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## Financial Analysis and Valuation of ANI Pharmaceuticals, Inc.

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# ANI Pharmaceuticals

## ANIP / NASDAQ

### Initiating Coverage

**Investment Rating: Sell**

PRICE: USD 78.48 S&P 500: 3,066.91 DJIA: 27,347.36 RUSSELL 2000: 1,589.33

- In September 2019, ANI launched Vancomycin Hydrochloride for Oral Solution, which is a prescription medication administered orally for treatment of enterocolitis, and In October 2019, ANI launched Aspirin and Extended Release Dipyridamole capsules
- In June 2019, ANI launched Ranitidine, and got approval for the commercialization of Vancocin oral solution.
- On August 6, 2018, ANI's subsidiary, ANI Canada, acquired all the issued and outstanding equity interests of WellSpring, a Canadian company that performs contract development and manufacturing of pharmaceutical products
- During 2018, ANI launched 11 products.

Valuation	2019 A	2020 E	2021 E
EPS	5.29	4.79	5.51
P/E	13.78	14.2	13.7
P/CFPS	14.52	10.86	10.56
P/BVPS	3.41	2.74	2.486
EV/EBITDA	10.62	9.8	9.5

### Market and Trading Information

Equity Market Cap (USD):	949.38 Million	52-Week Range (USD):	36.92 - 86.96
Enterprise Value (USD):	1.09 Billion	12-Month Stock Return:	50.56%
Shares Outstanding (M):	12.09	Dividend / Capital Gain Yields:	0% / 50.56%
Estimated Float (M):	9.22	12-Month Russell 2000 Return:	4.37%
3-mo Avg. Daily Volume (K):	604.3	Beta:	1.96

### Company Quick View:

**Location:** 210 Main Street West, Baudette, MN 56623 United States

**Industry:** Pharmaceutical preparations (SIC 2834)/ Pharmaceutical Preparation Manufacturing (NAICS 325412)

**Description:** ANI Pharmaceuticals is a pharmaceutical company focused on developing, manufacturing, and marketing branded and generic prescription pharmaceuticals. The company has over 40 products and produces liquid, powder and oral solid dose products, including those requiring containment. ANI's line of Rx products is sold to the U.S.'s largest wholesalers and distributors, smaller regional distributors and chains, as well as the top pharmacy and retail outlets in the country

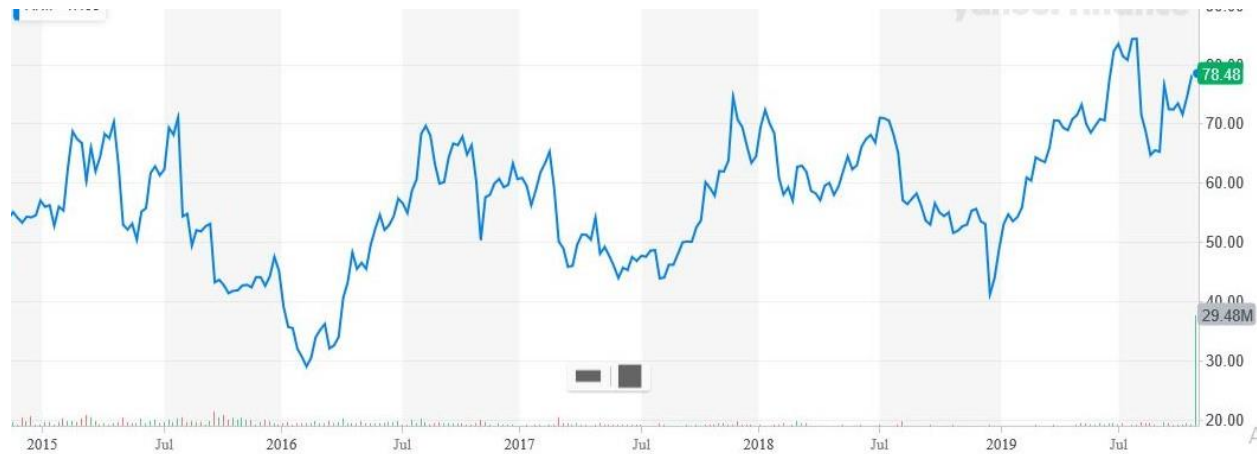
**Key Products & Services:** Its areas of product development include narcotics, oncolytic, hormones and steroids, and complex formulations involving extended release and combination products.

**Website:** <http://www.anipharmaceuticals.com>.

**Analyst:** Gbolahan Olaoluwa



## STOCK PRICE PERFORMANCE



Source: Yahoo Finance

Figure 1: 5-year Stock Price Performance

ANI Pharmaceuticals (ANIP) closed on the NASDAQ at USD 78.48 on November 1, 2019. Within the five year period (12/1/2014 – 11/1/2019) shown in Figure 1 above, ANI's stock has risen from USD 53.29 to the current USD 78.48. Its stock dropped to USD 29.01 in February 2016 because of Martin Shkreli and Valeant's (VRX) troubles that affected all specialty pharmaceuticals' shares. The current total year to date return (YTD) for ANI Pharmaceuticals' stock is 74.32 percent, which is much greater than its competitor, Amphastar Pharmaceuticals (AMPH), which had a YTD return of -1.71 percent. ANI's annualized return was 89.24 percent and that of its competitor was -2.05 percent. For the five year period shown in the graph above, while Russell 2000 had a total return of 45.57 percent, and an average annual return of 7.81 percent, ANI had a total return of 90.49 percent, and an average annual return of 13.77 percent. In other words, ANI has shown better performance than both its competitor and the market. Amphastar's poor stock price performance might be as a result of its inability to generate incremental cash flows, even with its new product approvals earlier in 2019.

## INVESTMENT DECISION SUMMARY

I project the intrinsic value for ANI Pharmaceuticals Inc.'s stock to be USD 61.59 per share, using a corporate valuation model that discounts free cash flows at the average cost of funding (WACC). The outcome of my analysis shows that ANI's stock is currently overvalued. The price per share that I estimate is lower than its current market value at November 1, 2019 of USD 78.48. I recommend a SELL.

