Apontis Pharma

Pharma & biotech

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A phoenix rises

Apontis Pharma is a speciality pharma business aiming to leverage its commercial heritage in Germany and deliver on its rapid growth ambitions. The company has carved out a sizeable niche for its 'single pill' products, which are combinations of commonly co-prescribed generic drugs that have been reformulated into in one branded pill (2020 sales of €19.0m). Alongside the 'single pill strategy', Apontis also has co-marketing agreements for several branded drugs (2020 sales of €16.6m). It is the increasing mix of the higher-margin single pills that we believe should benefit current operating leverage and provide the foundations for an enticing margin story. Apontis shares were placed at €19.0/share, raising gross proceeds to the company of €38m, translating to an enterprise value (EV) of c €145m.

Burgeoning single pill portfolio is highly profitable

Successfully growing its franchise of single pill products is key to Apontis hitting its growth targets, and c 80% of the IPO proceeds are earmarked for this purpose. Based on the guidance for its existing and developmental portfolio of single pills, management has guided that single pill sales will grow by c €100m from the current base of €19.0m. Assuming these are fully realised by end-2030 would imply a c 20% CAGR. An increasing mix of these higher-margin products (>70% gross) should enable it to hit its group EBITDA target of 30%. Despite being lower margin, co-marketing agreements with AstraZeneca and Novartis for several respiratory and diabetes drugs clearly offer synergies to its single pills and ultimately provide a entry point for its c 130 sales reps, who market to c 23k physicians.

START study will be powerful marketing tool

Apontis is benefiting from its recently completed START study, which highlighted a multitude of benefits for its single pills over loose combinations. Notably their improved adherence translated into up to c 49% reduction in mortality risk and up to c 34% cost savings for payors. Likewise, recently updated guidelines from the European Society of Cardiology provide additional tailwinds, now recommending physicians start most patients with hypertension on single pill treatment regimens.

Valuation: High growth underpins momentum

Consensus is not yet available for Apontis, but based on management's FY21 revenue guidance of €48.5m, the shares are priced at c 3.0x EV/sales, within the range for established peers, but at a c 8% discount to the average for the group. Broader recognition of its double-digit sales growth potential, coupled with the potential for a strong margin story underpin the momentum.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	11.7	0.4	0.04	0.0	N/A	N/A
12/19	40.0	(3.1)	(0.37)	0.0	N/A	N/A
12/20	39.2	(1.5)	(0.18)	0.0	N/A	N/A

Source: Apontis Pharma. Note: 6,500,000 pre-IPO shares.

Price	€19.0
Market cap	€162m

Share details

Code	APPH
Listing	Deutsche Börse Scale
Shares in issue	8.5m
Unaudited net debt at 28 February 2021	€18.3m
Pro forma net cash at 11 May 2021 (including c €35m net proceeds)	€17m

Business description

Apontis Pharma is a specialty pharma company focused purely on the German market, where it has a rich commercial heritage (formerly Schwarz Pharma and then UCB Innere Medizin). Its current focus is on driving uptake of its single pills for cardiovascular disease, but it also has co-marketing agreements with large-cap pharma for branded respiratory and diabetes drugs.

Bull

- Growing recognition of the compliance, patient outcome and cost benefits of its single pills presents a strong tailwind.
- Cardiovascular disease remains on the rise in Germany and is the leading cause of death.
- Co-marketing agreements with AstraZeneca and Novartis offers synergies for its reps.

Bear

- Failure to execute on co-marketing agreements could result in early termination; failure to replace or renew these would have an impact on growth ambitions.
- Public tenders in Germany could place pricing pressure on its drugs and squeeze margins.
- Capitalising R&D expenditure inflates intangibles and failure to successfully develop and/or discontinuing a project could lead to write-downs or impairments.

