

SECTOR	Health Care	VERTICAL INTEGRATION (PLASMA COLLECTION, PRODUCTION, SALE)	* 27 owned collection centers * 6 manufacturing facilities: Italy (4), Hungary (1), US (1) * Commercial presence in 100+ countries * 550+ marketing authorizations	
INDUSTRY	Biotech and Pharma		PLASMA SOURCING	Third-party procurement (62.5%) Own centers (37.5%)
SUB-INDUSTRY	Specialty Pharma			2,571 (45% Italy, 34% US, 21% RoW) (52% white collars, 44% blue collars, 4% directors)
SHAREHOLDERS	Sestant Internazionale (69.38%) FSI Investimenti (25.06%) Sestant (5.56%)	NUMBER OF EMPLOYEES		
KEY PEOPLE	Paolo Marcucci (Chairman, MD) Andrea Marcucci (Director) Maria Lina Marcucci (Director)			
FINANCIAL CALENDAR	1H19 Results: Sept. 2019			

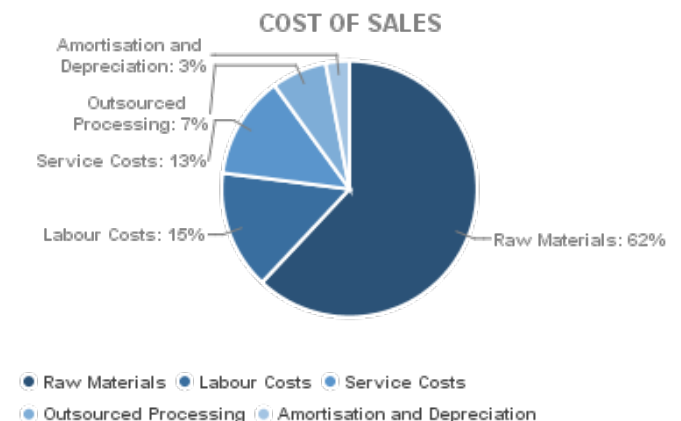
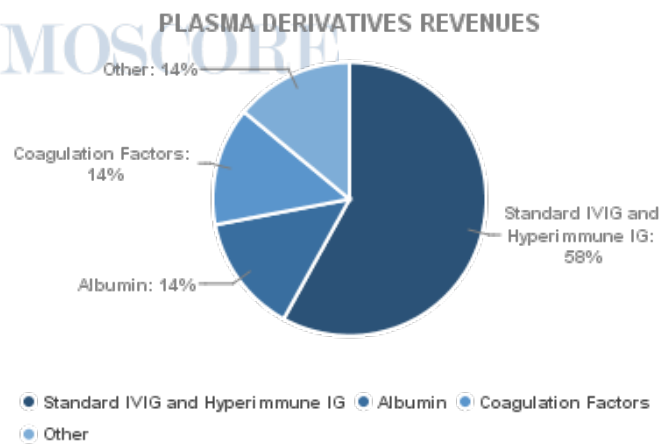
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QUICK LOOK

Kedrion is an **Italian biopharmaceutical company** active in the **collection and fractionation of human plasma** and in the **development, production and distribution of plasma-derived drugs**. With collection centers and production facilities in Europe and the United States, its main customers are government authorities, national health services and private distributors.

HIGHLIGHTS

- BUSINESS DIVERSIFICATION (1)** - Kedrion's business is divided into **3 segments: Production and sale of plasma derivatives (74.7% of revenues in FY18), Collection and sale of plasma (22.6%) and Other activities (2.7%)**. FY18 consolidated revenues amounted to EUR687.9m.
- BUSINESS DIVERSIFICATION (2)** - The Group operates in **4 geographical macro areas: US (41% of revenues in FY18), Italy (25.3%), EU (10.9%) and Rest of the world (22.8%)**. International operations expose Kedrion to **currency risk (especially in relation to US dollar and Hungarian forint)**. Business in **Iran and Turkey** is not considered by the company to be source of particular credit and/or country risk.
- INDUSTRIAL PLAN** - The company does not disclose its financial targets. The **internalisation** of important stages of the production process in the **Melville** and **Castelvecchio Pascoli** plants and the increase in **internal plasma collection** in the **US** are the main strategic focuses for the **2019-22** period.
- SHAREHOLDERS** - Kedrion is 69.38% owned by **Sestant Internazionale (100% held by Sestant, which is also direct owner of 5.56% of Kedrion)** and 25.06% by **FSI Investimenti (77.12% owned by CDP Equity and 22.88% by the Kuwait Investment Authority)**. The brothers **Paolo, Andrea and Maria Lina Marcucci** together hold 68.21% of Sestant's capital. Kedrion's bylaw provides that no less than **50% of the net profit** for the year should be distributed in **dividends** to shareholders.
- CDP EQUITY** - CDP Equity acquires minority stakes in Italian companies of **significant national interest**, in economic/financial equilibrium and with adequate prospects for profitability and development. The holding company (*part of the Cassa Depositi e Prestiti Group*) invests **patient capital** in listed companies or firms that aim at going public in the medium-term.
- IPO** - After the last-minute change of mind in summer 2008, **rumors** have repeatedly circulated about a new equity listing project. The IPO (*in any case subject to the delivery of the industrial plan*) would be the preferred **exit strategy** of CDP Equity which, meanwhile, is said to be probing **Italian and foreign investors** interested in taking over its share of Kedrion.



