GBC AG
Investment Research

Research Report (Anno)

MagForce AG

magforce®
THE NANOMEDICINE COMPANY

Approval for prostate treatment imminent, New treatment devices to be installed in Europe, Strong growth and break-even expected from 2022 onwards

Target price: € 11.00

Rating: BUY

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section § 85 WpHG und Art. 20 MAR on page 16

Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II

Date and time of completion of the study: 19.07.2021 (3:18 pm)
Date and time of the first disclosure of the study: 20.07.2021 (10:00 am)
Validity of the target price: until max. 31.12.2022

MagForce AG*5a,6a,11

Buy
Target price: € 11.00
(previously: € 11.00)

Current price: 3.55
19.07.21 / XETRA / 1:47 pm
Currency: EUR

Key information:

ISIN: DE000A0HGQF5
WKN: A0HGQF
Ticker symbol: MF6
Number of shares³: 29.35
Market cap³: 104.22
EnterpriseValue³: 135.74
³ in million / in EUR million

Transparency level:
Entry Standard
Market segment:
Open Market
Accounting:
HGB

Financial year: 31.12.

Designated Sponsor:
Hauck & Aufhäuser
Stifel

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* Catalogue of possible conflicts of interest on page 17

Company profile

Industry: Medical technology

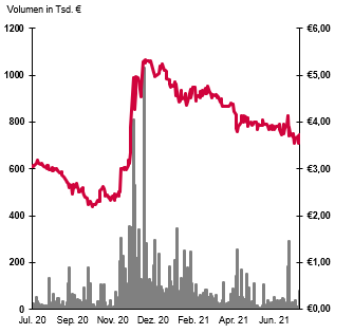
Focus: Cancer therapy

Employees: 29 Status: 31.12.2020

Foundation: 1997

Headquarters: Berlin

Board of Directors: Dr Ben J. Lipps, Christian von Volkmann



By its own account, MagForce AG, with its registered office in Berlin, is a leading company in the field of nanomedicine with a focus on cancer treatment. The NanoTherm® treatment developed by the company could 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 superparamagnetic nanoparticles. The components of this treatment, the medical devices NanoTherm® and NanoPlan® and the thermometric catheter TK01 and NanoActivator® with a thermometric unit are certified in the EU for the treatment of brain tumours. The objective of this new cancer treatment is to establish itself as a further pillar of cancer treatment alongside conventional treatment methods such as surgery, radiotherapy and chemotherapy. In addition, the MagForce technology is currently being approved for the treatment of prostate cancer in the United States. According to available data, the NanoTherm therapy displays a promising degree of effectiveness as well as being tolerated well.

P&L in EUR million \ FY-end	2020	2021e	2022e	2023e	2024e	2025e
Sales	0.62	0.85	19.32	36.30	57.36	82.97
EBITDA	19.29	-7.88	6.11	11.65	23.10	39.61
EBIT	18.62	-8.66	4.84	10.14	20.90	35.95
Net profit before minorities	14.75	-12.02	0.78	5.46	15.76	33.34

Key figures						
EV/Sales	218.59	160.45	7.03	3.74	2.37	1.64
EV/EBITDA	7.04	neg.	22.23	11.65	5.88	3.43
EV/EBIT	7.29	neg.	28.03	13.38	6.49	3.78
P/E ratio (before minorities)	7.07	neg.	133.27	19.10	6.61	3.13

Financial calendar
12.08.2021: Annual General Meeting
28.10.2021: Semi-annual report
22.11.24.11.21: EK Forum

**latest research by GBC:
Date: Publication / Target price in EUR / Rating
29.04.2021: RS / 11.00 / BUY
11.02.2021: RS / 11.00 / BUY
18.12.2020: RS / 11.00 / BUY
12.11.2020: RS / 11.00 / BUY
28.11.2019: RS / 13.50 / BUY
**The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany.

