Italian Pharmacy Consolidation Plan

Investment Case Information Memorandum

MPD PARTNERS

STRICTLY CONFIDENTIAL

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Disclaimer

This document has been prepared for purposes of presentation and discussion, only. The information contained herein should not be used or considered as an offer to sell, or solicitation of an offer to buy any security, under no circumstances. The content may not be reproduced or circulated in whole or in part, and it is in summary form for convenience of presentation, it is not complete and it should not be relied upon in the form it is presented. All information, including performance information, has been prepared in good faith; however, MPD Partners makes no representation or warranty express or implied, as to the accuracy or completeness of the information, and nothing in this document shall be considered as a promise or representation as to past or future performance. This material may include information that is based, in part or in full, on hypothetical assumptions, models and/or other analysis of MPD Partners, analysts, consultants and no representation or warranty is made as to the reliability of any such assumptions, models or analysis. Everything that relates, including numbers and charts, to a portfolio or Real Estate Portfolio, is a sample selection of projects and property assets that results from the analysis performed by MPD Partners before end of June 2014 and it does not include any consideration to be built at a later stage during the final due diligence process that might reveal relevant additional information used for further choice. The information discussed in this presentation was gathered from various sources which MPD Partners believes, but does not guarantee, to be reliable. Unless stated otherwise, any opinions expressed herein are current as of the date hereof and are subject to change at any time. All sources which have not been otherwise credited have derived from MPD Partners.

NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

MPD PARTNERS

Table of Contents

Investment Case Overview 1
Marketplace 2
Market overview 2
Italian healthcare & pharmaceutical expenditure 3
Italian demographic trends 4
Regulatory Reform Backgrounds 7
Evolution of the liberalisation in Europe and in Italy 7
Current regulation 8
Tax considerations 9
Bottom-up Analysis 10
The representative Italian pharmacy 10
Starting point: status quo with increasing costs 12
Value creation: lowering COGS 13
Value creation: optimising operation 14
Value creation: boosting growth 16
Summarising the value creation process 17
Aggregate portfolio analysis 19
Top-down Analysis 21
A glance into the existing players' performance 21
Selected similar operations 23
Trading multiples 24
Investment Return 25
Exit strategy 25
Investment returns 26
Decompositions of returns 29
Strategic Issues 30
Porter's five forces analysis 30
SWOT analysis snapshot 36
Risks 38
Fund & Organisational structure 41
Fund structure 41
Leverage 42
Jurisdiction 42
Fees 42
Organisational structure 42
Information on major stakeholders 43
Appendix I: Legislation Reference 46
Appendix II: Categories of Products in Italian Pharmacy 47
Appendix III: OECD Data on Italian Pharmacies/Healthcare/Pharmaceutical Expenditure 48
Appendix IV: Additional Data on Italian Demography 51

COPY FOR FM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Chapter 1
Investment Case Overview

COPY FOR FM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

The aim of this information memorandum is to provide a comprehensive analysis of the competitive landscape of the pharmaceutical industry in Italy. MPD has identified the opportunities offered by the retail segment - which traditionally offers inflation-linked growth rates and stable cash flows for companies whose capital structures are properly aligned - as well as all the critical risk that come with the investment case.

This investment case captures the **opportunity to consolidate the pharmaceutical retail sector**. The opportunity is created by an **on-going legislation process which will liberalise the pharmacy business in Italy**. The new legislation will allow private capital into pharmacy ownership.

The plan of consolidation will be carried out by setting up a special vehicle and by acquiring individual pharmacies. Assets of individual pharmacies will be injected in to the HOLDING company while most of its functions will be outsourced to a service company – the OPCO. The OPCO will be managing the running of the pharmacies at a centralised level. We expect to create value by boosting growth and increasing efficiency of the operation.

We analysed the Italian pharmaceutical retail market data and trends: the compound annual growth rate of the market recorded in the period 2009–13 was 0.1%, and there are reasons to believe that the market may be in the process of bottoming out, which provides plenty of potential upside to investors. The trend of the market does not seem to bring organic growth at a high rate. However, demographic shift and pharmaceutical consumption trend will provide opportunity to increase margin.

Detailed financial model is built to simulate the operational plan and it should be read in conjunction with this research. According to our model, the pharmaceutical retail sector is highly defensive – considering its stable nature. Margin will remain in the positive territory even assuming stagnant revenues. By adopting measures to improve efficiency such as personnel reduction, using of automated systems, increasing bargaining powers towards wholesalers and centralising management, we can boost the EBITDA margin from 13.3% to around 19% and net margin from 9.2% to 12.9% in five years. Tables summarising key figures are included in this research. A NPV analysis based on EV/EBITDA valuation is also conducted to estimate potential investment returns under different scenarios. The investment case is characterised by limited downside risks and large upside potentials. **The expected annual IRR is around 45%. Depending on the execution of the project, the exit timing and the exit multiple, the return in the worst-case scenario is a limited -6%, and in the best-case scenario is 62%.**

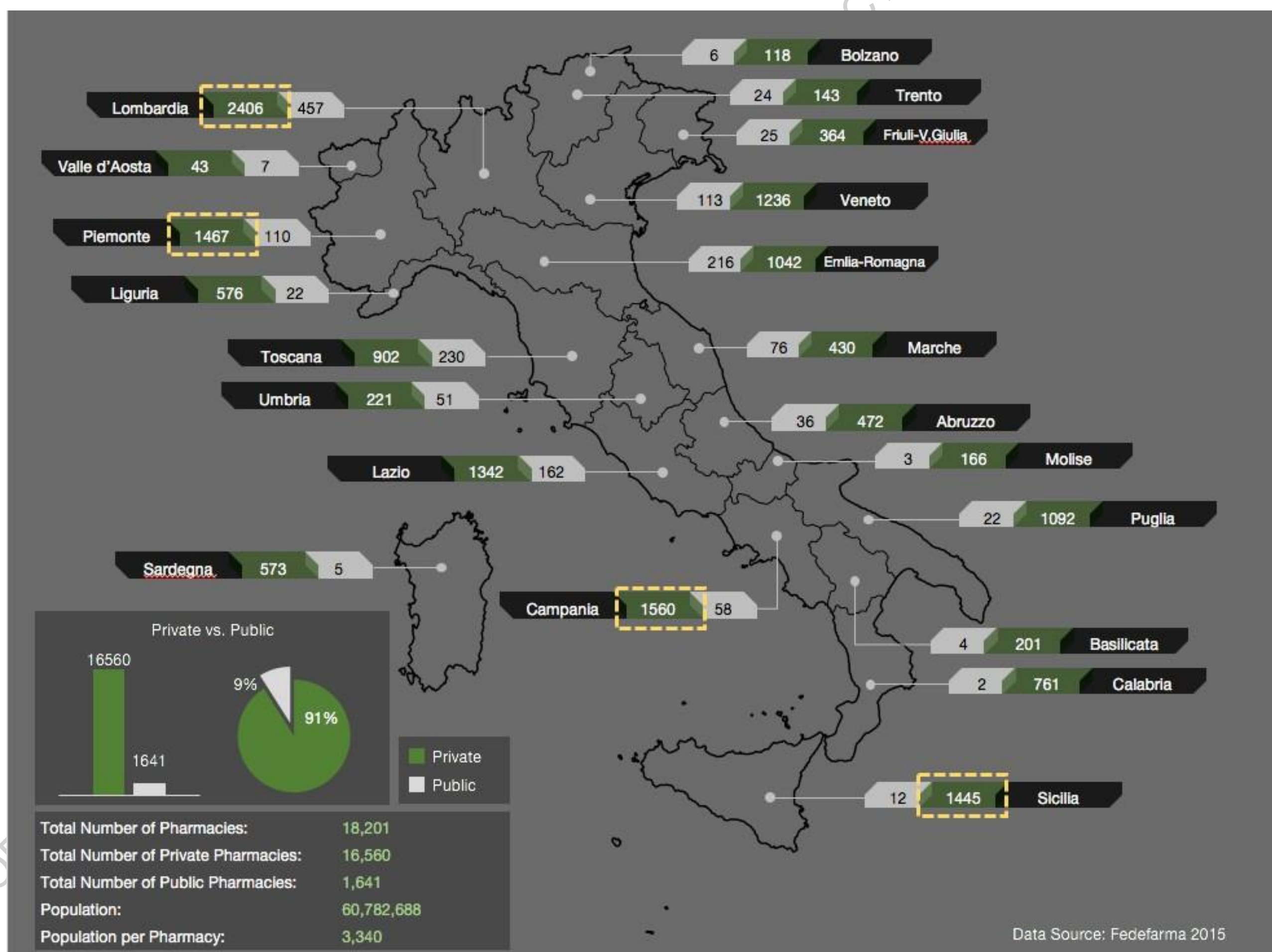
Chapter 2
Marketplace

Market overview

The Italian pharmaceuticals market **has swung between growth and decline** since 2009, with a return to a growth rate in line with inflation in 2013 following two years of contraction. It grew by 1.3% in 2013, reaching a value of **$24.7 billion**; based on most recent trends, we estimate it to be worth about $24 billion in 2014, which, based on the prevailing EUR/USD exchange rate, yields a **euro-denominated value of EUR22.4 billion.** There are 18,200 pharmacies in Italy, and over 90% are privately held. The breakdown is shown in the table below.

CT: INFO@MPDPARTNERS.CH

Figure 1. Italian pharmacy geographic breakdown

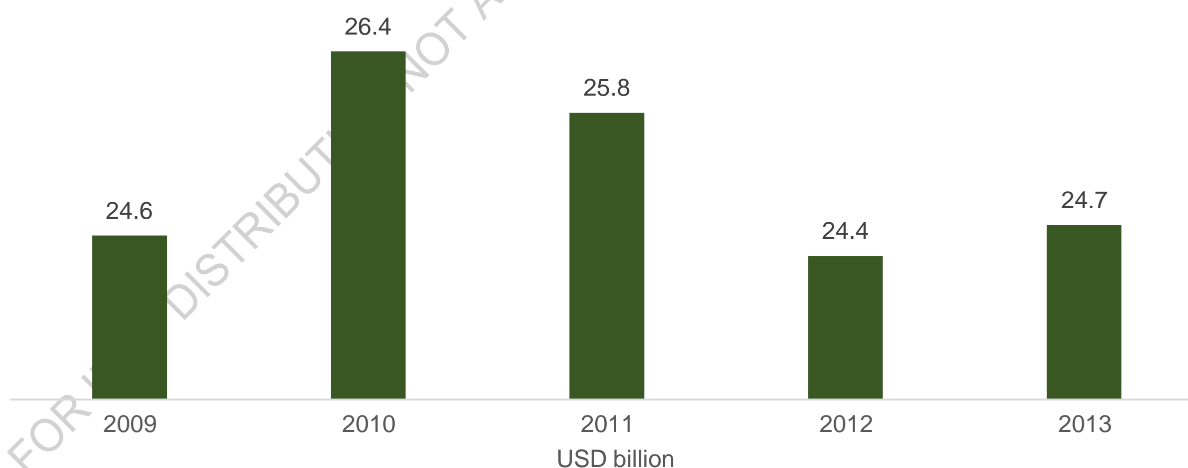


CO

The compound annual growth rate of the market recorded in the period 2009–13 was 0.1%, and there is reason to believe that the market may be in the process of bottoming out, which provides plenty of potential upside to investors. According to data from Market Line, the market will deliver a CAGR of 1.6% for the five-year period 2013-2018, growing from **$24.7bn to $26.8bn**, but we do believe that a few risks weigh on these forecasts and as such we have modelled different scenarios according to which the **growth rate of the market and the resulting growth rate of our portfolio significantly diverge if the former disappoints**. In other words, we have tried to insulate our portfolio from exogenous shocks, focusing on revenue synergy and optimization of costs based on the amount of capital required. This leaves up plenty of room for additional expansion and higher margins if the business cycle plays a helping hand over the long term. Any incremental growth in the market will benefit the top-line of our aggregate portfolio, but a **steeper growth rate is not strictly needed** in the value-accretion process, given that MPD believes that most of **execution plan must focus on the cost base and efficiency** of the resulting portfolio. Our DCF model indicates that an internal rate of return of at least 15% to the end of 2018 can be achieved assuming expansion for adjusted operating cash flow margin and little organic growth for sales. The economic landscape and outlook indicate that the **internal rate of return** of our pharmaceuticals portfolio will have to rely on:

- The **attractiveness** of its components (individual units and products mix);
- Revenue synergy stemming from **additional products**;
- **Cost** synergies;
- Multiple **arbitrage;**
- Ad-hoc capital **allocation**

Chart 1. Italian Pharmaceutical Market Size



Source: Market Line

COPY FOR ... DISTRIBUTI... NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Revenue growth could be realised regardless of core revenue synergies, depending on the space utilization rate, based on a proper assessment of inventory levels and a few other variables. The table below shows the average annual growth in pharmaceutical and total health expenditure per capita average, in real terms, across OECD countries, from 1990 to 2013 (or the nearest year for countries whose data was not available at the time).

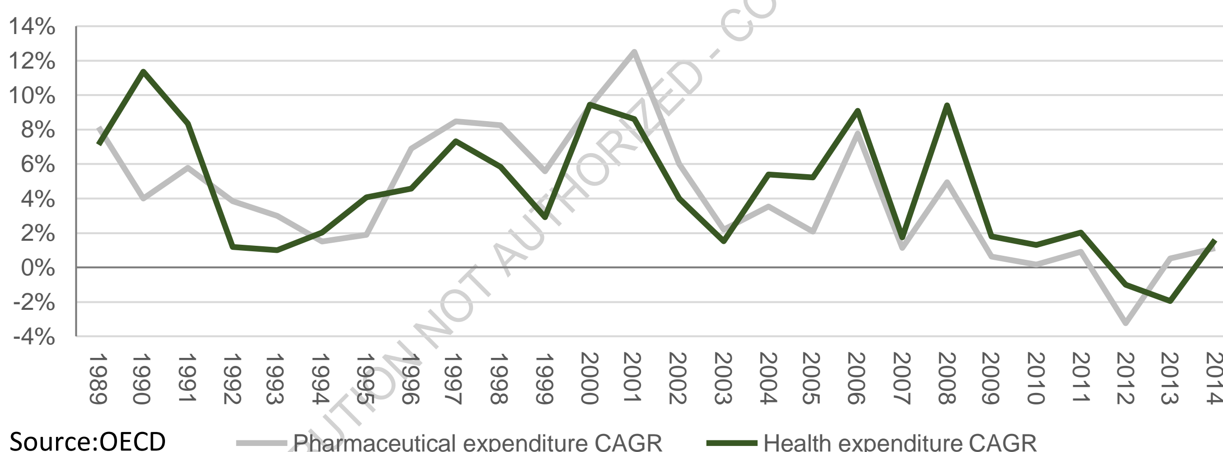
Italian healthcare & pharmaceutical expenditure

The table below shows the average annual growth in pharmaceutical and total health expenditure per capita, in real terms, in Italy from 1990 to 2014.

Italy accounts for 11.7% ($24.7 billion) of the entire European pharmaceuticals market, which is valued at **$211 billion**. It lags Germany, Europe's largest economy, which accounts for 16.8% ($35.6 billion) of the European market as a whole, while France's market share amounts to 16.7% (35.3$ billion). Total expenditure on healthcare measures the final consumption of health goods and services plus capital investment in infrastructure. It includes spending by both public and private sources on medical goods and services, on public health and prevention programmes as well as on administration. For a more comprehensive assessment of healthcare spending, the health spending to GDP ratio should be considered together with per capita health spending. Countries with a relatively high health spending to GDP ratio might have relatively low health expenditure per capita, while the opposite also applies.

Pharmaceutical expenditure, rather than general healthcare expenditure, **is more evenly spread** across the three main European countries – Germany, France and Italy. While healthcare expenditure amounts to 8.9% of the total GDP in Italy, domestic pharmaceutical **expenditure amounts to 1.6% of GDP**, with Germany at 1.5%, France at 1.6% and Spain at 1.6%. The average OECD figure is 1.4% of GDP.

Chart 2. Trends of Pharmaceutical and Healthcare Expenditure in Italy



Italian demographic trends

One of the appealing features of the Italian market is its **aging population**. At the beginning of 2014, Italy's population amounted to almost 61 million, having grown 3 million over the past decade. After a twenty-year period of **stagnation** (1981-2001), the Italian population began to grow again due to the effect of **foreign immigration**, with the biggest increase, although still quite limited, recorded between 2002 and 2007. During the most recent period (2008-2013) the negative natural balance grew bigger.

Trends for gender, age and citizenship at the beginning of 2008 and 2014 confirm that the population is aging, although trends have been influenced most recently by the growth of foreigners. As a reference, a person aged 65 or more spends five times more than a person aged 40.