Analysts

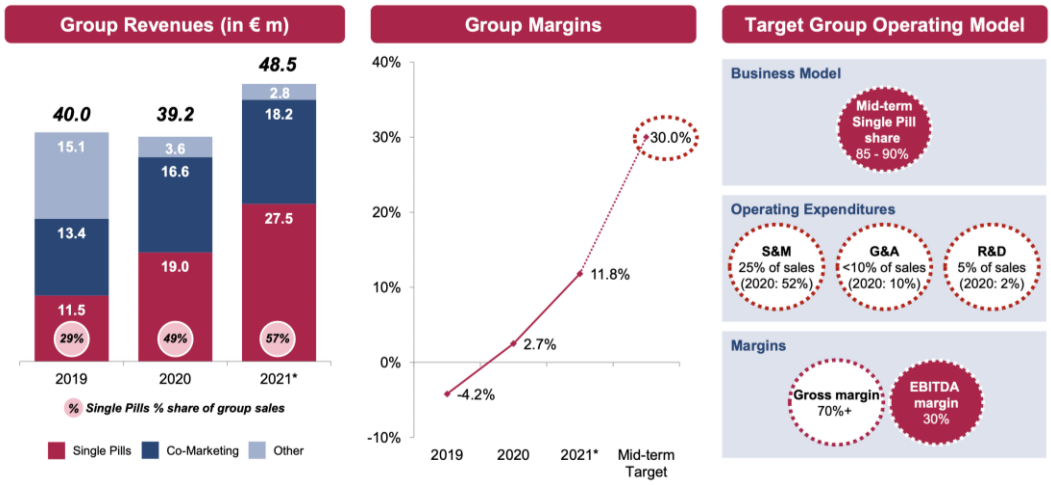
Dr Sean Conroy +44 203 077 5700
Dr Jonas Peciulis +44 203 077 5728

healthcare@edisongroup.com
Edison profile page

Company description: Schwarz Pharma reincarnated

Apontis Pharma is a specialty pharma company focused purely on the German market, where it has a rich commercial heritage. Namely, it is the core business that originally stems from Schwarz Pharma Germany and then later UCB Innere Medizin. It was acquired by private equity company Paragon Partners from UCB in 2018, which is now partially exiting through the IPO. Apontis's primary focus is marketing its portfolio of single pills throughout Germany. It has a dedicated salesforce of 130 sales reps and longstanding relationships with c 23k physicians (primarily GPs). Management estimates that its salesforce conducted c 138,000 in-person office visits to physicians in 2020, from pre-pandemic levels of around c 200,000, so Apontis is clearly poised to benefit from the easing of lockdown measures. Co-marketing and distribution agreements with Novartis and co-promotion agreement with AstraZeneca form a significant part of the business as outlined by the revenue mix in Exhibit 1.

Exhibit 1: Key financial details – 30% mid-term EBITDA target



Source: Apontis Pharma. Note: *Company guidance.

Apontis intends to use the IPO proceeds from the issue of new shares to hit its targets, and prior to listing management indicated net proceeds will be invested as follows to achieve this:

- **42.5% (c €15m)** in R&D of new single pill product candidates.
- **15% (c €5m)** to accelerate the development of its existing product pipeline.
- **25% (c €9m)** to expand its marketing and sales activities, over a five-year period.
- **17.5% (c €6m)** for general corporate purposes, of which up to €5m will be used for the repayment of a loan from the Paragon Fund, which was €12.25m (plus interest) at 31 January 2021.

Burgeoning single pill portfolio highly profitable

Successfully growing its franchise of single pill products is key to Apontis hitting these revenue and margin targets, with c 80% of the IPO proceeds being earmarked for this purpose. Apontis's single pill products are combinations of commonly co-prescribed, generic cardiovascular disease (CVD) drugs that have been reformulated into one branded pill. In essence, these can be considered someway between being a standard generic drug and a reformulated branded drug.

Despite their relative simplicity, the benefits of using a single pill are in fact multifaceted: 1) for patients, they reduce co-payments and pill burden, which improves adherence; 2) for physicians, this results in better treatment outcomes and a reduction in prescribing volume; and 3) for payors, this results in savings of up to 34% on a total cost basis (€1–3k/patient/year) (source: company data, START study).

Using regional prescription data, and looking at volume and pricing dynamics, Apontis has designed and/or selected loose combinations of CVD medications that could offer high gross margins when combined into a single pill, due to a reduction in fixed rebates paid to dispensing pharmacies and wholesalers. Currently Apontis has eight marketed single pills, which are primarily combinations of various antihypertensives (blood pressure lowering) and hypolipidemic (cholesterol lowering) agents. These have been internally developed or Apontis has obtained regional marketing rights.

Combined sales from the single pill portfolio totalled €19.0m in 2020 (2019: €11.5m), representing c 49% of overall revenues, and were the largest contributor to gross profit (€14.3m, c 57%). Based on the current prescription data presented by management, we estimate overall penetration in the market to be relatively low at c 5% when looking at overall use of single pills and loose combinations. Over the medium term, management believes there is headroom for **c €20m additional sales** from the current portfolio, which we estimate would increase market penetration to c 12% and seems reasonable in our opinion. With higher margins, an increasing mix of these single pills would benefit current operating leverage and provide the foundation for an enticing margin story.

