Miraculum

Targeting profitability improvement through scale

We initiate coverage of Miraculum with a HOLD recommendation and set our FV at PLN 1.25 per share. In recent quarters, the company has been increasing its scale of operations (revenues are up by 17% y/y to PLN 24m in 1H23), resulting in improvement of EBITDA to PLN 0.8m in 1H23 (vs. an adj. loss the previous year). In our opinion, the company's strategy based on rebranding of its own brands and expansion of sales in modern channels (drugstores, discount stores and e-commerce) in Poland and abroad should allow the company to achieve 2022-25E revenues CAGR of ca. 12%. At the same time, the growth in scale and stronger negotiating position with partners and suppliers may result in an improvement in the gross margin in coming years. On the other hand, we point to the high level of debt as a risk factor. Servicing financial obligations and the need for working capital related to the expansion of business may, in our opinion, require the company to seek additional capital, either through a share issue or loans from shareholders, as has occurred in previous years.

2022-25E revenues CAGR of 12%

Miraculum reported revenues of PLN 31.6m in 8M23 (+13% y/y). In 1H23, the main drivers of growth were shaving cosmetics and makeup cosmetics, as well as stronger development of sales abroad (25% share of total sales). We believe, that the company will continue to augment the scale of operations, mainly based on perfumes and makeup cosmetics. After lower growth of revenues at 10% y/y in 2023E (due to a high base of 2022), we expect the company to return to double-digit growth rates (above the broad cosmetics market growth of ca. 5-6% y/y annually).

Potential improvement of profitability though scale of operations

The company has reported positive EBITDA of PLN 0.5m in 2022, while in 1H23 it reported EBITDA profit of PLN 0.8m (vs. a PLN 0.3m loss in 1H22). We estimate that due to expected growth in the scale of operations, improvement of gross margins (more favourable sales mix and recovery of margins in product segments) and operating leverage, Miraculum should deliver EBITDA of PLN 1.4m in 2023E and PLN 2.8m in 2024E.

High level of debt still as a risk factor

Miraculum had a gross debt of PLN 17.9m as of end-2Q23 (mainly related to loans from the shareholders) and cash of PLN 15k. Given the debt repayment schedule, as well as planned expansion of operations (potentially increased need for investment in working capital), we note the risk related to seeking additional capital (either through share issues or loans from shareholders).

Figure 1. Miraculum – Financial summary (PLNm)

	2020	2021	2022	2023E	2024E	2025E
Revenues	24.4	33.7	43.3	47.7	54.3	61.2
EBITDA	-1.9	-1.8	0.5	1.4	2.8	4.7
EBIT	-3.0	-2.8	-0.5	0.2	1.6	3.4
Net profit	-4.6	-4.1	-2.5	-0.4	0.8	2.3
P/E (x)	n.a.	n.a.	n.a.	n.a.	66.1	23.9
EV/EBITDA (x)	n.a.	n.a.	135.2	51.5	24.6	14.2
DPS (PLN)	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company data, IPOPEMA Research

Consumer discretionary

Miraculum

HOLD
FV PLN 1.25

6% downside potential

Price as of 21 September 2023 PLN 1.33

Initiation report

Share data	
Number of shares (m)	41.5
Market cap (EUR m)	12.3
12M avg daily volume (k)	17.2
12M avg daily turnover (EUR m)	0.01
12M high/low (PLN)	1.57/1.09
WIG weight	0.01
Reuters	MIR.WA
Bloomberg	MIR PW

Total performance	
1M	-3.6%
3M	-5.7%
12M	+14.7%

Shareholders	
Marek Kamola	35.84%
Piotr Skowron	9.42%
Jan Załubski	8.01%
Sławomir Ziemski	5.02%
Other	41.71%

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Miraculum

HOLD **FV PLN 1.25**

Mkt cap EUR 12.3m Downside -6%

Valuation multiples	2021	2022	2023E	2024E	2025E
P/E (x)	n.a.	n.a.	n.a.	66.1	23.9
EV/EBITDA (x)	n.a.	135.2	51.5	24.6	14.2
EV/Sales (x)	2.0	1.5	1.5	1.3	1.1
P/BV (x)	2.28	2.11	2.13	2.07	1.90
FCF yield (%)	-9.8%	-3.3%	-1.3%	1.5%	4.3%
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Per share	2021	2022	2023E	2024E	2025E
No. Of shares (m units)	36.5	38.0	41.5	41.5	41.5
EPS (PLN)	-0.11	-0.06	-0.01	0.02	0.06
BVPS (PLN)	0.59	0.58	0.62	0.64	0.70
FCFPS (PLN)	-0.13	-0.04	-0.02	0.02	0.06
DPS (PLN)	0.00	0.00	0.00	0.00	0.00

Change y/y (%)	2021	2022	2023E	2024E	2025E
Revenues	38%	29%	10%	14%	13%
EBITDA	n.a.	n.a.	184%	107%	67%
EBIT	n.a.	n.a.	n.a.	565%	109%
Net profit	n.a.	n.a.	n.a.	n.a.	177%

Leverage and returr	2021	2022	2023E	2024E	2025E
Gross margin (%)	30.1%	31.8%	33.8%	34.9%	36.1%
EBITDA margin (%)	-5.4%	1.1%	2.8%	5.1%	7.6%
EBIT margin (%)	-8.4%	-1.2%	0.5%	3.0%	5.6%
Net margin (%)	-12.2%	-5.7%	-0.9%	1.5%	3.8%
Net debt / EBITDA (x)	-10.6	37.6	10.6	4.9	2.4
Net debt / Equity (x)	0.90	0.81	0.56	0.51	0.39
Net debt / Assets (x)	0.34	0.32	0.25	0.22	0.18
ROE (%)	-19.6%	-11.3%	-1.8%	3.2%	8.3%
ROA (%)	-7.4%	-4.3%	-0.8%	1.4%	3.7%
ROIC (%)	-6.3%	-1.1%	0.5%	3.3%	6.9%

Assumptions	2021	2022	2023E	2024E	2025E
Revenues (PLNm)	33.7	43.3	47.7	54.3	61.2
Shaving cosmetics	7.8	9.0	10.9	12.0	12.6
Makeup cosmetics	4.6	8.6	9.2	11.1	13.3
Perfumes	10.8	11.8	12.5	14.3	16.5
Body care	1.4	1.4	1.6	1.7	1.9
Face care	3.1	5.3	5.2	5.9	6.8
Other	5.9	7.2	8.3	9.1	10.0

Gross profit (PLNm)	10.1	13.8	16.1	18.9	22.1
Shaving cosmetics	2.1	2.4	2.9	3.3	3.5
Makeup cosmetics	1.4	2.7	2.5	3.2	4.1
Perfumes	3.7	3.9	5.5	6.4	7.6
Body care	0.3	0.4	0.5	0.6	0.6
Face care	1.0	2.3	2.2	2.6	3.1
Other	1.6	2.1	2.5	2.8	3.2

Cash conv. (days)	74	67	70	67	64
Inventory	183	165	161	158	155
Receivables	70	37	37	37	37
Payables	180	135	128	128	128

P&L (PLN m)	2020	2021	2022	2023E	2024E	2025E
Revenues	24.4	33.7	43.3	47.7	54.3	61.2
COGS	-16.4	-23.5	-29.6	-31.6	-35.3	-39.1
Gross profit	8.0	10.1	13.8	16.1	18.9	22.1
Selling costs	-7.7	-9.0	-10.4	-10.7	-11.6	-12.4
G&A costs	-3.6	-4.0	-4.7	-5.2	-5.7	-6.3
Other operating income	0.8	0.2	1.1	0.2	0.0	0.0
Other operating cost	-0.4	-0.1	-0.3	-0.1	0.0	0.0
EBITDA	-1.9	-1.8	0.5	1.4	2.8	4.7
D&A	1.1	1.0	1.0	1.1	1.2	1.3
EBIT	-3.0	-2.8	-0.5	0.2	1.6	3.4
Net financial costs	-0.5	-0.5	-0.8	-0.7	-0.6	-0.6
Pre-tax profit	-3.5	-3.3	-1.4	-0.4	1.0	2.9
Income tax	-1.1	-0.8	-1.1	0.0	-0.2	-0.5
Net profit	-4.6	-4.1	-2.5	-0.4	0.8	2.3

BALANCE SHEET (PLNm)	2020	2021	2022	2023E	2024E	2025E
Non-current assets	39.9	38.5	38.5	38.6	38.6	38.6
PP&E	1.3	1.2	1.3	1.3	1.3	1.2
RoU assets	1.1	0.5	1.4	1.4	1.5	1.5
Goodwill and intangible assets	33.6	33.6	33.6	33.6	33.6	33.6
Other non-current assets	3.9	3.3	2.3	2.3	2.3	2.3
Current assets	13.4	18.5	17.7	19.2	22.1	24.4
Inventory	6.8	11.8	13.3	14.0	15.3	16.6
Trade receivables	5.7	6.5	4.4	4.8	5.5	6.2
Cash and equivalents	1.0	0.2	0.0	0.5	1.3	1.6
Total assets	53.3	57.1	56.2	57.8	60.7	63.0
Equity	20.5	21.5	22.1	25.9	26.7	29.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Long term liabilities	16.4	21.7	20.8	18.2	18.6	17.0
Financial liabilities	12.3	17.9	16.3	13.2	13.2	11.2
Other	4.1	3.8	4.6	5.0	5.4	5.8
Short term liabilities	16.4	13.9	13.3	13.8	15.4	17.0
Financial liabilities	0.2	1.7	1.7	1.7	1.7	1.7
Trade payables	7.9	11.6	10.9	11.1	12.4	13.7
Other	8.4	0.7	0.7	1.0	1.3	1.6
Equity & liabilities	53.3	57.1	56.2	57.8	60.7	63.0
Gross debt (PLNm)	12.5	19.6	17.9	14.8	14.8	12.8
Net debt (PLNm)	11.6	19.3	17.9	14.4	13.6	11.2

