

MagForce

Firming up funds for NanoTherm

Capital increase

Pharma & biotech

A €10m capital increase removes a potential funding requirement in 2015, allowing MagForce to focus on its strategy to drive uptake and acceptance of its NanoTherm nanoparticle-based therapy for cancer. In the US, MagForce has submitted a pre-submission filing for prostate cancer to the FDA as part of the process towards starting clinical trials in 2015 in this key region. In Europe, MagForce is on track to complete additional NanoActivator installations in Germany. Our rNPV is increased to €252m.

| Year end | Revenue (€m) | PBT* (€m) | EPS* (€) | DPS (€) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 12/12 | 0.0 | (5.7) | (1.2) | 0.0 | N/A | N/A |
| 12/13 | 0.0 | (6.7) | (0.3) | 0.0 | N/A | N/A |
| 12/14e | 0.4 | (7.4) | (0.3) | 0.0 | N/A | N/A |
| 12/15e | 3.6 | (7.5) | (0.3) | 0.0 | N/A | N/A |

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

Additional activators ready for installation in Europe

MagForce has assembled a further two NanoActivators of three planned installations during Q414 in Germany as part of the strategy to increase the installed base. These NanoActivators will be used both as part of the ongoing post-marketing GBM trial, designed to increase awareness and uptake of the therapy, and to target initial commercial revenues from patients not eligible for the GBM trial.

On track for US trials in 2015

As part of the US development strategy, MagForce recently submitted a pre-submission filing for prostate cancer, which is part of the process to obtain regulatory feedback on its planned IDE application. This follows a meeting earlier this year confirming NanoTherm as a medical device in the US. We expect formal IDE filing in 2015 which, if approved, will allow the start of trials in the US. IDE approval and start of the IDE clinical studies in the US could lead us to increase our probability of success in this region to 60-65%.

€10m capital increase firms up cash balance

MagForce has completed a €10.2m capital increase through the issuance of 1.7m new shares at €6.0/share. This additional cash could potentially be sufficient to fund operations into 2017, including funding of the post-marketing GBM study in addition to NanoActivator installations, removing a potential financing need in 2015. The length of the cash runway will be dependent on NanoTherm commercial revenues.

Valuation: Risk-adjusted NPV increased to €252m

Our valuation has increased to €252m (from €236m) following the €10.2m fund-raise (we assume c €9.7m net) in addition to rolling our valuation forwards. This is diluted to €9.8/MagForce AG share with the increased share count. We have made no major changes to our underlying product assumptions. Our financial model is updated, with higher interest income owing to the increased cash balance.

2 December 2014

Price €5.75

Market cap €147m

\$1.3/€

Net cash (€m) at end June 2014 5.1

Shares in issue 25.6m

Free float 56%

Code MF6

Primary exchange Frankfurt

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 1.6 (15.8) 25.9

Rel (local) (5.7) (19.9) 18.8

52-week high/low €7.4 €4.4

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.

Next events

First commercial NanoTherm sales Q414

US IDE approval and start of prostate/GBM cancer trial H115

Additional NanoActivator installations in Germany 2015

Analysts

Dr Philippa Gardner +44 (0)20 3681 2521

Emma Ulker +44 (0)20 3077 5738

Dr Mick Cooper +44 (0)20 3077 5734

healthcare@edisongroup.com

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Valuation

We have made no major changes to our underlying NanoTherm assumptions in either Europe or the US, with our NPVs increased slightly as a result of rolling our valuation forwards. We now include the additional €10.2m cash (we assume €9.7m net) from the capital increase, which together increase our rNPV valuation to €252m (from €236m) or €9.8/share (from €9.9), owing to the increased share count.

