

M1 Kliniken AG

Germany / Healthcare Facilities & Services
 Frankfurt
 Bloomberg: M12 GR
 ISIN: DE000A0STSQ8

2016 annual
 results

RATING
BUY

PRICE TARGET
€10.80

Return Potential 28.6%
 Risk Rating High

MIXED FY/16 RESULTS, BRIGHT BUSINESS PROSPECTS

M1 Kliniken AG (M1) published its FY 2016 financial report on 28 April. Sales and EBIT were below our expectations at €36.0m (FB: €39.1m) and €4.4m (FB: €7.2m), respectively. This difference can be chiefly explained by management's decision to substantially raise the number of medical personnel at the Berlin-Köpenick clinic as well as extending the training period to secure quality standards. As a result, the personnel measures undertaken in mid-2016 will not translate into additional sales until 2017. However, largely due to a non-cash revaluation gain of €4.6m (in accordance with IFRS standards) in financial assets investments and a cash dividend of €1.0m, the company met our net income forecast of €5.0m (FB: €5.0m). Management also gave an upbeat outlook for 2017 and expects sales to increase by 20% Y/Y. Additionally, M1 announced yesterday the acquisition of a 2,000 square metre building in Essen's city centre to build a new clinic with surgical capabilities. This is good news considering that the Berlin-Köpenick clinic will likely be at full capacity in 2017. We have fine-tuned our forecasts for 2017E and the following years leading to a higher target price of €10.80 (€9.00). We upgrade our rating to Buy (Add).

FY 2016 sales weaker than expected FY 2016 sales increased by 3% y/y to €36.0m (FB: €39.1m; FY/15: €34.9m). M1 expanded operations in the new clinic in Berlin-Köpenick from one surgery room and 4 beds in 2015 to 6 surgery rooms and 35 beds in 2016. The company also raised the number of outpatient clinics across Germany from 4 in 2015 to 12 in 2016. Additionally management took the decision to prolong training of its specialists beyond the originally planned period to secure high quality standards, which is why the anticipated sales from the newly hired medical personnel have been postponed into 2017.

Strong gross profit driven by other operating income Gross profit surged by 25% y/y to €13.4m (FB: €11.7m; FY/15: €10.8m), chiefly driven by other operating income amounting to €5.4m (FB: €0.4m; FY/15: €0.4m). The non-

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	23.02	34.93	35.96	44.76	52.82	60.22
Y-o-y growth	278.5%	51.7%	2.9%	24.5%	18.0%	14.0%
EBIT (€m)	5.02	7.01	4.36	5.95	7.34	9.57
EBIT margin	21.8%	20.1%	12.1%	13.3%	13.9%	15.9%
Net income (€m)	4.59	6.63	5.01	6.03	6.96	8.59
EPS (diluted) (€)	0.31	0.44	0.33	0.40	0.46	0.57
DPS (€)	0.00	0.30	0.30	0.30	0.30	0.30
FCF (€m)	-5.96	0.70	9.91	8.07	6.63	7.82
Net gearing	-1.5%	-1.3%	-19.2%	-29.4%	-33.5%	-38.5%
Liquid assets (€m)	2.40	0.41	5.81	9.36	11.47	14.77

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 14 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 08 May 2017

Closing Price	€ 8.40
Shares outstanding	15.00m
Market Capitalisation	€ 126.00m
52-week Range	€ 5.73 / 11.78
Avg. Volume (12 Months)	1,823

Multiples	2016	2017E	2018E
P/E	27.0	22.4	19.4
EV/Sales	3.6	2.9	2.4
EV/EBIT	29.6	21.7	17.6
Div. Yield	3.6%	3.6%	3.6%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2016

Liquid Assets	€ 9.42m
Current Assets	€ 21.05m
Intangible Assets	€ 8.16m
Total Assets	€ 32.19m
Current Liabilities	€ 1.93m
Shareholders' Equity	€ 30.26m

SHAREHOLDERS

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



EBIT weaker, but net income in line with our expectations The company achieved EBIT of €4.4m (FBe: €7.2m; FY/15: €7.0m). The shortfall relative to our projection was largely due to higher than projected OPEX of €9.1m (FBe: €4.4m; FY/15: €1.2m). The company significantly raised the number of medical specialists it employs leading to higher personnel and other expenses. We have therefore adjusted our OPEX projections for the new cost structure. In addition, M1 benefited in 2016 from the dividend payment of €1.0m from the financial assets held on its balance sheet, which we had not considered in our estimates. Moreover, management confirmed that similar yearly dividend income is expected in the future. The company also had a low tax expense of €0.5m (FB: €2.0m) in 2016 thanks to tax loss carry forwards from a holding company. The resulting 9% tax rate was well below the original 30% guidance for FY 2016. We believe the company still has some tax loss carry forwards to benefit from in the years to come and have therefore lowered our tax rate forecast for 2017 and the following years.

