

4SC

Positive detailed analysis of Phase II trial data

4SC has announced positive Phase II results from a more detailed analysis of the HCC Yakult Phase II trial data, which we believe could lead to further clinical development. It has also recently announced the sale of its immunology portfolio (Vidofludimus and a cytokine inhibitor), which further streamlines the company's focus further on its core business of epigenetics while retaining potential upside (via milestones and royalties). We increase our rNPV to €117m from €110m to reflect the increase in potential of resminostat development in Japan.

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.

Positive potential following further analysis

Despite not meeting the primary end point previously, further in-depth analysis of the HCC Phase II clinical trial data, conducted by its partner Yakult, has reportedly demonstrated a substantial improvement in overall survival (OS). 4SC has reported that this is an important end point in advanced HCC and that this improvement was in a large subgroup, defined by greater than median platelet count at study entry (50% of all patients in the study). As a result, of this positive further analysis, plans for continued clinical development of resminostat in Japan are being discussed.

Recent deal enables greater focus on core

4SC also recently announced the disposal of its immunology portfolio to Immunic, which includes two drug development programmes (Vidofludimus and a cytokine inhibitor) and its associated IP. The deal included an upfront payment, milestones and royalties, although it does not give any further details. While the deal is not transformative in terms of its impact on cash, it does streamline focus further on 4SC's core business of epigenetic research and treatments whilst retaining upside.

CEO appointment underpins the next stage for 4SC

Dr Jason Loveridge has recently been appointed CEO. He has an investment-focused background which should prove useful in driving forward partnerships and delivering future fund-raising requirements and value from its core business.

Valuation: Increased to €117m

We have increased our rNPV-based valuation to €117m or €6.2 per share (previously €5.8), as we have raised our probability of resminostat in Japan to 20%. We will review this again with clarity of timing and details of further clinical development of resminostat in Asia. We have not altered our forecasts as the company has guided that the recent deal with Immunic does not affect cash guidance and we do not have clarity on the details of the deal.

Trial results & portfolio sale

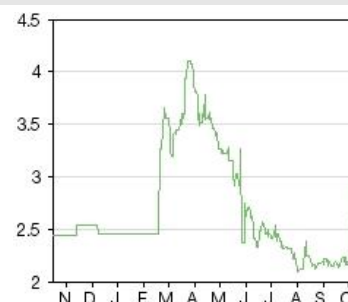
Pharma & biotech

6 October 2016

Price €2.91
Market cap €55m

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	31.2	17.5	6.1
Rel (local)	32.3	5.8	(1.6)
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 Q416), partnered with Yakult Honsha (Japan) and Menarini (Asia ex-Japan). 4SC is partnered with Link Health for a Phase I oncology asset.

Next events

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

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Exhibit 1: Financial summary

	€'000s	2013	2014	2015e	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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