Exhibit 2: Apontis Pharma's marketed single pill portfolio

Name (composition)	Estimated eligible patients (000s)	Sales (penetration)		Gross profit (margin)		Notes
		2020	*mid-term	2020	**mid-term	
Atorimib (atorvastatin/ezetimibe)	210	€5.7m (23%)	€14.7m (59%)	€3.9m (69%)	€10.2m (69%)	Prescribed for **high cholesterol**, Atorimib was launched in **December 2019** pursuant to a licence and supply agreement with German company Midas. Atorimib is owned by Apontis (marketing authorisation and trademark holder).
Tonotec (ramipril/amlodipine)	1,647	€5.5m (3%)	€8.5m (5%)	€4.9m (89%)	€7.5m (89%)	Prescribed for **hypertension**, Tonotec was launched in **September 2013** pursuant to a licence and supply agreement with the Hungarian company Egis. Tonotec is owned by Apontis (marketing authorisation and trademark holder).
Tonotec HCT (ramipril/amlodipine/HCT)	224	€0.8m (7%)	€3.8m (32%)	€0.6m (74%)	€2.8m (74%)	Prescribed for **hypertension**, Tonotec HCT was launched in **June 2019** pursuant to a licence and supply agreement with German company Midas. Tonotec HCT is owned by Apontis (marketing authorisation and trademark holder)
Caramlo (candesartan/amlodipine)	1,267	€3.4m (6%)	€6.4m (11%)	€2.4m (69%)	€4.4m (69%)	Prescribed for **hypertension**, Caramlo was launched in **September 2015** pursuant to a co-distribution agreement with Czech company Zentiva. Apontis has exclusive distribution and promotion rights in Germany, but it is owned by Zentiva.
LosAmlo (losartan/amlodipine)	70	€0.5m (5%)	€2.5m (27%)	€0.2m (51%)	€1.2m (51%)	Prescribed for **hypertension**, LosAmlo was launched in **October 2019** pursuant to a supply agreement with Slovenian company Krka. Apontis has the exclusive distribution and promotion rights in Germany, but it is owned by Krka.
Biramlo (bisoprolol/amlodipine)	670	€1.7m (4%)	€3.7m (9%)	€1.2m (72%)	€2.7m (72%)	Prescribed for **hypertension**, Biramlo was launched in **November 2016** pursuant to a licence and supply agreement with Hungarian company Egis. Biramlo is owned by Apontis (marketing authorisation and trademark holder).
Iltria (aspirin/atorvastatin/ ramipril)	473	€1.3m (3%)	€3.3m (8%)	€0.9m (72%)	€2.4m (72%)	Prescribed as a **secondary prophylaxis of cardiovascular events** (heart attack or stroke), Iltria was launched in **September 2017** pursuant to a licence and distribution agreement with Spanish company Ferrer. Apontis has the exclusive distribution and promotion rights for Germany, but Iltria is owned by Ferrer.
Stapressial (atorvastatin/perindopril/ amlodipine)	not disc.	€0.2m	-	€0.2m (100%)	-	Prescribed for **hypertension** and coronary artery disease, Stapressial was launched in **March 2018** as a second brand to Servier's brand Triveram pursuant to a promotion agreement with French company Servier, but this will be terminated effective 30 June 2021.
Total	**4,561**	**€19.0m (5%)**	**€42.8m (12%)**	**€14.3m (75%)**	**€31.2m (73%)**	

Source: Apontis Pharma, Edison Investment Research. Note: *Mid-term sales target based on company guidance, implied market penetration assumes flat pricing and eligible patient population. **Assuming no margin expansion/(pressure) over the medium term.

R&D pipeline could enable an additional c €80m sales

From an R&D perspective, development of these single pills requires some formulation work and bioequivalence studies, typically taking around 3.5–5 years and costing €1.0–2.5m. Management estimates its investment is paid back in under two years and capitalises these costs. Despite these being typically comprised of generics drugs (off-patent), once approved by regulators this new single pill can for all intents and purposes be considered a branded drug, which under EU law is granted 10-year data and marketing exclusivity (eight years plus two years).

While this exclusivity will prevent entry of a generic from directly referencing the single pill for the period, we note that there is not anything directly prohibiting another company repeating the same development process and launching a similar single pill (aside from substantial capital spending and the lack of an extensive existing network with GPs). As such the biggest risk to developing these single pill products is not typical binary drug development risk, but competitor and pricing risk.

