

MagForce

Key inflection points on the horizon

MagForce, a pioneer in nanotechnology-based cancer treatments, is making steady progress with its strategy to drive the uptake of its thermal ablation treatment, NanoTherm. In Europe NanoTherm is approved for glioblastoma (brain tumours) and while sales started slowly (\$0.87m in FY19) MagForce saw considerable growth uplift during Q120 as it benefits from establishing new treatment centres in Germany and Poland (with expansion to Italy and Spain expected in 2021). For FY20 MagForce expects an increase in European glioblastoma patient numbers treated with NanoTherm. In the US NanoTherm is now in the final phase of the registrational study for prostate cancer; approval and launch are now expected in Q221. These indications could be the catalyst for meaningful growth in the top line and the path to sustainable profitability, which we forecast for 2022.

US Nanotherm approval expected Q221

MagForce received FDA approval to proceed with its streamlined trial protocol for the next stage of its pivotal US NanoTherm clinical study in prostate cancer. This means patients can receive treatment in an outpatient facility within one day (NanoTherm particle installation and activation) rather than weeks previously. MagForce will enrol up to 120 patients to establish efficacy in thermally ablating prostate cancer lesions and believes that it will have sufficient data to achieve 80% confidence that clinical objectives have been met by end Q420. This should enable commercial preparations for a Q221 launch to start while the trial concludes.

European roll outs imperative

MagForce's expansion strategy is to install NanoActivators at new treatment centres in Europe; this is vital for accelerated growth in the top line. Q120 saw significant treatment numbers of glioblastoma patients and management expect an increase in the number of commercial treatments by 800% to 45 patients (FY20). A NanoActivator has now been installed in Poland where, unlike Germany, payments are less dependent on reimbursement from insurers. MagForce aims to establish an efficient reimbursement procedure in Germany this year.

Valuation: Continued expansion in EU & US is crucial

MagForce's market cap is c €86m with an EV of €102m. 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 in 2020/2021.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	0.1	4.4	0.17	0.0	N/A	N/A
12/19	0.8	(8.7)	(0.32)	0.0	N/A	N/A
12/20e	3.8	(8.6)	(0.21)	0.0	N/A	N/A
12/21e	17.2	(0.2)	0.0	0.0	N/A	N/A

Source: Thomson Reuters, MagForce accounts

Healthcare equipment & services

13 July 2020

Price €3.09

Market cap €86m

Share price graph



Share details

Code	MF6
Listing	Deutsche Börse Scale
Shares in issue	27.7m
Net debt (€m) at 31 December 2019	16.5

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.
- Technology is clinically validated.
- CEO has a proven track record.

Bear

- Reimbursement has been difficult to obtain in Germany to date.
- Approval in the US is needed before launch.
- Uptake of NanoTherm has been slow to date.

Analysts

Dr Susie Jana	+44 (0)20 3077 5700
Dr John Priestner	+44 (0)20 3077 5700

healthcare@edisongroup.com
[Edison profile page](#)

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Financials

MagForce AG (MagForce) is the parent company of the MagForce group, which consists of seven companies: MagForce AG, MagForce USA, MagForce USA Holding GmbH, MagForce Ventures GmbH, MT MedTech Engineering GmbH and the wholly owned regional sales subsidiaries MagForce sp. z o.o. in Poland and MagForce Nanomedicine S.L. in Spain. The company is not required to report consolidated financial statements under HGB accounting standards; while MagForce USA is not currently consolidated as per company reporting, we do not consolidate its contributions into our financial forecasts; however, we do include it in our valuation. We expect that the company will start consolidating its statements as MagForce USA becomes a profitable operation.

MagForce revenues increased in FY19 to €840k (FY18: €67k) as significant growth in NanoTherm deliveries to subsidiaries (FY19: €793k vs FY18: €0k) offset a small decline in treatment sales in Europe, which continue to be affected by a lengthy reimbursement process in Germany (carried out on a per-patient basis). Difficulties securing cross-border reimbursement has prohibited foreign patients (ex-Germany) travelling for NanoTherm treatment. Expansion into Europe with the establishment of centres in Poland has led to an increase in the number of patients treated post period.

Other operating income declined significantly to €904k in FY19 (FY18: €14.9m), as the prior year benefited from the extraordinary transfer of 975,000 shares in MagForce USA to MagForce USA Holding GmbH and the consequent booking of hidden reserves of €13.9m at the parent company level, based on the fair market value from the capital raise in August 2018. Reported operating income in FY19 stated a loss of €6.2m (vs profit of €6.8m in FY18) as it did not benefit from this positive impact. We highlight that this is a non-cash item and believe it is non-operating in nature, thus our FY18 adjusted operating income represents a loss €7.1m. This highlights a reduced year-on-year loss in FY19 due to growing revenues and is in line with the company's previous guidance and our expectations. We expect MagForce will report operating losses until sales pick up after reimbursement has been fully resolved in 2020 and ex-Germany centre patient growth continues. After this we forecast sustainable profitability from 2022 with operating margins of c 50%; if MagForce USA is consolidated we believe these margins would improve, to c 60%, as would the top line.

Personnel expenses remained stable at €4.0m (FY18: €3.9m) and reflect expenses for wages, salaries and retirement benefits. Cost of materials and services decreased to €164k (FY18: €455k). We believe it is likely this will increase in 2020/21 in preparation for the launch in the US. Other operating expenses increased to €3.4m (FY18: €3.2m) primarily due to higher impairment losses on interest receivables from its affiliated company MT MedTech Engineering GmbH (responsible for NanoActivator production and development) as well as higher patent costs.

MagForce reported cash and cash equivalents at 31 December 2019 of €167k. We also note the \$4.5m capital increase (through the issuance of 292,200 shares) of its US subsidiary MagForce USA in December 2019 from Lipps & Associates (principle owner is CEO Ben Lipps), which will ensure funding for the Stage 2 US prostate cancer trial and preparations for commercialisation. This reduces MagForce AG's holding in MagForce USA from 67.9% to 65.3%.

MagForce will require additional funding until profitability in 2022; which could be drawn from the remaining €25m of the EIB loan facility. Post period in June 2020, MagForce signed an agreement with Yorkville Advisors Global LP for a growth financing of up to €15m via zero interest bearing convertible notes. This can be drawn in up to five tranches, with the first tranche of €2.5m expected to be drawn shortly.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia