

Recommendation:  
**BUY** (Update)

Risk:  
**HIGH** (High)

Price Target:  
**EUR 14.17** (14.17)

11 November 2009

## Clinical trials develop according to plan

### The improvement on the costs side continues

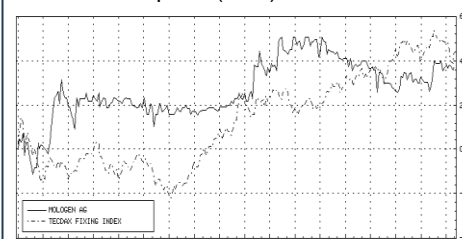
- MOLOGEN AG posted its financial result for 9M 2009 with sales in the first nine months of 2009 at the low level of EUR 0.05m. An improvement on the costs side was positively surprising. Similarly to the previous second quarter the company managed to decrease its operative expenses in 3Q 2009 compared to the prior year. This improvement is mainly attributable to the lower costs of materials which totalled EUR -0.77m in 9M 2009 (PY: EUR -1.33m).
- Decreased costs and increased other operating income in 9M 2009 resulted in an improved bottom line, which totalled EUR -3.67m (PY: EUR -4.82). However, we expect that in the fourth quarter of 2009 the operative costs will be higher, due to the preparation for phase II clinical trials of MGN1703 and submitted application for approval of a phase I/II clinical study with the innovative new cancer drug MGN1601. However, in our last update we have already, incorporated these expectations in our estimates. Therefore, considering the better than expected net result in 9M 2009, we readjusted our estimates and forecast that EBIT at EUR -5.40m in FY 2009E will be slightly better than previously expected (EUR -5.59m).
- MOLOGEN has so far managed to optimise its cost structure without postponements in clinical development of product candidates. Thus, regarding its leading product MGN1703, the company has recently published that it has reached the primary objectives of the phase 1b clinical study. Besides, in the course of the fourth quarter MOLOGEN submitted an application for approval of a phase I/II clinical study with the innovative cell-based gene therapy MGN1601 for the treatment of advanced renal cancer. This is in our view another important company's milestone.
- The official start of phase 2 clinical of MGN1703 trial that we expect at the beginning of 2010E should significantly increase the probability of success of the product development and, thus, the value of the product pipeline. So far we retain our price target of EUR 14.17 and reiterate our BUY recommendation.

#### Key data

Y/E 31/12., EUR m	2007	2008	2009E	2010E	2011E
Sales revenues	0,2	0,2	0,1	0,6	25,0
EBIT	-6,8	-6,3	-5,4	-7,1	13,0
Net income/loss	-6,5	-6,1	-5,3	-7,1	11,4
EPS	-0,69	-0,65	-0,54	-0,67	1,08
CPS	-0,55	-0,53	-0,55	-0,61	1,03
DPS	0,00	0,00	0,00	0,00	0,00
EBIT margin	neg.	neg.	neg.	neg.	51,98%
EV/EBIT	neg.	neg.	neg.	neg.	5,1
P/E	neg.	neg.	neg.	neg.	6,5

Source: MOLOGEN AG, CBS Research AG

#### Share price (dark) vs. TecDAX



Sources: CBS Research AG, Bloomberg

Change	2009e		2010E		2011E	
	new	old	new	old	new	old
Sales	-	0.1	-	0.6	25.0	25.0
EBIT	-5.4	-5.6	-7.1	-7.3	13.0	12.9
EPS	-0.54	-0.57	-0.67	-0.69	1.08	1.07

Internet: www.Mologen.com Sector: Biotechnology  
WKN: 663720 ISIN: DE0006637200  
Reuters: MGNG.DE Bloomberg: MGN GY

#### Share data:

Share price (EUR):	7.00
Shares outstanding (m):	10.14
Market capitalisation (EURm):	71.00
Enterprise value (EURm):	66.80
Ø daily trading volume (no. of shares):	7,115

#### Performance data:

High 52 weeks:	7.98
Low 52 weeks:	4.03
Absolute performance (12 months):	2.1%
Relative performance (vs. TecDAX):	
1 month	8.8%
3 months	-7.1%
6 months	-3.6%
12 months	18.9%