Table 1: P&L FY/16 reported figures vs. FB estimates and FY/15 (KPIs)

All figures in EUR '000	FY/16	FY/16E	Delta	FY/15	Delta
Revenue	35,955	39,117	-8%	34,926	3%
Gross profit	13,444	11,657	15%	10,782	25%
margin	37.4%	29.8%		30.9%	
OpEx	-9,080	-4,420	105%	-1,173	674%
Operating income (EBIT)	4,364	7,237	-40%	7,015	-38%
margin	12.1%	18.5%		20.1%	
Net income / loss	5,007	5,030	0%	6,630	-24%
margin	13.9%	12.9%		19.0%	
EPS (in EUR, dil.)	0.33	0.34	0%	0.44	-24%

Source: First Berlin Equity Research, M1 Kliniken AG

Sound FY/16 balance sheet Receivables decreased significantly to €6.8m from €15.7m in FY/15. Receivables were at a very high level last year due to the opening of new clinics during 2015 and H1/16. However, they declined significantly by year-end 2016. Inventories declined to €1.4m (FY/15: €3.1m). Equity increased slightly to €30.3m (FY/15: €29.8m), corresponding to a very high equity ratio of 94% (FY/15: 90%). M1 reported a solid cash position of €5.8m (FY/15: €0.4m).

Good cash flow performance Chiefly driven by a large positive contribution from working capital (receivables) amounting to €7.8m (2015: €-34m), operating cash flow came in at €8.0m (FY/15: €0.2m). Cash flow from investment activities totalled €1.8m (FY/15: €0.6m), since payments received for the disposal of financial assets and from the financial assets dividend totalling €2.8m outweighed CAPEX of €1.0m (FY/15: €0.7m). As a result, free cash flow (operating cash flow minus CAPEX) increased significantly to €9.9m (FY/15: €0.7m). Due to dividend payments of €4.5m, net cash flow came in at €5.4m (FY/15: €-2.0m).

Acquisition of building in Essen has the potential to almost double company's surgical capabilities The company announced the acquisition of a 2,000 square metre building in the centre of Essen for an undisclosed amount. The new property can nearly match the surgical capacity available in the Berlin-Köpenick clinic. M1 also estimates that the potential addressable market in Essen, the Ruhr area and possibly the neighbouring countries Belgium and the Netherlands is comparable to the Berlin area market.



Positive outlook, raising estimates Management gave guidance of 20% sales growth for 2017E. After assessing the new market opportunities, we have increased our forecasts for this year and going forward. The newly acquired building in Essen will add new surgical capacity, which should boost sales. We therefore believe our old sales forecasts for the period beyond 2017E were too conservative. Additionally, one of the most significant changes to our forecasts is in the net financial result, which now reflects the dividend from the financial assets investments. The new post-expansion cost structure and potential tax benefits have also been incorporated in our forecasts. (see table 2 below).

Table 2: Changes to our forecasts

All figures in EUR '000	2017E			2018E			2019E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	43,811	44,764	2.2%	49,069	52,822	7.6%	55,938	60,217	7.6%
Gross profit	13,143	16,115	22.6%	14,819	19,016	28.3%	17,061	22,581	32.4%
<i>margin</i>	30.0%	36.0%		30.2%	36.0%		30.5%	37.5%	
Operating income (EBIT)	8,543	5,954	-30.3%	9,863	7,342	-25.6%	11,523	9,574	-16.9%
<i>margin</i>	19.5%	13.3%		20.1%	13.9%		20.6%	15.9%	
Net financial result	-250	1,136	-	-250	1,146	-	-250	1,158	-
EBT	7,089	7,089		9,613	8,489		11,273	10,732	
<i>margin</i>	16.2%	15.8%	-	19.6%	16.1%	-	20.2%	17.8%	-
Net income / loss	5,971	6,026	0.9%	6,921	6,961	0.6%	8,117	8,586	5.8%
<i>margin</i>	13.6%	13.5%		14.1%	13.2%		14.5%	14.3%	
EPS (in EUR, dil.)	0.40	0.40	0.9%	0.46	0.46	0.6%	0.54	0.57	5.8%

Source: First Berlin Equity Research



VALUATION MODEL

Price target increased, and rating upgraded to Buy (Add) Based on our adjusted estimates, our DCF model yields a higher price target of €10.80. This represents an upside potential of 29% from current levels. We upgrade our recommendation from Add to Buy.

