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EQUITY RESEARCH
Company Report

November 15, 2016

Affimed N.V. (AFMD - $ 2.55)

Healthcare/Biotechnology

Management Meetings Update

Ticker:	**AFMD**
Rating:	**Buy**
Price Target:	**$ 15.00**

After our recent meetings with AFMD management and investors, we remain confident on bispecific antibody's significant potential and recognition of increased investor interests on NK cells as cancer treatment. AFMD remains a key player covering the two important areas. Highlights of the meetings include:

- **Higher affinity the potential advantage of the TandAb platform.** Management indicated one of the key advantages of AFMD's bispecific antibody is its higher affinity, which could potentially match the needed therapeutic index given the number of the target molecules on the cancer cell and the availability of effector cells (T or NK) sometimes are limited.
- **Upcoming AFM13 data are the focus.** Management did provide the details of why the shares were in decline over the last few quarters: because of the changes of the HL treatment landscape and the time needed for adjusting the trial design (from monotherapy to PD-1 combo therapy). AFMD indicated that catalysts of critical data readout (AFM13/Keytruda combo in the r/r HL Phase Ib trial) are approaching in 4Q16/1Q17 (mainly safety), followed by interim analysis possibly in mid-2017 (could include the therapeutically active 2nd dose), as well as more matured data thereafter. The objective is to potentially increase the CR over CPI alone (<10%) to the 20%-30% range. The upcoming company-sponsored AFM13 monotherapy in CD30^{+} lymphoma trial also has garnered investor's interests.
- **Additional pipeline.** Both the company and investors are interested in the potential of NK-engaging bispecific antibody (such as AFM24- EGFRwt /CD16a) as a potential solid tumor treatment. Treating solid tumor is the hurdle that T cell engaging bispecific antibody has never overcome. Recent CPI combo [T (Opdivo) and NK (lirilumab) cell] Phase I/II interim data (by BMY/Innate Pharma) showing clinical benefit in treating SCCHN potentially demonstrates treatment benefit of NK cells in solid tumors.
- **Existing investors remain confident.** Management indicated that many early fundamentals-driven investors still view AFMD as a solid investment based on its platform technology.
- **Action.** We are reiterating our Buy rating and our $15 target price based on peer comparable, probability adjusted DCF and sum-of-the-parts analyses to reflect the continued execution of pipeline advancements.

Trading Data:

Last Price (11/14/2016)	$ 2.55
52–Week High (12/18/2015)	$ 8.26
52–Week Low (11/2/2016)	$ 1.75
Market Cap. (MM)	$ 85
Shares Out. (MM)	33

Earnings Estimates: (€ per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-16E	-0.25A	-0.24A	-0.31A	-0.31	-1.11	N.A.
FY-15A	-0.06	-0.19	-0.24	-0.19	-0.71	N.A
FY-14A	-1.06	0.03	0.37	0.32	-0.01	N.A.
FY-13A	-57.58	-131.42	-40.36	-0.17	-1.76	N.A

Source: Laidlaw & Company estimates

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Anticipated milestones in 2016 and beyond

Product	Indication	Event	Timing	Importance
AFM13	Hodgkin's lymphoma (r/r)	Potentially report Phase I CPI combination safety Phase I study results	**4Q16/1Q17**	***
		Potentially report Phase II CPI combination Phase II study results	**2017/2018**	****
	$CD30^+$ lymphoma	Potentially to start Phase IIa study (or in T cell lymphoma)	**2017**	***
AFM11	Non-Hodgkin's lymphoma (NHL)	Potentially report Phase I study timeline	**1H17**	****
	Acute lymphoblastic leukemia (ALL)	Potentially to report Phase I study results	**4Q17**	***
AFM24	Solid tumors	Potentially update progress	**1H17**	***
AMV564	Acute myeloid leukemia (AML)	Potentially start Phase I study	**2017**	***

***** / ***** Major catalyst event that could impact share price very significantly while *** event is more informative*

Source: Laidlaw & Company and company presentation

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Major Risks

Clinical study failure could have a major impact on AFMD share value. Despite promising pre-clinical and Phase I trial results of the company's lead products, AFM13 and AFM11, it remains too early to predict the longer term safety and efficacy from the current ongoing clinical studies. Given clinical validation for these programs has not been fully established, it would be critical for some or all of these studies to demonstrate positive outcomes in order to increase the assets and shareholder value. Negative results of either Phase II studies could have a materially negative impact on the asset and shareholder value; especially each study could fail to illustrate proof-of-concept for AFM13 and AFM11 as potential treatment of different disease indications. Further, it remains too early to predict any potential success of clinical trials in the future should these programs further advance into next clinical stage development.

