

**SOPHARMA**  
**INDUSTRY: PHARMACEUTICALS**
**STRONG DESPITE UKRAINE**

**SOPHARMA'S TOP LINE AFFECTED BY UKRAINE/RUSSIA CONFLICT. NEVERTHELESS, THE COMPANY IS SKILLFULLY OVERCOMING THE NEGATIVE EFFECTS BY BUILDING MOMENTUM IN OTHER MARKETS. WITH A 67% CAGR IN THE LAST TEN YEARS, FUNDAMENTAL VALUE REMAINS STRONG.**

**DROP IN SALES DUE TO UKRAINE/RUSSIA CONFLICT**

Difficult market conditions in Ukraine (3<sup>rd</sup> largest market for the Company) due to the conflict with Russia, negatively affected Sopharma's individual financial performance in Q3. Overall sales declined by 5% y-o-y due to 8% drop in exports hit by a huge decline in sales to Ukraine - by a 1/3, together with a 39% dive in Caucasus and Central Asia revenue due to Kazakhstan currency crisis.

**SKILLFULLY REPOSITIONING TO REMEDY FORCE MAJEURE EFFECTS**

Sopharma is skillfully repositioning its sales to compensate for the negative effects and lessen its dependence to volatile markets. It has increased its domestic sales (+3% y-o-y) and pushed for further expansion in other high growth potential markets i.e. Russia (2<sup>nd</sup> largest market for the Company), Poland and Belarus. Positive repositioning effects evident from the preliminary 10-month performance with overall decline in revenues decelerating to 4% from accelerating domestic sales increase and decelerating exports decline.

**BOTTOM LINE UNDER PRESSURE FROM NEW CONDITIONS AND PAST INVESTMENTS**

The Company's profitability also declined as higher depreciation from completed large-scale investments kicked in and repositioning efforts consumed up more resources for advertising, labor and consulting. EBITDA margin declined from 26% to 24% while net income margin remained unchanged due to one-time effects.

**FUNDAMENTAL VALUE REMAINS STRONG**

The stable growth of both global and local pharmaceutical market (2%-5% y-o-y) together with expected increase in government healthcare spending (80% below EU average) entail Sopharma's long-term growth potential. The Company completed its modernization in 2013, opening up free capacity to meet demand.

**SYNERGIES WITHIN THE GROUP TO BOOST TOP AND BOTTOM LINE**

Several subsidiaries offer valuable synergies that will boost both top and bottom line. Sopharma's domestic distribution arm - Sopharma Trading (SO5 BU), local market leader, offering turnkey healthcare solutions in Bulgaria and Briz, Latvia with a leading position in Belarus and the Baltics will support the top line. The merger with Bulgarian Rose-Sevtopolis (4BJ BU) - a production subsidiary, will add to better profitability.

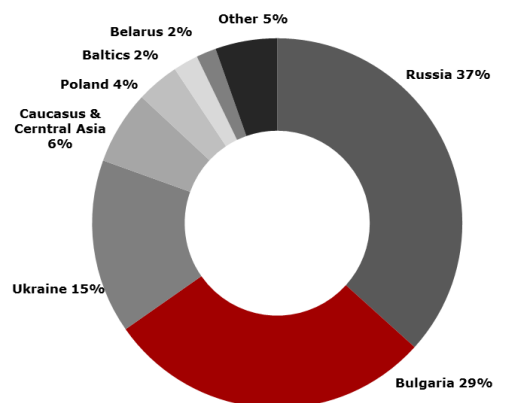
**VALUATION/RISKS**

**VALUATION:** Due to the force majeure turbulences in Sopharma's individual results we keep our BUY recommendation but lower our one-year target price from BGN 5.82 to BGN 4.89. **RISKS:** Continuing deterioration in business environment in Ukraine and highly competitive domestic market.

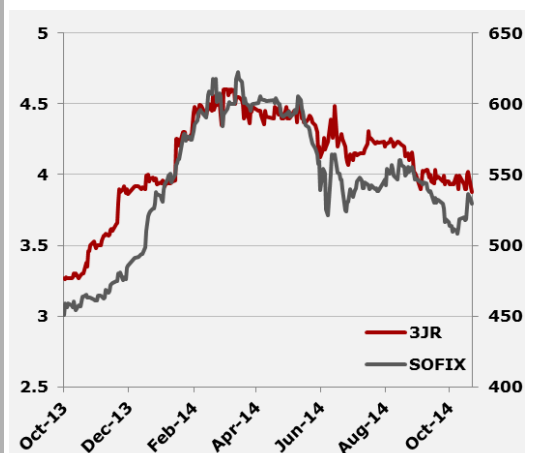
Individual results ('000 BGN)	2013	2014F	2015F	2016F
Revenues	219,133	212,959	219,416	228,228
EBITDA	57,283	51,589	53,204	55,368
Net Profit	33,661	42,116	39,130	41,853
EPS	0.26	0.33	0.31	0.33
Equity	369,686	402,318	405,710	436,151
EV	637,786	641,516	617,894	590,639
EBITDA margin	26.14%	24.22%	24.25%	24.26%
Profit margin	15.36%	19.78%	17.83%	18.34%
ROE	9.11%	10.47%	9.64%	9.60%
ROA	6.13%	7.07%	6.59%	6.94%
Debt/Equity	40.96%	38.55%	37.24%	29.34%
P/E	14.80	11.75	12.65	11.83
P/B	1.34	1.23	1.22	1.13
EV/EBITDA	11.13	12.44	11.61	10.67
Dividend payout	26%	25%	25%	25%
Dividend yield	1.80%	2.13%	1.98%	2.11%

