# Research

CEE | Equity Research

# Selvita

## Challenging outlook for Contract Pharma, but with signs of stabilization

**Buy**

**(Recent: Buy)**

**Target price: 45 PLN**
**upside potential: +45%**

**The contract pharmaceutical market remains under pressure as biotech firms continue to be cautious with spending—particularly on US market with regulatory uncertainty after Donald Trum's election. This trend persists even though there has been a modest rebound in the US and EU biotech IPO and secondary offering market. Despite this tough environment, in our view Selvita has a chance to slightly outperform the broader market in 2025-2026. This is largely due to its recent investments in expanding its sales team and shifting focus toward partnerships with large pharmaceutical companies. These efforts are likely to begin delivering results, though the improvement in earnings is expected to be gradual. Throughout 2025 we assume the level of research services provided in Drug Discovery services at PLN 286mln (+10% y/y), in Drug Development segment at PLN 94mln (+15% y/y). We see the SLV's EBITDA level at PLN 83mln with EBITDA margin at ca. 21%. In our view, the most challenging period for earnings growth appears to be behind the company, however, 2H25 may be burdened with slower contractation in US market due to politic and economic uncertainity. As a result, we maintain our recommendation at 'Buy' with a target price lowered to PLN 45 per share (from PLN 60 per share).**

**Time for rebound of Selvita's backlog?** The situation in the CRO services market clearly improved in 2H24, and since 2025, a slowdown in dynamics has been noticeable, related to the uncertain regulatory situation on US market (FDA, NIH). Despite these factors, SLV sees signs of thawing, evidenced by the signing of significant contracts with contractors. A positive aspect is recovery in R&D funding from Big Pharma.

**Possible slowdown of CRO services contraction in 2H25, US market as a tailwind.** From the beginning of 2025, there are visible factors slowing down the prospects for organic growth, especially in the context of regulatory uncertainty in the US market. Big Pharma is contracting research services at a lower level and waiting for the situation to stabilize after the change in presidential power. In our opinion, these aspects will be factors that slow down the contracting of research services in the Drug Discovery SLV segment in 2H25. In our opinion, the turmoil in the regulatory market may be temporary, which may stabilize in a period of 12-18 months, similar to the previous presidential transition. The Trump administration may contribute to a more efficient processing of regulatory applications in the US in the long term. After the stabilization of these trends, we see a great opportunity to return to pre-2024 levels of research services contracting in 2026.

**Positive sales mix sales develop the margins.** In 2024, SLV increased the share of revenues from Big Pharma from 17% (end of 2023) by approx. 51%, which allowed the EBITDA margin to increase in 4Q24 above 20% (change by approx. 4-5 p.p. vs 1-3Q24). The optimistic aspect is the favorable market forecasts regarding the number of projects, the increase in expenditures for their financing and the trend of increasingly larger budgets for outsourcing research services. In our opinion, the change in the client mix will be a positive factor, minimizing the risks associated with financing projects by smaller entities from the biotech industry.

**Forecasts.** We maintain our assumption that the change in the CRO services market environment and the intensification of SLV's sales activities are already slowly improving the dynamics of service contracting. Throughout 2025 we assume the level of research services provided in Drug Discovery services at PLN 286mln (+10% y/y), in Drug Development segment at PLN 94mln (+15% y/y). We see the SLV's EBITDA level at PLN 83mln with EBITDA margin at ca. 21%. In comparison to our Strategy outlook for 2024, we decrease our forecasts of the Group's top line and recurring EBITDA in 2025E by 11% and 17%. The main reason of forecasts decline is anticipated weak contraction on CRO market in 2H25. We also slightly lowered our forecasts for the next years, as a consequence of slower than expected global CRO market rebound in BioPharma R&D spending.

**Valuation.** The current valuation implies EV/EBITDA25-'27 5.0-8.0x and P/E'25-'27 9.7-25.8x. In our opinion, the Group will maintain a level of ND / EBITDA '25-'27 leverage in the 2-2.5x range. We value Selvita shares using the DCF method (100% weighting) at PLN 45 / share (+45% upside). Relative valuation to other CRO entities implies a valuation of SLV at PLN 54 / share, however, due to the different offer of SLV services compared to other listed CRO entities, we use the DCF method for the valuation of SLV shares. Key risks include: 1) Changes in regulatory frameworks; 2) Shifts in funding availability; 3) Intensifying competition within the contract pharma space. Detailed description is presented on page 16.

