EDISON

Elbit Medical Technologies

Financial update

Portfolio progress continues

Pharma & biotech

Elbit Medical Technologies' portfolio of investments continues to demonstrate progress on multiple fronts. InSightec is gaining ground on the reimbursement front, with Medicare providing coverage for beneficiaries in a total of 16 US states for the use of magnetic resonance imaging and high-intensity focused ultrasound (MRgFUS) for essential tremor (ET) treatment. Moreover, Gamida Cell recently announced that the FDA has granted NiCord orphan drug designation for the treatment of haematopoietic stem cell transplantation (HSCT) and it is currently enrolling patients in its Phase III trial to treat high-risk haematological malignancies.

Year end	Revenue ($m)	PBT* ($m)	EPS* ($)	DPS ($)	P/E (x)	Yield (%)
12/15	1.8	(1.1)	(0.0)	0.0	N/A	N/A
12/16	0.0	(3.7)	(0.0)	0.0	N/A	N/A
12/17	0.0	(5.2)	(0.0)	0.0	N/A	N/A

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

InSightec demonstrates revenue and reimbursement

InSightec (~22% owned by Elbit Medical, ~18.5% fully diluted) recently announced its half-year results. Revenues, which are based on the sale of ExAblate systems and corresponding annual service contract costs and consumables were $12.2m, up approximately 12% from H117. The company also announced that Medicare currently provides beneficiaries in 16 US states with coverage for MRgFUS for the treatment of ET.

NiCord receives orphan drug designation from FDA

In July, Gamida Cell (~18% owned by Elbit Medical, ~13% fully diluted) announced that the FDA has granted orphan drug designation for its lead programme, NiCord, which is a product derived from umbilical cord blood (UCB) stem cells, as a treatment for HSCT. NiCord has previously received orphan drug designation as treatment for a number of haematological diseases by the FDA and EMA.

Elbit Imaging agrees to sell shares in Elbit Medical

In August 2018, Elbit Imaging announced the signing of an agreement with Exigent Capital Group for the sale of between 5% and 50% of Elbit Medical's outstanding share capital for a price per share of NIS0.96 (US$0.26). As per the agreement, Exigent will purchase 5% of Elbit Medical's outstanding share capital for NIS11m and may purchase up to 50% of Elbit Medical's outstanding share capital for a total of NIS111.1m by 26 November 2018.

Valuation: NIS444m or NIS1.92 per share

We are increasing our valuation to NIS444.4m or NIS1.92 per share from NIS407m or NIS1.76 per share, which was mainly driven by rolling forward our NPVs and updating Gamida Cell value for modelling changes. We expect to update our valuation with the announcement of new deals and as the portfolio companies advance through the clinical pipeline.

6 September 2018

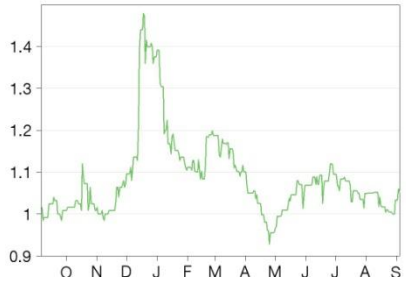
Price*	**NIS1.05**
Market cap	**NIS243m**

*Priced as at 4 September 2018

NIS3.60/US$

Net debt ($m) at 30 June 2018	38.7
Shares in issue	231.5m
Free float	10.7%
Code	EMTC
Primary exchange	TASE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	0.1	(1.7)	3.4
Rel (local)	(3.7)	(8.9)	(12.1)
52-week high/low	NIS1.5	NIS0.9	

Business description

Elbit Medical Technologies (Elbit Medical), a fully controlled subsidiary of the Elbit Imaging (EMITF), is an Israeli biomedical and healthcare technology group. Its portfolio of two companies is focused on medical devices and therapeutics: InSightec, which develops and markets the ExAblate platform for non-invasive thermal tissue ablation, and Gamida Cell, which is developing a universal bone marrow transplant.

Next events

Potential Gamida Cell IPO	H218
Gamida Cell NiCord Phase III top-line data readout	H120
InSightec Parkinson's disease Phase II/III top-line data	2020

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Edison profile page

Portfolio updates

In July, InSightec announced that Medicare coverage is available to beneficiaries in a total of 16 US states for the use of MRgFUS for the treatment of ET. The Centers for Medicare & Medicaid Services currently cover beneficiaries with a reimbursement level of $17,500.50 for the Neuravive procedure (ExAblate Neuro for ET). According to the company, Medicare coverage for the treatment of ET may potentially expand to cover a total of 38 US states following the receipt of positive Draft Local Coverage Determination from local Medicare administrative contractors, which was obtained in June of this year.