**RESULTS ANALYSIS**
**BUY**
**ONE YEAR PRICE TARGET: BGN 4.89**
**CURRENT PRICE: BGN 3.90**
**EXCHANGE RATES**
**EUR/BGN (FIXED): 1.95583**
**USD/BGN: 1.57817**
**MARKET DATA**

Shares Outstanding:	<b>127.0m</b>
Share Capital:	<b>132.0m</b>
Free-float:	<b>32.4%</b>
Treasury Shares	<b>3.9%</b>
Market Cap.:	<b>BGN 530.0m</b>
Avg. Daily Vol.:	<b>BGN 317,000</b>
52 Weeks Range:	<b>BGN 3.25-4.52</b>
BSE Ticker	<b>3JR</b>
Bloomberg Ticker	<b>3JR BU</b>

**INDIVIDUAL SALES BREAKDOWN**


Source: Company data, Q2 2014

**PRICE PERFORMANCE**


**SOPHARMA'S INDIVIDUAL RESULTS ANALYSIS**

Sopharma's individual results have been severely affected by the force majeure in Ukraine coupled with the currency crisis in Kazakhstan.

*Top line hit by crisis in Ukraine*

Ukraine is the 3<sup>rd</sup> largest market for the Company after Russia (1<sup>st</sup>) and Bulgaria (2<sup>nd</sup>). During the past nine months, sales to the Eastern part of the country, where most of the fighting takes place, have been seriously limited. They declined by 31% from BGN 32 m in Q3 2013 to BGN 22m in Q3 2014. The biggest hit was registered, however, during Q2, with Q3 adding more but not as severe pressure on the sales. Thus, worst may be over but Russia/Ukraine situation is highly unpredictable so its effects should be closely monitored as this is a traditionally important market for the Company. Additionally, Sopharma's top line was negatively affected by a 39% decline in sales to Caucasus and Central Asia mostly due to the financial crisis in Kazakhstan reflecting the severe local currency devaluation as part of the emerging market currency pressures.

To mitigate these negative effects Sopharma pushed for increase in sales to other markets as well as for market repositioning. It succeeded in increasing its domestic sales by 3% while exports declined by 8%, as of the end of September 2014. Further exports decline was soothed by rise in sales to Russia, Poland, Turkey and Belarus together with an increase in relatively smaller markets such as Vietnam, Mongolia and Tunisia. Preliminary cumulative financial results for the 10 months up to the end of October reveal even further improvement in both domestic and foreign sales with the former increasing by 4% and the latter decelerating its decrease to 7%.

We expect the Company to finish 2014 with 3% overall decline in individual sales and return to growth in 2015. Ample capacity, achieved with the large-scale investment program accomplished during the last three years, will help Sopharma meet growing demand. Lack of capacity was one of the reasons depressing growth during the last five years.

*Operating margins affected by higher depreciation*

Q3 profitability margins were also affected by the force majeure together with the higher depreciation that kicked in this year following the end of Sopharma's investment program. Up to now, the Company has modernized all of its major production facilities so we do not expect any significant CAPEX spending in the following years, apart from smaller investments in new equipment and R&D for developing new original drugs.

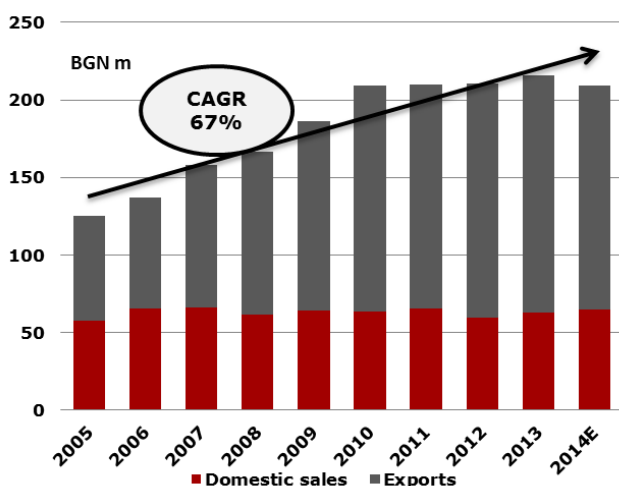
EBITDA margin dropped 2 p.p. to 24% in Q3'14 due to higher labor costs and external services costs for advertisement and consulting services. The latter can be attributed to the Company's market repositioning strategy. EBIT margin declined by 6 p.p. to 15.6% due also to higher depreciation expense. Net income margin, however, remained close to historical norm due one-time effects from volatile financial revenue. While interest expense is declining, due to declining debt, Sopharma's investments in own and subsidiaries stock is affecting the bottom line.

*Net profit margin steady due to one-time events*

We expect net income margins to remain at historical levels - 19% to 20%, and may positively surprise due to the ongoing mergers within the Group. In early 2015 Sopharma will merge Bulgarian rose - Sevtopolis (BRS) - a small subsidiary that produces the Company's original phyto-based products plus some generics. The transaction is not expected to affect Sopharma's top line as BRS was operating entirely for the mother company. But, it will affect cost structure and should slightly improve profitability as profits will remain entirely within Sopharma. It will, however, increase Sopharma's individual assets base. It will be an all-stock transaction with Sopharma increasing is registered share capital with about 2.7 m new shares from 132 m to 134.7 m shares.