COPY FOR FM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

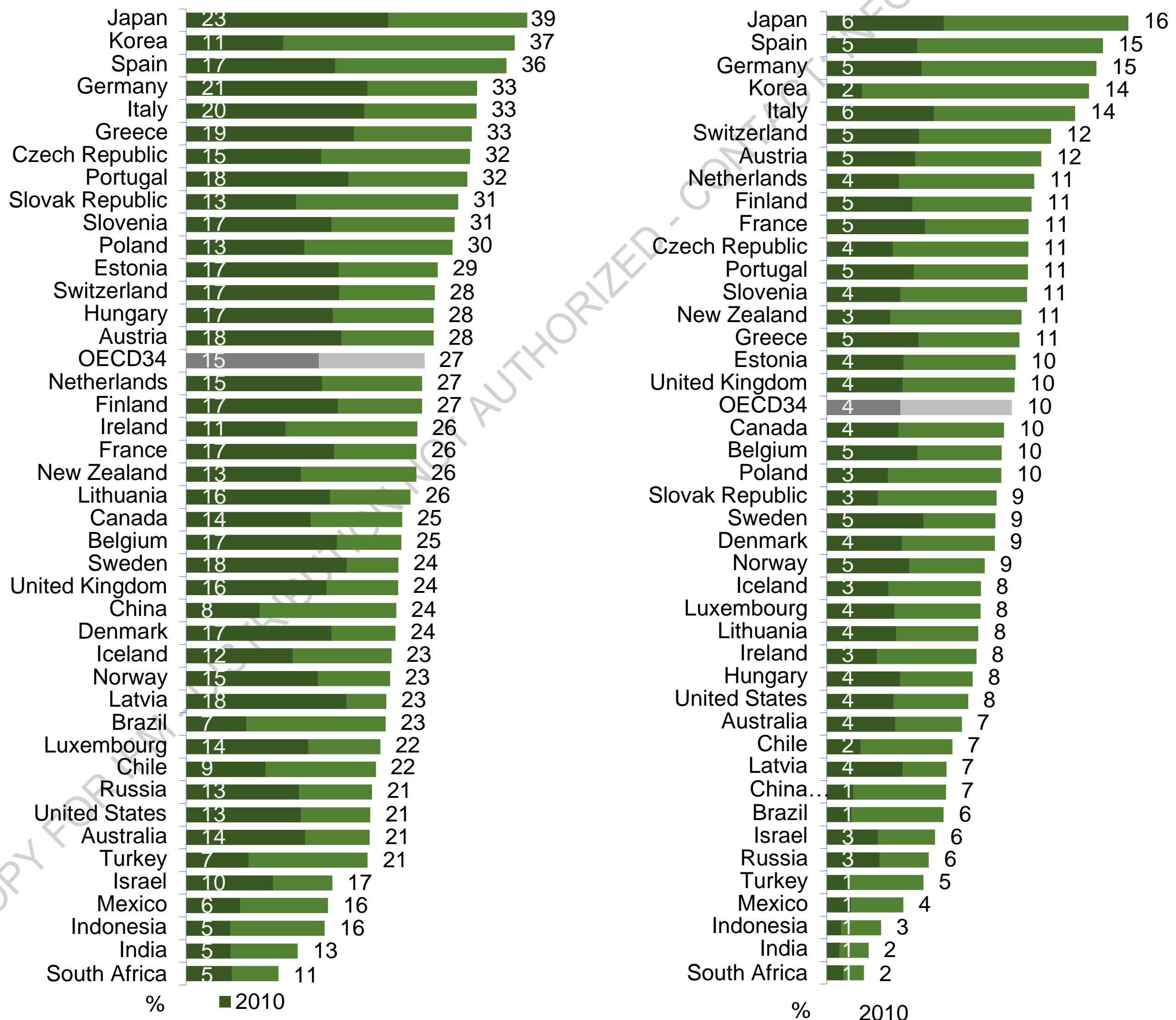
Table 1: Age structure of the resident population by citizenship

Age Group	Total		Italians		Foreigners	
	2008	2014	2008	2014	2008	2014
0-14 years	14.1	13.9	13.8	13.4	20.1	19.2
15-29 years	31.5	28.6	30.5	27.1	51.2	46.4
40-64 years	34.2	36.1	34.6	36.5	26.5	31.6
65-79 years	14.7	15.0	15.4	16.1	1.9	2.4
80 years & over	5.5	6.4	5.7	6.9	0.4	0.3
Mean age	43.1	44.2	43.7	45.2	31.1	32.6

Source: Istat data

Chart 3. Share of the population aged over 65 years (left)

Chart 4. Share of the population aged over 80 years (right)



There has been a bigger drop in the birth rate (from
almost 577,000 in 2008 to just over 514,000 in 2013), however, mainly attributable to the fall in births for Italian citizens. The lower number of births, combined with the increase in deaths, essentially due to the further ageing of the population (life expectancy has in fact continued to increase, though more

slowly than in the past), produced a **negative natural balance** in the period 2008-2013, which was four times bigger than that recorded in the period 2002-2007.

Overall, during the examined period, the demographic structure of the Italian population has generally continued in the ageing process as a result of a further fall in the birth rates and a situation in which the foreign component also seems to be less dynamic. The role of the current economic climate is evident in these processes and, surely, its legacy will continue to affect the Italian population in the years to come.

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Chapter 3
Regulatory Reform Backgrounds

COPY FOR FM - DISTRIBUTION NOT AUTHORIZED CONTACT: INFO@MPDPARTNERS.CH

Evolution of the liberalisation in Europe and in Italy

The fortunes of the Italian pharmacies and those of the National Health System (NHS) are intimately tied, but with the new reform, easier access to capital will give the former an opportunity to enter a new era.

Milestones 1927-1991:

- The Italian healthcare sector has been highly regulated for a few decades now. One of the first measures was approved on 9 January 1927, stating that pharmacies had to operate according to certain standards – staff had to obtain a degree in chemistry or pharmacy.
- Since 1968, each new pharmacy had to be located outside a 200 meters range from any another.
- In 1991, the deregulation process began.

A key step forward was taken on 4 July 2006 in the wake of regulatory pressures from the European Commission. The competition and market authority required more freedom of choice for the consumers **in a bid to promote a more competitive** market structure. In the same year, the memorandum of understanding between Federfarma and the Ministry of Health was signed, following the approval of the Bersani Decree. This law has confirmed the nature of the pharmacy as a garrison of the NHS, **authorized by the government** to the supply of pharmaceutical care.

But with new regulations, the pharmacy concept changed, with more emphasis put on the separation between the space dedicated to the supply of drugs and that associated to the performance of health-related services.

In 2012, with the Monti government, deregulation speeds up. Thanks to the liberalization decree n. 27 24/03/2012, the following items were approved with immediate effect:

1) **Concentration**: one pharmacy for 3,300 inhabitants;
2) A pharmacy can be opened in railway stations, civil airports and motorway service areas at high intensity of traffic, in malls and in large structures with sales area of more than 10,000 square meters, as long as a pharmacy is not already opened at less than 1,500 meters;
3) Thanks to the new regulation a pharmacy in addition to the hours required, may decide to stay open for longer hours.

The table below shows how the pharmaceutical retail sector in other European countries is regulated.

Table 2: Pharmaceutical Retailing Regulation in Europe

Country	Ownership structure		Ownership of more pharmacies	
	Only Pharmacists	Restrictions on legal structure	Allowed	Limits
Belgium	No	No	Yes	No limits to the number of pharmacies in a chain
Denmark	Yes	No	No	
France	Yes*	No	No (as majority sharehol der)	Not allowed the establishment of a chain but it is permitted to be part of a group of buyers. Every pharmacy can open up to 5 stores
Germany	Yes	Individual companies and partnerships	No	Every pharmacy can open up to 3 stores
Ireland	No (exception made for doctors writing prescriptions and having their office in the same area)	No	Yes	No limit to the number of pharmacies that can be opened
Italy	Yes	Partnerships and co-operatives with limited liability	No	Maximum 4 pharmacies (in the same province/district) for pharmacists' companies
Netherland	No	No	Yes	No limit to the number of pharmacies that can be opened
Portugal	No	No	No	Every pharmacy can open up to 3 stores
UK	No (pharmacist as supervisor)	No	Yes	No limit to the number of pharmacies that can be opened
Spain	Yes (accounting for 75%)	Individual companies	No	

Current regulation

In a nutshell, some of key regulatory changes pending approval are:

1. According to the **existing regulation**, the ownership of pharmacies is restricted to registered pharmacists, in the form of private/natural person, partnership and limited liability cooperatives. With the **new regulations** also limited companies will be able to own pharmacies, but **some limitations** will be introduced: doctors, distributors and pharmaceutical companies can not be pharmacies' shareholders.

2. According to the existing regulation, private individuals, partnership and limited liability cooperatives **can own a maximum number of four pharmacies** and these must be located in the same district/province of the owner (or the registered office of the cooperative). The changes in regulation will amend it.

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Based on the information gathered by the MPD team, it is fair to assume that the bill will become law in the first half of 2016, and we associated a low level of risk to the possibility that the deregulation process will stall.

Tax considerations

The Legislative Decree *23/2014* has changed the fiscal regulation of pharmacies. In 2015, a new tax called Iri was introduced, according to which pharmacies are now taxed at a flat 27.5% tax rate. This encourages pharmacies to retain profits within the company, boosting investment. The Legislative Decree has also extended the fiscal neutrality of the article 176 of *Tuil* to the sale of pharmacies. Before these regulatory changes, capital gains were taxed at a 40% rate.

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Chapter 4

Bottom-up Analysis

The representative Italian pharmacy

The individual pharmacy is the building block upon which our portfolio is being built, with a bottom-up approach that aims to capture the main value drivers. We delved into the financials of a representative Italian pharmacy as the basis of our analysis. We simulate the operational plan, aggregating the performance of a portfolio of typical pharmacies, assuming that though there exists variance in size, revenue and cost, the average pharmacy that we will be included in our portfolio will be largely similar to the representative units. We acknowledge that the performance of different units could vary based on their management teams, capital structures and different levels of profitability as well as location. Nevertheless, this approach offers investors a good investment portfolio proxy, and a representative sample unit gives us a benchmark of the status quo performance of an Italian pharmacy.

As a starting point, we measure hypothetical scenarios against a real-world benchmark, either boosting revenues (we envisage minimal upside here) while increasing the efficiency by optimising costs – the latter is our preferred option to boost returns over the short term. The performance data for each representative pharmacy is consistent with a performance model provided in the research called *Analysis and Prospective of the Pharmaceutical Distribution Market* led by *Health Innovation in 2012,* but has also been adjusted and compared to alternative sources and facts.

One report published by *UTIFAR (Unione Tecnica Italiana Farmacisti – Italian Pharmacists Technical Union)* indicates that there has been a decline of revenues during the period of 2008-2012 with a total 3% decrease in revenue, which confirms data from other sources. The market recovered in 2014 by 0.2% in revenue and 1.3% in sales volume compared to 2013, according to New Line. Macro trends are less important than "microelements" in our model, where we focus on the composition of the drugs portfolio and how to improve returns based on a different cost structure. In fact, swings in market values have less of an effect in our analysis because we focus more on the structure of the P&L and fundamentals than on macroeconomic trends, which are broadly predictable in the pharmaceutical retail sector.

The composition of the revenue line and the cost structure is analysed in more detail. As mentioned before, we will build our portfolio by choosing pharmacies similar to our benchmark, unless better or distressed opportunities arise. With regard to the latter,

Including Italy's VAT at 22%, a typical Italian pharmacy of a medium size (less than 100sqm) has normalised yearly revenue of around €1.5 million, with COGS of €1m, for an implied 29% gross margin. Other operating costs amount to around €310k, resulting in an operating margin of 8%. As we analyse the income statement, assuming a 27.5% tax rate, then we model a net profit of €85k. The net margin of the business as a going concern stands at 5.7%.

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT INFO@MPDPARTNERS.CH

The pro-forma income statement can be misleading if we exclude the fact that a portion of the net income is actually the compensation for the owner, which is not included in the operating cost line. As mentioned in the previous chapters, under the current ownership constraints imposed by the national law, only pharmacists with licenses can own pharmacies. The portion of net profit considered as a compensation for the owner is difficult to quantify, and it should be calculated on an ad-hoc basis, but according to the estimates we sighted and a number of assumptions, some 37% of the net profit should be considered as the compensation for managing the pharmacy.

Then, 36% is considered as a fair compensation for the risks related to their investment (this is essentially a premium for equity risk). Finally, 27% is considered as a fair capital return, and can be considered the risk-free rate of the owner's investment. Therefore the adjusted net profit - or true profit - for a pharmacy after the separation of management and ownership, which will occur in our execution plan, should be tweaked down significantly in some cases, depending on the capital structure of the pharmacy and on the role of the owner once the portfolio has been built.

Table 3: Income statement of a representative Italian pharmacy

	Class A		€ 810,000
	Class C		€ 195,000
	Auto-medication		€ 140,000
	PMC & others		€ 125,000
	Nutrition		€ 25,000
	Hygiene & Beauty		€ 100,000
	Para-pharmaceutical		€ 105,000
Revenue		**€ 1,500,000**	
	COGS Class A		€ 564,165
	COGS Class C		€ 145,000
	COGS Auto-Medication		€ 87,000
	COGS PMC & others		€ 82,000
	COGS Nutrition		€ 20,000
	COGS Hygiene & Beauty		€ 70,000
	COGS Para-pharmaceutical		€ 96,000
COGS		**€ 1,064,165**	
Gross Margin		**€ 435,835**	
	Labour Costs		€ 143,000
	Rent & leasing		€ 25,000
	Utilities		€ 8,000
	Third Party Services		€ 60,000
Total SG&A		**€ 236,000**	
EBITDA		**€ 199,835**	
	D&A		€ 10,000
EBIT		**€ 189,835**	
	Tax		€ 52,205
Net Income		**€ 137,630**	

Ratios	
Gross Margin	29.1%
EBITDA/Sales	13.3%
EBIT/Sales	12.7%
Net Margin	9.2%

COPY FOR IFM - INFO@IFMPARTNERS.CH

Chart 5. Composition of earning for owner pharmacists

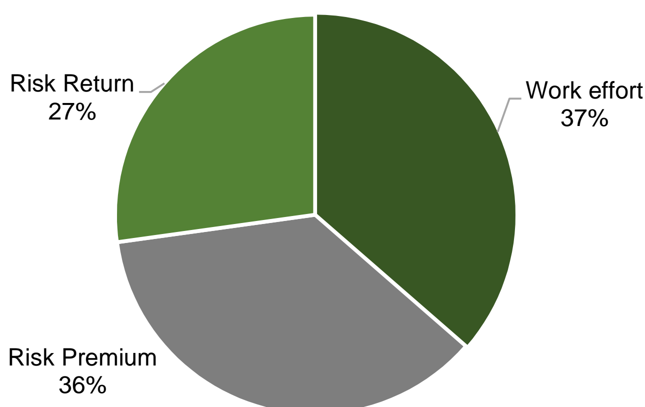
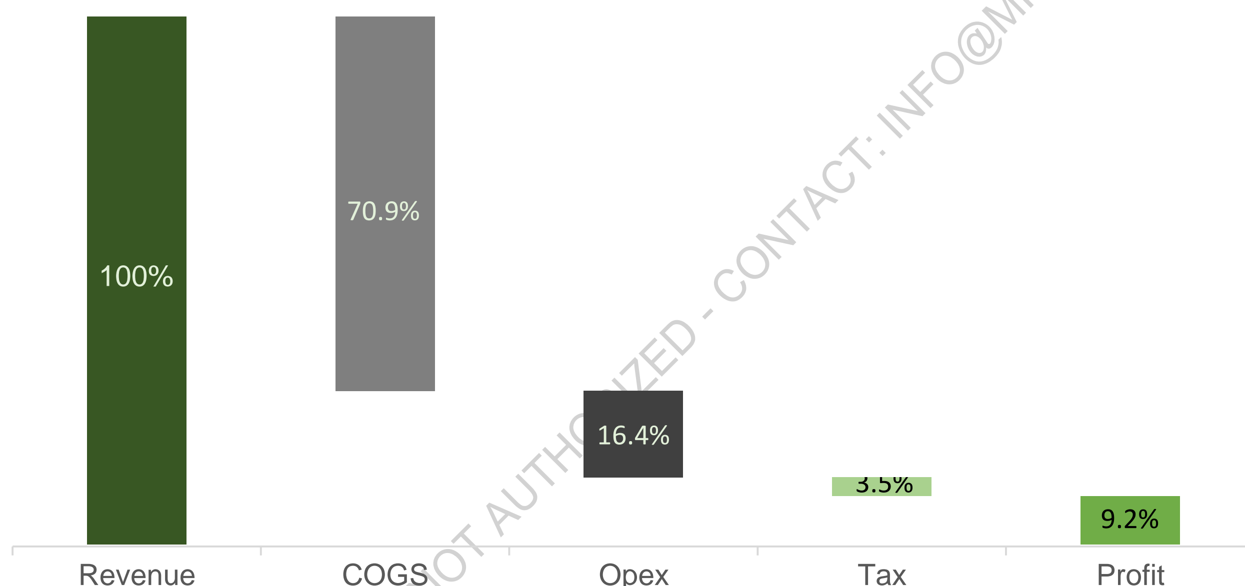


Chart 6. Income statement waterfall of a typical Italian pharmacy

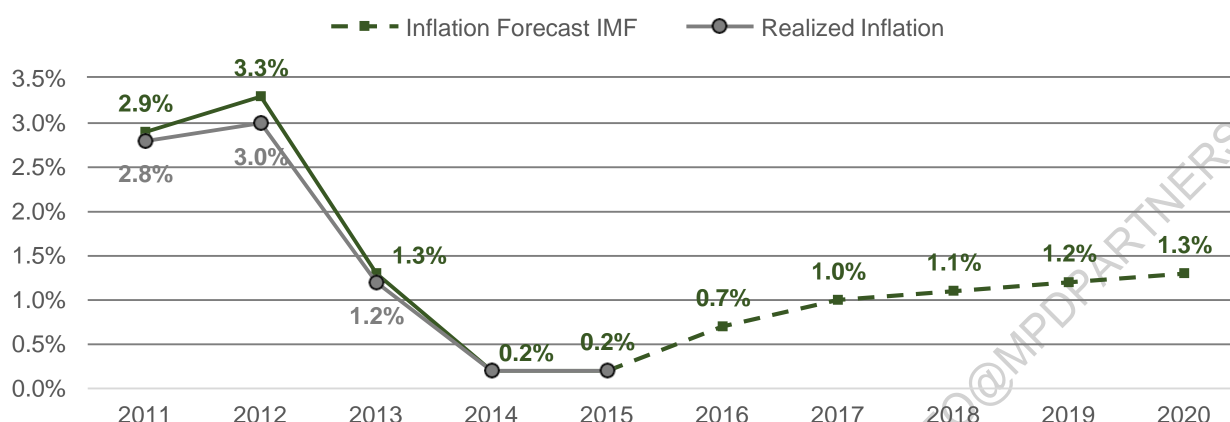


Starting point: status quo with increasing costs

This scenario is consistent with recent sector trends, but even under a worst-case scenario we will be able to deliver value, based on our execution plan. Assuming that no growth will be realized during the entire operation period, and costs will remain constant, we observe that the top-line obviously remains stagnant and costs increase moderately year on year. The resulting margins – gross margin, operating margin and net income margin - remain in positive territory. The assumption that revenue will remain stagnant should not affect our returns, because we believe that action aimed at boosting organic growth - centralised marketing and branding, shop space optimization – will offset any negative impact. We clearly acknowledge the risk of a prolonged contraction in the market, however we believe that in our worst-case scenario our effort can offset the negative market trends, while maintaining the status quo top-line, and this is also because pharmacies operate in a highly regulated industry.