It is worth noting that c €20m of the net proceeds from the IPO has been earmarked for development of pipeline candidates in Exhibit 3. Management has highlighted clear plans for four single pill products that it believes can be launched in by 2025, which could provide an **additional c €20m in annualised sales**. Likewise, it has identified other prospective candidates that could be launched in the medium term and provide an **additional c €60m annualised sales**. So, looking at management's plans in totality, for the current and developmental single pills, guidance is for the portfolio to **grow sales by c €100m**. If we assume these are fully realised by end-2030 this would imply a c 20% CAGR. Management has guided for 2021 single pills sales of c €27.5m (+47.5%).

Exhibit 3: Apontis Pharma's single pill R&D pipeline

Name (composition)	Estimated eligible patients (000s)	Estimated development costs	Target launch date	Estimated sales potential	Notes
Short-term/ongoing					
Caramlo HCT (candesartan/amlodipine/ HCT)	330	€1.3m	July 2023	€7.9m (2025)	No other provider currently offers a single pill with this combination; development ongoing
Caramlo Lipid (candesartan/amlodipine/ atorvastatin)	486	€2.7m	Dec 2023	€2.7m (2025)	No other provider currently offers a single pill with this combination; development ongoing
Tonotec Lipid (ramipril/amlodipine/ atorvastatin)	661	€1.9m	Nov 2021	€4.7m (2025)	No other provider currently offers a single pill with this combination; certification process is being finalised
RosuvaEze (rosuvastatin/ezetimibe)	151	-	Jul 2022	€3.0m (2025)	Already developed in Europe, Apontis is currently in negotiations with supplier. RosuvaEze will be marketed under an exclusive licensing agreement
	1,628	**€5.9m**	-	**€18.0m**	
Mid-term/prospective					
Nine potential product candidates identified	200–2,500 (c 8,000 total)	€0.5–3m (c €12–18m total)	2.5–4 years*	€2–20m** (c €80m total)	These prospective single pill products have again been identified based on Rx data. Apontis has guided that it is still primarily looking at other loose combinations used to treat cardiovascular disease, but will also explore other indications with other commercial synergies, such as diabetes.
Three potential exclusive licensing agreements	250–1,400 (c 2,000 total)	€0–0.4m (c €0.7m total)	0.5–0.7 years*	€3.5–5m** (c €14m total)	
	1,628	**€13–19m**	-	**€94.0m**	

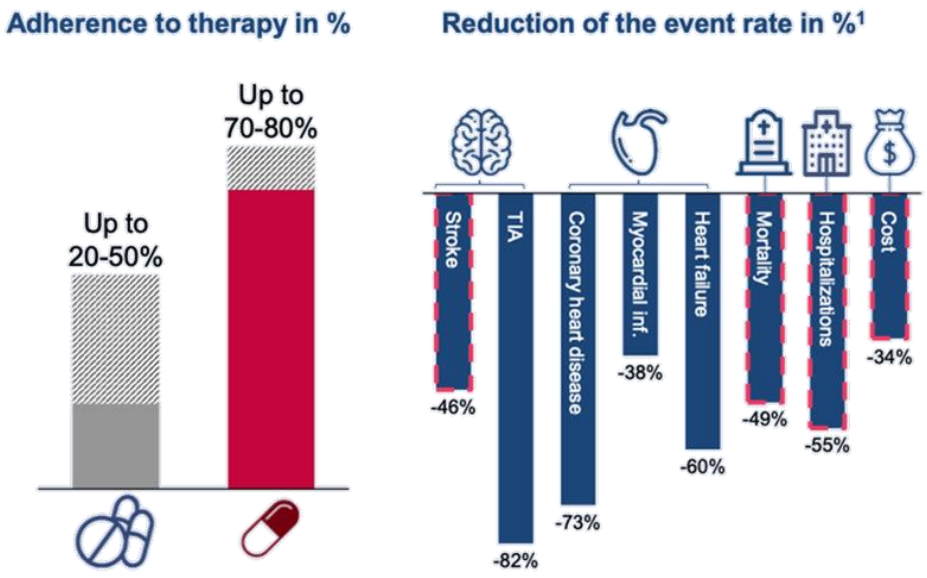
Source: Apontis Pharma, Edison Investment Research. Note: *Management's estimated launch from now, up to eight years depending on patent expiry. **Estimated sales five years after launch.

