

# 4SC

FY15 results

## Important progression of clinical pipeline in 2016

2016 is an important year for 4SC as it will launch its potentially pivotal Phase II study with resminostat, an epigenetic cancer drug, in CTCL. In addition, we expect partner Yakult to report Phase II Japanese trial data in HCC and NSCLC. Alongside its primary focus on resminostat for CTCL, 4SC is actively pursuing partnerships for its earlier stage assets, 4SC-202 and 4SC-205, which would enable both candidates to move into Phase II. We maintain our rNPV at €143m, with near-term potential catalysts.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/14	7.1	(8.8)	(0.88)	0.0	N/A	N/A
12/15	3.3	(8.4)	(0.59)	0.0	N/A	N/A
12/16e	6.8	(9.8)	(0.51)	0.0	N/A	N/A
12/17e	7.3	(8.2)	(0.43)	0.0	N/A	N/A

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

## Resminostat advancing in 2016

4SC will be initiating a pivotal phase II trial in CTCL in Europe in H116. This will be a c 150 patient, double blind, randomised controlled study conducted in 50 centres, across 10 countries. Initial results could be available FY18, which could lead to EU approval by FY19 if the data are positive. Resminostat is being studied in a Phase II trial conducted by partner Yakult Honsha in liver cancer (HCC) in Japan. We expect results to be reported mid-2016, which if positive would pave the way for pivotal studies in multiple regions including the US where the IND has recently been confirmed. Resminostat also holds promising combination potential, as recently published at the ITOC3 conference in Munich, with immunotherapy agents (eg PD-1/PDL-1). This could offer a major developmental strategy moving forward.

## Pipeline prospects

4SC-202, a dual-acting (HDAC and LSD1) epigenetic product with a unique mode of action, has shown promising results in Phase I and following further in-depth analysis has indicated that it can strengthen the endogenous immune response to cancer cells. In order to move this forward into Phase II a partner is required. This is also the case with 4SC-205 (Eg5 inhibitor), which has also completed Phase I.

## Valuation: Maintained at €143m

Our rNPV-based valuation remains at €143m or €7.53 per share (vs €7.55 per share due to an increase in number of shares). FY15 reported revenue declined to €3.3m (vs €7.1m FY14) due principally to the impact of large upfront and milestone payments in 2014. We expect revenue in 2016 to return to 2014 levels, with potential milestones to be received from Yakult. 4SC is well funded, with a reported gross cash position of €22.8m at end-2015. We expect this to fund the majority of the Phase II trial of resminostat in CTCL. Technically the cash reach is into early 2018, but we now model a fresh funding of €10m as long-term debt in 2017, which should be sufficient to complete the CTCL study. 2016 is an important year for 4SC across many levels, with important data read-outs and trial initiations, which could help to advance and accelerate its partnering and fresh financing options.

## Pharma & biotech

1 April 2016

**Price** €3.88

**Market cap** €74m

Net cash (€m) at 31 December 2015 19.5

Shares in issue (m) 19.0

Free float 38.1%

Code VSC

Primary exchange Frankfurt

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 7.2 1.2 (36.5)

Rel (local) 2.1 9.1 (23.7)

52-week high/low €7.2 €2.4

## Business description

4SC is a Munich-based cancer R&D company. Epigenetic compound resminostat (HDAC inhibitor) is the lead candidate for Cutaneous T-cell Lymphoma (CTCL) (Phase II planned in H116), partnered with Yakult Honsha (Japan) and Menarini (Asia ex-Japan). Partners are sought for two Phase I oncology assets and a Phase IIb autoimmune asset.

## Next events

Q116 results 12 May 2016

Resminostat Phase II EU CTCL starts H116

Phase II data in HCC and NSCLC in Japan (Yakult) Mid-2016

## Analysts

Dr Linda Pomeroy +44 (0)20 3077 5738

Christian Glennie +44 (0)20 3077 5727

[healthcare@edisongroup.com](mailto:healthcare@edisongroup.com)
[Edison profile page](#)

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**Exhibit 1: Financial summary**

