



Independent Research

Unabhängige Finanzmarktanalyse GmbH

Investment Research

MOLOGEN AG

**Market segment: General Standard
Sector: Biotechnology**

Update

08/17/2007

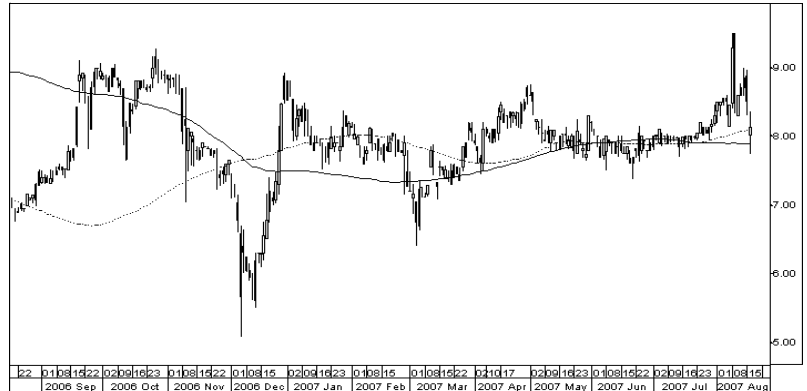
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MOLOGEN AG ⁴⁾Buy
Before: -**Event:**

Half-year 1 figures 2007

Recommendation:

Buy



IR	2	2	3
Rating	Growth	Investor Relation	Consistency

Author: Björn Wolber (analyst)

- ⇒ **HY1 2007 figures are strongly characterised by R&D activities. Within the scope of the extension of R&D activities, MOLOGEN reported a net income for the period of EUR-2.6m (-1.6) due to a lack of current sales (EURO.1m (0.1))**
- ⇒ **Liquid funds were raised to EUR10.1m (5.7), primarily by means of a capital increase. Cash burn of EURO0.6m per month was in line with our expectations**
- ⇒ **MOLOGEN has completed the preclinical studies and is about to file for the approval to commence the clinical studies necessary for market approval (phase Ia study dSLIM on CRC in parallel with phase IIa study dSLIM on CRC, phase I/II study Cell-based Gene Therapy dSLIM/MIDGE on RCC)**
- ⇒ **Based on our valuation model, we calculate a fair value of EUR13.80 per share for MOLOGEN. We confirm our recommendation to Buy**

MOLOGEN		Biotechnology		Performance (in %)				
Country	GE	Fiscal year	Dec./ 31	Rel. 1 Month	12.5			
Shares (m)	9.287	www.molgen.com		Rel. 3 Months	4.6			
∅ Trading Volume	14,201	Last dividend (EUR)	-	Rel. 6 Months	-1.1			
ISIN	DE0006637200	Payable day	-	Rel. 12 Months	-6.7			
Curr. Price (Xetra)	8.14 EUR	Market cap. (EURm)	75.6	Beta	1.5			
08/16/07 5:28 PM		Currency	EUR	Volatility (60 days)	38.5			
52W High	9.49	Date	08/08/07	CDAX	0.006%			
52W Low	5.10	Date	12/06/07					
Shareholders:	Absolute Capital Management Holding (22%), Prof. Dr. Burghardt Wittig (5%), SALVATOR Vermögensverwaltungs GmbH (11%), Free Float (62%)							
Investments:								
FY	Sales	EBIT	EBT	EAT	EPS	PER	EV/Sales 07e:	107.1
2005	847	-4,052	-4,388	-4,394	-0.53	neg.	EV/EBIT 07e:	neg.
2006	5,227	417	617	611	0.07	115.5	Dividend yield 06e:	-
2007e	800	-6,584	-6,409	-6,413	-0.70	neg.	CAGR Sales 05-09e:	94.4%
2008e	1,500	-8,717	-8,657	-8,661	-0.93	neg.	CAGR EBIT 05-09e:	-
2009e	12,100	-10,925	-10,975	-10,979	-1.18	neg.	CAGR EAT 05-09e:	-
Figures in EUR1,000 except EPS, hist. PERs based on average share prices								AS: IFRS

