

# 4SC

Q1 results

## Increased focus on core business

4SC's Q1 results highlight an increased focus on its core business of epigenetic research and commercialisation, resulting from the sale of the operational assets (for €650k in proceeds) of its discovery and collaborative segment, 4SC Discovery. 2016 is an important year for 4SC with expected newsflow from its clinical pipeline including the launch of its potentially pivotal EU Phase II study with resminostat in Cutaneous T-cell lymphoma (CTCL) and expected Phase II Japanese trial data in HCC and NSCLC (from partner Yakult).

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/14	7.1	(8.8)	(0.88)	0.0	N/A	N/A
12/15	3.3	(8.4)	(0.59)	0.0	N/A	N/A
12/16e	3.8	(11.4)	(0.60)	0.0	N/A	N/A
12/17e	4.0	(10.2)	(0.53)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Enhanced core business focus

4SC announced the sale of key operating assets of 4SC Discovery to BioNTech Small Molecules for €650k. 4SC retains the product candidates and temporary access to the research services. This disposal serves to streamline the focus on its core business of epigenetic research and treatments.

## 2016 an important year for clinical pipeline

4SC will be initiating a pivotal phase II trial of resminostat in CTCL in Europe mid-2016. This will be a 150-patient, double-blind, randomised controlled study conducted in 50 centres, across 10 countries. Initial results could be available in FY18, which could lead to EU approval FY20 if the data are positive. Resminostat is also being studied in a Phase II trial conducted by partner Yakult Honsha in liver cancer (HCC) in Japan, with data expected mid-2016. 4SC-202, a dual-acting (HDAC and LSD1) epigenetic product with a unique mode of action, has shown promising results in Phase I. Following further in-depth analysis, the company presented data at the ITOC3 conference in Munich, indicating it can strengthen the endogenous immune response to cancer cells. The company is pursuing partners to develop 4SC-202 and 4SC-205, an Eg5 inhibitor that has also completed Phase I.

## Valuation: Slight increase to €145m

We have rolled the model forward by three months and now use Q116 cash of €17.1m and a projected cash burn of €1.2m per month. Our rNPV-based valuation has increased to €145m (vs €143m) or €7.67 per share (vs €7.53). The company forecasts sufficient cash to 2018 and that will fund the majority of the Phase II trial of resminostat in CTCL. We have lowered our FY16 revenues from €6.8m to €3.8m and FY17 from €7.3m to €4m to reflect the disposal of 4SC Discovery. We maintain operating expenses at the same level, as the reduction in costs from the disposal is offset by an increase in the CTCL trial costs (150 patients vs 120 patients). FY16 balance sheet adjustments for the disposal include cash of €650k offset by a reduction in assets of €440k and current liabilities to €3.2m (vs €3.6m).

## Pharma & biotech

19 May 2016

**Price** €2.92

**Market cap** €55m

Net cash (€m) at 31 March 2016 17.1

Shares in issue 19.0m

Free float 38.1%

Code VSC

Primary exchange Frankfurt

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (19.4) (6.4) (39.1)

Rel (local) (18.0) (10.9) (29.0)

52-week high/low €5.0 €2.4

## Business description

4SC is a Munich-based cancer R&D company. Epigenetic compound resminostat (HDAC inhibitor) is the lead candidate for (CTCL) (Phase II planned in H116), partnered with Yakult Honsha (Japan) and Menarini (Asia ex-Japan). Partners are sought for two Phase I oncology assets and a Phase IIb autoimmune asset.

## Next events

Resminostat Phase II EU CTCL H116 starts

Phase II data in HCC and NSCLC Japan (Yakult) Mid-2016

Interim 2016 results 11 August 2016

## Analysts

Dr Linda Pomeroy +44 (0)20 3077 5738

Lala Gregorek +44 (0)20 3681 2527

[healthcare@edisongroup.com](mailto:healthcare@edisongroup.com)
[Edison profile page](#)

**4SC is a research client of  
Edison Investment Research  
Limited**

**Exhibit 1: Financial summary**

	€'000s	2013	2014	2015	2016e	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		4,904	7,055	3,266	3,800	4,000	5,000
Cost of sales		(1,474)	(4,080)	(1,763)	(1,710)	(1,600)	(1,750)
Gross profit		3,430	2,975	1,503	2,090	2,400	3,250
R&D expenditure		(10,243)	(8,504)	(7,255)	(11,000)	(10,000)	(7,500)
Administrative, distribution and other		(3,779)	(3,908)	(3,163)	(3,447)	(3,551)	(3,657)
Operating profit		(10,592)	(9,437)	(8,915)	(12,357)	(11,151)	(7,907)
Intangible amortisation		(1,593)	(819)	(827)	(827)	(827)	(827)
Exceptionals (impairment / restructuring costs)		(862)	0	0	0	0	0
Share-based payments		(53)	(3)	2	(20)	(20)	(20)
EBITDA		(7,804)	(8,339)	(7,914)	(11,285)	(10,079)	(6,835)
Operating profit (before GW and except.)		(8,084)	(8,615)	(8,090)	(11,510)	(10,304)	(7,060)
Net interest		48	(228)	(331)	75	150	100
Other (profit/loss from associates)		19	39	58	75	75	75
Profit before tax (norm)		(8,036)	(8,843)	(8,421)	(11,436)	(10,154)	(6,960)
Profit before tax (FRS 3)		(10,525)	(9,626)	(9,188)	(12,208)	(10,926)	(7,732)
Tax		0	(70)	(40)	0	0	0
Profit after tax (norm)		(8,017)	(8,874)	(8,403)	(11,361)	(10,079)	(6,885)
Profit after tax (FRS 3)		(10,525)	(9,696)	(9,228)	(12,208)	(10,926)	(7,732)
Average number of shares outstanding (m)		10.1	10.1	14.3	19.0	19.0	19.0
EPS - normalised (€)		(0.80)	(0.88)	(0.59)	(0.60)	(0.53)	(0.36)
EPS - FRS 3 (€)		(1.04)	(0.96)	(0.64)	(0.64)	(0.58)	(0.41)
Dividend per share (€)		0.0	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET</b>							
Fixed assets		11,591	10,639	11,077	10,043	9,280	8,542
Intangible assets		10,651	9,836	9,123	8,164	7,451	6,738
Tangible assets		602	425	357	282	232	207
Investments and other		338	378	1,597	1,597	1,597	1,597
Current assets		6,114	4,295	22,415	10,665	10,201	2,555
Stocks		23	25	20	20	20	20
Debtors		346	652	94	94	94	94
Cash		4,899	3,202	21,476	9,928	9,464	1,818
Other current assets		846	393	817	623	623	623
Current liabilities		(3,587)	(4,842)	(5,593)	(3,187)	(3,437)	(3,937)
Creditors		(675)	(993)	(688)	(688)	(688)	(688)
Short-term borrowings		0	(317)	(1,962)	0	0	0
Deferred revenue (short term)		(1,589)	(2,638)	(1,779)	(1,750)	(2,000)	(2,500)
Other current liabilities		(1,323)	(894)	(1,164)	(749)	(749)	(749)
Long-term liabilities		(2,836)	(8,042)	(1,471)	(188)	(10,038)	(10,038)
Long-term borrowings		0	(6,131)	0	0	(10,000)	(10,000)
Deferred revenue (long term)		(2,682)	(1,788)	(1,433)	(150)	0	0
Other long-term liabilities		(154)	(123)	(38)	(38)	(38)	(38)
Net assets		11,282	2,050	26,428	17,333	6,006	(2,878)
<b>CASH FLOW</b>							
Operating cash flow		(7,052)	(8,302)	(8,916)	(9,973)	(10,179)	(7,335)
Net interest		66	0	(2)	2	4	3
Tax		0	(70)	(40)	0	0	0
Capex		(99)	(100)	(109)	(150)	(175)	(200)
Expenditure on intangibles		(21)	(3)	(114)	(114)	(114)	(114)
Acquisitions/disposals		10	0	0	650	0	0
Financing		0	477	27,608	0	0	0
Other		0	0	4,333	0	0	0
Net cash flow		(7,096)	(7,998)	22,760	(9,586)	(10,464)	(7,647)
Opening net debt/(cash)		(12,064)	(4,899)	3,246	(19,514)	(9,928)	536
HP finance leases initiated		0	0	0	0	0	0
Other		(69)	(147)	0	0	0	0
Closing net debt/(cash)		(4,899)	3,246	(19,514)	(9,928)	536	8,182

Source: Company accounts, Edison Investment Research

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Copyright 2016 Edison Investment Research Limited. All rights reserved. This report has been commissioned by 4SC and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2016. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.