

# Formycon AG

Germany / Biopharmaceuticals

Xetra

Bloomberg: FYB GR

ISIN: DE000A1EWWY8

H1/20 results

**RATING****PRICE TARGET**

Return Potential

Risk Rating

**BUY****€ 39.00**

28.3%

High

## FYB202 TO JOIN FYB203 IN PHASE III DEVELOPMENT SHORTLY

Formycon's H1/20 results were close to our forecasts and the company budget. As in 2019, revenue stemmed from fees for development work on the outlicensed biosimilar candidates FYB201 and FYB203 and also from payments for the provision of development services to the FYB202 joint venture. H1/20 revenue at €16.5m was 4% below the prior year figure of €17.2m but revenue will pick up in H2/20 following the August start of the FYB203 phase III trial and the imminent start of the FYB202 phase III trial. Management is guiding for full year revenue of €35-40m compared with the 2019 figure of €33.2m. Meanwhile, resubmission of the FYB201 Biologics License Application is scheduled by the end of this year, which suggests that the company will enter the royalty phase from 2021/22. We maintain our Buy recommendation and price target of €39.0.

**FYB201 resubmission, FYB202/FYB203 phase III starts** Resubmission of the BLA for FYB201(reference product: Lucentis) by license partner Bioeq AG is scheduled by the end of this year. The phase III trial of FYB203 (reference product: Eylea) began in August and the phase III trial of FYB202 (reference product: Stelara) is expected to begin shortly.

**Pandemic crimped Lucentis/Eylea sales in H1/20** Figure 1 overleaf shows H1/20 sales development of the FYB201, FYB202 and FYB203 reference products respectively Lucentis, Stelara and Eylea. Novartis and Roche state that Lucentis sales fell during H1/20 because of SARS-CoV-2-related disruption of ophthalmology practices. The strong rise in Stelara sales was driven by FDA approval of the drug for ulcerative colitis last autumn and increasing use in Crohn's disease. Eylea sales inched ahead in H1/20 but Regeneron states that the pandemic reduced demand for the drug from April. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018	2019	2020E
Revenue (€m)	16.92	19.53	29.00	42.99	33.16	40.00
Y-o-y growth	34.0%	15.4%	48.5%	48.2%	-22.9%	20.6%
EBIT (€m)	0.54	-4.07	-1.54	7.13	-2.27	-4.00
EBIT margin	3.2%	-20.8%	-5.3%	16.6%	-6.9%	-10.0%
Net income (€m)	0.58	-4.07	-1.58	7.10	-2.29	-4.00
EPS (diluted) (€)	0.06	-0.45	-0.17	0.76	-0.23	-0.40
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.10	-6.40	-4.66	-3.73	-7.19	-6.53
Net gearing	-81.6%	-66.9%	-60.6%	-37.0%	-46.4%	-36.5%
Liquid assets (€m)	20.30	13.97	15.48	12.31	22.35	15.83

### 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 specialising in the development of biosimilars, e.g. generic versions of biotechnology products.

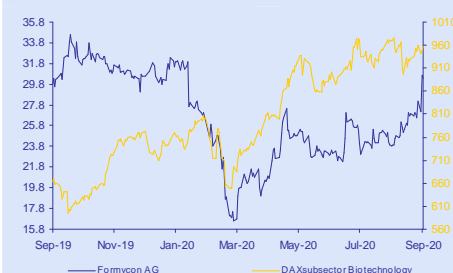
### MARKET DATA

As of 23 Sep 2020

Closing Price	€ 30.40
Shares outstanding	10.00m
Market Capitalisation	€ 304.00m
52-week Range	€ 16.65 / 34.60
Avg. Volume (12 Months)	8,305

Multiples	2018	2019	2020E
P/E	40.2	n.a.	n.a.
EV/Sales	6.6	8.6	7.1
EV/EBIT	39.8	n.a.	n.a.
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2020

Liquid Assets	€ 20.23m
Current Assets	€ 26.45m
Intangible Assets	€ 0.53m
Total Assets	€ 52.18m
Current Liabilities	€ 3.60m
Shareholders' Equity	€ 46.83m

### SHAREHOLDERS

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

**Figure 1: H1/20 results versus our forecasts**

in EURm	H1 20A	H1 20E	Delta	H1 19A	Delta
Revenue	16.51	16.00	3.2%	17.23	-4.2%
EBITDA	-0.90	0.50	n.m.	-0.20	n.m.
<i>margin</i>	-5.5%	3.1%	-	-1.2%	-
EBIT	-1.35	0.00	n.m.	-0.68	n.m.
<i>margin</i>	-8.2%	0.0%	-	-3.9%	-
Net income	1.38	0.00	n.m.	0.70	97.1%
<i>margin</i>	8.4%	0.0%	-	4.1%	-
EPS (€)	0.14	0.00	n.m.	0.07	97.1%

