

PHARMENA S.A.



Fair value: PLN 32

Initiating Coverage

Rating: n.a.

PHARMENA S.A. (PHR) is a leading Polish cosmetics and biotech company. It was founded in 2002 by Polish scientists from the Medical and Technical Universities in Lodz in order to commercialize their discovery of the active substance 1-MNA. PHR owns 85 patents for all oral and dermatological applications of 1-MNA in Europe, North America and Asia, which are valid until 2025/26.

PHR's main area of activity are dermocosmetics, where the company generates EBITDA margins of >20%. PHR is market leader in Poland when it comes to unit sales of hair care products and is expanding abroad (especially to the Middle East and Asia). New 1-MNA-based products, on which the company is working, include a dietary supplement and drug, which target the segment of dyslipidemia. While the dietary supplement received a positive opinion by the London-based Food Standards Agency (FSA) on 7 October and is expected to be approved for sale in the EU in Q1/16, the 1-MNA drug (also called TRIA-662) completed Phase II of research on 30 October. So far, clinical studies have shown that the drug may be as effective in improving cholesterol levels as similar therapies especially niacins, however does not cause serious side effects e.g. flushing, skin burning.

While the global market for dermocosmetics is worth >USD 20bn, the segment of dietary supplements is valued at >USD 100bn and is expected to grow at a CAGR of 6-7% in the near future. The global market for drugs against dyslipidemia is forecast to grow by 9.4% on average to USD 37.9bn in 2023E. All major drugs against dyslipidemia will soon be without patent protection. Thus, we are optimistic that PHR will find a buyer for its 1-MNA drug if results of Phase II in Q1/16 are positive.

Our 12-months fair value for PHR's shares of PLN 32 is based on a Sum-of-the-Parts model, whereby we have valued the dermocosmetics & dietary supplements segment with a DCF (PLN 10.66) and the 1-MNA drug with a NAV (PLN 18.28). We see two main growth triggers in the area of dermocosmetics and dietary supplements: (1) introduction of new products and (2) expansion of the distribution network especially in the Middle East and Asia. If results of Phase II are positive, we forecast that the total cash flow from sale of the drug will reach >USD 250m.

in PLNm	2009	2010	2011	2012	2013	2014
Net sales	6.38	7.70	7.40	9.13	14.14	14.13
EBITDA	0.65	0.05	-2.29	-2.87	-1.19	-3.60
EBIT	0.52	-0.07	-2.41	-3.01	-1.34	-3.79
Net income	0.77	0.12	-2.90	-4.10	-2.84	-4.09
EPS	0.12	0.02	-0.46	-0.58	-0.32	-0.46
DPS	0.00	0.01	0.05	0.10	0.11	0.11
Dividend yield	0.00%	0.05%	0.24%	0.47%	0.52%	0.52%
RoE	4.83%	0.77%	-23.74%	-46.93%	-21.04%	-26.25%
Net gearing	-54.00%	-19.98%	-33.68%	-34.12%	-60.68%	-30.37%
EV/Sales	29.38x	24.33x	25.34x	20.53x	13.26x	13.27x
EV/EBITDA	288.86x	3537.34x	neg	neg	neg	neg
P/E	175.83x	1055.00x	neg	neg	neg	neg

Company profile

PHARMENA is a leading Polish cosmetics and biotech company. Its products contain the 1-MNA substance, for which PHR has secured patent protection on the most important global markets until 2025/26.

Website	www.pharmena.com.pl
Sector	Biotechnology
Country	Poland
ISIN	PLPHRMN00011
Reuters	PHR.WA
Bloomberg	PHR.PW

Share information

Last price	21.10
Number of shares (m)	8.80
Market cap. (PLNm)	185.58
Market cap. (EURm)	43.70
52-weeks range	PLN 25.33 / PLN 7.14
Average volume	1,423

Performance

4-weeks	7.93%
13-weeks	15.93%
26-weeks	14.67%
52-weeks	118.43%
YTD	107.07%

Shareholder structure

Pelion S.A.	45.89%
Jerzy Gebicki	9.73%
KI Polskiej Farmacji Sp. z o.o.	6.91%
Konrad Palka	6.29%
Max Welt Holdings Ltd.	5.29%
Robert Bozyk	5.01%
Free float	20.88%

Financial calendar

Q4/15 results (exp.) February 15, 2016

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Investment Case

- PHARMENA S.A. (PHR) is a leading Polish cosmetics and biotech company. It was founded in 2002 by scientists from the Technical and Medical Universities in Lodz in order to commercialize their discovery of the active substance 1-MNA (a niacin metabolite). PHR owns 85 patents for all oral and dermatological applications of 1-MNA in Europe, North America and Asia, which are valid until 2025/26.
- PHARMENA's main business area is the production of dermocosmetics, which is profitable on all levels. In the Hair Care segment, the company is market leader in Poland when it comes to unit sales. Other 1-MNA-based products, on which PHR is working, are a dietary supplement and a drug (called TRIA-662), which both target the segment of dyslipidemia. The objective of the dietary supplement, which has already received a positive opinion as novel food from the London-based FSA and will likely be approved for sale in the EU in Q1/16, is to offset the lack of 1-MNA in the body, which stimulates the production of prostacycline, and thus reduce the risk of atherosclerosis. In contrast to niacins, the drug, which completed Phase II of research on 30 October 2015, aims to lower triglycerides and increase good cholesterol, but with no serious side effects e.g. flushing, skin burning.
- The global market dermocosmetics is estimated at >USD 20bn. In Poland, it is worth PLN 1.2bn and is expected to grow at a CAGR 14-20E of 7.1%. The segment for dietary supplements is worth >USD 100bn worldwide and forecast to increase at a CAGR of 6-7%. By 2023E, the global market for dyslipidemia drugs is forecast to grow at a CAGR of 9.4% to USD 37.9bn. As all major drugs in the segment will soon lose patent protection, global pharma companies are keen to buy new innovative therapies. Thus, we expect that if results of Phase II in Q1/16 are positive, PHR will quickly find a buyer for its 1-MNA drug.
- In 9M/15, PHR's dermocosmetics business generated revenues of PLN 12.5m (+25.4% y-o-y), however EBITDA increased only by 13.7% y-o-y to PLN 2.8m due to investments in marketing. The 1-MNA drug and dietary supplement contributed an EBITDA of PLN -3.6m (9M/14: PLN -5m). For full-year 2015, we expect that PHR will generate sales from dermocosmetics of PLN 16.7m at an EBITDA margin of 23%. For 2016E, we forecast total sales of PLN 26.6m, thereof PLN 5.3m from the 1-MNA dietary supplement. After high launch costs in 2016E, we believe that the dietary supplement will generate EBITDA margins of >25% in the long run.
- Our 12-months fair value for PHR's shares of PLN 32 is based on a Sum-of-the-Parts model. While we have valued dermocosmetics & dietary supplements with PLN 10.66 per share, the NAV-based fair value of the 1-MNA drug is PLN 18.28. We expect that the main growth driver in the segment of dermocosmetics will be the planned introduction of 50 new products by 2017E and stronger diversification of sales channels especially in the Middle East and Asia, where PHR recently signed first distribution agreements with local partners. We reckon that the total cash flow from sale of the drug will be >USD 250m. In our view, PHR could receive 19.4% of the proceeds immediately after signing, with the rest payable upon reaching certain milestones e.g. registration in US and EU.

SWOT Analysis

Strengths

- Pharmena is a leading Polish cosmetics and biotech company; its products are the only ones on the market with the 1-MNA substance
- Patents in Europe, North America and Asia, which are valid until 2025/26; they cover all oral and dermocosmetical applications of 1-MNA
- In October 2015, PHR's dietary supplement received a positive opinion as novel food by FSA and its drug completed Phase II of research
- PHR is a leader on the Polish market for dermocosmetic Hair Care products in terms of volumes sold; the high-quality products are offered at attractive prices
- Flexible cost structure; c. 65% of costs are variable

Opportunities

- According to articles in the prestigious Nature Chemical Biology magazine from 2013, 1-MNA supplementation can play a major role in prolonging human lives
- The global dermocosmetics market is estimated at >USD 20bn; in PL, it is expected to grow at a CAGR 14-20E of 7.1% to PLN 1.8bn; by 2017E, PHR plans to introduce 50 new dermocosmetic products and diversify its distribution channels both in Poland and abroad
- The global market for dietary supplements is estimated at >USD 100bn and forecast to grow at a CAGR of 6-7%; in Poland, it is forecast to increase at a CAGR of 6.8% to PLN 5bn in 2020E
- The global market for dyslipidemia is expected to grow at a CAGR of 9.4% to USD 37.9bn in 2023E; all major drugs against dyslipidemia will soon be without patent protection
- Significant dividends to shareholders if the 1-MNA drug was to be sold to one of the "BIG PHARMA" companies; this will likely happen if results of Phase II research are positive

Weaknesses

- Pharmena is financially too weak to be able to commercialize its drug alone
- PHR is listed in the illiquid and intransparent NewConnect segment
- In 2015, the five largest distributors accounted for 94.1% of the company's sales; all revenues stemmed from Poland
- As until 2010 Pharmena had co-shareholders at Cortria Corp. (Domain Associated, MVM Science), it will have to pay them c. 9% (EVRe) of all cash flows from the sale of its 1-MNA drug
- Pharmena does not directly control the manufacturing process of its products; moreover, the Group outsources auditing, logistics, warehousing and R&D

Threats

- Unsatisfactory results from Phase II of drug research
- Risks relating to disruptions of the production process
- Risks relating to protection of patents and intellectual property rights
- Competition in the area of dermocosmetics and dietary supplements
- Change of regulations
- Loss of key employees

Valuation

Our 12-months fair value for PHARMENA's shares of PLN 32 is based on a Sum-of-the-Parts. Due to the characteristics of the company's business model we have not accounted for a peer group in our valuation.

