



GMG Equity Research

VIFOR PHARMA

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18/10/2019

Key data

Market capitalization (millions CHF)	10.078
Entreprise value (million CHF)	10.169
Share price (CH)	154,8

Stock absolute and relative performance (CHF)

In %	Absolute	Relative *
1 month	-3,3%	-2,6%
3 months	3,9%	3,5%
6 months	18,7%	13,5%
YTD	46,9%	24,1%
1 year	7,9%	-5,6%
2018	-13,3%	-4,8%
2017	10,5%	-9,4%

*relative to SPI

Description

Vifor Pharma is a niche global pharmaceutical company. Its main franchise is the intravenous iron, a market in which Vifor has been the world leader over more than 20 years. Its market share is estimated to be around 70%.

The intravenous iron market accounts for 40% of Vifor sales. It is growing at a rapid pace as more indications are being added in a field that appears still neglected by practitioners. Moreover, more geographies are being addressed.

The second pillar of Vifor Pharma is the joint venture that was launched in 2010 with Fresenius Medical Care (FMC) from Germany. Vifor's share in the JV is 55%. The JV provides medical supplies to dialysis centers, including those of FMC. Beside intravenous iron, the JV sells Mircera, a drug originally produced by Roche for which the JV has found and exploits new patented indications. Close to 30% of the consolidated sales originate from Mircera.

In 2016, Vifor took over US based Relypsa, whose product Veltassa is aimed at preventing excess of potassium, a condition that often leads to heart failure. Patients undergoing dialysis are a high risk population in this regard. Vifor is aiming at making of Veltassa a "blockbuster", which means a product generating over one billion in sales.

In 2017, the drugs distribution activities, the pharmacies and the Over the Counter (OTC) products of the group were carved out in a new firm that kept its original name, Galenica.

Firm's performance

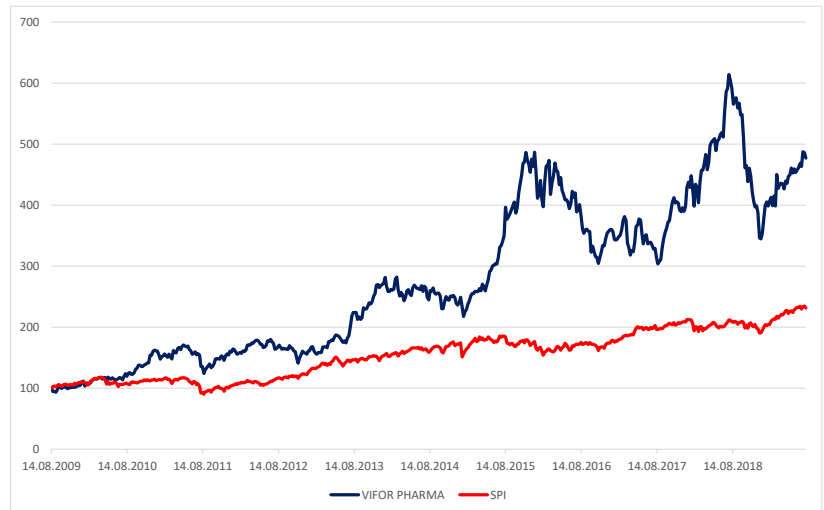
The firm displays an extraordinary track record since the current chairman took over as CEO in 1996. Total return has been 19% per year in average.

Over the years, the firm underwent a complete strategic makeover that created massive shareholder value. The numerous strategic moves were often criticized for the lack of public information provided; the company has been considered a "black box" by some analysts. However, one needs to acknowledge the outstanding ability of the management to cut profitable deals. It has still to be confirmed whether Relypsa's takeover belongs to that category.

Lately, Vifor Pharma has been able to grow nicely its intravenous iron franchise, a niche market where it is the global leader.

An other successful business is the joint venture with Fresenius Medical Care (FMC) which sells the group's or other companies products in nephrology.

Share price (10 years)





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Valuation ratios

	12/16	12/17	12/18	12/19e	12/20e
EV/EBITDA	19,1	28,4	18,3	19,4	14,5
PER	30,6	237,8	45,7	63,1	34,3
Free Cash Flow Yield	0,1%	-0,3%	-1,2%		
Dividend Yield	1,7%	1,6%	1,9%	1,3%	1,3%
P/BV	3,3	2,4	2,1	3,0	3,0

Bloomberg ESG ranking

Global ESG	22,7
Environment	10,9
Social	31,6
Governance	41,1

Environment, Social & Governance comments

Environment

- Vifor has a low impact on the environment, in our opinion.

