

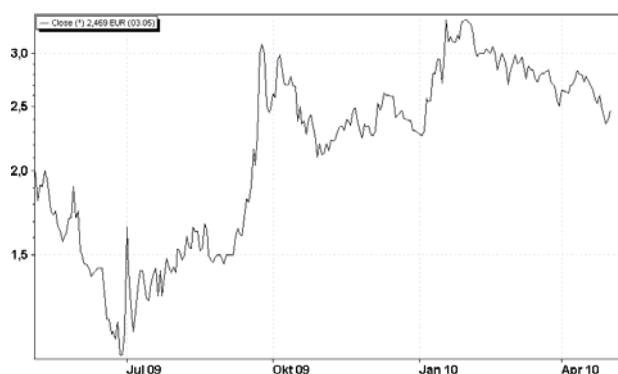
Biofrontera AG

Summary

- **Significant progress:** During the past financial year, Biofrontera did not only launch the medical cosmetic Belixos, but also completed the third phase of clinical trials for the product candidate BF-200 ALA with positive results. This preparation is used in the treatment of early skin cancer. Its trial results were far better than those of its rival product, which means that it could possibly be approved in 2011.
- **Portfolio is being broadened:** In the current period, the company focuses on applying for the approval, on launching a gel to treat the skin in cases of acne and rosacea as well as on expanding the sale and marketing of Belixos. In this context, we rate the marketing agreement for the Arab countries and North Africa, that was concluded in March, as highly promising.
- **Additional capital requirements:** The company requires further financial resources to implement all plans. The management estimates that a moderate sum of EUR 3 to 5 million is needed to be able to reach the break-even point.
- **Multiplication potential:** The stock market has not yet focused on the high potential of BF-200 ALA. However, we see a fair value of EUR 9.41 per share.

Buy (unchanged)

Price target EUR 9.41
Current price EUR 2.30 (Xetra)



Price history (Xetra)	1 M	3 M	12 M
High (EUR)	2.83	3.38	3.38
Low (EUR)	2.35	2.35	1.06
Performance	-12.31%	-30.16%	9.81%
Ø turnover (EUR/day)	34,025	60,761	48,937

Company data

ISIN / WKN	DE0006046113 / 604611
Sector	Pharmaceutics
Head office	Leverkusen
Internet	www.biofrontera.com
Outstanding shares	8.4 million shares
Date of first listing	October 2006
Market segment	regulated market
Market capitalisation	EUR 19.6 million
Free Float	67.6 %
Accounting	IFRS

FY (up to 31.12.)*	2008	2009	2010e	2011e		
Revenue (EUR m)	0.4	0.3	1.4	6.4	CAGR turnover 08-11 (e)	163.1%
Revenue growth	153.0%	-4.3%	316.7%	357.1%	CAGR EBIT 08-11 (e)	-
EBIT (EUR m)	-8.3	-4.8	-2.4	1.0	CAGR EPS 08-11 (e)	-
EBIT margin	-	-	-	15.6%		
EPS	-4.39	-0.63	-0.27	0.06	Enterprise value (EUR m)	33.4
Dividend per share	-	-	-	-	Book value (EUR m)	-
P/S ratio	69.68	72.85	17.48	3.82	EV / turnover 10 (e)	23.8
P/E ratio	-	-	-	38.2	EV / EBIT 10 (e)	-
Dividend yield	0.0%	0.0%	0.0%	0.0%	Price / book value	-

* Estimations from baseline scenario

Latest business development

BF-200 ALA with excellent results

In the financial year of 2009, Biofrontera made decisive progress with regard to the development of its products. The third and at the same time last phase of clinical trials for BF-200 ALA, which will be the most important drug candidate in the foreseeable future, was completed with positive results. According to statements made by the company, this medication against actinic keratosis, which is an early form of skin cancer, is confirmed to have greater therapeutic success than Metvix, the rival product, which is already an approved preparation. Here, the source of radiation is a decisive factor in the effectiveness of the treatment. When using the optimal light source, BF-200 ALA cured 85 percent of all patients while the alternative product cured only 68 percent. With regard to the especially complicated form of the disease that affects the bald head, the ratio was as high as 70 to 40 percent. This result was achieved with comparable side effects. When treated with the Biofrontera preparation, one quarter of all patients felt strong pain during the irradiation phase. With Metvix, this number amounted to 29 percent. All in all, the detailed information of the third clinical phase represent a considerable success.

Sales launch of Belixos

Furthermore, the sales of the medical cosmetic Belixos were launched. This product may be used as an intensive care of reddened or flaky skin. However, Biofrontera initially sold this product only via the Internet, which means that it could not make any substantial contributions to the turnover of 2009. As a consequence, the revenue stagnated with EUR 336,000 (previous year: EUR 351,000) on a very low level and were once again achieved mainly by delivering basic substances to pharmacies and by the sale of an icemask, which is used to reduce the after-effects of operations of the facial skin.

Loss decreased considerably

Naturally, these proceeds were far too low to cover the operative expenses in view of intensive research and development activities. However, the advancement of the clinical development and the conclusion of important projects were reflected by a considerable reduction of R&D costs from EUR 6.4 million to EUR 3.4 million. This played a significant role in the reduction of losses from operative activities by more than one third. Moreover, the financial result has also improved dramatically from EUR -6.8 million to EUR 1.5 million, thanks to significant concessions made by the bond creditors (see study of 07.12.2009) and thanks to fewer depreciations of the securities portfolio. In total, the net loss decreased considerably as well from EUR -15.1 million to EUR -3.4 million. The following chart shows an overview of the most important business figures.

Business figures	FY 2008	FY 2009	Change
Turnover	0.35	0.34	-4.3%
R&D expenses	6.37	3.40	-46.6%
EBIT	-8.29	-4.79	-
Group earnings	-15.09	-3.43	-

Figures in EUR million or percent; Source: company

First marketing agreement for Belixos

Nevertheless, there were considerable capital requirements in 2009, which were covered by four share issues with a cumulated gross cash inflow of EUR 7.7 million. This produced the necessary financial scope to further promote the operative business, especially the approval process for BF-200 ALA and the commercialisation of Belixos on a national and international level. In this context, another milestone could be reported lately, namely the sales agreement for the medical cosmetic with an external partner. In the future, Pharma Consult, a group from the United Arab Emirates, will take on the sales of Belixos on the Arab peninsula and in North Africa. Hereby, Biofrontera supplies the preparation at a fixed rate and additionally profits from the sales success through royalties. Especially the previous track record of the cooperation partner seems promising, since this company was able to increase its turnover in the past two years by 88 percent on average, reaching AED 60 million (equivalent to approx. EUR 12 million).

Marketing and sales buildup for Belixos and approval of BF-200 ALA

Outlook

Additionally, Biofrontera increases the marketing of Belixos in Germany under its own initiative and extends it to pharmacies and wholesalers. Thus, this could be the first year for Belixos to contribute significantly to the company's revenues. BF-200 ALA is not yet as close to this stage, as an approval of the preparation is aimed at only for 2011. At this stage, submitting the approval application for Europe is part of the agenda that is planned to be realized in autumn. According to management estimates, the further development costs until then will amount to EUR 0.75 million; additionally, a milestone payment of EUR 1.5 million will have to be paid to the former owner of the patents. The same amount will be due again once the product is registered. At this time, all obligations will have been fulfilled.

Further capital requirements

At the same time, efforts are made to extend Belixos from a single product to a product family. In the course of the year, the company will probably introduce another product for these purposes, which will be suitable for the treatment of acne and rosacea and work on the basis of the same active agents. In order to realize the outlined steps, yet another increase in capital will be necessary. In contrast to the previous year, the requirements can be narrowed down quite well

and are comparatively small. According to the management, a capital increase of EUR 3 to 5 million should be sufficient to reach the break-even point.

