

Magforce

FY16 results

FY16: Slow NanoTherm uptake affects top line

MagForce continues to execute the strategy originally proposed in late 2013. Domestic reimbursement discussions are ongoing within Germany but expansion in the rest of Europe remains the focus as MagForce looks to increase patient numbers. In the US, a second clinical treatment site has been established in Texas and the IDE approval process with the FDA continues. Post period the company has raised €13.4m gross through equity and debt to aid in the roll-out of devices across the broader EU.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
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
12/17e	3.5	(4.1)	(0.16)	0.0	N/A	N/A
12/18e	6.5	(4.6)	(0.18)	0.0	N/A	N/A

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

EU: Driving uptake through a multi-pronged strategy

Treatment of patients with NanoTherm therapy resulted in a small increase in associated FY16 revenues to €176k (2015: €155k), out of total FY16 revenues of €474k (FY15:€2.6m). MagForce plans to drive treatment through roll-out across Europe, improved cross-border reimbursement, better clinical awareness and seeking German reimbursement. Attracting cross-border patients has proven problematic; broader EU roll-out remains vital to driving EU NanoTherm revenues.

US: Awaiting an FDA decision

In FY16, MagForce USA updated its pre-clinical NanoTherm trials to meet FDA requirements and will look to continue its discussions in H217 as it aims for Investigational Device Exemption (IDE) approval. MagForce seeks to commercially launch its NanoTherm therapy for prostate cancer into the US in 2018 and in 2016 established a second clinical site in Texas (CHRISTUS Santa Rosa Hospital).

Financials: Post-period activity strengthens cash

MagForce's cash position was strengthened post FY16 via various measures by a gross €13.4m. This was done to improve general liquidity and to enable the roll-out of devices throughout the EU. FY16 net loss increased to €7.2m for MagForce AG (FY15: €1.5m), mainly as a result of large one-off revenues in FY15 and increased other operating expenses in FY16 (mainly driven by non-cash impairment of an intercompany loan). Apart from adjusting for the fund raisings, our financial forecasts are largely unchanged.

Valuation: €226m (€8.6/share)

We value MagForce at €226m or €8.6 per MagForce AG share (previously €225m (8.8/share), based on a risk-adjusted NPV analysis. We have rolled forward our model and updated it to reflect FY16 results and post market equity & debt fundraises. Net cash now takes into account the post period gross €8.4m raised in debt and gross €5m in equity.

Healthcare equipment & services

13 July 2017

Price €7.06
Market cap €186m

Last reported net cash (€m) as of 31 December 2016 €0.6m

Shares in issue 26.3m

Free float 70%

Code MF6

Primary exchange Frankfurt

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (7.6) 22.4 46.1

Rel (local) (7.1) 17.8 15.3

52-week high/low €9.1 €4.0

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.

Next events

US prostate cancer IDE approval H217

Start of US prostate cancer trial H217

Further NanoActivator installations H217

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FY16 results and funding update

The net loss for FY16 was €7.2m for MagForce AG (FY15: €1.5m) mainly as a result of a one-off revenue gain in FY15. FY16 revenue of €474k (FY15: €2.6m) was driven by sales of the ambulatory NanoActivator device (€217k) and NanoTherm to MagForce USA (€81k). Treatment of patients with NanoTherm therapy in the EU resulted in a small increase in associated FY16 revenues to €176k (2015: €155k). Higher FY15 revenues were a result of the sale of four NanoActivators to MagForce USA for €2.4m.

MagForce AG reported other operating income of €1.1m in FY16, which was largely related to €939k in recharges to subsidiaries. FY15 was substantially higher as other operating income was reported at €5.1m. This was chiefly attributable to the extension of distribution rights to MagForce US (€3.03m) and appreciation in the value of loans against MT MedTech Engineering (€803k). Cost of materials decreased to €39k (FY15: €2.3m) and was mainly attributed to the sale of four NanoActivators (€2.3m) in FY15 to MagForce USA. Purchased services decreased slightly to €536k (FY15: €620k), largely due to both a decrease in the post-marketing clinical trial costs to €57k (FY15: €466k) and an increase in purchased services of €161k (FY15: €0) for development of the ambulatory NanoActivator device (for prostate cancer treatment).

Net cash as of 31 December 2016 was €614k. Post period MagForce AG raised €13.4m gross via debt and equity. In February, Lipps & Associates LLC granted a loan of €400k to MagForce. The loan is due on 30 June 2019 and has a 5% interest rate. In June, a further US\$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% a year and a conversion price of €5/share. In June, MagForce AG raised €5m via a capital raise with M&G International Investments, placing 0.7m shares at €6.94.

Apart from adjusting for the fund raisings, our financial forecasts are largely unchanged. For details of our assumptions, see [Outlook note](#) of May 2017.

Valuation

Our updated valuation is €226m or €8.6 per MagForce AG share (previously €225m (8.8/share), based on a risk-adjusted NPV analysis. We have rolled forward our model and updated it to reflect FY16 results and post market equity & debt fundraises. Net cash now takes into account the post period gross €8.4m raised in debt and gross €5m in equity. The increase in shares as a result of the M&G capital raise has slightly diluted the per share value. The breakdown of our rNPV valuation, which uses a 12.5% discount rate, is shown in Exhibit 1. For a full breakdown of our valuation please see our [outlook note](#) published in May.

Exhibit 1: MagForce AG risk-adjusted NPV valuation

Product	Indication	Launch	Peak sales (€m)	Peak sales (\$m)	NPV (€m)	Probability	MagForce AG beneficial interest	rNPV (€m)	rNPV/share (€)
NanoTherm EU	GBM - Germany	2015	10	11	31.2	100%	100%	31.2	1.2
	GBM - broader use	2017	65	72	91.7	65%	100%	59.6	2.3
NanoTherm US	Prostate cancer	2018	191	210	241.5	70%	77%	130.0	4.9
Net cash (AG)					13.6	100%	100%	(2.8)	(0.1)
Net cash (US)					10.0	100%	77%	7.7	0.3
Valuation					375.0			225.7	8.6

Source: Edison Investment Research. Note: Peak sales are rounded to the nearest €5m/\$5m for original currency.

Exhibit 2: Financial summary

	€'000s	2015	2016	2017e	2018e
December		HGB	HGB	HGB	HGB
PROFIT & LOSS					
Revenue		2,576	474	3,450	6,486
Cost of Sales		(2,959)	(574)	(2,756)	(4,247)
Gross Profit		(383)	(101)	694	2,239
EBITDA		(4,421)	(6,554)	(3,849)	(4,337)
Operating Profit (before amort. and except.)		(4,871)	(7,456)	(4,194)	(4,753)
Intangible Amortisation		(5)	(5)	(2)	(0)
Exceptionals		3,000	0	0	0
Other		0	0	0	0
Operating Profit		(1,876)	(7,461)	(4,197)	(4,753)
Net Interest		329	231	76	121
Profit Before Tax (norm)		(4,542)	(7,225)	(4,119)	(4,632)
Profit Before Tax (reported)		(1,547)	(7,230)	(4,121)	(4,632)
Tax		(0)	(1)	0	0
Profit After Tax (norm)		(4,542)	(7,226)	(4,119)	(4,632)
Profit After Tax (reported)		(1,547)	(7,231)	(4,121)	(4,632)
Average Number of Shares Outstanding (m)		25.6	26.0	26.3	26.3
EPS - normalised (c)		(0.18)	(0.28)	(0.16)	(0.18)
EPS - normalised and fully diluted (€)		(0.18)	(0.28)	(0.16)	(0.18)
EPS - (reported) (€)		(0.06)	(0.28)	(0.16)	(0.18)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	20.1	34.5
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		19,533	18,742	20,097	21,076
Intangible Assets		7	3	0	0
Tangible Assets		4,494	3,706	5,064	6,043
Investments		15,033	15,033	15,033	15,033
Current Assets		5,325	1,536	9,430	6,683
Stocks		81	71	226	349
Debtors		91	71	1,890	3,554
Cash		1,393	614	6,534	2,000
Other		3,760	780	780	780
Current Liabilities		(1,779)	(4,431)	(5,116)	(5,948)
Creditors		(1,779)	(4,431)	(5,116)	(5,948)
Short term borrowings		0	0	0	0
Long Term Liabilities		(197)	(197)	(8,146)	(10,177)
Long term borrowings		0	0	(7,948)	(9,980)
Other long term liabilities		(197)	(197)	(197)	(197)
Net Assets		22,881	15,650	16,266	11,634
CASH FLOW					
Operating Cash Flow		(8,808)	(1,078)	(5,138)	(5,292)
Net Interest		329	231	76	121
Tax		(0)	(1)	0	0
Capex		(1,357)	(115)	(1,704)	(1,395)
Acquisitions/disposals		0	0	0	0
Financing		0	0	5,000*	0
Dividends		0	0	0	0
Net Cash Flow		(9,837)	(963)	(1,765)	(6,565)
Opening net debt/(cash)		(11,153)	(1,393)	(614)	1,414
HP finance leases initiated		0	0	0	0
Other		77	184	(263)	(0)
Closing net debt/(cash)		(1,393)	(614)	1,414	7,980

Source: MagForce, Edison Investment Research. Note: Historical and forecast cash flow numbers are Edison estimates as Magforce does not publish a statement of cash flows. All financial data is on an unconsolidated basis and does not include MagForce USA.

*Gross equity proceeds

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