Formycon AG

Germany / Biopharmaceuticals
Xetra
Bloomberg: FYB GR
ISIN: DE000A1EWVY8

Q1 2018 results

RATING	**BUY**
PRICE TARGET	**€ 53.00**
Return Potential	44.2%
Risk Rating	High

FORMYCON RECEIVES €8.5M CREDIT FOR PAST INVESTMENT IN FYB202

Formycon's Q1/18 results were well above our expectations because the company booked an €8.5m credit in revenue and profits relating to past investment in FYB202. Sales came in at €13.7m (FBe: €5.0m; Q1/17: €3.4m) while EBIT was €6.7m (FBe: €0.0m; Q1/17: €-0.7m). Formycon and Aristo Pharma GmbH formed a joint venture to further develop FYB202 at the end of 2017. Formycon's share of the J.V. is 24.9%. The €8.5m credit reflects the development work carried out by Formycon during 2013-16 – i.e. prior to the J.V.'s foundation. Formycon will be able to deduct €8.5m from its 24.9% share of future development spending in FYB202, but will be entitled to a 24.9% share of licensing and marketing revenues generated by the J.V. We are raising our price target to €53.0 (previously: €52.0) to reflect the present value of the €8.5m reduction in Formycon's funding obligation to the J.V. We maintain our Buy recommendation.

FYB will make €8.5m in cash savings during FYB202 development 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. Worldwide sales rose 17.5% to USD4.0bn in 2017 (2016: USD3.4bn). Patent protection for Stelara expires in September 2023 in the US and in July 2024 in the EU. In Q4/17 Formycon booked a single digit sum in return for contributing the project rights to the FYB202 joint venture company. Formycon received the cash associated with this transaction during Q1/18. This was the main reason for the decline in Formycon's receivables from €10.5m at the end of December to €3.2m at the end of March. The €8.5m credit booked in Q1/18 is a non-cash item but Formycon will make €8.5m in cash savings relative to its 24.9% share of spending on FYB202 during the development of the compound.

Focus on "third wave" of biosimilars Formycon is focused on the "third wave" of biosimilars, i.e. on biosimilars whose reference products go off patent after 2020. Besides FYB202, the company currently has three other biosimilars under development as shown in figure 2 overleaf. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017	2018E	2019E
Revenue (€ m)	12.59	16.92	19.53	29.00	35.00	24.20
Y-o-y growth	29.7%	34.5%	15.4%	48.5%	20.7%	-30.9%
EBIT (€ m)	0.87	0.54	-4.07	-1.54	4.00	-4.67
EBIT margin	6.9%	3.2%	-20.8%	-5.3%	11.4%	-19.3%
Net income (€ m)	0.86	0.58	-4.07	-1.58	4.19	-4.48
EPS (diluted) (€)	0.10	0.06	-0.45	-0.17	0.45	-0.48
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.63	-0.10	-6.40	-4.66	5.56	-3.10
Net gearing	-70.4%	-81.6%	-66.9%	-60.6%	-63.0%	-61.1%
Liquid assets (€ m)	9.22	20.30	13.97	15.48	21.04	17.94

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.

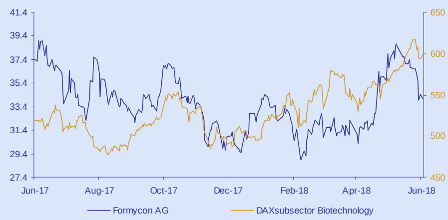
MARKET DATA

As of 05 Jun 2018

Closing Price	€ 36.75
Shares outstanding	9.34m
Market Capitalisation	€ 343.39m
52-week Range	€ 28.85 / 39.00
Avg. Volume (12 Months)	9,632

Multiples	2017	2018E	2019E
P/E	n.a.	81.9	n.a.
EV/Sales	12.4	10.3	14.9
EV/EBIT	n.a.	90.0	n.a.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2017

Liquid Assets	€ 15.48m
Current Assets	€ 26.36m
Intangible Assets	€ 0.86m
Total Assets	€ 30.83m
Current Liabilities	€ 3.44m
Shareholders' Equity	€ 25.54m

SHAREHOLDERS

Institutional Investors	50.0%
Founders and Management	20.0%
Free Float	30.0%

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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 opthalmic conditions including age-related macular degeneration and diabetic macular edema. Combined sales of Lucentis and Eylea climbed 9.3% during 2017 to USD9.3bn (2016: USD8.5bn). This figure corresponds to ca. 90% of the value of the intraocular anti-VEGF market.