EXECUTIVE SUMMARY

- Despite pandemic-related restrictions, MagForce AG made further progress in 2020 in the commercialisation of its own technology. For the already-approved treatment of malignant brain tumours in Europe, the company had achieved a significant increase in treatment numbers before the start of the corona pandemic, but this could not be continued over the course of the year. Nevertheless, commercial treatments increased to a new record of € 0.53 million (PY: € 0.09 million), but could have been significantly higher. As expected, the company continued to report a negative EBIT of € -6.96 million (previous year: € -6.20 million), adjusted for other operating income.
- This development also reflects the continuation of the roll-out strategy. In 2020, for example, two NanoActivator devices were put into operation at the Paracelsus Clinic in Zwickau and at the Hufeland Clinic in Mühlhausen. The planned installation in Spain and Italy, two countries particularly affected by Covid-19, was delayed due to the pandemic. However, a treatment site is to be opened at a partner clinic in Spain before the end of 2021. In addition, the company is in advanced negotiations with potential partners in Austria, Germany and Italy, so that glioblastoma treatments can be carried out at eight locations in Europe from 2022.
- MagForce AG has also made further progress in the approval of the technology for the treatment of prostate cancer in the USA. In 2020, Study Phase 2a, also with a streamlined study protocol, was successfully started and completed at the beginning of 2021. In the ten patients included in Study Phase 2a, only the expected minimal side effects were observed in the streamlined treatment procedure, thus confirming the known very good safety and tolerability profile.
- Building on this success, patients are currently being recruited for the final Phase 2b trial, in which up to 100 men will be treated. The trial will be conducted at all three currently available MagForce sites in the US, which will also ensure that the corresponding treatment centres are operational directly after approval. According to the company, this final phase of the trial is expected to be completed before the end of the second half of 2021, with commercialisation starting in mid-2022. In addition, the company plans to treat prostate patients in the USA within the framework of its own so-called "Focal Treatment Centres", which will be operated by its own specialist staff. This would mean that the entire treatment value chain would be covered by MagForce AG, which would be associated with significantly higher and more sustainable revenue potential than the sale of treatment devices.
- In our forecasts, we have assumed a visible increase in sales and earnings from the coming financial year 2022 on. Both an increase in commercial glioblastoma treatments and the start of prostate treatments are depicted here. According to our estimates, MagForce AG should thus be able to break even at all operational levels.
- Within the framework of our DCF valuation model, we have determined an unchanged target price of € 11.00 (previously: € 11.00). On the one hand, the roll-over effect of the model results in an increase in the target price. However, this is offset by an increase in the weighted average cost of capital (WACC), which has had a balancing effect on the model result overall. We continue to assign the BUY rating.

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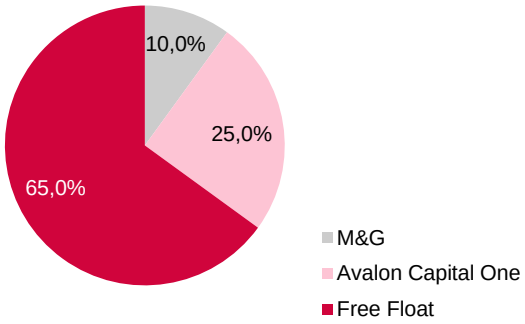
COMPANY

Shareholder structure

Shareholder	in %
M&G	10,0%
Avalon Capital One	25,0%
Free Float	65,0%

Source: MagForce AG; GBC AG



The MagForce technology

MagForce AG's proprietary and patented NanoTherm technology for combating solid tumours consists of the medical products NanoTherm, NanoPlan thermometry catheters and the NanoActivator with thermometry unit.

NanoTherm therapy		
NanoTherm	**NanoActivator**	**NanoPlan**
		

Source: MagForce AG; GBC AG

NanoTherm therapy, which has been approved in Europe since 2010 for the treatment of brain tumours, is a procedure for the treatment of solid tumours. Magnetic nanoparticles are introduced either directly into the tumour or into the resection cavity wall. These particles are then "heated" by an alternating magnetic field, thus destroying the cancer cells. MagForce AG is pursuing the goal of establishing this novel therapy as a further standard of treatment alongside conventional therapies such as surgery, radiotherapy and chemotherapy.

NanoTherm

NanoTherm, a ferrofluid developed and patented by MagForce, is a fluid containing iron oxide nanoparticles that react to magnetic fields generated by the NanoActivator. The particles have special, so-called superparamagnetic properties and allow the polarity to change hundreds of thousands of times per second, which generates the desired heat.

Due to the patented aminosilane coating, the NanoTherm particles can be very finely distributed in water and can be introduced into the tumour tissue with precision. In addition, this coating ensures that the nanoparticles remain inert, i.e. chemically and pharmacologically uninvolved, in the human body and that the NanoTherm ferrofluid agglomerates in the tissue. Thus, as desired, it remains at the site of insertion for a long time and does not penetrate the surrounding healthy tissue. All these properties make the NanoTherm magnetic fluid unique and are the prerequisite for the feasibility of NanoTherm therapy.

NanoActivator

NanoTherm therapy is carried out in an alternating magnetic field applicator, the patented NanoActivator, which was specially developed for this form of therapy. The patient takes a seat on the couch and is exposed to a rapidly changing magnetic field on the desired part of the body. This rapid change of polarity causes the iron oxide particles of the NanoTherm magnetic fluid to generate heat. This is how the therapeutic treatment temperatures are generated.

NanoPlan

The NanoPlan software developed by MagForce AG is used by the treating physician to plan the treatment temperature and thus the magnetic field strength. After the injection of NanoTherm, the exact position and distribution of the nanoparticle depots is displayed by a post-instillation CT scan. In combination with the imaging before the nanoparticle instillation, this serves as a data basis for the calculation and simulation of the temperature distribution in the tumour and the surrounding healthy tissue in relation to the applied alternating magnetic field. On this basis, NanoPlan determines the optimal magnetic field strength of the NanoActivator to achieve the therapeutic temperature, taking into account all safety measures for the healthy tissue.

During the first treatment, the temperature reached in the tumour tissue is precisely measured via a temperature probe inserted into a catheter inserted during the installation of NanoTherm. The measured temperatures are compared with the simulated and calculated temperatures and the magnetic field strength is adjusted if necessary.

Current marketing status

According to current plans, MagForce technology will be used for the treatment of malignant brain tumours in Europe and for the treatment of intermediate prostate cancer in the USA. In Europe, all necessary approvals have already been obtained and MagForce technology is being used commercially here. Approval for the treatment of prostate cancer in the USA is currently still in the approval process, under which the final study phase of a pivotal trial is being conducted. Important successes were achieved in this regard both in 2020 and in the first months of the current 2021 financial year.

Glioblastoma treatment in Europe

Currently, MagForce AG has installed four NanoActivator devices for glioblastoma treatment in Germany and Poland. After the second NanoActivator had been installed in Germany at the Paracelsus Clinic in Zwickau in December 2019, a new treatment centre was opened at the Hufeland Clinic in Thuringia in December 2020.

Due to corona, however, there have been delays in the European roll-out, which originally focused on Spain and Italy, two countries particularly affected by the pandemic. However, it is foreseeable that the first NanoActivator device will be installed at a partner clinic in Spain in the current financial year. In addition, the company is in advanced negotiations with potential partner clinics in Austria, Germany and Italy.

In recent years, the company has developed a mobile solution (plug-and-treat), which makes it possible to implement a cost-effective and rapid roll-out. For the treatment centres, the installation of the container is easy to implement, as it neither requires high investments nor complex adjustments to the clinic infrastructure. The plug-and-treat solution is currently in use at the centres in Zwickau and Lublin (Poland).

Prostate cancer treatment in the USA

Since 2018, approval of the MagForce technology for the indication area of prostate cancer has been sought in the USA as part of a clinical trial. Currently, the start of the last necessary Study Phase 2b for approval is imminent. In 2020, Study Phase 2a, also with a streamlined study protocol, was successfully started and completed at the beginning of 2021. Among the ten patients included in Study Phase 2a, only the expected minimal side effects were observed in the streamlined treatment procedure, thus confirming the already very known good safety-and-tolerability profile.

However, the data on the effectiveness of the prostate treatment with MagForce technology are also very encouraging, according to the company. Very well-defined ablation and cell death in the area of the nanoparticle depot has been observed. In the treatment with MagForce technology, magnetic nanoparticles are introduced directly into the tumour and then heated, thus destroying the cancer cells. In the pivotal Study 2a, it was shown that the minimally invasive procedure developed in Phase 1 allows the nanoparticles to be introduced very precisely and that they remain stable in the desired location. The ablation in the target area was highly precise and there was only minimal damage to the surrounding tissue (range 2-4 mm).

The promising data form a good basis for the Phase 2b pivotal trial, which is due to start shortly and in which patient recruitment is at an advanced stage. In this final part of the study, which is necessary for approval, the efficacy and safety of MagForce technology in the treatment of prostate cancer is to be demonstrated in up to 100 men.

MARKET AND MARKET ENVIRONMENT

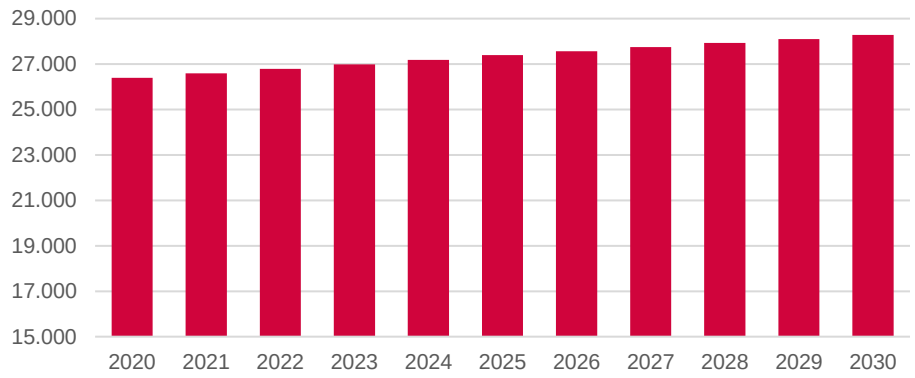
Although MagForce AG initially addresses the indication areas "glioblastoma" and "prostate cancer" with its technology, it is possible in principle to treat solid tumours across all indications. In their presentation of their market potential, however, the com-pany will focus on the areas of glioblastoma and prostate cancer in the two relevant regions in accordance with the indication areas addressed by the company.

Market potential glioblastoma

Based on data from GLOBOCAN, a WHO database, the number of cancers of the brain and nervous system worldwide in 2020 was over 308,000. Statements on the exact incidence of glioblastoma vary and do not provide an accurate picture. According to data from the Robert Koch Institute, however, 95 % of all cancers of the brain and nervous system affect the brain, with the malignant form glioblastoma being particularly common, accounting for 60 % (source: krebsgesellschaft.de). The particular aggressiveness of glioblastoma is evident from the comparatively low average survival time. Despite treatment, this is only between 14 - 23 months for the particularly severe form, and hardly any improvements have been achieved in the past three decades.

Based on the number of new tumour cases of the brain each year, which is currently just over 46,000 in Europe, it can be assumed that there will be over 26,000 new glioblastoma diagnoses each year. Based on demographic trends and the expected age structure in Europe, there should be steady growth in new glioblastoma diagnoses in the coming financial years. At the same time, this represents the potential basis for treatments with MagForce technology:

GBC forecast on new glioblastoma cases in Europe



Source: GLOBOCAN; own calculations

Despite the low incidence compared to the general population, the need for treatment of this disease is very high. Without treatment, the average survival time is just three months. In principle, glioblastoma patients are open to new treatment methods in addition to standard therapies (surgical removal, chemotherapy, radiotherapy) due to the poor prognosis of this disease. With a corresponding expansion of the offer, the new MagForce treatment approach should benefit accordingly from a high demand.

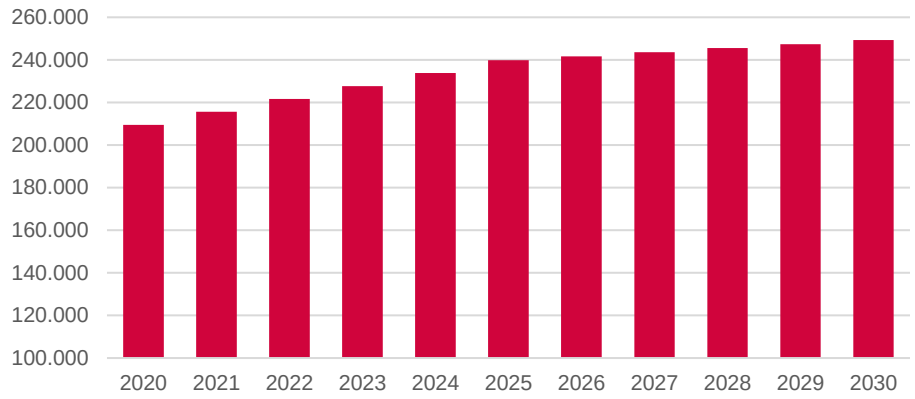
Market potentials prostate cancer

Compared to glioblastoma, the second indication area addressed by MagForce AG, "prostate cancer", has significantly higher market potential due to significantly higher case numbers. Prostate cancer is a disease that occurs frequently in industrialised countries,

with the focus on Australia, North America and Western Europe. In these regions, the probability of developing prostate cancer is between 85.0 and 111.6 / 100,000 inhabitants and thus significantly higher than in the rest of the world (30.6 / 100,000 inhabitants).

In the USA, the market initially addressed by MagForce AG, around 210,000 men are diagnosed with prostate cancer every year, with a significant increase in the annual number of cases expected in the coming years. By 2030, more than 240,000 new cases are expected to be diagnosed annually. Age distribution plays an important role in the case numbers of prostate cancer, with an expected disproportionate increase in the older population group. This is because the median age at the time of diagnosis is 66 years, with the majority of prostate cancer cases being diagnosed between 65 - 74 years.

Projection of prostate cancer case numbers in the USA



Source: GLOBOCAN; GBC AG

The overall very high number of cases, in connection with a comparatively slow progression of the disease, are decisive in terms of the expenditure made in the treatment of prostate cancer. At 93.0%, the relative 5-year survival rate for prostate cancer is relatively high compared to other types of cancer, which means a long treatment period with correspondingly high expenditure. According to statistics from a recent study (Total Medicare Costs Associated With Diagnosis and Treatment of Prostate Cancer in Elderly Men), costs in the USA average USD 14,500 per patient over the three-year period following diagnosis. In total, the costs add up to USD 1.2 billion, which is a significant order of magnitude for payers.

The two indication areas currently addressed by MagForce AG exemplify the high market potential in the important regions of Europe and the USA. In principle, MagForce technology can also be used in the treatment of other solid tumours, so that broader coverage of the market potential is conceivable.

CORPORATE DEVELOPMENT

Business development 2020

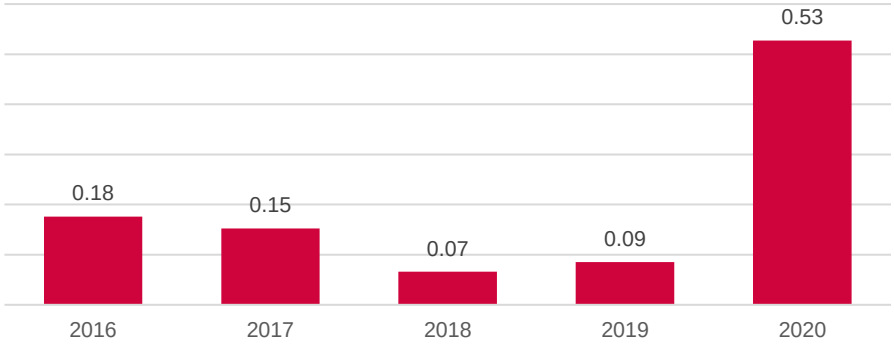
in € m	FY 2017	FY 2018	FY 2019	FY 2020
Revenues	0.72	0.07	0.84	0.62
from commercial treatment	0.15	0.07	0.09	0.53
EBIT	-7.41	6.83	-6.20	18.65
Result for the period	-7.47	4.36	-8.73	14.78

Source: MagForce AG; GBC AG

In the 2020 financial year, MagForce AG made important progress both in Europe (indication area glioblastoma) and in the USA (indication area prostate cancer).

In Europe, the roll-out strategy was continued and commercial treatment of glioblastoma patients was started at two new centres in Germany in particular. At the beginning of 2020, patient treatment was started at the Paracelsus Clinic in Zwickau and in the second half of 2020 at the Hufeland Clinic in Mühlhausen (Thuringia). With the commissioning of the two new treatment centres, the company had a total of four locations by the end of 2020, three of which were in Germany and one in Poland. MagForce AG thus recorded a significant increase in commercial treatments, which had risen sharply in the first quarter of 2020 in particular. In the wake of the corona pandemic and the associated restrictions on hospitals, the subsequent quarters did not match the success of the first quarter of 2020. Nevertheless, commercial treatment revenues reached a new absolute record of € 0.53 million (PY: € 0.09 million).

Revenues from commercial patient treatment (in € million)



Source: MagForce AG; GBC AG

Further burdens in the course of the corona pandemic resulted in delays, especially in the planned installation of further NanoActivator devices in Spain and Italy. According to company information, the commissioning in Spain is to take place in the current business year in a partner clinic. Negotiations are at an advanced stage in Austria, Germany and Italy.

Since the clinical approval of the second indication area, prostate cancer, is in its final phase in the USA, no revenues were generated from this in 2020. As expected, the revenue level of € 0.62 million (previous year: € 0.84 million) remains low. According to our previous estimates (see study dated 29 April 2021), we had forecast revenues of € 0.94 million.

With the low revenue structure still in place, MagForce AG generally has a negative earnings level. The EBIT of €18.65 million (previous year: €-6.20 million) generated in the past financial year is solely due to the transfer of shares in MagForce USA Inc., which led to the realisation of hidden reserves and thus to significant other operating income of €26.49

million (previous year: €0.90 million). Without this effect, MagForce AG would have reported EBIT of €-6.96 million (previous year: €-6.20 million), slightly below the previous year's level. MagForce AG recorded slight increases in costs due to the increase in the number of employees to 64 (previous year: 56) and in connection with the capital measures implemented.

The increase in liabilities to banks in the past financial years and the rise in outstanding convertible bonds are accompanied by increasing interest expenses. Overall, the financial result of € -3.87 million (previous year: € -2.53 million) was significantly below the previous year's level, so that the after-tax result adjusted for special effects was € -10.81 million (previous year: € -8.73 million). In our previous estimates, we had forecast an after-tax result in the amount of € -10.76 million, and thus the development of the past financial year 2020 was in line with our expectations.

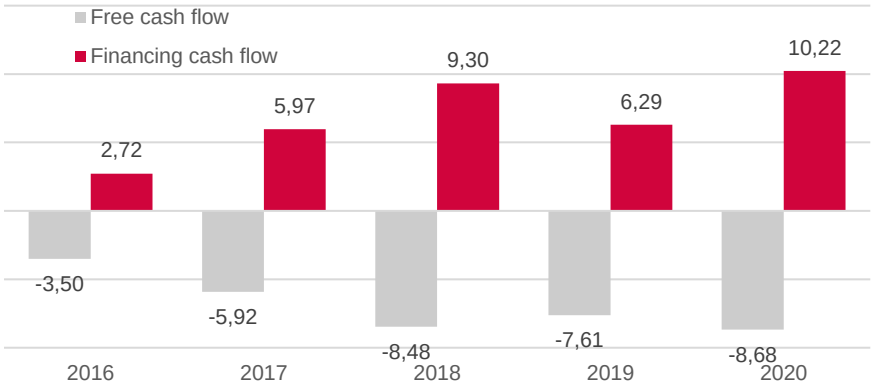
Asset position as at 31.12.2020

in € m	31.12.2017	31.12.2018	31.12.2019	31.12.2020
Equity	13.19	18.16	14.71	35.52
thereof accumulated loss	*-56.42*	*-52.06*	*-60.80*	*-46.05*
Bank liabilities and convertible bond	5.00	15.88	16.67	22.83
Cash and cash equivalents	0.67	1.49	0.17	1.71
Valuation of subsidiaries	17.08	30.98	30.98	56.57
Cash flow (operating)	-5.34	-7.11	-5.67	-5.70
Cash flow (investment)	-0.58	-1.37	-1.94	-2.98
Cash flow (financing)	5.97	9.30	6.29	10.22

Source: MagForce AG; GBC AG

MagForce AG's asset situation in the past financial year was characterised in particular by the financing measures implemented to ensure liquidity and the financing of the still prevailing outflow of liquidity from the operating business. Of note here is the further disbursement of a tranche from the EIB financing in the amount of € 3.0 million, for which there is a five-year term. In addition, an agreement was reached with the US investment firm Yorkville Advisors in June 2020 for a convertible bond issue of up to € 15.0 million. At the end of June 2020, a tranche of € 2.5 million was drawn down, of which approximately € 1.4 million had been converted into shares by 31 December 2020. As a third financing component, a capital increase with gross proceeds of € 4.7 million was successfully placed in December 2020. Overall, the free cash flow of € -8.68 million (PY: € -7.61 million) was thus well absorbed and cash and cash equivalents improved to € 1.71 million (31.12.19: € 0.17 million). According to company information, the liquidity range, based on the freely available liquidity and the available credit lines, amounts to the end of 2022.

Free cash flow vs. financing cash flow (in € million)



Source: MagForce AG; GBC AG

The strong increase in equity to € 35.52 million (31.12.19: € 17.71 million) is striking. In addition to the capital increase carried out in December 2020, the clearly positive after-tax result characterised by special effects led to this increase. On the other hand, the valuation of the subsidiaries increased to € 56.57 million (31.12.19: € 30.98 million), which led to a visible increase in the balance sheet to € 65.59 million (31.12.19: € 36.66 million).

FORECAST AND EVALUATION

in € m	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Revenues	0.85	19.32	36.30	57.36	82.97	113.30	138.50	156.80
EBITDA	-7.88	6.11	11.65	23.10	39.61	56.63	70.26	79.34
EBIT	-8.66	4.84	10.14	20.90	35.95	50.92	63.69	71.91
Net profit before minorities	-12.02	0.78	5.46	15.76	33.34	63.34	81.43	93.48

Source: GBC AG

Corporate strategy

Similar to the 2020 financial year, the 2021 financial year at MagForce AG will still be characterised by the effects of the corona crisis. At least the lockdown in the first quarter of 2021, as in the previous year, led to low treatment figures in Europe (glioblastoma). However, after the end of the lockdown, the MagForce management has recognised a significant increase in patient enquiries, so that a significant increase in commercial treatments can be expected in the second half of 2021. Ultimately, the previous year's figure should be exceeded, although an unchanged low level is to be expected.

The current stock of four NanoActivator devices in Germany and Poland is to be expanded, which should also have a positive effect on patient demand. The commissioning of another device at a partner clinic in Spain is expected before the end of the current financial year. Here, the corona pandemic has led to delays in the installation that had actually been planned for the past financial year. In addition, MagForce AG is in advanced negotiations with potential partners in Austria, Germany and Italy. As of the coming financial year, NanoActivator devices are to be in operation at a total of eight locations. The broad regional coverage is particularly important in light of the fact that glioblastoma patients usually require rapid access to therapy and have limited mobility.

Parallel to the planned regional expansion of the treatment offer, an efficient reimbursement procedure is to be established in Germany, Poland and in the target regions of Spain and Italy. In Poland, for example, a so-called Investigator Initiated Trial has been initiated, on the basis of which reimbursement can be applied for. For Germany, the reimbursement of costs is to be addressed more strongly within the framework of a trial procedure. Currently, glioblastoma treatments are financed by individual application, by private health insurances and in Poland by crowd-funding or by the patients themselves.

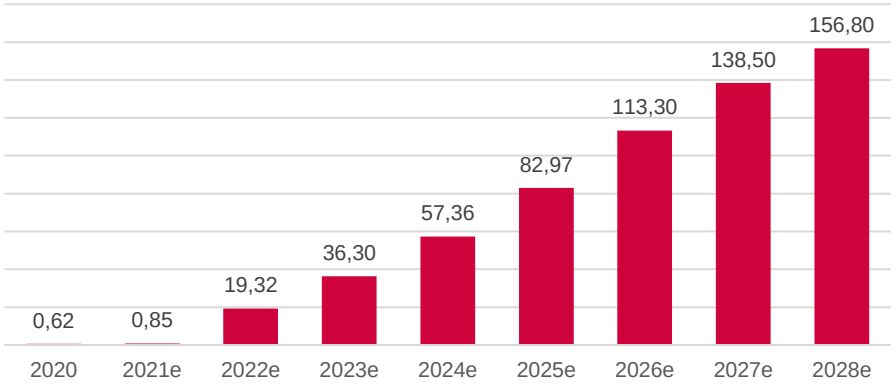
In addition to increasing commercial treatments in Europe, approval for prostate treatment in the USA is to be advanced. Patients are currently being recruited for the final Phase 2b trial, in which up to 100 men will be treated. The trial will be conducted at all three currently available MagForce sites in the US, which will also ensure that the relevant treatment centres are operational if approved. According to the company, this final phase of the trial is expected to be completed in the second half of 2021, with commercialisation starting in mid-2022.

In addition, the company plans to treat prostate patients in the USA within the framework of its own so-called "Focal Treatment Centers", which will be operated by its own specialist staff. This would mean that the entire treatment value chain would be covered by MagForce AG, which would be associated with significantly higher and more sustainable revenue potential than the sale of treatment devices. In addition, there is a high level of scalability and profitability.

Revenue and earnings forecasts

With the expansion of the treatment offer, a noticeable increase in commercial treatments is to be achieved in Europe. In parallel, with expected approval in the USA, commercialisation activities for prostate treatment should also begin from 2022. After the current financial year 2021, which is still expected to be characterised by low sales revenues, the company should achieve a visible jump in sales from the coming financial year 2022.

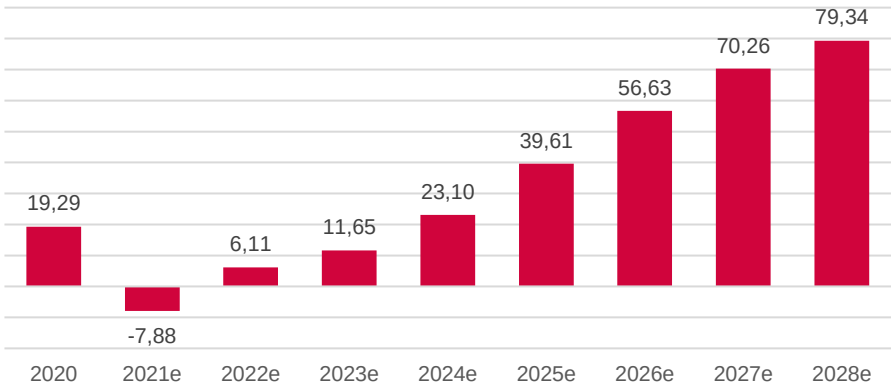
Sales forecast (in € million)



Source: MagForce AG; GBC AG

As early as the coming 2022 financial year, MagForce AG should be in a position to break even for the first time and at all earnings levels.

EBITDA forecast (in € million)



Source: MagForce AG; GBC AG

Note: Revenues from prostate treatment in the USA are derived from the 65.3% subsidiary MagForce USA, Inc. We use a quasi-full consolidation in our forecasts and deduct the average share of minorities in the valuation.

Evaluation

Model assumptions

We valued MagForce AG using a DCF model. In doing so, we prepared specific revenue and earnings estimates for the years 2021 - 2028 based on the company's commercialisation plan. Due to the accumulated losses carried forward, we have taken into account a tax rate of 30 % only from the 2026 financial year. In the second phase, a terminal value is determined after the end of the forecast horizon using the perpetual annuity. In the terminal value, we assume a sales growth rate of 2.0 %.

Determination of the cost of capital

The weighted average cost of capital (WACC) of MagForce AG is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The currently used value of the risk-free interest rate is our new lower limit of 0.25 % (previously: 1.00 %).

We set the historical market premium of 5.50% as a reasonable expectation of a market premium. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.98 (previously 1.77) is currently determined. We have raised the company-specific risk until the expected market approval for prostate cancer treatment.

Using the assumptions made, we calculate a cost of equity of 11.15% (previously: 10.72%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the cost of equity of 85% (previously: 85%), the weighted average cost of capital (WACC) is 9.91% (previously: 9.70%).

Valuation result

Within the framework of our DCF valuation model, we have determined an unchanged target price of € 11.00 (previously: € 11.00). On the one hand, the roll-over effect of the model results in an increase in the target price. However, this is offset by an increase in the weighted average cost of capital (WACC), which has had a balancing effect on the model result overall.

DCF model

MagForce AG - Discounted Cashflow (DCF) Valuation

Value driver of DCF-model after the estimate phase:

consistency - Phase	
EBITDA-margin	50.6%
Working Capital to sales	45.0%

final - Phase	
Perpetual growth rate	2.0%
Perpetual EBITA margin	42.0%
Taxe rate terminal value	30.0%

Three phases DCF - Model:

Phase	estimate								Termi-
in €m	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	nal value
Sales	0.85	19.32	36.30	57.36	82.97	113.30	138.50	156.80	
Sales change	-20.1%	2183.9%	87.9%	58.0%	44.6%	36.6%	22.2%	13.2%	2.0%
EBITDA	-7.88	6.11	11.65	23.10	39.61	56.63	70.26	79.34	
EBITDA-margin	neg.	neg.	32.1%	40.3%	47.7%	50.0%	50.7%	50.6%	
EBITA	-8.66	4.84	10.14	20.90	35.95	50.92	63.69	71.91	
EBITA-margin	neg.	neg.	27.9%	36.4%	43.3%	44.9%	46.0%	45.9%	42.0%
Taxes on EBITA	0.00	0.00	0.00	0.00	0.00	-15.27	-19.11	-21.57	
Taxes to EBITA	0.0%	0.0%	0.0%	0.0%	0.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	-8.66	4.84	10.14	20.90	35.95	35.64	44.58	50.34	
Return on capital	-232%	103.2%	99.8%	126.5%	110.5%	61.4%	53.5%	50.6%	41.7%
Working Capital (WC)	0.25	3.00	8.00	20.08	37.34	50.99	62.33	70.56	
WC to sales	neg.	4.8%	15.0%	35.0%	45.0%	45.0%	45.0%	45.0%	
Investment in WC	-1.75	-2.75	-5.00	-12.08	-17.26	-13.65	-11.34	-8.23	
Operating fixed assets (OFA)	4.44	7.16	8.52	12.45	20.76	32.38	37.23	42.10	
Depreciation on OFA	-0.78	-1.26	-1.50	-2.20	-3.66	-5.71	-6.57	-7.43	
Depreciation to OFA	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%	
Investment in OFA	0.00	-3.98	-2.86	-6.13	-11.97	-17.34	-11.42	-12.30	
Capital employed	4.69	10.16	16.52	32.53	58.09	83.37	99.56	112.66	
EBITDA	-7.88	6.11	11.65	23.10	39.61	56.63	70.26	79.34	
Taxes on EBITA	0.00	0.00	0.00	0.00	0.00	-15.27	-19.11	-21.57	
Total investment	-1.75	-6.73	-7.86	-18.21	-29.23	-30.99	-22.76	-20.53	
Investment in OFA	0.00	-3.98	-2.86	-6.13	-11.97	-17.34	-11.42	-12.30	
Investment in WC	-1.75	-2.75	-5.00	-12.08	-17.26	-13.65	-11.34	-8.23	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflow	-9.64	-0.63	3.78	4.90	10.38	10.36	28.40	37.23	566.18

Value operating business (due date)	347.43	382.47
Net present value explicit free CF	55.16	61.25
Net present value of terminal value	292.26	321.22
Net debt	-18.53	-13.84
Value of equity	365.95	396.31
Minority interests	-67.73	-73.34
Value of share capital	298.23	322.97
Outstanding shares in m	29.36	29.36
Fair value per share in €	10.16	**11.00**

Cost of capital:

Risk free rate	0.3%
Market risk premium	5.5%
Beta	1.98
Cost of equity	11.2%
Target weight	85.0%
Cost of debt	4.0%
Target weight	15.0%
Taxshield	28.7%
WACC	**9.9%**

Return on capital	WACC				
	7.9%	**8.9%**	**9.9%**	**10.9%**	**11.9%**
39.7%	14.74	12.32	10.55	9.20	8.15
40.7%	15.07	12.60	10.78	9.39	8.31
41.7%	15.41	12.87	**11.00**	9.58	8.47
42.7%	15.75	13.14	11.23	9.77	8.63
43.7%	16.08	13.41	11.45	9.96	8.79

APPENDIX

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