MagForce

Healthcare equipment & services
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FY16: Slow NanoTherm uptake affects top line

MagForce continues to execute the strategy originally proposed in late 2013. Domestic reimbursement discussions are ongoing within Germany but expansion in the rest of Europe remains the focus as MagForce looks to increase patient numbers. In the US, a second clinical treatment site has been established in Texas and the IDE approval process with the FDA continues. Post period the company has raised gross €13.4m through equity and debt to aid in the roll-out of devices across the broader EU.

EU: Driving uptake through a multi-pronged strategy

Treatment of patients with NanoTherm therapy resulted in a small increase in associated FY16 revenues to €176k (2015: €155k). MagForce plans to drive this treatment through roll-out across Europe, improved cross-border reimbursement, better clinical awareness and seeking of domestic reimbursement within Germany. MagForce acknowledges that attracting cross-border patients has proven problematic; broader EU roll-out remains vital to driving EU NanoTherm revenues.

US: Awaiting an FDA decision

In FY16, MagForce USA updated its pre-clinical NanoTherm trials to meet FDA requirements and will look to continue its discussions in H217 as it aims for Investigational Device Exemption (IDE) approval. MagForce seeks to commercially launch its NanoTherm therapy for prostate cancer into the US in 2018 and in 2016 established a second clinical site in Texas (CHRISTUS Santa Rosa Hospital).

Financials: Post-period activity strengthens cash

MagForce's cash position was strengthened post FY16 via various measures by a gross €13.4m. This was done to improve general liquidity and to enable the roll-out of devices throughout the EU. FY16 net loss increased to €7.2m for MagForce AG (FY15: €1.5m), mainly as a result of large one-off revenues in FY15 and increased other operating expenses in FY16 (mainly driven by non-cash impairment of an intercompany loan).

Valuation: Looking to new markets to create value

Expansion into the broader EU starting late 2017 and continued progress towards a US launch in 2018 should help to realise value in the near term. Sufficient patient recruitment is vital to success in both markets (assuming US approval).

Historical financials

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/13	0.0	(6.7)	(0.34)	0.0	N/A	N/A
12/14	0.0	(7.9)	(0.33)	0.0	N/A	N/A
12/15	2.6	(4.5)	(0.18)	0.0	N/A	N/A
12/16	0.5	(7.2)	(0.28)	0.0	N/A	N/A

Source: MagForce accounts. Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Figures above do not include MagForce USA.

Price	€7.06
Market cap	€186m

Share price graph

Share details

Code	MF6
Listing	Deutsche Börse Scale
Shares in issue	26.3m
Last reported net cash as of 31 December 2016	€0.6m

Business description

MagForce is a German firm with a European approved nanotechnology-based therapy to treat brain tumours. NanoTherm therapy consists of nanoparticle injection into the tumour, activated by an external magnetic field, producing heat and thermally destroying or sensitising the tumour.

Bull

- US and broader EU sales on near-term horizon.
- Technology is clinically validated.
- CEO track record.

Bear

- Cross-border reimbursement is difficult in the EU.
- Approval in the US is needed before launch.
- Uptake of treatment has been slow to date.

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FY16 results and funding update

The net loss for FY16 was €7.2m for MagForce AG (FY15: €1.5m) mainly as a result of a one-off revenue gain in FY15. FY16 revenue of €474k (FY15: €2.6m) was driven by sales of the ambulatory NanoActivator device (€217k) and NanoTherm to MagForce USA (€81k). Treatment of patients with NanoTherm therapy in the EU resulted in a small increase in associated FY16 revenues to €176k (2015: €155k). Higher FY15 revenues were a result of the sale of four NanoActivators to MagForce USA for €2.4m.

MagForce AG reported operating income of €1.1m in FY16, which was largely related to €939k in recharges to subsidies. FY15 was substantially higher as other operating income was reported at €5.1m. This was chiefly attributable to the extension of distribution rights to MagForce US (€3.03m) and appreciation in the value of loans against MT MedTech Engineering (€803k). Cost of materials decreased to €39k (FY15: €2.3m) and was mainly attributed to the sale of four NanoActivators (€2.3m) in FY15 to MagForce USA. Purchased services decreased slightly to €536k (FY15: €620k), largely due to both a decrease in the post-marketing clinical trial costs to €57k (FY15: €466k) and an increase in purchased services of €161k (FY15: €0) for development of the ambulatory NanoActivator device (for prostate cancer treatment).

Exhibit 1: Financial summary

Year end 31 December	€000s	2013	2014	2015	2016
		HGB	HGB	HGB	HGB
Income statement					
Revenue		0	0	2,576	474
Profit Before Tax (reported)		(1,626)	(1,007)	(1,547)	(7,230)
Net income as reported		(1,628)	(1,008)	(1,547)	(7,231)
EPS (reported) (€)		(0.08)	(0.04)	(0.06)	(0.28)
Dividend per share (c)		0.0	0.0	0.0	0.0
Balance sheet					
Total non-current assets		7,443	15,707	19,533	18,742
Total current assets		10,284	12,999	5,325	1,536
Total assets		**17,727**	**28,707**	**24,858**	**20,278**
Total liabilities		**(2,491)**	**(4,279)**	**(1,977)**	**(4,625)**
Net Assets		15,236	24,428	22,881	15,653
Shareholders' equity		15,236	24,428	22,881	15,650

Source: MagForce accounts

Net cash as of 31 December 2016 was €614k. Post period MagForce AG raised €13.4m gross via debt and equity. In February, Lipps & Associates LLC granted a loan of €400k to MagForce. The loan is due on 30 June 2019 and has a 5% interest rate. In June, a further €3.0m was loaned to MagForce at 4% interest, also due on 30 June 2019. In March, a €5m convertible bond was issued with a maturity of three years, an interest rate of 5% a year and a conversion price of €5/share. In June, MagForce AG raised €5m via a capital raise with M&G International Investments, placing 0.7m shares at €6.94.

Valuation

We expect MagForce to launch its NanoTherm treatment into the broader EU and the US within the next 18 months. In the US, MagForce USA is close to potentially being granted an IDE, which would allow it to start the planned pivotal prostate trial. Assuming approval and the prompt start of the trial, MagForce USA could be approved for treatment of prostate cancer patients by the end of 2018. Prostate cancer represents a major opportunity and will be a key value driver over the mid-term. In the EU, difficulty in attracting cross-border patients has led to slower than anticipated uptake. Glioblastoma (GBM) is an aggressive disease and patients are often unwilling to travel to other countries to receive treatment. MagForce plan to place machines in other European countries, starting late 2017. A combination of increased awareness and access to treatment could drive revenues in 2018 and beyond. For our detailed valuation methodology, please see our previously published note.

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