

**SOPHARMA**  
**INDUSTRY: PHARMACEUTICALS**
**KEEPING OPERATING PROFITS IN CHECK**

**SOPHARMA TOOK A HIT FROM RUSSIA IN FY2015 BUT HANDLED IT ABOVE EXPECTATIONS AND SUSTAINED OPERATING PROFITS. WITH UKRAINE ALREADY A DWARF IN TERMS OF REVENUE PERFORMANCE, THE LEADING GENERIC PHARMACEUTICAL PRODUCER IN BULGARIA, SETS ON A LEANER PATH OF OPERATIONS IN 2016.**

**TOP LINE TROUBLE HANDLED ABOVE EXPECTATIONS**

Sopharma had a tough FY2015 with 20% y/y decline in exports and 0.7% y/y increase in the domestic market sales. Revenues from Ukraine shrunk 60% y/y while Russia positively surprised with only 4.7% y/y drop despite a devastating start of the year. Nevertheless, Sopharma reined in the situation and finished FY2015 with 13.65% y/y decline in sales to BGN 174m. This is above expectations considering the major drop in exports in the first half of the year.

**COST OPTIMIZATION & CONSOLIDATION SUSTAIN OPERATING PROFITABILITY**

Sopharma positively surprised by sustaining operating profitability despite a turbulent top line performance. EBITDA and EBIT margins inched up on cost optimization and Bulgarian Rose Sevtopolis consolidation. EBITDA margin stood at 20.80% while EBIT margin was 12.26%. EBITDA is down 13.1% y/y to BGN 36.2m and above expectations while EBIT is down 13.5% y/y to 21.3m.

**BOTTOM LINE AFFECTED BY ONE-OFFS ON UKRAINE**

Net income registered 18.4% y/y drop to BGN 22.3m due to Ukraine related write-offs and higher tax deductibles. In Q4'15, Sopharma booked a BGN 8.99m impairment on Ukraine investments thus leading to a Q4 net loss of BGN 5.7m. Ukraine is already too small to have a major top line effect but could affect the bottom line. We estimate another c.BGN 10m on the line if the situation in the country further deteriorates. Still, we incorporate only half of it in our valuation as we expect the situation to sustain at the current level, however, dismal it may be.

**Q4'2015 PERFORMANCE BEST IN SIX QUARTERS**

Overall, Q4'15 performance was best after six consecutive quarters of deteriorating results. This was the first in six quarters with revenue and operating profitability improvement. Q4 sales are up 0.16% y/y to BGN 51.5m. EBIT surged sevenfold to BGN 4.6m while EBITDA added 55% y/y to BGN 8.3m. Disregarding the Ukraine one-off, the company would have registered a BGN 3.3m net profit in Q4'15. First 2016 signals in January are also positive although on a low Jan'15 base.

**CONSOLIDATION FURTHER TO GO**

Sopharma to continue cost optimization and subsidiaries consolidation to improve its cost structure and diversify the top line. In spring 2015 it finalized the merger with Bulgarian Rose Sevtopolis for cost reasons. Over the year Sopharma also took control over synergies producer Momina Krepost (5MR BU) and in Jan 2016 initiated a tender offer for medical device producer Medica (5MA BU) but suspended the Momina Krepost merger

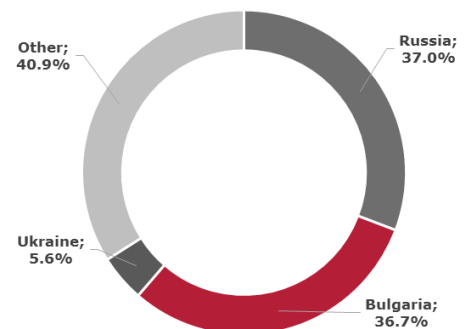
**VALUATION/RISKS**

**VALUATION:** Considering the change in the fundamentals we further revise our Sopharma valuation and accordingly revise downward our one year target price from BGN 3.50 to BGN 3.09. We keep our BUY recommendation. **RISKS:** We remain on the lookout for Russia and any dramatic developments in Ukraine.

