

# MGC Pharmaceuticals

## Pharmaceuticals

UK Equity Research

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## Achieving major landmarks

### Canaccord Genuity view

#### Aiming for a leading position in COVID-19 symptom relief

MGC Pharma is a UK and Australian-listed company developing natural, plant-derived pharmaceuticals. In the last quarter of 2021, MGC saw projects coming to fruition confirming its position as a global business. MGC sells medicinal cannabis products such as CannEpi<sup>TM</sup> for epilepsy control plus ArtemiC<sup>TM</sup>, a nutritional supplement to alleviate COVID-19 symptoms. In H2CY22, several major landmarks were achieved in the advancement of CimetrA and ArtemiC towards regulatory approval in key global markets. Cash receipts in H1FY22 totalled A\$3.5mm comprising A\$2.5mm from sales plus a US\$750k (A\$1.1mm) cash deposit against future orders from MGC's US partner, AMC. The Maltese production facility to produce ArtemiC was completed and fitting out is in progress.

#### Expected ArtemiC and CimetrA developments over H1CY22

In the medium term, the key aspect for investors will be the level of ArtemiC sales to Swiss PharmaCan (SPC), a private company. Sales in H1FY22 to SPC were A\$1.05mm. Contractually, we expect sales of A\$4mm each year. According to management, SPC is actively marketing ArtemiC's two formulations: Rescue and Support.

Clinically, Phase 3 of the old CimetrA formulation remains ongoing. A Phase 2 CimetrA study has started testing the simplified new formulation. In the US, AMC, a private company formed in 2021, is seeking appropriate regulatory permissions for CimetrA. A US\$3mm order was placed with MGC in Q4CY21. In India, approval of CimetrA is on hold as a local clinical study is required. ArtemiC sales as a nutritional supplement are, however, possible this year in India.

#### Other core projects

The pharmaceutical version of CannEpi (MGCND00EP1) has not yet started its Israeli study, so we do not expect any data before H2CY22. The small CogniCann study in Australia is paused due to local COVID-19 restrictions

#### Cash flow over H1FY22

MGC received A\$3.5mm in cash from customers in H1FY22. Of this, A\$1.1mm was from AMC and will be reported in sales once US shipment of products, like CimetrA, occurs. Some A\$1.3mm of cash was from medicinal cannabis. We assume the remaining funds come from a combination of ArtemiC sales invoices and other businesses. The net Q2FY22 burn was A\$5.4mm net before financing with an increased burn over Q1. MGC raised £5.5mm gross, A\$9.3m net in Q2. Cash on 31 December 2021 was A\$8.9mm. If the Q2 operational cost outflow of A\$6.5mm before capital investment continues, MGC may require further funding unless sales rise.

#### Valuation

We have previously estimated that MGC will generate c.A\$20mn (£11mn) in revenue, mostly from ArtemiC and CimetrA. MGC now needs a significant sale boost in H2FY22 but with five months of FY22 left, management remains optimistic. We continue to regard the shares as a SPECULATIVE BUY with a price target of 7.2p.

Rating  
**SPECULATIVE BUY**  
*unchanged*

Price Target  
**7.2p A\$0.14**  
*unchanged*

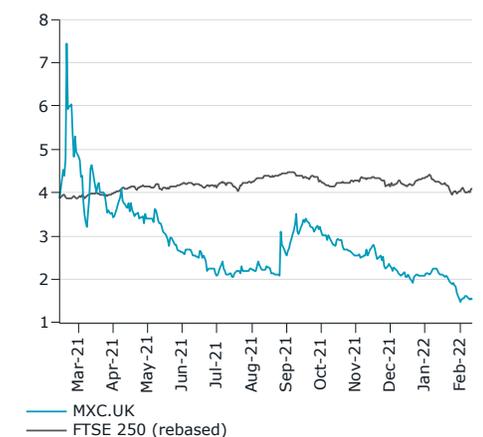
**MXC-LSE**  
**MXC-ASX**

Price  
**2p**

#### Market Data

52-Week Range (p) :	1 - 9
Avg Daily Vol (M) :	7.6
Market Cap (£M) :	42.7
Shares Out. (M) :	2,773.0
Dividend /Shr (p) :	0.0
Dividend Yield (%) :	0.0
Enterprise Value (£M) :	51.4

