

Deutsche Biotech Innovativ AG

Germany / Pharmaceutical/Biotechnology

Düsseldorf

Bloomberg: VUA GR

ISIN: DE000A0Z25L1

Update

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€43.60**

55.7%

High

ADRECIZUMAB PHASE 1A/1B RESULTS DUE LATER IN Q3

DBI is currently proceeding with phase 1a and phase 1b trials of its lead drug candidate for the treatment of sepsis, Adrecizumab. The worldwide incidence of severe sepsis is higher than either cancer or heart attack with mortality rates of over 30%. However, there are currently no drugs approved for its treatment, despite the investment by Big Pharma in recent decades of USD19bn in development of therapies for the condition. Adrecizumab's action as an inhibitor of the vasodilatory peptide hormone, adrenomedullin, produced very promising preclinical results. The results of both the phase 1a and 1b trials are due later this quarter. We believe that Adrecizumab, which accounts for 92% of our enterprise valuation of DBI has annual peak sales potential of over €3bn per annum as first mover in a new class of sepsis therapy (adrenomedullin modulators). Our estimates of the future value of DBI's participations on a 100% basis are unchanged on our notes of September and December 2015. However, we have revised our price target up from €39.50 to €43.60 for two reasons. The first of these relates to the passage of six months since our last update and hence the shorter period of time until forecast exit timepoints (which are unchanged). The second relates to the reduced level of dilution at Oncoprevent and AngioBiomed due to the likely receipt of grant and debt funding. We maintain our Buy recommendation.

Adrecizumab phase 1a/1b trial began in May DBI's 28.9%-owned subsidiary, AdrenoMed, began the phase 1a trial of the group's lead-drug candidate, Adrecizumab, in May. Phase 1a will investigate the safety and tolerability of Adrecizumab in healthy patients. The phase 1b trial will then examine the safety of the drug in patients with systemic inflammation. As we wrote in our initiating coverage note of 8 September 2015, AdrenoMed had originally planned to have the phase 1a and 1b trials carried out near Dijon by a French CRO. Earlier this year AdrenoMed decided to transfer the study to the Radboud University Medical Center at Nijmegen in the Netherlands. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	0.00	0.10	0.20	0.21	0.23	0.26
Y-o-y growth	n.a.	n.a.	97.2%	6.5%	11.0%	11.0%
EBIT (€m)	-0.08	-0.14	-0.59	-0.23	-0.24	6.78
EBIT margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income (€m)	-0.09	-0.15	-0.60	-0.23	-0.24	5.90
EPS (diluted) (€)	-0.11	-0.17	-0.67	-0.24	-0.25	6.25
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.13	-0.07	-0.87	-0.95	-0.24	7.05
Net gearing	-12.5%	-33.9%	-49.8%	-12.4%	-2.1%	-89.8%
Liquid assets (€m)	0.14	0.48	1.52	0.28	0.04	7.09

RISKS

The company's drug candidates are at an early development stage. Preclinical trial results have been promising but there is no guarantee that clinical results will be good enough to attract the desired trade buyers.

COMPANY PROFILE

Deutsche Biotech Innovativ AG ("DBI") is a biotechnology company that utilizes innovative blood biomarkers to investigate and clinically develop unique therapies for severe disease without appropriate solutions, such as sepsis and cancer.

MARKET DATA

As of 19 Jul 2016

Closing Price	€ 28.00
Shares outstanding	0.94m
Market Capitalisation	€ 26.42m
52-week Range	€ 5.25 / 44.00
Avg. Volume (12 Months)	055

Multiples	2015	2016E	2017E
P/E	n.m.	n.m.	n.m.
EV/Sales	127.3	119.5	107.7
EV/EBIT	n.m.	n.m.	n.m.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2015

Liquid Assets	€ 1.52m
Current Assets	€ 1.60m
Intangible Assets	€ 0.00m
Total Assets	€ 2.92m
Current Liabilities	€ 0.39m
Shareholders' Equity	€ 2.46m

SHAREHOLDERS

Dr Andreas Bergmann	32.2%
Dr Metod Miklus	32.2%
Dr Bernd Wegener	32.2%
Free Float	3.4%



The study was transferred because of the expertise at the Dutch site in setting up trials with patients suffering from systemic inflammation. The phase Ia/Ib study will be followed directly by the phase IIa/IIb study in 20 to 30 clinical centres across Europe.

