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# Investment Research Challenge

hosted by

## New Economic School

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MIPT

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Ticker	PRMD
Enterprise Value, bln RUB	113,0
Market Capitalization, bln RUB	86,4
Revenue, bln RUB (2024)	21.1
P/E	29.3
EV/EBITDA	12.4

**PROMOMED** is a prominent Russian **biopharmaceutical company** specializing in **innovative therapies**. It operates a fully integrated model — from in-house R&D to production at its Biochemik facility. The company focuses primarily on **oncology** and **endocrinology** and continues to expand its portfolio of proprietary drugs. Notably, over the years company has built extensive expertise in **drug development**.

## RECOMMENDATION: HOLD

**Current Price:** 432 RUB

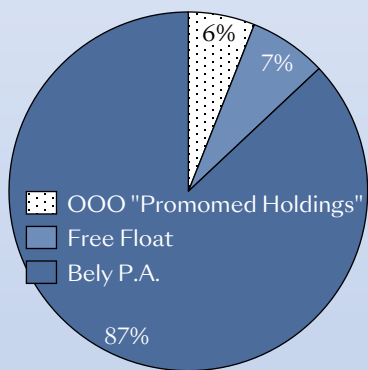
**Target Price:** 565 RUB

**General Picture:** Company is currently focused on capturing significant market share in key therapeutic areas and developing new pharmaceutical products. The company is **not oriented toward short-term profit**; instead, it is making substantial capital investments and reinvesting a large portion of its revenue into R&D.

**Innovative Drugs:** PROMOMED is committed to the production of innovative therapies. According to internal estimates, 70% of the company's revenue will come from innovative drugs by 2032, with total revenue projected to reach 170 bln RUB.

**Import Substitution:** The company holds a leading position in the obesity and diabetes treatment markets, enabled by both its innovation efforts and the exit of foreign competitors. Additionally, the Russian government's focus on import substitution for essential medicines (EDL) has resulted in regulatory support and incentives for PROMOMED.

**Overvaluation:** The company's stock appears **overvalued**, with expectations of future growth and success in innovative drug development already priced in. While major profits are anticipated in the coming years, there is a risk that projected growth may not materialize.



Shareholder Capital Structure



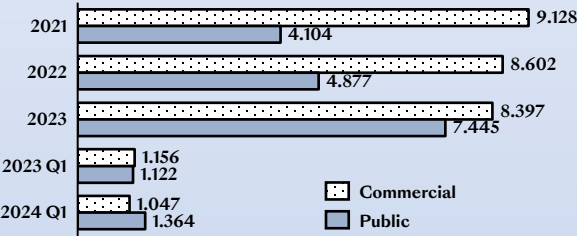
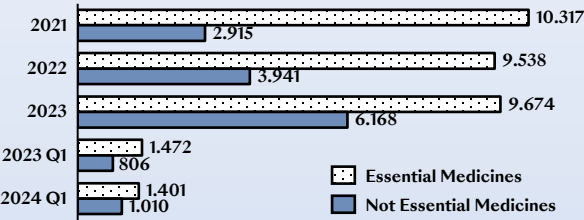
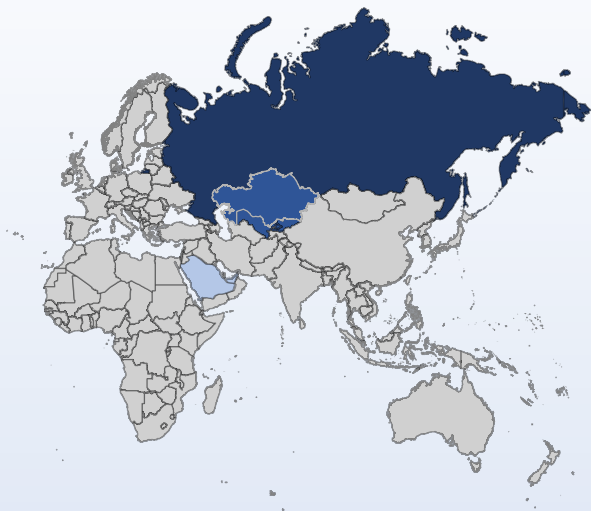
PROMOMED Stock Price, RUB

# Business Model Review

## Operating Regions:

**Russia:** PROMOMED is one of the leading pharmaceutical companies in Russia, engaged in the development, production, and commercialization of innovative drugs.

