



CONCORDE CAPITAL

Ukraine / Pharmaceuticals

**Farmak**

Notes from company AGM

March 21, 2008

Current price: USD 46.54  
12M Target: N/R

**N/R**

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At its AGM yesterday, Farmak, the third largest pharmaceutical producer in Ukraine, disclosed operating and financial data for 2007, and plans for 2008.

**Tickers**

Bloomberg FARM UZ

**Market information**

Market price, USD\* 46.54

\* PFTS last deal price

MCap, USD mln 338.5

Chg 12M 62.1%

Hi/Lo 12M, USD 49.51/14.46

No of shares, mln 7.273

Avg Mon Tr Vol\*, USD mln 0.79

\* Over the last 12 months

Free float 22%

Free float, USD mln 74.5

**Corporate Governance**

Concorde Rating\* U/R

\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.

**Shareholders**

Management 78%

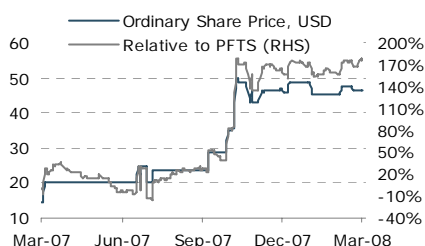
Other 22%

**Upcoming events**

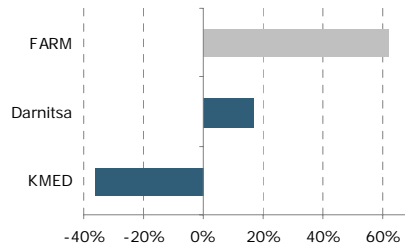
2007 UAS financials April 2008

- **Net revenue up 36.1% in 2007 to USD 78.2 mln.** Key revenue drivers mentioned at the AGM: more promotion, better focus on *innovative generics* (combined/modified generics sold under the company's brand name), and increases in local prices (we bet that price growth did most of the job). For 2008, management is targeting revenues of USD 107.2 mln (+33.7%) and sees higher growth in export sales (+47.8% vs. 29.4% in 2007), namely to Belarus and Uzbekistan, while it admitted that its positions in Russia are weakening. Due to intense competition, in 2007 Farmak's positions in top export products such as Corvalolum and Naphthyzinum also declined. The company launched 30 new products in 2007, and plans to expand its portfolio by 20 products in 2008.
- **2007 DPS at USD 0.046, a traditional 5% increase yoy.** Dividend payout: UAH 1.78 mln (USD 0.35 mln), or 4.5% out of 2007 profits (USD 7.8 mln), in line with the company's convention of increasing dividends by 5% annually. At the current price, dividend yield is 0.76%, DPS of USD 0.046. Payout period: April 1, 2008 (ex-div date) to April 1, 2009. Farmak plans to distribute USD 0.37 mln (3.8%) out of its 2008 net income, planned at USD 9.7 mln.
- **CapEx: USD 32 mln in 2008, almost double from 2007.** This year Farmak plans to complete two major projects: a new line for the production of liquid pharmaceutical forms, mainly Corvalolum (USD 13.1 mln, startup planned for Aug. 2008), and modernization of aseptic preparations (USD 18.8 mln, to start by 1Q09). In 2007 CapEx amounted to USD 17.2 mln.
- **Continued focus on debt financing.** The company said it plans to finance its CapEx primarily by debt. Around USD 24.2 mln will be provided by the EBRD, in line with the EUR 32.0 mln loan agreement signed in 2006. About EUR 8.5 mln has been already drawn in 2007. The company also plans to redeem about USD 4 mln in bank debt next year.
- **No exit until 2014? We doubt it.** The management, who also owns a majority stake in the company, mentioned they prefer debt financing and are not considering an exit earlier than in 2014. Given its growing leverage, we believe Farmak is quite likely to offer its shares to the market or to a strategic shareholder much earlier than they say.

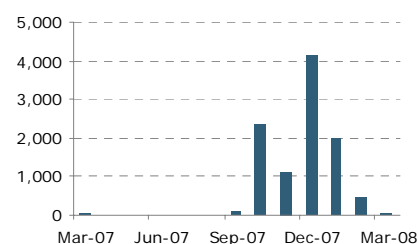
**Stock performance**



**Sector performance\*, 12M**



**Monthly trading volume, USD ths**



\* Full names: FARM = Farmak, KMED = Kyivmedpreparat, Darnitsa = Nord Star Pharmashare (price implied by GR quotes, FSE ticker: 4S11). For Darnitsa, share price performance was calculated for the period from the date of listing started, Oct. 5, 2007  
Source: Bloomberg, PFTS

**Key financials & ratios, USD mln**

	Revenue	EBITDA	Net Income	EBITDA Mgn	Net Mgn	EV/EBITDA	P/CF	P/E
2006	57.5	13.8	5.1	24.0%	8.9%	26.24	n/a	66.18
2007	78.2	17.7 <sup>e</sup>	7.8	22.6%	10.0%	21.50	26.02	43.36