	€'000s	2013	2014	2015	2016e	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		4,904	7,055	3,266	6,800	7,300	8,300
Cost of sales		(1,474)	(4,080)	(1,763)	(3,060)	(2,920)	(2,905)
Gross profit		3,430	2,975	1,503	3,740	4,380	5,395
R&D expenditure		(10,243)	(8,504)	(7,255)	(11,000)	(10,000)	(7,500)
Administrative, distribution and other		(3,779)	(3,908)	(3,163)	(3,447)	(3,551)	(3,657)
Operating profit		(10,592)	(9,437)	(8,915)	(10,707)	(9,171)	(5,762)
Intangible amortisation		(1,593)	(819)	(827)	(827)	(827)	(827)
Exceptionals (impairment / restructuring costs)		(862)	0	0	0	0	0
Share-based payments		(53)	(3)	2	(20)	(20)	(20)
EBITDA		(7,804)	(8,339)	(7,914)	(9,635)	(8,099)	(4,690)
Operating profit (before GW and except.)		(8,084)	(8,615)	(8,090)	(9,860)	(8,324)	(4,915)
Net interest		48	(228)	(331)	75	150	100
Other (profit/loss from associates)		19	39	58	75	75	75
Profit before tax (norm)		(8,036)	(8,843)	(8,421)	(9,786)	(8,174)	(4,815)
Profit before tax (FRS 3)		(10,525)	(9,626)	(9,188)	(10,558)	(8,946)	(5,587)
Tax		0	(70)	(40)	0	0	0
Profit after tax (norm)		(8,017)	(8,874)	(8,403)	(9,711)	(8,099)	(4,740)
Profit after tax (FRS 3)		(10,525)	(9,696)	(9,228)	(10,558)	(8,946)	(5,587)
Average number of shares outstanding (m)		10.1	10.1	14.3	19.0	19.0	19.0
EPS - normalised (€)		(0.80)	(0.88)	(0.59)	(0.51)	(0.43)	(0.25)
EPS - FRS 3 (€)		(1.04)	(0.96)	(0.64)	(0.56)	(0.47)	(0.29)
Dividend per share (€)		0.0	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET</b>							
Fixed assets		11,591	10,639	11,077	10,289	9,526	8,788
Intangible assets		10,651	9,836	9,123	8,410	7,697	6,984
Tangible assets		602	425	357	282	232	207
Investments and other		338	378	1,597	1,597	1,597	1,597
Current assets		6,114	4,295	22,415	10,359	11,725	6,224
Stocks		23	25	20	20	20	20
Debtors		346	652	94	94	94	94
Cash		4,899	3,202	21,476	9,428	10,794	5,293
Other current assets		846	393	817	817	817	817
Current liabilities		(3,587)	(4,842)	(5,593)	(3,602)	(3,852)	(4,352)
Creditors		(675)	(993)	(688)	(688)	(688)	(688)
Short-term borrowings		0	(317)	(1,962)	0	0	0
Deferred revenue (short term)		(1,589)	(2,638)	(1,779)	(1,750)	(2,000)	(2,500)
Other current liabilities		(1,323)	(894)	(1,164)	(1,164)	(1,164)	(1,164)
Long-term liabilities		(2,836)	(8,042)	(1,471)	(1,688)	(11,688)	(11,688)
Long-term borrowings		0	(6,131)	0	0	(10,000)	(10,000)
Deferred revenue (long term)		(2,682)	(1,788)	(1,433)	(1,650)	(1,650)	(1,650)
Other long-term liabilities		(154)	(123)	(38)	(38)	(38)	(38)
Net assets		11,282	2,050	26,428	15,358	5,711	(1,028)
<b>CASH FLOW</b>							
Operating cash flow		(7,052)	(8,302)	(8,916)	(9,823)	(8,349)	(5,190)
Net interest		66	0	(2)	2	4	3
Tax		0	(70)	(40)	0	0	0
Capex		(99)	(100)	(109)	(150)	(175)	(200)
Expenditure on intangibles		(21)	(3)	(114)	(114)	(114)	(114)
Acquisitions/disposals		10	0	0	0	0	0
Financing		0	477	27,608	0	0	0
Other		0	0	4,333*	0	0	0
Net cash flow		(7,096)	(7,998)	22,760	(10,086)	(8,634)	(5,502)
Opening net debt/(cash)		(12,064)	(4,899)	3,246	(19,514)	(9,428)	(794)
HP finance leases initiated		0	0	0	0	0	0
Other		(69)	(147)	0	0	0	0
Closing net debt/(cash)		(4,899)	3,246	(19,514)**	(9,428)	(794)	4,707

Source: Company accounts and Edison research. Note: \*Reflects completion of the Santo loan. \*\*Does not include cash invested more than one year.

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