**Foreign:** Its primary export destinations are within the EAEU region, including Kazakhstan, Uzbekistan, and Kyrgyzstan. In 2024, the company aims for exports to account for 3–4% of total revenue. Key target markets for future expansion include the UAE, Saudi Arabia, African countries, and Southeast Asia.



PROMOMED Revenue Breakdown

## Operational Expenditures:

### Raw Materials:

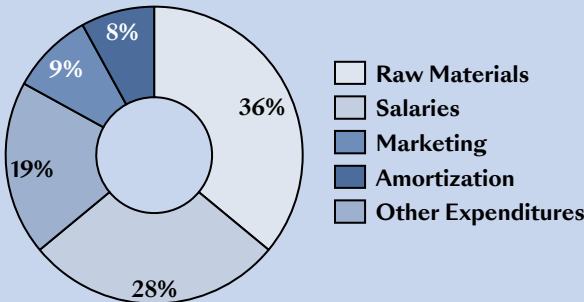
A significant portion of PROMOMED’s expenses — 36% in 2023 — was attributed to raw materials and supplies, with 40% of that amount denominated in foreign currency, exposing the company to exchange rate risk amid currency volatility.

**Supply Chain:** The company works with over 290 suppliers, but 80% of raw materials come from 55 core partners. Some critical inputs are sourced from just one or two producers, increasing supply chain dependency.

**Geopolitics:** Geopolitical risks are also relevant, as a significant portion of materials is imported from China and India. Sanctions and payment disruptions could pose logistical and financial challenges.

**Government Involvement:** In 2023, PROMOMED reported revenue of 15.8 bln RUB, with 47% derived from government procurement, underscoring the significant role of the government in the company’s operations. Additionally, the pharmaceutical industry in Russia is subject to strict government licensing and regulatory oversight, particularly in pricing controls for essential and vital medicines. These essential drugs account for 61% of PROMOMED’s revenue and over 80% of its total production

**“Pharma-2030” :** The Russian government is implementing large-scale support measures to boost domestic pharmaceutical production and import substitution. As part of the “Pharma-2030” strategy, the share of full-cycle Russian-made drugs in the domestic market is expected to reach nearly 70% by 2030, while the total production volume in monetary terms is projected to double to 1.4 trillion RUB. Additionally, the government’s focus on funding oncology treatments is driving higher tender procurement volumes for oncology drugs. This presents a growth opportunity for PROMOMED’s oncology portfolio, strengthening its position in the market.



PROMOMED Costs Structure

**Mitigating Supply Risk:** To mitigate risk, PROMOMED is investing in in-house API production via Biokhimik JSC and partnering with Russian firms. Key products like *Ambene Bio* (6% of revenue) and *Reduxin* (20%+) are now supplied internally, enhancing supply stability.

# R&D, Innovation, and Science

## Research Process:

**R&D center:** PROMOMED operates a fully integrated R&D center, covering the entire development cycle — from molecule discovery to technology transfer and product registration.

R&D is a key growth driver for the company, with over 10% of annual revenue invested into innovation.

The Group’s drugs have a strong evidence base and are regularly included in official guidelines that influence specialist prescriptions and government procurement (including the Essential Drugs List, clinical guidelines, treatment standards, etc.).