<sup>e</sup> Concorde Capital estimate

Spot exchange rate: 5.05 UAH/USD

Source: Company data, Concorde Capital

## Summary of company financials, USD mln

	2006	2007	% change	2008 (comp. plan)	% change
<b>Gross sales*</b>	<b>57.7</b>	<b>80.2</b>	<b>38.9%</b>	<b>108.2</b>	<b>33.7%</b>
including:					
<b>Ukraine</b>	<b>46.9</b>	<b>66.2</b>	<b>41.1%</b>	<b>87.4</b>	<b>30.7%</b>
incl. Insulin	6.0	7.9	32.8%	n/a	n/a
<b>Exports</b>	<b>10.8</b>	<b>13.9</b>	<b>29.4%</b>	<b>20.8</b>	<b>47.8%</b>
Share in total	18.7%	17.4%	-1.3 p.p.	n/a	n/a
including:					
Russia	n/a	20.8%	n/a	n/a	n/a
Uzbekistan	n/a	19.4%	n/a	n/a	n/a
Kazakhstan	n/a	12.5%	n/a	n/a	n/a
<b>Income Statement Summary, USD mln</b>					
<b>Net revenue</b>	<b>57.5</b>	<b>78.2</b>	<b>36.1%</b>	<sup>e</sup> <b>105.6</b>	<b>33.7%</b>
COGS**	29.7	41.4	39.4%	n/a	n/a
<b>Gross profit</b>	<b>27.7</b>	<b>36.8</b>	<b>32.7%</b>	<b>n/a</b>	<b>n/a</b>
Gross margin	48.3%	47.1%	-1.2 p.p.	n/a	n/a
Other OpEx	17.2	<sup>e</sup> 24.0	39.8%	n/a	n/a
Other cost, net	0.4	n/a	n/a	n/a	n/a
Financial expense	2.2	3.1	41.1%	n/a	n/a
PBT	8.0	<sup>e</sup> 9.7	22.1%	n/a	n/a
Tax	2.9	<sup>e</sup> 1.9	-32.6%	n/a	n/a
<b>Net income</b>	<b>5.1</b>	<b>7.8</b>	<b>52.6%</b>	<b>9.8</b>	<b>24.3%</b>
Net margin	8.9%	10.0%	1.1 p.p.	9.3%	-0.7 p.p.
Dividends	0.34	0.35	5.0%	0.37	5.0%
Div payout ratio	6.6%	4.5%	-2.0 p.p.	3.8%	-0.7 p.p.
<b>Balance Sheet Summary, USD mln</b>					
Cash & Equivalents	0.3	2.9	923.4%	n/a	n/a
Inventories	9.6	7.4	-23.7%	n/a	n/a
Total Receivables	13.4	21.9	63.2%	n/a	n/a
PP&E, net	31.9	65.6	105.8%	n/a	n/a
Other	17.6	<sup>e</sup> 62.8	256.1%	n/a	n/a
<b>Total Assets</b>	<b>72.9</b>	<b>160.6</b>	<b>120.4%</b>	<b>n/a</b>	<b>n/a</b>
Share Capital	7.2	7.2	0.0%	n/a	n/a
Retained Earnings	30.5	33.1	8.5%	n/a	n/a
Reserves and Other	4.2	<sup>e</sup> 63.6	1399.6%	n/a	n/a
<b>Shareholders' Equity</b>	<b>41.9</b>	<b>103.9</b>	<b>147.9%</b>	<b>n/a</b>	<b>n/a</b>
Current Liabilities	26.5	32.2	21.3%	n/a	n/a
LT Liabilities	4.4	24.6	453.7%	n/a	n/a
<b>Total Liabilities &amp; Equity</b>	<b>72.9</b>	<b>160.6</b>	<b>120.4%</b>	<b>n/a</b>	<b>n/a</b>
<b>Cash Flow Items, USD mln</b>					
<b>Operating Cash Flow</b>	<b>n/a</b>	<b>13.0</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>CapEx</b>	<sup>e</sup> <b>33.0</b>	<b>17.2</b>	<b>164.1%</b>	<b>32.3</b>	<b>85.3%</b>
financed with:					
EBRD	n/a	9.2	n/a	24.4	161.8%
Other	n/a	8.0	n/a	7.9	-2.7%
Net Debt	23.0	<sup>e</sup> 41.4	80.2%	n/a	n/a
Debt/Equity	0.55	0.40	-27.3%	n/a	n/a
Current Ratio	0.56	0.31	-44.4%	n/a	n/a
Leverage	0.74	0.55	-26.1%	n/a	n/a

\* Management accounting data

\*\* Includes Depreciation & Amortization

<sup>e</sup> Concorde Capital estimate

Source: Company data, Concorde Capital estimates

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