



Independent Research

Unabhängige Finanzmarktanalyse GmbH

Research Note

MOLOGEN AG

Phase II clinical trial for MGN1703 approved

03/11/2010

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First indication in Phase II**Clinical Phase II trial approved****MOLOGEN AG 6)****Recommendation: Buy****before:** -
as of: -

- ⇒ MOLOGEN has received approval from the German and Austrian health authorities to carry out a Phase II clinical trial for MGN1703 for colorectal cancer (CRC). The approval from the German and Austrian authorities is of special significance as by far the most of the total 120 to 130 patients to be enrolled in the clinical trial are to receive treatment in these countries.
- ⇒ Approval from the respective ethics committees is still pending. According to CFO Petraß, MOLOGEN expects a positive decision soon. The ethics committees had already been involved in the development of the study design (double-blinded, placebo-controlled, multicenter study with patients suffering from metastasising cancer of the large intestine and rectum). Other European countries (e.g. Russia) are to be involved in the clinical trial as well.
- ⇒ Initiation of the Phase II trial of MGN1703 is scheduled for late March or early April 2010. First interim results are expected after ten months (i.e. at the beginning of 2011) and final results after 18 to 24 months. If the interim results are promising, MOLOGEN plans to transfer the Phase II trial into licensing relevant study (Phase III). In that case, the duration of the study is extended to up to three years in total.
- ⇒ In our opinion, approval of the trial is an important step as MGN1703 is MOLOGEN's first drug in a Phase II clinical trial. Since the results of the Phase Ib trial (proof of safety and tolerability of high dosage of 60 mg; indications of efficacy) were better than expected, we believe that it has become more likely that the Phase II trial will achieve the primary end point (proof of concept). Apart from that, CFO Petraß assumes that the company will receive approval to carry out a combined Phase I/II trial of the cell-based gene therapy for renal cell cancer (MGN1601) in mid-2010.

Price target (in EUR) (6 months)	15.00
Share price(Xetra) (in EUR) 03/09/10 10:09 AM	8.94
Share price potential	67.79%

Company date

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

Data shares

Shares (m)	10.655
Freefloat	41.20%
Market cap. (EURm)	95.3
∅ Trading volume	7,874
52W High 03/03/10	EUR9.35
52W Low 03/13/09	EUR5.75
Beta	1.5
Volatility (60 days)	40.32

Multiples

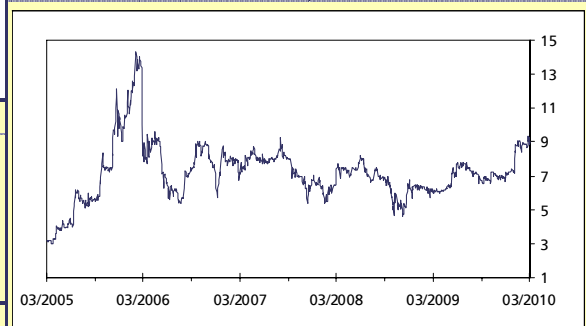
	EV/Sales	EV/EBIT	P/E ratio	Dividend yield
2007	350.2	neg.	neg.	0.0%
2008	265.6	neg.	neg.	0.0%
2009E	179.5	neg.	neg.	0.0%
2010E	728.8	neg.	neg.	0.0%
2011E	5.0	11.2	13.6	0.0%

Performance (in %)

	1m	3m	6m	12m
absolut	0.6	25.1	36.5	50.1
related to:				
DAX	-5.6	21.1	29.5	-1.1
Prime Pharma	-6.8	17.0	16.9	12.9

Index weighting

CDAX	0.008%
Prime Pharma	0.185%

**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	2009E	0.36	-5.51	-5.51	-5.51	-0.56
IFRS	2010E	0.12	-10.75	-10.75	-10.75	-1.01
IFRS	2011E	17.35	7.79	7.79	7.01	0.66
CAGR 2007 - 2011E		228.0%	-	-	-	-

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

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**

- ⇒ As of September 30, 2009, MOLOGEN's pro-forma liquidity position was EUR8.36m. Thus, the company's financing is presumably secured until the end of September 2010 at least. Furthermore, MOLOGEN has demonstrated its refinancing capabilities on the capital market in the past. Thanks to the stock's performance (3M: +25.1%), MOLOGEN might receive an additional up to EUR1.93m from exercise of stock options in 2010. In our view, this would enable MOLOGEN to initiate a Phase II trial of MGN1706 for prostate cancer in H2 2010.
- ⇒ In our opinion, the share price might be driven by the chance that the company will license out MGN1703 earlier than in 2011. So far, we assume an outlicensing agreement in 2011. Also, we expect the good newsflow to continue (e.g. initiation of Phase II trial of MGN1703). However, one should not disregard the risks that a research-based biotech company is faced with. Due to the progressing discounting period, our DCF model now produces an increased price target of EUR15.00 (before: 14.50). We maintain our Buy recommendation.