Off to a flying START

We believe the biggest tailwind for these single pills results from the growing recognition of their benefits by both prescribers and payors, which in part has been driven by findings from Apontis's START study. This 60,000-patient study was conducted in collaboration with AOK PLUS (a public insurer) and Ingress Health (a health economics consultancy) and was a retrospective study between 2012 and 2018 of patients' outcomes when prescribed single pills compared to their respective loose combinations. Key findings from the study are shown Exhibit 4, but in summary highlight that **taking a single pill rather than several improves adherence, and consistently taking your medicine results in better treatment outcomes**.

In essence, these findings are intuitive, however, the key purpose of this study was to quantify the outcomes. Instead of alluding to expected qualitative benefits of a single pill, Apontis can now reference the study with exact quantitative data. This is now an essential tool that Apontis can use for marketing and in pricing and regulatory discussions. Apontis presented these data at several scientific conferences throughout 2019–20 and has submitted manuscripts to a leading peer-reviewed journal.

Exhibit 4: Key findings from Apontis Pharma's single pill START study



Source: Apontis Pharma; Note: [1]Reduction in event rates shown are the highest changes observed for single pill compared to multi pill regimens.

Another tailwind has been recently updated (August 2018) prescription guidelines from the European Society of Cardiology, recommending physicians start most patients with arterial hypertension on two/three antihypertensive drugs as a single pill. The previous recommendation was for stepwise treatment, starting with one drug then adding a second and third if needed. This is a significant shift and will invariably take time until it is fully adopted, but having data from the START study at hand could be a clear advantage for the growth outlook for Apontis Pharma's portfolio.

Cardiovascular diseases remain the leading cause of death in Germany, with the EU estimating c 37% are due to ischaemic heart disease or stroke. With an ageing population and growing incidence of obesity, this is unlikely to abate. Management currently estimates that c 35 million Germans suffer from hypertension, of which c 22 million are accurately diagnosed and c nine million are adequately treated with antihypertensives. Apontis believes it currently holds the highest share of voice with physicians regarding single pills (c 74% based on IPSOS data), so is clearly well positioned to benefit from these tailwinds with its current sales footprint. Apontis's main competitors

for single pills in Germany include Aristo Pharma, Ratiopharm (Teva) and TAD Pharma, but also Servier and Hexal (Sandoz/Novartis), which are behemoths in the European generics market.

Current business underpinned by co-marketing

Co-marketing agreements with large-cap pharma companies for branded drugs form a significant portion of Apontis's current base business. These are primally for respiratory disease and diabetes, so fit well into the company's marketing focus with targeting GPs. Revenues from these co-marketing agreements totalled €16.6m in 2020 (c 42%) and alongside revenues from legacy products of €3.6m in 2020 contributed €10.7m to gross profits (c 43%) implying gross margins of c 50%, whereas its single pills were c 75% in 2020. It is therefore clear to see why Apontis is prioritising the single pill portfolio over co-marketing, but the latter will stay a key component of the overall strategy.

Management has set a **mid-term target for co-marketing to contribute c €20m in annual revenues, estimating gross margins of c 45–50%**, but for its higher-margin single pills to be the largest contributor at c 85–90% of the overall revenue mix. One aspect worth flagging is that despite having a lower margin, having these branded drugs on the books clearly offers synergies for marketing its single pills as they provide sales reps with a more well-rounded offering.

Respiratory co-marketing agreements

In March 2021, Apontis transferred its co-marketing agreement with Novartis, which covers the rights to market its inhaled bronchodilator Ulunar, a doublet of indacaterol (LABA) plus glycopyrronium (LAMA) prescribed for chronic obstructive pulmonary disease (COPD), into a distribution agreement with an expected term until end-2024. This was the largest single contributor to revenue in 2020 at €9.5m (c 24%), but was facing near-term pricing pressure. In July 2019, a new framework agreement between pharmacies (DAV) and public payors (GKV) substituted Ulunar for a less expensive parallel import of Ultibro.

Apontis aims to circumvent any potential shortfall in revenues through a new agreement with AstraZeneca. In April 2021 sales reps began co-promoting AstraZeneca's recently approved COPD inhaler Trixeo, which could replace Ulunar**.** Trixeo was approved in December 2020 for treatment of mod-severe COPD, this is a triplet of formoterol (LABA) + glycopyrronium (LAMA) plus budesonide (ICS). Approval was based on the positive Phase III ETHOS and KRONOS data.

With management guiding for slight growth in the co-marketing business during 2021 (€18.2m, +12%), it is clear that it does not believe that this switch in COPD drugs will present a drag on sales of this division. This agreement with AstraZeneca has a term until end-2022, after which the relationship could be renewed, expanded or scrapped.