## COMPANY DESCRIPTION

ANI Pharmaceuticals Inc. is a company that was founded and incorporated on August 29, 1996 under the laws of the Province of Ontario as Structured Biologicals Inc. It was reincorporated in Delaware on June 26, 2001 as Ben-Abraham Technologies Inc. and the name later changed to BioSante Pharmaceuticals, Inc. in Nov. 1999. The company adopted its present name on July 18, 2013. Its consolidated subsidiaries are ANIP Acquisition Company and ANI Pharmaceuticals Canada Inc. The company has three pharmaceutical manufacturing facilities of which two are located in Baudette, Minnesota and one is located in Oakville, Ontario, Canada. The corporate headquarter is located at 210 Main Street West, Baudette, MN 5662.

ANI Pharmaceuticals acquired ANIP Acquisition Company (ANIP) on June 19, 2013. ANI also acquired 31 previously marketed generic drug products from Teva Pharmaceuticals on Dec. 26, 2013. On July 1, 2014, ANI acquired the drug product Lithobid®. Other acquisitions include rights to manufacture promote, distribute and sell (1) the drug product Vancocin® (Aug. 1, 2014); (2) Abbreviated Drug Applications for 23 generic products (2015); (3) Abbreviated New Drug Application (ANDAs) for 23 previously marketed generic drug products from IDT Australia, Ltd (Apr. 4, 2018); (4) acquired a portfolio of six generic products, related manufacturing and supply agreements, and equipment and technical know-how from Amneal Pharmaceuticals, LLC and Impax Laboratories, Inc. (May 7, 2018); (5) acquired all the issued and outstanding equity interests of WellSpring Pharma Services Inc. (Aug. 6, 2018).

ANI Pharmaceuticals develops, manufactures, and markets both branded and generic prescription pharmaceuticals. The company also produces liquid, powder and oral solid dose products, including those requiring containment and it does contract production for other companies. The company has over 40 products including controlled substances, oncolytic, hormones and steroids, etc. ANI Pharmaceuticals operates under the industry with SIC 2834 (Pharmaceutical Preparations, Medical). It belongs to the Biomedical, Index S&P 600, Russell 2000, and Russell 3000. Its target customers are pharmacies and hospitals.

ANI Pharmaceuticals focuses on niche and high barrier to entry opportunities to increase demand and acquire more market share. They are constantly researching and producing high quality products and gaining more patents for their product. The company has 77 products currently in the development stage. Its strong capital position and experienced management team are a plus to the company because it increases investors' confidence.

ANI Pharmaceuticals have about 25 competitors including Amphastar Pharmaceuticals, Alexion Pharmaceuticals, Vertex Pharmaceuticals, Amneal Pharmaceuticals, and other pharmaceuticals and laboratories that deal in generic medication. ANI Pharmaceuticals Inc., with its net profit margin of 12.11%, ranks No. 34 in Major Pharmaceutical Preparations industry and ranks No. 83 in Healthcare sector, in the area of profitability in 2018.

## MANAGEMENT AND CORPORATE GOVERNANCE

ROBERT E. BROWN, JR., has been Chairman and a Director of ANI Pharmaceuticals, Inc. since June 19, 2013. He is 68 years old and has equities valued at USD 799,915 (ANI

pharmaceuticals). His total compensation from ANI Pharmaceuticals has increased from USD 121,750/year in 2014 to USD 273,573/year in 2018. He is the founder of Meridian Venture Partners LLC (1987). He is also on the board of Planalytics, Inc. and Managing Partner at Meridian Venture Partners II LP. He once held the position of President and Director at Miami Valley Portfolio Management, Inc. Mr. Brown received an undergraduate degree from Princeton University, an MBA from The Wharton School of the University of Pennsylvania and a graduate degree from The University of Pennsylvania Law School.

ARTHUR S. PRZYBYL, is the President and Chief Executive Officer. He is 62 years old and receives compensation of USD 4,197,933 (USD 3,580,292 in 2017 and USD 2,514,063 in 2018). According to Mergent Online, his compensation is about two times the compensation for this position in the industry. Mr. Przybyl joined ANI in March 2009 as President and CEO. He was previously the President and CEO of Akorn, Inc., a NASDAQ specialty pharmaceutical company. He was also President of Hearing Innovations, Inc. and the President and COO of Bioject, Inc. He has also held several sales and marketing management positions for specialty pharmaceutical companies.

STEPHEN P. CAREY, is the Vice President and Chief Financial Officer (since May 6, 2016). He is in charge of the company's finance, accounting and information technology functions. His total compensation is USD 1,438,750, which includes salary, stock awards, options awards, non-equity incentives, and other compensation. Mr. Carey has over 20 years of experience as a financial executive, 15 of which are in the pharmaceutical industry. Between June 2007 and October 2015, he held various positions including Senior Vice President, Controller and Principal Accounting Officer in ANI pharmaceuticals. Mr. Carey graduated from Montclair State University with a B.S. in Accounting and began his career at PriceWaterhouseCoopers, after which he held various financial and accounting positions at Schering Plough Corporation (now Merck & Co.). Mr. Carey is a CPA (inactive).

JAMES G. MARKEN, Sr. is the Vice President, Operations and Product Development. His total compensation is USD 1,009,589. He is the head for the production, engineering and logistics functions for the ANI Pharmaceuticals multi-site prescription drug, and potent compound facilities in Baudette, Minnesota. Mr. Marken got his B.S. degree in Chemistry from Bemidji State University. He joined the company in 2007 as the general manager of the Minnesota facilities. He previously worked at Solvay Pharmaceuticals and has over 20 years of pharmaceutical industry experience.

DR. DAVID SULLIVAN is the Vice President, Quality Operations since February 3, 2015. Dr. Sullivan joined ANI in April 2014. He earned his Ph.D. in Analytical Chemistry and his B.S. in Chemistry from South Dakota State University. He worked in quality operations for pharmaceutical firms, including Abbvie and then spent 9 years at Boston scientific where he was responsible for cGMP laboratories, quality engineering, and systems before joining ANI.

ROBERT SCHREPFER, Sr. Vice President, Business Development and Specialty Sales (since August 12, 2013). His duties include identifying and advancing ANI's product pipeline and contract manufacturing opportunities. His total compensation is USD 1,444,156. He served as a Director of ANI from June 19, 2013 until July 12, 2013. Mr. Schrepfer was Vice President at Bear Stearns & Cos, Inc. and Managing Director and Assistant Portfolio Manager at Healthcare Value Capital in 2005. Mr. Schrepfer is a Member of the Health Sector Advisory Council at Duke University where he earned his MBA in Finance and Health Sector Management.