Figure 3: DCF Model

All figures in EUR '000	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	44,764	52,822	60,217	68,888	78,808	90,156	102,778	117,167
NOPLAT	4,287	5,286	6,894	8,630	10,270	12,268	14,726	17,209
+ depreciation & amortisation	313	317	361	413	473	541	617	703
Net operating cash flow	4,600	5,603	7,255	9,044	10,743	12,809	15,343	17,912
- total investments (CAPEX and WC)	1,676	-718	-1,213	-1,418	-1,193	-1,054	-1,908	-2,174
Capital expenditures	-649	-502	-452	-517	-591	-676	-771	-879
Working capital	2,325	-216	-762	-901	-601	-377	-1,137	-1,295
Free cash flows (FCF)	6,276	4,885	6,042	7,626	9,551	11,756	13,435	15,739
PV of FCF's	5,834	4,055	4,478	5,046	5,642	6,201	6,328	6,618

All figures in EUR '000	
PV of FCFs in explicit period	86,550
PV of FCFs in terminal period	69,668
Enterprise value (EV)	156,219
+ Net cash / - net debt	5,798
+ Investments / minority interests	0
Shareholder value	162,016

Fair value per share in EUR 10.80

		Terminal growth rate							
			0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
Cost of equity	12.0%	9.0%	15.40	15.97	16.62	17.36	18.24	19.27	20.50
Pre-tax cost of debt	5.0%	10.0%	13.21	13.60	14.05	14.55	15.13	15.79	16.57
Tax rate	28.0%	11.0%	11.49	11.77	12.09	12.44	12.84	13.29	13.80
After-tax cost of debt	3.6%	12.0%	10.11	10.32	10.55	10.80	11.08	11.40	11.75
Share of equity capital	100.0%	13.0%	8.99	9.14	9.32	9.50	9.71	9.93	10.19
Share of debt capital	0.0%	14.0%	8.06	8.18	8.31	8.45	8.60	8.77	8.95
WACC	12.0%	15.0%	7.29	7.38	7.48	7.58	7.70	7.82	7.96

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

Source: First Berlin Equity Research



INCOME STATEMENT

All figures in EUR '000	2014	2015	2016	2017E	2018E	2019E
Revenues	23,017	34,926	35,955	44,764	52,822	60,217
Change in inventory	-947	13	0	0	0	0
Other operating income	3,568	446	5,428	2,000	1,000	1,000
Cost of goods sold	-18,793	-24,602	-27,939	-30,649	-34,806	-38,635
Gross profit	6,845	10,782	13,444	16,115	19,016	22,581
Personnel expenses	-873	-1,570	-3,802	-4,745	-5,441	-6,022
Other operating expenses	-844	-1,978	-4,989	-5,103	-5,916	-6,624
Depreciation & amortisation	-111	-219	-288	-313	-317	-361
Operating income (EBIT)	5,016	7,015	4,364	5,954	7,342	9,574
Net financial result	-187	-245	1,124	1,136	1,146	1,158
Pre-tax income (EBT)	4,830	6,770	5,489	7,089	8,489	10,732
Tax result	-245	-140	-481	-1,063	-1,528	-2,146
Minority interests	0	0	0	0	0	0
Net income / loss	4,585	6,630	5,007	6,026	6,961	8,586
Diluted EPS (in €)	0.31	0.44	0.33	0.40	0.46	0.57
EBITDA	5,127	7,234	4,652	6,267	7,659	9,936
Ratios						
Gross margin	29.7%	30.9%	37.4%	36.0%	36.0%	37.5%
EBIT margin on revenues	21.8%	20.1%	12.1%	13.3%	13.9%	15.9%
EBITDA margin on revenues	22.3%	20.7%	12.9%	14.0%	14.5%	16.5%
Net margin on revenues	19.9%	19.0%	13.9%	13.5%	13.2%	14.3%
Tax rate	5.0%	2.0%	8.7%	15.0%	18.0%	20.0%
Expenses as % of revenues						
Personnel costs	3.8%	4.5%	10.6%	10.6%	10.3%	10.0%
Other operating expenses	3.7%	5.7%	13.9%	11.4%	11.2%	11.0%
Depreciation & amortisation	0.5%	0.6%	0.8%	0.7%	0.6%	0.6%
Y-Y Growth						
Revenues	278.5%	51.7%	2.9%	24.5%	18.0%	14.0%
Operating income	n.m.	39.8%	-37.8%	36.4%	23.3%	30.4%
Net income/ loss	n.m.	44.6%	-24.5%	20.3%	15.5%	23.3%