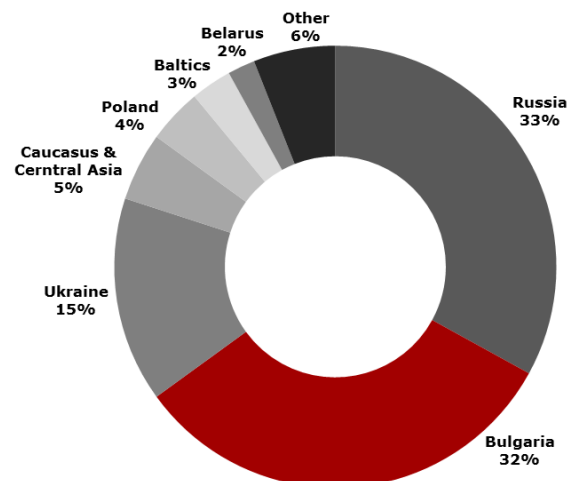
*Merger with Bulgarian Rose-Sevtopolis may provide for positive profitability surprise*

Exhibit 12: Stable revenue growth through the years



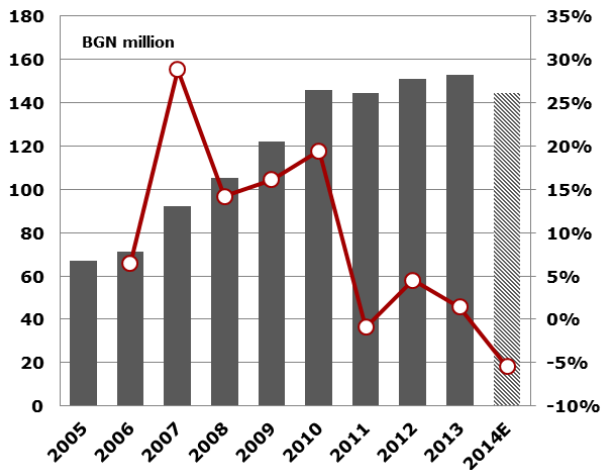
Source: Company data

Exhibit 13: Domestic sales share from total revenue may further increase by the end of 2014



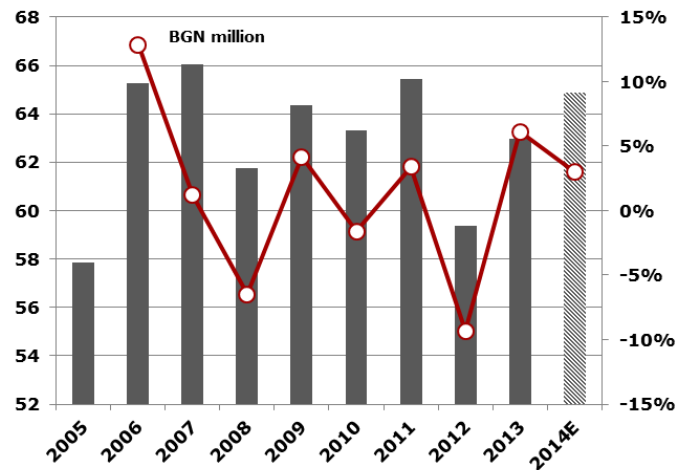
Source: Company data, Elana Trading 2014 estimates

Exhibit 14: Exports growth decelerated in the past three years due to volatile markets in Ukraine and Russia



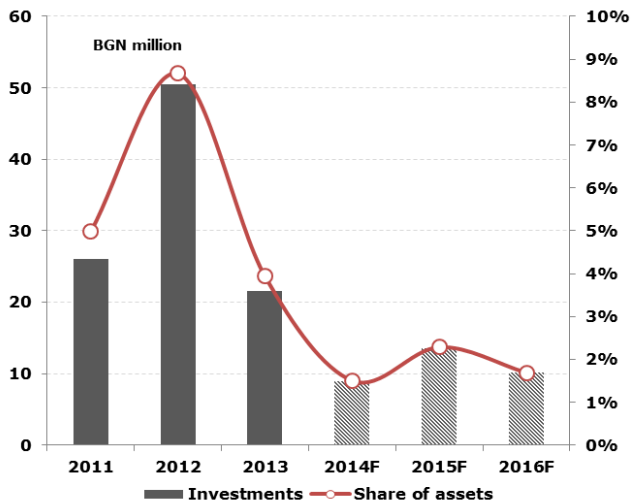
Source: Company data, Elana Trading estimates

Exhibit 15: Lack of free capacity hindered domestic sales up to 2013 ...



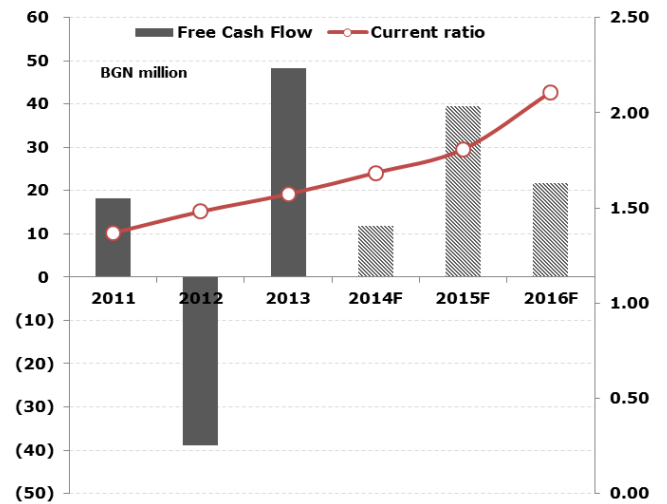
Source: Company data, Elana Trading estimates

Exhibit 16: ... but large-scale capacity investments completed in 2013 to provide a new base for growth