DR. MARK J. GINSKI is the Vice President, Corticotropin Product Development. He is an experienced pharmaceutical executive with almost 20 years of experience in the development of small molecules, peptides and biologics. He joined ANI in May 2016. Previously, he worked at Mallinckrodt Pharmaceuticals where he was responsible for CMC & Operations within the Autoimmune & Rare Diseases business unit. He also held similar roles at Questcor Pharmaceuticals, Cerecor Pharmaceuticals, Alba Therapeutics, Shire Pharmaceuticals and Guilford Pharmaceuticals. Dr. Ginski holds a B.S. in Biologics Sciences and a Ph.D. in Pharmaceutical Sciences from the University of Maryland.

#### BOARD OF DIRECTOR PROPERTIES

The board is made up of 8 members of which 1 is female and 7 are male. Of ANI Pharmaceutical has an average tenure of 6 years for its directors. The table below lists the directors:

NAME	TITLE	COMPENSATION
Robert E Brown	Chairman of the Board and Chair of the Nominating and Corporate Governance Committee	USD 273,573
Thomas Haughey	Director, Chair of the Audit and Finance Committee, and Member of the Compensation Committee	USD 252,569
Fred Holubow	Director	USD 27,226
Tracy L. Marshbanks	Director	USD 35,748
David Nash	Director, Member of the Audit and Finance Committee, and Member of the Nominating and Corporate Governance Committee	USD 243,994

Thomas A. Penn	Director, Chair of the Compensation Committee, and Member of the Nominating and Corporate Governance Committee	USD 205,264
Daniel Raynor	Director	USD 33,854
Patrick Walsh	Director	USD 245,709
Arthur S Przybyl	Director, President and Chief Executive Officer of ANI Pharmaceuticals	

As of October 4, 2019, ANI Pharmaceuticals, Inc. had an ISS Governance Quality Score of 4. The pillar scores are Audit: 2; Board: 7; Shareholder Rights: 1; and Compensation: 8. Its ISS Corporate governance scores is 1, relative to index or region. A decile score of 1 indicates lower governance risk, while a 10 indicates higher governance risk.

## ACCOUNTING QUALITY AND POLICIES

EisnerAmper LLP has been the auditor of ANI's consolidated financial statements since 2013. They are one of the largest full-service advisory and accounting firms in the US. The firm has received the "Best of Accounting" Award for Client Service Excellence 3 times in a row now and have 18 offices, of which 5 are abroad. They are headquartered in New York.

ANI's latest 10K is for the period ended December 31, 2018 and the audit opinion given by its independent registered accounting firm, EisnerAmper LLP, was an unqualified opinion, concluding that the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. (AS 3101 Paragraph 2)

The consolidated financial statements for ANI are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The functional currency for its subsidiary in Canada is the US dollars (USD). In the area of accounts receivable, credit is extended to customers on an unsecured basis and the allowance method used to provide for doubtful accounts is based on the evaluation of the collectability of accounts receivable, whereby allowance for doubtful accounts equal the estimated uncollectible amounts.

Property, plant and equipment are recorded at cost, expenditures for repairs and maintenance are charged to expense as incurred and depreciation is recorded on a straight-line basis over estimated useful lives of 20-40 years for buildings and improvements, and 1-10 years for machinery, furniture and equipment.

For Revenue recognition, the modified retrospective method is used. The process followed using this method is firstly, identification of the contract, or contracts, with a customer then identification of the performance obligations in the contract; determination of the transaction

price, including the identification and estimation of variable consideration; allocation of the transaction price to the performance obligations in the contract; and then recognition of revenue when we satisfy a performance obligation.

For the year 2018, the quality of earnings ratio for ANI was 4.33 and the average for the five year period analyzed (2014-2018) is 2.77. These ratios indicate that ANI's operating cash flow exceeds its net income, implying that it has been conservative in its approach to income recognition.

## SHAREHOLDER ANALYSIS

Below is a breakdown of the top 10 shareholders of ANI Pharmaceuticals Inc. (NMS: ANIP) stock as of 09/30/2019. ANI Pharmaceuticals has 231 institutional holders, holding 10,591,900 shares, which make up 81.51 percent of the total shares outstanding.

Institution Name	Filing Date	Total Shares	Total Values	percentage of total shares
<a href="#">BLACKROCK INC.</a>	6/30/2019	1,429,732	117,524	9.7566%
<a href="#">VANGUARD GROUP INC</a>	6/30/2019	564,317	46,387	3.8509%
<a href="#">MANGROVE PARTNERS</a>	6/30/2019	549,401	45,161	3.7492%
<a href="#">DIMENSIONAL FUND ADVISORS INC</a>	6/30/2019	537,427	44,175	3.6674%
<a href="#">NOMURA HOLDINGS INC</a>	6/30/2019	375,449	31,071	2.5621%
<a href="#">DEUTSCHE BANK AG</a>	6/30/2019	317,163	26,069	2.1643%
<a href="#">FIRST MANHATTAN CO</a>	6/30/2019	294,852	24,236	2.0121%
<a href="#">STATE STREET CORP</a>	6/30/2019	288,765	23,736	1.9706%
<a href="#">RENAISSANCE TECHNOLOGIES LLC</a>	6/30/2019	288,100	23,682	1.9660%
<a href="#">INVESTMENT COUNSELORS OF MARYLAND LLC</a>	6/30/2019	279,979	23,014	1.9106%

\*Source: Mergent Online

Total inside shareholders are 31, which include total direct shares of 4,137,447. The percentage of the shares held by the six largest insider shareholder as at 11/1/2019 is:

Name	% of insider shares held
Brown Robert Jr	55.14%
Morgensten Victor A	11.01%
Przbyl Arthur	5.62%
Cho Micheal	5.44%
Perceptive Advisors LLC	5.44%
Sherwin Stephen A	2.10%



25 people &lt; 2%

15.26%

\*Source: Mergent Online

The detailed insider trading in the year 2019 is in the table below:

Trade Date	Insider Name	Trade Type	Shares
8/20/2019	<a href="#">Brown Robert E. Jr</a>	Sale	5,512
8/19/2019	<a href="#">Brown Robert E. Jr</a>	Sale	2,067
8/16/2019	<a href="#">Brown Robert E. Jr</a>	Sale	26,349
8/15/2019	<a href="#">Brown Robert E. Jr</a>	Sale	9,315
8/14/2019	<a href="#">Brown Robert E. Jr</a>	Sale	26,360
8/13/2019	<a href="#">Brown Robert E. Jr</a>	Sale	20,821
8/12/2019	<a href="#">Brown Robert E. Jr</a>	Sale	21,016
8/9/2019	<a href="#">Brown Robert E. Jr</a>	Sale	19,860
5/24/2019	<a href="#">Nash David</a>	Buy	1,445
5/17/2019	<a href="#">Marken James G. (SVP Ops &amp; Prod Dev)</a>	Sale	8,907
5/16/2019	<a href="#">Brown Robert E. Jr</a>	Option Ex	2,209
5/15/2019	<a href="#">Haughey Thomas</a>	Buy	2,500
5/14/2019	<a href="#">Marken James G. (SVP Ops &amp; Prod Dev)</a>	Sale	4,917
5/13/2019	<a href="#">Schrepfer Robert W (SVP - New Bus Dev &amp; Spec Sales)</a>	Sale	2,409
3/19/2019	<a href="#">Przybyl Arthur (President and CEO)</a>	Sale	2,823
3/18/2019	<a href="#">Przybyl Arthur (President and CEO)</a>	Sale	24,802
3/13/2019	<a href="#">Schrepfer Robert W (SVP - New Bus Dev &amp; Spec Sales)</a>	Sale	4,651
3/13/2019	<a href="#">Schrepfer Robert W (SVP - New Bus Dev &amp; Spec Sales)</a>	Option Ex	4,651
3/12/2019	<a href="#">Schrepfer Robert W (SVP - New Bus Dev &amp; Spec Sales)</a>	Sale	7,145
3/12/2019	<a href="#">Schrepfer Robert W (SVP - New Bus Dev &amp; Spec Sales)</a>	Option Ex	7,145

\*Source: Insider Monitor

## INDUSTRY ANALYSIS

ANI Pharmaceuticals operates under the NASDAQ exchange in the Pharmaceutical preparations industry with SIC code 2834 and Pharmaceutical Preparation Manufacturing Industry with NAICS code 325412. There are 2,488 companies in this industry in the USA with an estimated employment of 132,663 people.

**Industry Description:** The industry primarily manufactures, fabricates or process as drugs in preparation for human or veterinary use (e.g. tablets, capsules, ointments, solutions, etc.). Products of this industry consist of two important lines of pharmaceutical preparations: (1) those promoted primarily to the dental, medical, or veterinary professions and (2) those promoted primarily to the public.

**Industry classification:** The Pharmaceutical preparations industry can be classified as a mature industry demonstrated by its expected diminishing revenue growth (from only specific therapeutic classes), a reduction of the workforce, and consolidation of operations. I forecast tis to experience more growth despite its challenges with the aging population and greater prevalence of chronic diseases. In 2017, U.S. pharmacy and drug store sales amounted to about USD 276.92 billion. In 2019, the industry is expected to generate USD 844 billion in prescription drug revenue worldwide. Revenues are expected to reach nearly 1.2 trillion U.S. dollars by 2024. (Matej Mikulic, 2019)

### **Current and expected degree of competition**

**Rivalry among existing enterprises:** The Pharmaceutical preparations industry is one of the most competitive industries in the world. With its large size, strict government regulations, the recent trend of mergers and acquisitions of small players by the big industries, the technological advancement and the constant pressure to innovate, it is safe to say that rivalry among existing enterprises is high.

**Threats of new entries:** It is quite expensive to establish a pharmaceutical company (manufacturing set up, research and development, marketing sales and distribution) and it requires a long process of getting approval from the regulators. In addition, mistakes can be very costly, leading to subpar return on investments. As a result, there is a low threat from new entrants.

**Threats from product substitutes:** Generic pharmaceutical products, alternative treatments (e.g. yoga, meditation, etc.), herbal treatments, and a healthier lifestyle (balanced diet and exercising) are some of the available substitutes for the pharmaceutical preparations industry.

### **Bargaining power of parties involved**

**Bargaining power of suppliers:** Since the drugs are manufactured in house, the U.S pharmaceutical industry only needs to get raw materials and packaging materials from suppliers. Hence, there is no room for bargaining or trying to influence the market price. As a result, the bargaining power of suppliers is low.

**Bargaining power of clients:** After a new drug is produced, the manufacturer gets a patent for 20 years and after this time period, generic production begins and prices become more flexible, giving hospital and other large customers an opportunity to bargain. Bargaining power is medium. (Adamkasi, 2017)

## **RISK ANALYSIS**

**Political/Legal:** The Federal government makes the rules and regulations that control the manufacturing of drugs and medicines. With the imposition of an additional USD 84.8 billion in taxes and discounts for Medicaid and Medicare patients in exchange for limiting bargaining to reduce drug prices, companies operating in the pharmaceutical industry either lose millions of

dollars by complying or risk paying other imposed prices to meet the needs of the customers covered under Medicare and Medicaid (Minimalist/Pharmacist, 2018)

**Economy:** This include factors like interest rates, taxation changes, economic growth, inflation, and exchange rates. The growth of the Pharmaceutical industries aligns greatly with GDP growth. The unlimited demand for health care is confronted with limited resources for its funding. If a country's GDP is too low to fund Research and Development, the Pharmaceutical industry will experience stagnancy and slowly decline. In addition, international trade with emerging pharmaceutical companies that provide low-cost, brand name pharmaceutical drugs to the US market impact competition.

**Technology:** To develop a drug in this industry, it takes an average of USD 1.2 billion and an average time of 10 years. This limits the ability of many companies to develop new drugs or upgrade technology frequently. With the limit in technological advancement, and in addition to the high cost of drug development, fewer and fewer blockbuster drugs are being produced.