BALANCE SHEET

All figures in EUR '000	2014	2015	2016	2017E	2018E	2019E
Assets						
Current assets, total	7,536	19,605	16,995	21,061	23,936	28,511
Cash and cash equivalents	2,398	413	5,812	9,357	11,470	14,770
Short-term investments	2,031	6	2,704	2,785	2,869	2,955
Receivables	1,927	15,655	6,841	4,906	5,065	5,774
Inventories	974	3,181	1,410	3,779	4,291	4,763
Other current assets	206	351	227	234	241	248
Non-current assets, total	31,169	13,582	15,192	15,528	15,713	15,803
Property, plant & equipment	634	447	1,034	1,303	1,461	1,521
Goodwill & other intangibles	14,067	8,042	8,155	8,223	8,249	8,279
Financial assets	3,326	5,064	5,882	5,882	5,882	5,882
Other assets	13,141	29	120	120	120	120
Total assets	38,704	33,187	32,186	36,588	39,648	44,313
Shareholders' equity & debt						
Current liabilities, total	10,112	3,425	1,925	4,800	5,399	5,978
Short-term debt	1,184	16	14	0	0	0
Accounts payable	991	2,764	601	3,359	3,814	4,234
Current provisions	1,080	138	669	736	810	891
Other current liabilities	6,857	507	640	705	775	853
Long-term liabilities, total	3,199	13	4	5	5	6
Long-term debt	837	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0
Other liabilities	2,362	13	4	5	5	6
Minority interests	0	0	0	0	0	0
Shareholders' equity	25,394	29,750	30,257	31,783	34,244	38,330
Total consolidated equity and debt	38,704	33,187	32,186	36,588	39,648	44,313
Ratios						
Current ratio (x)	0.7	5.7	8.8	4.4	4.4	4.8
Quick ratio (x)	0.6	4.8	8.1	3.6	3.6	4.0
Net debt/(net cash)	-377	-396	-5,798	-9,357	-11,470	-14,770
Net gearing	-1.5%	-1.3%	-19.2%	-29.4%	-33.5%	-38.5%
Book value per share (in €)	n/a	1.98	2.02	2.12	2.28	2.56
Return on equity (ROE)	18.1%	22.3%	16.5%	19.0%	20.3%	22.4%



CASH FLOW STATEMENT

All figures in EUR '000	2014	2015	2016E	2017E	2018E	2019E
Net income	4,585	6,630	5,007	6,026	6,961	8,586
Depreciation and amortisation	111	219	288	313	317	361
Tax expense	243	138	476	1,063	1,528	2,146
Changes in working capital	-615	-3,448	7,788	2,369	-163	-695
Other adjustments	-3,506	-3,569	-4,465	0	0	0
Net interest result	185	245	-1,126	-1,136	-1,146	-1,158
Operating cash flow	1,003	214	7,969	8,636	7,496	9,241
Tax paid	37	-141	-32	-1,063	-1,528	-2,146
Interest income	0	24	140	151	163	176
Net operating cash flow	1,039	97	8,077	7,724	6,131	7,270
CapEx	-147	-678	-989	-649	-502	-452
Other investments and disposals	-6,853	1,283	2,826	999	999	999
Cash flow from investing	-7,000	605	1,838	350	497	547
Free cash flow	-5,961	702	9,914	8,073	6,629	7,818
Debt financing, net	2,018	-2,013	-2	-14	0	0
Equity financing, net	5,690	0	0	0	0	0
Paid dividend	0	0	-4,500	-4,500	-4,500	-4,500
Interest expense	-126	-270	-13	-14	-16	-18
Cash flow from financing	7,582	-2,283	-4,515	-4,528	-4,516	-4,518
Consolidation adjustments	167	-405	0	0	0	0
Net cash flow	1,789	-1,985	5,399	3,545	2,113	3,300
Cash, start of the year	609	2,398	413	5,812	9,357	11,470
Cash, end of the year	2,398	413	5,812	9,357	11,470	14,770
EBITDA/share (in €)	0.34	0.48	0.31	0.42	0.51	0.66
Y-Y Growth						
Operating cash flow	n.m.	-78.6%	3616.9%	8.4%	-13.2%	23.3%
Free cash flow	n.m.	n.m.	1311.5%	-18.6%	-17.9%	17.9%
EBITDA/share	n.m.	41.1%	-35.7%	34.7%	22.2%	29.7%

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
...	↓	↓	↓	↓
2	6 September 2016	€8.00	ADD	€9.00
3	Today	€8.40	BUY	€10.80

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First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

BUY: An expected favourable price trend of more than 25% percent.

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

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The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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