

M1 Kliniken AG

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

H1/19
 financial results

RATING
BUY

PRICE TARGET
€ 19.80

Return Potential 54.1%
 Risk Rating High

H1/19 EBIT AND NET INCOME AHEAD OF EXPECTATIONS

M1 Kliniken AG (M1) published H1/19 results. Sales increased by 14% y/y to €32.9m, which was lower than our projected €38.5m (H1/18: €28.9m). The main growth driver was the core beauty segment, which rose by 40% to €20.3m. However, sales within the trading segment declined by 14% to €12.6m. Given that the beauty segment is much more profitable (gross margin>70%) than the trading business (gross margin<5%), margins widened and profitability was higher than expected. Driven by a higher than anticipated other operating income of €1.5m (FBe: €120k), operating profit (EBIT) showed a significant increase y/y of 34% to €4.6m (FBe: €4.1m). Net income rose by 19% to €4.0m (FBe: €3.4m). In addition, backed by the strong network expansion in Germany (e.g. two centres for dental treatment in Frankfurt and Hamburg, a beauty centre in Dortmund) and internationally (e.g. beauty centre in Melbourne, Australia), management confirmed the positive outlook for the full year. We believe the company is on track to meet our FY/19 financial forecasts. We reiterate our Buy rating and €19.80 price target.

H1/19 sales were weaker than expected due to a sluggish low-margin trading business. Importantly, the core high-margin beauty segment showed sound growth. H1/19 sales increased by 14% y/y to €32.9m (FBe: €38.5m; H1/18: €28.9m). M1's sales growth was driven by the aggressive expansion of clinics across Germany and internationally. The core beauty segment grew by 40% to €20.3m. This segment chiefly comprises the clinic network including the Schlossklinik in Berlin, various affiliated clinics for aesthetic surgical treatment as well as the outpatient centres. Management is confident about the future growth outlook and reiterated its commitment to open new centres in Germany and internationally (e.g. Switzerland, UK, and Australia). However, sales within the trading segment declined by 14% to €12.6m. This segment encompasses wholesale trading activities of aesthetic products which support the company's competitive pricing strategy in the beauty segment.

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.

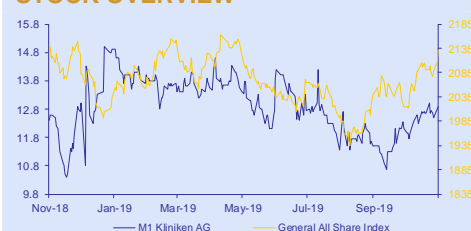
MARKET DATA

As of 04 Nov 2019

| | |
|-------------------------|-----------------|
| Closing Price | € 12.85 |
| Shares outstanding | 17.50m |
| Market Capitalisation | € 224.88m |
| 52-week Range | € 10.40 / 15.00 |
| Avg. Volume (12 Months) | 4,900 |

| Multiples | 2018 | 2019E | 2020E |
|------------|------|-------|-------|
| P/E | 32.7 | 31.5 | 22.9 |
| EV/Sales | 3.2 | 2.6 | 2.1 |
| EV/EBIT | 32.4 | 24.8 | 17.2 |
| Div. Yield | 2.3% | 2.6% | 2.6% |

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019

| | |
|----------------------|----------|
| Liquid Assets | € 15.33m |
| Current Assets | € 42.48m |
| Intangible Assets | € 8.25m |
| Total Assets | € 84.71m |
| Current Liabilities | € 5.54m |
| Shareholders' Equity | € 67.75m |

SHAREHOLDERS

| | |
|-------------------|-------|
| MPH Healthcare AG | 69.1% |
| Free Float | 30.9% |



Robust gross profit ahead of our forecast The company reported a gross profit of €18.8m, above our €14.6m forecast (FY/18: €10.8m). The gross margin rose to 52.8% and was significantly stronger than our estimate of 37.8% (FY/18: 37.3%). Besides greatly benefiting from a shift in the sales mix to the high-margin beauty-segment, higher than expected “other operating income” of €1.5m (FBe: €120k) contributed to this excellent performance. Based on the COGS reduction to €17.0m against €18.2m in H1/18 despite increasing group sales, we believe the company streamlined its product mix by intentionally reducing its low-margin trading business.

EBIT and EBT ahead of our expectations H1/19 EBIT surged by 34% y/y to €4.6m (FBe: €4.1m; H1/18: €3.5m), which implies that the EBIT margin increased to 14.1% in H1/19 from 12.0% in H1/18 (FBe: 10.6%). EBT was also strong at €5.2m (FBe: €4.8m, H1/18: €4.3m). Net income for the period came in at €4.0m (FBe: €3.4m; H1/18: €3.4m), boosted by a lower than expected tax rate and the strong EBIT. EPS came in at €0.23 (FBe: €0.19; H1/18: €0.20).

Figure 1: P&L H1/19 reported figures vs. FB estimates and H1/18 (KPIs)

| All figures in EUR '000 | H1/19 | H1/19E | Delta | H1/18 | Delta |
|-------------------------|---------|---------|-------|---------|-------|
| Revenue | 32,932 | 38,500 | -14% | 28,927 | 14% |
| Other operating income | 1,452 | 120 | n.a. | 101 | n.a. |
| COGS | -17,001 | -24,067 | -29% | -18,231 | -7% |
| Gross profit | 17,384 | 14,553 | 19% | 10,798 | 61% |
| Margin | 52.8% | 37.8% | | 37.3% | |
| Operating income (EBIT) | 4,646 | 4,081 | 14% | 3,475 | 34% |
| Margin | 14.1% | 10.6% | | 12.0% | |
| Net financial result | 537 | 700 | -23% | 813 | -34% |
| EBT | 5,183 | 4,781 | 8% | 4,288 | 21% |
| Margin | 15.7% | 12.4% | | 14.8% | |
| Tax expense | -1,180 | -1,339 | | -915 | |
| Tax rate | 22.8% | 28.0% | | 21.3% | |
| Net income / loss | 4,003 | 3,442 | 16% | 3,373 | 19% |
| Margin | 12.2% | 8.9% | | 11.7% | |
| EPS (in EUR, dil.) | 0.23 | 0.19 | 21% | 0.20 | 15% |

Source: First Berlin Equity Research, M1 Kliniken AG

H1/19 balance sheet enlarged due to inclusion of leases in accordance with IFRS16

M1 reported a lower cash position of €15.3m, down from €25.4m at the end of FY/18. The main reason for this decline was the company's investment in financial assets amounting to €10.2m. In order to avoid negative interest being charged by banks, the company invested in cash-near financial assets. As a result, financial assets (ST+LT) surged to €22.8m from €11.8m at the end of FY/18. Inventories increased to €2.4m (FY/18: €1.4m). Tangible assets increased to €17.5m from €5.5m in FY/18, mainly as a result of the inclusion of leased assets in accordance with the new IFRS16 regulation. The corresponding leasing liabilities (ST+LT) were also included for the first time in the balance sheet and amounted to €12.4m (FY/18: €0). Equity increased slightly to €67.7m (FY/18: €63.7m), corresponding to a very high equity ratio of 80% (FY/18: 92% - this figure does not include leasing assets and liabilities).

Positive operating cash flow Following a positive net income of €4.0m, operating cash flow came in at €0.6m (H1/18: €2.2m) mainly due to a tax payment of €3.1m (H1/18: €0.1m). Cash flow from investment activities increased substantially to €9.7m (H1/18: €0.1m) chiefly due to the €10.2m payout for investment of financial assets (H1/18: €0). Cash flow from financing activities surged to €1.0m (H1/18: €35k) as a result of the lease amortisation expense booked amounting to €1.0m.



Buy rating and price target reiterated In our view, M1 is doing an excellent job in aggressively penetrating the strong growing beauty market. In H1/19; the company delivered another period of sound performance regarding sales and profitability. We see M1 as on track to achieve our FY/19 financial forecasts. Based on unchanged estimates, our DCF model still yields a price target of €19.80. We reiterate our Buy recommendation.

VALUATION MODEL

Figure 2: 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 |
| | 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 | 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% |

Starting in FY/19, the financial statements include leasing assets and liabilities in accordance with the new IFRS16 regulation. We currently estimate that FY/19 tangible assets and liabilities will both increase by about € 11-12m. We will include these positions in our financial statements following publication of the FY/19 audited financial report.



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...4 | ↓ | ↓ | ↓ | ↓ |
| 5 | 13 August 2018 | €15.80 | BUY | €18.50 |
| 6 | 14 November 2018 | €12.20 | BUY | €19.20 |
| 7 | 6 August 2019 | €11.35 | BUY | €19.80 |
| 8 | Today | €12.85 | BUY | €19.80 |

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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:

| 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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