

**SOPHARMA**  
**INDUSTRY: PHARMACEUTICALS**
**OVERCOMING UKRAINE**

**SOPHARMA'S TOP AND BOTTOM LINES FURTHER DETERIORATE FROM UKRAINE BUT NEW MOMENTUM ON OTHER MARKETS AND FX EXPOSURE RESTRUCTURING SOOTHE THE EFFECTS. WORST MAY BE OVER AS FUNDAMENTALS REMAIN STRONG.**

**TOP LINE FURTHER DETERIORATES DUE TO UKRAINE**

Sopharma's top line further deteriorates in Q4'2014 due to Ukraine, 3<sup>rd</sup> largest market of the company. Overall FY 2014 unconsolidated sales missed our estimate of 3% drop and are down 6.7% y-o-y to BGN 201.5 m due to 10% drop in exports. Q1'15 preliminary results show further deterioration caused also by the January FX turbulence in Russia (Sopharma's biggest market). Preliminary Q1'15 top line decline settled at 21% y-o-y as Russian market returned to normal in February and March and sales in Bulgaria (2<sup>nd</sup> biggest market) jumped 20% up.

**REPOSITIONING TO SOOTHE UNPREDICTABLE UKRAINE**

Worst may be over as Sopharma's repositioning efforts should kick in with stable position in Russia (up 6% in FY 2014) and growing position in Bulgaria. Additional efforts in building up momentum in Poland, the Baltics, the Balkans and Belarus to further support both the top and bottom lines of the Company.

**BOTTOM LINE PRESSURE TO LOOSEN UP WITH FX RESTRUCTURING IN UKRAINE**

Worst may also be over for the bottom line of the Company with an FX restructuring in Ukraine and upcoming cost optimization. FY 2014 EBITDA is down 30.5% y-o-y while net income is down 56% y-o-y as the Company impaired Ukraine related investments and receivables. To limit the currency risk going forward Sopharma restructured its Ukrainian exposure. The Company's profitability also declined as higher depreciation from completed large-scale investments kicked in and repositioning efforts consumed up more resources.

**CAUTION ON THE 2014 DIVIDEND**

With turbulent markets and sliding profitability, dividend payout out from the 2014 profits may be at stake. Over the past decade, the Company missed dividends in two years only - 2008 and 2009, and restored it right after that.

**FUNDAMENTAL VALUE REMAINS STRONG WITH HIGH SYNERGIES WITHIN THE GROUP**

Despite the unpredictable situation in Ukraine, the stable growth of the pharmaceutical market (2%-5% y-o-y) entails Sopharma's long-term growth potential. The Company completed its modernization in 2013, opening up free capacity to meet demand. In addition, synergies within the Group with the leading Bulgarian distributor Sopharma Trading (SO5 BU) and the leading Latvian distributor Briz with strong positions in the Baltics and Belarus, to help overcome Ukraine and boost both the top and bottom lines.

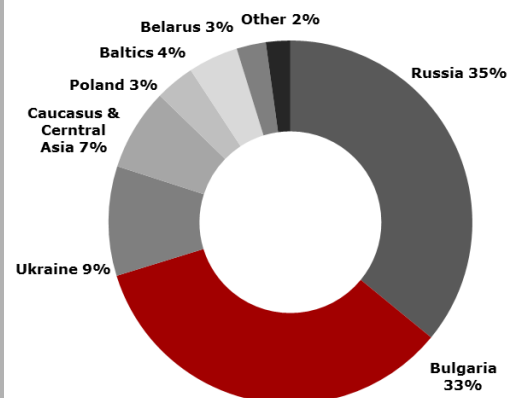
**VALUATION/RISKS**

**VALUATION:** We revise our Sopharma estimates and accordingly revise our 1TP to 4.40 from 4.89. However, we keep a BUY recommendation due to the 35% upside potential as the market already reacted to Ukraine effect. **RISKS:** Worsening Ukraine and competitive domestic market.