Individual results ('000 BGN)	2014	2015	2016F	2017F
Revenues	201 461	173 960	175 700	184 485
EBITDA	41 650	36 190	39 501	43 505
Net profit	27 291	22 269	24 039	33 727
EPS	0.22	0.17	0.19	0.26
Equity	406 524	428 457	468 344	491 625
EV	524 165	439 637	430 897	419 156
EBITDA margin	20.67%	20.80%	22.48%	23.58%
Net Profit margin	13.55%	12.80%	13.68%	18.28%
ROE	6.71%	5.20%	5.13%	6.86%
ROA	4.77%	3.93%	4.00%	5.48%
Debt/equity	33.49%	25.01%	21.76%	19.33%
P/E	14.33	14.96	14.03	10.00
Dividend yield	0.00%	0.00%	0.00%	2.01%

**RESULTS ANALYSIS**
**BUY**
**ONE YEAR PRICE TARGET: BGN 3.09**
**CURRENT PRICE: BGN 2.60**
**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>33%</b>
Treasury Shares	<b>3.87%</b>
Market Cap.:	<b>BGN 350 m</b>
Avg. Daily Vol.:	<b>BGN 49 000</b>
52 Weeks Range:	<b>BGN 2.50 – 3.60</b>
BSE Ticker	<b>3JR</b>
Bloomberg Ticker	<b>3JR BU</b>

**AS EXPECTED UKRAINE BECAME A DWARF IN SOPHARMA'S SALES**


Source: Elana Trading 2015 estimates

**THE STOCK AT THREE YEAR LOW**


Source: Bloomberg

**SOPHARMA'S INDIVIDUAL RESULTS REVIEW**

Sopharma had the most difficult year in almost a decade. Sales registered a major drop – 13.65% y/y in FY2015 due to continued problems in Ukraine and Russia. Overall, exports are down 20.3% y/y to BGN 110m while domestic market added 0.73% y/y to BGN 64m.

*Exports dropped 20% y/y*

**Revenue breakdown:** The company took a major hit from Russia at the start of 2015. In Jan'15 it registered a 61% y/y decline in exports due to the sharp Ruble devaluation. This caused Sopharma to temporarily suspend sales in Russia and conduct product repricing over the course of the year to manage the turbulence on the Russian market. Overall, the company managed it better than early signals and finished FY 2015 with only a 4.3% y/y drop in revenues from this market to BGN 64.3m.

*Ukraine below 6% of total revenue*

Domestic sales disappointed with only 0.73% y/y rise to BGN 63.9m. Nevertheless, Sopharma kept its leading place in volume and 6<sup>th</sup> in value in Bulgaria. The latter remains second biggest market for Sopharma slightly after Russia.

Ukraine, however, slid another 60% y/y and is already 79% from its peak results. Our estimate is for c. BGN 10m in sales in Ukraine, or below 6% of total revenues. Thus Ukraine is a dwarf to what it was for Sopharma. Going forward we expect it to have only a minor downside effect on the top line.

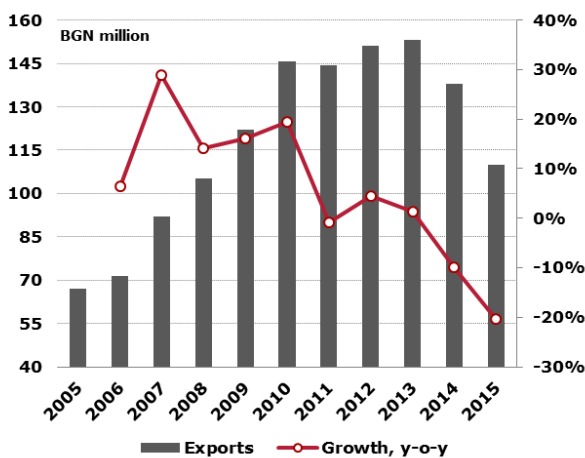
Sales in Caucasus and Central Asia were flat y/y while those in Kazakstan, Uzbekistan, Turkmenistan and Vietnam rose. Sales in Romania, Moldova and Malta were also up, but all these markets are yet too small to make a vital difference to the Russia/Ukraine impact.

