

Moving further steps in nutraceutics

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1H19 results: higher operating costs offset double-digit top line growth

HI posted €14.8m sales in 1H19 (+12% yoy). This translated into an EBITDA of €1.6m (flat yoy), implying an EBITDA margin of 11% (vs 18% in 1H18). Promotion activities were the main contributors to group's EBITDA, while Health Point and Health Pharma (former SBM) were still below break-even in 1H19. Net profit of €3m benefitted from one-off capital gains, while on the balance sheet, HI closed 1H19 with €6.1m NFP (€8.6m in 2018).

Evolution ongoing to expand group's integrated offer

HI's evolution proceeded intensely in the last year, as the group: (1) completed a €27m capital increase for the merger with Cornelia Capital, to expand offer in nutraceutics; (2) continued its international expansion with the establishment of Health Est Europe and Health for Life Espana; (3) increased its Health Point network to 13 units; (4) invested in Stemway Biotech (stem cells' conservation and predictive genetics), and acquired Physio Didaktika (nutraceutical products/cosmetics); and (5) signed multiple agreements to develop its Banca Mutua project and its corporate welfare franchise. Such initiatives are not contributing yet to group's EBITDA, but are part of HI's mid-term plan to expand its integrated offer.

Focus on Health Point's roll-out and offer expansion in nutraceutics

With nine openings, the roll-out of Health Point in 2018 was overall consistent with management's targets. Multiple options were exploited in this first phase (Health Point installed in clinical centers, shopping malls, inside clients' HQ as part of corporate welfare programs, and also in the form of real stores), with the group introducing also the franchising format in 2019. Beyond Health Point, the group remains committed in increasing its presence in nutraceutical products via the development of the Health Pharma business and the integration with Cornelia Capital. Also, we expect external growth to continue to play an active role in group's strategy, potentially representing a tool for further expanding its offer in adjacent segments or increase its presence in complementary activities.

FY19E EBITDA seen at around €8m and almost doubling by 2021E

We updated our estimates for FY19E to factor in the inclusion of Cornelia Capital into Health Italia's perimeter, and to update our assumptions on the evolution of Health Point and Health Pharma. We now expect c.€8m EBITDA in FY19E, with the bulk coming from Promotion activities, and Health Point and Health Pharma seen closing at break-even. On 2020, our forecasts are still conservatively assumed below HI's targets, given the very early stage of many key initiatives undertaken by the group. We expect HI to approach c.€60m sales and c.€15m EBITDA in FY21E.

More evidence on delivery to unlock upside. Neutral confirmed, TP of €4.8

The equity story sits on solid underlying trends, with higher penetration of supplementary healthcare potentially offering ample room for growth, and HI gradually expanding its offer to catch opportunities offered by the market. We confirm our Neutral with a new TP of €4.8 (from €5.5), updated to reflect the impacts from the operation with Cornelia Capital, as well as softer organic growth forecasts on the Health Point and Health Pharma businesses. While our TP leaves almost 20% upside to current share price, and we appreciate management's dynamism in developing group's offer, we would wait for more evidence on business plan delivery, before becoming more constructive on the name. Neutral.

	2018	2019E	2020E	2021E
EPS Adj (€)	0.06	0.01	0.15	0.25
DPS (€)	0.03	0.06	0.04	0.05
BVPS (€)	1.65	2.89	2.97	3.19
EV/Ebitda(x)	16.4	11.2	7.3	5.7
P/E adj (x)	78.8	nm	28.4	16.5
Div.Yield(%)	0.5%	1.5%	0.8%	1.2%
OpFCF Yield(%)	-11.1%	3.8%	2.2%	6.4%

Market Data

Market Cap (€m)	78
Shares Out (m)	19
Sorgiva Holding S.r.l. (%)	30%
Free Float (%)	38%
52 week range (€)	6.04-3.90
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	-9.2%
-3m	-19.3%
-12m	-33.9%
21dd Avg. Vol.	7,764
Reuters/Bloomberg	HI.MI / HI IM

Source: Mediobanca Securities

Health Italia

Price: € 4.14

Target price: € 4.80 (from € 5.50)

Neutral

Valuation Matrix

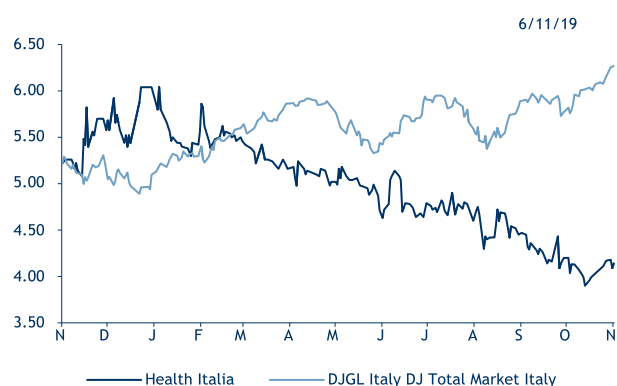
Profit & Loss account (€ m)	2018	2019E	2020E	2021E	Multiples	2018	2019E	2020E	2021E
Turnover	31	37	49	58	P/E Adj.	78.8	nm	28.4	16.5
Turnover growth %	39.9%	22.3%	32.5%	16.6%	P/CEPS	36.2	10.7	11.5	8.3
EBITDA	5	8	12	14	P/BV	3.1	1.4	1.4	1.3
EBITDA margin (%)	16.5%	21.0%	24.1%	25.0%	EV/ Sales	2.7	2.4	1.8	1.4
EBITDA growth (%)	-22.2%	55.5%	52.0%	21.0%	EV/EBITDA	16.4	11.2	7.3	5.7
Depreciation & Amortization	-1	-3	-4	-4	EV/EBIT	20.0	19.8	10.8	8.2
EBIT	4	4	8	10	EV/Cap. Employed	2.4	1.4	1.4	1.3
EBIT margin (%)	13.5%	11.9%	16.4%	17.6%	Yield (%)	0.5%	1.5%	0.8%	1.2%
EBIT growth (%)	-23.1%	7.9%	82.1%	25.1%	OpFCF Yield(%)	-11.1%	3.8%	2.2%	6.4%
Net Fin.Income (charges)	0	4	-1	-1	FCF Yield (%)	-10.0%	7.6%	6.3%	9.3%
Non-Operating Items									
Extraordinary Items	0	0	0	0					
Pre-tax Profit	2	6	5	8					
Tax	-1	-2	-2	-2					
Tax rate (%)	53.1%	29.6%	33.7%	31.5%					
Minorities	0	0	0	0					
Net Profit	1	4	3	5					
Net Profit growth (%)	-67.7%	nm	-24.0%	71.7%					
Adjusted Net Profit	1	0	3	5					
Adj. Net Profit growth (%)	-67.7%	-83.2%	nm	71.7%					

Balance Sheet (€ m)	2018	2019E	2020E	2021E	Per Share Data (€)	2018	2019E	2020E	2021E
Working Capital	10	12	14	16	EPS	0.06	0.19	0.15	0.25
Net Fixed Assets	23	50	49	48	EPS growth (%)	-67.7%	nm	-24.0%	71.7%
Total Capital Employed	34	62	64	64	EPS Adj.	0.06	0.01	0.15	0.25
Shareholders' Funds	24	55	56	61	EPS Adj. growth (%)	-67.7%	-87.3%	nm	71.7%
Minorities	0	1	1	1	CEPS	0.14	0.39	0.36	0.50
Provisions	1	-2	-1	-1	BVPS	1.65	2.89	2.97	3.19
Net Debt (-) Cash (+)	-9	-9	-8	-3	DPS Ord	0.03	0.06	0.04	0.05

Cash Flow (€ m)	2018	2019E	2020E	2021E	Key Figures & Ratios	2018	2019E	2020E	2021E
Cash Earnings	2	7	7	9	Avg. N° of Shares (m)	14	19	19	19
Working Capital Needs	-3	-2	-2	-1	EoP N° of Shares (m)	14	19	19	19
Capex (-)	-8	-2	-3	-3	Avg. Market Cap. (m)	73	79	79	79
Financial Investments (-)	-0	-1	0	0	Enterprise Value (m)	82	88	87	83
Dividends (-)	-1	-0	-1	-1	Adjustments (m)	1	1	1	1
Other Sources / Uses	4	-2	0	0	Labour Costs/Turnover	17%	17%	12%	12%
Ch. in Net Debt (-) Cash (+)	-7	-0	1	5	Depr.&Amort./Turnover	3%	9%	8%	7%