Yet-to-be-validated NK cell platform and rapidly changing dynamic of IO platforms as cancer therapy could create more uncertainty. Although multiple prior pre-clinical and clinical data from many investigators suggest that NK cell based therapy could have significant potential for treating cancer; currently there is no NK-cell based therapy that is approved or in late clinical stage cancer treatment development. As such, clinical risks for NK-cell based cancer therapy are higher than other treatment modalities. In addition, multiple types of immune-oncology (IO) therapy platforms (i.e. CPI and CAR-T) are all in relatively early and active development, it remains too early to predict, especially for the one that has not yet received approval, which platform could be approved and gaining market shares in the future. Bi- and tri-specific antibodies can be categorized into the IO therapy group.

Product may not be approved or reach anticipated sales. Although AFMD's current pipeline products have exhibited the potential to generate positive clinical outcomes from current and future trials; it remains too early to project whether any of these products would be approved by regulatory agencies. Even if the products were to enter the market, sales could be significantly below projections due to the specific product label under approval, physician consensus for prescribing the drug, changes of treatment paradigms, entrance of competitors, and possibly the changes in pricing flexibility and payer reimbursement. A revenue outlook below expectations could also negatively affect AFMD shareholder value.

Additional financings could dilute shareholder value. Although the company currently has ~€67MM cash, AFMD could need more financial resources going forward if they want to expand and further develop their pipeline. Should the future operational expenses, especially from R&D, increase significantly, products not receive FDA approval, or product revenue does not reach expectations; the company might need to issue new equity to raise additional cash. Under such a scenario, the share value of existing shareholders could be diluted.