Sopharma's management expects 2016 to be another difficult year but does not exclude some acquisitions to help fight the Russia/Ukraine trouble. No details on the latter, however. Accordingly, we revise our expectations for a flattish 2016 in terms of revenues and further improvement in operating profits.

*Q4'15 results positively surprised*

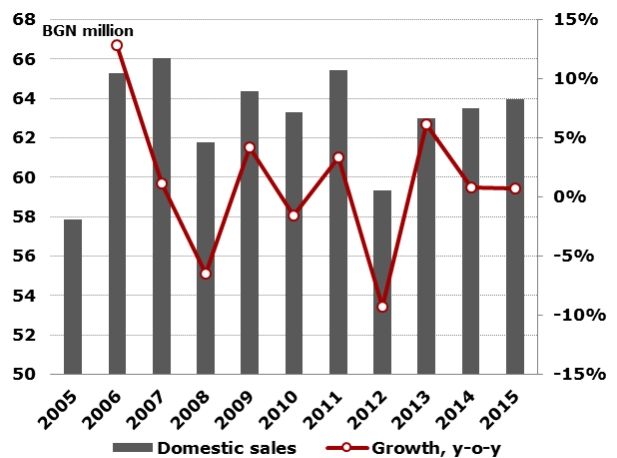
Q4'15 performance showed some positive signs with first revenue rise in six quarters and well improving operating profitability. Sales inched up 0.16% y/y while EBITDA rose 55% y/y to BGN 8.3m and EBIT jumped sevenfold to BGN 4.9m. First 2016 signs also signal revenue recovery, however, from a low basis. Caution remains as oil-troubled Russian economy remains in the blues.

Exhibit 3: Exports at lowest level since 2009



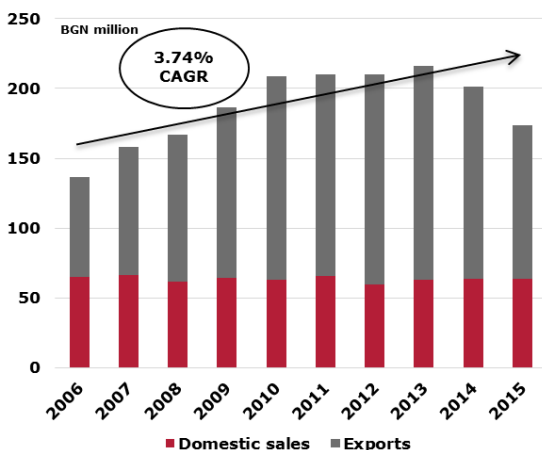
Source: Company data

Exhibit 4: Domestic sales steadily inch up



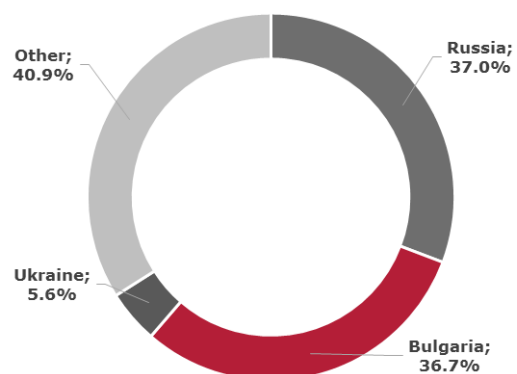
Source: Company data

Exhibit 5: CAGR over the last 10 years was 3.74%



Source: Company data

Exhibit 6: Russia and Bulgaria with almost equal share in sales



Source: Company data; Elana Trading estimates

**Profitability review:** Ukraine may have dwarfed on the top line but can still pose serious bottom line effect. In FY2015 Sopharma booked a second Ukraine related write-off (BGN 8.99m) which caused net income to decline by 18.4% y/y to BGN 22.3m. We estimate another potential c.BGN 10m of Ukraine related losses if the situation in the country further deteriorates as Sopharma has a production and trading subsidiaries in Ukraine – Vitamina and Sopharma Ukraine. Still, we incorporate only half of it in our valuation as we expect the situation to sustain at the current level, however, dismal it may be.

