

## Looking to keep the growth path found in 2020

**Consistent delivery needed to unlock upside after a good 2020. Neutral, €2.8 TP**

After a couple of years of material investments to expand the group's offer, from 2H20 HI looks embarked again upon a healthy growth path, thanks to a visible inversion in margin trends (back to expansion mode). On top of that, we note that the group continues to develop new distribution channels (agreement with Novares for the distribution of telemedicine services through the tobacconist network and further development of Banca-Mutua project), as well as to enhance its efforts on ESG. With this report we reiterate our Neutral rating on Health Italia, raising our DCF-based TP to €2.8/share from €2.6 chiefly on DCF roll-over (8.9% WACC, 2% g, 20% exit EBITDA margin, 10% liquidity discount assumptions unchanged). Higher penetration of supplementary healthcare/telemedicine in Italy definitely represents the most appealing angle of the equity story, nonetheless we believe that further consistent delivery on top-line growth and margin enhancement going forward will be key to unlock the upside envisaged by our TP, and to support a more constructive stance on the name.

**FY20 results highlighted better profitability compensating a lower top-line...**

HI's FY20 results highlighted positive top-line growth (despite headwinds caused by Covid-19 restrictions), coupled with a pleasant profitability improvement (EBITDA margin above 19% from c.10% in FY19). This marked an inversion in margin trajectory compared to 2018-19, as HI started to capitalise on investments carried out over the past years and on cost efficiency actions. Revenues of €32.8m (c.+3% yoy) came with €6.2m EBITDA and €10.4m NFP. Medical Services and Nutraceutical & Cosmeceutical divisions recorded improving trends in profitability, although both divisions remained touch below EBITDA break-even in 2020.

**... with early signs of inversion in margin trends confirmed in 1Q21**

Encouraging signs of business rebound continued in 1Q21, with HI achieving double-digit top-line growth and a >200bps yoy improvement in EBITDA margin. Revenues of €8.5m implied a 15% yoy increase and we note that both Medical Services and Nutraceutical & Cosmeceutical divisions recorded solid top-line growth in 1Q, with the BUs posting in 1Q21 a turnover similar to the one of 1H20. EBITDA of €1.1m marked a 13.5% EBITDA margin, up by 240bps yoy.

**FY21-22E EBITDA little changed. FY23E EBITDA seen close to €11m**

We are updating our FY21-22E forecasts, assuming lower top-line with better profitability. On the back of trends emerged in 2H20/1Q21, we now see all HI's Business Units in positive EBITDA territory starting from 2021, with the group achieving €7.7m EBITDA in FY21E and €9.4m in FY22E. In the report, we provide an update of our detailed estimates on revenue and EBITDA development by division. We now assume Medical Services and Nutraceutical & Cosmeceutical divisions reaching FY23E revenues of €10m and €5.6m respectively, with 10% EBITDA margin, while Healthcare Services and Healthcare Support profitability may remain rich, close to 30% margin. Overall, we are basically confirming our FY21-22E EBITDA forecasts, while improving EBIT and Net Profit projections on lower incidence of D&A. With this report, we introduce our FY23E forecasts which foresee HI reaching c.€48m revenues, approaching €11m EBITDA and €7m NFP.

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	2020	2021E	2022E	2023E
EPS Adj (€)	0.09	0.07	0.12	0.16
DPS (€)	0	0.03	0.04	0.06
BVPS (€)	1.46	1.53	1.63	1.74
EV/Ebitda(x)	7.7	6.4	5.1	4.2
P/E adj (x)	26.5	33.5	18.9	14.9
Div.Yield(%)	0.0%	1.2%	1.9%	2.4%
OpFCF Yield(%)	-3.3%	-1.8%	4.4%	6.9%

### Market Data

Market Cap (€m)	45
Shares Out (m)	19
Sorgiva Holding S.r.l. (%)	30%
Free Float (%)	44%
52 week range (€)	2.50-1.39
Rel Perf vs DJGL Italy DJ Total Market Italy (%)	
-1m	10.7%
-3m	11.7%
-12m	-29.0%
21dd Avg. Vol.	65,430
Reuters/Bloomberg	HI.MI / HI IM

Source: Mediobanca Securities

# Health Italia

Price: € 2.35

Target price: € 2.80 (from € 2.60)