	2018	2019E	2020E	2021E		2018	2019E	2020E	2021E
Gearing (Debt / Equity)	36%	16%	14%	5%	Turnover / Op.Costs	1.2	1.3	1.3	1.3
EBITDA / Fin. Charges	>10	2.1	-19.6	-23.7					
Net Debt / EBITDA	1.7	1.1	0.7	0.2					
Cap. Employed/Turnover	111%	167%	129%	111%					
Capex / Turnover	27%	6%	5%	5%					
Pay out	39%	32%	24%	20%					
ROE	4%	7%	5%	8%					
ROCE (pre tax)	12%	7%	13%	16%					
ROCE (after tax)	6%	5%	8%	11%					

Source: Mediobanca Securities



Source: Mediobanca Securities

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1H19 results - Higher costs offsetting top-line growth

On 30 September, Health Italia unveiled its preliminary 1H19 results, which highlighted a double-digit top-line growth coupled with a lower-than-expected profitability. EBITDA of €1.6m discounted the negative impact of the several initiatives launched by the group in the past months. By business unit:

- ◆ Promotion of healthcare services continued to be the main contributor at EBITDA level, posting €1.7m EBITDA even in spite of a flattish top-line trend;
- ◆ Support Health Care was the fastest-growing segment, as it posted +25% top-line growth, with a more than proportional increase in EBITDA;
- ◆ Revenues from Health Point were c.€0.7m, with costs for the roll-out still weighing on profitability (contribution of the BU was still negative in 1H19 to the tune of -€0.6m);
- ◆ Also Health Pharma closed a touch below breakeven, with a negative contribution at EBITDA level of c.€0.5m;

Beyond the EBITDA, we would flag that the group reported c.€1.5m costs (including costs for unexpected occurrence of healthcare policies and production bonuses/incentives for its promoters' network). We note that the incidence of such costs was particularly high in 1H19, approaching 10% of sales vs 3.5% in 1H18 and c.6% in FY18. As far as our understanding, the evolution of this item is mostly driven by one off drivers which can have a higher or lower impact on group's profitability and bottom-line results. That said, the evolution of these costs has to be kept under monitoring, given their impact on the group's ability to produce earnings and cash flow generation;

1H19 net profit benefitted from c.€5m one-off capital gains, mainly coming from the disposal of Cornelia capital stake acquired in 2018.

€m	1H19	1H18	YoY chg.
Total sales	14.8	13.3	11.7%
EBITDA	1.6	2.3	-30.4%
margin %	11.0%	17.7%	
EBIT	0.7	1.2	nm
margin %	5.0%	8.9%	
Net profit	3.0	0.0	nm
Net Debt/(Cash)	6.1	4.4	

Source: Mediobanca Securities on Company data

As far as our understanding, 1H19 performance of the Health Point division was impacted by some unexpected regulatory uncertainty, as regional authorities argued that the activity of Health Point should need healthcare authorisation to operate. Uncertainty on this potential new requirement caused a stalemate in the roll-out of the health point's network and some slowdown in the activity of the ones already operating.

On October 22, Health Italia announced that the Court of Appeal (ruling 38485-19) reiterated that no healthcare authorisation is needed for telemedicine services. This confirmed HI's thesis, and may support a resume of Health Point roll-out, which is pivotal for the achievement of group's mid-term targets.

Change in FY19-21E estimates

With this report we are updating our estimates for FY19-21E, to factor in the impact from Cornelia Capital merger, as well as softer organic growth forecasts on the development of Health Point and Health Pharma businesses. More specifically, we are now expecting:

- ◆ For 2019E, core revenues of c.€36m (+19% yoy), assuming c.€4.5m contribution from Health Point and Health Pharma businesses. We see Health Point and Health Pharma at around break-even at EBITDA level by 2019YE, leading HI to close FY19E with c.€8m EBITDA;
- ◆ Through 2021E we expect revenue and EBITDA growth to be driven by the roll-out of Health Point and by the speed up of group's nutraceutics activities, with HI seen reaching €57m and c.€14m EBITDA.