CASH FLOW (PLN m)	2020	2021	2022	2023E	2024E	2025E
Operating cash flow	-2.9	-4.0	-0.6	0.4	1.9	3.5
Net income	-4.6	-4.1	-2.5	-0.4	0.8	2.3
D&A	1.1	1.0	1.0	1.1	1.2	1.3
Change in WC	-1.0	-2.3	-0.1	-0.9	-0.7	-0.7
Other	1.7	1.4	0.9	0.7	0.6	0.6
Investment cash flow	-0.2	-0.3	-0.2	-0.4	-0.4	-0.4
Change in intangible assets	0.1	0.0	0.5	0.0	0.0	0.0
Change in PP&E	-0.3	-0.4	-0.7	-0.4	-0.4	-0.4
Financial cash flow	2.9	3.6	0.6	0.4	-0.7	-2.6
Change in equity	3.2	0.7	1.7	4.2	0.0	0.0
Change in debt	0.3	3.4	-0.3	-3.1	0.0	-2.0
Interest cost	-0.5	-0.4	-0.7	-0.7	-0.6	-0.6
Lease payments	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
Dividend paid	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	-0.2	-0.7	-0.2	0.4	0.8	0.4
Cas as of eop	1.0	0.2	0.0	0.5	1.3	1.6

Source: Company data, IPOPEMA Research

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Investment summary

We initiate coverage of Miraculum S.A. with a HOLD recommendation and we set our FV at PLN 1.25 per share. The company has reported 17% y/y growth in revenues to PLN 24.4m in 1H23, with major drivers of growth related to shaving and makeup cosmetics. In our opinion, the company has the potential to increase its sales at a higher pace than the broad market, based on development of its product offer, strengthening of cooperation with drugstores and discount stores and expansion on foreign markets. According to Statista estimates, the Polish cosmetics market should grow by nearly 5% y/y annually by 2025, while our forecasts for Miraculum imply 2022-25E revenues CAGR of 12%. At the same time, the company has improved its EBITDA result in 1H23 on cost optimization and operating leverage, and we believe this trend will be maintained in the coming quarters as well. We forecast EBITDA of PLN 1.4m in 2023E (in comparison to PLN 0.5m in 2022) and PLN 2.8m in 2024E. With limited planned capex, we expect the company to generate positive FCF starting from 2024E. Miraculum held gross debt of nearly PLN 18m as of end-2Q23 (mainly related to loans from shareholders); therefore, we point out that the company may seek additional capital (for development of its business or repayment of debt), either through a share issue or new loans. We forecast negative FCF of PLN 0.7m in 2023E and positive PLN 0.8m in 2024E.

Diversified product offer

Miraculum's activity is the retail and wholesale sale of cosmetic products and perfumes. The company offers a portfolio of 12 brands, including "Pani Walewska", "Miraculum", “Chopin”, “Prastara”, “Gracja", "Tanita", "Paloma", "Lider", "Wars", "Być może", "Joko", and "Virtual", and categorizes its products into five main product groups: shaving cosmetics, makeup cosmetics, perfumes, body care, and facial care. According to Statista estimates, the cosmetics market in Poland is expected to grow by nearly 5% annually in 2022-25E, with higher growth dynamics anticipated in the segments of makeup cosmetics and skincare cosmetics (projected annual growth rates of 7.9% and 6.6%, respectively). We expect that rebranding of existing brands and expansion of the product portfolio should enable the company to achieve revenue growth rates above the market averages.

Development of foreign sales and modern sales channels

Miraculum sells its products mainly through modern sales channels (mainly drugstores and discount stores), which account for nearly half of total sales. In the coming years, the company plans to focus on this channel, mainly through strengthening of cooperation with its partners. The company also plans to develop its activity on foreign markets (currently its product offer is available in 42 countries). Foreign sales accounted for around 25% of total sales in 2022 and remained at a comparable level in 1H23, while we expect this ratio to exceed 30% in 2025E.

We forecast revenues CAGR of 12% in 2022-25E

Miraculum reported revenues of PLN 31.4m in 8M23 (+13% y/y). We believe that the company will maintain it growth rates in the coming months and will reach sales of PLN 47.7m in 2023E (+10% y/y; we assume a higher growth rate of foreign sales and an increase of its share to 27% of total sales). At the same time, we expect that growth in sales will be supported by development of the perfume segment (with a focus on the Chopin brand) and makeup cosmetics (including the Joko brand).

Improvement of profitability through operating leverage

The company reported improvement of adjusted EBITDA from a loss of PLN 0.3m in 1H22 to a profit PLN 0.8m in 1H23, resulting mainly from improvement of the gross margin (by 2pp y/y) and an expanded scale of operations (SG&A costs increased by 8% y/y at that time, with the SG&A/sales ratio decreased by 3pp y/y). In future years, we expect the company to continue to improve the gross margin. Firstly, due to the increasing scale of operations, we believe that Miraculum has an opportunity to negotiate more favourable purchasing conditions with its suppliers, allowing for improvement of profitability in each product group. Secondly, we expect a more favourable product mix and a growing share of high-margin premium products in the company's sales. As a result, we forecast improvement of the gross margin from 31.8% in 2022 to 33.8% in 2023E and 34.9% in 2024E. Assuming lower growth in

SG&A costs (despite inflationary pressure on costs), we expect gradual improvement of the EBITDA margin from 1.1% in 2022 to over 7% in 2025E.

High level of debt a risk factor

We point out that the high level of debt still remains as a risk factor for Miraculum. The company had gross debt of PLN 17.9m as of end-2Q23 (mainly related to loans from shareholders) and cash of PLN 15k. Based on the debt repayment schedule, ca. PLN 2.0m in loans are to be repaid by October 2023 and another PLN 15.1m by the end of 2024. In our forecasts, we assume limited repayment of debt and rather appendices to loan agreements or offsetting of the liabilities as a settlement in any increase in share capital, as it has occurred in previous years (for more details please refer to the ‘Balance sheet structure’ paragraph). What is more, we note that the planned increase in scale of operations, may result in increased need for working capital and a potential share issue (in the Puls Biznesu daily interview in June 2023, the company’s CEO, Mr. Sławomir Ziemski, pointed to the possibility of “additional capital for the company and taking advantage of the opportunities provided by being listed on the WSE”).

Potential for improvement of cash flows

With the improvement in the company's financial results, we expect the generation of positive cash flows from operating activities, despite changes in working capital. Based on our estimates, we forecast operating cash flow of PLN 0.4m in 2023E and PLN 1.9m in 2024E. Assuming limited capex needs, we expect the company to generate positive FCFs already in 2024E at the level of PLN 0.8m, that (assuming maintenance of the trend) should allow for gradual deleveraging of the company in the following years.

Valuation

We value Miraculum using the discounted cash flow method (100% weight) and a add multiples valuation for presentation purpose only.

Figure 2. Miraculum – Valuation summary

Valuation method	Weight (%)	FV (PLN/share)
DCF valuation	100%	1.25
Peer comparison valuation	0%	1.31
Fair value		**1.25**
Current price		1.33
Upside/downside (%)		-6%

Source: Company, IPOPEMA Research

DCF valuation

We base our DCF valuation on our free cash flow forecasts for 2023-32E (for more details please refer to "Financial forecasts"). We apply a risk-free rate of 6.3% in terminal, equity risk premium of 5.5% and unlevered beta of 1.0x and assume a terminal growth rate of 2.0%.

Figure 3. Miraculum –DCF valuation (PLNm)

	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	>2032E
Revenues	47.7	54.3	61.2	67.5	73.5	79.3	84.8	90.8	97.3	104.3	
EBITDA	1.4	2.8	4.7	6.3	7.9	9.4	10.9	12.5	14.2	16.0	
EBIT	0.2	1.6	3.4	5.0	6.6	8.2	9.6	11.2	12.9	14.7	
Tax on EBIT	0.0	-0.3	-0.6	-1.0	-1.3	-1.6	-1.8	-2.1	-2.5	-2.8	
NOPAT	0.2	1.3	2.8	4.1	5.4	6.6	7.8	9.1	10.4	11.9	
D&A	1.1	1.2	1.3	1.3	1.2	1.2	1.3	1.3	1.3	1.3	
Change in WC	-0.9	-0.7	-0.7	-0.5	-0.8	-0.8	-0.8	-0.8	-0.9	-1.0	
Capex	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.4	-0.5	-0.5	-0.5	
FCF	**0.0**	**1.4**	**2.9**	**4.3**	**5.3**	**6.6**	**7.9**	**9.1**	**10.3**	**11.7**	**11.1**
Discount factor (%)	97%	88%	79%	71%	64%	57%	51%	45%	40%	36%	
FCF PV (PLNm)	0.0	1.2	2.3	3.0	3.3	3.7	4.0	4.1	4.2	4.2	
FCF PV 2023-32E (PLNm)	30.1										
Residual growth rate (%)	2.0%										
Discounted residual value (PLNm)	39.8										
EV (PLNm)	69.9										
Dividend paid (PLNm)	0.0										
Net debt (PLNm)	17.9										
Equity value (PLNm)	**52.0**										
Number of shares(m)	41.5										
FV (PLN)	**1.25**										

		WACC (%)				
		11.0%	11.5%	12.0%	12.5%	13.0%
Residual growth rate (%)	1.0%	1.25	1.21	1.17	1.13	1.09
	1.5%	1.30	1.25	1.21	1.17	1.13
	2.0%	1.36	1.30	**1.25**	1.21	1.17
	2.5%	1.42	1.36	1.30	1.25	1.21
	3.0%	1.49	1.42	1.36	1.30	1.25

Source: Company, IPOPEMA Research

Figure 4. Miraculum –WACC calculation

WACC	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
RFR	5.7%	5.9%	6.0%	6.2%	6.3%	6.4%	6.6%	6.6%	6.6%	6.6%	6.6%
Beta	1.5	1.5	1.4	1.3	1.2	1.1	1.1	1.0	1.0	1.0	1.0
Risk premium	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Cost of Equity	13.7%	13.8%	13.5%	13.2%	12.9%	12.6%	12.5%	12.3%	12.3%	12.2%	12.2%
Debt risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
After tax cost of debt	5.4%	5.6%	5.7%	5.8%	5.9%	6.0%	6.1%	6.1%	6.1%	6.1%	6.1%
% D	36.5%	35.7%	30.7%	24.9%	19.0%	13.4%	8.5%	4.4%	3.8%	3.3%	3.3%
% E	63.5%	64.3%	69.3%	75.1%	81.0%	86.6%	91.5%	95.6%	96.2%	96.7%	96.7%
WACC	**10.7%**	**10.9%**	**11.1%**	**11.4%**	**11.6%**	**11.8%**	**12.0%**	**12.0%**	**12.0%**	**12.0%**	**12.0%**

Source: Company, IPOPEMA Research

Peer comparison

We present a multiple valuation by comparing Miraculum to retail companies, based on EV/Sales multiples. Due to different business models and product offers, as well as scale of operations, we give 0% weight to the method.