Neutral

## Valuation Matrix

Profit & Loss account (€ m)	2020	2021E	2022E	2023E
Turnover	33	38	43	48
Turnover growth %	3.3%	16.0%	14.0%	11.4%
EBITDA	6	8	9	11
EBITDA margin (%)	18.9%	20.3%	21.7%	22.4%
EBITDA growth (%)	86.9%	24.4%	22.1%	14.7%
Depreciation & Amortization	-3	-3	-3	-3
EBIT	3	5	6	8
EBIT margin (%)	9.1%	12.9%	15.0%	16.0%
EBIT growth (%)	nm	64.8%	31.8%	19.1%
Net Fin. Income (charges)	-0	-1	-1	-1
Non-Operating Items				
Extraordinary Items	0	0	0	0
Pre-tax Profit	2	2	3	4
Tax	-0	-1	-1	-1
Tax rate (%)	16.9%	31.2%	30.6%	30.9%
Minorities	-0	0	0	0
Net Profit	2	1	2	3
Net Profit growth (%)	9.1%	-19.0%	77.6%	27.0%
Adjusted Net Profit	2	1	2	3
Adj. Net Profit growth (%)	9.1%	-19.0%	77.6%	27.0%

Balance Sheet (€ m)	2020	2021E	2022E	2023E
Working Capital	13	17	18	20
Net Fixed Assets	28	26	25	23
Total Capital Employed	41	43	43	43
Shareholders' Funds	28	29	31	33
Minorities	-1	-1	-1	-1
Provisions	4	4	4	4
Net Debt (-) Cash (+)	-10	-11	-10	-7

Cash Flow (€ m)	2020	2021E	2022E	2023E
Cash Earnings	4	4	5	6
Working Capital Needs	-5	-4	-2	-1
Capex (-)	-1	-1	-1	-1
Financial Investments (-)	4	0	0	0
Dividends (-)	0	0	-1	-1
Other Sources / Uses	-4	0	0	0
Ch. in Net Debt (-) Cash (+)	-1	-1	2	2

Multiples	2020	2021E	2022E	2023E
P/E Adj.	26.5	33.5	18.9	14.9
P/CEPS	9.7	10.8	8.4	7.3
P/BV	1.6	1.5	1.4	1.4
EV/ Sales	1.5	1.3	1.1	0.9
EV/EBITDA	7.7	6.4	5.1	4.2
EV/EBIT	16.0	10.1	7.4	5.9
EV/Cap. Employed	1.2	1.2	1.1	1.1
Yield (%)	0.0%	1.2%	1.9%	2.4%
OpFCF Yield(%)	-3.3%	-1.8%	4.4%	6.9%
FCF Yield (%)	-0.7%	2.2%	9.7%	12.7%

Per Share Data (€)	2020	2021E	2022E	2023E
EPS	0.09	0.07	0.12	0.16
EPS growth (%)	9.1%	-19.0%	77.6%	27.0%
EPS Adj.	0.09	0.07	0.12	0.16
EPS Adj. growth (%)	9.1%	-19.0%	77.6%	27.0%
CEPS	0.24	0.22	0.28	0.32
BVPS	1.46	1.53	1.63	1.74
DPS Ord	0	0.03	0.04	0.06

Key Figures & Ratios	2020	2021E	2022E	2023E
Avg. N° of Shares (m)	19	19	19	19
EoP N° of Shares (m)	19	19	19	19
Avg. Market Cap. (m)	43	45	45	45
Enterprise Value (m)	48	50	48	46
Adjustments (m)	-6	-6	-6	-6
Labour Costs/Turnover	14%	14%	13%	13%
Depr. & Amort. / Turnover	10%	7%	7%	6%
Turnover / Op.Costs	1.2	1.3	1.3	1.3
Gearing (Debt / Equity)	39%	40%	32%	23%
EBITDA / Fin. Charges	-29.7	-7.0	-10.4	-11.9
Net Debt / EBITDA	1.7	1.5	1.0	0.7
Cap. Employed/Turnover	124%	113%	100%	89%
Capex / Turnover	3%	4%	3%	3%
Pay out	0%	40%	35%	35%
ROE	6%	5%	8%	9%
ROCE (pre tax)	7%	11%	15%	18%
ROCE (after tax)	6%	8%	10%	12%

Source: Mediobanca Securities



Source: Mediobanca Securities

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## FY20 results - Revenues up yoy with material margin improvement...

