

MagForce

FY17 results

2017 lays foundation for 2018 progress

MagForce continues to execute its two-pronged strategy. With €35m now available in financing from the EIB, MagForce can now roll out its NanoTherm devices outside of Germany for the treatment of glioblastoma multiforme (GBM) patients. Plans for 2018 to expand into Poland and Italy reflect the high levels of enquires coming from both countries. In the US, the first patient is expected to enrol into the pivotal clinical trial for prostate cancer in Q218, following the investigational device exemption (IDE) approval in February 2018. We value MagForce at €11.7/share.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/16	0.5	(7.2)	(0.28)	0.0	N/A	N/A
12/17	0.8	(7.5)	(0.28)	0.0	N/A	N/A
12/18e	2.9	(8.8)	(0.33)	0.0	N/A	N/A
12/19e	7.1	(7.9)	(0.30)	0.0	N/A	N/A

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

Prostate US IDE approved; launch likely Q419

In February 2018, MagForce received IDE approval to start its first pivotal clinical trial evaluating NanoTherm focal ablation therapy for prostate cancer in the US. This is a major milestone for the company. Prostate cancer in the US presents a significant market opportunity (representing ~60% of our rNPV) and makes sense strategically as a first US indication. The company forecasts that NanoTherm could be launched for the commercial treatment of prostate cancer patients by end-2019.

Expansion to Poland and Italy to drive GBM uptake

In August 2017, MagForce announced financing from the European Investment Bank (EIB) of up €35m. This funding will in part enable MagForce to roll out its NanoTherm devices across Europe and reach patients who were previously reluctant to travel across the border to Germany for GBM treatment. MagForce has announced that Poland and Italy will be the next two targeted countries for treatment. We anticipate clinical location announcements later in the year. A key factor in the roll-out will be achieving reimbursement in selected European countries and raising clinicians' and patients' awareness of the therapy.

Financials: Funded into the near term

The net loss for FY17 was €7.5m for MagForce (FY16: €7.2m). FY17 revenues of €716K were driven by sales of the ambulatory NanoActivator device (2017 €175k; 2016 €217k) and NanoTherm to MagForce USA (2017 €316k; 2016 €81k). The €35m loan from the EIB, of which €10m was available for immediate drawdown, removes any near-term funding requirements.

Valuation: €307.6m (€11.7/share)

We value MagForce at €307.6m or €11.7/share (previously €302.6m, €11.5/share), based on a risk-adjusted NPV analysis. We have rolled forward our model and updated it to reflect FY17 results, including net debt of €4.3m at 31 December 2017.

Healthcare equipment & services

17 May 2018

Price €5.41

Market cap €142m

\$1.23/€

Net debt (€m) 4.3

Shares in issue 26.3m

Free float 70%

Code MF6

Primary exchange Frankfurt (Xetra)

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (2.2) (31.3) (29.8)

Rel (local) (6.7) (34.1) (30.8)

52-week high/low €8.50 €5.14

Business description

MagForce is a German firm with the first 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.

Next events

US prostate cancer trial start enrolment Q218

Further NanoActivator installations 2018

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FY17 results update

The net loss for FY17 was €7.5m for MagForce (FY16: €7.2m). FY17 revenues of €716K were driven by sales of the ambulatory NanoActivator device (2017 €175k; 2016 €217k) and NanoTherm to MagForce USA (2017 €316k; 2016 €81k). Treatment of fewer patients with NanoTherm therapy in the EU resulted in a small decrease in associated FY17 revenues to €152k (2015: €176k). Commercial revenues were generated by sales of NanoTherm particles and by the use of the NanoActivator devices. Revenues in Europe were affected by a lengthy reimbursement process (done on a per-patient basis) and ongoing negotiations with health insurers.

MagForce reported other operating income of €3.6m in FY17 (FY16: €2.5m), which was largely related to the transfer of shares of the Magforce USA to Magforce USA Holding (€2.0m).

Cost of materials increased to €974k (FY16: €574k) and was mainly attributed to the significant increase in purchased services, including the development of an ambulatory NanoActivator device.

Reported cash and cash equivalents at 31 December 2017 was €666k. In February 2017, Lipps & Associates granted a loan of €400k to MagForce. The loan is due on 30 June 2019 and has a 5% interest rate. In June 2017, 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% per annum and a conversion price of €5/share. In June, MagForce raised €5m via a capital raise with M&G International Investments, placing 0.7m shares at €6.94. In Q3, MagForce agreed a €35m loan from the EIB, of which €10m was available for immediate drawdown.

