



The Jordanian Pharmaceutical Manufacturing Co. PLC
Quality and Research

The Jordanian Pharmaceutical Manufacturing

Co. PLC

CFC Project

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List of Acronyms

JPHM	The Jordanian Pharmaceutical Manufacturing Company
AOIM	Arab Organization for Industry and Mining
MENA	Middle East and North Africa
KSA	Kingdom of Saudi Arabia
GCC	Gulf Cooperation Council
CAGR	Compound Annual Growth Rate
DUPHAT	Dubai International Pharmaceuticals and Technologies Conference and Exhibition
OIC	Organization of Islamic Countries
UAE	United Arab Emirates
JFDA	Jordanian Food and Drug Administration
OTC	Over-the-Counter
QCMD	European Quality Control for Molecular Diagnostics
CIS	Commonwealth of Independent States
SWOT	Strength, Weaknesses, Opportunities and Threats
EBIT	Earnings Before Interest and Tax
JAPM	The Jordanian Association Of Pharmaceutical Manufacturers

Investment Summary

We rate The Jordanian Pharmaceutical Manufacturing Company (JPHM) a **Reduce**. This is based on the convergence of positive and negative investment measures. The company's strengths can be seen in multiple areas, such as its robust revenue growth during the periods from 2007 till 2011 and the unique portfolio of products and service it offers to its customers.

On the other hand, the company was negatively affected by the improper classification of contingent liabilities which lead to publish misleading annual reports in 2012, the adjusted annual reports were issued in 2013 to show a total loss of 1.5 million Jordanian Dinars comparing to net income of 1.9 million before adjustment. To recover, JPHM tried to increase its sales by increasing its market share and contract with new customers from the region. Unfortunately, it was unable to redeem the previously incurred losses, that due to the nature of services JPHM renders which need a huge amount of money, the company couldn't afford because 35% of JPHM's shares wasn't sold yet.

In 2014, the net loss was 7.142 million JD, and decrease in the total equity of 22.8% comparing to the prior year. On the bright side the operating revenue figure impressively increased by 13.5% comparing to 2013.

Forecast Assumptions

The revenue streams for JPHM over the next three years were projected based on historical performance and taking into consideration existing and expected global market conditions, a growth rate of 3% assumed for the operating revenues. Furthermore, a growth of 0.1% for the gross profit was projected.

For the Balance sheet we have assumed that all future growth in the Company will be financed from operations and through increased leverage. We have not assumed any further capital increases going forward.

JPHM's Future Plan

The Jordanian Pharmaceutical Manufacturing Company announced a plan in order to overcome its situation, this plan includes:

- Increase the share capital to reach 20 million JD; this might supply the company with funds to finance the service agreements.
- JPHM to be holding company, that will reduce the risk for the owner in case of bankruptcy and can allow the ownership and control of a number of different companies.
- To adopt the on-demand methodology of production in order to cut costs.
- Find new partnerships opportunities in the region to maximize the market share.

Conclusion

The value of JPHM's shares derived from the valuation is – 0.13 JD per share. The stock closed at 0.68 JD on Amman Stock Exchange at the trading-end of December 31, 2014. We therefore reiterate our '**Reduce**' recommendation on JPHM's stock at its prevailing price levels.

Introduction

Nowadays pharmaceuticals have become an essential part of health care system around the world. Historically pharmaceuticals have played a crucial role in the human development by improving the quality of life and reducing the time spent in the healthcare facilities. That's due to the contemporary pharmaceutical industry because of it almost all pestilences and chronic diseases are curable today.



Because of its direct link to the prosperity and welfare of human beings pharmaceutical industry has its strategic importance for the growth of a healthy nation. Now, pharmaceutical industry is one of the hugest and rapidly growing industries. It is a major source of employment and foreign exchange earnings for many countries around the world.

Pharmaceutical Industry Overview

Worldwide

The global pharmaceutical industry has shown quick progression over the years and arisen as one of the fastest developing industries in the world. However, the global pharmaceutical production and consumption is still unevenly dispersed around the world with the developed countries as the leading producers and consumers of pharmaceuticals.

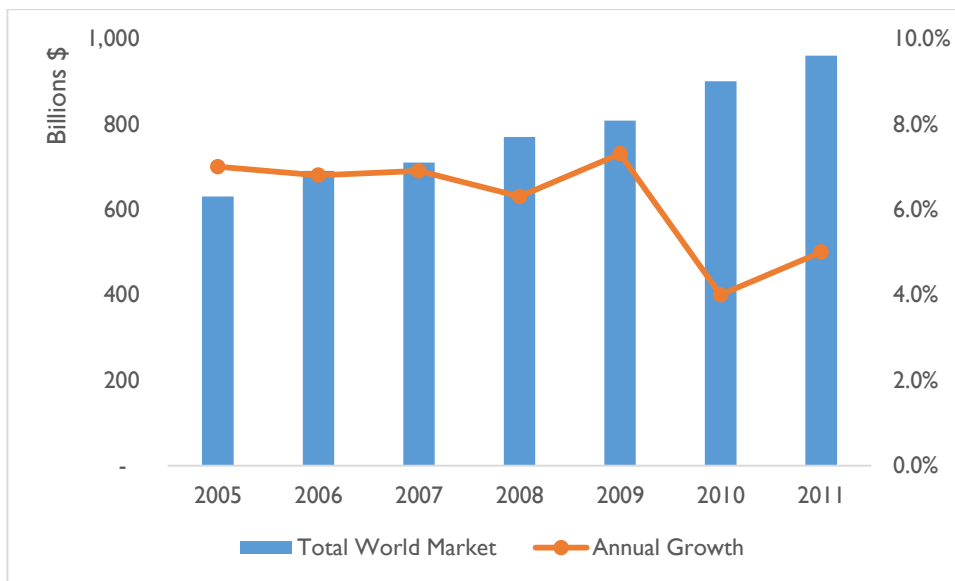
According to IMS Health in 2010, world pharmaceutical market was valued at US\$ 875 billion with a growth rate of 4.1% over the previous year. The volume of pharmaceutical industry has rushed from US \$ 647 billion in 2005 to US\$ 875 billion in 2010, conforming to an increase of 35.2%.

During this period, the industry's growth rate has witnessed a declining trend from 7.2% in 2005 to 4.1% in 2010. This decline is mainly linked with the strike in economic activity, particularly in the developed countries, which consume a huge chunk of global pharmaceutical products. In 2008, economic slowdown in developed countries culminated into the worst global financial and economic crisis since the Great Depression. The negative effects of this collapse were felt across the world.

All sectors were hard hit. The pharmaceutical industry was not an exception and it has witnessed one of the lowermost year-on-year growth rates of 6.1% in 2008. In 2009, though, the negative effects of the crisis subsided and global economy has started to improve.

These positive developments helped the global pharmaceutical industry to recover to its pre-crisis level and its growth rate increased to 7.1% in 2009 (Figure 1).

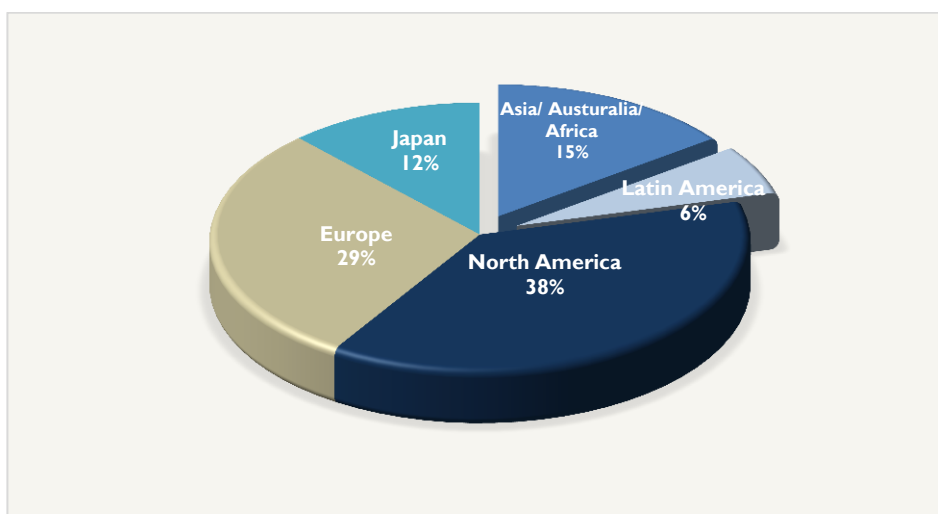
Figure 1: Global Pharmaceutical Production & Consumption, 2005-2011



Source: IMS Health Market Prognosis, March 2011.

Global pharmaceutical market, both in terms of production and consumption, is highly concentrated in the developed areas. In 2010, North America (38%), Europe (29%) and Japan (12%) accounted for nearly 79% of global market. On the other hand, developing regions with a share of nearly 85% of world population, accounted for only 21% of global pharmaceutical market in 2010 (Figure 2). A breakdown of pharmaceutical market in developing world uncovers that Asia, Australia and Africa represent closely 15% while Latin America accounts for 6% of the global pharmaceutical market.

Figure 2: Regional Distribution of Global Pharmaceutical Production & Consumption – 2010

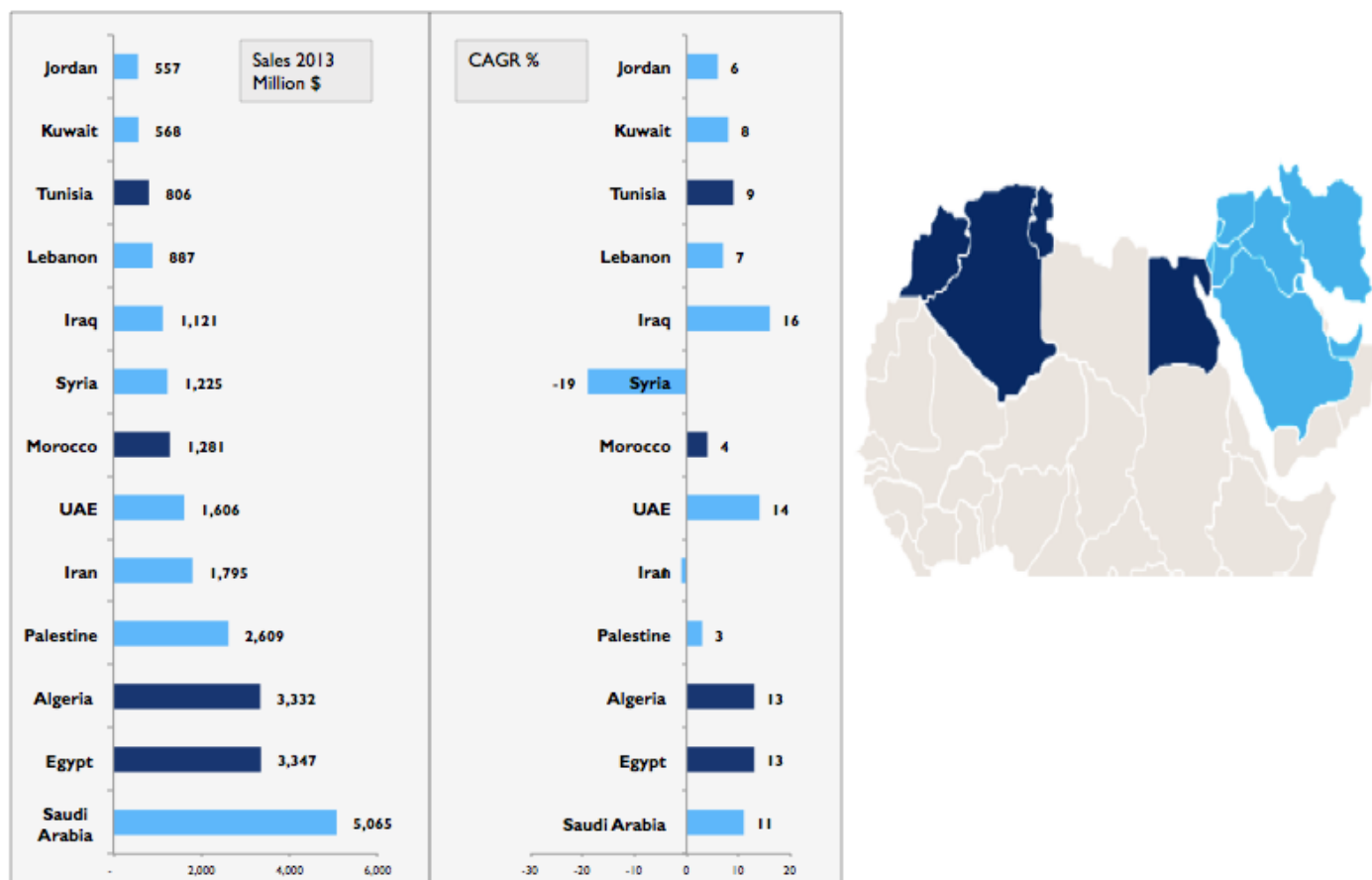


Source: IMS Health Market Prognosis, March 2011.

MIDDLE EAST AND NORTH AFRICA (MENA)

Pharmaceutical market in the MENA region accounted for around 1.8% of the global market, or around US\$ 25 billion in 2013 (Figure 3). Most of the countries in MENA region are characterized by low local pharmaceutical base. According to AOIM (Arab Organization for Industry and Mining), local production accounts for 45 % of consumption, with more than 220 manufacturing plant.

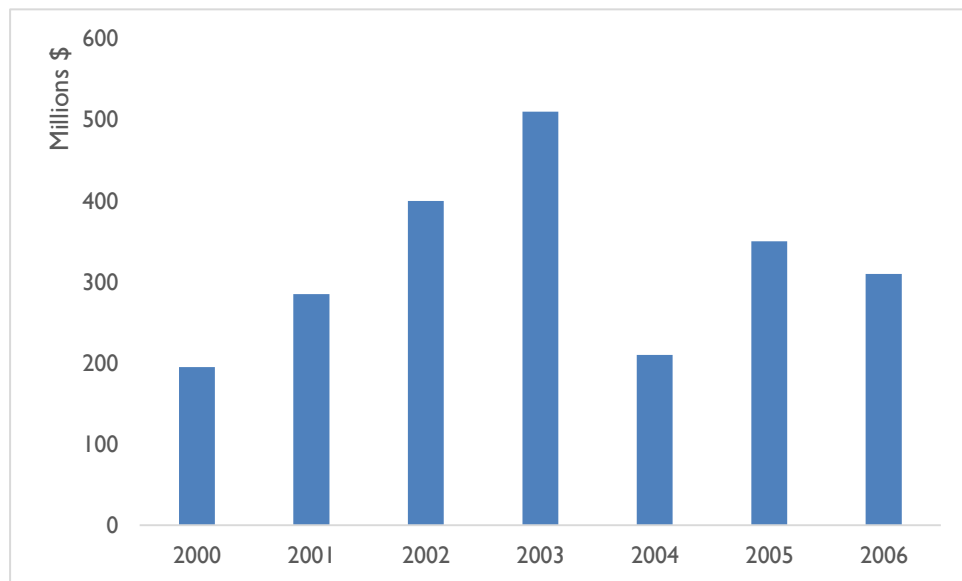
Figure 3: MENA – Pharma Sales & Market Growth 2013



Source: IMS Health Market Prognosis, 2014.

Among the GCC countries KSA has the largest number of local pharmaceutical manufacturing plants (27 Plant) with an investment of US\$ 619 million. As shown in Figure 4, KSA pharmaceutical industry produced medicines worth of US\$ 320 million in 2006 compare to US\$ 187 million in 2000. However, domestic production satisfies only 15% of the demand and imports account for 85% of the domestic market.

Figure 3: Pharmaceutical Production in Saudi Arabia 2000 – 2006



Source: National Commercial Bank of Saudi Arabia.

Egyptian drug market, which is estimated at about US\$ 1.7 billion in 2007, is one of the major prosperous markets in the MENA region. Based on some reports, Egyptian pharmaceutical industry comprised of about 30 companies and local production satisfies more than 90% of local demand. On the other hand, Egypt is contributing 30% of supply in the MENA pharmaceutical market.

In the MENA region, UAE is one of the most expensive pharmaceutical markets with per capita medicine expenditure estimated at about US\$ 80. There are eight pharmaceutical manufacturing units in UAE, which presently satisfy around 10 % of local demand (Dubai International Pharmaceuticals and Technologies Conference and Exhibition, DUPHAT December 2008).

However, like the production, pharmaceutical trade also remained highly concentrated in developed world, which accounted for about 93 % of world exports and absorbed nearly 82% of pharmaceutical imports in 2010. As a group, developed countries are net exporters of pharmaceutical products.

On the other hand, the share of developing countries in global pharmaceutical trade remained very low and they accounted for only 7% of exports and 18 % of pharmaceutical imports in 2010. As a group, developing countries are net importers of pharmaceutical products.

Organization of Islamic Countries (OIC)

Being a substantial part of the developing countries, majority of the OIC (Organization of Islamic Countries) member countries is net importer of pharmaceuticals and their share in global pharmaceutical trade remained very low. As shown in Figure 4, OIC pharmaceutical exports witnessed an increasing trend during the period 2008-2013. In 2013, OIC pharmaceutical exports valued at US\$ 2.6 billion compared to US\$ 1.4 billion in 2008, corresponding to an increase of 85%. During the period under consideration, on average, OIC member countries as a group accounted for about 7% of developing countries and about 1% of world total pharmaceutical exports.

Figure 4: OIC Pharmaceutical Exports 2008-2013



Source: UN Comtrade online database.

Jordan

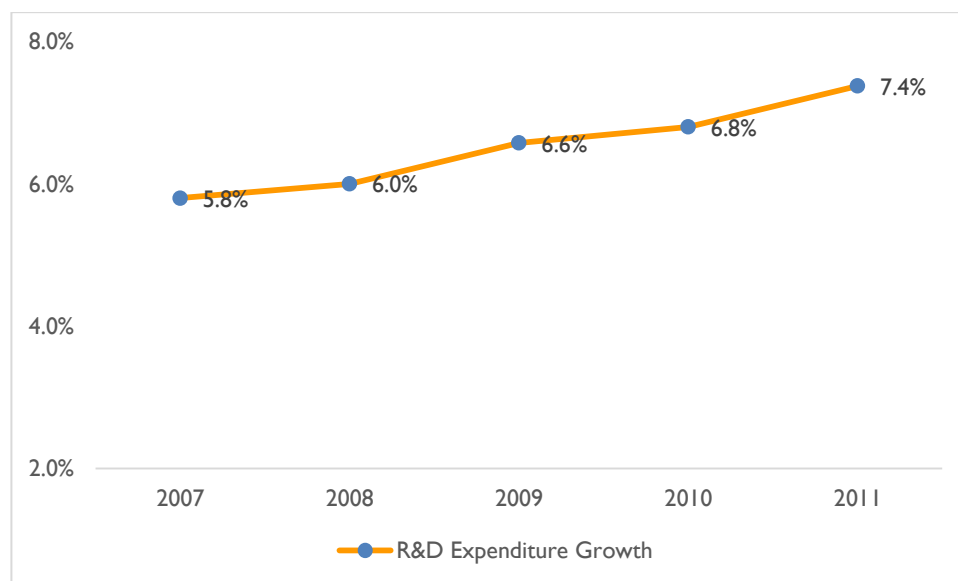
Jordan is considered a pioneer among the countries in the Arab world in terms of the pharmaceutical industry. The first Jordanian pharmaceutical factory was founded in 1962, and since then, the industry grew significantly. The pharmaceutical industry in Jordan has grown impressively and as of 2010, there were 17 pharmaceutical manufacturing companies with a capital investment of \$500 million.

The pharmaceutical industry is the second largest exporting industry in Jordan, representing 8% of the country's total exports during the period 2004 to 2008, which included 84% human medication, thus contributing strongly in reducing the deficit in Jordan's trade balance. The pharmaceutical exports extended to more than 60 countries worldwide, including the US and the EU, due to its high quality, excellent reputation and affordable prices. It became an export-driven sector, where

75% of the local pharmaceutical products are manufactured for exporting purposes, mainly to Arab countries, accounting for more than 80% of the total pharmaceutical exports.

The pharmaceutical manufacturers in Jordan mainly produce branded generic drugs. The market is dominated by generic medicines, which currently account for 90% of total market. As the country's Research and Development base expands, this is expected to fall. Expenditure of the pharmaceutical industry on R&D has increased from 5.8% of total sales in 2007 to 8.1% of total sales in 2011 (Figure 5). Due to the fact that the local companies concentrate their production on generics, 7% is where the R&D has been hovering around for the last two years.

Figure 5: Expenditure on R&D (2007-2011)



Source: JAPM

The pharmaceutical industry in Jordan has benefited from the growth in Middle Eastern economies (mainly the GCC countries) in recent years. The growth in these economies has resulted in increased government spending on the healthcare sector. The healthcare infrastructure has improved significantly in the region in the past few years.

Increasing privatization of healthcare in the region has benefited the industry as a whole. In addition, several countries have implemented mandatory health insurance schemes. Demographic trends in the region such as increasing life expectancy and literacy rates are expected to lead to a greater awareness of health-related issues and a consequent increase in demand for pharmaceutical products.

Physicians, hospitals and pharmacies generally buy the pharmaceutical products directly from the manufacturer or through a distributor. Price is not used as a tool to obtain market share since the price is fixed by the Jordanian Food and Drug Administration (JFDA). The pharmaceutical companies try to gain market share by focusing on brand building and thriving relationships with doctors and pharmacists. The first company to introduce a generic version of a drug would most likely gain the most market share.

Government Concessions

The pharmaceutical sector in Jordan has been offered certain concessions by the government, considering the importance of the sector, in terms of promoting the contract agreements (licensed manufacturing and marketing rights) between multinational pharmaceutical companies and local companies. Most pharmaceutical imports are from European countries and comprised largely of those therapeutic classes not covered by local production. Almost 90% of the total revenues are derived from branded generics, whereas under-licensed products contribute to the majority of the remaining revenues.

Types of Products

- The industry caters to two main markets: Prescription and Over-the-Counter (OTC) medication.
- Specialties include antibiotics, anti-ulcer cures, hormones and anti-cancer treatments.
- Jordanian pharmaceutical firms are venturing into biotechnology. The local pharmaceutical companies are primarily engaged in producing several dosage forms such as solids, semi-solids, liquids and aerosols.

Competitive Advantage

The most important competitive advantages of the Jordanian pharmaceutical companies are:

- More than half of the pharmaceutical companies were established in the last two decades, most of which are state-of-the-art facilities, equipped with advanced machinery and the latest technologies for increasing the production capacities, enabling Jordanian pharmaceutical companies to partner with foreign companies for manufacturing purposes.
- The Jordanian pharmaceutical industry has grown good manufacturing and technical expertise. Jordan turn into a center for Good Manufacturing Practices (GMP) in the region, which led to exporting services and expertise in the pharmaceutical industry to many Arab and foreign countries.
- Rapidly growing health service market: Jordan is a medical hub for GCC with opportunities for investments in medical services and devices.
- Attractive Intellectual Property protection

Employment

The industry is employing around 5,100 people, of which 37% are females. This indicates that the pharmaceutical industry in Jordan is leading the way for female contribution to the economy. Also, holders of post-secondary educational degrees (Diploma, BSc, MA, MSc, and PhD) are representing more than 67% of the total employees, which indicates that the industry is based on strong and adequate human resources.

Emerging Challenges

Jordan first started its pharmaceutical industry early in the 1960s. At that time, the pharmaceutical industry was not established in many countries in the region. Currently, the Jordanian pharmaceutical industry remains one of the highest dedicated to quality products. The regional competition is becoming a challenge as the neighboring countries, which are Jordan's biggest markets, are developing their own home grown pharmaceutical industries. The next stage for the Jordanian pharmaceuticals will be the entry to European and American markets. Currently, several Jordanian pharmaceutical companies are both US FDA and EU GMP approved.

India and Egypt are both not signatories to the TRIPS agreement, therefore many of their pharmaceutical products can't be imported by countries who oblige by the rules and regulation of TRIPS. Once the major companies not abiding by the TRIPS agreement adhere to it, they can flood the markets with relatively cheap medications. The Arab market by itself is a market of few hundred million consumers. Very solid pharmaceutical industry can be built just to serve that customer base as demonstrated by the fact that most Arab countries do not produce even 50% of their national consumption. The main problem with the Arab market is that the agreement on setting up a common pharmaceutical Arab market seems easier said than done, and is taking too long to implement.

The pharmaceutical sector in Jordan was affected severely in 2003 due to the war in Iraq. This created a challenge at the time, and the need to create a diversified basket of export markets to offset any such incidents. Currently, the Jordanian pharmaceutical companies are working on markets in Europe and the US to diversify on their regional dependence. Developing partnerships and strategic alliances with world leaders in the pharmaceutical industry, local expertise with global know how. The pharmaceutical companies in Jordan will be benefiting from signing licensing agreements with multinationals and forming strategic alliances. This, in the long run, would improve the quality of Jordanian products and would also transfer the know-how to local manufacturers.

The Jordanian Pharmaceutical Manufacturing Company Profile (JPHM)

JPHM is an innovative manufacturing company operating in diversified sectors within the healthcare industry. It was established in 1978 as a brand-generic developer and producer and this remains the core operation of the company.

During the early years since establishment, the corporate adopted innovation as the major growth driver. As direct result of this innovation, operations were diversified outside the traditional generic pharmaceutical industry by spinning out mature technology platforms into subsidiaries with independent management and resources.

Strategical Perspective

JPHM strategy for growth is to:

- Consolidate its position in the existing markets.
- Strengthen its product portfolio with new products and segments.
- Diversify its business line through quality research into new technologies and technology transfer.

Area of Interest

The Jordanian Pharmaceutical Manufacturing Company is active in diverse areas of the healthcare industry including:

- Generic drug development and manufacture for chemical and biological drugs
- Drug discovery.
- Generic and originator drug regulatory registration and marketing in the MENA region, the EU, Africa and the CIS.
- The development, manufacturing and marketing of products based on natural extracts.
- Development, validation, standardization and manufacturing of medicinal plant extracts.
- The development and commercialization of patented clinical diagnostic products.
- Technology transfer, licensing, auditing and training for established and new pharmaceutical manufacturers.

Partnerships

JPHM expanded its presence in the pharmaceutical arena by holding shares in other pharmaceutical companies, namely:

- Saiph in Tunisia
- Tasili in Algeria
- Sewar in Sudan
- Elbour in Egypt
- Azel in Eritrea
- Finalpharma in Mozambique

JPHM is one of the most creative and successful technology and marketing support providers in the region. The group has implemented successful partnerships with various institutions across Europe, Asia and Africa.

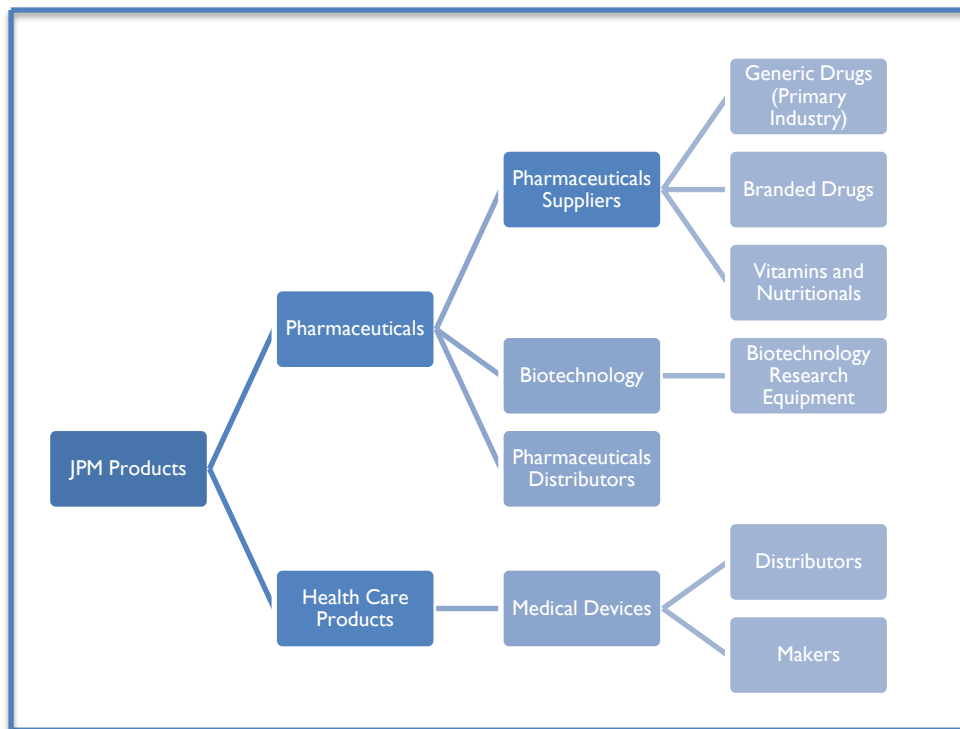
With an extensive track record of success in licensing technologies in both directions, and with a rich portfolio of innovative-patented technology platforms ready for commercialization, the group is by far the most active and successful strategic partner in the region.

JPHM Products

JPHM is a leading regional company with core operations in the development and manufacture of quality, affordable branded generics serving the needs of consumers and healthcare professionals.

- JPHM products cover a wide range of therapeutic categories including Cardiovascular, Gastrointestinal, Central Nervous System, Anti-Infective, Endocrine, Musculoskeletal, Respiratory, Obstetrics, Gynecology & Urinary Tract, and Immune System.
- JPHM pharmaceutical preparations include tablets, capsules, suppositories, Injectables, syrups and suspensions.
- JPHM operations also cover other areas of the healthcare industry including biotechnology diagnostic products, novel advanced drug delivery systems, and natural herbal products.

Figure 6: JPHM products



Source: JPHM Website

JPHM's Affiliated Companies

1. Delass Natural Product Ltd.

DELASS was launched as a fully-fledged pharmaceutical company complying with GMP regulations with the objective of developing and commercializing medicines derived from natural sources.

Since its establishment in 1998, DELASS has successfully developed a portfolio including more than forty products. DELASS has recently added a new product line of functional foods, which are foods with a therapeutic value beyond their nutritional function.

2. AraGen Biotechnology Ltd.

AraGen Biotechnology Ltd. operating in the field of biotechnology and engaged in the development and manufacture of proprietary diagnostic test kits.

Established in 1999, AraGen is committed to broadening the activities of JPHM by targeting healthcare sectors that reflect new trends in the global healthcare industry; trends that improve quality of life.

Diagnostics are emerging as a future dominant trend, shifting rapidly towards providing health care directly to the end user. Over-the-counter (OTC) diagnostic tests place patients at the center of

the healthcare problem by providing them with the tools that enable them to become part of the solution, thus giving healthcare a new dimension.

3. Suwagh Excipients and Drug Delivery Systems Ltd

Suwagh focusing on the development of proprietary, specialized drug delivery systems and pharmaceutical additives that improve drug delivery and improve the patient's quality of life.

Established in 2002, this strategic venture is part of a long-term vision of JPHM to produce high value and high quality patented drug formulations for global markets. Suwagh is expected to become one of the most vital JPHM operations, forcefully introducing JPHM into the global market as a world player in pharmaceutical manufacturing and technology.

Suwagh has over 20 patents at various stages of approval; a number that is growing and will continue to grow rapidly in years to come.

Human Capital

JPHM exceeds the Jordanian Labor Law in treating and preserving the rights of its people.

The 'Rules of Procedures' ensures these rights.

- Health insurance is covered for all employees and their families
- JPHM supports the peoples' spiritual and religious needs through different arrangements; providing prayer facilities, reducing working hours in Ramadan, contribution in pilgrimage (Haj) expenses for employees.
- JPHM offers unique opportunities for career-focused individuals and continuously on the look out to support talented people, in this context JPHM offers financial support enabling employees to peruse undergraduate and postgraduate education.
- Disciplinary actions are set in a way that ensures the human rights and the compliance with the labor's law.

Employees' Benefits

- Clear salary scale with basic salary.
- Salary 13 and 14: paid to employee during the one year.
- Comprehensive medical benefits with a broad-based provider network include comprehensive medical, dental vision and basic insurance coverage. After trial period.
- Social security from one day.
- Transportation allowance.
- Daily meal.
- Maternity leave program, for mothers as in Jordanian law.

Community

Community Involvement and Development

JPHM contributes to the advancement of the local community by different means:

- Grants priority to the local community workforce by its employment policy.
- JPHM employment policy places special emphasis on gender equality and supports working mothers.
- Organizes and participates in social events for local communities, often in support of charitable causes, which include improving local schools facilities.
- JPHM employees have formed social care groups, funded by the employees themselves and supplemented by JPHM, providing support and help to vulnerable and needy communities in the region.

Communities and cultures interaction

- JPHM strives towards a global understanding among communities, and takes positive steps in promoting this understanding by hosting and training students and young professionals from around the world.
- JPHM organized training and education of pharmaceutical industry professionals from different countries; Sudan, Tunisia, Bosnia, Kazakhstan, Egypt, Eritrea and Palestine

Science and Industry Advancement

- JPHM cooperates with local and international universities in research and development programs, a large number of scientists and university professors are engaged in different researches lead by the company.
- JPHM supports and hosts many postgraduate student researchers reading for their masters' or doctorate programs at international universities including:

Kings Collage, UK, Greenwich University, UK, Lancaster University, UK, University of Gezira, Sudan, Jordan University of Science and Technology, Jordan and Jordan University, Jordan

Environment

- JPHM is an environmentally conscious organization and does all it can to minimize environmental impact at the local, regional and global levels.

- JPHM recycles waste and implements effective controls and procedures according to international regulations for waste disposal.
- JPHM is aware of the importance of optimum consumption of water and apply different actions to preserve water; such as wastewater treatment and reuse in irrigation, rain water collection, in addition to continuous efforts to optimize water usage.

Ethics and Transparency

- JPHM plays an important role, both locally and nationally, in community public health awareness and in the training of health professionals in collaboration with health authorities.
- JPHM sponsors financially and scientifically and contributes effectively in medical and pharmaceutical conferences.
- JPHM donates quantities of its products to medical days organized in needy areas and communities inside and outside Jordan.
- JPHM has a comprehensive quality system that takes care of the product from the design stage through manufacturing until it reaches the consumer; we follow our product through its life cycle and after it is expired. The system guarantees that the customer receives only pure, safe and effective medicine.
- JPHM offers equal alternatives to expensive drugs for the treatment of chronic and non-chronic diseases.

Adoption of the new and revised accounting standard

JPHM financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements have been prepared on the historical cost basis.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Equity-settled employee share schemes are accounted for in accordance with IFRIC 11 Group and Treasury Share Transactions, whereby current charge expenses relating to the subsidiaries' employees are recharged to subsidiary companies.

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements; however, they may impact the accounting for future transactions and arrangements.

- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment entities
- Amendments to IAS 36 Recoverable amount disclosures for non-financial assets

- At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:
 - IFRS 9 Financial Instruments
 - IFRS 11 Joint arrangements
 - IFRS 14 Regulatory deferral accounts
 - IAS 16 and IAS 38 (amendments) Property, plant and equipment and intangible assets
 - IAS 16 and IAS 41 (amendments) Property, plant and equipment and agriculture (impact to be evaluated)
 - IFRS 15 Revenue from contracts with customers
 - IAS 19 (amendments) Employee benefits
 - IAS 27 (amendments) Investment Entities
 - IFRS 10 and IAS 28 (amendments) Sales or contribution of assets between an investor and its associate/Joint venture
 - Annual improvements to IFRSs: 2010 – 2012
 - Annual improvements to IFRSs: 2011 – 2013
 - Annual improvements to IFRSs: 2012 – 2014 Cycle

Except as noted above, the Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods.

SWOT Analysis of JPHM

This dynamic and strategic SWOT analysis of The Jordanian Pharmaceutical Manufacturing Company provides a strategic SWOT analysis of the company's businesses and operations. This SWOT analysis shows a comprehensive view of the company's key strengths, weaknesses, the potential opportunities and threats, in addition to provide a competitive advantage to the company which expected to faces a growth potential and new products and services can be seen.

Strength

- Large portfolio of products
- Wide geographic coverage - JPHM is represented in more than 35 countries.
- Brand recognition in the MENA region
- Pipeline of potential new patent, that might increase the sales figures.
- JPHM holds the regional benchmark in innovation with more than 70 patents

Weaknesses

- Exposure to price war on its generics products
- Cash flow- start up cash drain
- Weak and unfocused future plans
- High distribution and selling expenses that's due to the excessive reliance on sales agents
- Inappropriate management of company's fixed assets

Oppurtinties

- Strong drug pipeline resulting from acquisitions
- Potential for revenue generation in developing countries
- Patent expiry for mega pharma companies providing opportunities for growth in generics
- New distribution channels

Threats

- Global economic slowdown affecting negatively on sales
- Changing regulatory environment
- Pending in-licensed products not receiving approval

Financial Overview

The reason for selecting the time period between 2011 and 2014 is that the company's market share price was noticeably fluctuating from one period to another, this definitely linked with enormous changes in the company's accounts. In the following section those changes will be highlighted.

Financial statement analysis is concerned in the comparison of a company's performance with that of other companies in the same industry or business over a period of time. The International Accounting Standards Board's (IASB 2010) framework declares that; "The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions".

Financial analysis recognizes a company's specific strengths and weaknesses and proposes a course of action the company may perform to take advantage of its strengths and rectify its weaknesses in the future.

Financial statement analysis is not only significant for the management; it also is significant for the firm's creditors and investors. Information presented by financial analysis used internally and externally; for internal use, financial managers use information to assist make financing and investment decisions to maximize the value of the firm. For the external use, creditors and stockholders use financial statement analysis to assess how attractive is the firm's investment by investigating its ability to meet its current and predicted financial obligations.

Financial statement analysis engages examining the relationships between income statement items and balance sheet accounts in the sense of how these relationships vary over time that refers to a trend analysis, and how a specific firm compares with other firms in the same industry that refers to benchmarking or comparative ratio analysis.

However, there are limitations with financial statement analysis; but when used with great caution, it can offer valuable information about the firm's operations.

Annual report of a company presents two significant types of information to shareholders; the first is a written statement of recent operations of the company and its expectations for the future year, the second includes a set of quantitative financial statements that report the financial position of a company including dividends and earnings, for the last few years.