Health Italia - Change in MB FY19-21E estimates

€m	2019E			2020E			2021E
	Old	New	% change	Old	New	% change	New
Sales	41.6	36.2	-12.9%	53.0	48.3	-8.7%	56.5
EBITDA	11.0	7.8	-29.0%	14.2	11.9	-16.0%	14.4
margin %	26.6%	21.7%		26.8%	24.7%		25.5%
EBIT	8.6	4.4	nm	11.2	8.1	-27.6%	10.1
margin %	20.6%	12.3%		21.1%	16.8%		17.9%
Net profit	4.2	4.4	2.9%	6.0	3.7	nm	4.9
Net (Debt)/Cash	(2.7)	(7.5)		(0.2)	(5.7)		(0.6)

Source: Mediobanca Securities

Valuation - Neutral confirmed, with €4.8 TP (from €5.5)

Based on our new estimates (reflecting a more moderate top-line growth and lower profitability), and on the new number of shares following the capital increase to support the merger with Cornelia Capital, we update our TP to €4.8/share (from previous €5.5). As a reminder, our TP is derived via DCF-method, with a 10% discount to reflect limited share liquidity, as well as pending overhang risk on NSSF Malta1's stake. Below a recap of our main assumptions:

- ◆ WACC of 8.9%;
- ◆ Terminal growth rate of 2%;
- ◆ T+7 as reference year for Terminal Value, with EBITDA of 25%.

Health Italia - Recap of TP calculation

Equity Value per share from DCF	€5.4
Discount	10%
Target Price	€4.8

Source: Mediobanca Securities

Merger with Cornelia Capital

On July 3, Health Italia's EGM approved the merger with Cornelia Capital and the launch of a capital increase for up to 5.3m shares to serve the operation. The capital increase was successfully completed at the end of July. The main strategic driver of the deal may be represented by the aim to increase presence within nutraceutical products and food supplements (both in terms of products and commercial presence), with contribution from Cornelia Capital also helping Health Italia in meeting 2020 targets envisaged by its business plan.

Main highlights of the operation:

- ◆ the operation envisaged the exchange of 2 Cornelia Capital shares per 1 Health Italia share. The exchange ratio was based on a valuation of €6.0 per each HI share and of €3.0 per each Cornelia Capital share. According to company's press release, such values are based on the opinion of a third-party independent valuator, and are backed by a DCF analysis;
- ◆ to serve the operation, HI issued c.4.7m shares, with a nominal value of €1/share, leading to an increase in Health Italia's share capital to c.€19m;
- ◆ Health Italia S.p.A. previously represented the main shareholder of Cornelia Capital (18.3% of the share capital, before selling the stake previous to the operation in 1H19);
- ◆ given the relationships between Health Italia and Cornelia Capital, the operation represented a Related Party transaction. According to company's press release, the Related Party Committee gave a positive opinion of the operation.

Move to increase presence in nutraceutics and food supplement market

Cornelia Capital is an Italian company which was listed in Wien Stock Exchange. It operates as an investment holding and through its subsidiaries invests in healthcare, insurance services, real estate, and food industries, as well as a start-up incubator. In greater detail, on Cornelia Capital's operations:

- ◆ within healthcare, the company develops and distributes cosmetics and nutraceutical products;
- ◆ within its services division, the group provides brokerage and consultancy services for corporate and individual clients, as well as marketing and communication services;
- ◆ in Real Estate the group is engaged in both development and facility management activities;
- ◆ in Food, activities look focused on the promotion of nutritional plans.

Main financial figures of Cornelia Capital:

- ◆ FY18 sales: c.€400k;
- ◆ FY18 EBITDA: -€465k;
- ◆ FY18 Net income: -€435k.

In the prospectus published on the transaction, HI's management outlined the strategic rationale of the operation. The document provides more color on the strategic potential benefits from the combination, which include:

- ◆ strengthening HI's commercial penetration. As part of the operation, Be Live will become part of the Group. Be Live is a network of around 1,500 promoters focused on nutraceutical and cosmetics' products;
- ◆ expanding HI's product offering, especially within Food & Beverage. To this extent, the document mentions Acqua Pradis (alkaline water) as a key addition to the group's portfolio;
- ◆ strengthening the group's IT support structures and consolidate the Real estate portfolios of Health Italia and Cornelia Capital.

Furthermore, the document included some business plan projections on the expected evolution of sales, EBITDA and earnings for Cornelia Capital's divisions, which point, respectively, for 2021E to:

- ◆ c.€14m sales (from €400k in FY18);
- ◆ c.€5m EBITDA (from c.-€450k in FY18);
- ◆ c.€3.3m net profit (from c.-€430k in FY18).