DCF model (Dermocosmetics & dietary supplements)

in PLNm	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	16.68	26.60	34.90	40.35	46.77	53.60	58.45	62.80	67.49
(y-o-y change)	18.0%	59.5%	31.2%	15.6%	15.9%	14.6%	9.1%	7.4%	7.5%
EBIT	3.62	3.89	7.47	9.14	11.42	13.02	14.12	15.09	16.13
(EBIT margin)	21.7%	14.6%	21.4%	22.6%	24.4%	24.3%	24.2%	24.0%	23.9%
NOPLAT	2.93	3.15	6.05	7.40	9.25	10.55	11.44	12.22	13.06
+ Depreciation & amortisation	0.22	0.35	0.45	0.52	0.61	0.70	0.76	0.82	0.88
= Net operating cash flow	3.15	3.50	6.50	7.93	9.86	11.24	12.20	13.04	13.94
- Total investments (Capex and WC)	-1.73	-2.71	-3.52	-4.05	-4.68	-5.35	-5.83	-6.25	-6.71
Capital expenditure	-0.32	-0.45	-0.55	-0.62	-0.71	-0.80	-0.86	-0.92	-0.98
Working capital	-1.42	-2.26	-2.97	-3.43	-3.98	-4.56	-4.97	-5.34	-5.74
= Free cash flow (FCF)	1.41	0.79	2.98	3.87	5.18	5.89	6.37	6.78	7.23
PV of FCFs	1.40	0.71	2.41	2.83	3.43	3.53	3.45	3.32	3.20
PV of FCFs in explicit period	24.28								
PV of FCFs in terminal period	71.39								
Enterprise value (EV)	95.68								
+ Net cash / - net debt (PHR excl. Cortria)	-1.88								
Shareholder value	93.80								
Number of shares outstanding (m)	8.80								
							Terminal EBIT margin		
WACC	10.5%								
Cost of equity	10.5%								
Pre-tax cost of debt	8.0%								
Normal tax rate	19.0%								
After-tax cost of debt	6.5%								
Share of equity	100.0%								
Share of debt	0.0%								
Fair value per share in PLN (today)	10.66								
Fair value per share in PLN (in 12 months)	11.79								

Source: East Value Research GmbH

NAV model (1-MNA drug)

We have estimated the value of drug 1-MNA (TRIA-662), which completed Phase II of research on 30 October 2015, with the NPV method, which accounts for project-related CAPEX in 2015 and 2016E of USD 1.5m and USD 0.5m respectively. Based on the IMAP/Industry Report 2011, we have assumed there is a 43.3% chance that results of Phase II, which will be published in Q1/16, will be positive. If this is the case, we believe that with a 70% probability PHR will sell the 1-MNA drug already in 2016E as all similar drugs will soon be without patent protection and global pharma companies are looking for new promising therapies.

We have conservatively estimated that PHR will sell the drug for in total USD 250m, which is less than half of the median value of benchmark deals (USD 523m) between 2009 and 2015. We have assumed that the company will receive 19.4% of the total sum as initial payment and the rest if certain milestones are reached. The probabilities of the milestones are based on IMAP/Industry Report 2011.

In our opinion, previous shareholders of Cortria Corporation will receive 9% of PHR's total cash flow relating to the 1-MNA drug until 2027E (the drug will lose patent protection in 2026E).

We have assumed that there is a 19.5% chance (cumulated probability) that TRIA-662 will be introduced on the market. In our opinion, this will happen in 2022E and the drug will generate yearly revenues of USD 800m (14.1% of the total market for niacins then). We believe that PHR will receive 5.6% of the drug's total yearly sales as commissions.

Probabilities of success of respective research stages

	Phase I	Phase II	Phase III	NDA	Cumulated
Cardiovascular	62.7%	43.3%	76.3%	84.4%	17.5%

Source: IMAP, Industry Global Report 2011, East Value Research GmbH

Benchmark partnering deals 2009-2015

Seller	Acquirer	Drug	Phase of research	Initial payment (USDm)	Potential additional payments (USDm)	Total value (USDm)	Initial payment as % of total value	Year
Dezima	Amgen	TA-8995		300	1250	1550	19.4%	2015
Omthera Pharmaceuticals	AstraZeneca	Epanova	Phase III completed/registration pending	323	120	443	72.9%	2013
Portola Pharmaceuticals	Novartis	Elinogrel	Phase II	75	500	575	13.0%	2009
Portola Pharmaceuticals	Merck & Co.	Betrixaban	Phase II	50	420	470	10.6%	2009
Corthera	Novartis	Relaxin	Phase II completed	120	500	620	19.4%	2009
Calixa Therapeutics	Cubist Pharmaceuticals	CXA-201	Phase II	93	310	403	23.0%	2009
Median				106	460	523	19.4%	

Source: pmlive.com, fiercebiotech.com, East Value Research GmbH

Estimation of PHR's cash flows from TRIA-662 and their probabilities

Phase	Year	Milestone payment (USDm)	Probability of success	Cumulated probability
Phase II	2015	0.00	43.3%	43.3%
Initial payment (19.4% of total value)	2016	48.50	70.0%	30.3%
Phase III	2018	50.38	76.3%	23.1%
Registration in the US and EU	2020	50.38	84.4%	19.5%
Start of commercial sales	2021	50.38	100.0%	19.5%
Sales of USD >500m per year	2022	50.38	100.0%	19.5%
Commissions on est. USD 800m sales (5.6% per year)	2022			
Percentage of CF for ex-Cortria shareholders (9%)				
Total value (initial payment plus milestones)		250.00		

Source: East Value Research GmbH

NPV model of TRIA-662

	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
CF before probabilities, investments and taxes (USDm)	0.00	48.50	0.00	50.38	0.00	50.38	50.38	95.18	44.80	44.80	44.80	44.80	44.80
CF accounting for probabilities (USDm)	0.00	14.70	0.00	11.65	0.00	9.83	9.83	18.58	8.74	8.74	8.74	8.74	8.74
9% share in CF for ex-Cortria shareholders (USDm)	0.00	-1.32	0.00	-1.05	0.00	-0.88	-0.88	-1.67	-0.79	-0.79	-0.79	-0.79	-0.79
CF accounting for probabilities and payments to ex-Cortria shareholders (USDm)	0.00	13.38	0.00	10.60	0.00	8.95	8.95	16.91	7.96	7.96	7.96	7.96	7.96
Investments in the 1-MNA project (USDm)	-1.50	-0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CF after accounting for probabilities, payments to ex-Cortria shareholders and investments (USDm)	-1.50	12.88	0.00	10.60	0.00	8.95	8.95	16.91	7.96	7.96	7.96	7.96	7.96
<i>PLN-USD rate</i>	<i>3.93</i>	<i>3.93</i>	<i>3.93</i>	<i>3.93</i>	<i>3.93</i>	<i>3.93</i>	<i>3.93</i>	<i>3.93</i>	<i>3.93</i>	<i>3.93</i>	<i>3.93</i>	<i>3.93</i>	<i>3.93</i>
CF accounting for probabilities, payments to ex-Cortria shareholders and investments (PLNm)	-5.89	50.61	0.00	41.66	0.00	35.16	35.16	66.44	31.27	31.27	31.27	31.27	31.27
<i>Tax rate</i>	<i>0.0%</i>	<i>19.0%</i>											
CF accounting for probabilities, payments to ex-Cortria shareholders, investments and taxes (PLNm)	-5.89	40.99	0.00	33.75	0.00	28.48	28.48	53.81	25.33	25.33	25.33	25.33	25.33
<i>Discount factor</i>	<i>1.01</i>	<i>1.12</i>	<i>1.24</i>	<i>1.37</i>	<i>1.51</i>	<i>1.67</i>	<i>1.85</i>	<i>2.04</i>	<i>2.26</i>	<i>2.49</i>	<i>2.76</i>	<i>3.05</i>	<i>3.37</i>
Discounted CF accounting for probabilities, payments to ex-Cortria shareholders, investments and taxes (PLNm)	-5.83	36.65	0.00	24.69	0.00	17.05	15.43	26.37	11.23	10.16	9.19	8.31	7.52
NPV (PLN m)	160.78												
Number of PHR's shares	8.80												
NPV per share (PLN)	18.28												