#### Shareholders:

Institutional investors:	27.1%
Deutscher Ring Krankenversicherungsv.:	10.0%
Bâloise Holding:	15.0%
Founder and management:	6.7%
Free float:	41.2%

#### Financial calendar:

n.a.	n.a.
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## Review of 9M 2009 results

MOLOGEN AG posted its financial result for 9M 2009 with sales in the first nine months of 2009 at the low level of EUR 0.05m. The other operating income increased to EUR 0.3m, thanks to funding grants and was therefore higher than in the prior year (EUR 0.02m). An improvement on the costs side was positively surprising. Similarly to the previous quarter the company managed to decrease its operative expenses in 3Q 2009 comparing to the prior year. This improvement is mainly attributable to the lower costs of materials which totalled EUR -0.77m in 9M 2009 (PY: EUR -1.33m). However, the lower personnel expenses in the amount of EUR -1.55m (PY: EUR 1.64m) as well as lower other operating expenses which totalled EUR -1.34m (PY: EUR -1.59) also contributed this improvement.

**MOLOGEN continues to optimise operating costs**

### Financial review on 9M 2008 vs 9M 2009

IFRS EUR 1,000	9M 2008	9M 2009
<b>Sales</b>	103	45
YoY growth	-29,8%	-56,3%
<b>EBITDA</b>	-4.430	-3.315
as % of sales	-4301,0%	-7366,7%
<b>EBIT</b>	-4.815	-3.670
as % of sales	-4674,8%	-8155,6%
<b>EBT</b>	-4.638	-3.626
as % of sales	-4502,9%	-8057,8%
<b>Net result</b>	-4.638	-3.626
<b>Basic earnings per share in (EUR)</b>	-0,50	-0,37

Source: MOLOGEN AG; CBS Research AG

The lower material costs resulted from the considerable reduction in outsourced services. In the same period of 2008, services were needed for the preparation and implementation of the phase Ib clinical study with MGN1703. These services were not required any longer to the same extent in the period under review because of the very advanced stage now reached in the study. The lower other operating expenses were attributable mainly to a reduction in the consulting services required.

Thus, the decreased costs and increased other operating income in 9M 2009 resulted in an improved bottom line which totalled EUR -3.63m (PY: EUR -4.64). However, we expect that in the fourth quarter of 2009 the operative costs will be higher, due to the preparation for phase II clinical trials of MGN1703 and submitted application for approval of a phase I/II clinical study with the innovative new cancer drug MGN1601. However, in our last update we have already, incorporated these expectations in our estimates, and, therefore, considering the better than expected net result in 9M 2009, we readjusted our estimates and forecast that EBIT at EUR -5.31m in FY 2009E will be slightly better than previously expected (EUR -5.59m).

**Operative costs in Q4 2009 are expected to be higher**

During the first nine months MOLOGEN also managed to reinforce its cash position, which at the end of the first nine months of 2009 amounted to EUR 4.2m (12/31/2008: EUR 3.3m). The increase is mainly attributable to a capital increase in March 2009 and the exercising of stock options in July 2009 and the receipt of funding grants in March 2009. From our point of view this cash position should be

sufficient for the first half of 2010E. However, afterwards the company will need additional capital injection.

## Research and Development

Needless to say that we positively see the fact that MOLOGEN has so far managed to optimise its cost structure without postponements in clinical development of product candidates. Thus, regarding its leading product MGN1703, the company has recently published that it had reached the primary objectives of the phase 1b clinical study. The cancer drug MGN1703 caused no serious side-effects in any of the tested doses. This means that the primary objective of the study – to demonstrate the safety and tolerability of the innovative new cancer drug – has been reached.

MOLOGEN will now be completing the application for implementation of a phase 2 study to investigate the effectiveness of MGN1703 for the treatment of metastasized colorectal cancer and will be submitting it to the authorities responsible as planned before the end of this year. Besides, in the course of the fourth quarter MOLOGEN submitted an application for approval of a phase I/II clinical study with the innovative cell-based gene therapy MGN1601 for the treatment of advanced renal cancer, which is another important company's milestone.

