

# M1 Kliniken AG

Germany / Healthcare Facilities &amp; Services

Frankfurt

Bloomberg: M12 GR

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Initiation of coverage

**RATING****PRICE TARGET**

Return Potential

Risk Rating

**ADD****€9.00****11.1%****High**

## ON TRACK TO TAP THE GROWING BEAUTY CARE MARKET

M1 Kliniken AG (M1) offers a select spectrum of beauty and lifestyle services to address a growing market. The company performs beautification surgeries at its new state of the art clinic in Berlin-Köpenick and provides non-surgical beauty procedures, such as Botox or hyaluronic acid treatments, across eleven outpatient clinics throughout the main German cities. During the company's brief 4-year history, management has successfully demonstrated the ability to implement a lean cost structure including highly efficient processes and strong procurement. This way the company is able to capture attractive margins throughout the value chain. Thus M1 is committed to top quality procedural standards. Moreover, the company's competitive pricing model accelerates market penetration. In 2015, M1 grew sales some 52%, while the EBIT margin adjusted for one-off items topped 14% for the second consecutive year (non-adjusted 20%). We believe surgical and non-surgical beauty care procedures are in high demand and M1 offers an attractive value proposition for investors within the German beauty care market. We initiate coverage with an Add rating and €9.00 price target.

We model a 12% sales CAGR for 2016-2018E with an 18.5% EBIT margin in 2016 and 20.1% in 2018. We believe growth will be driven by an increasing utilization rate of the Berlin clinic and the recently opened centres across Germany as well as expansion into new clinics and centres. The company's strong marketing expertise combined with the aforementioned utilisation factors, increasing purchasing power, and management's cost discipline give us confidence in M1's ability to achieve our top and bottom line forecasts.

M1 is one of the leading and most profitable players on the German beauty landscape. Cost efficiency plays an overarching role in the business success of a healthcare clinic. Although M1's peers are larger and manage 29-44 clinics or sites, many are either loss making (e.g. Medical One AG) or generating small profits. We believe M1 distinguishes itself from the pack with its business model driven by sourcing strength, and its sharp focus on providing affordable procedures and surgeries for select aesthetic treatments.

### FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	6.08	23.02	34.93	39.12	43.81	49.07
Y-o-y growth	n.a.	278.5%	51.7%	12.0%	12.0%	12.0%
EBIT (€m)	0.01	5.02	7.01	7.24	8.54	9.86
EBIT margin	0.1%	21.8%	20.1%	18.5%	19.5%	20.1%
Net income (€m)	0.11	4.59	6.63	5.03	5.97	6.92
EPS (diluted) (€)	0.01	0.31	0.44	0.34	0.40	0.46
DPS (€)	0.00	0.00	0.30	0.30	0.30	0.30
FCF (€m)	-4.04	-5.96	0.70	13.11	9.15	7.16
Net gearing	-4.0%	-1.5%	-1.3%	-28.9%	-41.4%	-45.6%
Liquid assets (€m)	0.61	2.40	0.41	8.75	13.15	15.57

### RISKS

Risks include, but are not limited to the ability to retain management and key medical staff, legal and market risks.

### COMPANY PROFILE

M1 Kliniken AG is a provider of aesthetic medical procedures headquartered in Berlin. The company has a strong foothold with 12 beauty clinics throughout Germany and is striving to become a leading player in Europe. M1 provides a comprehensive range of medical aesthetic treatments such as liquid lifting (e.g. application of Botox) and plastic surgeries at competitive prices.

### MARKET DATA

As of 8/10/2016

Closing Price	€ 8.10
Shares outstanding	15.00m
Market Capitalisation	€ 121.50m
52-week Range	€ 4.91 / 8.88
Avg. Volume (12 Months)	841

Multiples	2015	2016E	2017E
P/E	18.3	24.2	20.3
EV/Sales	3.5	3.1	2.8
EV/EBIT	17.3	16.7	14.2
Div. Yield	3.7%	3.7%	3.7%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Dec 2015

Liquid Assets	€ 0.41m
Current Assets	€ 19.60m
Intangible Assets	€ 8.04m
Total Assets	€ 33.20m
Current Liabilities	€ 3.43m
Shareholders' Equity	€ 29.75m

### SHAREHOLDERS

MPH Mittelständ. Pharma Holding AG	85.6%
Free Float	14.4%



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## INVESTMENT CASE

### **M1 Kliniken AG offers aesthetic medical procedures in Germany at competitive prices**

The company operates a fully equipped medium-sized clinic in Berlin-Köpenick (licensed since mid 2015) with six surgical rooms. It houses 36 beds and four rooms for non-surgical procedures, and it runs eleven out-patient clinics for non-surgical beauty procedures in main German cities. In all these locations, the company offers a select range of the most demanded beauty services such as breast enlargement, liposuction, Botox and hyaluronic acid anti-wrinkle treatments to individuals at competitive pricing.

### **Low-price, high-quality strategy proves successful for achieving fast market penetration**

We believe the company successfully combines top quality products and services with a lean structure and spending discipline which generates higher profitability than competitors. For this purpose, the company has a centralized management system, which includes marketing, controlling, procurement, human resource services, and accounting. Particularly, the company benefits from centralized procurement advantages due to close relationships with its suppliers and large purchase volume orders. As a result, the company is able to price its aesthetic treatment portfolio well below price levels of most of its competitors. This strategy makes M1's services affordable for a larger target group, which in turn leads to an accelerated market penetration.

**M1 is clearly outperforming its peers** M1 is rapidly gaining ground among the top clinic chains in the beauty industry. We perceive the following three clinics chains and networks of clinics as the most relevant competitors of M1: Medical One AG, Clinic im Centrum, a franchise network, and DS Deutscher Ärzte Service GmbH. Although they are all larger, these rivals are either making losses or generating only small profits.

**Flourishing German beauty market to trigger further company growth** According to the Professional Association of German Society for Aesthetic Plastic Surgery (DGÄPC), the size of the German market for cosmetic surgery is between €0.8bn and €1.8bn and has increased annually by 10%–15% since the late 90s. We believe worldwide beauty trends which spread through social media forces, e.g. Facebook and Instagram, will continue to support the current market growth trend in Germany.

### **Experienced CEO with proven track record of double-digit sales growth and profitability**

Patrick Brenske, the CEO of M1 Kliniken AG, is a successful manager in the healthcare sector. At M1, he has a solid track record of rapid revenue growth and above average operating profit despite M1's short history. After starting operations in 2012, the company increased revenues from €6.1m in 2013 to €34.9m in 2015. In 2015, M1 delivered an EBIT margin adjusted for one-off items in the 14% range for the second consecutive year (non-adjusted 20%).

### **M1 shares are in our view undervalued. We Initiate coverage with an Add recommendation and a €9.00 price target**

M1 shares have shown an excellent performance since the IPO in September 2015 having appreciated more than 70%. Going forward, we believe sentiment will remain positive and continue to benefit from the company's solid fundamentals and appealing investment story of strong revenue growth and high profitability. The €0.30 per share dividend paid in 2015 represents a 3.7% yield on the current share price of €8.10 which is attractive in the current low interest rate environment. Management's dividend guidance is unchanged at €0.30 per share going forward. Our discounted cash flow model generates a fair value of €9.00 per share.



## SWOT ANALYSIS

### STRENGTHS

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- **Experienced management and medical professionals** Patrick Brenske, CEO, has more than ten years of experience in the health care sector. The company employs only highly qualified specialised doctors and nurses, which helps guarantee excellence.
- **Strong footprint in Germany** M1 has one fully equipped clinic in Berlin (six surgery rooms, four outpatient rooms, 36 beds) and 11 outpatient clinics in major German cities. The company is well positioned to benefit from the growing German beauty care market.
- **Successful low-price, high-quality strategy leading to above average profitability** The company's aggressive market penetration strategy is underscored by a lean structure, disciplined spending, process efficiency (e.g. high surgery rates per surgeon) and strong procurement which allows for low prices for required materials and clinics space.

### WEAKNESSES

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- **Short track record** The company started operations in late 2012 and has a short track record with a relatively small market cap of €122m.
- **Low free float** The free float of M1 amounts to merely 14.4%. The company's dominant shareholder, MPH Mittelständische Pharma Holding AG owns 85.6% of the shares.
- **Low entry barriers** No specific licenses are required to enter the non-surgical market, which facilitates entrance of new potential competitors.

### OPPORTUNITIES

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- **Growing German beauty care market with aging population** Since the late 1990s the German cosmetic surgery market has seen Y/Y growth between 10-15%. We expect to see continued growth in the upcoming years. An aging population may give an additional boost to the market, since procedures tend to increase in frequency and complexity with age.
- **Low-price, high-quality strategy has potential to further expand M1's market share** M1's products and services are affordable for a large customer target group, which in turn creates opportunities for M1 to expand its market share. Growth will be driven by an increase of the utilization rate of the Berlin clinic and the further expansion across Germany.
- **Healthcare tourism in Germany** The German medical field has a reputation of having some of the highest standards in the world. We believe promoting aesthetic surgical procedures internationally at competitive prices will lead to additional growth opportunities.