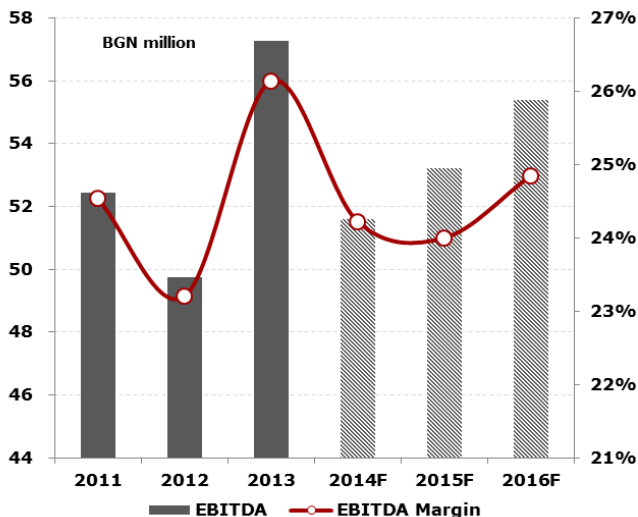
Source: Company data, Elana Trading estimates

Exhibit 17: Sopharma demonstrates excellent liquidity and will continue to generate positive cash flows



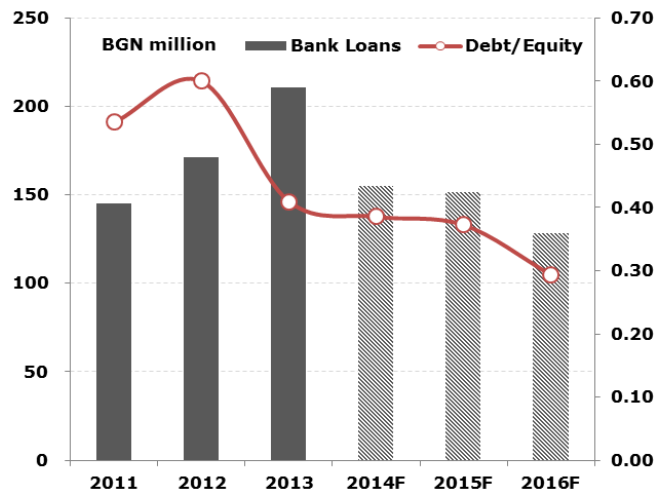
Source: Company data, Elana Trading estimates

Exhibit 18: EBITDA margin decreased following higher staff and external services costs due to market repositioning



Source: Company data, Elana Trading estimates

Exhibit 19: Debt levels to subside with large investments already in the past



Source: Company data, Elana Trading estimates

## UPDATED VALUATION

Due to the latest results turbulence we reevaluate our Sopharma valuation. We use the sum-of-the-parts method to incorporate its subsidiaries' contribution to overall value of the Company.

We use individual results DCF to come at Sopharma's stand-alone intrinsic value. Then we add book and market equity values for the Company's subsidiaries, applying 50% discount for non-public listed and 25% for public listed subsidiaries. This will reflect their smaller contribution to the net profit and lower liquidity. Value of other assets will be included in the final calculation under the SotP method.

When valuing Sopharma's stand-alone value we expect revenues to decline by 3% in 2014 and return to growth in 2015. For the period 2015-2018 we expect growth to slightly accelerate to 3%-4% and afterwards decelerate to a sustainable long term growth of 2%. We also expect margins to stabilize at 21%-22% on EBIT basis and 26% on EBITDA basis. We do not expect any major capital expenditures in the forthcoming years as the Company has already finished modernizing its production and warehouse facilities. Thus, new investments will simply replace amortizing assets and add only some new special equipment, if necessary.

The discounted cash flows model is adjusted to exclude the dividends from subsidiaries income and represents the value generated by the production facilities of Sopharma. The model does not also account for the forthcoming merger with Bulgarian Rose-Sevtopolis.

Bloomberg returns a beta of Sopharma below 1 (0.77). Sopharma's shares provide high liquidity and lower volatility compared to the main local market index (SOFIX). However, the stock's direction is susceptible to the market volatility despite the non-cyclical production of the Group. We utilize Bloomberg's beta level as we expect that the stock will be less volatile than SOFIX. We expect that the cost of equity will reach 9% due to the gradual increase of risk-free rate. Simultaneously, the Company will maintain its low cost of debt correlated to the euro rates which we still expect to start rising. Overall, we suggest that WACC is increased gradually to 9.09%.

The intrinsic stand-alone value of Sopharma's share is BGN 3.76. This is the value of main production segment of the company, which excludes the lucrative assets in distribution and other activities.

*We value Sopharma's stand-alone value at BGN 3.76*

	2012	2013	TTM	2014E
<b>Current Price</b>	<b>2.10</b>	<b>3.92</b>	<b>3.90</b>	<b>3.90</b>
<b>Number of Shares</b>	128,146,215	126,324,658	126,913,802	126,913,802
<b>Market Capitalization</b>	269,107,052	495,192,659	494,963,828	494,963,828
<b>Net Profit</b>	40,885,000	33,661,000	32,331,000	42,115,876
<b>P/E</b>	<b>6.58</b>	<b>14.71</b>	<b>15.31</b>	<b>11.75</b>
<b>Equity</b>	350,832,000	369,686,000	393,013,000	402,317,907
<b>P/B</b>	0.77	1.34	1.26	1.23
<b>Sales</b>	210,291,000	216,054,000	208,427,000	209,572,380
<b>P/S</b>	1.28	2.29	2.37	2.36
<b>EV</b>	476,957,052	637,786,036	647,060,828	641,515,984
<b>EBITDA</b>	49,757,000	57,283,000	50,873,000	51,588,547
<b>EV/EBITDA</b>	9.59	11.13	12.72	12.44
<b>ROE</b>	11.65%	9.11%	8.23%	10.47%
<b>ROA</b>	7.01%	6.13%	5.58%	7.07%

