

4SC

H1 results

Focus on Phase II CTCL launch, Q416

H1 results were in line with our expectations and primarily underscored the potential importance of more detailed analysis of the Phase II Yakult Phase I/II trial data (expected early 2017) and the launch of its potentially pivotal Phase II study with resminostat in CTCL (Q416). 4SC is also progressing its earlier-stage assets such as 4SC-205, being developed in China with partner Link Health, and indicates that it is actively pursuing a partner for 4SC-202. We slightly raise our rNPV to €110m.

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	3.8	(14.8)	(0.78)	0.0	N/A	N/A
12/17e	4.0	(4.0)	(0.21)	0.0	N/A	N/A

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

Important step forward expected in H216

The potentially pivotal Phase II trial of resminostat in CTCL is expected to start in Q416. This 150-patient, double-blind, randomised controlled study will be conducted in 50 centres, across 10 countries. 4SC has funding to enable the majority of the trial to be completed. We forecast that it has enough cash into 2018, at which time it will need to raise further funding to complete the trial.

Potential for further newsflow from HCC Yakult trial

Japanese partner Yakult Honsha (Yakult) announced that its Phase II study did not meet its primary endpoint of prolonged time to disease progression (TTP) compared to sorafenib monotherapy. The company has highlighted that early data appears to show that patients with certain expression levels of the ZFP64 biomarker at baseline had longer TTP when treated in combination with resminostat. We expect the outcome of this analysis early in 2017.

Early pipeline licensing and development partnership

4SC entered into a licensing and development partnership with Link Health in China for its oncology Eg5 inhibitor, 4SC-205. This agreement enables Link Health to develop 4SC-205 further and conduct the regulatory process, while 4SC receives developmental milestones (up to €76m) and double-digit royalties.

Valuation: Slightly increased to €110m

Our rNPV-based valuation has increased slightly to €110m or €5.8 per share (previously €104m or €5.5/share), as we have rolled the model forward by three months, pushed out the potential milestone income from Menarini (from 2016 to 2017) and used H116 reported cash of €13.8m. We note that the projected milestones from Yakult and Menarini are delayed while the analysis of the Yakult trial data is ongoing. We have also increased our R&D spend estimate, and therefore cash burn, in 2016 and reduced it in 2017 in line with the expected profile of CTCL clinical trial cost.

Pharma & biotech

15 August 2016

Price €2.25

Market cap €43m

Net cash (€m) at 30 June 2016	13.8
Shares in issue	19.0m
Free float	38.1%
Code	VSC
Primary exchange	Frankfurt
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(5.4)	(28.7)	(39.5)
Rel (local)	(12.0)	(34.4)	(38.3)
52-week high/low	€4.2	€2.1	

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 (Phase II planned in H216), partnered with Yakult Honsha (Japan) and Menarini (Asia ex-Japan). 4SC is partnered with Link Health for a Phase I oncology asset. It is seeking partners for a Phase I oncology asset and a Phase IIb autoimmune asset.

Next events

Q316 results	10 November 2016
Resminostat Phase II EU CTCL starts	Q416
Phase II data in NSCLC Japan (Yakult)	End 2016

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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
PROFIT & LOSS							
Revenue		4,904	7,055	3,266	3,800	4,000	5,000
Cost of sales		(1,474)	(4,080)	(1,763)	(1,710)	(1,600)	(1,750)
Gross profit		3,430	2,975	1,503	2,090	2,400	3,250
R&D expenditure		(10,243)	(8,504)	(7,255)	(13,300)	(5,000)	(3,750)
Administrative, distribution and other		(3,779)	(3,908)	(3,163)	(4,557)	(2,369)	(2,440)
Operating profit		(10,592)	(9,437)	(8,915)	(15,767)	(4,969)	(2,940)
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)	(14,695)	(3,897)	(1,868)
Operating profit (before GW and except.)		(8,084)	(8,615)	(8,090)	(14,920)	(4,122)	(2,093)
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)	(14,845)	(3,972)	(1,993)
Profit before tax (FRS 3)		(10,525)	(9,626)	(9,188)	(15,617)	(4,744)	(2,765)
Tax		0	(70)	(40)	0	0	0
Profit after tax (norm)		(8,017)	(8,874)	(8,403)	(14,770)	(3,897)	(1,918)
Profit after tax (FRS 3)		(10,525)	(9,696)	(9,228)	(15,617)	(4,744)	(2,765)
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)	(0.78)	(0.21)	(0.10)
EPS - FRS 3 (€)		(1.04)	(0.96)	(0.64)	(0.82)	(0.25)	(0.15)
Dividend per share (€)		0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET							
Fixed assets		11,591	10,639	11,077	10,043	9,280	8,542
Intangible assets		10,651	9,836	9,123	8,164	7,451	6,738
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	7,256	12,973	10,294
Stocks		23	25	20	20	20	20
Debtors		346	652	94	94	94	94
Cash		4,899	3,202	21,476	6,519	12,236*	9,557
Other current assets		846	393	817	623	623	623
Current liabilities		(3,587)	(4,842)	(5,593)	(3,187)	(3,437)	(3,937)
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)	(749)	(749)	(749)
Long-term liabilities		(2,836)	(8,042)	(1,471)	(188)	(10,038)	(10,038)
Long-term borrowings		0	(6,131)	0	0	(10,000)	(10,000)
Deferred revenue (long term)		(2,682)	(1,788)	(1,433)	(150)	0	0
Other long-term liabilities		(154)	(123)	(38)	(38)	(38)	(38)
Net assets		11,282	2,050	26,428	13,924	8,778	4,861
CASH FLOW							
Operating cash flow		(7,052)	(8,302)	(8,916)	(13,383)	(3,997)	(2,368)
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	650	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	(12,995)	(4,282)	(2,680)
Opening net debt/(cash)		(12,064)	(4,899)	3,246	(19,514)	(6,519)	(2,236)
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)	(6,519)	(2,236)	443

Source: 4SC accounts, Edison Investment Research

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