

Formycon AG

Germany / Biopharmaceuticals

Xetra

Bloomberg: FYB GR

ISIN: DE000A1EWVY8

Athos deal

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 89.00**

32.2%

High

ATHOS DEAL WILL ACCELERATE GROWTH AND RAISE MARGINS

Formycon has announced a €650m transaction with the Strümgmann Brothers company, Athos KG, under which it will raise its participation in the two biosimilars FYB201 (reference product: Lucentis) and FYB202 (reference product: Stelara). In addition, Athos and Formycon shareholder Active Ownership will extend a €50m credit line to Formycon. We estimate that Formycon's royalty on FYB201 sales will rise from ca. 9% to ca. 15% and on FYB202 sales from ca. 9% to ca. 35% as a consequence of the deal. In return, Formycon will issue 4 million new shares to Athos. Following the transaction, which is expected to complete by the end of the current quarter, Athos will be the largest shareholder in Formycon with a 26.6% stake. This part of the transaction is valued at €83.41 per share or €334m. The balance of €316m is in the form of an earnout under which Athos will participate in FYB201 and FYB202 royalties. We expect the increase in royalties to Formycon as a result of the deal to greatly outweigh the impact of the 36% increase in shares outstanding and the cash outflow due to the earnout. Formycon has stated it can develop five biosimilars in parallel. Formycon's portfolio of biosimilar candidates currently consists of four named compounds - FYB201, FYB202, FYB203 and FYB206. The reference products for the first three of these compounds are known and we expect Formycon to announce the reference product for FYB206 later this year. We expect FYB201, FYB202 and FYB203 to have all reached the market by the end of 2024. This suggests that by 2025/26 Formycon will have four other biosimilar candidates in addition to FYB206 under development. Formycon and Athos' subsidiaries have co-financed the development of FYB201, FYB202 and FYB203 (reference product: Eylea). The higher royalty income stemming from the Athos deal and the proceeds from the credit line will enable Formycon to finance future biosimilar development independently of partners. This will raise the company's average royalty rate further. The outlook for both growth and margin expansion thus looks very favourable. We maintain our Buy recommendation and raise the price target from €78.00 to €89.00. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€m)	42.99	33.16	34.23	41.60	50.42	96.09
Y-o-y growth	48.3%	-22.9%	3.2%	21.5%	21.2%	90.6%
EBIT (€m)	7.13	-2.27	-5.73	-12.46	-2.07	53.49
EBIT margin	16.6%	-6.9%	-16.7%	-29.9%	-4.1%	55.7%
Net income (€m)	7.10	-2.29	-5.93	-12.46	-2.07	37.44
EPS (diluted) (€)	0.76	-0.23	-0.58	-1.13	-0.15	2.49
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-3.73	-7.19	-5.70	-14.24	-5.46	25.65
Net gearing	-37.0%	-46.4%	-62.1%	-68.5%	-68.3%	-69.8%
Liquid assets (€m)	12.31	22.35	42.25	58.48	64.23	89.88

RISKS

Product failures, failure to obtain funding, loss of key personnel.

COMPANY PROFILE

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

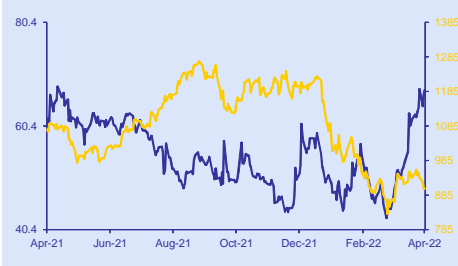
MARKET DATA

As of 13 Apr 2022

Closing Price	€ 67.30
Shares outstanding	11.06m
Market Capitalisation	€ 744.66m
52-week Range	€ 42.65 / 68.00
Avg. Volume (12 Months)	9,663

Multiples	2020	2021E	2022E
P/E	n.a.	n.a.	n.a.
EV/Sales	21.1	17.4	14.3
EV/EBIT	n.a.	n.a.	n.a.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2021

Liquid Assets	€ 33.63m
Current Assets	€ 44.07m
Intangible Assets	€ 0.72m
Total Assets	€ 70.94m
Current Liabilities	€ 9.47m
Shareholders' Equity	€ 58.81m