Figure 5. Miraculum – peer comparison

Company	mCap	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
	(EURm)	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
LPP	5,501	18.5	14.5	12.1	9.0	7.2	6.0	1.6	1.3	1.1
CCC	634	n.a.	59.6	18.4	7.5	5.9	4.9	0.6	0.6	0.5
VRG	176	6.8	6.2	6.0	3.7	3.2	2.9	0.7	0.6	0.6
Wittchen	106	5.4	5.0	4.8	3.6	3.3	3.1	1.0	0.9	0.8
Pepco	3,373	16.8	13.0	10.2	5.8	5.0	4.1	0.8	0.7	0.6
Hugo Boss	4,692	17.2	13.8	11.2	6.1	5.3	4.5	1.3	1.2	1.1
Unilever	123,316	18.2	16.9	15.9	12.4	11.6	10.9	2.4	2.4	2.3
COTY	9,867	22.1	26.0	21.4	15.8	14.0	12.5	2.9	2.6	2.5
Olapex Holdings	1,309	15.6	11.9	11.9	9.5	7.6	6.9	3.6	3.4	3.2
Ulta Beauty	19,554	17.8	16.1	15.2	11.4	11.0	10.4	2.2	1.9	1.9
Median		17.2	14.2	12.0	8.2	6.6	5.5	1.4	1.2	1.1
Miraculum	**12**	**n.a.**	**66.1**	**23.9**	**51.5**	**24.6**	**14.2**	**1.5**	**1.3**	**1.1**
Premium/discount (%)		*n.a.*	*367%*	*99%*	*526%*	*276%*	*161%*	*1%*	*2%*	*-1%*
Implied FV/share (PLN)		n.a.	0.3	0.7	-0.1	0.1	0.3	1.3	1.3	1.3
Average implied FV/share (PLN)*		**1.31**								

*Source: Bloomberg, IPOPEMA Research, *based on EV/Sales multiples*

Financial forecasts

Figure 6. Miraculum – financial forecasts (PLNm)

	2020	2021	2022	2023E	2024E	2025E
Revenues	24.4	33.7	43.3	47.7	54.3	61.2
COGS	-16.4	-23.5	-29.6	-31.6	-35.3	-39.1
Gross profit	**8.0**	**10.1**	**13.8**	**16.1**	**18.9**	**22.1**
SG&A costs	-11.4	-13.0	-15.1	-15.9	-17.3	-18.7
Selling costs	-7.7	-9.0	-10.4	-10.7	-11.6	-12.4
G&A costs	-3.6	-4.0	-4.7	-5.2	-5.7	-6.3
Other operating profit	0.8	0.2	1.1	0.2	0.0	0.0
Other operating costs	-0.4	-0.1	-0.3	-0.1	0.0	0.0
EBITDA	**-1.9**	**-1.8**	**0.5**	**1.4**	**2.8**	**4.7**
D&A	1.1	1.0	1.0	1.1	1.2	1.3
EBIT	**-3.0**	**-2.8**	**-0.5**	**0.2**	**1.6**	**3.4**
Net financial costs	-0.5	-0.5	-0.8	-0.7	-0.6	-0.6
Pre-tax profit	**-3.5**	**-3.3**	**-1.4**	**-0.4**	**1.0**	**2.9**
Income tax	-1.1	-0.8	-1.1	0.0	-0.2	-0.5
Net profit	**-4.6**	**-4.1**	**-2.5**	**-0.4**	**0.8**	**2.3**

Source: Company, IPOPEMA Research

We forecast 2022-25E revenues CAGR of 12%

Miraculum reported revenues of PLN 24.5m in 1H23 (+17% y/y). Revenues decreased by 6% y/y to PLN 3.2m in July (due to a high base from the previous year) and increased by 6% y/y to PLN 3.6m in August, resulting in revenues of PLN 31.4m in 8M23 (+13% y/y). As a result, we forecast revenues of PLN 47.7m in 2023E (+10% y/y). In our opinion, the major drivers for revenue growth will be shaving cosmetics (+PLN 2.0m, +22% y/y), makeup cosmetics (+PLN 0.7m, +5% y/y) and perfumes (+PLN 0.7m, +6% y/y). At the same time, we point out that the company has been expanding its foreign sales (+50% y/y in 1H23). We believe that the share of foreign sales will increase to 27% in 2023E (+2pp y/y, growth in sales of 16% y/y).

Figure 7. Miraculum – monthly revenues (PLNm)

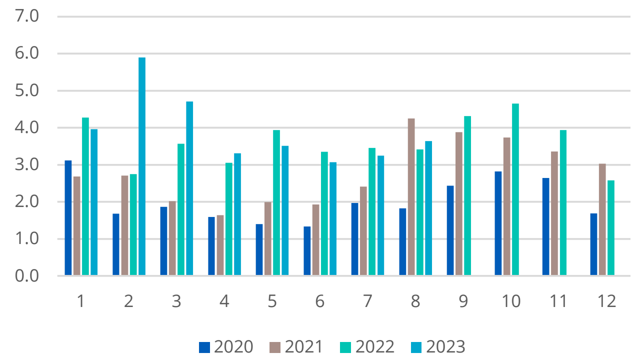
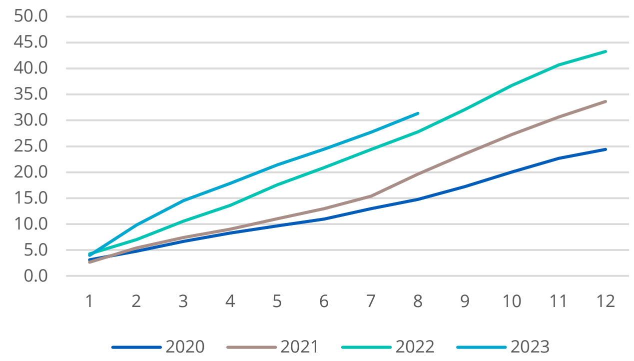


Figure 8. Miraculum – cumulative monthly revenues (PLNm)



Source: Company, IPOPEMA Research

In line with PMR forecasts, we expect the cosmetics market to remain in an upward trend in the coming years (Statista estimates an average annual growth of 5% y/y in Poland), assuming that this growth will be mainly driven by perfumes and makeup cosmetics. In our opinion, Miraculum should be able to grow at a higher pace than the broad market, based on development of its product offer and strengthening of its cooperation with drugstores and discount stores (we expect 12% revenues CAGR in 2022-25E). At the same time, we expect foreign sales to exceed over 30% of total sales in 2025E.

Given the above-mentioned, we estimate revenues at PLN 47.7m in 2023E (+10% y/y), PLN 54.3m in 2024E (+14% y/y) and PLN 61.2m in 2025E (+13% y/y), which implies 2022-25E CAGR of 12%.

Figure 9. Miraculum – revenues forecasts by product groups (PLNm)

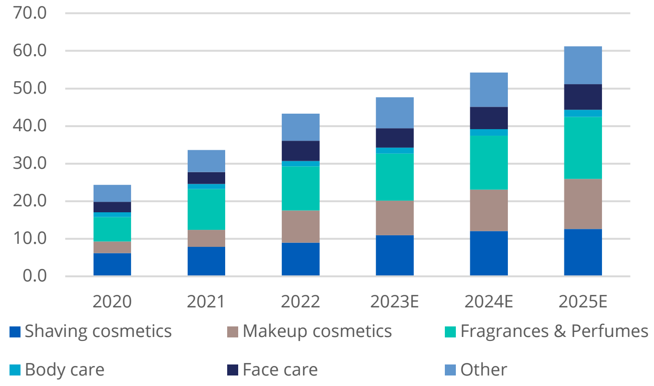
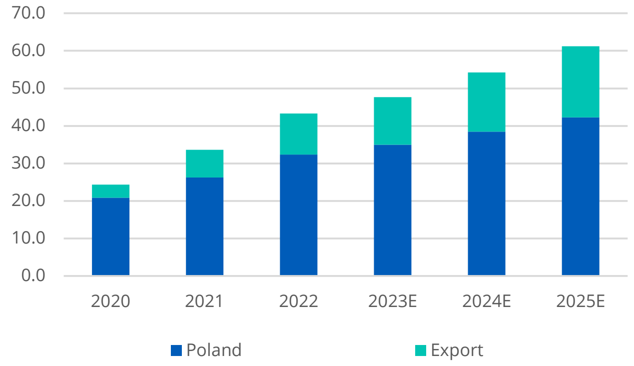


Figure 10. Miraculum – geographical break-down of reveneus (PLNm)



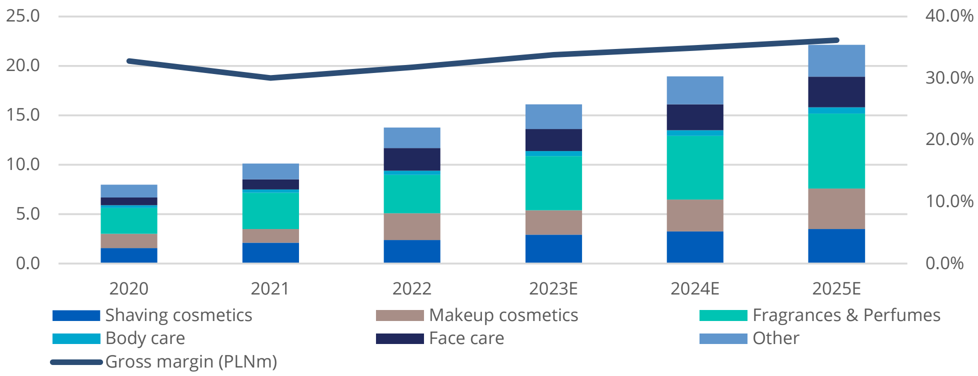
Source: Company, IPOPEMA Research

We expect gradual improvement in the gross margin

Currently, the company outsources its entire production to third-party entities, with around 80% of products being produced in Poland. In 2022, the company generated a gross margin of 31.8% (+1.7pp y/y with around +1.2pp y/y related to improvement of profitability in product segments, especially facial care and makeup cosmetics). Additionally, the company has improved its gross margin by another 2.2pp to 33.0% in 1H23 (mainly on facial care and perfumes).