Source: East Value Research GmbH

Sum-of-the-Parts calculation

Sum-of-the-Parts	Fair value
Dermocosmetics and dietary supplements	10.66
1-MNA drug / TRIA-662	18.28
Implied equity value per share (today)	28.95
In 12-months (PV * (1+WACC))	32.00

Source: East Value Research GmbH

Peer Group Analysis

We have created two peer groups: One with manufacturers of pharmaceuticals and/or dietary supplements and one with producers of cosmetics:

Drugs and dietary supplements:

- (1) *Neptune Technologies & Bioresources Inc.*: Neptune, which is based in Laval/Canada, is a pioneer in the research, development and commercialization of natural omega-3 phospholipid products, derived from marine biomass, for the nutraceutical and pharmaceutical markets. Its subsidiaries, Acasti Pharma Inc. and NeuroBioPharm Inc. operate in the medical food and pharmaceutical markets focusing on the treatment of cardiometabolic and neurological conditions respectively. In fiscal-year 2014/15, Neptune generated revenues of CAD 15.1m.
- (2) *Perrigo Company PLC*: Perrigo Company, which is headquartered in Dublin/Ireland, is a healthcare supplier that develops, manufactures and distributes OTC and generic prescription pharmaceuticals, infant formulas, nutritional products, animal health, dietary supplements, active pharmaceutical ingredients and medical diagnostic products. Moreover, the company receives royalties from multiple sclerosis drug Tysabri. In fiscal-year 2014/15, Perrigo generated revenues of USD 4.6bn.

- (3) *Abbott Laboratories Inc.*: Abbott, which is based in Abbott Park/US, is a global healthcare company. In 2014, it generated revenues of USD 20.2bn, thereof 34% stemmed from nutritional and 15% from established pharmaceutical products. Its drugs against dyslipidemia are Tricor, Niaspan and Advicor.
- (4) *Merck & Co Inc.*: Merck, which is based in Kenilworth/US, offers health solutions through its prescription medicines, vaccines, biologic therapies and animal health products. In 2014, it generated revenues of USD 42.2bn. The company's three drugs for reduction of bad (LDL) cholesterol are Zocor, Zetia and Vytorin (combination of Zocor and Zetia in a single tablet).
- (5) *Pfizer Inc.*: Pfizer, which is headquartered in New York/US, offers medicines and vaccines as well as many well-known consumer healthcare products. Its drug Lipitor is the most successful drug for lowering bad cholesterol to date. In 2014, Pfizer had revenues of USD 49.6bn.
- (6) *Bristol-Myers Squibb Corp.*: BMS, which is based in New York/US, is engaged in the discovery, development, licensing, manufacturing, marketing, distribution and sale of biopharmaceutical. Its anti-atherosclerosis drug is Pravachol. In 2014, BMS generated total sales of USD 15.9bn, thereof 86% stemmed from pharmaceuticals and 14% from nutritionals.
- (7) *AstraZeneca PLC*: AstraZeneca, which is headquartered in London/UK, discovers, develops and commercializes biopharmaceuticals. Its drug for managing cholesterol levels is Crestor. In 2014, AstraZeneca had revenues of USD 26.1bn.
- (8) *Amgen Inc.*: Amgen, which is based in Thousand Oaks/US, is a biotechnology company. In 2014, it had revenues of USD 20.1bn. Amgen's primary drug against bad cholesterol (LDL) is Repatha. Moreover, in September 2015 it bought Dutch company Dezima, which owns the midstage drug TA-8995, an oral CETP (Cholesterylester Transfer Protein) inhibitor that has shown the ability to slash LDL by up to 48%, while simultaneously boosting HDL (good cholesterol). Amgen will pay Dezima USD 300m upfront and min. USD 1.25bn in milestones depending on the registration and commercialization progress of the drug.

Company	EV/Sales		EV/EBITDA		P/E		EBITDA margin	Net gearing	P/BVPS
	2015E	2016E	2015E	2016E	2015E	2016E	2014	Latest	Latest
Neptune Technol. & Bioress. Inc. (USD)	6.74x	3.46x	n.a	11.27x	n.a	39.00x	n.a	23.40%	2.35x
Perrigo Company PLC (USD)	5.05x	4.39x	16.35x	13.96x	87.56x	26.47x	24.10%	45.21%	2.09x
Abbott Laboratories Inc. (USD)	3.34x	3.18x	13.51x	12.44x	21.11x	20.68x	21.30%	8.91%	3.16x
Merck & Co Inc. (USD)	4.16x	4.06x	8.07x	7.99x	30.89x	20.86x	53.30%	32.18%	3.29x
Pfizer Inc. (USD)	4.59x	4.18x	10.02x	9.49x	22.56x	16.52x	40.70%	27.76%	3.04x
Bristol-Myers Squibb Inc. (USD)	6.83x	6.51x	27.06x	23.46x	52.04x	53.22x	28.60%	13.63%	7.27x
AstraZeneca PLC (GBP)	2.52x	2.61x	7.42x	7.59x	19.93x	18.12x	29.90%	36.83%	3.17x
Amgen Inc. (USD)	5.52x	5.36x	10.62x	9.73x	18.78x	17.34x	43.20%	2.29%	4.25x
Median	4.82x	4.12x	10.62x	10.50x	22.56x	20.77x	29.90%	25.58%	3.17x

Source: Thomson Reuters Eikon, East Value Research GmbH

Dermocosmetics:

(9) *Beiersdorf AG*: Beiersdorf, which is based in Hamburg/Germany, manufactures cosmetic products. It operates under the brands NIVEA, Eucerin, Labello, La Prairie, Hansaplast, Florena, 8x4, tesa, atrix and SLEK. In 2014, Beiersdorf generated revenues of EUR 6.3bn.

(10) *L'Oreal SA*: L'Oreal, which is based in Clichy/France, is a cosmetics company. Its Professional Products division offers beauty products used and sold in hair salons. The Consumer Products division offers products sold in mass-market retail channels. L'Oreal Luxe division offers products sold in selective retail outlets e.g. department stores, perfumeries, the Group's own boutiques and certain online stores. Active Cosmetics division offers products for borderline complexions, while the Body Shop unit offers natural cosmetics and toiletry products. In 2014, L'Oreal generated total sales of EUR 22.5bn.

L'Oreal's subsidiary Vichy, a premium brand of skincare, bodycare, make-up and anti-aging products, owns the product line Dercos, which is No 1 on the Polish market for hair care dermocosmetics in terms of revenues.

(11) *Estee Lauder Companies Inc.*: Estee Lauder, which is based in New York/US, is a manufacturer and marketer of skin care, makeup, fragrance and hair care products. The company's products are sold in over 150 countries under such brand names as Estee Lauder, Aramis, Clinique, Origins, Le Labo, M.A.C, Bobbi Brown, La Mer and Aveda. It is also the global licensee for fragrances and/or cosmetics sold under e.g. Tommy Hilfiger, Donna Karan, Michael Kors, Tom Ford and Coach. In fiscal-year 2014/15, Estee Lauder had revenues of USD 10.8bn.

(12) *Shiseido Co Ltd.*: Shiseido, which is based in Chuo-Ku/Japan, is engaged in the manufacture and sale of cosmetics, toiletries, beauty products, health foods, beauty foods and pharmaceuticals. In fiscal-year 2014/15, Shiseido had total sales of JPY 777.7bn.

- (13) *Procter & Gamble Corp.*: Procter & Gamble, which is headquartered in Cincinnati/US, provides consumer packaged goods, which are sold in over 180 countries. It operates in five segments: Beauty, Grooming, Health Care, Fabric Care and Home Care as well as Baby Feminine and Family Care. In fiscal-year 2014/15, Procter & Gamble generated revenues of USD 76.3bn.
- (14) *Coty Inc.*: Coty, which is based in New York/US, manufactures and markets beauty products in the Fragrances, Color Cosmetics and Skin & Body Care segments with distribution in over 130 countries. In fiscal-year 2014/15, it had revenues of USD 4.4bn.
- (15) *Aflofarm Farmacja Polska Sp. z o.o.*: Aflofarm, which is based in Pabianice, is a privately-owned Polish manufacturer of pharmaceuticals, dietary supplements and cosmetics. Its label DX2 is No 3 on the Polish market for hair care dermocosmetics.
- (16) *ZIAJA Ltd Zaklad Produkcji Lekow sp. z o.o.*: ZIAJA is a privately-owned Polish manufacturer of dermocosmetics with headquarters in Gdansk. It was founded in 1989. Apart from Poland, its products are available in 12 European countries, selected Asian markets and Chile.

