



Independent Research

Unabhängige Finanzmarktanalyse GmbH

Research Note

MOLOGEN AG

**Capital increase and final results
of clinical phase Ib trial for MGN1703**

06/18/2010

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Final results of phase Ib clinical trial**Capital increase secures financing of trials****MOLOGEN AG 6)****Recommendation: Buy****before:** -
as of: -

- ⇒ In our opinion, the final results of the clinical phase Ib trial for MGN1703 for colorectal cancer (CRC) presented by MOLOGEN provide another indication for the drug's efficacy. The group confirmed the achievement of the primary end point (safety and tolerability).
- ⇒ In the multiple-dosage group of the study (up to 2x60 mg per week) including 24 patients, 9 (before: 6) patients showed a stable disease following the first six-week treatment cycle. MOLOGEN confirmed that 3 out of the 6 patients who received the second six-week treatment reported a continued stabilisation of the disease.
- ⇒ The results of the four patients joining the compassionate use program (another six-week multiple-dosage therapy, which is not part of the official study) were surprisingly positive. For 3 out of 4 patients the disease could be stabilised over extended periods: a patient with colorectal cancer was stabilised for 14 months (with a reduction of the metastases). It has to be emphasized that the disease in a patient with advanced non-small cell lung cancer (NSCLC) has now been stabilised for a total of 21 months. This positive indications of efficacy had not been expected in the phase Ib study. However, it has to be referred to the fact that due to the small number of patients the efficacy may be a coincidence.
- ⇒ On June 11, 2010, MOLOGEN completed a capital increase issuing 500,000 new shares at an issuing price of EUR8.50 each (gross issuing proceeds: EUR4.25m; dilutive effect: 4.7%). The existing pro-forma liquidity of EUR8.77m as of March 31, 2010, ought to be sufficient to support the financing of the operating business activities until June 2011 at least. In our view, the R&D costs for the prioritised phase II trial for MGN1703 (CRC) and the combined phase I/II trial for MGN1601 (RCC) are covered.

Price target (in EUR) (6 months)	14.80
Share price(Xetra) (in EUR) 06/16/10 5:24 PM	8.70
Share price potential	70.15%

Company date

Country	GE
Sector	Biotechnology
Market segment	Prime Standard
ISIN	DE0006637200
Reuters	MGNG.DE
Bloomberg	MGN
Internet	www.molgen.com

Data shares

Shares (m)	11.155
Freefloat	41.00%
Market cap. (EURm)	97.0
∅ Trading volume	9,437
52W High 06/04/10	EUR10.00
52W Low 09/14/09	EUR6.25
Beta	1.5
Volatility (60 days)	33.20

Multiples

	EV/Sales	EV/EBIT	P/E ratio	Dividend yield
2007	350.2	neg.	neg.	0.0%
2008	265.6	neg.	neg.	0.0%
2009	1296.0	neg.	neg.	0.0%
2010E	210.4	neg.	neg.	0.0%
2011E	5.8	15.5	18.9	0.0%

Performance (in %)

	1m	3m	6m	12m
absolut	-0.5	-11.2	22.3	16.0
related to:				
DAX	-2.5	-13.5	15.5	-10.1
Prime Pharma	-5.7	-16.5	9.6	-13.3

Index weighting

CDAX	0.008%
Prime Pharma	0.188%

**Author: S. Röhle (analyst)**

AP	FY	Sales	EBIT	EBT	EAT	EPS
IFRS	2007	0.15	-6.78	-6.47	-6.47	-0.71
IFRS	2008	0.21	-6.30	-6.09	-6.09	-0.65
IFRS	2009	0.05	-6.35	-6.28	-6.28	-0.64
IFRS	2010E	0.42	-8.13	-8.13	-8.13	-0.75
IFRS	2011E	15.13	5.70	5.70	5.13	0.46
CAGR 2007 - 2011E		216.9%	-	-	-	-

Figures in EURm except EPS, hist. PERs based on average share prices

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- ⇒ In our view, MOLOGEN has of the financial basis to prepare the phase II study for the second dSLIM indication (currently evaluating the indication tending towards prostate cancer) and to start it in 2011.
- ⇒ In our view, the efficacy indications for MGN1703 confirm our evaluation that the probability to achieve the primary end point in the phase II trial has increased. The results may also strengthen the interest of major pharmaceutical groups in the MOLOGEN technology, so that licensing the drug before the end of the phase II trial seems possible.
- ⇒ In the last few days, also the MOLOGEN share came under pressure. In our view, this is due to the capital increase. As a result of the expected positive news flow (e.g. inclusion of the first patient in the phase II study for MGN1703), we see upside potential for the share. Due to the dilutive effect we adjust our EPS forecasts for 2010 to EUR-0.75 (before: -0.76) and for 2011 to EUR+0.46 (before: +0.48). Taking into account the capital increase, we calculate a fair value of equity of EUR165.17m (before: 159.89). Based on 11.155m (before: 10.655) shares, this corresponds to EUR14.81 (before: 15.01) per share. At a new price target of EUR14.80 (before: 15.00) we stick to our Buy recommendation.

