

**SOPHARMA**  
**INDUSTRY: PHARMACEUTICALS**
**HURTS THE MOST BEFORE IT STARTS TO HEAL**

**SOPHARMA'S WOUND FROM UKRAINE AND RUSSIA WIDENED IN H1'15 BUT OPTIMIZATION MEASURES AND ONE OFF INVESTMENT INCOME SUSTAIN THE BOTTOM LINE. UKRAINE IS ALREADY TOO SMALL TO ADD MORE HARM BUT RUSSIA REMAINS A MAJOR UNCERTAINTY. BULGARIA PARTIALLY OFFSETS THE DOWNTREND WHILE PROFITABILITY MEETS EXPECTATIONS.**

**TOP LINE TAKES ANOTHER HIT FROM UKRAINE & RUSSIA IN H1'15**

Sopharma's top line took another hit in the first half of 2015 from Ukraine and Russia. Exports are down 28% y-o-y to BGN 51.2 m with sales to Russia down 18% y-o-y to BGN 31m and sales to Ukraine dropping by more than 60% to less than c.BGN 8m. The latter makes the biggest contribution to the downward pressure. Going forward the base will be small, thus most of the harm is already on the books. Russia contributed to a third of the drop and poses a bigger risk for Sopharma if things go really bad there. However, we expect the Russian economy to rein in some of the pressure from the low oil price and shaky currency and settle for a 0% to small growth of GDP in 2016. Bulgaria partially soothes the Ukraine/Russia's effects. It surpassed Russia and is Sopharma's biggest market (38% of sales), up 13% y-o-y in H1'15. Positive developments further to the East (i.e. Kazakhstan) offer another small cushion.

**BOTTOM LINE SUSTAINED WITH STEPS TOWARDS A LEANER STRUCTURE**

As expected, worst may be over for Sopharma's bottom line after the FX restructuring at the end of 2014 and the optimization in H1'15, unless of course Ukraine totally collapses. Sopharma turned to the Euro for exports to Russia and Ukraine to minimize the FX exposure. Its strategy towards a leaner structure by merging smaller Bulgarian subsidiaries (i.e. Bulgarian Rose-Sevtopolis) added to efficiency. The latter, however, was not large enough to sustain EBITDA. EBITDA margin declined 180 bps y-o-y to 23.7% but is up 440 bps vs. Q4'14 which is in line with our expectations. An one off investment income from the sale of a US subsidiary sustained net income which ended up 2.3% y-o-y to BGN 25.9m.

**STOCK AT 3YR LOW, OVERSHOT AS PROSECUTORS RAISE A NEW CHARGE TO CEO**

The top line wound & the temporarily discontinued dividend led the downward trend of the stock in the past months. Latest it is under pressure as Sofia City Prosecutor's Office (SCP) raised a second charge in the last four years against the Company's CEO and major beneficial shareholder Ognyan Donev. Currently, the stock is at a 3 year low close to the low after the previous allegations in 2012-2013. We believe the new charges to be groundless and politically motivated and thus not a threat to the long term future of Sopharma. At the same time, the selling pressure they intensified (30% YTD drop) opens up a buying opportunity with a 30% upside potential to our new target price.

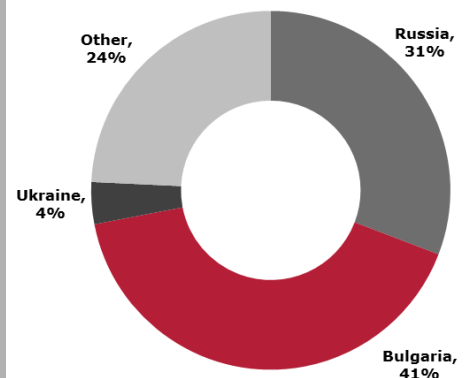
**VALUATION/RISKS**

**VALUATION:** Due to deteriorating fundamental factors we revise downwards our top line estimates. With the optimization effects and assuming no additional drastic volatility in Russia, we do not expect another severe hit on the bottom line. Nevertheless, we revise downward our 1YR target price from BGN 4.40 to BGN 3.50 but keep our BUY recommendation. **RISKS:** We remain on the lookout for Russia and any dramatic developments in Ukraine that may hit the bottom line via new impairments.

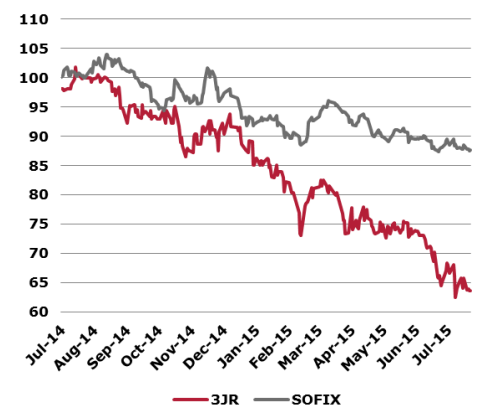
Individual results ('000 BGN)	2013	2014	2015F	2016F
Revenues	216,054	201,456	163,179	171,338
EBITDA	57,149	39,698	31,954	40,405
Net profit	33,540	26,531	28,691	30,091
EPS	0.26	0.21	0.22	0.23
Equity	370,852	389,706	432,670	455,238
EV	637,786	525,266	482,055	452,319
EBITDA margin	26.08%	19.32%	19.09%	22.99%
Net Profit margin	15.31%	12.91%	17.14%	17.12%
ROE	9.04%	6.81%	6.63%	6.61%
ROA	6.11%	4.77%	4.82%	4.99%
Debt/equity	40.83%	34.93%	30.74%	25.97%
P/E	14.85	14.75	12.03	11.60
Dividend yield	1.80%	0.00%	0.00%	2.16%

**RESULTS ANALYSIS**
**BUY**
**ONE YEAR PRICE TARGET: BGN 3.50**
**CURRENT PRICE: BGN 2.70**
**EXCHANGE RATES**
**EUR/BGN (FIXED): 1.95583**
**USD/BGN: 1.75332**
**MARKET DATA**

Shares Outstanding:	<b>127.0m</b>
Share Capital:	<b>134.0m</b>
Free-float:	<b>32.4%</b>
Treasury Shares	<b>3.9%</b>
Market Cap.:	<b>BGN 363 m</b>
Avg. Daily Vol.:	<b>BGN 62 000</b>
52 Weeks Range:	<b>BGN 2.69 – 4.23</b>
BSE Ticker	<b>3JR</b>
Bloomberg Ticker	<b>3JR BU</b>

**UKRAINE TO BECOME A DWARF IN 2015 SALES**


Source: Elana Trading 2015 estimates

**THE STOCK AT 3 YR LOW**


Source: Bloomberg

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**SOPHARMA'S INDIVIDUAL RESULTS REVIEW**

Ukraine/Russia gave another serious hit to Sopharma during the first half of 2015. The top line is down 16% y-o-y in H1'15 to BGN 88m. Declining sales in Ukraine contributed to approx. two thirds of the drop, the rest came from Russia. The latter's effect was most severe in Q1'15 and soothed in Q2'15. Nevertheless, Russia remains a major factor as it is 2<sup>nd</sup> largest market for Sopharma.

**Revenue breakdown:** Sales to Ukraine dwarfed to about a fifth of what they were prior to the Ukraine/Russia conflict. Going forward, it would have a much smaller downside effect on the top line as the base shrank significantly. In H1'15, sales to Ukraine were down approx. 65% to less c. BGN 8m, according to our estimates. Also, going forward Ukraine should not affect the bottom line as harsh as in Q4'14 when Sopharma impaired half of its investment in its Ukrainian subsidiary – Vitamini, as well as some receivables. The latter, however, will apply only as long as Ukraine doesn't totally collapse urging Sopharma and all other foreign companies operating in the country to impair all their investments there. We find that highly unlikely.

Overall exports registered 28% y-o-y drop to BGN 54.2m while sales in Bulgaria were up 13% to BGN 33.8m. Bulgaria overtook Russia as the biggest market for the Company, accounting for 38% of total. Nevertheless, we do not expect it to finish FY2015 with a double digit growth despite the fact that the Bulgarian economy is growing faster than consensus estimates in 2015 with a 2% y-o-y GDP growth in Q1'15. We do expect, however, things to ease a bit in Russia in 2016, even with lower oil price, which would be a turn-around signal for Sopharma.