The information included in annual reports will assist shareholders to form a clear picture about the future dividends and earnings of a company. Annual report of a company includes the income statement that summarizes the revenues and expenses of a company during the accounting period and the balance sheet, which lists assets and liability, and shareholders' equity of a company during the accounting period.

Financial statements used to assist forecasting future financial position of a firm and to ascertain predicted earnings and dividends. For investors, financial statement analysis is important for future predictions. For management, financial statement analysis is helpful in planning and forecasting future circumstances of a firm. The primary phase of a firm's financial statement analysis is ratio analysis. Ratio analysis refers to the analysis of financial statements and the interpretation of financial data for a specific period of operation.

Financial Ratio Analysis

In this section we highlight the most important changes occurred during the period from 2010-2014 in JPHM, the idea is to interpret and analyze any changes, for that we will use multiple financial ratios keeping in mind the non-financial related issues that affected or might affect the company.

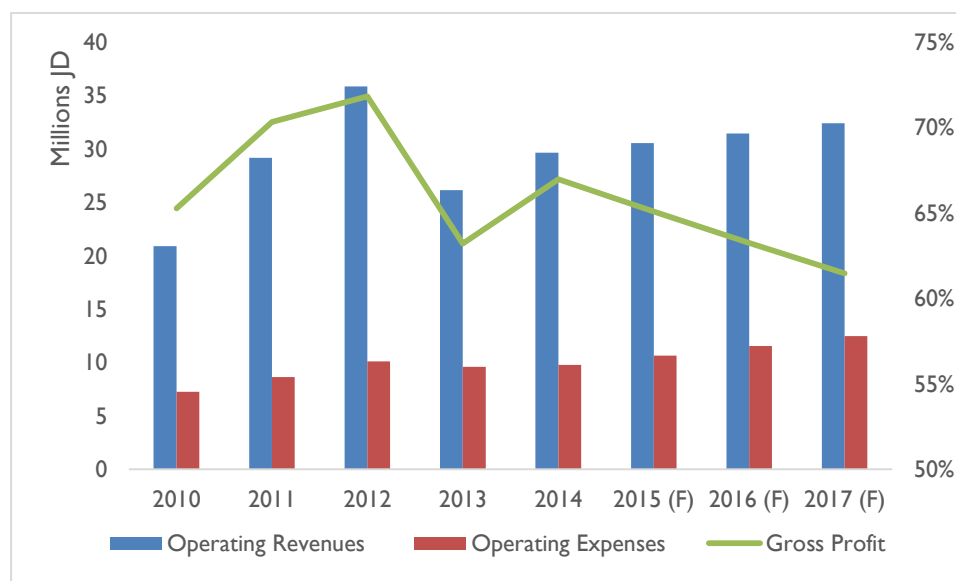
JPHM top line has been registering double digit growth in 2010 and 2011, with a compounded annual growth rate (CAGR) of 7.2% since 2010 to reach JD 29,649 million in 2014. Year 2012 was particularly remarkable for the Company, with a JD 8,273 million rise in revenues, equivalent to 39.6%, attributed to the strong performance in the branded and injectables business lines.

(JOD '000)	2010	2011	2012	2013	2014	2015 (F)	2016 (F)	2017 (F)
Operating Revenues	20,890	29,163	35,853	26,129	29,649	30,538	31,454	32,398
Growth Rate	40%	23%	-27%	13%	3%	3%	3%	3%

On the other hand, 2013 considered to be the worst year for JPHM, the revenues were noticeably down, and that's due to the lack of cash availability.

Going forward, since the operation of the company going down comparing to the previous years starting from 2012 a growth rate of 3% was assumed in our forecast for the three upcoming years.

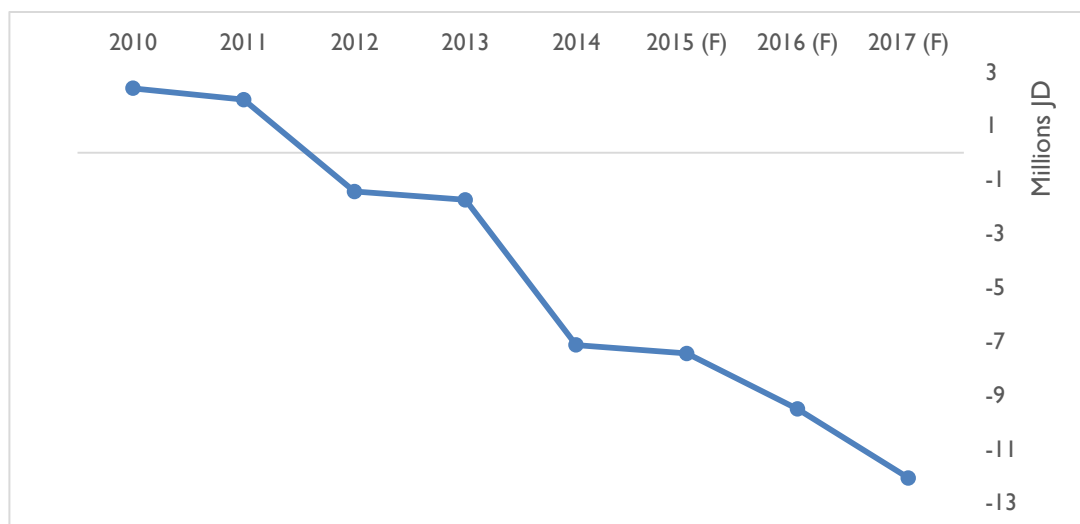
Figure 7: JPHM Operating revenues, expenses and gross profit (2010- 2017)



As a result of the operating expenses growth outpacing that of the revenues, JPHM gross margin has declined since 2012, dropping from 72% to 63% in 2013, and finally, 67% in 2014. Going forward, we would expect to see sustained growth in its gross margin (around 60%), on the back of growth in the branded and injectables businesses, which offer higher margins than the generics business.

During the periods 2010 and 2011, JPHM bottom line has seen sustained growth, reaching 2 million in 2011. In 2012, as growth in gross profit became overshadowed by the increase in operating expenses, coupled with a further hike in selling and distribution expenses to JD 20.1 (that's correlated with the increase of Sales agents' commissions (4.6 million)), led to a net loss of JD 1.52 million.

Figure 8: JPHM Net Income (2010- 2017)



For the periods from (2015- 2017), we anticipate net losses of JD 7.47, 9.52, 12.1 million respectively, based on the revenue growth rate.

While JPHM profitability has been improving during 2010 - 2011, the growth in its profits has been surpassed by the rate of growth of the Company, both organically and inorganically, despite of that the intangible assets drove down from JD 13.5 million in 2010 to JD 7.02 million the following year. This led the Company's Return on Assets (ROA) to decline, dropping to -9.36% in 2014 from 4% in 2012.

JPHM total assets have increased 12.4 million since 2010 reaching JD 73.5 million in 2011. The largest growth in assets took place during that year, affected from the selling on the plant to the bank for cash the total assets figure decreased in the following years starting from 2012.

The contribution of intangibles to total assets has risen to 29.4% in 2013 and 32.5% in 2014 from 28.9% in 2012.

A consideration of JPHM inventory turnover reveals a relatively stable level of around 3 times, giving an average number of inventory turnover days of approximately 325.

The challenges faced by the Generics business line during 2012 due to deteriorating conditions in the market resulted in slow moving inventory items. The restructuring of the management structure in the Company and centralization of operations is expected to enhance its inventory and working capital management, as well as improve purchasing power of the group as a whole.

The Company's trade receivables fell from JD 23.7 million in 2010 to JD 15.5 million in 2014. In terms of the receivables turnover ratio, this has been following an overall inclining trend in recent years, raising the number of receivable days to over 200 days, a trend to be expected with the increasing importance of sales in the MENA region, where settlement terms are traditionally much longer than in other regions.