Exhibit 1: MagForce AG risk-adjusted NPV valuation

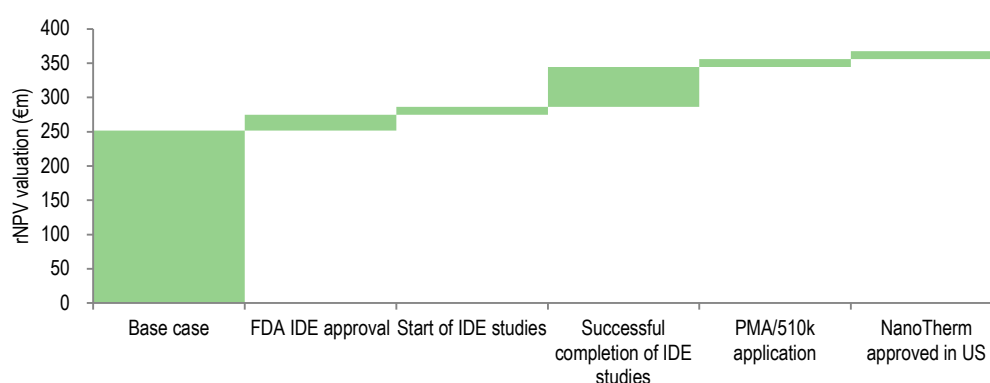
| Product | Indication | Launch | Peak sales (€m) | Peak sales (\$m) | NPV (€m) | Probability | MagForce AG beneficial interest | rNPV (€m) | rNPV/Share (€/share) |
|------------------------------|-------------------|--------|-----------------|------------------|--------------|-------------|---------------------------------|--------------|----------------------|
| NanoTherm EU | GBM - Germany | 2014 | 25 | 35 | 43.4 | 100% | 100% | 43.4 | 1.7 |
| | GBM - Broader Use | 2015 | 80 | 112 | 103.3 | 65% | 100% | 67.0 | 2.6 |
| | Prostate Cancer | 2019 | 65 | 91 | 40.6 | 20% | 100% | 6.4 | 0.3 |
| NanoTherm EU - Partners | Solid tumours | 2015 | 20 | 28 | 16.9 | 10% | 100% | 1.7 | 0.1 |
| NanoTherm US | GBM | 2017 | 100 | 139 | 101.9 | 50% | 77% | 37.5 | 1.5 |
| | Prostate Cancer | 2017 | 215 | 300 | 178.0 | 50% | 77% | 67.1 | 2.6 |
| Licence agreement cash flows | | | | | 10.3 | 50% | 100% | 5.2 | 0.2 |
| Net cash (AG) | | | | | 14.8 | 100% | 100% | 14.8 | 0.6 |
| Net cash (US) | | | | | 11.3 | 100% | 77% | 8.7 | 0.3 |
| Valuation | | | | | 520.4 | | | 251.7 | 9.8 |

Source: Edison Investment Research

Potential future valuation drivers

In the near term, FDA approval and start of the IDE clinical studies in the US could lead us to increase our probability of success in this region to 60-65%. This is in line with a typical probability of success for a Phase III drug product, as the IDE pivotal studies are essentially equivalent to this last stage of drug development. If the clinical trials are successful, our US probabilities could increase to around 90%, with 100% when the product is approved in each indication. The key steps to US approval and their impact on our valuation are shown in Exhibit 2.

Exhibit 2: Impact of regulatory progress in the US on our rNPV valuation



Source: Edison Investment Research

Financials

We have made only minor changes to our financial forecasts, incorporating the €10.2m capital increase, which leads to increased interest income as a result of the higher cash balance. These changes are summarised in Exhibit 3.