Update on road to Star: free float above 35%

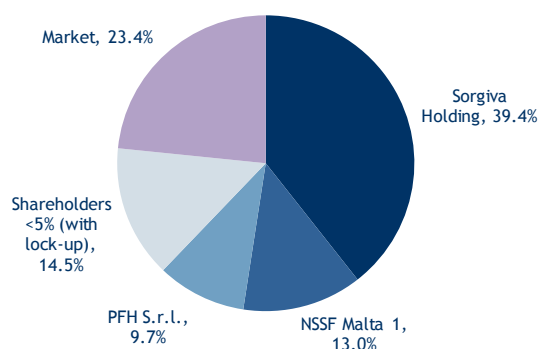
In our initiating coverage on Health Italia, published in February 2018, we were flagging the company's aspiration to gain access to the STAR index in the upcoming future. At that time, limited free float (it stood at c.23%) was seen as one of the main hurdles for a potential transition to the STAR index. Since then:

- ◆ on June 24, HI announced to have signed a waiver agreement with its Nominated Adviser on c.2m HI shares. The waiver removed the lock-up on the stake of minority shareholders agreed as part of the IPO. Following the move, HI's free float therefore formally exceeds the 35% threshold (becoming compliant with Borsaitaliana's requirement to access the STAR index);
- ◆ the company completed the merger with Cornelia Capital, with the subsequent dilution of the stakes of its main shareholders;
- ◆ on October 21, HI announced that its CEO Massimiliano Alfieri acquired the control of Isola Spa, the vehicle owning 5.2% of HI's share capital following the merger with Cornelia Capital.

Following the abovementioned moves, the shareholder base now comprises of:

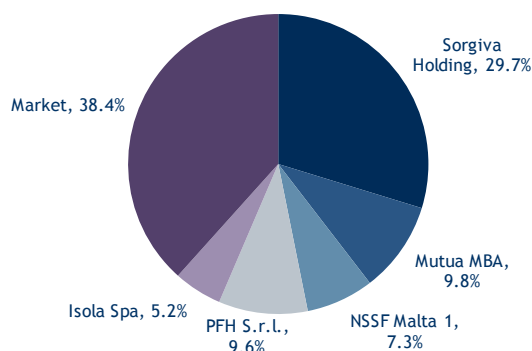
- ◆ Sorgiva Holding (c.30% stake), directly controlled by HI's CEO Massimiliano Alfieri;
- ◆ Mutua MBA (c.10% stake);
- ◆ PFH S.r.l. (c.10% stake), a vehicle owned by Oscar Pischeddu (CEO of Health Property and Vice President of Health Italia);
- ◆ NSSF Malta1 (c.7% stake). The PE fund has been gradually reducing its stake since the IPO and still retains a 7.3% stake in HI's share capital. Its exit should represent a further driver supporting Health Italia's aim to increase its free float and stock liquidity;
- ◆ Free float (c.38%).

Health Italia - Previous shareholder structure (Feb 2018)



Source: Mediobanca Securities on Company data

Health Italia - New shareholder structure (Nov 2019)

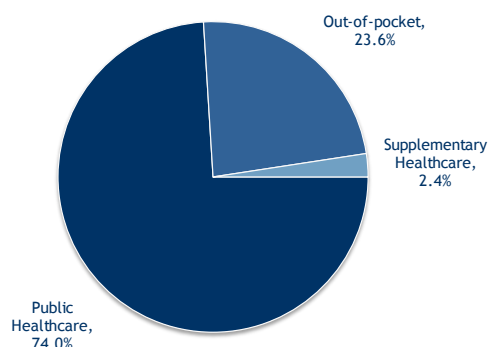


Source: Mediobanca Securities on Company data

APPENDIX - Supplementary healthcare still running below potential

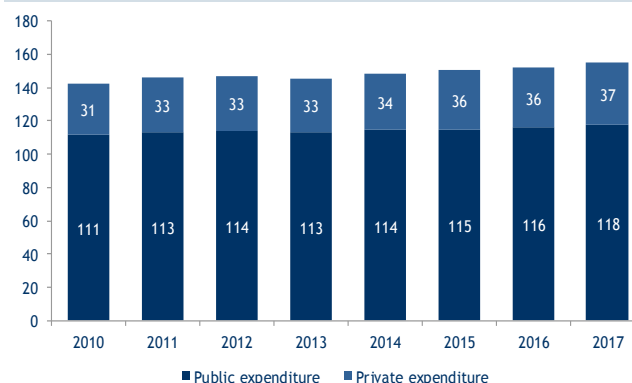
As we were flagging in our initiating coverage report on Health Italia, the Italian healthcare system is characterized by a predominance of the public component, which accounts for c.€118bn, out of the €155bn healthcare expenditure sustained in the country. This implies an incidence on total expenditure of c.75%, which is overall aligned with the incidence observed on average in Europe.

