

M1 Kliniken AG

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

2021
 Prelims

RATING
BUY

PRICE TARGET
€ 14.00

Return Potential 93.9%
 Risk Rating High

SCALPELS ARE GIVING WAY TO SYRINGES

Preliminary results featured strong EBIT and pre-tax income, thanks to good contributions from M1 Beauty and Haemato AG. Led by 43% annualised topline growth at the Beauty segment (€53m), group revenues nearly doubled to €315m and matched FBe, while earnings overshot our targets. Clinic expansions remain on track, and Q1 treatment numbers are encouraging, while a booming injectable-cosmetics industry underpins our optimism for continued strong business momentum at the company. In our view, the share price offers excellent upside at current levels, and we remain Buy-rated on M1 with a €14 target price.

Injectables business is booming Preliminary results confirm our view that M1 is well positioned at the sweet spot of the cosmetic treatment economy with its disruptive network of branded clinics and injectables-driven business model. The company's German clinics recorded peak daily turnover numbers in each of the Q4 months helping push full-year earnings above our forecasts (table 1 overleaf). These peak numbers were again eclipsed in February and management hinted that March could also be record-setting. Some 14m non-surgical procedures were performed worldwide in the covid-hit 2020. Research and Markets, a firm of analysts, reckons that global sales for non-invasive aesthetic treatments, currently at ~\$60bn, could triple by 2030, and injectables are spearheading this growth. These include Botox and other substances that relax / freeze facial muscles, and dermal fillers, which plump softer tissue. About 700k such treatments were performed in 2020 on Germans, not renowned for being beauty-obsessed. These factors suggest M1 is in the early stages of a strong growth phase.

Stock is attractively valued M1 stock was hit hard in Q2/21 when pandemic issues resurfaced. It continued to trade near historical lows, despite the Q3/21 uptick in M1's cosmetic treatment figures that continued throughout the Omicron-hit winter. We believe recent months offer a glimpse of the business potential and should ease market concerns about operational resiliency. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€m)	65.21	77.22	159.59	314.63	353.94	424.30
Y/Y growth	38.2%	18.4%	106.7%	97.1%	12.5%	19.9%
EBITDA (€m)	7.17	11.35	8.89	17.37	22.44	27.86
EBITDA margin	11.0%	14.7%	5.6%	5.5%	6.3%	6.6%
Net income (€m)	6.63	9.73	7.43	13.84	13.13	15.64
EPS (diluted) (€)	0.39	0.56	0.37	0.48	0.45	0.54
DPS (€)	0.30	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.92	-8.71	12.65	18.39	7.89	6.40
Net gearing	-39.6%	3.6%	15.1%	-10.2%	-13.9%	-15.8%
Liquid assets (€m)	25.38	9.10	21.96	28.48	30.50	35.93

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 at competitive prices. The company is headquartered in Berlin and controls an extensive network of ~50 beauty clinics across Germany, continental Europe, the UK, and Australia. The company also operates a pharmaceutical trade and parallel import business through its Haemato AG subsidiary.

MARKET DATA

As of 30 Mar 2022

Closing Price	€ 7.22
Shares outstanding	19.64m
Market Capitalisation	€ 141.82m
52-week Range	€ 6.44 / 12.10
Avg. Volume (12 Months)	18,734

Multiples	2020	2021E	2022E
P/E	19.7	15.1	15.9
EV/Sales	1.2	0.6	0.5
EV/EBITDA	21.1	10.8	8.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2021

Liquid Assets	€ 29.86m
Current Assets	€ 130.21m
Intangible Assets	€ 3.69m
Total Assets	€ 195.95m
Current Liabilities	€ 44.32m
Shareholders' Equity	€ 136.36m

SHAREHOLDERS

MPH Healthcare AG	69.1%
Free Float	30.9%

**Table 1: Preliminary 2021 KPIs vs prior year and FBe**

EURm	2021	2021E	Variance	2020	Variance
Revenue	314.6	313.8	0.3%	160.0	96.6%
EBIT	12.1	11.0	10.0%	4.4	175.0%
Margin	3.8%	3.5%	-	2.8%	-
EBT	14.4	11.7	23.1%	8.8	n.a.
Margin	4.6%	3.7%	-	5.5%	-

Source: First Berlin Equity Research; M1 Kliniken

Strong contributions from both M1 and Haemato 2021 Beauty segment revenue climbed 42% Y/Y to €53m and topped our estimate (€49.5m). On our numbers, EBIT for the segment amounted to ~€6m and includes around €1m in start-up costs for international clinics.