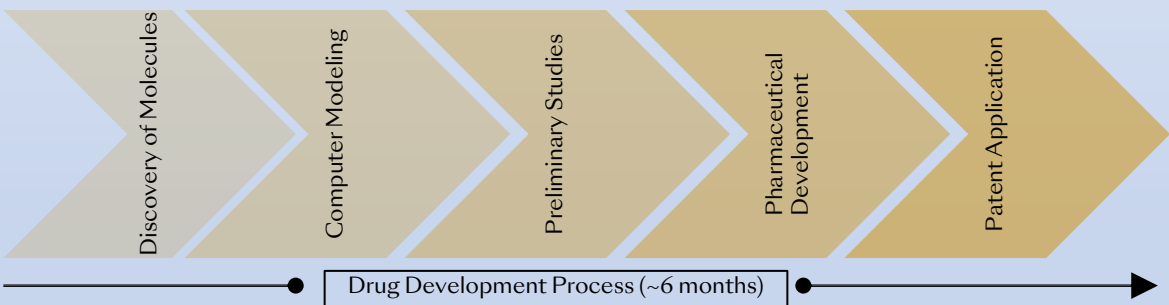
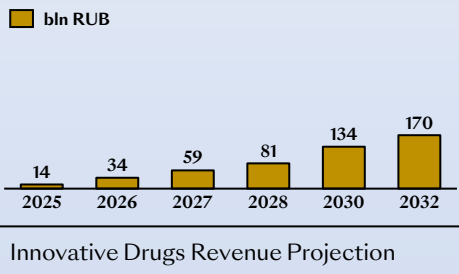
The R&D hub is equipped with advanced technologies that enable both the improvement of existing drug formulations and the creation of innovative therapies. By 2028, over 70% of PROMOMED’s portfolio is expected to consist of innovative products.

Having an in-house research center also supports the flexibility of PROMOMED’s business model. The center’s manufacturing and laboratory capabilities allow for rapid scaling and efficient technology.

**Innovation:** PROMOMED’s core portfolio includes innovative drugs across 10 therapeutic areas, including: targeted therapies for aggressive cancers, pain management, HIV and hepatitis treatment, weight control and diabetes, autoimmune diseases, neurology, respiratory infections (ARVI), antivirals, and veterinary medicine.

The company plans to bring these drugs to market between 2025 and 2028, aiming to generate over ₺170 billion in total revenue from their sales by 2032.

With continued investment in R&D and the withdrawal of foreign competitors from the Russian market, PROMOMED anticipates a significant increase in sales from its innovative drug portfolio as a share of total net revenue.



## Laborforce:

### Science and Education:

The company actively collaborates with academic institutions specializing in medicine, pharmaceuticals, and biotechnology. PROMOMED runs targeted educational programs in partnership with Ogarev Mordovia State University, Mendeleev University of Chemical Technology, RosUniMed, and Lobachevsky State University of Nizhni Novgorod. This cooperation ensures a steady pipeline of talent, attracting both young professionals and highly qualified specialists to support the company’s growth.

**Company Staff:** PROMOMED’s team consists of over 2,000 employees, with more than 350 working in R&D. Over 100 employees have been awarded state honors and titles for their contributions to the development and production of new drugs and pharmaceutical substances. The Group also collaborates with a wide scientific network, including over 200 PhDs and Candidates of Science.

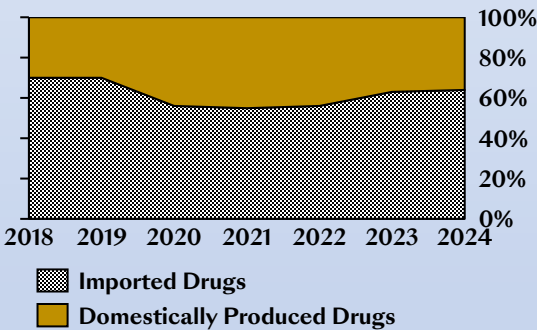
# Pharmaceutical Market

## Global Situation and Russian Positions:

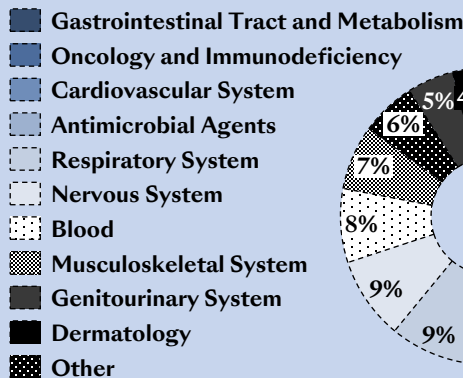
**Global:** The global pharmaceutical market is one of the largest and most innovation-driven consumer markets. Over the past seven years, it has been growing at an average annual rate of 6.4%. By the end of 2023, the market reached a size of 1.5 trillion USD. (For comparison, the global oil and gas market stood at 2.1 trillion USD.)

**Russian Positions:** Russia's pharmaceutical market ranks among the largest in the world — in 2021, it held 7th place globally, and by the end of 2022, it was 9th. The Russian pharma market continued its growth, reaching 3 trillion RUB in 2024, with an estimated 18% increase.

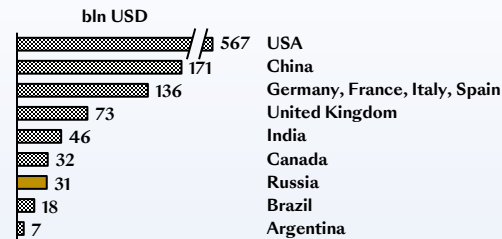
**Market Structure in Russia:** The market is segmented into three key sectors: the commercial market for prescription drugs, the commercial market for parapharmaceuticals, and the public sector. The share of the public sector has remained stable at around 32% recently. PROMOMED derives a significantly higher share of its revenue from the state — 47% of its total revenue comes from government contracts.



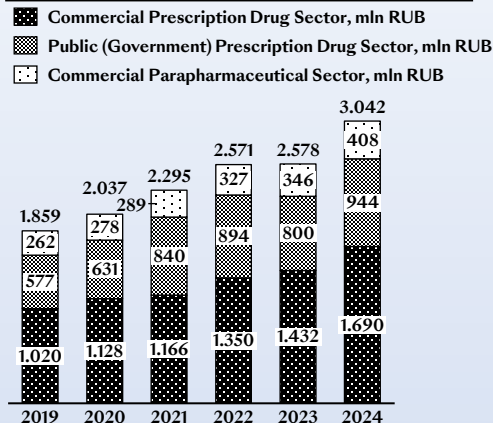
Market Share: Imported vs. Domestic Drugs



Market Share by Therapeutic Area



Pharmaceutical Market Size by Country



Revenue of PROMOMED by nosology

## Russian Pharmaceutical Market:

**Import:** Imported drugs still account for a significant share of the Russian pharmaceutical market — 64% by value in 2024.

The government's import substitution policy and the current geopolitical climate have driven growth in domestic pharmaceutical production and increased the market share of Russian companies. From 2018 to 2022, the share of imported drugs dropped from 70% to 56%.

Government support has intensified in recent years, with initiatives like subsidies and national programs. In 2023, the "Products to the Shelf" project was launched, aimed at developing analogs of patented drugs from unfriendly countries.

**Market fragmentation:** Russian pharma market is highly fragmented. No company holds more than 2% overall market share.

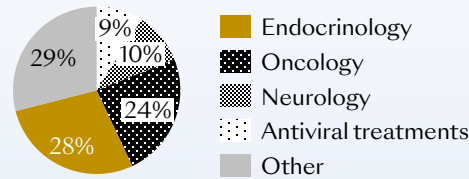
At the same time, many specific segments within the Russian pharmaceutical market are dominated by clear leaders.

PROMOMED ranks 18th with a 0.7% share but has significantly outpaced both the market average and the top 10 domestic producers in terms of revenue growth over the past three years.

# Sales and Competitors 1

## Key Sales Areas:

**Key Markets of PROMOMED:** The Company primarily focuses on five core therapeutic areas, also referred to as *nosologies* — endocrinology, oncology, neurology, and antiviral treatments — which together accounted for 71% of its revenue in 2023.



Revenue distribution of PROMOMED between nosologies

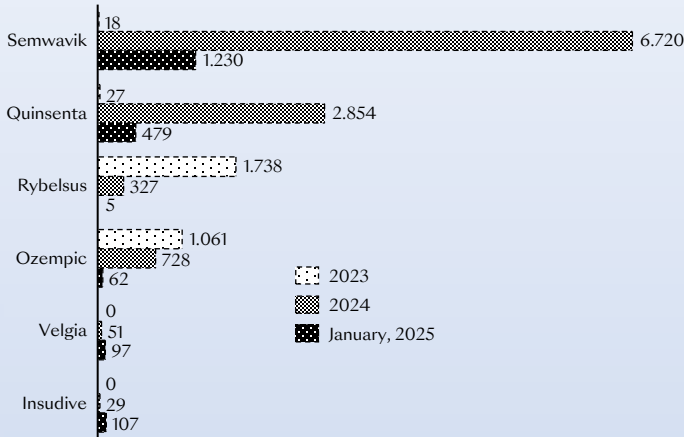
## Endocrinology:

### Endocrinology Market:

The endocrinology market is the largest for the company. PROMOMED holds leading positions in the production of medications for weight management and diabetes, including well-known products such as *Reduxin*, *Enligria*, *Velgia*, and *Quinsenta*.

### Novo Nordisk's Exit:

Until 2022, Novo Nordisk held a leading position in the Russian market for type 2 diabetes treatments and weight-loss medications. The company produced drugs based on the active ingredients **semaglutide** and **liraglutide**.



Key players on semaglutide market

## Sibutramine

### Sibutramine-Based Drugs:

*Reduxin* is a weight-loss medication that contains the active ingredient sibutramine. In the first half of 2023, sales of weight management drugs increased by 20.3% year-over-year in volume, reaching 1.5 million packages. In value terms, sales rose by 15.5%, totaling ₹4.2 billion.

### Competition in the Sibutramine Market:

Reduxin held a 44% share of the sibutramine market in value terms. PROMOMED generated ₹3.39 billion in revenue from this drug alone, which accounted for over 20% of the company's total revenue in 2023. Its main competitor in this segment was Goldline, which held a 33% market share.

## Semaglutide

### Semaglutide-Based Drugs:

PROMOMED produces two semaglutide-based medications — *Quinsenta* and *Velgia*. In 2023, the company held a 30% share of the Russian market for type 2 diabetes treatments. In 2024, revenue from *Quinsenta* reached ₹2.85 billion, accounting for 13% of PROMOMED's total revenue for the year.

### Competition in the Semaglutide Market:

PROMOMED's main competitor in the semaglutide-based drug segment is Geropharm, which holds approximately 70% of the market share.

## Liraglutide

### Liraglutide-Based Drugs:

PROMOMED's liraglutide-based medication, *Enligria*, held a 54% share of its respective market. In 2023, revenue from this product totaled ₹509 million.

### Competition in the Liraglutide Market:

PROMOMED was one of the first in producing liraglutide-based drugs, which allowed it to capture a significant share of Russian market. CinnaGen also entered the market with liraglutide, following the expiration of its patent protection. However, according to estimates, CinnaGen's market share is not expected to exceed 10–15%.

# Sales and Competitors 2

## Oncology:

**Growing Demand:** The growing prevalence of chronic diseases is expected to be a key driver of the global biopharmaceutical market. Biopharmaceutical drugs are particularly effective in treating a range of chronic conditions, including cancer, cardiovascular diseases, diabetes, and others.

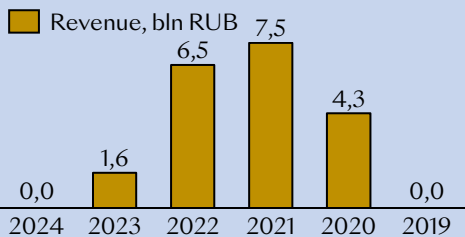
**Revenue from Oncology:** The oncology segment is the second-largest revenue source for PROMOMED. In 2023, the company's oncology drug portfolio generated ₺3.8 billion, accounting for approximately one-quarter of total revenue.

**Leader in Oncotherapy:** PROMOMED holds a leading position in oncotherapy. The company produces *Sunitinib*, *Docetaxel*, *Lenalidomide*, *Eribulin*, and *Oxaliplatin* for the oncology market. The first three drugs each captured over 20% of their respective molecule markets and collectively brought in ₺1.9 billion in 2023 — equivalent to 12% of PROMOMED's total revenue.

**Largest Number of Oncology Drugs:** PROMOMED has the largest number of strategically important products in the oncology segment, with 32 drugs across various indications — and this number continues to grow.

## COVID:

A key factor influencing the Group's performance in 2021–2022 was the COVID-19 pandemic. The strong financial results generated from the development and commercialization of these drugs enabled the company to invest in high-potential areas, which now serve as the primary growth drivers for PROMOMED's business.

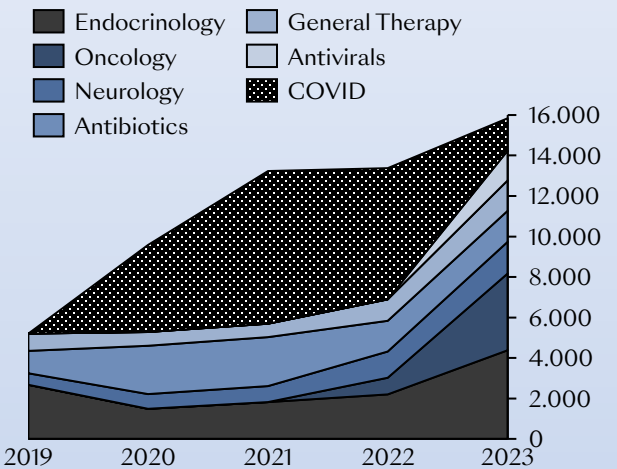


COVID Treatment Sales Revenue

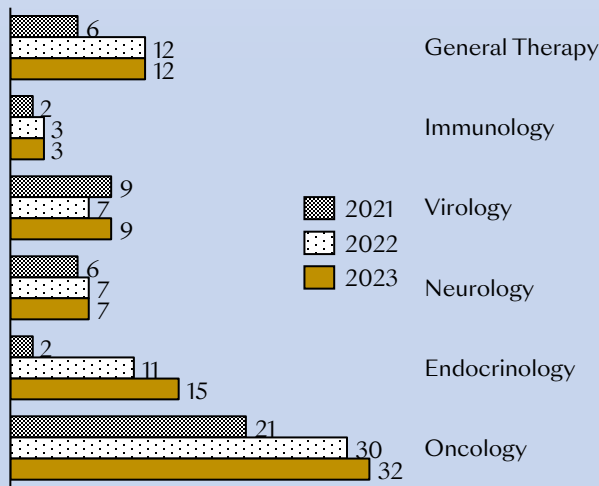
## Neurological, Antiviral and other treatments:

**Neurology:** Neurology is PROMOMED's third-largest therapeutic area by revenue, consistently contributing around 10% of the company's income over the past five years. The most prominent drugs in this segment are *Etaria* and *Lornia*.

**Antiviral and Others:** Among PROMOMED's remaining therapeutic areas, *Ambene Bio* and *Rolnavir* stand out. In 2023, these drugs generated ₺948 million and ₺895 million in revenue, respectively — accounting for 6% and 5.6% of the company's total revenue.



PROMOMED's Revenue by Nosology



PROMOMED's Strategically Important Drugs Portfolio Size by Nosology



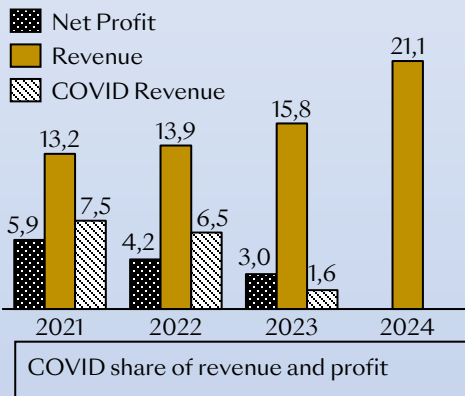
# Financial Position Overview

## Revenue and Profit:

**Strong Revenue Growth:** PROMOMED's revenue reached 21,1 billion Rubles in 2024, marking a significant 33% increase from 2023. This demonstrates robust sales performance and successful market expansion strategies.

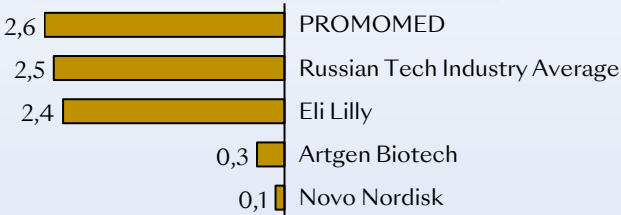
**Profit Fluctuations:** Despite revenue growth, net profit in 2023 was approximately P3 billion, representing a 25.3% decrease year-over-year. This decline was attributed to windfall tax payments and substantial R&D investments, indicating a focus on long-term growth over short-term profitability.

