

MagForce AG ^{*5a,6a,11}

BUY

Target Price: 15.30 €
(until now: 15.80 €)

Current price: 6.09
06/11/18 / XETRA / 12:05 am
Currency: EUR

Key information:

ISIN: DE000A0HGQF5
WKN: A0HGQF
Ticker symbol: MF6
Number of shares³: 26.34
Marketcap³: 160.43
EnterpriseValue³: 145.31
³ in € million

Transparency level:
Scale
Market segment:
Freiverkehr
Accounting standard:
HGB

Financial year-end: 31/12.

Designated Sponsor:
Hauck & Aufhäuser

Analyst:

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* catalogue of potential conflicts of interests on page 6

Date (time) of completion:
06/11/18 (5:25 pm)

Date (time) of first distribution:
07/11/18 (10:00 am)

Target price valid until: max.
31/12/2019

Company profile

Sector: Medical Technology

Specialty: Cancer Treatment

Employees: 25 Status: 30/06/2018

Founded: 1997

Registered Office: Berlin

Executive Board: Dr. Ben J. Lipps, Prof. Dr. Hoda Tawfik,
Christian von Volkmann



By its own account, MagForce AG, located in Berlin, is a leading company in the field of nanomedicine with a focus on cancer treatment. The NanoTherm[®] therapy developed by the company is said to be suitable for the local treatment of almost all solid tumours. The treatment is based on heat that is created by the activation of injected super-paramagnetic nanoparticles. The components of this therapy, the medical devices NanoTherm[®], NanoPlan[®], the thermometric catheter TK01, NanoActivator[®] with the thermometric unit are certified across the EU for the treatment of brain tumours. The objective of the new cancer treatment is to establish itself as a further pillar of cancer therapy alongside conventional treatment methods such as surgery, radiation and chemotherapy. According to available data, the NanoTherm therapy displays a promising degree of efficacy as well as being well-tolerated.

P&L in EURm	2017	2018e	2019e	2020e	2021e	2022e
Sales	0.72	0.79	8.58	52.44	104.20	121.20
EBITDA	-6.74	0.88	-7.67	-3.64	46.63	54.29
EBIT	-7.41	0.71	-7.84	-3.81	46.46	54.12
Net profit before minorities	-7.47	0.06	-8.71	-5.06	45.56	38.17

Per Share Figures in EUR

Earnings per share	-0.28	0.00	-0.33	-0.19	1.73	1.45
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Key Figures

EV/Sales	201.82	183.93	16.94	2.77	1.39	1.20
EV/EBITDA	neg.	neg.	neg.	neg.	3.12	2.68
EV/EBIT	neg.	neg.	neg.	neg.	3.13	2.68
P/B before minorities	neg.	neg.	neg.	neg.	3.52	4.20

Financial dates

26-28/10/2018: Eigenkapitalforum Frankfr

**last research published by GBC:

Date: Publication / Target Price in EUR / Rating

10/08/2018: RS / 15.80 / BUY

04/07/2018: RS / 15.80 / BUY

06/03/2018: RS / 15.80 / BUY

24/08/2017: RS / 15.00 / BUY

** the research reports can be found on our website www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II"

OPERATIVE DEVELOPMENT 1ST HALF-YEAR 2018

in Mio. €	1.HJ 2015	1.HJ 2016	1.HJ 2017	1.HJ 2018
Sales	1.29	0.59	0.68	0.02
Total Income	3.69	0.75	1.29	9.22
EBIT	0.36	-3.38	-3.00	5.31
Net profit	0.53	-3.19	-3.02	4.11

Source: MagForce AG; GBC AG

In the first half of 2018, MagForce AG made significant progress on the European roll-out plan for the treatment of brain tumors by signing the first collaboration agreement with a one of the most prestigious brain tumor treatment centers in Poland, negotiations with Italian hospitals are ongoing. In the USA, MagForce received FDA Investigational Device Exemption approval to conduct a clinical trial with NanoTherm therapy as Focal Ablation Treatment for Intermediate Risk Prostate Cancer. Recruitment in the trial and patient treatments are underway at the two trial sites, the CHRISTUS Santa Rosa Hospital - Medical Center and the University of Washington. In Europe, the Company is pursuing the strategy of an international roll-out of its own technology, mobile NanoActivator devices to the relevant cooperating hospitals. A mobile solution for the placement of the treatment devices has been developed as part of this strategy. As a result, the first mobile NanoActivator should be installed in the clinic at the Medical University of Lublin (Poland) by the end of the current financial year. A cooperation agreement was signed with this clinic in June 2018. In addition to the 5 devices already installed in Germany, the aim is to equip clinics in other countries, such as Italy or Spain, with mobile glioblastoma treatment solutions in order to get “closer” to patients.