FINANCIAL STATEMENTS

INCOME STATEMENT

(in EUR mln)	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Revenue	687,94	602,50	659,35	570,30	466,30
Cost of Revenue	518,48	427,83	469,93	341,91	n/a
Gross Profit	169,46	174,67	189,42	228,40	n/a
<i>Gross Margin</i>	<i>24,63%</i>	<i>28,99%</i>	<i>28,73%</i>	<i>40,05%</i>	<i>n/a</i>
Personnel Expenses	66,58	66,43	60,30	54,73	99,69
EBITDA	46,86	77,54	43,71	91,00	97,28
<i>EBITDA Margin</i>	<i>6,81%</i>	<i>12,87%</i>	<i>6,63%</i>	<i>15,96%</i>	<i>20,86%</i>
Depreciation and Amortization	7,26	7,64	7,90	6,89	n/a
EBIT	20,57	51,65	19,79	68,86	76,96
<i>EBIT Margin</i>	<i>2,99%</i>	<i>8,57%</i>	<i>3,00%</i>	<i>12,08%</i>	<i>16,50%</i>
Pre-Tax Income	8,27	9,85	10,53	57,65	67,67
<i>Pre-Tax Margin</i>	<i>1,20%</i>	<i>1,63%</i>	<i>1,60%</i>	<i>10,11%</i>	<i>14,51%</i>
Net Income	10,17	5,19	10,72	36,33	40,04
<i>Net Income Margin</i>	<i>1,48%</i>	<i>0,86%</i>	<i>1,63%</i>	<i>6,37%</i>	<i>8,59%</i>

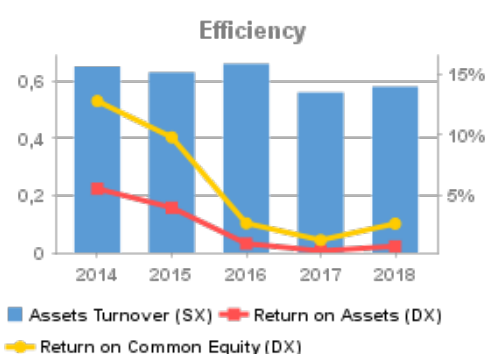
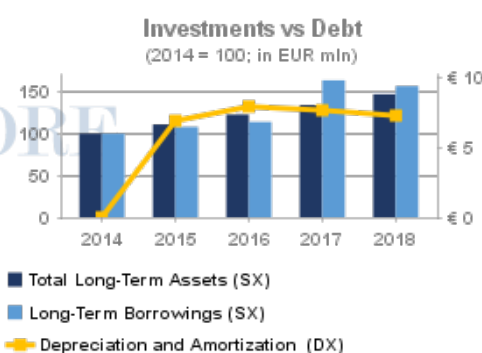
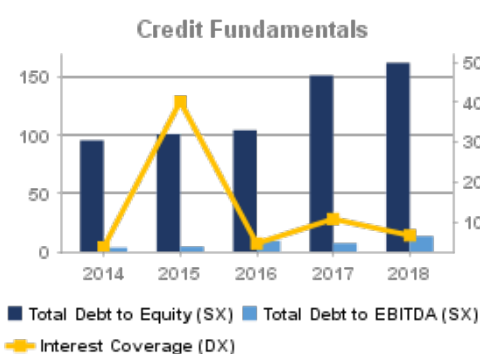
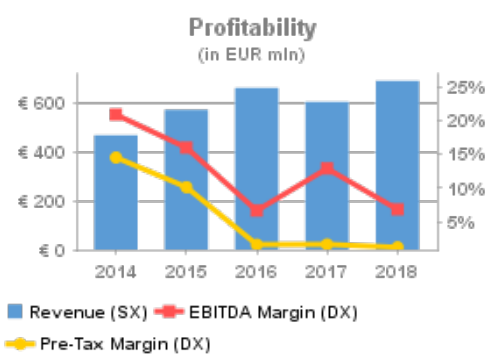
BALANCE SHEET

