

ELBIT Medical Technologies

Financial update

Large portion of InSightec stake sold

Elbit Medical recently completed the sale of most of its stake in InSightec for \$102.2m, at a \$702m valuation for the company. In March, InSightec announced a Series F funding round that is being led by current investor, Koch Disruptive Technologies, which will raise an additional \$150m for InSightec. The post-money valuation for InSightec would be \$1.3bn fully diluted. Following these transactions, Elbit Medical now has a stake of approximately 3.3% of InSightec (2.8% on a fully diluted basis) down from 22% (18% on a diluted basis) previously.

| Year end | Revenue (\$m) | PBT* (\$m) | EPS* (\$) | DPS (\$) | P/E (x) | Yield (%) |
|----------|---------------|------------|-----------|----------|---------|-----------|
| 12/18 | 35.0 | 26.8 | 0.12 | 0.0 | N/A | N/A |
| 12/19 | 16.8 | (21.2) | (0.09) | 0.0 | N/A | N/A |

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Sale of InSightec stake bolsters cash

The successful sale of its InSightec stake provides Elbit with \$102.2m in cash. The company has already used part of the proceeds in Q120 to repurchase 133.3m shares for \$38m and will use most of the rest of the cash for either the payment or repurchase of debt.

InSightec raises additional cash from Koch

In March, InSightec announced a Series F funding round led by Koch Disruptive Technologies, the venture capital arm of Koch Industries. Up to \$150m will be invested in InSightec, with \$107m received as of March (\$100m from Koch Disruptive Technologies). The fully diluted post-money valuation for InSightec will be \$1.3bn. This is the second funding round led by Koch Disruptive Technologies, following a Series E round investment.

Omidubicel data due in Q220

Top-line data for the Phase III of omidubicel in haematological malignancies continues to be expected in Q220. As enrolment in the trial was completed last December, we do not believe timelines should be affected greatly by coronavirus. If the Phase III data are positive, Gamida Cell plans to submit a biologic licence application (BLA) filing for omidubicel in Q420.

Valuation: NIS229.7m or NIS2.34per share

We have adjusted our valuation to NIS229.7m or NIS2.34 per share from NIS346.1m or NIS1.50 per share. The total valuation fell mainly due to \$38m in cash used to buy back shares, while the per-share value rose due to the 133.3m fewer shares. A key valuation inflection point for the stake in Gamida Cell will be the Phase III data for omidubicel, expected in Q220.

Pharma & biotech

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Price **NIS1.09**
Market cap **NIS107m**

Priced at 5 May 2020

NIS3.57/US\$

Net cash (\$m) at 31 December 2019 including sale proceeds and share repurchase 17.5

Shares in issue 98.1m

Free float 65%

Code EMTC

Primary exchange TASE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 22.4 13.4 17.2

Rel (local) 8.6 35.9 25.9

52-week high/low NIS1.4 NIS0.7

Business description

Elbit Medical Technologies is an Israeli biomedical and healthcare technology group. Its portfolio of two companies is focused on medical devices and therapeutics: InSightec, which develops and markets the ExAblate platform for non-invasive thermal tissue ablation, and Gamida Cell, which is developing a universal bone-marrow transplant.

Next events

Gamida Cell omidubicel Phase III top-line data Q220

Analysts

Maxim Jacobs +1 646 653 7027

Wiktoria O'Hare +1 646 653 7028

healthcare@edisongroup.com
[Edison profile page](#)

Gamida data coming soon

Gamida Cell's 120-patient [Phase III study](#) of omidubicel in patients with haematological malignancies completed enrolment last December and data are expected in Q220 (with a filing in Q420 if the data are positive). Omidubicel, which is the company's lead asset, expands umbilical cord blood (UCB) cell grafts ex vivo and enriches the specific subpopulation of stem and progenitor cells to treat haematological malignancies such as leukaemia and lymphoma. Essentially, CD133+ cells selected from a single unit of UCB are cultured for approximately three weeks in nicotinamide and are then cryopreserved until they are transplanted into the intended patients. This expansion is expected to provide a substantial advantage over a single UCB graft. The use of UCB for bone marrow transplantation (BMT) is limited by the minimal number of stem and progenitor cells. The omidubicel process seeks to provide a more viable alternative to BMT in cancer patients and only partial genetic matching is needed (ie a minimum requirement of four out of six human leukocyte antigen biomarkers). The registrational trial is investigating the ability of omidubicel to provide a graft with an ample number of cells that have fast and vigorous in vivo neutrophil- and platelet-producing potential to improve transplantation outcomes (as low cell dose is associated with delayed engraftment and poor outcomes). The primary endpoint for the trial is time to neutrophil engraftment following transplantation (on or before the 42nd day post-transplant) compared to an unmanipulated cord blood unit.