### THREATS

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- **Legal risks relating to medical mistakes or cosmetic underperformance** A surgical mistake or unsatisfactory cosmetic results could trigger a costly legal claim against M1, which could lead to reputational damage.
- **The image of the beauty sector could be damaged** M1 operates in a market which is highly dependent on the public perception. The French provider Poly Implant Prothese ("PIP") in 2011/2012 received negative publicity for its poor-quality breast implants. Events like this can discredit the entire industry and affect M1 future sales potential.
- **Ability to retain management and key staff** M1 is highly dependent on the knowledge, experience and the network of the current management. Especially the CEO, as well as the professionals and executives that operate the beauty clinics.



## VALUATION

Our valuation is based on a discounted-cash-flow model. We believe that a DCF valuation methodology is best suited to capture the value of M1 Kliniken operations, since this is leveraged to the longer-term nature of a population's medical needs. Taking into consideration typical life-cycle patterns in the health-care industry, we have applied a two-stage growth model, which includes a detailed estimate of projected sales, operating profit and free cash flows for the planning period 2016E-2030E. We have assumed a terminal free cash flow growth rate of 2.5%.

Using First Berlin methodology, which accounts for company-specific risk factors, we derive a cost of equity (COE) of 12.0% for M1 Kliniken AG. Our calculation is based on a risk-free rate of 0.5% and a market risk premium of 5.0%. Due to the company's continuous positive cash flow, we believe that M1 will continue to operate debt free in the long run leading to a 100% long term share of equity. Thus we estimate a WACC of 12.0%, which we use to discount the projected cash flows. Including net cash of €0.4m, we value M1 at €134.9m. Based on 15.0m fully diluted shares outstanding we calculate a fair value per share of €9.00.

Using our ten-factor risk analysis, we derive a High risk rating for M1 Kliniken AG. The main risk factors we identify are legal, management and commercialisation risks.

## DCF MODEL

Figure 1: DCF Model

All figures in EUR '000	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	39,117	43,811	49,069	55,938	63,769	72,059	80,707	90,391
<b>NOPLAT</b>	<b>5,210</b>	<b>6,151</b>	<b>7,101</b>	<b>8,297</b>	<b>9,550</b>	<b>10,792</b>	<b>12,087</b>	<b>13,537</b>
+ depreciation & amortisation	196	219	245	280	319	360	404	452
Net operating cash flow	5,406	6,370	7,347	8,576	9,869	11,152	12,490	13,989
- total investments (CAPEX and WC)	7,573	2,650	-321	-1,142	-1,304	-1,019	-806	-1,566
Capital expenditures	-293	-329	-368	-420	-478	-540	-605	-678
Working capital	7,867	2,978	47	-722	-826	-479	-201	-888
Free cash flows (FCF)	12,979	9,020	7,025	7,435	8,565	10,132	11,684	12,423
<b>PV of FCF's</b>	<b>12,419</b>	<b>7,706</b>	<b>5,359</b>	<b>5,064</b>	<b>5,209</b>	<b>5,501</b>	<b>5,664</b>	<b>5,377</b>

All figures in EUR '000	
PV of FCFs in explicit period	87,638
PV of FCFs in terminal period	46,900
Enterprise value (EV)	134,538
+ Net cash / - net debt	396
+ Investments / minority interests	0
Shareholder value	134,934

**Fair value per share in EUR 9.00**

		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	9.0%	12.46	12.85	13.29	13.81	14.41	15.11	15.96
	10.0%	10.83	11.10	11.41	11.75	12.15	12.60	13.13
	11.0%	9.56	9.75	9.96	10.20	10.47	10.78	11.12
	12.0%	8.53	8.67	8.82	<b>9.00</b>	9.19	9.40	9.64
	13.0%	7.69	7.79	7.91	8.03	8.17	8.32	8.49
	14.0%	6.99	7.07	7.16	7.25	7.35	7.46	7.58
	15.0%	6.41	6.47	6.53	6.60	6.68	6.76	6.85

\*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes

Source: First Berlin Equity Research



## COMPANY PROFILE

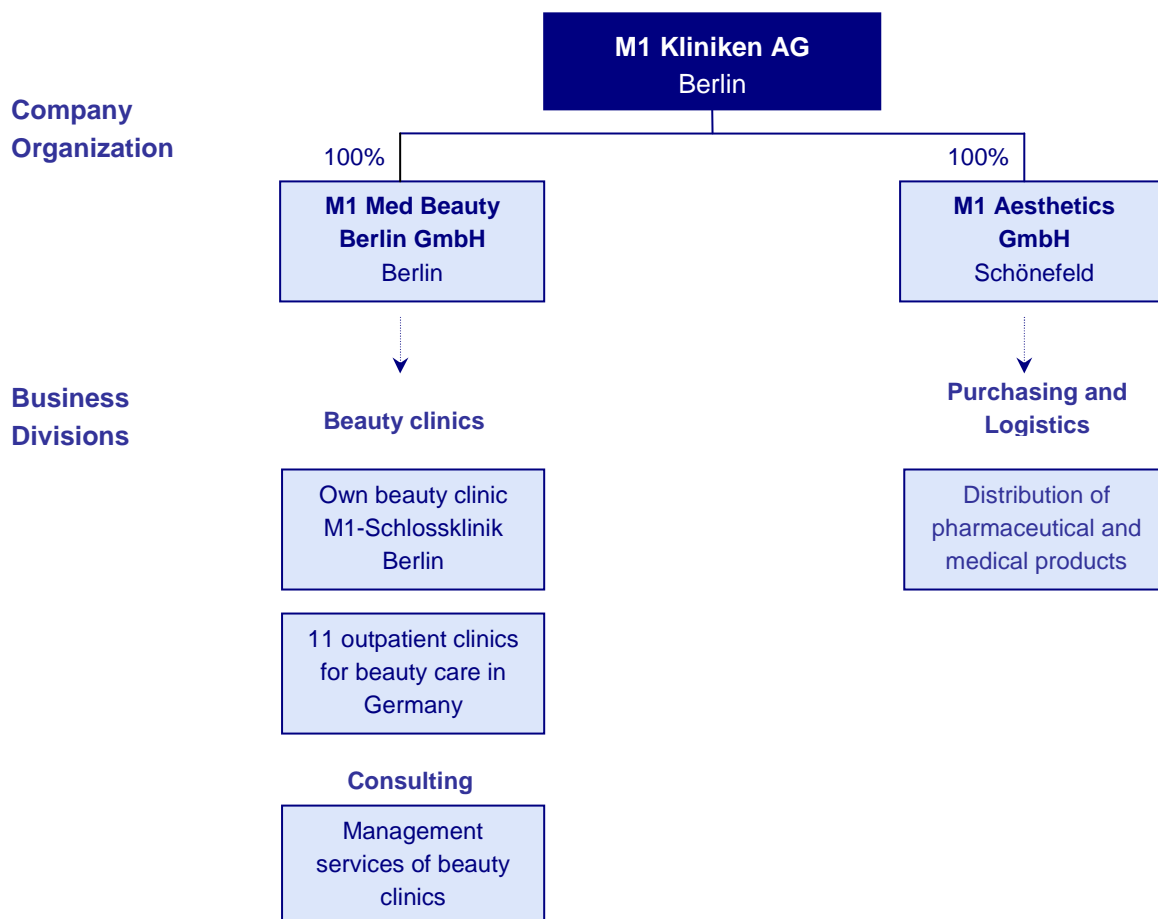
### OVERVIEW

M1 Kliniken AG began operations in late 2012 as a holding company responsible for three 100% owned subsidiaries. In 2014, the company decided to streamline operations and sold a significant stake of its participation in its non-core affiliate, a real estate subsidiary to an undisclosed investor. The company’s reporting policy only discloses details related to the core business holdings. In the scope of this report we will focus our analysis on the company’s two core health care subsidiaries, which are currently active in the beauty care business.

The company is currently one of the largest healthcare providers in the German beauty care medical field. The holdings are active in the following core business areas:

- Management of private inpatient and outpatient clinics.
- Purchasing and logistics of pharmaceuticals and medical devices related to the beauty industry.

Figure 2: M1 Kliniken AG Structure



Source: First Berlin Equity Research, M1 Kliniken AG



**M1 Kliniken AG is the only listed aesthetic medicine specialist in Germany** The company is currently one of the leading aesthetic medicine and plastic surgery providers in Germany. In September 2015, the company floated its shares to help finance further expansion with a listing on the Entry Standard (Open Market) of the Frankfurt Stock Exchange at an issuance price of €4.70. The company placed 15m shares without emission of new shares and therefore did not raise additional capital. M1 is currently the only aesthetic medical specialist listed on the German stock exchange.

## SUBSIDIARIES IN DETAIL

### M1 Med Beauty Berlin GmbH – Beauty clinic business

The core business is concentrated in M1 Med Beauty Berlin GmbH, which offers aesthetic procedures. The company focuses on the most demanded procedures such as breast augmentation, liposuction, and eyelid surgery, Botox and hyaluronic acid treatments.

