MagForce

Healthcare equipment & services
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H117: EIB funding to accelerate rollout

New financing from the European Investment Bank (EIB) of up to €35m will support NanoTherm's European rollout for treatment of both brain and prostate cancer patients. In the US, a second clinical treatment site has been established in Texas and the IDE approval process with the FDA continues. In H117, the net loss for the period was €3.0m (H116: €3.2), while gross cash as of 30 June 2017 stood at €7.7m but does not include any drawdowns from the EIB loan, which was signed post period.

EU and US: Implementation of strategy continues

MagForce plans to use the EIB funds to drive NanoTherm roll-out across Europe for treatment of patients with brain tumours; key to the roll-out will be achieving reimbursement in selected European countries. In addition to brain cancer, MagForce now plans to introduce treatment of intermediate risk prostate cancer to Europe. 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).

EIB financing enables European expansion

Post period, MagForce agreed a loan of €35m from the EIB, €10m of which was available immediately, with the remaining €25m obtainable in up to four tranches within the next 36 months. The ability to draw down the remaining €25m will be based on certain operational milestones; however, it should be noted that MagForce has no commitment to draw the tranches. Each tranche must be repaid within five years. MagForce's cash position strengthened in HY17 to gross €7.7m (H116: €0.6m). H117 net loss decreased slightly to €3.0m (H116: €3.2m) driven mainly by an increase in revenues to €684k (H116: €143k). However, this was offset predominately by an increase in purchased services.

Valuation: Increasing patient numbers the goal

We expect MagForce to launch its NanoTherm treatment into the broader EU and the US within the next 18 months, which should help to realise value in the near term. Sufficient patient recruitment and the securing of reimbursement 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	€7.7
Market cap	€203m

Share price graph

Share details

Code	MF6
Listing	Deutsche Börse Scale
Shares in issue	26.3m
Last reported net debt as of 30 June	€0.4m

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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H117 results: Funding ready to move strategy forward

MagForce recorded a small reduction in net loss for H117 to €3.0m (H116: €3.2m), mainly as a result of an increase in revenues to €684k (H116: €143k). However, this was largely offset by an increase in purchased services. Other operating income stayed relatively flat at €606k (H116: €602k). Revenue and other income revenues are predominately a result of commercial patient treatment, NanoTherm deliveries to MagForce USA and recharges to subsidiaries. Further breakdown was not provided in the H117 results. The cost of materials and purchased goods increased versus the previous period, while personnel expenses remained largely flat.

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 debt as of 30 June 2017 was €0.4m (cash in hand, bank balances and checks reported at €7.7m). 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. Post period MagForce agreed a €35m loan from the EIB of which €10m was available for immediate draw down.

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 plans to place machines in other European countries, starting in 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 initiation note.

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