

February 26th, 2021
Research update

SMC Research
Small and Mid Cap Research



CytoTools AG

Successful marketing launch despite
pandemic-related obstacles

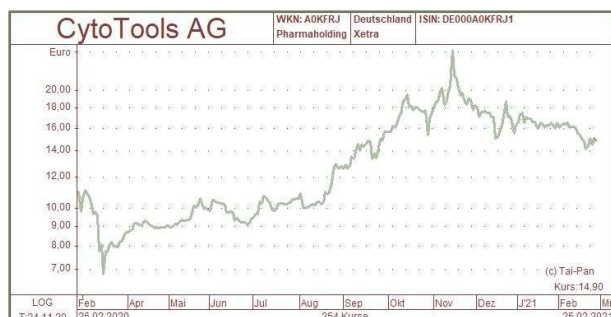
Rating: Speculative Buy (unchanged) | **Price:** 14.90 € | **Price target:** 40.60 € (prev.: 43.00 €)

Analyst: Dipl.-Kfm. Holger Steffen
sc-consult GmbH, Alter Steinweg 46, 48143 Münster

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Phone: +49 (0) 251-13476-93
Telefax: +49 (0) 251-13476-92
E-Mail: kontakt@sc-consult.com
Internet: www.sc-consult.com

Recent business development



Basic data

Based in:	Darmstadt
Sector:	Biotechnology
Headcount:	4 (AG)
Accounting:	HGB
ISIN:	DE000A0KFRJ1
Price:	14.90 Euro
Market segment:	Basic Board
Number of shares:	4.03 m
Market Cap:	60.0 m Euro
Enterprise Value:	58.1 m Euro
Free Float:	53 %
Price high/low (12M):	27.00 / 6.72 Euro
Øturnover (Xetra, 12 M):	114,400 Euro / day

After a long preparatory period, the Indian pharmaceutical company Centaur started marketing Woxheal in its home market last autumn. As far back as 2007, Centaur had already signed a licensing agreement for CytoTools' core product, developed under the name DermaPro, but it took another 15 years to clear all the hurdles from approval to production and marketing clearance.

The start of distribution fell in the Covid-19 period and was therefore subject to extensive restrictions in India, where the pandemic hit rather hard. Nevertheless, almost 10,000 doses of Woxheal were already delivered in the few weeks up to the end of the year, which we consider a respectable achievement given the general conditions. Woxheal is used to treat diabetic foot syndrome. Since diabetes is a major problem in India, the market potential is correspondingly large.

Due to higher drug prices, approval in Europe would nevertheless multiply the revenue potential again; the phase III trial required for this has started and is so far on schedule.

As-if Group* (FY: 31.12.)	2020e	2021e	2022e	2023e	2024e	2025e
Sales (m Euro)	0.0	0.4	2.8	16.8	74.2	145.8
EBIT (m Euro)	-6.6	-11.2	-11.2	-5.1	15.0	56.7
Net profit	-4.0	-6.7	-6.7	-3.1	9.0	25.6
EpS	-0.73	-1.03	-1.03	-0.47	1.38	3.92
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Sales growth	-	2,960.1%	618.2%	489.8%	341.9%	96.4%
Profit growth	-	-	-	-	-	184.6%
PSR	7,505.42	245.27	34.15	5.79	1.31	0.67
PER	-	-	-	-	10.8	3.8
PCR	-	-	-	-	10.0	2.5
EV / EBIT	-	-	-	-	3.9	1.0
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Nearly 10,000 doses delivered

In autumn, Centaur, Cytotools' Indian licensing partner, started distributing Cytotools' core product DermaPro, marketed in India under the name Woxheal. By the end of the year, almost 10,000 doses had been delivered. Marketing has thus got off to a successful start, although the major problems due to the Covid-19 pandemic have severely hampered distribution. Among other things, directly approaching doctors is made much more difficult by the restrictions on travel activities. Despite this, the market response so far has been positive. For example, at the annual conference of the Diabetic Foot Society of India, the drug was hailed by its president, Dr Arun Bal, as a milestone in the fight against diabetic foot syndrome, offering "decisive advantages over established therapies". CytoTools' management expects sales figures to increase significantly in the current year thanks to the continuation of the nationwide roll-out.