Figure 1: Q1/18 results versus our forecasts

in EURm	Q1-18A	Q1-18E	Delta	Q1-17E	Delta
Revenue	13.69	5.00	173.8%	3.38	305.0%
EBIT	6.68	0.00	n.m.	-0.70	n.m.
margin	n.m	n.m.	-	n.m.	-
Net income	6.67	0.00	n.m.	-0.71	n.m.
margin	*n.m.*	*n.m.*	-	*n.m.*	-
EPS (€)	0.71	0.00	n.m.	-0.08	n.m.

Source: Formycon; First Berlin Equity Research estimates

Success of FYB201 phase III trial In early May, Formycon announced that based on interim results FYB201 had achieved the primary endpoint of its phase III trial. The primary endpoint of the trial is confirmation of comparable efficacy between FYB201 and the reference product, Lucentis, in the indication neovascular age-related macular degeneration. FYB201 is the furthest advanced of Formycon's biosimilar candidates. Bioeq GmbH began recruitment of patients for a global phase III trial with the compound in February 2016. The last patient in the trial, in which patients are treated for a total of 48 weeks, is expected to complete treatment later in the current quarter. We expect the release of final results from the trial during Q3 of this year and the submission of a Biologics License Application (BLA) to the FDA in either Q4 2018 or Q1 2019. Patent expiry for Lucentis is June 2020 in the US and January 2022 in the EU. Formycon's management expects that the company's biosimilar products will be the first to market following the expiry of the patents on their reference products from 2020 onwards. News that FYB201 has achieved the primary endpoint of its phase III trial keeps Formycon on track to achieve this goal.

Figure 2: Formycon's current product pipeline

Source: Formycon

We expect clinical development of FYB202 and FYB203 from 2019 Patent protection for Eylea expires in June 2023 in the US and in May 2025 in the EU. FYB202 and FYB203 are currently at the preclinical stage. We expect clinical development of these products to begin in 2019. Formycon has not yet revealed FYB205's reference product.

Low double digit royalties on FYB201 and FYB203 Formycon concluded partnerships for FYB201 and FYB203 in 2013 and 2015 respectively. The partnership agreements for FYB201 and FYB203 entail a mid-single digit upfront payment to Formycon and funding of all development, production and marketing costs of the Formycon biosimilar by the partner. Formycon's expected sales participation (royalties) is in the double digit percentage range (depending on certain marketing and manufacturing milestones). The cumulative royalty income to Formycon from these partnerships is expected to exceed €100m for each product.

Under FYB202 JV deal Formycon receives up to 24.9% of revenues In December 2017 Formycon founded a joint venture for the development of FYB202 with Aristo Pharma GmbH, a subsidiary of Santo Holding GmbH. The structure of the FYB202 deal differs from those concluded for FYB201 and FYB203. Under the FYB202 deal Formycon will bear 24.9% of development costs but will also participate in up to 24.9% of worldwide marketing revenues.

Price target raised to €53.0 (previously: €52.0), Buy recommendation maintained 2018 revenue guidance given in the 2017 annual report published in early May was for a slight rise above the 2017 level of €29.0m. Management stated that 2018 profitability would be influenced by investments in non-outlicensed projects (FYB202 and FYB205). In the light of the Q1/18 results, Formycon is now guiding towards revenues of €35.0m and a significantly positive result. Changes to our forecasts are shown in figure 3 below. We are raising our price target to €53.0 (previously: €52.0) to reflect the present value of the €8.5m reduction in Formycon's funding obligation to the J.V. We maintain our Buy recommendation.

Figure 3: Changes to our forecasts

	2018E			2019E		
in €m	**Old**	**New**	**Delta**	**Old**	**New**	**Delta**
Revenues	29.30	35.00	19.5%	24.20	24.20	0.0%
EBIT	0.15	4.00	2566.7%	-4.67	-4.67	n.m.
margin	*neg.*	*neg.*	-	*neg.*	*neg.*	-
Net income	0.33	4.19	1171.0%	-4.48	-4.48	n.m.
margin	*neg.*	*neg.*	-	*neg.*	*neg.*	-
EPS (diluted, in €)	0.04	0.45	1022.6%	-0.48	-0.48	n.m.

Source: First Berlin Equity Research estimates

Figure 4: Pipeline valuation model

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)	€162M	327K	€4,813	€1,573M	17%	€339M	12%	12%	n.a.	4 Years
FYB201	nAMD,DR (US)	€144M	144K	€8,313	€1,197M	17%	€258M	12%	12%	n.a.	2 Years
FYB202	Pso,CrD (ex-US)	€44M	56K	€25,208	€1,404M	17%	€272M	12%	15%	n.a.	6 Years
FYB202	Pso,CrD (US)	€62M	47K	€41,021	€1,938M	17%	€375M	12%	15%	n.a.	5 Years
FYB203	nAMD,DR (ex-US)	€89M	417K	€4,454	€1,856M	17%	€611M	12%	15%	n.a.	7 Years
FYB203	nAMD,DR (US)	€153M	392K	€7,875	€3,085M	17%	€884M	12%	15%	n.a.	5 Years
FYB205	n.a.	€97M									
PACME PV		€753M									
Costs PV[4)]		€306M									
NPV		€447M									
Downpayments and Milestones		€28M									
Net Cash		€17M									
Fair Value		€491M									
Share Count		9,344K									
Fair Value Per Share		€52.58									