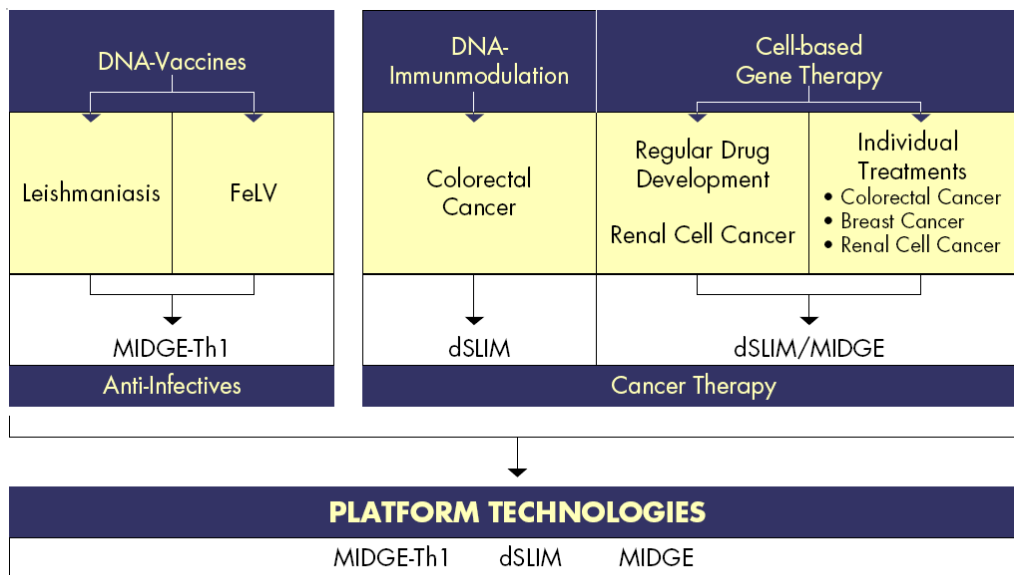
¹⁾²⁾³⁾⁴⁾ Please notice the advice regarding possible conflicts of interests as well as the disclaimer at the end of this document

Corporate profile

Development of novel products to treat cancer and infectives

MOLOGEN is a biotechnology group based in Berlin, which is specialised on treating diseases, which have not been treatable or insufficiently treatable so far of the indication areas cancer and infectives (animal and human being). In particular, MOLOGEN develops DNA-based vaccines and therapeutics aimed at prophylaxis and treatment. The therapies' basis are two patented technologies developed by MOLOGEN itself: MIDGE (Minimalistic Immunologically Defined Gene Expression) and dSLIM (double Stem Loop Immuno Modulator). Both technologies have in common that they make use of DNA structures (desoxyribosenucleic acid, which contains genetic information of all creatures), which are used as drug in the therapy. MIDGE works as gene transfer, which differs from other vectors (viral vector, plasmid vectors, amongst others) due to its small size and a very high specificity of genetic information and which shows a very high security and efficiency as was proved by studies. In the Anti-Infectives segment, MIDGE is a basis for a DNA vaccine (MIDGE-TH1), producing a specific cellular and humoral immune reaction against viruses, bacteria or parasites and destroying those. dSLIM is a DNA-based immune modifier and TLR9 agonist developed by MOLOGEN, which activates the immune system and thus causes a natural defence reaction to cancer cells. The use of dSLIM and MIDGE takes place individually or in a combined way depending on the field of therapy.

Platform technologies



Source: MOLOGEN AG

Currently, 40 people are employed in the group. 27 of them in Research & Development, 9 in administration as well as four as temporary personnel.

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

Business development in HY1 2007 (June 30, 2007)

*Figures strongly affected
by R&D activities*

*Intensification of R&D
activities resulted in higher
EBIT loss*

Based on the figures, the business development in HY1 2007 was relatively unspectacular. Due to the fact that MOLOGEN is still at a research and development stage, the company does not yet generate current sales from product sales. As a consequence, it only reported sales of EURO.1m (0.1) in HY1. Since the R&D expenses are not yet covered by proceeds, the company reported negative EBIT of EUR-2.8m (-1.7). The decline of EBIT compared with the previous year is mainly due to two factors: on the one hand, the extension of R&D activities resulted in higher material expenses (+EURO.4m to EURO.8m) and also higher salaries (+EURO.5m to EUR1.1m). The latter item has also been negatively influenced by both the increase of the workforce (+9 to 40 employees) and bonus payments to employees (basis: successful fiscal year 2006), which did not accrue in the previous year. The second factor that led to a decline of EBIT was the costly execution of the capital increase carried out in March 2007, which raised other operating expenses (+EURO.6m to EUR-1.4m). By contrast, the sale of Spanish subsidiary Vivotecnia had a positive effect as it generated book profits of EURO.6m. After interests and taxes, MOLOGEN reported a loss for the period of EUR-2.6m (-1.6).

