

HAEMATO AG

Germany / Pharma
 Frankfurt
 Bloomberg: HAE GR
 ISIN: DE0006190705

RATING **BUY**
PRICE TARGET **€7.00**
 Return Potential 33.3%
 Risk Rating High

ANOTHER STRONG QUARTER; RAISING ESTIMATES & PRICE TARGET

Six month results were ahead of our forecasts thanks to strong revenue momentum during both quarters. HAEMATO benefited from key staff additions, who were able drive strong sales in Germany. The sales performance allowed the company to boost its EBIT margin to 4.2% for the period compared to 4.1% in the prior year period. We have adjusted our forecasts to account for the stronger than expected H1/16 but stick to our 8% Y/Y growth assumption for the second half of the year. Our updated DCF model now yields fair value of €7.00/share (previously: €6.10). We raise our rating to Buy (previously: Add).

Six month sales up 40% Y/Y Revenues reached €142.3m for the six month period (H1/2015: €101.5m) and beat our forecast of €109.5m (see table 1 overleaf). We believe the surge in revenues is traced to sales personnel who were able to boost activities in Germany. The revenue performance also marks the highest total since H1/14 (figure 1 overleaf). On a quarterly basis, sales increased some 31% Y/Y following the exceptionally strong 50% Y/Y growth logged in Q1/16.

Sales volumes boost margin structure HAEMATO recorded its strongest gross margin (GM) since H1/15 at 6.9%, thanks to the higher sales volumes and favourable product mix. The strong H1 top line performance filtered down strongly to earnings, due to a stable cost structure. EBIT grew some 61% Y/Y to €5.9m (H1/15: €4.2m) and topped our figure of €3.7m. Net income (NI) totalled €4.5m (H1/15: €2.8m). For the second quarter, EBIT totalled €2.4m corresponding to a 3.2% margin, whereas as NI amounted to €1.9m.

Lifestyle-Beauty products on track for late 2016 On a product level, HAEMATO expects to see initial revenues of its first branded lifestyle-beauty products for cosmetic treatments by the end of 2016. Hyaluron acid-based products with lidocaine are in high demand and are commonly used for facial treatments. HAEMATO's hyaluron acid-based product is in development and awaiting CE approval.

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	173.57	202.67	229.73	280.78	311.67	345.95
Y-o-y growth	593.1%	16.8%	13.3%	22.2%	11.0%	11.0%
EBIT (€m)	9.93	8.23	8.22	10.59	10.86	12.63
EBIT margin	5.7%	4.1%	3.6%	3.8%	3.5%	3.6%
Net income (€m)	8.38	6.98	5.54	8.08	8.16	9.18
EPS (diluted) (€)	0.41	0.34	0.27	0.39	0.39	0.44
DPS (€)	0.30	0.30	0.30	0.30	0.30	0.30
FCF (€m)	-0.25	4.73	0.95	9.08	5.09	5.53
Net gearing	23.6%	39.6%	49.0%	42.8%	43.3%	42.4%
Liquid assets (€m)	14.59	5.17	5.24	4.45	3.62	4.22

RISKS

Regulatory changes in healthcare systems, spending cuts in healthcare systems, homogenization of pharmaceutical prices within the European Union.

COMPANY PROFILE

HAEMATO AG, a subsidiary of MPH Mittelständische Pharma Holding AG, is a pharma company focusing on the sale of generics and parallel imports in high priced niches. The company is targeting selected pharmaceutical products in a small number of clinical indications such as oncology or HIV.