**Socio-cultural:** The U.S and some other countries are currently looking after aging populations who have a high demand for more prescription drugs due to a greater prevalence of chronic ailments. One major social issue is the perception of cheaper generic drugs as adequate alternatives to more expensive brand name drugs. "According to Kaiser Family Foundation, consumers with Medicare Part D coverage have been utilizing generic drugs as these drugs are typically covered" (Minimalist/Pharmacist, 2018)

**Demographics:** This refers to population, age, geographic, ethnic and income distribution. Demographic and changes greatly affects the development of this industry, and is a factor of demand for pharmaceutical products. The US Department of Health and Human Services reports that at least half of all Americans take a minimum of one prescription drug, with one in six taking three or more, excluding the frequent use of over-the-counter medications for easing a headache, such as aspirin, ibuprofen, etc. (Harding, 2013)

**Global:** Deteriorating economic conditions, lack of raw materials, growing energy prices, growing environmental pollution and the fact that national and international regulations set increasingly strict standards are some of the factors affecting the Pharmaceutical industry on a global level. (Veselin Dickov, 2011)

## **PEER ANALYSIS**

Listed below are some of ANI Pharmaceuticals Inc.'s main competitors. Each of these companies operate primarily in SIC Code 2834 (Pharmaceutical preparations) and NAICS Code 325412 (Pharmaceutical Preparation Manufacturing). Their market caps are in close range and they are all located in the United States.

Amphastar Pharmaceuticals Inc. is a specialty pharmaceutical company that deals primarily with the development, manufacturing and marketing of generic and proprietary injectable and inhalation products. Amphastar has two reportable segments, which are finished pharmaceutical products and active pharmaceutical ingredients (API) products. Their products include Enoxaparin

sodium injection, Cortrosyn, Amphadase, etc. Mary Luo is the CEO and the company has 2,078 employees. It was incorporated in February 1996.

Amneal Pharmaceuticals Inc is a pharmaceutical company that develops, manufactures, markets and distributes pharmaceutical products in a variety of dosage forms and therapeutic categories. It has two business segments namely Generics, and Specialty with a focus on products addressing central nervous system disorders, including migraine and Parkinson's disease. It was incorporated April 1993 in Florida, USA. The CEOs are Robert Stewart and Paul Bisaro and the company has approximately 6,000 employees.

NGM Biopharmaceuticals Inc is a clinical stage biopharmaceutical company focused on developing novel therapeutics based on scientific understanding of key biological pathways underlying cardio-metabolic, liver, oncologic and ophthalmic diseases. It is headquartered in South San Francisco, CA. The CEO is Dr. David J. Woodhouse and it has 164 full time employees. The company has research collaboration, product development, and license agreements with Merck Sharp & Dohme Corp., Medimmune Limited, and JDRF International. NGM Biopharmaceuticals, Inc. was incorporated in 2007.

#### ANI Pharmaceuticals Inc.'s Peer Analysis on 11/1/2019

COMPANY	TICKER SYMBOL	REVENUES (In million USD)	MARKET CAPITAL (in Million USD)	PE RATIO	EV/ EBITBA	DEBT/ ASSETS	ROA	ROE
ANI Pharmaceuticals Inc	ANIP	215.07	949.38	54.27	12.52	54.19%	6.29%	8.91%
Amphastar Pharmaceuticals Inc	AMPH	324.07	924	17.85	47.3	35.44%	0.22%	12.78%
Amneal Pharmaceuticals Inc	AMRX	1,825	1,089	N/A	8.99	79.41%	2.24%	-20.95%
NGM Biopharmaceuticals Inc	NGM	118.83	886	N/A	-7.84	24.06%	-2.85%	-3.59%

Source: Yahoo Finance

These companies were chosen because they trade in the pharmaceutical preparations industry along with ANI Pharmaceuticals (SIC 2834) and have similar market capitalization of about USD 800 million.

## HISTORICAL FINANCIAL ANALYSIS

As I mentioned earlier in the peer analysis, Amphastar Pharmaceuticals Inc. is one of the major competitors of ANI Pharmaceuticals. ANI Pharmaceuticals' sales growth has decreased over the last three years, from 68.5% in 2016 to 14.0% in 2018. On the other hand, Amphastar Inc. experienced a tremendous increase in sales growth in 2018, which was a major turnaround for them as they also experienced a major decline of about 19% in the previous years. However, there has been an increase in invested capital turnover for ANI over the last five years, showing efficiency in production of revenues through debt and equity. ANI's operating working capital turnover has been increasing steadily over the course of the last five years, from 0.31 in 2014 to 1.98 in 2018, doing better than its competitor's fluctuating turnover ratios. This shows that ANI's management has been quite diligent in ensuring that it is generating a higher dollar amount of sales for every dollar of the working capital used and shows they are running smoothly and have limited need for additional funding.

		PRODUCTIVITY RATIOS				
		2014	2015	2016	2017	2018
Sales Growth	ANI	-	36.40%	68.50%	37.50%	14.00%
	Amphastar	-	19.50%	1.41%	-5.90%	22.70%
Receivable Turnover	ANI	3.24	3.48	2.8	3.01	3.11
	Amphastar	9.21	7.57	9.53	6.67	5.65
Operating working capital turnover	ANI	0.31	0.42	1.86	1.86	1.98
	Amphastar	1.4	1.75	1.77	1.49	1.63

The current ratio of ANI Inc. dropped below 1 to 0.94 in 2018 from 3.56 in 2017, showing that its current liabilities outweighed its current assets. Meanwhile, Amphastar Inc., though showing more liquidity in that area than ANI, its current ratios seem to be too high (7.51 in 2017), implying that it is not efficiently using its current assets or short-term financing liabilities. Amphastar also showed relatively higher quick ratios than ANI. ANI's quick ratios went from 16.95 in 2015, to 2.53 in 2016, 2.54 in 2017 and 0.69 in 2018. Regarding the short-term investments over invested capital, ANI has had a constant 0.01 over the course of the last five years, while Amphastar has moved from 0.00 to 0.02 within the 5 years analyzed. In general, ANI seems to be less liquid than Amphastar.

