

4SC

FY16 results

A streamlined focus moving forward

2016 was an important year for 4SC as it launched its potentially pivotal Phase II study with resminostat, an epigenetic cancer drug, in CTCL. In addition, it announced positive subgroup analysis of a Phase II study in HCC with its partner Yakult. It is streamlining its focus on three core assets: resminostat, 4SC-202 (initiating Phase II trials in 2017) and 4SC-208 (initiating preclinical development). We have slightly increased our rNPV to €124m, but note that we forecast a cash horizon to end 2017/early 2018.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/15	3.3	(8.4)	(0.59)	0.0	N/A	N/A
12/16	2.1	(10.9)	(0.54)	0.0	N/A	N/A
12/17e	2.4	(9.9)	(0.49)	0.0	N/A	N/A
12/18e	2.7	(7.2)	(0.34)	0.0	N/A	N/A

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

Solid progress in 2016

4SC made good progress in 2016 by streamlining its focus on its lead clinical assets (resminostat, 4SC-202, 4SC-208) and developing its senior management team. Highlights include positive data from subgroup analysis of the Phase II study of resminostat in combination with sorafenib as first-line therapy in HCC (with partner Yakult), strong preclinical data on 4SC-202's potential in monotherapy and in combination with checkpoint inhibitors, and the initiation of its pivotal study (RESMAIN) of resminostat as maintenance therapy in patients with advanced-stage CTCL. Alongside this 4SC has demonstrated its ability to achieve value from its non-core assets as it sold its discovery operation to BioNTech Small Molecules, its immunology portfolio to Immunic and licensed 4SC-205 to Link Health for its development and marketing in China, generating upfront and a mix of milestone and royalty payments.

Streamlined focus on core assets

4SC has defined its core focus in 2017 on three aspects: its pivotal RESMAIN study with resminostat in CTCL (for detail see [here](#)), the initiation of preclinical development of 4SC-208 and the initiation of two Phase II combination studies with 4SC-202 and an anti-PD-1 and anti-PD-L1 antibody in checkpoint-refractory melanoma and gastrointestinal cancer respectively. Alongside this it continues to discuss next steps with its partner Yakult for development of resminostat in HCC. The company has also indicated that it will continue to out-license its non-core assets.

Valuation: Increased to €124m

Our rNPV-based valuation has increased to €124m (vs €120m) or €6.5 per share (vs €6.3/share) following the release of FY16 results. We forecast cash reach to late 2017/early 2018 and model illustrative funding of €10m as long-term debt in 2017, which should be sufficient to complete the CTCL study. 2017 is an important year for 4SC as it further develops its core assets, potentially continues to leverage its non-core assets via out-licences and raises its next tranche of funding.

Pharma & biotech

30 March 2017

Price €2.60

Market cap €50m

Net cash (€m) at 31 December 2016 10.0

Shares in issue 19.0m

Free float 38.1%

Code VSC

Primary exchange Frankfurt

Secondary exchange N/A

Share price performance



Business description

4SC is a Munich-based cancer biopharmaceutical company. Epigenetic compound resminostat (HDAC inhibitor) is the lead candidate for Cutaneous T-Cell Lymphoma (CTCL, pivotal study started 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

Q1 results May 2017

Further Phase II data analysis in HCC 2017

4SC-202 Phase II trials initiated Q417

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Exhibit 1: Financial summary

	€'000s	2013	2014	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		4,904	7,055	3,266	2,060	2,369	2,724
Cost of sales		(1,474)	(4,080)	(1,763)	(76)	(948)	(954)
Gross profit		3,430	2,975	1,503	1,984	1,421	1,771
R&D expenditure		(10,243)	(8,504)	(7,255)	(10,601)	(10,000)	(7,500)
Administrative, distribution and other		(3,779)	(3,908)	(3,163)	(3,175)	(2,422)	(2,495)
Operating profit		(10,592)	(9,437)	(8,915)	(11,792)	(11,001)	(8,224)
Intangible amortisation		(1,593)	(819)	(827)	(892)	(892)	(892)
Exceptionals (impairment / restructuring costs)		(862)	0	0	0	0	0
Share-based payments		(53)	(3)	2	0	(20)	(20)
EBITDA		(7,804)	(8,339)	(7,914)	(10,900)	(9,864)	(7,087)
Operating profit (before GW and except.)		(8,084)	(8,615)	(8,090)	(10,900)	(10,089)	(7,312)
Net interest		48	(228)	(331)	(14)	150	100
Other (profit/loss from associates)		19	39	58	711	711	711
Profit before tax (norm)		(8,036)	(8,843)	(8,421)	(10,914)	(9,939)	(7,212)
Profit before tax (FRS 3)		(10,525)	(9,626)	(9,188)	(11,095)	(10,140)	(7,413)
Tax		0	(70)	(40)	(71)	0	0
Profit after tax (norm)		(8,017)	(8,874)	(8,403)	(10,274)	(9,228)	(6,501)
Profit after tax (FRS 3)		(10,525)	(9,696)	(9,228)	(11,166)	(10,140)	(7,413)
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)	(0.54)	(0.49)	(0.34)
EPS - FRS 3 (€)		(1.04)	(0.96)	(0.64)	(0.59)	(0.53)	(0.39)
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	7,096	6,214	5,357
Intangible assets		10,651	9,836	9,123	6,499	5,667	4,835
Tangible assets		602	425	357	222	172	147
Investments and other		338	378	1,597	375	375	375
Current assets		6,114	4,295	22,415	11,959	12,603	5,081
Stocks		23	25	20	0	0	0
Debtors		346	652	94	95	95	95
Cash		4,899	3,202	21,476	10,048	10,692	3,170
Other current assets		846	393	817	1,816	1,816	1,816
Current liabilities		(3,587)	(4,842)	(5,593)	(3,257)	(3,011)	(3,188)
Creditors		(675)	(993)	(688)	(834)	(834)	(834)
Short-term borrowings		0	(317)	(1,962)	0	0	0
Deferred revenue (short term)		(1,589)	(2,638)	(1,779)	(1,431)	(1,185)	(1,362)
Other current liabilities		(1,323)	(894)	(1,164)	(992)	(992)	(992)
Long-term liabilities		(2,836)	(8,042)	(1,471)	(525)	(10,032)	(10,032)
Long-term borrowings		0	(6,131)	0	0	(10,000)	(10,000)
Deferred revenue (long term)		(2,682)	(1,788)	(1,433)	(493)	0	0
Other long-term liabilities		(154)	(123)	(38)	(32)	(32)	(32)
Net assets		11,282	2,050	26,428	15,273	5,775	(2,782)
CASH FLOW							
Operating cash flow		(7,052)	(8,302)	(8,916)	(12,320)	(9,124)	(7,265)
Net interest		66	0	(2)	(531)	4	3
Tax		0	(70)	(40)	(71)	0	0
Capex		(99)	(100)	(109)	(404)	(175)	(200)
Expenditure on intangibles		(21)	(3)	(114)	(60)	(60)	(60)
Acquisitions/disposals		10	0	0	2,808	0	0
Financing		0	477	27,608	0	0	0
Other		0	0	4,333	650	0	0
Net cash flow		(7,096)	(7,998)	22,760	(9,928)	(9,356)	(7,522)
Opening net debt/(cash)		(12,064)	(4,899)	3,246	(19,514)	(10,048)	(692)
HP finance leases initiated		0	0	0	0	0	0
Other		(69)	(147)	0	462	0	0
Closing net debt/(cash)		(4,899)	3,246	(19,514)	(10,048)	(692)	6,830

Source: Edison Investment Research and company accounts

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