The company is also investigating omidubicel for the treatment of severe aplastic anaemia in an ongoing Phase I/II study. With patient inclusion in cohort one complete (and encouraging data presented on those first cohort patients at the annual Transplantation and Cellular Therapy meeting in 2019), enrolment into cohort two began last June. Cohort two will evaluate engraftment and transplantation outcomes with the omidubicel-expanded unit alone (in other words, without a haploidentical donor). The company has stated that additional data from this trial will be presented in the second half of 2020, although the exact timing is unknown as enrolment may have been affected by the coronavirus pandemic.

The company also expects to file an IND in Q420 for the GDA-201 programme with the FDA in order to enable the initiation of a multi-centre Phase I/II clinical study in patients with non-Hodgkin Lymphoma (NHL). The GDA-201 programme is based on donor-derived natural killer (NK) cells. NK cells are a type of lymphocyte, or white blood cell, that play a central role in lysing infected or transformed cells and therefore offer an innovative approach to cancer treatment. As a reminder, the company presented data at the American Society of Hematology (ASH) meeting in December 2019 from a Phase I trial. Among the nine evaluable NHL patients in the study, GDA-201 achieved a 56% complete response rate and a 67% objective response rate.

Gamida Cell ended 2019 with \$55.4m in cash and marketable securities. Gamida Cell has guided for a \$30–35m in cash outflow for operating activities over the first six months of 2020 and expects its current resources to fund its operations into Q420. As a reminder, Elbit owns a 7% stake in Gamida Cell.

The InSightec stake

In February, Elbit Medical completed the sale of most of its stake in InSightec for \$102.2m at a \$702m valuation for InSightec. In March, InSightec announced a Series F funding round that is being led by current investor, Koch Disruptive Technologies, which will raise an additional \$150m for InSightec. The post-money valuation for InSightec would be \$1.3bn fully diluted. So far \$107m has been received, including \$100m from Koch Disruptive Technologies. This is the second funding

round led by Koch Disruptive Technologies. Following these transactions, Elbit Medical now has a stake of approximately 3.3% of InSightec (2.8% on a fully diluted basis) down from 22% (18% on a diluted basis) previously.

InSightec recently reported its 2019 results. Revenues, which are based on the sale of ExAblate systems and corresponding annual service contract costs and consumables, were \$45.7m in 2019, up 20% from \$38.0m in 2018. Cash flow for operating activities in 2019 was a negative \$42.8m. Cash, cash equivalents and deposits totalled \$62.6m as of 31 December 2019. It is unclear what impact coronavirus will have on sales but it could be significant as resources are diverted and hospitals are under significant financial pressure.

Valuation

We have adjusted our valuation of Elbit from NIS229.7m or NIS2.34 per share from NIS346.1m or NIS1.50 per share. The total valuation fell mainly due to \$38m in cash used to buy back shares, although this was mitigated by rolling forward our NPVs and a small increase in value due to the sale of InSightec shares at a higher valuation than we had been modelling. The per-share value rose due to the 133.3m fewer shares outstanding following the buyback. A key valuation inflection point for the stake in Gamida Cell will be the Phase III data for omidubicel, expected in Q220.

Exhibit 1: Elbit Medical valuation table

| Product | Setting | Status | Launch | Peak sales (\$m) | Probability of success | Royalty rate | rNPV (\$m) | % owned by Elbit Medical (fully diluted) | Elbit Medical rNPV (\$m) |
|---|---|-----------|--------|------------------|------------------------|--------------|------------|--|--------------------------|
| InSightec | MRgFUS (for gynaecology, oncology, neurology indications) | Market | Market | 583 | 100% | 100% | 723 | 2.8% | 20.2 |
| Gamida cell | Leukaemia (AML, ALL, CML, CLL) | Phase III | 2021 | 370 | 50% | 100% | 391 | 7% | 27.4 |
| Portfolio total (\$m) | | | | | | | | | 47.6 |
| Pro forma net cash (as of 31 December 2019 plus InSightec sale and net of funds used for buyback) (\$m) | | | | | | | | | 17.5 |
| Overall valuation | | | | | | | | | 65.1 |
| Shekel/dollar conversion rate | | | | | | | | | 3.5 |
| Overall valuation in shekels (NISm) | | | | | | | | | 229.7 |
| Shares outstanding (m) | | | | | | | | | 98.1 |
| Per share (NIS) | | | | | | | | | 2.34 |

