

M1 Kliniken AG

Germany / Healthcare Facilities & Services

Frankfurt

Bloomberg: M12 GR

ISIN: DE000A0STSQ8

FY/18 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 19.80**

74.4%

High

SALES AND NET PROFIT AHEAD OF EXPECTATIONS

M1 Kliniken AG reported financial results for FY/18. Group revenues were better than expected at €65.2m (FBe: €59.1), growing by an impressive 38% (FBe: +25%). EBT came in at €8.1m (FBe: €8.6m) and was slightly lower than anticipated. We believe that due to the ongoing aggressive business expansion, the company incurred marginally higher costs. Usually, start-up measures at new locations translate into sales with some delay. M1 trained more than 60 new doctors at the M1 Academy last year. The company reported net profit of €6.6m which was better than expected (FB: €6.2m due chiefly to a low corporate tax rate of 18.3% (vs. FB: 28%). Management gave a positive outlook for 2019 and expects sales and EBT to continue growing at a double digit rate. Beside the ongoing German and international clinic expansion, the company recently broadened its "M1 Select" product range with new skin care cosmetics. We continue to expect strong growth in 2019 and beyond. In light of 2018 results, we have fine-tuned our 2019-2021 forecasts. These measures, accompanied by the effect of rolling over our DCF-model, led to a slightly higher price target of €19.80 (old: €19.20). We reiterate our Buy rating.

FY/18 sales growth was ahead of our expectation FY/18 sales increased by 38% y/y to €65.2m (FBe: €59.1m; FY/17: €47.2m) chiefly driven by the regional expansion of the outpatient clinic network in Germany (see details on page 3).

The gross margin at 35.5% was below our forecast The company reported a gross profit of €23.1m, slightly below our €23.5m forecast (FY/17: €18.8m). The gross margin however declined to 35.5% and was weaker than our estimate of 39.7% (FY/17: 39.7%). To accelerate penetration, the company conducted time-limited marketing campaigns including price rebates, leading to a temporarily lower margin.

p.t.o.

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	35.96	47.19	65.21	80.53	100.02	125.48
Y-o-y growth	2.9%	31.3%	38.2%	23.5%	24.2%	25.4%
EBIT (€m)	4.36	5.71	6.46	8.46	12.20	18.43
EBIT margin	12.1%	12.1%	9.9%	10.5%	12.2%	14.7%
Net income (€m)	5.01	5.78	6.61	7.13	9.84	14.33
EPS (diluted) (€)	0.33	0.38	0.39	0.41	0.56	0.82
DPS (€)	0.30	0.30	0.30	0.33	0.33	0.33
FCF (€m)	9.91	-2.56	0.86	6.48	7.36	11.55
Net gearing	-19.2%	-30.6%	-39.6%	-40.2%	-40.1%	-43.1%
Liquid assets (€m)	5.81	14.69	25.38	26.55	28.13	33.89

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 over 20 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.

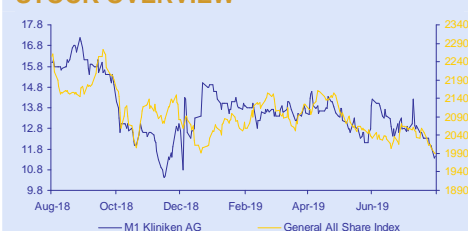
MARKET DATA

As of 05 Aug 2019

Closing Price	€ 11.35
Shares outstanding	17.50m
Market Capitalisation	€ 198.63m
52-week Range	€ 10.40 / 17.20
Avg. Volume (12 Months)	5,409

Multiples	2018	2019E	2020E
P/E	28.9	27.8	20.2
EV/Sales	2.7	2.2	1.7
EV/EBIT	26.8	20.5	14.2
Div. Yield	2.6%	2.9%	2.9%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2018

Liquid Assets	€ 25.38m
Current Assets	€ 44.63m
Intangible Assets	€ 8.29m
Total Assets	€ 69.55m
Current Liabilities	€ 5.66m
Shareholders' Equity	€ 63.74m

SHAREHOLDERS

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



EBIT and EBT weaker than anticipated, net income ahead of our forecast FY/18 EBIT surged 13% y/y to €6.5m, but fell short of our forecast of €7.2m (FY/17: €5.7m). The EBIT margin declined to 9.9% in FY/18 (FBe: 12.1%). Beside the lower gross profit, personnel expenses were higher than anticipated (FY/18: €9.4m vs. FBe: €9.0m). EBT rose by 10% to €8.1m (FBe: €8.6m; FY/17: €7.4m), boosted by a strong net financial result of €1.6m (FBe: €1.5m). Net income came in at €6.6m (FBe: €6.2m; FY17: €5.8m), strengthened by a lower tax rate of 18% against our estimate of 28%. We give an overview of the main P&L positions in figure 1 below.

