

M1 Kliniken AG

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

H1/18 figures &
 capital increase

RATING PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 19.20

57.4%
 High

RECORD SALES IN H1/18, GROWTH STORY CONTINUES

M1 Kliniken AG (M1) recently conducted a capital increase raising gross proceeds of €15.3m through the placement of 1.0m shares at €15.30 each. The company intends to use the proceeds to accelerate business expansion of its clinic network, particularly in the recently launched dental beauty care business. Furthermore, the H1/18 results previously published were good and built on the strong performance seen in 2017. Considering M1's positive outlook of a further increase in sales and profit for 2018E, we believe the risk profile of the company has improved, leading us to lower our WACC by 50 basis points from 10.5% to 10.0%. We have also fine tuned our forecasts in light of the H1/18 results and the potentially faster business expansion from FY/21E following the capital increase. Our DCF-valuation model now suggests a higher fair value for the M1 share. We have raised our price target to €19.20 (previously: €16.50). We reiterate our Buy rating.

H1/18 sales reflect strong momentum The H1/18 group revenues came in slightly ahead of our expectation growing by 30% y/y to €28.9m (FBe: €27.5m H1/17: €22.3m). Revenue growth was chiefly driven by the expansion of the clinic network across Germany.

EBIT and EBT slightly weaker than anticipated, outlook positive H1/18 EBIT declined by 17% y/y to €3.5m and fell short of our forecasted €3.7m (H1/17: €4.2m). The EBIT margin declined to 12.0% in H1/18. (FBe: 13.3%). However, due to cost shifts typical of the business, H1/17's EBIT margin of 18.7% was unusually strong compared to the FY/17 margin of 12.1%. EBT increased by 1% to €4.3m (FBe: €4.5m; H1/17: €4.2m) boosted by a strong net financial result of €1.1m (FBe: €0.9m; H1/17: €0.1m). Net income came in at €3.4m (FBe: €3.8m; H1/17: €3.7m), weakened by a higher tax rate of 21% compared with our estimate of 15% (H1/17: 12.9%).

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	34.93	35.96	47.19	59.13	75.69	96.43
Y-o-y growth	51.7%	2.9%	31.3%	25.3%	28.0%	27.4%
EBIT (€m)	7.01	4.36	5.71	7.17	9.23	13.98
EBIT margin	20.1%	12.1%	12.1%	12.1%	12.2%	14.5%
Net income (€m)	6.63	5.01	5.78	6.21	7.70	11.12
EPS (diluted) (€)	0.44	0.33	0.38	0.36	0.44	0.64
DPS (€)	0.30	0.30	0.30	0.30	0.33	0.33
FCF (€m)	0.70	9.91	-2.56	1.42	3.80	8.00
Net gearing	-1.3%	-19.2%	-30.6%	-40.4%	-36.7%	-37.1%
Liquid assets (€m)	0.41	5.81	14.69	25.76	24.30	26.51

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 13 Nov 2018

Closing Price	€ 12.20
Shares outstanding	17.50m
Market Capitalisation	€ 213.50m
52-week Range	€ 11.18 / 17.40
Avg. Volume (12 Months)	4,973

Multiples	2017	2018E	2019E
P/E	32.4	34.4	27.7
EV/Sales	4.2	3.3	2.6
EV/EBIT	34.4	27.5	21.3
Div. Yield	2.5%	2.5%	2.7%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	€ 16.70m
Current Assets	€ 35.77m
Intangible Assets	€ 8.28m
Total Assets	€ 57.45m
Current Liabilities	€ 0.03m
Shareholders' Equity	€ 50.65m

SHAREHOLDERS

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

EPS amounted to €0.20 (FBe: €0.23; H1/17: €0.25). The company keeps guiding towards further increase in sales and profit for 2018E.