Social

- The company has published a thorough code of conduct for itself and its employees.
 - The safety of intravenous iron is a subject of controversies over the risk of allergic reaction. The point is that these problems have been encountered by competitors rather than Vifor. This stresses the competitive advantage of Vifor in terms of know-how and quality of its products. For example, Venofer, which was launched in 2000 without the protection of a patent, is still not under the threat of a serious copycat despite several attempts.
 - Vifor may be encouraging overconsumption of intravenous iron. For example, the sales per head in Switzerland, where the firm is well implanted, are nine fold those in Germany. On the other hand, this shows the sheer size of the growth opportunity.

Governance

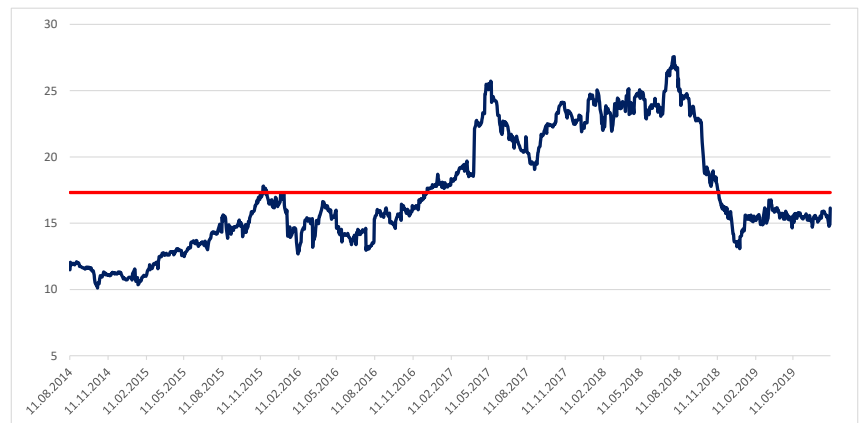
- The firm is committed to follow the directive of the SIX and the Code of best practice of Economiesuisse.
 - Patinex (Martin Ebner) and Piora (Remo and Manuela Stoffel) hold respectively 20% and 13% of the capital. Mr Ebner and Mr Stoffel are known to be friends.

ESG affiliations and codes of conduct

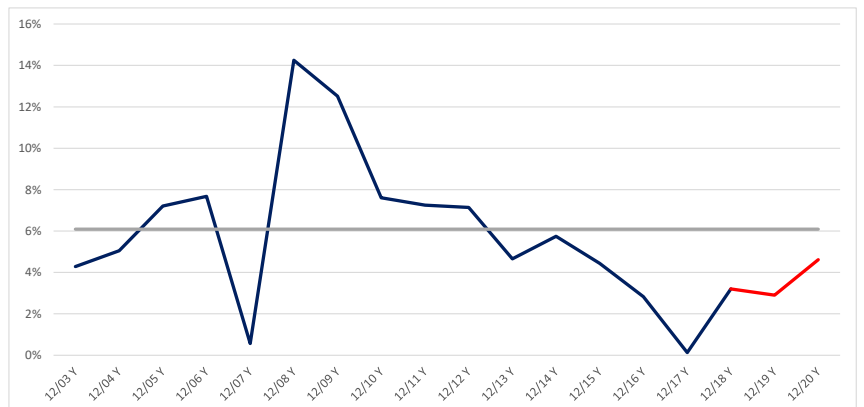
UN Global Compact	✗
UN PRI (responsible investment)*	✗
Anti bribery policy	✓
Employee CSR training	✗
Fair remuneration policy	✗

* Applicable to financial institutions

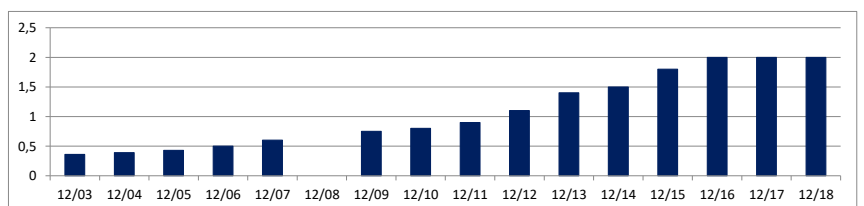
EV / EBITDA



Free Cash Flow Yield



Dividend per share (CHF)