**Figure 3: Key M1 Med Beauty Berlin treatments**

Non-surgical procedures		Surgical procedures
Wrinkle treatment	(with hyaluronic acid)	Liposuction
Wrinkle treatment	(with Botox)	Breast augmentation, breast reduction, breast lift
Lip augmentation	(with hyaluronic acid)	Nipple reshaping
Sweat glands treatment	(with Botox)	Tummy tuck
		Upper arm lift
		Upper thigh lift
		Upper eyelid lift
		Facelift
		Gynecomastia (male breast)
		Correction of labia (vagina)

Source: First Berlin Equity Research, M1 Kliniken AG

The company created a portfolio with the overarching goal of maximising volume and efficiency of the procedures performed and has successfully hired highly experienced, specialized surgeons (Fachärzte), doctors and nurses to run the clinics. During the stages of development, management realised that medical procedures could be greatly optimised and improved. The board introduced highly efficient medical procedures, which have increased the profitability. They have also stopped performing time and cost-intensive treatments which are more complex and represent a higher procedural risk, such as nose corrections. M1 Med Beauty Berlin continues to be at the forefront of innovative procedural techniques in the beauty care industry. We believe the continued optimization of processes and growth will allow M1 to sustain profitability in the future.

The company began offering non-surgical beauty procedures in 2013 through the establishment of its outpatient clinic in West Berlin near Kurfürstendamm. Soon after, the company began offering surgical procedures in cooperation with a neighboring surgical clinic. However, this was a large transitory expense that impacted the financials of M1 until the company rented new facilities, equipped them, and was able to obtain its own operating license. In June 2015, M1 began performing surgeries in its own clinic. The company now has access to a four-floor clinical building, located in Berlin-Köpenick, which is well equipped for both in- and outpatient procedures. The company currently occupies three out of four floors of the leased building. The fourth floor is currently available and could be equipped in the near future by adding two more surgery rooms and the respective beds for patients. We estimate this would boost current capacity by roughly 30%.

Between 2014 and 2016 the company expanded its network of outpatient clinics to a total of 11 which offer non-surgical procedures. The clinics are located in Berlin, Munich, Essen, Cologne, Dusseldorf, Hannover, Stuttgart, Hamburg, Bremen, Brunswick, and Frankfurt am Main.

**Figure 4: M1 Med Beauty Berlin clinics network in Germany**



Source: First Berlin Equity Research, M1 Kliniken AG

Currently, management feels well represented across Germany but plans to continue its expansion with two to five additional outpatient clinics and two additional inpatient clinics by 2018. The company is currently looking for opportunities in highly populated regions such as the Rhine-Main and the Rhine-Ruhr for its additional clinics.

M1 Med Beauty Berlin GmbH operates the outpatient clinics network. It manages the sites for the company itself, partners and external doctors. M1 Med Beauty Berlin GmbH also provides management services in the field of aesthetic surgeries and treatments. The company offers financial accounting, HR and marketing resources.

#### **M1 Aesthetics GmbH – Purchasing and logistics**

M1 Aesthetics GmbH is an authorized distributor of medicinal products for aesthetic medicine in accordance to § 52a AMG (German medicinal products act). The company is sourcing medical products and pharmaceuticals such as botulinum toxin, commercially known as Botox, as well as hyaluronic acid and breast implants for the M1 group. Additionally, the subsidiary is responsible for the logistics of the products. The subsidiary maintains a close relationship with its network of suppliers. Due to its strong purchasing





power derived from large volumes, M1 can source products at competitive prices in the market. As a result, the M1 group has been able to set unbeatable prices making their products significantly less expensive than competing products.

## COMPANY HISTORY

The most important events in the history of M1 Kliniken AG are summarized below:

**Figure 5: Key milestones on company's history**

Time	Corporate events
2013	M1 Kliniken AG (former name: M1 Beauty AG) established its subsidiaries M1 Med Beauty Berlin GmbH for beauty care procedures and M1 Aesthetics GmbH (former name: Dr Fischer Medical GmbH) for purchasing and logistics. Launch of operations through the establishment of first outpatient clinic in Berlin at Fasanenstr. 77 near Kurfürstendamm.
Jan. 2015	Expansion of second beauty care site in Munich as a medical clinic for outpatient care.
Mar. 2015	Expansion of third beauty care site in Essen as a medical clinic for outpatient care.
Jun. 2015	M1 Med Beauty Berlin GmbH obtained the license from the State Office for Health and Social Affairs to open its first inpatient and outpatient clinic in Berlin-Köpenick.
Aug.-Dec. 2015	Expansion of two outpatient clinics in Düsseldorf and Cologne.
Jan.-May 2016	Expansion of six further beauty care sites in Hannover, Stuttgart, Hamburg, Bremen, Braunschweig and Frankfurt as medical clinics for outpatient care. The company had 12 inpatient and outpatient clinics across Germany.
Jun. 2016	Change of name of M1 Beauty AG to M1 Kliniken AG

Source: First Berlin Equity Research, M1 Kliniken AG

## CORPORATE STRATEGY

### BUILD A PRICE AND MARKET LEADER IN THE BEAUTY CARE FIELD

M1 Kliniken AG aims to become a leading provider of aesthetic medical services in Germany and major European countries. The company currently has a geographical focus on the German speaking territory (DACH region). All ongoing efforts are placed on strengthening the footprint in Germany and expanding towards other German speaking countries. In the mid-term, the company plans to continue its expansion to other European countries. The strategic goal is to offer a select spectrum of highly specialized services at competitive prices within the European beauty treatment industry.

The company positioned its aesthetic treatment portfolio at price points well below the level of most competitor offerings. This makes them affordable for a larger customer target group, which in turn creates opportunities for M1 to expand its market share and expedite market penetration.



A survey conducted in December 2014 by the German Society for Consumer Research (GfK) on behalf of the M1 Group found out that potential clients have relatively high price sensitivity regarding aesthetic products or services. The survey showed that the average market prices charged for breast surgery, body fat and wrinkle treatments are significantly higher than the price at which the women surveyed would be willing to undergo a desired treatment.

We believe the company has successfully implemented a low-price strategy combined with a select offering of high quality products and services. For this purpose, operating efficiency and cost base optimisation plays a pertinent role. The company relies heavily on a lean structure and consistently attempts to avoid all types of inefficiencies in administration, operations and patient care. The hired specialised surgeons are highly experienced in order to meet high quality standards. M1 has attractive performance based remuneration in place with clear targets, which has turned into high surgery rates. The company has implemented standardised processes in order to minimise errors and increase efficiency. For example, the first contact with potential clients is carried out by trained health assistant staff with customers and sales experience. Once the potential clients have decided to undergo surgery, they are referred to the surgeon who will analyse the procedure in detail. Thus, the surgeons have more time for surgeries and patient care.

The M1 Kliniken Group has a centralized management system in place which includes several relevant administrative functions, such as marketing, procurement, operations, human resource services, and accounting. All twelve clinics and business units benefit from this valuable expertise allowing them to focus on their core activities, such as conducting the beauty procedures, attending clients and selling products. This expertise gives M1 a strong competitive advantage especially against its small competitors.

In order to increase client volume, the M1 group intends to build additional inpatient clinics, as well as strengthen and enlarge its outpatient clinics network. M1 is constantly looking for suitable locations, which depend on the population density and the concentration of plastic and cosmetic procedural clinics. The company also wants to increase its number of management service clients, such as clinics active in the area of aesthetic medicine.

The expertise generated by building up the M1-Schlossklinik in Berlin-Köpenick will be used to identify other suitable properties across Germany which can be used as clinics, outpatient clinics or ambulatory surgery centres. The management will use its expertise to develop such properties as inexpensively as possible. For this purpose, it has developed a "modular system" that can be adapted to the characteristics of any property.

The company additionally benefits strongly from its procurement expertise allowing low prices for required materials. Due to the close relationship the purchasing subsidiary maintains with its suppliers and the large order volumes, M1 has negotiating leverage leading to favorable purchase prices.

Synergies among M1 subsidiaries not only trigger lower costs but also enhance service quality and client satisfaction. For example, M1 Kliniken Group has gained a deep understanding of individual beauty products within the procurement business. This expertise can be applied during the implementation of beauty treatments and surgeries at clinics enhancing quality and profitability. Conversely, the extensive treatment experience from the clinics is continuously applied to develop the product range of pharmaceutical and medical products.



## MARKET ENVIRONMENT

In this section, we highlight a few KPIs and forecasts for the aesthetic plastic surgery market. While these data points are not all encompassing they do align relatively well with M1's position in the market. The examples below underscore our view that M1 is strategically positioned in the market and will provide ample opportunities to capture additional market share in the German speaking territory (DACH region) and subsequently in the rest of Europe.

### THE INTERNATIONAL BEAUTY CARE MARKET

The report *Global Cosmetic Surgery Market Analysis* states that the current global market is worth over \$20bn in 2015 and is set to exceed \$27bn by 2019, which suggests a solid CAGR of 7.8%. According to the International Society of Aesthetic Plastic Surgery (ISAPS), over 21m surgical and non-surgical cosmetic procedures were performed worldwide in 2015.

**Figure 6: Top beauty procedures worldwide in 2015**

Rank	Worldwide	
	Non-surgical procedures	Surgical procedures
1	Botox injections	Breast augmentation
2	Hyaluronic acid injections	Liposuction

Source: First Berlin Equity Research, ISAPS, IMCAS

Previously, there were taboos attached to the idea of aesthetic procedures and it was considered to be exclusively for the wealthy and the celebrities. Due to the continuous advancement of medical technologies the processes have become safer with each passing day making more and more people inclined to consider plastic surgery. Advancements continue to be made in the non-surgical realm of cosmetic procedures, like Botox and chemical peels.