Source: Formycon; First Berlin Equity Research estimates

**Figure 2: H1/20 revenues of Formycon biosimilar candidates' reference products**

USDm	H1/20	H1/19	Delta
Lucentis	1,642	1,998	-17.8%
Stelara	3,516	2,963	18.7%
Eylea	3,609	3,582	0.8%
Total	8,767	8,543	2.6%

Source: Companies

**Tracking progress of leading competing biosimilar candidates** In our recent studies we have described the progress of competing biosimilar candidates. In our view there has been little significant news from competitors since our last update in June. Figure 3 below summarises the current status of leading competing biosimilar candidates.

**Figure 3: Status of leading competing biosimilar candidates**

Reference product	Competitor	Biosimilar candidate	Status
Lucentis	Samsung Bioepis Xbrane	SB11 Xlucane	Phase III complete; BLA submission pending Phase III top-line data expected Q2/21
Stelara	NeuClone	NeuLara	Final phase I study report scheduled Q3/20
Eylea	Momenta/Mylan	M710	Phase III study completion scheduled December 2020

Source: Companies

**Price target unchanged at €39.0. Buy recommendation maintained** Formycon raised €17.3m in new equity capital in 2019 and had a net cash and other securities position of €20.2m at the end of H1/20. The company thus has ample funds for further pipeline development. In May Formycon announced the existence of FYB206 – an unpartnered biosimilar project in the preclinical phase whose reference product has yet to be made public. Formycon has further early-stage pipeline biosimilar candidates, details of which have also not yet been made public. However, pending further news of the reference products behind FYB206 and other projects, we leave our valuation of these biosimilar candidates unchanged. Our forecasts are largely unchanged following the H1/20 results, and we maintain our Buy recommendation and price target of €39.0.



Figure 4: Pipeline valuation model

Compound	Project <sup>1)</sup>	Present Value	Patient Pop	Treatment Cost	Market Size	Market Share	Peak Sales	PACME Margin <sup>2)</sup>	Discount Factor	Patent Life <sup>3)</sup>	Time to Market
FYB201	nAMD,DR (ex-US)	€116M	327K	€5,250	€1,716M	17%	€306M	9%	13%	n.a.	3 Years
FYB201	nAMD,DR (US)	€108M	144K	€9,068	€1,305M	17%	€308M	9%	3%	n.a.	2 Years
FYB202	Pso,CrD (ex-US)	€53M	56K	€27,500	€1,532M	17%	€446M	9%	16%	n.a.	5 Years
FYB202	Pso,CrD (US)	€116M	47K	€44,750	€2,115M	17%	€996M	9%	6%	n.a.	4 Years
FYB203	nAMD,DR (ex-US)	€54M	417K	€4,859	€2,024M	17%	€515M	9%	16%	n.a.	6 Years
FYB203	nAMD,DR (US)	€87M	392K	€8,591	€3,365M	17%	€765M	9%	16%	n.a.	5 Years
FYB205,6,x	n.a.	€81M									
PACME PV		€616M									
Costs PV <sup>4)</sup>		€283M									
NPV		€332M									
Downpayments and Milestones		€38M									
Proforma net Cash		€20M									
Fair Value		€390M									
Share Count		10,000K									
Fair Value Per Share		€39.00									