Exhibit 3: Summary of changes to our financial forecasts

| €m | 2014 | | % change | 2015 | | % change |
|------------------------------|---------|---------|----------|---------|---------|----------|
| | Old | New | | Old | New | |
| Revenue | 0.414 | 0.414 | +0% | 3.634 | 3.634 | +0% |
| EBITDA (reported) | (0.581) | (0.581) | +0% | (7.585) | (7.585) | +0% |
| Operating Profit (reported) | (0.748) | (0.748) | +0% | (7.822) | (7.822) | +0% |
| Profit Before Tax (reported) | (0.583) | (0.510) | -13% | (7.701) | (7.553) | -2% |
| Profit After Tax (reported) | (0.583) | (0.510) | -13% | (7.701) | (7.553) | -2% |

Source: Edison Investment Research

Exhibit 4: Financial summary

| | €'000s | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014e | 2015e | 2016e |
|--|--------|---------|----------|----------|----------|----------|---------|----------|----------|----------|
| December | | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS |
| PROFIT & LOSS | | | | | | | | | | |
| Revenue | | 0 | 0 | 0 | 41 | 0 | 0 | 414 | 3,634 | 6,808 |
| Cost of Sales | | (559) | (370) | (315) | (292) | (193) | (573) | (688) | (1,004) | (1,280) |
| Gross Profit | | (559) | (370) | (315) | (251) | (193) | (573) | (274) | 2,630 | 5,528 |
| EBITDA | | (3,417) | (2,754) | (5,901) | (6,498) | (4,606) | (6,552) | (7,481) | (7,585) | (4,529) |
| Operating Profit (before amort. and except.) | | (3,669) | (3,043) | (6,291) | (6,750) | (4,873) | (6,674) | (7,638) | (7,808) | (4,834) |
| Intangible Amortisation | | (6) | (5) | (7) | (18) | (19) | (5) | (10) | (14) | (18) |
| Exceptionals | | 0 | 0 | 0 | 0 | 0 | 5,100 | 6,900 | 0 | 0 |
| Other | | (172) | (349) | (369) | (947) | 0 | (28) | 0 | 0 | 0 |
| Operating Profit | | (3,847) | (3,398) | (6,666) | (7,714) | (4,891) | (1,607) | (748) | (7,822) | (4,853) |
| Net Interest | | (346) | (670) | (863) | (872) | (826) | (19) | 238 | 269 | 211 |
| Profit Before Tax (norm) | | (4,014) | (3,714) | (7,154) | (7,621) | (5,698) | (6,693) | (7,400) | (7,539) | (4,623) |
| Profit Before Tax (FRS 3) | | (4,192) | (4,068) | (7,530) | (8,586) | (5,717) | (1,626) | (510) | (7,553) | (4,641) |
| Tax | | (5) | (5) | 83 | (2) | (1) | (1) | 0 | 0 | 0 |
| Profit After Tax (norm) | | (4,191) | (4,068) | (7,440) | (8,570) | (5,699) | (6,722) | (7,400) | (7,539) | (4,623) |
| Profit After Tax (FRS 3) | | (4,197) | (4,073) | (7,447) | (8,588) | (5,718) | (1,628) | (510) | (7,553) | (4,641) |
| Average Number of Shares Outstanding (m) | | 3.8 | 3.8 | 3.8 | 4.0 | 4.9 | 19.9 | 24.8 | 25.6 | 25.6 |
| EPS - normalised (€) | | (1.1) | (1.1) | (1.9) | (2.1) | (1.2) | (0.3) | (0.3) | (0.3) | (0.2) |
| EPS - normalised and fully diluted (€) | | (1.1) | (1.1) | (1.9) | (2.1) | (1.2) | (0.3) | (0.3) | (0.3) | (0.2) |
| EPS - (IFRS) (€) | | (1.1) | (1.1) | (1.9) | (2.1) | (1.2) | (0.1) | (0.0) | (0.3) | (0.2) |
| Dividend per share (€) | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Margin (%) | | N/A | N/A | N/A | (611) | N/A | N/A | (66) | 72 | 81 |