		LIQUIDITY RATIOS				
		2014	2015	2016	2017	2018
Current Ratio	ANI	16.48	18.22	3.4	3.56	0.94
	Amphastar	3.47	3.95	4.09	7.15	4.34
Quick Ratio	ANI	15.84	16.96	2.53	2.54	0.69
	Amphastar	1.87	2.36	2.32	4.73	2.98
Short-term investments over invested capital	ANI	0.01	0.01	0.01	0.01	0.01
	Amphastar	0.00	0.00	0.01	0.02	0.02

In the area of financial risk, the interest coverage ratio shows that ANI can efficiently cover its current interest payments with its available earnings as its accounting-based and cash-based ratios are 2.31 and 4.51 respectively. Amphastar's interest coverage ratio is not as good as its accounting based ratio is in the negative 6.62. Both ANI and Amphastar have moderate debt to equity ratios (1.04 and 0.24 respectively as at 2018) which indicate low levels of risk. However, although both companies' ratios seem to be increasing every year, ANI has more assets financed by debt than those financed by shareholders' funds and for Amphastar, the opposite is the case.

		LEVERAGE RATIOS				
		2014	2015	2016	2017	2018
Interest Coverage ratio (Accounting-based)	ANI	31.91	2.98	1.76	2.36	2.31
	Amphastar	N/A	1.99	21.03	1.41	N/A
Interest Coverage ratio (Cash-based)	ANI	38.09	3.61	3.72	4.7	4.51
	Amphastar	N/A	1.27	37.18	N/A	4.53
Total debt equity	ANI	0.78	0.67	0.75	1.23	1.04
	Amphastar	0.16	0.13	0.11	0.14	0.24

\*All 'N/A' represent negative numbers

In the area of profitability, ANI has shown generally higher figures than Amphastar. Return on Assets (ROA) has been higher than Amphastar's with about 2% in the last two years showing steady increase in the last three years, after the big drop from 12.20 percent to 6.77 percent in 2016. ANI's EBITDA margin has been sustainably higher than Amphastar's by about 11% or more for the last 5 years, with ANI having 34.3 percent and Amphastar, 2.0 percent in 2018. The gross profit margin has been higher with about 15% over the last five years also, with ANI showing steady increase in the last three years. ANI's ROIC was 6.25 percent in 2018 while Amphastar had a -2.41 percent. It is safe to conclude that ANI has shown more profitability over the years than its competitor. However, the ROIC is lower than the average cost of funding in some of the years. This is a sign that the company might not be earning enough to compensate investors in some of the years.

		PROFITABILITY RATIOS				
		2014	2015	2016	2017	2018
ROA	ANI	-4.96%	1.90%	3.96%	-0.83%	-1.79%
	Amphastar	8.06%	12.20%	6.77%	7.27%	8.78%
EBITDA	ANI	42.70%	51.90%	33.00%	31.80%	34.30%
	Amphastar	-2.60%	1.80%	10.90%	3.80%	2.00%
ROIC	ANI	-	9.07%	0.07%	0.65%	6.25%
	Amphastar	-	-2.62%	2.86%	-1.91%	-2.41%
Gross Profit Margin	ANI	79.50%	83.40%	56.90%	54.80%	63.80%
	Amphastar	30.10%	35.20%	45.60%	43.00%	41.20%

## PROSPECTIVE FINANCIAL ANALYSIS

I projected sales to grow at 13% in 2019, 12% in 2020, 9% in 2021 and 6% in 2022, dropping steadily until it grows at a rate of about 5% perpetually, in line with the company's estimate of 5.10% growth. My 2019-2021 projections are quite optimistic in light of the pricing pressure and underperformance in the US generics market; however, with ANI's launch of Ranitidine, its approval for the commercialization of Vancocin oral solution and its trend of exceeding estimates and surpassing both the market and competitors, I see it as a fair estimate of ANI's sales growth.

I project COGS as a percentage of sales to decrease steadily over the next 5 years starting at 30% in 2019 and dropping to 25% by 2023. ANI has learned to decrease its inventory cost over the years, purchasing a bulk of its inventory from one or two suppliers. In addition, increased royalty revenues, the change in product mix towards higher-margin brand products and lower sales of products subject to profit-sharing arrangements will help in reduction of COGS as a percentage of sales.

I project operating capital ratios to be constant over the years, as ANI has not disclosed any plans to carry out capital projects that can distort their usual trend. Finally, I estimate the WACC to be 10.59 percent and the ROIC to be 16.2 percent. To arrive at my WACC, I set the target percent financed with long-term debt to be at 15 percent, the target percent financed with short term debt to be at 17.55 percent and the cost of equity to be at 13.20 percent (beta = 1.7, risk-free rate = 3 percent and market risk premium = 6 percent). The marginal tax rate of 21% was used and the cost of long term debt was calculated to be 6%. The after tax cost of long-term debt and an after tax cost of short-term debt of were 4.74%.

## VALUATION AND INVESTMENT DECISION

I used a corporate valuation model based on discounting expected Free Cash Flows at the Weighted Average Cost of Capital. I derive a stock price of USD 61.59 per share by November 1, 2019. I used Mergent Online to download financial statements for the latest five-year period. The most recent published financial information for ANI Pharmaceuticals is for the last quarter ended, September 30<sup>th</sup>, 2019.

In addition, I complement my fundamental analysis with a relative valuation using Amphastar Pharmaceuticals, ANI's competitor, to estimate the price per share for ANI's stock. According to the multiples Price/Sales, Price/Earnings, and Market/Book, ANI's stock is overvalued and considered a sell. ANI Pharmaceuticals has experienced notable instability in its stock prices in the past two years. Its stock went from USD 43.86 as at 7/31/17, to USD 70.67 on 11/27/2017, four months later. As at 12/17/2018, it was at USD 41.17 and then it went up to USD 84.26 on 7/22/2019, and since then, it been dropping. Although, ANI's stock price is undervalued according to the multiple EV/EBITDA, I do not give too much credit to this ratio given the current differences in the margins of these two companies.

Multiples	AMPH Value	ANIP Value	PPS	Valuation	Investment decision
Price/Sales	2.72	16.67	45.3424	overvalued	Sell
Price/Earnings	29.29	1.45	42.4705	overvalued	Sell
EV/EBITDA	47.69	69101	257.3958	undervalued	Buy
Market/Book	2.31	17.48	40.3788	overvalued	Sell

In summary, I estimate the stock price for ANI's stock to be USD 61.59 at 11/1/2019, which is lower than the current market price of USD 78.48 (a difference of USD 16.89). Therefore, I recommend a SELL on the stock.

