

Deutsche Biotech Innovativ AG

Germany / Pharmaceutical/Biotechnology

Düsseldorf

Bloomberg: VUA GR

ISIN: DE000A0Z25L1

Update

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€39.50**

46.3%

High

LOW ISSUE UPTAKE CRIMPS PARENT COMPANY UPSIDE POTENTIAL

Towards the end of November DBI AG (DBI) announced that the share issue which began in mid-October had brought in €1.6m of the planned €20m. As management commented, DBI's experience demonstrates that obtaining finance for biotech businesses is difficult in Germany, in particular for young companies. Against the background of the poor take-up of the parent company issue, we assume that future financing of DBI will take place at the participation level. On this basis DBI's stake in its prime asset, AdrenoMed, will be 21.8% instead of the 50% which would have been the outcome had the issue been fully placed. The free float in DBI is currently 3.4% which is above the pre-issue level of 1.5% but well below the 38.9% which would have been reached with full placement of the issue. Given that DBI's stakes in its participations and the free float in the share will both be significantly lower than the level we expected at the time of our September initiating coverage study, we lower our price target from €67.9 to €39.5. We maintain our Buy recommendation.

Management prepared to invest own funds in further pipeline development

Figure 1 overleaf shows how DBI originally planned to allocate the expected €20.0m proceeds of the share issue. After deducting costs of €350k in connection with the capital raise, DBI expects to start 2016 with liquidity of €1.27m. Group management has nevertheless pledged to continue the development of the pipeline - using their own funds if necessary. DBI's three largest shareholders, Dr Andreas Bergmann, Dr Metod Miklus and Dr Bernd Wegener contributed €1m of the €1.6m raised in the recent share issue. All three men were involved in the foundation of the diagnostics company, B.R.A.H.M.S. AG in 1994 through a management buyout from Henning Berlin/Marion Merrell Dow. This business was later sold to Thermo Fisher Scientific in 2009 for ca. €330m.

AdrenoMed still accounts for 90% of our enterprise valuation DBI's lead drug candidate, the anti-sepsis therapy, Adrecizumab, is about to start...(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015E	2016E	2017E	2018E
Revenue (€m)	0.00	0.10	0.16	0.26	0.28	0.29
Y-o-y growth	n.a.	n.a.	57.0%	63.1%	8.2%	5.4%
EBIT (€m)	-0.08	-0.14	-0.59	0.00	0.01	6.62
EBIT margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income (€m)	-0.09	-0.15	-0.59	0.00	0.01	5.76
EPS (diluted) (€)	-0.11	-0.17	-0.65	0.00	0.01	6.11
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.13	-0.07	-0.83	-0.93	-0.09	5.81
Net gearing	-12.5%	-33.9%	-51.7%	-13.8%	-10.2%	-74.0%
Liquid assets (€m)	0.14	0.48	1.27	0.34	0.25	6.06

RISKS

The company's drug candidates are at an early development stage. Preclinical trial results have been promising but there is no guarantee that clinical results will be good enough to attract the desired trade buyers.

COMPANY PROFILE

Deutsche Biotech Innovativ AG ("DBI") is a biotechnology company that utilizes innovative blood biomarkers to investigate and clinically develop unique therapies for severe disease without appropriate solutions, such as sepsis and cancer.

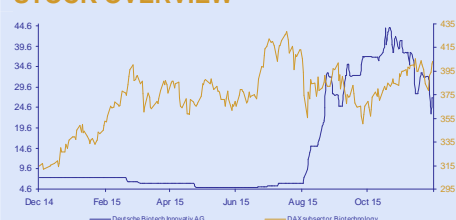
MARKET DATA

As of 18 Dec 2015

Closing Price	€ 27.00
Shares outstanding	0.94m
Market Capitalisation	€ 25.48m
52-week Range	€ 5.00 / 44.00
Avg. Volume (12 Months)	027

Multiples	2014	2015E	2016E
P/E	n.m.	n.m.	n.m.
EV/Sales	241.1	153.6	94.2
EV/EBIT	n.m.	n.m.	n.m.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2015

Liquid Assets	€ 0.09m
Current Assets	€ 0.11m
Intangible Assets	€ 0.00m
Total Assets	€ 1.33m
Current Liabilities	€ 0.09m
Shareholders' Equity	€ 1.17m