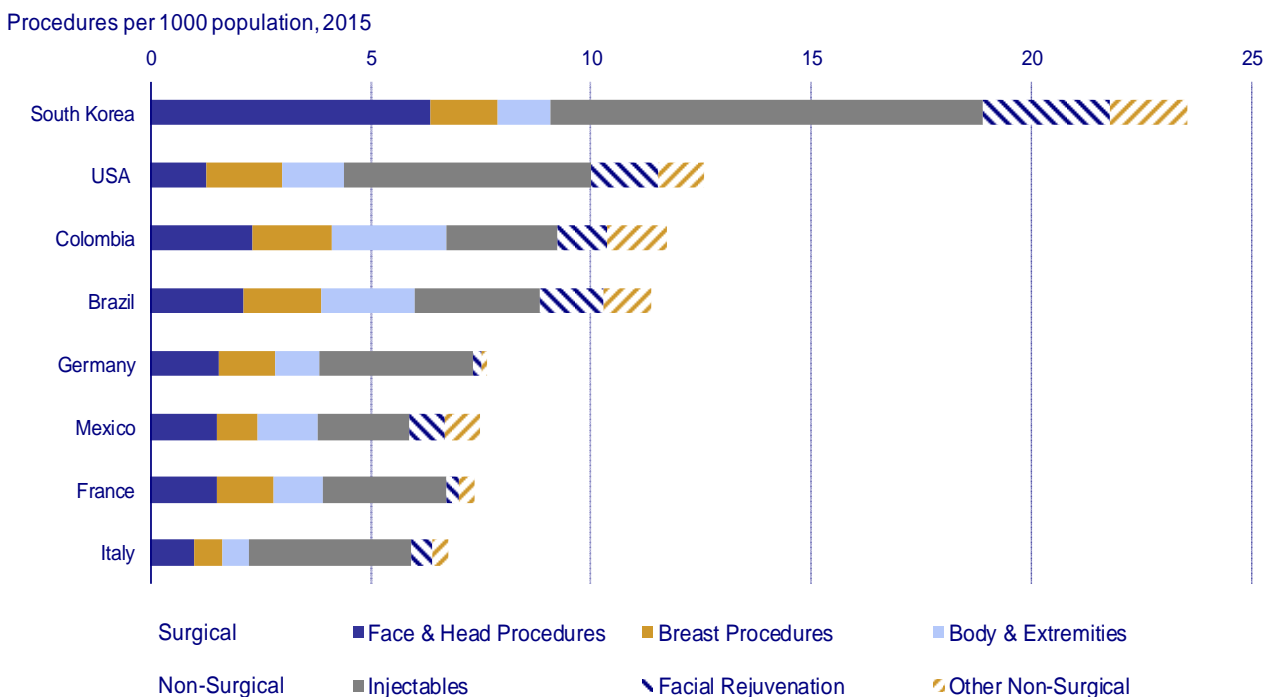
A recent study conducted by Dove revealed that 82% of women believe social media such as Facebook or Instagram drives these trends and is a key factor in defining modern beauty. Due to modern technology, we have instantaneous and constant access to celebrities, and trendsetters. The continuous access has created the often unrealistic, modern ideals of beauty that many strive to achieve. The annual poll conducted by the American Academy of Facial and Reconstructive Surgery (AAFPRS) reported that surgeons are seeing a 30% increase in plastic surgery requests which is strongly correlated to social media ideals. As in the US, we believe these ideals are a new driving force in the digital era that will further support market growth.

The ISAPS estimates that Germany was ranked sixth worldwide and first in Europe in terms of the total number of aesthetic and cosmetic procedures performed in 2015. Germany was followed by France and Italy in the European ranking. The German market for aesthetic treatments is relatively small compared to large markets as the US and Brazil, where more than 4m and 2m treatments respectively were performed in 2015.

Thus, the penetration rate of beauty care procedures in Germany is still low compared to countries like Brazil, Colombia, USA and South Korea (see figure 7 overleaf), suggesting significant growth potential.



**Figure 7: Overview of beauty care procedures per 1,000 population in key countries**



Source: First Berlin Equity Research, ISAPS report 2015

**GERMANY: A GROWING BEAUTY CARE MARKET**

There are no official statistics about the beauty market in Germany. Several industry experts, including Hans-Detlef Axmann, Head of the Aesthetic Clinic in Hannover and former Director of the Professional Association of German Society for Aesthetic Plastic Surgery (DGÄPC), estimate that the size of the German market for cosmetic surgery and wrinkle treatments is between €0.8bn - €1.8bn. Since the late 1990s, cosmetic surgeries have increased annually by 10% to 15% (DGÄPC).

In 2015, the ISAPS reported a 15.8% Y/Y growth of surgical and non-surgical procedures reaching 617k in Germany. According to other sources including the German aesthetic surgeons organization (Deutsche Gesellschaft der Plastischen, Rekonstruktiven und Ästhetischen Chirurgen - DGPRÄC) about 700k - 1m people are currently going through cosmetic surgeries in Germany, compared to only about 150,000 in the mid-90s. Therefore, we believe the market is still developing and expanding, especially as non-surgical procedures become more prevalent and safer.

For the last five years, the most popular plastic surgery in Germany remains breast augmentation. The procedure made up some 12% of the total number of treatments reported by VDÄPC. The top five surgical treatments in Germany in both men and woman can be found below.

**Figure 8: Top 5 surgical procedures in 2015 in Germany**

Rank	Germany	
	Women	Men
1	Breast augmentation	Gynecomastia (breast reduction)
2	Eyelid surgery (upper)	Eyelid surgery (upper)
3	Liposuction	Liposuction
4	Rhinoplasty	Rhinoplasty
5	Abdominoplasty	Eyelid surgery (lower)

Source: First Berlin Equity Research, VDÄPC, ISAPS

In 2014, VDÄPC and DGÄPC members, who are specialized surgeons (Fachärzte), performed 32,211 non-surgical procedures. Over 90% of the total non-invasive procedures done in Germany were face treatments with either botulinum toxin (Botox) or hyaluronic acid. These two procedures ranked first globally as the most popular non-invasive procedures.

#### Demographics of the German beauty market

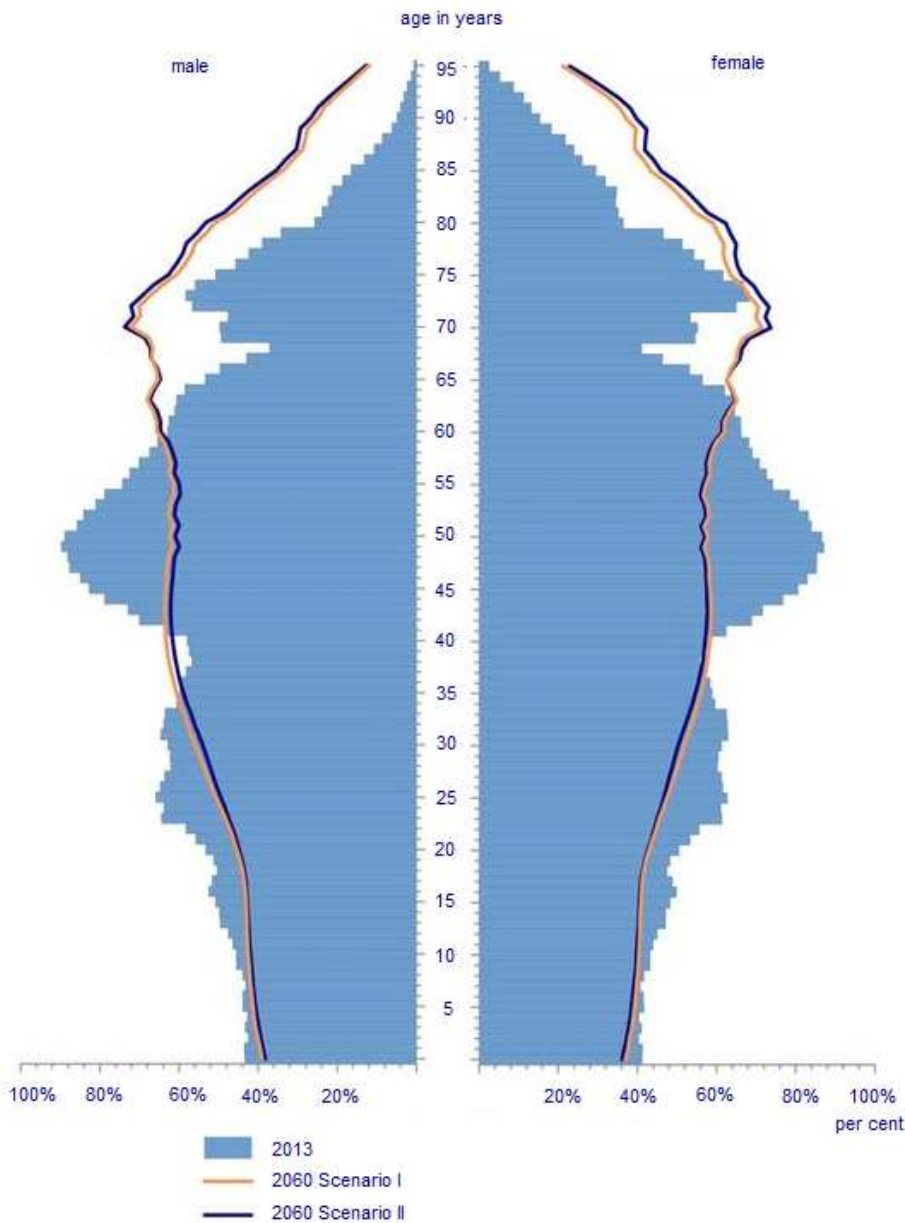
Cosmetic physicians and clinics benefit from life long loyalty from their patients. For each stage in life there is also a coinciding treatment or operation. Customers in their twenties usually demand body sculpting and compensatory measures such as breast augmentation or liposuction. Customers in their thirties are interested in liposuction or abdominoplasty. Customers in their forties usually have face, neck or cheek lifts and beyond their fifties, the common request is an entire face or body lifting.