*Ukraine related one-off dragged net profit down*

Q4'15 profitability positively surprised and overall operating profitability being sustained for FY2015 despite the difficult market environment make us comfortable Sopharma can set on a leaner path of improving profits and revenues. EBITDA and EBIT margin inched up to 20.80% and 12.26%, respectively, due to cost optimization and synergies from Bulgarian Rose Sevtopolis consolidation. The latter led to 27% y/y drop in external service costs (above expectations) while the former brought 4.85% y/y decline in labor costs as the company transferred its OTC marketing team to Sopharma Trading (SO5 BU). Material costs were also down by 16.6% y/y.

*EBITDA margin sustained*

Overall FY2015 EBITDA positively surprise at BGN 36.2m while EBIT was BGN 21.3m and slightly below estimates.

**Leverage:** It is also worthwhile to point out Sopharma's deleveraging move. Net debt to equity declined by 8 p.p. to 24% and should stay in the 25% range according to management guidance. Lower debt levels should allow Sopharma to focus on a long term consolidation and expansion investments to help diversify Russia/Ukraine influence.

*Leverage declined by a third*

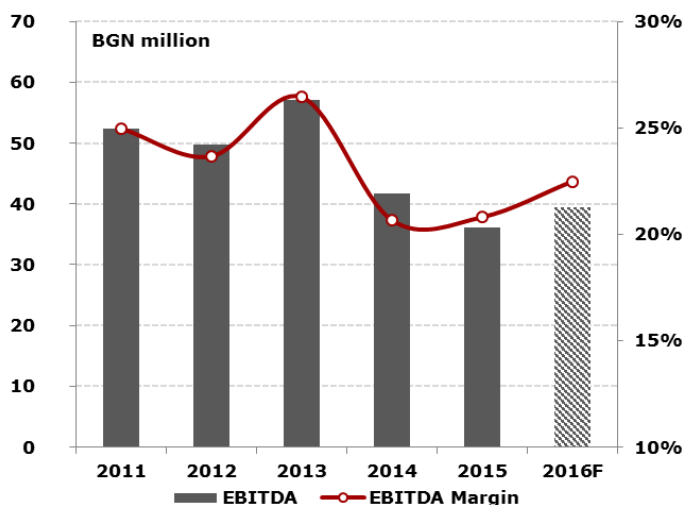
**Consolidation:** The company already started considerable cost optimization and consolidation efforts in what has been its plan during the last couple of years. In Spring 2015 it finalized the merger with phyto-products subsidiary Bulgarian Rose Sevtopolis (BRS) thus keeping within Sopharma part of the profit it previously shared with BRS. In the Autumn of 2015 Sopharma also took control of synergies and other single use medical device producer Momina Krepost (5MR BU) with the goal of merging it as part of the diversification plan. However, merger was suspended in Jan'16. Simultaneously, Sopharma also extended a tender offer to take control over bandages, food supplements and other medical products producer Medica (5MA BU). No plans for Medica have been announced but a merger is also possible if synergies would make it meaningful. Otherwise, the deal adds to Sopharma's group diversification.

**Valuation review:** Based on the changed fundamentals we further revise our top and bottom line expectations. We expect top line to return to growth in 2017, remain almost flat in 2016, while operating profitability improvement to start as early as 2016 and return to 24%-25% EBITDA margin and 20% EBIT margin in 2018-19. We also expect investments to slightly pick up in 2017.

Accordingly, Sopharma's standalone DCF fair value estimate points to BGN 2.09 per share. When adding its key stakes in pharma distributor Sopharma Trading (SO5 BU) and other key subsidiaries with 30% discount if listed companies and 60% discount if non-listed entities, the final SoTP Sopharma fair value add to BGN 3.09 per share.

