

Pilulka

Hold

On a Full Steam Ahead

Pilulka is currently having the best time of its life. Since entering the Stock Exchange, the share price has almost tripled, results for 2020 exceeded expectations and management has upgraded its outlook. Pilulka can be thought of as a pharmaceutical market disruptor and the speed of deregulation of prescription drugs sale remains the key factor affecting share price in the future.

- ✓ Pilulka reported consolidated sales of CZK 1,780 mil and EBITDA of CZK 20 mil for 2020. The sales are 4% better than expected by the management during IPO while the positive difference on EBITDA exceeds CZK 30 mil.
- ✓ The pandemic and autumn lockdown materially improved Pilulka's profitability, a pattern that continued in the first quarter of 2021 when the Company recorded a 56% yoy increase in sales and EBITDA margin of 4.9%. The positive trend led management to upgrade its outlook. Pilulka should deliver consolidated sales of CZK 4.96 bil and EBITDA of 4.0% in 2024.
- ✓ We believe that current trend of rapid migration of consumers to the online segment is long-term and structural. We estimate that Pilulka's sales will grow 25% a year on average until 2025 and EBITDA will reach CZK 185 mil, or 3.9% of sales.
- ✓ The pace and details of potential deregulation of the sale of prescription drugs will be the key factor affecting Pilulka's profitability and share price. Without that any fast and substantial share price appreciation is likely to be limited.
- ✓ We set a fair price of Pilulka at CZK 1,250 per share and recommend HOLDing the stock as an interesting addition to a conservative investment portfolio.

Sector:
Pharmacy/E-Commerce

Country:
Czechia / CEE

Share Price: CZK 1 350

Fair Price: CZK 1 250

Market Capitalization:
USD 158 mil

Enterprise Value:
USD 151 mil

Number of active customers:
571,000 (December 2020)

Number of Pharmacies:
157 (December 2020)

KEY FIGURES									
	SALES	EBITDA	EBITDA MARGIN	NET PROFIT	ROCE	DEBT/EBITDA	EV/SALES	EV/EBITDA	PER
	CZK mil	CZK mil	%	CZK mil	%				
2024P	4,556	157	3.44	101	33.2	-1.25	0.718	20.9	33.4
2023P	3,688	109	2.96	65.9	27.4	-1.50	0.896	30.2	51.2
2022P	2,924	72.5	2.48	37.9	19.4	-2.09	1.13	45.7	89.1
2021P	2,264	45.9	2.03	16.4	9.82	-3.16	1.47	72.4	206
2020	1,780	20.2	1.13	-25.6	-17.4	-6.70	0.767	67.7	-66.9
2019	1,239	-25.8	-2.08	-50.7	-42.5	-1.41	...	...	...

Source: Pilulka, Helgi Analytics

1 Financial Results and Outlook

1.1 Financial results in 2020

Pilulka reported consolidated sales of CZK 1,780 mil and EBITDA of CZK 20.2 mil in 2020. This is 4% higher sales than management predicted at the IPO in September 2020. In terms of EBITDA, the profit is CZK 30 mil higher. In other words, 2 percentage points better than originally expected.

The IPO has significantly improved the firm's capital position and reduced its dependence on external funding, especially, from suppliers. The firm raised CZK 212 mil through the issue of new shares. At the end of 2020, Pilulka had net cash of CZK 135 mil (compared to net debt of CZK 36 mil in 2019) and net working capital of CZK 38 mil (vs. CZK 26 mil in 2019).

Pilulka also bought out the 30% minority share of its Romanian daughter company S.C. Pilulka Online S.R.L. (for RON 13,500) at the end of 2020 and has become a 100% owner of the Romanian business.

INCOME STATEMENT		2017	2018	2019	2020	CHNG
SALES	CZK mil	663.5	1,033	1,239	1,780	43.7%
EBITDA	CZK mil	12.1	-28.9	-25.8	20.2	...
EBIT	CZK mil	4.71	-40.8	-44.8	1.06	...
FINANCIAL RESULT	CZK mil	0.73	0.40	7.23	26.2	261.7%
PRE-TAX PROFIT	CZK mil	2.49	-41.9	-52.1	-25.1	-51.8%
NET PROFIT	CZK mil	1.74	-41.9	-45.5	-21.9	-52.0%
RATIOS		2017	2018	2019	2020	CHNG
ROE	%	...	-90.3%	-170.3%	-16.5%	153.8%
ROCE	%	...	...	-42.5%	-17.4%	25.1%
EBITDA MARGIN	%	1.8%	-2.8%	-2.1%	1.1%	3.2%
EBIT MARGIN	%	0.71%	-3.9%	-3.6%	0.1%	3.7%
NET MARGIN	%	0.26%	-4.1%	-4.1%	-1.4%	2.7%
NET DEBT / EBITDA		...	-2.6	-1.4	-6.7	-5.3
NET DEBT / EQUITY	%	...	483.7%	96.5%	-59.3%	-155.8%
COST OF FUNDING	%	...	...	4.6%	5.0%	0.44%
BALANCE SHEET		2017	2018	2019	2020	CHNG
ASSETS	CZK mil	250.3	305.9	344.5	498.0	44.5%
FIXED ASSETS	CZK mil	60.6	68.3	113.2	116.7	3.1%
CURRENT ASSETS	CZK mil	162.8	237.7	225.6	377.7	67.4%
WORKING CAPITAL	CZK mil	...	31.0	26.0	38.3	47.2%
EQUITY	CZK mil	77.0	15.8	37.7	227.8	504.6%
NET DEBT	CZK mil	...	76.2	36.3	-135.1	-471.6%
VALUATION		2017	2018	2019	2020	CHNG
MARKET CAPITALIZATIO	USD mil	...	...	...	68.4	...
ENTERPRICE VALUE	USD mil	...	...	...	62.1	...
SHARES	mil	...	...	...	2.50	...
SHARE PRICE	CZK	...	...	...	585.0	...
EV/EBITDA		...	...	...	67.7	...
EV/SALES		...	...	...	0.77	...
P/E		...	...	...	Neg.	...
P/BV		...	...	...	6.4	...

Source: Pilulka, Helgi Analytics

1.2 Management Outlook

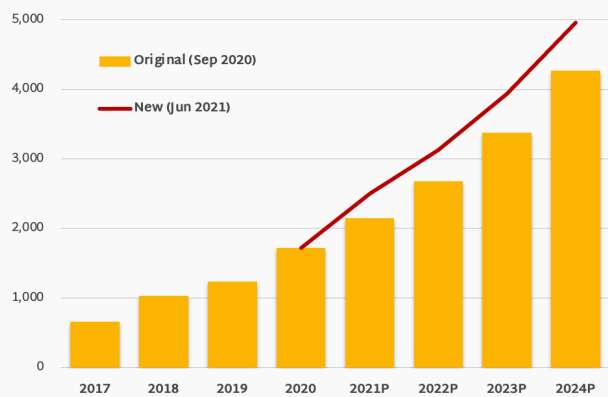
The pandemic and autumn lockdown materially improved profitability of Pilulka, a trend that continued in the first quarter of 2021 when the Company recorded a 56% yoy increase in sales and EBITDA margin of 4.9%.

The positive trend led management to upgrade its outlook. Pilulka should deliver consolidated sales of CZK 4.96 bil in 2024 (16.3% more when compared to autumn 2020 indications) and EBITDA of 4.0% (an increase of 0.56 percentage points).

While the pandemic improved results of the current business, the lockdown forced the management to postpone expansion into Hungary by roughly a year.

Sales Outlook – 2020–2024

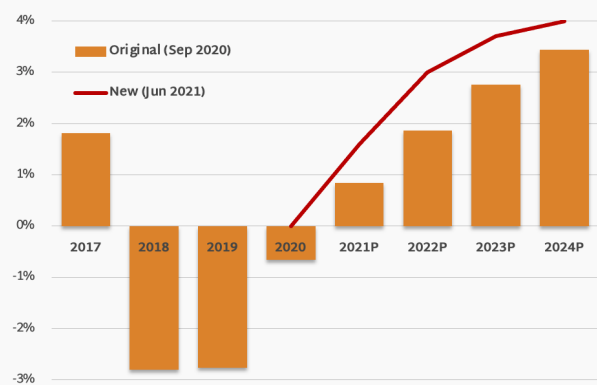
Consolidated sales (CZK mil)



Source: Pilulka, Helgi Analytics

www.helgilibrary.com

EBITDA margin Outlook – 2020–2024



Source: Pilulka, Helgi Analytics

www.helgilibrary.com

1.3 Mid-term Outlook

We believe that current trend of rapid migration of consumers to the online segment is long-term and structural. This aligns very well with Pilulka's business model. In line with improved profitability and management expectations, we present our financial outlook of the Company for 2030, which is a basis for our valuation. Our outlook is based on following assumptions:

- ✓ Ongoing dynamic growth in sales (25% a year until 2025 and 15% for 2025–2030)
- ✓ Improving EBITDA margin (to 3.93% in 2025)
- ✓ Ongoing positive cooperation with suppliers (and net working capital of 4% of sales in 2025)

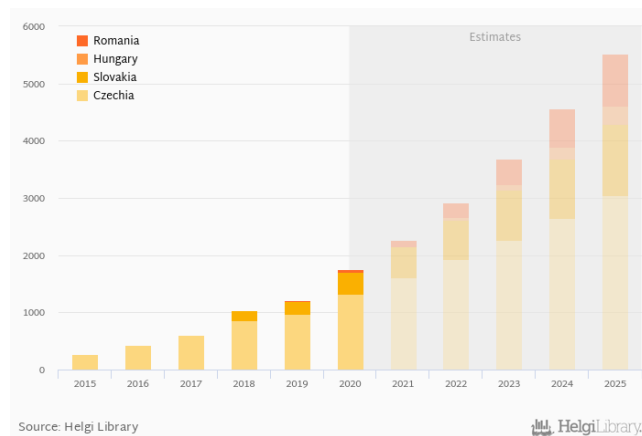
Our model does not assume any deregulation of prescription drugs online, although our positive expectation of improving margins is partly reflected in our outlook beyond 2025. Neither do we assume any acquisitions so our model expects excess cash to be paid out in the form of dividends. Lastly, we do not reflect any major strategic development of Pilulka's business model into new areas such as digitalization or e-health. Similar to Zur Rose and Shop Apotheke, Pilulka has been planning to build a strategic e-health platform which would offer its customers a wide range of products and related services in health care and/or development of new areas such as telemedicine, or digitalization of health care planning. As part of that, an accelerator Pilulka Lab has been created to put together good ideas with company's business model.

Sales growth

We assume Pilulka will grow 25% a year on average until 2025 to reach total consolidated sales of CZK 5.5 bil. The growth should slow down to 15% a year in 2025–2030 and to 8% a year in 2030–2035. The online segment should create 100% of the additional growth and should form 90% of the total in 2025 (compared to 74% in 2020). The domestic market should account for less than 50% of total sales (vs. 76% in 2020):

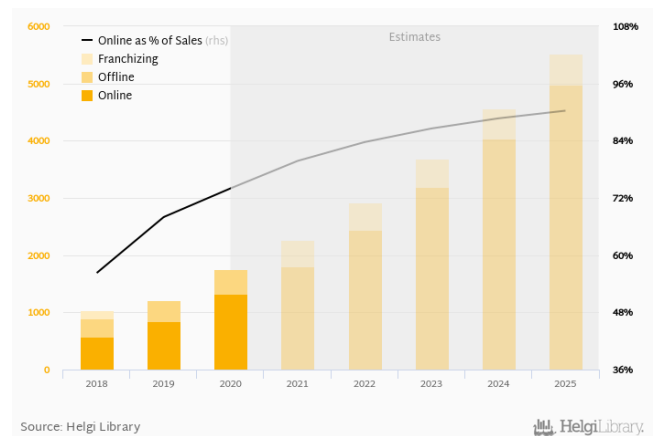
Sales Structure by Country

CZK mil



Online vs. Offline Sales

CZK mil

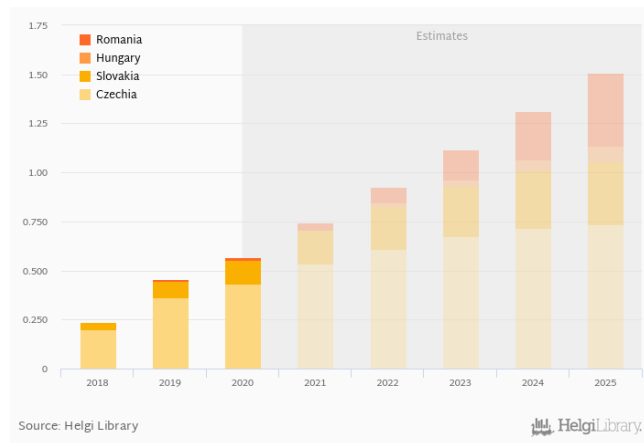


Pilulka can be considered as a wager on dynamic growth and its founders Petr and Martin Kasa. The brothers used their experience from their previous e-commerce project kasa.cz, which they successfully developed and sold in 2009. Dynamic development and better than expected performance confirm the positive expectations so far.

The firm hasn't revealed details of its online and offline sales in 2020 nor its customers' shopping behaviour. But Pilulka had some 571,000 active customers at the end of 2020 and we assume they made on average two purchases on Pilulka's website during the year, each for CZK 1,100. Assuming no differences between countries, we think Pilulka should gain approximately 1.5 mil customers by 2025 to fulfil its business plan.