Figure 1: P&L FY/18 reported figures vs. FB estimates and FY/17 (KPIs)

All figures in EUR '000	FY/18	FY/18E	Delta	FY/17	Delta
Revenue	65,209	59,135	10%	47,195	38%
Gross profit	23,126	23,476	-1%	18,757	23%
Margin	35.5%	39.7%		39.7%	
Operating income (EBIT)	6,460	7,169	-10%	5,715	13%
Margin	9.9%	12.1%		12.1%	
Net financial result	1,634	1,463	12%	1,650	-1%
EBT	8,095	8,631	-6%	7,365	10%
Margin	12.4%	14.6%		15.6%	
Tax expense	-1,482	-2,417		-1,587	
Tax rate	18.3%	28.0%		21.5%	
Net income / loss	6,613	6,215	6%	5,778	14%
Margin	10.1%	10.5%		12.2%	
EPS (in EUR, dil.)	0.39	0.36	6%	0.38	2%

Source: First Berlin Equity Research, M1 Kliniken AG

Fine tuning 2019E-2021E estimates on FY/18 results In the light of the sales and cost performance achieved in FY/18, we have fine tuned our financial forecasts. Due to the aggressive international expansion taking place in FY/19 and FY/20, we have increased sales as well as OPEX which led to lower EBIT in this period. The overall effect of these changes is lower net income in FY/19 and FY/20, but higher net income from FY/21. We have summarised the changes in figure 2 below.

Figure 2: Changes to our forecasts (KPIs)

All figures in EUR '000	2019E			2020E			2021E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	75,692	80,533	6.4%	96,432	100,021	3.7%	117,647	125,476	6.7%
Operating income (EBIT)	9,234	8,456	-8.4%	13,983	12,203	-12.7%	18,353	18,432	0.4%
Margin	12.2%	10.5%		14.5%	12.2%		15.6%	14.7%	
Net financial result	1,458	1,452	-0.4%	1,464	1,458	-0.4%	1,477	1,470	-0.5%
EBT	10,693	9,908	-7.3%	15,447	13,660	-11.6%	19,830	19,903	0.4%
Margin	14.1%	12.3%	-	16.0%	13.7%	-	16.9%	15.9%	-
Net income / loss	7,699	7,134	-7.3%	11,122	9,835	-11.6%	14,278	14,330	0.4%
Margin	10.2%	8.9%		11.5%	9.8%		12.1%	11.4%	
EPS (in EUR, dil.)	0.44	0.41	-7.4%	0.64	0.56	-11.6%	0.82	0.82	0.3%

Source: First Berlin Equity Research

Dividend of €0.30 proposed to the AGM Based on a successful FY/18, the company proposed to pay a dividend of €0.30 per share (FY/17: €0.30), which will result in a dividend payment of €5.3m to shareholders. The €0.30 per share dividend to be paid for FY/18 represents a 2.6% yield on the current share price of €11.35.

FY/18 balance sheet – cash position strengthened The company reported a higher cash position of €25.4m, up from €14.7m in FY/17. Considering that M1 has hardly any financial debt, its net cash improved to €25.2m (FY/17: €14.5m). Inventories were roughly flat at €1.4m (FY/17: €1.4m). Receivables were unusually high as they increased significantly to

€16.7m (FY/17: €9.2m). However the company confirmed that in the mean time they have mostly returned to normal levels. Driven by the expansion of the company's outpatient clinic network, tangible assets (mostly facility equipment) increased to €5.5m (FY/17: €4.0m). In September 2018, the company conducted a capital increase raising net proceeds of €14.8m. Equity also grew to €63.7m (FY/17: €47.3m), corresponding to a high equity ratio of 92% (FY/17: 93%).

Positive free cash flow Operating cash flow came in at €2.9m (FY/17: €2.1m). Largely due to lower CAPEX, cash flow from investment activities declined to €-1.9m (FY/17: €-4.6m). As a result, free cash flow increased to €63k (FY/17: €-2.6m). Financing cash flow also declined slightly to €9.8m in FY/18 (FY/17: €11.4m). This position chiefly reflects M1's capital increases (net proceeds of €14.8m in FY/18 vs. €15.7m in FY/17) as well as dividends paid (FY/18: €5.0m vs. FY/17: €4.5m).