MARKET DATA

As of 02 Sep 2016

Closing Price € 5.25
 Shares outstanding 20.78m
 Market Capitalisation € 109.14m
 52-week Range € 4.26 / 5.42
 Avg. Volume (12 Months) 14,584

Multiples	2015	2016E	2017E
P/E	19.7	13.5	13.4
EV/Sales	0.6	0.5	0.4
EV/EBIT	16.7	13.0	12.7
Div. Yield	5.7%	5.7%	5.7%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2016

Liquid Assets € 1.84m
 Current Assets € 63.90m
 Intangible Assets € 34.60m
 Total Assets € 120.00m
 Current Liabilities € 50.40m
 Shareholders' Equity € 56.50m

SHAREHOLDERS

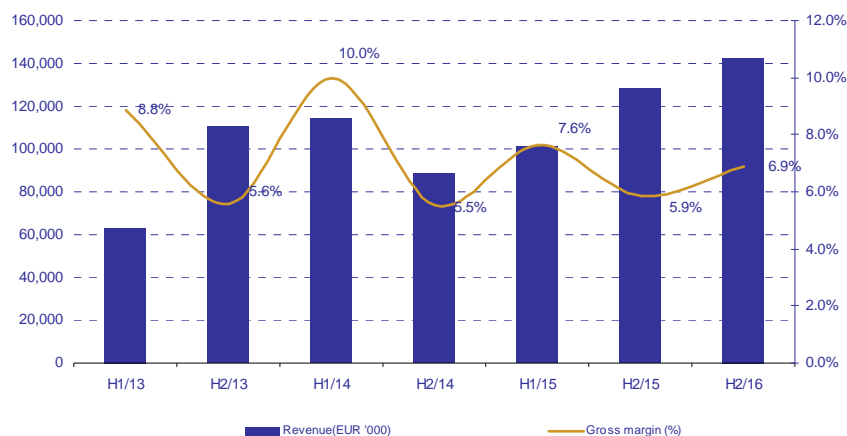
MPH AG 50.1%
 Free Float 49.9%

**Table 1: Six month results vs our forecasts**

All figures in EUR '000	H1/16	H1/16E	% delta	H1/15	% delta
Revenue	142,274	109,595	29.8%	101,477	40.2%
Gross profit	9,779	7,233	35.2%	7,739	26.4%
Margin (%)	6.9%	6.6%	-	7.6%	-
EBIT	5,931	3,674	61.4%	4,211	40.8%
Margin (%)	4.2%	3.4%	-	4.1%	-
Net income	4,490	2,761	62.6%	2,767	62.3%
EPS diluted (€)	0.21	0.13	62.6%	0.13	60.0%

Source: First Berlin Equity Research; HAEMATO AG

Operational structure increases alongside sales growth Personnel expenses climbed to €3.0m in H1/16 compared to €2.5m in the prior year period. The 20% Y/Y rise is mainly occasioned by the increase in staff to facilitate the higher sales volumes as well as a slightly higher wage structure, due to the higher minimum wage for lower level staff members. Other operating expenses increased some 19.7% Y/Y to €3.8m (H1/15: €3.2m). This was in support of the higher sales volumes. Other income rose 26.6% Y/Y to €3.8m, driven chiefly by revaluation gains (€3.6m) of financial assets. Thanks to the robust revenues, higher OpEx could be offset thus allowing EBIT to climb some 40% Y/Y to €5.9m (H1/15: €4.2m). This was also helped by the higher other income result. The net financial result totalled €0.4m for the six month period. Net income (NI) amounted to €4.5m in H1 compared to €2.7m in the prior year period.

Figure 1: Revenue and gross margin development

Source: First Berlin Equity Research, HAEMATO AG

Balance sheet remains stable; operating cash flow positive Total assets grew to €120m (2015: €105m), mainly due the increase in financial assets to €15.0m (2015: €9.8m) and inventory to €52.2m in conjunction with upswing in sales activities. The former includes stakes in listed companies. Net debt, including the €5.2m participation certificate, increased to €33.6m (2015: €28.6m), due to an increase in short term debt to cover working capital. Shareholders' equity increased to €56.5m (2015: €55.5m), thanks to the profitable H1. However, the equity ratio declined to 47.1% vs 54.5% in 2015, due chiefly to the larger asset base.