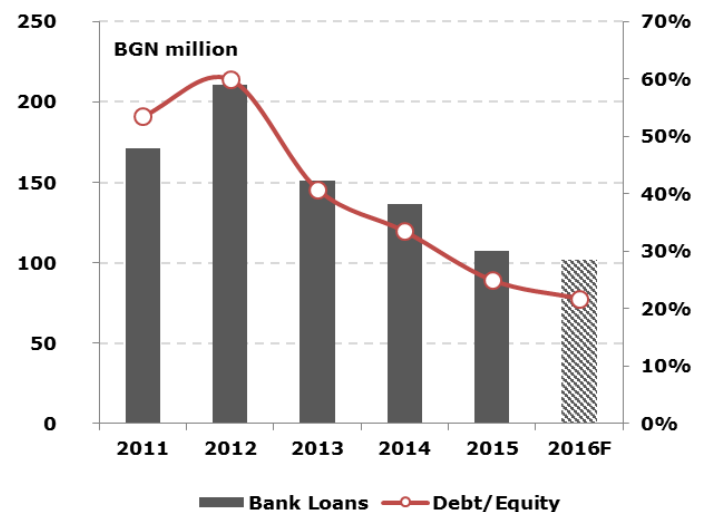
Sopharma Trading adds 22% to final estimate while and the rest of Sopharma's subsidiaries add another 12%.

Exhibit 5: EBITDA margin sustained to above 20%



Source: Company data; Elana Trading estimates

Exhibit 6: Debt/equity halved in three years



Source: Company data; Elana Trading estimates

**INDIVIDUAL FINANCIAL DATA**

<b>Income Statement ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016F</b>
<b>Sales</b>	<b>209 847</b>	<b>210 291</b>	<b>216 054</b>	<b>201 461</b>	<b>173 960</b>	<b>175 700</b>
Other operating income	3 823	4 143	3 079	3 973	4 153	4 361
Change in Inventories	4 341	1 113	-7 006	14 039	2 448	1 757
Cost of Material	-57 460	-59 002	-54 932	-73 920	-61 660	-61 495
Cost of External Services	-68 972	-65 710	-59 659	-56 396	-41 400	-40 411
Cost of Labor	-34 051	-34 859	-32 328	-37 605	-35 782	-35 140
Other Operating Expenses	-5 104	-6 219	-8 059	-9 902	-5 529	-5 271
Total Operating Expenses	-161 246	-164 677	-161 984	-163 784	-141 923	-140 560
<b>EBITDA</b>	<b>52 424</b>	<b>49 757</b>	<b>57 149</b>	<b>41 650</b>	<b>36 190</b>	<b>39 501</b>
Depreciation and amortization	-8 454	-8 941	-11 716	-16 989	-14 860	-12 299
<b>EBIT</b>	<b>43 970</b>	<b>40 816</b>	<b>45 433</b>	<b>24 661</b>	<b>21 330</b>	<b>27 202</b>
Impairment on non-current assets	-875	-975	-193	-3 252	-8 992	-5 271
Financial revenues	11 443	11 757	9 987	13 001	17 921	8 785
Financial costs	-9 444	-6 451	-17 338	-4 690	-4 190	-4 041
Financial income (loss)	1 999	5 306	-7 351	8 311	13 731	4 744
<b>EBT</b>	<b>45 094</b>	<b>45 147</b>	<b>37 889</b>	<b>29 720</b>	<b>26 069</b>	<b>26 674</b>
Income taxes	-4 409	-4 262	-4 349	-2 429	-3 800	-2 635
<b>Net Income</b>	<b>40 685</b>	<b>40 885</b>	<b>33 540</b>	<b>27 291</b>	<b>22 269</b>	<b>24 039</b>