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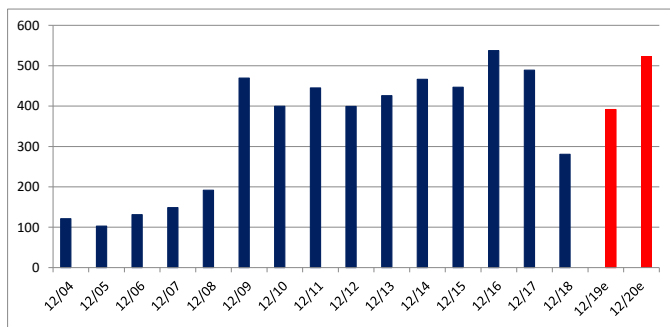
Performance ratios

	12/16	12/17	12/18	12/19e	12/20e
Operating Margin	5,5%	10,0%	14,4%	16,8%	22,8%
ROIC	6,4%	3,2%	5,4%		
ROE	7,4%	1,3%	5,0%	5,9%	9,7%
WC / Sales	-29,3%	37,6%	41,3%	34,5%	30,9%
Net Debt / EBITDA	387,6%	-56,1%	52,5%	17,3%	-18,5%
Net Debt / Equity	82,6%	-4,7%	6,1%	2,7%	-3,8%
Capex / D&A	54,8%	34,1%	38,2%		

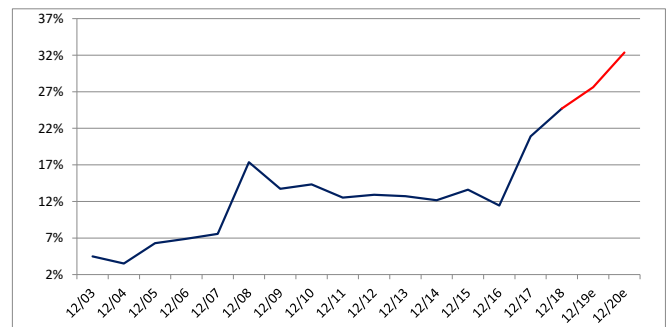
Financial statements (million CHF)

		12/16	12/17	12/18	12/19e	12/20e
Chairman:	Etienne Jornod					
Tenure (years):	24,9					
CEO:	Stefan Schulze					
Tenure (years):	3,9					
CFO:	Colin Bond					
Tenure (years):	2,5					
Sales		4.275	1.342	1.585	1.899	2.118
Sales variation			-68,6%	18,1%	19,9%	11,5%
D&A costs		86	146	164		
EBITDA		489	280	392	524	685
EBITDA variation			-42,7%	39,6%	33,9%	30,7%
Net earnings		244	34	152	156	284
Total current assets		1.389	1.094	1.249	1.249	1.249
Total fixed assets		4.038	3.032	3.247	3.247	3.247
Shareholders equity		2.294	3.333	3.365	3.365	3.365
Working capital		-1.252	505	654	654	654
Net debt		1.896	-157	206	91	-127
Operating cash flow		259	60	194	381	540
Capex		-47	-50	-63	-89	-76
Free cash flow		212	11	131	292	464

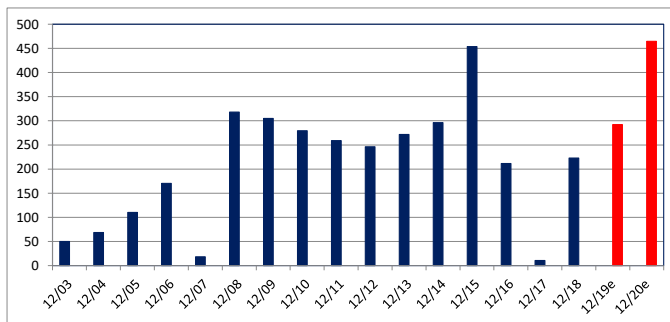
EBITDA



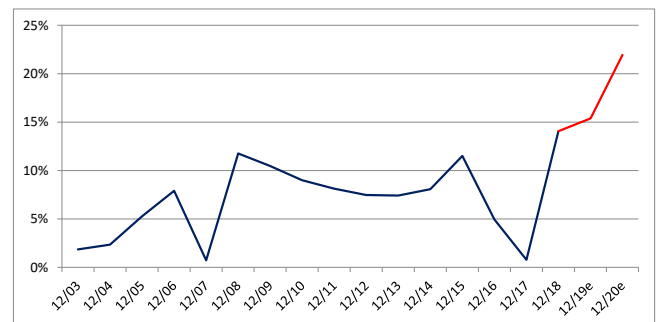
EBITDA margin



Free cash flow



Free cash flow & Free cash flow / sales





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SWOT

Strengths

- World leader in the intravenous iron, a fast growing therapeutical niche
- Successful joint venture with FMC in the marketing of the nephrologic products owned by Vifor and of the products of other firms