Diabetes co-marketing agreements

Apontis has a separate co-marketing agreement with Novartis for two its diabetes drugs, Jalra (vildagliptin) and Icandra (vildagliptin/metformin), which again form a sizeable portion of current revenues. These were relaunched in the German market in October 2018 and combined revenues in 2020 were €7.0m (c 18%). The agreement will likely end on patent expiry, expected in September 2022 for Jalra and in November 2022 for Icandra . We note that failure to replace these sales either through new agreements or growth could present a short-fall and would materially affect the mid-term outlook.

Management, organisation and shareholders

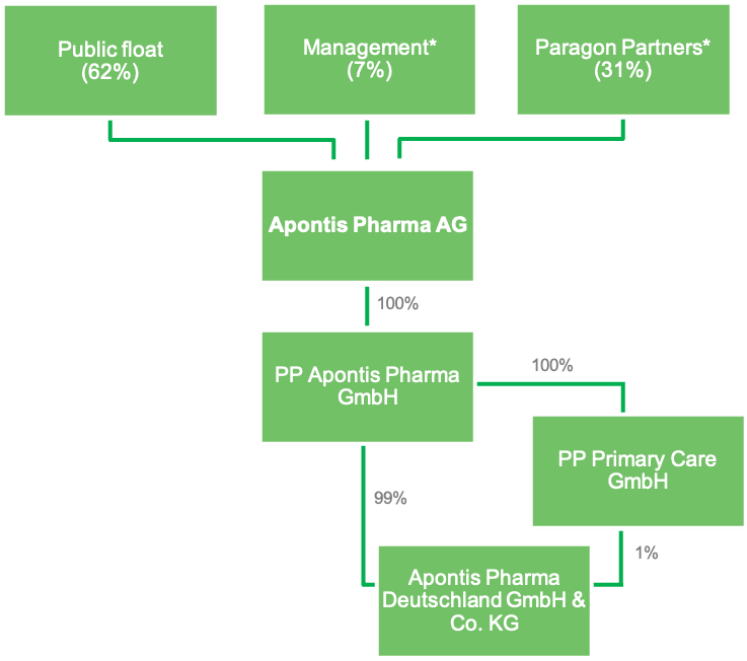
Consistent with the board organisation of German companies, Apontis has a two-tier board in which executive directors are in the executive board and non-executive directors are in a separate supervisory board. The composition of Apontis's management board is as follows:

- **Karlheinz Gast, chief executive officer**. Karlheinz has c 30 years' experience in pharma industry and has been an MD of Apontis Pharma KG since 2018. Karlheinz has a longstanding history with the business through its various guises, having originally joined Schwarz Pharma Germany as sales director in 1997. Following the acquisition by UCB in 2006, Karl was senior director (2008–10) and then general manager (2010–16) of the internal medicine unit at UCB Pharma GmbH.
- **Thomas Milz, chief product officer**. Thomas has c 30 years industry experience and extensive experience with the business, originally joining Schwarz Pharma in 1993; from 1997 he was head of product management for vascular diseases and subsequently head of marketing of Schwarz Pharma Germany. Following the acquisition by UCB, from 2007 to 2016 he was director of strategic projects and market access for Germany and several other European countries and from 2017 until today head of business development and market access of UCB internal medicine/Apontis Pharma.

Organisational history and ownership

Schwarz Pharma AG was founded in 1947 and was a mid-sized, family-owned European pharma that built a high degree of recognition through its distribution of pharmaceuticals within Germany, but also through operation in the broader European market as well as North America and Asia. In 2006, Schwarz was acquired by UCB for c $5.6bn and during the integration, UCB established the business unit 'UCB Innere Medizin' to focus on general medicine in the German market. With UCB's increasing strategic focus on neurology and immunology, this increasingly developed into an independent business unit. In 2016, UCB established this as a separate group, UCB Innere Medizin GmbH & Co. KG, which was acquired in October 2018 by private equity company Paragon Partners. This was renamed in 2019 to Apontis GmbH & Co. KG.

Exhibit 5: Apontis Pharma's ownership and organisational structure



Source: Apontis, Edison Investment Research. Note: *Shares held by the management board and senior management are held through Boost Management GmbH & Co. KG. Paragon Partners shares are held indirectly through The Paragon Fund II GmbH & Co. KG.

