

EuroAPI Sanofi Spin-Off: Searching For Value In Small-Cap Event-Driven Equities

May 10, 2020 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

On May 6th 2022, Sanofi [completed](#) the [spin-off](#) of EuroAPI.

Shareholders received 1 share of EuroAPI for every 23 shares of Sanofi. Sanofi [distributed](#) 58% percent of EuroAPI shares while remaining 30% will be owned by Sanofi and EPIC Bpifrance (on behalf of French State) will own another 12%.

EuroAPI is a leading player in the active pharmaceutical ingredients (APIs) with a highly diverse portfolio of approximately 200 APIs (API Solutions) and also Contract Development and Manufacturing Organization (CDMO) activity.

Based on company's guidance for FY 2022, EuroAPI aims to achieve annual revenues of approximately EUR 1 billion, and a Core EBITDA margin equal or greater than 14% percent, which should provide EBITDA of about EUR 140 million.

Based on current market share price of EUR 14.41, company has a market cap of EUR 1,350 mil and is valued at an EV/EBITDA valuation multiple of x9.64 (FY 2022 est).

Over past three years EuroAPI achieved core EBITDA growth of 18% percent.

During next four years (FY 2022 - FY 2025) company plans to invest more than EUR 500 million in capital expenditures and we believe this will help it achieve similar rate of growth.

Assuming FY 2022 EBITDA guidance will be achieved and a 20% annual growth in EBITDA during FY 2023 - FY 2025, and x12.5 EV/EBITDA valuation multiple, in four years EuroAPI shares could be valued at EUR 30 per share.

This would provide a potential upside of more than 100% to current share price.

However, EuroAPI is a small capitalization company so risks are larger compared to mid or large cap companies, but we think that there is a reasonable chance that parent company will support the business and will make an effort for spin-off and share price to perform well.

