

Formycon AG

Germany / Biopharmaceuticals

Xetra

Bloomberg: FYB GR

ISIN: DE000A1EWVY8

€17.3m private
placement with M&H
Equity AG

RATING
PRICE TARGET

Return Potential
Risk Rating

BUY
€ 53.00

83.1%
High

CREATING CAPACITY FOR DEVELOPMENT OF FYB'S FOURTH BIOSIMILAR

On 22 March Formycon (FYB) announced it has raised its share capital by 6.1% through the private placement of 577,397 new shares at €29.90 (gross proceeds of €17.3m) to the Swiss strategic investor, M&H Equity AG. The funds will be used primarily to develop those of FYB's biosimilar candidates which are so far unpartnered, in particular FYB205. FYB205, whose reference product FYB has not so far published, is an early stage project which has progressed up to initial cell line screening. Resources at FYB have so far been concentrated on the development of the partnered biosimilar candidates FYB201, FYB202 and FYB203. However, the progression of FYB201 towards filing of a biologics license application (BLA) is freeing up personnel resources at FYB for development of other biosimilar product candidates including FYB205. The €17.3m private placement with M&H Equity AG adds the necessary cash. We have adjusted our valuation model to take account of the share issue and also of stronger 2018 performance than we had expected from the FYB201 and (in particular) FYB202 reference products, respectively Lucentis and Stelara. We maintain our Buy recommendation and price target of €53.0.

Socioeconomic factors motivate M&H investment in FYB M&H (Mountains & Hills) Equity AG is located in Heerbrugg in the Canton of St. Gallen in Switzerland. Founder and Managing Partner, Oliver Fiechter, has stated that socioeconomic factors played an important role in M&H's decision to invest in FYB: "The fact that Formycon ... is keen to make access to important medicines easier for as many patients around the world as possible was an important investment criterion for us."

Rich near-term newsflow As we pointed out in our last study in November, near term newsflow should continue to keep focus on the potential of FYB's portfolio of biosimilar candidates. In May 2018 FYB reported that FYB201 (reference product: Lucentis) had achieved the primary endpoint of its phase III trial. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017	2018E	2019E
Revenue (€m)	12.59	16.92	19.53	29.00	40.50	40.00
Y-o-y growth	29.7%	34.5%	15.4%	48.5%	39.6%	-1.2%
EBIT (€m)	0.87	0.54	-4.07	-1.54	7.66	-4.67
EBIT margin	6.9%	3.2%	-20.8%	-5.3%	18.9%	-11.7%
Net income (€m)	0.86	0.58	-4.07	-1.58	7.02	-4.69
EPS (diluted) (€)	0.10	0.06	-0.45	-0.17	0.75	-0.50
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.63	-0.10	-6.40	-4.66	-5.93	-11.22
Net gearing	-70.4%	-81.6%	-66.9%	-60.6%	-29.5%	-32.8%
Liquid assets (€m)	9.22	20.30	13.97	15.48	9.55	14.76

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 26 Mar 2019

Closing Price	€ 28.95
Shares outstanding	10.00m
Market Capitalisation	€ 289.50m
52-week Range	€ 25.05 / 38.75
Avg. Volume (12 Months)	6,502

Multiples	2017	2018E	2019E
P/E	n.a.	38.6	n.a.
EV/Sales	9.0	6.4	6.5
EV/EBIT	n.a.	34.1	n.a.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	€ 11.81m
Current Assets	€ 21.84m
Intangible Assets	€ 0.78m
Total Assets	€ 42.20m
Current Liabilities	€ 5.93m
Shareholders' Equity	€ 33.13m

SHAREHOLDERS

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



In November 2018 FYB, in addition, stated that the phase III study showed comparable results with regard to efficacy, safety and immunogenicity between FYB201 and Lucentis. Filing of a BLA with the FDA is planned for H1/19. We also expect that the next few months will see the closing of a contract with a marketing partner for FYB201 on the U.S. market. Meanwhile, FYB202 (reference product: Stelara) is expected to enter the clinical phase from mid-2019 and scientific advice briefing books are being prepared so as to align the future development strategy for FYB203 (also preclinical; reference product: Eylea) with both the FDA and EMA. In our view FYB is on track to achieve its goal that its biosimilar products will be the first to market following the expiry of the patents on their reference products from 2020 onwards.