SHAREHOLDERS

Dr Andreas Bergmann	32.2%
Dr Metod Miklus	32.2%
Dr Bernd Wegener	32.2%
Free Float	3.4%



...phase I trials, while preclinical development of the breast cancer prevention therapy, DB1RA and of the cancer tumour growth inhibitor, AB2302, is scheduled to continue into 2017. Management stated in the prospectus accompanying the share issue that development of the anti-sepsis therapy, Adrecizumab, has priority. This makes sense as the potential value of AdrenoMed AG (which houses Adrecizumab) is much higher than either Oncoprevent GmbH (DB1RA) or AngioBiomed GmbH (AB2302). Even after the revisions to our valuation, AdrenoMed AG (AdrenoMed) still accounts for nearly 90% of our estimated enterprise valuation of €36.0m.

Figure 1: Capital requirement/allocation as projected ahead of the October/November share issue

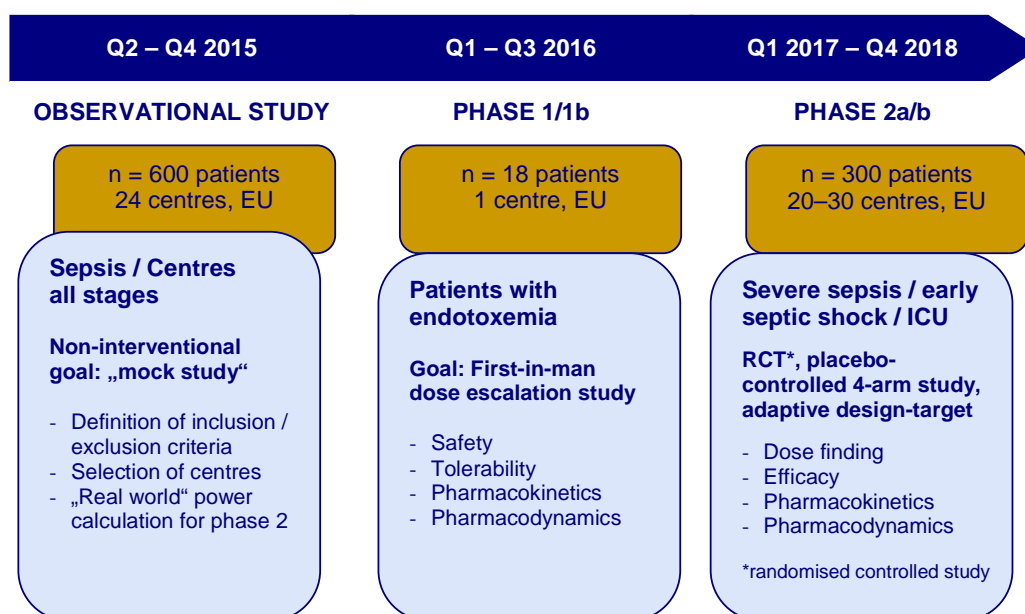
Company	2015		2016		2017		2018		2019	Sum
	H2	H1	H2	H1	H2	H1	H2	H1		
DBI	70	220	260	220	260	220	260	220		1,730
AdrenoMed		1,080	1,110	470	1,710	2,000	1,860	470		8,700
Oncoprevent	30	230	440	650	1,230	470	550	840		4,440
AngioBiomed	420	590	580	670						2,260
My Life Diagnostics	50	70	60	70	65	70	70	45		500
Financing costs	1,200									1,200
Strategic reserve	150	150	150	150	150	150	150	120		1,170
Sum	1,920	2,340	2,600	2,230	3,415	2,910	2,890	1,695		20,000
Cumulated	1,920	4,260	6,860	9,090	12,505	15,415	18,305	20,000		

Source: DBI Deutsche Biotech Innovativ AG

AdrenoMed will receive nearly 60% of net issue proceeds In the near term, DBI will subscribe €750k of the proceeds from the October/November issue to a capital raise by AdrenoMed. A further €100k will be invested in AngioBiomed. 2016 parent company costs were originally budgeted at €0.5m. DBI now plans €0.3m for this figure as management members will forgo their salaries and other costs will also be reduced. This leaves only €120k of the money with which DBI expects to start 2016 unallocated.