<b>Balance Sheet ('000 BGN)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016F</b>
Inventories	50,916	54,482	51,249	54,047	57 292	59 738
Receivables from related parties	135,104	167,113	103,350	99,505	80 063	77 308
Trade Receivables	29,383	22,539	22,155	23,268	21 457	24 598
Other receivables	10,333	11,560	7,241	11,024	6 520	7 028
Cash & Cash Equivalents	18,038	2,595	8,198	2,935	3 911	7 396
<b>Current Assets</b>	<b>243,774</b>	<b>258,289</b>	<b>192,193</b>	<b>190,779</b>	<b>169 243</b>	<b>176 068</b>
Property, Plant & Equipment	135,048	186,861	198,158	192,728	210 620	212 597
Intangibles	3,386	3,973	3,661	2,442	2 303	2 635
Investment property	19,170	19,391	22,555	22,368	22 160	22 841
Investments in subsidiaries	88,462	92,932	101,207	110,083	133 810	154 616
Investments available for sale	16,792	19,472	6,862	4,439	5 425	7 028
Receivables from related parties	16,069	1,183	25,649	33,150	20 505	24 598
Other receivables	272	922	17	6	3 258	351
<b>Non-Current Assets</b>	<b>279,199</b>	<b>324,734</b>	<b>358,109</b>	<b>365,216</b>	<b>398 081</b>	<b>424 666</b>
<b>Total Assets</b>	<b>522,973</b>	<b>583,023</b>	<b>550,302</b>	<b>555,995</b>	<b>567 324</b>	<b>600 734</b>
Share Capital	132,000	132,000	132,000	132,000	134 798	134 797
Treasury Stock	(10,036)	(12,156)	(18,105)	(17,203)	(17 597)	(17 203)
Reserves	157,913	189,928	220,935	246,243	284 143	299 112
Retained Earnings	40,791	41,060	36,022	28,666	27 113	51 638
<b>Shareholders' Equity</b>	<b>320,668</b>	<b>350,832</b>	<b>370,852</b>	<b>389,706</b>	<b>428 457</b>	<b>468 344</b>
Short-term Bank Loans	112,008	152,778	98,878	90,761	68 961	65 009
Current Portion of LT Bank Loans	40,735	5,888	3,822	7,391	7 380	7 028
Liabilities to Related Parties	16,544	3,782	7,836	7,929	1 609	5 007
Account Payables	5,236	7,090	4,973	6,553	8 051	5 095
Tax Liabilities	262	208	1,243	902	1 821	878
Liabilities to Employees & Soc. Sec.	2,748	3,684	3,736	4,213	4 618	2 987
Other Current Liabilities	598	1,006	975	969	1 502	7 028
<b>Current Liabilities</b>	<b>178,131</b>	<b>174,436</b>	<b>121,463</b>	<b>118,718</b>	<b>93 942</b>	<b>93 033</b>
Long Term Bank Loans	18,737	51,779	48,723	37,972	30 819	29 869
Deferred Taxes	3,864	3,815	3,826	3,988	5 161	4 392
Liabilities to Employees on Retirement	1,269	1,479	1,855	2,219	2 571	1 230
Financial Leases	304	682	49	34	3	351
Other Long Term Liabilities	0	0	3,534	3,358	6 371	3 514
<b>Non-Current Liabilities</b>	<b>24,174</b>	<b>57,755</b>	<b>57,987</b>	<b>47,571</b>	<b>44 925</b>	<b>39 357</b>
<b>Total Liabilities</b>	<b>202,305</b>	<b>232,191</b>	<b>179,450</b>	<b>166,289</b>	<b>138 867</b>	<b>132 390</b>
<b>Shareholders' Equity &amp; Liabilities</b>	<b>522,973</b>	<b>583,023</b>	<b>549,136</b>	<b>555,995</b>	<b>567 324</b>	<b>600 734</b>