## WACC CALCULATION

	2014	2015	2016	2017	2018	2019
RISK FREE RATE	2.50%	2.50%	3.00%	3.50%	3.50%	3.50%
EQUITY RISK PREMIUM	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
BETA	0.80	0.80	0.80	0.80	0.80	0.80
<b>COST OF EQUITY</b>	<b>8.90%</b>	<b>8.90%</b>	<b>9.40%</b>	<b>9.90%</b>	<b>9.90%</b>	<b>9.90%</b>
COST OF DEBT	2.50%	2.50%	2.75%	3.00%	3.50%	5.00%
EFFECTIVE TAX RATE	10%	10%	10%	10%	10%	10%
<b>AFTER-TAX COST OF DEBT</b>	<b>2.25%</b>	<b>2.25%</b>	<b>2.48%</b>	<b>2.70%</b>	<b>3.15%</b>	<b>4.50%</b>
WEIGHT OF EQUITY	69%	75%	79%	82%	84%	85%
<b>WACC</b>	<b>6.86%</b>	<b>7.27%</b>	<b>7.91%</b>	<b>8.58%</b>	<b>8.82%</b>	<b>9.09%</b>

**STAND-ALONE DCF**

BGN '000	2014	2015	2016	2017	2018	2019	TERMINAL YEAR
<b>EBIT</b>	36,918	40,252	44,143	50,615	54,617	55,833	57,544
<b>EBIT(1-T)</b>	33,227	36,227	39,729	45,554	49,155	50,250	51,790
<b>Add: D&amp;A</b>	14,670	12,952	11,225	11,674	9,619	9,811	10,008
<b>LESS: INVESTMENTS</b>	8,963	13,580	10,189	10,866	6,140	5,820	5,820
<b>LESS: CHANGE NWC</b>	27,283	-3,816	19,108	-512	-1,707	8,657	2,208
<b>FCF</b>	11,651	39,415	21,657	46,874	54,341	45,584	53,771
<b>PV FCF</b>	11,459	36,104	18,247	35,866	37,936	28,870	
<b>SUM OF PV FCF</b>	139,612						
<b>PV OF CONTINUING VALUE</b>	480,316						
<b>TOTAL PV FREE CASH FLOWS</b>	619,929						
<b>LESS: OUTSTANDING DEBT</b>	151,423						
<b>PLUS: FINANCIAL ASSETS</b>	8,198						
<b>PV OF EQUITY</b>	<b>476,704</b>						
<b>NUMBER OF SHARES</b>	126,913,802						
<b>PRICE PER SHARE</b>	<b>3.76</b>						

**SENSITIVITY ANALYSIS**

Exhibit 20: Terminal growth

	0%	1%	2%	3%	4%
<b>WACC</b>					
8.00%	3.33	3.80	4.44	5.34	6.68
8.50%	3.13	3.55	4.10	4.85	5.93
9.09%	2.92	3.29	3.76	4.38	5.24
9.50%	2.80	3.13	3.55	4.10	4.85
10.00%	2.65	2.95	3.33	3.80	4.44

Source: Elana Trading estimates

**SOPHARMA'S SUM-OF-THE-PARTS VALUATION**

To Sopharma's stand-alone value we add the equity value of its subsidiaries. Thus we come to the Company's true intrinsic value. The following list includes the main value generating subsidiaries. Accordingly, the SotP value of Sopharma's shares calls out a BGN 4.89 per share.

	MARKET CAP	SHARE	ELANA NAV	VALUE	DISCOUNT	VALUE
Sopharma – stand-alone value		100.00%	476,703,565	476,703,565	0%	476,703,565
Sopharma Trading (SO5 BU)	183,939,000	72.42%		133,208,624	25%	99,906,468
Briz - Latvia		66.13%		22,270,000	50%	11,135,000
Unipharm (59X BU)	19,050,000	49.99%		9,523,095	25%	7,142,321
Bulgarian Rose - Sevtopolis (5BJ BU)	20,499,155	49.99%		10,247,528	25%	7,685,646
Biopharm Engineering		97.15%		8,384,000	50%	4,192,000
Vitamine - Ukraine		99.56%		6,187,000	50%	3,093,500
Momina Krepost (5MR BU)	5,665,466	52.97%		3,000,997	25%	750,249
Ivanchich and sons		51.00%		5,739,000	50%	2,869,500
OTHER STAKES				13,800,000	50%	6,900,000
				<b>TOTAL VALUE OF SOPHARMA:</b>		<b>620,378,249</b>
				<b>CURRENT MARKET CAP:</b>		<b>494,963,828</b>
				<b>PREMIUM/(DISCOUNT):</b>		<b>25.34%</b>
				<b>FAIR PRICE PER SHARE:</b>		<b>4.89</b>

**RECOMMENDATION AND PRICE TARGET**

The intrinsic value of Sopharma’s stock is higher than the current market quotes. The favourable market and the Group’s position in that market, which ultimately will result in growth and enhanced profits, are some of the factors to contribute to Sopharma’s management attempts to increase shareholders’ value.

