

MADARA: H2 2020 Review

Strong growth in revenues with highest-ever profit margins

MADARA Cosmetics ('MADARA' or the 'Company'), a leading Latvian producer of natural beauty products, is listed on Nasdaq Baltic First North and reports a full set of numbers semi-annually. MADARA succeeded to surprise us positively in terms of H2 2020 profitability, especially considering the COVID-19 pandemic and temporary closures of several stores. When explaining its excellent results for H2 2020, the management refers to three main aspects, including a strong expansion of e-commerce channels, a growing network of resellers in Germany and France, as well as the successful launch of some new products. Overall, H2 2020 total sales came in line with our estimates, along with impressive profit figures, backed by improved gross margins and a decline in administrative expenses.

In H2 2020, the Company's net sales amounted to EUR 7.86m (+32.0% y-o-y), slightly higher than our estimates, primarily driven by strong growth from the e-commerce channel. Taking into account the preliminary Q3 2020 sales figure of EUR 4m (+50% y-o-y), announced in November, MADARA generated sales of nearly EUR 4m in Q4 2020, up c.a. 17% y-o-y. The Company was able to ramp up sales on its own e-store platform, while MADARA's resale customers with a strong e-commerce profile also showed solid performance recently. During the past couple of years, MADARA made substantial investments into developments of e-commerce channels, and these investments have started to pay off. Apart from e-commerce, the Company claims it has succeeded to expand the number of resellers (physical stores) in Germany and France during the year, with MADARA products being present in several dozen new outlets recently. MADARA introduced several new products in H2 2020, including lip balms in stick form and lipsticks, new facial product lines (ACNE, IMMU, Derma Collagen) and various other products that complement existing product lines.

In terms of sales by market in H2 2020, 93% of sales (H2 2019: 94%) came from the EU countries, with Latvia accounting for about 25% of the total sales (H2 2019: 28%). In H2 2020, sales in Latvia grew 19.4% y-o-y to EUR 1.96m, while those in other EU countries (excluding Latvia) were up 37.2% y-o-y, reaching EUR 5.24m. The Company does not disclose the breakdown of its sales by EU countries, stating only that Finland still holds the position as the largest export market, with revenues of EUR 1.4m in H2 2020, forming 17% of the total revenues. Regarding other EU countries, apart from Latvia and Finland, MADARA focuses mostly on expansion in Germany, France, Netherlands, Spain, and the UK. MADARA's sales outside of the EU also improved in H2 2020, rising 46.8% y-o-y to EUR 0.55m.

In terms of revenues by type of activity, MADARA-branded products formed 89% of sales in H2 2020 (H2 2019: 83%), while the proportion of MOSSA products declined slightly to 10% (H2 2019: 11%), with the proportion of contract manufacturing services declining from 6% in H2 2019 to just 1% in H2 2020.

Key Numbers (EURm)	2017	2018	2019	2020	2021E	2022E
Sales (EURm)	7.4	9.5	11.5	16.1		
Sales growth (%)	26.3	28.7	21.2	39.3		
Net profit (EURm)	1.2	1.5	1.6	3.4		
EPS (EUR)	0.33	0.40	0.42	0.91		
P/E (x)	22.5	19.6	18.8	21.8		
Payout per share (EUR) [#]	0.05	0.09	0.12	0.15		
Payout yield (%)	0.7	1.1	1.5	0.8	Under review	
P/B (x)	3.9	3.5	3.1	6.0		
EV/Sales (x)	3.2	2.7	2.4	4.5		
EV/EBITDA (x)	13.5	13.0	12.5	17.2		
EV/EBIT (x)	17.7	17.6	18.4	20.6		
ROE (%)	24.6	19.3	17.4	31.2		

Source: MADARA

[#]Payout per share include dividends and share capital reduction.

Company Profile

Listing Market:	First North Baltic Share List
Bloomberg Ticker:	MDARA LR
ISIN:	LV0000101624
Industry:	Consumer Goods
Sector:	Personal & Household Goods
No. of Employees:	148
Website:	www.madaracosmetics.com

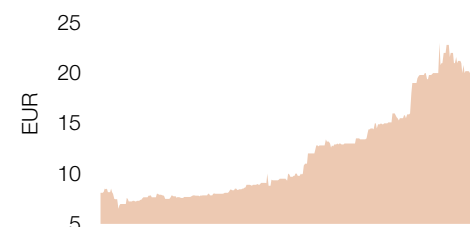
Share Data, as of 26th Feb 2021

Current Share Price (EUR):	20.60
Fair Value Range (FVR), EUR:	U.R.
Downside, % (to mid-point of FVR):	n.a.
52-week High/Low (EUR):	23.00/6.50
3m Avg. Daily Volume (th):	0.49
Market Cap (EURm):	77.65
Ordinary Shares (m):	3.77

Key Shareholders, as of 9th Feb 2021

Uldis Iltners	23.93%
Lote Tisenkopfa-Iltnere	23.77%
Oy Transmeri Group AB	22.94%
Liene Drāzniece	6.79%
Zane Tamane	6.67%

12-Month Price Performance



LHV Fair Value Range:

Under review*

* Effective from 22nd Dec 2020

MDARA: Results Review, EURm	H2/20A	H2/19A	% y-o-y	H2/20E	FY/20A	FY/19A	% y-o-y
Net sales	7.9	6.0	32.0	7.8	16.1	11.5	39.3
- Other EU	5.2	3.8	37.2		10.7	7.5	41.3
- Latvia	2.0	1.6	19.4		4.2	3.1	36.9
- Outside EU	0.6	0.4	46.8		1.0	0.7	33.7
- Other revenues	0.1	0.1	-5.1		0.2	0.2	16.9
Gross profit	5.7	3.6	57.8		10.9	7.1	53.7
EBITDA	2.1	1.1	93.9		4.2	2.2	93.2
Operating profit	1.8	0.7	150.4		3.5	1.5	138.4
Net profit	1.6	0.8	110.4	1.2 to 1.6	3.4	1.6	119.4
Gross margin, %	72.6	60.8	11.9		67.7	61.4	
EBITDA margin, %	26.4	18.0			26.2	18.9	
Operating margin, %	22.3	11.7			21.9	12.8	
Net margin, %	20.6	12.9			21.3	13.5	

Source: MDARA, LHV

The recently launched new products have affected the breakdown of MADARA's revenues by product groups this year. In H2 2020, the most important product categories remained facial care, make-up, and anti-ageing cosmetics, accounting for 59% (H2 2019: 56%), 13% (H2 2019: 7%), and 10% (H2 2019: 14%) of the total, respectively. The proportion of hair products dropped from 11% in H2 2019 to 8% in H2 2020, while body care products' contribution to 9% (H2 2019: 11%). The recently introduced organic make-up line captured a 13% share of the total sales in H2 2020. Taking into account that the Company launched the new line at the end of September 2019, we consider it as a fairly strong performance of this relatively new segment, allowing us to expect further positive developments in the coming years. In its comments on 2019 results, MADARA said it anticipated the new segment to form 7-10% of sales this year, with a gradual increase in the following years.

The strong sales growth and economies of scale enabled MADARA to improve its gross margins in the latest half-year period, rising 11.9pp y-o-y to 72.6%, the highest-ever gross margin reported by MADARA. The Company continues to make strong efforts to expand its export markets and improve its e-commerce platform, leading to a substantial boost in selling expenses, rising 42.6% y-o-y to EUR 3.37m. Adding to the positives, in H2 2020, MADARA managed to reduce its administrative expenses by 5.0% y-o-y to EUR 0.62m. Overall, MADARA's gross profit jumped 57.8% y-o-y to EUR 5.71m.

EBITDA increased 93.9% y-o-y to EUR 2.08m, with operating profits rising 1.5x y-o-y to EUR 1.75m and net profits advancing 1.1x y-o-y to EUR 1.62m. The Company also remains strongly capitalised and highly liquid, supporting its further growth. As at the end of H2 2020, total cash amounted to EUR 5.6m, while total debt remaining below EUR 0.01m.

Overall, the Company's H2 2020 figures are quite impressive, with many encouraging signs about its ability to avoid any setbacks related to the COVID-19 pandemic and successfully continue its growth strategy with a strong focus on e-commerce. In December 2020, the Company announced its next three years' target to achieve revenues of EUR 27m in 2023. The Company is planning to achieve this target by doubling its production compared to the 2020 level. At the end of last year, work began on preparing the Company for doubling its production capacity. The Company is targeting to improve its organisation, production, and logistics processes, as well as to supplement the technological equipment of production in the existing plant. According to the management, by improving the above-mentioned aspects, the Company will be able to ensure the doubling of the production volume in the existing premises, and the capital investments will not significantly exceed the level of previous years. Considering the recent developments, we believe the Company can meet this guidance, and we will upgrade our conservative projections as well as the fair value range.

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Images:

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Date and time of sign-off: Saturday 27th Feb, 08:00**Disclaimer**

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