Every year DGÄPC conducts a survey among a representative group of clients to determine age structure, social status and other relevant characteristics of the patients going through with procedures. Even though the survey does not cover the entire German market, the information helps us to better understand the trends.

Overall, the clients taking part in aesthetic procedures on average are becoming older. The average age of patients has increased from 38.5 years in 2010 to 42.5 years in 2015. Due to an ageing population in Germany, we believe this trend will continue over future decades. An aging population will give an additional impulse to the market, since procedures tend to increase in frequency, complexity and price with increasing age.

On average, female patients demand aesthetic treatments two years earlier than male patients. The average female age is 42.2, while the average male age is 44.4. The share of male patients increased from 9.6% in 2008 to 13.5% in 2015. Female patients on average require 6.3 years to make the final decision to go through with a procedure, while male patients are more spontaneous and can decide within 1 – 2 years, 19.5% of male patients need just one year to make the final decision. The percentage of female patients who decide within the first year is 14.4%. Often the reason for a longer decision-making process is a search for the second opinion either from another plastic surgeon, or from another related doctor. On average, patients visit at least two specialists before choosing. The trend is similar for both female and male patients: around 35% require a second opinion.

**Figure 9: Differences in population age structure in Germany in 2013 and 2060 (two scenarios)**



Source: First Berlin Equity Research, Destatis

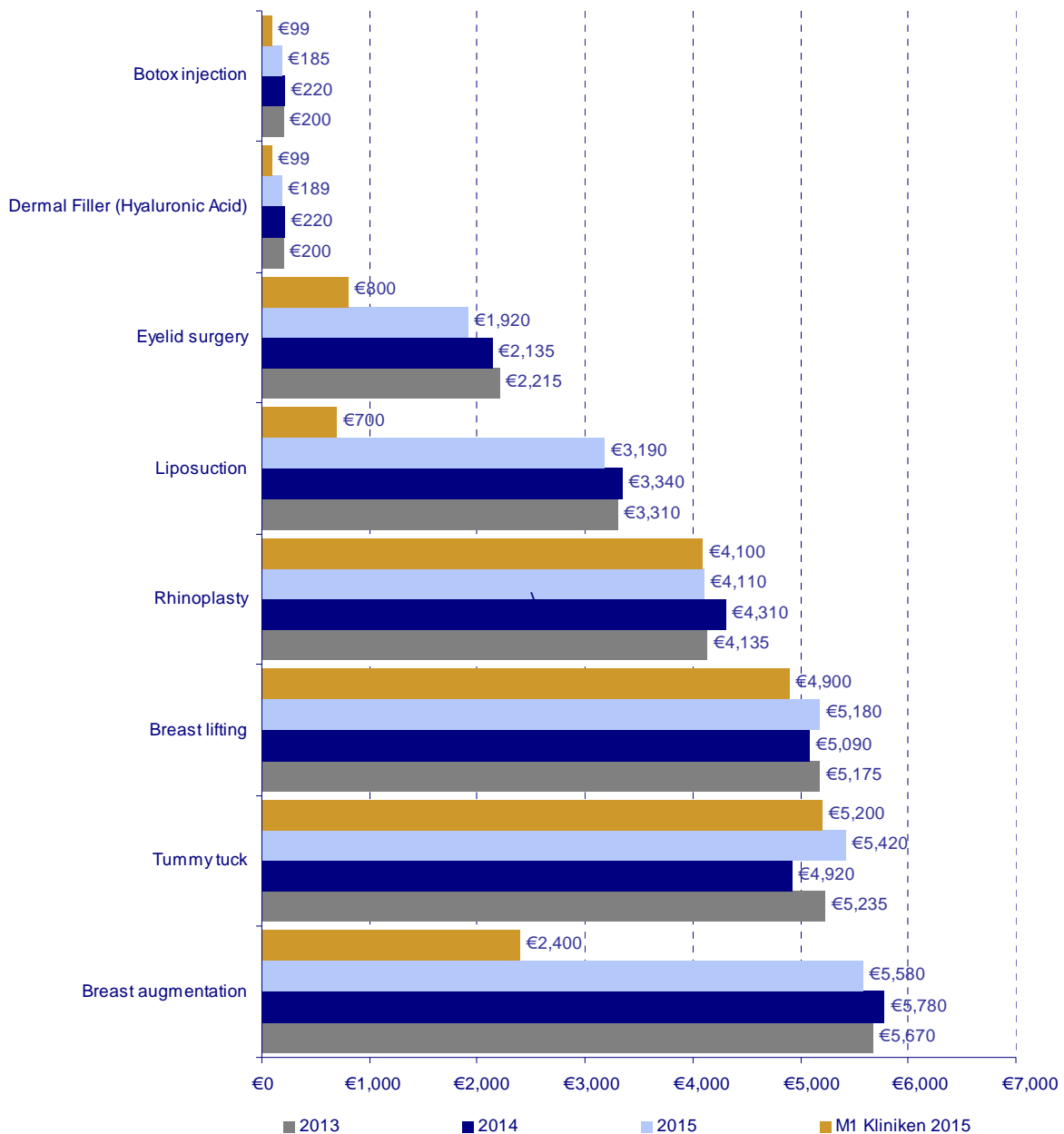
A critical role in the decision making process to undergo plastic surgery coincides with the patient's environment. 48% of female and 40% of male patients have chosen a concrete surgeon based on the third party's advice. 50% of female and 29.7% of male patients know someone who has experience with plastic and cosmetic procedures. The question of treatment costs is important, but not essential. The critical criteria for the decision are the surgeon's qualification (in Germany: Facharzt für Plastische und Ästhetische Chirurgie). Therefore, only 35.9% female and 44.3% of male patients consider travelling abroad for the surgery.

## COMPETITIVE LANDSCAPE IN THE GERMAN MARKET

### MARKET DYNAMICS AND PRICING

Aesthetic surgeries are among the few procedures that are not covered under German Healthcare; instead they are exclusively paid for out-of-pocket. Therefore, doctors and clinics rely heavily upon price competition, package pricing, reputation and image to attract patients. Despite the large increase in demand, fees have remained relatively stable for the most popular aesthetic procedures, as seen below in the figure 10. This price stability is owed largely to the increase in supply and demand. Additionally, we note that M1 offers very competitive prices especially for breast augmentation, liposuction, eyelid surgery, dermal filler and Botox injection procedures.

**Figure 10: Overview M1 Kliniken against average market prices for the top 8 aesthetic non surgical and surgical procedures in Germany**



Source: First Berlin Equity Research, Statista, M1 Kliniken AG



Market entrance is not restricted to certified plastic surgeons “Fachärzte” that have six years of specified training in the field. General medical practitioners are also free to perform cosmetic procedures with only a few days of training. The barriers of entrance for medical practitioners are extremely low making the competition intense. Physicians can also hire and train aestheticians and nurses to perform or assist with some minimally-invasive aesthetic treatments — boosting capacity. Additionally, many providers have built their infrastructure to include surgical rooms and inpatient beds, which is a more profitable alternative to having individual surgeons leased space in a traditional hospital.

## OVERVIEW OF THE THREE KEY COMPETITORS

The German market for cosmetic procedures is highly fragmented and includes a variety of players which can be classified into the following groups:

- Large general hospital chains which contain plastic surgery departments such as Asklepios (third largest general clinic chain in Germany).
- Small and medium-sized specialized clinic chains or network-of-clinics such as the beauty chain Medical One AG, and the franchise network Clinic im Centrum (Aesthetic Network GmbH&Co.KG) as well as DS Deutscher Ärzte Service GmbH,
- Small traditional clinics. They usually do not have surgery-rooms and instead offer surgical services through cooperation with local specialist hospital (German Belegklinik). The surgeons book a fixed number of days per month. However, this is often a quite expensive rental technique.

There are no official statistics available about the total number of clinics currently operating in the German beauty care sector. According to Jameda, an online platform for finding healthcare professionals, there are approximately 1,500 listed plastic surgeons that perform aesthetic surgery in Germany and many of them have their own clinics. Moreover, the ISAPS estimate that there are 1,100 plastic surgeons in Germany.

Overall, the economic situation of German hospitals and clinics is quite challenging. According to a report by Roland Berger, in 2014 barely 50% of all German hospitals and clinics had a positive bottom line. Therefore, nearly 90% of hospital managers in Germany see restructuring as an ongoing task to increase efficiency. We believe these statistics show the importance of operational efficiency in the overall business. The large private clinic group, Helios, has given company guidance of an EBIT margin in the 12-15% range, which is estimated to be achieved within six years by every new clinic joining the group. This process suggests a 2% EBIT-margin improvement per year. In our view, the aesthetic clinics industry shares similar challenges as the general clinics industry.