Shareholders and free float

In total 5,290,000 shares were placed at a price of €19.0/share versus the offered price range of €18.5–24.5, representing gross proceeds of c €101m, and gross primary proceeds to the company of €38m (c €35m net), assuming the upsize and greenshoe options are exercised. With 8.5m shares in issue post IPO, Apontis's initial market cap was c €162m and assuming all options are taken the free float is 62%, with Paragon holding 31% and management 7% of the remaining outstanding shares, both of which will be subject to a lock-up period of 12 months; shares held by management will not form part of the free float.

Exhibit 6: Source of IPO shares

	Shares	Price (€)	Gross (€m)	%
Primary capital increase	**2,000,000**	**19.00**	**38.0**	**23.5%**
Secondary issue*	1,600,000	19.00	30.4	18.8%
Upsize option*	1,000,000	19.00	19.0	11.8%
Greenshoe option*	690,000	19.00	13.1	8.1%
Total (free float)	**5,290,000**	**19.00**	**100.5**	**62.2%**
Paragon Partners				30.8%
Management				7.0%
Total equity value	**8,500,000**	**19.00**	**161.5**	**100.0%**

Source: Apontis accounts, Edison Investment Research. Note: *Solely from shares held by Paragon Partners.

Valuation

Apontis Pharma's shares were placed at €19.0/share, raising net proceeds to the company of c €35m translating to an enterprise value (EV) of c €145m. Consensus forecasts are not yet available for Apontis Pharma, but based on management's FY21 guidance, the shares were listed at c 3.0x EV/sales. This is within the range for established peers, but at a c 8% discount to the average for the group, which we have selected based on similarity of operations but we note disparities in geographical exposure and size. Broader recognition of Apontis Pharma's double-digit growth

potential, coupled with the foundations for a strong margin story, could enable additional value crystallisation in our view.

Exhibit 7: Selected speciality pharma peers

Company	Country	Market cap	EV/sales (x)				EV/EBITDA (x)				CAGR 2020–23e	
		(€m)	FY20	FY21e	FY22e	FY23e	FY20	FY21e	FY22e	FY23e	Sales	EBITDA
Dermapharm	Germany	3,801	5.4	4.3	4.2	4.1	23.2	15.1	14.6	14.6	9.4%	12.5%
ROVI	Spain	2,668	6.4	5.1	4.5	4.2	28.5	22.5	20.4	16.2	15.2%	22.0%
Recordati	Italy	9,209	7.0	6.4	5.9	5.5	17.7	16.5	15.1	14.1	8.0%	7.0%
Orion	Finland	5,100	4.6	4.8	4.6	4.4	14.6	17.2	15.7	14.6	1.4%	2.1%
Gideon Richter	Hungary	4,391	2.6	2.4	2.2	2.0	9.4	8.7	7.6	6.1	8.1%	12.4%
Vifor	Switzerland	7,396	4.7	4.3	3.9	3.6	14.0	13.0	11.3	9.9	9.7%	14.0%
Hikma	UK	6,230	3.5	3.2	3.0	2.8	12.4	11.5	10.2	9.6	8.1%	10.4%
Endo International	Ireland	1,080	2.9	3.1	3.1	3.2	6.0	6.7	7.0	7.1	-3.1%	-1.3%
Fagron	Belgium	1,352	2.9	2.7	2.5	2.3	13.5	12.0	11.0	9.9	8.6%	9.2%
Faes Farma	Spain	1,015	2.4	2.3	2.2	2.1	9.4	8.3	7.8	7.5	4.5%	7.2%
Aspen	South Africa	4,316	3.1	2.8	2.6	2.5	10.9	10.9	10.1	9.4	8.1%	8.5%
Amneal	USA	1,286	2.0	1.9	1.9	1.8	8.9	7.9	7.4	7.0	3.8%	14.3%
Medios	Germany	579	0.9	0.5	0.4	0.3	44.2	15.4	11.4	8.9	38.4%	42.6%
KRKA	Slovenia	3,255	1.9	1.9	1.8	1.9	5.9	6.5	6.8	7.5	0.9%	-0.1%
Pharma SGP	Germany	199	3.0	3.3	2.9	2.7	13.0	11.4	9.5	8.3	4.4%	4.8%
Mean		**3,458**	**3.6**	**3.3**	**3.1**	**2.9**	**15.4**	**12.2**	**11.1**	**10.0**	**8.4%**	**11.1%**
Median		3,255	3.0	3.1	2.9	2.7	13.0	11.5	10.2	9.4	8.1%	9.2%
Apontis Pharma	**Germany**	**162**	**3.7**	**3.0**	**-**	**-**	**136.8**	**26.3**	**-**	**-**	**-**	**-**
Premium/(discount)			3.8%	(8.4%)			786.7%	115.2%				

Source: Refinitiv, Edison Investment Research. Note: Closing prices and FX at 10 May 2021. *Based on company guidance for FY21.