Company	EV/Sales		EV/EBITDA		P/E		EBITDA margin	Net gearing	P/BVPS
	2015E	2016E	2015E	2016E	2015E	2016E	2014	Latest	Latest
Beiersdorf AG (EUR)	2.76x	2.66x	16.76x	15.70x	31.35x	28.98x	16.70%	-39.87%	4.99x
L'Oreal SA (EUR)	3.82x	3.67x	18.01x	17.05x	27.76x	25.85x	20.10%	6.10%	4.12x
Estee Lauder Comp. Inc. (USD)	2.78x	2.62x	14.27x	13.00x	25.78x	22.75x	18.70%	28.61%	8.68x
Shiseido Co Ltd. (JPY)	1.46x	1.25x	15.68x	13.11x	79.99x	39.30x	11.50%	-2.03%	2.81x
Procter & Gamble Inc. (USD)	3.38x	3.28x	13.00x	12.33x	20.13x	16.66x	20.90%	31.49%	3.28x
Coty Inc. (USD)	2.72x	2.63x	14.74x	13.56x	27.07x	26.93x	19.60%	283.56%	10.52x
Median	2.77x	2.64x	15.21x	13.33x	27.42x	26.39x	19.15%	17.35%	4.56x

Source: Thomson Reuters Eikon, East Value Research GmbH

Recent results

Revenues and Profitability

In 9M/15, PHARMENA generated consolidated revenues of PLN 12.6m compared to PLN 10m last year, which corresponded to a growth rate of 25.4% y-o-y. The reason were significantly higher sales of Dermena and Allerco product lines, especially due to promotional campaigns in pharmacies. Moreover, in August 2015 PHR extended its co-operation with the drugstore chain Rossmann, which will sell Dermena products in 1,050 stores Poland-wide in the future (instead of 214 before).

Consolidated results of PHARMENA

in PLNm	9M/15	9M/14	change (%)
Net sales	12.55	10.01	25.4%
EBITDA	-0.74	-2.48	-70.3%
<i>EBITDA margin</i>	<i>-5.9%</i>	<i>-24.8%</i>	
EBIT	-0.89	-2.61	-65.8%
<i>EBIT margin</i>	<i>-7.1%</i>	<i>-26.1%</i>	
Net income	-1.50	-2.89	-48.2%
<i>Net margin</i>	<i>-11.9%</i>	<i>-28.9%</i>	

Source: Company information, East Value Research GmbH

Results of PHR's dermocosmetics segment

in PLNm	9M/15	9M/14	change (%)
Net sales	12.54	10.01	25.4%
EBITDA	2.82	2.48	13.7%
<i>EBITDA margin</i>	<i>22.5%</i>	<i>24.8%</i>	
EBIT	2.68	2.36	13.6%
<i>EBIT margin</i>	<i>21.4%</i>	<i>23.6%</i>	

Source: Company information, East Value Research GmbH

Although the share of distribution costs (50.3% vs. 47.5% in 9M/14) increased strongly due to promotional campaigns and preparations of new products, which will be introduced on the market in Q4/15, PHR's EBIT and net income improved significantly y-o-y. The main reason were lower costs relating to the 1-MNA drug and dietary supplement.

Balance sheet and Cash flow

At the end of September 2015, PHARMENA had consolidated equity of PLN 10.8m (60.6% ratio). Fixed assets equaled PLN 0.2m (30/09/2014: PLN 0.2m), while intangible assets amounted to PLN 0.8m (PLN 0.7m). We estimate that working capital was worth PLN 8.3m (PLN 8.2m). As of 30 September 2015, PHARMENA had interest-bearing debt of PLN 4m (PLN 2m).

Between January and September 2015, PHARMENA generated an operating cash flow of PLN -1.3m compared to PLN -5.2m in 9M/14. The main reason for the improvement were significantly lower investments in working capital (PLN -0.6m vs. PLN -2.8m in 9M/14). While cash flow from investing was PLN -0.1m (9M/14: PLN -0.1m), cash flow from financing amounted to PLN 1.7m (PLN 0.8m) as the company raised new debt. In 9M/15, PHARMENA's consolidated cash position increased by PLN 0.3m to PLN 5.5m.

Financial forecasts

Revenues and Profitability

We have calculated detailed revenue and EBITDA estimates for PHARMENA's segments "Hair Care", "Skin Care" and "Dietary supplement 1-MNA".

Hair Care: For the Hair Care segment, which also includes sales of the dietary supplement Dermena Complex against hair loss (based on vitamins; does not contain 1-MNA), we have assumed that in full-year 2015 PHARMENA will sell 682k packages at an average price of PLN 22, which should remain stable in the future. By 2023E, the segment's revenues should increase at a CAGR of 12.9% and generate EBITDA margins of >25%. While sales in Poland should continue to develop well due to strong brand recognition of PHR's cosmetics, we believe that PHR will strongly increase its exports. In September and October 2015, the company signed new contracts with partners in the United Arab Emirates, Oman, Kuwait and South Korea.

Skin Care: In case of the Skin Care segment, we have forecast that PHARMENA will sell 76k packages at an average price of PLN 22 in full-year 2015. In the following years, the segment should however grow at a higher CAGR than Hair Care of 13.5%, which is due to the planned introduction of 50 new products in 2016E and 2017E and increasing export sales. Like in case of the Hair Care segment, we estimate that the EBITDA margin will remain at >25% in the future.

Dietary supplement 1-MNA: We have assumed first sales of the new dietary supplement in 2016E (150k packages at PLN 35 on average), however believe that the EBITDA margin will be significantly negative in that year due to costs relating to launch of production. In our view, PHARMENA will target the product at clients in Poland and abroad from the start. In the following years, the number of sold packages should increase at a CAGR of 25.2% and constant prices, resulting in revenues in 2023E of PLN 25.3m. We have forecast that in the long run the dietary supplement will generate an EBITDA margin of >25%.

in PLNm	2015E	2016E	2017E	2018E
Hair Care	15.00	19.21	22.66	25.38
(% of net sales)	90.0%	72.2%	64.9%	62.9%
Number of packages sold per year	682,000	872,960	1,030,093	1,153,704
Average price in PLN	22	22	22	22
EBITDA margin	23.0%	26.0%	25.9%	25.7%
Skin Care	1.67	2.14	2.53	2.83
(% of net sales)	10.0%	8.0%	7.2%	7.0%
Number of packages sold per year	76,000	97,280	114,790	128,565
Average price in PLN	22	22	22	22
EBITDA margin	23.0%	26.0%	25.9%	25.7%
Dietary supplement 1-MNA	0.00	5.25	9.71	12.14
(% of net sales)	0.0%	19.7%	27.8%	30.1%
Number of packages sold per year	0	150,000	277,500	346,875
Average price in PLN	35	35	35	35
EBITDA margin	0.0%	-25.0%	14.5%	19.8%
Total net sales	16.68	26.60	34.90	40.35
(change y-o-y)	18.0%	59.5%	31.2%	15.6%

Source: East Value Research GmbH

in PLNm	Q1/13	Q2/13	Q3/13	Q4/13	2013
Net sales	3.13	3.83	3.79	3.39	14.14
y-o-y change	51.9%	93.2%	48.6%	33.6%	54.9%
EBITDA	-0.10	-0.57	0.19	-0.70	-1.19
EBITDA margin	-3.3%	-15.0%	5.0%	-20.5%	-8.4%
EBIT	-0.14	-0.61	0.15	-0.74	-1.34
EBIT margin	-4.6%	-16.0%	3.9%	-21.7%	-9.5%
Net income	-0.48	-0.81	-0.41	-1.15	-2.84
Net margin	-15.2%	-21.2%	-10.9%	-33.8%	-20.1%

in PLNm	Q1/14	Q2/14	Q3/14	Q4/14	2014	Q1/15	Q2/15	Q3/15
Net sales	3.96	2.58	3.47	4.12	14.13	4.03	3.81	4.72
y-o-y change	26.4%	-32.5%	-8.5%	21.6%	-0.1%	1.7%	47.6%	35.8%
EBITDA	-1.33	-0.80	-0.35	-1.12	-3.60	-0.52	-0.42	0.20
EBITDA margin	-33.6%	-30.9%	-10.1%	-27.3%	-25.5%	-12.9%	-10.9%	4.2%
EBIT	-1.37	-0.84	-0.40	-1.17	-3.79	-0.57	-0.46	0.14
EBIT margin	-34.6%	-32.7%	-11.5%	-28.4%	-26.8%	-14.1%	-12.1%	2.9%
Net income	-1.59	-1.05	-0.26	-1.19	-4.09	-0.69	-0.72	-0.09
Net margin	-40.1%	-40.6%	-7.5%	-29.0%	-28.9%	-17.1%	-19.0%	-1.9%

Source: Company information (consolidated figures), East Value Research GmbH

CAPEX and Working capital

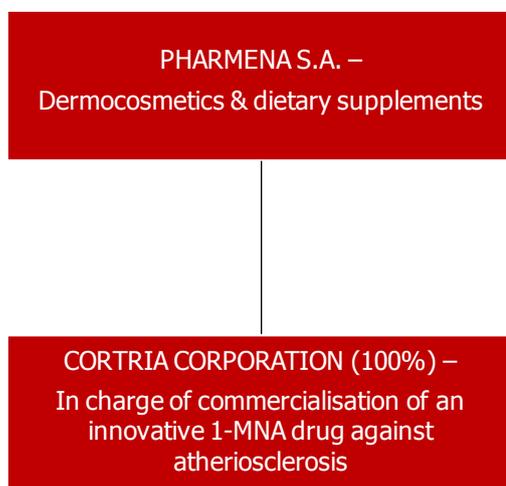
We have assumed that in the dermocosmetics and dietary supplement business PHARMENA will have a yearly net CAPEX of PLN 100k in the future. In our view, the company will invest 8.5% of its annual sales in working capital.