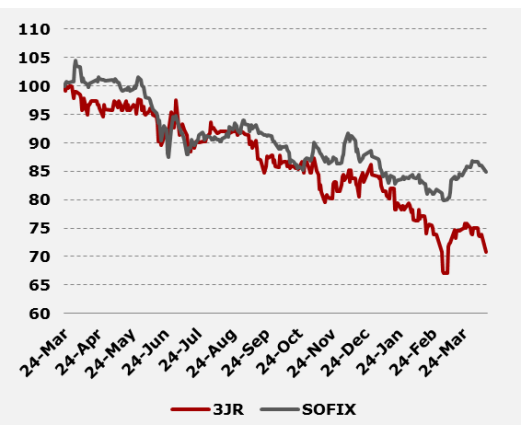
Individual results ('000 BGN)	2013	2014	2015F	2016F
Revenues	216,054	201,456	195,412	199,321
EBITDA	57,149	39,698	41,342	42,295
Net profit	33,540	26,531	29,617	33,286
EPS	0.26	0.21	0.23	0.26
Equity	370,852	389,706	414,716	420,429
EV	637,786	635,657	527,524	515,465
EBITDA margin	26.08%	19.32%	20.71%	20.76%
Profit margin	15.31%	12.91%	14.84%	16.34%
ROE	9.04%	6.81%	7.14%	7.92%
ROA	6.11%	4.77%	5.16%	5.86%
Debt/equity	40.83%	34.93%	30.16%	27.26%
P/E	14.85	18.90	13.92	12.39
P/B	1.33	1.29	0.99	0.98
EV/EBITDA	11.16	16.01	12.76	12.19
Dividend payout	27%	25%	25%	25%
Dividend yield	1.80%	1.32%	1.80%	2.02%

**RESULTS ANALYSIS**
**BUY**
**ONE YEAR PRICE TARGET: BGN 4.40**
**CURRENT PRICE: BGN 3.25**
**EXCHANGE RATES**
**EUR/BGN (FIXED): 1.95583**
**USD/BGN: 1.81532**
**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 412.4m</b>
Avg. Daily Vol.:	<b>BGN 300,000</b>
52 Weeks Range:	<b>BGN 3.09-4.48</b>
BSE Ticker	<b>3JR</b>
Bloomberg Ticker	<b>3JR BU</b>

**UKRAINE TO BECOME LESS IMPORTANT**


Source: Company data, Elana Trading 2015 estimates

**PRICE PERFORMANCE**


**SOPHARMA'S INDIVIDUAL RESULTS REVIEW**

Sopharma took a serious hit in 2014 from Ukraine just to be soothed by better performance on the Russian and the Bulgarian markets. The Company is gaining momentum on other international markets as well, especially in Poland, the Baltics and Belarus.

*Top line hit by crisis in Ukraine*

**Revenue breakdown:** The Company finished 2014 with a 6.7% slide in the unconsolidated sales to BGN 201.5 m with a 10% drop in exports and 1% increase on the domestic market. The former was mostly due to a 37% decline in sales to Ukraine (3<sup>rd</sup> largest market) as access to the Eastern territories remained restricted and distributors had difficulties to reach them. The situation in the country remains unpredictable and continues to hit Sopharma's top line in Q1 2015. Preliminary results for the first quarter of 2015 reveal additional drop in exports to Ukraine by 35%, dragging the overall top line down by 21%.

However, Russia - Sopharma's biggest market, grew in 2014 by 6% y-o-y, soothing the hit from Ukraine. The January 2015 abrupt Russia currency depreciation led to temporary limited exports to the country. In February and March, however, the Company returned to normal exports to the country as the ruble partially regained its strength. Sales outlook in Russia remains positive as the ruble returns to normal vs the euro. In addition, Sopharma is positioned in the lower market segment in Russia and thus is partly immune to forex turbulences.

*Russia and Bulgaria to help overcome the Ukraine hit*

To further mitigate the Ukrainian effect, Sopharma also actively pushes for market repositioning. The policy's results are slow to evolve but should add long term benefits to the Company. Its first major effects are seen in Bulgaria, the local market for Sopharma and 2<sup>nd</sup> biggest in terms of value. Having the support of its local distributor Sopharma Trading (SO5), Bulgaria became the 2<sup>nd</sup> largest market increasing by 1% in 2014 as rebates kicked in. Preliminary Q1'2015, signal even better successability with domestic sales jumping up by 20% y-o-y. We are positive on Sopharma's local performance in 2015; however, it would be a surprise to see net sales growth in Bulgaria exceeding 10%.

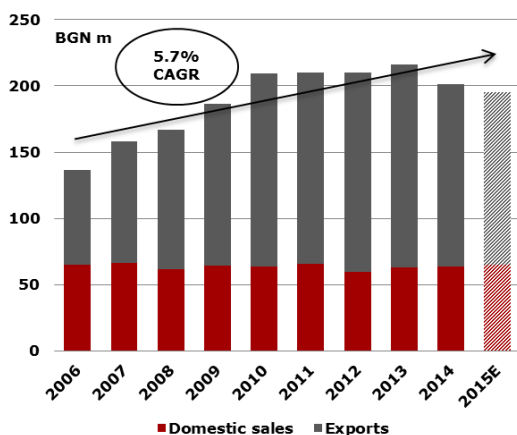
We do expect the Company to post a rise in sales in other important markets such as Poland, the Balkans, the Baltics and Belarus, especially in the latter three where the Company is locally represented by a wholesale subsidiary. Poland is the market with biggest potential to offset a long-term Ukrainian outage, but is also one of the most challenging markets in the CEE region due to increased competition and fragmented distribution. Nevertheless, Sopharma gained a double digit momentum there in 2014, which we expect to continue in 2015 as well. Sopharma is strong in the Baltics and Belarus markets through its local subsidiary Briz - a pharmaceutical wholesaler with a pharmacy chain in Belarus.

