EDISON

ELBIT Medical Technologies

Financial update

Large portion of InSightec stake sold

Pharma & biotech

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.

6 May 2020

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$'000s	2018	2019
Year end 31 December	IFRS	IFRS
PROFIT & LOSS		
Revenue	34,951	16,803
Cost of Sales	0	0
Gross Profit	34,951	16,803
R&D expenses	0	0
SG&A expenses	(918)	(470)
Other expenses	0	(15,937)
EBITDA	34,033	396
Operating Profit (before amort. and except.)	34,033	396
Intangible Amortisation	0	0
Exceptionals	0	0
Operating Profit	34,033	396
Other	0	(14,847)
Net Interest	(7,212)	(6,769)
Profit Before Tax (norm)	26,821	(21,220)
Profit Before Tax (FRS 3)	26,821	(21,220)
Tax	0	0
Profit After Tax (norm)	26,821	(21,220)
Profit After Tax (FRS 3)	26,821	(21,220)
Average Number of Shares Outstanding (m)	231.5	231.5
EPS - normalised ($)	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.

General disclaimer and copyright

This report has been commissioned by TASE and prepared and issued by Edison, in consideration of a fee payable by TASE. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Israel

Disclosure regarding the scheme to enhance the awareness of investors to public companies in the technology and biomed sectors that are listed on the Tel Aviv Stock Exchange and participate in the scheme (hereinafter respectively "the Scheme", "TASE", "Participant" and/or "Participants"). Edison Investment Research (Israel) Ltd, the Israeli subsidiary of Edison Investment Research Ltd (hereinafter respectively "Edison Israel" and "Edison"), has entered into an agreement with the TASE for the purpose of providing research analysis (hereinafter "the Agreement"), regarding the Participants and according to the Scheme (hereinafter "the Analysis" or "Analyses"). The Analysis will be distributed and published on the TASE website (Maya), Israel Security Authority (hereinafter "the ISA") website (Magna), and through various other distribution channels. The Analysis for each participant will be published at least four times a year, after publication of quarterly or annual financial reports, and shall be updated as necessary after publication of an immediate report with respect to the occurrence of a material event regarding a Participant. As set forth in the Agreement, Edison Israel is entitled to fees for providing its investment research services. The fees shall be paid by the Participants directly to the TASE, and TASE shall pay the fees directly to Edison. Subject to the terms and principals of the Agreement, the Annual fees that Edison Israel shall be entitled to for each Participant shall be in the range of $35,000-50,000. As set forth in the Agreement and subject to its terms, the Analyses shall include a description of the Participant and its business activities, which shall inter alia relate to matters such as: shareholders; management; products; relevant intellectual property; the business environment in which the Participant operates; the Participant's standing in such an environment including current and forecasted trends; a description of past and current financial positions of the Participant; and a forecast regarding future developments in and of such a position and any other matter which in the professional view of the Edison (as defined below) should be addressed in a research report (of the nature published) and which may affect the decision of a reasonable investor contemplating an investment in the Participant's securities. To the extent it is relevant, the Analysis shall include a schedule of scientific analysis of an expert in the field of life sciences. An "equity research abstract" shall accompany each Equity Research Report, describing the main points addressed. The full scope reports and reports where the investment case has materially changed will include a thorough analysis and discussion. Short update notes, where the investment case has not materially changed, will include a summary valuation discussion. The Agreement with TASE regarding the participation of Edison in the scheme for the research analysis of public companies does not and shall not constitute an approval or consent on the part of TASE or the ISA or any other exchange on which securities of the Company are listed, or any other securities' regulatory authority which regulates the issuance of securities by the Company to the content of the Report or to the recommendation contained therein. A summary of this report is also published in the Hebrew language. In the event of any contradiction, inconsistency, discrepancy, ambiguity or variance between the English Report and the Hebrew summary of said Report, the English version shall prevail; and a note to this effect shall appear in any Hebrew summary of a Report. Edison is regulated by the Financial Conduct Authority. According to Article 12.3.2, Chapter 12 of the Conduct of Business Sourcebook, Edison, which produces or disseminates non-independent research, must ensure that it: 1) is clearly identified as a marketing communication; and 2) contains a clear and prominent statement that (or, in the case of an oral recommendation, to the effect that) it: a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and b) is not subject to any prohibition on dealing ahead of the dissemination of investment research. The financial promotion rules apply to non-independent research as though it were a marketing communication.