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**ANI Pharmaceuticals Inc (NMS: ANIP)***In thousands of USD*

<b>Income Statement</b>	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2020</b>	<b>12/31/2021</b>	<b>12/31/2022</b>	<b>12/31/2023</b>
Sales	128622.0	176842.0	201576.0	227780.9	255114.6	278074.9	294759.4	309497.4
Costs of goods sold (COGS)	55465.0	79935.0	73024.0	68334.3	69646.3	72299.5	74574.1	77374.3
Sales, general and administrative expense (SGA)	30735.0	40650.0	59451.0	59678.6	66840.0	72855.6	77227.0	81088.3
Depreciation	22343.0	27928.0	33742.0	17349.4	19431.3	21180.1	22450.9	23573.5
<b>Operating profit</b>	<b>20079.0</b>	<b>28329.0</b>	<b>35359.0</b>	<b>82418.6</b>	<b>99197.0</b>	<b>111739.7</b>	<b>120507.4</b>	<b>127461.2</b>
Interest expense	11401.0	11980.0	15308.0	16516.0	27602.3	29812.6	31694.1	33186.9
Interest income	0.0	0.0	0.0	135.7	3323.0	4197.9	5478.9	7187.0
Nonoperating income (Expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before taxes (EBT)	8678.0	16349.0	20051.0	66038.4	74917.7	86124.9	94292.2	101461.3
Tax expense	4744.0	17425.0	4557.0	14990.7	17006.3	19550.4	21404.3	23031.7
Net income before extraordinary items	3934.0	(1076.0)	15494.0	51047.7	57911.4	66574.6	72887.9	78429.6
After-tax extraordinary income (Expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net income (NI)</b>	<b>3934.0</b>	<b>(1076.0)</b>	<b>15494.0</b>	<b>51047.7</b>	<b>57911.4</b>	<b>66574.6</b>	<b>72887.9</b>	<b>78429.6</b>
Dividends-- preferred	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends-- common	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions to RE	3934.0	(1076.0)	15494.0	51047.7	57911.4	66574.6	72887.9	78429.6
<b>Balance Sheet</b>	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2020</b>	<b>12/31/2021</b>	<b>12/31/2022</b>	<b>12/31/2023</b>
<b>Assets</b>								
Cash	27365.0	31144.0	43008.0	44417.3	49747.3	54224.6	57478.1	60352.0
Inventory	26183.0	37727.0	40503.0	45784.0	51278.0	55893.1	59246.6	62209.0
Accounts receivable	45895.0	58788.0	64842.0	73345.4	82146.9	89540.1	94912.5	99658.2
Other short-term operating assets	0.0	1162.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term investments	3564.0	2784.0	4524.0	110768.3	139930.6	182631.5	239566.8	304449.6
Total current assets	103007.0	131605.0	152877.0	274314.9	323102.9	382289.3	451204.0	526668.7
Net plant, property, & equipment (PPE)	10998.0	20403.0	38090.0	43050.6	48216.7	52556.2	55709.5	58495.0
Other long-term operating assets	182632.0	236634.0	210205.0	271059.2	303586.4	330909.1	350763.7	368301.9
Long-term investments	0.0	829.0	1468.0	1662.8	1862.3	2029.9	2151.7	2259.3
<b>Total assets</b>	<b>296637.0</b>	<b>389471.0</b>	<b>402640.0</b>	<b>590087.6</b>	<b>676768.2</b>	<b>767784.5</b>	<b>859829.0</b>	<b>955724.9</b>
<b>Liabilities and Equity</b>								
Accounts payable (AP)	3389.0	3630.0	8884.0	7289.0	8163.7	8898.4	9432.3	9903.9
Accruals	3325.0	1571.0	7440.0	5239.0	5867.6	6395.7	6779.5	7118.4
Other operating current liabilities	23603.0	28368.0	29982.0	33939.4	38012.1	41433.2	43919.1	46115.1
All short-term debt	0.0	3353.0	115719.0	165359.6	178601.1	189872.6	198815.7	207009.1
Total current liabilities	30317.0	36922.0	162025.0	211826.9	230644.5	246599.9	258946.6	270146.5
Long-term debt	120643.0	198154.0	67792.0	141333.0	152650.5	162284.3	169927.9	176930.8
Deferred taxes	(26227.0)	(22667.0)	(27964.0)	(15369.1)	(17213.3)	(18762.5)	(19888.3)	(20882.7)
Preferred stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	2256.0	2306.0	3524.0	3986.2	4464.5	4866.3	5158.3	5416.2
Total liabilities	126989.0	214715.0	205377.0	341776.9	370546.2	394987.9	414144.5	431610.8
Par plus PIC Less treasury (and other adjustments)	137215.0	143399.0	150412.0	150412.0	150412.0	150412.0	150412.0	150412.0
Retained earnings (RE)	32433.0	31357.0	46851.0	97898.7	155810.0	222384.6	295272.5	373702.1
Total common equity	169648.0	174756.0	197263.0	248310.7	306222.0	372796.6	445684.5	524114.1
<b>Total liabilities and equity</b>	<b>296637.0</b>	<b>389471.0</b>	<b>402640.0</b>	<b>590087.6</b>	<b>676768.2</b>	<b>767784.5</b>	<b>859829.0</b>	<b>955724.9</b>