Still, we revise our Sopharma financial performance estimates in FY 2015 to a more cautious 3% y-o-y decline in individual sales vs. a previous 3% increase forecast.

**Performance vs. Estimates**

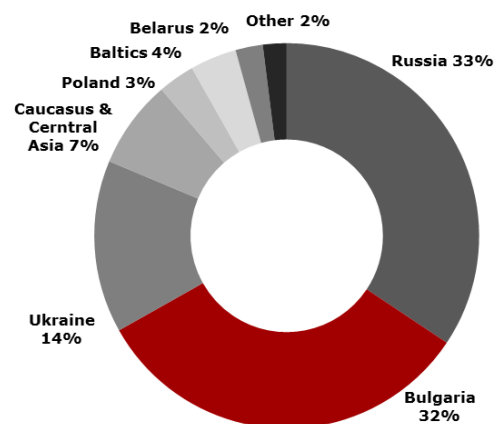
(in BGN thousands)	FY 2014A	FY 2014E	FY 2015E (Old)	FY 2015E (New)
Sales	201,456	209,572	215,860	195,412
Sales Growth (y-o-y)	-6.76%	-3.00%	3%	-3%
EBITDA	39,698	47,397	53,204	41,342
Net Income	26,531	35,829	39,130	29,617

Exhibit 3: Revenue expansion through the years settled at 5.7% CAGR



Source: Company data

Exhibit 4: Domestic sales share almost at parity with Russian sales again



Source: Company data, Elana Trading 2014 estimates

**Profitability review:** We do, however, expect profitability to improve slightly after declining sharply in Q4 2014. The decline was due to a surge in costs from repositioning efforts and one-off Ukraine related impairments. This led to a loss in Q4 alone.

*Bottom line affected by one-off items*

Overall, 12 month EBITDA is down 30.5% y-o-y to BGN 39.7 m while net income is down 20% to BGN 26.5 m due to Ukraine related impairments. EBITDA margin fell to 19.32%

while net income margin slipped to 12.9%.

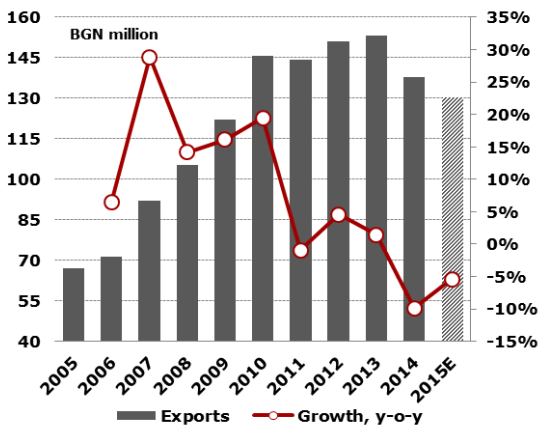
Sopharma impaired 50% of the investment in its Ukrainian subsidiary – Vitamini, totaling BGN 2.88 m as well its receivables from the same company. Without these one-off items, EBITDA would have been 3% higher while net income - 14.5% higher than reported. At the same time, Sopharma restructured its Vitamini receivables by exchanging them from euro to hryvnia and transferring them to Sopharma Ukraine – the Company’s trading subsidiary in that country.

Market repositioning efforts reflected in higher external services costs, higher dollar denominated material cost and more labor cost also added to lower profitability in 2014 coupled with higher depreciation as Sopharma finished its large scale capacity expansion in mid 2013. 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.

However, we do expect cost optimization as a follow up to the turbulences in Ukraine. The Company already converted all its receivables in Ukraine from EUR to local currency to stop further direct hits from the hryvnia devaluation. Additionally, it plans to go through a cost optimization program e.g. optimizing older personnel where possible. The Company’s strategy to merge its smaller producing subsidiaries i.e. Bulgarian Rose – Sevtopolis (5BJ BU), should add to the bottom line as well. The latter has been finalized as of February 26<sup>th</sup>, 2015.

