

November 24th, 2020
Research update

SMC Research
Small and Mid Cap Research



CytoTools AG

Great opportunities thanks to Covid-19
and advances in core product

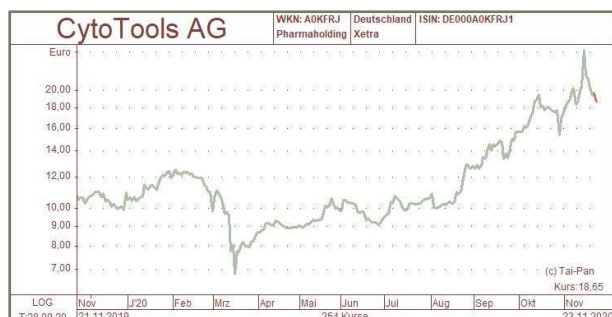
Rating: Speculative Buy (unchanged) | **Price:** 18.65 € | **Price target:** 43.00 € (prev.: 38.80 €)

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Recent business development



Basic data

Based in:	Darmstadt
Sector:	Biotechnology
Headcount:	4 (AG)
Accounting:	HGB
ISIN:	DE000A0KFRJ1
Price:	18.65 Euro
Market segment:	Basic Board
Number of shares:	4.03 m
Market Cap:	75.1 m Euro
Enterprise Value:	73.2 m Euro
Free Float:	53 %
Price high/low (12M):	27.00 / 6.72 Euro
Ø turnover (Xetra, 12 M):	104,500 Euro / day

As confirmed by a test series of the University Hospital Frankfurt, CytoTools' active substance DPOCL is very effective against the SARS-CoV-2 pathogen. A partner is now being sought for the further development of the drug, which ideally could lead to approval in 2021. But progress is also being made in the core business. After the Indian partner, Centaur, started the sale of the CytoTools core product DermaPro (under the name Woxheal) in September, CytoTools is generating current revenues for the first time in the company's history in the form of a share in Centaur's Woxheal sales.

This income is to be used, among other things, to further expand and professionalise the organisation. After the experienced IR manager Ingo Middelmanne was hired in August to establish and expand capital market communications, a Chief Financial Officer was appointed in October. The position was taken over by Marc Herwick, who has more than twenty years of professional experience in accounting and controlling and was most recently Regional CFO for Central Europe at the JELD-WEN Group.

As-if Group* (FY: 31.12.)	2019	2020e	2021e	2022e	2023e	2024e
Sales (m Euro)	0.0	0.1	4.3	18.7	40.1	98.7
EBIT (m Euro)	-1.2	-6.5	-7.2	4.6	18.1	39.5
Net profit	-1.3	-3.9	-4.4	2.8	10.9	20.3
EpS	-0.47	-0.72	-0.80	0.51	2.01	3.73
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Sales growth	-	114.9%	5,458.2%	332.8%	114.2%	146.5%
Profit growth	-	-	-	-	292.1%	85.6%
PSR	2,798.02	1,301.90	23.42	5.41	2.53	1.03
PER	-	-	-	36.4	9.3	5.0
PCR	-	-	-	41.3	6.5	3.4
EV / EBIT	-	-	-	15.9	4.0	1.9
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

*from 2020 on

Test series successful

The test series, carried out in cooperation with the Institute for Medical Virology at the University Hospital Frankfurt to determine whether the active ingredient DPOCL is also effective against the SARS-CoV-2 pathogen, were successful. The highest dose demonstrated a 90-percent efficacy. Together with the already known good tolerability, this opens the way for a human clinical trial in which inhalation will be tested with commercially available devices. This trial, for which CytoTools is currently looking for a partner, could open the path to a fast-track approval if successful. Another option is the use against influenza viruses, which is currently still being tested.

New trial for DermaPro

Ideally, CytoTools could have a second product on the market as early as 2021 – alongside the core product DermaPro, the marketing of which started in India (under the name Woxheal) in September. The product uses the active ingredient DPOCL as well and is approved in India for the treatment of diabetic foot syndrome. For this indication, the company launched a clinical trial of the third and final phase in Europe last month to pave the way for European approval. The trial involves the treatment of up to 400 patients in a maximum of eight countries and is scheduled to be completed by the fourth quarter of 2022; meaningful interim results will be available one year earlier. Management intends to use these to enter into sales negotiations regarding the responsible subsidiary DermaTools. The latter was recently able to strengthen its position even further with a successfully completed official audit of the newly established active ingredient production in Saarbrücken, as it can now

produce DPOCL itself. An earlier clinical trial had failed due to faulty production of the active ingredient (which resulted in a too low active ingredient concentration), which is now to be avoided with the company's own control over the production process.