Business description

PHARMENA S.A., which is based in Lodz, is a leading Polish cosmetics and biotech company. The company concentrates on research and commercialization of innovative dermocosmetics, dietary supplements and anti-atherosclerotic drug, which contain the physiological and natural active substance 1-MNA (1-metylonikotynamid). 1-MNA, which is mainly produced in the liver, is a metabolite and chemical equivalent of niacin. It is anti-inflammatory and also stimulates the production of endogenous prostacyclin, which prevents among others strokes. PHARMENA owns 85 patents in Europe, North America and Asia, which are valid until 2025/26. The company has been listed in the NewConnect segment of the Warsaw Stock Exchange since 2008.

Currently, PHARMENA employs 21 people, thereof 13 sales representatives and 8 office clerks. The company subcontracts most activities e.g. production, warehousing, logistics and accounting to external entities, which is why most of its operating costs are variable.

Organizational structure



Source: Company information, East Value Research GmbH

Company history

2002: Foundation of PHARMENA Sp. z.o.o by scientists from the Technical and Medical Universities in Lodz. Based on a license agreement, the company receives an exclusive right for commercialization of products.

2003: PHARMENA introduces first products on the Polish market: Dermena shampoo, the curing-easing skin gel Thermi and the gel against acne Accos.

Polska Grupa Farmaceutyczna S.A. acquires 47% of the shares in PHARMENA for PLN 1m, which allows the company to initiate export sales to selected Eastern markets in 2004.

2005: Acquisition of patents and patent applications from the Technical University in Lodz relating to the application of 1-MNA in dermatology.

PHARMENA establishes Pharmena North America Inc. (now Cortria Corporation) with headquarter in Boston, which is supposed to conduct clinical studies in the US and Canada.

Introduction of a new product line called Allerco for sensitive skin.

2006: PHARMENA introduces new products under the brands Dermena, Accos and Allerco.

2007: Initiation of clinical studies in the US and Canada on the anti-atherosclerotic drug 1-MNA.

2008: PHARMENA becomes a joint-stock company. The company conducts an IPO in the NewConnect segment of the Warsaw Stock Exchange, which is accompanied by a capital increase of PLN 13.6m (524.3k new shares at PLN 26 per share). The proceeds are used for R&D activities relating to the 1-MNA drug.

2009: Patent for the 1-MNA drug in Russia and Mexico.

2010: Patent for the 1-MNA drug in Canada, Australia and China.

2011: Patent for the 1-MNA drug in Europe and the US.

Determination of specific aspects of functioning of the substance 1-MNA and estimation of doses for further studies.

Signing of a consulting agreement with Torrey Partners (Top 5 consultant worldwide in the pharma industry) for commercialization of 1-MNA drug.

2012: Patent for the 1-MNA drug in Japan. Start of co-operation with the drugstore chains Rossmann and Hebe.

Market introduction of the dietary supplement Dermena Complex, which limits the fallout of hair.

Issuance of 781k new shares at PLN 6.50 per share (PLN 5.1m).

2013: Issuance of 1.8m new shares at PLN 7.50 per share (PLN 13.2m).

Application for authorization of 1-MNA as a novel food at the FSA in London.

FSA asks for additional 90 days of toxicological research on animals. It also requests additional information on the impact of the supplement on the niacin metabolism.

2014: Start of co-operation with the pharmacy chains Dr. Max (101 pharmacies in Poland), Mediq Apteka (190 own pharmacies, 79 franchised ones), Ziko Apteka (40 drugstores and pharmacies) and Euro-Apteka (65 pharmacies).

Completion of 90-day toxicological research on animals. The final report shows a very good tolerance and safety of the 1-MNA supplement.

2015: ACNFP asks PHARMENA for an additional risk analysis of the 1-MNA supplement relating to its impact on the niacin metabolism. PHARMENA amends the application form as requested.

1-MNA is being officially authorized as a novel food.

Signing of a framework agreement with a distributor in Monaco for production of dermocosmetics under the distributor's brand. First order with realization date in September amounts to EUR 86.8k.

Successful completion of Phase II studies on the 1-MNA drug. A final report is expected in Q1/16.

Business segments

Hair Care: This segment comprises the results of the Dermena product line including the dietary supplement Dermena Complex, which target customers with excessive fallout of hair and dandruff. In 2014, it generated revenues of PLN 12.8m (90.4% of PHR's total sales).

Below is a description of the different Dermena products:

Dermena



Product line comprises a shampoo, gel and conditioner. They strengthen hair bellows, limit psoriasis and stimulate the recovery of hair.

Dermena Plus



The product is for treatment of excessive hair fallout with dandruff. It contains (1) pirokton olamine, which positively affects microflora balance of epidermis and protects against excessive development of dandruff and (2) 1-MNA, which strengthens hair bellows and improves their nourishing.

Dermena Complex



Dietary supplement in the form of capsules with substances that are responsible for proper hair growth as well as healthy appearance of skin and nails.

Dermena Lash



T

The conditioner with 1-MNA slows down the fallout of eyebrows/lashes and improves the nutrition of the hair bellow. It strengthens eyebrows/lashes and improves their condition, thus is recommended e.g. after a completed chemotherapy. The conditioner is complemented by mascara dermena lash, which also contains 1-MNA and can be used by women with sensitive eyes and contact lenses.

Dermena Repair



Product for dry and destroyed hair, which tends to fall out. The shampoo strengthens, moisturizes and regenerates the hair. It is also recommended after a completed chemotherapy.

Dermena Men



The product targets men, who have weak hair and suffer from excessive hair fallout. It is especially recommended if there are first signs of men-typical baldness. Dermena Men comprises active ingredients (H-VIT and 1-MNA), which limit the miniaturization of the hair bellow due to DHT (dihydrotestosteronu).

Skin Care: This segment comprises the results of the product lines Allerco, Dermena Seboline, Thermi and Dermena Vitaline, which are targeted at customers with skin problems. In 2014, it accounted for 9.6% of PHR's total sales or PLN 1.4m.

Allerco



For dry, sensitive skin, which is prone to irritation; does not contain any odoriferous substances and artificial dyes; product line consists of emollient creme (a greasing and moisturizing one), body lotion, shampoo, washing gel, washing cube and bath emulsion.

Dermena Seboline



The product line Dermena Seboline comprises a gel against acne, washing liquid, clearing tonic, creme and washing cube; it was developed as a reaction to issues relating to greasy and mixed skin, which is prone to acne.

Thermi



Curing-easing gel for skin, which is exposed to thermic and solar irritations; 1-MNA component protects against arising initiations, reduces rubefaction and regenerates epidermis.

Dermena Vitaline



Innovative treatment against wrinkles for +40 years olds; it comprises a revitalizing day creme, regenerating night creme and an eye creme.

Dietary supplement 1-MNA: The 1-MNA is a dietary supplement with the ability to impact heart and dish risk biomarkers. Moreover, it is able to stimulate the production of endogenous prostacyclin, whose lack increases the risk of atherosclerosis. Scientific research has shown that the concentration of endogenous prostacyclin in the human organism decreases with age. The 1-MNA dietary supplement can be sold independently or support other anti-atherosclerotic therapies.

In May 2013, PHARMENA filed for EU-wide registration of its 1-MNA dietary supplement as a novel food at the Food Standards Agency (FSA) in London. The objective was to prove the safety of the 1-MNA dietary supplement in proposed dosis. On 7 October 2015, the company announced that the FSA and ACNFP (Advisory Committee on Novel Foods and Processes) were going to issue a positive opinion for 1-MNA as novel food. After receiving the final authorization by the EU, which we expect in Q1/16, PHARMENA will start selling its product. In foreign markets, it will work with licensed contractors, who will sell the dietary supplement themselves and distribute it under PHARMENA's brand. The patents, which PHARMENA owns for its dietary supplement in Europe and USA, are valid until 2025/26.

1-MNA drug: In 2007, PHARMENA initiated research on a new drug against dyslipidemia (abnormal amount of lipids e.g. good cholesterol (High-Density Lipoprotein) and/or fat in the blood), which causes atherosclerosis (walls in arteries that carry blood). PHR's drug targets especially two types of dyslipidemia called hypertryglicerides and mixed hyperlipidemia. Currently, the main types of drugs against dyslipidemia are statins, ezetimibes, fibrants and niacins.

