EDISON

Scale research report - Update

MagForce

Healthcare equipment & services

14 July 2021

Time to capitalise on growth potential

In FY20, MagForce made steady progress in its strategy to drive uptake of its nanotechnology-based thermal ablation treatment, NanoTherm. In Europe, NanoTherm is approved for glioblastoma (brain tumours) and, despite the considerable impact of COVID-19, MagForce saw a significant increase in treatments as it benefited from newly established treatment centres in Germany and Poland. In the US, NanoTherm is moving into the final phase (Stage 2b) of a registrational study in prostate cancer; approval and launch are now expected in H122 (vs H221 previously). Approval in this indication could be the catalyst for meaningful growth in the top line and the path to sustainable profitability. Our forecasts are under review.

EU growth affected by COVID-19

Revenues from the commercial treatment of patients in Germany and Poland have grown strongly (FY20: €527k versus FY19: €85k). A total of 23 patients were treated in FY20, with the majority taking place in Q1 before the forced closure of treatment centres due to COVID-19. As pandemic headwinds abate, we expect the planned opening of additional European sites to resume and for sales growth to regain momentum. MagForce now expects to install the first device in Spain in Q421 and is in advanced negotiations with potential partners in Italy, Austria and Germany. By 2022, MagForce expects to have doubled the number of NanoTherm treatment centres in Europe to eight and the planned HTA application implies federal reimbursement in Germany could start during H222. However, timely execution is critical and potential delays due to COVID-19 present uncertainty.

US prostate cancer launch expected in H122

MagForce is now recruiting patients into the final stage of the pivotal US study. Stage 2b will enrol 100 patients in a single arm to establish efficacy in thermally ablating prostate cancer lesions using the streamlined one-day protocol. MagForce will start commercial preparations in H221 while the study completes and intends to have five proprietary treatment sites ready for potential approval and launch in H122 (assuming no further COVID-19-related delays). MagForce's renewed US commercialisation strategy utilising company-owned and operated treatment sites will allow it to significantly increase revenues per patient and generate higher margins by billing for the entire procedure versus solely supplying NanoTherm.

Valuation: Timely roll-out in the EU and US is key

MagForce's market cap is €104m with an EV of €125m. Growth in European sales, driven by reimbursement and the ongoing roll-out of devices, as well as the potential launch in the US, will be key to crystallising value.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	0.8	(8.7)	(0.32)	0.0	N/A	N/A
12/20	0.6	14.7	0.53	0.0	6.7	N/A
12/21e	3.4	(6.8)	(0.18)	0.0	N/A	N/A
12/22e	15.9	0.7	(0.01)	0.0	N/A	N/A

Source: Refinitiv, MagForce accounts

Price	€3.55
Market cap	€104m

Share price graph

Share details

Code	MF6
Listing	Deutsche Börse Scale
Shares in issue	29.4m
Net debt (€m) at 31 December 2020	€21.1m

Business description

MagForce is a German firm with the first European-approved, nanotechnology-based therapy to treat brain tumours. NanoTherm therapy consists of nanoparticle instillation into the tumour, activated by an alternating magnetic field, producing heat and thermally destroying or sensitising tumours.

Bull

- US prostate cancer market presents a huge commercial opportunity.
- Proprietary technology is clinically validated.
- CEO has a proven track record.

Bear

- Reimbursement has been difficult to obtain in Germany to date.
- Approval in the United States is needed before launch.
- Uptake of NanoTherm has been slow and is susceptible to significant impact by COVID-19.

Analysts

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Financials

MagForce AG (MagForce) is the parent company of the MagForce group, which consists of seven companies including MagForce USA, and the wholly owned regional sales subsidiaries MagForce sp. z o.o. in Poland and MagForce Nanomedicine S.L. in Spain. Under HGB accounting standards, MagForce does not report consolidated financial statements, and thus MagForce USA is not currently consolidated as per company reporting and our financial forecasts.

MagForce's revenues amounted to €621k in FY20 (FY19: €840k), as a significant increase in the commercial treatment of patients in Germany and Poland to €527k (FY19: €85k) offset a reduction in NanoTherm deliveries to subsidiaries which declined to €94k (FY19: €755k) as the prior year benefited from a one-off stocking effect. A total of 23 patients were treated in FY20 (17 in H120 and six in H220), with the majority taking place in Q1 before the forced closure of NanoTherm treatment centres due to COVID-19. As pandemic headwinds abate, we expect the planned opening of additional European sites to resume and for sales growth to regain momentum.

Other operating income, reported at €26.5m in FY20 (FY19: €0.9m), was largely attributed to the intra-group transfer of shares in MagForce USA and the consequent booking of hidden reserves of €25.6m at the parent company level, based on the fair market value. A similar intra-group transfer in FY18 realised hidden reserves of €13.9m, which are booked as investments on the balance sheet. Personnel expenses remained relatively stable at €4.1m (FY19: €4.0m) and reflect expenses for salaries and retirement benefits.

Reported operating income in FY20 stated a profit of €18.6m (versus a loss of €6.2m in FY19) due to the booking of hidden reserves. We highlight that this is a non-cash item and believe it is non-operating in nature, thus the FY20 adjusted operating income represents a loss €7.0m, which is broadly in line with the company's previous guidance. While management expects a significant increase in revenues from commercially treated patients in Europe in FY21, due to the continued expenses from the European expansion strategy, management expects a sustained operating loss in FY21. By 2022, MagForce expects to have doubled the number of NanoTherm treatment centres in Europe to eight and the planned HTA application implies that federal reimbursement in Germany could start during H222. The US prostate cancer opportunity is the key driver for growth in the long term. Positive findings from the Stage 2a 10-patient study confirmed only minimal treatment-related side effects with the streamlined protocol, which are tolerable and similar to those observed with the extended protocol and biopsies. This means patients can receive treatment in an outpatient facility in one day rather than weeks as previously, reducing the healthcare burden of repeated visits. The FDA is currently reviewing the results from Stage 2a and MagForce is now recruiting patients into the final phase (Stage 2b) of the registrational study. Approval and launch are now expected in H122 (versus H221 previously) and could be the catalyst for meaningful top line growth and sustainable profitability.

MagForce reported cash and cash equivalents of €1.7m at 31 December 2020, following a gross €4.7m share placing in December which strengthened the balance sheet and will continue to fund its growth strategy. MagForce USA had cash of €4.0m at 31 December 2020, which will ensure funding for completion of the US prostate cancer trial and preparations for commercialisation in H122. MagForce AG's holding in MagForce USA is 65.3%.

In January 2020, the second €3.0m tranche of a €35.0m loan facility with the European Investment Bank (EIB) was disbursed, and in June 2020 the first €2.5m tranche of a €15.0m convertible bond facility with Yorkville Advisors Global LP was drawn. MagForce will require additional funding until profitability and we expect that this will be drawn from the remaining €12.5m zero interest-bearing convertible notes with Yorkville or the remaining €22m of the EIB loan facility. In FY20, interest expenses increased to €3.0m (FY19: €1.7m) due to new borrowings and higher interest rates for share price linked liabilities. At 31 December 2020, MagForce had net debt of €21.1m.

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