We see the following three German players as the most relevant competitors of M1, as they are focused on aesthetic procedures and have some similar business and marketing approaches.

**Medical One AG**, headquartered in Essen, founded in 2001 by the ex-Metro CEO, Erwin Conradi is one of the first and largest beauty-clinic-chains in the German market. Medical One has 49 specialized surgeons, 200 employees, across 28 clinics throughout Germany. The company has frequently been burdened with a negative bottom line since its foundation due to inefficient organization, extravagant offices spaces and exuberant marketing expenses.

In 2007, in order to turnaround the company, Mr Conradi merged his clinics group with the profitable Bodenseeklinik in Munich owned by the renowned plastic surgeon Professor Werner Mang. Prof. Mang is a well-known surgeon in upper class circles, but controversial





at the same time. He was intended to become the brand of the new company. However, negative press coverage about Prof Mang during 2011 and 2012 had a negative impact on Medical One AG, which is why the company did not become profitable and eventually dissolved the relationship with Prof Mang and his clinic in 2013. The company achieved sales of €18.4m and a net loss of € 3.6m (adjusted for one-off income) in 2014 and aims for a turnaround in 2016 (Source: Bundesanzeiger). However, the company remains in a difficult financial situation and is over-indebted. The company's expansion is taking place now through cooperation with external clinics.

**Clinic im Centrum (CIC)** is a franchise company consisting of 44 clinics that claim that the clinic members of the CIC network achieve annual turnover in the €100m range (Handelsblatt, 3 May 2011). According to Bundesanzeiger, the Aesthetic network GmbH & Co.KG achieved sales of €1.3m and a net profit of €29k in 2014.

CIC is currently present throughout Germany, and it operates a clinic in Palma de Mallorca (Spain), as well as a clinic in Zurich (Switzerland). The company offers centralized marketing, purchasing and training to its clinics' members. Elke Schwiegel, a former company consultant, successfully opened the two original aesthetic clinics in Dortmund and Münster in 2004. From that point on, the CIC network continued expansion with clinics under the umbrella of CIC.

**Deutsche Ärzte Service (DAS)** is an intermediation agency providing low cost aesthetic surgery to customers through network of clinics. DAS offers a central purchase, administration and marketing service to its members. This centralization enables DAS to offer low cost surgeries. In our view, DAS has the most aggressive low-cost pricing strategy of all its peers. This has led to some skepticism on the quality standards. For example, some clients stated they were unable to schedule follow-up appointments. Overall, the DAS business model foresees that patients become assigned a surgery appointment based on a clinics capacity, so patients cannot choose the appointment time or location.

There is little information on the sales and profitability of DAS. Based on the information available at the Bundesanzeiger, the company achieved net income of €93,928 in 2014. The company has 31 partner clinics in cities across Germany.

## FINANCIAL HISTORY AND OUTLOOK

### FINANCIAL HISTORY

In March 2016, M1 Kliniken AG published its audited 2015 annual report in accordance with IFRS standards. The company achieved several relevant milestones last year that strongly impacted the 2015 group figures and will shape future performance as well. The highlights were:

- I) Approval of the healthcare license for the completed beauty care hospital in Berlin Köpenick by mid 2015, giving access to six operating rooms,
- II) Aggressive expansion of outpatient clinics across Germany resulting in five new sites in 2015 and six new sites so far in 2016,
- III) Listing on the Frankfurt Stock Exchange on 14 September 2015.

**Income Statement FY 2015** Group revenues amounted to €34.9m (up from €23.0m in 2014). Revenue was chiefly driven by the expansion of the new clinic in Berlin-Köpenick as well as the additional five outpatient clinics established across Germany.

In 2015, M1 costs of materials increased to €24.6m (up from €18.8m in 2014), which thus implied a cost ratio reduction to 69.1% of sales compared to 70.3% in the previous year. In our view, this figure reflects the ongoing costs optimisation that management is achieving through economies of scale based on larger purchase volumes.

Personnel expenses increased substantially to €1.6m (2014: €873k) mainly due to hiring of new surgeons, doctors, nurses and beauty assistants for the ongoing expansion in the Berlin clinic and the new sites. The number of employees more than doubled to 70 (2014: 30). Other expenses increased substantially to €2.0m (2014: €844k), mainly due to expansion related costs, such as rent for new sites, as well as one-off legal expenses related to the stock exchange listing.

**Figure 11: Income Statement (selected items), reported and adjusted figures**

All figures in EUR '000	Reported figures			Figures adjusted for one-offs		
	2015	2014	Delta	2015	2014	Delta
<b>Revenue</b>	<b>34,926</b>	<b>23,017</b>	<b>52%</b>	<b>34,926</b>	<b>23,017</b>	<b>52%</b>
Gross profit	10,782	6,845	58%	10,782	6,845	58%
OpEx	-3,767	-1,829	106%	-5,767	-3,629	106%
<b>Operating income (EBIT)</b>	<b>7,015</b>	<b>5,016</b>	<b>40%</b>	<b>5,015</b>	<b>3,216</b>	<b>56%</b>
Net financial result	-245	-187	32%	-245	-187	32%
Tax expense	-140	-245	-43%	-140	-245	-43%
<b>Net income / loss</b>	<b>6,630</b>	<b>4,585</b>	<b>45%</b>	<b>4,630</b>	<b>2,785</b>	<b>66%</b>
<b>Margins in %</b>						
Gross profit	30.9%	29.7%		30.9%	29.7%	
Operating income (EBIT)	20.1%	21.8%		14.4%	14.0%	

Source: First Berlin Equity Research, M1 Kliniken AG

M1 Kliniken AG reported a strong operating profit of €7.0m in 2015, up from €5.0m in 2014. However, the 2014 and 2015 reported figures include the positive contribution of the non-core real estate subsidiary which was disposed and deconsolidated by the 31 December 2015. Based on our discussions with management we estimate that the net positive contribution of the non-core business to the EBIT (netted by other one-time



income/expenses) was about €1.8m in 2014 and €2.0m in 2015. We provide our estimated adjusted EBIT and net income figures on Figure 11.

M1 Kliniken AG reported a sound operating margin of 20.1% in 2015 (2014: 21.8%), which adjusted one-off items amounted to 14.4% in 2015 (2014: 14.0%). We note that some of M1's key competitors such as Medical One AG have been making losses for many years. Our discussion with M1's management confirmed our view that company's high profitability stems from the high efficiency achieved in the organisation through three key components of the business model:

- I) Professional marketing and efficient operations leading to a high surgery rate of its surgeons,
- II) Comparatively low priced office space: The location in Berlin-Köpenick is desirable and directly at the Dahme River, but the real estate prices there are still attractive compared to the rest of the Berlin city,
- III) Low purchase prices for required materials such as implants, Botox, hyaluronic acid, thanks to the large purchasing volumes.

The net financial result increased to €-245k (2014: €-187k), mainly due to short term debt acquired to finance working capital for further business growth. The reported net result totalled €6.6m, up from €4.6m in 2014.

**Balance Sheet FY 2015** The 2015 balance sheet total was €33.2m. Current assets amounted to €19.6m, reflecting significantly higher receivables of €15.7m (2014: €1.9m) due to the expansion process throughout Germany and the necessity to pre-finance operations of these new outpatient clinics. We note that the outpatient clinics are external organisations working under cooperation agreements with M1. Both partners share sales, costs and profits in undisclosed proportions. Therefore, the current receivables position reflects open accounts with the outpatient clinics. However, management confirmed that this large increase in receivables is a temporary effect and expect this figure to normalise at lower levels going forward. M1 Kliniken AG reported a cash position of €413k.

**Figure 12: Balance sheet (selected items)**

All figures in EUR '000	2015	2014	Delta
Cash and cash equivalents	413	2,398	-83%
Receivables	15,655	1,927	712%
Inventories	3,181	974	226%
<b>Current assets, total</b>	<b>19,605</b>	<b>7,536</b>	<b>160%</b>
Property, plant & equipment	447	634	-29%
Goodwill & other intangibles	8,042	14,067	-43%
Financial assets	5,064	3,326	52%
<b>Non-current assets, total</b>	<b>13,582</b>	<b>31,169</b>	<b>-56%</b>
Accounts payable	2,764	991	179%
Financial debt (ST+LT)	16	2,021	-99%
Shareholders' equity	29,750	25,394	17%
Equity ratio	90%	66%	37%
<b>Balance sheet, total</b>	<b>33,187</b>	<b>38,704</b>	<b>-14%</b>

Source: First Berlin Equity Research, M1 Kliniken AG

Due to the disposal of the company's previously acquired subsidiary, the non-core real estate business, goodwill nearly halved from €14.0m in 2014 to €8.0m in 2015.

Total equity amounted to €29.8m, which corresponds to a solid equity ratio of 89.6%. Short-term liabilities were €3.4m, of which €2.8m were trade and other payables. Long-term liabilities were almost negligible and amounted to €12.6k.

Thanks to a successful FY 2015, the company paid a dividend of €0.30 per share, which resulted in a dividend payment of €4.5m to shareholders. The €0.30 per share dividend paid in 2015 represents a 3.7% yield on the current share price of €8.10 which is attractive in the low current interest rate environment.