FYE Jun	2021A	2022E	2023E	2024E
Sales (A\$M)	3.0	20.2	40.3	37.9
EBITDA (A\$M)	(11.6)	(5.1)	4.1	1.4
Net Debt (Cash) (A\$M)	1	10	11	11
EPS Adj&Dil (A\$)	(0.00)	(0.00)	0.00	0.00
DPS (A\$)	0.00	0.00	0.00	0.00



Priced as of close of business 11 February 2022

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## Investment Q2FY22 update

MGC Pharma (MGC) manufactures and develops both non-cannabis and cannabis plant-derived medicines. MGC is an Australian-European based company. In the US, it is partnered with AMC, a new company developing the US market for MGC's plant-based products. MGC has European revenues from a nutraceutical for immune support (ArtemiC) and from purified medicinal cannabis formulations like CannEpil (for epilepsy) which are sold in the UK, Ireland and, mainly, Australia. Cimetra, a pharmaceutical treatment for relief of COVID-19 symptoms, is in clinical development and could be a major product after regulatory approvals. A pharmaceutical version of CannEpil (MGCND00EP1) is due to start a clinical trial in children in 2022. MGC has its main listing in Australia with a secondary quotation in London.

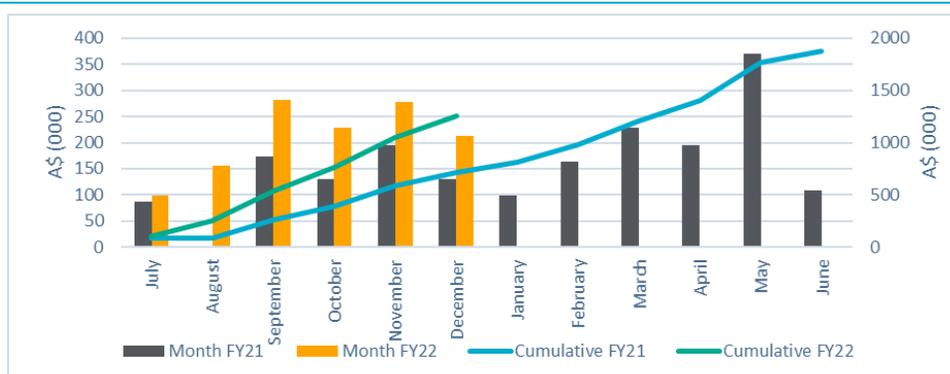
In this note, we update our previous January 2022 note with the 31 January Q2 cashflow update. Australian listed companies give a cashflow update every quarter although this does not include full accounts; interim accounts are expected in the next few months with full year FY22 results (to 30 June) in September. More detail on projects is in our January note.

### Q2 and H1 FY22 sales as disclosed

MGC partially updates sales on medicinal cannabis products and on ArtemiC (sold to SPC) in its cash flow updates. The full interim results will show total sales.

Medicinal cannabis sales, helped by public funding of CannEpil in Ireland, rose from A\$564k in Q1 to A\$720k in Q2. The H1FY22 total of A\$1.3m (July-Dec 2021) compares to A\$1.2mm in H2FY21 (Jan-June 2021) with sales varying on a month to month basis. Compared to H1FY21, sales are significantly better, Figure 1.

**Figure 1: MGC medicinal cannabis sales FY21 vs FY22 (to date)**



Source: Canaccord based on MGC Quarterly report

### Q2FY22 cash flow

The cash flows for Q2 are compared to Q1 and the full six-month period in Figure 2. Note that cash flows do not directly compare to reported sales.