On March 31, Health Italia unveiled its FY20 results, which highlighted positive top-line growth (despite the tough trading environment due to Covid-19 restrictions), coupled with a sizeable profitability improvement (EBITDA margin above 19% from c.10% in FY19). In greater details:

- ◆ Revenues came in at €32.8m, up by c.+3% yoy, highlighting an acceleration in 2H20 vs 1H20;
- ◆ EBITDA was €6.2m, up from €3.3m in FY19 and above our expectation of €5.5m. The beat to our forecast was driven by tight cost control and operating efficiencies, which led EBITDA margin above 19% (from 10.6% in 2019 and ahead of our assumption of 15.4%);
- ◆ Net profit came in at €1.3m (from €0.8m in 2019), better than MBe of €1.8m net loss, thanks to higher-than-expected EBITDA and financial income;
- ◆ NFP as of 2020 YE stood at €10.4m, touch better than our forecast of €12.1m.

HI's management also provided some qualitative messages on outlook, stating that: i) 2020 results showed the validity of the group's strategy and business model, and ii) adding that it sees supportive conditions for further top-line and profitability growth in the future, also thanks to growing government push to promote supplementary healthcare, welfare and telemedicine solutions.

### Health Italia - FY20 results vs MB estimates

€m	2020A	2019	% yoy	2020E	A/E %
Total revenues	32.8	31.8	3.3%	35.6	-7.6%
EBITDA	6.2	3.3	86.9%	5.5	13.7%
margin %	19.3%	10.6%		15.4%	
EBIT	3.0	0.7	nm	1.4	nm
margin %	9.1%	2.1%		4.0%	
Net profit	1.3	0.8	nm	(1.8)	nm
Net Debt/(Cash)	10.4	8.9		12.1	

Source: Mediobanca Securities

### ... with all Business Units approaching EBITDA break-even

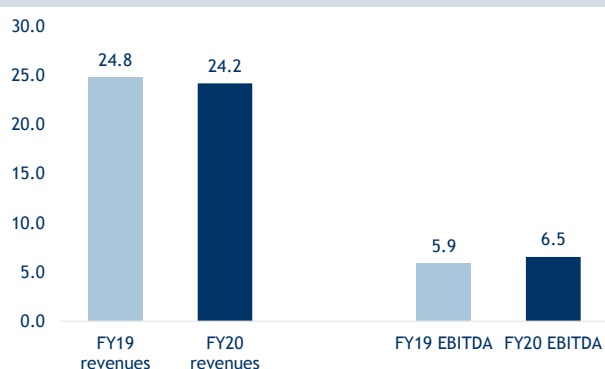
In greater details, HI's Business Units recorded positive trends in terms of revenue and profitability evolution, with all divisions improving operating results at EBITDA level, and Medical Services and Nutraceutical & Cosmeceutical approaching EBITDA break-even point. More specifically:

- ◆ **Healthcare services** closed 2020 with €24.2m revenues (i.e, c.75% of HI's total revenues). This was overall flat from €24.8m achieved in 2019, as promotion activities were partly penalized by restrictions on people's mobility during the year. That said, focus on operating efficiencies allowed HI to deliver a c.10% yoy increase at EBITDA level (€6.5m vs €5.9m in 2019), with EBITDA margin of the division climbing to 27% (from c.24% in 2019);
- ◆ **Healthcare support** recorded a similar trend, with the division achieving material EBITDA growth despite a flattish trend in turnover. Revenues were overall stable yoy at €3m, while EBITDA grew to €0.9m (from c.€0.4m in 2019), meaning an EBITDA margin moving above the 30% threshold;

- ◆ **Medical services** recorded a sizeable growth in turnover (revenues doubling yoy to c.€3m), which helped to improve profitability. EBITDA was still negative in 2020 at -€0.3m, while materially approaching EBITDA break-even point as HI started to capitalize on previous investments to support the development of the division;
- ◆ **Nutraceutical & Cosmeceutical** posted €1.6m revenues in 2020 (up from €1.4m in 2019), with EBITDA remaining in negative territory at -€0.8m. While remaining below break-even, EBITDA developments showed a material yoy improvement (EBITDA was -€2.0m in 2019) reflecting profitability enhancement driven by efficiencies and higher top-line.