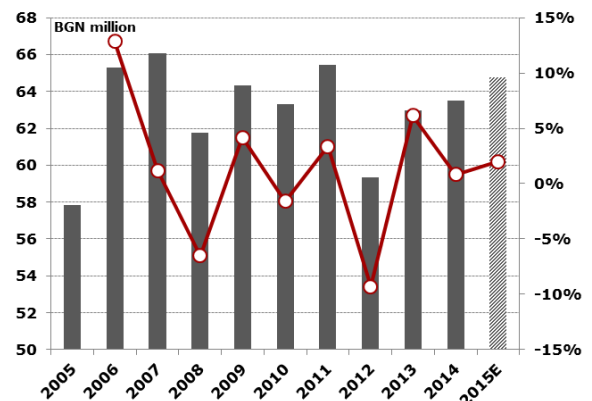
Accordingly, we lower our profitability estimates as well but we do expect it to be higher vs. 2014 results and quickly return to a 20%+ EBITDA margin and 15%+ net income margin which is normal for the Company.

Exhibit 5: Ukraine is still dragging exports down



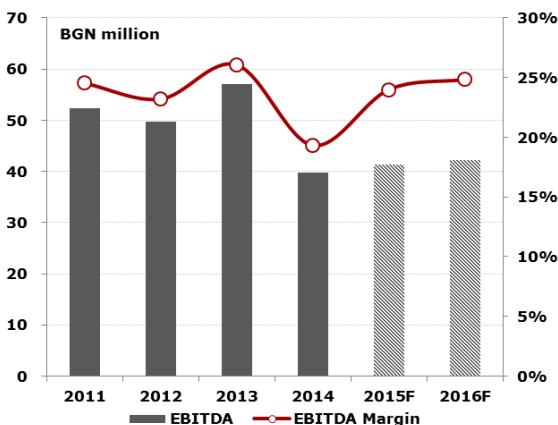
Source: Company data, Elana Trading estimates

Exhibit 6: Lack of free production capacity hindered domestic sales up to 2013



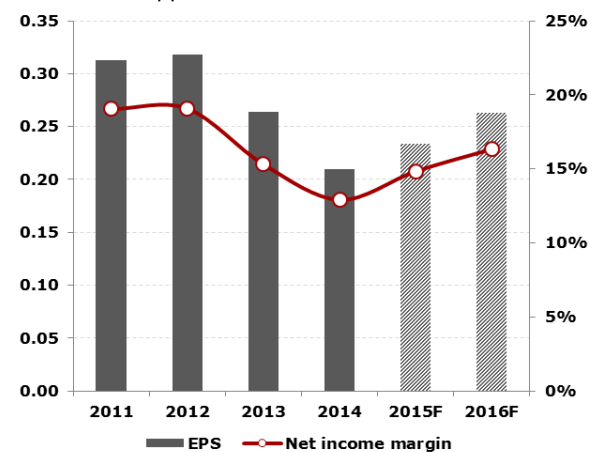
Source: Company data, Elana Trading estimates

Exhibit 7: EBITDA margin slid below 20% due to one-off items but should return to norm quickly



Source: Company data, Elana Trading estimates

Exhibit 8: EPS dropped to 0.21 BGN in 2014



Source: Company data, Elana Trading estimates

**UPDATED VALUATION**

Due to the latest results turbulence we update our Sopharma sum-of-the-parts valuation using our new top and bottom line estimates.

When valuing Sopharma’s stand-alone value we expect revenues to decline by 3% in 2015 and return to growth in 2016. For the period 2016-2018 we expect growth to slightly accelerate to 2%-4% and afterwards decelerate to a sustainable long term growth of 2%. We also expect margins to stabilize at 27% on EBIT basis and 22% on EBITDA basis. We do

*We value Sopharma’s stand-alone value at BGN 3.32*

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 new 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 merger with Bulgarian Rose-Sevtopolis.

We also adjust our WACC calculations taking into account the slight rise in the risk free rate which we align with Bulgaria's 10.5 year government bond yields. Accordingly, we expect cost of debt to slightly increase as well. Overall, we suggest that WACC will be in the 7.5%-9% range.

The intrinsic stand-alone value of Sopharma's share is BGN 3.32. This is the value of main production segment of the company, which excludes the lucrative assets in distribution and other activities.

	2012	2013	2014	2015E
<b>Current Price</b>	<b>2.10</b>	<b>3.92</b>	<b>3.96</b>	<b>3.25</b>
<b>Number of Shares</b>	128,146,215	126,324,658	126,885,870	126,885,870
<b>Market Capitalization</b>	269,107,052	495,192,659	502,468,045	412,379,078
<b>Net Profit</b>	40,885,000	33,540,000	26,531,000	29,617,252
<b>P/E</b>	<b>6.58</b>	<b>14.76</b>	<b>18.94</b>	<b>13.92</b>
<b>Equity</b>	350,832,000	370,852,000	389,706,000	414,715,939
<b>P/B</b>	<b>0.77</b>	<b>1.34</b>	<b>1.29</b>	<b>0.99</b>
<b>Sales</b>	210,291,000	216,054,000	201,456,000	195,412,320
<b>P/S</b>	<b>1.28</b>	<b>2.29</b>	<b>2.49</b>	<b>1.54</b>
<b>EV</b>	476,957,052	637,786,036	635,657,045	527,523,644
<b>EBITDA</b>	49,757,000	57,149,000	39,698,000	41,341,991
<b>EV/EBITDA</b>	<b>9.59</b>	<b>11.16</b>	<b>16.01</b>	<b>12.19</b>
<b>ROE</b>	11.65%	9.04%	6.81%	7.14%
<b>ROA</b>	7.01%	6.11%	4.77%	5.16%