We maintain our Buy recommendation and price target of €53.00 We have adjusted our valuation model to take account of the share issue and also of stronger 2018 performance than we had expected from the FYB201 and FYB202 reference products, respectively Lucentis and Stelara. In 2018, Lucentis' worldwide sales rose 12.5% to USD3.74bn compared with USD3.39bn in the model underlying our study of 22 November. According to Novartis, Lucentis sales benefited from the "implementation of a focused global campaign and strong retina market growth." Meanwhile worldwide sales of Stelara rose 24.5% to USD5.16bn in 2018 compared with USD4.14bn in our November 2018 valuation model. Stelara's 2018 sales were helped by strong growth in the Crohn's disease indication for which approval was received in the United States and the EU in 2016. We maintain our Buy recommendation at an unchanged price target of €53.0.

Figure 1: 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)	€174M	327K	€4,813	€1,573M	17%	€364M	12%	12%	n.a.	3 Years
FYB201	nAMD,DR (US)	€184M	144K	€8,313	€1,197M	17%	€329M	12%	12%	n.a.	1 Year
FYB202	Pso,CrD (ex-US)	€47M	56K	€25,208	€1,404M	17%	€278M	2%	15%	n.a.	5 Years
FYB202	Pso,CrD (US)	€64M	47K	€41,021	€1,938M	17%	€368M	12%	5%	n.a.	4 Years
FYB203	nAMD,DR (ex-US)	€81M	417K	€4,454	€1,856M	17%	€557M	2%	15%	n.a.	6 Years
FYB203	nAMD,DR (US)	€128M	392K	€7,875	€3,085M	17%	€740M	12%	15%	n.a.	4 Years
FYB205	n.a.	€97M									
PACME PV		€775M									
Costs PV ⁴⁾		€300M									
NPV		€475M									
Downpayments and Milestones		€29M									
Net Cash		€26M									
Fair Value		€530M									
Share Count		10,000K									
Fair Value Per Share		€53.00									

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

Figure 2: Changes to our pipeline valuation model

	Old	New	Delta
PACME PV	€753M	€775M	2.9%
Costs PV	€292M	€300M	2.7%
NPV	€460M	€475M	3.3%
PV downpayments and milestones	€28M	€29M	2.6%
Net Cash	€12M	€26M	116.7%
Fair Value	€500M	€530M	6.0%
Share Count	9,443K	10,000K	5.9%
Fair value per share	€53.00	€53.00	0.0%