COPY FOR IIM DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Chart 7. Italian Inflation Rate Forecasts vs. Realized Values



We believe centralized cost management will effectively cut non-core expenses and render the operation of the pharmacies more efficient. We conservatively assume that costs will increase at an aggregate level in line with the Italian inflation rate forecast for the entire budgeting period. This scenario indicates that net profit will decrease around 1.7 percentage point in a 10-year forecast period. Even considering this scenario as highly bearish, the performance shows that the activity of pharmacies, if managed properly, will be highly defensive, with risk skewed to the upside. This should not be a surprise: health care consumption, especially for medicines, is relatively inelastic and is largely supported by the public health system. Considering that Italy has a demographic shift towards an aging society, as mentioned in the previous chapters, our bear-case scenario should be considered highly unlikely.

Table 4: Single pharmacy simulation 2016 – 2025: no growth scenario (€ 1,000)

	Status Quo	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500
COGS	€ 1,064	€ 1,064	€ 1,064	€ 1,064	€ 1,064	€ 1,064	€ 1,064	€ 1,064	€ 1,064	€ 1,064	€ 1,064
Gross Margin	€ 436	€ 436	€ 436	€ 436	€ 436	€ 436	€ 436	€ 436	€ 436	€ 436	€ 436
Total SG&A	€ 236	€ 236	€ 238	€ 240	€ 242	€ 244	€ 247	€ 249	€ 251	€ 254	€ 256
EBITDA	€ 200	€ 200	€ 198	€ 196	€ 194	€ 192	€ 189	€ 187	€ 185	€ 182	€ 180
EBIT	€ 190	€ 189	€ 186	€ 183	€ 180	€ 177	€ 172	€ 167	€ 163	€ 159	€ 155
Net Income	€ 138	€ 137	€ 135	€ 133	€ 131	€ 128	€ 125	€ 121	€ 118	€ 115	€ 113
Ratios											
Gross Margin	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%	29.1%
EBITDA/Sales	13.3%	13.3%	13.2%	13.1%	12.9%	12.8%	12.6%	12.5%	12.3%	12.2%	12.0%
EBIT/Sales	12.7%	12.6%	12.4%	12.2%	12.0%	11.8%	11.5%	11.1%	10.9%	10.6%	10.4%
Net Margin	9.2%	9.1%	9.0%	8.9%	8.7%	8.6%	8.3%	8.1%	7.9%	7.7%	7.5%

Value creation: lowering COGS

One of the sources of efficiency for our execution plan is expected to derive economies of scale. By centralising the procurement of medicines, the operating company is expected to gain higher bargaining power towards the wholesalers and the manufactures. Including an established wholesaling company with considerable expertise and sufficient geographic coverage into the portfolio is a possibility if sufficient funding is available, but only at a later stage. In the early stage of our strategic plan, pharmacies will still rely on external procurement services from suppliers due to the widespread geographic mix of our assets.

COPY FOR FM - DIS... NOT AUTHORIZED. CONTACT: INFO@MPDPARTNERS.CH

Based on our base-case scenario presented in the previous section, we further assume we can achieve a COGS reduction of 50bp per year towards the suppliers for all products. Class A products are subject to reimbursement from the National Health System and are under a fixed margin framework, but economy of scale will give us bargaining power with the suppliers. The following table shows the simulation with the aforementioned assumption of COGS reduction based on the base-case scenario in the previous section.

With the effect of COGS reduction, gross margin will grow according to the table below. Gross margin increase to 30% in 2020 compared to 29.1%, and EBITDA margin is improved 0.4 percent.

Table 5: Single Pharmacy simulation 2016-2025: COGS reduction (€1,000)

	Status Quo	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	€1,500	€1,500	€1,500	€1,500	€1,500	€1,500	€1,500	€1,500	€1,500	€1,500	€1,500
COGS	€1,064	€1,064	€1,061	€1,057	€1,054	€1,050	€1,043	€1,039	€1,036	€1,033	€1,029
Gross Margin	€436	€436	€439	€443	€446	€450	€457	€461	€464	€467	€471
Total SG&A	€236	€236	€238	€240	€242	€244	€247	€249	€251	€254	€256
EBITDA	€200	€200	€202	€203	€204	€205	€211	€212	€213	€214	€215
EBIT	€190	€189	€189	€190	€190	€191	€193	€192	€191	€191	€190
Net Income	€138	€137	€137	€138	€138	€138	€140	€139	€138	€138	€138
Ratios											
Gross Margin	29.1%	29.1%	29.3%	29.5%	29.7%	30.0%	30.5%	30.7%	30.9%	31.2%	31.4%
EBITDA/Sales	13.3%	13.3%	13.4%	13.5%	13.6%	13.7%	14.0%	14.1%	14.2%	14.3%	14.3%
EBIT/Sales	12.7%	12.6%	12.6%	12.6%	12.7%	12.7%	12.9%	12.8%	12.7%	12.7%	12.7%
Net Margin	9.2%	9.1%	9.1%	9.2%	9.2%	9.2%	9.3%	9.3%	9.2%	9.2%	9.2%

Value creation: optimising operation

With the introduction of automated operation replacing some functions of personnel in warehouses and the cashier in some of the pharmacies, we can foresee a further reduction in staff-related expenses. Centralised services for legal, documentation and bureaucratic procedures will again improve the efficiency and reduce the burden of personnel operating in the shop thereby saving precious working forces. Increase in capital expenditure will dilute return on investment in the initial phases because it will take time to increase efficiency. MPD believes capital expenditures should be made strictly following the budget in line with industry standards.

Automated dispensing system

The execution plan includes the introduction of automated dispensing systems, or robots. Such systems have several advantages and may potentially increase the efficiency of our operations. The most obvious benefit is that the robots help the pharmacies use their shop space more efficiently: according to our analysis of the existing products offered on the market, robots generally need only 60%-70% of the space that traditional inventory management does. The free up space allows pharmacies to have more room for commercial purposes, which is expected to boost revenue per square meter and drive more traffic – more space, more goods (even loss leaders), more traffic. Thanks to the fully automated system, the time required to manage the inventory and the entire sale process is significantly reduced. For small pharmacies, with up to three employees, cutting the number of staff is not a realistic possibility, but larger pharmacies with 4-6 FTEs, a reduction of up to 20% of its workforce should be considered given that staff is one of the heaviest costs on the income statement and once the investment in automated systems is amortised it will greatly benefit the bottom line. Staff in the shop can carry out their day-to-day duties more efficiently; it is likely, then, that more time could be dedicated to provide quality services to clients – this will increase loyalty rates and could be another source of increase in revenue. Finally, fully automated robots,

COPY FOR TM - DISTRIBUTION NOT AUTHORIZED CONTA ERS.CH

with suited software, can provide insights into stock optimisation. An academic study published on *Libyan Journal of Medicine* in 2009 indicates that, after adopting the robots, around 60% of German pharmacies (sample size=253 units) were able to reduce their inventory by an average of 17.4%, in terms of value. This can reduce the amount of working capital and can contribute to cash flows.

The main costs associated to the adoption of the robot include cost of the equipment, installation, electricity and annual maintenance expenses. The manufacturer of the equipment usually provides installation and maintenance services. Leasing is the most common means of financing. In our operational plan, financing rates could represent an opportunity if debt can be raised at a lower rate than the lease.

We have carried out a standalone simulation of the economics backing the adoption of automated dispensing systems. Assuming that for a pharmacy with €1.5 million of revenue the adoption of a mid-size robot will increase revenue by 10%, while increasing the gross margin by 50bp and reducing 0.5 FTE, the adoption of €100,000 robot with an 8-year depreciation (leasing) period at a 6% financing rate and 7% annual maintenance and electricity costs, it will help the pharmacy increase the operating margin **by 1.6 percentage points**.

Picture 1. Sample of automated dispensing system

	Status Quo	Improvement	With automated dispensing system
Revenue	€ 1,500,000	10%	€ 1,650,000
Gross margin	29.10%	0.50%	29.60%
Gross margin	€ 436,500		€ 488,400
Number of FTE	4	-0.5	3.5
Average annual cost per FTE	€ 35,750		€ 35,750
Total FTE cost	€ 143,000		€ 125,125
Total SG&A costs	€ 93,000	€ 23,104	€ 116,104
Operating profit	€ 200,500		€ 247,171
Operating margin	13.4%		15.0%

Financing	
Price of a mid-size robot	€ 100,000
Cost of financing	6%
Annual maintenance expenses	7%
Duration (years)	8
Annual cost + amortisation	€ 23,104

Refurbishment

Along with the introduction of the automated dispensing system, the retail space of the pharmacies acquired may need to be refurbished depending on their current condition at the time of the acquisition. We have survey the market price of the refurbishment costs and concluded the average costs for small / medium / large pharmacies in the following table.

Table 6: Estimated refurbishment costs by size

Size	Square meters	Costs
Small	55	€60,000
Medium	75	€70,000
Large	110	€90,000

The prices indicated above only include basic refurbishment elements. Total costs may vary from pharmacy to pharmacy.

COPY FOR FM DISTRIBUTION NOT AUTHORIZED CONTACT: INFO@MPPARTNERS.CH

Automatic cashier

Automatic cashier will also be adopted in the shop, and that would bring multiple benefits, as it allows for a quicker payment process. Pharmacists in the shop will have more time to devote to their customers (evidence suggests that this is the case).

The automated process facilitates the collection of data – the sales volume of individual products will be recorded with maximum efficiency. Together with the use of automatic dispensing system and the centralised data analysis service, we can have better insights into the operational details of the pharmacies in order to further improve the efficiency. The automatic cashier guarantees the minimisation of human error when dealing with payments, which is a critical element given the cultural risk that permeates the country. Opportunistic behaviour such as theft poses a serious threat to the investment case and robots will minimise that, but as a result higher depreciation is predicted as investment is made into fixed assets (refurbishment, automated systems).

The net margin can be increased much further to 10.6% in 2020 even assuming no organic growth will occur.

Table 7: Single Pharmacy simulation 2016-2025: COGS reduction (€1,000)

	Status Quo	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500	€ 1,500
COGS	€ 1,064	€ 1,064	€ 1,061	€ 1,057	€ 1,054	€ 1,050	€ 1,043	€ 1,039	€ 1,036	€ 1,033	€ 1,029
Gross Margin	€ 436	€ 436	€ 439	€ 443	€ 446	€ 450	€ 457	€ 461	€ 464	€ 467	€ 471
Total SG&A	€ 236	€ 226	€ 217	€ 212	€ 210	€ 207	€ 209	€ 211	€ 213	€ 216	€ 218
EBITDA	€ 200	€ 210	€ 223	€ 231	€ 236	€ 242	€ 248	€ 249	€ 251	€ 252	€ 253
EBIT	€ 190	€ 198	€ 206	€ 203	€ 208	€ 219	€ 223	€ 224	€ 224	€ 225	€ 226
Net Income	€ 138	€ 143	€ 149	€ 147	€ 151	€ 159	€ 162	€ 162	€ 163	€ 163	€ 164
Ratios											
Gross Margin	29.1%	29.1%	29.3%	29.5%	29.7%	30.0%	30.5%	30.7%	30.9%	31.2%	31.4%
EBITDA/Sales	13.3%	14.0%	14.8%	15.4%	15.7%	16.2%	16.5%	16.6%	16.7%	16.8%	16.9%
EBIT/Sales	12.7%	13.2%	13.7%	13.5%	13.9%	14.6%	14.9%	14.9%	15.0%	15.0%	15.0%
Net Margin	9.2%	9.6%	9.9%	9.8%	10.0%	10.6%	10.8%	10.8%	10.8%	10.9%	10.9%

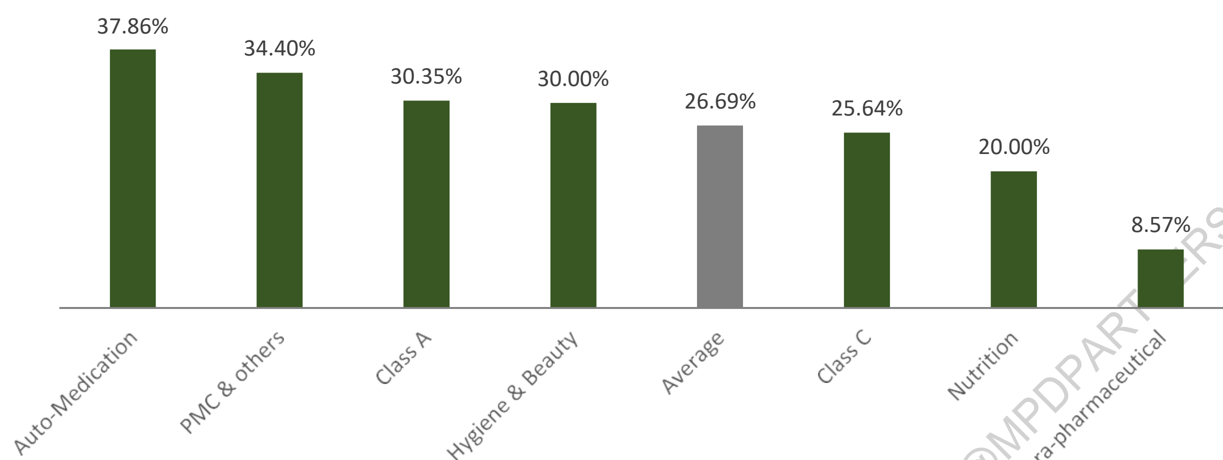
Value creation: boosting growth

Under this scenario, we assume that we will benefit from costs management, marketing and brand investment, which along with the demographic shift will help us grow the top-line at a faster pace than inflation.

We also take into consideration that in order not only to increase sales but also expand our margins, we should focus on promoting products with higher profitability. The individual product margins are shown in the above chart, where we observe that three main categories of products have margins well above mean, and these are auto-medication, PMC and Hygiene & Beauty. These discretional products command a premium against traditional medicines, and manufactures are more prone to invest in marketing and promotion efforts to boost the brand equity of such items. In our retail strategy, execution will be focussed on increasing sales from these categories of products. We target a 10% growth rate for Auto-medication and PMC for five years, and 5% thereafter.

COPY FOR IM DISTRIBUTION NOT AC INFO@MPDPARTNERS.CH

Chart 8. Average Gross Margin by Product



The target for Hygiene and Beauty is 30% in the first two years, 20% in the third and fourth years, and 5% in 2020. We assume an organic growth rate of 3% for other categories of products into 2020, and 2% afterwards. We can see from the following table that while growth in the low-margin categories is low, the high-margin products contribute greatly to the overall profitability of our portfolio. We are not considering the further option to lower the COGS thanks to higher bargaining power at the aggregate level stemming from the combination of different units. We are not including any benefits from automated systems and similar actions.

The EBITDA margin climb to 19% in 5 years' time and net margin will increase to 12.9% from 9.2% in comparing to status quo.

Table 8: Single pharmacy simulation 2016 – 2025: moderate growth scenario (€ 1,000)

	Status Quo	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	€1,500	€1,591	€1,667	€1,736	€1,815	€1,880	€1,911	€1,953	€1,997	€2,042	€2,087
COGS	€1,064	€1,127	€1,175	€1,219	€1,268	€1,307	€1,319	€1,342	€1,366	€1,390	€1,415
Gross Margin	€436	€464	€491	€517	€547	€573	€592	€611	€631	€651	€673
Total SG&A	€236	€229	€221	€218	€217	€215	€217	€220	€223	€226	€229
EBITDA	€200	€235	€270	€300	€330	€358	€375	€391	€408	€425	€443
EBIT	€190	€223	€253	€270	€300	€334	€349	€364	€379	€394	€411
Net Income	€138	€162	€183	€196	€218	€242	€253	€264	€275	€286	€298
Ratios											
Gross Margin	29.1%	29.2%	29.5%	29.8%	30.1%	30.5%	31.0%	31.3%	31.6%	31.9%	32.2%
EBITDA/Sales	13.3%	14.8%	16.2%	17.3%	18.2%	19.0%	19.6%	20.0%	20.4%	20.8%	21.2%
EBIT/Sales	12.7%	14.0%	15.2%	15.6%	16.5%	17.8%	18.3%	18.6%	19.0%	19.3%	19.7%
Net Margin	9.2%	10.2%	11.0%	11.3%	12.0%	12.9%	13.2%	13.5%	13.7%	14.0%	14.3%

Summarising the value creation process

The following charts demonstrate how margins are improved step-by-step through our operational plan.