#### WACC CALCULATION

	2015	2016	2017	2018	2019	2020
RISK FREE RATE	2.90%	3.25%	3.50%	3.75%	3.75%	4.00%
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>9.30%</b>	<b>9.65%</b>	<b>9.90%</b>	<b>10.15%</b>	<b>10.15%</b>	<b>10.40%</b>
COST OF DEBT	3.25%	3.50%	3.75%	4.00%	4.00%	4.00%
EFFECTIVE TAX RATE	10%	10%	10%	10%	10%	10%
<b>AFTER-TAX COST OF DEBT</b>	<b>2.93%</b>	<b>3.15%</b>	<b>3.38%</b>	<b>3.60%</b>	<b>3.60%</b>	<b>3.60%</b>
WEIGHT OF EQUITY	72%	74%	76%	76%	78%	80%
<b>WACC</b>	<b>7.53%</b>	<b>7.96%</b>	<b>8.32%</b>	<b>8.58%</b>	<b>8.74%</b>	<b>9.04%</b>

#### STAND-ALONE DCF

BGN '000	2015	2016	2017	2018	2019	TERMINAL YEAR
<b>EBIT</b>	27,663	31,333	37,812	45,839	42,504	51,588
<b>EBIT(1-T)</b>	24,897	28,199	34,031	41,255	38,254	46,429
<b>ADD: D&amp;A</b>	13,679	10,963	10,365	8,623	8,796	8,972
<b>LESS: INVESTMENTS</b>	14,409	7,856	14,869	14,262	12,806	12,806
<b>LESS: CHANGE NWC</b>	3,274	6,431	3,153	-1,895	2,261	-2,951
<b>FCFF</b>	<b>20,892</b>	<b>24,875</b>	<b>26,373</b>	<b>37,511</b>	<b>31,982</b>	<b>45,546</b>
<b>PV FCFF</b>	19,429	21,342	20,751	26,991	21,040	
<b>SUM OF PV FCFF</b>	109,553					
<b>PV OF CONTINUING VALUE</b>	444,826					
<b>TOTAL PV FREE CASH FLOWS</b>	554,378					
<b>LESS: OUTSTANDING DEBT</b>	136,124					
<b>PLUS: FINANCIAL ASSETS</b>	2,935					
<b>PV OF EQUITY</b>	<b>421,189</b>					
<b>NUMBER OF SHARES</b>	126,885,870					
<b>PRICE PER SHARE</b>	<b>3.32</b>					

**SENSITIVITY ANALYSIS**

Exhibit 20: Terminal growth

	0%	1%	2%	3%	4%
WACC 7.50%	2.96	3.45	4.11	5.06	6.56
8.00%	2.77	3.19	3.75	4.54	5.72
8.74%	2.52	2.86	3.32	3.93	4.80
9.00%	2.44	2.77	3.19	3.75	4.54
9.50%	2.30	2.59	2.96	3.45	4.11

Source: Elana Trading estimates

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

To Sopharma's stand-alone value we add the equity value of its most lucrative subsidiaries. Accordingly, the SotP calls out an intrinsic value of BGN 4.41 per share.

	MARKET CAP	SHARE	ELANA NAV	VALUE	DISCOUNT	VALUE
Sopharma – stand-alone value			421,189,487	421,189,487	0%	421,189,487
Sopharma Trading (SO5 BU)	172,915,822	72.42%		125,225,638	25%	93,919,229
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>558,876,932</b>
CURRENT MARKET CAP:						<b>412,379,078</b>
PREMIUM/(DISCOUNT):						<b>35.53%</b>
<b>FAIR PRICE PER SHARE:</b>						<b>4.40</b>