The Company's management has stated that it intends to focus on collection and cash flow, and plans to reduce its cash cycle by ten days per year for the next five years.

The composition of JPHM's liabilities reveals a drastic increase in the Company's level of current debt in 2010, which previously made up less than 50% of the total liabilities, to over 70%. JPHM maintain a relatively stable current liabilities to total liabilities ratio in the following years which is around 47%.

Chart Gallery – The Jordanian Pharmaceutical Manufacturing Company

Figure 9: Current Ratio (2011- 2017)

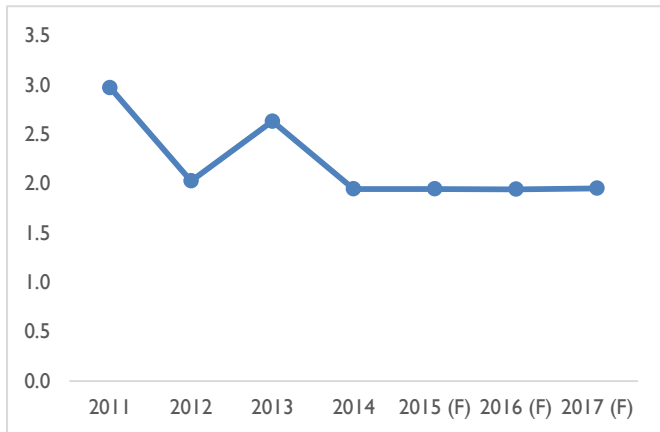


Figure 10: ROE Ratio (2011- 2017)

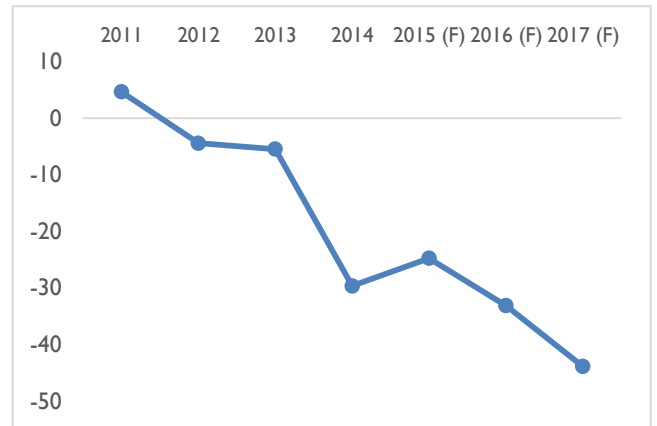


Figure 11: Times Interest Earned (2011- 2017)

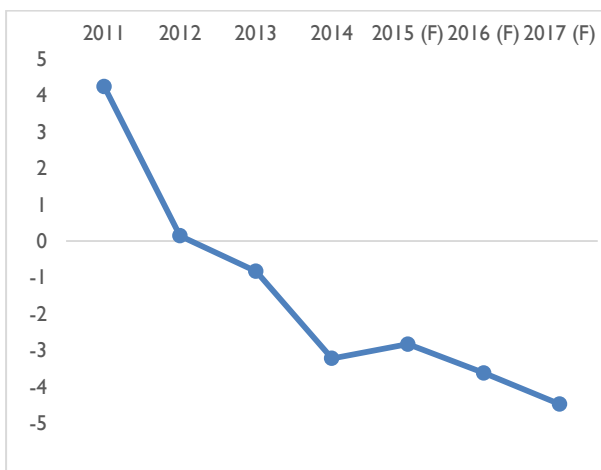
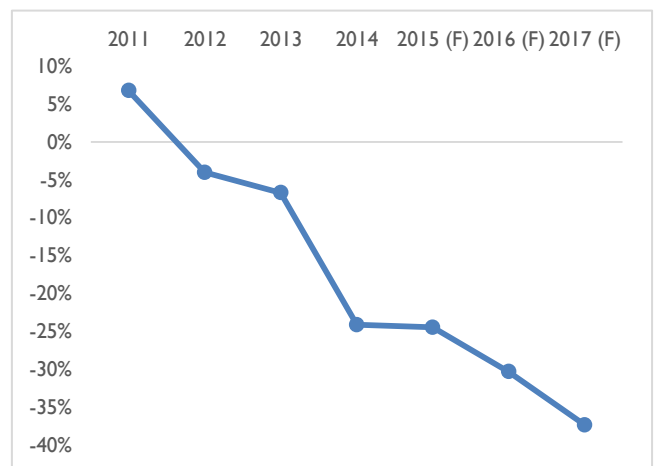


Figure 12: Profit Margin on Sales (2011- 2017)



Source: JPHM's Annual Reports (2011 – 2017)

Outlook and Valuation

In order to compute the cost of equity for JPHM, we have used the Capital Asset Pricing Model (CAPM).

The following assumptions have been made in order to arrive at the intrinsic value of The Jordanian Pharmaceutical Manufacturing Company

- A risk-free rate of 3.5%.
- A return on the market index of 0.05%.
- Beta 42.18% has been calculated.
- The cost of equity derived from the above assumptions using the Capital Asset Pricing Model (CAPM) is 2.05%.
- The cost of debt 22.92%.
- Based on the above assumptions, the Weighted Average Cost of Capital (WACC) works out to be 5.21%.
- Tax rate of 15.0%.
- Cash Flow constant growth rate of 0.0% has been assumed.

FCF Valuation

Free Cash Flow JD '000							
	2011	2012	2013	2014	2015(F)	2016(F)	2017(F)
EBIT	2,742	215	(794)	(5,452)	(4,996)	(6,394)	(7,911)
Tax Rate	4%	-11%	0%	0%	15%	15%	15%
NOPAT	2,632	239	(794)	(5,452)	(4,247)	(5,435)	(6,724)
Accrued Expense	838	728	1,253	1,151	1,196	1,243	1,292
Net Operating Working Capital	24,117	15,032	19,807	12,929	13,211	13,500	13,797
Net Fixed Assets	6,975	6,202	5,700	4,816	4,961	5,109	5,263
Total Operating Capital	31,093	21,233	25,508	17,745	18,171	18,609	19,059
NOPAT	2,632	239	(794)	(5,452)	(4,247)	(5,435)	(6,724)
Net Operating Capital	(2,394)	(1,033)	(4,657)	1,205	(1,188)	(1,289)	6,724
Free Cash Flow (FCF)	5,026	1,272	3,863	(6,656)	(3,059)	(4,146)	(13,448)

Valuation of JPHM

Based on our future earnings projections and the above assumptions, the value of Jordan Phosphate Mines Company comes out to be JD -13 per share.

Value of Operation at the end of 2014	(257,957,126)
Add: value of non-operating Assets	0
Total Corporate Value	(257,957,126)
Less: Value of Interest-bearing debt	14,902,662
Intrinsic Value of the firm's equity	(272,859,788)
Number of shares outstanding	20,217,535
Intrinsic Value Per Share	(13)

The stock closed at JD 0.69 on the Amman Stock Exchange at the end of trading at December 31, 2014. We therefore reiterate our 'REDUCE' recommendation on JPHM's stock at its prevailing price levels