Chart 9. Gross margin improvement waterfall

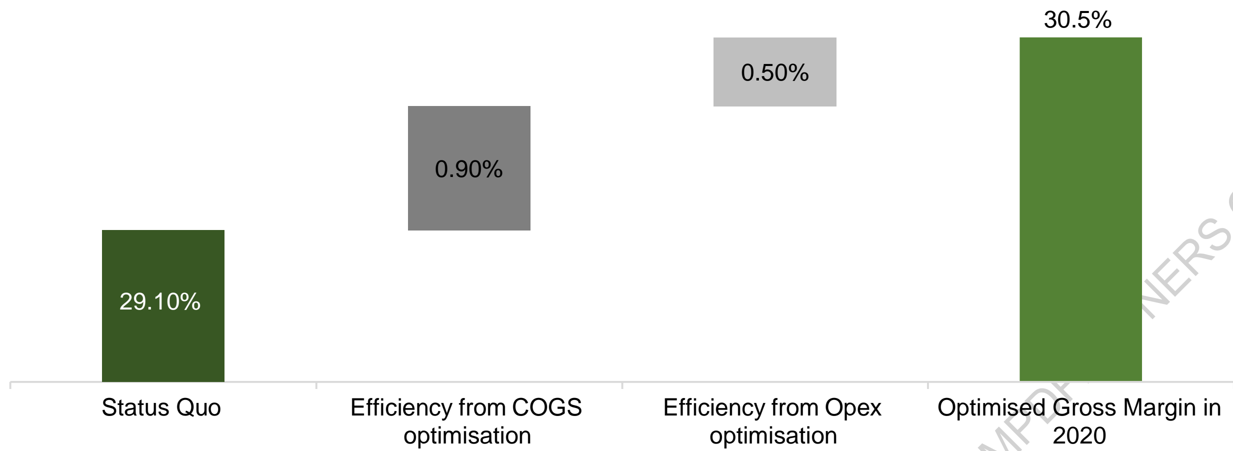


Chart 10. EBITDA margin improvement waterfall

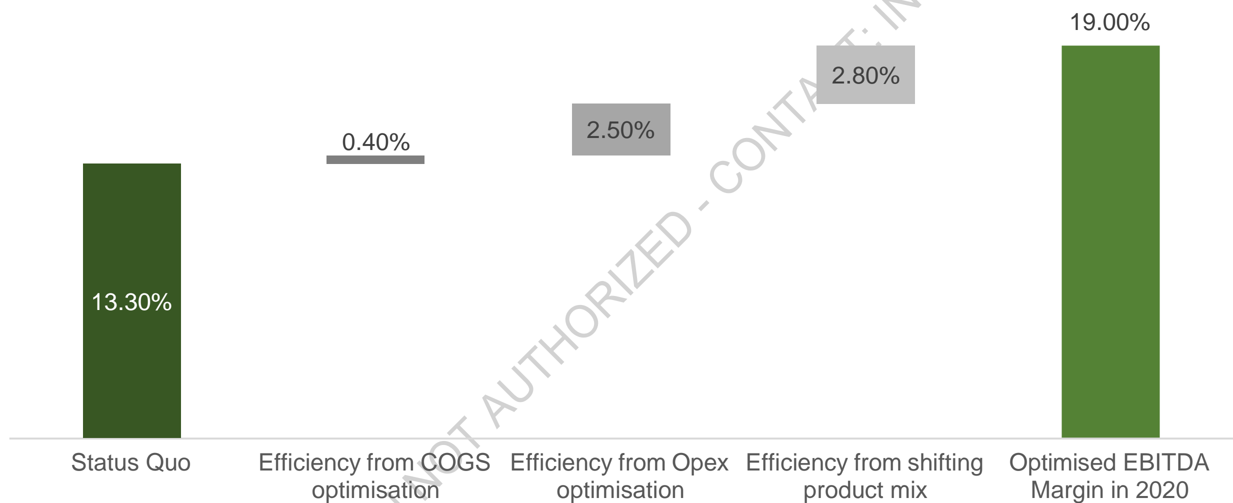
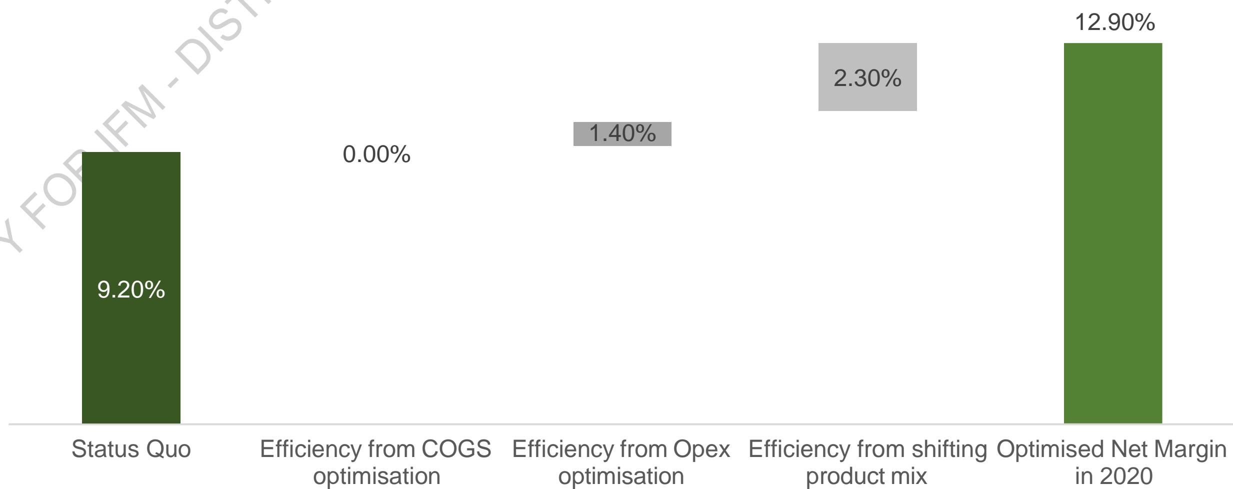


Chart 11. Net margin improvement



COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Aggregate portfolio analysis

We aggregate the individual representative pharmacies, their balance sheets, income statements and cash flow statements.

There will be three main steps in the development plan: 1) platform building; 2) expansion; 3) expansion + consolidation.

The table with projected funding requirements is below

Table 9: Development phases and funding requirements

Development Phase	Timeline	# of pharmacies	Equity Investment (€)
Phase 1 platform	End of 2016	20	28,000,000
Phase 2 expansion	End of 2018	130	141.000.000
Phase 3 expansion & consolidation	End of 2020	390	270,000,000

The plan follows a typical private equity buy-and-build model, according to which a financial sponsor buys out a mid-market player and transforms it into a platform company that will be used to pursue expansion, while extracting meaningful cost synergies. We plan to use equity or semi-equity capital to finance most of our needs in stage one and stage two.

After that, once the critical mass of between 100 and 150 pharmacies is reached (between the third and the fourth year), we expect an exit where the internal rate of return is boosted by some leverage, trading multiples arbitrage and efficiency. The market is fragmented and there might be regulatory constraints even after the approval of the legislation.

Other criteria:

- Efficiency and operation optimization takes time to kick in. Heavy investment and expansion before a certain level of efficiency is achieved would dilute the overall investment return. We suggest on phase one a portfolio of no more than 20 pharmacies should be constructed. A platform company that is too large will exponentially increase the complexity of the operation before we accumulate substantial management know-how and experience.

- Moreover, that would require a significant debt component for a group (OPCO/HOLDING) that has no track record. Committing assets to the OPCO/HOLDING could give us a higher degree of financial flexibility and would speed up the growth process of the portfolio.

- Fundamentals leave us very little room for error in terms of execution and risk management. As such, high leverage would likely force us to compete with stronger rivals that would put pressure on our market share from day one, and would likely prevent us from growing organically in year 1 and 2 on an organic basis.

Phase one is expected to be completed by the end of 2016, and would require the HOLDING company to have operated for at last a year before then. Some 20 pharmacies with size similar to the status quo should be acquired. The second phase will be executed by acquiring additional pharmacies (up to 1300) with new equity/debt capital or a mix of the two, depending on market conditions. The newly acquired pharmacies will be transformed into a single chain operating under the same brand.

COPY FOR IVM - DISTRIBUTION NOT AUTHORIZED - CONTACT INFO@...PARTNERS.CH

The third stage includes on-going expansion with further funding and consolidation of market presence via investments into marketing.

Price of acquisition varies from 0.8x to 1.3x revenue in general for Italian pharmacies, depending on their profitability and geographic location. We assume that we will be able to acquire pharmacies with 1.0x revenue on average. Transaction costs will amount to around 4% of the total transaction value and includes tax, legal and other advisory services, notary and other bureaucratic expenses.

Table 10: HOLDING Company income statement simulation 2016-2025

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
New number of pharmacies	20	40	70	110	150	-	-	-	-	-
Tot. number of pharmacies	20	60	130	240	390	390	390	390	390	390
Revenue	€17,736	€67,403	€160,896	€315,711	€539,654	€655,889	€683,127	€708,644	€731,343	€749,924
COGS	€12,574	€47,609	€113,223	€221,333	€376,884	€454,319	€470,874	€486,078	€499,245	€509,577
Gross Margin	€5,162	€19,794	€47,673	€94,378	€162,770	€201,570	€212,253	€222,566	€232,098	€240,347
Total SG&A	€1,854	€7,300	€19,353	€39,851	€68,277	€81,900	€82,989	€84,111	€85,253	€86,415
EBITDA	€3,307	€12,494	€28,320	€54,527	€94,493	€119,670	€129,264	€138,455	€146,845	€153,932
EBIT	€3,174	€11,821	€25,807	€48,592	€85,772	€109,805	€118,756	€127,324	€135,116	€141,638
Net Income	€2,301	€8,570	€18,710	€35,229	€62,185	€79,609	€86,098	€92,310	€97,959	€102,687
Ratios										
Gross Margin	29.1%	29.4%	29.6%	29.9%	30.2%	30.7%	31.1%	31.4%	31.7%	32.0%
EBITDA/Sales	18.6%	18.5%	17.6%	17.3%	17.5%	18.2%	18.9%	19.5%	20.1%	20.5%
EBIT/Sales	17.9%	17.5%	16.0%	15.4%	15.9%	16.7%	17.4%	18.0%	18.5%	18.9%
Net Margin	13.0%	12.7%	11.6%	11.2%	11.5%	12.1%	12.6%	13.0%	13.4%	13.7%
	Phase 1	Phase 2		Phase 3		Stable Phase				

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTAC ... CH

Chapter 5
Top-down Analysis

A glance into the existing players' performance

Global companies that operate in various segments of the healthcare business dominate different parts of the worldwide pharmaceutical retail industry. Walgreens Boots Alliance (mainly a distributor) or Celesio AG (owned by McKesson), for example, offer a wide range of services along with OTC and prescription drugs as well beauty and toiletries products, food, beverages and household products.

Walgreens Boots Alliance is a global company operating in 25 countries. Its business includes: Retail Pharmacy USA, Retail Pharmacy International and Pharmaceutical Wholesale. Here is where we see the wholesale-retail conflict which will unlikely characterise the Italian competitive landscape at least during the initial stages of consolidation.

Germany's Celesio is pharmaceutical distribution company operating two main divisions: pharmacy solutions and patient and consumer solutions. The former engages in pharmaceutical wholesale business that supplies more than 65,000 pharmacies every day in 10 European counties and Brazil. It owns 2,200 pharmacies in six European countries. This segment is also involved in pharmacy fittings and equipment business (through Rudolf Spiegel Versand), development and marketing.

Performance

US-based CVS Health (CVS) is an integrated healthcare company, which offers a wide variety of services through different segments. CVS and McKesson Corp (MCK) are major pharmaceutical retail chains in the US market, while Walgreens Boots Alliance Inc. (WBA) is a vertically integrated group. Both CVS and MCK have lower margins across the P&L than those presented in the representative model supporting our portfolio, but their business model and the competitive landscape where they operate are very different, and that is not to mention the stage of business maturity for both companies. High assets turnover offsets low margins and along with a leveraged capital structure, both companies consistently deliver above-average ROE. WBA enjoys significantly higher gross margin compared to its two competitors, and heavier fixed costs, but its margins at operating and net income levels as well as its ROE are in line with those of rivals. Italy is not the US, but certain patterns are easy to predict and MPD acknowledges the downside risk that following the liberalisation of the Italian pharmaceutical retail market, underlying profitability will continue to suffer and several actions will have to be taken in order to position the portfolio according to the required level of risk/return that our investors expect.

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Chart 12. CVS margins

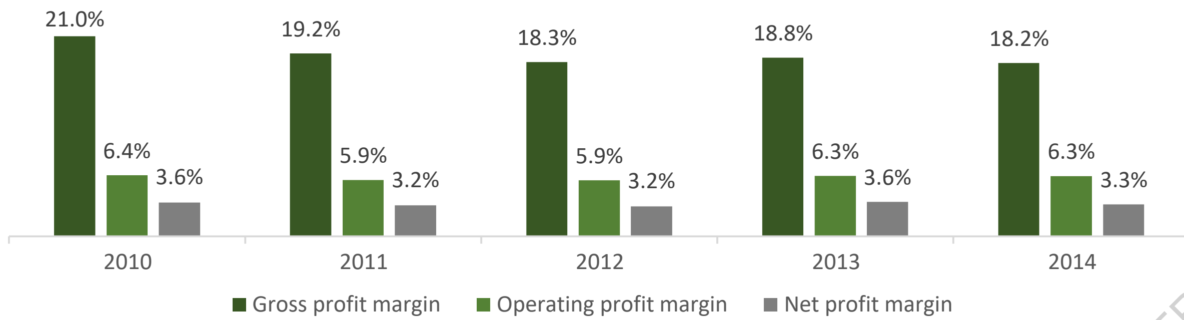


Chart 13. CVS returns

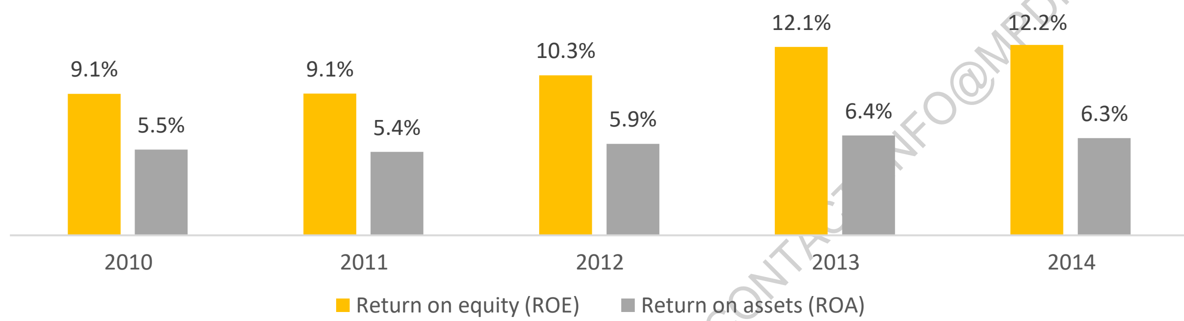


Chart 14. MCK margins

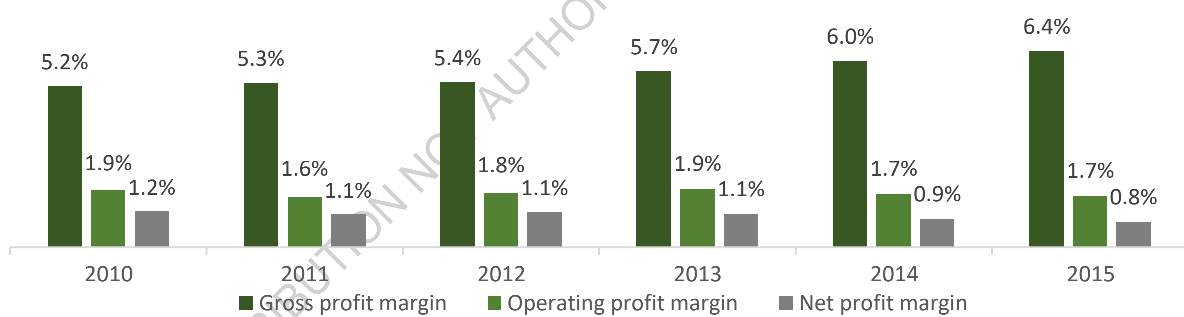
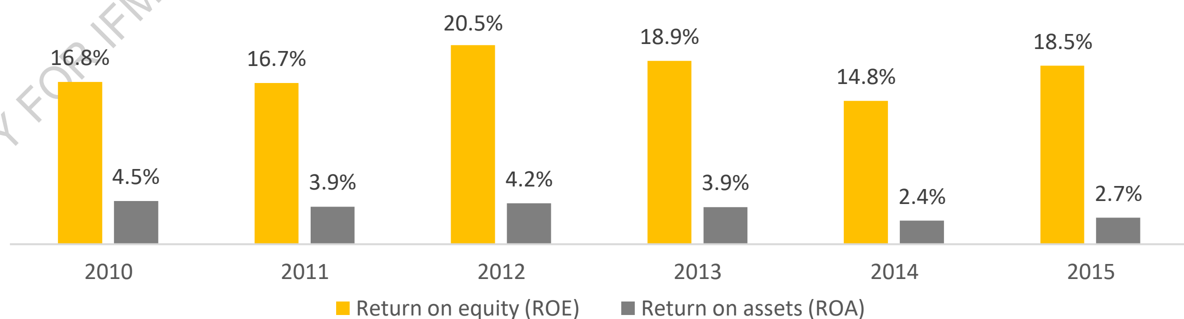


Chart 15. MCK returns



COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT INFO@MPDPARTNERS.CH

Chart 16. WBA margins

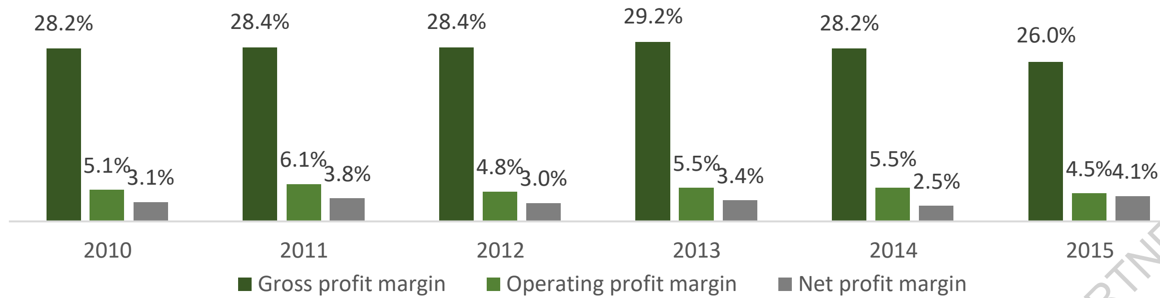
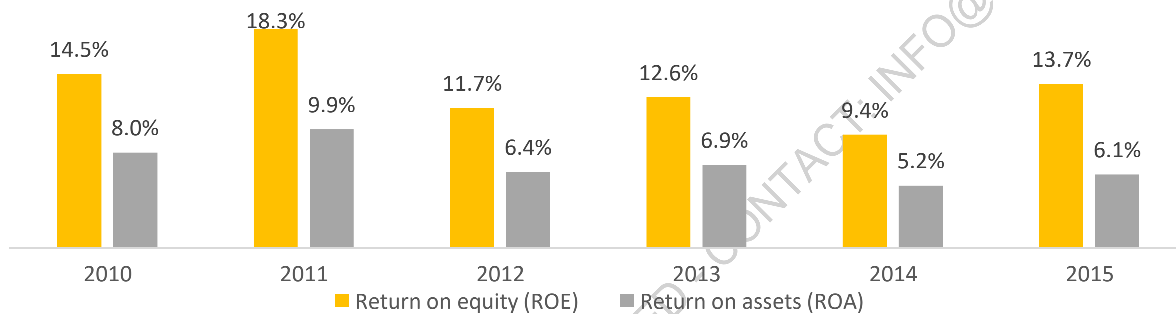


Chart 17. WBA returns



*CVS Fiscal year finishes on 31 December
*McKesson Corp Fiscal year finishes on 31May
*WBA Fiscal year finishes on 31 August

Selected similar operations

KKR – Alliance Boots

KKR invested in the Pharmaceutical retail giant Alliance Boots back in 2007 and with the recent acquisition by US pharmacy leader Walgreens, announced at the end of 2014, KKR realised at least 2.7x for its initial investments.