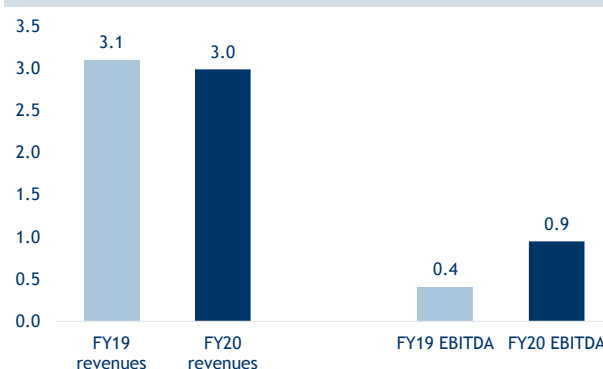
The charts below show revenues and EBITDA evolution by business unit in 2020 vs 2019.

**Health Italia-Healthcare Services revenue and profitability in 2020 vs 2019**



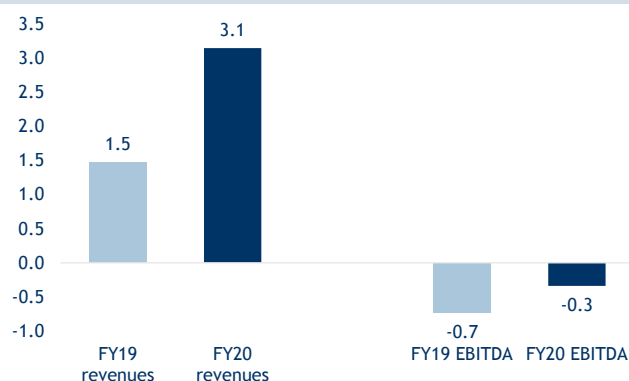
Source: Mediobanca Securities on Company data

**Health Italia - Healthcare Support revenue and profitability in 2020 vs 2019**



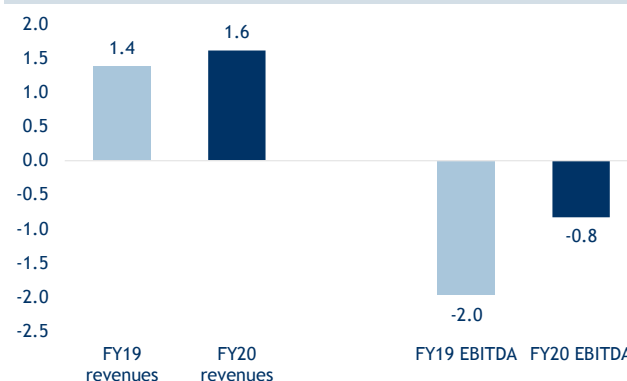
Source: Mediobanca Securities on Company data

**Health Italia - Medical Services revenue and profitability in 2020 vs 2019**



Source: Mediobanca Securities on Company data

**Health Italia - Nutraceutical & Cosmeceutical revenue and profitability in 2020 vs 2019**



Source: Mediobanca Securities on Company data

## Positive start to the year in 1Q21

On May 21, Health Italia unveiled its 1Q21 results, which confirmed the positive underlying trend in revenues and profitability emerged during 2H20, with double-digit top-line growth and a >200bps yoy improvement in EBITDA margin. More specifically, it is worth flagging that HI recorded:

- ◆ **€8.5m revenues**, up by c.+15% yoy from €7.4m in 1Q20;
- ◆ **€1.1m EBITDA**, up from €0.8m in 1Q20 and meaning an EBITDA margin in the region of 13.5% (from c.11% in 1Q20).