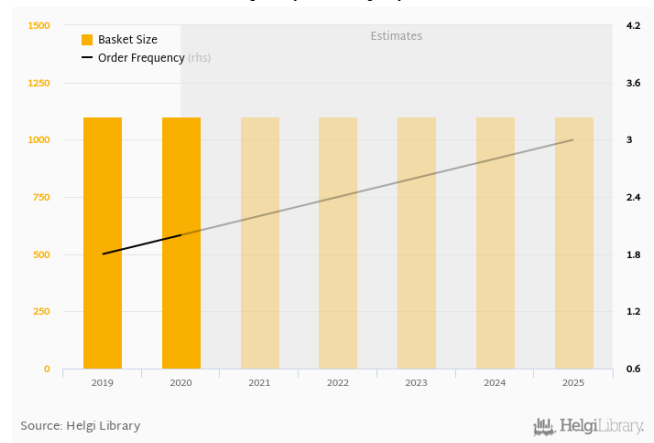
Number of Customers by Country

mil



Customers Shopping Behaviour

Basket Size (CZK) & Order Frequency (orders per year)

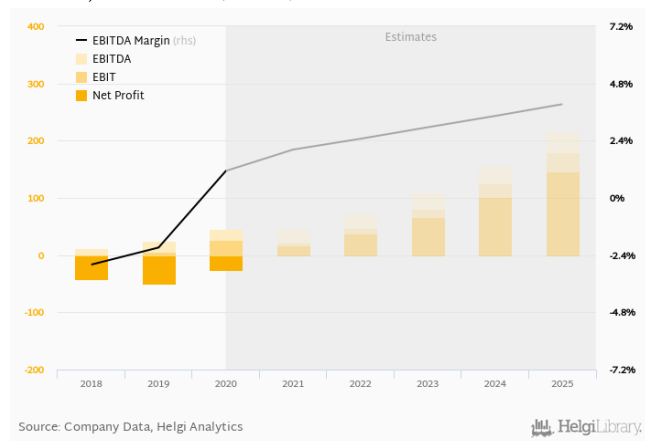


Profitability

Pilulka was founded in 2013 and has been mostly loss-making ever since, similarly to its rivals and examples Zur Rose and Shop Apotheke. If management succeeds in growing sales as planned, the Company should already break even in 2021, i.e. a year earlier than expected back in autumn when entering the stock exchange. In 2024, EBITDA margin should reach 4.0% according to management plans, or CZK 198 mil in absolute terms. Our forecast is a bit more conservative assuming sales of CZK 4.6 bil and EBITDA margin of 3.44%:

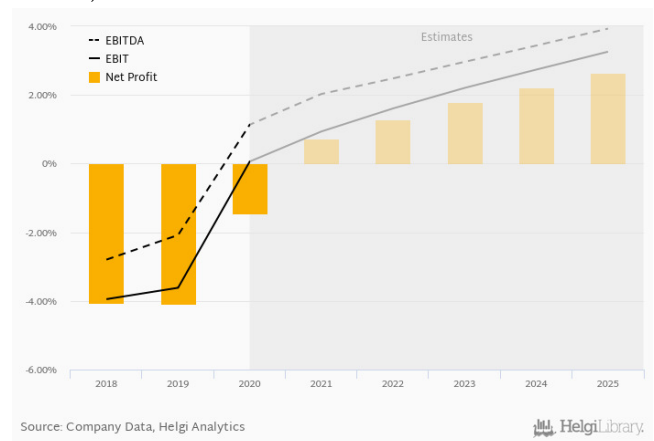
From EBITDA to Net Profit

Net Profit, EBIT & EBITDA (CZK mil)



Profit Margins

Net Profit, EBIT & EBITDA as % of Sales



The basic assumption for delivering such ambitious numbers is that dynamic sales growth to continue, of course. It's a must. However, it's not enough on its own. The sales growth must be accompanied by:

- ✓ Sales breakdown generating minimum gross margin of 25%
- ✓ Economies of scale and increasing operating efficiency
- ✓ Declining unit cost for marketing and IT

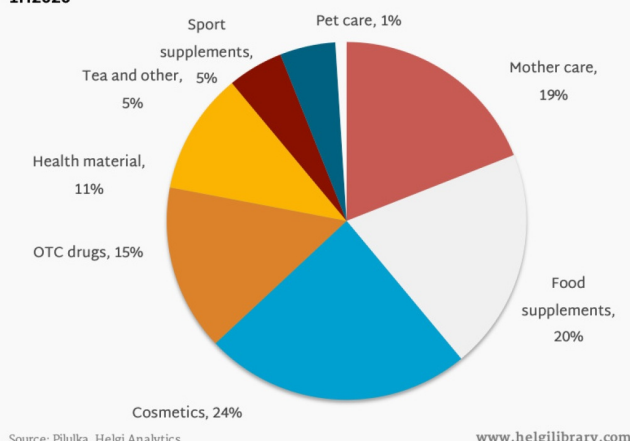
Minimum 25% gross margin

Pilulka's online business with a 25% gross margin should be profitable with sales exceeding CZK 500 mil, according to the management, a level confirmed by the Czech market in 2020. Slovakia should break even in 2021 and Romania in 2024, based on our outlook.

Until the online sale of prescription drugs is permitted, the breakdown of online sales at Pilulka will remain significantly different when compared to brick and mortar pharmacies. While more than half of total sales at brick and mortar pharmacies comes from prescription drugs (30% from OTC drugs and the remaining part from cosmetics and food supplements), 50% of revenues at online outlets is generated from mother care, food supplements, cosmetics and other products. Only some 15% of online revenues comes from OTC drugs:

Breakdown of Online Sales

1H2020

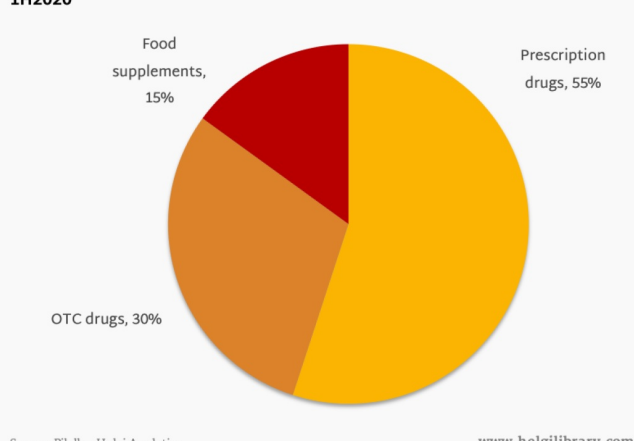


Source: Pilulka, Helgi Analytics

www.helgilibrary.com

Breakdown of Offline Sales

1H2020



Source: Pilulka, Helgi Analytics

www.helgilibrary.com

As demonstrated by the 2020 performance, Pilulka's management can be very flexible and opportunistic. Faster migration of consumers to the online segment thanks to the pandemic could therefore support Pilulka's sales generation until liberalization of distribution of prescription drugs starts in the Czech Republic. Minimum gross margin, however, remains one of the key factors to watch in the coming quarters/years.

Efficiency and economy of scale

Pilulka should increase its sales three-fold by 2024 which should bring a substantial drop in fixed costs relative to sales. Logistics exemplifies this with storage capacity in the Czech and Slovak republics only at 50%. In Romania, the figure is only 25%.

Management assumed a decline in relative operation costs as a part of process optimisation, especially, in the areas of storage and transport costs.

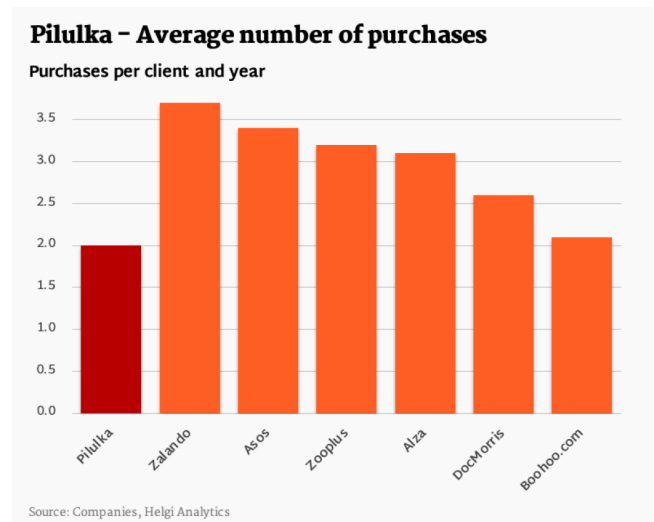
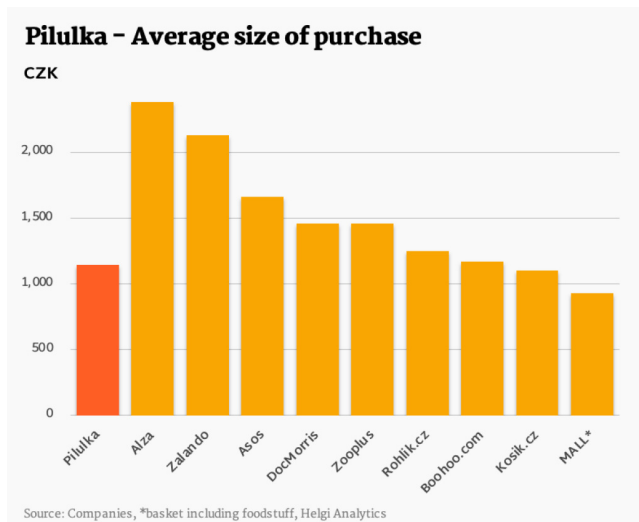
The average size of a package at online pharmacies is usually small and light when compared to most e-commerce players resulting in relatively lower storage and transport costs. This opens a vast competitive advantage and higher profitability prospects if the market with prescription drugs becomes deregulated. At Zur Rose for example, the average cost of prescription drugs sold amounts to Kč 5,000.

Marketing and IT cost

Some 425,000 online customers shopped at Pilulka in 2019. They made 765,000 purchases with on average 5.3 items bought. The number of active customers increased to 571,000 in 2020. We assume that average basket size reached Kč 1,100 in 2020 in our model and each customer made two purchases a year at Pilulka.

These numbers are very similar to those we can see at Germany's DocMorris (Zur Rose's subsidiary), i.e. an average purchase worth EUR 54 repeated 2.2x a year (down from EUR 57 and 2.4x in 2019). While average basket size is not much different when compared to the e-commerce average, the number of transactions at Pilulka is lower

when compared to customers purchasing clothing, or for example at Czechia's Alza:



If Pilulka's customers become as loyal as those of Zur Rose and Shop Apotheke, where around 80% purchases are from existing clients, its profitability and operational efficiency should increase significantly as marketing and IT costs lower.

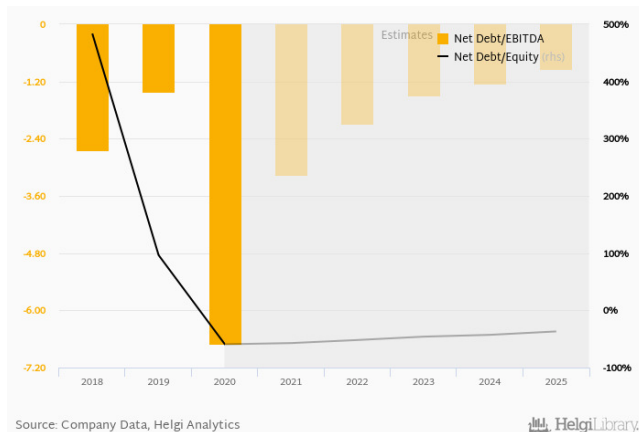
Cooperation with suppliers

Entrance on the stock exchange strengthened Pilulka's capital position and reduced dependency on external funding, especially by suppliers. The firm has risen CZK 212 mil in the IPO process and ended 2020 with CZK 228 mil of capital (against CZK 38 mil in 2019), net cash of CZK 135 mil (vs. net debt of CZK 36 mil in 2019) and net working capital of CZK 38 mil (compared to CZK 26 mil in 2019).

Such a substantial improvement of liquidity and capital strength addressed one of the firm's biggest weaknesses and gave management the instruments needed for further growth:

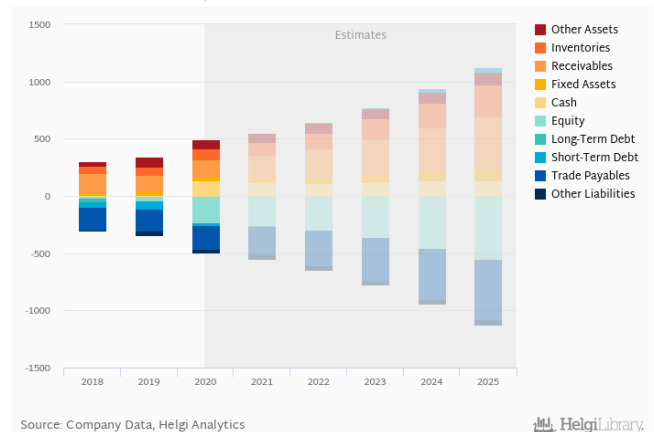
Indebtedness

Net Debt/EBITDA & Net Debt/Equity



Balance Sheet

Assets and their Funding (CZK mil)



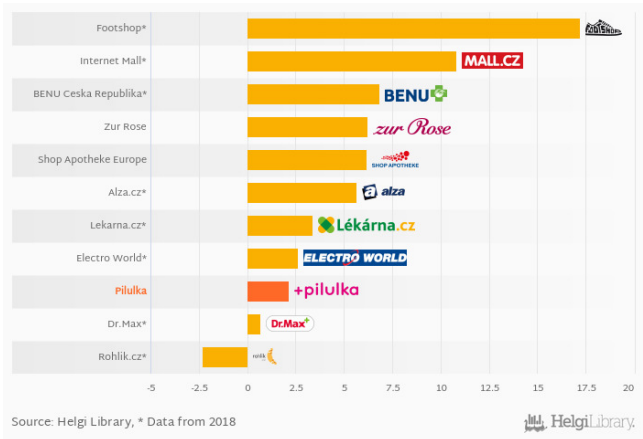
If the Company managed to increase the EBITDA margin to 4.0% in 2024, the firm's

current capital would be large enough to fund increasing sales three-fold, even if cash conversion cycle increased from 5 to 10 days by 2024.