Important AGM scheduled

The European phase III trial, expected to cost EUR 6 m, is already fully financed. However, additional capital is required for the other trials planned – a phase III trial on ulcer cruris ("open leg") in Europe and diabetic foot syndrome in the USA. Depending on the progress of the negotiations, this could come from one-off payments when partnership agreements are concluded for the Covid-19 drug or for the launch of DermaPro/Woxheal on the Chinese market. But further capital measures are also conceivable. In order to take advantage of the existing interest of institutional investors, the agenda for the Annual General Meeting was supplemented by a resolution for new authorised capital of EUR 2 m and the event was consequently postponed once again from 21 October to 3 December. The meeting's approval is open, however, since the Deutsche Balaton Group as a major shareholder (via its subsidiaries Heidelberger Beteiligungsholding AG and Delphi Unternehmensberatung AG) with an estimated share of approx. 25 percent has recently positioned itself against the company's boards and is seeking, among other things, to replace the entire supervisory board and withdraw its confidence in the long-standing board members Dr. Marc-Andre Freyberg and Dr. Dirk Kaiser by means of supplementary requests for the annual general meeting. The manage-

Revenue model (m Euro)	2020	2021	2022	2023	2024	2025	2026	2027
DermaPro/Woxheal								
- India	0.1	1.3	6.1	10.3	11.9	12.9	13.1	12.7
- China	0.0	0.0	0.6	4.8	9.0	14.5	16.5	16.6
- Europe	0.0	0.0	0.0	9.9	59.8	110.2	171.2	182.2
- USA	0.0	0.0	0.0	0.0	0.0	9.5	57.2	95.9
DPOCL inhalation	0.0	3.0	12.0	15.0	18.0	21.0	22.5	24.0
Total sales	0.1	4.3	18.7	40.1	98.7	168.1	280.6	331.4

Estimates SMC-Research

m Euro	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
Sales	0.1	4.3	18.7	40.1	98.7	168.1	280.6	331.4
Sales growth		5.458%	332.8%	114.2%	146.5%	70.2%	66.9%	18.1%
EBIT margin	-8.414%	-167.7%	24.7%	45.2%	40.0%	47.1%	59.0%	55.5%
EBIT	-6.5	-7.2	4.6	18.1	39.5	79.1	165.6	183.9
Tax rate	0.0%	0.0%	0.0%	0.0%	15.0%	15.0%	35.0%	35.0%
Adjusted tax payments	0.0	0.0	0.0	0.0	5.9	11.9	58.0	64.4
NOPAT	-6.5	-7.2	4.6	18.1	33.6	67.2	107.6	119.5
+ Depreciation & Amortisation	0.0	0.0	0.0	0.1	0.2	0.4	0.6	1.0
+ Increase long-term accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flows	-6.5	-7.2	4.7	18.2	33.8	67.6	108.2	120.5
- Increase Net Working Capital	0.0	-0.9	-2.2	-2.6	-4.5	-3.3	-2.8	-0.8
- Investments in fixed assets	-0.1	-0.1	-0.2	-0.5	-1.0	-2.0	-4.0	-4.0
Free cash flows	-6.6	-8.2	2.2	15.1	28.3	62.4	101.4	115.8

SMC estimation model "as-if-Group"

ment of CytoTools hopes for a high level of shareholder presence at the upcoming event and for support for their own proposals (including the creation of authorised capital) in order to be able to further advance the realisation of the potential of DPOCL.

Well on the way

In fact, from our point of view, CytoTools is now on a good course, as the participation in the marketing revenues of the Indian partner Centaur now ensures continuous and probably significantly increasing income. From now on, these should at least cover the costs of current operations, so that fresh capital only needs to be acquired for further trials. The Covid-19 pandemic continues to offer a special opportunity for additional revenues. A possible partnership agreement for a DPOCL drug could lead to a one-off payment and a further revenue share. We had speculatively included these in our model in September and, in response to the successful test, increased the assumed probability of fast-track approval and marketing in 2021 from 20 to 30 percent. At the same time, we have significantly reduced the possible number of units for 2021 (from 5 to 0.5 million), thus taking into account potential competition from vaccines, the

development of which has recently made significant progress. After that, however, we have gradually increased the quantity (up to 4 million at the end of the detailed forecast period, previously: 2 million) to reflect the potential for treating influenza as well. If this therapy option is promising, we consider our volume assumptions very conservative, especially since even use against bacterial pneumonia is conceivable. However, we have left our estimates for revenues from the marketing of DermaPro/Woxheal in India, China, Europe and the USA unchanged (see revenue model on previous page).