Source: Company IFRS Financial Statements Audited; Elana Trading Estimates

**QUARTERLY FINANCIAL DATA**

<b>Income Statement ('000 BGN)</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>Q3 2015</b>	<b>Q4 2015</b>
<b>Sales</b>	<b>51 124</b>	<b>53 859</b>	<b>45 012</b>	<b>51 466</b>	<b>40 498</b>	<b>47 501</b>	<b>34 413</b>	<b>51 548</b>
Other operating income	1 207	1 065	1 207	494	521	1 298	1 097	1 237
Change in Inventories	4 678	2 392	2 745	4 224	5 672	-807	2 634	-5 051
Cost of Material	-16 154	-14 791	-13 431	-29 544	-15 574	-15 455	-13 503	-17 128
Cost of External Services	-18 311	-19 104	-16 610	-2 371	-11 116	-10 746	-9 462	-10 076
Cost of Labor	-8 435	-9 603	-8 003	-11 564	-9 539	-10 104	-7 891	-8 248
Other Operating Expenses	-566	-1 138	-868	-7 330	1 276	-2 072	-775	-3 958
Total Operating Expenses	-43 622	-46 042	-39 805	-51 304	-33 068	-42 936	-32 581	-48 198
<b>EBITDA</b>	<b>13 543</b>	<b>12 680</b>	<b>10 052</b>	<b>5 375</b>	<b>11 738</b>	<b>9 615</b>	<b>6 513</b>	<b>8 324</b>
Depreciation and amortization	-4 834	-3 798	-3 638	-4 719	-3 787	-3 752	-3 584	-3 737
<b>EBIT</b>	<b>8 709</b>	<b>8 882</b>	<b>6 414</b>	<b>656</b>	<b>7 951</b>	<b>5 863</b>	<b>2 929</b>	<b>4 587</b>
Impairment on non-current assets	0	0	0	-3 252	0	0	0	-8 992
Financial revenues	3 484	7 497	1 000	1 020	861	14 576	1 775	709
Financial costs	-1 058	-1 190	-1 190	-1 252	-828	-959	-1 059	-1 344
Financial income (loss)	2 426	6 307	-190	-232	33	13 617	716	-635
<b>EBT</b>	<b>11 225</b>	<b>15 099</b>	<b>6 224</b>	<b>-2 828</b>	<b>7 984</b>	<b>19 480</b>	<b>3 645</b>	<b>-5 040</b>
Income taxes	-1 121	-643	-644	-21	-768	-813	-1 527	-692
<b>Net Income</b>	<b>10 104</b>	<b>14 456</b>	<b>5 580</b>	<b>-2 849</b>	<b>7 216</b>	<b>18 667</b>	<b>2 118</b>	<b>-5 732</b>

<b>Balance Sheet ('000 BGN)</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>Q3 2015</b>	<b>Q4 2015</b>
Inventories	54 361	54 930	56 751	54 047	62 966	61 816	65 998	57 292
Receivables from related parties	108 077	121 849	118 214	99 505	74 653	93 946	83 364	80 063
Trade Receivables	22 695	26 823	26 559	23 268	20 300	27 339	27 955	21 457
Other receivables	6 920	6 936	10 587	11 024	11 617	6 999	6 234	6 520
Cash & Cash Equivalents	4 275	2 597	2 316	2 935	3 697	3 343	2 843	3 911
<b>Current Assets</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>	<b>186 394</b>	<b>169 243</b>
Property, Plant & Equipment	195 431	194 087	192 926	192 728	208 947	211 606	209 654	210 620
Intangibles	3 601	3 183	2 968	2 442	3 076	2 912	2 516	2 303
Investment property	22 555	22 555	22 555	22 368	22 368	22 365	22 365	22 160
Investments in subsidiaries & assoc.	105 687	105 554	105 462	110 083	130 032	130 313	131 866	133 810
Investments available for sale	6 919	7 608	7 797	4 439	4 477	4 636	5 924	5 425
Receivables from related parties	27 137	31 938	32 773	33 150	33 547	26 937	32 283	20 505
Other receivables	16	8	8	6	5	5	3 038	3 258
<b>Non-Current Assets</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>407 646</b>	<b>398 081</b>
<b>Total Assets</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>	<b>594 040</b>	<b>567 324</b>
Share Capital	132 000	132 000	132 000	132 000	134 798	134 798	134 798	134 798
Treasury Stock	-16 716	-16 621	-17 060	-17 203	-17 378	-17 398	-17 597	-17 597
Reserves	221 066	246 675	246 841	246 243	255 065	284 209	284 678	284 143
Retained Earnings	45 441	25 562	31 232	28 666	41 128	30 907	32 689	27 113
<b>Shareholders' Equity</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>	<b>434 568</b>	<b>428 457</b>
Short-term Bank Loans	96 588	104 841	107 315	90 761	92 357	90 659	92 229	68 961
Current Portion of LT Bank Loans	3 731	3 765	3 765	7 391	7 330	7 329	7 363	7 380
Liabilities to Related Parties	7 830	11 295	7 789	7 929	3 108	2 990	3 078	1 609
Account Payables	5 849	4 943	5 129	6 553	5 821	6 131	5 322	8 051
Tax Liabilities	629	431	781	902	578	464	1 077	1 821
Liabilities to Employees & Soc. Sec.	4 138	5 304	4 715	4 213	5 016	5 835	4 990	4 618
Other Current Liabilities	987	5 168	3 187	969	1 269	1 430	1 328	1 502
<b>Current Liabilities</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>	<b>115 387</b>	<b>93 942</b>
Long Term Bank Loans	46 926	45 130	43 333	37 972	36 175	34 379	32 582	30 819
Deferred Taxes	3 769	4 049	4 347	3 988	4 021	4 046	5 100	5 161
Liabilities to Employees on Retirement	1 882	2 034	2 099	2 219	2 469	2 602	2 701	2 571
Financial Leases	66	48	44	34	25	18	9	3
Other Long Term Liabilities	3 488	3 444	3 399	3 358	3 903	3 818	3 743	6 371
<b>Non-Current Liabilities</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>44 135</b>	<b>44 925</b>
<b>Total Liabilities</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>159 522</b>	<b>138 867</b>
<b>Shareholders' Equity &amp; Liabilities</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>	<b>594 090</b>	<b>567 324</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 (S05 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 pharma producer with 13% market share in unites sold. First in volumes and 6<sup>th</sup> in value in Bulgaria.