**COVID-19:** The company has successfully reduced its reliance on COVID-19 related products, with their share in revenue decreasing from 57% in 2022 to 10% in 2023. This shift suggests a more balanced and potentially sustainable revenue stream.



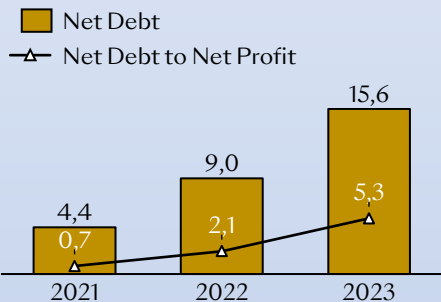
## Liabilities:

**Increasing Debt Level:** PROMOMED's net debt rose to P16 billion at the end of 2023, up from P9 billion in the previous year. This significant increase reflects the company's aggressive growth strategy, funded partly through debt financing.



### Net Debt to EBITDA peer comparison

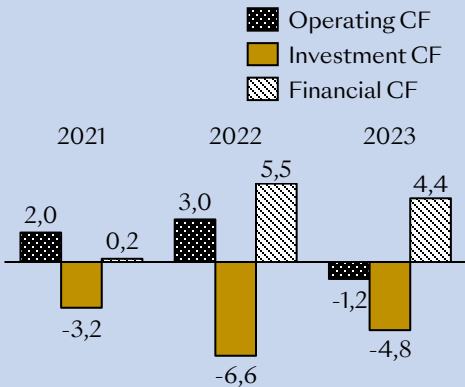
**Credit Rating:** In November 2024, PROMOMED received a long-term credit rating of ruA- from Expert RA. This rating indicates moderate credit risk and suggests that while the company has taken on more debt, it maintains a reasonable level of creditworthiness.



### Historical Net Debt to Net Profit Ratio

## Cash Flows and Capital Expenditures:

- PROMOMED reported negative **free cash flow** (FCF) of -6.70 billion rubles in the last twelve months (LTM).
- Operating cash flow** (OCF) was -4.01 billion rubles LTM, indicating challenges in generating cash from core operations.
- Capital expenditures** (CAPEX) were 3.37 billion rubles LTM, suggesting significant investments in long-term assets.



### Historical Cash Flows (CF)



# Equity Value Projection

We issue a **HOLD** recommendation with a target price of **RUB 565.3** per share. To determine the fair value of PROMOMED's stock, we employed a **Discounted Cash Flow (DCF)** approach. Additionally, we conducted a peer analysis by comparing valuation multiples with those of comparable companies.

Methodology:

**Key Assumptions:** Our forecasting horizon extends through 2030, aligning with PROMOMED's internal projections and factoring in the anticipated completion of clinical trials for several innovative drugs. Based on this outlook, we project a year-over-year revenue growth rate of 25%.

**WACC Calculation:** We assume a long-term growth rate of **11%**. The cost of equity is calculated using the **CAPM model**, with a **risk-free rate of 14.7%**, based on the current yield of 10-year government bonds.

**FCF Calculation:** Due to limited financial and operational disclosure, several assumptions were required. Based on historical data, we estimate cost of goods sold (COGS) at 33% of revenue, and operating expenses at 41% of gross profit.

**Fixed Assets Estimation:** We estimate capital expenditures (CapEx) as the sum of R&D expenses and other investment-related costs. According to official data from the company's website, R&D spending accounts for 10% of revenue, while other expenditures are estimated at 15% of net profit.

Multiplier Name	Value
P/E	29,3
EV/EBITDA	12,4
RoE	9,2%
RoA	19,5%

WACC parameters	Value
Expected Market Return	17%
Beta	0,35
Debt-to-EV	24%
Equity-to-EV	76%