So far, PHARMENA has spent USD 17.7m on the drug, however these investments also resulted in the development of the 1-MNA dietary supplement. PHR decided to conduct the research through its US-subsiary Cortria Corporation as North America is the largest and most important market for the pharma industry worldwide. Cortria Corporation (previously Pharmena North America Inc.) was founded by PHR in 2005. Until 2010, when it decided to increase its stake from previously 22.3% to 100% in the subsidiary in order to secure all the rights associated with the 1-MNA drug project, the company had co-shareholders in Cortria (Domain Associates and MVM Life Sciences). As part of the deal, the parties agreed that PHARMENA will pay a one-off fee of USD 1.3m plus a certain percentage of future milestones and royalties from the sale or licensing of the 1-MNA drug to a strategic investor.

The objective of the clinical research on the 1-MNA drug (also called TRIA-662) is to prove that it increases good (High-Density Lipoproteins) cholesterol and reduces triglycerides with no side effect. Results of clinical trials with animals have shown that PHARMENA's 1-MNA drug affects cardiovascular risk biomarkers and due to its ability to stimulate the production of endogenous prostacyclin (PGI₂) shows anti-thrombotic effects, enhances endothelial functional and protects against gastric injury. Moreover, in contrast to drugs, which contain niacin, it does not lead to skin rubefaction and burn (so-called "flushing").

On 30 October 2015, PHARMENA announced the successful completion of Phase II of research on its 1-MNA drug (so-called "Proof of concept"). The study took almost two years and was monitored by the leading clinical center in Canada Montreal Heart Institute. It was conducted in 17 hospitals throughout North America and included 64 patients. Each patient received pre-determined doses of the 1-MNA drug three times a day for 14 weeks. The objective of the study was to analyze certain parameters relating to lipidemia (e.g. HDL and LDL cholesterol, triglycerides) and safety of the drug (e.g. level of glucose, results of the electro-cardiogram). We expect the publication of results of the Phase II study in Q1/16. After that, PHARMENA's management plan to present them to all the largest pharma companies worldwide as it is too small to be able to complete the registration and commercialization of the drug alone.

Period	Phase of research on 1-MNA drug
2005-2007	Initiation of research with 270mg dosis
2006-2008	Completion of clinical studies on animals
2007-2010	Successful completion of Phase I; Phase II was not successful as it did not show any difference between 1-MNA and placebo
2010-2012	Initiation of research with 1000mg dosis
2011-2013	Completion of clinical studies on animals
2012-2014	Successful completion of Phase I and bioavailability study (describes the speed and level of absorption of healing substance by general circulation after one-time application. 20 patients and two trial groups: 1-MNA vs. niacin)
2013-Oct 2015	Phase II research

Source: Company information, East Value Research GmbH

Production

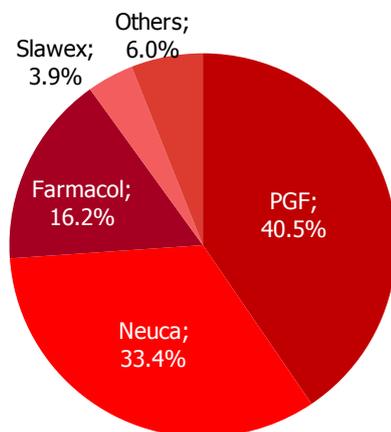
PHARMENA outsources production to external partners. With regard to the manufacturing of the 1-MNA substance, it co-operates with IFOTAM Sp. z o.o. in Lodz and Pabianickie Zakłady Farmaceutyczne Polfa S.A. in Pabianice. Its dermocosmetics are produced by Laboratorium Galenowe Olsztyn Sp. z o.o. in Dywity, Betasoap Sp. z o.o. in Warsaw and Capitol Sp. z o.o. in Lodz, while the dietary supplement Dermena Complex is manufactured e.g. by Master Pharm Polska Sp. z o.o. in Lodz. The ready-for-sale products are stored at warehouses of Pharmalink Sp. z o.o. in Lodz. PHARMENA owns the rights relating to the products as well as the manufacturing process.

Distribution

In Poland, PHARMENA distributes its products through pharma wholesalers (PGF, Farmacol, Neuca, Slawex, Lubfarm etc.), pharmacy chains (DOZ, Super Pharm, Dr. Max Polska, Mediq Apteka, Euro-Apteka, Ziko Apteka) and drugstores (Rossmann, Hebe). The five largest pharma wholesalers still account for >90% of the company's domestic sales, which is risky in our view. However, PHARMENA plans to diversify its distribution channels by concentrating especially on drugstores.

In foreign markets, management's strategy is based on two pillars: (1) the co-operation with local partners, who are in charge of marketing and distribution of PHR's products on an exclusive basis, and/or (2) licensing production and distribution to specialized companies.

Distribution structure in 2014



Source: Company information, East Value Research GmbH

Management

Konrad Palka (CEO): Mr Palka has been CEO and Managing Director of Pharmena since the company's inception in 2002. He is also CEO of the company's subsidiary Cortria Corporation. Previously, Mr Palka worked as Sales Director at the mutual fund company Skarbiec TFI and pension fund manager PTE DOM. He was also Branch Manager Private Banking at Creditanstalt Securities (now Unicredit Group). Mr Palka graduated with a Master's degree in Finance and Banking from the University in Lodz.

Marzena Wieczorkowska (Vice President of the Management Board): Mrs Wieczorkowska has been with Pharmena since the company's foundation in 2002. Before 2008, when she was promoted to Vice President of the Board, she was Member of the Board and Director of R&D. From 1998 to 2003, she was a researcher at the Inter-departmental Institute for Radiation Technology of the Technical University in Lodz. She graduated with a Master's degree in Chemistry and also owns a PhD.

Anna Zwolinska (Vice President of the Management Board): Mrs Zwolinska has been with Pharmena since 2005, first in the R&D department. From 2008, she worked in the sales & marketing department and in 2010 was promoted to Director. Between 1998 and 2004, she was researcher and lecturer at the Institute for General and Ecological Chemistry of the Technical University in Lodz. She graduated with a Master's degree in Chemistry and also owns a PhD.

Market environment

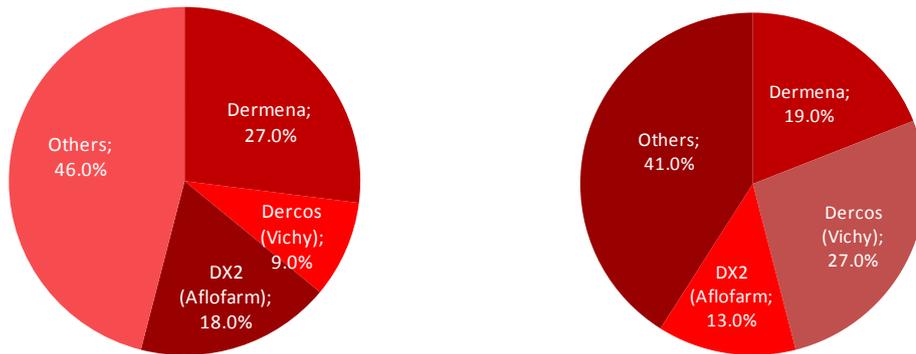
The market for dermocosmetics

According to Research and Markets, the global cosmetic market was worth USD 460bn in 2014 and is estimated to reach USD 675bn by 2020E (CAGR 14-20E of 6.4%). Asia/Pacific region accounted for 35% of the market followed by Western Europe and North America. It is also expected to grow the fastest in the future due to the fact that Asian customers are very beauty conscious. According to Statista.com, the segments Skin Care and Hair Care accounted for 58.6% of the market in 2014.

Dermocosmetics are an expanding area of the global beauty market according to L'Oreal. Between 1998 and 2013, they have doubled their share from 2.2% to 4.4%, with Western Europe accounting for 60% of its total value. The largest markets for dermocosmetics are France, Italy, Germany and Spain, however countries such as Brazil and China are becoming increasingly important. Pharmacies and parapharmacies are a key distribution channel for dermocosmetics in Western Europe accounting for 25% of all skincare products sold. In the US, Brazil or China, drugstores, shopping malls and department stores play a much more important role.

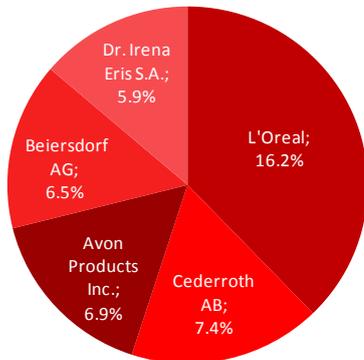
In Poland, the market for dermocosmetics is estimated at PLN 1.2bn or c. 8% of the total cosmetics market, which is one of the most dynamic in Europe. Skin Care and Hair Care products account for c. 35% of the market (Source: Forbes.pl). PMR estimates that the dermocosmetics market will increase to PLN 1.8bn by 2020E (CAGR of 7.1%). The segment is growing at a fast pace as dermocosmetics do not contain artificial ingredients, which could whet skin, have a stronger effect than traditional beauty products and are considered a much cheaper alternative to esthetic medicine. At the same time, they are becoming more and more interesting for pharmacies as they generate gross margins of up to 30-40% and thus offset the negative consequences of the Polish drug refund law. According to PMR, sales of dermocosmetics are subject to seasonality effects, with the highest occurring in the summer months and shortly before Christmas.