**INDIVIDUAL FINANCIAL DATA**

<b>Income Statement ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>
<b>Sales</b>	<b>209,847</b>	<b>210,291</b>	<b>216,054</b>	<b>201,456</b>	<b>195,412</b>	<b>199,321</b>
Other operating income	3,823	4,143	3,079	4,013	4,214	4,424
Change in Inventories	4,341	1,113	(7,006)	10,296	5,862	1,993
Cost of Material	(57,460)	(59,002)	(54,932)	(60,600)	(58,624)	(55,810)
Cost of External Services	(68,972)	(65,710)	(59,659)	(71,347)	(66,440)	(67,769)
Cost of Labor	(34,051)	(34,859)	(32,328)	(34,403)	(33,220)	(33,884)
Other Operating Expenses	(5,104)	(6,219)	(8,059)	(9,717)	(5,862)	(5,980)
<b>Total Operating Expenses</b>	<b>(161,246)</b>	<b>(164,677)</b>	<b>(161,984)</b>	<b>(165,771)</b>	<b>(158,284)</b>	<b>(161,450)</b>
<b>EBITDA</b>	<b>52,424</b>	<b>49,757</b>	<b>57,149</b>	<b>39,698</b>	<b>41,342</b>	<b>42,295</b>
Depreciation and amortization	(8,454)	(8,941)	(11,716)	(15,866)	(13,679)	(10,963)
<b>EBIT</b>	<b>43,970</b>	<b>40,816</b>	<b>45,433</b>	<b>23,832</b>	<b>27,663</b>	<b>31,333</b>
Impairment on non-current assets	(875)	(975)	(193)	(3,252)	(977)	(997)
Financial revenues	11,443	11,757	9,987	12,997	9,771	9,966
Financial costs	(9,444)	(6,451)	(17,338)	(4,672)	(3,908)	(2,990)
Financial income (loss)	<b>1,999</b>	<b>5,306</b>	<b>(7,351)</b>	<b>8,325</b>	<b>5,862</b>	<b>6,976</b>
<b>EBT</b>	<b>45,094</b>	<b>45,147</b>	<b>37,889</b>	<b>28,905</b>	<b>32,548</b>	<b>37,312</b>
Income taxes	(4,409)	(4,262)	(4,349)	(2,374)	(2,931)	(4,026)
<b>Net Income</b>	<b>40,685</b>	<b>40,885</b>	<b>33,540</b>	<b>26,531</b>	<b>29,617</b>	<b>33,286</b>

<b>Balance Sheet ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>
Inventories	50,916	54,482	51,249	54,047	58,624	57,803
Receivables from related parties	135,104	167,113	103,350	99,505	95,752	95,674
Trade Receivables	29,383	22,539	22,155	23,268	21,495	21,925
Other receivables	10,333	11,560	7,241	11,024	13,679	11,959
Cash & Cash Equivalents	18,038	2,595	8,198	2,935	9,919	11,523
<b>Current Assets</b>	<b>243,774</b>	<b>258,289</b>	<b>192,193</b>	<b>190,779</b>	<b>199,469</b>	<b>198,884</b>
Property, Plant & Equipment	135,048	186,861	198,158	192,728	193,458	190,351
Intangibles	3,386	3,973	3,661	2,442	2,931	2,990
Investment property	19,170	19,391	22,555	22,368	25,404	25,912
Investments in subsidiaries	88,462	92,932	101,207	110,083	109,431	107,633
Investments available for sale	16,792	19,472	6,862	4,439	9,771	9,966
Receivables from related parties	16,069	1,183	25,649	33,150	33,220	31,891
Other receivables	272	922	17	6	391	399
<b>Non-Current Assets</b>	<b>279,199</b>	<b>324,734</b>	<b>358,109</b>	<b>365,216</b>	<b>374,605</b>	<b>369,142</b>
<b>Total Assets</b>	<b>522,973</b>	<b>583,023</b>	<b>550,302</b>	<b>555,995</b>	<b>574,075</b>	<b>568,026</b>
Share Capital	132,000	132,000	132,000	132,000	134,797	134,797
Treasury Stock	(10,036)	(12,156)	(18,105)	(17,203)	(17,203)	(17,203)
Reserves	157,913	189,928	220,935	246,243	265,494	267,879
Retained Earnings	40,791	41,060	36,022	28,666	31,628	34,956
<b>Shareholders' Equity</b>	<b>320,668</b>	<b>350,832</b>	<b>370,852</b>	<b>389,706</b>	<b>414,716</b>	<b>420,429</b>
Short-term Bank Loans	112,008	152,778	98,878	90,761	85,981	79,728
Current Portion of LT Bank Loans	40,735	5,888	3,822	7,391	5,862	4,983
Liabilities to Related Parties	16,544	3,782	7,836	7,929	6,839	5,681
Account Payables	5,236	7,090	4,973	6,553	6,351	5,780
Tax Liabilities	262	208	1,243	902	977	997
Liabilities to Employees & Soc. Sec.	2,748	3,684	3,736	4,213	3,322	3,388
Other Current Liabilities	598	1,006	975	969	7,816	7,973
<b>Current Liabilities</b>	<b>178,131</b>	<b>174,436</b>	<b>121,463</b>	<b>118,718</b>	<b>117,150</b>	<b>108,530</b>
Long Term Bank Loans	18,737	51,779	48,723	37,972	33,220	29,898
Deferred Taxes	3,864	3,815	3,826	3,988	3,322	3,388
Liabilities to Employees on Retirement	1,269	1,479	1,855	2,219	1,368	1,395
Financial Leases	304	682	49	34	391	399
Other Long Term Liabilities	0	0	3,534	3,358	3,908	3,986
<b>Non-Current Liabilities</b>	<b>24,174</b>	<b>57,755</b>	<b>57,987</b>	<b>47,571</b>	<b>42,209</b>	<b>39,067</b>
<b>Total Liabilities</b>	<b>202,305</b>	<b>232,191</b>	<b>179,450</b>	<b>166,289</b>	<b>159,359</b>	<b>147,597</b>
<b>Shareholders' Equity &amp; Liabilities</b>	<b>522,973</b>	<b>583,023</b>	<b>549,136</b>	<b>555,995</b>	<b>574,075</b>	<b>568,026</b>