*Cash burn in line with our
forecasts*

Cash burn from operating activities amounted to EUR3.3m (1.8) in H1 2007 or EURO.6m per month respectively and consequently was in line with our forecast of an average EURO.6m per month in 2007. As a consequence of the capital increase carried out in March 2007 (gross issuing proceeds: EUR6m) and the sale of the subsidiary (gross proceeds: EUR1.1m), cash holdings were increased to EUR10.1m (5.7) in spite of the decline of the operating cash flow. In our assessment, MOLOGEN will be able to keep the cash burn on this level and consequently will be able to continue self-funding research until the end of 2008 without external fund raising.

*Liquid funds should suffice
until the end of 2008*

Forecasts

*Adjustment of forecasts
due to the sale of
Vivotecnia ...*

Within the scope of the sale of Spanish subsidiary Vivotecnia, we have adapted our forecasts by adjusting sales and expenses by the share that corresponded to Vivotecnia and took into account the realised capital gain. Moreover, we have made slight changes to the time of debiting of the R&D expenses. We assume that the start of the studies will be postponed slightly so that we expect some of the costs, which we had originally expected for 2007, will accrue no sooner than 2008. For example, the documentation process of the course of the clinical studies dSLIM/MIDGE on RCC (Cell-based Gene Therapy) has proved more tedious than originally expected due to the complexity and innovative character of the technology. We expect that the phase Ia clinical study dSLIM on CRC in parallel with phase IIa study dSLIM on CRC will be approved towards the end of 2007, whereas we believe that the phase I/II clinical study Cell-based Gene dSLIM/MIDHE on RCC will receive approval no sooner than in Q1 2008. We maintain our fundamental forecast of the course of the clinical studies.

*... and the slight deferral
of the start of the study*

MOLOGEN AG							
Estimates of selected profit & loss account figures							
Unit:	EUR 1,000						
End of fiscal year:	Dec 31	2007E	2007E	2008E	2008E	2009E	2009E
Reporting standard:	IFRS	old	new	old	new	old	new
Revenue		1,650	800	2,350	1,500	12,100	12,100
yoy in %		-68%	-85%	42%	88%	415%	707%
EBIT		-8,099	-6,584	-8,150	-8,717	-11,087	-10,925
in % of revenues		-491%	-823%	-347%	-581%	-92%	-90%
Net profit/loss for the year		-8,003	-6,413	-8,204	-8,661	-11,191	-10,979
in % of revenues		-485%	-802%	-349%	-577%	-92%	-91%
EPS		-0.88	-0.70	-0.88	-0.93	-1.21	-1.18

Source: Independent Research

Since the contributions of Vivotecnia were EBIT neutral in our plans, these changes do not have any influence on the free cash flows that are relevant for our valuation. Only the realised capital gain from the sale of the Spanish subsidiary has resulted in a positive downward revision of the forecasted EBIT loss.

Valuation

Model parameters

To establish a fair value of MOLOGEN, we have used a DCF model (see also initiation of coverage, 05/21/07). Within the framework of this model we have applied a two-stage valuation. Stage I covers our detailed forecasts for the profit and loss account until 2016. Our forecast for stage II (after 2016) is conservative in that we do not assume any further growth of the free cash flow (FCF). Apart from the sales and profit contributions generated by the dSLIM technology, the DCF model also includes royalties from the licensing out of the leishmaniasis vaccine (vet) and our estimate for proceeds from Cell-based Gene Therapy treatment (premise: treatment permission in China). Our model is based on the assumption that MOLOGEN will out-license all 4 dSLIM-indications (CRC, NSCLC, BC and RCC) after phase II. We estimate the up-front payment at EUR10m, the milestone-payments for phase III at EUR5m and for approval at EUR15m respectively and the royalty rate at 10% (dSLIM CRC: 12,5%). We resigned to take any other possible licence deals into account for our valuation given the great uncertainty regarding the actual realisation of such deals.