In 2007, KKR, together with Stefano Pessina and a group silent investors, took Alliance Boots private for an estimated $22 billion. It was one of the biggest LBOs in history. KKR funded $2.45 billion in Alliance Boots, with approximately $1.4 billion from KKR 2006 Fund, Limited Partnership, approximately $750 million from the European Fund II, Limited Partnership and approximately $300 million from KKR's own capital.

KKR had its first stage exit in 2012. Walgreen acquired 45% in Alliance Boots for $4billion in cash and 83.4 million Walgreen shares. KKR pocketed $1.8 billion cash and 6.4 million Walgreen shares (around $200 million). Its stakes remained 25% in Alliance Boots. Walgreen has the option to gain full control of Alliance Boots within 3 years.

KKR had its second stage exit at the end of 2014 when Walgreen exercised its purchase option and bought the remaining 55% of Alliance Boots. Walgreen paid $16.3 billion with a mix of cash and

COPY FOR IM - DISTRIBUTION NOT AUTHORIZED CONTACT: INFO@MPDPARTNERS.CH

stock. KKR pocketed $4.7 billion in cash and Walgreen shares. KKR retains 4.6% stake in the new combined business Walgreen Boots Alliance.

During the 2.5 year exit period, the Walgreen shares soared from around $37 in 2012 to $76 in 2014, giving KKR a lucrative return on the shares portion of the transaction. In total, KKR has at least made $6.7 billion, that is, almost tripled its original $2.45 billion investment, out of the deal.

3i, Hg Capital and Neuhaus partners - Doc Morris

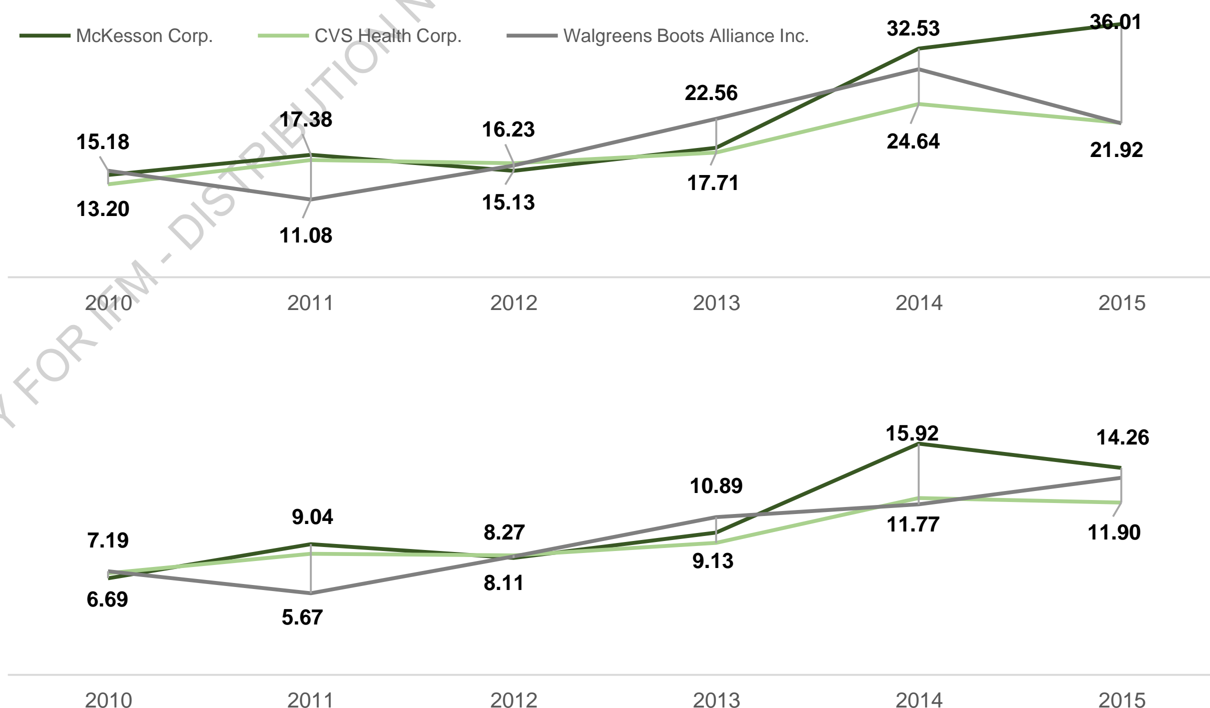
The European private equity firms 3i and Hg Capital, together with venture capital investor Neuhaus Partners sold their stakes in DocMorris in May 2007 to Celesio AG. DocMorris started as a pure drug mail-order company and expands into the pharmacy company in 2006, following the liberalisation process in Germany.

Though little information is available for this private transaction, we observed from the announcement of 3i that DocMorris' sales has grown from zero to €172 million in only 7 years since its start-up. The price of the trade sale from the private equity investors to Celesion AG was not disclosed. But according to the announcement of the investors, the return seems to be more than satisfactory.

Trading multiples

The table below shows that even in a market that is consolidating, trading multiple can rise as the sector promises attractive defensive characteristics for investors. It needs to be noted that the multiples provided below should be applied to the portfolio valuation keeping in mind that the analysed companies are very different from our portfolio companies in terms of stage maturity, size, financial strength, operating history etc.

Chart 18. MCK / CVS / WBA: P/E evolution
Chart 19. MCK / CVS / WBA EV/EBITDA evolution



COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Chapter 6
Investment Return

Exit strategy

The ultimate objective of the consolidation plan under discussion is to realise returns for investors. In order to achieve this objective a complete or partial exit must be made at the end of the investment horizon. Because the exit will take place in 3-5 years' time from this study and will be exposed to high future uncertainty and unforeseeable constraints, MPD believe that remaining open the various exit options is necessary. We include the different options below and considered the suitability of each option standing from today's point of view.

Trade sale

This is the preferred exit strategy at the moment. A trade sale is an exit strategy in which shares of the invested company is sold to a trade buyer, that is, a third party operating in the same industry. A trade sale often offers quick and complete exit from the investment. A trade sale is rarely under regulatory restrictions and often takes place with one-on-one negotiations. MPD believes that following the liberalisation of the Italian pharmaceutical retail sector, global and regional established players will enter the market and they will leverage on their financial strength to search for strategic acquisition targets in order to expand more efficiently. With a sizable and consolidated portfolio, we believe that the portfolio can be sold in bundle to a strategic player in 3-5 years' timeframe. In addition, this kind of transactions often include a considerable price premium as the strategic player can extract more efficiently synergies.

Initial public offering (IPO)

This strategy is also sometimes referred to as "flotation" or "listing". In our case, we foresee the opportunity to sell the shares of the consolidated portfolio of pharmacies to the secondary market once a critical size of the portfolio has achieved. This is usually the most popular exit strategy for private equity investors as when the proper market condition prevails, it will provide the most lucrative returns.

For an IPO exit, the pharmacy portfolio must achieve a significant size and manage to maintain a relatively stable profitability in order to meet some entry barriers set by stock exchanges. In addition, an IPO by itself does not mean an exit for investors. Investors have to actually sell its shares to a third party after the floatation, which does not always happens simultaneously with the IPO. The floatation of the share prices also means the investors will be exposed to market price uncertainties: if the share price on the secondary market drops after the floatation, investors will suffer from such decline in prices.

It is also important to note that an exit through IPO may be lengthy and costly, which could dilute the investment performance in terms of IRR. Considering the efficiency of the Italian stock exchange market and the potential size of the pharmacy portfolio that we will achieve in the planned investment

COPY FOR IFM DISTRIBUTION NOT AUTHORIZED. CONTACT: INFO@IFMPARTNERS.CH

horizon, MPD do not believe setting an IPO exit agenda is realistic at this stage. However, it will remain an attractive option.

Secondary buyout

A secondary buyout usually refers to the sale of a company from one private equity investor to another private equity investor. Such an exit strategy may significantly shorten the investment horizon therefore boost the investment performance in terms of IRR. This is also a reasonable exit channel if we find the secondary market condition unfavourable at the end of the investment horizon where an IPO does not generate satisfactory results. A trade sale also offers advantages of an immediate and complete exit and is significantly less time consuming compared to an IPO.

Leveraged recapitalization

Leveraged recapitalization is a partial exit strategy where debt is raised to allow investor to extract cash from the company without actually giving up control of the company. Once the business enters a stable growth phase, debt can be raised through a bank or by issuing bonds on the market to buy back shares from investors. Leveraging the company also means potential tax benefits due to the deductibility of interest payments.

Investment returns

Methodologies

An Internal Rate of Return (IRR, or sometimes referred to as “economic rate of return - ERR) calculation based on our financial simulation is carried out in order to give references to the potential financial return of the investment. The IRR is a metric often used in Private Equity to measure the profitability of investments and is the discount rate that makes the net present value (NPV) of all cash flows from a particular investment project equal to zero. We calculate the IRR using the following formula:

Picture 2. IRR calculation formula

$$NPV = \sum_{t=1}^{T} \frac{C_t}{(1+r)^t} - C_o$$

Where

C_t = net cash inflow during the period t

C_o= total initial investment costs

r = discount rate, and

t = number of time periods

In addition, A NPV analysis is also given in the following section to give intuitive measurements of the project returns.

Exit after three years

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

We simulate an exit scenario where we assuming an 8 times EV/EBITDA exit multiple for the HOLDING company. The 8x EV/EBITDA is the same multiple with which we acquired the pharmacy at the beginning of the operation. We set this multiple merely for the sake of conservatism, that is, we assume we will not have the ability to sell the company with an arbitrage on the EV/EBITDA multiple. We further assume that we can exit the OPCO at 10 times EV/EBITDA. Sales and EBITDA figures are taken from the simulation we derived in the previous sections on a run-rate basis.

We can see that under this scenario we can generate €319 million at the end of the investment period and result in a 1.9 times cash multiple with 44% annual IRR.

Table 11: Return analysis for 3-year investment horizon (€ million)

Year	2016	2017	2018	2019
Cash flow	-€ 28	-€ 50	-€ 91	€ 319
IRR	44%			
Cash Multiple	1.9x			

As we can see in the table below, if we assume that we can boost the exit multiple from 8x to 10x for the HOLDING and from 10x to 12x for the OPCO, we can have an attractive 62% annual IRR with a 2.4 times cash return. The 10x EV/EBITDA is a realistic assumption as we can see from the previous chapter that established pharmaceutical retail players are trading in a similar range in the last five years. MPD acknowledge that the exit multiples are subject to influence of market conditions for the industry, the negotiation powers towards counterparties and various external factors. We include a range of different scenarios only for the purpose of illustrating the potential return of the investment case.

Table 12: Exit multiple on return sensitivity analysis – 3 years (€ million)

HOLDING Exit EV/EBITDA multiple	6.0x	7.0x	8.0x	9.0x	10.0x
EV HOLDING	€234	€273	€312	€351	€389
OPCO Exit EV/EBITDA multiple	8.0x	9.0x	10.0x	11.0x	12.0x
EV OPCO (49%)	€6	€7	€7	€8	€9
IRR	23%	34%	44%	53%	62%
Cash multiple	1.4x	1.7x	1.9x	2.1x	2.4x

Exit after five years

As exit opportunities will not necessarily be available in the short investment horizon, we modelled an exit scenario for a longer investment period. In this case we adopt the same assumptions and calculations as the 3-year case. However, we assume that in order to keep-up with the development plan and to achieve a considerable size of the portfolio, we will make further investments to fund inorganic expansion. As we can see in the following table, with the same 8x EV/EBITDA exit multiple, we will see a dilution in IRR compared to the 3-year plan. This is because heavy investments are planned in 2019 and 2020.

COPY FOR IM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Table 13: Return analysis for 5-year investment horizon (€ million)

Year	2016	2017	2018	2019	2020	2021
Cash flow	-€28	-€50	-€91	-€125	-€145	€1,141
IRR	45%					
Cash Multiple	2.6x					

The table below is a sensitivity analysis of return in terms of IRR and cash multiple assuming different exit multiples for the HOLDING and the OPCO.

Table 14: Exit multiple on return sensitivity analysis – 5 years (€ million)

HOLDING Exit EV/EBITDA multiple	6.0x	7.0x	8.0x	9.0x	10.0x
EV HOLDING	€838	€978	€1,117	€1,257	€1,396
OPCO Exit EV/EBITDA multiple	8.0x	9.0x	10.0x	11.0x	12.0x
EV OPCO (49%)	€19	€21	€23	€26	€28
IRR	31%	38%	45%	50%	56%
Cash multiple	2.0x	2.3x	2.6x	2.9x	3.2x

Exit after seven years

Under an extreme scenario where we will find it difficult to exit for a prolonged period, we will still have a 27% IRR and 2.9x cash multiple, with the same assumptions but extend the investment horizon to 7 years. MPD believes that though this scenario is highly unlikely because a consolidated portfolio of pharmacies will be a highly attractive asset for industrial players, we cannot exclude the possibility that the market climate will change.

Table 15: Return analysis for 7-year investment horizon (€ million)

Year	2016	2017	2018	2019	2020	2021	2022	2023
Cash flow	-€28	-€50	-€91	-€125	-€145	€-	€-	€1,291
IRR	27%							
Cash Multiple	2.9x							

From the table below we can see that even with 6x and 8x EV/EBITDA exit multiple for the HOLDING and the OPCO respectively, we can still achieve a 20% IRR and 2.2x cash multiple in a 7-year investment horizon.

Table 16: Exit multiple on return sensitivity analysis – 7 years (€ million)

HOLDING Exit EV/EBITDA multiple	6.0x	7.0x	8.0x	9.0x	10.0x
EV HOLDING	€946	€1,104	€1,262	€1,420	€1,577
OPCO Exit EV/EBITDA multiple	8.0x	9.0x	10.0x	11.0x	12.0x
EV OPCO (49%)	€23	€26	€29	€32	€35
IRR	20%	24%	27%	30%	33%
Cash multiple	2.2x	2.6x	2.9x	3.3x	3.7x

COPY FOR EM - DISTRIBUTION NOT AUTHORIZED CONTACT: INFO@

Decompositions of returns

We decomposed the IRR and Cash multiples in the 5-year, 8x multiple scenario in order to provide an intuitive understanding of how the investment case create value for investors. In addition to the aforementioned assumptions in the previous sections, we add another assumption that we will be able to exit with a multiple arbitrage: from 8x EV/EBITDA to 10x EV/EBITDA. We follow the same logic as how we create value for the individual pharmacies in the previous chapter. We can see that due to its cash generating nature, the pharmacy portfolio will render around 9.7% per year on investment on a status quo basis. Efforts in improving COGS, optimizing Opex and Working Capital can generate around 15% of IRR. If growth can be realised, it will contribute an addition 20% to the total annual return. If exit multiple arbitrage can be captured, the total annual return can further increase 11.2% to 55.8%. We include also the decomposition of the cash multiple in order to help understanding how value is created from another angle.

Chart 20. IRR Decomposition

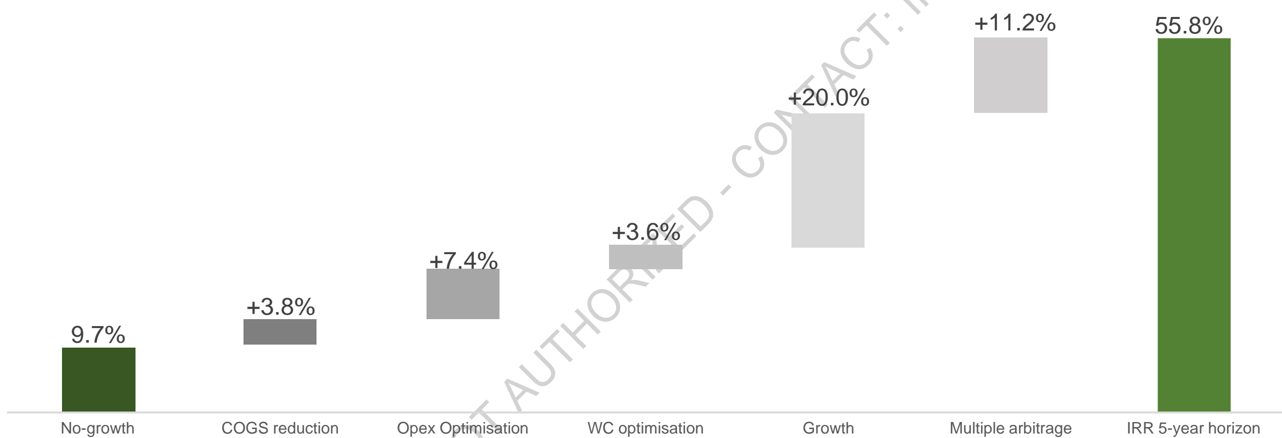
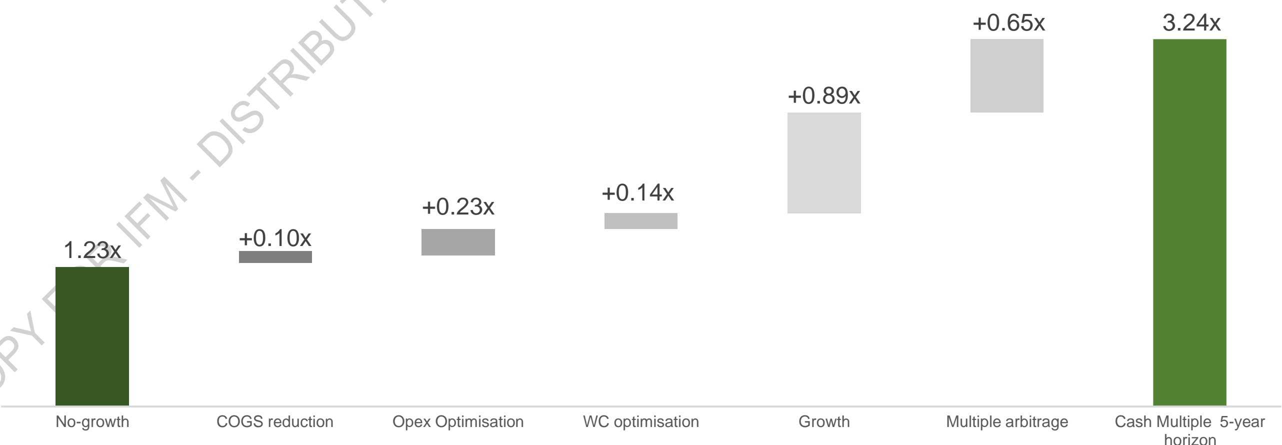


Chart 21. Cash Multiple Decomposition



COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPOPARTNERS.CH

Chapter 7
Strategic Issues

Porter's five forces analysis

Bargaining power of customers

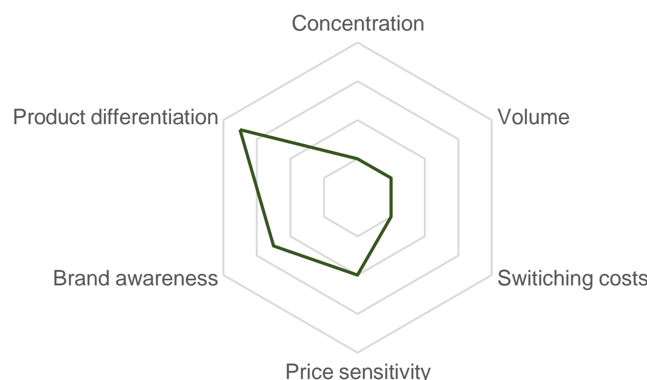
The financial difficulties faced by Italy's NHS over the last ten years, together with the increased competition and the "professionalization" of pharmacists, have changed the role of pharmacies. Together with the sale of **different types of pharmaceutical products** (ethical drugs, over the counter products, para-pharmaceutical products, generics), pharmacies can now offer different **services** such as personal assistance, medical examination booking, professional assistance (nursery, physiotherapy), weight check-up and control, pressure measurement, diagnostic tests. Pharmacies investing in the technology, the infrastructure and employees can try to integrate some functions typically performed by the public sector.

