

Formycon AG

Germany / Biopharmaceuticals

Xetra

Bloomberg: FYB GR

ISIN: DE000A1EWVY8

Q2 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 48.00**

38.0%

High

PRODUCT PORTFOLIO CONTINUES TO DEVELOP RAPIDLY

Q2/17 revenue jumped 89% to €4.8m (Q2/16: €2.5m; FBe: €5.0m) while EBITDA came in at €-2.0m (Q2/16: €-0.8m; FBe -€1.8m). Revenue in both Q2/17 and Q2/16 stemmed from the reimbursement of development costs of FYB201 and FYB203 by Bioeq IP AG and Santo Holding respectively. The increase in revenues was attributable to a higher volume of development work on these products. Losses at the EBITDA and net level widened in Q2/17 because of higher spending on FYB202 which was not partnered during the second quarter. In July Formycon signed a term sheet with Santo Holding for the conclusion of a drug-development cooperation with respect to FYB202. Formycon had announced in May that the reference product for FYB202 (the third of the four biosimilar drugs it has under development) is Stelara. Stelara is indicated for psoriasis, psoriatic arthritis and Crohn's disease. Stelara's worldwide sales rose 17.3% to USD1.8bn in H1/17. Formycon's product portfolio continues to develop rapidly and management's aim is that the company's biosimilar products should be the first to market following the expiry of the patents on their reference products from 2020 onwards. Success-based payments are expected to be in the triple digit millions of Euro over the lifetime of each of Formycon's biosimilars. We continue to see fair value for the Formycon share at €48.00 and maintain our Buy recommendation.

FYB202 deal to raise H2/17 profitability Formycon signed a term sheet with Santo Holding (Santo) for a drug-development cooperation with respect to FYB202 in July. Formycon's participation will be up to 30%. Santo will hold the remaining interest. The deal stipulates that development costs, including project investments to date will be borne by the two partners in proportion to their ownership stakes. We expect this deal to push full year net profit to breakeven.

FYB201/FYB203 development to accelerate in H2/17 Revenues were €8.1m at the H1/17 stage (H1/16: €8.8m). Management reiterated FY17 revenue guidance... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016	2017E	2018E
Revenue (€m)	0.41	12.67	17.15	19.66	28.20	29.30
Y-o-y growth	n.a.	2970.3%	35.4%	14.6%	43.4%	3.9%
EBIT (€m)	-7.74	0.87	0.54	-4.07	0.11	0.15
EBIT margin	-1876.5%	6.9%	3.1%	-20.7%	0.4%	0.5%
Net income (€m)	-7.74	0.86	0.58	-4.07	0.29	0.36
EPS (diluted) (€)	-0.90	0.10	0.06	-0.45	0.03	0.04
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.00	-0.63	-0.24	-6.40	1.87	-1.01
Net gearing	-74.5%	-70.4%	-81.6%	-66.9%	-81.2%	-76.5%
Liquid assets (€m)	10.38	9.22	20.30	13.97	21.34	20.34

RISKS

Product failures, lack of funding, change in regulatory environment, new product innovations making biosimilars obsolete

COMPANY PROFILE

Formycon AG is a Munich, Germany based pharmaceuticals company specializing in the development of biosimilars, e.g. generic versions of biotechnology products.

MARKET DATA

As of 29 Sep 2017

Closing Price	€ 34.80
Shares outstanding	9.34m
Market Capitalisation	€ 325.12m
52-week Range	€ 17.85 / 39.32
Avg. Volume (12 Months)	14,246

Multiples	2016	2017E	2018E
P/E	n.a.	1118.4	910.0
EV/Sales	15.8	11.0	10.6
EV/EBIT	n.a.	2834.9	2086.7
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2017

Liquid Assets	€ 14.42m
Current Assets	€ 16.84m
Intangible Assets	€ 0.89m
Total Assets	€ 21.25m
Current Liabilities	€ 1.60m
Shareholders' Equity	€ 17.98m

SHAREHOLDERS

Founders	23.5%
Institutional Investors	50.0%
Free Float	26.5%



...of €25m in the Q2 press release. We expect the implied doubling of revenues in the second half versus the first half to stem from an acceleration of development work on FYB201 and FYB203 but also from the initial impact of the FYB202 deal.