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 estimates



## INCOME STATEMENT

All figures in EURm	2015A	2016A	2017A	2018A	2019A	2020E
<b>Revenue</b>	<b>16.9</b>	<b>19.5</b>	<b>29.0</b>	<b>43.0</b>	<b>33.2</b>	<b>40.0</b>
Increase/decrease in unfinished products	0.0	0.0	0.4	0.6	0.8	0.0
<b>Total output</b>	<b>16.9</b>	<b>19.5</b>	<b>29.4</b>	<b>43.6</b>	<b>32.3</b>	<b>40.0</b>
Other operating income	0.2	0.1	0.1	0.1	0.8	0.2
Cost of goods sold	-8.9	-15.4	-21.2	-25.8	-21.3	-27.8
<b>Gross profit</b>	<b>8.3</b>	<b>4.3</b>	<b>8.4</b>	<b>17.9</b>	<b>11.7</b>	<b>12.4</b>
Personnel costs	-3.9	-5.1	-6.3	-7.0	-9.1	-11.0
Depreciation and amortisation	-0.9	-0.7	-0.8	-0.9	-0.9	-0.8
Other operating expenses	-2.9	-2.6	-2.8	-3.0	-4.0	-4.6
<b>Operating income (EBIT)</b>	<b>0.5</b>	<b>-4.1</b>	<b>-1.5</b>	<b>7.1</b>	<b>-2.3</b>	<b>-4.0</b>
Net financial result	0.0	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax income (EBT)</b>	<b>0.6</b>	<b>-4.1</b>	<b>-1.6</b>	<b>7.1</b>	<b>-2.3</b>	<b>-4.0</b>
Income taxes	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income / loss</b>	<b>0.6</b>	<b>-4.1</b>	<b>-1.6</b>	<b>7.1</b>	<b>-2.3</b>	<b>-4.0</b>
<b>Diluted EPS (in €)</b>	<b>0.06</b>	<b>-0.45</b>	<b>-0.17</b>	<b>0.76</b>	<b>-0.23</b>	<b>-0.40</b>
<b>EBITDA</b>	<b>1.5</b>	<b>-3.4</b>	<b>-0.8</b>	<b>8.0</b>	<b>-1.4</b>	<b>-3.2</b>
<b>Ratios</b>						
Gross margin on output	48.9%	21.9%	28.4%	41.0%	36.3%	31.0%
EBIT margin on output	3.2%	-20.8%	-5.2%	16.4%	-7.0%	-10.0%
EBITDA margin on output	8.7%	-17.3%	-2.6%	18.4%	-4.2%	-7.9%
Net margin on output	3.4%	-20.8%	-5.4%	16.3%	-7.1%	-10.0%
Tax rate	-0.2%	0.1%	-0.2%	0.0%	-0.3%	0.0%
<b>Expenses as % of output</b>						
Cost of goods sold	-52.5%	-78.8%	-72.0%	-59.2%	-66.1%	-69.4%
Personnel costs	-22.8%	-26.1%	-21.5%	-16.1%	-28.1%	-27.4%
Depreciation and amortisation	-5.5%	-3.6%	-2.7%	-2.1%	-2.8%	-2.1%
Net other operating exp.	-16.0%	-12.6%	-9.1%	-6.5%	-10.0%	-11.1%
<b>Y-Y Growth</b>						
Revenues	34.5%	15.4%	48.5%	48.2%	-22.9%	20.6%
Operating income	-38.1%	n.m.	n.m.	n.m.	n.m.	n.m.
Net income/ loss	-32.9%	n.m.	n.m.	n.m.	n.m.	n.m.



## BALANCE SHEET

All figures in EURm	2015A	2016A	2017A	2018A	2019A	2020E
<b>Assets</b>						
<b>Current assets, total</b>	<b>23.3</b>	<b>20.7</b>	<b>26.6</b>	<b>18.7</b>	<b>28.1</b>	<b>24.3</b>
Cash and cash equivalents	0.6	3.0	4.5	7.3	22.1	12.0
Other liquid assets	19.7	11.0	11.0	5.0	0.2	3.8
Receivables	2.8	5.2	10.5	5.2	4.9	6.4
Inventories	0.2	0.6	0.6	1.2	0.4	2.0
Other current assets	0.0	0.9	0.1	0.1	0.4	0.1
<b>Non-current assets, total</b>	<b>3.8</b>	<b>4.5</b>	<b>4.2</b>	<b>20.9</b>	<b>25.5</b>	<b>26.0</b>
Investment participations	0.0	0.0	0.0	16.0	20.7	20.7
Property, plant & equipment	2.6	3.4	3.3	3.5	3.7	4.0
Goodwill & other intangibles	1.1	1.0	0.9	0.8	0.6	0.4
Prepaid expenses	0.1	0.1	0.1	0.1	0.1	0.1
Deferred tax assets	0.0	0.0	0.0	0.5	0.4	0.8
<b>Total assets</b>	<b>27.1</b>	<b>25.2</b>	<b>30.8</b>	<b>39.6</b>	<b>53.6</b>	<b>50.3</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>1.3</b>	<b>2.6</b>	<b>3.4</b>	<b>3.3</b>	<b>2.8</b>	<b>3.4</b>
Accounts payable	0.6	2.3	1.8	2.7	2.2	2.8
Other current liabilities	0.7	0.3	1.7	0.6	0.6	0.6
<b>Long-term liabilities, total</b>	<b>0.9</b>	<b>1.7</b>	<b>1.8</b>	<b>3.1</b>	<b>2.6</b>	<b>3.6</b>
Provisions	0.7	0.7	1.3	2.6	1.9	3.2
Other liabilities	0.3	1.0	0.6	0.5	0.7	0.4
<b>Minority interests</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Shareholders' equity</b>	<b>24.9</b>	<b>20.9</b>	<b>25.5</b>	<b>33.2</b>	<b>48.2</b>	<b>43.3</b>
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total consolidated equity and debt</b>	<b>27.1</b>	<b>25.2</b>	<b>30.8</b>	<b>39.6</b>	<b>53.6</b>	<b>50.3</b>
<b>Key figures</b>						
Current ratio (x)	17.45	7.91	7.75	5.64	10.15	7.23
Quick ratio (x)	17.28	7.67	7.59	5.27	10.00	6.64
Financial leverage (%)	-81.6	-66.9	-60.6	-37.0	-46.4	-36.5
Book value per share (€)	2.74	2.30	2.78	3.37	4.82	210.41
Return on equity (ROE)	3.0%	-17.8%	-6.8%	24.2%	-5.6%	-8.7%