Source: Edison Investment Research, Elbit Medical Technologies

Financials

Elbit Medical recently announced its 2019 financial results. The post-tax loss was \$21.2m, mainly due to changes in the fair value of assets and financing expenses for debentures as the operating cash flow loss was only \$0.6m. General and admin costs for the period were \$0.5m, which includes management fees, professional services and other related expenses. The company had cash, cash equivalents, short-term deposits and restricted cash of \$2.2m at 31 December 2019 and \$49.0m in debt (which includes \$2.3m in fair value for the bond conversion component). In February, it received \$102.2m in cash from its sale of the InSightec stake and used \$38m for a share repurchase. Most of the rest of the cash will be used to pay or repurchase the debt outstanding. We outline historical financials in Exhibit 2. Please note we continue not to provide financial forecasts at this time.

Exhibit 2: Financial summary

| | US\$'000s | 2018 | 2019 |
|--|-----------|----------|----------|
| Year end 31 December | | IFRS | IFRS |
| PROFIT & LOSS | | | |
| Revenue | | 34,951 | 16,803 |
| Cost of Sales | | 0 | 0 |
| Gross Profit | | 34,951 | 16,803 |
| R&D expenses | | 0 | 0 |
| SG&A expenses | | (918) | (470) |
| Other expenses | | 0 | (15,937) |
| EBITDA | | 34,033 | 396 |
| Operating Profit (before amort. and except.) | | 34,033 | 396 |
| Intangible Amortisation | | 0 | 0 |
| Exceptionals | | 0 | 0 |
| Operating Profit | | 34,033 | 396 |
| Other | | 0 | (14,847) |
| Net Interest | | (7,212) | (6,769) |
| Profit Before Tax (nom) | | 26,821 | (21,220) |
| Profit Before Tax (FRS 3) | | 26,821 | (21,220) |
| Tax | | 0 | 0 |
| Profit After Tax (norm) | | 26,821 | (21,220) |
| Profit After Tax (FRS 3) | | 26,821 | (21,220) |
| Average Number of Shares Outstanding (m) | | 231.5 | 231.5 |
| EPS - normalised (\$) | | 0.12 | (0.09) |
| EPS - FRS 3 (\$) | | 0.12 | (0.09) |
| Dividend per share (\$) | | 0.0 | 0.0 |
| BALANCE SHEET | | | |
| Fixed Assets | | 24,233 | 11,548 |
| Intangible Assets | | 23,016 | 11,548 |
| Tangible Assets | | 0 | 0 |
| Other | | 1,217 | 0 |
| Current Assets | | 3,797 | 2,248 |
| Stocks | | 0 | 0 |
| Debtors | | 11 | 35 |
| Cash | | 3,786 | 2,213 |
| Other | | 0 | 0 |
| Current Liabilities | | (1,526) | (1,522) |
| Creditors | | (1,526) | (1,522) |
| Short term borrowings | | 0 | 0 |
| Short term leases | | 0 | 0 |
| Other | | 0 | 0 |
| Long Term Liabilities | | (41,998) | (48,961) |
| Long term borrowings | | (39,030) | (46,661) |
| Long term leases | | 0 | 0 |
| Other long term liabilities | | (2,968) | (2,300) |
| Net Assets | | (15,494) | (36,687) |
| CASH FLOW | | | |
| Operating Cash Flow | | (499) | (571) |
| Tax | | 0 | 0 |
| Capex | | 0 | 0 |
| Acquisitions/disposals | | 0 | 0 |
| Financing | | 0 | 0 |
| Dividends | | 0 | 0 |
| Other | | (4,113) | 2,165 |
| Net Cash Flow | | (4,612) | 1,594 |
| Opening net debt/(cash) | | 42,383 | 35,244 |
| HP finance leases initiated | | (6,835) | (2,542) |
| Other | | 18,586 | (8,256) |
| Closing net debt/(cash) | | 35,244 | 44,448 |

Source: Company accounts. Note: 2018 cash flow amounts have been restated.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia

Tel Aviv +44 (0)20 3734 1007
Azrieli Centre, Triangle Building
38th Floor, Tel Aviv, 4676652
Israel