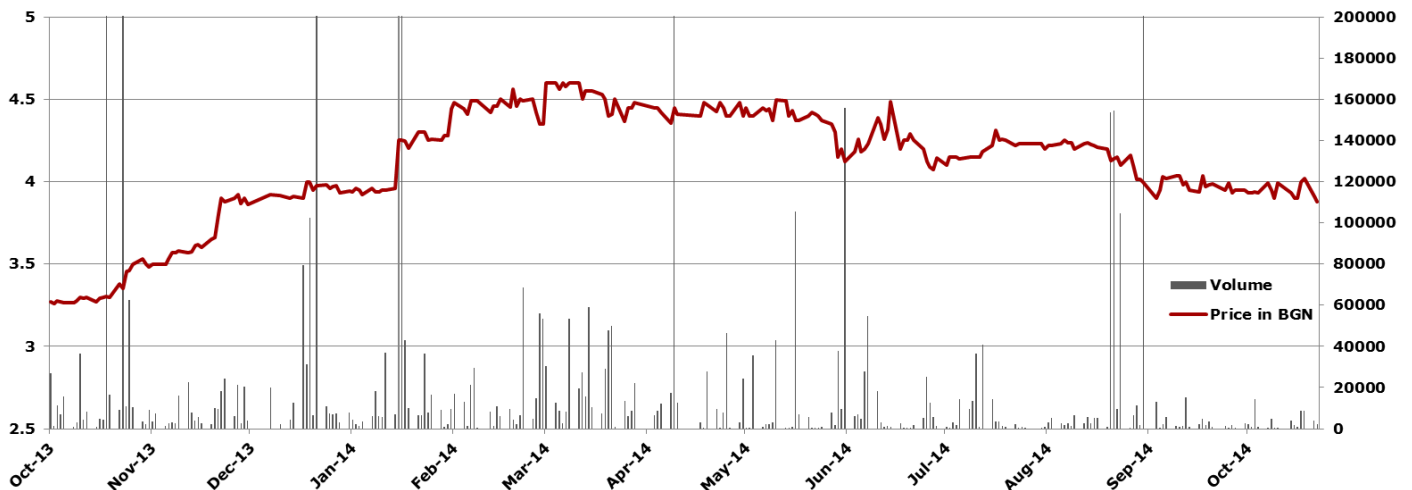
*Recommendation: BUY*  
*Target Price: BGN 4.89*  
*Increase: 25%*

We maintain our **BUY** recommendation with a price target that provides 25% upside potential.

In terms of significant investors involved in our stock market, we share the following observations:

- Foreign investors prefer Sopharma shares for their higher liquidity and low volatility. These factors will continue to attract buyers that look for exposure in Bulgarian pharmaceutical market
- Bulgarian institutional investors are not active currently on the buy side. However, they are expected to sustain their present portfolio and will not provide excess volumes for either Sopharma’s or its subsidiaries’ shares in following months.
- Domestic private investors view the stock as stable and perspective for longer-term holding, rather than short-term speculation with high return.

**STOCK PRICE DYNAMICS**



**INDIVIDUAL FINANCIAL DATA**

<b>Income Statement ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Q3 2013</b>	<b>Q3 2014</b>	<b>TTM</b>	<b>2014F</b>	<b>2015F</b>
<b>Sales</b>	<b>210,291</b>	<b>216,054</b>	<b>157,622</b>	<b>149,995</b>	<b>208,427</b>	<b>209,572</b>	<b>215,860</b>	<b>215,860</b>
Other operating income	4,143	3,079	2,349	3,479	4,209	3,387	3,556	3,556
Change in Inventories	1,113	(6,872)	(4,449)	9,815	7,392	8,383	4,317	4,317
Cost of Material	(59,002)	(54,932)	(40,193)	(44,376)	(59,115)	(58,680)	(58,282)	(58,282)
Cost of External Services	(65,710)	(59,659)	(43,275)	(54,025)	(70,409)	(73,350)	(73,392)	(73,392)
Cost of Labor	(34,859)	(32,328)	(25,259)	(26,041)	(33,110)	(33,532)	(34,538)	(34,538)
Other Operating Expenses	(6,219)	(8,059)	(4,110)	(2,572)	(6,521)	(4,191)	(4,317)	(4,317)
Total Operating Expenses	(173,618)	(173,566)	(125,437)	(129,469)	(177,598)	(176,041)	(179,163)	(179,163)
<b>EBITDA</b>	<b>52,424</b>	<b>49,757</b>	<b>57,283</b>	<b>42,685</b>	<b>36,275</b>	<b>50,873</b>	<b>51,589</b>	<b>53,204</b>
Depreciation and amortization	(8,454)	(8,941)	(11,716)	(8,151)	(12,270)	(15,835)	(14,670)	(12,952)
<b>EBIT</b>	<b>43,970</b>	<b>40,816</b>	<b>45,567</b>	<b>34,534</b>	<b>24,005</b>	<b>35,038</b>	<b>36,918</b>	<b>40,252</b>
Impairment on non-current assets	(875)	(975)	(193)	0	0	(193)	(1,048)	(1,079)
Financial revenues	11,443	11,757	9,987	8,943	11,981	13,025	16,766	10,793
Financial costs	(9,444)	(6,451)	(17,338)	(9,126)	(3,438)	(11,650)	(6,287)	(6,476)
Financial income (loss)	1,999	5,306	(7,351)	(183)	8,543	1,375	10,479	4,317
<b>EBT</b>	<b>45,094</b>	<b>45,147</b>	<b>38,023</b>	<b>34,351</b>	<b>32,548</b>	<b>36,220</b>	<b>46,349</b>	<b>43,490</b>
Income taxes	(4,409)	(4,262)	(4,362)	(2,881)	(2,408)	(3,889)	(4,233)	(4,360)
<b>Net Income</b>	<b>40,685</b>	<b>40,885</b>	<b>33,661</b>	<b>31,470</b>	<b>30,140</b>	<b>32,331</b>	<b>42,116</b>	<b>39,130</b>