The possibility to receive one or more services in the same place where they can also buy their medicines is a value driver. It should also be considered that the nature of demand, which is relatively inelastic, although consumers are tempted by cheaper alternatives. In other words, brand still matters even for generics drugs. Other key value drivers for customers are:

- Depth of the offering (for the same line of product)
- Width of the offering (the number of product lines that are offered)

Customers can choose a pharmacy based on its specialization in some categories (products/brands/others) or according to the availability of the highest number of different types of products. The level of the service that is offered by the pharmacist and its employees has a direct impact on retention rates.

Chart 22. Bargaining power of customers

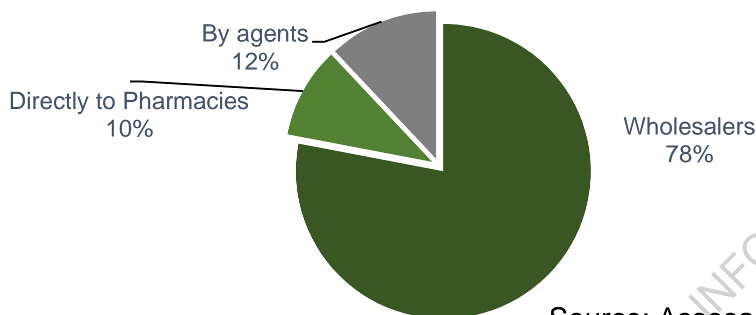


COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Bargaining power of suppliers

The main suppliers of pharmaceutical retailers are the wholesalers and the distributors, which operate as intermediaries between manufacturers and retailers. The widespread reach of the territory they serve justifies their existence, as it is difficult for manufacturers to reach all the retailers with its own sales force.

Chart 23. Channels used by manufacturers (2014)

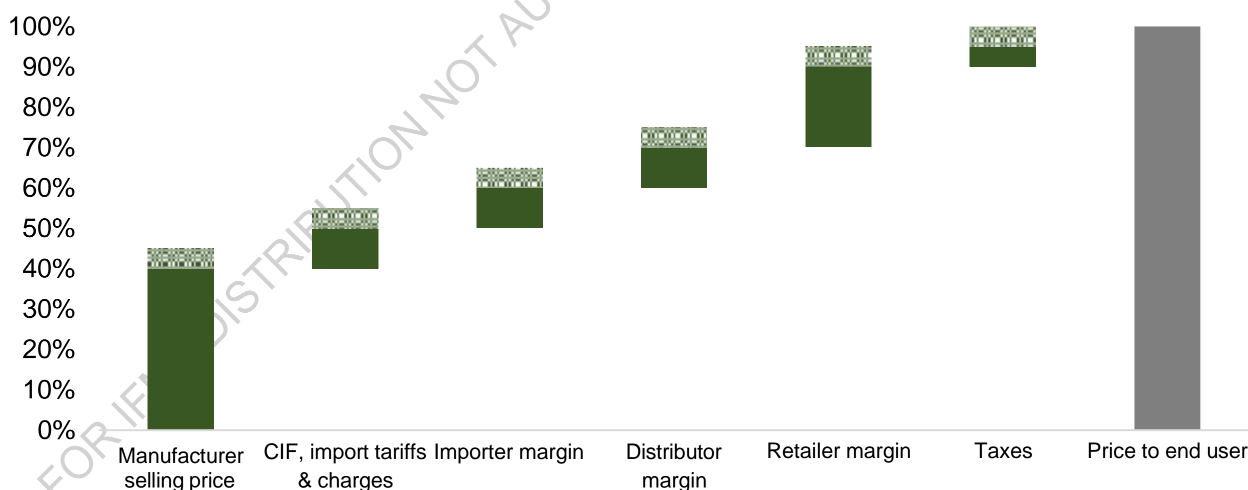


Source: Assosalute on IMS Health data

COPY FOR IFA - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

The concentration of pharmacies is regulated by the law, resulting in one pharmacy every 3,300 inhabitants (Italy ranks ninth among OECD33 countries), for a total number of pharmacies standing at 18,201. The supply chain includes manufacturers and different kinds of wholesalers, which usually have a close relation with manufacturers. The impact on prices in the value chain is shown in the chart below:

Chart 24. Pharmaceutical price composition



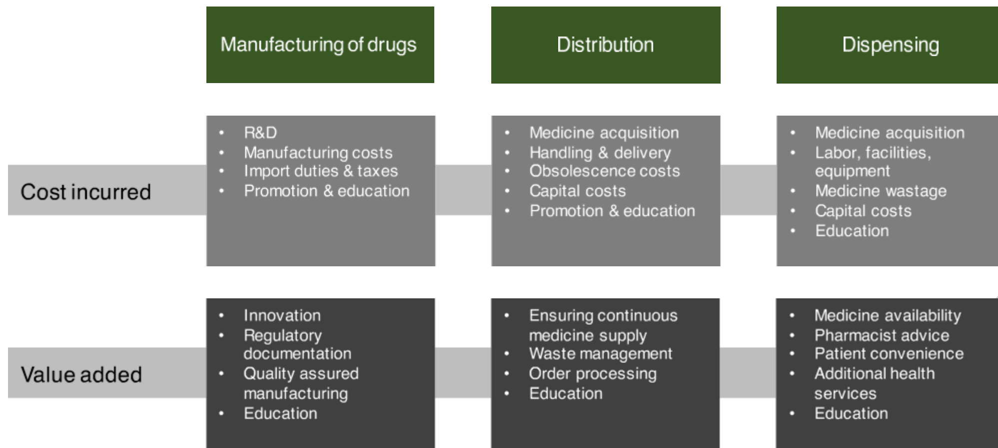
Note: Numbers are for illustrative purposes only and proportions should not be interpreted as the average price build-up

Data source: Understanding the pharmaceutical value chain – IMS Institute for Healthcare Informatics

Even though the market of wholesalers is segmented in Italy, the first two wholesalers (Alliance and Comifar, owned by Alliance Boots and Phoenix, respectively) cover about 35% of the market. We expect more consolidation in the segment, one of the reason being that wholesalers much achieve larger scale: pharmacies require not only rapid and frequent deliveries, but also a large range of

products. Italian wholesalers decide on both the mix of products, which should be delivered to the pharmacies (based on their access to sell-out data), and the number of products to be shipped according to pre-defined ideal stock levels determined by factors such as season.

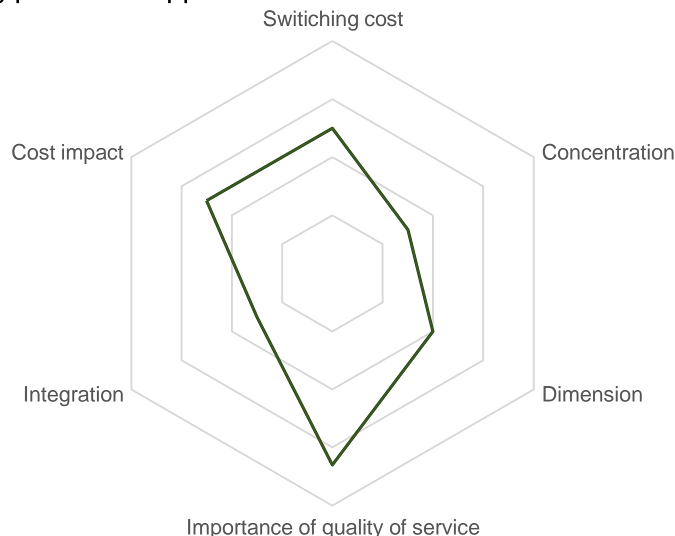
Chart 25. Breakdown of the pharmaceutical value chain



Source: Understanding the pharmaceutical value chain – IMS Institute for Healthcare Informatics

The wholesaler provides the industry with information regarding: sell-in, inventory, and the service level offered by pre-wholesalers and couriers. The wholesaler is a trusted partner for the retailer as these two players frequently interact due to the necessity of daily deliveries. Wholesalers assure pharmacies a smooth supply cycle service, which should help retailers reduce costs associated to current assets. The wholesalers' role in the distribution process is one of public interest because delivery times for pharmaceutical products are of critical importance. Not all pharmaceuticals get their goods through the wholesale channel, so a few of them can deal directly with manufacturers. In this case, the margin normally earned by the wholesalers is passed on to the pharmacies. Because pharmacies must frequently order in small quantities due to limited stocking space, the extra earnings gained by eliminating the wholesaler could be easily lost. New regulations could surely affect this part of the value chain, and scale in the retail segment could reduce the risk of losses of earnings stemming from a low inventory turnover. Higher margins might be achieved as a result of greater purchasing power.

Chart 26. Bargaining power of suppliers



COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Industry rivalry

The competitive landscape includes pharmacies, para-pharmacies and large retailers.

First of all, not all these players can sell the same goods: prescription drugs can be sold only by pharmacies; OTC, generics and all the other categories of products can be sold by pharmacies, para-pharmacies and large retailers. In 2014, prescription drugs represented the 86.1% of sales, while drugs that do not require a prescription represented the remaining 13.9%.

Table 17: Sales divided by category by value; sell out (2014)

Category of drugs	Values (Mil. € in p.p.)	Share %	Variation %2014 / 2013
Prescription drugs	15,029.2	86.1	-2.2
Not prescription drugs	2,428.7	13.9	+0.4
Total	17,457.9	100.0	-1.8

Source: Assosalute on IMS Health data

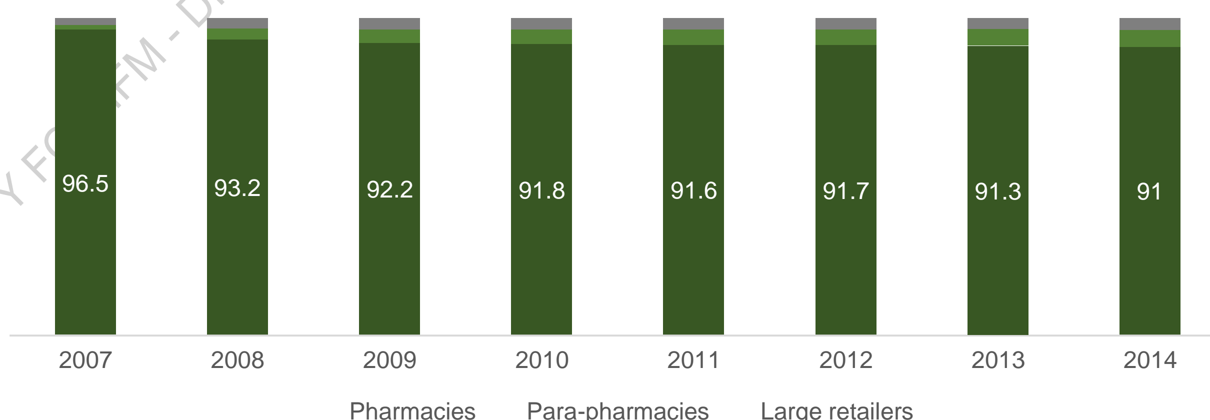
COPY FOR FM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

The fact that pharmacies are the only players allowed by the law to sell prescription drugs gives them a great advantage and excludes the other players from the competition in this segment. The competition in OTC and generics (products that do not require a medical prescription) is increasing, however.

The number of para-pharmacies and large retailers (selling pharmaceutical products) rose from 1,638 and 163 in 2007 to 3,156 and 340 in 2014, respectively.

In spite of an increasing number of players in the market, pharmacies remain the preferred channel for customers, with a 91% market share, as measured by volumes, compared with 5.4% for para-pharmacies and 3.6% for large retailers.

Chart 27. Evolution of non-prescription drugs sales by channel (by value)



Source: Assosalute on IMS Health data

The leadership of pharmacies is still strong, but both para-pharmacies and large retailers are slowing gaining market share. In 2007, pharmacies had a 96.5% market share (volume), with para-pharmacies at 1.4% and retailers at 2.1%. Lower prices mean market share gains for competitors.

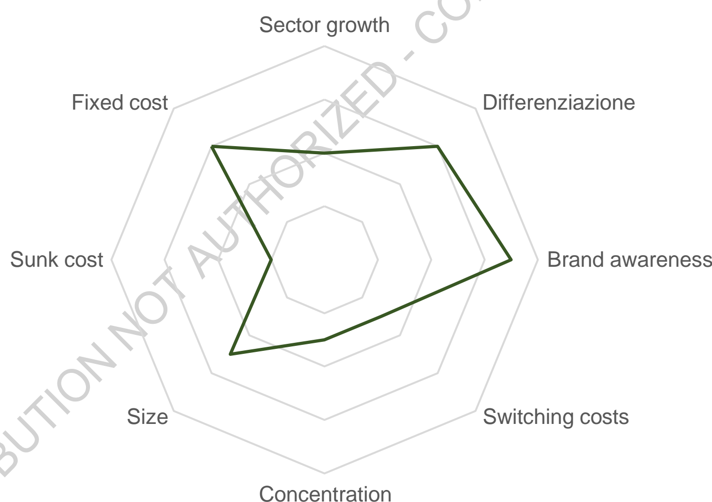
Table 18: Average price of non prescription drugs (2014)

	Average Price €	Variation %2014/2013
Non Prescription drugs	8.0	-
Pharmacies	8.1	+1.96
Para-pharmacies	7.4	+1.71
Large retailers	6.0	+1.29
Auto medication	7.8	-
Pharmacies	7.9	+2.14
Para-pharmacies	7.4	+1.74
Large retailers	6.1	+1.39

Source: IMS Health data

The exclusive right to sell prescription drugs and the legislation that pre-defines the number of pharmacies that can operate on the national scale, also contributes to cementing the leadership of pharmacies in the marketplace.

Chart 28. Industry rivalry



COPY FOR FM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@M

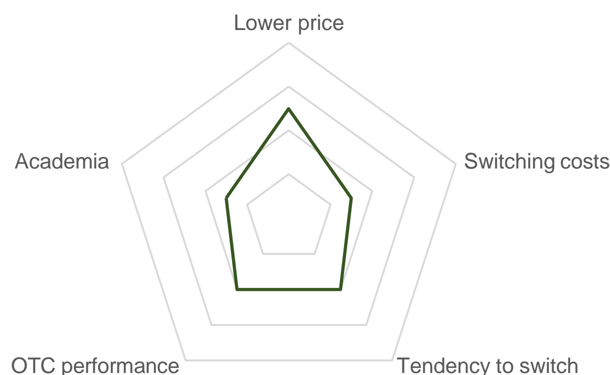
Threat of substitutes

Demand for pharmaceuticals products tends to be stable, and the risk posed by substitutes is not particularly high. There are some different kinds of products, or practices, that are considered an alternative to traditional drugs, and these include homeopathic products, acupuncture, chiropractic therapies or mind-body treatments.

Historically, people have used alternative medicine to maintain health and treat a wide range of long-term illnesses, such as allergies, atopic dermatitis, rheumatoid arthritis, and irritable bowel syndrome. They have also used it to treat minor injuries, such as cuts and scrapes and muscle sprains and strains. Homeopathic treatment is not considered appropriate for illnesses, such as cancer, heart disease, major infections, or emergencies. Some critics of homeopathy believe that any benefits from such a treatment are likely due to a placebo effect. According to Istat, in 2013 only

4.9 million people used alternative therapies in Italy, compared to 8 million in 2005, which shows that trust is still a big issue.

Chart 29. Threat of substitutes



Threat of new entrants

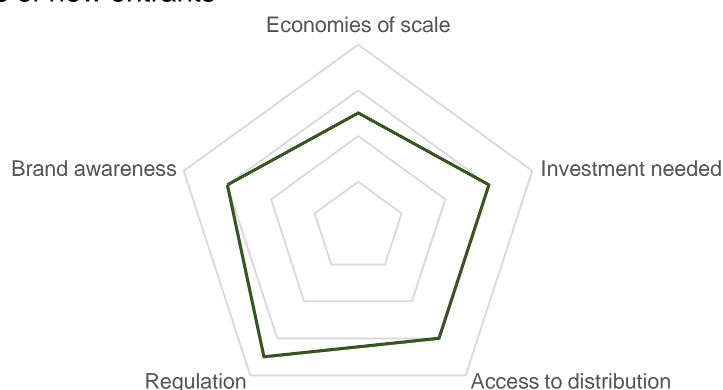
In the e-commerce era we must consider that some online players (e.g. Amazon or eBay) could try and disrupt the market. The online sale of drugs (excluding prescription drugs) has been recently allowed by the law and it enables only pharmacies and retailers already allowed by the law to sell pharmaceutical product through this channel.