In line with expectations, the Company also reports better performance to the North in the Baltics, where it has a wholesale subsidiary, and to the East in Caucasus and Central Asia, mostly Kazakhstan, as well as Uzbekistan, Armenia, etc. However, their impact is still small despite Sopharma's efforts to offset the ailing markets with growth elsewhere.

**Profitability review:** The Company's profitability is in line with estimates. The bottom line improved from Q4'14 when surging consulting costs and one-off Ukraine related impairments lowered net income. In the following two quarters, the Company's strategy on making its structure leaner by merging subsidiaries (i.e. Bulgarian Rose Sevtopolis) and optimizing other costs had positive effects on efficiency. In H1'15, external service costs are down 25% y-o-y to BGN 21.9 m, thanks also to lower consulting costs.

In addition, in Q2'15 Sopharma sold 75% of its US subsidiary Extab Corporation, thus earning a one-off investment income large enough to sustain the bottom line. H1'15 net income ended up 2.3% y-o-y to BGN 25.9m. Normalized net income yields a 22% y-o-y drop in the bottom line, which is above the drop in the top line as material costs declined by less than sales due to US dollar appreciation. Labor costs remained flat but should go down in the coming quarters as Sopharma optimized staff, incl. by shifting marketing personnel to its trading arm Sopharma Trading (SO5 BU).

Overall, EBITDA is down 22% y-o-y to BGN 21.4m while EBITDA margin is down 180 bps y-o-y to 23.7%. However, the latter is 440 bps up vs. Q4'14, in line with our expectations.

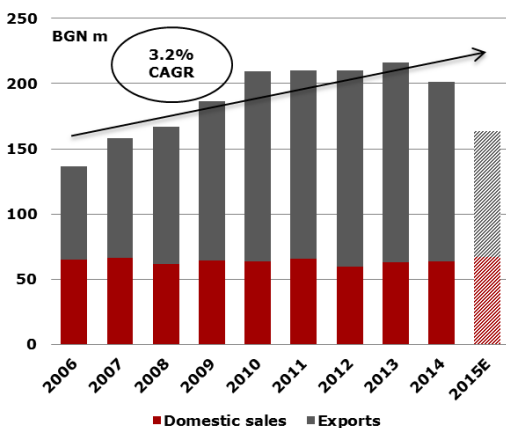
Accordingly, we keep our profitability expectations almost unchanged but significantly lower our top line expectations from 3% to a 19% FY2015 y-o-y drop in sales. The new estimates yield a lower target price vs. our April 2015 forecast to BGN 3.50 from BGN 4.40 fair price per share. Sopharma's standalone fair value represents about 70% of the SoTP value with the wholesale subsidiary Sopharma Trading adding 20% (discounted 25% to its current market value) and the rest of Sopharma's subsidiaries adding another 10%.

*Sales to Ukraine dwarfed to 6% of revenues in H1'15*

*Russia also hit Sopharma while Bulgaria soothed the tension in H1'15*

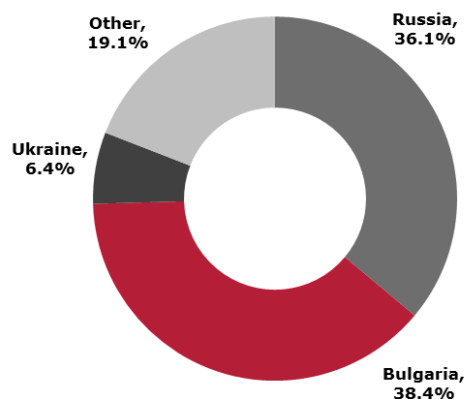
*H1'15 profitability in line with expectations*

Exhibit 3: Revenue growth to settle at 3.2% CAGR over the last 10 years



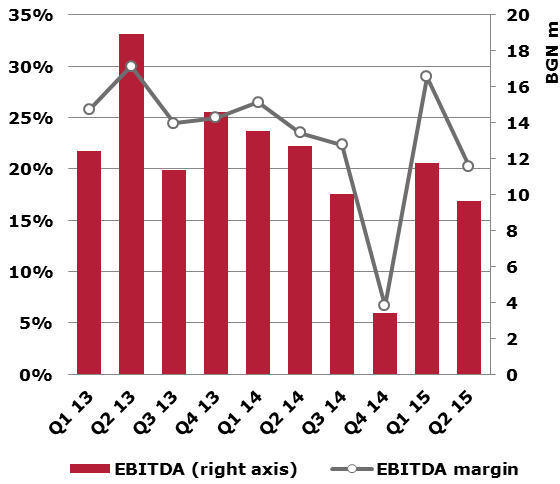
Source: Company data; Elana Trading Estimate

