MagForce

Healthcare equipment & services
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2017 lays foundation for 2018 progress

MagForce continues to execute its two-pronged strategy. With €35m now available in financing from the European Investment Bank (EIB), MagForce can roll out its Nanotherm devices outside of Germany for the treatment of glioblastoma multiforme (GBM) patients. Plans for 2018 to expand into Poland and Italy reflect the high levels of enquires coming from both countries. In the US, the first patient is expected to enrol into the pivotal clinical trial for prostate cancer in Q218, following the investigational device exemption (IDE) approval in February 2018.

Prostate US IDE approved; launch likely Q419

In February 2018, MagForce received IDE approval to start its first pivotal clinical trial evaluating NanoTherm focal ablation therapy for prostate cancer in the US. This is a major milestone for the company. Prostate cancer in the US presents a significant market opportunity (representing ~60% of our rNPV) and makes sense strategically as a first US indication. The company forecasts that NanoTherm could be launched for the commercial treatment of prostate cancer patients by end-2019.

Expansion to Poland and Italy to drive GBM uptake

In August 2017, MagForce announced financing from the EIB of up €35m. This funding will partly enable MagForce to roll out its NanoTherm devices across Europe and reach patients who were previously reluctant to travel across the border to Germany for GBM treatment. MagForce has announced that Poland and Italy will be the next two targeted countries for treatment. We anticipate clinical location announcements later in the year. A key factor in the roll-out will be achieving reimbursement in selected European countries and raising clinicians' and patients' awareness of the therapy.

Financials: Funded into the near term

The net loss for FY17 was €7.5m for MagForce. FY17 revenues of €716K were driven by sales of the ambulatory NanoActivator device (FY17: €175k) and NanoTherm to MagForce USA (FY17: €316k). The €35m EIB loan, of which €10m was available for immediate drawdown, removes near-term funding requirements.

Valuation: EU roll-out & US launch near-term drivers

We expect MagForce to launch its NanoTherm treatment into the broader EU and the US by end 2019, which should help to realise value in the near term. Sufficient patient recruitment and the securing of reimbursement are vital to success.

Historical financials

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/14	0.0	(7.9)	(0.33)	0.0	N/A	N/A
12/15	2.6	(4.5)	(0.18)	0.0	N/A	N/A
12/16	0.5	(7.2)	(0.28)	0.0	N/A	N/A
12/17	0.8	(7.5)	(0.28)	0.0	N/A	N/A

Source: MagForce accounts. Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Figures above do not include MagForce USA. Financial forecasts prepared under HGB.

Price	€5.39
Market cap	€142m

Share price graph

Share details

Code	MF6
Listing	Deutsche Börse Scale
Shares in issue	26.3m
Last reported net debt as of 30 June	€0.4m

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.

Bull

- US and broader EU sales on near-term horizon.
- Technology is clinically validated.
- CEO track record.

Bear

- Cross-border reimbursement is difficult in the EU.
- Approval in the US is needed before launch.
- Uptake of treatment has been slow to date.

Analysts

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FY17 results update

The net loss for FY17 was €7.5m for MagForce (FY16: €7.2m). FY17 revenues of €716k were driven by sales of the ambulatory NanoActivator device (2017 €175k; 2016 €217k) and NanoTherm to MagForce USA (2017 €316k; 2016 €81k). Treatment of fewer patients with NanoTherm therapy in the EU resulted in a small decrease in associated FY17 revenues to €152k (2015: €176k). Commercial revenues were generated by sales of NanoTherm particles and by the use of the NanoActivator devices. Revenues in Europe were affected by a lengthy reimbursement process (done on a per-patient basis) and ongoing negotiations with health insurers.

MagForce reported other operating income of €3.6m in FY17 (FY16: €2.5m), which was largely related to the transfer of shares of the Magforce USA to Magforce USA Holding (€2.0m).

Cost of materials increased to €974k (FY16: €574k) and was mainly attributed to the significant increase in purchased services, including the development of an ambulatory NanoActivator device.

Reported cash and cash equivalents at 31 December 2017 was €666k. In February 2017, Lipps & Associates granted a loan of €400k to MagForce. The loan is due on 30 June 2019 and has a 5% interest rate. In June 2017, a further €3.0m was loaned to MagForce at 4% interest, also due on 30 June 2019. In March, a €5m convertible bond was issued with a maturity of three years, an interest rate of 5% per annum and a conversion price of €5/share. In June, MagForce raised €5m via a capital raise with M&G International Investments, placing 0.7m shares at €6.94. In Q3, MagForce agreed a €35m loan from the EIB, of which €10m was available for immediate drawdown.

Exhibit 1: Financial summary

Year end 31 December	€000s	2014	2015	2016	2017
		HGB	HGB	HGB	HGB
Income statement					
Revenue		0	2,576	474	716
Profit Before Tax (reported)		(1,007)	(1,547)	(7,230)	(7,464)
Net income as reported		(1,008)	(1,547)	(7,231)	(7,465)
EPS (reported) (€)		(0.04)	(0.06)	(0.28)	(0.28)
Dividend per share (c)		0.0	0.0	0.0	0.0
Balance sheet					
Total non-current assets		15,707	19,533	18,742	20,672
Total current assets		12,999	5,325	1,536	1,360
Total assets		**28,707**	**24,858**	**20,278**	**22,032**
Total liabilities		**(4,279)**	**(1,977)**	**(4,628)**	**(8,838)**
Net assets		24,428	22,881	15,650	13,194
Shareholders' equity		24,428	22,881	15,650	13,194

Source: MagForce accounts

Valuation

We expect MagForce to launch its NanoTherm treatment into the broader EU and the US by the end of 2019. In the US, MagForce USA has been granted an IDE (February 2018), which will allow it to conduct the planned pivotal prostate trial. Assuming the prompt start of the trial, MagForce USA could be approved for treatment of prostate cancer patients by the end of 2019. Prostate cancer represents a major opportunity and will be a key value driver over the mid-term. In the EU, difficulty in attracting cross-border patients has led to slower than anticipated uptake. GBM is an aggressive disease and patients are often unwilling to travel to other countries to receive treatment. MagForce plans to place machines in other European countries, starting with Poland and Italy. A combination of increased awareness and access to treatment could drive revenues in 2018 and beyond. For our detailed valuation methodology, please see our previously published initiation note.

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