

## MADARA: H1 2021 Review

### Strong growth in revenues with highest-ever operating profit margin

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. Despite the continuing uncertainty related to the COVID-19 pandemic, MADARA published its best-ever results on 27<sup>th</sup> August, broadly in line with our expectations. When explaining its excellent results for H1 2021, the management refers to three main aspects, including a strong expansion of e-commerce channels, a growing network of resellers in other European countries, as well as the successful launch of some new products. After achieving success in the distribution of products in Germany and France, the Company has taken over the distribution in the markets of the United Kingdom, the Netherlands and Belgium, at the beginning of this year. We expect the Company to achieve significant growth in these countries in the coming quarters.

In H1 2021, the Company's net sales amounted to EUR 9.9m (+20.6% y-o-y), highest in its history, broadly in line with our estimates, driven by strong growth from existing channels, especially the e-commerce channel. The share of direct e-commerce in the Company's turnover increased to 40% (+4pp y-o-y) in H1. The number of unique users has increased by 47% y-o-y, while the number of active users (at least 1 purchase in the past 12 months) has increased by 58% y-o-y. As per the Company's criteria, a bit less than 50% of the customers in H1 2021 were classified as new. Although the share of new customers in the Company's e-shops has decreased compared to H1 2020, it is merely a result of a high percentage of new direct e-commerce customers in H1 2020 due to the COVID-19 pandemic impact on the operations of physical sales channels, as well as a change in customer purchasing habits. In H1 2021, the turnover from regular customers increased by 97% y-o-y, while turnover from new customers increased by 3%.

During the past couple of years, MADARA made substantial investments into developments of e-commerce channels, and these investments have started to pay off. The customer's interaction and experience through the use of diagnostic tools and digital apps, as well as electronic payments and delivery, are transforming rapidly. In the case of e-commerce sales, retailers must continue to invest in an Omni-channel presence. Omni-channel bundles include retail stores, online stores, mobile stores, mobile app stores as well as other methods of engaging with a customer. Several communication channel options give the customer the ability to be in constant contact with the retailer through multiple means at the same time. We believe that a company like MADARA, which is persistently focusing on its Omni-channel presence, would benefit from this trend.

The global market for natural and organic personal care products is continuing to experience a positive trajectory. Although the COVID-19 pandemic softened growth rates, consumer demand for natural and organic products remains strong. Due to the temporary closures of the brick and mortar stores, the COVID-19 pandemic resulted in supply chain delays, ultimately having a detrimental effect on cosmetics and personal care goods, including organic products. However, the outbreak of the COVID-19 pandemic has contributed to

Key Numbers (EURm)	2018	2019	2020	2021E*	2022E*	2023E*
Sales (EURm)	9.5	11.5	16.1	20.3	24.1	27.0
Sales growth (%)	28.7	21.2	39.2	26.6	18.6	12.0
Net profit (EURm)	1.5	1.6	3.4	4.6	5.4	6.4
EPS (EUR)	0.40	0.42	0.91	1.21	1.44	1.70
P/E (x)	19.63	18.81	21.66	23.3	19.57	16.63
Payout per share (EUR)#	0.09	0.12	0.15	0.40	0.61	0.72
Payout yield (%)	1.1	1.5	0.8	1.4	2.1	2.6
P/B (x)	3.53	3.08	6.00	6.86	5.70	4.76
EV/Sales (x)	2.74	2.28	4.30	4.95	4.18	3.73
EV/EBITDA (x)	13.08	12.08	16.19	17.9	15.07	12.82
EV/EBIT (x)	17.70	17.87	19.54	20.44	16.83	14.28
ROE (%)	19.34	17.39	31.36	32.69	31.84	31.23

Source: MADARA, LHV \*2021E-2023E multiples are based on the share price (26<sup>th</sup> Aug 2021) of EUR 28.20 per share #Payout per share include dividends and share capital reduction.

### Company Profile

Listing Market:	First North Baltic Share List
Bloomberg Ticker:	MADARA LR
ISIN:	LV0000101624
Industry (Bloomberg):	Consumer Discretionary
Sector (Bloomberg):	Consumer Products and Services
Website:	www.madaracosmetics.com

### Share Data, as of 26<sup>th</sup> Aug 2021

Current Share Price (EUR):	28.20
Fair Value Range (FVR), EUR:	23.80-26.30
Downside, % (to mid-point of FVR):	11.17
52-week High/Low (EUR):	31.20/9.70
3m Avg. Daily Volume (th):	0.20
Market Cap (EURm):	106.33
Ordinary Shares (m):	3.77

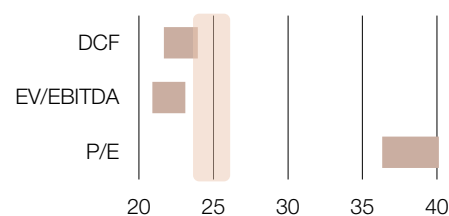
### Key Shareholders, as of 30<sup>th</sup> July 2021

Uldis Iltners	23.92%
Lote Tisenkopfa-Iltnere	23.77%
Oy Transmeri Group AB	22.93%
Liene Drāzniece	6.79%
Zane Tamane	6.45%