Exhibit 4: Domestic sales surpass Russian sales in H1 2015



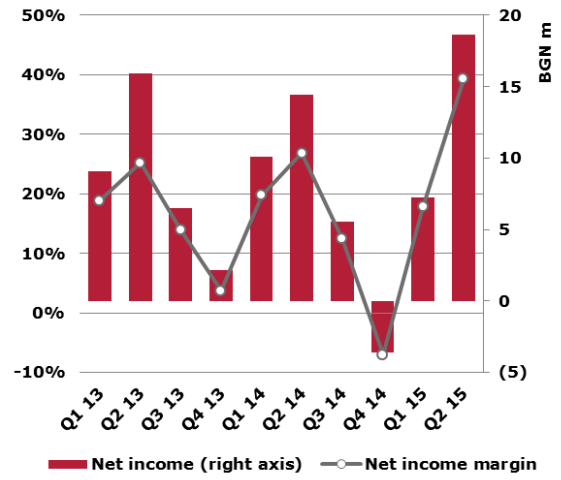
Source: Company data; Elana Trading estimates

Exhibit 5: EBITDA margin rebounded to above 20% on optimization and more efficiency...



Source: Company data

Exhibit 6: ... net income margin rebounded as well even discarding the one off from the sale of a subsidiary



Source: Company data

**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>163,179</b>	<b>171,338</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	4,895	1,713
Cost of Material	(57,460)	(59,002)	(54,932)	(60,600)	(52,217)	(54,828)
Cost of External Services	(68,972)	(65,710)	(59,659)	(71,347)	(48,954)	(44,548)
Cost of Labor	(34,051)	(34,859)	(32,328)	(34,403)	(35,899)	(34,268)
Other Operating Expenses	(5,104)	(6,219)	(8,059)	(9,717)	(3,264)	(3,427)
<b>Total Operating Expenses</b>	<b>(161,246)</b>	<b>(164,677)</b>	<b>(161,984)</b>	<b>(165,771)</b>	<b>(135,439)</b>	<b>(135,357)</b>
<b>EBITDA</b>	<b>52,424</b>	<b>49,757</b>	<b>57,149</b>	<b>39,698</b>	<b>31,954</b>	<b>40,405</b>
Depreciation and amortization	(8,454)	(8,941)	(11,716)	(15,866)	(11,423)	(11,994)
<b>EBIT</b>	<b>43,970</b>	<b>40,816</b>	<b>45,433</b>	<b>23,832</b>	<b>20,532</b>	<b>28,412</b>
Impairment on non-current assets	(875)	(975)	(193)	(3,252)	(816)	(857)
Financial revenues	11,443	11,757	9,987	12,997	14,686	8,567
Financial costs	(9,444)	(6,451)	(17,338)	(4,672)	(3,264)	(2,570)
Financial income (loss)	<b>1,999</b>	<b>5,306</b>	<b>(7,351)</b>	<b>8,325</b>	<b>11,423</b>	<b>5,997</b>
<b>EBT</b>	<b>45,094</b>	<b>45,147</b>	<b>37,889</b>	<b>28,905</b>	<b>31,138</b>	<b>33,552</b>
Income taxes	(4,409)	(4,262)	(4,349)	(2,374)	(2,448)	(3,461)
<b>Net Income</b>	<b>40,685</b>	<b>40,885</b>	<b>33,540</b>	<b>26,531</b>	<b>28,691</b>	<b>30,091</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	61,192	59,968
Receivables from related parties	135,104	167,113	103,350	99,505	94,644	78,816
Trade Receivables	29,383	22,539	22,155	23,268	27,740	18,847
Other receivables	10,333	11,560	7,241	11,024	6,527	6,854
Cash & Cash Equivalents	18,038	2,595	8,198	2,935	2,121	14,641
<b>Current Assets</b>	<b>243,774</b>	<b>258,289</b>	<b>192,193</b>	<b>190,779</b>	<b>192,225</b>	<b>179,126</b>
Property, Plant & Equipment	135,048	186,861	198,158	192,728	214,581	231,307
Intangibles	3,386	3,973	3,661	2,442	2,448	2,570
Investment property	19,170	19,391	22,555	22,368	22,845	23,131
Investments in subsidiaries	88,462	92,932	101,207	110,083	132,991	133,644
Investments available for sale	16,792	19,472	6,862	4,439	4,079	6,854
Receivables from related parties	16,069	1,183	25,649	33,150	27,740	25,701
Other receivables	272	922	17	6	326	343
<b>Non-Current Assets</b>	<b>279,199</b>	<b>324,734</b>	<b>358,109</b>	<b>365,216</b>	<b>405,011</b>	<b>423,548</b>
<b>Total Assets</b>	<b>522,973</b>	<b>583,023</b>	<b>550,302</b>	<b>555,995</b>	<b>597,236</b>	<b>602,675</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	283,541	303,100
Retained Earnings	40,791	41,060	36,022	28,666	31,535	34,544
<b>Shareholders' Equity</b>	<b>320,668</b>	<b>350,832</b>	<b>370,852</b>	<b>389,706</b>	<b>432,670</b>	<b>455,238</b>
Short-term Bank Loans	112,008	152,778	98,878	90,761	91,380	85,669
Current Portion of LT Bank Loans	40,735	5,888	3,822	7,391	8,159	6,854
Liabilities to Related Parties	16,544	3,782	7,836	7,929	5,711	4,883
Account Payables	5,236	7,090	4,973	6,553	5,303	4,969
Tax Liabilities	262	208	1,243	902	816	857
Liabilities to Employees & Soc. Sec.	2,748	3,684	3,736	4,213	2,774	2,913
Other Current Liabilities	598	1,006	975	969	6,527	6,854
<b>Current Liabilities</b>	<b>178,131</b>	<b>174,436</b>	<b>121,463</b>	<b>118,718</b>	<b>120,671</b>	<b>112,998</b>
Long Term Bank Loans	18,737	51,779	48,723	37,972	35,084	25,701
Deferred Taxes	3,864	3,815	3,826	3,988	4,079	3,769
Liabilities to Employees on Retirement	1,269	1,479	1,855	2,219	1,142	1,199
Financial Leases	304	682	49	34	326	343
Other Long Term Liabilities	0	0	3,534	3,358	3,264	3,427
<b>Non-Current Liabilities</b>	<b>24,174</b>	<b>57,755</b>	<b>57,987</b>	<b>47,571</b>	<b>43,895</b>	<b>34,439</b>
<b>Total Liabilities</b>	<b>202,305</b>	<b>232,191</b>	<b>179,450</b>	<b>166,289</b>	<b>164,566</b>	<b>147,437</b>
<b>Shareholders' Equity &amp; Liabilities</b>	<b>522,973</b>	<b>583,023</b>	<b>549,136</b>	<b>555,995</b>	<b>597,236</b>	<b>602,675</b>