By division, it is worth flagging that both “Medical Services” and “Nutraceutical & Cosmeceutical” divisions achieved strong top-line growth in the first quarter of the year, which should bode well for the achievement of EBITDA break-even during 2021. In greater details, HI stated that:

- ◆ **Healthcare Services and Support** accounted for c.73% of HI’s 1Q21 turnover;
- ◆ **Medical services** accounted for c.19% of 1Q turnover. This implies that the division achieved c.€1.6m revenues in 1Q alone, which represents the same turnover achieved in the first semester of the previous year;
- ◆ **Nutraceutical & Cosmeceutical** share on total turnover increased to c.8%. While remaining less relevant in terms of revenues compared to the other divisions, we note that also this Business Unit basically achieved in 1Q the same turnover posted in one semester in 2020, marking a visible acceleration compared to previous year.

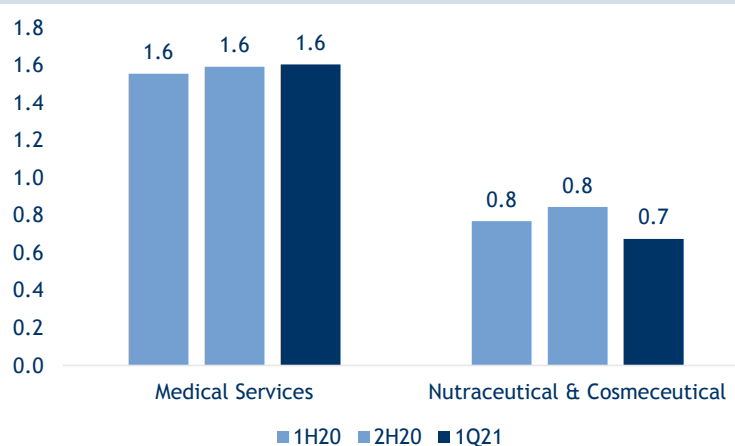
HI’s management stated in the press release that 1Q results confirm positive trends emerged in 2020 in terms of revenues and profitability evolution. Furthermore, HI stated to expect that the ongoing process of consolidation of the group’s structure will continue to release benefits.

### Health Italia - Recap of 1Q21 results

€m	1Q21	1Q20	YoY chg.
Total revenues	8.5	7.4	15.1%
<i>o/w Healthcare Services and Support</i>	6.2	na	
<i>o/w Medical Services</i>	1.6	na	
<i>o/w Nutraceutical &amp; Cosmeceutical</i>	0.7	na	
EBITDA	1.1	0.8	37.3%
<i>margin %</i>	13.5%	11.2%	

Source: Mediobanca Securities

### Health Italia - Trend in 1Q21 revenues vs 2020



Source: Mediobanca Securities on Company data

## Further profitability step-up expected in FY21-23E

Following encouraging results emerged in 2H20/1Q21, we expect HI to continue to capitalise on investments carried out over the past years, with healthy top-line developments allowing the group to bring all its Business Units in positive EBITDA territory starting from 2021. Considering the positive trends recorded in 1Q21, we are improving our profitability assumptions for FY21, more than offsetting lower assumptions on turnover growth. As a result, we are basically confirming our FY21-22E EBITDA forecasts, while improving EBIT and Net Profit projections on lower incidence of D&A. With this report, we also introduce our FY23 forecasts which foresee HI reaching c.€48m revenues, approaching €11m EBITDA and €7m NFP.

### Health Italia - Change in FY21-22E forecasts and new FY23 estimates

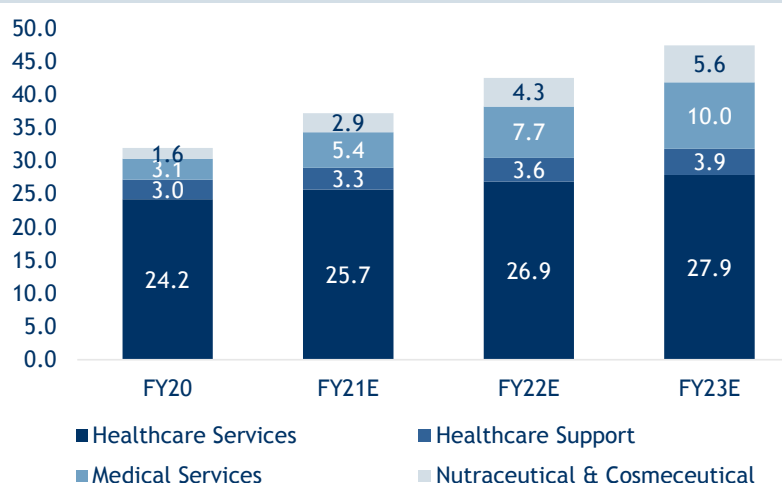
	2021E			2022E			2023E
	Old	New	% change	Old	New	% change	New
Core revenues	40.2	37.5	-6.9%	46.7	42.8	-8.4%	47.7
EBITDA	7.6	7.7	1.0%	9.8	9.4	-3.9%	10.8
margin %	19.0%	20.6%		21.0%	22.0%		22.7%
EBIT	3.3	4.9	50.5%	5.1	6.5	26.2%	7.7
margin %	8.1%	13.1%		11.0%	15.2%		16.2%
Net profit	0.4	1.3	nm	1.6	2.4	nm	3.0
Net (Debt)/Cash	(10.9)	(11.3)		(8.9)	(9.7)		(7.3)

