

M1 Kliniken AG

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

Update following
 capital increase

RATING **BUY**
PRICE TARGET **€ 16.50**
 Return Potential 44.7%
 Risk Rating High

PRICE TARGET RAISED ON SUCCESSFUL EXPANSION OF CLINIC NETWORK

M1 Kliniken AG (M1) has raised new capital of €16.5m through the placement of €1.5m shares at €11.0 each. The placement process was accelerated due to oversubscription. The company intends to use the proceeds to finance faster expansion of its clinic network. H1 2017 results published two months ago were strong and came in ahead of our expectations. Due to the expansion of the clinic network across Germany, H1 sales, operating profit (EBIT) and net income showed significant increases y/y. Sales grew 20% to €22.3m (FBe: 22.0m) and the operating margin widened to 18.7% (FBe: 15.0%). We believe management intends to capitalize on this strong momentum. We anticipate that M1 will grow faster than we had previously projected and are upgrading our sales and EBIT estimates for the period 2017 and beyond. In addition, we believe the operational risk has declined over the last half year. We have consequently lowered our WACC estimate by 1.5 percentage points to 10.5% (previously: 12.0%). Our updated DCF-model now yields a price target of €16.50 (previously: €10.80). Our rating remains Buy.

H1 2017 sales were slightly better than expected H1 2017 sales increased by 20% y/y to €22.3m (FBe: €22.0m; H1/16: €18.5m). M1's sales growth was driven by the aggressive expansion of clinics across Germany, which totalled 13 at the end of June 2017. The company is currently in the process of opening an additional outpatient clinic in Leipzig. In addition, in May 2017, the company acquired a 2,000 square metre building in the centre of Essen, which has the potential to nearly double the surgical capacity available in the main clinic in Berlin-Köpenick. As a result, management is confident about future growth prospects and has reiterated guidance of 20% sales growth in FY 2017.

Strong EBIT was ahead of our expectations H1/17 EBIT surged 36% y/y to €4.2m (FBe: €3.3m; H1/16: €1.0m). This implies an increase in the EBIT margin to 18.7% (FBe: 15.0%) in H1/17 from 16.5% in the prior year period.

p.t.o.

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	23.02	34.93	35.96	44.76	58.19	74.49
Y-o-y growth	278.5%	51.7%	2.9%	24.5%	30.0%	28.0%
EBIT (€m)	5.02	7.01	4.36	6.31	7.91	10.43
EBIT margin	21.8%	20.1%	12.1%	14.1%	13.6%	14.0%
Net income (€m)	4.59	6.63	5.01	6.33	7.25	9.27
EPS (diluted) (€)	0.31	0.44	0.33	0.41	0.44	0.56
DPS (€)	0.00	0.30	0.30	0.27	0.30	0.33
FCF (€m)	-5.96	0.70	9.91	6.39	4.41	5.68
Net gearing	-1.5%	-1.3%	-19.2%	-49.8%	-46.9%	-44.5%
Liquid assets (€m)	2.40	0.41	5.81	24.17	24.07	24.78

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. The company is headquartered in Berlin, has an extensive footprint with 14 beauty clinics in 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 surgery at competitive prices.

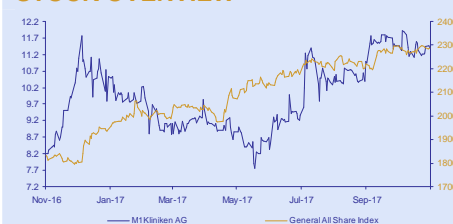
MARKET DATA

As of 31 Oct 2017

Closing Price	€ 11.40
Shares outstanding	16.50m
Market Capitalisation	€ 188.18m
52-week Range	€ 7.75 / 11.93
Avg. Volume (12 Months)	3,151

Multiples	2016	2017E	2018E
P/E	34.1	27.7	26.0
EV/Sales	5.1	4.1	3.2
EV/EBIT	42.3	29.3	23.3
Div. Yield	2.6%	2.4%	2.6%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2017

Liquid Assets	€ 3.47m
Current Assets	€ 15.07m
Intangible Assets	€ 8.22m
Total Assets	€ 32.13m
Current Liabilities	€ 2.69m
Shareholders' Equity	€ 29.45m

SHAREHOLDERS

MPH Mittelständ. Pharma Holding AG	75.8%
Free Float	24.2%



The H1/17 EBIT margin benefited from a strong gross margin of 44.6% (FBe: 40.0%, H1/16: 58.3%) due to greater than expected economies of scale. Net income for the period came in at €3.7m (FBe: €2.9m; H1/16: €2.9m), boosted by the strong EBIT. EPS was €0.25 (FBe: €0.19; H1/16: €0.19).

