

MagForce

FDA approves streamlined trial protocol

MagForce has received FDA approval to proceed with its streamlined trial protocol for the next stage of its pivotal US clinical study for the use of NanoTherm in prostate cancer. This follows completion of the first 10-patient cohort in its pivotal prostate cancer study and means the next stage of the US focal ablation study can be initiated. MagForce will enrol up to 120 patients with prostate cancer to establish efficacy in thermally ablating prostate cancer lesions with minimal side effects. Positive results would be a critical value inflection, and we now expect approval and launch in Q121 (previously Q420). NanoTherm's US prostate indication contributes 70% to our valuation of MagForce, which is €303.1m.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/17	0.7	(9.5)	(36.0)	0.0	N/A	N/A
12/18	0.1	(8.7)	(32.8)	0.0	N/A	N/A
12/19e	0.7	(10.5)	(38.7)	0.0	N/A	N/A
12/20e	2.9	(6.6)	(23.7)	0.0	N/A	N/A

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

Pivotal US prostate cancer study in final stage

During 2019, MagForce completed treatment of the first 10-patient cohort in its pivotal prostate cancer study required by the US FDA for approval. The company reported that initial findings shown in Stage 1 were encouraging, demonstrating a favourable safety and tolerability profile, as well as well-defined ablation and cell death in the region of the nanoparticle deposit. This led to FDA approval of a streamlined trial protocol for the next stage, which means patients can receive treatment in an outpatient facility within one day (NanoTherm particle installation in the prostate and activation) rather than weeks previously. Enrolment will take place at three established urological clinics in the US (Texas, Washington and Florida). MagForce is still hopeful that the COVID-19 pandemic will not cause significant delay beyond 2020 to complete this single-arm clinical trial. We have adjusted our approval and launch expectation to Q121 from Q420.

Financials: EIB extends cash reach until profitability

End-June 2019 net debt was €15.1m, primarily from drawing down the first tranche (€10m) of the loan from its facility with the EIB (€25m remaining). MagForce raised gross proceeds of €5m in a private placement of 1.2m shares (in June 2019). We note the \$4.5m capital increase of its US subsidiary MagForce USA in December 2019 from Lipps & Associates (principle owner is CEO Ben Lipps), which will ensure funding for the US prostate cancer trial. We believe an additional €15m will be required to fund operations until profitability, which we forecast in 2022.

Valuation: €303.1m (€11.0/share)

Our revised valuation of MagForce is €303.1m (previously €269.7m), based on a risk-adjusted NPV analysis. We have updated FX and rolled forward our model, which has offset US NanoTherm launch by one quarter to Q121. We note that delays in the US trial would materially affect our valuation, and prudent execution is needed to launch the asset on time (the US is ~70% of our valuation).

Corporate update

Healthcare equipment & services

30 April 2020

Price €3.10

Market cap €86m

\$1.09/€

Net debt (€m) at 30 June 2019 15.1

Shares in issue 27.6m

Free float 66%

Code MF6

Primary exchange Frankfurt (Xetra)

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 19.0 (24.5) (34.0)

Rel (local) 6.2 (6.8) (24.7)

52-week high/low €5.29 €2.13

Business description

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

Next events

Additional NanoActivator installations in Europe (ex-Germany) 2020

FDA approval and launch of NanoTherm in the US Q121

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Exhibit 1: Financial summary

	€'000s	2016	2017	2018	2019e	2020e
December		HGB	HGB	HGB	HGB	HGB
PROFIT & LOSS						
Revenue		474	716	67	667	2,898
Cost of Sales		(574)	(974)	(455)	(2,058)	(2,252)
Gross Profit		(101)	(258)	(388)	(1,391)	646
EBITDA		(6,555)	(8,763)	(7,068)	(9,583)	(5,348)
Operating Profit (before amort. and except.)		(7,457)	(9,434)	(7,068)	(9,583)	(5,348)
Intangible Amortisation		(4)	(1)	0	0	0
Exceptionals		0	2,024	13,896	0	0
Other		0	0	(877)	0	0
Operating Profit		(7,461)	(7,411)	5,951	(9,583)	(5,348)
Net Interest		231	(53)	(1,591)	(892)	(1,210)
Profit Before Tax (norm)		(7,226)	(9,487)	(8,659)	(10,475)	(6,558)
Profit Before Tax (reported)		(7,230)	(7,464)	4,360	(10,475)	(6,558)
Tax		(1)	(1)	(2)	0	0
Profit After Tax (norm)		(7,227)	(9,488)	(8,661)	(10,475)	(6,558)
Profit After Tax (reported)		(7,231)	(7,465)	4,358	(10,475)	(6,558)
Average Number of Shares Outstanding (m)		26.0	26.3	26.4	27.1	27.6
EPS - normalised (c)		(27.8)	(36.0)	(32.8)	(38.7)	(23.7)
EPS - (reported) (€)		(0.28)	(0.28)	0.17	(0.39)	(0.24)
Dividend per share (€)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	22.3
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		18,742	20,672	34,470	34,402	34,744
Intangible Assets		3	2	91	186	280
Tangible Assets		3,706	3,589	3,401	3,239	3,486
Investments		15,033	17,082	30,978	30,978	30,978
Current Assets		1,536	1,360	2,664	3,999	2,711
Stocks		71	301	291	169	185
Debtors		71	85	95	365	1,588
Cash		614	665	1,493	2,679	153
Other		780	307	785	785	785
Current Liabilities		(4,431)	(3,747)	(3,049)	(2,891)	(3,502)
Creditors		(4,431)	(3,747)	(3,049)	(2,891)	(3,502)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(197)	(5,091)	(15,926)	(22,926)	(27,926)
Long term borrowings		0	(5,012)	(15,876)	(22,876)	(27,876)
Other long term liabilities		(197)	(79)	(50)	(50)	(50)
Net Assets		15,650	13,194	18,159	12,584	6,026
CASH FLOW						
Operating Cash Flow		(1,079)	(5,286)	(4,636)	(9,307)	(5,335)
Net Interest		231	(53)	(2,468)	(892)	(1,210)
Tax		(1)	(1)	(2)	0	0
Capex		(115)	(553)	(499)	(515)	(982)
Acquisitions/disposals		0	0	0	0	0
Financing		0	5,000	0	4,900	0
Dividends		0	0	0	0	0
Net Cash Flow		(964)	(894)	(7,605)	(5,814)	(7,527)
Opening net debt/(cash)		(1,393)	(614)	4,347	14,383	20,197
HP finance leases initiated		0	0	0	0	0
Other		185	(4,067)	(2,431)	0	0
Closing net debt/(cash)		(614)	4,347	14,383	20,197	27,723

Source: Company accounts, Edison Investment Research. Note: Reported other operating income (non-cash) relating to the transfer of shares between subsidiaries has been booked as an exceptional item in our model.

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