Fair value based on DCF model: EUR128,2m

We hold on to our model parameters used in our initial valuation. Given these model parameters, the WACC (Weighted Average Cost of Capital) remains at 17.5%. Based on the assumptions mentioned above, the company's equity has a market value of EUR128.2m. With 9.287m shares, this corresponds to a fair value of EUR13.80 per share.

DCF model MOLOGEN AG										
in EURm	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Sales	0.8	1.5	12.1	14.0	30.0	38.1	65.4	103.9	107.0	140.6
Sales growth	-	88%	707%	16%	114%	27%	71%	59%	3%	31%
EBIT margin	-823.0%	-581.1%	-90.3%	-133.5%	13.0%	66.5%	78.2%	84.6%	83.8%	86.6%
EBIT	-6.6	-8.7	-10.9	-18.7	3.9	25.4	51.1	87.9	89.7	121.8
- Income tax	0.0	0.0	0.0	0.0	0.0	-4.1	-10.2	-26.4	-26.9	-36.5
+ Depreciation	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7
+/- Change in long-term provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating cash flow	-6.1	-8.2	-10.4	-18.2	4.5	21.9	41.5	62.2	63.5	86.0
-/+ Change in working capital	-0.8	-1.0	-1.0	-1.0	-1.2	-1.1	-2.0	-2.1	-2.1	-2.8
-/+ Net capital expenditure	-0.5	-0.8	-0.8	-1.0	-1.0	-1.3	-2.0	-3.1	-3.2	-4.2
Free cash flow	-7.3	-10.0	-12.2	-20.2	2.3	19.4	37.6	57.0	58.1	79.0
Present values	-6.9	-7.8	-8.0	-11.2	1.1	7.6	12.3	15.6	13.4	15.2
Sum of present values	31.2									
Terminal value	86.8									
									in % of total value:	74%
Value of operative business (EURm)	118.1									
+ Excess cash (EURm)	10.1									
- Financial debt (EURm)	0.0									
Fair value of equity (EURm)	128.2									
Number of shares (m)	9.287									
Fair value per share in EUR	13.80									

Model parameters / Entity DCF model:			
Long-term capital structure ->	Equity:	70%	Financial debt: 30%
Risk free rate of return: 4.5%	Beta:	1.5	Risk premium debt: 8.0%
	Risk premium:	10.0%	Tax shield: 0%
	Cost of equity:	19.7%	Cost of debt: 12.5%
Growth rate FCF: 0.0%	WACC :	17.5%	Date: 08/17/07

Source: Independent Research

In order to illustrate how the equity value per share responds to changes in the growth rate of the FCF in stage II and changes of the WACC, we have supplemented the DCF model by a sensitivity analysis.

Sensitivity analysis (in EUR)					
		discount rate			
		17.0%	17.5%	18.0%	18.5%
growth	0.0%	14.77	13.80	12.90	12.07
	0.5%	15.13	14.12	13.19	12.33
	1.0%	15.51	14.46	13.50	12.61
	1.5%	15.91	14.83	13.83	12.91

Source: Independent Research

Conclusion

Satisfying HY1 figures

In our opinion, the HY1 figures were satisfying in spite of the increase of annual loss. The larger net loss is a result of the acceleration of R&D activities and consequently not unusual for a biotechnology company in the early R&D stages. Although the HY1 loss is high even by historical comparison, it nevertheless documents the further development of the research pipeline. Within the scope of important preclinical tests, the necessary preparations for filing for approval to commence the clinical studies in the indications of colorectal carcinoma (dSLIM CRC, phase Ia and phase IIa) and renal cell carcinoma (Cell-based Gene Therapy dSLIM/MIDGE RCC, phase I/II). We expect that the approval to commence the important phase Ia and IIa studies for dSLIM in the indication of colorectal carcinoma (CRC) will be granted this year so that the studies are likely to start in 2007. Based on the complexity and the innovative character of the Cell-based Gene Therapy, we expect the approval of the phase I/II study to be granted no sooner than in Q1 2008. We have made the respective adjustments to our valuation model.

Completion of important preclinical studies

Treatment permission granted for cell-based gene therapy in India

We believe that MOLOGEN is on the right track although the important studies that are necessary for market approval will still have to be conducted. We regard the individual treatment permission for the Cell-based Gene Therapy in India granted as of August 8, 2007 (cf. Research Flash of August 9, 2007) as a crucial step towards the financial and scientific support of future research activities.