Figure 1: Six month results vs. FB estimates (KPI)

All figures in EUR '000	H1/18	H1/18E	Delta	H1/17	Delta
Revenue	28,927	27,500	5%	22,257	30%
Operating income (EBIT)	3,464	3,658	-5%	4,157	-17%
Margin	12.0%	13.3%		18.7%	
Net financial result	1,124	850	32%	77	1360%
EBT	4,277	4,508	-5%	4,235	1%
Tax expense	-915	-676	n.a.	-546	n.a.
Tax rate	21.4%	15.0%		12.9%	
Net income / loss	3,373	3,831	-12%	3,688	-8.5%
margin	11.7%	13.9%		16.6%	
EPS (in EUR, dil.)	0.20	0.23	-12%	0.25	-17%

Source: First Berlin Equity Research, M1 Kliniken AG

Fine tuning 2018E-2020E estimates in the light of results seen in H1/18, we also expect sales growth acceleration from 2021E In light of the strong sales performance achieved in H1/18, we have slightly revised up our sales forecasts. We have also slightly increased personnel expenses, other operating expenses and the tax rate (from 20% to 28%). We have reduced other operating income and revised up net financial income. The net effect of these changes is lower net income in FY/18E and FY/19E, unchanged net income in FY/20E, and higher net income during the following years. We believe the company's measures to boost business growth (e.g. German and international expansion of the clinic network, expansion of the new dental business, etc.) will bear fruit from FY/21E. We have summarised the main changes in figure 2 below.

Figure 2: Changes to our forecasts (KPIs)

All figures in EUR '000	2018E			2019E			2020E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	58,193	59,135	1.6%	74,488	75,692	1.6%	90,875	96,432	6.1%
Operating income (EBIT)	7,914	7,169	-9.4%	10,428	9,234	-11.4%	13,086	13,983	6.9%
margin	13.6%	12.1%		14.0%	12.2%		14.4%	14.5%	
Net income / loss	7,248	6,215	-14.3%	9,269	7,699	-16.9%	11,120	11,122	0.0%
margin	12.5%	10.5%		12.4%	10.2%		12.2%	11.5%	
EPS (in EUR, dil.)	0.44	0.38	-14.3%	0.56	0.47	-16.9%	0.67	0.67	0.0%

Source: First Berlin Equity Research

Strong H1/18 balance sheet M1 reported a solid net cash position of €16.5m (FY/17: €14.5m). We anticipate that this position will rise even further in H2/18E due to the recent capital increase through which the company raised gross proceeds of €15.3m. Furthermore, thanks to a successful FY/17, the company decided to pay a dividend of €0.30 per share, which results in a dividend payment of €5.0m to shareholders. We anticipate that this payment will take place in the second half of the year. Receivables increased in H1/18 to €13.1m from €9.2m in FY/17. However, this figure is only temporarily high, as management expects a figure in the €10-12m range for FY/18 (FBe: €12.2m). Inventories were at €1.5m, which is roughly the same level as in the previous period (FY/17: €1.4m). Equity increased to €50.7m (FY/17: €47.3m), corresponding to a very high equity ratio of 88% (FY/17: 93%).

Positive operating cash flow and free cash flow Operating cash flow came in at €2.2m (H1/17: €4.2m). The reduction over the previous period can be explained by the weaker working capital (receivables) performance, which however is temporary. CAPEX totalled €-0.9m (H1/17: €-2.0m). The previous period's CAPEX was higher as it included the purchase of the building for the clinic in Essen. As a result, free cash flow (operating cash flow minus

CAPEX) was €1.3m (H1/17: €2.2m). Cash flow from financing amounted to €-35k (H1/17: €-4.5m), chiefly as a result of a time difference between dividend payments. While the FY/16 dividends of €4.5m were paid in H1/17, the FY/17 dividends of €5.0m will be paid in H2/18E. Net cash flow was €2.0m (H1/17: €-2.3m).

Aggressive outpatient clinic expansion in the aesthetic care business in Germany is underway M1 already increased the number of outpatient clinics by 6 (>50% growth) from 11 to 17 during 2017. During H1/18, this figure has been expanded to 19 through the opening of 2 new locations in Munich and Frankfurt. The outpatient clinics opened in 2017 are located in Leipzig, Wiesbaden, Münster, Berlin (2x) and Mannheim (see figure 3 below). The company plans to open several new locations across Germany before the end of the year. We believe the company is capable of increasing the current outpatient clinic network of currently 19 locations to 40-50 by the end of FY/20E. Moreover, M1 has implemented new treatment fields, such as laser procedures for hair or tattoo removal, which will in our view add further traction to the business.

Figure 3: M1 Kliniken AG clinic network in Germany



Source: First Berlin Equity Research, M1 Kliniken AG

Growth momentum in FY/18E and FY19E will additionally benefit from rented surgery space and the new clinic in Essen

The company is currently growing the inpatient business by renting surgical space at hospitals (Belegkliniken) across Germany. Surgical space in the first two locations in Munich and Frankfurt has already been secured and operations are up and running. In our view this is a quick and flexible way of growing the business according to demand. In addition, the 2,000 m² building purchased by the company in the centre of Essen is currently undergoing the construction and approval process. We expect that this location can initiate operations in the second half of 2019. This location has the potential to nearly double the surgical capacity available in the main inpatient and outpatient clinic in Berlin-Köpenick in the mid term. We anticipate FY/18E and FY/19E sales will benefit significantly from all these expansive measures.

International clinic expansion of the aesthetic care business is starting in H2/18E

With the opening of its first outpatient clinic in Austria, M1 also plans to start its international expansion during H2/18. We believe German-speaking Switzerland will be the next country targeted during the international expansion. Further countries such as UK, Spain, Italy and France are in our view attractive markets for a further roll out. The company intends to enlarge its market leadership in Germany to the rest of Europe.

New dental aesthetic business “M1 Dental” launched in Berlin, roll-out in further German cities planned in H2/18E

In order to capture a larger stake of the highly attractive beautification market, the company decided to enter a new segment. M1 set up its first cosmetic dentistry centre at the Berlin Schlossklinik, at which medical and business processes were tested during the initial pilot stage. This stage has been successfully completed. The portfolio of products and services includes teeth bleaching, prophylactic teeth cleaning (this service is usually not covered by the public health insurance in Germany), and application of ceramic-veneers or alternatively transparent braces for correction of teeth misalignments (see figure 4 below).

Figure 4: Overview of M1 Dental's ceramic veneers (left) and transparent braces (right) for teeth alignment



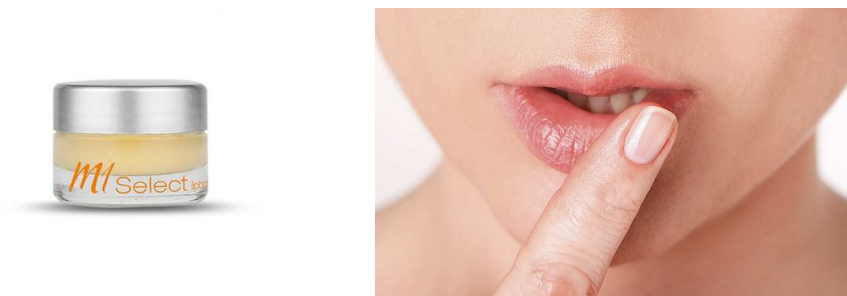
Source: First Berlin Equity Research, M1 Kliniken AG

Backed by the recently raised new funds amounting to €15.3m, the company plans to aggressively expand the new business “M1 Dental” into further German cities during H2/18E and going forward. We believe the company intends to open 10-15 new dental sites across Germany over the next 12-24 months. The company sees a high demand for these products and services.

Branded product line “M1 Select” launched through the outpatient clinic network as well as online (m1-select.de)

The company launched the product line M1-Select at the beginning of 2018. Management intends to strongly promote the M1-Select beauty care product line through its own clinic network as well as online. M1-Select includes beauty care products such as eyelash growth serum, nail renewal serum and lip booster (see figure 5 overleaf). This new branded product line nicely complements the company's current portfolio of aesthetic procedures.

Figure 5: M1 Select's lip booster product



Source: First Berlin Equity Research, M1 Kliniken AG



VALUATION MODEL

Price target increased, Buy rating reiterated H1/18E witnessed a continuation of M1's successful growth story. The company achieved impressive sales growth of 30%, maintained its profitability despite accelerating growth, and its balance sheet benefited from the strength achieved following the capital increase in FY/17 (€16.5m raised). The recent capital increase (€15.3m) strengthened M1's balance sheet even further despite its slightly dilutive effect (shares outstanding up from 16.5m to 17.5m) and will also lead to stronger sales growth from FY/21E. We therefore believe the risk profile of the company has improved, leading us to lower our WACC by 50 basis points from 10.5% to 10.0%. Based on the effects of lowering our WACC estimate and fine tuning our estimates for the next few years, we have increased our price target to €19.20 (previously: €16.50). We reiterate our Buy recommendation. We view M1 as well positioned to benefit from the growing beauty care market.

Figure 6: Discounted cash flow valuation model

All figures in EUR '000	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	59,135	75,692	96,432	117,647	141,647	167,427	197,564
NOPLAT	5,162	6,649	10,068	13,214	18,052	22,783	26,885
+ depreciation & amortisation	519	530	579	706	850	1,005	1,185
Net operating cash flow	5,680	7,179	10,646	13,920	18,901	23,788	28,070
- total investments (CAPEX and WC)	-5,418	-4,553	-3,848	-3,392	-4,010	-3,624	-3,651
Capital expenditures	-2,040	-2,536	-2,073	-2,176	-2,337	-2,428	-2,470
Working capital	-3,378	-2,017	-1,775	-1,216	-1,673	-1,196	-1,181
Free cash flows (FCF)	262	2,626	6,798	10,528	14,891	20,164	24,419
PV of FCF's	259	2,358	5,550	7,813	10,047	12,368	13,616

All figures in EUR '000	
PV of FCFs in explicit period	138,667
PV of FCFs in terminal period	180,742
Enterprise value (EV)	319,409
+ Net cash / - net debt	16,516
+ Investments / minority interests	0
Shareholder value	335,925
Shares outstanding	17,500
Fair value per share in EUR	19.20

		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	7.0%	28.54	30.25	32.31	34.82	37.96	42.00	47.39
	8.0%	23.69	24.81	26.11	27.66	29.51	31.78	34.61
	9.0%	20.10	20.86	21.74	22.75	23.93	25.33	27.00
	10.0%	17.35	17.89	18.50	19.20	19.99	20.90	21.97
	11.0%	15.18	15.58	16.02	16.51	17.06	17.69	18.41
	12.0%	13.44	13.74	14.06	14.42	14.82	15.26	15.76
	13.0%	12.01	12.24	12.48	12.75	13.04	13.37	13.73
Cost of equity		10.0%						
Pre-tax cost of debt		5.0%						
Tax rate		28.0%						
After-tax cost of debt		3.6%						
Share of equity capital		100.0%						
Share of debt capital		0.0%						
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	2015	2016	2017	2018E	2019E	2020E
Revenues	34,926	35,955	47,195	59,135	75,692	96,432
Change in inventory	13	0	0	0	0	0
Other operating income	446	5,428	261	250	250	250
Cost of goods sold	-24,602	-27,939	-28,698	-35,908	-45,893	-58,495
Gross profit	10,782	13,444	18,757	23,476	30,050	38,187
Personnel expenses	-1,570	-3,802	-7,168	-9,048	-11,657	-13,597
Other operating expenses	-1,978	-4,989	-5,413	-6,741	-8,629	-10,029
Depreciation & amortisation	-219	-288	-461	-519	-530	-579
Operating income (EBIT)	7,015	4,364	5,715	7,169	9,234	13,983
Net financial result	-245	1,124	1,650	1,463	1,458	1,464
Pre-tax income (EBT)	6,770	5,489	7,365	8,631	10,693	15,447
Tax result	-140	-481	-1,587	-2,417	-2,994	-4,325
Minority interests	0	0	0	0	0	0
Net income / loss	6,630	5,007	5,778	6,215	7,699	11,122
Diluted EPS (in €)	0.44	0.33	0.38	0.36	0.44	0.64
EBITDA	7,234	4,652	6,176	7,688	9,764	14,561
Ratios						
Gross margin	30.9%	37.4%	39.7%	39.7%	39.7%	39.6%
EBIT margin on revenues	20.1%	12.1%	12.1%	12.1%	12.2%	14.5%
EBITDA margin on revenues	20.7%	12.9%	13.1%	13.0%	12.9%	15.1%
Net margin on revenues	19.0%	13.9%	12.2%	10.5%	10.2%	11.5%
Tax rate	2.0%	8.7%	21.4%	28.0%	28.0%	28.0%
Expenses as % of revenues						
Personnel costs	4.5%	10.6%	15.2%	15.3%	15.4%	14.1%
Other operating expenses	5.7%	13.9%	11.5%	11.4%	11.4%	10.4%
Depreciation & amortisation	0.6%	0.8%	1.0%	0.9%	0.7%	0.6%
Y-Y Growth						
Revenues	51.7%	2.9%	31.3%	25.3%	28.0%	27.4%
Operating income	39.8%	-37.8%	30.9%	25.4%	28.8%	51.4%
Net income/ loss	44.6%	-24.5%	15.4%	7.6%	23.9%	44.5%



BALANCE SHEET

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Assets						
Current assets, total	19,605	16,995	29,516	44,529	45,950	51,266
Cash and cash equivalents	413	5,812	14,688	25,758	24,299	26,512
Short-term investments	6	2,704	4,217	4,344	4,474	4,608
Receivables	15,655	6,841	9,188	12,151	13,894	15,323
Inventories	3,181	1,410	1,410	2,263	3,269	4,808
Other current assets	351	227	13	13	14	14
Non-current assets, total	13,582	15,192	21,053	22,574	24,580	26,075
Property, plant & equipment	447	1,034	3,962	5,499	7,467	8,913
Goodwill & other intangibles	8,042	8,155	8,197	8,181	8,219	8,267
Financial assets	5,064	5,882	8,763	8,763	8,763	8,763
Other assets	29	120	132	132	132	132
Total assets	33,187	32,186	50,569	67,103	70,530	77,340
Shareholders' equity & debt						
Current liabilities, total	3,425	1,925	3,072	3,734	4,713	6,176
Short-term debt	16	14	0	0	0	0
Accounts payable	2,764	601	841	1,280	2,012	3,206
Accruals	138	669	993	1,093	1,202	1,322
Other current liabilities	507	640	1,238	1,362	1,498	1,648
Long-term liabilities, total	13	4	216	216	216	216
Long-term debt	0	0	215	215	215	215
Deferred revenue	0	0	0	0	0	0
Other liabilities	13	4	1	1	1	1
Minority interests	0	0	0	0	0	0
Shareholders' equity	29,750	30,257	47,280	63,152	65,601	70,948
Total consolidated equity and debt	33,187	32,186	50,569	67,103	70,530	77,340
Ratios						
Current ratio (x)	5.7	8.8	9.6	11.9	9.8	8.3
Quick ratio (x)	4.8	8.1	9.1	11.3	9.1	7.5
Net debt/(net cash)	-396	-5,798	-14,473	-25,543	-24,084	-26,297
Net gearing	-1.3%	-19.2%	-30.6%	-40.4%	-36.7%	-37.1%
Book value per share (in €)	1.98	2.02	3.08	3.61	3.75	4.05
Return on equity (ROE)	22.3%	16.5%	12.2%	9.8%	11.7%	15.7%



CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Net income	6,630	5,007	5,778	6,215	7,699	11,122
Depreciation and amortisation	219	288	461	519	530	579
Tax expense	138	476	1,576	2,417	2,994	4,325
Changes in working capital	-3,448	7,788	-2,486	-3,281	-1,902	-1,639
Other adjustments	-3,569	-4,465	-12	0	0	0
Net interest result	245	-1,126	-1,650	-1,463	-1,458	-1,464
Operating cash flow	214	7,969	3,667	4,407	7,862	12,922
Tax paid	-141	-32	-1,576	-2,417	-2,994	-4,325
Interest income	24	140	175	171	168	174
Net operating cash flow	97	8,077	2,266	2,161	5,036	8,771
CapEx	-678	-989	-3,430	-2,040	-2,536	-2,073
Other investments and disposals	1,283	2,826	-1,397	1,300	1,300	1,300
Cash flow from investing	605	1,838	-4,827	-740	-1,236	-773
Free cash flow	702	9,914	-2,562	1,421	3,800	7,998
Debt financing, net	-2,013	-2	201	0	0	0
Equity financing, net	0	0	15,745	14,607	0	0
Paid dividend	0	-4,500	-4,500	-4,950	-5,250	-5,775
Interest expense	-270	-13	-8	-9	-9	-10
Cash flow from financing	-2,283	-4,515	11,438	9,649	-5,259	-5,785
Consolidation adjustments	-405	0	0	0	0	0
Net cash flow	-1,985	5,399	8,877	11,069	-1,459	2,213
Cash, start of the year	2,398	413	5,812	14,689	25,758	24,299
Cash, end of the year	413	5,812	14,689	25,758	24,299	26,512
EBITDA/share (in €)	0.48	0.31	0.40	0.44	0.56	0.83
Y-Y Growth						
Operating cash flow	-78.6%	3616.9%	-54.0%	20.2%	78.4%	64.4%
Free cash flow	n.m.	1311.5%	n.m.	n.m.	167.5%	110.5%
EBITDA/share	41.1%	-35.7%	29.6%	9.3%	27.0%	49.1%

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
...	↓	↓	↓	↓
4	6 September 2016	€8.00	ADD	€9.00
5	9 May 2017	€8.40	BUY	€10.80
6	1 November 2017	€11.40	BUY	€16.50
7	Today	€12.20	BUY	€19.20

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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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