MagForce AG[*5a,5b,11]

Rating: BUY
Target Price: €14.30

Current price: €5.12
01/12/2015 / ETR/ 2:30pm
Currency: EUR

Key information:

ISIN: DE000A0HGQF5
WKN: A0HGQF
Ticker symbol: MF6
Number of shares[3]: 25.62
Marketcap[3]: 131.19
Enterprise Value[3]: 111.61
[3] in € million

Transparency level:
Entry Standard

Market segment:
Open Market

Accounting standard:
HGB

Financial year-end: 31/12

Designated Sponsor::
Hauck & Aufhäuser

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* catalogue of potential conflicts of interests on page 8

Date of completion/ Date of publication:
03/12/2015

Company Profile

Sector: Medical Technology

Specialty: Cancer Treatment

Employees: 22 Status: 30/06/2014

Founded: 1997

Registered Office: Berlin

Executive Board: Dr. Ben J. Lipps, Prof. Dr. Hoda Tawfik, Christian von Volkmann

By its own account, MagForce AG, located in Berlin, is a leading company in the field of nanomedicine with a focus on cancer treatment. The NanoTherm® therapy developed by the company is said to be suitable for the local treatment of almost all solid tumours. The treatment is based on heat that is created by the activation of injected super-paramagnetic nanoparticles. The components of this therapy, the medical devices NanoTherm®, NanoPlan®, the thermometric catheter TK01, NanoActivator® with the thermometric unit are certified across the EU for the treatment of brain tumours. The objective of the new cancer treatment is to establish itself as a further pillar of cancer therapy alongside conventional treatment methods such as surgery, radiation and chemotherapy. According to available data, the NanoTherm therapy displays a promising degree of efficacy as well as being well-tolerated.

P&L in EURm	2014	2015e	2016e	2017e	2018e
Sales	7.66	1.88	4.11	19.23	53.27
EBITDA	-1.06	-2.05	-9.14	3.84	24.47
EBIT	-1.28	-2.17	-9.28	3.68	24.30
Net profit*	-1.01	-2.17	-9.28	3.68	24.30

Per Share Figures in EUR					
Earnings per share*	-0.04	-0.08	-0.36	0.14	0.95
before minorities					
Key Figures					
EV/Sales	14.56	59.37	27.14	5.80	2.10
EV/EBITDA	neg.	neg.	neg.	29.06	4.56
EV/EBIT	neg.	neg.	neg.	30.33	4.59
P/B before minorities	neg.	neg.	neg.	35.65	5.40

Financial dates

****last research published by GBC:**

Date: Publication / Target Price in EUR / Rating
24/9/2015: RS / 14.30 / BUY
3/6/2015: RS / 13.20 / BUY
19/5/2015: RS / 13.20 / BUY

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Executive Summary

- **Commercial treatment was initiated in the first half of 2015**
  By the end of the first half of 2015, NanoActivator® devices had been installed at a total of seven treatment centres in Germany. While these are mainly included in the current ongoing post-marketing trial for glioblastoma indication in Europe, the first commercial treatments can also be carried out at the same time. Since 2010, MagForce Technology has held the appropriate CE certification in Europe. The first patients were treated commercially at the University Hospitals in Münster, Kiel and Cologne.

- **Growth in turnover and earnings influenced by special revenues**
  In the current phase, the turnover attained is still at a low level, due to the small number of patients being treated commercially. The greatest proportion of the total output of the first half of 2015, amounting to EUR 3.69 million (previous year: EUR 7.08 million) came, just as it did in the previous year, from the transfer of marketing and development rights to the subsidiary MagForce USA Inc. Although the EBIT gained a positive result with EUR 0.36 million (previous year: EUR 3.71 million) for the second consecutive year, this is primarily due to one-off effects on earnings.

- **Solid financial status with equity ratio amounting to 92.8%**
  Due to the cash outflow resulting from the adjusted growth in earnings, the financial resources that are freely available have been reduced to EUR 5.45 million (31/12/14: EUR 9.15 million). As part of the expected acceleration in market sales, the cash burn should, however, be reduced in the subsequent periods. In addition, MagForce AG has equity amounting to EUR 24.99 million (31/12/14: EUR 24.43 million) and an equity ratio amounting to 92.8% (31/12/14: 85.1%) due to very solid balance sheet ratios with a very low level of leverage.