Outpatient clinic network to gain sound momentum as management intends to increase it from 24 in 2018 to about 50 by 2020

M1's national and international outpatient clinic expansion progressed in 2018 as expected. The company further consolidated its leadership in the German beauty care market, growing its specialized clinic network in Germany from 17 in 2017 to 23 in 2018. In addition, the company opened its first international outpatient clinic in Austria (Vienna). Furthermore, the company will soon open new outpatient clinics in Germany (Bielefeld and Hamburg Altona), in Switzerland (Zürich), and Holland (Rotterdam) among others. We believe the expansion process of the clinics network is on track to potentially increase momentum. Management want to almost double the total number of outpatient clinics to about 50 by the end of 2020 (30 in Germany and 20 in the rest of Europe). We therefore expect 2019 and 2020 sales to benefit significantly from these expansive measures.

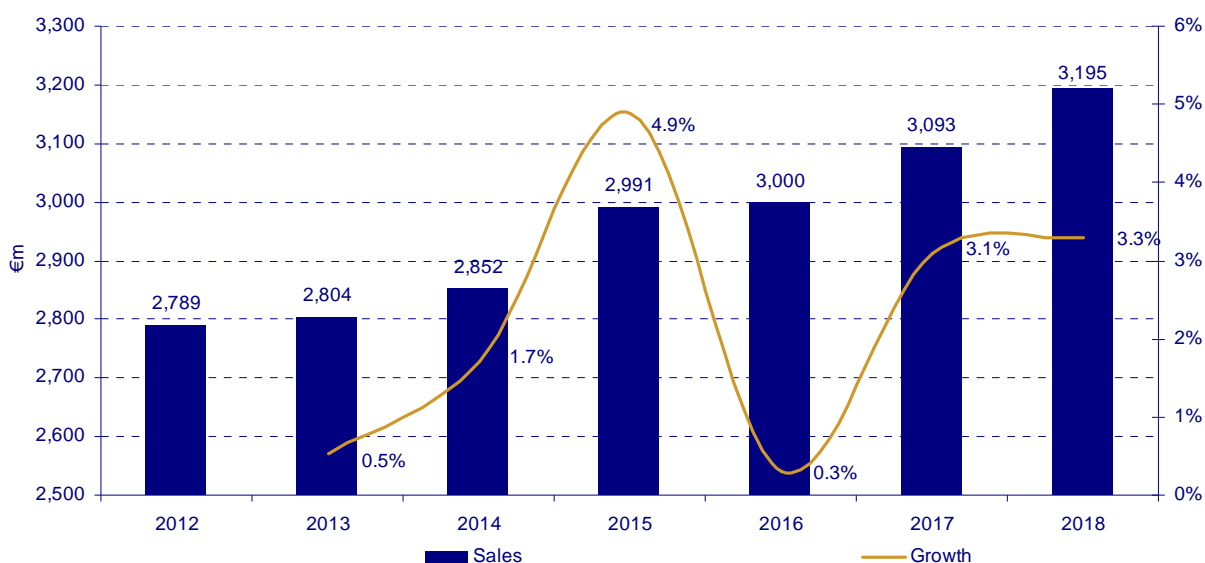
M1-Select's cosmetics product portfolio widened The M1-Select product line was launched in early 2018. Management is satisfied with the positive demand for its cosmetic products so far and decided to broaden its portfolio. As a result, the company has developed and now launched a new range of dermatological products such as antioxidant serums, moisture boosters with a hyaluronic acid complex in high concentrated form plus intensive sun protection creams (see figure 3 below).

Figure 3: Overview of M1-Select's new antioxidant serum (left), moisturizing cream based on hyaluronic acid (middle) and sun protection cream (right)



Source: First Berlin Equity Research, M1 Kliniken AG

M1-Select achieved sales in the six digit euro range in 2018 and management sees sales potential in the lower double digit million euro range in the mid-term. We believe the market for skin and facial care products is attractive. According to Statista, the German market for these products grew in 2018 by 3.3% to €3.2bn (2017: €3.1bn). We give an overview of this market in figure 4 overleaf.

Figure 4: German market for skin and facial care products 2012-2018


Source: First Berlin Equity Research, Statista

Price target increased and Buy rating reiterated In our view, M1 is successfully implementing its growth strategy. The company achieved impressive sales growth of 38% in FY/18 and have maintained a healthy profitability despite the above average growth. Following the reported figures, we have fine-tuned our forecasts. These measures, added to rolling over our DCF model, led to a slightly higher price target of €19.80 (old: €19.20). Based on the current share price weakness, we believe this is a good opportunity to buy the stock. We reiterate our Buy recommendation.