M1 also reported that it is on track to operate 51 beauty centres this spring including new facilities in Brisbane, Australia, plus new centres in Wolfsburg, Germany, and Salzburg, Austria. M1 will publish its annual report on 19 May.

The Haemato subsidiary reported 20% annualised sales growth of €285m (2020: €238m), and operating income rose significantly to €11.2m, although the 2020 EBIT comp was not hard (€1.6m). Specialty Pharma operations accounted for €220m of Haemato turnover, while the fast-growing Lifestyle and Aesthetics segment accounted for €65m of the topline. The latter contributed heavily to the strong earnings performance, thanks to its 33% gross margin, resulting in €22m in gross profit for Haemato.

OTHER HAEMATO DEVELOPMENTS

Making inroads into diagnostics technology In January, the company began selling a high-end PCR point-of-care (PoC) device that can process samples on-site and deliver results within 45 minutes. Now the company will also market the Mini Dock, a cost-effective alternative to expensive PCR equipment (see Haemato AG note of 24 February 2022). The Mini Dock is similar to a smartphone in terms of size and weight, while specificity is comparable to PCR testing. The device offers an alternative solution based on the same nucleic acid amplification (NAT) test method as PCR testing. However, amplification is conducted with the help of enzymes, instead of using heat. This speeds up the process (~15 min.) and makes it significantly less expensive than a PCR lab analysis without compromising accuracy.

Although covid-testing demand will certainly abate as the summer approaches, the emergence of potential covid-variants cannot be ruled out. Plus, the Mini Dock can be easily converted to test other indications. Thanks to Haemato's ready-made infrastructure, sales force, and customer base, we think the two devices give the company a solid foothold in the diagnostics field.



VALUATION MODEL

All figures in EUR '000	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Sales	314,630	353,937	424,301	465,621	506,846	541,720	566,695	585,733
NOPLAT	9,058	12,040	15,053	18,485	21,745	23,157	27,555	31,065
(+) depreciation & amortisation	5,294	6,384	7,791	9,281	9,746	10,636	9,460	8,729
(=) Net operating cash flow	14,352	18,425	22,845	27,767	31,491	33,793	37,014	39,795
(-) Total investments (CAPEX and WC)	-2,080	-13,177	-18,818	-15,848	-15,722	-15,491	-12,319	-11,065
(-) Capital expenditures	-6,822	-8,141	-9,395	-10,426	-10,403	-10,935	-9,205	-8,667
(-) Working capital	4,742	-5,035	-9,423	-5,421	-5,319	-4,557	-3,113	-2,399
(=) Free cash flows (FCF)	12,273	5,248	4,027	11,919	15,769	18,302	24,696	28,729
PV of FCFs	12,273	4,911	3,447	9,337	11,303	12,003	14,820	15,775

All figures in EUR '000		Terminal EBIT margin							
		6.3%	6.8%	7.3%	7.8%	8.3%	8.8%	9.3%	
PV of FCFs in explicit period	115,485	6.3%	21.41	23.57	25.73	27.90	30.06	32.22	34.39
PV of FCFs in terminal period	218,386	7.3%	16.63	18.25	19.86	21.48	23.09	24.71	26.33
Enterprise value (EV)	333,871	8.3%	13.37	14.62	15.88	17.13	18.38	19.64	20.89
+ Net cash / - net debt	-17,360	9.3%	11.01	12.01	13.00	14.00	15.00	16.00	17.00
+ Investments / minority interests	-41,497	10.3%	9.22	10.03	10.84	11.65	12.46	13.27	14.08
Shareholder value	275,013	11.3%	7.81	8.48	9.15	9.82	10.49	11.15	11.82
Fair value per share in EUR	14.00	12.3%	6.68	7.24	7.80	8.36	8.92	9.47	10.03

		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	10.0%	6.3%	21.39	23.15	25.27	27.89	31.21	35.53	41.39
Pre-tax cost of debt	4.0%	7.3%	17.29	18.47	19.84	21.48	23.45	25.89	28.97
Tax rate	25.0%	8.3%	14.28	15.10	16.04	17.13	18.41	19.93	21.77
After-tax cost of debt	3.0%	9.3%	11.97	12.56	13.24	14.00	14.88	15.89	17.09
Share of equity capital	90.0%	10.3%	10.15	10.60	11.09	11.65	12.27	12.99	13.80
Share of debt capital	10.0%	11.3%	8.69	9.03	9.40	9.82	10.28	10.80	11.38
WACC	9.3%	12.3%	7.49	7.75	8.04	8.36	8.71	9.09	9.52

*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	2018	2019	2020	2021E	2022E	2023E
Revenues	65,209	77,217	159,591	314,630	353,937	424,301
Cost of goods sold	-42,261	-45,611	-122,807	-262,334	-292,375	-350,804
Gross profit	22,948	31,606	36,784	52,296	61,562	73,496
Personnel expenses	-9,440	-12,622	-16,685	-22,327	-25,249	-29,400
Other operating expenses	-6,511	-7,913	-11,866	-14,448	-15,753	-18,800
EBITDA	7,175	11,354	8,888	17,372	22,438	27,863
Depreciation & amortisation	-692	-3,402	-4,483	-5,294	-6,384	-7,791
Operating income (EBIT)	6,483	7,952	4,405	12,077	16,054	20,071
Net financial result	1,634	3,045	-2,248	-464	-517	-575
Other financial results	0	1,768	6,622	2,800	1,300	1,352
Pre-tax income (EBT)	8,117	12,765	8,779	14,414	16,837	20,848
Tax result	-1,486	-3,036	-1,352	-577	-3,704	-5,212
Minority interests	0	0	-602	-4,428	-4,203	-5,003
Net income / loss	6,631	9,729	6,825	9,409	8,930	10,632
Diluted EPS (in €)	0.39	0.56	0.37	0.48	0.45	0.54
Ratios						
Gross margin	35.2%	40.9%	23.0%	16.6%	17.4%	17.3%
EBITDA margin	11.0%	14.7%	5.6%	5.5%	6.3%	6.6%
EBIT margin	9.9%	10.3%	2.8%	3.8%	4.5%	4.7%
EBT margin	12.4%	16.5%	5.5%	4.6%	4.8%	4.9%
Net margin	10.2%	12.6%	4.3%	3.0%	2.5%	2.5%
Tax rate	18.3%	23.6%	15.4%	4.0%	22.0%	25.0%
Expenses as % of revenues						
Personnel costs	14.5%	16.3%	16.3%	14.0%	14.0%	13.0%
Other operating expenses	10.0%	10.2%	11.0%	11.0%	11.0%	11.0%
Depreciation & amortisation	1.1%	4.4%	2.8%	1.7%	1.8%	1.8%
Y-Y Growth						
Revenues		18.4%	106.7%	97.1%	12.5%	19.9%
Operating income		22.7%	-44.6%	174.2%	32.9%	25.0%
Net income/ loss		46.7%	-29.8%	37.9%	-5.1%	19.1%