Figure 1: Q2/17 results versus our forecasts

in EURm	Q2/17A	Q2/17E	Delta	Q2/16A	Delta
Total revenue	4.75	5.00	-5.0%	2.51	89.2%
EBITDA	-1.99	-1.80	n.m.	-0.81	n.m.
margin	n.m.	n.m.	-	n.m.	-
Net income	-2.20	-2.50	n.m.	-0.99	n.m.
margin	n.m.	n.m.	-	n.m.	-
EPS (€)	-0.24	-0.27	n.m.	-0.11	n.m.

Source: Formycon; First Berlin Equity Research

Balance sheet ungeared, equity accounted for 84% of total assets at end June

Formycon's cash and liquid assets position reached €14.4m (€15.7m including receivables) at the end of June - up from €14.0m (€19.2m including receivables) at the end of 2016. The cash and liquid assets position strengthened despite a first half net loss of €2.9m (H1/16: a loss of €1.2m) due mainly to a €3.9m reduction in receivables. Formycon had no financial debt at the end of either 2016 or June 2017. Consolidated equity fell from €20.9m (83% of the balance sheet total) at end 2016 to €18.0m (84% of the balance sheet total) at end June 2017.

Private placement raised gross proceeds of €6m in July In July 2017 Formycon closed a private placement transaction generating gross proceeds of €6m through the issue of 190,500 shares at €31.50 per share. The proceeds are being used to fund the co-investment in FYB202 and the ongoing development of the biosimilar drug portfolio.

Combined Lucentis/Eylea sales climbed 6.5% to USD4.4bn in H1/17 Formycon is focused on the "third wave" of biosimilars, i.e. on biosimilars whose reference products go off patent after 2020. The company currently has four biosimilars under development as shown in figure 2 below. The reference products for FYB201 and FYB203 are respectively Lucentis and Eylea. Lucentis and Eylea are intraocular anti-VEGF (vascular endothelial growth factor) drugs which are indicated for ophthalmic conditions including age-related macular degeneration and diabetic macular edema. Combined sales of Lucentis and Eylea climbed 6.5% during H1/17 to USD4.4bn (H1/16: USD4.1bn). This figure corresponds to ca. 90% of the value of the intraocular anti-VEGF market.

Stelara sales up 17.3% at USD1.8bn in H1/17 In May of this year Formycon announced that the reference product for FYB202 is Stelara. Stelara is a human interleukin-12 and -23 antagonist indicated for psoriasis, psoriatic arthritis and Crohn's disease. Stelara's worldwide sales rose 17.3% to USD1.8bn in H1/17 (H1/16: USD1.5bn). Stelara is one of five drugs indicated for psoriasis and psoriatic arthritis with worldwide annual sales of over USD1bn. Stelara's growth during H1/17 was in part attributable to FDA and EMA approval of the drug for Crohn's Disease in H2/16. Stelara's sales growth should receive further impetus from its expected launch for ulcerative colitis in 2018/19.

Figure 2: Formycon's current product pipeline

Product candidate	Originator (INN)	Disease area	Partner	Clinical Phase
FYB201	Lucentis Ranibizumab	Ophthalmology	Bioeq IP AG	Phase III
FYB202	Stelara Ustekinumab	Psoriasis, psoriatic arthritis Crohn's disease	Santo Holding GmbH	Preclinical
FYB203	Eylea Aflibercept	Ophthalmology	Santo Holding GmbH	Preclinical
FYB205	Undisclosed	Undisclosed	not partnered	Preclinical

Source: Formycon



We maintain our Buy recommendation and price target of €48.00 Formycon's product portfolio continues to develop rapidly and management's aim is that the company's biosimilar products should be the first to market following the expiry of the patents on their reference products from 2020 onwards. Success-based payments are expected to be in the triple digit millions of Euro over the lifetime of each of Formycon's biosimilars. We have not made any changes to our forecasts following the Q2/17 results and continue to see fair value for the Formycon share at €48.00. We maintain our Buy recommendation.

Figure 3: Pipeline valuation

Compound	Project ¹⁾	Present Value	Patient Pop	Treatment Cost	Market Size	Market Share	Peak Sales	PACME Margin ²⁾	Discount Factor	Patent Life ³⁾	Time to Market
FYB201	nAMD,DR (ex-US)	€66M	270K	€5,250	€1,418M	17%	€403M	2%	15%	n.a.	5 Years
FYB201	nAMD,DR (US)	€86M	113K	€9,068	€1,025M	17%	€407M	12%	5%	n.a.	3 Years
FYB202	Pso,CrD (ex-US)	€41M	40K	€27,500	€1,101M	17%	€391M	2%	15%	n.a.	7 Years
FYB202	Pso,CrD (US)	€142M	57K	€44,750	€2,572M	17%	€890M	12%	15%	n.a.	6 Years
FYB203	nAMD,DR (ex-US)	€58M	197K	€4,859	€957M	17%	€271M	12%	15%	n.a.	8 Years
FYB203	nAMD,DR (US)	€193M	212K	€8,591	€1,821M	17%	€724M	12%	15%	n.a.	6 Years
FYB205	n.a.	€87M									
PACME PV		€673M									
Costs PV ⁴⁾		€271M									
NPV		€402M									
Downpayments and Milestones		€29M									
Net Cash		€20M									
Fair Value		€450M									
Share Count		9,344K									
Fair Value Per Share		€48.16									

1) A project typically refers to a specific indication or, where necessary or relevant, a combination between indication and geographic market

2) PACME (Profit After Costs and Marketing Expenses) reflects the company's profit share on future revenues.

This share may be derived in the form of royalties (outsourced marketing/manufacturing) or operating EBITDA margin (in-house model),

3) Remaining patent life after the point of approval

4) Includes company-level R&D, G&A, Financing Costs and CapEx; COGS and S&M are factored into the PACME margin for each project

Source: First Berlin Equity Research



INCOME STATEMENT

All figures in EURm	2014A	2015A	2016A	2017E	2018E
Revenue	12.7	17.2	19.7	28.2	29.3
Increase/decrease in unfinished products	0.0	0.0	0.0	0.0	0.0
Total output	12.7	17.2	19.7	28.2	29.3
Cost of goods sold	-5.9	-11.1	-17.9	-21.9	-22.1
Gross profit	6.8	6.1	1.7	6.3	7.2
Personnel costs	-2.9	-3.2	-3.4	-3.5	-4.0
Depreciation and amortisation	-1.1	-0.9	-0.7	-0.8	-1.0
Other operating income	0.0	0.1	0.1	0.1	0.1
Other operating expenses	-1.9	-1.5	-1.8	-2.0	-2.2
Operating income (EBIT)	0.9	0.5	-4.1	0.1	0.1
Net financial result	0.0	0.0	0.0	0.2	0.2
Pre-tax income (EBT)	0.9	0.6	-4.1	0.3	0.4
Income taxes	0.0	0.0	0.0	0.0	0.0
Net income / loss	0.9	0.6	-4.1	0.3	0.4
Diluted EPS (in €)	0.10	0.06	-0.45	0.03	0.04
EBITDA	1.9	1.5	-3.4	0.9	1.1
Ratios					
Gross margin on output	53.3%	35.4%	8.8%	22.3%	24.6%
EBIT margin on output	6.9%	3.1%	-20.7%	0.4%	0.5%
EBITDA margin on output	15.3%	8.6%	-17.2%	3.2%	3.8%
Net margin on output	6.8%	3.4%	-20.7%	1.0%	1.2%
Tax rate	-0.2%	-0.2%	0.1%	0.0%	0.0%
Expenses as % of output					
Cost of goods sold	-46.7%	-64.6%	-91.2%	-77.7%	-75.4%
Personnel costs	-22.9%	-18.7%	-17.3%	-12.4%	-13.7%
Depreciation and amortisation	-8.5%	-5.4%	-3.6%	-2.8%	-3.2%
Net other operating exp.	-15.0%	-8.2%	-8.6%	-6.7%	-7.2%
Y-Y Growth					
Revenues	2970.3%	35.4%	14.6%	43.4%	3.9%
Operating income	n.m.	-38.1%	n.m.	n.m.	35.9%
Net income/ loss	n.m.	-32.9%	n.m.	n.m.	24.9%



