

# Female Health Co. (FHCO)

Elkington

# Female Health: Background

- Company was founded in 1986 and is based in Chicago, Illinois
- Female Health essentially has a monopoly on the female condom market
- FHCO's main product is the FC2 female condom to protect against unintended pregnancy and sexually transmitted infections
- The company's biggest customers are NGOs, government agencies, and commercial partners



# Female Health: Price



# Female Health: Financials (as of 5/27/16)

- Price per share: \$1.37
- Shares outstanding: 29.05 M (22 M float)
- Market capitalization: \$39.80 M
- Enterprise value: \$37.01 M
- EV/EBITDA: 7.19
- EV/Sales: 1.32
- Current Ratio: 4.93
- Total Debt: \$0.00

# What happened to FHCO

- Female Health Co. stop paying a dividend and ended their share buyback program to fund future growth and expansion
- This decision has led to decreased demand of FHCO shares
- In Q4 of 2015, FHCO posted better than expected earning results, which led to a temporary boost in share price

# Update

- FHCO recently announced a merger with Aspen Park Pharmaceuticals
- FHCO appeared to be looking to make an acquisition by securing a 2-year \$10 million credit revolver with BMO Harris
- At the most recent annual meeting presentation, FHCO claimed to have evaluated >75 different products/companies.
- Brazilian Ministry of Health plans to distribute 100,000 FC2s from The Female Health Company at the 2016 Summer Olympics in Rio de Janeiro
- **The merger has been approved by the boards of both companies and will be subject to approval of 2/3's vote of FHC stockholders**

# Merger Update

- FHCO shareholders would get 55% of the merged company, and Aspen Park shareholders will get 45%
- From the 8-K filing, the company is expected to need \$110 million capital to fund its pipeline research in the next 4-5 years
- FHCO/Aspen should only be able to fund ~30% of that capital with the rest having to be raised by **issuing new shares**
- The merger is intended to diversify each company's pipeline

# Leadership has confidence in FHCO's underlying business model

- According to FHCO's Chief Executive Officer, O.B. Parrish:

"We believe long-term demand for female condoms continues to increase for two reasons. First, the global need for effective ways to prevent sexually transmitted infections, including HIV/AIDS, and unintended pregnancies continues to expand. And second, the organized advocacy on a gender equity basis by independent women's and other groups for increased investment in and availability of female condoms continues to gain momentum. Women account for more than 50% of all new HIV/AIDS cases, and AIDS remains the leading cause of death globally among women 15-44 years of age."



# Activism opportunity

- Opportunity: interfere with a shareholder unfriendly and dilutive merger that has little synergistic benefits
- **Reinstitute dividends and share buybacks**
- Improve company's margins and maintain monopoly over female condom market

# Corporate governance

- O.B. Parrish is a founder and CEO
- % Held by Insiders: 23.93%
- % Held by Institutions: 28.40%
- **Board of directors are mostly made up of insiders:**
- O.B. Parrish - founder/CEO
- William R. Gargiulo, Jr. – founder
- Donna Felch - VP/CFO from 2006-2012
- David R. Bethune - on board since 1996
- Andrew S. Love - on board since 2013
- Mary Margaret Frank, Ph.D. - on board since 2004
- Sharon Meckes - on board since 2015

# Valuation cont.

- Comps:

	FHCO	UTMD	CHD
Market Cap	\$39.80 M	\$246.54 M	\$12.60 B
EV	\$37.01 M	\$218.98 M	\$13.55 B
EV/EBITDA	7.19	11.38	17.08
EV/Sales	1.32	5.47	3.95
Profit Margin	12.15%	30.98%	12.13%
Operating Margin	16.73%	40.31%	20.12%