Figure 1: Six month results vs. FB estimates

All figures in EUR '000	H1/17	H1/17E	Delta	H1/16	Delta
Revenue	22,257	22,000	1%	18,498	20%
Operating income (EBIT)	4,157	3,300	26%	3,046	36%
margin	18.7%	15.0%		16.5%	
Net income / loss	3,688	2,900	27%	2,893	27%
margin	16.6%	13.2%		15.6%	
EPS (in EUR, dil.)	0.25	0.19	27%	0.19	27%

Source: First Berlin Equity Research, M1 Kliniken AG

Positive operating cash flow; free cash flow was lower due to acquisition of building in Essen Operating cash flow came in at €4.2m (H1/16: €4.0m). Cash flow from investment activities increased substantially to €2.0m (H1/16: €-0.5m), due to the acquisition of a building for the new clinic in Essen, while H1/16 numbers were helped by the cash inflow from disposal of financial assets. As a result, free cash flow (operating cash flow minus CAPEX) declined to €2.2m (H1/16: €4.5m). Due to dividend payments of €4.5m, net cash flow was negative at €-2.3m (H1/16: €0.0m).

H1/17 balance sheet remains stable M1 reported a cash position of €3.5m (FY/16: €5.8m). Inventories decreased slightly to €1.3m (FY/16: €1.4m). Tangible assets increased to €2.8m from €1.0m in FY/16, mainly as a result of the purchase of the building in Essen. Equity declined slightly to €29.4m (FY/16: €30.3m) but the equity ratio was still very high at 92% (FY/16: 94%).

Estimates revised upward due to strong H1/17 operating result and our expectation of sales growth acceleration from 2018 Given the improved EBIT performance in H1/17, we expect a stronger FY/17 and have upgraded our EBIT forecast for FY/17. We have changed some of our FY/17 cost estimates based on the H1/17 results. M1 is hiring and training staff aggressively. Personnel expenses equalled 14.9% of sales in H1/17. We have therefore increased our personnel cost estimate to 15.0% of sales (previously: 10.6%). At the same time, we have reduced our COGS estimate. The net effect of these changes is a rise in our 2017 EBIT margin forecast from 13.3% to 14.1%. M1 has substantially strengthened its cash position through the recent capital increase thereby gaining the financial strength required to accelerate ongoing expansion. We have therefore increased our sales forecast for 2018 and beyond as summarized in figure 2 below.

Figure 2: Changes to our forecasts (KPIs)

All figures in EUR '000	2017E			2018E			2019E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	44,764	44,764	0.0%	52,822	58,193	10.2%	60,217	74,488	23.7%
Operating income (EBIT)	5,954	6,312	6.0%	7,342	7,914	7.8%	9,574	10,428	8.9%
margin	13.3%	14.1%		13.9%	13.6%		15.9%	14.0%	
Net income / loss	6,026	6,330	5.1%	6,961	7,248	4.1%	8,586	9,269	8.0%
margin	13.5%	14.1%		13.2%	12.5%		14.3%	12.4%	
EPS (in EUR, dil.)	0.40	0.41	2.5%	0.46	0.44	-5.3%	0.57	0.56	-1.9%

Source: First Berlin Equity Research, M1 Kliniken AG



Price target increased, Buy rating reiterated In our view, M1 is well positioned to capitalise on the rapidly growing beauty market. In recent years, the company has demonstrated the ability to grow sales strongly and deliver attractive profitability. Moreover, the sustainable business model and an attractive dividend payout (€0.27 per share, 2.4% 2017E dividend yield), make the company an appealing investment in the current low interest rate environment. Changes to our ten factor risk model based on the positive H1/17 performance cause us to reduce our WACC estimate for M1 from 12% to 10.5%. This reduction combined with our upgraded estimates generate a new price target of €16.50 (previously: €10.80). We reiterate our Buy recommendation.

VALUATION MODEL

Figure 3: DCF Model

All figures in EUR '000	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	44,764	58,193	74,488	90,875	104,506	119,659	137,010	156,876
NOPLAT	4,544	5,698	7,508	9,422	11,738	14,560	17,658	20,783
+ depreciation & amortisation	313	349	447	545	627	718	822	941
Net operating cash flow	4,858	6,047	7,955	9,967	12,365	15,278	18,480	21,724
- total investments (CAPEX and WC)	-312	-3,259	-4,122	-3,277	-2,781	-2,484	-3,550	-3,749
Capital expenditures	-2,663	-2,008	-2,495	-1,954	-1,933	-1,974	-1,987	-1,961
Working capital	2,351	-1,251	-1,626	-1,323	-847	-510	-1,563	-1,788
Free cash flows (FCF)	4,546	2,788	3,834	6,691	9,584	12,794	14,930	17,975
PV of FCF's	4,473	2,483	3,089	4,879	6,326	7,642	8,070	8,793

All figures in EUR '000	
PV of FCFs in explicit period	109,538
PV of FCFs in terminal period	138,461
Enterprise value (EV)	247,999
+ Net cash / - net debt	24,173
+ Investments / minority interests	0
Shareholder value	272,172

Fair value per share in EUR **16.50**

		WACC	Terminal growth rate						
			0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
Cost of equity	10.5%	7.5%	24.42	25.72	27.25	29.09	31.34	34.15	37.76
Pre-tax cost of debt	5.0%	8.5%	20.40	21.26	22.25	23.41	24.78	26.42	28.43
Tax rate	28.0%	9.5%	17.39	17.98	18.65	19.42	20.31	21.35	22.57
After-tax cost of debt	3.6%	10.5%	15.07	15.49	15.96	16.50	17.10	17.79	18.58
Share of equity capital	100.0%	11.5%	13.23	13.54	13.89	14.26	14.69	15.17	15.71
Share of debt capital	0.0%	12.5%	11.76	11.99	12.24	12.52	12.83	13.17	13.55
WACC	10.5%	13.5%	10.55	10.73	10.92	11.12	11.35	11.60	11.87

*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	58,193	74,488
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	-28,724	-35,916	-45,693
Gross profit	6,845	10,782	13,444	18,040	23,277	29,795
Personnel expenses	-873	-1,570	-3,802	-6,715	-8,845	-11,024
Other operating expenses	-844	-1,978	-4,989	-4,700	-6,168	-7,896
Depreciation & amortisation	-111	-219	-288	-313	-349	-447
Operating income (EBIT)	5,016	7,015	4,364	6,312	7,914	10,428
Net financial result	-187	-245	1,124	1,136	1,146	1,158
Pre-tax income (EBT)	4,830	6,770	5,489	7,447	9,061	11,586
Tax result	-245	-140	-481	-1,117	-1,812	-2,317
Minority interests	0	0	0	0	0	0
Net income / loss	4,585	6,630	5,007	6,330	7,248	9,269
Diluted EPS (in €)	0.31	0.44	0.33	0.41	0.44	0.56
EBITDA	5,127	7,234	4,652	6,625	8,263	10,875
Ratios						
Gross margin	29.7%	30.9%	37.4%	40.3%	40.0%	40.0%
EBIT margin on revenues	21.8%	20.1%	12.1%	14.1%	13.6%	14.0%
EBITDA margin on revenues	22.3%	20.7%	12.9%	14.8%	14.2%	14.6%
Net margin on revenues	19.9%	19.0%	13.9%	14.1%	12.5%	12.4%
Tax rate	5.0%	2.0%	8.7%	15.0%	20.0%	20.0%
Expenses as % of revenues						
Personnel costs	3.8%	4.5%	10.6%	15.0%	15.2%	14.8%
Other operating expenses	3.7%	5.7%	13.9%	10.5%	10.6%	10.6%
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%	30.0%	28.0%
Operating income	n.m.	39.8%	-37.8%	44.6%	25.4%	31.8%
Net income/ loss	n.m.	44.6%	-24.5%	26.4%	14.5%	27.9%