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Figure 1: Income Statement

Affimed N.V. – Income Statement

(€'MM)	2014	2015	1Q16	2Q16	3Q16	4Q16E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenue													
Product revenue	0.0	0.0					0.0	0.0	0.0	21.8	49.9	155.6	480.9
Research revenue	3.4	7.6	1.9	2.1	0.9	1.0	5.9	3.0	3.0	3.0	3.0	3.0	3.0
Other revenue	0.4	0.7	0.1	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total revenue	3.8	8.2	2.0	2.1	1.0	1.1	6.2	3.2	3.2	25.0	53.1	159	484
Costs of goods										3.3	7.5	23.3	72.1
Gross sales										18.5	42.4	132.3	408.7
Research and development	(9.6)	(22.0)	(7.1)	(8.6)	(8.8)	(9.2)	(33.7)	(37.7)	(41.1)	(44.8)	(48.4)	(51.8)	(55.4)
General and administrative	(2.3)	(7.5)	(2.1)	(2.0)	(2.2)	(2.3)	(8.5)	(9.4)	(9.8)	(10.3)	(10.8)	(11.4)	(11.9)
Marketing and sales										(21.0)	(26.3)	(30.2)	(31.7)
Total Operating Expenses	(11.9)	(29.6)	(9.2)	(10.6)	(10.9)	(11.5)	(42.2)	(47.1)	(50.9)	(76.1)	(85.4)	(93.3)	(99.0)
Operating Incomes (losses)	(8.2)	(21.3)	(7.1)	(8.5)	(10.0)	(10.4)	(36.0)	(43.8)	(47.7)	(54.3)	(39.8)	42.2	312.9
Finance income / (costs) - net	7.8	1.1	(1.3)	0.5	(0.3)	(0.3)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Loss before tax	(0.4)	(20.2)	(8.5)	(8.0)	(10.3)	(10.7)	(37.5)	(45.3)	(49.2)	(55.8)	(41.3)	40.7	311.5
Tax	0.2	0.0	(0.0)	(0.0)	-	-	0.0	0.0	0.0	0.0	0.0	(15.1)	(115.2)
Net Income (Loss)	(0.3)	(20.2)	(8.5)	(8.0)	(10.3)	(10.7)	(37.5)	(45.3)	(49.2)	(55.8)	(41.3)	25.7	196.2
Net Income (Loss) Applicable to Common Shareholders	(0.3)	(20.2)	(8.5)	(8.0)	(10.3)	(10.7)	(37.5)	(45.3)	(49.2)	(55.8)	(41.3)	25.7	196.2
Net Income (Loss) Applicable to Common Shareholders ($)	($0.3)	($21.8)	($9.0)	($8.9)	($11.0)	($11.3)	($39.8)	($48.2)	($52.3)	($59.4)	($43.9)	$27.3	$208.7
Net Earnings (Losses) Per Share—Basic	(€ 0.01)	(€ 0.71)	(€ 0.25)	(€ 0.24)	(€ 0.31)	(€ 0.31)	(€ 1.11)	(€ 1.30)	(€ 1.33)	(€ 1.19)	(€ 0.83)	€ 0.49	€ 3.71
Net Earnings (Losses) Per Share—Diluted	(€ 0.01)	(€ 0.71)	(€ 0.25)	(€ 0.24)	(€ 0.31)	(€ 0.31)	(€ 1.11)	(€ 1.30)	(€ 1.33)	(€ 1.19)	(€ 0.83)	€ 0.49	€ 3.71
Net Earnings (Losses) Per Share—Basic/diluted ($)	($0.01)	($0.76)	($0.26)	($0.27)	($0.32)	($0.33)	($1.18)	($1.38)	($1.42)	($1.27)	($0.88)	$0.53	$3.95
Shares outstanding—basic	22.0	29.1	34.3	33.5	33.7	33.9	33.8	34.8	36.8	46.8	49.8	51.8	52.8
Shares outstanding—diluted	22.0	29.1	34.3	33.5	33.7	33.9	33.8	34.8	36.8	46.8	49.8	51.8	52.8
Margin Analysis (% of Sales/Revenue)													
Costs of goods										15%	15%	15%	15%
R&D	-255%	-268%	-350%	-409%	-915%	-836%	-544%	-1173%	-1278%	-179%	-91%	-33%	-11%
SG&A	-62%	-92%	-104%	-93%	-228%	-206%	-138%	-291%	-306%	-41%	-20%	-7%	-2%
Operating Income (loss)	-217%	-260%	-353%	-403%	-1043%	-942%	-582%	-1364%	-1484%	-217%	-75%	27%	65%
Pretax	-11%	-246%	-418%	-381%	-1076%	-970%	-606%	-1410%	-1530%	-223%	-78%	26%	64%
Tax Rate								0%	0%	0%	0%	37%	37%
Net Income	-7%	-246%	-418%	-381%	-1076%	-970%	-605%	-1410%	-1530%	-223%	-78%	16%	41%
Financial Indicator Growth Analysis (YoY%)													
Total Revenue	-34%	118%	-27%	-9%	-34%	-34%	-25%	-48%	0%	678%	112%	199%	205%
R&D	-33%	129%	142%	54%	36%	31%	53%	12%	9%	9%	8%	7%	7%
SG&A	-67%	222%	13%	17%	5%	16%	13%	10%	5%	5%	5%	5%	5%
Marketing and sales											25%	15%	5%
Operating Income (Losses)	-48%	161%	257%	71%	41%	42%	69%	22%	9%	14%	-27%	-206%	642%
Pretax Income	-98%	4662%	470%	55%	42%	69%	85%	21%	9%	14%	-26%	-199%	665%
Net Income	-99%	7713%	470%	55%	41%	70%	85%	21%	9%	14%	-26%	-162%	665%
EPS	-99%	5931%	299%	28%	29%	66%	56%	18%	3%	-11%	-30%	-160%	650%

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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates

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Additional information available upon request.

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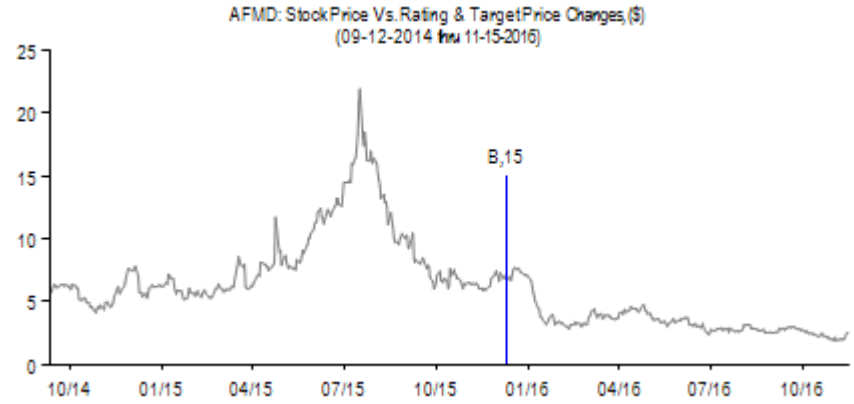
Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price ($)
12/10/2015	Buy (B)	7.19

3 Year Price Change History

Date	Target Price ($)	Closing Price, ($)
12/10/2015	15.00	7.19

Source: Laidlaw & Company **Created by: Blue-Compass.net**

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	2.56%	2.56%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	58.97%	28.21%	2.56%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	5.13%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	2.56%	0.00%	0.00%

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Bristol-Myers Squibb Co. (BMY – Not Rated)

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