Share in the Hair segment in Poland in H1/15 (units sold – left / revenues – right)



Source: IMS Health, East Value Research GmbH

Top 5 market players in the Skin segment in Poland



Source: Euromonitor International 2014, Avon, East Value Research GmbH

The market for dietary supplements

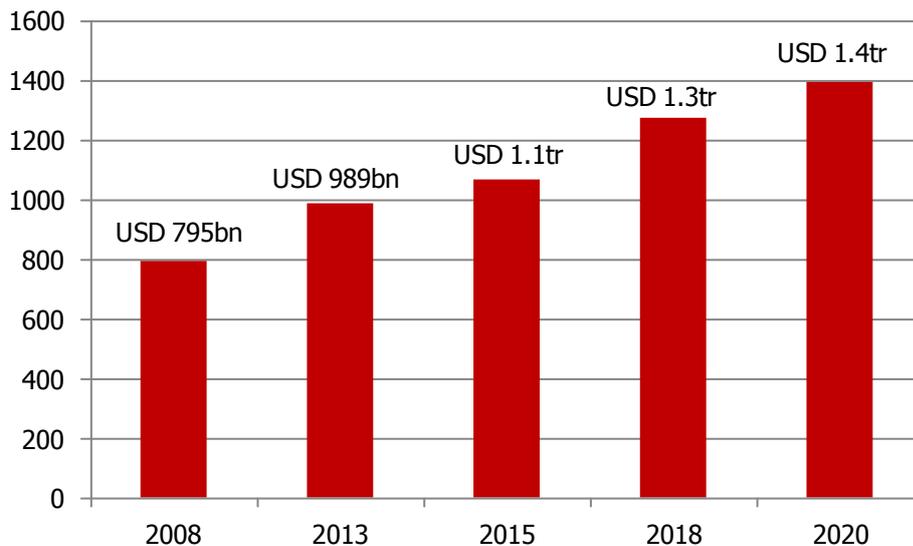
According to the Nutrition Business Journal report, the global nutrition and supplements market was worth approx. USD 104bn in 2013. Over the last 10-15 years, sales have seen an unprecedented spike and many new players stepped in. In the coming years, the CAGR of the segment is expected at 6-7%, with developing markets such as Asia/Pacific and Latin America growing at an above-average rate. In 2013, functional foods constituted over 30% of the global nutrition and supplements market. Another major category was natural and organic food, however there is a shift towards preventative/proactive nutrition and supplement products e.g. for ageing populations that face a higher risk of chronic disease.

In Poland, PMR expects the market for dietary supplements to grow by 6.6% to PLN 3.6bn in 2015 and at a CAGR of 6.8% until 2020E, when it is forecast to reach PLN 5bn. Due to less stringent regulations sales in drugstores, shops and department stores are expected to develop better than those in pharmacies. The main growth drivers should be increasing incomes and higher consumption.

The global pharmaceuticals market and the segment of dyslipidemia

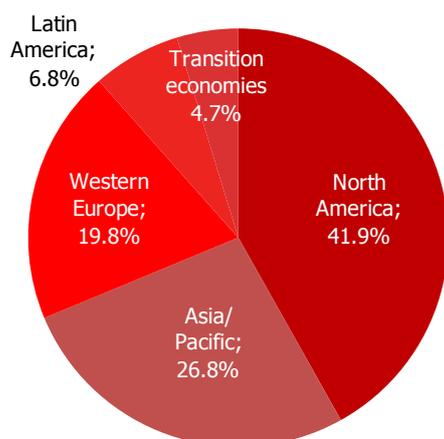
According to IMS Institute for Healthcare Informatics, the global pharmaceuticals market (biopharmaceuticals incl. biologics, OTC drugs, traditional medicines) is worth USD 1.1tr in 2015 and is expected to increase at 4-7% y-o-y over the next five years. While the share of the US and Europe in the global pharma market has been declining in the last years, emerging markets such as China have become much more important. Also, generic drugs account for an increasing share in total pharma spending (39% in 2015 vs. 20% in 2005). Together with overall strong economic growth and governments' commitment to expand healthcare access, they are expected to lead to above-average growth in emerging markets in the future. Oncology, diabetes and respiratory drugs are the three largest therapy areas of the global pharma market.

Growth of the global pharma market in 2008-2020E



Source: IMS Health, East Value Research GmbH

Regional split of pharma sales in 2014



Source: Deloitte 2015 Global life sciences outlook, East Value Research GmbH

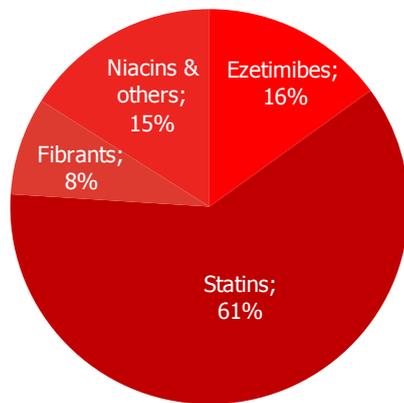
Dyslipidemia is a chronic metabolic syndrome, characterized by increased level of Low-Density Lipoprotein (LDL) and triglycerides as well as decreased High-Density Lipoprotein (HDL). According to research and consulting firm GlobalData, the global market for dyslipidemia drugs in the eight largest geographies (the US, France, Germany, Italy, Spain, UK, Japan, and China) was worth USD 15.4bn in 2013, thereof USD 11bn in branded drug sales (72%) and USD 4.4bn in generic sales (28%). The research firm expects the segment to grow at a CAGR of 9.4% to a value of USD 37.9bn in 2023E (71% branded drug sales, 29% generic ones). The major factors influencing the growth are sedentary lifestyle, higher consumption of junk food and increasing incidence of cardiovascular diseases. The Centers for Disease Control and Prevention estimate that cholesterol abnormalities are rapidly increasing both in developed regions and emerging countries, especially China and India.

The dyslipidemia drugs market is segmented into statins, niacins, fibric acid derivatives and others (combination drugs and cholesterol absorption inhibitors, especially PCSK9 and CETP). Currently, the market is dominated by statins, whose market share equals 61% (Source: IMS MIDAS 2013). They reduce LDL and have been proven to reduce the risk of cardiovascular events such as heart attack and stroke. The most popular statin drugs are atorvastatin/Lipitor (Pfizer), rosuvastatin/Crestor (AstraZeneca), simvastatin/Zocor (Merck) and pravastatin/Pravachol (Bristol-Myers Squibb). Drugs, which combine statins with supporting substances, include Vytorin (Merck/Schering-Plough) and Caduet (Merck/Schering-Plough).

The second most important kind of drugs within the dyslipidemia segment are ezetimibes, which limit the level of cholesterol that is transported to the liver and thus lower LDL and triglycerides in the blood. Other therapies are niacins and fibrates, which have the same effect on cholesterol and triglycerides, but different side effects. Niacins are derivatives of the niacin acid and reduce the level of free fat acids in the blood. They can be used alone, however have one very serious side effect called flushing, which is why >80% of patients terminate the therapy with them. Fibrants only cause problems with muscles and fatigue.

While statins will likely remain the largest therapy area within the dyslipidemia segment, the most promising therapies according to GlobalData are convertase subtilisin/kexin type 9 (PCSK9) and ester transfer protein (CETP) inhibitors. PCSK9 inhibitors deactivate respective proteins by reducing the level of LDL cholesterol being transported to the liver and its level in the blood. There are already two registered drugs, Repatha/Amgen and Praluent/Sanofi-Aventis, which however can only be injected. CETP inhibitors are still being researched and are supposed to inhibit cholesterylester transfer protein (CETP), which normally transfers cholesterol from HDL to Very Low Density or Low Density Lipoproteins (VLDL or LDL) leading to higher HDL and lower LDL cholesterol. In September 2015, Amgen announced a significant deal over in total USD 1.55bn with Dutch Dezima Pharma, which works on a CETP inhibitor called TA-8995. In contrast to Pfizer or Roche, which flopped with their CETP inhibitors, Dezima's drug has so far demonstrated the ability to lower both LDL significantly as well as to increase HDL levels.