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in EURm	2014A	2015A	2016A	2017A	2018E	2019E
Revenue	12.6	16.9	19.5	29.0	40.5	40.0
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	40.5	40.0
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	-23.1	-33.3
Gross profit	6.8	8.3	4.3	8.4	17.5	6.8
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	-0.9	-1.4
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	7.7	-4.7
Net financial result	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income (EBT)	0.9	0.6	-4.1	-1.6	7.6	-4.7
Income taxes	0.0	0.0	0.0	0.0	0.6	0.0
Net income / loss	0.9	0.6	-4.1	-1.6	7.0	-4.7
Diluted EPS (in €)	0.10	0.06	-0.45	-0.17	0.75	-0.50
EBITDA	1.9	1.5	-3.4	-0.8	8.5	-3.3
Ratios						
Gross margin on output	53.7%	48.9%	21.9%	28.4%	43.3%	17.0%
EBIT margin on output	6.9%	3.2%	-20.8%	-5.2%	18.9%	-11.7%
EBITDA margin on output	15.4%	8.7%	-17.3%	-2.6%	21.1%	-8.3%
Net margin on output	6.8%	3.4%	-20.8%	-5.4%	17.3%	-11.7%
Tax rate	-0.2%	-0.2%	0.1%	-0.2%	8.0%	0.0%
Expenses as % of output						
Cost of goods sold	-47.0%	-52.5%	-78.8%	-72.0%	-56.9%	-83.3%
Personnel costs	-23.0%	-22.8%	-26.1%	-21.5%	-17.3%	-20.0%
Depreciation and amortisation	-8.5%	-5.5%	-3.6%	-2.7%	-2.2%	-3.4%
Net other operating exp.	-14.4%	-16.0%	-12.6%	-9.1%	-4.9%	-5.3%
Y-Y Growth						
Revenues	2949.5%	34.5%	15.4%	48.5%	39.6%	-1.2%
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	18.3	29.8
Cash and cash equivalents	0.3	0.6	3.0	4.5	2.0	8.0
Other liquid assets	8.9	19.7	11.0	11.0	7.5	6.8
Receivables	3.3	2.8	5.2	10.5	8.1	14.0
Inventories	0.3	0.2	0.6	0.6	0.6	1.0
Other current assets	0.0	0.0	0.9	0.1	0.1	0.1
Non-current assets, total	4.1	3.8	4.5	4.2	20.4	23.2
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	3.6	6.4
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	0.1	0.2
Investment participations	0.0	0.0	0.0	0.0	16.0	16.0
Total assets	16.9	27.1	25.2	30.8	38.8	53.0
Shareholders' equity & debt						
Current liabilities, total	3.3	1.3	2.6	3.4	3.2	5.2
Accounts payable	2.3	0.6	2.3	1.8	1.6	2.8
Other current liabilities	1.0	0.7	0.3	1.7	1.6	2.4
Long-term liabilities, total	0.5	0.9	1.7	1.8	3.1	2.8
Provisions	0.5	0.7	0.7	1.3	2.4	1.6
Other liabilities	0.0	0.3	1.0	0.6	0.7	1.2
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	13.1	24.9	20.9	25.5	32.4	45.0
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	38.8	53.0
Key figures						
Current ratio (x)	3.94	17.45	7.91	7.75	5.66	5.74
Quick ratio (x)	3.83	17.28	7.67	7.59	5.47	5.55
Financial leverage (%)	-70.4	-81.6	-66.9	-60.6	-29.5	-32.8
Book value per share (€)	1.52	2.74	2.30	2.78	3.43	4.76
Return on equity (ROE)	6.4%	3.0%	-17.8%	-6.8%	24.2%	-12.1%



CASH FLOW STATEMENT

All figures in EURm	2014A	2015A	2016A	2017A	2018E	2019E
EBIT	0.9	0.5	-4.1	-1.5	7.7	-4.7
Depreciation and amortisation	1.1	0.9	0.7	0.8	0.9	1.4
EBITDA	1.9	1.5	-3.4	-0.8	8.5	-3.3
Changes in working capital	-2.0	-1.1	-1.7	-3.4	2.3	-3.9
Other adjustments	0.0	0.1	0.1	0.0	0.4	0.0
Operating cash flow	0.0	0.5	-5.0	-4.2	11.2	-7.3
CAPEX	-0.6	-0.6	-1.4	-0.5	-17.1	-4.0
Free cash flow	-0.6	-0.1	-6.4	-4.7	-5.9	-11.2
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	16.4
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	-5.9	5.2
Cash and liquid assets, start of the year	0.9	9.2	20.3	14.0	15.5	9.5
Cash and liquid assets, end of the year	0.3	20.3	14.0	15.5	9.5	14.8
EBITDA/share (in €)	0.2	0.2	-0.4	-0.1	0.9	-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...24	↓	↓	↓	↓
25	6 June 2018	€36.75	Buy	€53.00
26	14 September 2018	€32.25	Buy	€53.00
27	22 November 2018	€29.75	Buy	€53.00
28	Today	€28.95	Buy	€53.00

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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.

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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: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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