European phase III trial ongoing

According to the company, progress is also being made in the ongoing European phase III trial for DermaPro in the indication diabetic foot syndrome. Therefore, the schedule foreseeing a publication of first interim results in the fourth quarter was reaffirmed.

Covid-19 medication on hold

However, there is still no news from the talks with potential partners regarding the use of the active substance DPOCL for the treatment of Covid-19 or influenza infections. In the fourth quarter of 2020, the company had reported that the tests confirmed a highly virucidal effect with an efficacy of over 95 percent for Sars-CoV-2 viruses and over 90 percent for influenza viruses (in each case at the highest dosage tested). Since then, talks on a cooperation have been held or are being prepared, and according to the notification of 21 December, they were to be brought to a successful conclusion in the first quarter of this year, if possible. Upon further enquiry, the company continues to think this scenario possible. However, many concepts against Covid-19 are currently being tested by pharmaceutical companies, which is why the search

for a partner who gives DPOCL a sufficiently high priority is not a sure-fire success.

Delay due to pandemic

Nevertheless, we see good progress. Above all, we consider the fact that DermaPro (or Woxheal), the core product of CytoTools, made the leap to the market last year and met with a positive response an important milestone. Even if the delays due to the Covid-19 pandemic are likely to continue for the time being, the great potential of the Indian market is finally open for the product. Due to the effects of the pandemic, however, its development is likely to be slower than we had previously assumed, which is why we have postponed the assumed process of market penetration by one year as part of a conservative approach and have significantly reduced our estimate of licensing income in 2021 from EUR 1.3 m to EUR 0.4 m (we have also postponed the expectations regarding potential marketing in China by one year). Subsequently, however, we continue to calculate with high growth rates. This also applies to Europe, where we have shifted the revenue curve slightly backwards as well to prevent possible Covid-19 delay effects in the further conduct of the phase III trial.

Limited window of opportunity

While we continue to see a high probability (85 percent) of approval in Europe, we have now reduced the probability of a near-term commercial launch of a DPOCL drug for the treatment of covid-19 (and influenza) from 30 to 15 percent and expect hypothetical first revenues only in 2022. Given the progress in vaccination campaigns, the window of opportunity for accelerated approval could close during the year, unless vaccine-resistant viral mutations create a sustained high demand for treatment. At the moment, it is difficult to calculate whether a partner can be found in the near future who will push ahead with the clinical trials and the approval procedure with the necessary priority. Our updated revenue model with probability-weighted sales, which continues to include subsequent commercialisation of DermaPro in the

Revenue model (m Euro)	2021	2022	2023	2024	2025	2026	2027	2028
DermaPro/Woxheal								
- India	0.4	1.3	6.2	10.5	12.2	13.1	13.4	12.2
- China	0.0	0.0	0.6	4.9	9.1	14.7	16.6	14.9
- Europe	0.0	0.0	4.0	49.8	110.2	171.2	182.2	162.8
- USA	0.0	0.0	0.0	0.0	3.8	47.7	95.9	154.3
DPOCL inhalation	0.0	1.5	6.0	9.0	10.5	11.3	12.0	12.8
Total sales	0.4	2.8	16.8	74.2	145.8	257.9	320.1	356.8

Estimates SMC-Research

US, is shown at the top of this page. The most important key figures for cash flow development in the detailed forecast period derived from this and from our assumptions on cost development (which, as before, also includes a trial on ulceration and for the US market) can be found at the bottom of the page. Further details on the balance sheet, income statement and cash flow statement can be found in the Annex.

