range of approx. 2-4 for revenue multiple) and approx. 12-18 for EBITDA multiple. At the moment, we do not include potential acquisitions of new companies in our forecasts.

**Valuation.** In comparison to our last recommendation, we raise our forecasts of the Group's top line and recurring EBITDA due to favourable dynamics of the CRO market, as well as taking into account Selvita's plans to implement new research services and launch new laboratory areas in the perspective of 2023-2025. With the results of 1H22, SLV's current growth surpasses the strategy assumptions with the business growth supported by the deterioration of the sentiment towards Asian CRO players and favourable global discovery market growth (2022-2026F CAGR at 12%), mainly in North America and Europe (2021-26F CAGR at 14-16%). At the same time, we increase CAPEX assumptions due to ongoing SLV's investments in LAB infrastructures. The current valuation implies EV/EBITDA'23-'25 20.4—10.2x and P/E'23-'25 62.9-19.3x. In our opinion, the Group will maintain a safe level of ND / EBITDA '23-'25 leverage in the 2-2.5x range. We value Selvita shares using the DCF method (100% weighting) at PLN 104 / share (+ 24% upside). Relative valuation to other CRO entities implies a valuation of SLV at PLN 70 / share, however, due to the different offer of SLV services compared to other listed CRO entities, we use the DCF method for the valuation of SLV shares.

**Risk factors.** They are described in a section on page 18.

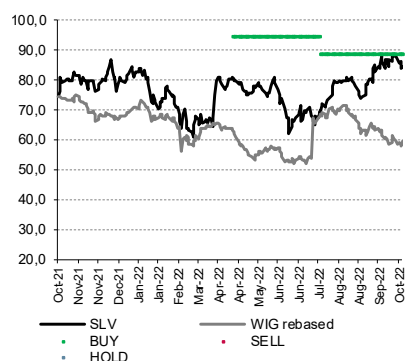
mIn PLN	2019	2020	2021	2022F	2023F	2024F
Revenues	31,9	141,9	315,7	408,4	505,2	615,2
EBITDA	8,0	33,1	53,6	79,0	126,9	159,5
EBITDA adj.*	8,0	33,1	85,0	111,5	136,6	160,2
EBIT	5,4	19,5	26,1	39,2	73,1	109,6
Net profit	5,5	19,6	14,9	23,2	49,8	75,6
EPS (PLN)	1,0	1,2	0,8	1,3	2,7	4,1
P/E (x)	80,0	68,6	103,5	66,4	31,0	20,4
EV/EBITDA (x)	56,6	39,2	30,6	21,4	13,1	10,7

Source: the company, Trigon Brokerage House, \* data adjusted by Incentive Program costs

### FACT SHEET

Ticker	SLV		
Sector	Biotech & MedTech		
Price (PLN)	84,00		
52wk Range (PLN)	54,6 / 89,9		
Number of share (m )	18,4		
Market Cap (mPLN)	1 542		
Free-float	47%		
Avg Vol 3M (mPLN)	0,7		
Price performance	1M	3M	1Y
	1,6%	25,2%	12,6%

### RELATIVE SHARE PRICE PERFORMANCE



### RECOMMENDATION HISTORY

	Date	Price
Buy	20.07.2022	89
Buy	20.04.2022	95
Hold	10.12.2021	85
Hold	07.12.2021	85

### SHAREHOLDERS

	Share %
Paweł Przewiężlikowski	21,1%
NN OFE	10,4%
Allianz TFI	9,8%
Augebit FIZ (TFI Forum)	6,2%
Bogusław Sieczkowski	5,1%
Other	47,4%

### IMPORTANT DATES

Report 3Q22	09.11.2022
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##### Definitions

capitalisation – market price multiplied by the number of a company's shares

free float (%) – a percentage of a company's shares held by shareholders with less than 5% shareholding reduced by treasury shares held by the company

min/max 52 wks – minimum/maximum share price within the last 52 weeks

average turnover – average volume of share trading within the last month

EBIT – operating profit

EBITDA – operating profit increased by depreciation and amortisation  
 adjusted profit – net profit adjusted for one-off items  
 CF – cash flow  
 capex – sum of investment expenditures on fixed assets  
 OCF – cash generated through the operational activities of the company  
 FCF – cash generated by the company after taking into account outflows to support operations and retained capital

ROA – rate of return on assets  
 ROE – rate of return on equity  
 NWC – net working capital  
 Cash conversion cycle – period from the moment of expenditure of cash for the purchase of production factors until the moment of receipt of cash revenues from the sale of manufactured goods or services.

Gross profit margin – a ratio of gross profit to net revenue  
 EBITDA margin – a ratio of sum of operating profit and depreciation/amortisation to net revenue  
 EBIT margin – a ratio of operating profit to net revenue  
 net margin – a ratio of net profit to net revenue

EPS – earnings per share  
 DPS – dividends per share  
 P/E – a ratio of market price to earnings per share  
 P/BV – a ratio of market price to book value per share  
 EV/EBITDA – a company's EV to EBITDA ratio  
 EV – sum of a company's current capitalisation and net debt  
 DY – dividend yield, dividend paid to share price ratio

RFR - risk-free rate  
 WACC - weighted average cost of capital

ISSUER – Selvita S.A.

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 NEUTRAL – we expect the price of an investment to be relatively stable, optionally it will increase no greater than 10%  
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 Recommendation prepared by: Katarzyna Kosiorek

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