Second attempt to raise capital for DBI planned for H1 2016 To cover at least part of the shortfall between the money raised in the share issue and budgeted 2016 group expenditure of €4.9m, DBI's management hopes to raise funds from investors, who for various reasons were not able to take part in the October/November share issue.

Figure 2: Adrecizumab phase I and II study design



Source: AdrenoMed; DBI



AdrenoMed's original budget for 2016 was €2.2m. To bridge the gap between this figure and the soon to be invested €750k, management plans to invest a further €1.75m from the second DBI capital increase mentioned above which is planned for the first half of 2016. Alternatively, members of management are prepared to invest more of their own money directly into AdrenoMed.

Phase I/Ib trial with Adrecizumab due to complete by end 2016 DBI is about to submit an application for a phase I/Ib first-in-man clinical trial with Adrecizumab. The study will test the drug for safety, tolerability and its effects on the human organism. As figure 2 shows, completion of the study is scheduled for 2016. Positive results from the phase I/Ib study would place DBI/AdrenoMed in a strong position to raise further money towards the end of 2016. The phase I/Ib study will be followed directly by the phase IIa/b study in 20 to 30 clinical centres across Europe. The final results of the phase II study are expected by the end of 2018. Following completion of phase I and II trials, DBI envisages selling AdrenoMed to a large pharmaceutical company which would then finance phase III. After a 1-2 year approval period, market introduction would then follow in 2022/23. We estimate annual peak sales potential for Adrecizumab at €3.6bn.

Oncoprevent has applied for €800k in grants and loans Oncoprevent GmbH (Oncoprevent) was originally budgeted to spend €0.7m in 2016. The cash position is currently €250k but the company has also applied for a grant and a loan - each of €400k. The application has received preliminary approval but a final decision is still outstanding. Oncoprevent is currently conducting preclinical trials with the breast cancer prevention therapy, DB1RA. The phase I trial is scheduled to begin in Q1 2018. Cost reductions are expected to ensure that the current liquidity position will last until mid-2016. Provided that sufficient financing is forthcoming, DBI plans a phase II trial which is expected to continue into 2022. DBI then envisages selling the product to a buyer who would finance phase III.

Further financing of AngioBiomed will be based on achievement of milestones AngioBiomed's original budget for 2016 was €1.2m. €100k of the October/November issue proceeds will be invested in AngioBiomed. The company has also applied for a €600k grant. So far no feedback has been forthcoming from the authorities. Management tells us that further financing of AngioBiomed will proceed in increments based on the achievement of milestones but that the long term plan for AngioBiomed remains in place. AngioBiomed and its large pharmaceutical company partner are currently conducting preclinical trials with AB2302. These are scheduled to continue until 2017. DBI plans to sell AngioBiomed to a Big Pharma company after preclinical proof of concept.

Further financing of the UTI product to be carried out by third parties Besides AdrenoMed, Oncoprevent and AngioBiomed, DBI also houses My Life Diagnostics (MLDx) which acts as the "think tank" for DBI and is developing innovative diagnostic projects - the first of which is a diagnostic for urinary tract infections (UTIs) in hospital emergency rooms. DBI originally planned to inject €130k into MLDx in 2016 to finance development of the UTI diagnostic product. Management tell us they still expect DBI to benefit from MLDx' role as a "think tank" but that further financing of the UTI diagnostic product will be carried out by third parties.

In the light of the poor reception for the DBI share issue, we assume that future financing will take place exclusively via the individual participations. Figure 3 below shows the planned changes in DBI's stakes in the participations had the October/November share issue been implemented in full and the proceeds allocated as shown in figure 1. In our current valuation we assume that the participations will raise the same amounts that they were originally due to receive following the recent DBI share issue.



We further assume that the capital raises in the participations take place at the valuations implied by figure 3. For AngioBiomed, we assume a pre-money valuation of €1m. Figure 3 also shows dilution of DBI's existing stakes in the participations on the assumption that all future capital raises are made at participation level.