- **Milestones reached in approval for prostate cancer treatment in the USA**
  In May 2015, MagForce AG submitted an application to the American regulatory authority FDA to carry out a clinical trial for the treatment of patients with prostate cancer. This submission is an important milestone for the American authorisation process. We expect the beginning of the trial in late 2015 and the receiving of marketing approval by the middle of 2017. In this regard, the first NanoActivator® for the treatment of prostate cancer has already been successfully installed in the USA (Seattle).

- **Target price of EUR 14.30 confirmed by "BUY" rating**
  We confirm our previous target price of EUR 14.30 per share which was confirmed in the DCF valuation model. Based on the current share price we therefore confirm our "BUY" recommendation.

Business development as at 30/06/2015

in €m	1.HY 2012	1.HY 2013	1.HY 2014	1.HY 2015
Total output	0.10	0.04	7.08	3.69
EBITDA	-3.02	-1.93	3.78	0.55
EBIT	-3.15	-2.00	3.71	0.36
Net profit or loss	-3.57	-2.28	3.84	0.53

Source: MagForce AG; GBC AG

As expected, the focus of MagForce AG in the first half of 2015 was on the preparatory measures for the commercialisation of NanoTherm® technology. The most important aspect in this is the additional installation of NanoActivator® devices which are now available in seven different centres in Germany (Berlin, Frankfurt am Main, Kiel, Cologne, and Münster).

Because the MagForce therapy has held European certification (in 27 EU Member States) since 2010, commercial treatment for glioblastoma patients is possible. To this effect, the first patients have already received commercial treatment at the University Hospitals in Münster, Kiel and Cologne in the first six months of 2015, which we believe to be an important milestone in the roll-out of NanoTherm® technology. However, in order to increase awareness of this technology and to speed up its establishment, the company is currently carrying out a so-called post-marketing trial in Germany alongside the commercial treatment of patients. As part of this confirmatory trial, which extends the scope of the trial and involves important opinion leaders, users are introduced to the technology.

MagForce AG is at the same time seeking approval for the considerably more extensive “prostate cancer” indication sector in the USA. In the period under review just ended, the application for carrying out a single-arm clinical trial was submitted to the FDA as part of this strategy. This submission is an important milestone in the American authorisation process. We expect to begin the trial at the end of 2015/early 2016 and to receive marketing approval by the middle of 2017.

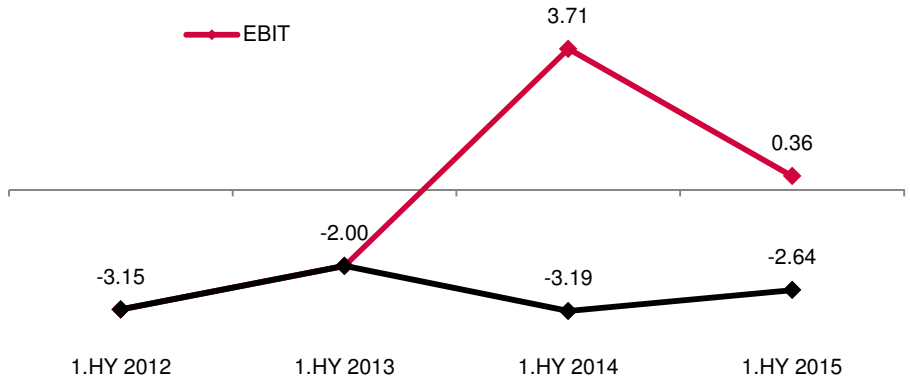
In the current commercialisation phase, with a small number of commercially treated patients, the growth in turnover and earnings is still very much characterised by low revenues. This was also the case in the first six months of 2015, in which MagForce AG saw a total output of EUR 3.69 million (1st half of 2014: EUR 7.08 million). Primarily, this is non-recurring income relating to the extension of the distribution and development rights for NanoTherm therapy to Mexico and Canada. The valuation of the subsidiary, MagForce USA Inc., has therefore increased by a total of EUR 3.00 million, which has resulted in income of the same amount. In addition, two NanoActivator® devices were sold to MagForce USA Inc. and the first revenues generated for the commercial treatment of glioblastoma patients in Germany. The comparatively high overall output in the same period the previous year was also the result of the transfer of sales and development rights to the North America region.

The total output amounts to EUR 3.69 million (1st half of 2014: EUR 7.08 million), as opposed to the operating costs which amount to EUR 3.33 million in total (1st half of 2014: EUR 3.37 million). These mainly include personnel costs amounting to EUR 1.47 million (previous year: EUR 1.31 million), as well as other operating expenditure (IR, advertising, marketing, legal fees, patenting costs, etc.) to the amount of EUR 1.38 million (previous year: EUR 1.96 million).

The EBIT accordingly gained a positive result with EUR 0.36 million (1st half of 2014: EUR 3.71 million) for the second consecutive year. As mentioned, however, this is main-

ly due to one-off effects relating to the transfer of sales and development rights to the subsidiary MagForce USA Inc. Despite being adjusted for these special revenues, MagForce AG would have achieved a negative EBIT with EUR -2.64 million (1st half of 2014: EUR -3.19 million) as expected.

EBIT-development (in €m)



Source: MagForce AG; GBC AG

A more positive aspect is the sustainable improvement in the financial income which had already been implemented in the fiscal year 2013. In total, the financial income of MagForce AG amounted to EUR 0.16 million in the first half of 2015 (1st half of 2014: EUR 0.13 million).

Financial status as at 30/06/2014

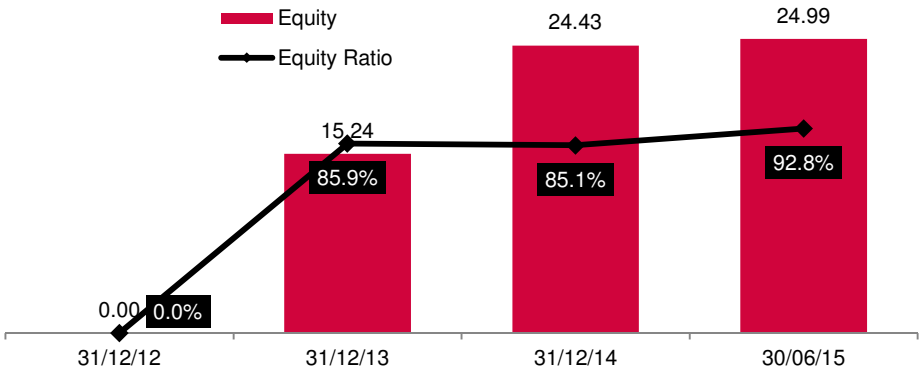
in €m	31/06/2014	31/12/2014	30/06/2015
Equity	19.08	24.43	24.99
of which proportion of net loss	*-35.33*	*-40.18*	*-39.65*
Equity Ratio	70.8%	85.1%	92.8%
Liquid Assets	5.09	9.15	5.45
Cash flow (operative)	-3.53	-8.71	-3.83
Cash flow (investment)	-0.68	-1.61	0.13
Cash flow (financing)	0.00	10.20	0.00

Source: MagForce AG; GBC AG

Because MagForce AG recorded an operating cash outflow due to the still low commercialisation revenue, the financial status of the balance sheet is of great significance. Based on the total cash flow amounting to EUR -3.70 million (1st half of 2014: EUR -3.53 million), the funds that are freely available have been reduced to EUR 5.45 million (31/12/14: EUR 9.15 million). With a constant cash burn, the projected cash burn rate is 0.7 years. However, due to the expected increase in commercialisation revenue, the cash burn should be gradually reduced, so the cash reach is likely to increase.

In addition, the company has a very solid balance sheet structure, with a very low level of leverage. With equity amounting to EUR 24.99 million (31/12/14: EUR 24.43 million), MagForce AG has a higher-than-average equity ratio amounting to 92.8% (31/12/14: 85.1%). This has recently been gradually expanded in the context of capital measures, a debt-to-equity swap and due to the recent positive after-tax results.

Equity (in €m) and Equity Ratio (in %)



Source: MagForce AG; GBC AG

Forecasts and Model Assumptions

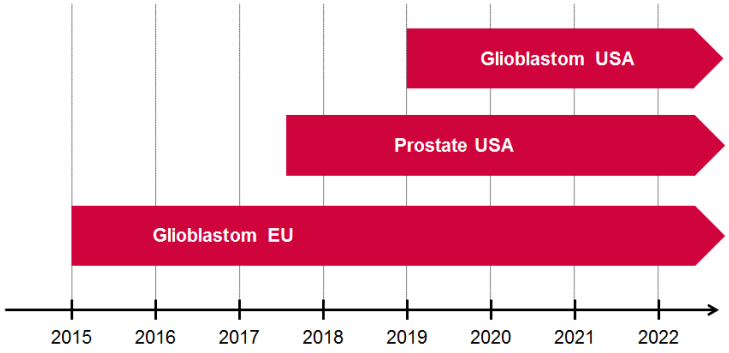
in Mio. €	2015e	2016e	2017e	2018e	2019e	2020e	2021e
Sales	1.88	4.11	19.23	53.27	84.42	117.07	140.74
EBITDA	-2.05	-9.14	3.84	24.47	40.71	57.04	68.54
EBIT	-2.17	-9.28	3.68	24.30	40.54	56.87	68.37
Net income before minorities	-2.17	-9.28	3.68	24.30	28.38	39.81	47.86