Basic structure unchanged

Otherwise, the basic structure of our estimates remains unchanged; in this regard, we refer to our detailed report dated 24 September 2020. In particular, we would like to expressly point out once again that we estimate CytoTools as an "as-if group" with a hypothetical rough consolidation of the subsidiaries DermaTools and CytoPharma, although CytoTools does not prepare consolidated financial statements. The development of the key cash flow indicators in the detailed forecast period up to 2027 resulting from

this model can be seen in the table above; further details on the balance sheet, income statement and cash flow statement can be found in the Annex.

Discount rate 14.0 percent

We continue to discount the cash flows resulting from our estimates at a WACC rate of 14.0 percent. This corresponds to the cost of equity of a hypothetically debt-free company based on a beta factor of 2.0, a safe interest rate of 1.0 percent and a market risk premium of 6.5 percent. The assumptions used to determine the terminal value have also remained unchanged. We continue therefore to use a "perpetual" cash flows growth of 1.0 percent and, in order to reduce risk, to work with a 50 percent safety discount on the target margin of the detailed forecast period.

Target price: EUR 43.00 per share

This model results in a fair value of equity of EUR 234 m. On a hypothetically fully diluted basis with a number of shares of around 5.4 million, this results in a fair value of EUR 43.08 per share, from which we derive EUR 43.00 as the new price target. The significant increase compared to our previous price target (EUR 38.80) is due to the increase in the probability of realisation (from 20 to 30 percent) of a new product for the treatment of Covid-19 and influenza as well as

an assumed higher long-term marketing potential. We continue to rate the forecasting risk of our estimates as well above average (five out of six possible points) due to the pending approvals outside of the Indian market and due to the uncertainty that the dispute/disagreement with the Deutsche Balaton Group holds for future business development.

Sensitivity analysis

When the input parameters are varied for our sensitivity analysis (WACC between 13.0 and 15.0 percent and perpetual cash flows growth between 0 and 2 percent), the fair value of the share lies between EUR 37.82 and EUR 50.09.

Sensitivity analysis WACC	perpetual cash flows growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
13.0%	50.09	48.82	47.65	46.58	45.60
13.5%	47.44	46.31	45.27	44.32	43.43
14.0%	45.01	44.01	43.08	42.22	41.42
14.5%	42.78	41.88	41.05	40.28	39.56
15.0%	40.73	39.92	39.17	38.48	37.82

Conclusion

CytoTools was recently able to report further progress in important areas. The company has started the European phase III trial for DermaPro and is now also generating initial revenues from the marketing of the product by its partner Centaur in India. At the same time, the Covid-19 pandemic could give rise to a special opportunity, as series of tests at the University Hospital Frankfurt confirmed that the active ingredient DPOCL is also effective against the SARS-CoV-2 pathogen. Now CytoTools is looking for a partner with whom a human trial is to be carried out in order to achieve – in case of success – a rapid approval, possibly still in 2021. While the still high urgency of pandemic containment should greatly accelerate the process on the part of the authorities, in the medium term the potential of the active ingredient for the treatment of influenza may be even more promising. Tests are still ongoing in this regard.

With these promising results, we have increased the likelihood of a product launch for Covid-19 in 2021 from 20 to 30 percent but have reduced short-term

sales expectations due to potential vaccine competition. The potential could be significantly increased in the future by using DPOCL against influenza pathogens. According to the company's statements, we consider a high efficacy of DPOCL in laboratory tests to be highly probable and, on this basis, we see a speculative chance of a successful drug development.

Due to the adjustments, our price target has risen from EUR 38.80 to EUR 43.00. Even after the satisfactory performance in the course of the year to date, we continue to see considerable upside potential and confirm our "speculative buy" rating. The speculative component is based on the fact that no product approval has yet been obtained outside India – in particular, the approval of DPOCL for the treatment of Covid-19 is still very uncertain (which we have taken into account with high discounts). In addition, the dispute with the Deutsche Balaton Group is a factor of uncertainty. The forthcoming Annual General Meeting is of great importance in this respect.