DCF model MOLOGEN AG										
in EURm	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Sales	0.12	17.35	16.60	24.86	45.05	67.87	87.20	91.84	119.32	122.58
Sales growth	-66.7%	14361.0%	-4.3%	49.8%	81.2%	50.7%	28.5%	5.3%	29.9%	2.7%
EBIT margin	neg.	44.9%	53.6%	56.6%	69.4%	73.3%	74.7%	74.0%	75.4%	74.4%
EBIT	-10.75	7.79	8.89	14.08	31.27	49.76	65.15	67.93	89.94	91.20
- Income tax	0.00	-0.78	-1.42	-2.82	-9.38	-14.93	-19.54	-20.38	-26.98	-27.36
+ 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	0.63	0.78	0.98	1.22	1.53	1.91	2.38	2.98	3.73	4.66
Operating cash flow	-9.65	8.28	8.94	13.01	23.96	37.31	48.59	51.16	67.35	69.20
-/+ Change in working capital	0.00	-0.52	-0.50	-0.75	-1.35	-2.04	-2.62	-2.76	-3.58	-3.68
-/+ Net capital expenditure	-0.15	-0.20	-0.25	-0.30	-0.42	-0.53	-0.60	-0.62	-0.71	-0.72
Free cash flow	-9.80	7.56	8.20	11.96	22.19	34.75	45.38	47.79	63.06	64.80
Present values	-8.53	5.54	5.06	6.21	9.71	12.80	14.07	12.48	13.87	12.00
Sum of present values	83.20									
Terminal value	69.80									
				in % of total value:	46%					
Value of operating business (EURm)	153.00									
+ Excess cash (EURm)	7.80									
- Financial debt (EURm)	0.00									
Fair value of equity (EURm)	160.79									
Number of shares (m)	10.655									
Fair value per share in EUR	15.09									

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: 03/10/10

Source: Independent Research

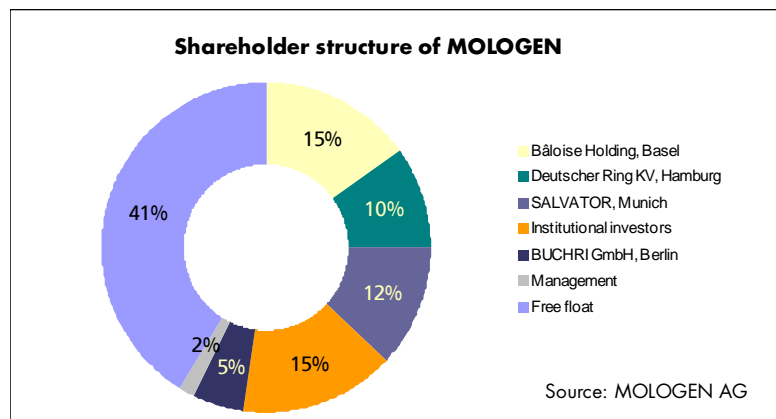
Sensitivity analysis (in EUR)					
		Discount rate			
		16.7%	17.2%	17.7%	18.2%
Growth	0.0%	15.91	15.09	14.33	13.61
	0.5%	16.17	15.32	14.53	13.80
	1.0%	16.44	15.56	14.75	14.00
	1.5%	16.73	15.82	14.99	14.21