As a reminder, the ExAblate system compromises MRgFUS to perform non-invasive thermal tissue ablation for a wide range of neurology, oncology and gynaecology clinical applications. By way of full clinical validation under the pre-market approval route, the company has achieved FDA approval and CE markings for the ExAblate 2100 system for the treatment of symptomatic uterine fibroids and pain palliation caused by bone metastases and for its ExAblate 4000 system for the treatment of medication-refractory ET. Moreover, the company has received CE markings for the treatment of prostate cancer, tremor-dominant Parkinson's disease and neuropathic pain, and is investigating these further in clinical trials in an effort to achieve FDA approval.

In regards to the underlying business, InSightec recently reported its H118 results. Revenues, which are based on the sale of ExAblate systems and corresponding annual service contract costs and consumables, were $12.2m, which is up roughly 12% from same period from the year prior (H117: $10.9m). R&D expenses totalled $13.7m for the period, which reflects ongoing clinical development. The company is currently targeting FDA approval for the use of its ExAblate technology for the treatment of prostate cancer and tremor-dominant Parkinson's disease in 2020 and 2021, respectively. Furthermore, Elbit Medical recently announced that the FDA gave InSightec the green light to initiate a clinical trial investigating the use of MRgFUS for targeted drug delivery for Alzheimer's disease.

Also in July, Gamida Cell announced that the FDA has granted orphan drug designation for NiCord as a treatment for HSCT. As a reminder, NiCord expands UCB cell graft ex vivo and enriches the specific subpopulation of stem and progenitor cells using the company's proprietary technology involving the small nicotinamide, which is a form of vitamin B-3, to treat high-risk haematological malignancies. In essence, CD133+ cells selected from a single unit of UCB are cultured for 21 days in nicotinamide, resulting in a c 100-fold expansion of dose stem and progenitor cells, which are then cryopreserved until transplanted into patients. This expansion is a substantial advantage over a single UCB graft. Gamida Cell has also received orphan drug designation for NiCord as treatment for HSCT by the EMA (March 2017). On 31 August 2018, Elbit Medical announced that Gamida Cell submitted confidential filings as part of pursing various alternatives for raising capital.

Exhibit 1: Investment portfolio

Investment	Technology	% held	Founded	Status	Advantages	Targets
InSightec	MRgFUS to treat various indications with thermal tissue ablation	~22% (~18.5% fully diluted)	1999	ExAblate (Body): FDA- and CE-approved for uterine fibroids and pain palliation due to bone metastases. ExAblate (Neuro): FDA- and CE-approved for unilateral thalamotomy in the treatment of ET.	Provides non-invasive alternatives to common standard procedures and improves patient outcomes by minimising recovery time. InSightec's ExAblate system is the only MRgFUS therapy with CE and FDA approval.	Evaluating potential for bilateral thalamotomy in the treatment of ET with ExAblate Neuro device. Enrolment is underway for Phase III study of ExAblate Neuro to treat Parkinson's disease.
Gamida Cell	Cord stem cell transplant for haematologic diseases	~18% (~13% fully diluted)	1998	NiCord: enrolling Phase III; CordIn: two ongoing Phase I/II trials; natural killer cells: initiated Phase I.	UCB for transplantation only requires partial matching and nicotinamide technology increases the limited population and quality of stem and progenitor cells. NiCord received FDA breakthrough therapy designation.	Enrolment is underway for a Phase III study of NiCord.

Source: Elbit Medical Technologies.

Elbit Imaging

Elbit Imaging currently holds ~89% stake in Elbit Medical and, as of 1 June 2018, is highly indebted with NIS227m due on 30 November 2019 (with NIS63 in cash). Based on the company's projections, it is dependent on its own ability to sell a portion (if not all) of its Elbit Medical equity stake to stay solvent through 2019. In August, Elbit Imaging announced the signing of an agreement with Exigent Capital Group for the sale of between 5% and 50% of Elbit Medical's outstanding share capital for a price per share of NIS0.96 (US$0.26). As per the agreement, Exigent will purchase 11,574,146 shares (or 5% of Elbit Medical's outstanding share capital) on or before 27 August 2018, which may be deferred by up to seven days, for NIS11.1m and may purchase up to 115,741,467 shares (or 50% of Elbit Medical's outstanding share capital) for NIS111.1m through to 26 November 2018. Elbit Medical shares may continue to be under pressure for as long as Elbit Imaging is planning to sell additional shares.

Valuation

We are increasing our valuation to NIS444.4m or NIS1.92 per share from NIS407m or NIS1.76 per share. This change was driven by rolling forward our NPVs, updating our valuation for Gamida Cell to reflect other modelling changes, and partially offset by decreasing the value of Elbit Medical's stake in InSightec. We expect to update our valuation with the announcement of new deals and as the portfolio companies advance through the clinical pipeline.