Price target: EUR13.80; recommendation: Buy

Based on our valuation model, we calculate a fair value of EUR13.80 per share for MOLOGEN. We confirm our recommendation to Buy.

MOLOGEN AG												
Profit and loss account												
Unit: EUR1,000												
End of fiscal year: Dec 31	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Reporting standard: IFRS												
Revenue	847	5,227	800	1,500	12,100	14,042	30,018	38,120	65,372	103,861	107,015	140,605
yoyn %	-60%	57%	-85%	88%	707%	16%	114%	27%	7%	59%	3%	31%
Others (e.g. cell-based gene therapy)	847	5,227	700	1,400	2,000	3,200	3,520	3,872	4,259	4,685	5,154	5,669
dSLIM CRC	0	0	0	0	10,000	0	5,000	26,978	24,099	36,366	48,779	61,339
dSLIM NSCLC	0	0	0	0	0	10,000	0	5,000	23,956	18,019	27,191	36,472
dSLIM BC	0	0	0	0	0	0	10,000	0	5,000	24,048	18,204	27,470
dSLIM RCC	0	0	0	0	0	0	10,000	0	5,000	16,883	3,789	5,717
Leishmaniasis (vet)	0	0	100	100	100	842	1,498	2,270	3,057	3,860	3,898	3,937
Other operating income	811	465	879	200	200	200	200	200	200	200	200	200
Increase/decrease in stocks finished products	-27	80	100	100	100	100	100	100	100	100	100	100
Cost of Goods Sold	-665	-667	-188	-350	-625	-960	-1,056	-1,162	-1,278	-1,406	-1,546	-1,701
Others (e.g. cell-based gene therapy)	-665	-667	-188	-350	-625	-960	-1,056	-1,162	-1,278	-1,406	-1,546	-1,701
dSLIM CRC	0	0	0	0	0	0	0	0	0	0	0	0
dSLIM NSCLC	0	0	0	0	0	0	0	0	0	0	0	0
dSLIM BC	0	0	0	0	0	0	0	0	0	0	0	0
dSLIM RCC	0	0	0	0	0	0	0	0	0	0	0	0
Leishmaniasis (vet)	0	0	0	0	0	0	0	0	0	0	0	0
Gross profit	966	5,105	1,592	1,450	11,775	13,382	29,262	37,258	64,394	102,755	105,769	139,204
Research & Development	0	0	-3,140	-4,560	-16,450	-25,150	-17,475	-3,000	-3,000	-3,500	-3,500	-3,500
Others (e.g. cell-based gene therapy)	0	0	-150	-450	-1,500	-2,500	-2,500	-3,000	-3,000	-3,500	-3,500	-3,500
dSLIM CRC	0	0	-2,840	-3,960	-7,800	0	0	0	0	0	0	0
dSLIM NSCLC	0	0	-50	-50	-7,050	-7,800	0	0	0	0	0	0
dSLIM BC	0	0	-50	-50	-50	-8,550	-9,300	0	0	0	0	0
dSLIM RCC	0	0	-50	-50	-50	-6,300	-5,675	0	0	0	0	0
Leishmaniasis (vet)	0	0	0	0	0	0	0	0	0	0	0	0
General & Administrative	-5,018	-4,688	-5,036	-5,607	-6,250	-6,978	-7,876	-8,894	-10,265	-11,349	-12,551	-13,883
Salaries	-2,150	-2,339	-2,397	-2,637	-2,901	-3,264	-3,753	-4,316	-5,179	-5,697	-6,267	-6,894
Amortization	-358	-486	-496	-506	-516	-542	-569	-597	-627	-658	-691	-726
Other operating expenses	-2,510	-1,863	-2,142	-2,464	-2,833	-3,173	-3,554	-3,981	-4,458	-4,993	-5,593	-6,264
Sales & Marketing												
EBIT	-4,052	417	-6,584	-8,717	-10,925	-18,747	3,912	25,365	51,129	87,906	89,718	121,821
in % of revenues	-478.4%	8.0%	-823.0%	-581.1%	-90.3%	-133.5%	13.0%	66.5%	78.2%	84.6%	83.8%	86.6%
Financial result	-336	200	175	60	-50	-100	-100	-100	-100	-100	-100	-100
EBT (and minority interests)	-4,388	617	-6,409	-8,657	-10,975	-18,847	3,812	25,265	51,029	87,806	89,618	121,721
in % of revenues	-518.1%	118%	-801.1%	-577.1%	-90.7%	-134.2%	12.7%	66.3%	78.1%	84.5%	83.7%	86.6%
Income taxes	-4	-4	-4	-4	-4	-4	-4	-4,058	-10,226	-26,372	-26,915	-36,546
in % of EBT	0%	-1%	0%	0%	0%	0%	0%	-16%	-20%	-30%	-30%	-30%
Earnings before minority interests	-4,392	613	-6,413	-8,661	-10,979	-18,851	3,808	21,206	40,803	61,435	62,703	85,175
in % of revenues	-518.5%	117%	-801.6%	-577.4%	-90.7%	-134.2%	12.7%	55.6%	62.4%	59.2%	58.6%	60.6%
Minority interests	-2	-2	0	0	0	0	0	0	0	0	0	0
Change of the accounting method	0	0	0	0	0	0	0	0	0	0	0	0
Net profit/loss for the year	-4,394	611	-6,413	-8,661	-10,979	-18,851	3,808	21,206	40,803	61,435	62,703	85,175
in % of revenues	-518.8%	117%	-801.6%	-577.4%	-90.7%	-134.2%	12.7%	55.6%	62.4%	59.2%	58.6%	60.6%
Weighted average number of shares (in 1,000)	8,288	8,402	9,120	9,287	9,287	9,287	9,287	9,287	9,287	9,287	9,287	9,287
EPS	-0.53	0.07	-0.70	-0.93	-1.18	-2.03	0.41	2.28	4.39	6.62	6.75	9.17