Annex I: Balance sheet and P&L estimation

As-If Group: Balance sheet*

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
ASSETS									
I. Total non-current	15.8	15.9	15.9	16.1	16.5	17.3	18.9	22.3	25.3
II. Total current	2.0	1.3	8.1	12.7	30.9	64.9	132.9	241.4	364.1
LIABILITIES									
I. Equity	17.7	14.9	21.6	26.3	44.4	78.2	146.1	255.3	377.6
II. Accruals	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
III. Liabilities	0.1	2.3	2.4	2.5	2.9	3.9	5.6	8.4	11.7
TOTAL	17.9	17.2	24.0	28.8	47.4	82.2	151.8	263.7	389.4

As-If Group: P&L estimation*

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
Sales	0.0	0.1	4.3	18.7	40.1	98.7	168.1	280.6	331.4
Total operating revenues	0.0	0.1	4.3	18.7	40.1	98.7	168.1	280.6	331.4
Gross profit	0.0	0.1	4.3	18.7	40.1	98.7	168.1	280.6	331.4
EBITDA	-1.2	-6.5	-7.2	4.7	18.2	39.7	79.5	166.2	184.9
EBIT	-1.2	-6.5	-7.2	4.6	18.1	39.5	79.1	165.6	183.9
EBT	-1.3	-6.5	-7.3	4.6	18.2	39.7	79.9	167.9	188.3
EAT (before minorities)	-1.3	-6.5	-7.3	4.6	18.2	33.8	67.9	109.1	122.4
EAT	-1.3	-3.9	-4.4	2.8	10.9	20.3	40.7	65.5	73.4
EPS	-0.47	-0.72	-0.80	0.51	2.01	3.73	7.51	12.06	13.53

*2019: actual figures CytoTools AG, from 2020: as-if-Group

Annex II: Cash flows estimation and key figures

As-If Group: Cash flows estimation*

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
CF operating	-0.9	-6.5	-8.1	2.5	15.6	29.5	65.0	106.9	122.6
CF from investments	-2.4	-0.1	-0.1	-0.2	-0.5	-1.0	-2.0	-4.0	-4.0
CF financing	2.7	5.9	14.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquidity beginning of year	2.7	2.0	1.3	7.1	9.4	24.5	53.0	116.0	219.0
Liquidity end of year	2.0	1.3	7.1	9.4	24.5	53.0	116.0	219.0	337.6

As-If Group: Key figures*

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027
Sales growth	1,173.9%	114.9%	5.458%	332.8%	114.2%	146.5%	70.2%	66.9%	18.1%
Gross margin	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA margin	-3,194%	-8,388%	-167.0%	24.9%	45.5%	40.2%	47.3%	59.2%	55.8%
EBIT margin	-3,247%	-8,414%	-167.7%	24.7%	45.2%	40.0%	47.1%	59.0%	55.5%
EBT margin	-3,522%	-8,415%	-167.8%	24.8%	45.4%	40.2%	47.5%	59.8%	56.8%
Net margin (after minorities)	-3,521%	-5,049%	-100.7%	14.9%	27.2%	20.5%	24.2%	23.3%	22.2%

*2019: actual figures CytoTools AG, from 2020: as-if-Group

Disclaimer

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Charts

The charts were made with Tai-Pan (www.lp-software.de).

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II) Preparation and updating

The present financial analysis was prepared by: Dipl.-Kfm. Holger Steffen

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 24.11.2020 at 7:30 and published on 24.11.2020 at 7:40.

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In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Rating	Target price	Conflict of interests
24.09.2020	Speculative Buy	38.80 Euro	1), 3), 4)
30.06.2020	Speculative Buy	28.40 Euro	1), 3)
17.12.2019	Speculative Buy	34.50 Euro	1), 3)
04.11.2019	Speculative Buy	27.80 Euro	1), 3)
13.09.2019	Speculative Buy	25.50 Euro	1), 3)
22.07.2019	Speculative Buy	26.60 Euro	1), 3), 4)
18.03.2019	Speculative Buy	28.50 Euro	1), 3), 10)
14.12.2018	Speculative Buy	27.60 Euro	1), 3), 10)

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The publishing dates for the financial analyses are not yet fixed at the present moment.

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