Discount rate reduced

We now discount the cash flows resulting from our estimates at a WACC rate of 12.6 percent. The reduction compared to the previously applied value of 14.0 percent results from a reduction of the market risk

premium from 6.5 to 5.8 percent in all our models at the turn of the year. This follows the findings of a recent survey, according to which the average market risk premium used for Germany is at this level (source: Survey: Market Risk Premium and Risk-Free Rate used for 81 countries in 2020). Otherwise, the framework data of the WACC calculation are unchanged (beta factor 2.0, safe interest rate of 1.0 percent, hypothetically unleveraged). The same applies to the assumptions for determining the terminal value. 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.

m Euro	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028
Sales	0.4	2.8	16.8	74.2	145.8	257.9	320.1	356.8
Sales growth		618.2%	489.8%	341.9%	96.4%	77.0%	24.1%	11.5%
EBIT margin	-2,818%	-394.7%	-30.6%	20.2%	38.9%	55.4%	53.9%	50.5%
EBIT	-11.2	-11.2	-5.1	15.0	56.7	143.0	172.6	180.1
Tax rate	0.0%	0.0%	0.0%	0.0%	25.0%	35.0%	35.0%	35.0%
Adjusted tax payments	0.0	0.0	0.0	0.0	14.2	50.0	60.4	63.0
NOPAT	-11.2	-11.2	-5.1	15.0	42.6	92.9	112.2	117.0
+ Depreciation & Amortisation	0.0	0.0	0.1	0.2	0.4	0.6	1.0	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	-11.1	-11.2	-5.0	15.2	43.0	93.5	113.2	118.0
- Increase Net Working Capital	-0.1	-0.4	-2.0	-5.5	-4.2	-3.5	-1.8	29.2
- Investments in fixed assets	-0.1	-0.2	-0.5	-1.0	-2.0	-4.0	-4.0	-4.0
Free cash flows	-11.3	-11.8	-7.5	8.7	36.7	86.1	107.4	143.2

SMC estimation model "as-if-Group"

Dilution already factored in

Depending on the development of revenues and on further trials (Diabetic Foot Syndrome USA, Ulcus cruris Europe), there may be a need for further funding. We think it is conceivable that the company will place up to 1 million additional shares for this purpose, which we had already factored in as dilution. If more funds were to be raised, it could enable the projects to be carried out more quickly. In order to cover this possible scenario, we have calculated an additional hypothetical dilution of 1.5 million shares and thus, in our view, assumed a theoretical "maximum dilution" as part of a conservative approach. We have also deliberately disregarded the potential for alternative debt financing.

Target price: EUR 40.60 per share

This model results in a fair value of equity of EUR 265 m. On a hypothetically fully diluted basis this results in a fair value of EUR 40.65 per share, from which we derive EUR 40.60 as the new price target (previous EUR 43.00). The calculated Covid-19-related delays in market penetration had a dampening effect on the fair value. Compensatory positive effects, on the other hand, result from the roll-over of the model to the new base year 2021 and from the reduction of the discount rate. In relation to the current share price, we continue to see a high upside potential

of currently more than 160 percent. 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 caused by the still unresolved dispute between the company's management bodies and the largest single shareholder, the Deutsche Bala-ton Group.

Sensitivity analysis

When the input parameters are varied for our sensitivity analysis (WACC between 11.6 and 13.6 percent and perpetual cash flows growth between 0 and 2 percent), the fair value of the share lies between EUR 35.31 and EUR 48.01.

Sensitivity analysis WACC	perpetual cash flows growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
11.6%	48.01	46.65	45.42	44.31	43.28
12.1%	45.19	44.01	42.93	41.94	41.04
12.6%	42.64	41.60	40.65	39.77	38.97
13.1%	40.32	39.40	38.56	37.78	37.07
13.6%	38.21	37.39	36.64	35.95	35.31

Conclusion

In our opinion, the start of sales in India is an important milestone for CytoTools. Despite considerable restrictions due to the Corona pandemic, almost 10,000 doses were already delivered in the first months of marketing last year. The trend is thus clearly upwards and should also be supported by the positive feedback from experts. For example, the president of the Diabetic Foot Society of India, Dr Arun Bal, has commented the possible treating of diabetic foot syndrome with Woxheal very positive. In addition to the positive effect on marketing success in India, we also see this assessment as confirming of our assumption of a high probability of approval in Europe. In this regard, the company reports that the phase III trial is progressing according to schedule.

Although it was already quite low, we now rate the probability of an accelerated approval of a medication

with the active substance DPOCL for the treatment of Covid-19 and influenza as somewhat lower. At the moment, it is still uncertain whether a partner can be found who will push the project forward with the necessary priority.