Figure 3: DBI stakes in participations and free float

	A	B	C
AdrenoMed	26.0%	50.0%	21.8%
Oncoprevent	25.0%	95.0%	7.6%
AngioBiomed	100.0%	100.0%	33.7%
MyLife Diagnostics	50.0%	75.0%	37.5%
DBI Free float	1.5%	38.9%	3.4%

A= prior to October/November share issue

B = given full placement of October/November share issue

C= assuming future financing is carried out exclusively at the participation level

Source: DBI/First Berlin estimates

Valuation of the participations on a 100% basis unchanged on our September study

We continue to base our valuation of DBI's individual participations on exit multiples paid for similar assets at a similar stage of development. Our estimates of the future value of DBI's participations on a 100% basis are unchanged on our September note. Figure 4 shows our valuation of each of DBI's participations and figure 5 shows changes in our valuations since our last study in September. There are two reasons for the large downward revisions in the present value figures for each participation shown in figure 5. The first of these relates to the dilution entailed by financing at the participation rather than the parent company level (see figure 3).

Figure 4: Valuation of DBI's participations

€m	AdrenoMed	Oncoprevent	AngioBiomed	MyLife Diagnostics	Total
Assumed exit date	31/12/2019	30/06/2022	30/06/2018	31/12/2018	
No. years to sale	4.0	6.5	2.5	3.0	
Future value (100%)	461.1	42.3	20.0	16.9	540.2
Estimated future stakes (%)	21.8%	7.6%	33.7%	18.8%	
Future value (DBI's est. future stake)	100.6	3.2	6.7	3.2	113.8
Present value of DBI's est. future stake	37.1	0.6	3.5	1.4	42.6
Less future investment by DBI	36.4	0.6	3.4	1.4	41.8
Present value tax	4.7	0.1	0.9	0.2	5.8
Book value	1.1	0.2	0.1	0.0	1.5
After tax enterprise value	31.7	0.5	2.5	1.2	36.0
Current cash position					1.3
Value per share in € (0.944m shares currently outstanding)					39.5

Source: DBI; First Berlin Equity Research estimates

The second relates to upward revisions in the interest rates used to discount the projected exit proceeds for each of the participations. The poor reception for the recent share issue negatively affects our assessment of the risk that DBI will also in future fail to attract financing for its participations. It also in our view raises the probability that future financing will take place primarily at the participation rather than the parent company level.

Figure 5. Changes to our sum of the parts model

€m	New	Old	Delta
AdrenoMed	31.7	69.1	-54.1%
Oncoprevent	0.5	3.8	-86.2%
AngioBiomed	2.5	7.3	-65.6%
MyLife Diagnostics	1.2	2.2	-43.3%
Total enterprise value	36.0	82.4	-56.3%
Cash	1.3	18.8	
Equity value	37.3	101.2	-63.2%
No shares (m)	0.944	1.49	
Value per share in €	39.5	67.9	-41.8%

Source: First Berlin Equity Research estimates



The effect of the latter will be to maintain the free float in DBI at its current low level. If the recent share issue had proceeded according to plan, the free float in DBI would have risen from 1.5% to 38.9%. The free float is currently 3.4% and will stay at this level if, as we assume, future financing takes place exclusively at the parent company level.

Price target reduced from €67.9 to €39.5 but Buy recommendation retained

Management has often stated that the development of AdrenoMed is DBI's first priority. We gather that investors contacted during the issue roadshow also view AdrenoMed as the company's prime asset. Against this background, we believe that DBI will more readily find finance for AdrenoMed than for the other participations. In our September study we used a discount rate of 25% for all four DBI participations. In the current study we use 28% for AdrenoMed and 30% for the other three participations. Changes in our valuation of the individual participations and the DBI share are shown in figure 5. We reduce our price target from €67.9 to €39.5 but retain our Buy recommendation.



INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Sales	0	100	157	256	277	292
Other operating income	85	4	0	0	0	0
Wages and salaries	-10	-77	-168	-159	-159	-159
Social security and pension payments	-3	-20	-44	-41	-41	-41
Depreciation and amortisation	0	0	-4	-10	-15	-20
Other operating expenses	-153	-149	-528	-50	-50	-50
Profit on disposal of AngioBiomed	0	0	0	0	0	6,599
Operating income (EBIT)	-81	-142	-587	-4	12	6,621
Net financial result	-2	0	0	0	0	0
Pre-tax income (EBT)	-83	-142	-587	-4	12	6,621
Taxes	-2	-3	0	0	0	-861
Net income / loss	-85	-145	-587	-4	12	5,760
Diluted EPS	-0.11	-0.17	-0.65	0.00	0.01	6.11
EBITDA	-81	-142	-583	6	27	6,641
Ratios						
EBIT-Margin	n.m.	-142.5%	-373.9%	-1.6%	4.3%	2267.4%
EBITDA margin	n.m.	-142.0%	-371.3%	2.3%	9.7%	2274.3%
Net Margin	n.m.	-145.5%	-373.8%	-1.5%	4.3%	1972.7%
Expenses as % of Revenues						
Wages and salaries	n.m.	-77.0%	-107.2%	-62.0%	-57.3%	-54.4%
Social security and pension payments	n.m.	-20.0%	-27.8%	-16.1%	-14.9%	-14.1%
Other operating expenses	n.m.	-149.0%	-336.3%	-19.5%	-18.1%	-17.1%
Y-Y Growth						
Revenues	n.m.	n.m.	57.0%	63.1%	8.2%	5.4%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	55073.9%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	47786.7%



BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Assets						
Current Assets, Total	291	545	1,349	464	388	6,210
Cash and Cash Equivalents	145	481	1,270	336	249	6,064
Receivables	0	13	20	33	36	38
Receivables from affiliated companies	73	39	39	64	69	73
Other Current Assets	73	12	19	31	33	35
Non-Current Assets, Total	984	993	1,264	2,224	2,329	2,279
Property, Plant & Equipment	0	1	20	50	75	100
Participations	984	992	1,244	2,174	2,254	2,179
Total Assets	1,275	1,538	2,613	2,688	2,717	8,489
Shareholders' Equity & Debt						
Current Liabilities, Total	106	84	126	205	222	234
Accounts Payable	46	12	19	31	33	35
Payables to affiliated companies	0	8	13	20	22	23
Shareholder loans	0	0	0	0	0	0
Other current liabilities	60	64	94	154	166	175
Longterm Liabilities, Total	13	36	31	51	55	58
Tax provisions	2	0	0	0	0	0
Other provisions	11	36	31	51	55	58
Shareholders Equity, Total	1,156	1,418	2,456	2,432	2,440	8,197
Share Capital	413	447	943	943	943	943
Share premium account	1,138	1,511	2,635	2,635	2,635	2,635
Profit/(losses) carried forward	-310	-395	-540	-1,122	-1,146	-1,138
Profit/(loss) for the year	-85	-145	-582	-24	8	5,757
Total Consolidated Equity and Debt	1,275	1,538	2,613	2,688	2,717	8,489
Ratios						
Current ratio (x)	2.7	6.5	10.7	2.3	1.7	26.6
Quick ratio (x)	2.7	6.5	10.7	2.3	1.7	26.6
Net gearing	-12.5%	-33.9%	-51.7%	-13.8%	-10.2%	-74.0%
Net cash	145	481	1,270	336	249	6,064
Return on Equity (ROE)	-8.1%	-11.3%	-30.3%	-0.2%	0.5%	108.3%



CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Net profit	-85	-145	-587	-4	12	5,760
Profit on disposal of AngioBiomed	0	0	0	0	0	-6,599
Depreciation and amortization	0	0	4	10	15	20
Change in provisions	3	22	0	0	0	0
Profit on asset sales	-85	0	0	0	0	0
Change in working capital	38	-93	27	30	6	4
Operating Cashflow	-130	-216	-556	36	33	-814
CAPEX	0	143	-275	-970	-120	-120
Proceeds on disposal of AngioBiomed	0	0	0	0	0	6,748
Free cashflow	-130	-73	-831	-934	-87	5,815
Debt Financing, net	-205	0	0	0	0	0
Equity Financing, net	300	409	1,620	0	0	0
Other Changes in Cash	0	0	0	0	0	0
Net Cash Flows	-34	336	789	-934	-87	5,815
Cash, start of the year	179	145	481	1,270	336	249
Cash, end of the year	145	481	1,270	336	249	6,064
EBITDA/share	-0.10	-0.17	-0.65	0.01	0.03	7.04
Y-Y Growth						
Operating Cashflow	n.m.	n.m.	n.m.	n.m.	-6.9%	n.m.
Free cashflow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	n.m.	n.m.	350.0%	24495.8%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	8 September 2015	€20.00	Buy	€67.90
2	Today	€27.00	Buy	€39.50

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance

BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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