Source: Company IFRS Financial Statements Audited; Elana Trading Estimates

**QUARTERLY FINANCIAL DATA**

<b>Income Statement ('000 BGN)</b>	<b>Q1 2013</b>	<b>Q2 2013</b>	<b>Q3 2013</b>	<b>Q4 2013</b>	<b>Q1 2014</b>	<b>Q2 2014</b>	<b>Q3 2014</b>	<b>Q4 2014</b>
<b>Sales</b>	48,173	63,044	46,405	58,432	51,124	53,859	45,012	51,461
Other operating income	753	815	781	730	1,207	1,065	1,207	534
Change in Inventories	574	(6,515)	1,492	(2,423)	4,678	2,392	2,745	481
Cost of Material	(14,272)	(12,575)	(13,346)	(14,739)	(16,154)	(14,791)	(13,431)	(16,224)
Cost of External Services	(13,792)	(14,159)	(15,324)	(16,384)	(18,311)	(19,104)	(16,610)	(17,322)
Cost of Labor	(7,790)	(10,053)	(7,416)	(7,069)	(8,435)	(9,603)	(8,003)	(8,362)
Other Operating Expenses	(1,233)	(1,636)	(1,241)	(3,949)	(566)	(1,138)	(868)	(7,145)
Total Operating Expenses	(38,986)	(47,403)	(39,048)	(48,129)	(43,622)	(46,042)	(39,805)	(52,168)
<b>EBITDA</b>	12,413	18,921	11,351	14,598	13,543	12,680	10,052	3,423
Depreciation and amortization	(2,473)	(2,465)	(3,213)	(3,565)	(4,834)	(3,798)	(3,638)	(3,596)
<b>EBIT</b>	9,940	16,456	8,138	11,033	8,709	8,882	6,414	(173)
Impairment on non-current assets	0	0	0	(193)	0	0	0	(3,252)
Financial revenues	1,843	6,113	987	1,044	3,484	7,497	1,000	1,016
Financial costs	(1,480)	(5,587)	(2,059)	(8,212)	(1,058)	(1,190)	(1,190)	(1,234)
Financial income (loss)	363	526	(1,072)	(7,168)	2,426	6,307	(190)	(218)
<b>EBT</b>	10,304	16,981	7,066	3,672	11,225	15,099	6,224	(3,643)
Income taxes	(1,214)	(1,088)	(579)	(1,481)	(1,121)	(643)	(644)	34
<b>Net Income</b>	9,090	15,893	6,487	2,191	10,104	14,456	5,580	(3,609)