From the cash flow statement, the CoG in H1FY22 was A\$2.9mm and cash receipts from identified sales (that is excluding the AMC cash deposit) were A\$2.3mm implying that MGC may have made a A\$0.6mm gross cash loss - although this may be due to timing issues in reporting. Obtaining a higher margin on sales will be crucial going forward.

The other notable aspect of the Q2 report is the increased operational expenditure. Costs rose to A\$6.55mm in Q2 from A\$2.65mm in Q1. Some of these were new regulatory consultancy costs, A\$733k in Q2; AMC presumably carries the costs of interacting with the FDA in the US. Combined admin and staff costs in Q2 nearly doubled relative to Q1.

**Figure 2: MGC Q2FY22 cashflow**

A\$'000	Q2	Q1	H1FY22
Sales	2619	943	3562
<b>Costs</b>			
R&D	-814	-456	-1270
CoG	-2082	-810	-2892
Market Authorisation	-733	0	-733
Marketing	-345	-54	-399
Staff	-1268	-726	-1994
Admin	-1307	-599	-1906
<b>Total costs</b>	<b>-6549</b>	<b>-2645</b>	<b>-9194</b>
Interest	1	0	1
Grants	4	655	659
Cash deposits	0	366	366
<b>Operating cash</b>	<b>-3925</b>	<b>-681</b>	<b>-4606</b>
<b>Investment</b>			
Acquisition	148	0	148
Investment in Malta	-1646	-785	-2431
<b>Investing activities</b>	<b>-1498</b>	<b>-785</b>	<b>-2283</b>
<b>Funding</b>			
Equity	1014		1014
Options	0	508	508
Costs	-891	-21	-912
Russian loan	0	-318	-318
<b>Funding activities</b>	<b>9303</b>	<b>169</b>	<b>9472</b>
Opening cash	4203	5433	5433
Cash used and invested	-5423	-1466	-6889
Cash raised	9303	169	9472
Exchange rate	13	67	80
<b>Closing cash</b>	<b>8096</b>	<b>4203</b>	<b>8096</b>

Source: Canaccord based on MGC Quarterly report

MGC raised funding in Q2FY22 of A\$9.3mm net. Payments totalling \$461k were made for director fees and corporate costs.

If H2FY22 sales receipts do not rise significantly over H1FY22 at better cash margins, further near-term funding might be required. MGC has an A\$9.25mm funding facility from Mercer available but has previously stated that this will not be used.

### Clinical update

- The Israeli Phase 2 for CannEpi1 (MGCND00EP1), [NCT04406948](#) is still gaining the full set of regulatory documentation needed to start. The trial is designed to take four months. It now seems unlikely to us that the primary readout can be available before late summer 2022 although no specific timeline is available. In our valuation, this is a critical project and recent deals by other companies show that there is pharmaceutical interest in developing epilepsy therapies.
- The ongoing double blinded, randomised Phase 3 COVID-19 study, [NCT04802382](#) using the CimetrA old formulation aims to recruit 252 patients. It started in July 2021. According to management, recruiting hospitalised COVID-19 patients in Israel is difficult and there are no updated timelines.
- The most recent Phase 2 dose-finding study ([NCT05037162](#)). On the simplified CimetrA formulation is underway in Israel and plans to add trial centres in multiple countries, including, potentially, the US, Russia and South Africa. This trial is in 240 hospitalised patients who have moderate COVID-19. We have no revised timeline on this study which was due to complete in late 2021.

- An ArtemiC Support study as food supplement on its effect in post-COVID recovery is underway in Spain. This is open-label and aims to recruit 150 patients. It has no entry on the European clinical database. This trial is sponsored by SPC and co-sponsored by MGC and Glow LifeTech (the company with North American ArtemiC rights). Patients are followed for six weeks. It might report data from late Q1CY22, but SPC is a private company and not obliged to.
- In India, a clinical trial will be needed to gain an Emergency Use Authorization. Alternatively, if CimetrA gains a regulatory approval in the US or EMA, that could be used in support of an Indian application. Hence, the Indian regulatory process is on hold. The issue does not apply to ArtemiC as a food supplement which apparently has an import license.
- CogniCann is in a small, exploratory Australian academic study. Some feedbacks suggest that the product is well tolerated and liked by patients. However, difficulties in running this study have delayed it and we have no new timeline.