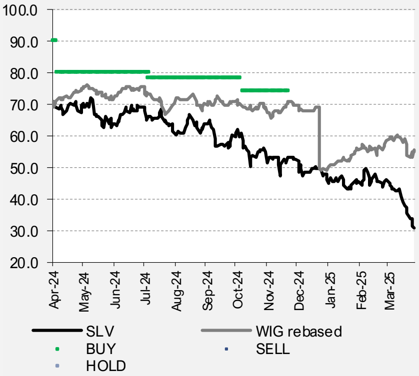
| PLNm | 2022 | 2023 | 2024 | 2025E | 2026E | 2027E |
|---|---|---|---|---|---|---|
| Revenues | 416 | 352 | 346 | 393 | 424 | 476 |
| EBITDA | 82 | 115 | 53 | 87 | 102 | 117 |
| EBITDA adj. | 113 | 74 | 56 | 87 | 102 | 117 |
| EBIT | 45 | 69 | 0 | 33 | 62 | 80 |
| Net profit | 33 | 70 | -6 | 22 | 13 | 10 |
| Net profit adj. | 34 | 17 | -6 | 22 | 44 | 59 |
| EPS (PLN) | 1.8 | 3.8 | -0.3 | 1.2 | 2.4 | 3.2 |
| P/E (x) | 17.5 | 8.1 | - | 25.8 | 12.9 | 9.7 |
| P/E (x) adj. | 16.6 | 33.2 | - | 25.8 | 12.9 | 9.7 |
| EV/EBITDA (x) | 8.7 | 6.5 | 14.5 | 8.0 | 6.0 | 5.0 |
| EV/EBITDA (x) adj. | 6.2 | 10.1 | 13.7 | 8.0 | 6.0 | 5.0 |
| P/BV (x) | 2.1 | 1.7 | 1.8 | 1.7 | 1.5 | 1.3 |
| DY (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

*Source: Company, Trigon DM. * values adjusted by one-offs, ESOP and minorities interest*

FACT SHEET

| | | | |
|---|---|---|---|
| Ticker | | | **SLV** |
| Sector | | | **Biotech & MedTech** |
| Price (PLN) | | | **31** |
| 52wk Range (PLN) | | | **30.7 / 73** |
| Number of share (m ) | | | **18.9** |
| Market Cap (mPLN) | | | **587** |
| Free-float | | | **52%** |
| Avg Vol 3M (mPLN) | | | 0.3 |
| Price performance | **1M** | **3M** | **1Y** |
| | -31% | -30% | -55% |

RELATIVE SHARE PRICE PERFORMANCE




| RECOMMENDATIONS | DATE | TP |
|---|---|---|
| Buy | 05.12.2024 | 60 |
| Hold | 19.10.2024 | 75 |
| Buy | 19.07.2024 | 79 |
| Buy | 18.04.2024 | 81 |
| Buy | 11.12.2023 | 91 |
| Buy | 23.10.2023 | 95 |
| Buy | 22.07.2023 | 97 |

| SHAREHOLDERS | Share % |
|---|---|
| Paweł Przewięźlikowski | 16.2% |
| Allianz TFI | 11.5% |
| NN OFE | 10.4% |
| Augebit FIZ (TFI Forum) | 5.1% |
| Other | 51.7% |

| IMPORTAND DATES | |
|---|---|
| 1Q25 report | 22.05.2025 |
| 1H25 report | 18.09.2025 |
| 3Q25 report | 20.11.2025 |

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**Glossary of professional terms:**
capitalisation – market price multiplied by the number of a company's shares
free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company
min/max 52 wks – lowest/highest share price over the previous 52 weeks
average turnover – average volume of share trading over the previous month

EBIT – operating profit
EBITDA – operating profit before depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
CAPEX – sum of investment expenditures on fixed assets
OCF – cash generated through a company's operating activities
FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets
ROA – rate of return on assets
ROE – rate of return on equity
ROIC – rate of return on invested capital
NWC – net working capital
cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services
gross profit margin – ratio of gross profit to net revenue
EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – ratio of operating profit to net revenue
net margin – ratio of net profit to net revenue
EPS – earnings per share
DPS – dividend per share
P/E – ratio of market price to earnings per share
P/BV – ratio of market price to book value per share
EV/EBITDA – ratio of a company's EV to EBITDA
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, ratio of dividends paid to share price
RFR – risk free rate
WACC – weighted average cost of capital

**Recommendations of the Brokerage House**
Issuer – SELVITA S.A.
BUY – we expect the total return on an investment to reach at least 15%
HOLD  we expect the price of an investment to be largely stable, with potential upside of up to 15%
SELL – we expect negative total return on an investment of more than -0%

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Document prepared by: Katarzyna Kosiorek

**Valuation methods used**

The Discounted Cash Flow (DCF) method values a company by estimating its future cash flows and discounting them back to their present value.
- Advantages: future-oriented, flexible when it comes to assumptions, based on the intrinsic value of a company, widely accepted.
- Disadvantages: sensitivity to assumptions, complexity, subjectivity, doesn't consider market sentiment or short-term fluctuations.
The comparable valuation method values a company by comparing it to similar publicly traded companies.
- Advantages: simplicity, transparency, benchmarking, reflects current market valuations and investor sentiment.
- Disadvantages: lack of specificity, limited comparables, sensitive to market fluctuations, ignoring fundamental differences.
SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.
Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.
Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.
Risk-adjusted net present value method (rNPV)
Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.
Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.
Discounted residual income method (DRI)
Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.
Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.
Discounted dividend model (DDM)
Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.
Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.
Net asset value method (NAV)
Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.
Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.
Target multiple method
Advantages: the method can be applied to any company.
Disadvantages: it involves a high degree of subjectivity.
Replacement value method – it assesses the value of a company based on the costs of replacing its assets.
Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.

Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.
Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.
Advantages: the method can capture the lowest threshold of a company's value.
Disadvantages: it may be hard to capture the value of a company's intangibles.

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