<b>Balance Sheet ('000 BGN)</b>	<b>Q1 2013</b>	<b>Q2 2013</b>	<b>Q3 2013</b>	<b>Q4 2013</b>	<b>Q1 2014</b>	<b>Q2 2014</b>	<b>Q3 2014</b>	<b>Q4 2014</b>
Inventories	56,290	50,798	54,131	50,083	54,361	54,930	56,751	54,047
Receivables from related parties	168,762	170,840	128,663	103,350	108,077	121,849	118,214	99,505
Trade Receivables	27,383	33,776	26,950	22,155	22,695	26,823	26,559	23,268
Other receivables	10,471	9,377	12,233	7,241	6,920	6,936	10,587	11,024
Cash & Cash Equivalents	4,125	8,190	3,823	8,198	4,275	2,597	2,316	2,935
<b>Current Assets</b>	267,031	272,981	225,800	191,027	196,328	213,135	214,427	190,779
Property, Plant & Equipment	196,360	199,470	199,523	198,158	195,431	194,087	192,926	192,728
Intangibles	3,775	3,774	3,614	3,661	3,601	3,183	2,968	2,442
Investment property	19,391	19,391	19,391	22,555	22,555	22,555	22,555	22,368
Investments in subsidiaries	93,814	93,687	93,628	101,207	105,687	105,554	105,462	110,083
Investments available for sale	19,871	13,157	13,230	6,862	6,919	7,608	7,797	4,439
Receivables from related parties	1,177	435	435	25,649	27,137	31,938	32,773	33,150
Other receivables	1,419	16	17	17	16	8	8	6
<b>Non-Current Assets</b>	335,807	329,930	329,838	358,109	361,346	364,933	364,489	365,216
<b>Total Assets</b>	<b>602,838</b>	<b>602,911</b>	<b>555,638</b>	<b>549,136</b>	<b>557,674</b>	<b>578,068</b>	<b>578,916</b>	<b>555,995</b>
Share Capital	132,000	132,000	132,000	132,000	132,000	132,000	132,000	132,000
Treasury Stock	(12,562)	(14,592)	(17,353)	(18,105)	(16,716)	(16,621)	(17,060)	(17,203)
Reserves	190,046	222,431	222,355	220,935	221,066	246,675	246,841	246,243
Retained Earnings	50,264	24,989	31,511	34,856	45,441	25,562	31,232	28,666
<b>Shareholders' Equity</b>	359,748	364,828	368,513	369,686	381,791	387,616	393,013	389,706
Short-term Bank Loans	158,851	147,770	101,074	98,878	96,588	104,841	107,315	90,761
Current Portion of LT Bank Loans	7,709	7,709	7,709	3,822	3,731	3,765	3,765	7,391
Liabilities to Related Parties	6,200	4,536	6,186	7,836	7,830	11,295	7,789	7,929
Account Payables	5,405	10,027	6,064	4,973	5,849	4,943	5,129	6,553
Tax Liabilities	257	307	383	1,243	629	431	781	902
Liabilities to Employees & Soc. Sec.	4,182	5,953	5,269	3,736	4,138	5,304	4,715	4,213
Other Current Liabilities	936	5,040	4,972	975	987	5,168	3,187	969
<b>Current Liabilities</b>	183,540	181,342	131,657	121,463	119,752	135,747	132,681	118,718
Long Term Bank Loans	54,008	48,304	46,507	48,723	46,926	45,130	43,333	37,972
Deferred Taxes	3,832	3,184	3,573	3,826	3,769	4,049	4,347	3,988
Liabilities to Employees on Retirement	1,479	1,479	1,688	1,855	1,882	2,034	2,099	2,219
Financial Leases	231	77	62	49	66	48	44	34
Other Long Term Liabilities	0	3,697	3,638	3,534	3,488	3,444	3,399	3,358
<b>Non-Current Liabilities</b>	59,550	56,741	55,468	57,987	56,131	54,705	53,222	47,571
<b>Total Liabilities</b>	<b>243,090</b>	<b>238,083</b>	<b>187,125</b>	<b>179,450</b>	<b>175,883</b>	<b>190,452</b>	<b>185,903</b>	<b>166,289</b>
<b>Shareholders' Equity &amp; Liabilities</b>	<b>602,838</b>	<b>602,911</b>	<b>555,638</b>	<b>549,136</b>	<b>557,674</b>	<b>578,068</b>	<b>578,916</b>	<b>555,995</b>

Source: Company IFRS Financial Statements

**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: 2nd 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.

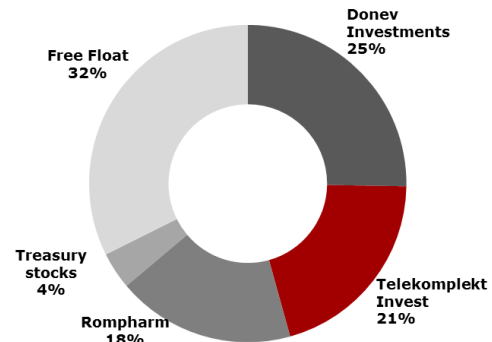
Original products are expected to add significantly to bottom line. Highest achievers are Tabex, Tribestan and Carsil. In order to answer the increasing demand from aging population, the Group has focused on therapeutic areas such as cardiology, gastroenterology, pain relief, neurology and psychiatry,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

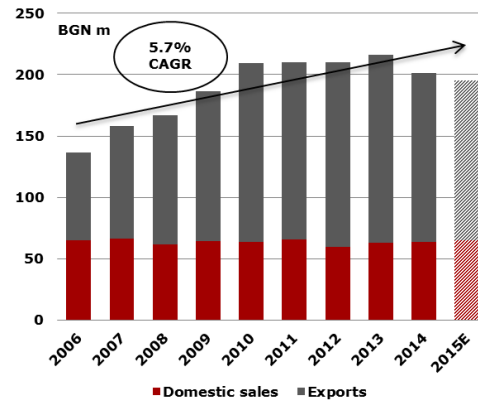
**STRENGTHS & OPPORTUNITIES**

- 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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