The official start of phase 2 clinical of MGN1703 trial that we expect at the beginning of 2010E should significantly increase the probability of success of the product development and, thus, the value of the product pipeline. So far we retain our price target of EUR 14.17 and reiterate our BUY recommendation.

**Clinical study of MGN 1703 develops as planned**

**Application for approval of a phase I/II clinical study with MGN1601 is submitted**

**We reiterate our BUY recommendation**

## Profit and loss account

IFRS EUR 1,000	2007	2008	2009E	2010E	2011E
<b>Revenues</b>	<b>150</b>	<b>210</b>	<b>75</b>	<b>620</b>	<b>25,000</b>
YoY growth	-96.5%	40.0%	-64.3%	726.7%	3932.3%
Other operating income	<b>737</b>	36	406	120	230
as % of sales	491.3%	17.1%	541.3%	19.4%	0.9%
Cost of materials	-1,567	-1,745	-1,671	-3,000	-6,600
as % of sales	-1044.7%	-831.0%	-2228.0%	-483.9%	-26.4%
Personell expenses	-3,325	-2,084	-1,952	-2,100	-2,650
as % of sales	-2216.7%	-992.4%	-2602.7%	-338.7%	-10.6%
Amortization	-536	-508	-440	-342	-286
as % of sales	-357.3%	-241.9%	-586.7%	-55.1%	-1.1%
Other operating expenses	-2,234	-2,212	-1,823	-2,350	-2,700
as % of sales	-1489.3%	-1053.3%	-2430.7%	-379.0%	-10.8%
<b>EBIT</b>	<b>-6,775</b>	<b>-6,303</b>	<b>-5,405</b>	<b>-7,052</b>	<b>12,994</b>
as % of sales	-4516.7%	-3001.4%	-7206.7%	-1137.4%	52.0%
Net financial results	304	212	74	0	0
<b>EBT (Earnings before income taxes)</b>	<b>-6,471</b>	<b>-6,091</b>	<b>-5,331</b>	<b>-7,052</b>	<b>12,994</b>
as % of sales	-4314.0%	-2900.5%	-7108.0%	-1137.4%	52.0%
Income taxes	0	0	0	0	-1,559
as % of EBT	0.0%	0.0%	0.0%	0.0%	-12.0%
<b>Net income/loss</b>	<b>-6,471</b>	<b>-6,091</b>	<b>-5,331</b>	<b>-7,052</b>	<b>11,435</b>
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net income/loss</b>	<b>-6,471</b>	<b>-6,091</b>	<b>-5,331</b>	<b>-7,052</b>	<b>11,435</b>
as % of sales	-4314.0%	-2900.5%	-7108.0%	-1137.4%	45.7%
Shares outstanding (in thousands)	9,317	9,378	9,803	10,553	10,553
<b>Basic earnings per share (EUR)</b>	<b>-0.69</b>	<b>-0.65</b>	<b>-0.54</b>	<b>-0.67</b>	<b>1.08</b>