We expect that with an increasing scale of operations, the company will be able to negotiate more favourable conditions with its suppliers, as well as drugstores and discount stores. Additionally, we expect the product mix structure to support improvement of profitability in the coming years, due to a focus on high-margin products (including premium perfumes under the "Chopin" brand) with a decreasing share of body and shaving cosmetics (limited upside potential on margins, due to high competition).

Figure 11. Miraculum – Gross profit (PLNm) and gross margin (rhs, %) forecasts



Source: Company, IPOPEMA Research

Given the above-mentioned, we forecast gross profit of PLN 16.1m in 2023E (+17% y/y), PLN 18.9m in 2024E (+18% y/y) and PLN 22.1m in 2025E (+17% y/y), which implies improvement of margins from 31.8% in 2022 to 36.1% in 2025E.

Positive impact of operating leverage

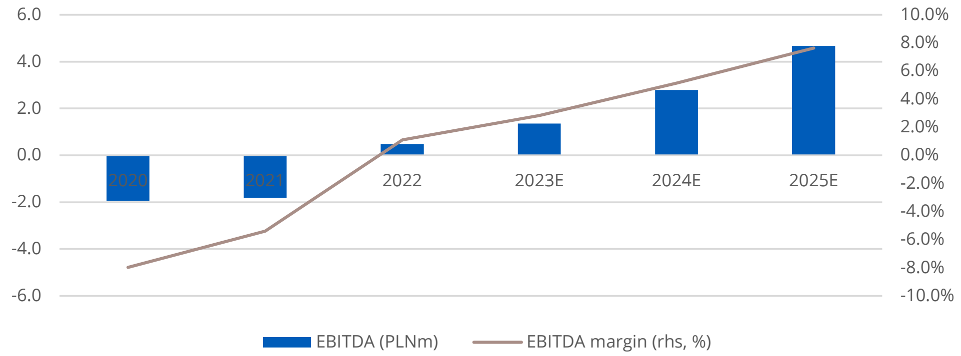
The major portion of Miraculum's operating costs consists of personnel costs, which accounted for nearly half of operating costs in 2022 (or ca. 20% of revenues). In 2022, the company employed an average of 54 employees (comparable year-on-year). We assess that growing scale of operations will also result in an increase in employment, although at a slower pace than revenue growth. Wage pressures (partly due to the over 20% y/y increase in the minimum wage in Poland in 2024) will also indirectly affect labor costs. Another cost item is external service costs, which include expenses related to marketing, accounting, and IT solutions. These costs represented ca. 12% of revenues in 2022 (with marketing costs accounting for about 2%). In our opinion, a significant portion of the group's operating costs are variable. With the company's growing scale of operations, we expect the SG&A/sales ratio to decrease, thanks to operational leverage (in 2022, this ratio was 34.8%, compared to 38.6% the previous year).

We forecast an increase in SG&A costs of 6% y/y to PLN 15.9m in 2023E (given an 8% y/y increase reported in 1H23) and 9% y/y to PLN 17.3m in 2024E. As a result, we expect a decrease of the SG&A/sales ratio to 31.9% in 2024E and to 30.6% in 2025E, due to the operating leverage.

We forecast an increase of EBITDA to PLN 4.7m in 2025E

Given the above-mentioned, we forecast EBITDA of PLN 1.4m in 2023E and PLN 2.8m in 2024E, which implies improvement of the EBITDA margin from 1.7% in 2022 to 5.1% in 2024E. In our forecasts, we do not assume any significant net operating costs.

Figure 12. Miraculum – EBITDA forecasts



Source: Company, IPOPEMA Research

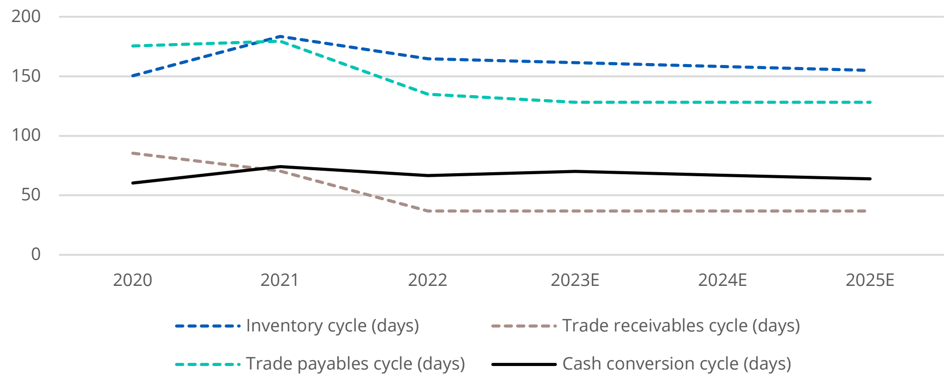
Net profit forecasts

We forecast a net loss of PLN 0.4m in 2023E (due to net financial costs of PLN 0.7m) and net profit of PLN 0.8m in 2024E and PLN 2.3m in 2025E.

Working capital assumptions

As of end-2022, the company held an inventory of PLN 13.3m (+13% y/y), which implied an inventory turnover cycle of 165 days (in comparison to 183 days as of end-2021). As of end-1H23, the inventory turnover cycle decreased to 154 days. In the following years, we assume that the company will manage to slightly decrease this ratio; however, given the company's plans to increase its scale of operations, we expect the company to also increase its working capital. We also do not assume any significant changes in payables and receivables turnover cycles. As a result, we expect the cash conversion cycle to remain at around 60-70 days.

Figure 13. Miraculum – cash conversion cycle (days)

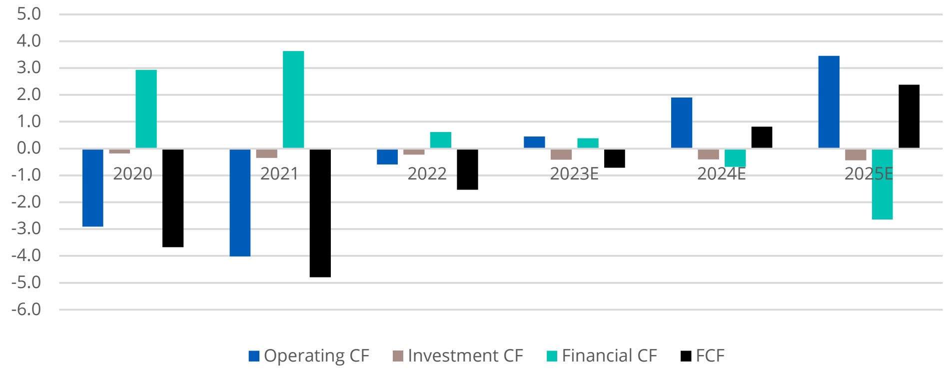


Source: Company, IPOPEMA Research

Cash flow forecasts

We expect that with improvement of financial results, the company will also improve its cash flow generation. We estimate operating cash flows of PLN 0.4m in 2023E and further improvement to PLN 1.9m and PLN 3.5m in 2024-25E, respectively. At the same time, we do not assume any significant capex; therefore, we expect Miraculum to start generating positive FCFs starting from 2024E.

Figure 14. Miraculum – cash flows forecasts (PLNm)



Source: Company, IPOPEMA Research

2Q23 results review

Figure 15. Miraculum – quarterly results summary (PLNm)

	2Q22	3Q22	4Q22	1Q23	2Q23	y/y
Revenues	10.3	11.2	11.2	14.5	9.9	*-4%*
COGS	-6.9	-7.3	-7.8	-10.1	-6.3	*-9%*
Gross profit	**3.4**	**4.0**	**3.4**	**4.4**	**3.6**	*6%*
SG&A costs	-3.8	-3.8	-4.0	-3.9	-4.0	*3%*
Selling costs	-2.7	-2.6	-2.7	-2.6	-2.7	*-1%*
G&A costs	-1.2	-1.2	-1.3	-1.3	-1.3	*12%*
Other operating profit	0.7	0.1	0.2	0.1	0.1	*-91%*
Other operating costs	0.0	0.0	-0.2	-0.1	0.0	*43%*
EBITDA	**0.5**	**0.6**	**-0.4**	**0.8**	**0.0**	*n.m.*
D&A	0.3	0.3	0.3	0.3	0.3	*16%*
EBIT	**0.3**	**0.3**	**-0.6**	**0.6**	**-0.3**	*n.m.*
Net financial costs	-0.4	-0.4	0.1	-0.4	-0.4	*11%*
Pre-tax profit	**-0.1**	**-0.1**	**-0.6**	**0.2**	**-0.7**	*n.m.*
Income tax	-0.2	0.0	-0.8	0.1	0.0	*n.m.*
Net profit	**-0.3**	**-0.1**	**-1.4**	**0.3**	**-0.7**	*n.m.*
Gross margin (%)	*33.2%*	*35.2%*	*30.1%*	*30.5%*	*36.6%*	-
SG&A/sales ratio (%)	*37.2%*	*33.6%*	*35.8%*	*26.9%*	*40.0%*	-
EBITDA margin (%)	*5.2%*	*5.1%*	*-3.4%*	*5.7%*	*-0.3%*	-
EBIT margin (%)	*2.8%*	*2.8%*	*-5.8%*	*3.8%*	*-3.2%*	-
Net profit margin (%)	*-2.9%*	*-1.1%*	*-12.3%*	*1.8%*	*-7.2%*	-

Source: Company, IPOPEMA Research

Revenues came in at PLN 9.9m in 2Q23 (-4% y/y, in line with preliminary data). Based on monthly reports, revenues amounted to PLN 3.3m in April (+9% y/y), PLN 3.5m in May (-11% y/y) and PLN 3.1m in June (-8% y/y). At that time, sales on foreign markets increased by 57% y/y to PLN 2.5m (25% share in total revenues), while sales in Poland deteriorated by 15% y/y to PLN 7.5m. The company pointed out strengthening of cooperation with drugstores and discount stores. The greatest improvement was delivered by "Chopin", "Paloma", "Joko", "Tanita" and "Wars" brands.