Exhibit 2: Elbit Medical valuation table

Product	Setting	Status	Launch	Peak sales ($m)	Probability of success	Royalty rate	rNPV ($m)	% owned by Elbit Medical (fully diluted)	Elbit Medical rNPV ($m)
InSightec	MRgFUS (for gynaecology, oncology, neurology indications)	Market	Market	583	100%	100%	579	18.5%	107.2
Gamida Cell	Leukaemia (AML, ALL, CML, CLL)	Phase III	2020	437	50%	100%	423	13%	54.9
Portfolio total ($m)									162.1
Net debt (as of 30 June 2018) ($m)									38.7
Overall valuation									123.4
Shekel/dollar conversion rate									3.6
Overall valuation in shekels (NISm)									444.4
Shares outstanding (m)									231.5
Per share (NIS)									1.92

Source: Edison Investment Research

Financials

Elbit Medical's H118 post-tax gain was $2.1m (H117 post-tax loss: $7.1m), mainly from financing income. General and admin costs for the period were $0.59m (NIS2.1m), which include payroll and related expenses as well as management fees. The company had cash on balance sheet of $1.7m (NIS6.2m) at 30 June 2018. Elbit Medical completed an NIS180m offering of convertible notes (NIS1.47 par value in notes convertible to one Elbit Medical ordinary share) on the TASE in February 2018, as well as an NIS2m offering of Series C convertible notes (NIS2.1 par value of notes convertible to Elbit Imaging) in March 2018, which lengthens the maturity profile to March 2022. The company used the majority of the proceeds to repay its NIS154m debt to Elbit Imaging earlier this year, while NIS4m was set aside for ongoing operational expenses, in addition to approximately NIS18m set aside for interest payments due on the notes for the first two years. The notes are secured by a lien on the company's holdings in InSightec and Gamida Cell, which therefore introduces significant dilution risk to Elbit Medical shareholders.

We outline historical financials in Exhibit 3. However, we are not providing forecasts at this time.

Exhibit 3: Financial summary

US$'000s	2015	2016	2017
Year end 31 December	IFRS	IFRS	IFRS
PROFIT & LOSS			
Revenue	1,752	0	0
Cost of Sales	0	0	0
Gross Profit	1,752	0	0
R&D expenses	0	0	0
SG&A expenses	0	(553)	(677)
EBITDA	1,174	(553)	(677)
Operating Profit (before amort. and except.)	1,174	(553)	(677)
Intangible Amortisation	0	0	0
Exceptionals	(14,428)	(15,000)	(5,518)
Operating Profit	(13,254)	(15,553)	(6,195)
Other	(2,270)	(3,101)	(4,557)
Net Interest	0	0	0
Profit Before Tax (norm)	(1,096)	(3,654)	(5,234)
Profit Before Tax (FRS 3)	(15,524)	(18,654)	(10,752)
Tax	0	0	0
Profit After Tax (norm)	(1,096)	(3,654)	(5,234)
Profit After Tax (FRS 3)	(15,524)	(18,654)	(10,752)
Average Number of Shares Outstanding (m)	1,851.9	1,851.9	1,851.9
EPS - normalised (c)	(0.00)	(0.00)	(0.00)
EPS - FRS 3 (US$)	(0.01)	(0.01)	(0.01)
Dividend per share (c)	0.0	0.0	0.0
BALANCE SHEET			
Fixed Assets	20,520	5,518	50
Intangible Assets	0	0	0
Tangible Assets	0	0	0
Other	20,520	5,518	50
Current Assets	103	30	40
Stocks	0	0	0
Debtors	6	15	8
Cash	97	15	32
Other	0	0	0
Current Liabilities	(131)	(57)	(60)
Creditors	(131)	(57)	(60)
Short term borrowings	0	0	0
Short term leases	0	0	0
Other	0	0	0
Long Term Liabilities	(33,873)	(37,126)	(42,415)
Long term borrowings	(33,873)	(37,126)	(42,415)
Long term leases	0	0	0
Other long term liabilities	0	0	0
Net Assets	(13,381)	(31,635)	(42,385)
CASH FLOW			
Operating Cash Flow	(2,531)	(3,394)	(4,858)
Tax	0	0	0
Capex	0	0	0
Acquisitions/disposals	0	0	0
Financing	0	0	0
Dividends	0	0	0
Other	3	0	0
Net Cash Flow	(2,528)	(3,394)	(4,858)
Opening net debt/(cash)	31,248	33,776	37,111
HP finance leases initiated	0	0	0
Other	0	59	(414)
Closing net debt/(cash)	33,776	37,111	42,383

Source: Elbit Medical Technologies accounts, Edison Investment Research

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