# Valuation cont.

## Unlevered Free Cash Flow Calculation

	Calendar Year Ending December 31,						CAGR
	2015A	2016P	2017P	2018E	2019E	2020E	2016-2020
EBIT	\$6.6	\$6.8	\$7.0	\$7.2	\$7.4	\$7.6	2.8%
Plus: Non-deductible Goodwill Amort.	-	-	-	-	-	-	
EBITA	\$6.6	\$6.8	\$7.0	\$7.2	\$7.4	\$7.6	2.8%
Less: Provision for Taxes	(2.3)	(2.4)	(2.5)	(2.5)	(2.6)	(2.7)	
<b>Unlevered Net Income</b>	<b>\$4.3</b>	<b>\$4.4</b>	<b>\$4.6</b>	<b>\$4.7</b>	<b>\$4.8</b>	<b>\$4.9</b>	2.8%
Plus: D&A (excl. non-deductible GW amort.)	0.5	0.5	0.5	0.5	0.5	0.5	
Less: Capital Expenditures	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	
Less: Increase in Net Working Capital	(9.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	
<b>Unlevered Free Cash Flow</b>	<b>(\$4.3)</b>	<b>\$3.6</b>	<b>\$3.8</b>	<b>\$3.9</b>	<b>\$4.0</b>	<b>\$4.1</b>	3.4%

## DCF Analysis (2016-2020): EBITDA Multiple Method

Tax Rate 35.0%  
Net Debt \$0.0  
Shares 29.010

Total Enterprise Value				Total Equity Value			
Terminal EBITDA Multiple				Terminal EBITDA Multiple			
	7.5x	8.0x	8.5x		7.5x	8.0x	8.5x
Discount	10.0%			Discount	10.0%		
Rate	11.0%			Rate	11.0%		
(WACC)	12.0%			(WACC)	12.0%		
	\$50.0	\$52.4	\$54.7		\$50.0	\$52.4	\$54.7
	48.1	50.3	52.6		48.1	50.3	52.6
	46.2	48.4	50.5		46.2	48.4	50.5
Implied Perpetuity Growth Rate				Total Price Per Share			
Terminal EBITDA Multiple				Terminal EBITDA Multiple			
	7.5x	8.0x	8.5x		7.5x	8.0x	8.5x
Discount	10.0%			Discount	10.0%		
Rate	11.0%			Rate	11.0%		
(WACC)	12.0%			(WACC)	12.0%		
	2.6%	3.0%	3.4%		\$1.72	\$1.81	\$1.89
	3.5%	3.9%	4.3%		1.66	1.73	1.81
	4.4%	4.9%	5.3%		1.59	1.67	1.74

# Valuation cont.

## DCF Analysis (2016-2020): Perpetuity Growth Method

		Total Enterprise Value		
		Terminal Perpetuity Growth Rate		
		3.0%	3.5%	4.0%
Discount	10.0%	\$52.4	\$55.5	\$59.2
Rate	11.0%	45.9	48.1	50.7
(WACC)	12.0%	40.8	42.5	44.4

		Implied Terminal EBITDA Multiple		
		Terminal Perpetuity Growth Rate		
		3.0%	3.5%	4.0%
Discount	10.0%	8.0x	8.7x	9.4x
Rate	11.0%	7.0x	7.5x	8.1x
(WACC)	12.0%	6.2x	6.6x	7.1x

		Total Equity Value		
		Terminal Perpetuity Growth Rate		
		3.0%	3.5%	4.0%
Discount	10.0%	\$52.4	\$55.5	\$59.2
Rate	11.0%	45.9	48.1	50.7
(WACC)	12.0%	40.8	42.5	44.4

		Total Price Per Share		
		Terminal Perpetuity Growth Rate		
		3.0%	3.5%	4.0%
Discount	10.0%	\$1.81	\$1.91	\$2.04
Rate	11.0%	1.58	1.66	1.75
(WACC)	12.0%	1.41	1.46	1.53

(1) Assumes net debt of \$0.0mm as of 5/27/16.

(2) Assumes outstanding diluted shares of 29.010 million.

# Risks

1. Potentially huge but competitive market
2. Large but occasionally temporary orders from Brazil that impact revenues
3. Cupid Limited is a new competitor in India and South Africa
4. FC2 patents have expiration dates in 2023 and 2024

# Conclusion

- Female Health holds the crown over the the female condom market
- FC2 condom is only FDA approved female-controlled condom
- FC2 is also approved by WHO/UN organizations for purchase in massive foreign aid package contracts
- FHCO by itself has a large moat that makes it extremely difficult for a competitor to enter the female condom market
- The proposed merger with Aspen has little benefit for shareholders and wastes capital in the pursuit of diversification
- **If FHCO can get margins near competitors, equity could be valued around \$50-70 million**