As such, Pilulka would get closer to the standard in the industry, both domestic as well as international, where companies fund their stock of goods on their own (with the exception of rohlik.cz). Having said that, capital strength and the level of working capital of Zur Rose and Shop Apotheke are well above those of Pilulka:

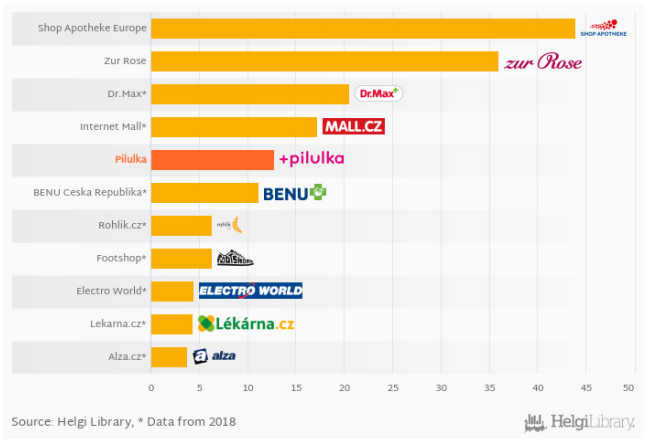
Working Capital

As % of Sales, 2020



Equity

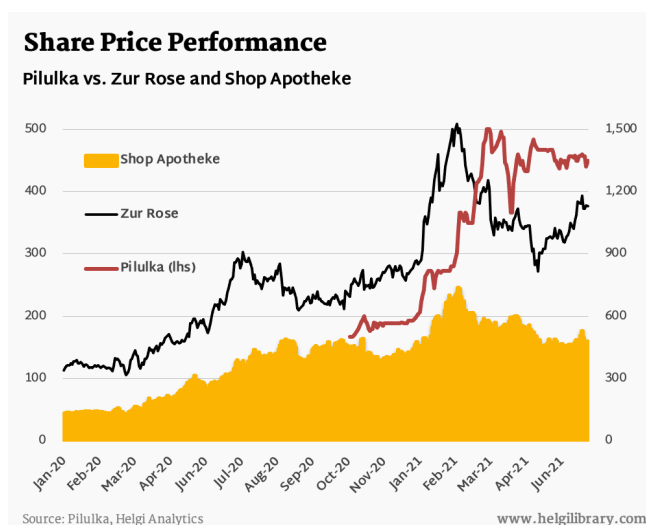
As % of Sales, 2020



2 Valuation

Pilulka is currently having the best time of its life. Since entering the Stock Exchange, the share price has almost tripled, results for 2020 exceeded expectations and management has upgraded its outlook. Pilulka can be thought of as a pharmaceutical market disruptor and the speed of deregulation of prescription drugs sale remains the key factor affecting share price in the future.

The pandemic and autumn lockdown materially improved Pilulka's profitability while comparison with investors' beloved players, Zur Rose and Shop Apotheke, further underlines the attractive Pilulka story .



Pilulka has been well prepared to benefit from these positive trends and unexpected events. In short, the crux of the Pilulka tale is a bet on the management and the Kasa brothers in particular.

We like the Pilulka story and believe the current trend of faster migration of consumers from off to online is long-term and structural. At the same time, we can still see a number of risks which could limit profitability of the firm if the market with prescription drugs is not deregulated.

Speed of prescription drugs market deregulation therefore remains the key factor affecting Pilulka's share price.

Significant share price appreciation especially at the beginning of the year is another negative factor to take into account. Comparison with Zur Rose and Shop Apotheke offers potentially a fair price exceeding CZK 2,000 per share if indicators such as EV/Sales, or market value per customer are chosen. Detailed comparison with e-commerce players, however, suggests that Pilulka lags somewhat behind its peers in a number of comparisons both absolute (sales, or profit per customer) and relative including overall profitability or efficiency.

We set the fair price of Pilulka at CZK 1,250 per share as of the end of 2021, implying a market capitalization of CZK 3,125 mil. Despite being lower than the current market price (CZK 1,350), we recommend HOLDing Pilulka shares as an attractive addition to an investment portfolio.

Apart from the speed and scale of potential prescription drugs market deregulation, we will watch closely the development of Pilulka's business model in the areas of health care services digitalization (such as Pilulka Lab accelerator), or telemedicine (similar to Zur Rose and Shop Apotheke).

2.1 Discounted free cash flow model (DCF)

Valuation model of discounted free cash flow suggests a fair value in a wide range of CZK 863–3,415 per share. The main reason being that 95% of the value will only be "created" after 2025 (and still 85% after 2030). The firm now, and in the near future will have relatively low profitability. In addition, a lot of capital and operating profit will have to be "consumed" on additional expansion and growth. Lastly, Pilulka is still a relatively young and fast-growing firm. By definition, its valuation model is extremely sensitive to the assumptions used, be it terminal growth rate or discount rate, for instance.

A change of growth rate by 1% pp for the period beyond 2035 would, for example, change the firm's value by almost CZK 200 mil, or 18%. Having said that, the model might be very useful to measure sensitivity, i.e. to see how value of the Company changes if certain assumptions are changed, such as the funding structure.

Here are the main assumptions we have used for our valuation model:

- ✓ Pilulka should start generating positive free cash flow from 2022 on. The firm should create almost CZK 60 mil in free cash flow in 2025, according to our model, and about CZK 180 mil in 2030. This assumes ambitious growth targets of 25% a year in 2025–2030, 15% for 2030–2035 and 4% of free cash flow growth beyond 2035.
- ✓ Average cost of capital (WACC) exceeding 10% until 2035 (and 7.5% beyond) is a function of 10% cost of equity (9.0% after 2035) and 4.00% for cost of debt. Having said that, the cost of external debt is irrelevant in our model since Pilulka should be able to operate without any bank debt.
- ✓ Stable funding structure with equity accounting for 100% of total capital with extra cash being paid out in the form of dividends. After 2035, we assume an optimized share of own capital at 75% of the total.

Our valuation model with such assumptions suggests a fair value of CZK 3,155 mil for 100% of the firm, or CZK 1,262 per share:

DISCOUNTED FREE CASH FLOW MODEL		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	>2035
BREAKDOWN OF FREE CASH FLOW																		
SALES	CZK	1,780	2,264	2,924	3,688	4,556	5,521	6,549	7,605	8,684	9,824	11,032	12,241	13,418	14,526	15,528	16,386	
EBIT	CZK	1.1	21.2	47.0	81.3	124.8	179.9	213.0	245.9	278.6	311.6	344.8	373.2	396.3	411.9	417.9	386.2	
- Corporate Tax	CZK	0.0	-3.8	-8.9	-15.4	-23.7	-34.2	-40.5	-46.7	-52.9	-59.2	-65.5	-70.9	-75.3	-78.3	-79.4	-73.4	
+ Depreciation	CZK	19.1	24.7	25.6	28.0	31.9	37.1	43.8	52.2	62.3	74.6	89.4	107.2	128.6	154.3	185.2	222.2	
+/- Change of working capital	CZK	-12.3	-15.6	-21.7	-37.8	-49.0	-61.9	-54.9	-60.2	-65.5	-72.8	-80.8	-61.2	-59.6	-56.1	-50.7	-43.4	
- Capital expenditures	CZK	-27.6	-31.2	-37.4	-45.3	-53.5	-61.5	-71.8	-81.9	-91.3	-99.9	-108.1	-115.8	-122.4	-127.5	-130.7	-132.0	
Free Cash Flow	CZK	-19.8	-4.7	4.6	10.8	30.5	59.5	89.7	109.3	131.2	154.3	179.8	232.4	267.6	304.4	342.2	359.6	8,607
COST OF CAPITAL		%	9.5%	9.9%	10.2%	10.2%	10.4%	10.4%	10.5%	10.5%	10.5%	10.5%	10.4%	10.5%	10.5%	10.4%	10.3%	10.0%
Cost of Equity			10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Cost of Debt			5.02%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Equity (as % of total)			90.6%	97.8%	103.1%	102.9%	107.1%	107.1%	108.0%	108.6%	108.8%	108.4%	107.4%	107.9%	107.6%	106.5%	104.4%	100.2%
Growth rate			...	-76.2%	-197.7%	133.8%	182.8%	95.2%	50.8%	21.8%	20.0%	17.7%	16.5%	29.2%	15.1%	13.8%	12.4%	5.1%
Cumulative discount factor				100.0%	90.8%	82.4%	74.6%	67.6%	61.1%	55.3%	50.1%	45.3%	41.0%	37.1%	33.6%	30.4%	27.6%	25.1%
Discounted free cash flow	CZK		-5	4	9	23	40	55	60	66	70	74	86	90	93	94	90	2,160
Cumulative discounted free cash flow	CZK		-5	-1	8	31	71	126	187	252	322	396	482	572	665	759	850	3,010
ENTERPRISE VALUE (2021)		CZK	3,010															
Net Debt (2021)	CZK		-145															
100% share in Company		CZK	3,155															
Value per Share	CZK		1,262															

Source: Company, Helgi Analytics

As already mentioned above, the valuation model is extremely sensitive to the main assumptions used. This is especially true for young and fast-growing firms like Pilulka.

Each increase of growth rate of free cash flow beyond 2035 by 1 percentage point (i.e. from 4.0% to 5.0%) increases value of the firm by approximately Kč 800 mil, or 27%. A similar story could be seen with cost of capital, where each 1.0% change means 18% difference in a fair value of the firm:

SENSITIVITY ANALYSIS							
GROWTH BEYOND 2035 / COST OF CAPITAL		6.50%	7.00%	7.50%	8.00%	8.50%	9.00%
2.5%	CZK	1,154	1,070	1,003	949	902	863
3.0%	CZK	1,262	1,155	1,070	1,004	948	902
3.5%	CZK	1,405	1,263	1,154	1,072	1,003	948
4.0%	CZK	1,607	1,407	1,262	1,156	1,070	1,003
4.5%	CZK	1,908	1,609	1,406	1,265	1,155	1,070
5.0%	CZK	2,411	1,912	1,608	1,410	1,263	1,154
5.5%	CZK	3,415	2,418	1,910	1,614	1,407	1,262

Source: Pilulka, Helgi Analytics

The sensitivity of the valuation model could be used to test the potential change of assumptions to get a fair price of CZK 2,000 per share. We can get there by changing:

- ✓ Sales growth should reach 26% a year on average until 2030 against our forecast of 20%
- ✓ EBITDA margin would have to be 5.0% in 2030 (against 3.94%)
- ✓ Cost of capital would have to fall to 8.5% (vs. 10.0%)

We can model the other way around too. Pilulka's fair value would reach CZK 914 per share if average sales growth reached only 15%, EBITDA margin would stay below 3.0%, or cost of capital would grow above 11%.

2.2 Comparison with Zur Rose, Shop Apotheke and Farmae

Comparison of Pilulka with market peers is not easy. Most online pharmacies are either part of large retail chains (Boots, Lloyds, CVS Health, ICA Gruppen), are much larger market players (for example Pillpack at Amazon), or are relatively small and young without much financial history.

The largest and best-known European on-line players, Swiss Zur Rose and German Shop Apotheke Europe, seem to be the best peers to compare Pilulka with in our view:

Zur Rose

Zur Rose is the largest European online pharmacy and one of the largest distributors of drugs in Switzerland. Apart from the wholesale distribution to hospitals, the Company offers its 8 mil customers sale of OTC as well as prescription drugs through its online platform. The company's product portfolio also includes food supplements, body and beauty products, sport nutrition products and mother care. Apart from its home market in Switzerland, Zur Rose is active in Germany (through its brand

DocMorris), Holland, Spain and France and employs more than 1,800 people:

INCOME STATEMENT		2019	2020	2021E	2022E	2023E	2024E
SALES	CHF mil	1,356	1,477	1,810	2,590	3,457	4,718
EBITDA	CHF mil	-13.8	-78.4	-42.7	-0.2	83.6	319.7
EBIT	CHF mil	-45.7	-117.6	-100.1	-61.5	16.9	139.2
FINANCIAL RESULT	CHF mil	5.9	15.8	6.7	91.0	6.1	-60.7
PRE-TAX PROFIT	CHF mil	-50.1	-133.2	-106.8	-152.6	10.8	199.9
NET PROFIT	CHF mil	-52.4	-135.6	-106.8	-80.4	19.0	186.9
RATIOS		2019	2020	2021E	2022E	2023E	2024E
ROE	%	-12.3%	-28.9%	-22.3%	-20.9%	5.4%	40.9%
ROCE	%	-9.9%	-18.1%	...	...	...	...
EBITDA MARGIN	%	-1.0%	-5.3%	-2.4%	0.0%	2.4%	6.8%
EBIT MARGIN	%	-3.4%	-8.0%	-5.5%	-2.4%	0.5%	2.9%
NET MARGIN	%	-3.9%	-9.2%	-5.9%	-3.1%	0.5%	4.0%
NET DEBT / EBITDA		-16.8	-3.4	-8.7	-3172.4	6.4	1.3
NET DEBT / EQUITY	%	57.4%	50.7%	87.3%	138.1%	147.8%	76.3%
COST OF FUNDING	%	2.0%	3.1%	1.1%	12.7%	0.8%	-9.4%

BALANCE SHEET		2019	2020	2021E	2022E	2023E	2024E
ASSETS	CHF mil	991.7	1,278.5	1,470.3	1,690.8	1,944.4	2,236.1
FIXED ASSETS	CHF mil	77.1	96.6	...	...	...	...
CURRENT ASSETS	CHF mil	428.1	539.3	620.2	713.2	820.2	943.2
WORKING CAPITAL	CHF mil	105.2	92.2	...	...	...	...
EQUITY	CHF mil	405.5	531.7	425.0	344.5	363.5	550.4
NET DEBT	CHF mil	232.7	269.6	371.0	475.9	537.3	420.0
VALUATION		2019	2020	2021E	2022E	2023E	2024E
MARKET CAPITALIZATION	USD mil	961	3,060	4,334	4,334	4,334	4,334
ENTERPRISE VALUE	USD mil	1,202	3,365	4,739	4,853	4,921	4,792
SHARES	mil	8.7	10.5	10.5	10.5	10.5	10.5
SHARE PRICE	CHF	107.0	288.5	377.0	377.0	377.0	377.0
EV/EBITDA		-84.8	-39.8	-99.8	-29,628.6	53.9	13.7
EV/SALES		0.9	2.1	2.4	1.7	1.3	0.9
P/E		-17.7	-19.3	-37.2	-49.3	209.4	21.2
P/BV		2.3	5.7	9.3	11.5	10.9	7.2

Source: Bloomberg, Helgi Analytics, *Ratios calculated based on share price of CHF 377 for 2021-2024, otherwise as of the year-end

Shop Apotheke

Shop Apotheke Europe is a Dutch-registered but mostly Germany-exposed company involved in online distribution of pharmaceutical products to retail customers. The Company markets and distributes prescription, non-prescription medications, pharmacy-related beauty and personal care products as well as natural food and health products. Shop Apotheke operates its online pharmacies in eight European countries including Germany, Belgium, Spain, Italy, France, Austria, or Holland:

INCOME STATEMENT		2019	2020	2021E	2022E	2023E	2024E
SALES	EUR mil	701.0	968.1	1,184.6	1,545.7	1,977.9	2,239.0
EBITDA	EUR mil	-18.6	15.2	29.3	54.8	86.6	135.0
EBIT	EUR mil	-33.4	-0.9	4.9	26.9	57.4	123.5
FINANCIAL RESULT	EUR mil	10.2	10.4	6.3	4.5	8.5	27.5
PRE-TAX PROFIT	EUR mil	-42.2	-15.9	-1.4	22.4	48.9	96.0
NET PROFIT	EUR mil	-36.3	-16.8	-2.4	15.4	38.5	75.2

RATIOS		2019	2020	2021E	2022E	2023E	2024E
ROE	%	-16.2%	-5.1%	-0.6%	3.6%	8.4%	14.6%
ROCE	%	-13.9%	-5.5%	...	...	...	...
EBITDA MARGIN	%	-2.7%	1.6%	2.5%	3.5%	4.4%	6.0%
EBIT MARGIN	%	-4.8%	-0.1%	0.4%	1.7%	2.9%	5.5%
NET MARGIN	%	-5.2%	-1.7%	-0.2%	1.0%	1.9%	3.4%
NET DEBT / EBITDA		-1.9	-5.9	-0.6	-0.2	-0.2	-0.7
NET DEBT / EQUITY	%	15.5%	-21.2%	-3.9%	-2.8%	-4.5%	-16.1%
COST OF FUNDING	%	...	...	...	...	...	...