Financials

Apontis reported group revenues of €39.2m in 2020 and €40.0m in 2019, a relative plateau as a result of the significant shift to the overall mix. Primarily this related to the winding up of a co-marketing agreement with Novartis for Dafiro, which resulted in a shortfall of €9.5m that was largely offset by growth in single pills sales (2020: €19.0m, +65%) and co-marketing revenues for Jalra and Icandra (2020: €7.0m, +125%). Management anticipates group revenues to grow by c 24% to €48.5m in 2021, primarily from the growth in single pills as discussed above.

Cost of goods increased to €14.2m in 2020 from €11.1m in 2019; primarily this was as a result of this shift in the revenue mix, with Jalra and Icandra offering lower gross margins than Dafiro. Personnel expenses decreased €16.5m in 2020 from €18.6m in 2019 as a result of the short-time work implemented due to the COVID-19 pandemic. Likewise, other operating expenses decreased to €10.1m in 2020 from €13.3m in 2019 again due COVID-19 cost savings. The net result from this was a positive EBITDA in 2020, which management anticipates will grow substantially to €5.5m in 2021. But it is worth noting that through capitalising its R&D expenditure, the EBITDA line does not incorporate the expenses that will be associated with its growing pipeline of single pills, for which management has earmarked c €20m of the net IPO proceeds.

As of 28 February 2021, Apontis had cash of €7.7m, €8.8m in short-term debt and €17.2m in long-term debt which includes a shareholder loan from the Paragon fund of €12.3m (+ c €2m accrued interest) so pre-IPO net debt was €18.3m. Assuming c €35m in net IPO proceeds to the company, we approximate pro forma net cash of c €18m at 11 May 2021.

Exhibit 8: Financial summary

Year end 31 December (€000s)	2018	2019	2020
Income statement			
Revenue	**11,731**	**40,035**	**39,240**
Gross profit	8,046	28,971	25,025
% margin	*68.6%*	*72.4%*	*63.8%*
EBITDA	**704**	**(1,716)**	**998**
% margin	*6.0%*	*(4.3%)*	*2.5%*
EBIT	639	(2,286)	(656)
% margin	*5.4%*	*-5.7%*	*-1.7%*
Net income (as reported)	256	(2,393)	(1,183)
Balance sheet			
Fixed assets	15,782	16,333	15,458
Current assets	9,482	6,062	4,819
Cash and cash equivalents	9,104	7,387	8,059
Other	474	803	1,355
Total assets	**34,842**	**30,586**	**29,691**
Provisions	7,811	8,150	7,105
Liabilities	6,501	3,755	4,350
Accounts payable to shareholders	12,446	13,205	14,011
Other	1,048	833	767
Total liabilities	**27,807**	**25,944**	**26,233**
Net assets	7,035	4,642	3,458
Shareholders' equity	**7,035**	**4,642**	**3,458**
Cash flow			
CFO	782	(238)	(1,451)
CFI	(10,791)	(1,388)	(777)
CFF	19,011	(2)	(2)
Net cash flow	**9,002**	**(1,628)**	**672**

Source: Apontis Pharma. Note: accounts prepared under principle of HGB.

Sensitivities

Apontis is subject to various sensitivities common to speciality pharmaceutical companies, but we believe these primarily relate to commercialisation:

- In Germany, private and public health insurers (Krankenkassen) are required to perform public tenders to maintain low drug prices. Therefore, losing or choosing not to participate in a public tender may lead to a significant loss in market share.
- Similarly, entrance of low-margin, high-volume generic businesses into the single pill space could place pricing pressure on the existing franchise and depress margins.
- Co-marketing agreements form a substantial portion of the current and near-term revenue base and only have a short term (AstraZeneca co-promoting: end-2022; Novartis co-marketing: September 2022 & Novartis distribution: end-2024) so failure to replace these sales either through new agreements or substantially growing the single pill franchise could present a short-fall and would have a material impact on the mid-term outlook. The drag in revenue following the winding up of the Dafiro co-marketing revenues in 2020 is evidence of this. Diversifying this revenue stream could help mitigate this in the near term while these still contribute a significant portion of the overall revenue mix.
- Capitalising R&D expenditure inflates intangibles and failure to successfully develop and/or discontinuing a project could lead to write-drowns or impairments.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia