

Medigene

Continuing to take steps to focus on core

Medigene has announced that it has granted an exclusive worldwide licence for the development and commercialisation of its preclinical-stage adeno-associated virus-like particles (AAVLP) technology to 2A Pharma, a Swedish biotech company. The financial details of the agreement are not disclosed, although Medigene has indicated that it will receive clinical, regulatory and commercial milestone payments, as well as royalties on net sales based on the technology. This is another positive development, with Medigene continuing to streamline its focus on its immunotherapy programmes, while retaining potential value from its non-core assets. We maintain our valuation at €233m.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/14	13.8	(5.3)	(0.42)	0.0	N/A	N/A
12/15	6.8	(12.8)	(0.74)	0.0	N/A	N/A
12/16e	7.1	(13.1)	(0.66)	0.0	N/A	N/A
12/17e	10.7	(10.2)	(0.50)	0.0	N/A	N/A

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

Non-core AAVLP technology out-licensed

Medigene's AAVLP technology has undergone initial preclinical tests, conducted by academic partners. According to the company, it offers the potential to develop vaccines against various indications, including cancer and infectious diseases. Out-licensing the technology while retaining the potential to benefit from any future success is a positive step for Medigene as it continues to concentrate on its core business: the development of T-cell receptor (TCR) modified T-cells and next-generation dendritic cell (DC) vaccines.

Recent progress: TCR technology platform

Medigene has recently made significant progress, announcing its first commercial partnering agreement based on its proprietary TCR technology platform with bluebird bio. The collaboration will seek to identify four TCR therapeutic candidates against four targets. This was a positive development as it validates Medigene's core TCR technology and makes use of technological synergies to develop new immuno-oncology products, which could prove beneficial. Importantly, it does this while retaining all rights for its proprietary TCR development programme and TCR library.

Valuation: Maintained at €233m

Our rNPV-based valuation remains at €233m or €11.8 per share. We have updated the model to include Q3 reported cash of €43.6m plus the upfront payment from the bluebird bio deal received in early Q4 (€14.4m). We do not include any financial metrics from the AAVLP deal, but note that there is potential for upside if it develops successfully. The rest of our valuation assumptions are unchanged. Medigene is well funded and focused on executing its clinical development strategy over the next few years.

Out-licensing agreement

Pharma & biotech

21 December 2016

Price €10.40
Market cap €209m

Net cash (€m) at 30 September 2016	43.6
Shares in issue	20.1m
Free float	62.6%
Code	MDG1
Primary exchange	XETRA
Secondary exchange	Frankfurt

Share price performance



%	1m	3m	12m
Abs	6.4	53.0	47.9
Rel (local)	(1.1)	38.7	36.9
52-week high/low	€10.99	€6.25	

Business description

Medigene is a German biotech company with complementary technology platforms in cancer immunotherapy. Dendritic cell vaccines are in Phase I/II clinical studies, while a T-cell receptor candidate should enter the clinic in 2017.

Next events

FY16 results	March 2017
TCR (IIT) clinical trial initiation	2017
First TCR (CIT) clinical trial initiation	2017

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Medigene Medigene is a
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Exhibit 1: Financial summary

	€'000s	2014	2015	2016e	2017e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		13,784	6,808	7,056	10,667
of which: Veregen revenues (royalties/milestones/supply)		5,195	3,101	3,462	3,737
R&D partnering (SynCore/Falk Pharma/grants)		6,096	1,214	1,100	1,100
Non-cash income (Eligard)		2,493	2,493	2,493	2,493
Bluebird bio partnership					3,338
Cost of sales		(2,086)	(1,103)	(1,305)	(1,415)
Gross profit		11,698	5,705	5,751	9,253
Selling, general & administrative spending		(7,081)	(7,615)	(7,833)	(8,057)
R&D expenditure		(7,498)	(8,529)	(9,808)	(10,789)
Other operating spending		0	.	0	0
Operating profit		(2,881)	(10,439)	(11,890)	(9,593)
Goodwill & intangible amortisation		(527)	(526)	(525)	(524)
Exceptionals		0	0	0	0
Share-based payment		(66)	(111)	(50)	(50)
EBITDA		(2,005)	(9,384)	(11,090)	(8,794)
Operating profit (before GW and except.)		(2,288)	(9,802)	(11,315)	(9,019)
Net interest		(1,774)	(2,914)	(2,529)	(2,361)
Other (forex gains/losses; associate profit/loss)		(1,257)	(46)	719	1,204
Profit before tax (norm)		(5,319)	(12,762)	(13,126)	(10,177)
Profit before tax (FRS 3)		(5,912)	(13,399)	(13,701)	(10,751)
Tax		155	400	0	0
Profit/(loss) from discontinued operations		0	0	0	0
Profit after tax (norm)		(5,164)	(12,362)	(13,126)	(10,177)
Profit after tax (FRS 3)		(5,757)	(12,999)	(13,701)	(10,751)
Average number of shares outstanding (m)		12.2	16.8	19.9	20.2
EPS - normalised (€)		(0.42)	(0.74)	(0.66)	(0.50)
EPS - FRS 3 (€)		(0.47)	(0.77)	(0.69)	(0.53)
Dividend per share (€)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed assets		46,617	53,631	45,730	46,309
Intangible assets & goodwill		38,377	37,792	35,188	34,664
Tangible assets		951	2,502	3,605	4,708
Other non-current assets		7,289	13,337	6,937	6,937
Current assets		24,666	59,900	67,714	54,524
Stocks		4,406	6,654	6,654	6,654
Debtors		1,733	763	763	763
Cash		14,976	46,759	59,029	45,839
Other		3,551	5,724	1,268	1,268
Current liabilities		(7,755)	(9,664)	(8,376)	(8,376)
Trade accounts payable		(1,785)	(1,354)	(1,354)	(1,354)
Short-term borrowings		0	0	0	0
Deferred income		(57)	(226)	(226)	(226)
Other		(5,913)	(8,084)	(6,796)	(6,796)
Long-term liabilities		(14,457)	(13,879)	(27,229)	(23,892)
Pension provisions		(413)	(359)	(359)	(359)
Long-term borrowings		0	0	0	0
Other liabilities (Deferred taxes; Trianta milestones)		(3,221)	(2,915)	(2,915)	(2,915)
Deferred revenues (Eligard non-cash income & bluebird bio)		(10,823)	(10,605)	(23,955)	(20,618)
Net assets		49,071	89,988	77,839	68,565
CASH FLOW					
Operating cash flow		(8,765)	(10,585)	3,855	(11,002)
Net interest		9	(20)	(1,029)	(861)
Tax		0	0	0	0
Capex		(873)	(1,328)	(1,328)	(1,328)
Expenditure on intangibles		0	0	0	0
Acquisitions/disposals		0	0	9,953	0
Equity financing		14,502	43,695	819	0
Other		(62)	21	0	0
Net cash flow		4,811	31,783	12,270	(13,191)
Opening net debt/(cash)		(10,166)	(14,976)	(46,759)	(59,029)
HP finance leases initiated		0	0	0	0
Other (foreign exchanges differences)		(1)	0	0	0
Closing net debt/(cash)		(14,976)	(46,759)	(59,029)	(45,839)

Source: Medigene and Edison Investment Research

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