Adjustment of the scenario analysis

This means that the company lies within the limits we suggested in our last analysis of December 2009. However, we were a little disappointed by the low contribution of Belixos to the overall turnover in the final quarter, which is why we decreased our revenue prognosis for 2010 in the baseline scenario (from EUR 1.5 to 1 million) and in the optimistic scenario (from EUR 2.5 to 2 million). On the basis of cautious considerations, we also reduced the proceeds that will be achieved by BF-200 ALA in the year of the approval. In contrast, our loss estimation for 2010 turns out to be significantly better as a reaction towards the improvement of the 2009 results, which had not been expected to be that clear. Here, we anticipate in the baseline scenario EUR -2.8 million (before: EUR -4.3 million) and in the optimistic scenario EUR -1.9 million (before: EUR -3.2 million). All other parameters of our valuation model remain unchanged. In this context, we refer to our study published in December 2009. The following charts shows the resulting estimations regarding the business figures in both scenarios:

Baseline scenario	2010	2011	2012	2013	2014	2015	2016	2017
Belixos	1.00	1.50	2.25	3.38	4.22	5.15	5.51	5.78
Actinic keratosis*		2.42	12.11	19.37	26.64	33.90	41.17	48.43
Genital warts*		2.02	10.09	16.14	22.20	28.25	34.31	40.36
Others	0.40	0.46	0.53	0.61	0.70	0.80	0.93	1.06
Revenue (EUR m)	1.40	6.40	24.98	39.50	53.75	68.10	81.90	95.64
Revenue growth		357%	290%	58.1%	36.1%	26.7%	20.3%	16.8%
Net margin	-	10.0%	15.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Profit (EUR m)	-2.8	0.6	3.7	7.5	10.2	12.9	15.6	18.2
Profit growth		-	485%	100%	36.1%	26.7%	20.3%	16.8%

Optimistic scenario	2010	2011	2012	2013	2014	2015	2016	2017
Belixos	2.00	3.40	5.10	7.65	9.56	11.67	12.13	12.62
Actinic keratosis*		3.53	17.64	28.23	38.81	49.40	59.99	70.57
Genital warts*		2.94	14.70	23.52	32.35	41.17	49.99	58.81
Others	0.40	0.46	0.53	0.61	0.70	0.80	0.93	1.06
Revenue (EUR m)	2.40	10.33	37.97	60.01	81.42	103.04	123.03	143.06
Revenue growth		330%	267%	58.0%	35.7%	26.5%	19.4%	16.3%
Net margin	-	11.0%	16.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Profit (million EUR)	-1.9	1.1	6.1	12.6	17.1	21.6	25.8	30.0
Profit growth		-	434%	107%	35.7%	26.5%	19.4%	16.3%

*both BF-200 ALA

Fair value: 9.41 Euro per share

Regarding the time following the forecasting period, we still calculate for both scenarios an eternal profit growth of 2 percent. In connection with an updated

discount rate of 13.2 percent (risk-free rate 2.6 percent, market risk premium 5.3 percent, beta 2.0), a fair enterprise value of EUR 9.11 per share results from the baseline scenario; for the optimistic scenario, this value is EUR 10.11 per share. The consequence of all probabilities that we estimate as realistic taken together (baseline scenario 70 percent, optimistic scenario 30 percent) is currently a fair value of EUR 9.41 per share, which implies an enormous upside potential of just over 300 percent. Despite slight curtailments with regard to the turnover prognoses, the upwards correction compared to our last valuation (EUR 7.70 per share) can be attributed on the one hand to the interest rate level that decreased again considerably. On the other hand, we are six months closer to future turnover and profits, which translates to a positive discounting effect.

Conclusion

Unchanged recommendation: "Buy"

By now, Biofrontera has overcome the most important obstacles on its way to a specialised pharmaceutical company for dermatological products. After the marketing launch of Belixos and the positive results from the third phase of clinical trials of BF-200 ALA, the company should be able to acquire the last funds of EUR 3 to 5 million necessary to reach the break-even point within the course of this year. Under the condition that the medication for the treatment of actinic keratosis will subsequently be approved, which is very likely to happen, we expect a rise in the share price towards the fair value that we currently estimate to be close to EUR 9.41 per share. At the moment, the quotation is limited by the capital requirements. However, interested investors should get in before the last necessary capital increase has been successfully placed. We keep to our recommendation to buy.

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<u>Date of publication</u>	<u>Price at the time of publication</u>	<u>Recommendation</u>
2009-12-07	EUR 2.30	Buy
2009-08-25	EUR 1.50	Buy

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