<b>Balance Sheet ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Q3 2013</b>	<b>Q3 2014</b>	<b>TTM</b>	<b>2014F</b>	<b>2015F</b>
Inventories	50,916	54,482	50,083	54,131	56,751	56,751	69,159	64,758
Receivables from related parties	135,104	167,113	103,350	128,663	118,214	118,214	121,552	118,723
Trade Receivables	29,383	22,539	22,155	26,950	26,559	26,559	29,340	30,220
Other receivables	10,333	11,560	7,241	12,233	10,587	10,587	10,479	10,793
Cash & Cash Equivalents	18,038	2,595	8,198	3,823	2,316	2,316	8,531	28,172
<b>Current Assets</b>	<b>243,774</b>	<b>258,289</b>	<b>191,027</b>	<b>225,800</b>	<b>214,427</b>	<b>214,427</b>	<b>239,061</b>	<b>252,666</b>
Property, Plant & Equipment	135,048	186,861	198,158	199,523	192,926	192,926	194,902	194,274
Intangibles	3,386	3,973	3,661	3,614	2,968	2,968	2,096	2,159
Investment property	19,170	19,391	22,555	19,391	22,555	22,555	20,957	21,586
Investments in subsidiaries	88,462	92,932	101,207	93,628	105,462	105,462	106,882	94,978
Investments available for sale	16,792	19,472	6,862	13,230	7,797	7,797	8,383	8,634
Receivables from related parties	16,069	1,183	25,649	435	32,773	32,773	23,053	19,427
Other receivables	272	922	17	17	8	8	419	432
<b>Non-Current Assets</b>	<b>279,199</b>	<b>324,734</b>	<b>358,109</b>	<b>329,838</b>	<b>364,489</b>	<b>364,489</b>	<b>356,692</b>	<b>341,490</b>
<b>Total Assets</b>	<b>522,973</b>	<b>583,023</b>	<b>549,136</b>	<b>555,638</b>	<b>578,916</b>	<b>578,916</b>	<b>595,753</b>	<b>594,155</b>
Share Capital	132,000	132,000	132,000	132,000	132,000	132,000	132,000	132,000
Treasury Stock	(10,036)	(12,156)	(18,105)	(17,353)	(17,060)	(17,060)	(17,060)	(17,060)
Reserves	157,913	189,928	220,935	222,355	246,841	246,841	248,310	247,789
Retained Earnings	40,791	41,060	34,856	31,511	31,232	31,232	39,068	42,981
<b>Shareholders' Equity</b>	<b>320,668</b>	<b>350,832</b>	<b>369,686</b>	<b>368,513</b>	<b>393,013</b>	<b>393,013</b>	<b>402,318</b>	<b>405,710</b>
Short-term Bank Loans	112,008	152,778	98,878	101,074	107,315	107,315	104,786	107,930
Current Portion of LT Bank Loans	40,735	5,888	3,822	7,709	3,765	3,765	8,383	4,317
Liabilities to Related Parties	16,544	3,782	7,836	6,186	7,789	7,789	4,191	4,317
Account Payables	5,236	7,090	4,973	6,064	5,129	5,129	4,191	4,317
Tax Liabilities	262	208	1,243	383	781	781	8,383	6,476
Liabilities to Employees & Soc. Sec.	2,748	3,684	3,736	5,269	4,715	4,715	3,563	3,670
Other Current Liabilities	598	1,006	975	4,972	3,187	3,187	8,383	8,634
<b>Current Liabilities</b>	<b>178,131</b>	<b>174,436</b>	<b>121,463</b>	<b>131,657</b>	<b>132,681</b>	<b>132,681</b>	<b>141,881</b>	<b>139,661</b>
Long Term Bank Loans	18,737	51,779	48,723	46,507	43,333	43,333	41,914	38,855
Deferred Taxes	3,864	3,815	3,826	3,573	4,347	4,347	3,563	3,670
Liabilities to Employees on Retirement	1,269	1,479	1,855	1,688	2,099	2,099	1,467	1,511
Financial Leases	304	682	49	62	44	44	419	432
Other Long Term Liabilities	0	0	3,534	3,638	3,399	3,399	4,191	4,317
<b>Non-Current Liabilities</b>	<b>24,174</b>	<b>57,755</b>	<b>57,987</b>	<b>55,468</b>	<b>53,222</b>	<b>53,222</b>	<b>51,555</b>	<b>48,784</b>
<b>Total Liabilities</b>	<b>202,305</b>	<b>232,191</b>	<b>179,450</b>	<b>187,125</b>	<b>185,903</b>	<b>185,903</b>	<b>193,435</b>	<b>188,445</b>
<b>Shareholders' Equity &amp; Liabilities</b>	<b>522,973</b>	<b>583,023</b>	<b>549,136</b>	<b>555,638</b>	<b>578,916</b>	<b>578,916</b>	<b>595,753</b>	<b>594,155</b>

Source: Company IFRS Financial Statements Audited; Elana Trading Estimates

	2011	2012	2013	Q3 2013	Q3 2014	TTM	2014F	2015F
<b>Outstanding Shares</b>	129,065,837	128,146,215	126,324,658	127,966,149	126,913,802	126,913,802	126,913,802	126,913,802
<b>Price in BGN</b>	<b>3.18</b>	<b>2.10</b>	<b>3.92</b>	<b>2.38</b>	<b>4.39</b>	<b>3.90</b>	<b>3.90</b>	<b>3.90</b>
<b>Market Cap (BGN)</b>	410,429,000	269,107,000	494,561,000	304,431,000	557,152,000	494,964,000	494,964,000	494,964,000

<b>FINANCIAL AND PERFORMANCE INDICATORS</b>	2011	2012	2013	TTM	2014F
<b>VALUATION RATIOS</b>					
EARNINGS PER SHARE (EPS)	0.31	0.32	0.26	0.25	0.33
PRICE/EARNINGS (P/E)	10.16	6.61	14.80	15.31	11.75
BOOK VALUE (BV)	2.48	2.74	2.93	3.10	3.17
PRICE/BOOK (P/B)	1.28	0.77	1.34	1.26	1.23
SALES PER SHARE	1.63	1.64	1.71	1.64	1.65
PRICE/SALES (P/S)	1.96	1.28	2.29	2.37	2.36
EV (IN BGN)	563,871	476,957	637,786	647,061	641,516
EV/SALES	2.69	2.27	2.95	3.10	3.06
EV/EBITDA	10.76	9.59	11.13	12.72	12.44
<b>LIQUIDITY</b>					
CURRENT RATIO	1.37	1.48	1.57	1.62	1.68
QUICK RATIO	1.08	1.17	1.16	1.19	1.20
<b>DEBT MANAGEMENT</b>					
DEBT TO TOTAL ASSETS	0.33	0.36	0.28	0.27	0.26
INTEREST COVERAGE	6.74	7.12	7.96	7.20	6.35
LT DEBT/EQUITY	0.06	0.15	0.13	0.11	0.10
TOTAL DEBT/EQUITY	0.53	0.60	0.41	0.39	0.39
<b>ASSET MANAGEMENT</b>					
INVENTORY TURNOVER	3.33	3.19	3.47	3.13	2.55
DAYS SALES OUTSTANDING	286	329	212	254	263
FIXED ASSET TURNOVER	1.55	1.13	1.09	1.08	1.08
TOTAL ASSET TURNOVER	0.40	0.36	0.39	0.36	0.35
<b>PROFITABILITY</b>					
EBITDA MARGIN	24.54%	23.20%	26.14%	24.54%	23.20%
OPERATING PROFIT MARGIN	20.58%	19.03%	20.79%	20.58%	19.03%
RETURN ON EQUITY	12.69%	11.65%	9.11%	8.23%	10.47%
RETURN ON ASSETS	7.78%	7.01%	6.13%	5.58%	7.07%
<b>DIVIDEND INFORMATION</b>					
DIVIDEND YIELD	2.20%	3.32%	1.80%		2.13%
DIVIDEND PER SHARE	0.07	0.07	0.07		0.08



**SOPHARMA Overview**

**COMPANY PROFILE**

Sopharma is one of the biggest Bulgarian groups of companies. It is a leading producer, exporter and distributor of pharmaceutical products with a strong presence in Eastern and South-Eastern Europe, offering a wide range of prescription medicines and OTC products.

The Group is vertically integrated and includes both production and distribution. It operates 15 pharmaceutical factories in Bulgaria, all in compliance with GMP (Good Manufacturing Practices), one in Ukraine, and two in Serbia. It is also the owner of the leading healthcare product distributor in Bulgaria – Sopharma Trading (SO5 BU) and the majority shareholder in a leading distributor and owner of a large pharmacy chain in the Baltics and Belarus – Briz, Latvia.

Sopharma’s products portfolio consists of more than 210 products, mainly generics. It includes 15 original products, of which 12 are phyto-based. The original products, in particular Carsil and Tempalgin, are key contributors to the revenues from export markets. The most important products for domestic sales are generic pharmaceuticals with the leading painkiller drug Analgin.

**FUNDAMENTAL STORY**

Sopharma is a key player on the domestic pharmaceutical market: 2<sup>nd</sup> largest domestic producer with 13% market share in unites sold. Its main advantages are the compliance with EU standards and industry developments. In the last 5 years it underwent a large scale investment program in new facilities and modernization. Thus increased capacity to answer rising demand.

Generic products are likely to gain even larger market share as the Bulgarian government is more and more focused on cost-containment measures.

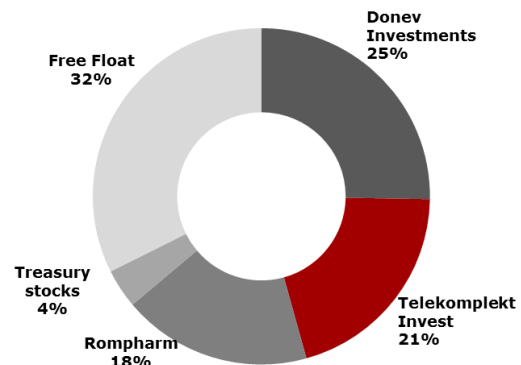
Original products are expected to add significantly to bottom line. Highest achievers are Tabex, Tribestan and Carsil. In order to answer the increasing demand from aging population, the Group has focused on therapeutic areas such as cardiology, gastroenterology, pain relief, neurology and psychiatry, and urology.

Major contributor to top line is the Group’s distribution arm – Sopharma Trading (SO5). It’s a market leader with 23% market share by offering a wide range of medical products and turnkey hospital solutions.

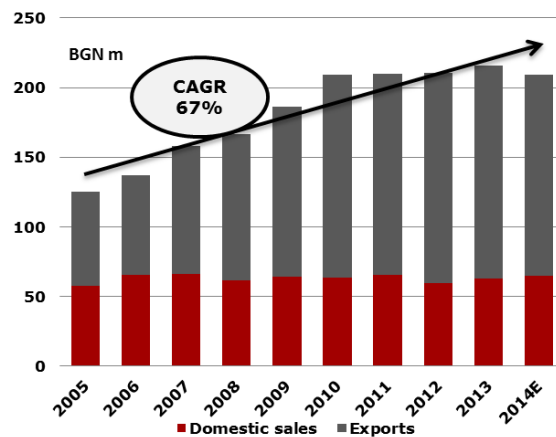
**STRENGTHS & OPPORTUNITIES**

- Excellent corporate governance
- Well diversified portfolio
- Wide distribution network covering the whole domestic market
- Strong domestic position
- Strong balance sheet and ease of access to EU financing

**SHAREHOLDERS’ STRUCTURE**



**INDIVIDUAL SALES GROWTH**



**WEAKNESSES & THREATS**

- Heavy exposure to Russia – Ukraine conflict region
- Strong rivalry among domestic players
- Weak financial performance of the Bulgarian healthcare institutions and hospitals due to state budget dependence and poor management

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<b>BUY</b>	More than 5% higher as compared to SOFIX and BG40 performance
<b>HOLD</b>	Market performance, +/-5% as compared to SOFIX and BG40
<b>SELL</b>	More than 5% lower as compared to SOFIX and BG40 performance

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