Source: GBC AG

The latest milestones achieved for marketing NanoTherm therapy form the basis of our slightly modified revenue and earnings forecasts since our recent research report (see the research report dated 24/09/15).

The first revenues achieved as part of the commercialisation of the treatment of glioblastoma in Europe should therefore be gradually increased. On the one hand, the basis for this is the expected increase in awareness of this treatment method. The current ongoing post-marketing trial, in which the main users and key personnel will become familiarised with the new technology, should also be decisive for this. In addition, the increase in installation figures determines the infrastructural basis for an increase in treatment figures. Further to the seven NanoActivator® devices which have already been installed, another treatment centre is to be opened in Göttingen in the fourth quarter of 2015.

In addition to carrying out the post-marketing trial and the first commercial treatment of glioblastoma patients in Europe, the request to conduct a clinical trial for the treatment of prostate cancer patients was submitted to the American regulatory authority FDA. In the planned single-arm clinical trial, proof will be provided that the carcinogenic lesions (cancer-related tissue disorders) in the prostate of up to 120 patients have been completely destroyed. With the submission of the application for approve of the clinical trial to the FDA, MagForce AG entered the approval process as planned. According to the FDA, the review process of application documents and approval for the trial of a medical device will take up to 180 days. We hope that the trial for the approval of NanoTherm® therapy will begin towards the end of 2015, immediately after approval is expected from the FDA. In this regard, the first NanoActivator® for the treatment of prostate cancer has already been successfully installed in the USA (Seattle). Marketing approval may be obtained by the middle of 2017, after implementation of the clinical trial and evaluation of the results. We therefore expect that the approval timetable for NanoTherm® therapy will be as follows:

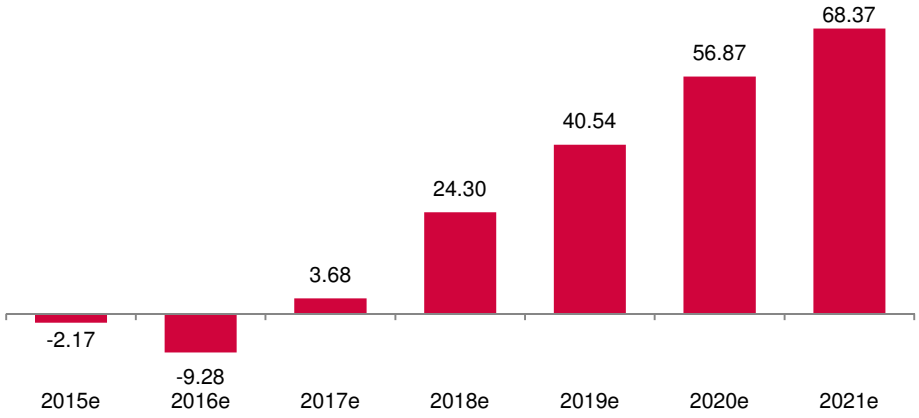


Source: GBC AG

Based on this, and according to our expectations, revenues from the commercialisation of NanoTherm therapy for the treatment of prostate cancer in the United States should start to be generated as from the 2018 fiscal year. Until then, we expect a gradual increase in sales of treatments for malignant brain tumours in Europe.

After the end of the current post-marketing trial and the registration trial in the USA, MagForce AG may have a high gross margin level against the background of a low material cost structure. MagForce AG has a scalable business model in conjunction with a flexible cost structure in the overheads sector. In the wake of rising revenues, we expect continual improvement in profit margins and therefore a correspondingly disproportionate increase in EBIT.

EBIT forecast (in € million)



Source: GBC AG

Based on our only marginally modified estimates, no changes are made to the DCF valuation model. We therefore confirm our target price to date of EUR 14.30 per share, and the “BUY” recommendation, based on the current level of share prices.

ANNEX

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