Estimated share of therapies against dyslipidemia



Source: IMS MIDAS 2013, East Value Research GmbH

Overview over the most important drugs against dyslipidemia

Drug	Manufacturer	Patent valid	Exclusivity valid	Drug category
Zocor	Merck	No	No	Statins
Pravachol	Bristol-Myers Squibb	No	No	Statins
Lipitor	Pfizer	Yes	No	Statins
Tricor	Abbott Laboratories	Yes	No	Fibrates
Crestor	AstraZeneca	Yes	No	Statins
Zetia	Merck/Schering-Plough	Yes	No	Ezetimibes
Vytorin	Merck/Schering-Plough	Yes	No	Ezetimibes & Statins
Niaspan	Abbott Laboratories	Yes	No	Niacins
Niacor	Upsher-Smith Laboratories	No	No	Niacins
Advicor	Abbott Laboratories	Yes	No	Statins & Niacins
Lipofen	Cipher Pharms Inc.	No	No	Fibrates
Fenoglide	Santarus Inc./Valeant Pharma	Yes	No	Fibrates

Source: FDA Orange Book, company websites, East Value Research GmbH

Profit and loss statement

in PLNm	2009	2010	2011	2012	2013	2014
Net sales	6.38	7.70	7.40	9.13	14.14	14.13
Cost of goods sold	-2.02	-2.58	-2.57	-2.84	-4.11	-4.06
Gross profit	4.36	5.13	4.82	6.29	10.03	10.07
Other operating income	0.00	0.00	0.02	0.03	0.02	0.02
Distribution costs	-1.25	-2.45	-2.37	-2.40	-5.89	-6.56
Administration costs	-2.45	-2.61	-4.74	-6.75	-5.27	-7.04
Other operating expenses	-0.01	-0.01	-0.03	-0.04	-0.07	-0.09
EBITDA	0.65	0.05	-2.29	-2.87	-1.19	-3.60
Depreciation & Amortization	-0.12	-0.12	-0.12	-0.14	-0.16	-0.18
EBIT	0.52	-0.07	-2.41	-3.01	-1.34	-3.79
Net financial results	0.44	0.26	0.19	-0.18	-0.49	0.84
Write-down of negative goodwill	0.00	0.00	-0.52	-0.52	-0.52	-0.52
EBT	0.97	0.19	-2.74	-3.71	-2.35	-3.46
Income taxes	-0.20	-0.07	-0.15	-0.39	-0.50	-0.62
Net income / loss	0.77	0.12	-2.90	-4.10	-2.84	-4.09
EPS	0.12	0.02	-0.46	-0.58	-0.32	-0.46
DPS	0.00	0.01	0.05	0.10	0.11	0.11
Share in total sales						
Net sales	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-31.62 %	-33.47 %	-34.80 %	-31.08 %	-29.06 %	-28.76 %
Gross profit	68.38 %	66.53 %	65.20 %	68.92 %	70.94 %	71.24 %
Other operating income	0.03 %	0.01 %	0.20 %	0.32 %	0.13 %	0.15 %
Distribution costs	-19.64 %	-31.81 %	-31.97 %	-26.33 %	-41.66 %	-46.44 %
Administration costs	-38.48 %	-33.88 %	-64.01 %	-73.95 %	-37.30 %	-49.81 %
Other operating expenses	-0.12 %	-0.17 %	-0.39 %	-0.43 %	-0.50 %	-0.64 %
EBITDA	10.17 %	0.69 %	-30.97 %	-31.48 %	-8.38 %	-25.50 %
Depreciation & Amortization	-1.95 %	-1.56 %	-1.66 %	-1.52 %	-1.12 %	-1.29 %
EBIT	8.22 %	-0.87 %	-32.63 %	-33.00 %	-9.51 %	-26.79 %
Net financial results	6.94 %	3.33 %	2.51 %	-2.00 %	-3.44 %	5.92 %
Write-down of negative goodwill	0.00 %	0.00 %	-6.98 %	-5.65 %	-3.65 %	-3.65 %
EBT	15.16 %	2.46 %	-37.10 %	-40.66 %	-16.59 %	-24.52 %
Income taxes	-3.07 %	-0.86 %	-2.07 %	-4.25 %	-3.52 %	-4.40 %
Net income / loss	12.09 %	1.61 %	-39.16 %	-44.91 %	-20.11 %	-28.92 %

Balance Sheet

in PLNm	2009	2010	2011	2012	2013	2014
Assets						
Cash and cash equivalents	8.76	3.31	3.00	3.20	11.15	5.22
Inventories	0.92	1.35	1.10	1.40	2.09	2.91
Trade accounts and notes receivables	2.36	2.60	1.89	2.86	3.83	5.28
Other financial assets	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	0.11	0.38	0.48	0.80	0.76	0.87
Current assets	12.15	7.64	6.47	8.26	17.84	14.27
Property, plant and equipment	0.07	0.15	0.15	0.16	0.11	0.16
Other intangible assets	0.74	0.67	0.63	0.78	0.67	0.73
Goodwill	0.00	0.00	1.89	1.38	0.86	0.34
Long-term financial assets	3.60	7.56	0.05	0.05	0.05	0.05
Other long-term assets	0.50	0.76	0.96	0.90	0.85	1.20
Deferred tax assets	0.04	0.04	0.05	0.07	0.18	0.10
Non-current assets	4.95	9.18	3.72	3.33	2.72	2.59
Total assets	17.09	16.82	10.19	11.59	20.56	16.86
Liabilities						
Trade payables	0.38	0.29	0.88	1.64	1.32	1.36
Other liabilities	0.42	0.37	0.57	0.73	0.90	1.09
Short-term financial debt	0.03	0.05	0.05	0.06	0.02	1.00
Pension provisions	0.00	0.00	0.03	0.03	0.16	0.18
Current liabilities	0.82	0.71	1.53	2.47	2.40	3.64
Long-term financial debt	0.01	0.08	0.06	0.04	0.02	0.07
Deferred tax liabilities	0.10	0.12	0.11	0.10	0.09	0.08
Long-term liabilities	0.11	0.20	0.17	0.14	0.11	0.14
Total liabilities	0.93	0.91	1.69	2.61	2.51	3.78
Shareholders equity	16.16	15.91	8.50	8.98	18.05	13.08
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities and equity	17.09	16.82	10.19	11.59	20.56	16.86

Cash Flow Statement

in PLNm	2009	2010	2011	2012	2013	2014
Net income / loss	0.77	0.12	-2.90	-4.10	-2.84	-4.09
Depreciation	0.12	0.12	0.12	0.14	0.16	0.18
Change of working capital	-1.08	-1.05	0.34	-0.50	-1.85	-2.45
Others	0.00	-0.28	0.72	0.41	0.70	0.60
Net operating cash flow	-0.18	-1.08	-1.71	-4.05	-3.84	-5.75
Cash flow from investing	-2.35	-3.97	-0.05	-0.22	-0.01	-0.09
Free cash flow	-2.53	-5.05	-1.76	-4.27	-3.85	-5.84
Cash flow from financing	-0.42	-0.40	-0.13	4.48	11.81	-0.09
Change of cash	-2.95	-5.45	-1.84	0.06	7.96	-5.72
Cash at the beginning of the period	11.72	8.76	3.31	3.00	3.20	11.15
Cash at the end of the period	8.76	3.31	3.00	3.20	11.15	5.22

Financial ratios

Fiscal year	2009	2010	2011	2012	2013	2014
Profitability and balance sheet quality						
Gross margin	68.38%	66.53%	65.20%	68.92%	70.94%	71.24%
EBITDA margin	10.17%	0.69%	-30.97%	-31.48%	-8.38%	-25.50%
EBIT margin	8.22%	-0.87%	-32.63%	-33.00%	-9.51%	-26.79%
Net margin	12.09%	1.61%	-39.16%	-44.91%	-20.11%	-28.92%
Return on equity (ROE)	4.83%	0.77%	-23.74%	-46.93%	-21.04%	-26.25%
Return on assets (ROA)	1.96%	-0.78%	-22.83%	-35.98%	-14.66%	-26.31%
Return on capital employed (ROCE)	2.57%	-0.27%	-29.43%	-36.48%	-8.97%	-33.75%
Net debt (in PLNm)	-8.72	-3.18	-2.86	-3.06	-10.95	-3.97
Net gearing	-54.00%	-19.98%	-33.68%	-34.12%	-60.68%	-30.37%
Equity ratio	94.53%	94.57%	83.40%	77.48%	87.81%	77.59%
Current ratio	14.73	10.79	4.24	3.35	7.44	3.93
Quick ratio	13.49	8.35	3.20	2.46	6.26	2.89
Net interest cover	-1.19	0.26	12.98	-16.46	-2.77	4.52
Net debt/EBITDA	-13.44	-59.96	1.25	1.07	9.24	1.10
Tangible BVPS	2.41	2.37	1.05	1.08	1.95	1.45
CAPEX/Sales	-0.78%	-1.69%	-26.61%	2.34%	3.61%	1.56%
Working capital/Sales	48.39%	57.51%	40.31%	39.32%	37.64%	55.19%
Cash Conversion Cycle (in days)	232	273	125	83	168	275
Trading multiples						
EV/Sales	29.38	24.33	25.34	20.53	13.26	13.27
EV/EBITDA	288.86	3537.34	-81.82	-65.23	-158.19	-52.03
EV/EBIT	357.31	-2798.68	-77.66	-62.22	-139.48	-49.53
P/Tangible BVPS	8.75	8.89	20.12	19.54	10.80	14.57
P/E	175.83	1055.00	-45.87	-36.38	-65.94	-45.87
P/FCF	-73.41	-36.75	-105.26	-43.42	-48.23	-31.75

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