**Valuation: estimate risked fair value of £205mn**

MGC has two major value sources: its cannabis-derived pharmaceutical products and its non-cannabis CimetrA pharmaceutical for Covid-19 relief. ArtemiC and medicinal cannabis products provide shorter-term cash flows. We maintain our estimated indicative value for MGC of £205mn (7.2p/share), Figure 3.

**Figure 3: Valuation of MGC Pharma**

	Shares mn	£ mn	A\$ mn
Value of cash flows		£131	\$244
Continuing Value		£74	\$138
<b>Overall Value</b>		<b>£205</b>	<b>\$383</b>
Per share (fully diluted June 2022)	2,832	<b>7.2p</b>	<b>13.5c</b>

Source: Company reports, Canaccord Genuity estimates

Our financial estimates are in Figure 4.

The Q3FY22 cash flow update expected in late April and will give a better indication of the likely FY22 outcome. Till then, the estimates remain unchanged.

Figure 4: MGC Pharma summary short-term financials

A\$ mn. June year end	2020	2021	y/y	2022E	y/y	2023E	y/y	2024E	y/y
<b>Profit&amp;loss</b>									
Medical cannabis	1.2	1.9	+58%	3.4	+82%	5.2	+50%	6.0	+15%
CimetrA / ArtemiC	-	0.7		15.8		34.1	+116%	30.9	-9%
Clinical trial services	-	0.2		1.0		1.0	+2%	1.1	+2%
Other items	0.9	0.1		-		-		-	
<b>Sales</b>	<b>2.1</b>	<b>3.0</b>	<b>+43%</b>	<b>20.2</b>	<b>-</b>	<b>40.3</b>	<b>+99%</b>	<b>37.9</b>	<b>-6%</b>
COGS	-1.9	-1.7	-13%	-9.8	-	-19.2	+95%	-18.2	-5%
Gross margin	8%	44%		51%		52%		52%	
R&D, clinical trials	-5.4	-5.3	-2%	-6.9	+31%	-7.8	+13%	-8.6	+10%
Other SG&A, other income	-6.1	-7.7	+26%	-8.3	+8%	-8.5	+2%	-8.9	+5%
<b>Adjusted EBITDA (LBITDA)</b>	<b>-11.3</b>	<b>-11.6</b>	<b>nm</b>	<b>-4.8</b>	<b>nm</b>	<b>4.8</b>	<b>nm</b>	<b>2.2</b>	<b>nm</b>
margin	nm	nm		-24%		12%		6%	
Items depreciated	-	-		-0.4		-0.4		-0.4	
Adjusted operating profit	-11.3	-11.6	nm	-5.1	nm	4.4	nm	1.7	nm
Interest	0.0	-0.4		-0.4		-0.4		-0.4	
<b>Adjusted profit</b>	<b>-11.3</b>	<b>-12.0</b>	<b>nm</b>	<b>-5.5</b>	<b>nm</b>	<b>4.1</b>	<b>nm</b>	<b>1.4</b>	<b>nm</b>
Diluted average shares o/s (mn)	2,000	1,960	-2%	2,538	+29%	2,548	+0%	2,548	-
<b>Adjusted EPS (loss), pence</b>	<b>-0.53</b>	<b>-0.39</b>	<b>nm</b>	<b>-0.12</b>	<b>nm</b>	<b>0.09</b>	<b>nm</b>	<b>0.03</b>	<b>nm</b>
DPS net, declared, pence	0.00	0.00	-	0.00	-	0.00	-	0.00	-
<b>Balance sheet</b>									
Fixed assets	4.7	14.8		18.2		21.8		22.6	
Net current assets	-1.8	2.0		3.3		4.4		4.2	
Net cash (debt)	-0.0	-1.2		-7.9		-8.5		-7.9	
Other items	0.2	-6.5		-4.3		-4.2		-4.1	
Shareholders' equity	3.1	9.0		9.3		13.4		14.8	
<b>Cash flow</b>									
EBITDA	-11.3	-11.6	nm	-4.8	nm	4.8	nm	2.2	nm
Change in WC incl associates	-	-		-0.9		-1.1		0.1	
Interest, tax, other	0.0	-0.4		-0.4		-0.4		-0.4	
<b>Operating cash flow</b>	<b>-11.3</b>	<b>-12.0</b>	<b>nm</b>	<b>-6.0</b>	<b>nm</b>	<b>3.4</b>	<b>nm</b>	<b>2.0</b>	<b>nm</b>
Capex	-1.0	-3.3		-3.8		-4.0		-1.3	
Divestment / contribution	-0.0	-0.1		-		-		-	
Issued, net	10.6	11.6		5.8		-		-	
Convertibles, minorities, other	1.6	2.6		-2.6		-0.1		-0.1	
<b>Change in net debt</b>	<b>-</b>	<b>-1.2</b>		<b>-6.6</b>		<b>-0.7</b>		<b>0.6</b>	