**Cash Flow Statement FY 2015** In 2014 and 2015 M1 generated positive operating cash flows. The 2015 operating cash flow amounted to €0.1m (2014: €1.0m). This decline in 2015 can be tied to the considerable increase in working capital from the investment in outpatient clinics expansion. Capital expenditures increased to €0.7m in 2015 (2014: €0.1m) mainly due to the investment in the hospital in Berlin. The 2015 free cash flow increased to €0.7m compared to €-6.0m in the prior year, largely due to the negative cash impact of payments in 2014 for the acquisition of a non-core subsidiary and the disposal of non-core assets in 2015. A cash outflow from financing of €2.3m is traced to the short term debt repayment. Net cash flow totalled €-2.0m in 2015.

**Figure 13: Cash flow statement (selected items)**

All figures in EUR '000	2015	2014	Delta
<b>Operating cash flow</b>	<b>97</b>	<b>1,039</b>	<b>-91%</b>
CapEx	-678	-147	362%
Other investments and disposals	1,283	-6,853	-119%
<b>Free cash flow</b>	<b>702</b>	<b>-5,961</b>	<b>-112%</b>
Cash flow from financing	-2,283	7,582	-130%
<b>Net cash flow</b>	<b>-1,985</b>	<b>1,789</b>	<b>-211%</b>

Source: First Berlin Equity Research, M1 Kliniken AG

## FINANCIAL OUTLOOK

**Income Statement** For 2016, we anticipate that sales will grow by 12% to €39.1m (2015: €34.9m), mainly due to an increased capacity utilisation of the M1-Schlossklinik in Berlin-Köpenick and the five new sites opened in 2015, as well as first revenues generated by the six new sites opened during 2016. We therefore believe M1 Kliniken AG will continue to show a strong performance during 2016, as seen in previous years.

Going forward, we estimate that M1 Kliniken AG's sales will increase at a CAGR of 12.0% (2016-2018). Due to a good performance of the M1-Schlossklinik in Berlin-Köpenick, we expect the company to add one or two further clinics in suitable and highly populated regions such as the Rhine-Main and the Rhine-Ruhr area.

We also assume that the company will achieve an EBIT of €7.2m in 2016, which equates to an operating profit margin of 18.5%. M1 Management has the goal to achieve a 20% EBIT-margin within the next one to two years. We believe the targeted operating profitability is realistic, as the company will increasingly benefit from economies of scale (e.g. lower purchase prices due to larger volumes) from the clinical network. Going forward we estimate that the EBIT margin of M1 Kliniken AG will increase to 19.5% in 2017 and 20.1% in 2018.

**Figure 14: Revenue, gross profit, EBIT forecasts**

All figures in EUR '000	2013	2014	2015	2016 E	2017 E	2018 E
Revenue	6,081	23,017	34,926	39,117	43,811	49,069
Gross profit	1,039	6,845	10,782	11,657	13,143	14,819
Operating income (EBIT) adj. *	8	3,216	5,015	7,237	8,543	9,863
Net income / loss adj. *	109	2,785	4,630	5,030	5,971	6,921
<b>Margins in %</b>						
Gross profit	17.1%	29.7%	30.9%	29.8%	30.0%	30.2%
Operating income (EBIT) adj. *	0.1%	14.0%	14.4%	18.5%	19.5%	20.1%
<b>Y-Y Growth</b>						
Revenue	n.m.	278%	52%	12%	12%	12%
Gross profit	n.m.	559%	58%	8%	13%	13%
Operating income (EBIT) adj. *	n.m.	40104%	56%	44%	18%	15%
Net income / loss adj. *	n.m.	2455.2%	66.2%	8.6%	18.7%	15.9%

\*EBIT and Net income in 2014 and 2015 have been adjusted for one-off items

Source: First Berlin Equity Research, M1 Kliniken AG

**Balance Sheet** We project the company will significantly reduce its receivables in 2016 to €7.8m (2015: €15.7m), which we project to compress further to €4.8m in 2017. The attractiveness of M1's business model is that it is self-sustainable. The company is generating enough cash to finance further expansion measures. This is reflected in a growing cash position. Additionally, we have projected that the company will pay a fixed dividend of €0.30 per share, which is in line with management's guidance.

**Figure 15: Balance sheet KPIs 2013-2018**

All figures in EUR '000	2013	2014	2015	2016 E	2017 E	2018 E
Cash and cash equivalents	609	2,398	413	8,752	13,153	15,566
Receivables	155	1,927	15,655	7,823	4,801	4,705
Inventories	205	974	3,181	3,435	3,830	4,272
<b>Current assets, total</b>	<b>1,720</b>	<b>7,536</b>	<b>19,605</b>	<b>20,377</b>	<b>22,162</b>	<b>24,932</b>
Goodwill & other intangibles	14,079	14,067	8,042	8,061	8,083	8,108
Financial assets	5,952	3,326	5,064	5,064	5,064	5,064
<b>Non-current assets, total</b>	<b>20,659</b>	<b>31,169</b>	<b>13,582</b>	<b>13,679</b>	<b>13,789</b>	<b>13,911</b>
Accounts payable	222	991	2,764	3,053	3,405	3,797
Shareholders' equity	15,118	25,394	29,750	30,280	31,751	34,172
<i>Equity ratio</i>	<i>68%</i>	<i>88%</i>	<i>87%</i>	<i>81%</i>	<i>79%</i>	<i>79%</i>
<b>Balance sheet, total</b>	<b>22,379</b>	<b>38,704</b>	<b>33,187</b>	<b>34,056</b>	<b>35,951</b>	<b>38,844</b>

Source: First Berlin Equity Research, M1 Kliniken AG

**Cash Flow Statement** The increase in revenue and earnings as well as a significant positive impact of the reduction in working capital resulted in increasing operating cash flows, particularly in 2016E and 2017E. For 2016E, we forecast an operating cash flow of €13.4m and for 2017E of €9.5m. Due to the payment of dividends (2016E: €4.5m, 2017E: € 4.5m) we forecast a net cash flow of €8.3m and €4.4m in 2016 and 2017 respectively.



**Figure 16: Cash Flow Statement (selected items) 2013 – 2018E**

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
<b>Operating cash flow</b>	<b>-5,219</b>	<b>1,039</b>	<b>97</b>	<b>13,397</b>	<b>9,479</b>	<b>7,531</b>
CapEx	-502	-147	-678	-292	-329	-368
Other investments and disposals	1,685	-6,853	1,283	0	0	0
<b>Free cash flow</b>	<b>-4,036</b>	<b>-5,961</b>	<b>702</b>	<b>13,105</b>	<b>9,151</b>	<b>7,163</b>
Cash flow from financing		7,582	-2,283	-4,766	-4,750	-4,750
<b>Net cash flow</b>	<b>-3,515</b>	<b>1,789</b>	<b>-1,985</b>	<b>8,339</b>	<b>4,401</b>	<b>2,413</b>

Source: First Berlin Equity Research, M1 Kliniken AG



## MANAGEMENT

### MANAGEMENT BOARD

**Patrick Brenske** joined the executive management board of M1 Kliniken AG in June 2015. Since 2009, he has been also acting as Board member at MPH Mittelständische Pharma Holding AG, an investment company focusing on the healthcare sector. Previously, he gathered over 10 years of experience in the pharmaceutical industry, in particular as Head of Purchase & Sales at the generics wholesaler HAEMATO Pharm GmbH (now HAEMATO AG). Mr. Brenske holds a Msc. degree from the Frankfurt School of Finance and Management.

### SUPERVISORY BOARD

**Dr. Christian Pahl** is the chairman of the Supervisory Board of M1 Kliniken AG. Additionally, he acts as a CEO at HAEMATO AG, CFO at MPH Mittelständische Pharma Holding AG, and a member of supervisory board at CR Capital Real Estate AG. Dr. Pahl has over 20 years experience on the executive level of mid-size German technological companies such as WIV Wein International, Oasis Silicon Systems Holding, Lux International, Damovo and Pluradent. He started his career at the auditing company Arthur Andersen. Dr. Pahl has a degree in business administration and a Ph.D. in economics.

**Dr. Albert Wahl** is the deputy chairman of the Supervisory Board. Simultaneously, he acts as the CEO at UMT United Mobility Technology AG, a software company. Prior to that Mr. Wahl was a board member at MS Industrie AG. During his professional career, he worked at BMW AG, IBM, Deutsche Bank AG, GSM Industriebeteiligungen GmbH and CGI Management AG. Dr. Wahl has a degree as economic engineer and an international doctorate degree in Germany and the US.

**Prof. Dr. Dr. Sabine Meck** is a member of the Supervisory Board. She is also deputy chairman of the companies HAEMATO AG and MPH Mittelständische Pharma Holding AG and member of Magnum AG's supervisory board. Besides her teaching career at several universities (Bochum, Gießen, Rotterdam, Kiel, Berlin and Mainz), Prof. Meck developed a strong finance expertise in several management positions in investor relations and public relations and as a supervisory board member in several listed companies. Prof. Meck has a PhD in social and natural sciences.

## NEWSFLOW

### EXPECTED NEWSFLOW:

29.08.2016	H1 report 2016
March 2017	Preliminary results FY 2016
April 2017	Report FY 2016
June 2017	AGM



## Shareholders &amp; Stock Information

Stock Information	
ISIN	DE000A0STSQ8
WKN	A0STSQ
Bloomberg ticker	M12 GR
No. of issued shares	15,000,000
Transparency Standard	Entry Standard
Country	Germany
Sector	Healthcare
Industry	Healthcare Facilities & Services

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
MPH Mittelständische Pharma Holding AG	85.6%
Free Float	14.4%

Source: M1 Kliniken AG





## INCOME STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
<b>Revenues</b>	<b>6,081</b>	<b>23,017</b>	<b>34,926</b>	<b>39,117</b>	<b>43,811</b>	<b>49,069</b>
Change in inventory	0	-947	13	0	0	0
Other operating income	691	3,568	446	400	400	400
Cost of goods sold	-5,733	-18,793	-24,602	-27,860	-31,068	-34,650
<b>Gross profit</b>	<b>1,039</b>	<b>6,845</b>	<b>10,782</b>	<b>11,657</b>	<b>13,143</b>	<b>14,819</b>
Personnel expenses	-566	-873	-1,570	-1,956	-2,059	-2,110
Other operating expenses	-424	-844	-1,978	-2,269	-2,322	-2,601
Depreciation & amortisation	-41	-111	-219	-196	-219	-245
<b>Operating income (EBIT)</b>	<b>8</b>	<b>5,016</b>	<b>7,015</b>	<b>7,237</b>	<b>8,543</b>	<b>9,863</b>
Net financial result	78	-187	-245	-250	-250	-250
<b>Pre-tax income (EBT)</b>	<b>86</b>	<b>4,830</b>	<b>6,770</b>	<b>6,987</b>	<b>8,293</b>	<b>9,613</b>
Tax result	23	-245	-140	-1,956	-2,322	-2,692
Minority interests	0	0	0	0	0	0
<b>Net income / loss</b>	<b>109</b>	<b>4,585</b>	<b>6,630</b>	<b>5,030</b>	<b>5,971</b>	<b>6,921</b>
<b>Diluted EPS (in €)</b>	<b>0.01</b>	<b>0.31</b>	<b>0.44</b>	<b>0.34</b>	<b>0.40</b>	<b>0.46</b>
<b>EBITDA</b>	<b>49</b>	<b>5,127</b>	<b>7,234</b>	<b>7,432</b>	<b>8,762</b>	<b>10,108</b>
<b>Ratios</b>						
Gross margin	17.1%	29.7%	30.9%	29.8%	30.0%	30.2%
EBIT margin on revenues	0.1%	21.8%	20.1%	18.5%	19.5%	20.1%
EBITDA margin on revenues	0.8%	22.3%	20.7%	19.0%	20.0%	20.6%
Net margin on revenues	1.8%	19.9%	19.0%	12.9%	13.6%	14.1%
Tax rate	-26.7%	5.0%	2.0%	28.0%	28.0%	28.0%
<b>Expenses as % of revenues</b>						
Personnel costs	9.3%	3.8%	4.5%	5.0%	4.7%	4.3%
Other operating expenses	7.0%	3.7%	5.7%	5.8%	5.3%	5.3%
Depreciation & amortisation	0.7%	0.5%	0.6%	0.5%	0.5%	0.5%
<b>Y-Y Growth</b>						
Revenues	n.a.	278.5%	51.7%	12.0%	12.0%	12.0%
Operating income	n.a.	n.m.	39.8%	3.2%	18.1%	15.4%
Net income/ loss	n.a.	n.m.	44.6%	-24.1%	18.7%	15.9%



## BALANCE SHEET

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
<b>Assets</b>						
<b>Current assets, total</b>	<b>1,720</b>	<b>7,536</b>	<b>19,605</b>	<b>20,377</b>	<b>22,162</b>	<b>24,932</b>
Cash and cash equivalents	609	2,398	413	8,752	13,153	15,566
Short-term investments	606	2,031	6	6	6	6
Receivables	155	1,927	15,655	7,823	4,801	4,705
Inventories	205	974	3,181	3,435	3,830	4,272
Other current assets	145	206	351	361	372	383
<b>Non-current assets, total</b>	<b>20,659</b>	<b>31,169</b>	<b>13,582</b>	<b>13,679</b>	<b>13,789</b>	<b>13,911</b>
Property, plant & equipment	597	634	447	525	612	710
Goodwill & other intangibles	14,079	14,067	8,042	8,061	8,083	8,108
Financial assets	5,952	3,326	5,064	5,064	5,064	5,064
Other assets	31	13,141	29	29	29	29
<b>Total assets</b>	<b>22,379</b>	<b>38,704</b>	<b>33,187</b>	<b>34,056</b>	<b>35,951</b>	<b>38,844</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>7,257</b>	<b>10,112</b>	<b>3,425</b>	<b>3,762</b>	<b>4,185</b>	<b>4,655</b>
Short-term debt	3	1,184	16	0	0	0
Accounts payable	222	991	2,764	3,053	3,405	3,797
Current provisions	64	1,080	138	151	166	183
Other current liabilities	6,968	6,857	507	558	614	675
<b>Long-term liabilities, total</b>	<b>4</b>	<b>3,199</b>	<b>13</b>	<b>13</b>	<b>15</b>	<b>16</b>
Long-term debt	0	837	0	0	0	0
Deferred revenue	0	0	0	0	0	0
Other liabilities	4	2,362	13	13	15	16
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>15,118</b>	<b>25,394</b>	<b>29,750</b>	<b>30,280</b>	<b>31,751</b>	<b>34,172</b>
<b>Total consolidated equity and debt</b>	<b>22,379</b>	<b>38,704</b>	<b>33,187</b>	<b>34,056</b>	<b>35,951</b>	<b>38,844</b>
<b>Ratios</b>						
Current ratio (x)	0.2	0.7	5.7	5.4	5.3	5.4
Quick ratio (x)	0.2	0.6	4.8	4.5	4.4	4.4
Net debt/(net cash)	-606	-377	-396	-8,752	-13,153	-15,566
Net gearing	-4.0%	-1.5%	-1.3%	-28.9%	-41.4%	-45.6%
Book value per share (in €)	n/a	n/a	1.98	2.02	2.12	2.28
Return on equity (ROE)	0.7%	18.1%	22.3%	16.6%	18.8%	20.3%



## CASH FLOW STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
<b>Net income</b>	<b>109</b>	<b>4,585</b>	<b>6,630</b>	<b>5,030</b>	<b>5,971</b>	<b>6,921</b>
Depreciation and amortisation	41	111	219	196	219	245
Tax expense	-23	243	138	1,956	2,322	2,692
Changes in working capital	-4,570	-615	-3,448	7,921	3,039	115
Other adjustments	-766	-3,506	-3,569	0	0	0
Net interest result	-78	185	245	250	250	250
<b>Operating cash flow</b>	<b>-5,287</b>	<b>1,003</b>	<b>214</b>	<b>15,354</b>	<b>11,801</b>	<b>10,223</b>
Tax paid	60	37	-141	-1,956	-2,322	-2,692
Interest income	8	0	24	0	0	0
<b>Net operating cash flow</b>	<b>-5,219</b>	<b>1,039</b>	<b>97</b>	<b>13,397</b>	<b>9,479</b>	<b>7,531</b>
CapEx	-502	-147	-678	-292	-329	-368
Other investments and disposals	1,685	-6,853	1,283	0	0	0
<b>Cash flow from investing</b>	<b>1,183</b>	<b>-7,000</b>	<b>605</b>	<b>-292</b>	<b>-329</b>	<b>-368</b>
<b>Free cash flow</b>	<b>-4,036</b>	<b>-5,961</b>	<b>702</b>	<b>13,105</b>	<b>9,151</b>	<b>7,163</b>
Debt financing, net	0	2,018	-2,013	-16	0	0
Equity financing, net	0	5,690	0	0	0	0
Paid dividend	0	0	0	-4,500	-4,500	-4,500
Interest expense	0	-126	-270	-250	-250	-250
<b>Cash flow from financing</b>	<b>0</b>	<b>7,582</b>	<b>-2,283</b>	<b>-4,766</b>	<b>-4,750</b>	<b>-4,750</b>
Consolidation adjustments	521	167	-405	0	0	0
<b>Net cash flow</b>	<b>-3,515</b>	<b>1,789</b>	<b>-1,985</b>	<b>8,339</b>	<b>4,401</b>	<b>2,413</b>
Cash, start of the year	4,124	609	2,398	413	8,752	13,153
<b>Cash, end of the year</b>	<b>609</b>	<b>2,398</b>	<b>413</b>	<b>8,752</b>	<b>13,153</b>	<b>15,566</b>
<b>EBITDA/share (in €)</b>	<b>0.00</b>	<b>0.34</b>	<b>0.48</b>	<b>0.50</b>	<b>0.58</b>	<b>0.67</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.a.	n.m.	-78.6%	7061.2%	-23.1%	-13.4%
Free cash flow	n.m.	n.m.	n.m.	1765.8%	-30.2%	-21.7%
EBITDA/share	n.a.	n.m.	41.1%	2.7%	17.9%	15.4%

## FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	11 August 2016	€8.10	ADD	€9.00

**Authored by: Christian Orquera, Analyst**

**Company responsible for preparation:**

**First Berlin Equity Research GmbH**  
 Mohrenstraße 34  
 10117 Berlin

Tel. +49 30 80 93 96 93 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com  
 www.firstberlin.com

**Person responsible for forwarding or distributing this financial analysis: Martin Bailey**

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