Should the deregulation process continue, players that boast **massive infrastructure** networks could use their **financial wherewithal** to steal market share from incumbents.

In 2013 approximately 8% of the total retail sales value in the United States, some 260 million U.S. dollars, is represented by e-commerce sales. Compound annual growth rate (CAGR) from 2012 to 2017 for online revenues of the health and beauty category is expected amount to 14.2%. Although web penetration in Italy is still relatively low, it offers the biggest potential along with China and India. France has implemented the EU Directive 2011/62/UE June 8, 2011 concerning medicinal products for human use: as a result, starting 2 January 2013, the owners of a pharmacy can sell online certain medicinal drugs. Prescription drugs, veterinary drugs and any medication not freely accessible to the consumer remain excluded.

The new regulation in Italy is drawing the attention of financial investors, pharmacists' unions, large retailers and pharmaceutical chains already active in other countries (such as Boots or CVS).

Chart 30. Threats of new entrants



COPY FOR IFA - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

SWOT analysis snapshot

Strengths

- The pharmacy is a must-go place for citizens
- Defensive characteristics and predictable cash flows
- Health promotion, prevention, aspects of disease management and monitoring contribute to client retention
- Opening times become more favourable
- Free health advice is offered to customers
- The pharmacy has a proactive role in the community: three pharmacies out of ten have historically organised or participated to initiatives involving the local community
- Pharmacies invests directly in the training of staff
- Pharmacies as a source of employment

Weaknesses

- Regulated mark-up/margin schemes for pharmacies for reimbursable medicines.
- Capital structure could be stretched
- Little growth

Opportunities

- Technology changes offer more efficiency
- Developing a broader customer base
- Undertake market research seeking new ways to determine the behaviour of customers
- Introduction of customer purchasing habit software
- Labour cost efficiency
- Management structure mainly concentrating on delivering on excellent customer service
- Online penetration is still low

Threats

- New business model developing different scale and services
- Competition from outside rivals

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

- Pressure on the national budget
- Downwards pressure on prices and low inflation rates
- Possible anti-trust issues and concentration rates
- Government legislation on price control
- Increased competition from direct and indirect competitors

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Chapter 8

Risks

An investment in our portfolio could be highly speculative and should be considered by individuals and/or entities that are able to assess and assume financial risks for the duration of the investment period. Potential investors must pay particular attention to the following risks, which could affect performance.

Limited operating history

We have an operating history in the pharmaceuticals sector that is limited, in terms of management, to the operating company. There can be no guarantee that the Portfolio will obtain its objectives or that it is capable of making a profit.

Nature of services

The services of the underlying portfolio companies are subject to various macroeconomic and demographic factors that is out of the control of MPD Partners. The macroeconomic environment and demographic shift may make the provision of the pharmacy service less demanded. We may not succeed in preserving and enhancing the value of the portfolio, which depends on a number of variables that we cannot predict. Declining demand for goods may adversely affect our operating results. Value chain disruptions are possible due to new competitors such as online drug stores.

Limited resources

The operational plan need capital and financing to be executed. There can be no guarantee that sufficient investors are found to invest in the plan over an extended period of time. If not sufficient funds are obtained to pursue the business objectives, the plan will not achieve forecasted performance.

Need for additional financing

The amount of funding required stated in this document may not suffice to help the Portfolio achieve its stated performance. Additional funds may be required in order to obtain performance goals due to unforeseen circumstances that may slow or prevent the Portfolio from augmenting approximately the costs to reach its business objectives.

Adoption of new technology

If we are unable to keep up with advances in technology, our competitive position may suffer. There can be no guarantee that the Portfolio will manage to adopt efficiently the technologies stated in this information memorandum. Forecasted cost reduction and efficiency may not be achieved due to failure to properly adopt the automated dispensing system, the automated cashier and any technology that is suitable for pharmacies.

COPY FOR HM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Competition

There are several major players that compete directly with the HOLDING/OPCO in the Portfolio. Many of these companies have much more financial resources that are not available to the plan. If these major players decide to expand aggressively in the Italian territory, it may reduce the profitability of our plan.

Management of growth

The plan foresees 3 different stages of growth. The growth heavily depends of the speed in which the portfolio acquires individual pharmacies. There may be costs and time consuming procedures that we do not foresee and there is no guarantee that the forecasted growth objective can be obtained.

Exit

Private equity investments are generally highly illiquid. There is no guarantee that investors will succeed in exiting through the exit options described in the previous chapters. Market conditions and particular circumstances may result in difficulties in exiting from the investment or undervalued exit prices.

Recruitment of loyal employees

The activities described in the plan requires highly qualified employees, in particular the management, marketing, accounting and legal departments. There can be no assurance that the Portfolio Companies will be able to recruit and retain qualified employees necessary for the growth of the portfolio.

Regulations

New laws, regulations, or policies of governmental organizations may have a significant effect on our costs base and on the business.

Shortage of financial comparisons

Though several competitors' financial figures are analysed in this information memorandum, most of the players have sizes that are very different from our Portfolio Companies. The multiples of such companies may be misleading if applied to our case without cautious. The figures in our financial analysis is for pure illustrative purposes.

Conflict of interests

There exist several agreements between the Portfolio Companies and the General Partners (GPs) that may fall within the legal definition of a conflict of interests that gives rights to investors who are aware of such conflicts of interests.

COPY FOR IM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Tax changes

There may be changes in tax, tariff or fiscal policies that could adversely impact demand of products or to the profitability of the operation.

Force majeure

In the case of force majeure, such as a war, rioting, or other external factors like the insolvency of a supplier which negatively affects the Portfolio Companies' marketplace and affects their financial results, there can be no assurance that the Portfolio Companies will achieve profitability, or attain its financial projections.

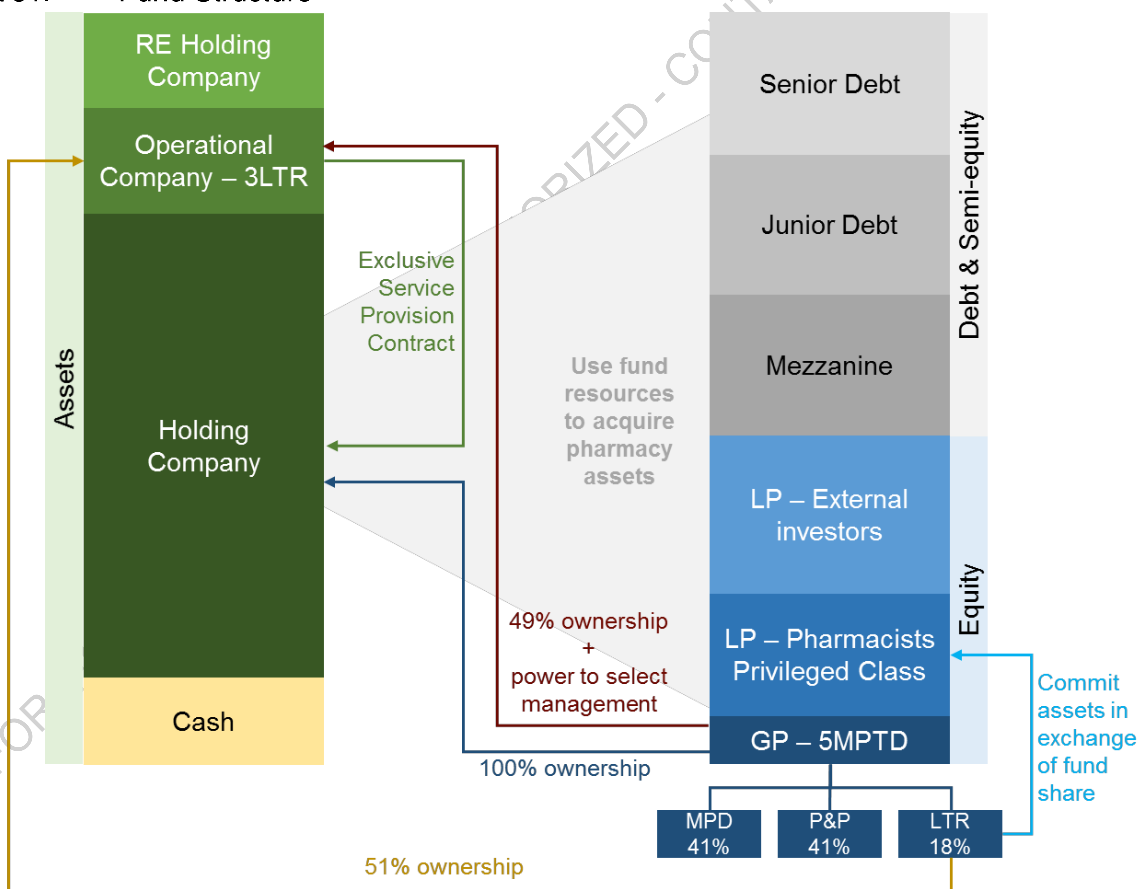
COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Chapter 9
Fund & Organisational structure

Fund structure

The consolidation plan will be carried out in the form of a dedicated Private Equity Fund with the typical “GP/LP” structure (General/Limited Partner). As mentioned in Chapter 1, the FUND MANAGER (5MPTD) will be the general partner and will be responsible for the overall execution of the investment plan. The chart below illustrates the structure of the fund and the underlying assets. Most of the equity capital will be provided by LPs. The Fund Manager (5MPTD) will be led by MPD Partners and Piergentili & Partners in conjunction.

Chart 31. Fund Structure



COPY FOR AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

A privileged class of investors is planned among the LPs in order to encourage anchor investments. Privileged investor will be rewarded with additional return in terms of lower fund fees and/or redemption premium, pre-emptive exit rights, according to their preferences and the viability of such scheme with certain investment vehicle. Privileged will also has the option to provide semi-equity or shareholders financing with special dividends.

Leverage

The scheme of debt allocation is only for illustrative purposes. The fund will use moderate level of leverage considering the underlying assets operate in a sector where stable cash flows is generally expected, while some assets can be used as collateral. Semi-equity such as mezzanine financing and other kind of junior debt as well as bank debt are considered depending on the execution of the industrial plan.

Jurisdiction

The fund will be domiciled in Luxembourg through a specialised Fund Administrator with authorised and supervised activities. The purpose of using a foreign fund is to benefit from the tax transparency scheme and avoid double taxation for investors.

Fees

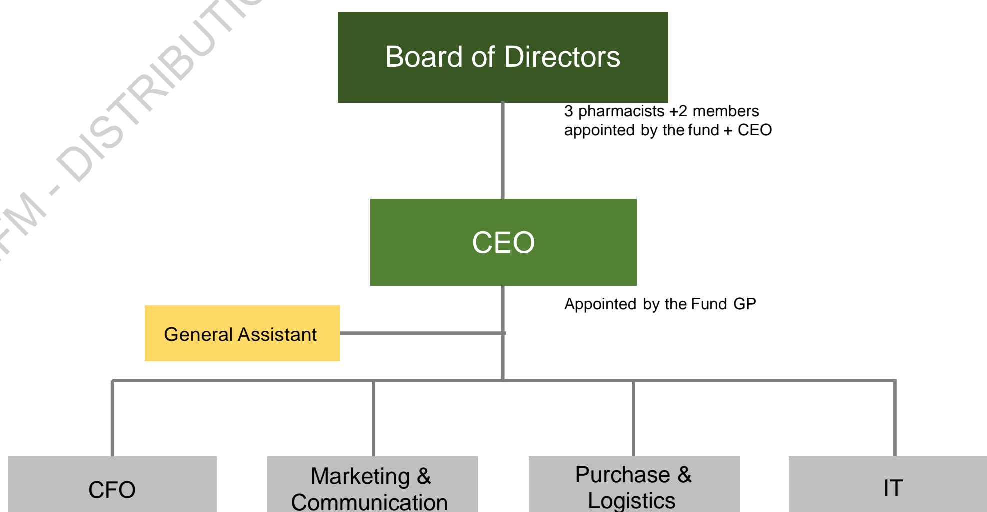
Subscription Fee: applied to ordinary LPs, 2% for total commitments under €5 million; 1.25% for total commitments from €5 - €15 million and 0.75% for total commitments over €15 million.

Management Fee: 2% for both privileged LPs and ordinary LPs, calculated based on commitment and paid annually.

Performance Fee: 20% calculated annually based on NAV. A annual 8% hurdle rate must be reached in order for the GPs to obtain performance fee. A Catch Up clause is used and any return ranging from 8% to 10% will be paid fully to the GP. LPs will receive additional returns only after GPs obtain the agreed upon performance rate.

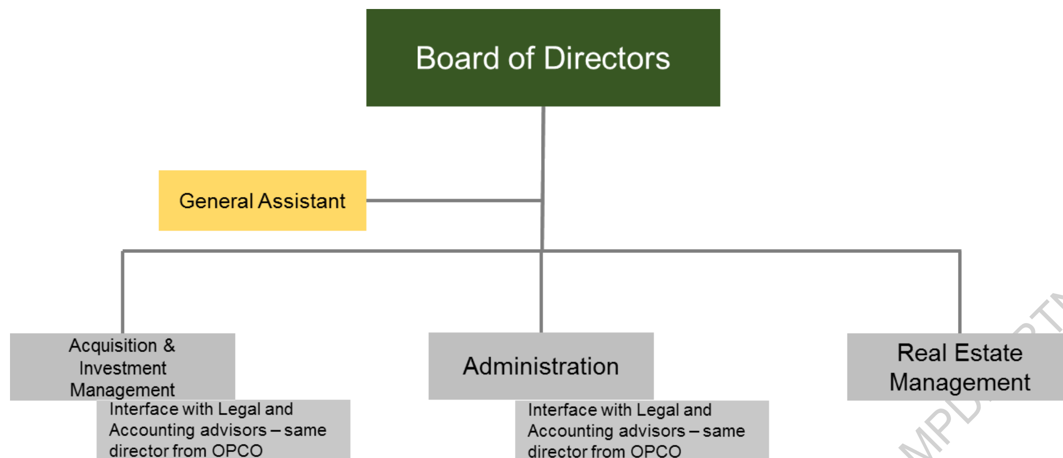
Organisational structure

Chart 32. OPCO structure



COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Chart 33. HOLDING structure



HOLDING will pay a fix portion of their revenue to the OPCO and this money will be used in marketing, management and other centralised services. The OPCO will be composed by a general director (CEO) and department directors specialised in their respective area of activities. The incentive scheme will be a mechanism that relates the compensation of management to the performance of the OPCO, which ultimately reflects the performance of the whole underlying assets in the HOLDING. The holder will have an exclusive service provision contract with the HOLDING Company, according to which the HOLDING Company will outsource the functions which can be centralised in order to achieve economies of scale. The early exit option protects both classes of LPs: if the OPCO fails to meet performance standards and achieve critical objectives, the GP has the power to substitute the OPCO with alternative pharmacy services providers. The exit of such contract will also provide a penalty fee, which the HOLDING Company will have to pay to the OPCO. The penalty fee, along with the put option with premium, will compensate the loss of project initiators. The HOLDING Company will only contain the assets of the individual pharmacies acquired. No essential functions are included in this company. The controlling power of the HOLDING Company is retained by the fund, therefore, by the GPs. . RE HOLDING Company will hold the real estate assets of the acquired individual pharmacies. It aims to optimise the utilization of the real estate assets. Fiscal efficiency is one of the sources of value creation. The other source of value creation is the potential rent of space to medical professionals in the vicinity of the pharmacies, therefore boosting the traffics and revenues to the pharmacies.

Information on major stakeholders

MPD Partners

MPD Partners is a European boutique investment management firm that provides opportunities for Private Equity investment and offers corporate finance Advisory Services with particular focus on SMEs and Real Estate. The firm manages and advises on a range of investment programs and custom portfolios for an international clientele of Qualified Investors such as family offices and HNWI seeking direct exposure to individual private market assets.

COPY FOR IFA - DISTRIBUTION NOT AUTHORIZED. CONTACT: INFO@MPDPARTNERS.CH

Table 19: MPD Partners team

Mirco Coccoli, Partner

Investment Management Professional since 2007 at BCV and Reyl & Cie, with up to 500MCHF AUM

High Energy Physics for US DoE, Berkeley and CERN

In 2006-2007 coordinator of the LHC at CERN during Hardware Commissioning

Studied Quant Portfolio Management in Geneva

Diploma in Financial Strategy at the Said Business School of the University of Oxford

MSc in Applied Physics at the Universities of Milan and Berkeley

Luis Brunschweiler, Partner

30 years' experience in SME Valuation, M&A, Accounting and Audit, including deal structuring
Owner of a Geneva based audit firm

Director of a Geneva based accounting firm operating internationally

Judge at the Geneva court for employment affairs

Master's degree in Engineering from the University of Geneva

Serial entrepreneur owning stakes in a variety of SMEs

Alessandro Pasetti, Manager

Founder of Hedging Beta in London

Previously worked for almost five years at Dow Jones/The Wall Street Journal carrying out M&A research for the IB community.
Contributed to the launch of Loan Radar, where he worked for three years in London.

Equity research at such banks as Bear Stearns in London and HVB in Munich.

Inter-market analysis research thesis with Unicredit in Milan.

Piergentili & Partners

Piergentili & Partners is a boutique financial advisory and provides consulting services on crowdfunding, business strategy, Private Equity and Venture Capital and fund administration. Piergentili & Partners has over 20 years of experience in financial field.

Alessandro Piergentili, Partner

Over 20 years of experience in the field of finance

CFO and Corporate Strategy Manager in various companies with revenues ranging from €2 to €30 millionAsset manager from 1997 to 2004 with €800 million AUM in Banca Popolare S.Angelo

Controller of investment fund at Banca IMI Luxembourg from 1994 to 1997

MSc in Banking and Finance at LUISS

Saverio Canepa

Mr Canepa has over 20 years of experience in the field of finance, strategy and management consulting. He has been working as a senior investment banker specialized in M&A and securitization in Fiori & Asscoiati since 2003. He is also the CEO and founder of SIMI, a marketplace for institutional investors since 2006. He has recently become Executive Board Member of the Iconic Italian fashion brand Borsalino to help the company execute its restructuring plan. Mr Saverio Canepa is the potential candidate for the CEO position of the OPCO and will potentially oversees the execution of the consolidation plan.