Alongside the further intensification of commercial treatment for glioblastoma patients, at the start of this financial year MagForce AG received approval from the FDA to carry out a clinical study for the treatment of prostate cancer in the USA. The first patient was recruited in July 2018, after the end of the reporting period. The study is still expected to be completed in the second half of 2019 and the subsequent commercialisation phase should take place in late 2019. The aim of the study is to demonstrate that prostate cancer that has reached the intermediate stage can be destroyed using NanoTherm treatment with minimal side effects.

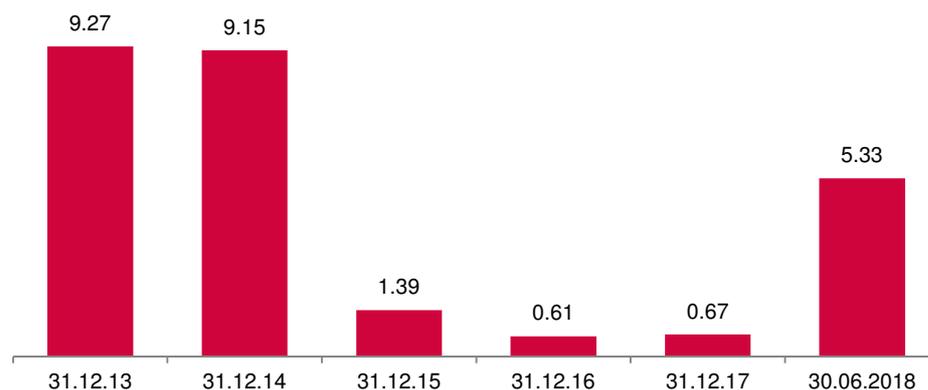
At the current stage, commercial revenues are still low at €0.02 million (previous year: €0.68 million) as expected. The fact that MagForce AG has nonetheless been able to achieve a significant increase in earnings with a rise in EBIT of €5.31 million (previous year: -€3.00 million) can be attributed to a one-off effect from the realisation of hidden reserves. This was due to a transfer of shares in the US company MagForce USA to the wholly owned German subsidiary MagForce USA Holding GmbH, which resulted in a realisation of €8.78 million in hidden reserves. It is therefore a one-off, cash-neutral accounting effect.

In the current phase of the business, which is still characterised by very low commercialisation revenue, we attach greater importance to the analysis of the cash position. While the liquidity outflow from operating business rose to -€4.01 million (-€3.15 million) owing to the implementation of the above-mentioned measures, the cash flow from financing activities remained high at €9.19 million (previous year: €10.29 million). This includes the first tranche of the EIB (European Investment Bank) funding agreed in the last financial year, which was paid out in January 2018 and amounted to approximately €10 million. In accordance with the EIB funding agreement, MagForce AG will be able to take out loans of up to €35 million in total over over the next three years, providing the Company with sufficient means for the planned technology roll-out in Europe. Alongside this, the financing capacity of the US subsidiary MagForce USA was significantly increased by means

of a capital increase of USD 9.0 million in August 2018. In our opinion, this should be enough to fund both the European roll-out (glioblastoma) and the clinical study in the USA (prostate).

As at 30 June 2018, liquid assets amounted to €5.33 million (31 December 2017: €0.67 million). These could be increased considerably with additional EIB tranches, thereby significantly extending the cash reach.