BALANCE SHEET

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Assets						
Current assets, total	44,627	59,317	122,406	131,441	142,196	163,145
Cash and cash equivalents	25,384	9,098	21,960	28,479	30,499	35,935
Short-term investments	1,087	23,626	32,184	33,150	34,144	35,168
Receivables	16,739	22,243	20,480	19,896	22,516	26,956
Inventories	1,404	1,520	42,327	44,298	49,250	59,126
Other current assets	13	2,830	5,455	5,619	5,787	5,961
Non-current assets, total	24,927	33,498	66,336	67,864	69,621	71,224
Property, plant & equipment	5,489	15,990	15,763	17,402	19,247	20,834
Goodwill & other intangibles	8,287	8,455	38,328	38,217	38,129	38,146
Financial assets	11,056	8,971	12,003	12,003	12,003	12,003
Other assets	95	82	242	242	242	242
Total assets	69,554	92,815	188,741	199,305	211,817	234,369
Shareholders' equity & debt						
Current liabilities, total	5,659	14,431	58,070	45,333	44,706	51,616
Short-term debt	0	2,376	25,536	5,000	0	0
Accounts payable	908	7,778	15,841	21,970	24,507	29,398
Accruals	2,353	1,940	3,506	3,857	4,242	4,666
Other current liabilities	2,398	2,337	13,187	14,506	15,956	17,552
Long-term liabilities, total	153	10,163	15,353	10,331	10,337	10,343
Long-term debt	150	84	5,027	0	0	0
Other liabilities	3	994	1,569	1,574	1,580	1,586
Minority interests	0	0	29,565	48,478	52,680	57,684
Shareholders' equity	63,743	68,222	85,754	95,163	104,094	114,726
Total consolidated equity and debt	69,554	92,815	188,741	199,305	211,817	234,369
Ratios						
Current ratio (x)	8.8	9.6	7.9	4.1	2.1	2.9
Quick ratio (x)	8.1	9.1	7.6	4.0	1.4	1.9
Net debt/(net cash)	-5,798	-14,473	-25,234	-6,638	8,603	-23,479
Net gearing	-9.1%	-21.2%	-29.4%	-7.0%	8.3%	-20.5%
Book value per share (in €)	3.64	3.90	4.37	4.84	5.30	5.84
Return on equity (ROE)	10.4%	14.3%	8.0%	9.9%	8.6%	9.3%



CASH FLOW STATEMENT

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Net income	6,631	9,729	7,427	13,837	13,133	15,636
Depreciation and amortisation	692	3,402	4,483	5,294	6,384	7,791
Tax expense	1,482	3,016	1,352	577	3,704	5,212
Changes in working capital	-1,827	-12,034	-595	5,287	-4,356	-8,596
Other adjustments	-1,001	-4,067	-4,213	-2,800	-1,300	-1,352
Net interest result	-1,634	261	417	464	517	575
Operating cash flow	4,343	307	8,871	22,659	18,082	19,266
Tax paid	-1,482	-5,677	-726	-577	-3,704	-5,212
Interest income	158	81	172	329	356	384
Net operating cash flow	3,019	-5,289	9,710	22,412	14,734	14,439
CapEx	-2,323	-1,346	-1,446	-6,822	-8,141	-9,395
Other investments and disposals	223	-2,071	4,390	2,800	1,300	1,352
Cash flow from investing	-2,101	-3,417	2,944	-4,022	-6,841	-8,043
Free cash flow	918	-8,706	12,654	18,390	7,893	6,396
Debt financing, net	-65	-65	4,043	-25,563	-5,000	0
Equity financing, net	14,800	0	0	14,485	0	0
Paid dividend	-4,950	-5,250	-129	0	0	0
Interest expense	-8	-3	-335	-793	-872	-960
Redemption rights	0	-2,261	-3,201	0	0	0
Cash flow from financing	9,776	-7,579	378	-11,871	-5,872	-960
Consolidation adjustments	0	0	-4,175	0	0	0
Net cash flow	10,694	-16,285	8,857	6,519	2,020	5,436
Cash, start of the year	14,689	25,383	9,098	21,960	28,479	30,499
Cash, end of the year	25,383	9,098	21,960	28,479	30,499	35,935
EBITDA/share (in €)	0.43	0.65	0.48	0.88	1.14	1.42
Y-Y Growth						
Operating cash flow	18.6%	-92.9%	2789.6%	155.4%	-20.2%	6.5%
Free cash flow	n.m.	n.m.	n.m.	45.3%	-57.1%	-19.0%
EBITDA/share	6.1%	52.0%	-26.3%	84.9%	29.2%	24.2%

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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 31 March 2022 at 14:46

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PRICE TARGET DATES

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AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

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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.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	2 December 2021	€6.98	Buy	€14.00
2	Today	€7.22	Buy	€14.00

INVESTMENT HORIZON

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

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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: <https://firstberlin.com/disclaimer-english-link/>

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