Gross margin increased by 3.5pp y/y to 36.6% with the most significant improvement reported by the perfume segment (46.3% in 2Q23 in comparison to 29.8% in 2Q22) and facial cosmetics (42.1% in 2Q23 vs. 40.3% in 2Q22). As a result, gross profit came in at PLN 3.6m (+6% y/y).

SG&A costs amounted to PLN 4.0m at that time (+3% y/y), including cost of sales of PLN 2.7m (comparable y/y) and G&A costs of PLN 1.3m (+12% y/y). Other net operating profit amounted to PLN 21k (vs. PLN 707k in 2Q22 supported by cancellation of the PFR subsidy of PLN 631k).

Given the above-mentioned, the operating loss came in at PLN 316k (vs. a profit of PLN 288k in 2Q22 and an adjusted loss of PLN 343k). EBITDA amounted to PLN -25k. With net financial costs of PLN 411k (comparable y/y), the company reported a net loss of PLN 714k in 2Q23 (vs. a loss of PLN 301k the previous year).

Operating cash flow amounted to negative PLN 307k (vs. positive PLN 51k in 2Q22). As of end-2Q23, the company had net debt of PLN 17.9m (-11% y/y and +5% q/q). Inventory amounted to PLN 13.2m (+9% y/y, flat q/q). The inventory cycle came in at 154 days (comparable y/y), while the cash conversion cycle amounted to 68 days (vs. 65 days as of end-2Q22).

Business model

History of Miraculum S.A.

Miraculum was founded in 1924 in Krakow by Dr. Leon Luster, and it was one of the first cosmetic companies in Poland. From the beginning, the company used the image of well-known people to promote its products, including Hanka Ordonówna (a singer) and Zofia Batycka (Miss Poland and Vice Miss Europe from 1930). During the interwar period, the product offer included Dr. Luster's exotic powder, Negrita oils, eyebrow and lip pencils, nail polishes, and nail polish removers. In 1955, the company also introduced perfumes to its offer. In 1971, the “Pani Walewska” brand was added to the portfolio.

In 2003, a 66.5% stake in Miraculum S.A. was acquired by Laboratorium Kolastyna S.A. (registered in 1983 in Łódź as a manufacturer of protein preparations for dermatological purposes), which changed its name to Grupa Kolastyna S.A. in 2006. In February 2007, the group became listed on the Warsaw Stock Exchange. In November 2007, Grupa Kolastyna S.A. decided to merge with Fabryka Kosmetyków Miraculum S.A. In 2009, due to an economic slowdown, the company started restructuring its operations, focusing primarily on sales and distribution activities (moving away from its previous sales and production model), reducing less profitable product lines, and restructuring its workforce. Additionally, the company entered into outsourcing agreements, particularly related to production and logistics services.

In 2010, the company's creditors filed for bankruptcy of the company, and in June 2011, the company entered into a composition agreement (the bankruptcy proceedings concluded in July 2011). In June 2010, the company sold its rights to the "Kolastyna" brand, and in December, the company changed its name from Grupa Kolastyna S.A. to Miraculum S.A. In 2017, the company initiated a transformation process through share issuance and debt reduction. The company also adopted a development strategy for the years 2018-24, aiming at rebranding its product portfolio.

Below we present the key milestones of Miraculum S.A.:

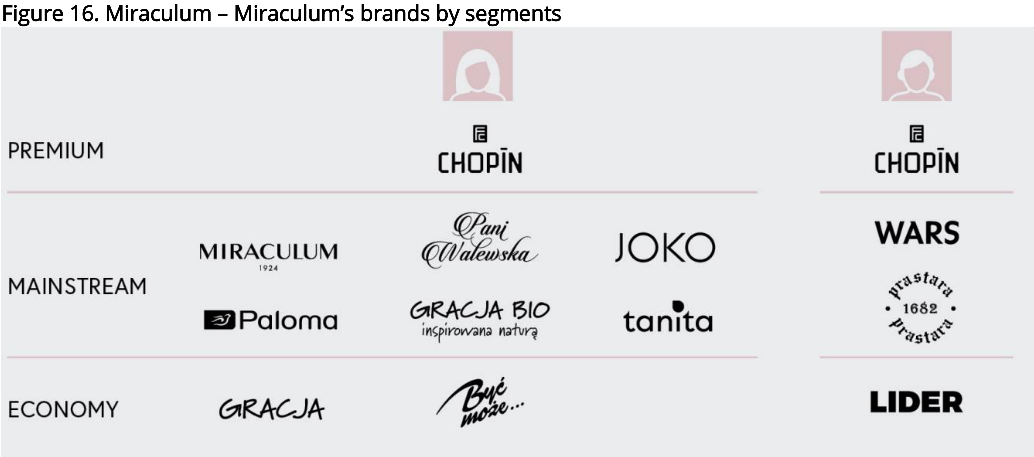
- 1924 – Miraculum was founded in Krakow.
- 1971 – Launch of the “Pani Walewska” brand.
- 1990 – First application of ceramides, algae, and crystal structure in cosmetics in Poland.
- 2001 – Miraculum became the first Polish cosmetic company to receive the Cruelty-Free certificate.
- 2004 – Introduction of Bioxlift as an alternative to Botox and the lifting ingredient Liftline.
- 2008 – The Paloma and Tanita brands became part of Miraculum, and the distribution of the Joko and Virtual brands was acquired.
- 2017 – Initiated a business transformation process.
- 2019 – Rebranding of the “Joko”, “Lider”, and “Tanita” brands.
- 2020 – Rebranding of the “Miraculum” and “Pani Walewska” brands.
- 2021 – Rebranding of the “Wars” brand, launch of new perfume lines for “Miraculum”, and implementation of new initiatives for “Joko”.
- 2022 – Introduction of the new Miraculum - Collagen Pro-skin series, implementation of new initiatives for “Wars”, and launch of “Joko Pure”.
- 2023-24 – Launch of a new line of “Chopin” women's perfumes, resumption of production of “Prastara” cologne, further development of brands including “Miraculum”, “Gracja”, “Joko”, and “Wars”.

Currently, the Miraculum Group consists of Miraculum S.A. (the parent company) and BIONIQ Institute of Skin Care Technology Sp. z o.o. (a subsidiary in which Miraculum S.A. holds a 50% stake; the subsidiary is not conducting any operations).

Product offer and sales channels

Miraculum's current portfolio includes skincare and body care products, perfumes, depilation, and makeup offered under 12 brands, including: "Pani Walewska", "Miraculum", "Chopin", "Prastara", "Gracja", "Tanita", "Paloma", "Lider", "Wars", "Być może", "Joko", and "Virtual." The primary focus of Miraculum S.A.'s business is the retail and wholesale sale of cosmetic and perfume products. The company's products are primarily positioned in the medium and lower price segments (the price segmentation of the brands is presented in the figure below).

Figure 16. Miraculum – Miraculum's brands by segments



Source: Company, IPOPEMA Research

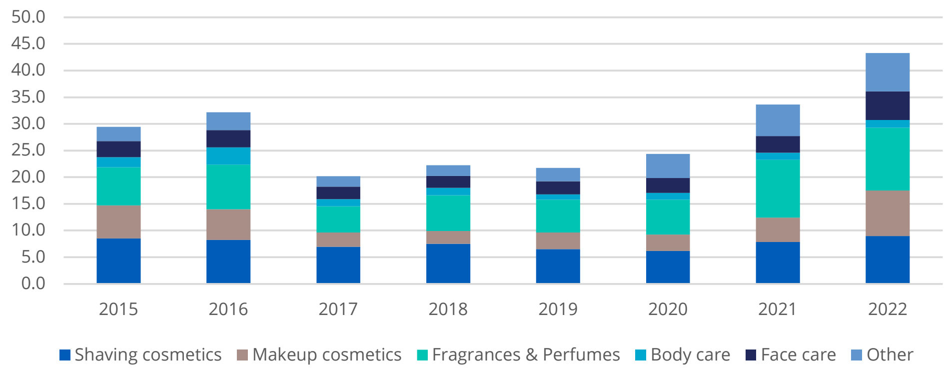
Figure 17. Miraculum – samples of Miraculum's product offer

Source: Company, IPOPEMA Research

The company divides its sales into the following operational segments:

- **Perfumes** (27% share of sales in 2022, -5pp y/y);
- **Shaving cosmetics** (21% share of sales in 2022, -2pp y/y);
- **Makeup cosmetics** (20% share of sales in 2022, +6pp y/y);
- **Facial care** (12% share of sales in 2022, +3pp y/y);
- **Body care** (3% share of sales in 2022, -1pp y/y);
- **Other** (17% share of sales in 2022, -1pp y/y), including products such as cosmetic sets and other products than traditional cosmetics.

Figure 18. Miraculum – revenues by product segments in 2015-22 (PLNm)



Source: Company, IPOPEMA Research

The company operates in the retail and wholesale market through both traditional and modern channels, selling its products in Poland and on foreign markets.