Development of liquid assets (in €m)



Source: MagForce AG; GBC AG

Forecasts and model assumptions

in €m	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Sales	0.79	8.58	52.44	104.20	121.20	135.40	155.60	180.41
EBITDA	0.88	-7.67	-3.64	46.63	54.29	60.72	69.78	80.74
EBIT	0.71	-7.84	-3.81	46.46	54.12	60.55	69.61	80.57
Net profit before minorities	0.06	-8.71	-5.06	45.56	38.17	42.38	48.73	56.40

Source: GBC AG

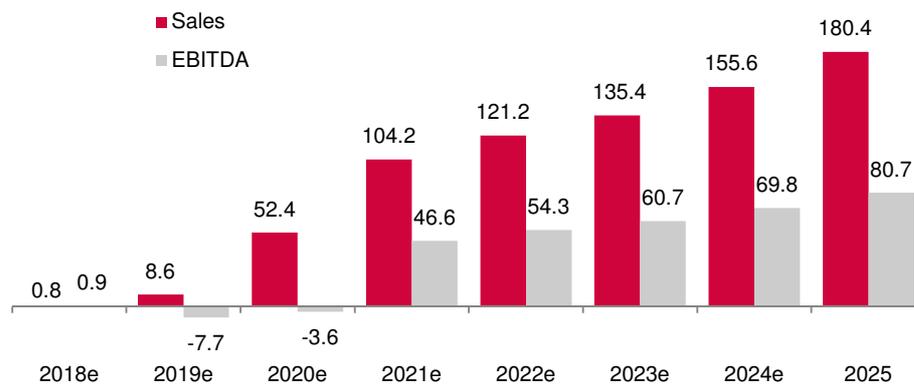
Our previous estimates had assumed, in line with the Company guidance, a considerable increase in the operating loss compared to the 2017 financial year (see the research study dated 25 May 2018). Due to the one-off income from the realisation of hidden reserves, however, the Company will show a significant improvement in the operating profit situation, and we have therefore raised the profit forecasts for the current 2018 financial year. Nonetheless, our DCF valuation model takes into account the fact that this is due to a cash-neutral effect, and therefore does not affect our cash-flow-based model.

The forecasts for the coming financial years remain valid thanks to the continued positive outlook and the confirmed approval schedule. The basis for this remains the planned roll-out of NanoTherm technology in Europe, more specifically in Poland, Italy, Spain and Germany. The mobile solution, which eliminates the need for permanent and relatively costly installation in the treatment centres, has now been developed and the technical requirements have been met. The readiness of the treatment centres to cooperate on the deployment of MagForce technology should increase significantly, particularly because of the associated reduction in risk for the user.

Another important aspect of the European roll-outs is the planned reimbursement of costs by the insurance companies, as the treatment is currently still financed privately or by individual request to the health insurance provider. Reimbursement studies are to be carried out in this regard in the countries targeted, with low costs expected in each case.

The approval process for prostate treatment, which is still expected to be completed in the second half of 2019, is also proceeding as planned. Once the pivotal studies at the two treatment centres in Seattle and San Antonio have begun, the first results could even be published as early as in the first quarter of 2019. After an evaluation phase, we expect the start of the commercial treatment towards the end of the coming financial year 2019. In parallel to this, MagForce AG is expected to include further hospitals in addition to the two treatment centres that are currently part of the project, making timely, comprehensive treatment possible. In this regard, both the production of NanoTherm® and the significantly smaller NanoActivator® devices required for prostate treatment are to be promoted.

Forecast sales and EBITDA (in €m)



Source: GBC AG

The conclusion of further cooperation agreements in Europe and the expected market approval for the treatment of prostate cancer in the USA should lead to the generation of the first significant revenues in the coming financial year. The Company should be able to show a rapid increase in the sales volume in the 2020 financial year. This is based on the inclusion of revenues in the US over the entire year and an expected rise in patient requests in Europe.

According to our expectations, break-even on EBITDA level will only be achieved in financial year 2021. In principle, we expect a relatively high level of profitability (EBITDA margin: approx. 45%), as high economies of scale are likely to be achieved given stable conditions. This forms the basis for our DCF valuation model.

Under the DCF valuation model, we have established a target price of €15.30 (previously: €15.80). The drop in the target price reflects the reduction in the participating interest in the US subsidiary MagForce USA to 67.9% (previously: 76.9%). This dilutive effect was caused by the capital increase of the subsidiary carried out in August 2018. Based on the current share price of EUR 6.09, we are maintaining our BUY rating.

ANNEX

I.

Research under MiFID II

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2. The research report is simultaneously made available to all interested investment services companies.

II.

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Other person involved:

Jörg Grunwald, Board member

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