Weaknesses

- Small number of franchises
- Vifor does not have a strong R&D pipeline, which raises a question mark on the perspectives of the group in the Long term

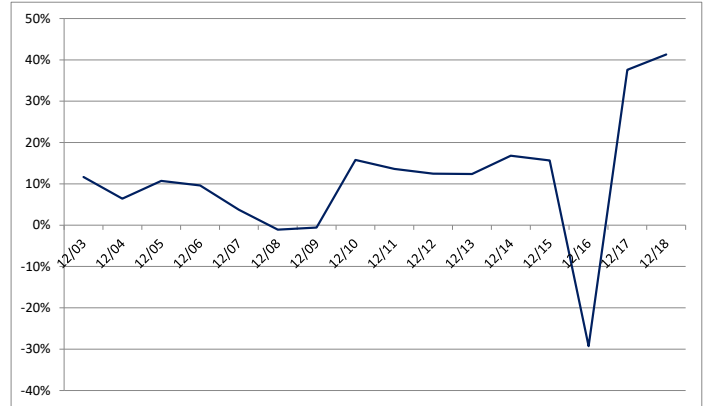
Opportunities

- Vifor is developing a new market for the treatment of hyperkalemia (excess of potassium in the blood) with its drug Veltassa

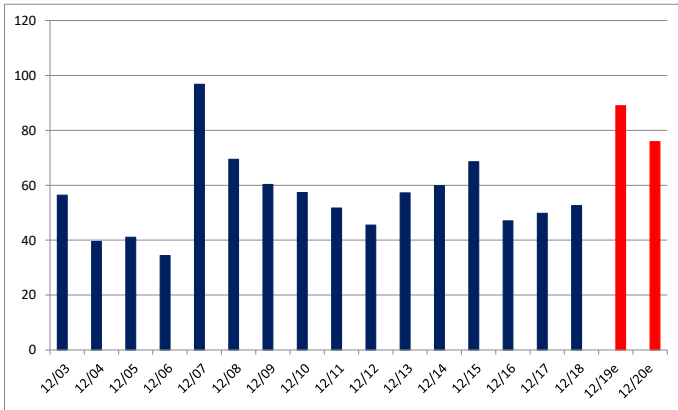
Threats

- New products from other firms could become a challenge

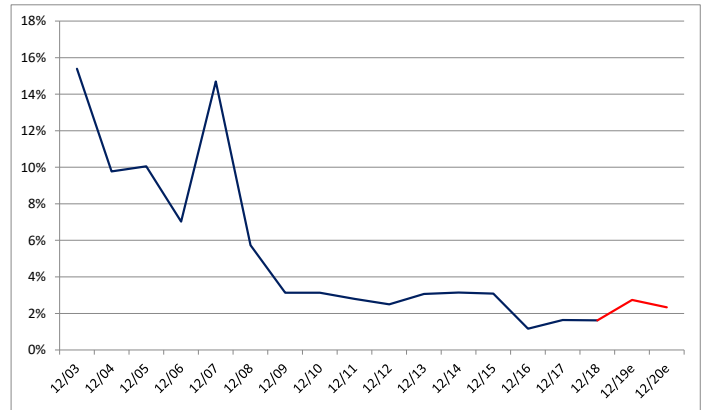
Working capital / sales



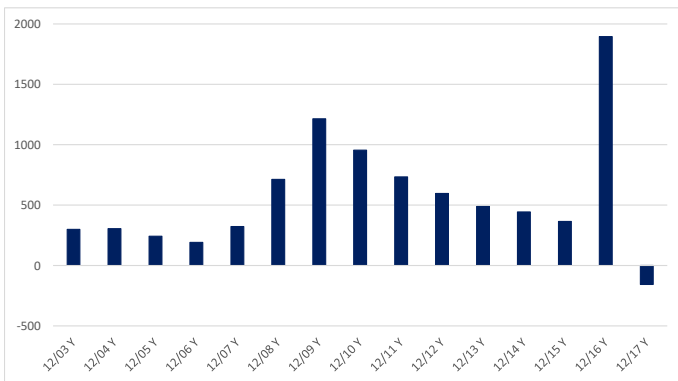
CAPEX



CAPEX / non current assets



NET DEBT



NET DEBT / EBITDA