### 12-Month Price Performance



### LHV Fair Value Range: EUR 23.80-26.30\*



\* As of 27<sup>th</sup> July 2021

MADARA: Results Review, EURm	H1/21A	H1/20A	% y-o-y	H1/21E	FY/20A	FY/19A	% y-o-y
Net sales	9.9	8.2	20.6	10.0 to 11.0	16.1	11.5	39.2
Other EU	6.4	5.4	18.7		10.7	7.5	41.3
Latvia	2.5	2.3	9.6		4.2	3.1	36.9
Outside EU	0.9	0.4	116.5		0.9	0.7	33.2
Other revenues	0.1	0.1	(6.6)		0.2	0.2	16.9
Gross profit	6.8	5.2	30.8		10.9	7.1	53.3
EBITDA	2.7	2.2	24.8		4.3	2.2	95.4
Operating profit	2.4	1.8	34.9		3.5	1.5	139.5
Net profit	2.0	1.8	10.9	2.0 to 2.5	3.4	1.6	120.4
Gross margin, %	68.3	63.0			67.5	61.4	
EBITDA margin, %	27.2	26.3			26.5	18.9	
Operating margin, %	24.1	21.5			22.0	12.8	
Net margin, %	20.2	22.0			21.4	13.5	

Source: MADARA, LHV

evolving market tastes, and people are proactively searching for natural and organic products, which in turn is projected to drive the growth at a faster pace. Key players are counting on the e-commerce channels in order to improve sales of their cosmetics and personal care goods, which could emerge as the principal channel even after the pandemic ends.

The Company reported its consolidated unaudited turnover for Q1 2021, on 27<sup>th</sup> April 2021, at EUR 4.48m (+38.7% y-o-y, +12% q-o-q). Taking into account the preliminary Q1 2021 sales figure, MADARA generated sales of nearly EUR 5.4m in Q2 2021, up c.a. 9% y-o-y. The Company is actively developing new products and launched two mineral sunscreens for face with SPF50, vitamin C cream, Time Miracle peeling serum for intensive skin renewal at night, anti-cellulite cream, gynecologically approved intimate hygiene foam and other products, in spring 2021.

In terms of sales by market in H1 2021, 91% of sales (H1 2020: 95%) came from the EU countries, with Latvia accounting for about 25% of the total sales (H1 2020: 28%). In H1 2021, sales in Latvia grew 9.6% y-o-y to EUR 2.5m, while those in other EU countries (excluding Latvia) were up 18.7% y-o-y, reaching EUR 6.4m. 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 (+8% y-o-y) in H1 2021, forming 14% 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 more than doubled (y-o-y) in H1 2021 to EUR 0.9m.

In terms of revenues by type of activity, MADARA-branded products formed 88% of sales in H1 2021 (H1 2020: 89%), while the proportion of MOSSA products remained stable at 10% (H1 2020: 10%), with the proportion of contract manufacturing services increasing from 1% in H1 2020 to 2% in H1 2021.

The recently launched new products have affected the breakdown of MADARA's revenues by product groups in H1 2021. In H1 2021, the most important product categories remained facial care, anti-ageing, make-up, and body care cosmetics, accounting for 55% (H1 2020: 52%), 13% (H1 2020: 15%), 12% (H1 2020: 11%), and 11% (H1 2020: 14%) of the total sales, respectively. The proportion of hair products increased from 7% in H1 2020 to 8% in H1 2021.

The strong sales growth (especially from e-commerce channel) and

economies of scale enabled MADARA to improve its gross margins in the latest half-year period, rising 5.3pp y-o-y to 68.3%, the second-highest gross margin reported by MADARA in its history. The Company generates better profits for the products sold online as the average selling price increases because the Company does not have to pay commissions to distributors. Given the expected solid growth rates in sales volumes, improvements in production efficiency, increasing economies of scale, and an increasing proportion of e-commerce sales, we anticipate MADARA to further improve its underlying profit margins going forward. 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 29.7% y-o-y to EUR 3.8m. Overall, MADARA's gross profit jumped 30.8% y-o-y to EUR 6.8m. EBITDA increased 24.8% y-o-y to EUR 2.7m, with operating profits and net profits increasing to EUR 2.4m (+34.9% y-o-y) and EUR 2.0m (+10.9% y-o-y), respectively. The Company also remains strongly capitalised and highly liquid, supporting its further growth. As at the end of H1 2021, total cash amounted to EUR 5.9m, while bank borrowings were nil.

The Company continues to focus on ESG aspects of its business and published its extensive annual ESG report, covering major aspects of its ESG performance, with a more specific focus on the environmental sustainability of its business and reducing waste. The report mentioned that:

- MADARA has been ranked as the second greenest brand in Latvia in 2020;
- Waste generated decreased by 34% y-o-y;
- GHG emissions per unit produced decreased on a y-o-y basis;
- A majority of the company's employees (including Board and Supervisory Board members) are women;
- In 2020, it supported Latvian hospitals by donating hand disinfectants, hand creams, and soaps; and
- In 2020, the Company financially supported several associations – MARTA Centre, SOS Children's Villages, the oncological patient support association Tree of Life.

The Company reiterated its target, initially announced in December 2020, 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. Given the favourable market trend for the Company's natural and organic product offerings, a growing portion of e-commerce sales in revenues, increasing recognition of MADARA brands, new innovative product launches using significant in-house R&D activities, ongoing and future penetration in key markets, and growth potential of organic and natural cosmetics industry in general, we believe the Company can meet this guidance.

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Date and time of sign-off: Friday 27<sup>th</sup> Aug 18:00**Disclaimer**

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