Source: Company IFRS Financial Statements Audited; Elana Trading Estimates

**QUARTERLY FINANCIAL DATA**

<b>Income Statement ('000 BGN)</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>Q1 2015</b>	<b>Q2 2015</b>
<b>Sales</b>	<b>46,405</b>	<b>58,432</b>	<b>51,124</b>	<b>53,859</b>	<b>45,012</b>	<b>51,461</b>	<b>40,498</b>	<b>47,501</b>
Other operating income	781	730	1,207	1,065	1,207	534	521	1,298
Change in Inventories	1,492	(2,423)	4,678	2,392	2,745	481	5,672	(807)
Cost of Material	(13,346)	(14,739)	(16,154)	(14,791)	(13,431)	(16,224)	(15,574)	(15,455)
Cost of External Services	(15,324)	(16,384)	(18,311)	(19,104)	(16,610)	(17,322)	(11,116)	(10,746)
Cost of Labor	(7,416)	(7,069)	(8,435)	(9,603)	(8,003)	(8,362)	(9,539)	(10,104)
Other Operating Expenses	(1,241)	(3,949)	(566)	(1,138)	(868)	(7,145)	1,276	(2,072)
Total Operating Expenses	(39,048)	(48,129)	(43,622)	(46,042)	(39,805)	(52,168)	(33,068)	(42,936)
<b>EBITDA</b>	<b>11,351</b>	<b>14,598</b>	<b>13,543</b>	<b>12,680</b>	<b>10,052</b>	<b>3,423</b>	<b>11,738</b>	<b>9,615</b>
Depreciation and amortization	(3,213)	(3,565)	(4,834)	(3,798)	(3,638)	(3,596)	(3,787)	(3,752)
<b>EBIT</b>	<b>8,138</b>	<b>11,033</b>	<b>8,709</b>	<b>8,882</b>	<b>6,414</b>	<b>(173)</b>	<b>7,951</b>	<b>5,863</b>
Impairment on non-current assets	0	(193)	0	0	0	(3,252)	0	0
Financial revenues	987	1,044	3,484	7,497	1,000	1,016	861	14,576
Financial costs	(2,059)	(8,212)	(1,058)	(1,190)	(1,190)	(1,234)	(828)	(959)
Financial income (loss)	(1,072)	(7,168)	2,426	6,307	(190)	(218)	33	13,617
<b>EBT</b>	<b>7,066</b>	<b>3,672</b>	<b>11,225</b>	<b>15,099</b>	<b>6,224</b>	<b>(3,643)</b>	<b>7,984</b>	<b>19,480</b>
Income taxes	(579)	(1,481)	(1,121)	(643)	(644)	34	(768)	(813)
<b>Net Income</b>	<b>6,487</b>	<b>2,191</b>	<b>10,104</b>	<b>14,456</b>	<b>5,580</b>	<b>(3,609)</b>	<b>7,216</b>	<b>18,667</b>

<b>Balance Sheet ('000 BGN)</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>Q1 2015</b>	<b>Q2 2015</b>
<b>Inventories</b>	<b>54,131</b>	<b>50,083</b>	<b>54,361</b>	<b>54,930</b>	<b>56,751</b>	<b>54,047</b>	<b>62,966</b>	<b>61,816</b>
Receivables from related parties	128,663	103,350	108,077	121,849	118,214	99,505	74,653	93,946
Trade Receivables	26,950	22,155	22,695	26,823	26,559	23,268	20,300	27,339
Other receivables	12,233	7,241	6,920	6,936	10,587	11,024	11,617	6,999
Cash & Cash Equivalents	3,823	8,198	4,275	2,597	2,316	2,935	3,697	3,343
<b>Current Assets</b>	<b>225,800</b>	<b>191,027</b>	<b>196,328</b>	<b>213,135</b>	<b>214,427</b>	<b>190,779</b>	<b>173,233</b>	<b>193,443</b>
Property, Plant & Equipment	199,523	198,158	195,431	194,087	192,926	192,728	208,947	211,606