**Table 2: Balance sheet KPIs**

All figures in EUR '000	H1/16	FY 2015	Delta
Cash	1,845	2,449	-24.7%
Short-term investments	2,821	2,791	1.1%
Financial debt (short- and long-term)	38,290	28,617	33.8%
Net debt	33,624	23,377	43.8%
Total assets	120,033	106,989	12.2%
Equity	56,544	58,289	-3.0%
Equity ratio	47.1%	54.5%	-

Source: First Berlin Equity Research; HAEMATO AG

Net operating cash flow totalled €0.9m for the six month period compared to €3.0m in 2015. The decrease can be traced to an increase in working capital. Cash flow from investing totalled €1.3m in H1/16 thanks to proceeds from the disposal of financial assets totalling €1.0m against CapEx of some €-0.4m, and cash flow from financing amounted to €-2.8m, due mainly to the dividend payment. Thus total cash consumed for the six month period equalled €-0.6m leaving HAEMATO with some €1.8 m in cash and equivalents on the balance sheet.

Table 3: Changes to our forecasts

All figures in € '000	2016E			2017E		
	old	new	% delta	old	new	% delta
Revenue	248,105	280,784	13.2%	275,396	311,670	13.2%
Gross profit	16,375	18,922	15.6%	18,330	20,724	13.1%
Margin (%)	6.6%	6.7%	-	6.7%	6.6%	-
EBIT	8,316	10,556	26.9%	9,613	10,859	13.0%
Margin (%)	3.4%	3.8%	-	3.5%	3.5%	-
Net income	6,259	8,063	28.8%	7,105	8,164	14.9%
EPS diluted (€)	0.30	0.39	28.8%	0.34	0.39	14.9%

Source: First Berlin Equity Research

Raising estimates following recent sales momentum We have increased our 2016 top line forecast to €280m after the stronger than expected H1/16 in which revenues grew very rapidly by 40% Y/Y. We do not expect growth to continue at this pace and model 8% Y/Y growth for the last six months. This results in an overall 13% increase to our FY/16 top line figure. The H1 gross margin (GM) climbed 100 basis points sequentially to 6.9% representing the best performance since H1/15. Given the choppy sourcing environment, which is heavily influenced by the regional mix and scarcity of certain products at various times, we maintain a more conservative GM assumption of 6.6% for H2/16 and 2017.

The company remains on track to introduce new Medical Devices products in 2017, although we do not expect any meaningful volumes until the second half of the year. We believe this will support a slightly higher GM afterwards with a more favourable product mix. Over the mid-term, we look for a three year revenue CAGR of 15% for the period 2016–2018.

In our view, HAEMATO remains well positioned to capitalise on trends in the healthcare industry; particularly the need to combat rising healthcare costs. Strong trends in lifestyle beauty treatments should also provide some tailwinds for its nascent Medical Devices segment. This should unlock new growth opportunities with much more attractive margins over the mid-term for the company. Based on our new forecasts and rolled over DCF model, we now see fair value at €7.00 (previously: €6.10). Our rating is now Buy (previously: Add).



DCF MODEL

All figures in EUR '000	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Sales	280,784	311,670	345,953	382,279	420,506	458,352	495,020	529,672
NOPLAT	8,049	8,253	9,595	10,998	12,659	14,130	15,628	17,130
+ depreciation & amortisation	1,785	1,450	1,213	1,061	967	909	877	859
Net operating cash flow	9,834	9,703	10,808	12,059	13,626	15,039	16,505	17,989
- total investments (CAPEX and WC)	2,435	-4,789	-5,200	-5,456	-5,792	1,250	-5,083	-4,865
Capital expenditures	-562	-606	-653	-624	-663	-698	-726	-747
Working capital	2,997	-4,183	-4,547	-4,831	-5,128	1,947	-4,357	-4,117
Free cash flows (FCF)	12,269	4,914	5,608	6,603	7,834	16,288	11,422	13,124
PV of FCF's	11,898	4,327	4,484	4,794	5,165	9,750	6,208	6,477

All figures in thousands	
PV of FCFs in explicit period	101,426
PV of FCFs in terminal period	72,398
Enterprise value (EV)	173,824
+ Net cash / - net debt	-28,586
+ Investments / minority interests	0
Shareholder value	145,238
Fair value per share (€)	6.99

		Terminal growth rate						
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.1%	10.81	11.31	11.88	12.57	13.38	14.37	15.61
	8.1%	8.96	9.29	9.68	10.12	10.63	11.23	11.95
	9.1%	7.54	7.78	8.04	8.34	8.67	9.06	9.52
	10.1%	6.43	6.60	6.78	6.99	7.22	7.49	7.78
	11.1%	5.54	5.66	5.79	5.94	6.11	6.29	6.50
	12.1%	4.81	4.90	5.00	5.11	5.22	5.36	5.50
	13.1%	4.20	4.27	4.34	4.43	4.51	4.61	4.72
	WACC	10.1%						

*Please note our model runs through 2028 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
Revenues	173,566	202,674	229,727	280,784	311,670	345,953
Cost of goods sold	-161,845	-186,376	-214,454	-261,862	-290,946	-322,429
Gross profit	11,721	16,298	15,273	18,922	20,724	23,525
Personnel expenses	-3,540	-4,501	-5,409	-6,154	-6,857	-7,265
Other OpEx	-4,837	-6,009	-6,462	-7,497	-8,415	-9,341
Other income	8,403	4,501	6,622	7,104	6,857	6,919
Depreciation & amortisation	-1,813	-2,056	-1,799	-1,785	-1,450	-1,213
Operating income (EBIT)	9,934	8,233	8,225	10,591	10,859	12,625
Net financial result	-927	-1,366	-2,197	-993	-1,254	-1,291
Pre-tax income (EBT)	9,007	6,867	6,028	9,597	9,605	11,334
Income taxes	-627	112	-489	-1,519	-1,441	-2,153
Minority interests	0	0	0	0	0	0
Net income / loss	8,380	6,979	5,539	8,078	8,164	9,180
Diluted EPS (in €)	0.41	0.34	0.27	0.39	0.39	0.44
EBITDA	11,747	10,289	10,024	12,375	12,309	13,838
Ratios						
Gross margin	6.8%	8.0%	6.6%	6.7%	6.6%	6.8%
EBIT margin on revenues	5.7%	4.1%	3.6%	3.8%	3.5%	3.6%
EBITDA margin on revenues	6.8%	5.1%	4.4%	4.4%	3.9%	4.0%
Net margin on revenues	4.8%	3.4%	2.4%	2.9%	2.6%	2.7%
Tax rate	7.0%	-1.6%	8.1%	11.0%	15.0%	19.0%
Expenses as % of revenues						
Personnel expenses	-2.0%	-2.2%	-2.4%	-2.2%	-2.2%	-2.1%
Other OpEx	-2.8%	-3.0%	-2.8%	-2.7%	-2.7%	-2.7%
Depreciation & amortisation	-1.0%	-1.0%	-0.8%	-0.6%	-0.5%	-0.4%
Y-Y Growth						
Revenues	n.a.	16.8%	13.3%	22.2%	11.0%	11.0%
Operating income	n.a.	-17.1%	-0.1%	28.8%	2.5%	16.3%
Net income/ loss	n.a.	-16.7%	-20.6%	45.9%	1.1%	12.5%



BALANCE SHEET

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
Assets						
Current assets, total	53,470	51,559	52,860	55,332	60,144	66,882
Cash and equivalents	3,316	2,424	2,449	1,656	825	1,431
ST financial assets	11,277	2,743	2,791	2,791	2,791	2,791
Trade receivables	7,107	10,478	4,725	6,154	6,831	7,583
Inventories	30,786	34,188	41,677	43,046	47,827	53,002
Other ST assets	984	1,727	1,218	1,685	1,870	2,076
Non-current assets, total	45,387	50,142	54,129	55,476	55,169	55,168
Property, plant & equipment	354	1,094	1,308	1,395	1,464	1,548
Goodwill & other intangibles	42,585	41,354	40,213	38,903	37,989	37,346
Financial assets	2,237	7,480	12,474	14,898	15,405	15,928
Deferred taxes	211	214	134	281	312	346
Total assets	98,857	101,702	106,989	110,808	115,314	122,050
Shareholders' equity & debt						
Current liabilities, total	22,151	25,663	35,588	31,748	33,856	36,162
Trade payables	6,660	7,244	5,684	11,479	12,754	14,134
ST debt	11,271	12,554	21,636	12,688	12,688	12,688
Provisions	1,703	3,243	4,309	4,212	4,675	5,189
Other ST financial liabilities	1,272	474	539	562	623	692
Other current liabilities	1,245	2,148	3,420	2,808	3,117	3,460
Long-term liabilities, total	18,468	17,056	13,112	18,927	19,393	20,877
Long-term debt	17,059	15,959	12,190	17,502	17,814	19,127
LT provisions	79	20	21	21	21	21
Deferred tax liabilities	1,330	1,077	901	1,404	1,558	1,730
Shareholders' equity	58,238	58,982	58,289	60,134	62,064	65,011
Total consolidated equity and debt	98,857	101,702	106,989	110,808	115,314	122,050
Ratios						
Current ratio (x)	2.4	2.0	1.5	1.7	1.8	1.8
Quick ratio (x)	1.0	0.7	0.3	0.4	0.4	0.4
Net debt	13,737	23,346	28,586	25,742	26,885	27,592
Net gearing	24%	40%	49%	43%	43%	42%
Return on equity (ROE)	14.4%	11.8%	9.5%	13.4%	13.2%	14.1%
Capital employed (CE)	39,587.6	45,285.6	47,655.2	43,434.3	46,773.1	50,760.3
Return on capital employed (ROCE)	25%	18%	17%	24%	23%	25%



CASH FLOW STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
Pre-tax income	8,991	6,867	6,028	9,597	9,605	11,334
Depreciation and amortisation	1,813	2,056	1,799	1,785	1,450	1,213
Changes in working capital	-7,196	6,175	-44	2,200	-3,411	-3,690
Other adjustments	-5,600	-7,632	-5,893	-2,424	-507	-524
Net financial result	928	1,366	1,621	1,625	1,254	1,291
Operating cash flow	-1,064	8,832	3,510	12,783	8,391	9,625
Interest income	23	183	8	14	10	10
Interest expense paid	-1,371	-1,551	-1,629	-1,639	-1,264	-1,301
Tax paid	-1,412	-902	-489	-1,519	-1,441	-2,153
Net operating cash flow	-3,824	6,561	1,400	9,638	5,697	6,180
CapEx	-27,282	-5,645	-796	-561	-606	-653
Proceeds from disposal of fixed assets	30,854	3,813	342	0	0	0
Cash flow from investing	3,572	-1,832	-454	-561	-606	-653
Free cash flow (FCF)	-252	4,729	946	9,077	5,091	5,527
Equity inflow, net	5,045	430	0	0	0	0
Debt inflow, net	427	183	5,313	-3,636	313	1,313
Dividend paid to shareholders	-3,407	-6,234	-6,234	-6,234	-6,234	-6,234
Cash flow from financing	2,065	-5,621	-921	-9,870	-5,921	-4,921
Net cash flows	-4,213	-892	25	-793	-830	605
Cash, start of the year	7,529	3,316	2,424	2,449	1,656	825
Cash, end of the year	3,316	2,424	2,449	1,656	825	1,431
EBITDA/share (in €)	0.60	0.50	0.48	0.60	0.59	0.67
Y-Y Growth						
Operating cash flow	n.a.	n.m.	-78.7%	588.3%	-40.9%	8.5%
Free cash flow	n.a.	n.m.	-80.0%	859.3%	-43.9%	8.6%
EBITDA/share	n.a.	-17.4%	-2.6%	23.5%	-0.5%	12.4%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	27 August 2013	€3.00	Buy	€5.70
2...10	↓	↓	↓	↓
11	14 December 2015	€4.77	Buy	€6.20
12	4 May 2016	€5.04	Add	€6.00
13	31 May 2016	€5.40	Buy	€6.10
14	Today	€5.25	Buy	€7.00

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First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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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:

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%.

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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Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

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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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