| EBITDA Margin (%) | | N/A | N/A | N/A | (15,849) | N/A | N/A | (1,807) | (209) | (67) |
| Operating Margin (before GW and except.) (%) | | N/A | N/A | N/A | (16,463) | N/A | N/A | (1,845) | (215) | (71) |
| BALANCE SHEET | | | | | | | | | | |
| Fixed Assets | | 1,557 | 1,853 | 2,032 | 2,190 | 1,610 | 7,443 | 15,406 | 17,797 | 19,695 |
| Intangible Assets | | 10 | 7 | 14 | 36 | 4 | 16 | 24 | 28 | 27 |
| Tangible Assets | | 1,519 | 1,819 | 1,990 | 2,126 | 1,579 | 2,302 | 3,357 | 5,743 | 7,643 |
| Investments | | 28 | 28 | 28 | 28 | 28 | 5,125 | 12,025 | 12,025 | 12,025 |
| Current Assets | | 843 | 1,416 | 1,650 | 694 | 1,353 | 10,284 | 23,734 | 16,471 | 12,598 |
| Stocks | | 0 | 0 | 39 | 0 | 0 | 0 | 57 | 83 | 105 |
| Debtors | | 0 | 0 | 0 | 25 | 0 | 0 | 227 | 1,991 | 3,730 |
| Cash | | 461 | 836 | 993 | 14 | 689 | 9,271 | 22,439 | 13,385 | 7,750 |
| Other | | 382 | 580 | 618 | 654 | 664 | 1,012 | 1,012 | 1,012 | 1,012 |
| Current Liabilities | | (680) | (639) | (1,129) | (3,090) | (19,393) | (2,253) | (1,152) | (2,034) | (2,903) |
| Creditors | | (680) | (639) | (1,129) | (3,090) | (3,312) | (2,253) | (1,152) | (2,034) | (2,903) |
| Short term borrowings | | 0 | 0 | 0 | 0 | (16,081) | 0 | 0 | 0 | 0 |
| Long Term Liabilities | | (7,185) | (12,169) | (14,490) | (16,158) | (198) | (237) | (237) | (237) | (237) |
| Long term borrowings | | (6,976) | (11,850) | (14,229) | (15,930) | 0 | 0 | 0 | 0 | 0 |
| Other long term liabilities | | (209) | (320) | (261) | (228) | (198) | (237) | (237) | (237) | (237) |
| Net Assets | | (5,465) | (9,538) | (11,937) | (16,365) | (16,628) | 15,236 | 37,752 | 31,996 | 29,152 |
| CASH FLOW | | | | | | | | | | |
| Operating Cash Flow | | (3,322) | (2,935) | (5,454) | (4,537) | (5,473) | (6,792) | (7,069) | (6,696) | (3,624) |
| Net Interest | | 0 | 0 | 0 | 0 | 0 | 0 | 238 | 269 | 211 |
| Tax | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capex | | (650) | (589) | (562) | (392) | (39) | (852) | (1,212) | (2,609) | (2,204) |
| Acquisitions/disposals | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing | | (516) | 0 | 4,903 | 3,951 | 4,266 | 33,492 | 21,228 | 0 | 0 |
| Dividends | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Cash Flow | | (4,488) | (3,523) | (1,114) | (978) | (1,246) | 25,848 | 13,185 | (9,036) | (5,617) |
| Opening net debt/(cash) | | 2,027 | 6,515 | 11,014 | 13,236 | 15,916 | 15,392 | (9,271) | (22,439) | (13,385) |
| HP finance leases initiated | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | (976) | (1,108) | (1,701) | 1,770 | (1,184) | (18) | (18) | (18) |
| Closing net debt/(cash) | | 6,515 | 11,014 | 13,236 | 15,916 | 15,392 | (9,271) | (22,439) | (13,385) | (7,750) |

Source: MagForce AG, Edison Investment Research. Note: We include the €5.1m and €6.9m non-cash licence agreement income in 2013 and 2014, respectively as an exceptional item in the P&L, hence it is excluded from normalised operating, pre-tax and net loss.

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