Valuation

Our updated valuation is €307.6m or €11.7 per MagForce share (previously €302.6m, €11.5share), based on a risk-adjusted NPV analysis. We have rolled forward our model and updated it to reflect FY17 results and net debt of €4.3mn at 31 December 2017. The breakdown of our rNPV valuation, which uses a 12.5% discount rate, is shown in Exhibit 1. For a full breakdown of our valuation, please see our note '[US NanoTherm IDE approval a major milestone](#)', published in February.

Exhibit 1: MagForce risk-adjusted NPV valuation									
Product	Indication	Launch	Peak sales (€m)	Peak sales (\$m)	NPV (€m)	Probability	MagForce beneficial interest	rNPV (€m)	rNPV/ share (€)
NanoTherm EU	GBM – Germany	2016	10	12	29.3	100%	100%	29.3	1.1
	GBM – broader use	2018	60	74	91.7	100%	100%	91.7	3.5
NanoTherm US	Prostate cancer	2019	210	268	297.8	80%	77%	183.3	7.0
Net debt (AG), Dec 2017					(4.3)	100%	100%	(4.3)	(0.2)
Net cash (US), Edison est.					10.0	100%	77%	7.7	0.3
Valuation					424.5			307.6	11.7
Source: Edison Investment Research. Note: peak sales are rounded to the nearest €5m/\$5m for original currency.									

Exhibit 2: Financial summary

€000s	2016	2017	2018e	2019e
December	HGB	HGB	HGB	HGB
PROFIT & LOSS				
Revenue	474	716	2,898	7,107
Cost of Sales	(574)	(974)	(3,935)	(6,143)
Gross Profit	(101)	(258)	(1,037)	964
EBITDA	(6,554)	(6,739)	(7,613)	(6,646)
Operating Profit (before amort. and except.)	(4,871)	(7,456)	(7,456)	(7,410)
Intangible Amortisation	(5)	(1)	(2)	(0)
Exceptionals	0	0	0	0
Other	0	0	0	0
Operating Profit	(7,461)	(7,411)	(7,977)	(7,068)
Net Interest	231	(53)	(814)	(875)
Profit Before Tax (norm)	(7,225)	(7,463)	(8,788)	(7,943)
Profit Before Tax (reported)	(7,230)	(7,464)	(8,790)	(7,943)
Tax	(1)	(1)	0	0
Profit After Tax (norm)	(7,226)	(7,464)	(8,788)	(7,943)
Profit After Tax (reported)	(7,231)	(7,465)	(8,790)	(7,943)
Average Number of Shares Outstanding (m)	25.6	26.0	26.3	26.3
EPS - normalised (€)	(0.28)	(0.28)	(0.33)	(0.30)
EPS - normalised and fully diluted (€)	(0.18)	(0.28)	(0.28)	(0.33)
EPS - (reported) (€)	(0.28)	(0.28)	(0.33)	(0.30)
Dividend per share (€)	0.0	0.0	0.0	0.0
Gross Margin (%)	N/A	N/A	N/A	13.6
EBITDA Margin (%)	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A
BALANCE SHEET				
Fixed Assets	18,742	20,672	21,596	22,587
Intangible Assets	3	1	0	0
Tangible Assets	3,706	3,589	4,515	5,506
Investments	15,033	17,082	17,082	17,082
Current Assets	1,536	1,360	4,219	5,706
Stocks	71	301	323	505
Debtors	71	85	1,588	3,894
Cash	614	666	2,000	1,000
Other	780	307	307	307
Current Liabilities	(4,431)	(3,747)	(4,292)	(5,445)
Creditors	(4,431)	(3,747)	(4,292)	(5,445)
Short term borrowings	0	0	0	0
Long Term Liabilities	(197)	(5,091)	(15,240)	(24,509)
Long term borrowings	0	(5,012)	(15,161)	(24,430)
Other long term liabilities	(197)	(79)	(78)	(78)
Net Assets	15,650	13,193	6,284	(1,660)
CASH FLOW				
Operating Cash Flow	(1,078)	(7,930)	(8,594)	(7,981)
Net Interest	231	(53)	(814)	(875)
Tax	(1)	(1)	0	0
Capex	(115)	(553)	(1,287)	(1,413)
Acquisitions/disposals	0	0	0	0
Financing	0	5,000	0	0
Dividends	0	0	0	0
Net Cash Flow	(963)	(3,538)	(10,694)	(10,269)
Opening net debt/(cash)	(1,393)	(614)	4,347	13,161
HP finance leases initiated	0	0	0	0
Other	184	(1,423)	1,880	(0)
Closing net debt/(cash)	(614)	4,347	13,161	23,430

Source: MagForce Accounts, Edison Investment Research. Note: historical and forecast cash flow numbers are Edison estimates, as Magforce does not publish a statement of cash flows. All financial data is on an unconsolidated basis and does not include MagForce USA. *Gross equity proceeds.

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