Source: Independent Research, MOLOGEN AG

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

Disclaimer

Recommendation shares - Single Issuer -:

Buy:	According to our assessment, the stock should register an absolute profit of at least 15% within a 6-month period.
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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Key sources of information

Key sources of information used in the preparation of this document are publications in foreign and domestic media such as information services (e.g. Reuters, VWD, Bloomberg, DPA-AFX etc.), the financial press (e.g. Börsen-Zeitung, Handelsblatt, FAZ, FTD, Wall Street Journal, Financial Times etc.), specialised journals, published statistics, rating agencies and publications of the issuers analysed.

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

Summary of the evaluation principles used:

Analyses of shares:

In valuing companies standard and accepted valuation methods (amongst others the Discounted Cash Flow Method (DCF Method), Peer Group Analysis) are applied. Under the DCF Method the capitalised value of the issuers is calculated which shows the sum of the discounted company results, i.e. the current value of the issuer's future net distributions. The capitalised value is therefore determined with reference to the anticipated future company results and the capitalisation yield applied. Under the Peer Group Analysis Method issuers quoted on the Stock Exchange are valued with reference to the comparison of ratio indices (e.g. price earnings ratio, price to book ratio, enterprise value / sales, enterprise value / EBITDA, enterprise value / EBIT). The comparability of the ratio indices is determined above all by business activity and commercial prospects.

Technical analyses:

Technical analyses are based on historic share price and sales developments which are analysed by mathematical-statistical tools (chart techniques, indicator technology, the Elliott wave theory, sentiment observations as well as relative strength approaches) and on forecasts of future developments.

Sensitivity of the evaluation parameters:

The figures taken from the statement of income, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks. These may change at any time without prior notice.

Regardless of the evaluation method applied, there exists a very real risk that the price target may not be reached in the anticipated period of time. These risks include unforeseen changes in competitive pressure or in the demand for the issuer's products. Such fluctuations in demand may arise as a result of changes of a technological nature, the overall level of economic activity or in some cases as a result of changes in moral standards. Changes in tax law, in currency exchange rates and, in certain industries, in regulations are further factors which can influence evaluations. This discussion of evaluation methods and risk factors makes no claim to be exhaustive.

Timing conditions of planned updates:

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As of: - 08/17/2007 -

**Independent Research GmbH
Senckenberganlage 10-12
D-60325 Frankfurt
Germany**

Responsible Supervisory Authority
Bundesanstalt für Finanzdienstleistungsaufsicht
Graurheindorfer Straße 108
D-53117 Bonn
and
Lurgiallee 12
D-60439 Frankfurt
Germany