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

Figure 5: Changes to our pipeline valuation

	Old	New	Delta
PACME PV	€753M	€753M	**-0.1%**
Costs PV	€313M	€306M	-2.3%
NPV	€440M	€447M	**1.4%**
Downpayments and Milestones PV	€30M	€28M	-6.9%
Net Cash	€15M	€17M	7.2%
Fair Value	€486M	€491M	1.1%
Share Count	9,344K	9,344K	0.0%
Fair value per share	**€52.00**	**€52.58**	**1.1%**

Source: First Berlin Equity Research

INCOME STATEMENT

All figures in EURm	2014A	2015A	2016A	2017A	2018E	2019E
Revenue	**12.6**	**16.9**	**19.5**	**29.0**	**35.0**	**24.2**
Increase/decrease in unfinished products	0.0	0.0	0.0	0.4	0.0	0.0
Total output	**12.6**	**16.9**	**19.5**	**29.4**	**35.0**	**24.2**
Other operating income	0.1	0.2	0.1	0.1	0.1	0.1
Cost of goods sold	-5.9	-8.9	-15.4	-21.2	-21.3	-18.0
Gross profit	**6.8**	**8.3**	**4.3**	**8.4**	**13.8**	**6.3**
Personnel costs	-2.9	-3.9	-5.1	-6.3	-7.0	-8.0
Depreciation and amortisation	-1.1	-0.9	-0.7	-0.8	-0.8	-0.9
Other operating expenses	-1.9	-2.9	-2.6	-2.8	-2.1	-2.2
Operating income (EBIT)	**0.9**	**0.5**	**-4.1**	**-1.5**	**4.0**	**-4.7**
Net financial result	0.0	0.0	0.0	0.0	0.2	0.2
Pre-tax income (EBT)	**0.9**	**0.6**	**-4.1**	**-1.6**	**4.2**	**-4.5**
Income taxes	0.0	0.0	0.0	0.0	0.0	0.0
Net income / loss	**0.9**	**0.6**	**-4.1**	**-1.6**	**4.2**	**-4.5**
Diluted EPS (in €)	**0.10**	**0.06**	**-0.45**	**-0.17**	**0.45**	**-0.48**
EBITDA	**1.9**	**1.5**	**-3.4**	**-0.8**	**4.8**	**-3.8**
Ratios						
Gross margin on output	53.7%	48.9%	21.9%	28.4%	39.5%	26.1%
EBIT margin on output	6.9%	3.2%	-20.8%	-5.2%	11.4%	-19.3%
EBITDA margin on output	15.4%	8.7%	-17.3%	-2.6%	13.8%	-15.6%
Net margin on output	6.8%	3.4%	-20.8%	-5.4%	12.0%	-18.5%
Tax rate	-0.2%	-0.2%	0.1%	-0.2%	0.0%	0.0%
Expenses as % of output						
Cost of goods sold	-47.0%	-52.5%	-78.8%	-72.0%	-60.8%	-74.3%
Personnel costs	-23.0%	-22.8%	-26.1%	-21.5%	-20.0%	-33.1%
Depreciation and amortisation	-8.5%	-5.5%	-3.6%	-2.7%	-2.4%	-3.7%
Net other operating exp.	-14.4%	-16.0%	-12.6%	-9.1%	-5.7%	-8.7%
Y-Y Growth						
Revenues	2949.5%	34.5%	15.4%	48.5%	20.7%	-30.9%
Operating income	n.m.	-38.1%	n.m.	n.m.	n.m.	n.m.
Net income/ loss	n.m.	-32.9%	n.m.	n.m.	n.m.	n.m.