Intangibles	3,614	3,661	3,601	3,183	2,968	2,442	3,076	2,912
Investment property	19,391	22,555	22,555	22,555	22,555	22,368	22,368	22,365
Investments in subsidiaries	93,628	101,207	105,687	105,554	105,462	110,083	130,032	130,313
Investments available for sale	13,230	6,862	6,919	7,608	7,797	4,439	4,477	4,636
Receivables from related parties	435	25,649	27,137	31,938	32,773	33,150	33,547	26,937
Other receivables	17	17	16	8	8	6	5	5
<b>Non-Current Assets</b>	<b>329,838</b>	<b>358,109</b>	<b>361,346</b>	<b>364,933</b>	<b>364,489</b>	<b>365,216</b>	<b>402,452</b>	<b>398,774</b>
<b>Total Assets</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>	<b>575,685</b>	<b>592,217</b>
Share Capital	132,000	132,000	132,000	132,000	132,000	132,000	134,798	134,798
Treasury Stock	(17,353)	(18,105)	(16,716)	(16,621)	(17,060)	(17,203)	(17,378)	(17,398)
Reserves	222,355	220,935	221,066	246,675	246,841	246,243	255,065	284,209
Retained Earnings	31,511	34,856	45,441	25,562	31,232	28,666	41,128	30,907
<b>Shareholders' Equity</b>	<b>368,513</b>	<b>369,686</b>	<b>381,791</b>	<b>387,616</b>	<b>393,013</b>	<b>389,706</b>	<b>413,613</b>	<b>432,516</b>
Short-term Bank Loans	101,074	98,878	96,588	104,841	107,315	90,761	92,357	90,659
Current Portion of LT Bank Loans	7,709	3,822	3,731	3,765	3,765	7,391	7,330	7,329
Liabilities to Related Parties	6,186	7,836	7,830	11,295	7,789	7,929	3,108	2,990
Account Payables	6,064	4,973	5,849	4,943	5,129	6,553	5,821	6,131
Tax Liabilities	383	1,243	629	431	781	902	578	464
Liabilities to Employees & Soc. Sec.	5,269	3,736	4,138	5,304	4,715	4,213	5,016	5,835
Other Current Liabilities	4,972	975	987	5,168	3,187	969	1,269	1,430
<b>Current Liabilities</b>	<b>131,657</b>	<b>121,463</b>	<b>119,752</b>	<b>135,747</b>	<b>132,681</b>	<b>118,718</b>	<b>115,479</b>	<b>114,838</b>
Long Term Bank Loans	46,507	48,723	46,926	45,130	43,333	37,972	36,175	34,379
Deferred Taxes	3,573	3,826	3,769	4,049	4,347	3,988	4,021	4,046
Liabilities to Employees on Retirement	1,688	1,855	1,882	2,034	2,099	2,219	2,469	2,602
Financial Leases	62	49	66	48	44	34	25	18
Other Long Term Liabilities	3,638	3,534	3,488	3,444	3,399	3,358	3,903	3,818
<b>Non-Current Liabilities</b>	<b>55,468</b>	<b>57,987</b>	<b>56,131</b>	<b>54,705</b>	<b>53,222</b>	<b>47,571</b>	<b>46,593</b>	<b>44,863</b>
<b>Total Liabilities</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>162,072</b>	<b>159,701</b>
<b>Shareholders' Equity &amp; Liabilities</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>	<b>575,685</b>	<b>592,217</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.

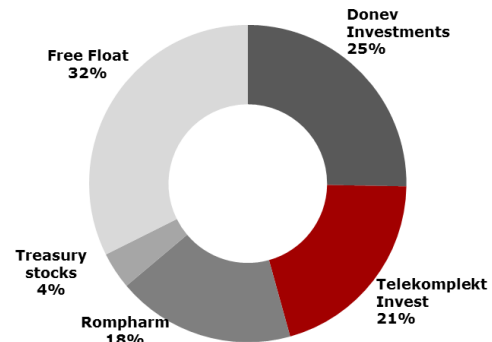
Original products are expected to add significantly to bottom line. Highest achievers are Tabex, Tribestan and Carsil. In order to answer the increasing demand from aging population, the Group has focused on therapeutic areas such as cardiology, gastroenterology, pain relief, neurology and psychiatry,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

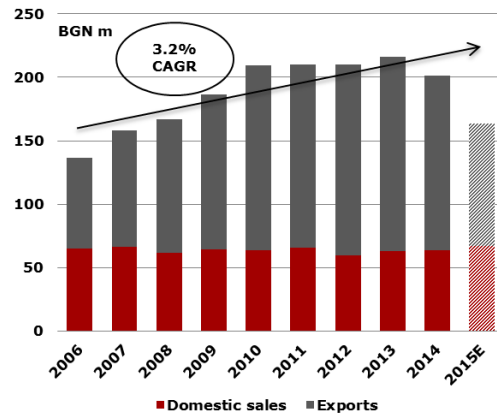
**STRENGTHS & OPPORTUNITIES**

- Excellent corporate governance
- Well diversified portfolio
- Wide distribution network and strong domestic position via its wholesale subsidiary Sophama Trading (Biggest pharmaceutical wholesaler in Bulgaria)
- Strong balance sheet and easy access to debt and EU financing

**SHAREHOLDERS’ STRUCTURE**



**INDIVIDUAL SALES GROWTH**



**WEAKNESSES & THREATS**

- Heavy exposure to Russia – Ukraine 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>HOLD</b>	Target price in +/-10% range of the current quotes
<b>SELL</b>	Target price is more than 10% below the current quotes

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