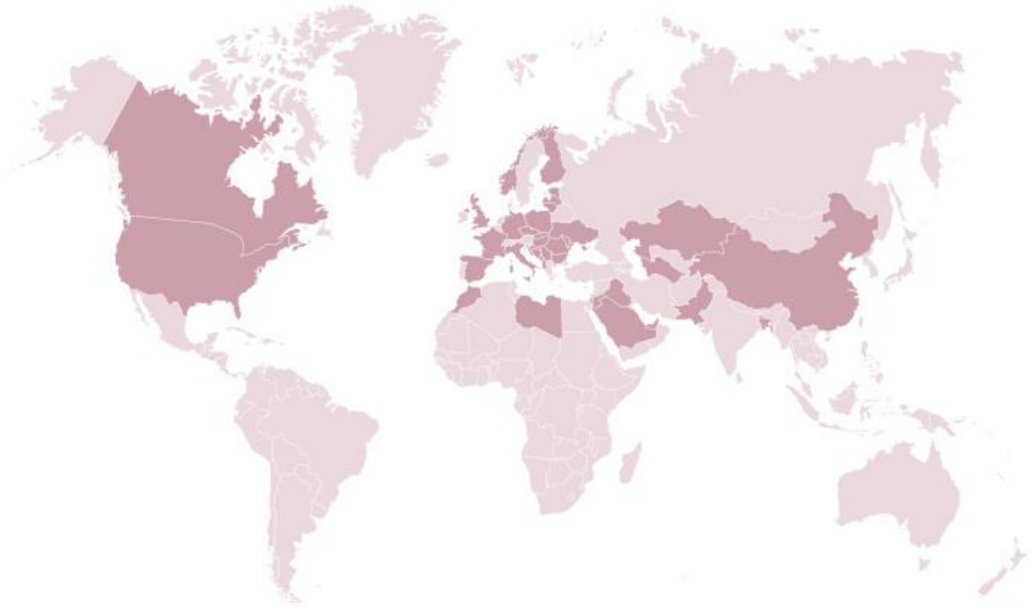
- **The traditional channel** includes cosmetic wholesalers, neighborhood shops, and local drugstores. In 2022, this channel accounted for about one-quarter of total sales. Its share in sales is declining, as it is being replaced by large drugstore chains, supermarkets, hypermarkets and discount stores.
- **The modern channel** consists of chain drugstores (Super-Pharm, Rossmann, Douglas, Hebe, Natura, etc.) and general merchandise store chains (Auchan, Lidl, Dino, Makro, Aldi, Kaufland, Biedronka etc.). The modern channel is responsible for nearly half of the company's sales and it is expected to continue to increase the share with strengthening of partnerships with drugstores and store chains.
- **Export** constitutes for ca. 25% of total sales. The main export destinations include Saudi Arabia, Belarus, Moldova, Libya, United States, Spain, Kazakhstan, United Arab Emirates, Israel, Jordan, Ukraine, Romania, Iraq, and Lithuania.
- **E-commerce** sales represent a small single-digit share of the company's sales. Online sales are carried out though the company's own e-platform (miraculum.pl, launched in February 2022) and though marketplaces, including Amazon, Allegro, Modivo, Empik and Zalando.

Figure 19. Miraculum – the company's partners in modern sales channel

Source: Company, IPOPEMA Research

In 2022, export sales increased by 47% year-on-year to PLN 10.9 million, accounting for 25% of total sales (compared to a 22% share in the previous year). Currently, the company exports its products to 42 countries worldwide, with a focus on strengthening its presence in Western Europe and Asia.

Figure 20. Miraculum – geographical structure of sales



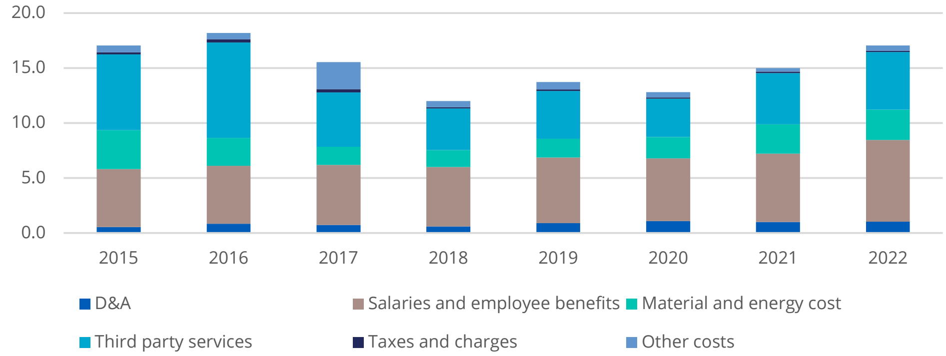
Source: Company, IPOPEMA Research

Cost structure

The major cost positions are as follows:

- **Cost of goods sold.** The company's production is fully based on outsourcing (using recipes owned by the company), with approximately 80% of production being carried out in Poland, and the company has no significant plans to change its supplier structure in the near future. At the same time, it should be noted that over 30% of the supply of materials, goods, and services is provided by two unrelated suppliers (Miracan Sp. z o.o. and MPS International Sp. z o.o.).
- **Personnel costs.** As of end-2022, Miraculum employed 54 employees, while the average employment over the entire year was 52 people. Besides the cost of goods sold, personnel costs constitute the most significant expense for the company - according to cost categories, personnel costs accounted for nearly half of operating costs and approximately 17% of revenues in 2022 (vs. over 18% in the previous year). Given no in-house production, the company is not directly exposed to the increase in the minimum wage in Poland. However, in our assessment, this cost item may still come under pressure in the coming quarters.
- **Third-party services.** Third-party services include, among others, marketing costs (including presence at industry fairs), warehouse costs, IT costs, and accounting services.
- **Material and energy costs.**

Figure 21. Miraculum – structure of operating costs (PLNm)

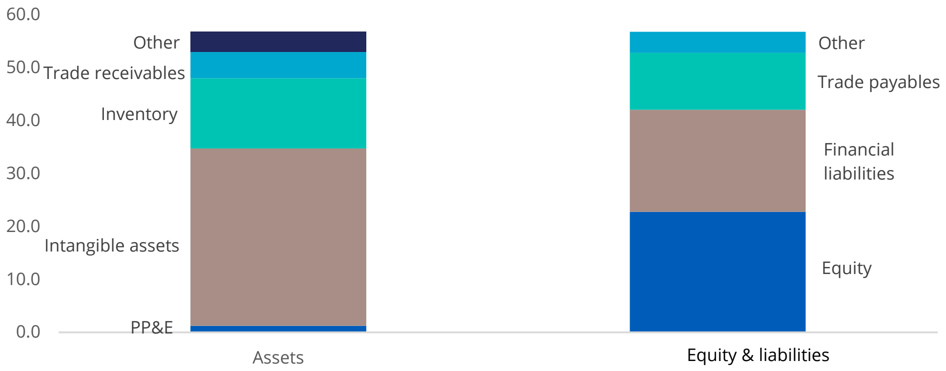


Source: Company, IPOPEMA Research

Balance sheet structure

Miraculum's assets consist mainly of intangible assets and inventories. As of end-2022, the company held inventories of PLN 13.3m (+13% y/y), including PLN 6.8m in goods, PLN 3.5m in finished products, and PLN 3.0m in materials. This implied an inventory turnover cycle of 165 days (vs. 183 days as of end-2021). The accounts receivable turnover cycle stood at 37 days at the end of 2022 (compared to 70 days as of end-2021).

Figure 22. Miraculum – structure of balance sheet (as of end-2Q23, PLNm)



Source: Company, IPOPEMA Research

The company largely finances its operations though loans from its major shareholders, including Mr. Marek Kamola. The value of outstanding loans amounted to PLN 17.9m as of end-2Q23, resulting in a net debt/EBITDA ratio of nearly 18x. In our forecasts, we do not assume further increases in the level of debt (we include PLN 2.4m in loans already granted in August). However, given the company's plans to increase its sales, we believe that the current cash generation may be insufficient for higher growth rates. Therefore, we point to potential share issues or increase in loans as risk factors.

Figure 23. Miraculum – financial liabilities as of 30.06.2023

	Liability	Agreed value	Outstanding debt (30.06.2023)	Repayment date
Marek Kamola	Loan	Up to PLN 18.0m	PLN 15.2m	31.12.2024
Leszek Kordek	Loan	PLN 1.5m	PLN 1.5m	23.10.2023
Piotr Skowron	Loan	PLN 0.2m	PLN 0.2m	31.10.2023
Zet Transport Agencja Celna Sp. z o.o.	Loan	PLN 0.3m	PLN 0.3m	31.10.2023
PFR	Loan	PLN 0.9m	PLN 0.1m	25.04.2024
ARR	Loan	PLN 0.1m	PLN 0.06m	17.12.2026

Source: Company, IPOPEMA Research

Below we present the history of changes in Miraculum's share capital:

- In May 2015, the company increased its share capital by issuing 666,615 **Series S shares** with a nominal value of PLN 4.50 per share (conversion of receivables into shares).
- In October 2015, the company increased its share capital by issuing 3,037,408 **Series U shares** through a private subscription (paid in cash).
- In June 2016, the company increased its share capital by issuing 900,000 **Series R1 shares** (conversion of 2,700 convertible bonds of Series AD2 into Series R1 shares with a nominal value of PLN 1.20 per share) and 1,500,000 **Series R2 shares** (conversion of 4,500 convertible bonds of Series AH into Series R2 shares with a nominal value of PLN 1.20 per share).
- In August 2017, the company increased its share capital by issuing 11,512,223 **Series W shares** with a nominal value of PLN 1.50 per share, of which 4,802,802 shares were subscribed by Mr. Marek Kamola (paid by offsetting the company's receivables against Mr. Marek Kamola).
- In January 2018, the company increased its share capital by issuing 900,000 **Series T shares** with a nominal value of PLN 1.50 per share (paid by offsetting the company's receivables against Code Design Sp. z o.o.).