(in EUR mln)	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
ASSETS					
Cash and Near Cash Items	116,33	104,52	66,51	59,24	39,64
Short-Term Investments	0,71	0,56	0,11	0,07	0,00
Accounts and Notes Receivable	106,15	127,97	136,06	122,66	165,32
Inventories	344,12	280,18	280,88	277,12	231,15
Other Current Assets	47,51	44,07	52,46	30,59	3,81
TOTAL CURRENT ASSETS	634,38	557,30	536,02	489,68	439,92
Long-Term Investments	14,65	15,34	8,98	7,08	8,45
Net Fixed Assets	266,04	251,22	210,01	174,61	153,19
Other Long-Term Assets	327,82	288,43	289,56	277,56	252,77
TOTAL LONG-TERM ASSETS	608,50	554,98	508,55	459,25	414,40
TOTAL ASSETS	1242,88	1112,28	1044,58	948,93	854,32
LIABILITIES + EQUITY					
Accounts Payable	157,41	110,92	140,37	97,18	n/a
Short-Term Borrowings	132,42	47,22	55,28	57,05	27,27
Other Short-Term Liabilities	63,87	57,32	86,06	54,34	150,20
TOTAL CURRENT LIABILITIES	353,70	215,46	281,71	208,57	177,47
Long-Term Borrowings	490,64	512,28	356,36	338,02	313,38
Other Long-Term Liabilities	15,04	15,53	12,52	11,97	7,76
TOTAL LONG-TERM LIABILITIES	505,68	527,81	368,87	349,99	321,15
TOTAL LIABILITIES	859,38	743,27	650,58	558,56	498,62
TOTAL EQUITY	383,50	369,01	393,99	390,37	355,70
TOTAL LIABILITIES + EQUITY	1242,88	1112,28	1044,58	948,93	854,32

CASH FLOW STATEMENT

(in EUR mln)	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Cash from Operations	16,05	15,28	66,00	20,50	n/a
Capital Expenditure	-51,50	-65,11	-46,87	-22,38	n/a
Free Cash Flow	-35,45	-49,83	19,13	-1,88	n/a
Interest Expense	3,08	4,79	4,24	1,71	n/a
Effective Tax Rate	n/a	37,13	n/a	32,75	38,04
FREE CASH FLOW TO FIRM	n/a	-46,82	n/a	-0,72	n/a

Source: Bloomberg



- Since 2016, the shutdown of the **Melville** plant and the related **refitting/outsourcing** costs have led to a significant reduction in **margins** compared to the 2014-15 period. The trend reversal in 2017 (as a consequence of the settlement received from Biotest for the termination of Bivigam distribution agreement) didn't stabilize in 2018 (and was reabsorbed, at EBT level, already in 2017, due to the financial charges of the 2022 bond issuance and the tender offer on the 2019 notes). These transactions are also the reason of the increased **cash balance** in 2017-18. In 2018, the rise in **inventories** (linked to Melville restart) was associated with an increase in **short-term borrowings** and **accounts payable**. The exceptionally high **Cfo** in 2016 is justified by the **advance payment** received from Grifols for the sale of 6 plasma collecting centers.

Revenue (2014=100)					
Company	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
KEDRION	147,53	129,21	141,40	122,30	100,00
CSL	143,80	126,21	111,10	101,97	100,00
SHIRE	n/a	251,75	189,25	106,55	100,00
GRIFOLS	133,72	128,69	120,70	117,26	100,00

EBITDA Margin					
Company	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
KEDRION	6,81	12,87	6,63	15,96	20,86
CSL	33,82	29,48	27,11	34,55	33,74
SHIRE	n/a	31,13	21,32	32,05	34,96
GRIFOLS	27,25	28,23	28,18	29,49	31,21

Net Debt to EBITDA					
Company	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
KEDRION	10,80	5,86	7,89	3,69	3,09
CSL	1,33	1,53	1,56	0,89	0,69
SHIRE	n/a	4,04	9,24	0,70	-1,01
GRIFOLS	4,33	4,23	3,54	3,20	3,09

