

M1 Kliniken AG

Germany / Healthcare Facilities & Services

Frankfurt

Bloomberg: M12 GR

ISIN: DE000A0STSQ8

H1 financial results

RATING

PRICE TARGET

Return Potential

Risk Rating

ADD

€9.00

12.5%

High

STRONG H1 RESULTS

M1 Kliniken AG (M1) published H1 2016 results on 29 August, which were in line with our expectations. In 2015, M1 established four outpatient clinics and the inpatient clinic in Berlin-Köpenick. During H1 2016 the company added six further outpatient clinics. Due to the strong expansion of the clinic network across Germany H1 2016 sales, operating profit (EBIT) and net income increased significantly y/y. The clinics are gaining traction and gradually having a larger impact on sales and profitability. We therefore expect that H2 2016 sales and EBIT will be above the H1 2016 level. We believe the company is on track to achieve our FY/16 forecasts. We reiterate our Add recommendation and the €9.00 price target.

H1 2016 sales and EBIT were close to our expectations H1 2016 sales increased by 82% y/y to €18.5m (FBe: €18.0m; H1/15: €10.2m). M1's top line benefited from the expansion of the new clinic in Berlin-Köpenick as well as the opening of ten new outpatient clinics across Germany. Gross profit surged by 542% y/y to €6.3m (FBe: €5.6m; H1/15: €1.0m), which implies that the gross margin increased to 34.1% in H1/16 from 9.7% in H1/15. The gross margin benefited from cost savings in the purchase of materials. In our view, H1/15 showed an unusually weak gross margin well below the typical level of around 30-31% delivered in FY/14 and FY/15. We believe that the H1/15 gross margin was affected by a weaker product mix. The strong gross profit performance in H1/16 was the driver of a jump in EBIT to €3.0m (FBe: €3.1m; H1/15: €-0.2m), leading to an EBIT margin of 16.5% (H1/15: negative).

Net income strong due to lower tax rate Net income for the period came in at €2.9m (FBe: €2.0m; H1/15: €-0.4m), boosted by a lower than expected tax charge. Since management has guided to a tax rate of roughly 30% for FY 2016 (H1/16 tax rate: 7%), we leave our FY estimates unchanged. EPS came in at €0.19 (FBe: €0.13; H1/16: €-0.03).

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 05 Sep 2016

Closing Price	€ 8.00
Shares outstanding	15.00m
Market Capitalisation	€ 120.00m
52-week Range	€ 4.91 / 8.88
Avg. Volume (12 Months)	858

Multiples	2015	2016E	2017E
P/E	18.1	23.9	20.1
EV/Sales	3.4	3.1	2.7
EV/EBIT	17.1	16.5	14.0
Div. Yield	3.8%	3.8%	3.8%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 0.34m
Current Assets	€ 16.84m
Intangible Assets	€ 8.06m
Total Assets	€ 30.87m
Current Liabilities	€ 2.73m
Shareholders' Equity	€ 28.14m

SHAREHOLDERS

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

**Figure 1: P&L H1/16 reported figures vs. FB estimates and H1/15 (KPIs)**

All figures in EUR '000	H1/16	H1/16E	Delta	H1/15	Delta
Revenue	18,498	18,000	3%	10,160	82%
Gross profit	6,299	5,600	12%	981	542%
Margin	34.1%	31.1%		9.7%	
Operating income (EBIT)	3,046	3,100	-2%	-193	n.a.
Margin	16.5%	17.2%		-1.9%	
Net income / loss	2,893	2,008	44%	-392	n.a.
Margin	15.6%	11.2%		-3.9%	
EPS (in EUR, dil.)	0.19	0.13	44%	-0.03	n.a.

Source: First Berlin Equity Research, M1 Kliniken AG

Solid H1/16 balance sheet Receivables declined to €13.0m from €15.7m in FY15. The receivables position mainly reflects open accounts with the outpatient clinics (for more details see our initiating coverage report dated 11 August). We note that receivables are at a very high level due to the opening of new clinics, but we expect this position to decline significantly during H2/16 to €7.8m by year end. M1 reported a net cash position of €0.3m (H1/15: €0.4m) and assuming a strong H2/16, we expect this position to grow to €8.7m by the end of the year. Inventories fell back to €0.7m (FY15: €3.1m). Equity declined slightly to €28.1m (FY15: €29.8m), corresponding to a very high equity ratio of 91% (FY15: 90%).

Figure 2: Balance sheet reported figures H1/16 vs. FY15 (KPIs)

All figures in EUR '000	H1/16	FY15	Delta
Cash and cash equivalents	337	413	-18%
Receivables	12,968	15,655	-17%
Inventories	741	3,181	-77%
Current assets, total	16,845	19,605	-14%
Property, plant & equipment	893	447	100%
Goodwill & other intangibles	8,029	8,042	0%
Financial assets	4,772	5,064	-6%
Non-current assets, total	14,025	13,582	3%
Accounts payable	1,722	2,764	-38%
Financial debt (ST+LT)	15	16	-8%
Shareholders' equity	28,143	29,750	-5%
Equity ratio	91%	90%	2%
Balance sheet, total	30,870	33,187	-7%

Source: First Berlin Equity Research, M1 Kliniken AG

Sound cash flow performance Based on M1's positive H1/16 development, operating cash flow came in at €4.0m (H1/15: €-1.1m). Cash flow from investment activities totalled €0.4m (H1/15: €0.3m), since payments for the disposal of financial assets amounting to €1.0m outweighed CAPEX of €0.6m (H1/15: €0.3m). As a result, free cash flow (operating cash flow minus CAPEX) was also positive at €3.4m (H1/15: €-1.4m). Due to dividend payments of €4.5m, net cash flow was slightly negative at €-0.1m (H1/15: €-4.2m).

Add rating and price target reiterated Based on unchanged estimates, our DCF model still yields a price target of €9.00. We reiterate our Add recommendation.



VALUATION MODEL

Figure 3: 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
NOPLAT	5,210	6,151	7,101	8,297	9,550	10,792	12,087	13,537
+ 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
PV of FCF's	12,419	7,706	5,359	5,064	5,209	5,501	5,664	5,377

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%
Cost of equity	12.0%	9.0%	12.46	12.85	13.29	13.81	14.41	15.11	15.96
Pre-tax cost of debt	5.0%	10.0%	10.83	11.10	11.41	11.75	12.15	12.60	13.13
Tax rate	28.0%	11.0%	9.56	9.75	9.96	10.20	10.47	10.78	11.12
After-tax cost of debt	3.6%	12.0%	8.53	8.67	8.82	9.00	9.19	9.40	9.64
Share of equity capital	100.0%	13.0%	7.69	7.79	7.91	8.03	8.17	8.32	8.49
Share of debt capital	0.0%	14.0%	6.99	7.07	7.16	7.25	7.35	7.46	7.58
WACC	12.0%	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



INCOME STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
Revenues	6,081	23,017	34,926	39,117	43,811	49,069
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
Gross profit	1,039	6,845	10,782	11,657	13,143	14,819
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
Operating income (EBIT)	8	5,016	7,015	7,237	8,543	9,863
Net financial result	78	-187	-245	-250	-250	-250
Pre-tax income (EBT)	86	4,830	6,770	6,987	8,293	9,613
Tax result	23	-245	-140	-1,956	-2,322	-2,692
Minority interests	0	0	0	0	0	0
Net income / loss	109	4,585	6,630	5,030	5,971	6,921
Diluted EPS (in €)	0.01	0.31	0.44	0.34	0.40	0.46
EBITDA	49	5,127	7,234	7,432	8,762	10,108
Ratios						
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%
Expenses as % of revenues						
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%
Y-Y Growth						
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
Assets						
Current assets, total	1,720	7,536	19,605	20,377	22,162	24,932
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
Non-current assets, total	20,659	31,169	13,582	13,679	13,789	13,911
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
Total assets	22,379	38,704	33,187	34,056	35,951	38,844
Shareholders' equity & debt						
Current liabilities, total	7,257	10,112	3,425	3,762	4,185	4,655
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
Long-term liabilities, total	4	3,199	13	13	15	16
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
Minority interests	0	0	0	0	0	0
Shareholders' equity	15,118	25,394	29,750	30,280	31,751	34,172
Total consolidated equity and debt	22,379	38,704	33,187	34,056	35,951	38,844
Ratios						
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
Net income	109	4,585	6,630	5,030	5,971	6,921
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
Operating cash flow	-5,287	1,003	214	15,354	11,801	10,223
Tax paid	60	37	-141	-1,956	-2,322	-2,692
Interest income	8	0	24	0	0	0
Net operating cash flow	-5,219	1,039	97	13,397	9,479	7,531
CapEx	-502	-147	-678	-292	-329	-368
Other investments and disposals	1,685	-6,853	1,283	0	0	0
Cash flow from investing	1,183	-7,000	605	-292	-329	-368
Free cash flow	-4,036	-5,961	702	13,105	9,151	7,163
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
Cash flow from financing	0	7,582	-2,283	-4,766	-4,750	-4,750
Consolidation adjustments	521	167	-405	0	0	0
Net cash flow	-3,515	1,789	-1,985	8,339	4,401	2,413
Cash, start of the year	4,124	609	2,398	413	8,752	13,153
Cash, end of the year	609	2,398	413	8,752	13,153	15,566
EBITDA/share (in €)	0.00	0.34	0.48	0.50	0.58	0.67
Y-Y Growth						
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
...	↓	↓	↓	↓
2	Today	€8.00	ADD	€9.00

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

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

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