BALANCE SHEET

All figures in EURm	2014A	2015A	2016A	2017E	2018E
Assets					
Current assets, total	12.8	23.3	20.7	27.0	28.1
Cash and cash equivalents	0.3	0.6	3.0	1.4	1.5
Other liquid assets	8.9	19.7	11.0	19.9	18.9
Receivables	3.3	2.8	5.2	4.2	5.9
Inventories	0.3	0.2	0.6	0.6	0.7
Other current assets	0.0	0.0	0.9	0.8	1.2
Non-current assets, total	4.1	3.8	4.5	3.5	4.4
Shares in affiliated companies	0.0	0.0	0.0	0.0	0.0
Loans to affiliated companies	0.0	0.0	0.0	0.0	0.0
Property, plant & equipment	2.7	2.6	3.4	2.5	3.5
Goodwill & other intangibles	1.3	1.1	1.0	0.8	0.7
Other assets	0.0	0.1	0.1	0.2	0.2
Total assets	16.9	27.1	25.2	30.5	32.5
Shareholders' equity & debt					
Current liabilities, total	3.3	1.6	3.6	3.1	4.1
Accounts payable	2.3	0.6	2.3	2.0	2.6
Other current liabilities	1.0	1.0	1.3	1.1	1.5
Long-term liabilities, total	0.5	0.7	0.7	1.1	1.8
Provisions	0.5	0.7	0.7	1.1	1.2
Other liabilities	0.0	0.0	0.0	0.0	0.6
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	13.1	24.9	20.9	26.3	26.6
Total consolidated equity and debt	16.9	27.1	25.2	30.5	32.5
Key figures					
Current ratio (x)	3.94	14.52	5.79	8.70	6.85
Quick ratio (x)	3.83	14.38	5.61	8.52	6.67
Financial leverage (%)	-70.4	-81.6	-66.9	-81.2	-76.5
Book value per share (€)	1.52	2.74	2.30	2.86	2.89
Return on equity (ROE)	6.4%	3.0%	-17.8%	1.2%	1.4%



CASH FLOW STATEMENT

All figures in EURm	2014A	2015A	2016A	2017E	2018E
EBIT	0.9	0.5	-4.1	0.1	0.1
Depreciation and amortisation	1.1	0.9	0.7	0.8	1.0
EBITDA	1.9	1.5	-3.4	0.9	1.1
Changes in working capital	-2.0	-1.1	-1.7	0.5	-0.5
Other adjustments	0.0	0.1	0.1	0.2	0.2
Operating cash flow	0.0	0.5	-5.0	1.6	0.8
CAPEX	-0.6	-0.6	-1.4	0.3	-1.8
Free cash flow	-0.6	-0.1	-6.4	1.9	-1.0
Debt financing, net	0.0	0.0	0.0	0.0	0.0
Equity financing, net	0.0	11.2	0.1	5.5	0.0
Other changes in cash	0.0	0.0	0.0	0.0	0.0
Net cash flows	-0.6	11.1	-6.3	7.4	-1.0
Cash and liquid assets, start of the year	0.9	9.2	20.3	14.0	21.3
Cash and liquid assets, end of the year	0.3	20.3	14.0	21.3	20.3
EBITDA/share (in €)	0.2	0.2	-0.4	0.1	0.1
Y-Y Growth					
Operating cash flow	n.a.	n.m.	n.m.	n.m.	-53.0%
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	-26.8%	n.m.	n.m.	20.3%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	17 April 2013	€3.50	Buy	€7.30
2...18	↓	↓	↓	↓
19	27 November 2016	€18.68	Buy	€45.00
20	4 May 2017	€28.30	Buy	€45.00
21	29 August 2017	€33.43	Buy	€48.00
22	Today	€34.80	Buy	€48.00

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- key sources of information in the preparation of this research report
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