BALANCE SHEET

All figures in EURm	2014A	2015A	2016A	2017A	2018E	2019E
Assets						
Current assets, total	**12.8**	**23.3**	**20.7**	**26.6**	**28.8**	**23.4**
Cash and cash equivalents	0.3	0.6	3.0	4.5	1.8	1.2
Other liquid assets	8.9	19.7	11.0	11.0	19.3	16.7
Receivables	3.3	2.8	5.2	10.5	7.0	4.8
Inventories	0.3	0.2	0.6	0.6	0.7	0.6
Other current assets	0.0	0.0	0.9	0.1	0.1	0.0
Non-current assets, total	**4.1**	**3.8**	**4.5**	**4.2**	**11.2**	**10.5**
Shares in affiliated companies	0.0	0.0	0.0	0.0	0.0	0.0
Loans to affiliated companies	0.0	0.0	0.0	0.0	0.0	0.0
Property, plant & equipment	2.7	2.6	3.4	3.3	4.2	5.6
Goodwill & other intangibles	1.3	1.1	1.0	0.9	0.7	0.5
Other assets	0.0	0.1	0.1	0.1	6.3	4.4
Total assets	**16.9**	**27.1**	**25.2**	**30.8**	**40.1**	**34.0**
Shareholders' equity & debt						
Current liabilities, total	**3.3**	**1.3**	**2.6**	**3.4**	**4.6**	**3.1**
Accounts payable	2.3	0.6	2.3	1.8	2.5	1.7
Other current liabilities	1.0	0.7	0.3	1.7	2.1	1.5
Long-term liabilities, total	**0.5**	**0.9**	**1.7**	**1.8**	**2.1**	**1.4**
Provisions	0.5	0.7	0.7	1.3	1.4	1.0
Other liabilities	0.0	0.3	1.0	0.6	0.7	0.5
Minority interests	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Shareholders' equity	**13.1**	**24.9**	**20.9**	**25.5**	**33.4**	**29.4**
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0
Total consolidated equity and debt	**16.9**	**27.1**	**25.2**	**30.8**	**40.1**	**34.0**
Key figures						
Current ratio (x)	3.94	17.45	7.91	7.75	6.33	7.45
Quick ratio (x)	3.83	17.28	7.67	7.59	6.18	7.26
Financial leverage (%)	-70.4	-81.6	-66.9	-60.6	-63.0	-61.1
Book value per share (€)	1.52	2.74	2.30	2.78	3.63	3.19
Return on equity (ROE)	6.4%	3.0%	-17.8%	-6.8%	14.2%	-14.3%

CASH FLOW STATEMENT

All figures in EURm	2014A	2015A	2016A	2017A	2018E	2019E
EBIT	**0.9**	**0.5**	**-4.1**	**-1.5**	**4.0**	**-4.7**
Depreciation and amortisation	1.1	0.9	0.7	0.8	0.8	0.9
EBITDA	**1.9**	**1.5**	**-3.4**	**-0.8**	**4.8**	**-3.8**
Changes in working capital	-2.0	-1.1	-1.7	-3.4	4.5	0.7
Other adjustments	0.0	0.1	0.1	0.0	-2.1	2.1
Operating cash flow	**0.0**	**0.5**	**-5.0**	**-4.2**	**7.2**	**-1.0**
CAPEX	-0.6	-0.6	-1.4	-0.5	-1.6	-2.1
Free cash flow	**-0.6**	**-0.1**	**-6.4**	**-4.7**	**5.6**	**-3.1**
Debt financing, net	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Equity financing, net	**0.0**	**11.2**	**0.1**	**6.2**	**0.0**	**0.0**
Other changes in cash	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flows	**-0.6**	**11.1**	**-6.3**	**1.5**	**5.6**	**-3.1**
Cash and liquid assets, start of the year	0.9	9.2	20.3	14.0	15.5	21.0
Cash and liquid assets, end of the year	**0.3**	**20.3**	**14.0**	**15.5**	**21.0**	**17.9**
EBITDA/share (in €)	**0.2**	**0.2**	**-0.4**	**-0.1**	**0.5**	**-0.4**

Y-Y Growth						
Operating cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.a.	-26.8%	n.m.	n.m.	n.m.	n.m.

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...21	↓	↓	↓	↓
22	2 October 2017	€34.80	Buy	€48.00
23	3 May 2018	€34.80	Buy	€52.00
24	8 May 2018	€38.15	Buy	€52.00
25	Today	€36.75	Buy	€53.00

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INFORMATION PURSUANT TO SECTION 34B OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO THE GERMAN ORDINANCE ON THE ANALYSIS OF FINANCIAL INSTRUMENTS [FINANV]

First Berlin Equity Research GmbH (hereinafter referred to as: “First Berlin”) prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

CONFLICTS OF INTEREST

In accordance with Section 34b Paragraph 1 of the German Securities Trading Act [WpHG] and Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) financial analyses may only be passed on or publicly distributed if circumstances or relations which may cause conflicts of interest among the authors, the legal entities responsible for such preparation or companies associated with them are disclosed along with the financial analysis.

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First Berlin notes that is has concluded a contract with the issuer to prepare financial analyses and is paid for that by the issuer. First Berlin makes the financial analysis simultaneously available for all interested security financial services companies. First Berlin thus believes that it fulfils the requirements of section 64 WpHG for minor non-monetary benefits.

PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

BUY: An expected favourable price trend of more than 25% percent.

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

RISK ASSESSMENT

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