Breakdown of healthcare expenditure in Italy (2017A)



Source: Mediobanca Securities on "The European House - Ambrosetti"

Evolution of healthcare expenditure in Italy (€bn)

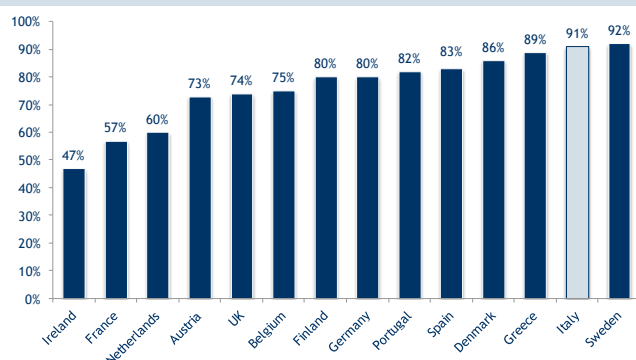


Source: Mediobanca Securities on Report OASI 2017 and ISTAT

Actually, the real peculiarity of the Italian system stands in the high incidence of *out-of-pocket* expenses, accounting for >90% of private healthcare expenditure in Italy vs France in the region of 60%, the UK at around 75% and Germany at c.80%. Although it would be reasonable to expect a gradual erosion of out-of-pocket expenses, 2017 data showed that they grew yoy, reaching almost €38bn as of 2017YE.

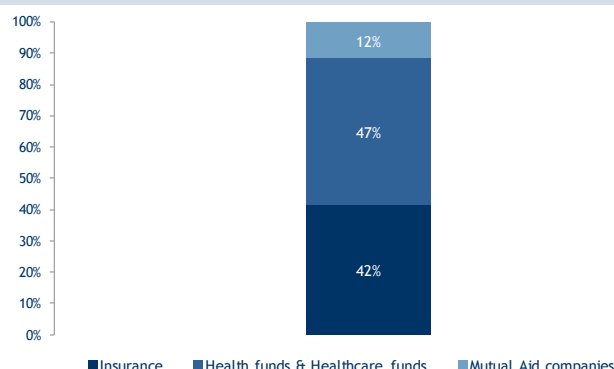
Also, it is worth to flag that within supplementary healthcare (<€5bn market in 2017), the portion brokered by MBS (actually the real reference market for Health Italia) stands at c.€0.7bn. As far as our understanding, competition from insurance companies is fairly intense especially for corporate and institutional clients, with players like *Unisalute* and *RBM Salute* being particularly aggressive in these segments. On the other hand, competition looks less intense for retail clients.

Out-of-pocket expenses on private healthcare exp. (2017)



Source: Mediobanca Securities on "The European House - Ambrosetti"

Breakdown of supplementary healthcare expenditure (2017)



Source: Mediobanca Securities on "The European House - Ambrosetti"

Sector data show that the Healthcare system in Italy still relies significantly on public expenditure, and that private expenditure is still skewed to the more inefficient form of *out-of-pocket* expenses. A recovery of the Italian system towards European average might imply a significant expansion of the

market linked to supplementary healthcare, hence unlocking potential significant growth opportunities for all players operating in the segment. Main drivers of such expansion may be in our view:

- ◆ growing healthcare expenditure driven by an ageing population;
- ◆ increasing penetration of the private component, with public healthcare expenditure close to saturation and the latest Draft Budget Document (DEF) pointing at a flat trend in Government's healthcare budget (at approximately 6.5% of GDP through 2021E);
- ◆ re-balancing of private expenditures, with supplementary healthcare gaining share to the detriment of out-of-pocket expenses.

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Proportion of all recommendations relating to the last quarter			
Outperform	Neutral	Underperform	Not Rated
42.11%	42.63%	15.26%	0.00%

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Outperform	Neutral	Underperform	Not Rated
53.45%	44.07%	42.11%	#DIV/0!

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INITIAL COVERAGE

Health Italia initial coverage as of 28/02/2018.

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