## CASH FLOW STATEMENT

All figures in EURm	2015A	2016A	2017A	2018A	2019A	2020E
<b>EBIT</b>	<b>0.5</b>	<b>-4.1</b>	<b>-1.5</b>	<b>7.1</b>	<b>-2.3</b>	<b>-4.0</b>
Depreciation and amortisation	0.9	0.7	0.8	0.9	0.9	0.8
<b>EBITDA</b>	<b>1.5</b>	<b>-3.4</b>	<b>-0.8</b>	<b>8.0</b>	<b>-1.4</b>	<b>-3.2</b>
Changes in working capital	-1.1	-1.7	-3.4	5.3	0.6	-2.4
Other adjustments	0.1	0.1	0.0	0.0	-0.7	0.0
<b>Operating cash flow</b>	<b>0.5</b>	<b>-5.0</b>	<b>-4.2</b>	<b>13.3</b>	<b>-1.5</b>	<b>-5.6</b>
CAPEX	-0.6	-1.4	-0.5	-17.0	-5.7	-0.9
<b>Free cash flow</b>	<b>-0.1</b>	<b>-6.4</b>	<b>-4.7</b>	<b>-3.7</b>	<b>-7.2</b>	<b>-6.5</b>
<b>Debt financing, net</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.6</b>	<b>0.0</b>	<b>0.0</b>
<b>Equity financing, net</b>	<b>11.2</b>	<b>0.1</b>	<b>6.2</b>	<b>0.0</b>	<b>17.3</b>	<b>0.0</b>
Other changes in cash	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash flows</b>	<b>11.1</b>	<b>-6.3</b>	<b>1.5</b>	<b>-3.2</b>	<b>10.0</b>	<b>-6.5</b>
Cash and liquid assets, start of the year	9.2	20.3	14.0	15.5	12.3	22.4
<b>Cash and liquid assets, end of the year</b>	<b>20.3</b>	<b>14.0</b>	<b>15.5</b>	<b>12.3</b>	<b>22.4</b>	<b>15.8</b>
<b>EBITDA/share (in €)</b>	<b>0.2</b>	<b>-0.4</b>	<b>-0.1</b>	<b>0.9</b>	<b>-0.1</b>	<b>-0.3</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	-26.8%	n.m.	n.m.	n.m.	n.m.	n.m.

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Anschrift:

First Berlin Equity Research GmbH  
Mohrenstr. 34  
10117 Berlin  
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680

Fax: +49 (0) 30-80 93 9 687

E-Mail: [info@firstberlin.com](mailto:info@firstberlin.com)

Amtsgericht Berlin Charlottenburg HR B 103329 B

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First Berlin Equity Research GmbH

**Authored by: Simon Scholes, Analyst**

**All publications of the last 12 months were authored by Simon Scholes.**

**Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin**

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**Person responsible for forwarding or distributing this financial analysis: Martin Bailey**

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#### 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:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

<sup>1</sup> The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

##### RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

#### 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...28	↓	↓	↓	↓
29	7 June 2019	€32.00	Buy	€51.00
30	11 November 2019	€32.40	Buy	€51.00
31	7 February 2020	€28.10	Buy	€39.00
32	26 March 2020	€19.75	Buy	€39.00
33	19 May 2020	€24.70	Buy	€39.00
34	23 June 2020	€23.10	Buy	€39.00
35	Today	€30.40	Buy	€39.00

#### INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

#### UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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**Legally required information regarding**

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

**SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main**

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