Source: Company reports, Canaccord Genuity estimates

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Date and time of first dissemination: February 14, 2022, 02:13 ET

Date and time of production: February 14, 2022, 02:13 ET

### Target Price / Valuation Methodology:

MGC Pharmaceuticals - MXC

Our valuation is based on a risked DCF, where we take specific probabilities of technical and commercial success for each of MGC's three major products (CimetrA, CannEpil, and CogniCann) and risk the likely medium-term free cash flow generation from the full development of the products. In addition, we value the near-term cash flows from its medicinal cannabis, nutraceutical and third-party clinical research units.

### Risks to achieving Target Price / Valuation:

MGC Pharmaceuticals - MXC

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	#	%	%
Buy	662	68.96%	42.15%
Hold	129	13.44%	26.36%
Sell	10	1.04%	20.00%
Speculative Buy	155	16.15%	58.71%
	960*	100.0%	

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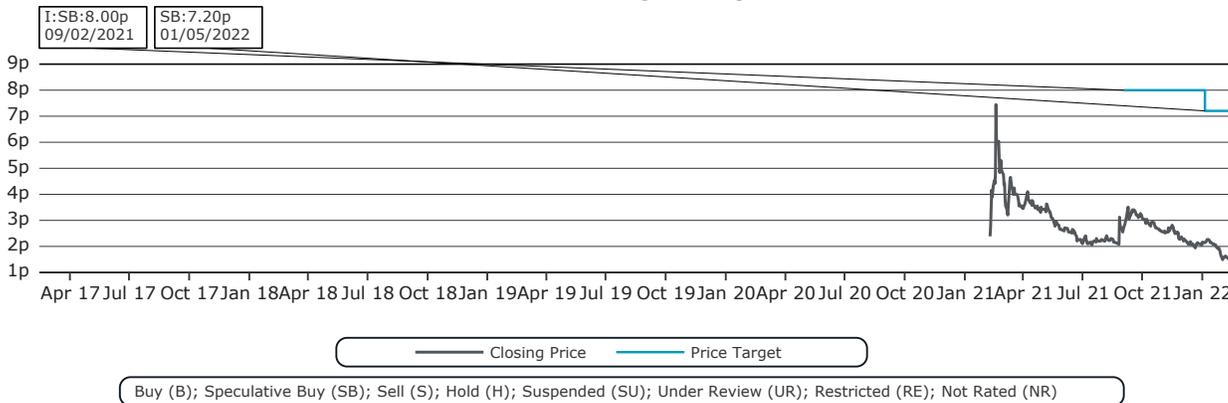
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