VALUATION MODEL

Figure 5: Discounted cash flow valuation model

All figures in EUR '000	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	80,533	100,021	125,476	150,571	177,674	206,102	237,017
NOPLAT	6,088	8,786	13,271	16,587	21,875	25,672	29,864
+ depreciation & amortisation	644	600	753	903	1,066	1,237	1,422
Net operating cash flow	6,733	9,386	14,024	17,490	22,941	26,909	31,286
- total investments (CAPEX and WC)	-4,424	-3,575	-4,084	-4,198	-3,810	-3,431	-3,645
Capital expenditures	-2,819	-2,150	-2,321	-2,484	-2,576	-2,576	-2,252
Working capital	-1,605	-1,424	-1,763	-1,714	-1,234	-855	-1,393
Free cash flows (FCF)	2,309	5,811	9,940	13,292	19,131	23,478	27,641
PV of FCF's	2,222	5,084	7,906	9,610	12,575	14,029	15,015

All figures in EUR '000	
PV of FCFs in explicit period	141,131
PV of FCFs in terminal period	180,203
Enterprise value (EV)	321,333
+ Net cash / - net debt	25,234
+ Investments / minority interests	0
Shareholder value	346,568
Shares outstanding	17,500
Fair value per share in EUR	19.80

		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	7.0%	28.63	30.30	32.31	34.77	37.84	41.78	47.05
	8.0%	24.02	25.12	26.40	27.92	29.75	31.98	34.76
	9.0%	20.59	21.35	22.22	23.22	24.39	25.77	27.43
	10.0%	17.96	18.50	19.11	19.80	20.59	21.50	22.57
	11.0%	15.88	16.28	16.72	17.21	17.77	18.40	19.12
	12.0%	14.20	14.50	14.83	15.19	15.59	16.04	16.54
	13.0%	12.82	13.05	13.29	13.57	13.86	14.19	14.56
	WACC	10.0%						

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



INCOME STATEMENT

All figures in EUR '000	2016	2017	2018	2019E	2020E	2021E
Revenues	35,955	47,195	65,209	80,533	100,021	125,476
Change in inventory	0	0	0	0	0	0
Other operating income	5,428	261	178	250	250	250
Cost of goods sold	-27,939	-28,698	-42,261	-50,341	-61,763	-76,790
Gross profit	13,444	18,757	23,126	30,441	38,508	48,936
Personnel expenses	-3,802	-7,168	-9,440	-12,885	-15,503	-16,939
Other operating expenses	-4,989	-5,413	-6,511	-8,456	-10,202	-12,811
EBITDA	4,652	6,176	7,175	9,100	12,803	19,185
Depreciation & amortisation	-288	-461	-711	-644	-600	-753
Operating income (EBIT)	4,364	5,715	6,464	8,456	12,203	18,432
Net financial result	1,124	1,650	1,634	1,452	1,458	1,470
Pre-tax income (EBT)	5,489	7,365	8,098	9,908	13,660	19,903
Tax result	-481	-1,587	-1,486	-2,774	-3,825	-5,573
Minority interests	0	0	0	0	0	0
Net income / loss	5,007	5,778	6,613	7,134	9,835	14,330
Diluted EPS (in €)	0.33	0.38	0.39	0.41	0.56	0.82
Ratios						
Gross margin	37.4%	39.7%	35.5%	37.8%	38.5%	39.0%
EBITDA margin on revenues	12.9%	13.1%	11.0%	11.3%	12.8%	15.3%
EBIT margin on revenues	12.1%	12.1%	9.9%	10.5%	12.2%	14.7%
EBT margin on revenues	15.3%	15.6%	12.4%	12.3%	13.7%	15.9%
Net margin on revenues	13.9%	12.2%	10.1%	8.9%	9.8%	11.4%
Tax rate	8.7%	21.4%	18.3%	28.0%	28.0%	28.0%
Expenses as % of revenues						
Personnel costs	10.6%	15.2%	14.5%	16.0%	15.5%	13.5%
Other operating expenses	13.9%	11.5%	10.0%	10.5%	10.2%	10.2%
Depreciation & amortisation	0.8%	1.0%	1.1%	0.8%	0.6%	0.6%
Y-Y Growth						
Revenues	2.9%	31.3%	38.2%	23.5%	24.2%	25.4%
Operating income	-69.4%	30.9%	13.1%	30.8%	44.3%	51.1%
Net income/ loss	-63.9%	15.4%	14.4%	7.9%	37.9%	45.7%



BALANCE SHEET

All figures in EUR '000	2016	2017	2018	2019E	2020E	2021E
Assets						
Current assets, total	16,995	29,516	44,627	46,056	50,266	59,282
Cash and cash equivalents	5,812	14,688	25,384	26,554	28,129	33,892
Short-term investments	2,704	4,217	1,087	1,120	1,153	1,188
Receivables	6,841	9,188	16,739	14,783	15,894	17,876
Inventories	1,410	1,410	1,404	3,586	5,076	6,312
Other current assets	227	13	13	13	14	14
Non-current assets, total	15,192	21,053	24,927	27,157	28,707	30,275
Property, plant & equipment	1,034	3,962	5,489	7,540	9,040	10,546
Goodwill & other intangibles	8,155	8,197	8,287	8,466	8,516	8,579
Financial assets	5,882	8,763	11,056	11,056	11,056	11,056
Other assets	120	132	95	95	95	95
Total assets	32,186	50,569	69,554	73,213	78,973	89,557
Shareholders' equity & debt						
Current liabilities, total	1,925	3,072	5,659	7,433	9,134	11,163
Short-term debt	14	0	0	0	0	0
Accounts payable	601	841	908	2,207	3,385	4,839
Accruals	669	993	2,353	2,588	2,847	3,131
Other current liabilities	640	1,238	2,398	2,638	2,902	3,192
Long-term liabilities, total	4	216	153	153	153	153
Long-term debt	0	215	150	150	150	150
Deferred revenue	0	0	0	0	0	0
Other liabilities	4	1	3	3	3	3
Minority interests	0	0	0	0	0	0
Shareholders' equity	30,257	47,280	63,743	65,626	69,687	78,242
Total consolidated equity and debt	32,186	50,569	69,554	73,213	78,973	89,557
Ratios						
Current ratio (x)	8.8	9.6	7.9	6.2	5.5	5.3
Quick ratio (x)	8.1	9.1	7.6	5.7	4.9	4.7
Net debt/(net cash)	-5,798	-14,473	-25,234	-26,405	-27,979	-33,743
Net gearing	-19.2%	-30.6%	-39.6%	-40.2%	-40.1%	-43.1%
Book value per share (in €)	2.02	3.08	3.79	3.75	3.98	4.47
Return on equity (ROE)	16.5%	12.2%	10.4%	10.9%	14.1%	18.3%



CASH FLOW STATEMENT

All figures in EUR '000	2016	2017	2018	2019E	2020E	2021E
Net income	5,007	5,778	6,613	7,134	9,835	14,330
Depreciation and amortisation	288	461	711	644	600	753
Tax expense	476	1,576	1,482	2,774	3,825	5,573
Changes in working capital	7,788	-2,486	-1,827	1,516	-935	-1,223
Other adjustments	-4,465	-16	-1,001	0	0	0
Net interest result	-1,126	-1,650	-1,634	-1,452	-1,458	-1,470
Operating cash flow	7,969	3,662	4,343	10,616	11,867	17,962
Tax paid	-32	-1,576	-1,482	-2,774	-3,825	-5,573
Interest income	140	175	158	161	168	181
Net operating cash flow	8,077	2,261	3,019	8,003	8,210	12,571
CapEx	-989	-3,250	-2,378	-2,819	-2,150	-2,321
Other investments and disposals	2,826	-1,572	223	1,300	1,300	1,300
Cash flow from investing	1,838	-4,822	-2,155	-1,519	-850	-1,021
Free cash flow	9,914	-2,561	863	6,485	7,360	11,549
Debt financing, net	-2	201	-65	0	0	0
Equity financing, net	0	15,745	14,800	0	0	0
Paid dividend	-4,500	-4,500	-4,950	-5,250	-5,775	-5,775
Interest expense	-13	-8	-8	-9	-10	-11
Cash flow from financing	-4,515	11,438	9,776	-5,259	-5,785	-5,786
Consolidation adjustments	0	0	0	0	0	0
Net cash flow	5,399	8,877	10,640	1,226	1,575	5,763
Cash, start of the year	413	5,812	14,689	25,329	26,554	28,129
Cash, end of the year	5,812	14,689	25,329	26,554	28,129	33,892
EBITDA/share (in €)	0.31	0.40	0.43	0.52	0.73	1.10
Y-Y Growth						
Operating cash flow	3616.9%	-54.0%	18.6%	144.4%	11.8%	51.4%
Free cash flow	1311.5%	n.m.	n.m.	651.1%	13.5%	56.9%
EBITDA/share	-35.7%	29.6%	6.1%	21.9%	40.7%	49.9%

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...3	↓	↓	↓	↓
4	1 November 2017	€11.40	BUY	€16.50
5	13 August 2018	€15.80	BUY	€18.50
6	14 November 2018	€12.20	BUY	€19.20
7	Today	€11.35	BUY	€19.80

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ASSET VALUATION SYSTEM

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:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

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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Legally required information regarding

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

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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