

4SC

Intention to raise equity to progress development

4SC has announced an updated development programme, to be funded by an equity fund-raising, which we expect in 2017. The proceeds from this will be used to accelerate development of 4SC's leading drug candidates. This will include continuing to progress resminostat in CTCL (initiated at end 2016), a subsequent filing of a marketing authorisation application in Europe (2019) and progression of resminostat into a further pivotal study in HCC (2018). 4SC also expects a pivotal study in 4SC-202 in Merkel cell carcinoma (2018) and the progression of 4SC-208 into clinical evaluation (early 2019). Our forecasts and valuation are under review. We believe that if 4SC executes the proposed plans it could be a significant and positive step.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/15	3.3	(8.4)	(0.59)	0.0	N/A	N/A
12/16	2.1	(10.9)	(0.54)	0.0	N/A	N/A
12/17e	N/A	N/A	N/A	N/A	N/A	N/A
12/18e	N/A	N/A	N/A	N/A	N/A	N/A

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

Strategic update to accelerate leading candidates

At the end of 2016, 4SC initiated a pivotal Phase II trial of resminostat in CTCL in Europe. The company has indicated that it is progressing as planned, with 18 patients currently recruited, in line with its expectations. Initial headline data are expected in H119 and, if these are positive, the company has indicated that it will file a Marketing Authorisation Application (MAA) in Europe shortly after. Resminostat has also been tested in a Phase II study (in combination with sorafenib) for patients with advanced-stage liver cancer in Japan and Korea. Positive data were reported from subgroup analysis and its continued development is being discussed with its partner Yakult. The company has indicated that, depending on discussions, it is possible to advance resminostat into a pivotal study in advanced-stage HCC in Q118, which would have an expected readout in 2021. We note that all rights to resminostat (ex-Japan) now lie with 4SC following the termination of its agreement with Menarini in Asia-Pac (ex-Japan).

Earlier-stage pipeline accelerated plan

4SC-202 and 4SC-208 also form key parts of 4SC's focus moving forward. 4SC-202 (HDAC/LSD1 inhibitor) has demonstrated promising preclinical [data](#). Based on the data 4SC intends to initiate a Phase II study in patients with advanced melanoma and to support a study in microsatellite-stable gastrointestinal cancers. These are expected to initiate in H217, if funding is available. If successful, this could lead to a pivotal study in Q418 in Merkel cell carcinoma. Finally, 4SC-208 (small molecule) will be moved forward to complete preclinical testing in 2018.

Valuation: Proposed plans a positive step

We place our financial forecasts and valuation under review until there is further clarity, but we believe that if 4SC executes the proposed plans it could be a significant and positive step.

Updated development plan

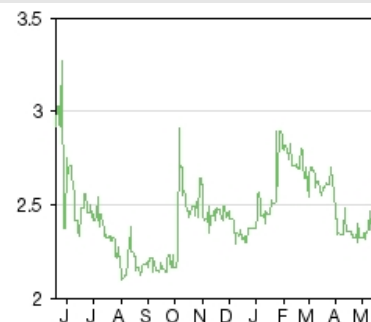
Pharma & biotech

17 May 2017

Price €2.64
Market cap €50m

Net cash (€m) at 31 March 2017	7.5
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	12.0	(3.0)	(16.2)
Rel (local)	5.9	(10.9)	(34.9)
52-week high/low	€3.3	€2.1	

Business description

4SC is a Munich-based cancer biopharmaceutical company. Resminostat (HDAC inhibitor) is the lead candidate for CTCL (Phase II initiated Q416), partnered with Yakult. 4SC is partnered with Link Health for a Phase I oncology asset.

Next events

Equity fund-raising	2017
Q2 results	10 August 2017
4SC-202 Phase II trials initiated	H217

Analyst

Dr Linda Pomeroy +44 (0)20 3077 5738

healthcare@edisongroup.com

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Exhibit 1: Financial summary

	€'000s	2013	2014	2015	2016
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		4,904	7,055	3,266	2,060
Cost of sales		(1,474)	(4,080)	(1,763)	(76)
Gross profit		3,430	2,975	1,503	1,984
R&D expenditure		(10,243)	(8,504)	(7,255)	(10,601)
Administrative, distribution and other		(3,779)	(3,908)	(3,163)	(3,175)
Operating profit		(10,592)	(9,437)	(8,915)	(11,792)
Intangible amortisation		(1,593)	(819)	(827)	(892)
Exceptionals (impairment / restructuring costs)		(862)	0	0	0
Share-based payments		(53)	(3)	2	0
EBITDA		(7,804)	(8,339)	(7,914)	(10,900)
Operating profit (before GW and except.)		(8,084)	(8,615)	(8,090)	(10,900)
Net interest		48	(228)	(331)	(14)
Other (profit/loss from associates)		19	39	58	711
Profit before tax (norm)		(8,036)	(8,843)	(8,421)	(10,914)
Profit before tax (FRS 3)		(10,525)	(9,626)	(9,188)	(11,095)
Tax		0	(70)	(40)	(71)
Profit after tax (norm)		(8,017)	(8,874)	(8,403)	(10,274)
Profit after tax (FRS 3)		(10,525)	(9,696)	(9,228)	(11,166)
Average number of shares outstanding (m)		10.1	10.1	14.3	19.0
EPS - normalised (€)		(0.80)	(0.88)	(0.59)	(0.54)
EPS - FRS 3 (€)		(1.04)	(0.96)	(0.64)	(0.59)
Dividend per share (€)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed assets		11,591	10,639	11,077	7,096
Intangible assets		10,651	9,836	9,123	6,499
Tangible assets		602	425	357	222
Investments and other		338	378	1,597	375
Current assets		6,114	4,295	22,415	11,959
Stocks		23	25	20	0
Debtors		346	652	94	95
Cash		4,899	3,202	21,476	10,048
Other current assets		846	393	817	1,816
Current liabilities		(3,587)	(4,842)	(5,593)	(3,257)
Creditors		(675)	(993)	(688)	(834)
Short-term borrowings		0	(317)	(1,962)	0
Deferred revenue (short term)		(1,589)	(2,638)	(1,779)	(1,431)
Other current liabilities		(1,323)	(894)	(1,164)	(992)
Long-term liabilities		(2,836)	(8,042)	(1,471)	(525)
Long-term borrowings		0	(6,131)	0	0
Deferred revenue (long term)		(2,682)	(1,788)	(1,433)	(493)
Other long-term liabilities		(154)	(123)	(38)	(32)
Net assets		11,282	2,050	26,428	15,273
CASH FLOW					
Operating cash flow		(7,052)	(8,302)	(8,916)	(12,320)
Net interest		66	0	(2)	(531)
Tax		0	(70)	(40)	(71)
Capex		(99)	(100)	(109)	(404)
Expenditure on intangibles		(21)	(3)	(114)	(60)
Acquisitions/disposals		10	0	0	2,808
Financing		0	477	27,608	0
Other		0	0	4,333	650
Net cash flow		(7,096)	(7,998)	22,760	(9,928)
Opening net debt/(cash)		(12,064)	(4,899)	3,246	(19,514)
HP finance leases initiated		0	0	0	0
Other		(69)	(147)	0	462
Closing net debt/(cash)		(4,899)	3,246	(19,514)	(10,048)

Source: 4SC accounts, Edison Investment Research

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