DCF model MOLOGEN AG										
in EURm	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Sales	0.42	15.13	2.37	39.12	30.85	69.62	87.20	91.84	119.32	122.58
Sales growth	692.5%	3501.4%	-84.4%	1553.0%	-21.2%	125.7%	25.2%	5.3%	29.9%	2.7%
EBIT margin	neg.	37.7%	neg.	75.9%	63.2%	74.1%	75.2%	74.4%	75.8%	74.8%
EBIT	-8.13	5.70	-5.11	29.69	19.51	51.59	65.53	68.35	90.41	91.72
- Income tax	0.00	-0.57	0.82	-5.94	-5.85	-15.48	-19.66	-20.50	-27.12	-27.52
+ Depreciation	0.48	0.49	0.50	0.52	0.55	0.58	0.61	0.64	0.67	0.70
+/- Change in long-term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
+/- Other	0.53	0.66	0.82	1.03	1.28	1.60	2.00	2.50	3.13	3.91
Operating cash flow	-7.12	6.27	-2.97	25.30	15.49	38.29	48.48	50.98	67.09	68.82
-/+ Change in working capital	-0.01	-0.45	-0.07	-1.17	-0.93	-2.09	-2.62	-2.76	-3.58	-3.68
-/+ Net capital expenditure	-0.15	-0.20	-0.25	-0.30	-0.27	-0.44	-0.49	-0.51	-0.58	-0.59
Free cash flow	-7.28	5.62	-3.29	23.83	14.29	35.77	45.37	47.72	62.93	64.55
Present values	-6.64	4.31	-2.13	12.97	6.55	13.80	14.74	13.06	14.50	12.52
Sum of present values	83.69									
Terminal value	72.85									
									in % of total value:	47%
Value of operating business (EURm)	156.54									
+ Excess cash (EURm)	8.64									
- Financial debt (EURm)	0.00									
Fair value of equity (EURm)	165.17									
Number of shares (m)	11.155									
Fair value per share in EUR	14.81									

Model parameters / Entity DCF model:

Long-term capital structure ->	Equity:	70%	Financial debt:	30%	
Risk free rate of return:	4.0%	Beta:	1.5	Risk premium debt:	8.5%
		Risk premium:	10.0%	Tax shield:	0%
		Cost of equity:	19.2%	Cost of debt:	12.5%
Growth rate FCF:	0.0%	WACC :	17.2%	Date:	06/17/10

Source: Independent Research

Sensitivity analysis (in EUR)					
		Discount rate			
		16.7%	17.2%	17.7%	18.2%
Growth	0.0%	15.60	14.81	14.07	13.38
	0.5%	15.85	15.04	14.27	13.57
	1.0%	16.12	15.28	14.49	13.76
	1.5%	16.41	15.54	14.73	13.97