BALANCE SHEET		2019	2020	2021E	2022E	2023E	2024E
ASSETS	EUR mil	428.0	536.9	617.4	710.1	816.6	939.1
FIXED ASSETS	EUR mil	13.2	74.5	...	...	...	...
CURRENT ASSETS	EUR mil	210.8	254.1	292.2	336.0	386.4	444.4
WORKING CAPITAL	EUR mil	52.0	59.9	...	...	...	...
EQUITY	EUR mil	232.8	425.1	422.7	438.2	476.6	551.8
NET DEBT	EUR mil	36.0	-90.0	-16.4	-12.2	-21.5	-89.0

VALUATION		2019	2020	2021E	2022E	2023E	2024E
MARKET CAPITALIZATION	USD mil	638	2,605	2,702	2,702	2,702	2,702
ENTERPRICE VALUE	USD mil	678	2,495	2,683	2,688	2,677	2,598
SHARES	EUR	13.1	14.4	14.4	14.4	14.4	14.4
SHARE PRICE		43.5	158.0	160.2	160.2	160.2	160.2
EV/EBITDA		-32.2	140.3	76.4	41.8	26.4	16.4
EV/SALES		0.9	2.2	1.9	1.5	1.2	1.0
P/E		-15.6	-135.0	-949.7	149.1	59.9	30.6
P/BV		2.4	5.3	5.4	5.3	4.8	4.2

Source: Bloomberg, Helgi Analytics, *Ratios calculated based on share price of EUR 160 for 2021-2024, otherwise as of the year-end

Farmae

Farmae SpA is Italy's retail online firm distributing products in the area of health care and wellness. Similar to Zur Rose and Shop Apotheke, Farmae offers OTC drugs, orthopaedic products, homeopathics, health care instruments, mother care products, herbals and products for pets:

INCOME STATEMENT		2018	2019	2020	2021E	2022E	2023E
SALES	EUR mil	24.8	37.4	65.4	90.2	127.0	162.0
EBITDA	EUR mil	0.6	1.8	1.0	3.2	4.9	5.8
EBIT	EUR mil	0.5	0.8	0.8	2.7	3.4	3.8
FINANCIAL RESULT	EUR mil	...	...	...	...	...	...
PRE-TAX PROFIT	EUR mil	0.4	0.0	-0.3	2.7	3.4	3.8
NET PROFIT	EUR mil	0.3	-0.1	-0.5	2.4	2.7	2.9

RATIOS		2018	2019	2020	2021E	2022E	2023E
ROE	%	25.7%	-0.9%	-4.6%	18.7%	17.5%	15.5%
ROCE	%	16.4%	-1.2%	-7.6%	...	...	...
EBITDA MARGIN	%	2.5%	4.8%	1.5%	3.5%	3.9%	3.6%
EBIT MARGIN	%	1.9%	2.2%	1.2%	3.0%	2.7%	2.3%
NET MARGIN	%	1.1%	-0.2%	-0.8%	2.7%	2.1%	1.8%
NET DEBT / EBITDA		2.0	-1.4	-3.5	-0.9	-0.6	-0.3
NET DEBT / EQUITY	%	53.8%	-20.3%	-28.6%	-19.7%	-16.5%	-9.1%
COST OF FUNDING	%	...	...	...	...	...	...

BALANCE SHEET		2018	2019	2020	2021E	2022E	2023E
ASSETS	EUR mil	12.2	28.7	43.1	49.5	57.0	65.5
FIXED ASSETS	EUR mil	0.5	1.0	2.0	...	...	...
CURRENT ASSETS	EUR mil	8.3	21.5	33.2	...	...	...
WORKING CAPITAL	EUR mil	-0.6	0.4	-3.0	...	...	...
EQUITY	EUR mil	2.2	12.2	11.8	14.2	16.9	19.8
NET DEBT	EUR mil	1.2	-2.5	-3.4	-2.8	-2.8	-1.8

VALUATION		2018	2019	2020	2021E	2022E	2023E
MARKET CAPITALIZATION	USD mil	...	55	104	227	227	227
ENTERPRICE VALUE	USD mil	...	52	100	224	224	225
SHARES	EUR	...	5.70	5.70	5.70	5.70	5.70
SHARE PRICE		...	8.6	14.9	34.0	34.0	34.0
EV/EBITDA		...	25.8	89.5	58.5	39.0	33.1
EV/SALES		...	1.2	1.3	2.1	1.5	1.2
P/E		...	-763.8	-154.9	79.8	71.3	68.0
P/BV		...	4.0	7.2	13.6	11.5	9.8

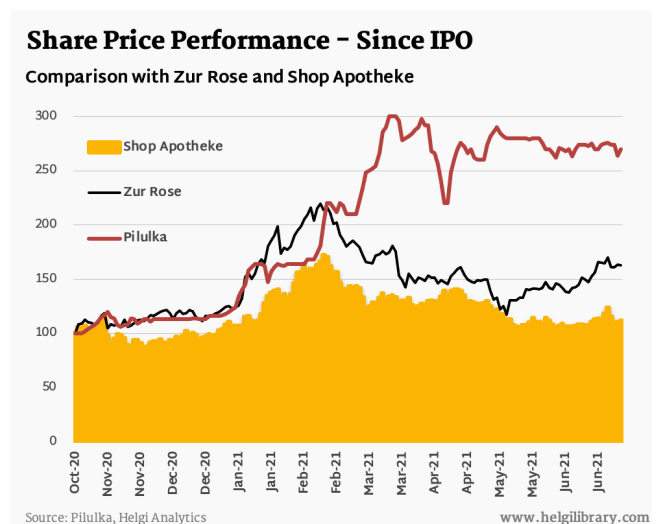
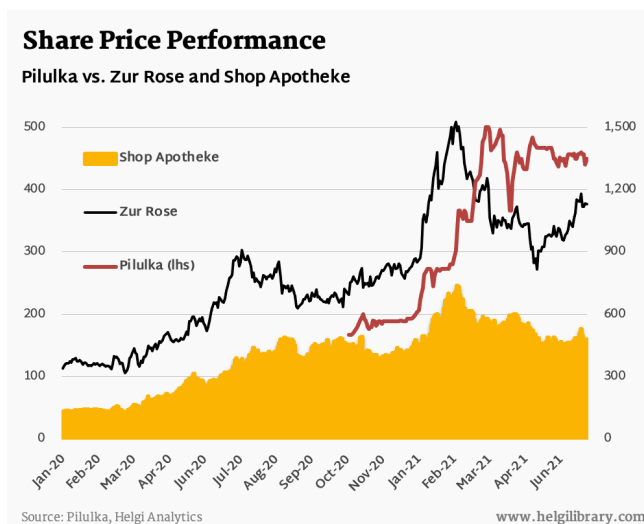
Source: Bloomberg, Helgi Analytics, *Ratios calculated based on share price of EUR 34 for 2021-2023, otherwise as of the year-end

While traditional retail companies have been trading at roughly 8 times their operating profit EBITDA, or 13x their net profit expected in 2021, pure online pharmacies have been showing deep losses equal to double digit percentage points when measured in return on capital (ROCE) and equity (ROE).

Comparison with Zur Rose and Shop Apotheke looks logical at the first glance. The comparison is also tempting, and we believe is one of the reasons for Pilulka's rapid share price appreciation after IPO.

Pilulka share price has almost tripled since entering the stock exchange. That's in line with the share price performance of Zur Rose and Shop Apotheke during 2020. The correlation between share price growth and the start of the pandemic is obviously strong.

Unlike its western European peers, however, Pilulka's rally started at the beginning of 2021 with 90% of the gains added this year.



As we have pointed out in our previous report, the large difference in size and the pace of market deregulation between European and Czech markets are the main arguments against a blunt takeover of the high valuation multiples of Zur Rose and Shop Apotheke:

Unlike Pilulka, online revenues of Zur Rose and Shop Apotheke are generated by both OTC as well as prescription drugs. This allows them to cannibalize the offline market more quickly and to achieve faster and more profitable growth when compared to Pilulka.

Both west European firms have been trying to consolidate European markets fast, both organically as well by acquisitions, to build up client base and overall size enough to achieve economies of scale. Both companies have also been active in a dozen European countries and have already built a base of 10 and 6 mil customers.

Until regulation is changed in Central Europe, Zur Rose and Shop Apotheke can

therefore offer their shareholders potentially bigger growth and higher profitability when compared to Pilulka thanks to a bigger chunk of the market and sales of more profitable prescription drugs (more on Page 26):

The differences are visible in the structure of sales (prescription drugs account for a quarter of sales at Shop Apotheke in the DACH region) as well as in higher profit margins of west European firms (mid-term EBITDA margin targets at 6-8%) when compared to Pilulka (management expects EBITDA margin of 4.0% in 2024).

Sales of prescription drugs bring companies increased customer loyalty and lower marketing costs as a result (share of repeated orders is around 80% at Zur Rose and Shop Apotheke) and further options of expansion into complementary areas of business such as telemedicine, for instance. Sales of prescription drugs also bring interesting savings from economies of scale as average basket size of prescription drugs is 4 times higher at Zur Rose with logistics costs remaining unchanged. That's something Pilulka will be unable to offer to its customers or shareholders for a couple of years to come...

2.3 Comparative valuation (e-commerce)

When we extend the comparison to wider areas of the e-commerce industry such as fashion clothing, we get a similar outcome. E-commerce firms trade at a massive premium over traditional companies, often at multiples previously thought as being ridiculous such as double the sales, or 10-fold their book value:

COMPANY	COUNTRY	Mkt Cap	EV / SALES			EV / EBITDA			PER			PBV		
		USD mil	2021	2022E	2023E	2021	2022E	2023E	2021	2022E	2023E	2021	2022E	2023E
ZALANDO	Germany	31,427	2.5	2.1	1.7	36.9	31.4	24.8	110.3	91.4	67.0	11.2	10.0	8.7
BOOHOO	UK	5,935	1.9	1.3	1.0	22.9	13.4	10.3	43.5	26.1	20.6	6.5	5.2	4.1
ASOS	UK	6,315	1.1	1.0	0.8	12.3	11.4	9.2	34.5	29.2	24.4	4.5	3.9	3.4
BOOZT	Sweden	1,276	1.8	1.6	1.3	20.2	16.8	13.9	43.8	33.8	27.4	5.2	4.5	3.9
ZOOPLUS	Germany	2,284	0.9	0.8	0.7	26.5	21.4	17.6	81.1	58.3	44.8	13.2	10.7	8.7
ZUR ROSE	Switzerland	4,334	2.4	1.7	1.3	-99.8	n.m.	53.9	-37.2	-49.3	209.4	9.3	11.5	10.9
SHOP APOTHEKE	Germany	2,702	1.9	1.5	1.2	76.4	41.8	26.4	n.m.	149.1	59.9	5.4	5.3	4.8
FARMAE	Italy	227	2.1	1.5	1.2	58.5	39.0	33.1	79.8	71.3	68.0	13.6	11.5	9.8
PILULKA	Czechia	158	1.5	1.1	0.9	72.4	45.7	30.2	206.4	89.1	51.2	13.3	11.6	9.4

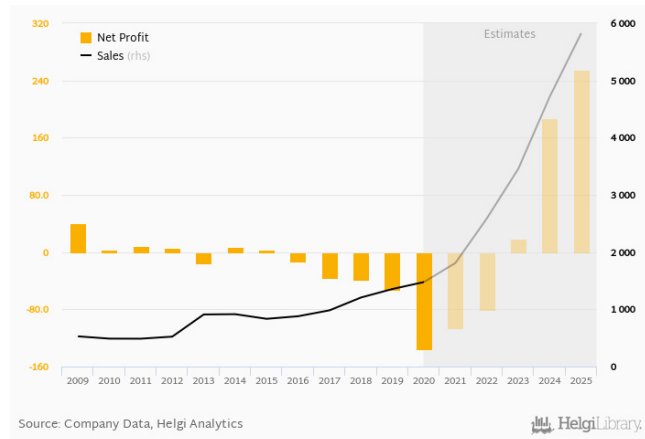
COMPANY	COUNTRY	Mkt Cap	EBITDA MARGIN			NET MARGIN			NET DEBT / EBITDA			ROE		
		USD mil	2021	2022E	2023E	2021	2022E	2023E	2021	2022E	2023E	2021	2022E	2023E
ZALANDO	Germany	31,427	6.7%	6.6%	7.1%	2.4%	2.4%	2.7%	-1.5	-1.3	-1.1	10.7%	11.5%	13.9%
BOOHOO	UK	5,935	8.5%	9.6%	9.9%	4.9%	5.4%	5.7%	-1.3	-1.3	-1.4	20.4%	22.1%	22.4%
ASOS	UK	6,315	8.9%	8.7%	8.8%	3.4%	3.7%	4.0%	-0.6	-1.0	-1.7	14.1%	14.4%	14.9%
BOOZT	Sweden	1,276	8.9%	9.3%	9.6%	4.7%	5.2%	5.6%	-2.1	-2.0	-2.1	12.7%	14.4%	15.2%
ZOOPLUS	Germany	2,284	3.4%	3.6%	3.8%	1.1%	1.4%	1.6%	-0.6	-0.8	-0.9	17.7%	20.3%	21.4%
ZUR ROSE	Switzerland	4,334	-2.4%	0.0%	2.4%	-5.9%	-3.1%	0.5%	-8.7	n.m.	6.4	-22.3%	-20.9%	5.4%
SHOP APOTHEKE	Germany	2,702	2.5%	3.5%	4.4%	-0.2%	1.0%	1.9%	-0.6	-0.2	-0.2	-0.6%	3.6%	8.4%
FARMAE	Italy	227	3.5%	3.9%	3.6%	2.7%	2.1%	1.8%	-0.9	-0.6	-0.3	18.7%	17.5%	15.5%
PILULKA	Czechia	158	2.0%	2.5%	3.0%	0.7%	1.3%	1.8%	-3.2	-2.1	-1.5	6.7%	13.9%	20.3%

Source: Bloomberg, Helgi Analytics

Similar to the example of Zur Rose and Shop Apotheke, investors believe that e-commerce firms will be able to generate superior sales growth for years to come, which brings interesting economies of scale and a boost in profitability in the future. When looking at the market consensus of Zur Rose, for instance, analysts expect net profit of EUR 225 mil in 2025. That's more than the sum of all annual losses the firm generated between 2009 and 2020 (EUR 222 mil). One can get a similar picture when looking at a number of other e-commerce firms:

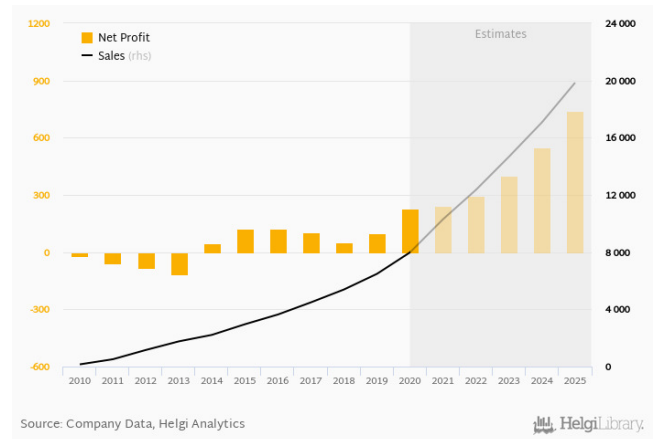
Zur Rose – Profits & Sales

Net Profit & Sales (CHF mil)



Zalando – Profits & Sales

Net Profit & Sales (EUR mil)



Based on the current valuation of Zur Rose and Shop Apotheke, we offer a potential value of Pilulka stock below. The market values Zur Rose at USD 4.33 bil now, which implies a value per customer exceeding USD 400 (30% more than at 2020 year-end). When applying this to Pilulka's customer base (0.57 mil), we would get a theoretical market value for Pilulka of CZK 5.0 bil, or CZK 2,010 per share. A similar value would be reached if EV/Sales multiple was used (CZK 5.4 bil, or CZK 2,160 per share). A comparison with Shop Apotheke would provide similar numbers (CZK 2,080 and CZK 1,780 per share, respectively).

COMPANY	COUNTRY	Mkt Cap USD mil	NUMBER OF CLIENTS			MKT VALUE PER CLIENT			SALES PER CLIENT			EBITDA PER CLIENT		
			2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
ZALANDO	Germany	31,427	...	26.40	38.70	...	486	735	...	278	241	...	15.5	17.6
BOOHOO	UK	5,935	5.26	4.71	3.75	368	247	310	128	133	155	10.8	12.5	14.1
ASOS	UK	6,315	...	21.30	23.40	...	114	280	...	174	198	...	8.4	17.9
BOOZT	Sweden	1,276	...	1.61	2.04	...	202	713	...	234	245	...	13.5	20.6
ZOOPLUS	Germany	2,284	...	4.40	5.08	...	156	292	n.a.	393	415	...	3.0	14.6
ZUR ROSE	Switzerland	4,334	6.00	7.08	10.50	126	136	291	205	196	152	-2.4	-2.0	-8.1
SHOP APOTHEKE	Germany	2,702	3.50	4.70	6.30	148	136	414	181	169	180	-5.2	-4.5	2.8
FARMAE	Italy	227	0.23	0.33	0.55	...	167	190	127	129	139	3.1	6.2	2.0
PILULKA	Czechia	158	0.24	0.43	0.57	n.a.	n.a.	120	198	129	142	-5.5	-2.7	1.6

Source: Bloomberg, Companies, Helgi Analytics

As seen above, Pilulka lags behind in absolute numbers (such as sales and profits per customer) as well as in relative profitability and cost efficiency. This remains the main reason why we can't bluntly take over valuation multiples of west European peers and why Pilulka should remain trading with a discount.

3.1 Company profile

Company history

Pilulka was founded by brothers Petr and Martin Kasa in 2013. They used their experience from their previous start-up, kasa.cz, e-shop which they built, and sold in 2009.

Pilulka is currently one of the three largest pharmacy chains in Czechia with 30 own and 120 franchise branches. Under the franchise concept, independent pharmacy owners could team up under the Pilulka brand and benefit from united marketing communication and business cooperation.

Pilulka also became the largest online pharmacy in the Czech and Slovak Republics. Total online sales accounted for Kč 616 mil in Czechia and Kč 250 mil in Slovakia in 2019. At the end of 2018, Pilulka entered the Romanian market and during 2020 bought out a minority stake of its local partner. Expansion to Hungary was planned for 2021, but will be postponed due to the pandemic.

Management assumed total consolidated sales would increase from CZK 1.3 bil in 2019 to approximately CZK 4.3 bil in 2024 in autumn 2020 when the Company was entering the Prague START market. The outlook was upgraded to CZK 4.96 bil expected in 2024 when presenting the 2020 and 1Q2021 results:

The pharmacy business is generally a highly regulated sector with relatively high entry barriers. A license is needed to sell drugs off- as well as online. The sale of prescription drugs usually generates higher margins when compared to OTC drugs, or beauty and hygiene-related products. Online sale of drugs is not allowed in Central Europe yet, so the online segment operates generally with lower margins when compared to traditional brick and mortar pharmacies.

Online pharmacies benefit from higher client retention when selling OTC drugs when compared to other e-commerce players. In the case of Zur Rose and Shop Apotheke, role models for Pilulka, repeated purchases represent approximately 80% of total purchases.

Pilulka holds its own licenses and certificates to sell drugs and to operate pharmacies in all three countries it currently operates in. In addition, it owns a license to distribute food supplements and BIO and ECO products.

Pilulka is a holding company having a 100% share in the Slovak firms Pilulka.sk, a.s. and Top Farma, s.r.o., and in the Romanian company S.C. Pilulka Online S.R.L. (compared to 70% owned during 2020).

Pilulka Group employed more than 285 people at the end of 2020, of which around 100 were pharmacists and other medical personnel. Petr and Martin Kasa – founders and managers of the Company – still hold the biggest stake in the Company after the IPO.

Market/s size and structure

There are more than 2,500 brick and mortar pharmacies and some 250 other premises for drug distribution in Czechia. Customers could use a further 2,400 other retail shops such as tobacco shops, fuel stations, or drug stores to buy selected pharmaceutical products.

Drugs and pharmaceutical products in the Czech market account for Kč 80–90 bil a year, of which more than half comes from prescription drugs. Czechs spend a relatively high amount on pharmaceuticals, so overall growth in sales has been relatively small in the last decade (approximately 3% a year since 2010). The dynamic, however, sped up in the last 2–3 years to 5–9%.

Households spend roughly Kč 17 bil on drugs a year (for both, OTC as well as prescription drugs). While the amount has little changed in the last decade, the share of total sales has dropped from 23.4% in 2011 to 20% in 2018:

Dr. Max is the leader on the Czech market with a chain of more than 460 pharmacies followed by Benu (174 branches) and Pilulka with 30 own and 120 franchise pharmacies.

On one hand, the market remains fairly fragmented. The 10 largest players control only 31% of the market and more than 70% of the market is run by owners having only a single pharmacy. On the other hand, small players increasingly team up to share costs, offer more products and services and distribute online. Some 80% of the public pharmacies are already a part of a bigger group often cooperating with a common wholesaler, according to Association of Pharmacy Owners.

Slovakia offers a similar picture. The vast majority of pharmacies there are grouped under an umbrella of more or less formally cooperating alliances.

Apart from ongoing consolidation of the markets, the main trends include fast growth of the online segment, a rising share of the sale of drugs outside of traditional pharmacies and a rising portfolio of products offered at pharmacies. At the state level, it's the ongoing aim to reduce exports of drugs with regulated prices.

3.2 Vision and Strategy

Pilulka's goal is to be a „disruptor“ on the market with health care, e-health, prevention, active lifestyle and of course, on the OTC drug market for now and prescription drugs in the future. In other words, the company is trying to find a new way of distributing health care products to retail customers. Management believes following market trends will shape the industry in the years to come:

- ✓ Individualization of health care will lead to fewer physical visits to pharmacies
Digitalization will change the behaviour of both patients and doctors
- ✓ A rising share of online distribution of drugs
- ✓ Ongoing consolidation of the relatively fragmented pharmacy market in the CEE

Health care expenditures will continue rising as the European population gets older

Pilulka follows an omni-channel distribution strategy, in which e-commerce is combined with a traditional chain of brick and mortar pharmacies. Online distribution should clearly prevail in the future when comparing these two worlds.

Pilulka's management has very ambitious growth targets for the years to come in which plenty of resources have been invested, mainly in the form of marketing and IT costs. Until distribution of prescription drugs is liberalized in favour of online, the Company must be looking for other sources of revenues than the traditional offline business (more below), or growth must come from abroad.

Online Segment

Pilulka is increasingly regarded as an online and e-commerce player in spite of its impressive chain of physical pharmacies. In 2019, more than 0.4 mil of registered customers made a purchase on Pilulka's platform. In 2020, the number increased to 571,000. Overall, more than 2 mil customers have done business with Pilulka in the past. Young women are the typical client of the Company (70%), more than 50% of purchases are made through a mobile device and a typical purchase consists of OTC drugs, mother care, or lifestyle products:

The Company uses its own storage facilities as well as those of its suppliers. It also runs its own retail delivery in Prague, Hradec Kralove, Pardubice and Bratislava. This allows the Company to deliver its products to customers within a day, or 60 minutes when really needed. Such a service accounts for almost a third of all supplies of drugs nowadays.

The stock accounts for 35,000 items of goods in the Czech online segment and includes OTC drugs, food and sport supplements, mother care etc. (compared to 25,000 items in Slovakia and 20,000 in Romania).

Pilulka uses its own IT solutions including a 20-person team, which is responsible only for development and management of its own IS/IT and mobile applications. They are scalable and replicable when needed. When revenues grow and expansion continues, this should be one of the ways of achieving economies of scale and margin improvement in the coming years.

Offline Segment

Pilulka is currently one of the three largest pharmacy chains in the Czech Republic with 30 own and 120 franchise pharmacies.

Offline has been serving as a complementary part of the online strategy, which has become the dominant part of Pilulka's overall business. Pharmacies are, for example, used as a distribution channel for online customers. Apart from in Czechia, no new brick and mortar pharmacies are to be opened.

Franchise partners don't pay Pilulka any fees and the cooperation is based on mutual

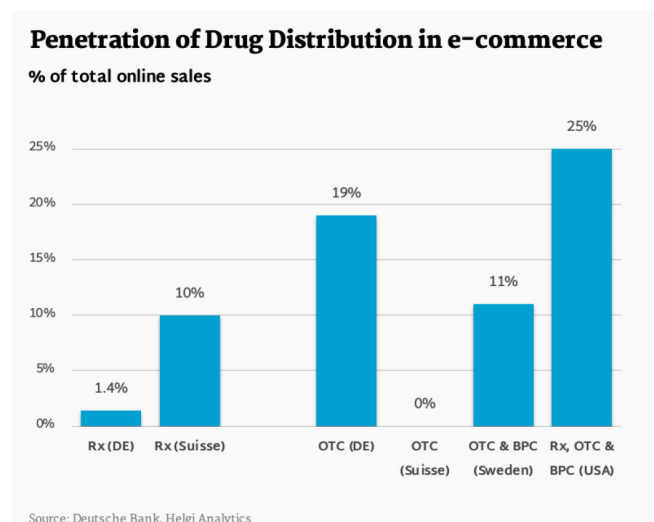
benefits. Both sides cooperate for example on negotiating terms with suppliers, marketing, tender offers, or product cross-selling.

In 2019, offline still generated 31% of total sales of the Group (or 43% when revenues from franchising are included). Online is the future, however. The management expects online will generate 85% of total consolidated sales in five years.

3.3 Liberalization of drug distribution (Example of Zur Rose and Shop Apotheke)

Potential liberalization of distribution of prescription drugs represents the cherry on the cake in the Pilulka story. While central European countries seem to be far from there yet, a number of western European countries such as Germany, Switzerland or the Netherlands have been gradually opening their markets.

Germany, for example, approved a law in August 2019 allowing online distribution of drugs. From 2022, prescription drugs must be offered online:



While deregulation of distribution of prescription drugs progresses, online sales still represent only approximately 2% of total volume of prescription drugs sold. That's compared to a 20% share of consumer electronics sold online.

Both online pharmacies Zur Rose and Shop Apotheke have been deeply loss making up till now. Their losses account for double digit figures when measured by return on capital or return on equity (ROCE and ROE), which is huge. Both companies are expected to break even in 2-3 years and their valuation starts "making sense" based on traditional valuation multiples only after 2025.

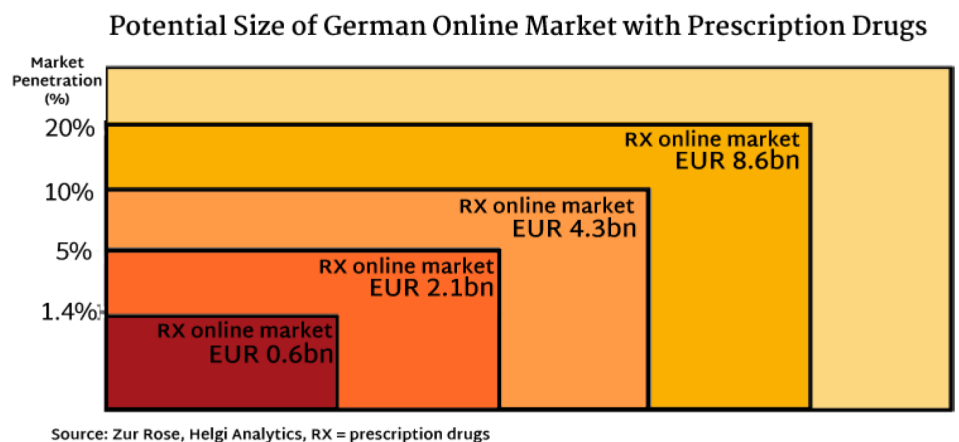
Clearly, investors seem to prefer long-term potential competitive advantage and market disruption compared to current or short-term profitability, as we have seen in number of other stocks or industries (and it does not have to be Tesla).

With an average basket size of EUR 56 from DocMorris customers (German subsidiary

of Zur Rose), it's hard to justify the current valuation of USD 400 per client based on the company's current numbers (the firm has some 10 mil active customers).

The answer could be found in expectations of structural changes to happen on the pharmacy market in favour of online distribution, with all the potential consequences we are still not fully able to imagine for such a conservative industry. That is clearly the inspiration of Pilulka's management.

The following chart of Swiss Zur Rose presents an idea of how the potential size of the German market with prescription drugs might increase if penetration of online sales increased from the current 1.4% to a fifth of the market:



Although it still seems like the icing on the cake in the overall Pilulka story (the current financial plan does not include any online sales of prescription drugs until 2024), investors have clearly reflected some of that potential into the valuation of west European stocks. Czech investors should do that too with Pilulka shares, to a certain degree.

3.4 SWOT Analysis

Strengths

- ✓ Pilulka combines dynamic online growth with a traditional offline business with relatively high barriers of entry. The Company runs the third largest chain of pharmacies in Czechia and has become the largest in online distribution.
- ✓ Management with a strong track record from e-commerce, strongly motivated to succeed.
- ✓ The online segment is more cost effective and scalable than brick and mortar pharmacies.

Weaknesses

- ✓ Pilulka is a relatively young firm with limited capital. Expansion remains dependant on the cooperation and support of key suppliers in terms of funding.
- ✓ Online sales have different structure (lower margin) when compared to the offline segment. This somewhat reduces the uniqueness of the business model and exposes the firm to potential competition pressure.
- ✓ Growth of OTC and prescription drugs seem to be fairly limited thanks to the already high consumption of drugs in the Czech Republic.

Opportunities

- ✓ Deregulation of distribution of prescription drugs could open a huge market for the company; something not yet reflected in sales and profit outlook of the firm.
- ✓ Migration of consumers from offline to online represents a great support of the Company's business
- ✓ A dynamic increase in number of active customers offers opportunities for cross-selling and a better negotiation position for Pilulka with suppliers.

Threats

- ✓ Competition pressure from current/new/bigger players.
- ✓ A deteriorating market environment might limit support of suppliers to fund Pilulka's growth.
- ✓ Foreign expansion is riskier than traditional Czecho-Slovak model

4 Financial Statements

Income Statement

INCOME STATEMENT		2018	2019	2020	2021	2022	2023	2024	2025
Sales	CZK mil	1,033	1,239	1,780	2,264	2,924	3,688	4,556	5,521
Cost of Goods & Services	CZK mil	766	1,112	1,582	1,994	2,553	3,192	3,908	4,693
Gross Profit	CZK mil	267	127	198	270	371	496	648	828
Staff Cost	CZK mil	109	146	167	201	249	305	367	437
EBITDA	CZK mil	-28.9	-25.8	20.2	45.9	72.5	109	157	217
Depreciation	CZK mil	11.9	19.0	19.1	24.7	25.6	28.0	31.9	37.1
EBIT	CZK mil	-40.8	-44.8	1.06	21.2	47.0	81.3	125	180
Net Financing Cost	CZK mil	0.400	7.23	26.2	0.984	0.233	0	0	0
Financing Cost	CZK mil	2.10	3.63	2.53	0.984	0.233	0	0	0
Financing Income	CZK mil	1.40	0.018	0.028	0	0	0	0	0
FX (Gain) Loss	CZK mil	0.300	3.62	23.6	0	0	0	0	0
Extraordinary Cost	CZK mil	0.700	0	0	0	0	0	0	0
Pre-Tax Profit	CZK mil	-41.9	-52.1	-25.1	20.2	46.7	81.3	125	180
Tax	CZK mil	0	-1.31	0.549	3.84	8.88	15.4	23.7	34.2
Minorities	CZK mil	0	-5.25	-3.79	0	0	0	0	0
Net Profit	CZK mil	-41.9	-50.7	-25.6	16.4	37.9	65.9	101	146
Net Profit Avail. to Common	CZK mil	-41.9	-45.5	-21.9	16.4	37.9	65.9	101	146
Dividends	CZK mil	0	0	0	0	0	0	50.5	72.9

Source: Company Data, Helgi Analytics

Growth Momentum

GROWTH RATES		2018	2019	2020	2021	2022	2023	2024	2025
Staff Cost Growth	%	61.1	34.2	14.1	20.4	24.1	22.4	20.6	18.9
Total Revenue Growth	%	55.7	19.9	43.7	27.2	29.2	26.1	23.5	21.2
EBITDA Growth	%	-340	-10.7	-178	128	58.0	50.7	43.3	38.6
EBIT Growth	%	-967	9.86	-102	1,903	122	73.1	53.5	44.2
Pre-Tax Profit Growth	%	-1,781	24.2	-51.8	-180	132	73.9	53.5	44.2
Net Profit Growth	%	-2,505	8.57	-52.0	-175	132	73.9	53.5	44.2

Source: Company Data, Helgi Analytics

Profit Ratios

RATIOS		2018	2019	2020	2021	2022	2023	2024	2025
ROA	%	-15.1	-15.6	-6.09	3.11	6.37	9.40	12.1	14.6
ROE	%	-90.3	-170	-16.5	6.66	13.9	20.3	24.8	28.8
ROCE	%	...	-42.5	-17.4	9.82	19.4	27.4	33.2	37.8
Gross Margin	%	25.9	10.3	11.1	11.9	12.7	13.5	14.2	15.0
EBITDA Margin	%	-2.80	-2.08	1.13	2.03	2.48	2.96	3.44	3.93
EBIT Margin	%	-3.95	-3.62	0.059	0.935	1.61	2.20	2.74	3.26
Net Margin	%	-4.06	-4.10	-1.44	0.722	1.29	1.79	2.22	2.64
Payout Ratio	%	0	0	0	0	0	0	50.0	50.0

Source: Company Data, Helgi Analytics

Balance Sheet

BALANCE SHEET		2018	2019	2020	2021	2022	2023	2024	2025
Intangible Assets	CZK mil	35.5	49.8	53.6	51.0	52.3	57.0	64.5	74.9
LT Investments & Receivables	CZK mil	0.320	30.3	27.9	29.3	30.8	32.3	33.9	35.6
Property, Plant & Equipment	CZK mil	28.2	33.2	35.2	43.7	53.7	65.4	79.2	95.7
Current Assets	CZK mil	238	226	378	428	499	610	734	878
Other ST Assets	CZK mil	0	< 0.001	0	0	0	0	0	0
Inventories	CZK mil	64.2	76.6	90.6	111	138	174	214	276
Receivables	CZK mil	168	139	155	195	249	314	388	471
Cash & Cash Equivalents	CZK mil	5.61	9.59	132	122	112	122	132	132
Goodwill	CZK mil	...	...	...	0	0	0	0	0
Non-Current Assets	CZK mil	68.3	113	117	124	137	155	178	206
Total Assets	CZK mil	306	345	498	552	636	765	912	1,085
Trade Payables	CZK mil	201	190	208	253	312	375	440	522
Short-Term Debt	CZK mil	50.9	76.2	24.6	5.82	-8.77	-10.2	-30.6	-36.7
Other ST Liabilities	CZK mil	6.88	4.22	38.9	40.0	41.2	42.5	43.8	45.1
Current Liabilities	CZK mil	259	270	271	299	344	407	453	531
Long-Term Debt	CZK mil	31.3	0	0	0	0	0	0	0
Other LT Liabilities	CZK mil	0.078	42.0	3.21	0	0	0	0	0
Non-Current Liabilities	CZK mil	31.4	42.0	3.21	0	0	0	0	0
Liabilities	CZK mil	290	307	270	299	344	407	453	531
Share Capital	CZK mil	1.85	2.00	2.50	...	...	...	...	...
Equity Before Minority Interest	CZK mil	15.8	43.5	238	254	292	358	459	554
Minority Interest	CZK mil	0	-5.85	-9.74	0	0	0	0	0
Equity	CZK mil	15.8	37.7	228	254	292	358	459	554

Source: Company Data, Helgi Analytics

Growth Momentum

GROWTH RATES		2018	2019	2020	2021	2022	2023	2024	2025
Shareholders' Equity Growth	%	-79.5	139	530	6.88	14.9	22.6	28.3	20.8
Total Asset Growth	%	22.2	12.6	44.5	10.9	15.1	20.2	19.3	18.9
Net Debt Growth	%	...	-52.3	-472	7.54	4.17	8.59	19.5	3.99
Total Debt Growth	%	...	-7.25	-67.7	-76.3	-251	16.7	199	20.1

Source: Company Data, Helgi Analytics

Balance Sheet Ratios

RATIOS		2018	2019	2020	2021	2022	2023	2024	2025
Net Debt	CZK mil	76.2	36.3	-135	-145	-151	-164	-196	-204
Total Debt	CZK mil	82.2	76.2	24.6	5.82	-8.77	-10.2	-30.6	-36.7
Working Capital	CZK mil	31.0	26.0	38.3	54.0	75.7	113	162	224
Capital Employed	CZK mil	99.3	139	155	178	212	268	340	430
Net Debt/Equity	%	484	96.5	-59.3	-57.2	-51.9	-45.9	-42.8	-36.9
Net Debt/EBITDA		-2.64	-1.41	-6.70	-3.16	-2.09	-1.50	-1.25	-0.940
Cost of Financing	%	...	4.59	5.02	4.00	4.00	4.00	4.00	4.00
Current Ratio		0.918	0.834	1.39	1.44	1.45	1.50	1.62	1.66
Quick Ratio		0.670	0.551	1.06	1.06	1.05	1.07	1.15	1.13

Source: Company Data, Helgi Analytics

Cash flow

CASH FLOW		2018	2019	2020	2021	2022	2023	2024	2025
Total Cash From Operations	CZK mil	-13.4	-22.3	7.39	25.4	41.7	56.1	84.0	121
Change in Working Capital	CZK mil	17.3	5.00	-12.3	-15.6	-21.7	-37.8	-49.0	-61.9
Non-Cash Items	CZK mil	0.299	4.38	26.2	0	0	0	0	0
Depreciation	CZK mil	11.9	19.0	19.1	24.7	25.6	28.0	31.9	37.1
Net Profit	CZK mil	-41.9	-50.7	-25.6	16.4	37.9	65.9	101	146
Capital Expenditures	CZK mil	-33.4	-48.7	-27.6	-31.2	-37.4	-45.3	-53.5	-61.5
Net Change in LT Investment	CZK mil	-3.75	0	0.015	0	0	0	0	0
Total Cash From Investing	CZK mil	-37.1	-48.7	-27.6	-31.2	-37.4	-44.9	-53.8	-64.6
Dividends Paid	CZK mil	0	0	0	0	0	0	0	-50.5
Issuance Of Shares	CZK mil	0	61.6	194	0	0	0	0	0
Issuance Of Debt	CZK mil	42.5	5.69	-51.6	-18.8	-14.6	-1.47	-20.4	-6.14
Total Cash From Financing	CZK mil	42.5	67.3	142	-18.8	-14.6	-1.47	-20.4	-56.7
Effect of FX Rates	CZK mil	0	0	-0.024	0	0	0	0	0
Net Change In Cash	CZK mil	-8.05	-3.78	122	-24.5	-10.2	9.78	9.77	-0.263

Source: Company Data, Helgi Analytics

Cash Flow Ratios

RATIOS		2018	2019	2020	2021	2022	2023	2024	2025
Days Sales Of Inventory	days	30.6	25.2	20.9	20.4	19.8	19.9	20.0	21.5
Days Sales Outstanding	days	59.3	41.1	31.8	31.5	31.1	31.1	31.1	31.1
Days Payable Outstanding	days	95.8	62.4	47.9	46.2	44.6	42.9	41.1	40.6
Cash Conversion Cycle	days	-5.91	3.85	4.85	5.62	6.30	8.13	10.0	12.0
Cash Earnings	CZK mil	-30.0	-31.7	-6.54	41.1	63.4	93.9	133	183
Free Cash Flow	CZK mil	-50.5	-71.1	-20.2	-5.71	4.35	11.2	30.1	56.4
Capital Expenditures (As % of Sales)	%	3.23	3.93	1.55	1.75	1.65	1.55	1.45	1.35

Source: Company Data, Helgi Analytics

E-Commerce

E-COMMERCE		2018	2019	2020	2021	2022	2023	2024	2025
Number of Parcels Sold	mil	0.553	0.765	1.20	1.64	2.22	2.90	3.67	4.53
Number of Items Sold	mil	...	4.05	...	...	...	...	...	...
Items per Parcel Sold	...	...	5.30	...	...	...	...	...	...
Basket Size	CZK	...	1,101	1,101	1,101	1,101	1,101	1,101	1,101
Basket Size (EUR)	EUR	...	42.0	41.6	41.4	40.8	...	...	...
Basket Size (USD)	USD	...	48.8	50.0	50.0	50.0	50.0	50.0	50.0
Order Frequency	...	...	1.80	2.00	2.20	2.40	2.60	2.80	3.00
Active Customers	mil	0.239	0.425	0.571	0.745	0.926	1.12	1.31	1.51
Active Customers (Czechia)	mil	0.198	0.361	0.435	0.535	0.611	0.674	0.716	0.736
Active Customers (Slovakia)	mil	0.041	0.086	0.121	0.173	0.219	0.259	0.293	0.319
Active Customers (Romania)	mil	0	0.007	0.014	0.037	0.081	0.153	0.246	0.375
Active Customers (Hungary)	mil	0	0	0	0	0.016	0.030	0.056	0.080

Source: Company Data, Helgi Analytics

Other Ratios

OTHER RATIOS		2018	2019	2020	2021	2022	2023	2024	2025
Employees		217	267	285	327	386	450	517	585
Cost Per Employee	USD per month	1,911	2,023	2,214	2,325	2,441	2,563	2,692	2,826
Cost Per Employee (Local Currency)	CZK per month	41,811	45,601	48,724	51,160	53,718	56,404	59,224	62,185
Operating Cost (As % of Sales)	%	18.1	0.562	0.640	1.02	1.69	2.23	2.73	3.16
Staff Cost (As % of Sales)	%	10.5	11.8	9.36	8.86	8.51	8.26	8.06	7.91
Effective Tax Rate	%	0	2.51	-2.19	19.0	19.0	19.0	19.0	19.0
Revenues From Abroad	CZK mil	177	272	453	648	1,001	1,420	1,914	2,475
Domestic Revenues	CZK mil	856	967	1,327	1,616	1,924	2,268	2,643	3,046
Revenues From Abroad (As % Of Total)	%	17.1	21.9	25.5	28.6	34.2	38.5	42.0	44.8
Total Revenue Growth (5-year average)	%	...	...	...	...	34.5	29.0	29.8	25.4
Total Revenue Growth (10-year average)	%	...	...	...	...	...	...	...	...
Customers	mil	0.239	0.425	0.571	0.745	0.926	1.12	1.31	1.51
Sales from Online	CZK mil	581	842	1,318	1,806	2,448	3,193	4,041	4,985
Sales from Offline	CZK mil	315	378	436	458	476	496	515	536

Source: Company Data, Helgi Analytics

Geographical Sales

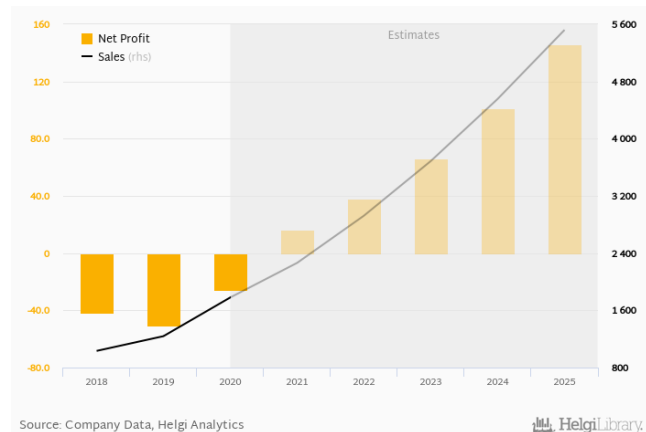
SALES GEOGRAPHY		2018	2019	2020	2021	2022	2023	2024	2025
Sales in Czechia	CZK mil	856	967	1,327	1,616	1,924	2,268	2,643	3,046
Sales in Hungary	CZK mil	0	0	0	0	50.0	100	200	320
Sales in Romania	CZK mil	0	19.2	45.6	114	256	449	664	916
Sales in Slovakia	CZK mil	177	234	381	534	694	871	1,050	1,239
Sales in Czechia (As % of Total)	%	82.9	78.1	74.5	71.4	65.8	61.5	58.0	55.2
Sales in Hungary (As % of Total)	%	0	0	0	0	1.71	2.71	4.39	5.80
Sales in Romania (As % of Total)	%	0	1.55	2.56	5.03	8.76	12.2	14.6	16.6
Sales in Slovakia (As % of Total)	%	17.1	18.9	21.4	23.6	23.7	23.6	23.0	22.4

Source: Company Data, Helgi Analytics

5 Pilulka in Pictures

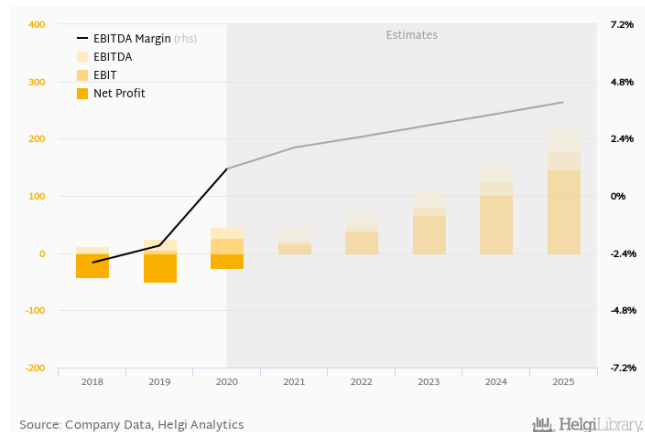
Profits & Sales

Net Profit & Sales (CZK mil)



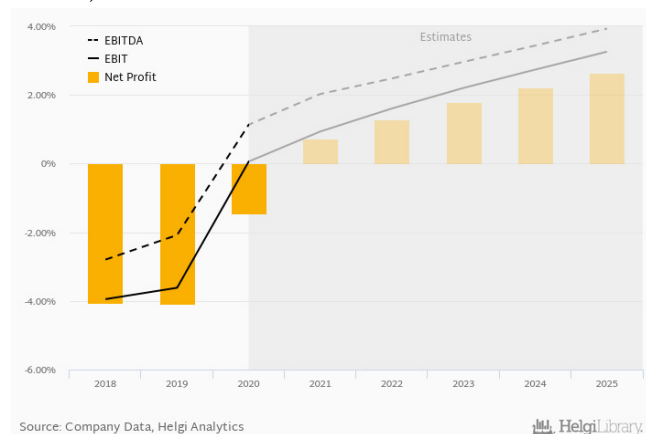
From EBITDA to Net Profit

Net Profit, EBIT & EBITDA (CZK mil)



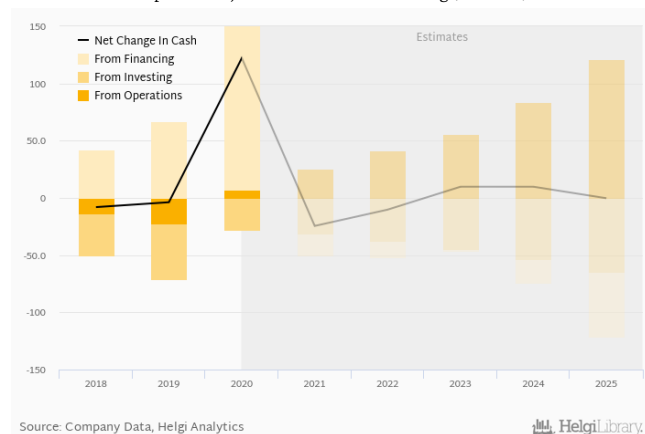
Profit Margins

Net Profit, EBIT & EBITDA as % of Sales



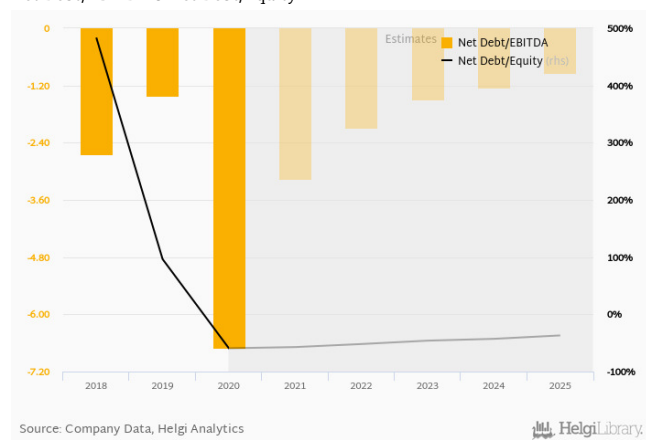
Cash Flow

Total Cash from Operations, Investment and Financing (CZK mil)



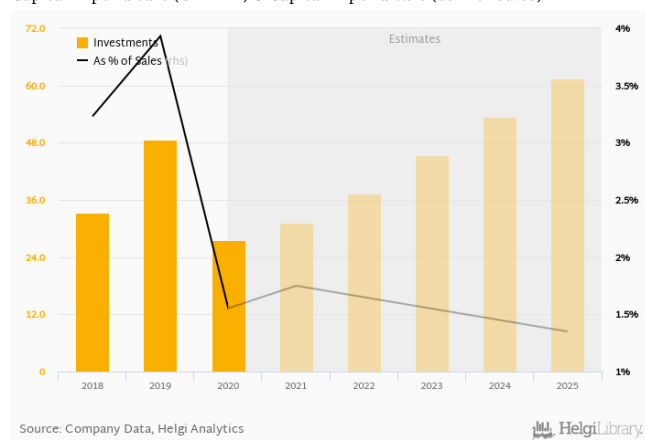
Indebtedness

Net Debt/EBITDA & Net Debt/Equity



How Much Does Pilulka Invests?

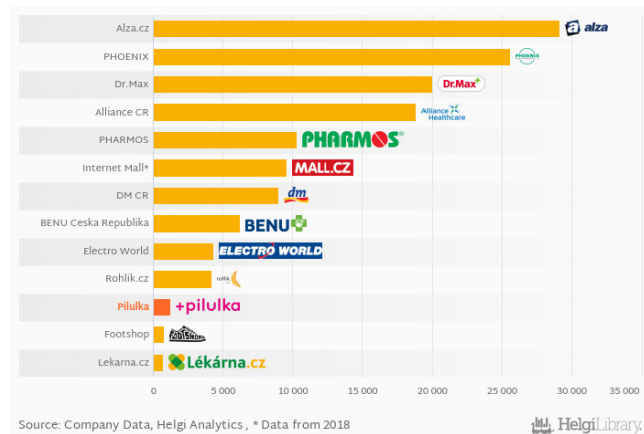
Capital Expenditure (CZK mil) & Capital Expenditure (as % of Sales)



6 Pilulka in Domestic Comparison

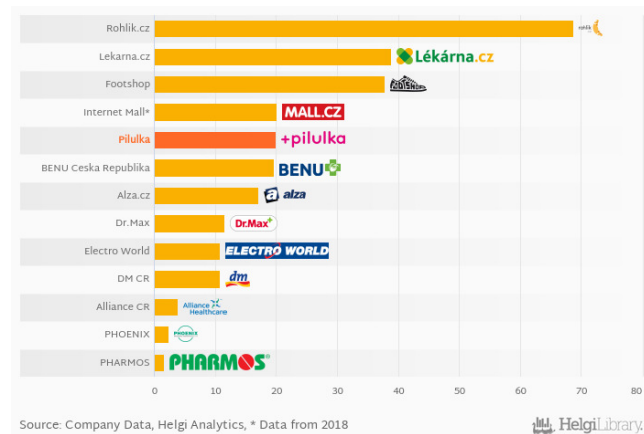
Who Was the Largest by Sales?

CZK mil, 2019



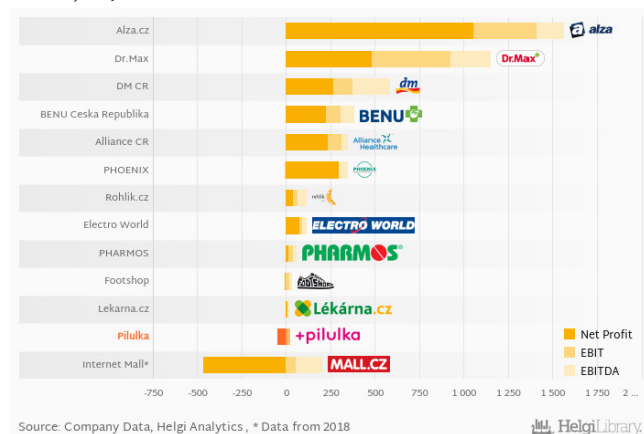
Who Has Grown the Most in Sales?

Total Revenue Growth (%), 2019



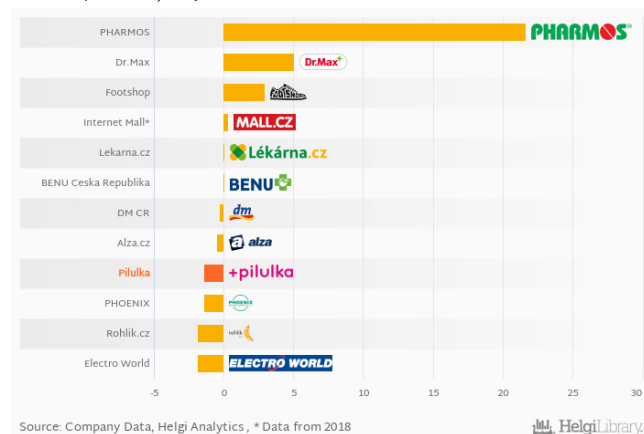
Who Created the Largest EBITDA?

CZK mil, 2019



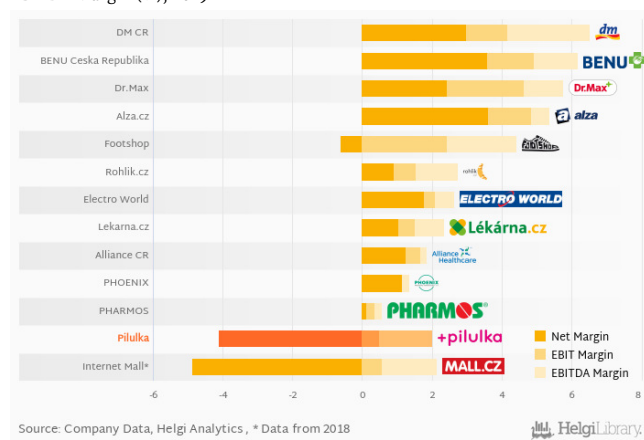
Who Was the Most Indebted to EBITDA?

Net Debt / EBITDA, 2019



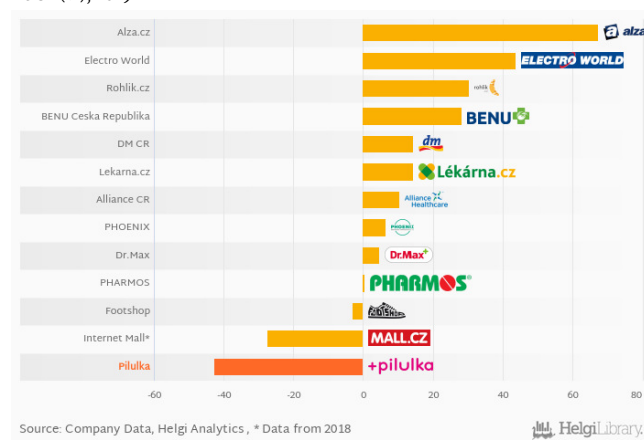
Who Operated with the Highest Margins?

EBITDA Margin (%), 2019



Who Was the Most Profitable?