SHAREHOLDERS

Institutional Investors	50.0%
Founders and Management	15.0%
Free Float	35.0%

**Formycon will also acquire 100% of Athos' biosimilar development unit, Bioeq GmbH**

The exclusive commercialisation rights to FYB201 are held by Bioeq AG, which prior to the current deal was a 50/50 joint venture between Athos and the Polish pharmaceuticals manufacturer, Polpharma. Under the terms of the deal, Formycon will acquire a 50% stake in Bioeq AG via shares and project-tied payment obligations to Athos. As a result, we expect Formycon's royalty on FYB201 sales to rise from ca. 9% to ca. 15%. Prior to the Athos deal, Formycon held a 24.9% stake in FYB202 GmbH & Co. KG, a joint venture between Formycon and the Athos subsidiary, Aristo Pharma. Formycon will acquire the 75.1% of the shares in Athos it does not already own in the joint venture through the issue of shares and project-tied payment obligations to Athos. In consequence, we expect Formycon's share of FYB202 sales to rise from ca. 9% to ca. 35%. In addition, in return for shares, Formycon will acquire 100% of the Athos subsidiary, Bioeq GmbH. Bioeq GmbH is an operative biosimilar development unit focused on clinical development, IP, regulatory and commercial affairs. Formycon's and Bioeq's teams are working closely together on FYB201, FYB202 and FYB203. Formycon plans to hire additional personnel with experience in late stage development and commercialisation to complement the existing teams.

Abundant near-term newsflow We expect newsflow during the remainder of this year to include the following:

- Preclinical results from the development of the Covid-19 antiviral candidate FYB207 and preparation of clinical testing;
- FYB202 phase 3 results;
- Announcement of the FYB206 reference product;
- Announcement of marketing partners for FYB202 and FYB203. Formycon has already announced marketing partners for FYB201. Coherus will be responsible for the U.S., and Teva for Europe, Canada, Israel and New Zealand;
- U.S. and EU approval of FYB201 in Q3/22. Formycon and Bioeq AG announced the submission of a marketing authorisation application for FYB201 to the EMA on 29 June 2021 and of a biologics license application for FYB201 to the FDA on 5 August 2021. We expect the EMA decision to precede the action date of 2 August 2022 set by the FDA.

Changes to 2022 forecasts reflect lower income from partners following Athos deal

As figure 1 overleaf shows, we have lowered our FY/21E forecast to reflect the narrowing of the EBITDA loss from €8m in Q2/21 to €0.3m in Q3/21. The high loss in Q2/21 was due to increased investment in both the Covid-19 drug candidate FYB207 in H1/22 ahead of the start of clinical trials and in FYB206. We expect spending on FYB206 and FYB207 to have again been below the Q2/21 level during Q4/21.

The changes to our 2022 numbers reflect lower income from partners following the Athos deal. Our 2022 revenue forecast includes €11.7m of royalty income on sales of FYB201 following its launch in the U.S. and Europe from Q3 and €11.2m in grant money from the Free State Bavaria to finance the development of FYB207.

Our 2023 revenue forecast includes royalty income of €83m reflecting a full year's contribution from FYB201 and a first contribution from FYB202 in the U.S. following Stelara's patent expiry in September 2023.



Figure 1: Changes to our forecasts

in €m	2021E			2022E			2023E
	Old	New	Delta	Old	New	Delta	New
Revenues	45.00	41.60	-7.6%	63.00	50.42	-20.0%	96.09
EBITDA	-15.10	-11.50	n.a.	3.90	-1.29	-	54.02
margin	neg.	neg.	-	6.2%	-2.6%	-	56.2%
EBIT	-16.00	-12.46	n.a.	3.00	-2.07	-	53.49
margin	neg.	neg.	-	4.8%	-4.1%	-	55.7%
Net profit	-16.00	-12.46	n.a.	3.00	-2.07	-	37.44
margin	neg.	neg.	-	4.8%	-4.1%	-	39.0%
EPS (diluted, in €)	-1.42	-1.13	n.a.	0.25	-0.15	-	2.49

Source: First Berlin Equity Research estimates

Buy recommendation maintained and price target raised from €78.00 to €89.00

Changes to our valuation model (see table 2 below) reflect the increases in the royalty rates on FYB201 and FYB202 discussed above. Following emergence of the oral antiviral Covid-19 treatment, Molnupiravir, we take a more conservative view of the outlook for Formycon's Covid-19 antiviral treatment candidate, FYB207. In our most recent September 2021 update, we valued FYB207 at €332m. We have now reduced this figure to €178m. Our overall valuation of the Formycon share however rises from €78.00 to €89.00. We maintain our Buy recommendation.