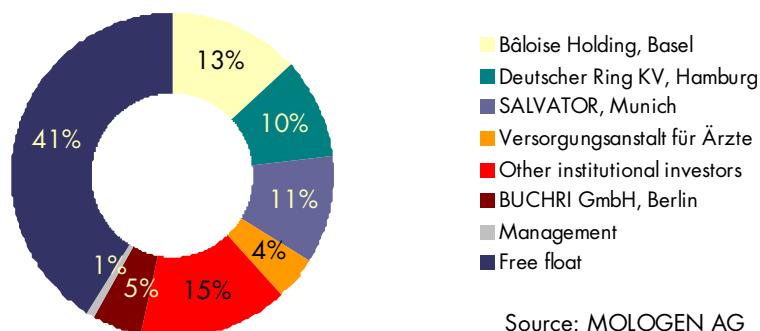
Source: Independent Research

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MOLOGEN AG													
Profit and loss account													
Unit: End of fiscal year: Reporting standard:	EURm Dec 31	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
	IFRS												
Revenue		0.21	0.05	0.42	15.13	2.37	39.12	30.85	69.62	87.20	91.84	119.32	122.58
yoy in %		40.0%	-74.8%	692.5%	>100%	-84.4%	1553.0%	-21.2%	125.7%	25.2%	5.3%	29.9%	2.7%
Others		0.21	0.05	0.12	0.13	0.13	0.14	0.15	0.15	0.16	0.17	0.18	0.19
MGN1601/dSLIM, MIDGE RCC		-	-	-	-	-	15.00	0.00	7.50	26.99	9.04	13.64	18.30
MGN1703/dSLIM CRC		-	-	-	15.00	0.00	7.50	28.45	23.96	36.15	48.49	60.97	49.07
MGN1706/dSLIM PC		-	-	-	-	0.00	15.00	0.00	34.99	20.07	30.29	40.63	51.09
Leishmaniasis (vet)		-	-	0.30	-	2.23	1.48	2.25	3.03	3.82	3.86	3.90	3.94
Other operating income		0.04	0.31	0.45	0.75	0.17	0.18	0.20	0.22	0.24	0.27	0.29	0.32
Increase/decrease in stocks finished products		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross profit		0.25	0.36	0.87	15.88	2.53	39.30	31.05	69.84	87.44	92.11	119.61	122.90
Research & Development		-1.75	-2.17	-3.91	-4.99	-2.15	-3.49	-4.63	-10.44	-13.08	-13.78	-17.90	-18.39
Others		-	-	-0.20	-0.20	-1.50	-3.39	-4.63	-10.44	-13.08	-13.78	-17.90	-18.39
MGN1601/dSLIM, MIDGE RCC		-	-	-0.40	-0.55	-0.55	-0.10	-	-	-	-	-	-
MGN1703/dSLIM CRC		-	-	-1.71	-0.94	-	-	-	-	-	-	-	-
MGN1706/dSLIM PC		-	-	-1.60	-3.30	-0.10	-	-	-	-	-	-	-
Leishmaniasis (vet)		-	-	-	-	-	-	-	-	-	-	-	-
General R&D and Administrative		-4.80	-4.54	-5.09	-5.19	-5.49	-6.12	-6.91	-7.81	-8.83	-9.99	-11.30	-12.80
Salaries		-2.08	-2.25	-2.36	-2.48	-2.72	-3.06	-3.52	-4.05	-4.66	-5.36	-6.16	-7.09
Amortization		-0.51	-0.47	-0.48	-0.49	-0.50	-0.52	-0.55	-0.58	-0.61	-0.64	-0.67	-0.70
Other operating expenses		-2.21	-1.82	-2.25	-2.22	-2.26	-2.54	-2.84	-3.18	-3.56	-3.99	-4.47	-5.00
Operating Expenses		-6.55	-6.71	-9.00	-10.18	-7.64	-9.61	-11.54	-18.25	-21.91	-23.76	-29.20	-31.18
EBIT		-6.30	-6.35	-8.13	5.70	-5.11	29.69	19.51	51.59	65.53	68.35	90.41	91.72
in % of revenues		neg.	neg.	neg.	37.7%	neg.	75.9%	63.2%	74.1%	75.2%	74.4%	75.8%	74.8%
Financial result		0.21	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBT		-6.09	-6.28	-8.13	5.70	-5.11	29.69	19.51	51.59	65.53	68.35	90.41	91.72
in % of revenues		neg.	neg.	neg.	37.7%	neg.	75.9%	63.2%	74.1%	75.2%	74.4%	75.8%	74.8%
Income taxes		0.00	0.00	0.00	-0.57	0.82	-5.94	-5.85	-15.48	-19.66	-20.50	-27.12	-27.52
in % of EBT		0.0%	0.0%	0.0%	-10.0%	-16.0%	-20.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%
EBT (and minority interests)		-6.09	-6.28	-8.13	5.13	-4.29	23.75	13.65	36.11	45.87	47.84	63.29	64.20
in % of revenues		neg.	neg.	neg.	33.9%	neg.	60.7%	44.3%	51.9%	52.6%	52.1%	53.0%	52.4%
Minority interests		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Change of the accounting method		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net profit/loss for the year		-6.09	-6.28	-8.13	5.13	-4.29	23.75	13.65	36.11	45.87	47.84	63.29	64.20
in % of revenues		neg.	neg.	neg.	33.9%	neg.	60.7%	44.3%	51.9%	52.6%	52.1%	53.0%	52.4%
Weighted average number of shares (m)		9.356	9.849	10.891	11.155	11.155	11.155	11.155	11.155	11.155	11.155	11.155	11.155
EPS (in EUR)		-0.65	-0.64	-0.75	0.46	-0.38	2.13	1.22	3.24	4.11	4.29	5.67	5.76

Source: Independent Research, MOLOGEN AG

Shareholder structure of MOLOGEN



Source: MOLOGEN AG

1)2)3)4)6) Please notice the advice regarding possible conflicts of interests as well as the disclaimer at the end of this document

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Recommendations concerning particular shares (starting December 18, 2009)

- Buy: According to our assessment, the stock will rise by at least 15% in absolute terms within a 6-month period.
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- Sell: According to our assessment, the stock will decline in absolute terms within a 6-month period.

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- Accumulate: According to our assessment, the stock will rise by between 0% and 15% in absolute terms within a 6-month period.
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- Sell: According to our assessment, the stock will decline by least 15% in absolute terms within a 6-month period.

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As at: 06/18/2010

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