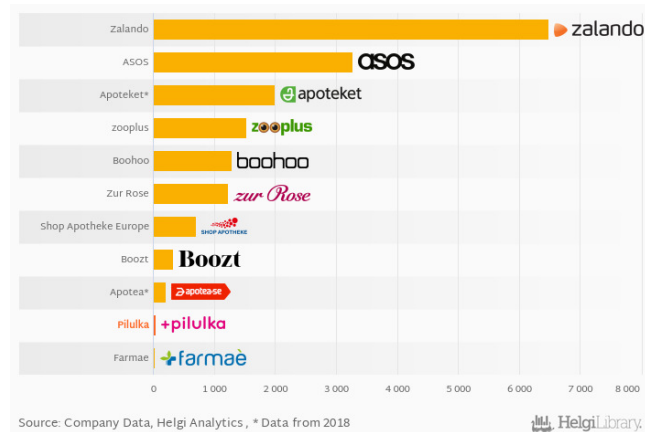
ROCE (%), 2019



7 Pilulka in Foreign Comparison

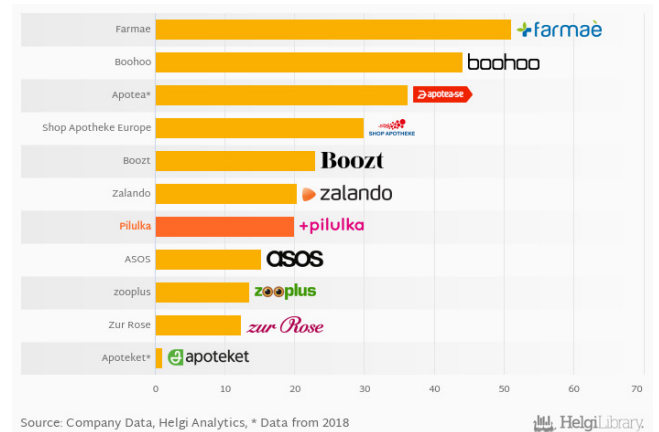
Who Was the Largest by Sales?

USD mil, 2019



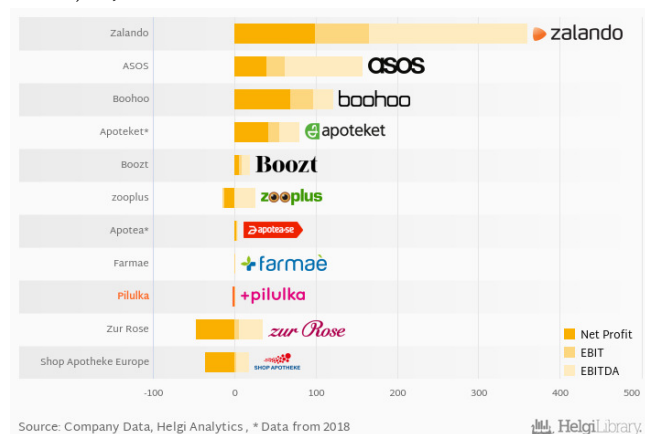
Who Has Grown the Most in Sales?

Total Revenue Growth (%), 2019



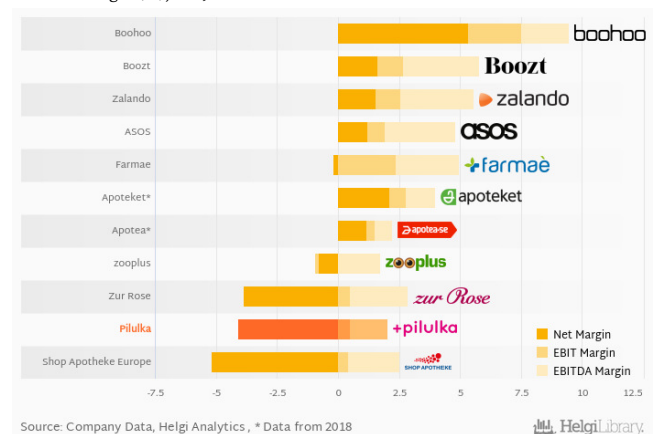
Who Created the Largest EBITDA?

USD mil, 2019



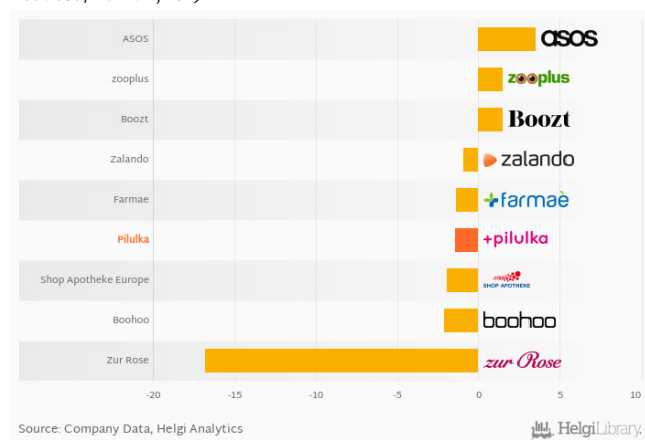
Who Operated with the Highest Margins?

EBITDA Margin (%), 2019



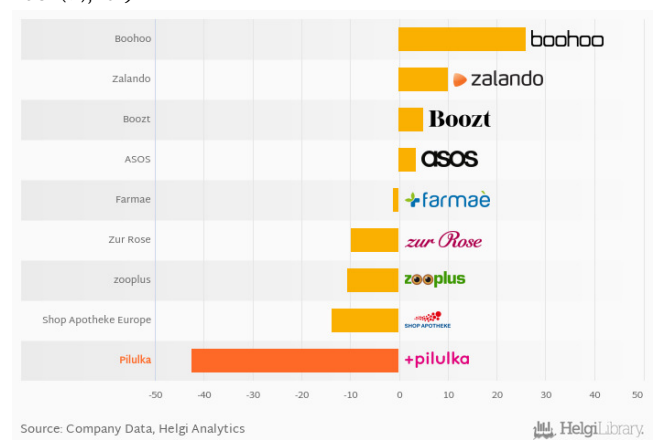
Who Was the Most Indebted to EBITDA?

Net Debt / EBITDA, 2019



Who Was the Most Profitable?

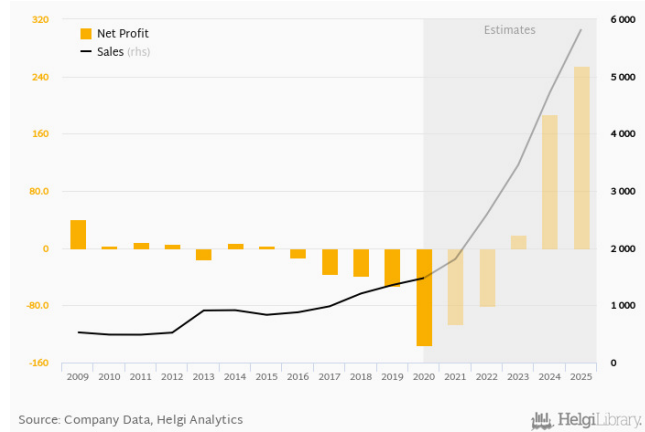
ROCE (%), 2019



8 Profitability Outlook of Selected e-commerce Firms

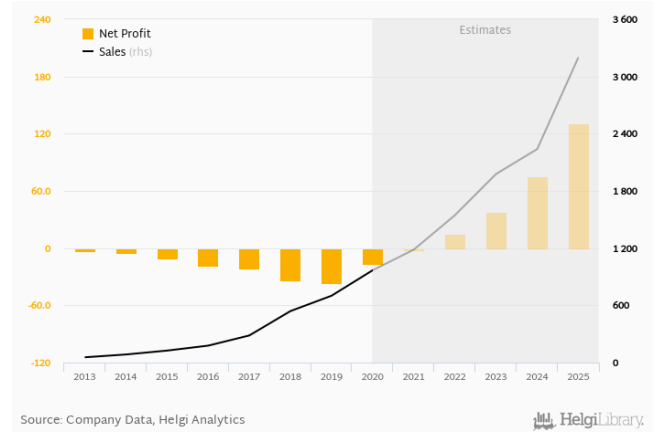
Zur Rose – Profits & Sales

Net Profit & Sales (CHF mil)



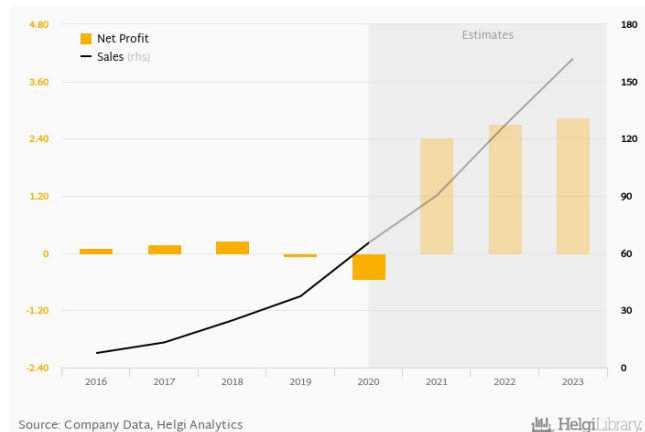
Shop Apotheke Europe – Profits & Sales

Net Profit & Sales (EUR mil)



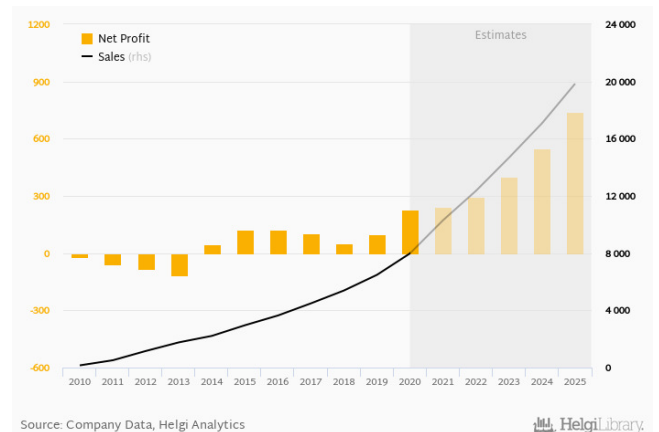
Farmae – Profits & Sales

Net Profit & Sales (EUR mil)



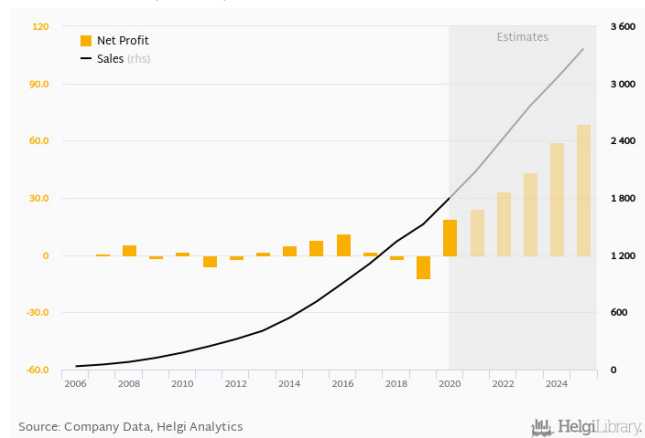
Zalando – Profits & Sales

Net Profit & Sales (EUR mil)



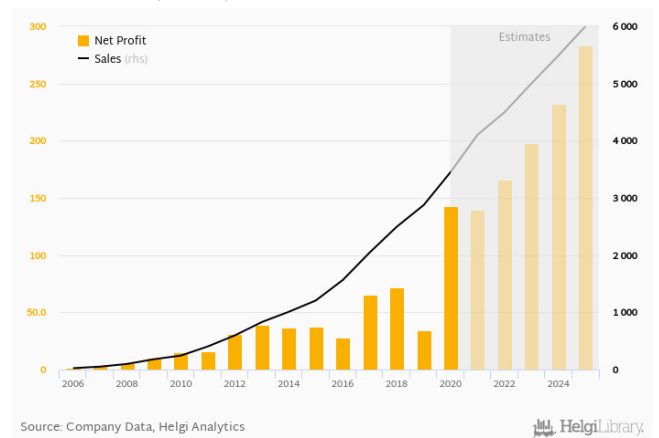
zooplus – Profits & Sales

Net Profit & Sales (EUR mil)



ASOS – Profits & Sales

Net Profit & Sales (GBP mil)



ABOUT HELGI ANALYTICS

Helgi Analytics is a consulting company based in the Czech Republic. The company mainly provides consultancy in the area of financial services and real estate and focuses primarily on the region of Central and Eastern Europe.

Helgi Analytics also runs a web application called Helgi Library, which is a database/library offering data and analyses on more than 99% of the world's economy and population. The Library aims to bring interesting statistical data and analyses to a wide audience under affordable conditions. If you wish to get more details, please visit www.helgilibrary.com or contact us at info@helgilibrary.com.

Helgi Analytics
Eliášova 38
160 00 Prague 6, Czech Republic
www.helgianalytics.com

© 2021, HELGI ANALYTICS LTD. ALL RIGHTS RESERVED. All information contained herein is protected by Copyright Law and no such information may be copied or otherwise reproduced, in whole or in part, in any form or manner, by any Person or Company without Helgi Analytics' prior written consent.

DISCLAIMER

The purpose of this document is to assist the recipient in deciding whether it wishes to proceed with a further investigation of the matters referred to herein. The information in this document, which does not purport to be comprehensive, is believed in good faith to originate from reliable sources, and the views and opinions expressed herein are based on reasonable analysis of source material in the possession of the provider(s) of the document at the time of provision of the document. While the document has been prepared in good faith, no representation, warranty, assurance or undertaking (express or implied) is or will be made, and no responsibility or liability is or will be accepted in relation to the adequacy, accuracy, completeness or reasonableness of the document, or any information contained within it. All and any such responsibility and liability is expressly disclaimed. In particular, but without prejudice to the generality of the foregoing, no representation, warranty, assurance or undertaking is given as to the achievement or reasonableness of any future projections, estimates, prospects or returns contained or referred to in this document. The provider(s) of this document may change any opinion expressed herein without being under any obligation to inform the recipient or to provide to them a revised version. By accepting this document, the recipient agrees to be bound by the foregoing limitations, and acknowledges that it must at all times exercise its own skill and judgment in relation to any decision by it relating to the matters contained within this document. The information, opinions and views contained herein may have been provided to other clients prior to being disseminated herein. This document shall not exclude any liability for, or remedy in respect of, fraudulent misrepresentation.