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Appendix I: Balance Sheet

JPHM Balance Sheet JD '000								
	2010	2011	2012	2013	2014	2015 (F)	2016 (F)	2017 (F)
Assets								
Cash on Hand & at Banks	442	160	225	189	123	123	124	124
Short Term Investments	0	0	0	0	0	0	0	0
Cash & Equivalents	442	160	225	189	123	123	124	124
Account Receivables, Net	23,649	18,451	18,015	19,606	15,532	15,998	16,478	16,972
Notes Receivable	0	0	0	0	0	0	0	0
Post Dated Cheques	1,296	3,215	2,134	855	625	643	663	682
Inventory	7,038	9,792	10,142	8,883	5,950	6,478	7,023	7,584
Spare Parts	0	0	0	0	0	0	0	0
Outstanding Checks	398	1,780	2,138	970	2,415	2,488	2,562	2,639
Other Receivables	4,394	7,385	2,441	2,041	1,477	1,521	1,567	1,614
Due from related parties	1,147	1,210	4,268	3,999	3,850	4,349	4,969	5,754
Total Current Assets	32,824	41,993	39,364	36,543	29,971	31,601	33,385	35,370
Long Term Investments	10,444	10,639	9,739	10,725	9,364	9,645	9,935	10,233
Fixed Assets, Net	13,444	6,975	6,202	5,700	4,816	4,961	5,109	5,263
Lands	0	0	0	0	0	0	0	0
Projects in Progress	4	50	50	0	0	0	0	0
Total Fixed Assets	13,448	7,025	6,252	5,700	4,816	4,961	5,109	5,263
Other Assets	4,293	13,807	13,734	13,958	14,086	14,508	14,943	15,392
Total Assets	61,009	73,465	69,088	66,926	58,238	60,716	63,373	66,257
Liabilities								
Cheques Payable	0	0	7,649	2,747	3,406	0	0	0
Accounts Payable	0	0	4,914	4,802	4,058	0	0	0
Due to related parties	0	0	61	69	61	0	0	0
Accounts and Notes Payable	10,813	3,448	12,623	7,618	7,525	8,193	8,882	9,592
Credit Banks	2,598	320	833	956	1,504	1,549	1,596	1,643
Short Term Loans	167	1,113	0	0	0	0	0	0
Accrued Part of Long Term Loans	0	0	0	0	0	0	0	0
Leases	0	0	277	115	115	115	115	115
Notes Payable	0	0	1,708	126	242	184	213	199
Other Payables	0	0	3,978	5,071	6,011	6,192	6,377	6,569
Total Current Liabilities	13,578	14,129	19,420	13,885	15,397	16,233	17,183	18,117
Long Term Loans & Notes Payable	0	7,568	15,025	8,677	7,378	8,027	7,703	7,865
Corporate Bonds	5,695	0	0	0	0	0	0	0
Other Liabilities	0	9,063	0	11,471	11,188	11,524	11,869	12,225
Total Liabilities	19,273	30,760	34,445	34,033	33,963	35,784	36,755	38,208
Shareholders Equity								
Authorized Capital	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Subscribed Capital	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Paid-in Capital	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Compulsory Reserves	1,618	1,819	1,618	1,618	1,805	1,715	1,689	1,707
Voluntary Reserve	6,086	6,086	6,086	6,086	6,086	6,086	6,086	6,086
Other Reserves	0	0	0	0	0	0	0	0
Issuance Premium	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Issuance Discount	0	0	0	0	0	0	0	0
Treasury Stocks	0	0	0	0	0	0	0	0
Proposed Cash Dividends	0	0	0	0	0	0	0	0
Proposed Stock Dividends	0	0	0	0	0	0	0	0
Accumulated Change in Fair Value	437	437	437	437	437	437	437	437
Retained Earnings	11,027	11,772	3,979	2,205	(6,524)	(113)	(1,478)	(2,705)
Total Shareholders Equity	41,167	42,113	34,119	32,345	23,803	30,124	28,734	27,524
Minority Interest	569	591	524	548	471	514	514	514
Total Liabilities & Shareholders Equity	61,009	73,465	69,088	66,926	58,238	66,422	66,003	66,246

Appendix 2: Income Statement

JPHM Income Statement JD '000								
	2010	2011	2012	2013	2014	2015 (F)	2016 (F)	2017 (F)
Operating Revenues	20,890	29,163	35,853	26,129	29,649	30,538	31,454	32,398
Operating Expenses	7,256	8,651	10,102	9,612	9,792	10,662	11,558	12,482
Gross Profit	13,634	20,512	25,751	16,517	19,857	19,877	19,897	19,916
General and Administrative Expenses	1,782	1,908	2,154	2,333	2,468	2,674	2,896	3,137
Selling and Distribution Expenses	10,877	11,946	20,094	14,638	17,685	16,417	16,910	17,417
Depreciation (period)	0	1,702	1,885	1,854	1,950	2,078	2,215	2,361
Other Operating Expenses	161	1,097	1,159	1,000	1,971	2,102	2,241	2,390
Net Operating Income	814	5,561	2,343	(1,455)	(2,267)	(1,316)	(2,151)	(3,029)
Other Revenues	3,767	421	8	1,511	716	733	751	769
Other Expenses	1,207	3,240	2,136	850	3,900	4,414	4,994	5,651
Income Before Interest & Tax	3,374	2,742	215	(794)	(5,452)	(4,996)	(6,394)	(7,911)
Interest Expenses	897	645	1,473	955	1,691	1,766	1,766	1,766
Net Income before Tax	2,477	2,097	(1,258)	(1,749)	(7,143)	(6,763)	(8,160)	(9,677)
Income Tax (Period)	14	84	141	1	0	696	1,361	2,407
Income Tax (Previous Years)	0	0	0	0	0	0	0	0
Universities and Research Train Fees	24	0	0	0	0	0	0	0
Board of Directors Remuneration	45	45	45	0	0	0	0	0
Net Income	2,394	1,968	(1,444)	(1,750)	(7,143)	(7,459)	(9,522)	(12,083)
Minority Interest	100.1	21.9	72.9	24.1	(76.9)	6.7	6.7	6.7
Net Income Pertains to Shareholder:	2,293	1,946	(1,517)	(1,774)	(7,066)	(7,466)	(9,528)	(12,090)

Appendix 3: JPHM Financial Ratios Analysis (2011 – 2017)

Financial Ratios							
	2011	2012	2013	2014	2015 (F)	2016 (F)	2017 (F)
Liquidity Ratios							
Current Ratio	2.97	2.03	2.63	1.95	1.95	1.94	1.95
Quick Ratio	1.32	0.94	1.43	1.02	0.99	0.97	0.94
Profitability Ratios							
Profit margin on sales	7%	-4%	-7%	-24%	-24%	-30%	-37%
Return on assets	3.6	0.0	-1.2	-9.4	-9.4	-12.2	-15.6
Return on equity	4.6	-4.4	-5.5	-29.7	-24.8	-33.2	-43.9
Assets Management Ratios							
Days sales outstanding	231	183	274	191	220	217	226
Account receivable turnover	0.99	1.60	1.91	1.49	1.50	1.62	1.63
Assets turnover	40%	52%	39%	51%	45%	47%	46%
Activity Ratios							
Inventory turn-over ratio	0.88	1.00	1.08	1.65	1.15	1.22	1.27
Days inventory	413	366	337	222	335	315	302
Leverage Ratios							
Debt to assets ratio	42%	50%	51%	58%	59%	58%	58%
Debt to equity ratio	47%	73%	101%	105%	143%	119%	128%
Times interest earned	4.3	0.1	-0.8	-3.2	-2.8	-3.6	-4.5

Appendix 4: Global Equity Ratings Definition

Global Rating	Definition
Buy	Fair value of stock is higher than 10% from the current market price
Hold	Fair value of stock is between +10% and -10% from current market price
Reduce	Fair value of stock is between -10% and -20% from current market price
Sell	Fair value of stock is less than -20% from the current market price

Appendix 5: JPHM Profile

The Jordanian Pharmaceutical Manufacturing Company			
Code:	141204		
Telephone:	64290744		
P.O. Box:	16197 Um A-Amad 151		
Email:	info@grm.jo		
Fax:	4290752		
Established Date :	27-01-2004		
Listing Date:	6/7/2004		
No. of Branches:	Local 2 - Abroad 0		
Main Objectives:	Manufacturing the human medicens, medical appliances and cusmatics		
General Manager:	Adnan Badwan		
No. of Employees			
	Male	Female	Total
Jordanian	255	230	485
Non Jordanian	30	7	37
Total	285	237	522