- In January 2018, the company increased its share capital by issuing 1,075,554 **Series T1 shares** at the nominal price of PLN 1.50 per share and an issue price of PLN 2.40 per share (paid in cash).
- In September 2018, the company increased its share capital through a public offering of 5,000,000 **Series T2 shares** with subscription rights at an issue price of PLN 1.50 per share (paid in cash).
- In September 2018, the company also increased its share capital within the target capital limits by issuing 2,500,000 **Series T3 shares** with a nominal value of PLN 1.50 per share. Under the agreement, 2,000,000 shares were subscribed by Mr. Marek Kamola and paid by offsetting mutual receivables from the company's loan (dated November 22, 2017).
- In March 2019, the company increased its share capital by issuing 1,150,000 **Series T4 shares** with a nominal value of PLN 1.30 per share and an issue price of PLN 1.50 per share. Of these, 700,000 shares were subscribed by Mr. Marek Kamola (partially paid by offsetting mutual receivables and partially in cash), 80,000 shares were subscribed by Mr. Tomasz Sarapata (paid in cash), 70,000 shares were subscribed by Mr. Sławomir Ziemski (paid in cash), 200,000 shares were subscribed by Mr. Piotr Skowron (paid in cash), and 100,000 shares were subscribed by Mr. Jan Załubski (paid in cash).
- In September 2020, the company increased its share capital by issuing 1,450,000 **Series J shares** with a nominal value of PLN 1.20 per share and an issue price of PLN 1.30 per share. Mr. Marek Kamola subscribed to 1,220,000 shares, while Mr. Sławomir Ziemski subscribed to 230,000 shares.
- In March 2021, the company increased its share capital by issuing 1,400,000 **Series J1 shares** with a nominal value of PLN 1.20 per share and an issue price of PLN 1.40 per share. Of these, 900,000 shares were subscribed by Mr. Marek Kamola (partially paid by offsetting mutual receivables and partially in cash), 100,000 shares were subscribed by Mr. Sławomir Ziemski (partially paid by offsetting mutual receivables and partially in cash), and 400,000 shares were subscribed by Mr. Jan Załubski (partially paid by offsetting mutual receivables and partially in cash).
- In June 2021, the company increased its share capital by converting 1,000,000 Series S1 bonds into **Series P shares** with a nominal value of PLN 1.10 per share, and in December 2021, the company increased its share capital by converting 500,000 Series S2 bonds into Series P shares with a nominal value of PLN 1.10 per share. The Series P shares were subscribed by Mr. Marek Kamola.
- In February 2023, the company increased its share capital by issuing 3,500,000 **Series X shares** with a nominal value of PLN 1.00 per share and an issue price of PLN 1.21 per share. Of these, 2,374,000 shares were subscribed by Mr. Marek Kamola (paid in cash), 262,000 shares were subscribed by Mr. Sławomir Ziemski (through offsetting the company's receivables from a loan), and 864,000 shares were subscribed by Mr. Piotr Skowron (through offsetting the company's receivables from a loan).

At the same time, we note that based on an agreement signed in November 2021 between the company and Mr. Marek Kamola (owning a 35.8% stake in share capital of Miraculum), Mr. Marek Kamola granted a loan of up to PLN 18.0m (outstanding value of PLN 15.2m as of end-2Q23) until 31.12.2024 (additional PLN 1.25m granted in August, until 30.06.2024). According to the agreement, the repayment of the loan is possible by offering the opportunity to subscribe for shares of the company as a part of target capital at the issue price of PLN 3.00/share.

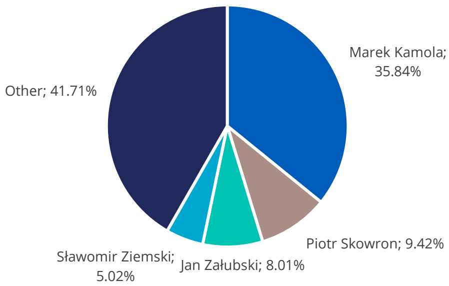
Shareholders

As of 30 June 2023, the share capital of Miraculum consisted of 41,500,000 shares with nominal value of PLN 1.00/share each:

- 5,388,200 ordinary bearer shares series A1;
- 20,000 ordinary bearer shares series M1;
- 666,615 ordinary bearer shares series S;
- 3,037,408 ordinary bearer shares series U;
- 900,000 ordinary bearer shares series R1;

- 1,500,000 ordinary bearer shares series R2;
- 11,512,223 ordinary bearer shares series W;
- 900,000 ordinary bearer shares series T;
- 1,075,554 ordinary bearer shares series T1;
- 5,000,000 ordinary bearer shares series T2;
- 2,500,000 ordinary bearer shares series T3;
- 1,150,000 ordinary bearer shares series T4.
- 1,450,000 ordinary bearer shares series J;
- 1,400,000 ordinary bearer shares series J1;
- 1,500,000 ordinary bearer shares series P;
- 3,500,000 ordinary bearer shares series X.

Figure 24. Miraculum – shareholder's structure



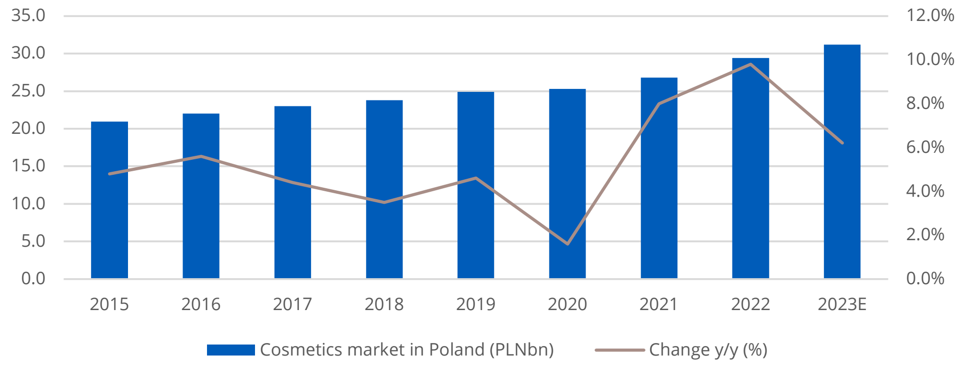
Source: Company, IPOPEMA Research

Market environment

The cosmetics market in Poland to grow by ca. 5% annually

Miraculum currently operates in six product segments: shaving cosmetics, makeup cosmetics, perfumery, body and facial care, and others (including cosmetic sets). According to PMR data, the value of the cosmetics market in Poland was approximately PLN 29.5bn in 2022. In 2023, PMR predicts an increase of the value of the cosmetics market to over PLN 31bn, representing ca. 6.2% y/y growth (with a significant impact of inflation resulting in a real decrease of 0.8% y/y). At the same time, PMR expects that body and bath care cosmetics will gradually decrease their market shares (a slight decline in market share by 2028) in favor of facial care cosmetics in the coming years. In the medium term, PMR forecasts an average market growth of ca. 4-5% annually, but the growth rate will again vary for different product groups. According to PMR experts, perfumery products have the potential to achieve the highest growth rates in the Polish market, with an expected annual growth of approximately 7-8%.

Figure 25. Value of cosmetics market in Poland (PLN mld)



Source: PMR, IPOPEMA Research

Higher growth rates in makeup and skincare cosmetics

According to Statista data, the sales value in the cosmetics market in Poland for the years 2022-26 is expected to show higher growth rates than before the pandemic and is projected to reach approximately EUR 4.9bn (ca. PLN 22bn) in 2026. The highest growth rates are anticipated in the makeup cosmetics segment (CAGR of 7.9% in 2022-26E) and skincare cosmetics segment (CAGR of 6.6% 2022-26E). Currently, personal care cosmetics have the largest share in total sales (approximately 50% of total sales).

Figure 26. Cosmetics market – sales value (EURbn)

WORLDWIDE	2017	2020	2021	2021E	2026E	2018-19 CAGR	2020-21 CAGR	2022-26 CAGR
Personal care	194.2	196.6	199.3	215.9	249.9	2.3%	-1.0%	4.6%
Skin care	114.8	112.8	115.2	130.0	158.9	3.3%	-3.0%	6.6%
Makeup cosmetics	74.2	63.4	68.2	83.9	109.9	4.0%	-7.8%	10.0%
Perfumes and toilet waters	40.7	40.8	42.7	47.6	55.5	1.8%	-5.2%	5.4%
Sum	**429.2**	**413.6**	**425.5**	**477.4**	**574.1**	**2.8%**	**-3.2%**	**6.2%**
EUROPE	2017	2020	2021	2021E	2026E	2018-19 CAGR	2020-21 CAGR	2022-26 CAGR
Personal care	46.8	46.1	47.9	46.7	52.2	1.1%	0.1%	1.7%
Skin care	28.2	26.2	27.6	27.8	33.2	1.6%	-2.7%	3.8%
Makeup cosmetics	17.4	14.5	16.2	17.7	22.7	2.7%	-6.1%	6.9%
Perfumes and toilet waters	15.6	13.7	14.7	14.9	16.9	1.0%	-3.4%	2.8%
Sum	**107.9**	**100.5**	**106.4**	**107.0**	**124.8**	**1.5%**	**-2.1%**	**3.2%**
POLAND	2017	2020	2021	2021E	2026E	2018-19 CAGR	2020-21 CAGR	2022-26 CAGR
Personal care	2.0	2.0	2.0	2.0	2.4	2.0%	-1.7%	3.6%
Skin care	0.9	0.9	1.0	1.0	1.3	4.4%	-1.0%	6.6%
Makeup cosmetics	0.5	0.4	0.4	0.5	0.6	3.1%	-8.2%	7.9%
Perfumes and toilet waters	0.5	0.5	0.5	0.5	0.6	1.8%	-4.4%	3.2%
Sum	**3.9**	**3.9**	**3.9**	**4.0**	**4.9**	**2.5%**	**-2.7%**	**4.8%**

Source: Statista, IPOPEMA Research

Growing expenditures on cosmetics

According to Statista estimates, the average spending per capita on cosmetics worldwide was approximately EUR 63, and it is projected to increase to around EUR 73 by 2026. Meanwhile, the average resident of Europe spent approximately EUR 126 in 2022. The estimated expenditures of Poles were at around EUR 105, with a projected level of EUR 132 in 2026 (2022-26 CAGR close to 6%).