We expect Adrecizumab development to proceed as planned before share issue DBI's autumn 2015 share issue raised only €1.6m of a planned €20m. However, after the share issue group management pledged to continue the development of the pipeline - using their own funds if necessary. DBI's three largest shareholders, Dr Andreas Bergmann, Dr Metod Miklus and Dr Bernd Wegener contributed €1m of the €1.6m raised by the share issue. All three men were involved in the foundation of the diagnostics company, B.R.A.H.M.S. AG, in 1994 through a management buyout from Henning Berlin/Marion Merrell Dow. This business was later sold to Thermo Fisher Scientific in 2009 for ca. €330m. Ahead of the share issue, AdrenoMed was budgeted to spend €2.2m in both 2016 and 2017 (see figure 1). Given that management has stated that AdrenoMed has the highest priority among its holdings and that the phase Ia/Ib and phase IIa/IIb trials will proceed according to schedule, we believe that the original budget remains in place. In March, DBI transferred €0.75m of the issue proceeds to AdrenoMed through a capital increase. The capital increase raised DBI's stake in AdrenoMed from 26.04% to 28.9%. We expect AdrenoMed to raise the balance of the money required to fund budgeted spending for 2016 and 2017 from a further capital increase following the release of the phase Ia/Ib results. The final results of the phase II study are expected by the end of 2018. Following completion of phase I and II trials, DBI envisages selling AdrenoMed to a large pharmaceutical company which would then finance phase III. After a 1-2 year approval period, market introduction would then follow in 2022/23.

Figure 1: Capital requirement/allocation as projected ahead of the October/November share issue

Company	2015		2016		2017		2018		2019	Sum
	H2	H1	H2	H1	H2	H1	H2	H1		
DBI	70	220	260	220	260	220	260	220	1,730	
AdrenoMed		1,080	1,110	470	1,710	2,000	1,860	470	8,700	
Oncoprevent	30	230	440	650	1,230	470	550	840	4,440	
AngioBiomed	420	590	580	670					2,260	
My Life Diagnostics	50	70	60	70	65	70	70	45	500	
Financing costs	1,200								1,200	
Strategic reserve	150	150	150	150	150	150	150	120	1,170	
Sum	1,920	2,340	2,600	2,230	3,415	2,910	2,890	1,695	20,000	
Cumulated	1,920	4,260	6,860	9,090	12,505	15,415	18,305	20,000		

Source: DBI Deutsche Biotech Innovativ AG

Oncoprevent has received approval for €800k in grants and loans Oncoprevent is currently conducting preclinical trials with the breast cancer prevention therapy, DB1RA. The phase I trial is scheduled to begin in Q1 2018. Oncoprevent was originally budgeted to spend €0.7m in 2016 and €1.9m in 2017. The cash position at the beginning of 2016 was €250k but the company has received final approval for a grant and a loan - each of €400k. Drawdown of these funds is conditional on the raise of a further €0.1m in equity. Provided that sufficient financing is forthcoming, DBI plans a phase II trial which is expected to continue into 2022. DBI then envisages selling the product to a buyer who would finance phase III.

Management expects approval of €600k grant for AngioBiomed AngioBiomed has developed a full adrenomedullin antagonist, AB2302, to inhibit the growth of tumours. AB2302 is partnered with a large pharmaceutical company and will likely be co-marketed with an existing therapy. AngioBiomed's original budget was €1.2m for 2016 and €0.7m for 2017. €100k of the October/November issue proceeds were invested in AngioBiomed. The company's application for a €600k grant has been positively received. Payout of the funds is conditional on final approval and the injection of a further €500k in equity capital. Management tell us that further financing of AngioBiomed will proceed in increments based on the achievement of milestones but that the long term plan for the company remains in place. AngioBiomed and its partner are currently conducting preclinical trials with AB2302.

These are scheduled to continue until 2017. DBI plans to sell AngioBiomed to a Big Pharma company after preclinical proof of concept. We have pencilled in proceeds of €8.3m from the sale for late 2018.

DBI is no longer financing UTI product DBI originally planned to inject €130k into its 25%-owned subsidiary, My Life Diagnostics (MLDx), in 2016 to finance development of its urinary tract infection (UTI) diagnostic product. Management tell us they still expect DBI to benefit from MLDx' role as a "think tank" but that further financing of the UTI diagnostic product will be carried out by third parties.

2015 results; forecasts for 2016 and beyond 2015 group revenues of €197k (2014: €100k) stemmed from services performed for the participations and also for Sphingotec GmbH, a company founded in 2002 by DBI's Chief Science Officer, Dr Andreas Bergmann. Revenues increased by 97% over the prior year because in 2014 some of the participations were not in existence for the full 12 months. The increase in personnel costs was attributable to the appointment of additional personnel in 2014 and the expansion of the corporate finance department in November 2015. Costs in connection with the autumn capital raise accounted for 80% of other operating costs of €583k. Management is guiding towards a net loss of around €220k for the current year. Our net loss forecast of €230k is very close to this figure. We expect revenues of €210k, personnel costs of €190k, other operating costs of €240k and depreciation of €10k. The changes to our forecasts for 2016, 2017 and 2018 shown in figure 2 below are mainly a function of upwards revisions in our projections for other operating costs. Our 2018 EBIT forecast rises because reduced dilution of DBI's stake in AngioBiomed following the expected receipt of the €600k grant implies higher proceeds and profits when this business is exited.

Figure 2: changes to our forecasts

EURm	2016E			2017E			2018E		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Sales	0.26	0.21	-19.2%	0.28	0.23	-16.8%	0.29	0.26	-10.8%
EBIT	0.00	-0.23	-	0.01	-0.24	-	6.62	6.78	2.4%
margin	neg.	neg.	-	neg.	neg.	-	neg.	2618.7%	-
Net income	0.00	-0.23	-	0.01	-0.24	-	5.76	5.90	2.3%
margin	neg.	neg.	-	neg.	neg.	-	neg.	2278.4%	-
EPS (in EUR)	0.00	-0.24	-	0.01	-0.25	-	5.76	6.25	8.5%

Source: DBI; First Berlin Equity Research estimates

In the annual report management state that they are looking to raise additional funds both at the parent company and at the participation level. However, in the light of the poor reception for the DBI share issue, we continue to assume that future financing will take place exclusively at the level of the individual participations. Figure 3 shows the planned changes in DBI's stakes in the participations had the October/November share issue been implemented in full and the proceeds allocated as shown in figure 1. In our current valuation we assume that the participations will raise the same amounts that they were originally projected to receive before the share issue. We further assume that the capital raises in the participations take place at the valuations implied by figures 1 and 3. For AngioBiomed, we assume a pre-money valuation of €1m. Figure 3 also shows dilution of DBI's existing stakes in the participations on the assumption that all future capital raises are made at the participation level. The changes to column "C" in figure 3 in comparison with our most recent study of 21 December 2015 relate to the assumed receipt of grants by Oncoprevent and Angiobiomed. These lower the requirement for outside funding and hence reduce the dilution of DBI's stakes.

Figure 3: DBI stakes in participations and free float

	A	B	C	
			Old	New
AdrenoMed	26.0%	50.0%	21.8%	21.8%
Oncoprevent	25.0%	95.0%	7.6%	8.6%
AngioBiomed	100.0%	100.0%	33.7%	41.4%
MyLife Diagnostics	50.0%	75.0%	37.5%	n.a.
DBI Free float	1.5%	38.9%	3.4%	3.4%

Source: DBI/First Berlin estimates



Future value of the participations on 100% basis unchanged We continue to base our valuation of DBI's individual participations on exit multiples paid for similar assets at a similar stage of development. Our estimates of the future value of DBI's participations (see figure 4) on a 100% basis are unchanged on our notes of September and December 2015.

Figure 4: Valuation of DBI's participations

€m	AdrenoMed	Oncoprevent	AngioBiomed	Parent Company	Total
Assumed exit date	12/31/2019	6/30/2022	6/30/2018		
No. years to sale	3.4	5.9	1.9		
Future value (100%)	461.1	42.3	20.0		523.3
Estimated future stakes (%)	21.8%	8.6%	41.4%		
Future value (DBI's est. future stake)	100.6	3.6	8.3		112.5
Present value of DBI's est. future stake	42.7	0.8	4.9		48.4
Less investment by DBI	42.2	0.8	4.9		47.8
Present value tax	5.4	0.1	0.9		6.4
Book value	1.1	0.2	1.2		2.5
After tax enterprise value	36.6	0.7	3.9	-1.2	39.9
Net cash position					1.2
Value per share in €					43.6
(0.944m shares currently outstanding)					

Source: DBI; First Berlin Equity Research estimates

Buy recommendation maintained with a price target of €43.60 (previously €39.50) Figure 5 shows changes in our valuation since our last study in December. There are two reasons for the revisions in the present value figures for each participation shown in figure 5. The first of these relates to the reduced period until forecast exit and the second relates to the reduced level of dilution at Oncoprevent and AngioBiomed already referred to above. For the first time we have also taken parent company costs into account in our valuation. We raise our price target from €39.50 to €43.60 and retain our Buy recommendation.

Figure 5: Changes to our sum of the parts model

€m	New	Old	Δ
AdrenoMed	36.6	31.7	15.2%
Oncoprevent	0.7	0.5	26.2%
AngioBiomed	3.9	2.5	56.9%
MyLife Diagnostics	n.a.	1.2	n.a.
PV parent co. costs	-1.2	0.0	
Total enterprise value	40.0	36.0	11.1%
Net cash	1.2	1.3	
Equity value	41.2	37.3	10.5%
No shares (m)	0.944	0.944	
Value per share in €	43.6	39.5	10.5%

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
Sales	0	100	197	210	233	259
Other operating income	85	4	1	0	0	0
Wages and salaries	-10	-77	-160	-155	-171	-190
Social security and pension payments	-3	-20	-37	-35	-39	-44
Depreciation and amortisation	0	0	-12	-10	-15	-20
Other operating expenses	-153	-149	-584	-240	-245	-250
Profit on disposal of AngioBiomed	0	0	0	0	0	7,021
Operating income (EBIT)	-81	-142	-594	-230	-238	6,776
Net financial result	-2	0	-4	0	0	0
Pre-tax income (EBT)	-83	-142	-598	-230	-238	6,776
Taxes	-2	-3	0	0	0	-881
Net income / loss	-85	-145	-598	-230	-238	5,895
Diluted EPS	-0.11	-0.17	-0.67	-0.24	-0.25	6.25
EBITDA	-81	-142	-582	-220	-223	6,796
Ratios						
EBIT-margin	n.m.	-142.5%	-301.0%	-109.5%	-102.0%	2618.7%
EBITDA margin	n.m.	-142.0%	-294.9%	-104.8%	-95.6%	2626.5%
Net Margin	n.m.	-145.5%	-303.2%	-109.5%	-102.0%	2278.4%
Expenses as % of Revenues						
Wages and salaries	n.m.	-77.0%	-80.9%	-73.6%	-73.6%	-73.6%
Social security and pension payments	n.m.	-20.0%	-18.6%	-16.9%	-16.9%	-16.9%
Other operating expenses	n.m.	-149.0%	-296.1%	-114.3%	-105.1%	-96.6%
Y-Y Growth						
Revenues	n.m.	n.m.	97.2%	6.5%	11.0%	11.0%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
Assets						
Current Assets, Total	291	545	1,594	384	159	7,224
Cash and Cash Equivalents	145	481	1,523	279	43	7,095
Receivables	0	13	0	27	30	34
Receivables from affiliated companies	73	39	18	53	58	65
Other Current Assets	73	12	53	25	28	31
Non-Current Assets, Total	984	993	1,316	2,076	2,081	931
Property, Plant & Equipment	0	1	10	40	65	90
Shares in affiliated companies	0	0	150	150	150	150
Participations	984	992	1,155	1,885	1,865	691
Prepaid expenses and deferred charges	0	0	10	11	12	13
Total Assets	1,275	1,538	2,920	2,471	2,252	8,168
Shareholders' Equity & Debt						
Current Liabilities, Total	106	84	388	168	186	207
Short term bank debt	0	0	298	0	0	0
Accounts Payable	46	12	8	25	28	31
Payables to affiliated companies	0	8	0	17	19	21
Shareholder loans	0	0	0	0	0	0
Other current liabilities	60	64	82	126	140	155
Longterm Liabilities, Total	13	36	68	42	47	52
Tax provisions	2	0	0	0	0	0
Other provisions	11	36	68	42	47	52
Shareholders Equity, Total	1,156	1,418	2,460	2,256	2,014	7,904
Share Capital	413	447	944	944	944	944
Share premium account	1,138	1,511	2,655	2,655	2,655	2,655
Profit/(losses) carried forward	-310	-395	-541	-1,138	-1,342	-1,584
Profit/(loss) for the year	-85	-145	-598	-204	-242	5,890
Deferred income and accrued expenses	0	0	4	4	5	5
Total Consolidated Equity and Debt	1,275	1,538	2,920	2,471	2,252	8,168
Ratios						
Current ratio (x)	2.7	6.5	4.1	2.3	0.9	34.9
Quick ratio (x)	2.7	6.5	4.1	2.3	0.9	34.9
Net gearing	-12.5%	-33.9%	-49.8%	-12.4%	-2.1%	-89.8%
Net cash	145	481	1,225	279	43	7,095
Return on Equity (ROE)	-8.1%	-11.3%	-30.8%	-9.8%	-11.1%	118.9%



CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Net profit	-85	-145	-598	-230	-238	5,895
Profit on disposal of AngioBiomed	0	0	0	0	0	-7,021
Depreciation and amortization	0	0	12	10	15	20
Change in provisions	3	22	0	0	0	0
Profit on asset sales	-85	0	0	0	0	0
Change in working capital	38	-93	-8	45	6	7
Operating Cashflow	-130	-216	-594	-175	-217	-1,099
CAPEX	0	143	-275	-770	-20	-120
Proceeds on disposal of AngioBiomed	0	0	0	0	0	8,271
Free cashflow	-130	-73	-869	-945	-237	7,052
Debt Financing, net	-205	0	0	0	0	0
Equity Financing, net	300	409	1,620	0	0	0
Other Changes in Cash	0	0	291	-298	0	0
Net Cash Flows	-34	336	1,042	-1,244	-237	7,052
Cash, start of the year	179	145	481	1,523	279	43
Cash, end of the year	145	481	1,523	279	43	7,095
EBITDA/share	-0.10	-0.17	-0.65	-0.23	-0.24	7.20
Y-Y Growth						
Operating Cashflow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Free cashflow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	8 September 2015	€20.00	Buy	€67.90
2	21 December 2015	€27.00	Buy	€39.50
3	Today	€28.00	Buy	€43.60

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ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

BUY: An expected favourable price trend of more than 25% percent.

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

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The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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