Figure 2: 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)	€146M	374K	€5,250	€1,964M	10%	€217M	15%	13%	n.a.	1 year
FYB201	nAMD,DR (US)	€101M	149K	€9,068	€1,355M	10%	€150M	15%	13%	n.a.	1 year
FYB202	Pso,CrD (ex-US)	€561M	106K	€27,500	€2,905M	15%	€57M	33%	13%	n.a.	3 years
FYB202	Pso,CrD (US)	€1,082M	121K	€44,750	€5,398M	15%	€1,08M	33%	13%	n.a.	2 years
FYB203	nAMD,DR (ex-US)	€155M	672K	€4,859	€3,265M	15%	€660M	9%	13%	n.a.	4 years
FYB203	nAMD,DR (US)	€263M	613K	€8,591	€5,265M	15%	€997M	9%	13%	n.a.	3 years
FYB206	n.a.	€74M									
FYB207	COVID-19 (ex-US)	€129M	101K	€20,000	€2,010M	10%	€201M	18%	16%	20	2 years
FYB207	COVID-19 (US)	€49M	75K	€20,000	€1,508M	10%	€76M	18%	16%	20	2 years
PACME PV		€2,561M									
Costs PV ⁴⁾		€1,055M									
NPV		€1,505M									
Athos earnout		€204M									
Proforma net Cash		€39M									
Fair Value		€1,341M									
Proforma share count		15,065K									
Fair Value Per Share		€89.00									

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, CapEx and Taxes; COGS and S&M are factored into the PACME margin for each project.

Source: First Berlin Equity Research estimates

Figure 3: Changes to our pipeline valuation model

	Old	New	Delta
NPV	€779M	€1,505M	93.2%
PV downpayments and milestones	€39M	-	n.a.
Athos earnout	-	€204M	n.a.
Proforma net Cash	€82M	€39M	-52.4%
Fair Value	€901M	€1,341M	48.8%
Share Count	11,566K	15,065K	30.3%
Fair value per share	€78.00	€89.00	14.1%

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in EURm	2018A	2019A	2020A	2021E	2022E	2023E
Revenue	43.0	33.2	34.2	41.6	50.4	96.1
Increase/decrease in unfinished products	0.6	0.8	0.6	0.0	0.0	0.0
Total output	43.6	32.3	34.8	41.6	50.4	96.1
Other operating income	0.1	0.8	0.4	0.0	0.0	0.0
Cost of goods sold	-25.8	-21.3	-26.1	-35.0	-36.0	-26.4
Gross profit	17.9	11.7	9.2	6.6	14.4	69.7
Personnel costs	-7.0	-9.1	-10.0	-13.5	-14.0	-14.0
Depreciation and amortisation	-0.9	-0.9	-0.9	-1.0	-0.8	-0.5
Other operating expenses	-3.0	-4.0	-4.0	-4.6	-1.7	-1.7
Operating income (EBIT)	7.1	-2.3	-5.7	-12.5	-2.1	53.5
Net financial result	0.0	0.0	-0.1	0.0	0.0	0.0
Pre-tax income (EBT)	7.1	-2.3	-5.8	-12.5	-2.1	53.5
Income taxes	0.0	0.0	0.1	0.0	0.0	-16.0
Net income / loss	7.1	-2.3	-5.9	-12.5	-2.1	37.4
Diluted EPS (in €)	0.76	-0.23	-0.58	-1.13	-0.15	2.49
EBITDA	8.0	-1.4	-4.8	-11.5	-1.3	54.0
Ratios						
Gross margin on output	41.0%	36.3%	26.3%	15.9%	28.6%	72.6%
EBIT margin on output	16.4%	-7.0%	-16.5%	-29.9%	-4.1%	55.7%
EBITDA margin on output	18.4%	-4.2%	-13.8%	-27.6%	-2.6%	56.2%
Net margin on output	16.3%	-7.1%	-17.0%	-29.9%	-4.1%	39.0%
Tax rate	0.0%	-0.3%	-1.6%	0.0%	0.0%	-30.0%
Expenses as % of output						
Cost of goods sold	-59.2%	-66.1%	-74.8%	-84.1%	-71.4%	-27.4%
Personnel costs	-16.1%	-28.1%	-28.8%	-32.5%	-27.8%	-14.6%
Depreciation and amortisation	-2.1%	-2.8%	-2.6%	-2.3%	-1.5%	-0.6%
Net other operating exp.	-6.5%	-10.0%	-10.2%	-11.1%	-3.4%	-1.8%
Y-Y Growth						
Revenues	48.2%	-22.9%	3.2%	21.5%	21.2%	90.6%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in EURm	2018A	2019A	2020A	2021E	2022E	2023E
Assets						
Current assets, total	18.7	28.1	50.5	67.3	77.4	114.4
Cash and cash equivalents	7.3	22.1	42.0	50.1	50.8	9.6
Other liquid assets	5.0	0.2	0.2	8.4	13.5	80.3
Receivables	5.2	4.9	6.9	8.3	12.6	24.0
Inventories	1.2	0.4	1.2	0.4	0.5	0.3
Other current assets	0.1	0.4	0.1	0.1	0.1	0.2
Non-current assets, total	20.9	25.5	25.1	25.4	25.7	26.0
Investment participations	16.0	20.7	20.7	20.7	20.7	20.7
Property, plant & equipment	3.5	3.7	3.5	3.4	3.6	2.9
Goodwill & other intangibles	0.8	0.6	0.5	0.4	0.3	0.2
Prepaid expenses	0.1	0.1	0.1	0.1	0.2	0.3
Deferred tax assets	0.5	0.4	0.3	0.8	1.0	1.9
Total assets	39.6	53.6	75.6	92.7	103.1	140.4
Shareholders' equity & debt						
Current liabilities, total	3.3	2.8	5.0	3.5	4.7	3.5
Accounts payable	2.7	2.2	4.5	2.9	4.0	2.1
Other current liabilities	0.6	0.6	0.5	0.6	0.7	1.3
Long-term liabilities, total	3.1	2.6	2.5	3.8	4.3	8.2
Provisions	2.6	1.9	2.1	3.3	4.0	7.7
Other liabilities	0.5	0.7	0.4	0.5	0.3	0.5
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	33.2	48.2	68.0	85.4	94.0	128.7
Total consolidated equity and debt	39.6	53.6	75.6	92.7	103.1	140.4
Key figures						
Current ratio (x)	5.64	10.15	10.06	19.26	16.34	33.07
Quick ratio (x)	5.27	10.00	9.82	19.14	16.23	32.98
Financial leverage (%)	-37.0	-46.4	-62.1	-68.5	-68.3	-69.8
Book value per share (€)	3.37	4.82	429.17	471.42	379.74	413.87
Return on equity (ROE)	24.2%	-5.6%	-10.2%	-16.2%	-2.3%	33.6%