Interest Coverage					
Company	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
KEDRION	6,68	10,79	4,66	40,18	3,74
CSL	21,96	19,65	20,08	29,50	31,36
SHIRE	n/a	4,24	2,05	34,12	55,13
GRIFOLS	3,39	3,76	3,72	3,65	3,49

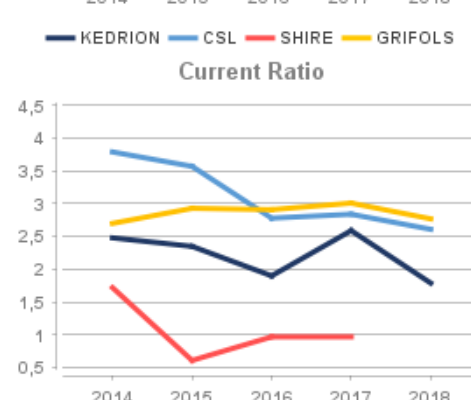
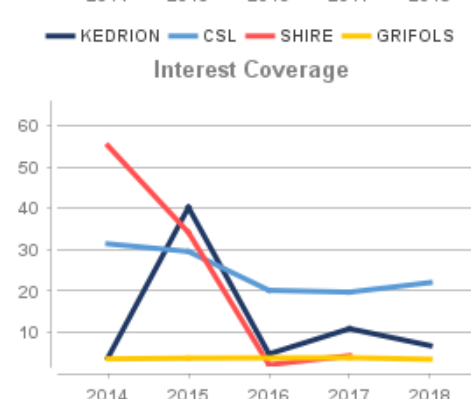
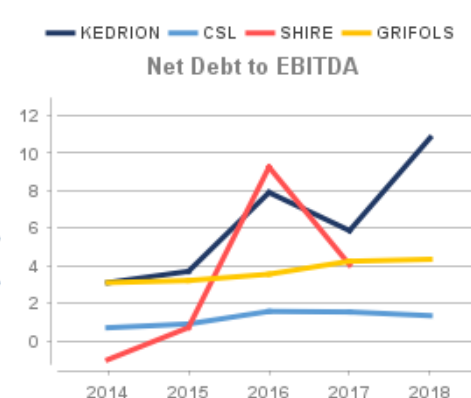
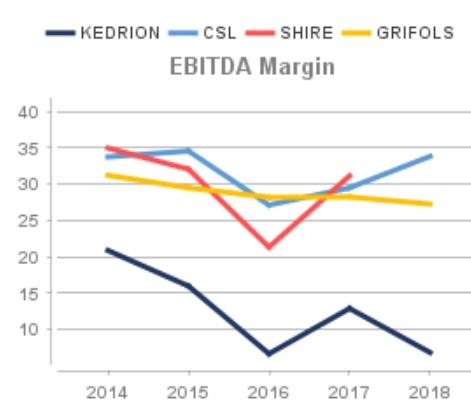
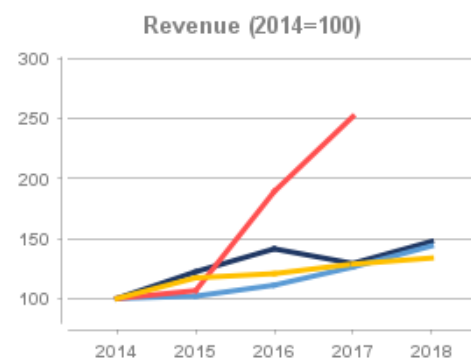
FCF to Total Debt					
Company	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
KEDRION	-0,06	-0,09	0,05	-0,00	n/a
CSL	0,26	0,14	0,22	0,45	0,53
SHIRE	n/a	0,18	0,09	1,41	4,88
GRIFOLS	0,08	0,10	0,06	0,05	0,17

Current Ratio					
Company	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
KEDRION	1,79	2,59	1,90	2,35	2,48
CSL	2,61	2,84	2,78	3,57	3,79
SHIRE	n/a	0,97	0,97	0,61	1,72
GRIFOLS	2,77	3,01	2,91	2,93	2,70

Common Equity to Total Assets					
Company	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
KEDRION	30,72	33,10	37,48	40,86	41,41
CSL	37,87	34,68	33,95	42,91	50,37
SHIRE	n/a	53,39	43,18	59,18	63,55
GRIFOLS	33,87	33,23	36,74	34,33	31,46