COPY FOR IFM DISTRIBUTION NOT AUTHORIZED CONTACT: INFO@MPDPARTNERS.CH

3 Pharmacists

Due to political sensitive reasons, the identities of the pharmacists will not be revealed in this information memorandum. The 3 pharmacists all have extensive experiences and network in the pharmacy sector. The combined turnover of the pharmacies under their management amount to €11million. One of the pharmacist is a regional director level figure in the professional association. Their knowledge and know-how of the pharmaceutical retail industry are highly relevant in the execution of the operation plan.

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Appendix I: Legislation Reference

- Decree Law 9 Jan 1927, n. 58, Article 2
- Decree Law 2 April 1968, n. 475.
- Decree Law 8 November 1991 n.1
- Decree Law 8 November 1991 n. 362
- Decree Law 4 July 2006, n. 223
- Decree Law 28 July 2006
- Decree law 223/2006 Article 5
- MONTI liberalization decree n. 27 24/03/2012
- CAPO VII - Servizi sanitari Articolo 33
- Abrogation of subsection comma 4-bisin the Law on Apr. 2, 1968, n 475

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Appendix II: Categories of Products in Italian Pharmacy

Table 20: Categories of products

Category	Description
Class A	Class A includes essential medicines for chronic diseases. Class A medicines are fully reimbursed by the National Health System.
Class C	Class C includes products that are not included in Class A or Class H (a class of products which is strictly distributed only in hospitals). Class C medicines are not reimbursed.
Self-care/Self-medication	This category includes products for simple diseases such as colds and flu, sore throat and products such as nasal decongestants, disinfectants and mineral supplements
PMC + other products	PMC stands for Presidi Medico Chirurgici and this category includes products such as germicide/bactericide disinfectants, insecticides and insect repellents, rat poisons. Other products include homeopathic therapy and herbalist products.
Nutrition	Nutrition products includes dietary products for infancy, diet products and other nutrition products
Hygiene & Beauty	This category includes products for personal hygiene and beauty products as well as accessories and products for infancy.
Para-pharmaceuticals	The para-pharmaceuticals are rather a commercial term than a regulatory term. It includes all the OTC and SOP (no prescription required) which are not included in the abovementioned categories.

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED CONTACT: INFO@MPDPARTNERS.CH

Appendix III: OECD Data on Italian Pharmacies/Healthcare/Pharmaceutical Expenditure

Chart 34. Practising pharmacists per 100,000 Inhabitants

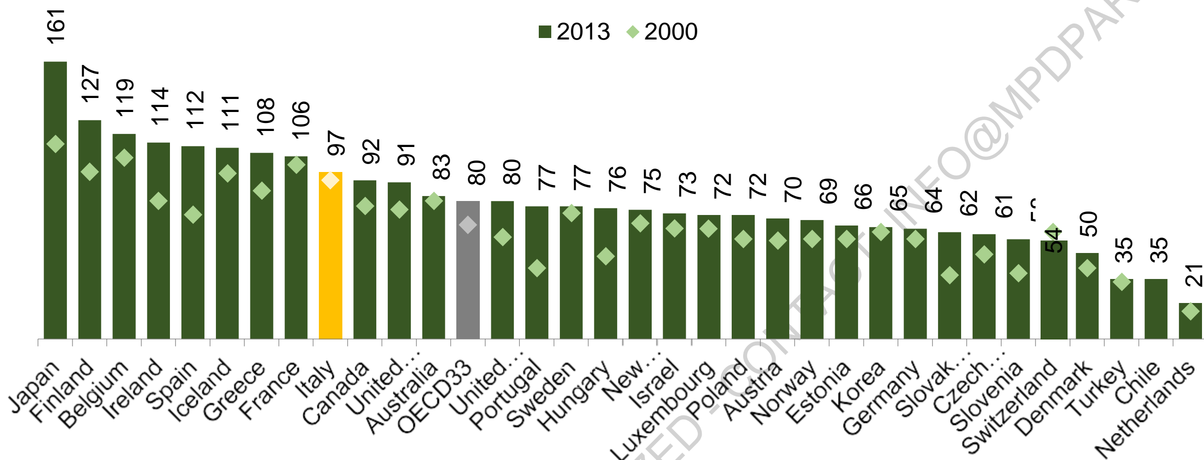


Chart 35. Community pharmacies per 100,000 Inhabitants

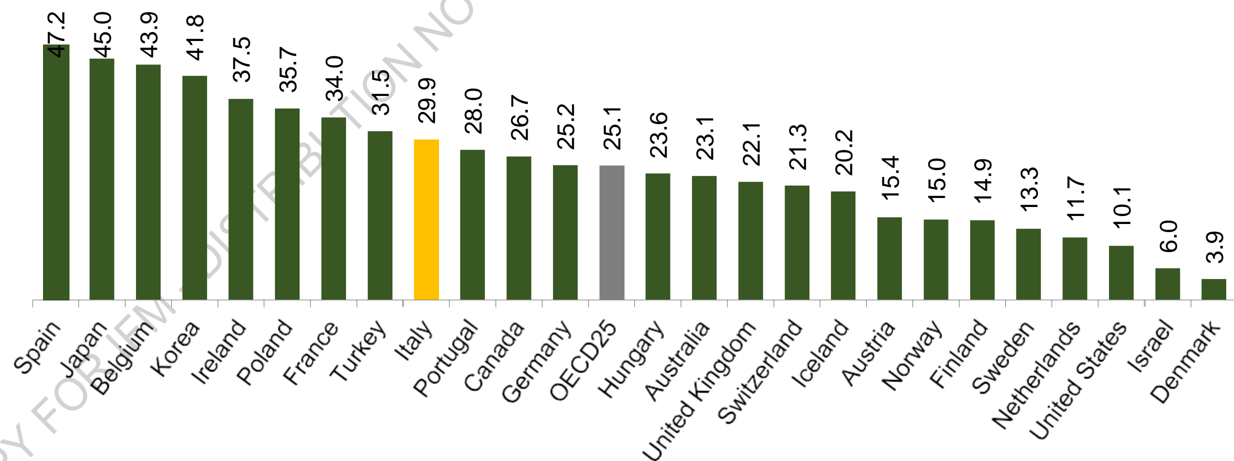


Chart 36. Health expenditure per capita

COPY FOR [illegible] - DISTRIBUTION NOT AUTHORIZED - CONTACT INFO@MPDPARTNERS.CH

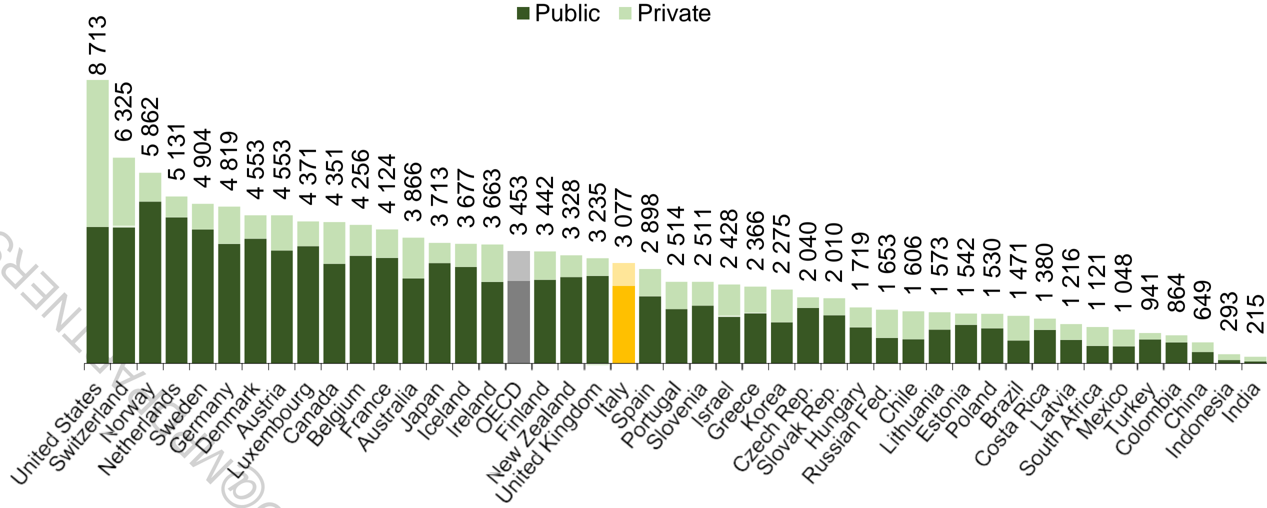


Chart 37. Health expenditure as a share of GDP

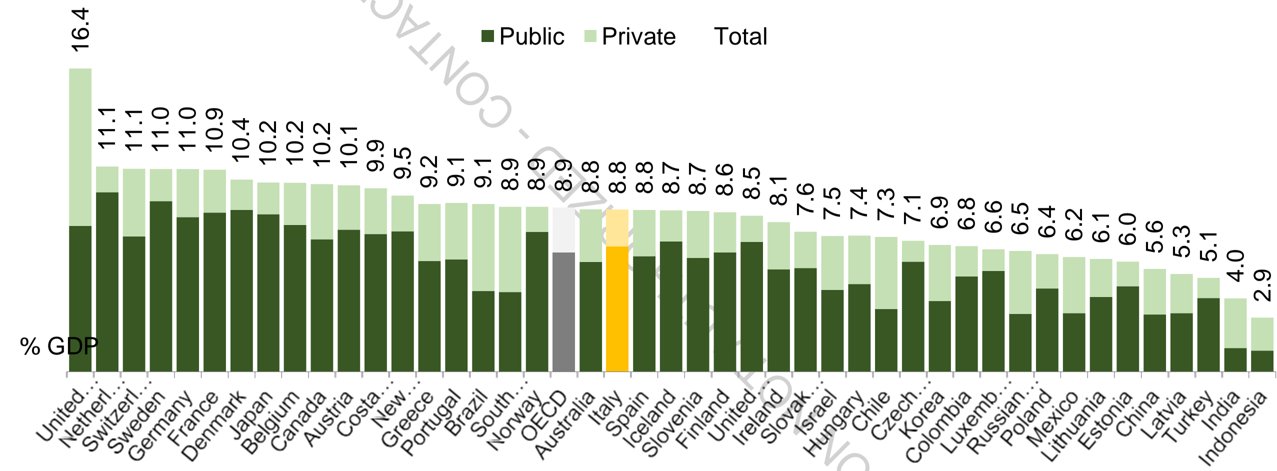


Chart 38. Total health expenditure, % of GDP

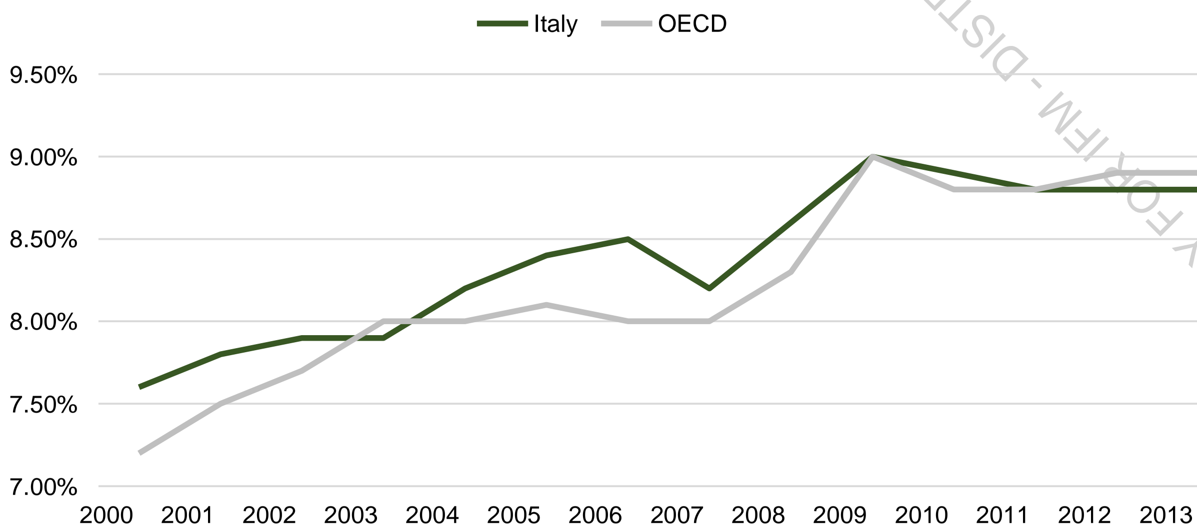


Chart 39. Public health expenditure, % of GDP

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

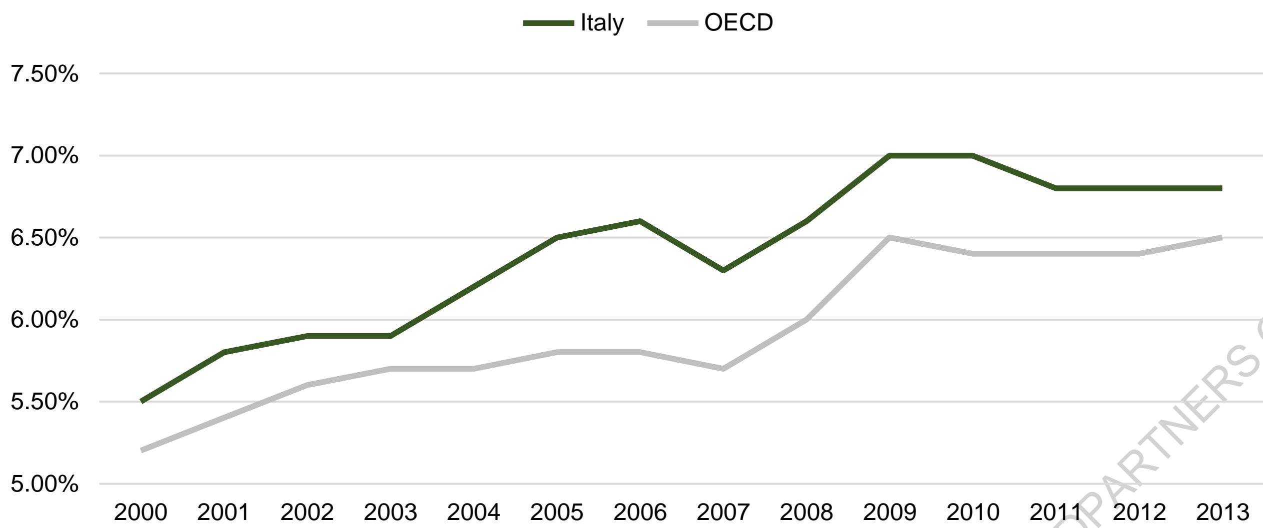
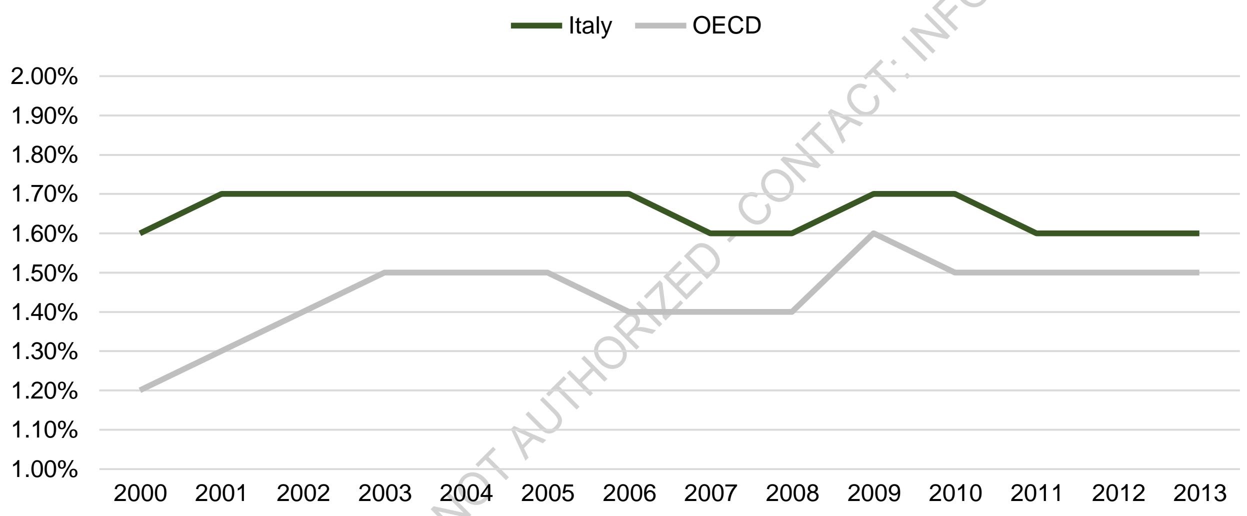


Chart 40. Expenditure on pharmaceutical, % of GDP



COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

Appendix IV: Additional Data on Italian Demography

Table 21: Births, deaths and natural increase of the resident population in Italy

Year	Births	Deaths	Natural Increase
2002	538,198	557,393	-19,195
2003	544,063	586,468	-42,405
2004	562,599	546,658	15,941
2005	554,022	567,304	-13,282
2006	560,010	557,892	2,118
2007	563,933	570,891	-6,868
2008	576,659	585,126	-8,467
2009	568,875	591,663	-22,806
2010	561,944	587,488	-25,544
2011	546,585	593,402	-46,817
2012	534,186	612,883	-78,697
2013	514,308	600,744	-86,436

Source: Istat data

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

COPY FOR IFM - DISTRIBUTION NOT AUTHORIZED - CONTACT: INFO@MPDPARTNERS.CH

MPD PARTNERS

Swiss Registered Office
Rue Gustave Revilliod 9
1227 Geneva - Switzerland
Dir (CH). +41 22 548 15 00

UK Office
4 Staple Inn
Holborn London WCIV 7QH - United Kingdom
Dir (UK). +44 20 814 444 810

Italian Office
Via Sostegno 60
25124 Brescia - Italy
Dir (IT). +39 030 24 20 639

www.mpdpartners.ch

Swiss Registered Office
Rue Gustave Revilliod 9
1227 Geneva - Switzerland
Dir (CH). +41 22 548 15 00

UK Office
4 Staple Inn
Holborn London WCIV 7QH - United Kingdom
Dir (UK). +44 20 814 444 810

Italian Office
Via Sostegno 60
25124 Brescia - Italy
Dir (IT). +39 030 24 20 639

www.mpdpartners.ch