CASH FLOW STATEMENT

All figures in EURm	2018A	2019A	2020A	2021E	2022E	2023E
EBIT	7.1	-2.3	-5.7	-12.5	-2.1	53.5
Depreciation and amortisation	0.9	0.9	0.9	1.0	0.8	0.5
EBITDA	8.0	-1.4	-4.8	-11.5	-1.3	54.0
Changes in working capital	5.3	0.6	-0.5	-2.0	-3.3	-12.5
Other adjustments	0.0	-0.7	0.2	0.0	0.0	-16.0
Operating cash flow	13.3	-1.5	-5.1	-13.5	-4.6	25.5
CAPEX	-17.0	-5.7	-0.6	-0.7	-0.8	0.2
Free cash flow	-3.7	-7.2	-5.7	-14.2	-5.5	25.7
Debt financing, net	0.6	0.0	0.0	0.0	0.0	0.0
Equity financing, net	0.0	17.3	25.8	29.0	0.0	0.0
Grants	0.0	0.0	0.0	1.5	11.2	0.0
Other changes in cash	0.0	0.0	-0.2	0	0	0
Net cash flows	-3.2	10.0	19.9	16.2	5.7	25.7
Cash and liquid assets, start of the year	15.5	12.3	22.4	42.2	58.5	64.2
Cash and liquid assets, end of the year	12.3	22.4	42.2	58.5	64.2	89.9
EBITDA/share (in €)	0.9	-0.1	-0.5	-1.0	-0.1	3.6
Y-Y Growth						
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	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

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PRICE TARGET DATES

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

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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 ¹	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%

¹ 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...30	↓	↓	↓	↓
31	23 June 2020	€23.10	Buy	€39.00
32	23 September 2020	€30.40	Buy	€39.00
33	14 October 2020	€33.00	Buy	€43.00
34	7 January 2021	€61.00	Buy	€78.00
35	26 March 2021	€62.60	Add	€78.00
36	20 May 2021	€56.80	Buy	€78.00
37	5 July 2021	€62.80	Buy	€78.00
38	23 September 2021	€50.20	Buy	€78.00
39	Today	€67.30	Buy	€89.00

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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