Source: Independent Research

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MOLOGEN AG													
Profit and loss account													
Unit: End of fiscal year: Reporting standard:	EURm Dec 31 IFRS	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenue		0.21	0.36	0.12	17.35	16.60	24.86	45.05	67.87	87.20	91.84	119.32	122.58
yoy in %		40.0%	71.4%	-66.7%	>100%	-4.3%	49.8%	81.2%	50.7%	28.5%	5.3%	29.9%	2.7%
Others		0.21	0.06	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	34.41	23.96	36.15	48.49	60.97	49.07
MGN1706/dSLIM PC		-	-	-	-	15.00	0.00	7.50	32.48	20.07	30.29	40.63	51.09
Leishmaniasis (vet)		-	0.30	0.00	2.23	1.47	2.23	3.00	3.78	3.82	3.86	3.90	3.94
Other operating income		0.04	0.55	0.55	0.55	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	0.91	0.67	17.90	16.77	25.05	45.25	68.09	87.44	92.11	119.61	122.90
Research & Development		-1.75	-1.24	-6.13	-4.71	-2.14	-4.57	-6.76	-10.18	-13.08	-13.78	-17.90	-18.39
Others		-	-0.07	-0.08	-0.09	-0.10	-4.45	-6.76	-10.18	-13.08	-13.78	-17.90	-18.39
MGN1601/dSLIM, MIDGE RCC		-	-0.10	-0.40	-1.94	-1.94	-0.12	-	-	-	-	-	-
MGN1703/dSLIM CRC		-	-1.07	-3.20	-0.23	-	-	-	-	-	-	-	-
MGN1706/dSLIM PC		-	-	-2.45	-2.45	-0.10	-	-	-	-	-	-	-
Leishmaniasis (vet)		-	-	-	-	-	-	-	-	-	-	-	-
General R&D and Administrative		-4.80	-5.18	-5.29	-5.41	-5.73	-6.40	-7.22	-8.15	-9.21	-10.41	-11.77	-13.31
Salaries		-2.08	-2.19	-2.30	-2.41	-2.65	-2.99	-3.43	-3.95	-4.54	-5.22	-6.00	-6.91
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	-2.52	-2.51	-2.50	-2.58	-2.89	-3.24	-3.63	-4.06	-4.55	-5.10	-5.71
Operating Expenses		-6.55	-6.42	-11.42	-10.11	-7.87	-10.97	-13.98	-18.33	-22.29	-24.18	-29.67	-31.70
EBIT		-6.30	-5.51	-10.75	7.79	8.89	14.08	31.27	49.76	65.15	67.93	89.94	91.20
in % of revenues		neg.	neg.	neg.	44.9%	53.6%	56.6%	69.4%	73.3%	74.7%	74.0%	75.4%	74.4%
Financial result		0.21	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBT		-6.09	-5.51	-10.75	7.79	8.89	14.08	31.27	49.76	65.15	67.93	89.94	91.20
in % of revenues		neg.	neg.	neg.	44.9%	53.6%	56.6%	69.4%	73.3%	74.7%	74.0%	75.4%	74.4%
Income taxes		0.00	0.00	0.00	-0.78	-1.42	-2.82	-9.38	-14.93	-19.54	-20.38	-26.98	-27.36
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	-5.51	-10.75	7.01	7.47	11.26	21.89	34.83	45.60	47.55	62.96	63.84
in % of revenues		neg.	neg.	neg.	40.4%	45.0%	45.3%	48.6%	51.3%	52.3%	51.8%	52.8%	52.1%
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	-5.51	-10.75	7.01	7.47	11.26	21.89	34.83	45.60	47.55	62.96	63.84
in % of revenues		neg.	neg.	neg.	40.4%	45.0%	45.3%	48.6%	51.3%	52.3%	51.8%	52.8%	52.1%
Weighted average number of shares (m)		9.356	9.867	10.655	10.655	10.655	10.655	10.655	10.655	10.655	10.655	10.655	10.655
EPS (in EUR)		-0.65	-0.56	-1.01	0.66	0.70	1.06	2.05	3.27	4.28	4.46	5.91	5.99

Source: Independent Research, 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 should register an absolute profit of at least 15% within a 6-month period.
- Hold: According to our assessment, the stock should register an absolute profit between 0% and 15% within a 6-month period.
- Sell: According to our assessment, the stock should register an absolute loss within a 6-month period.

Recommendations concerning particular shares (until December 17, 2009)

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- Accumulate: According to our assessment, the stock should register an absolute profit between 0% and 15% within a 6-month period.
- Reduce: According to our assessment, the stock should register an absolute loss between 0% and 15% within a 6-month period.
- Sell: According to our assessment, the stock should register an absolute loss of at least 15% within a 6-month period.

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As at: 03/11/2010

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