BALANCE SHEET

All figures in EUR '000	2014	2015	2016	2017E	2018E	2019E
Assets						
Current assets, total	7,536	19,605	16,995	35,639	37,662	41,163
Cash and cash equivalents	2,398	413	5,812	24,173	24,066	24,776
Short-term investments	2,031	6	2,704	2,785	2,869	2,955
Receivables	1,927	15,655	6,841	4,906	6,058	7,551
Inventories	974	3,181	1,410	3,541	4,428	5,633
Other current assets	206	351	227	234	241	248
Non-current assets, total	31,169	13,582	15,192	17,542	19,201	21,249
Property, plant & equipment	634	447	1,034	3,317	4,947	6,958
Goodwill & other intangibles	14,067	8,042	8,155	8,223	8,252	8,289
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	53,181	56,862	62,412
Shareholders' equity & debt						
Current liabilities, total	10,112	3,425	1,925	4,588	5,521	6,751
Short-term debt	1,184	16	14	0	0	0
Accounts payable	991	2,764	601	3,148	3,936	5,008
Accruals	1,080	138	669	736	810	891
Other current liabilities	6,857	507	640	704	775	852
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	48,588	51,336	55,655
Total consolidated equity and debt	38,704	33,187	32,186	53,181	56,862	62,412
Ratios						
Current ratio (x)	0.7	5.7	8.8	7.8	6.8	6.1
Quick ratio (x)	0.6	4.8	8.1	7.0	6.0	5.3
Net debt/(net cash)	-377	-396	-5,798	-24,173	-24,066	-24,776
Net gearing	-1.5%	-1.3%	-19.2%	-49.8%	-46.9%	-44.5%
Book value per share (in €)	n/a	1.98	2.02	3.16	3.11	3.37
Return on equity (ROE)	18.1%	22.3%	16.5%	13.0%	14.1%	16.7%



CASH FLOW STATEMENT

All figures in EUR '000	2014	2015	2016E	2017E	2018E	2019E
Net income	4,585	6,630	5,007	6,330	7,248	9,269
Depreciation and amortisation	111	219	288	313	349	447
Tax expense	243	138	476	1,117	1,812	2,317
Changes in working capital	-615	-3,448	7,788	2,395	-1,197	-1,560
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	9,020	7,066	9,315
Tax paid	37	-141	-32	-1,117	-1,812	-2,317
Interest income	0	24	140	151	163	176
Net operating cash flow	1,039	97	8,077	8,054	5,417	7,174
CapEx	-147	-678	-989	-2,663	-2,008	-2,495
Other investments and disposals	-6,853	1,283	2,826	999	999	999
Cash flow from investing	-7,000	605	1,838	-1,664	-1,009	-1,496
Free cash flow	-5,961	702	9,914	6,389	4,408	5,678
Debt financing, net	2,018	-2,013	-2	-14	0	0
Equity financing, net	5,690	0	0	16,500	0	0
Paid dividend	0	0	-4,500	-4,500	-4,500	-4,950
Interest expense	-126	-270	-13	-14	-16	-18
Cash flow from financing	7,582	-2,283	-4,515	11,972	-4,516	-4,968
Consolidation adjustments	167	-405	0	0	0	0
Net cash flow	1,789	-1,985	5,399	18,361	-107	710
Cash, start of the year	609	2,398	413	5,812	24,173	24,066
Cash, end of the year	2,398	413	5,812	24,173	24,066	24,776
EBITDA/share (in €)	0.34	0.48	0.31	0.43	0.50	0.66
Y-Y Growth						
Operating cash flow	n.m.	-78.6%	3616.9%	13.2%	-21.7%	31.8%
Free cash flow	n.m.	n.m.	1311.5%	-35.6%	-31.0%	28.8%
EBITDA/share	n.m.	41.1%	-35.7%	38.9%	16.2%	31.6%

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	9 May 2017	€8.40	BUY	€10.80
4	Today	€11.40	BUY	€16.50

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

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