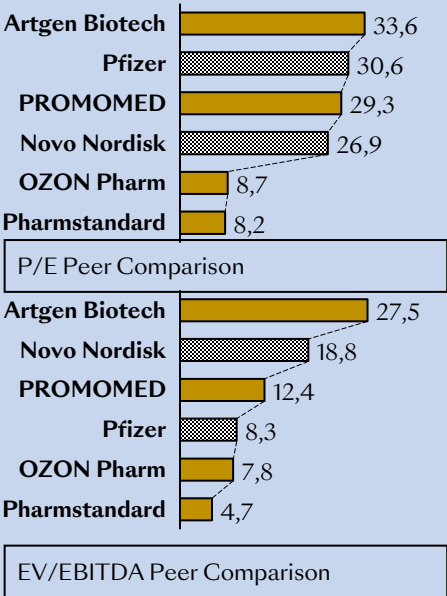
		Growth Rate				
WACC		10,0%	10,5%	11,0%	11,5%	12,0%
	13,39%	600	733	921	1210	1706
	13,89%	486	582	712	897	1179
	14,39%	398	471	565	692	873
	14,89%	328	385	456	549	673
	15,39%	271	316	372	442	532

**Sensitivity Matrix:** As shown in the figure on the left, the estimated share price is highly sensitive to changes in the growth rate assumption.

DCF Prognosis Price (RUB) vs Parameters

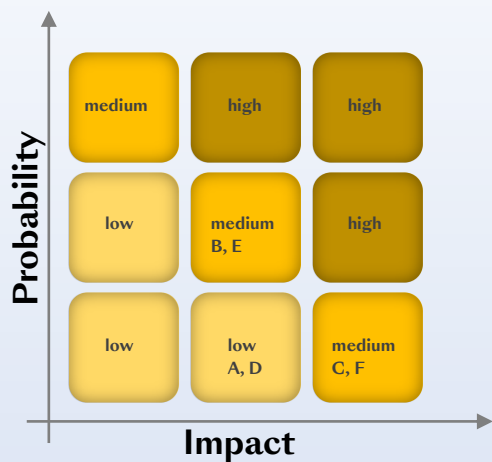
The Trading Multiples approach cannot be fully applied due to limited data on comparable companies. Nevertheless, this section includes a partial multiples-based analysis using both direct domestic competitors and selected international peers.

**Multiples:** PROMOMED appears to trade at higher P/E and EV/EBITDA multiples compared to its closest peers, such as OZON Pharm and Pharmstandard. This valuation premium is likely driven by market expectations surrounding PROMOMED's pipeline of innovative drugs.



# Risks

Risk Matrix



**[E] Foreign Exchange Risk (probability - medium, impact - medium)** 40% of PROMOMED’s raw material expenses are denominated in foreign currencies. The company does not use derivative financial instruments and lacks a hedging policy to mitigate such financial risks. The materialization of currency risk could lead to higher capital and operating costs

**[A] Intensifying Competition (probability - low, impact - medium).** In the oncology and endocrinology markets, Russian pharmaceutical companies could emerge as strong competitors. However, since clinical trials are a highly complex and time-consuming process, PROMOMED maintains a competitive advantage due to its established expertise and ongoing pipeline of innovative drugs.

**[B] Return of Foreign Competitors (probability - medium, impact - medium).** Major international pharmaceutical companies, such as Novo Nordisk, could re-enter the Russian market, potentially reclaiming a significant share of key segments currently occupied by PROMOMED. However, if a foreign company decides to re-enter Russia, it would need to conduct clinical trials and obtain regulatory approvals, which, given industry specifics, could take from 3 to 5 years, according to PROMOMED recent reports.

**[F] Government Procurement Dependency(probability - low, impact - high).** Nearly half of PROMOMED’s revenue depends on government contracts. A decrease in state healthcare funding or delays in contract execution could have a significant impact on cash flow. Additionally, changes in procurement regulations or licensing requirements may create challenges in securing contracts, potentially slowing revenue growth. However, given that government involvement is a common characteristic of the pharmaceutical industry, this risk is not unique to PROMOMED but affects the entire sector.

**[C] Development and Certification Risk (probability - low, impact - high)** The development of new pharmaceutical products carries inherent risks. Clinical trials may not yield the expected results, and securing regulatory approval from the Ministry of Health can be a complex and uncertain process. This risk is related to PROMOMED’s perspective portfolio

**[D] Dependence on Foreign Raw Material Suppliers (probability - low, impact - medium).** A significant portion of PROMOMED’s raw materials is sourced from China and India. Sanction risks and potential difficulties with international payments could disrupt logistics and procurement financing, posing a threat to supply chain stability.