Source: Mediobanca Securities

In greater details on our 2021-23E projections, we expect HI to post:

- ◆ **14% revenue CAGR, reaching €37.5m revenues in FY21 and c.€48m revenues in FY23E.** We expect FY21 performance to overall mirror the trend highlighted in 1Q results, with a mid-to-high single digit growth for Healthcare Services and Healthcare Support business units and stronger growth for Medical Services and Nutraceutical & Cosmeceutical business units (both seen growing by more than 70% yoy). On a longer term perspective (FY23E), we foresee: (1) Healthcare Services reaching €28m revenues (c.58% of HI turnover); (2) Healthcare Support reaching €4m revenues (c.8% of HI turnover); (3) Medical Services reaching €10m revenues (c.21% of HI turnover), and (4) Nutraceutical & Cosmeceutical approaching €6m turnover (c.12% of HI turnover);

### Health Italia - Expected evolution of revenues by segment (€m)



Source: Mediobanca Securities

- ◆ **EBITDA margin above 20%, with all BUs above break-even.** We foresee HI's EBITDA margin exceeding the 20% threshold in FY21E and steadily growing thereafter as divisions may benefit from growing scale. While profitability for the Healthcare Services and Healthcare Support divisions may remain in the region of 30%, the bulk of margin enhancement should be driven by growing profitability of Medical Services and Nutraceutical & Cosmeceutical, with both segments seen achieving EBITDA break-even point in 2021 and reaching 10% EBITDA margin by 2023E;

## Health Italia - Expected evolution of EBITDA by segment

€m	FY20A	FY21E	FY22E	FY23E
Healthcare Services	6.5	6.8	7.5	8.1
Healthcare Support	0.9	0.9	1.1	1.2
Medical Services	(0.3)	0.1	0.5	1.0
Nutraceutical & Cosmeceutical	(0.8)	0.0	0.3	0.6
Health Property	(0.1)	(0.1)	0.0	0.0
<b>EBITDA</b>	<b>6.2</b>	<b>7.7</b>	<b>9.4</b>	<b>10.8</b>
<b>EBITDA margin %</b>	<b>19.3%</b>	<b>20.6%</b>	<b>22.0%</b>	<b>22.7%</b>

Source: Mediobanca Securities

- ◆ **Net profit of €3m by 2023E.** Below EBITDA we are assuming D&A in the region of €3m on average in FY21-23E (average incidence on sales close to 7%), net financial expenses in the region of €1m and c.30% average tax rate. Based on these assumptions, we foresee HI's net profit growing to €1.3m in FY21E and €3.0m in FY23E.
- ◆ **NFP decreasing to €7.3m in 2023E (<1x NFP/EBITDA).** Based on 1) the above-mentioned assumptions on P&L development, 2) c.€7m cumulated NWC absorption in 2021-23E, 3) annual capex of €1.5m, and 4) a return to dividend distribution from 2021 with an average payout ratio close to 40%, we see HI's NFP reducing to €7.3m, meaning 0.7x NFP/EBITDA (down from 1.7x as of the end of 2020).



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Proportion of all recommendations relating to the last quarter					
Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
38.17%	51.88%	8.60%	0.00%	1.34%	0.00%

Proportion of issuers to which Mediobanca S.p.A. has supplied material investment banking services relating to the last quarter:					
Outperform	Neutral	Underperform	Not Rated	Restricted	Coverage suspended
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