**ANI Pharmaceuticals Inc (NMS: ANIP)***In thousands of USD*

<b>Statement of Cash Flows</b>	<b>42735.0</b>	<b>43100.0</b>	<b>43465.0</b>	<b>43830.0</b>	<b>44196.0</b>	<b>44561.0</b>	<b>44926.0</b>	<b>45291.0</b>
<b>Operating Activities</b>								
Net income	3934.0	(1076.0)	15494.0	51047.7	57911.4	66574.6	72887.9	78429.6
Depreciation	22343.0	27928.0	33742.0	17349.4	19431.3	21180.1	22450.9	23573.5
Change in deferred tax	(8911.0)	3560.0	(5297.0)	12594.9	(1844.3)	(1549.2)	(1125.8)	(994.4)
Change in inventory	(12796.0)	(11544.0)	(2776.0)	(5281.0)	(5494.1)	(4615.0)	(3353.6)	(2962.3)
Change in accounts receivable	(23963.0)	(12893.0)	(6054.0)	(8503.4)	(8801.5)	(7393.2)	(5372.4)	(4745.6)
Change in other short-term operating assets	1127.0	(1162.0)	1162.0	0.0	0.0	0.0	0.0	0.0
Change in accounts payable	1323.0	241.0	5254.0	(1595.0)	874.7	734.7	533.9	471.6
Change in accruals	2708.0	(1754.0)	5869.0	(2201.0)	628.7	528.1	383.7	339.0
Change in other current liabilities	15718.0	4765.0	1614.0	3957.4	4072.7	3421.1	2486.0	2196.0
<b>Net cash from operating activities</b>	<b>1483.0</b>	<b>8065.0</b>	<b>49008.0</b>	<b>67368.9</b>	<b>66778.9</b>	<b>78881.2</b>	<b>88890.7</b>	<b>96307.2</b>
<b>Investing Activities</b>								
Investment in PPE	(26210.0)	(37333.0)	(51429.0)	(22310.0)	(24597.4)	(25519.6)	(25604.3)	(26359.0)
Investment in other long-term oper. ass.	(114397.0)	(54002.0)	26429.0	(60854.2)	(32527.1)	(27322.8)	(19854.5)	(17538.2)
<b>Net cash from investing activities</b>	<b>(140607.0)</b>	<b>(91335.0)</b>	<b>(25000.0)</b>	<b>(83164.2)</b>	<b>(57124.5)</b>	<b>(52842.4)</b>	<b>(45458.9)</b>	<b>(43897.1)</b>
<b>Financing Activities</b>								
Change in short-term investments	(2111.0)	780.0	(1740.0)	(106244.3)	(29162.3)	(42700.9)	(56935.3)	(64882.8)
Change in long-term investments	0.0	(829.0)	(639.0)	(194.8)	(199.5)	(167.6)	(121.8)	(107.6)
Change in short-term debt	0.0	3353.0	112366.0	49640.6	13241.6	11271.5	8943.1	8193.4
Change in long-term debt	7216.0	77511.0	(130362.0)	73541.0	11317.6	9633.7	7643.7	7002.9
Preferred dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in preferred stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in other long-term liabilities	1068.0	50.0	1218.0	462.2	478.3	401.8	292.0	257.9
Change in common stock (Par + PIC)	5632.0	6184.0	7013.0	0.0	0.0	0.0	0.0	0.0
Common dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash from financing activities</b>	<b>11805.0</b>	<b>87049.0</b>	<b>(12144.0)</b>	<b>17204.6</b>	<b>(4324.4)</b>	<b>(21561.5)</b>	<b>(40178.4)</b>	<b>(49536.2)</b>
Net cash flow	(127319.0)	3779.0	11864.0	1409.3	5330.1	4477.3	3253.5	2873.9
Starting cash	154684.0	27365.0	31144.0	43008.0	44417.3	49747.3	54224.6	57478.1
<b>Ending cash</b>	<b>27365.0</b>	<b>31144.0</b>	<b>43008.0</b>	<b>44417.3</b>	<b>49747.3</b>	<b>54224.6</b>	<b>57478.1</b>	<b>60352.0</b>

**ANI Pharmaceuticals Inc (NMS: ANIP)**

In thousands of USD

<b>Ratios</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Productivity Ratios</b>					
Growth in sales	14.0%	37.5%	68.5%	36.4% <span style="color: green;">▲</span>	#DIV/0!
Receivables turnover	3.11	3.01	2.80	3.48	3.24
Inventory turnover	4.98	4.69	4.91	5.70	7.44
Operating working capital turnover	1.98	1.86	1.86	0.42	0.31
Net fixed asset turnover	0.81	0.69	0.66	1.01	1.07
Total asset turnover	0.50	0.45	0.43	0.28	0.23
Invested capital turnover	0.58	0.50	0.49	0.30	0.24
<b>Liquidity Ratios</b>					
Current ratio	0.94	3.56	3.40	18.22	16.48
Quick ratio	0.69	2.54	2.53	16.96	15.84
Cash ratio	0.29	0.92	1.02	14.77	14.39
Short-term investments over invested capital	0.01	0.01	0.01	0.01	0.01
Operating Cycle	190.75	199.21	204.54	168.91	161.83
Cash Cycle	174.66	191.71	194.92	159.03	144.52
<b>Financial Risk (Leverage) Ratios</b>					
Total debt-to-equity ratio	1.04	1.23	0.75	0.67	0.78
Total debt-to-equity ratio (excluding deferred taxes)	1.18	1.36	0.90	0.78	0.89
Total financial debt-to-equity ratio	0.93	1.15	0.71	0.71	0.79
Interest coverage ratio (accounting-based)	2.31	2.36	1.76	2.98	31.91
Interest coverage ratio (cash-based)	4.51	4.70	3.72	3.61	38.09
Total debt-to-assets ratio	0.51	0.55	0.43	0.40	0.44
Total financial debt over total assets	0.46	0.52	0.41	0.42	0.45
Long-term financial debt over invested capital	0.19	0.56	0.46	0.44	0.47
<b>Profitability/Valuation Ratios</b>					
Gross profit margin	63.8%	54.8%	56.9%	83.4%	79.5%
EBITDA margin	34.3%	31.8%	33.0%	51.9%	42.7%
Operating profit margin	17.5%	16.0%	15.6%	42.8%	35.7%
NOPAT margin	10.9%	1.0%	0.1%	27.9%	25.4%
Earnings before taxes margin	9.9%	9.2%	6.7%	28.5%	34.6%
Net margin	7.7%	-0.6%	3.1%	20.1%	51.4%
Return on Assets	8.78%	7.27%	6.77%	12.20%	8.06%
Net investment rate	-8.84%	5280.49%	3567.06%	101.27%	1646.30%
Dividend payout ratio	0.00%	0.00%	0.00%	0.00%	54.35%
ROIC	6.25%	0.65%	0.07%	9.07% <span style="color: green;">▲</span>	#DIV/0!