

MADARA: Q3 Sales Update

On 25th October, AS Madara Cosmetics ('MADARA') reported its Q3 sales results, which showed strong sales growth in all of its main markets and rapid expansion of direct e-commerce channel.

During Q3 2021, the consolidated (unaudited) turnover of MADARA reached EUR 4.9m (+22% y-o-y). The consolidated (unaudited) turnover of MADARA during the first nine months of 2021 amounted to EUR 14.8m, representing a growth of 21% y-o-y. Management guidance for the turnover target for 2023 is EUR 27m, and it remains unchanged, implying that MADARA is targeting sales CAGR of 19% in the period 2020-2023. Considering the strong sales growth in Q3 and the previous quarters (Q1 - 39% y-o-y and Q2 - 9% y-o-y), the achievement of the set target for 2023 seems reasonable. In Q3, the turnover in Latvia, the European Union (excluding Latvia), and outside the European Union grew by 32%, 17%, and 135%, respectively, on a y-o-y basis. MADARA is continuously working on direct e-commerce development. The share of direct e-commerce soared to an all-time high of 48%, an increase of 18 pp compared to the corresponding period last year. The growing proportion of direct e-commerce sales are making MADARA more resilient to the consequences of the pandemic; furthermore, it will enhance profit margins.

Besides Q3 preliminary sales results, MADARA announced the launch of a makeup product – mascara (Deep Matter Bold Volume Mascara), which is available for purchase internationally from 26th October 2021. It is "COSMOS natural" certified and is vegan friendly. The product development lasted for several years and was finalised during Q3. As per MADARA, the R&D lead time was longer than usual, which was related to high self-standards from the R&D team. Given that the goal was to create natural and vegan-friendly mascara, product development had to meet a number of challenges, the biggest of which was the replacement of synthetic waxes with natural and vegan alternatives that would provide coverage, bulking effect, and durability equivalent to conventional mascaras.

Although natural certified mascaras are available in the market, there is very limited choice, and some do possess quality or functionality issues. The increased demand in the market can be observed not only for natural cosmetics, but vegan-friendly is also becoming one of the quality signs besides natural and organic. People are paying more and more attention to the composition of products, certified products and sustainability of the product itself and its packaging.

Mascara is an essential extension of the MADARA makeup line; furthermore, it plans to expand its makeup product range, covering nearly all of the product types in the makeup segment.

In H1 2021, makeup constituted c.a. 12% of the total sales; considering new product launches, the makeup segment is expected to grow its proportion in the total sales and further support total sales growth. Compared to other product launches, MADARA sees a very healthy initial demand for the launched mascara.

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	23.5	19.71	16.74
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	2.5
P/B (x)	3.53	3.08	6.00	6.91	5.74	4.80
EV/Sales (x)	2.74	2.28	4.30	4.99	4.21	3.76
EV/EBITDA (x)	13.08	12.08	16.19	18.1	15.19	12.92
EV/EBIT (x)	17.70	17.87	19.54	20.60	16.96	14.40
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 (29th Oct 2021) of EUR 28.40 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

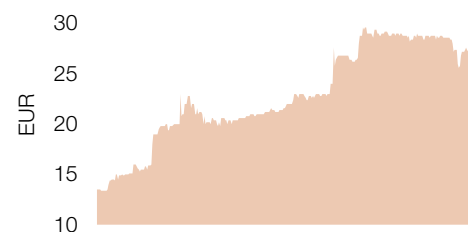
Share Data, as of 29th Oct 2021

Current Share Price (EUR):	28.40
Fair Value Range (FVR), EUR:	23.80-26.30
Downside, % (to mid-point of FVR):	11.80
52-week High/Low (EUR):	31.20/13.00
3m Avg. Daily Volume (th):	0.20
Market Cap (EURm):	107.08
Ordinary Shares (m):	3.77

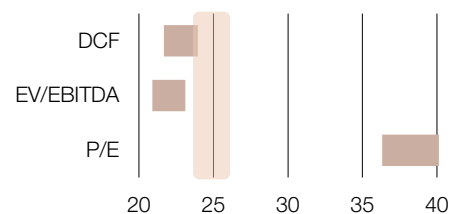
Key Shareholders, as of 30th July 2021

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 27th July 2021

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Date and time of sign-off: Sunday 31st Oct 08:00**Disclaimer**

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