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.

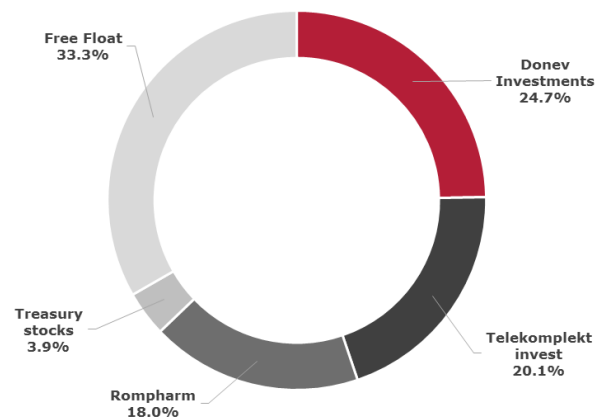
Original products are expected to add significantly to bottom line. Highest achievers are Tabex, Tribestan and Carsil. In order to answer the increasing demand from aging population, the Group has focused on therapeutic areas such as cardiology, gastroenterology, pain relief, neurology and psychiatry,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

Key top line contributor in Bulgaria is the Group’s distribution arm – Sopharma Trading (S05). It’s a market leader with 23% market share by offering a wide range of medical products and turnkey hospital solutions.

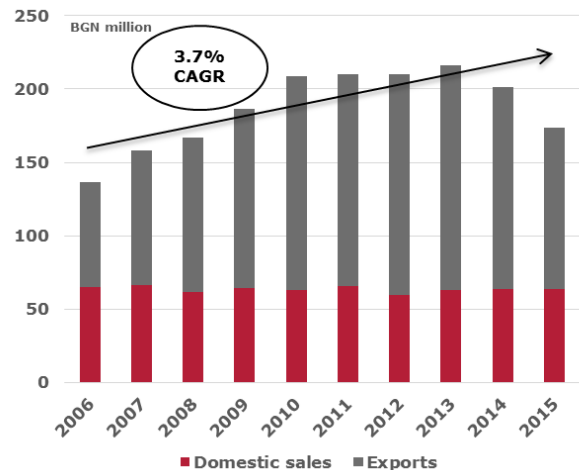
**STRENGTHS & OPPORTUNITIES**

- 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
- 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>	Target price is more than 10% above current quotes
<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

**Frequency of Recommendations:** No schedule of recommendations is available. The frequency of recommendations depends on specific factors to individual companies and the opinion of the analyst(s) for the necessity of minor or major changes.

Q4 2015 Recommendation Review			Market Maker Services
Recommendation	#	Share	
BUY	9	47%	SKK BU
HOLD	7	37%	
SELL	0	0%	
Under review	3	16%	

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