Source: MOLOGEN AG; CBS Research AG

**Balance Sheets**

IFRS EUR 1,000	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
<b>Assets</b>					
<b>Noncurrent assets</b>	<b>2,740</b>	<b>2,250</b>	<b>1,930</b>	<b>1,588</b>	<b>3,552</b>
as % of total assets	24.2%	36.9%	32.6%	30.3%	17.8%
Tangible assets	275	185	215	164	369
Intangible assets	2,460	2,062	1,712	1,421	3,180
Financial assets	275	185	215	164	369
Other assets	5	3	3	3	3
<b>Current assets</b>	<b>8,559</b>	<b>3,850</b>	<b>3,984</b>	<b>3,653</b>	<b>16,374</b>
as % of total assets	75.8%	63.1%	67.4%	69.7%	82.2%
Inventories	44	19	400	154	200
Trade receivable	107	140	95	210	2,192
Profit tax entitlements	84	160	20	80	150
Other current assets	284	207	850	700	900
Cash and cash equivalents	8,040	3,324	2,619	2,509	12,932
<b>Total assets</b>	<b>11,299</b>	<b>6,100</b>	<b>5,914</b>	<b>5,241</b>	<b>19,926</b>
<b>Shareholders' equity and liabilities</b>					
<b>Shareholders' equity</b>	<b>10,517</b>	<b>5,243</b>	<b>4,693</b>	<b>3,941</b>	<b>17,176</b>
as % of total equity and liabilities	93.1%	86.0%	79.4%	75.2%	86.2%
Subscribed capital	9,317	9,378	10,143	10,893	10,893
Capital reserve	23,989	24,745	28,761	34,311	36,111
Payments received from the exercise of subscription rights	0	0	0	0	0
Balance sheet loss	-22,789	-28,880	-34,211	-41,263	-29,828
<b>Noncurrent liabilities</b>	<b>192</b>	<b>91</b>	<b>120</b>	<b>300</b>	<b>300</b>
as % of total equity and liabilities	1.7%	1.5%	2.0%	5.7%	1.5%
Accrual items	111	91	120	300	300
Provisions	81	0	0	0	0
<b>Current liabilities</b>	<b>590</b>	<b>766</b>	<b>1,101</b>	<b>1,000</b>	<b>2,450</b>
as % of total equity and liabilities	5.2%	12.6%	18.6%	19.1%	12.3%
Provisions	0	58	21	0	1,000
Trade liabilities	390	454	400	200	500
Other current liabilities	200	250	680	800	950
Liabilities to banks	0	4	0	0	0
<b>Total equity and liabilities</b>	<b>11,299</b>	<b>6,100</b>	<b>5,914</b>	<b>5,241</b>	<b>19,926</b>

Source: MOLOGEN AG; CBS Research AG

### Cash flow statement

	IFRS	EUR 1,000	2007	2008	2009E	2010E	2011E
<b>Net income (loss)</b>			-6.471	-6.091	-5.331	-7.052	11.435
Amortisation of fixed assets			536	508	440	342	286
Deficit from disposal of fixed assets			1	2	0	0	0
Income from disposal of a subsidiary			-628	0	0	0	0
Change in provisions			-1	-23	-37	-21	1.000
Other non-cash income and expenses			1.257	486	0	0	0
Change in trade receivables, inventories and other assets			238	-2	-839	221	-2.297
Change in trade payables and other liabilities			-83	119	401	100	450
<b>Net cash used for operating activities</b>			<b>-5.151</b>	<b>-5.001</b>	<b>-5.366</b>	<b>-6.410</b>	<b>10.873</b>
Outflow for property, plant and equipment			-74	-20	-120	0	-250
Outflows for intangible assets			0	-1	0	0	-2.000
Inflow from disposals of subsidiary			1.077	0	0	0	0
<b>Net cash provided by investing activities</b>			<b>1.003</b>	<b>-21</b>	<b>-120</b>	<b>0</b>	<b>-2.250</b>
Cash receipts from issuing of capital			5.810	306	4.181	5.700	1.800
Cash received from subsidies			0	0	600	600	0
<b>Net cash provided by financing activities</b>			<b>5.810</b>	<b>306</b>	<b>4.781</b>	<b>6.300</b>	<b>1.800</b>
Foreign currency effect			-3	0	0	0	0
<b>Net increase (decrease) in cash and cash equivalents</b>			<b>1.659</b>	<b>-4.716</b>	<b>-705</b>	<b>-110</b>	<b>10.423</b>
<b>Cash and cash equivalents, beginning of the year</b>			<b>6.381</b>	<b>8.040</b>	<b>3.324</b>	<b>2.619</b>	<b>2.509</b>
<b>Cash and cash equivalents at year's end</b>			<b>8.040</b>	<b>3.324</b>	<b>2.619</b>	<b>2.509</b>	<b>12.932</b>

Source: MOLOGEN AG; CBS Research AG

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BUY: The expected performance of the share price is above +10%.

NEUTRAL: The expected performance of the share price trend is between +5% and +10%.

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Recommendation history for the company analysed in this report:

Date	Recommendation	Price at change date	Price Target
10 July 2009	BUY (Initiating Coverage)	EUR 7.35	EUR 14.17
14 August 2009	BUY (Update)	EUR 7.15	EUR 14.17
11 November 2009	BUY (Update)	EUR 7.00	EUR 14.17

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