Figure 27. Spending per capita worldwide (EUR)

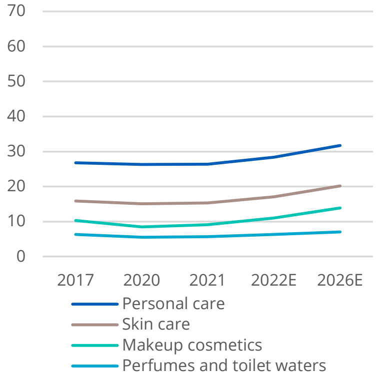


Figure 28. Spending per capita in Europe (EUR)

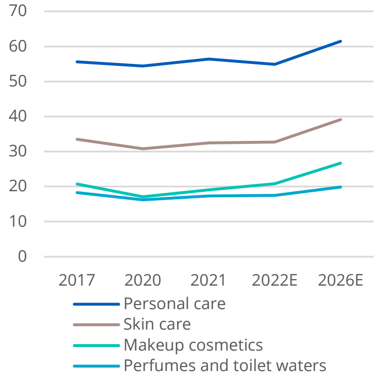
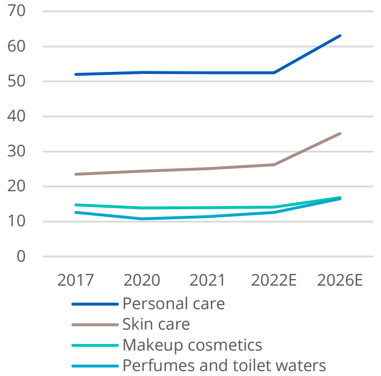


Figure 29. Spending per capita in Poland (EUR)



Source: Statista, IPOPEMA Research

Drugstores and the internet are the preferred sales channels

According to Cosmetics Europe, there are over 7,000 small and medium-sized enterprises engaged in cosmetics production in Europe, with the largest number located in France (approximately 1,200), Poland (over 700), and Italy (almost 700). Estimated expenditures on development (research, technological innovation, consumer behavior analysis) amount to approximately EUR 2.4 billion, and every year, about one-fourth of the products are new or improved, contributing to the high competitiveness of this market. According to research by Cosmetics Europe, approximately 72% of Europeans consider cosmetics as important or very important in their daily lives (mainly for personal hygiene but also for well-being, skin and hair protection, etc.), and they use an average of 13 cosmetics products per week.

According to PMR's assessment, the sale of cosmetics in the coming years will primarily focus on drugstores as the preferred choice of store (83% of buyers) and the online channel (37% of buyers). PMR also predicts that both of these channels will achieve close to a 60% market share in the entire cosmetics market by 2027, compared to approximately 56% at present. According to Payback, 58% of customers choose drugstores, while 20% opt for online shopping. On the other hand, Omnichannel estimates that most customers in Poland indicate Rossmann (58%), Hebe (19%), Biedronka (18%), as well as Allegro and Lidl, as places where they have purchased cosmetics/perfumes recently. Despite the continued strong position of drugstores among sales channels, the online sales channel is gaining increasing importance (due to a wide product range and price comparability).

Figure 30. Preferred sales channels

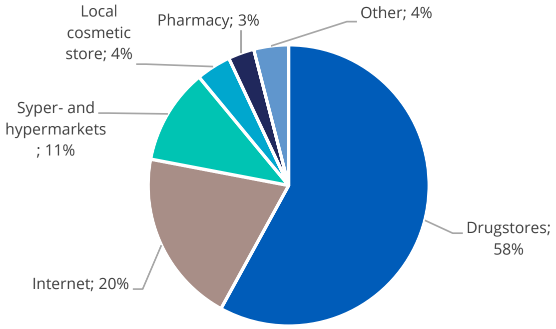
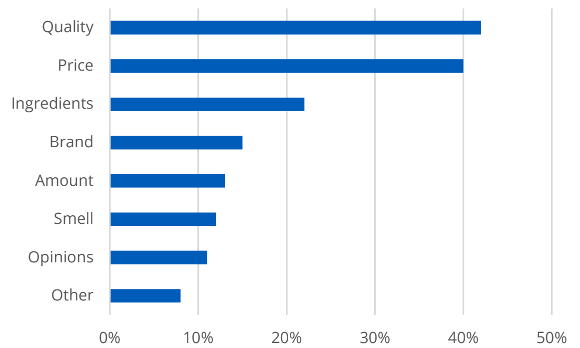


Figure 31. Factors determining the choice of cosmetics (multiple choice)



Source: Payback Opinion Poll, IPOPEMA Research

Highly fragmented market

The Polish cosmetics market is highly fragmented. Below we present some of the most well-known Polish cosmetics manufacturers:

- **Ziaja** – Ziaja is a producer of pharmaceuticals and cosmetics for face, body, and hair care. The company sells its products through its own stores ("Ziaja dla Ciebie"), online, as well as in retail chains, drugstores, and pharmacies in 30 foreign countries. According to EMIS data, Ziaja Ltd Zakład Produkcji Leków Sp. z o.o. reported revenues of PLN 381m in 2022 (+17% y/y) with an EBITDA margin of nearly 12%.
- **Eveline Cosmetics** – Eveline Cosmetics is a manufacturer and exporter of cosmetics products, with a focus on makeup products. According to EMIS data, Eveline Cosmetics Sp. z o.o. achieved revenues of PLN 333m in 2022 (+20% y/y) with a gross margin of nearly 27% and an EBITDA margin of almost 18%. The company's products are sold in over 70 countries worldwide, with exports accounting for nearly 70% of sales.
- **Dr Irena Eris** – Dr Irena Eris is a producer of cosmetics, including premium skincare, makeup, dermocosmetics, and mass-market cosmetics (Lirene and Under Twenty brands). The company's products are sold both in physical and online stores and are available in 74 countries (with exports contributing to almost 30% of revenues). In 2022, the "cosmetic products" segment generated revenues of PLN 266m (+11%y/y), with a gross margin of over 50% and an operating margin of nearly 14%. Additionally, the company operates in the hotel segment.
- **Inglot** – Inglot primarily offers cosmetics for makeup and nail care. The company sells its products in physical stores in 90 countries, as well as through online stores and marketplaces. In 2021, Inglot Sp. z o.o. reported revenues of PLN 163m (+11% y/y).
- **Bielenda** – Bielenda is a manufacturer of facial and body cosmetics, with its product range available in Poland and over 55 other countries. According to EMIS data, Bielenda Kosmetyki Sp. z o.o. generated revenues of PLN 166m in 2019. In January 2021, Innova Capital acquired a majority stake in Bielenda Kosmetyki Naturalne.

Risk factors

The major risk factors for our forecasts and valuation are as follows:

- **Risk related to a high level of debt.** As of 2Q23, the company had a gross debt of PLN 17.9m and PLN 15k in cash (net debt/EBITDA ratio of 18x). The majority of the debt consists of loans from the main shareholder. According to the payment schedule, PLN 2.0m of loans are due in October 2023, and an additional PLN 15.1m by December 2024. In our forecasts, we do not expect a significant reduction in the debt level, assuming the extension of loan repayment terms or settlement of receivables by offering shares to lenders as part of the target capital (according to resolution no. 8 from the EGM on 21 December 2021, the company's management is authorized to increase the share capital of the company through the issuance of new shares with a total nominal value not exceeding PLN 6.6m over three years at an issue price of not less than PLN 3.00 per share).
- **Risk related to consumer purchasing power.** Consumer sentiment is highly correlated to the level of inflation, the labour market (unemployment rates, wages), and pressure on the consumer’s purchasing power may result in reduced spending on cosmetics or changes in consumer habits.
- **Risk related to competitive environment.** The cosmetics market is highly fragmented and highly competitive. According to Cosmetics Europe, there are over 7k small and medium-sized enterprises in Europe operating as cosmetics producers (including over 700 companies in Poland). Stronger competition may not only affect the company’s pricing policy, but also affect the availability and/or cost of raw materials, and potentially higher marketing costs.
- **Risk related to cost of raw materials and changes in agreements with suppliers.** The company offers cosmetics and perfumes with its production outsourced to partners (over 30% of goods are supplied by two suppliers not related to the company). The cost of products can be affected by higher raw material costs, adjustment to legal regulations and exchange rates. The company’s gross margin is related to its negotiations with suppliers, as well as clients (including drugstores and discount stores).
- **Risk related to research and development.** The competitive pressure results in a need to invest in research and development of new and existing cosmetics.
- **Risk related to FX rates.** The company has exposure to FX rates (mainly USD and EUR), due to sales on foreign markets as well as some costs being carried in foreign currencies. The company does not engage in hedging activities.

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Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.
LLP – loan loss provisions – an expense set aside as an allowance for bad loans.
NPL – non-performing loan – loans that are in default or close to be in default.
Cost/Income – operating expenses divided by total banking revenue.
ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.
ROA – return on assets – net income (or adjusted net income) divided by the average assets.
EBIT – earnings before interests and tax.
EBITDA – earnings before interests, tax, depreciation and amortization.
EPS – earnings per share – the net income (or adjusted net income divided by the number of shares outstanding.
P/E – price to earnings ratio – price divided by earnings per share.
PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.
CAGR – compound annual growth rate.
BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.
P/BV – price to book value - price divided by the BVPS.
DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.
DY – dividend yield – dividend of a given year divided by the current price.
DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.
FV – Fair Value, calculated based on valuation methods outlined in the document.

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When applying ratings for companies following criteria are used with regards to the difference between IPOPEMA's FV and company's price at the date of recommendation:

Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (1 April – 30 June 2023)

	Number	%
Buy	73	72%
Hold	21	21%
Sell	7	7%
Total	101	100%

Rating History – Miraculum

Date	Recommendation	F V	Price at recommendation	Author
22/09/2023	HOLD	PLN 1.25	PLN 1.33	Marek Szymański