Asset Turnover					
Company	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
KEDRION	0,58	0,56	0,66	0,63	0,65
CSL	0,80	0,83	0,88	0,89	0,90
SHIRE	n/a	0,22	0,27	0,42	0,55
GRIFOLS	0,38	0,41	0,41	0,44	0,47

Return on Assets					
Company	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
KEDRION	0,86	0,48	1,08	4,03	5,58
CSL	17,38	16,03	17,79	21,75	21,34
SHIRE	n/a	6,34	0,78	8,62	31,02
GRIFOLS	5,10	6,30	5,53	5,90	6,58



Source: Bloomberg

- Looking to 2019, the restart of the Melville plant paves the way for a decline in **CapEx** (*for the benefit of FCF*) associated with a recovery in **margins** (*for the benefit of debt sustainability*). Given the current high potential financing costs on the **bond market**, it is difficult to imagine, in the near future, new bond issues by the company.
- INDUSTRY OVERVIEW** - Kedrion is the **5th world player** and the **1st in Italy** in the industry of plasma-derived products. Australia's **CSL**, London-listed **Shire** (*recently acquired by Japan's Takeda*) and Spain's **Grifols** jointly hold 67% of the global market; the share of Switzerland's **Octapharma** is minor, but not marginal.
- Kedrion shows a progressive increase in **revenue** in the 2014-18 period (*in line with the sector*) but an **EBITDA Margin** in almost uninterrupted reduction (*and much lower than comps*). Characterized by a definitely higher **Net Debt/EBITDA** ratio than comps, the company is the only one in the peer group with a repeatedly negative **FCF**. The whole sector shows a declining asset profitability: Kedrion doesn't look weak as for **Asset Turnover** but underperforms peers in terms of **ROA**.

INVESTMENT CASE

Kedrion SpA (KEDRIM) - Sr Unsecured - Fixed 3% - July 2022 - XS1645687416

YIELD TO MATURITY	8.71%	COUNTRY RATING (Italy)	Moody's: Baa3 (Stable)
G-SPREAD	744 bps vs EUR Italy Sovereign Curve		S&P BBB (Negative)
I-SPREAD	892 bps vs Euro Swaps Curve (S45)		Fitch: BBB (Negative)
ASW	790 bps vs Euro Swaps Curve (S45)	BOND RATING	Not Rated
MODIFIED DURATION	2.68	BBG PD (1Y)	0.49%
REOFFER PRICE (YIELD)	99.43 (3.125%)	Z SCORE	1.47
OUTST. / MIN. PIECE	EUR350m / 100k + 1k	GOVERNING LAW	English Law
MARKETS	Irish Stock Exchange, EuroTLX	TIMELINESS OF RESULTS REPORTING	Adequate
BOND LIQUIDITY	Moderate		
LEVEL OF CORPORATE DISCLOSURE	Adequate		

MAIN EXTERNAL RISK FACTORS - Positive (↑) / Negative (↓) Price Correlation

Bond Price Risk	↑	Sovereign Risk (Italy)	↓
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Source: Bloomberg, Kedrion, Banca Promos

- DEBT** - At YE 2018, the **weighted average maturity** of medium/long-term loans was **3.2 years** and the **cost of borrowing** (*including short-term credit lines*) was **3.5%** (*against an EBIT-based ROI of 2%*). At the same date, the Group had **unused credit lines of EUR135.2m** (*40% short-term*). The floating rate **RCFs** of EUR158m and EUR30m are covered by two **IRs** maturing in 2019 and 2022. On April 24, 2019, it's been **regularly repaid** the residual outstanding amount (*EUR58m*) of the 4.625%-coupon bond issued by Kedrion in 2014 for EUR300m.
- RATING** - The obtaining of a rating (*already pondered by Kedrion in 2014 for the issuance of its first bond*) is **not excluded in the future**, even not in relation to a new bond issue. The security is not considered an eligible asset by the ECB.
- LIMITATION ON INDEBTEDNESS** - The issuer shall not incur any additional indebtedness (*other than permitted indebtedness*) if the **Fixed Charge Coverage Ratio** (*Consolidated EBITDA / Fixed Charges*) is **less than 2**.
- RESTRICTIONS ON PRIORITY INDEBTEDNESS** - The issuer shall not incur any additional priority indebtedness (*other than permitted priority indebtedness*) if the **Priority Leverage Ratio** (*Priority Leverage / Consolidated EBITDA*) is **higher than 0.75**.
- CALL OPTION** - Kedrion may **redeem all of the notes (a)** at any time, at a price equal to the greater of 100 or the value of residual payments of principal and interest discounted at the Reference Dealer Rate (*average of the 'mid-market annual swap rate' as determined by Banca IMI, Mediobanca and Natixis at 11am London time on the 3rd business day preceding the optional redemption date*), or **(b)** in the 90 days prior to maturity, at par.

Medium-Long Term Loans Outstanding

Description	Maturity	Global amount (in thousands of Euro)	Outstanding principle as at 31.12.2018 (in thousands of Euro)	Interest rate as at 31.12.2018
Bond	24.04.2019	58,204	58,204	4.625%
Bond	12.07.2022	350,000	350,000	3.000%
Revolving Credit Facility	31.12.2021	60,000	-	Euribor + 2.000%
Revolving Credit Facility	02.04.2022	30,000	30,000	Euribor 6 Months + 1.650%
Revolving Credit Facility	22.04.2022	158,304	138,304	Euribor 1 Month + 1.750%
TOTAL		656,508	576,508	

Cash and cash equivalents

(in thousands of Euro)	31.12.2018	31.12.2017
Bank and postal deposits	115,195	104,402
Cash at bank and on hand	1,130	120
Cash and cash equivalents	116,325	104,522

Source: Kedrion

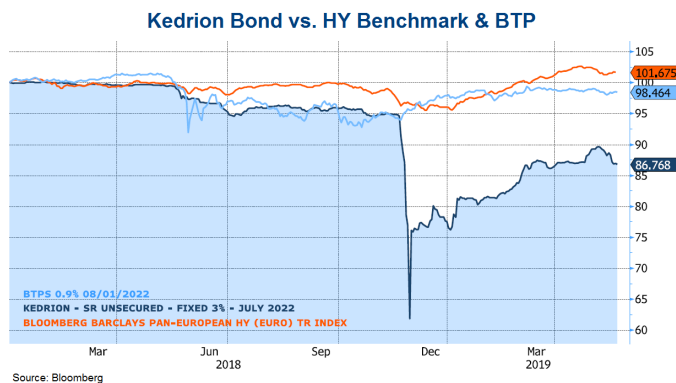
Environmental Indicators

Energy balance	2018	2017	Delta 2017/2018	2016
Index (GJ)				
Total energy	641,500	576,566	+11%	593,324
Water balance	2018	2017	Delta 2017/2018	2016
Index (Mc)				
Total water consumption	908,771	755,028	+20%	821,994
Wastewater	645,989	566,092	+14%	584,342
Carbon Footprint	2018	2017	Delta 2017/2018	2016
CO2 equivalent (Ton)				
Total CO2 eq.	38,105	46,373	-17%	32,365
Waste balance net of waste disposed of by road	2018	2017	Delta 2017/2018	2016
Type (kg)				
Total waste produced	6,315,894	5,182,939	+22%	6,170,535

Source: Kedrion

PRICE RISK

- In the 2H of November 2018, the bond **sharply fell in price**, reaching an intraday minimum of 55 cents on the euro on November 27 (OTC). On that date, the company released its 9M18 results and informed the market that it did not know the reasons for the collapse. Some operators have motivated the fall in relation to a **substantial OTC sale** by a single investor (*perhaps American*) capable of triggering an unjustified panic selling. Despite having recovered much of the lost value, market confidence has not yet been fully restored on the bond.



COMPANY UPDATE

- In 1Q19, the **US Food and Drug Administration** approved the request to resume production of Fraction II+III, Fraction V and Cryo Paste at the **Melville** plant and the transfer to Melville of several stages of the **RhoGAM** production process. The facility, purchased in 2012, remained closed from 2Q16 to 1H18.
- In December 2018, the **Italian antitrust authority** closed without remarks the investigation for a potential anticompetitive conduct linked to the joint participation of **Kedrion** and **Grifols** in a tender called by four Italian regions and won by the two firms. The investigation started following a complaint filed by Shire and CSL.

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The degree of liquidity of the bond reported in the "Investment Case" table is defined - on the basis of a qualitative assessment - with reference to the following scale: Illiquid, Weak, Moderate, Satisfactory, Liquid.

As of the date of this report, Banca Promos monitors the following bond issuers: Astaldi, Banca Sistema, Casino Guichard-Perrachon, Estra, Fincantieri, Goodvalley (Axzon), Kedrion, La Tecnica nel Vetro, Moby, Tereos, Wind Tre.