Overall, we have formulated our estimation model somewhat more conservatively, but it still shows a high upside potential for the share with a price target of EUR 40.60. Accordingly, we confirm our "Speculative Buy" rating. The recommendation remains speculative in nature, as approval of the core product outside India is still pending. Also, the continuing conflict between the company's management bodies and the Deutsche Balaton Group as the largest single shareholder also represents a significant risk factor.

Annex I: Balance sheet and P&L estimation

As-If Group: Balance sheet*

m Euro	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028
ASSETS									
I. Total non-current	15.9	15.9	16.1	16.5	17.3	18.9	22.3	25.3	28.3
II. Total current	1.3	1.8	11.4	6.1	21.0	63.5	156.1	270.3	391.0
LIABILITIES									
I. Equity	14.8	17.6	27.4	22.3	37.3	79.9	173.3	287.3	407.5
II. Accruals	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
III. Liabilities	2.3	0.1	0.1	0.3	1.0	2.5	5.0	8.2	11.8
TOTAL	17.2	17.7	27.5	22.6	38.3	82.4	178.4	295.6	419.4

As-If Group: P&L estimation*

m Euro	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028
Sales	0.0	0.4	2.8	16.8	74.2	145.8	257.9	320.1	356.8
Total operating revenues	0.0	0.4	2.8	16.8	74.2	145.8	257.9	320.1	356.8
Gross profit	0.0	0.4	2.8	16.8	74.2	145.8	257.9	320.1	356.8
EBITDA	-6.6	-11.1	-11.2	-5.0	15.2	57.1	143.6	173.6	181.1
EBIT	-6.6	-11.2	-11.2	-5.1	15.0	56.7	143.0	172.6	180.1
EBT	-6.6	-11.2	-11.2	-5.1	15.0	56.9	143.7	175.3	185.0
EAT (before minorities)	-6.6	-11.2	-11.2	-5.1	15.0	42.6	93.4	114.0	120.2
EAT	-4.0	-6.7	-6.7	-3.1	9.0	25.6	56.0	68.4	72.1
EPS	-0.73	-1.03	-1.03	-0.47	1.38	3.92	8.59	10.48	11.05

* *As-if-Group*

Annex II: Cash flows estimation and key figures

As-If Group: Cash flows estimation*

m Euro	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028
CF operating	-6.6	-11.2	-11.6	-7.0	9.7	38.8	90.5	113.2	150.4
CF from investments	-0.1	-0.1	-0.2	-0.5	-1.0	-2.0	-4.0	-4.0	-4.0
CF financing	5.9	11.8	21.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquidity beginning of year	2.0	1.3	1.7	10.9	3.4	12.1	48.9	135.4	244.6
Liquidity end of year	1.3	1.7	10.9	3.4	12.1	48.9	135.4	244.6	391.0

As-If Group: Key figures*

Percent	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028
Sales growth	-	2,960.1%	618.2%	489.8%	341.9%	96.4%	77.0%	24.1%	11.5%
Gross margin	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA margin	-	-	-393.3%	-30.0%	20.4%	39.2%	55.7%	54.2%	50.7%
EBIT margin	-	-	-394.7%	-30.6%	20.2%	38.9%	55.4%	53.9%	50.5%
EBT margin	-	-	-394.7%	-30.4%	20.2%	39.0%	55.7%	54.8%	51.8%
Net margin (after minorities)	-	-	-236.8%	-18.2%	12.1%	17.6%	21.7%	21.4%	20.2%

* *As-if-Group*

Disclaimer

Editor

sc-consult GmbH
Alter Steinweg 46
48143 Münster
Internet: www.sc-consult.com

Phone: +49 (0) 251-13476-94
Telefax: +49 (0) 251-13476-92
E-Mail: kontakt@sc-consult.com

Responsible analyst

Dipl.-Kfm. Holger Steffen

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 26.02.2021 at 7:30 and published on 26.02.2021 at 8:30.

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Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
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Date	Rating	Target price	Conflict of interests
09.12.2020	Speculative Buy	43.00 Euro	1), 3)
24.11.2020	Speculative Buy	43.00 Euro	1), 3), 4)
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)

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