

M1 Kliniken AG

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

Q2
 Prelims

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€ 11.70
 133.1%
 High

APPEARANCE IS EVERYTHING

Preliminary Q2 results showed continued strength in the injectables business with treatment numbers up 13% sequentially and 17% on an annualised basis. The treatment KPIs are encouraging considering that prior year comps were helped by post-lockdown catch up effects. Group revenue was close to our target, while earnings undershot FBe, due to higher than expected start-up costs traced to the international clinic expansion. The Haemato subsidiary reported a 22% Q/Q uptick in sales (€66m) and confirmed guidance (EBIT: €8m to €10m). We remain Buy-rated on M1 but have lowered our target price to €11.7 (old: €14) after reducing our forecasts for Haemato's Specialty Pharma segment to account for building regulatory headwinds.

Winter is coming Now that Mr Putin is choking off Russian gas pipelines as punishment for Western sanctions, Germans will experience an unprecedented energy price shock this winter and their wallets will likely be lighter after having to stump up extra cash to keep their flats warm. The question is whether or not tighter household budgets will mean less money for non-essential beauty treatments. We think the answer is no.

Appearance is everything The main reason is that the anti-aging effects from injectables stop if treatments are skipped. We reckon most patients will not want to compromise their public appearance to save a few bucks. Women in particular prioritise their beauty regimens and will generally make their budgets fit—even it means turning the heat down over the winter. Injectable treatments are really quite affordable (especially at M1) at roughly €100 to €150 every 4-6 months. German households are also flush with cash after having socked away >15% of their earnings the past two years with fewer options to splurge. We do concede that big ticket surgical procedures (breast implants) could get postponed, but these make up <15% of M1's Beauty segment turnover. We have therefore left our 2023 forecasts unchanged. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	77.22	159.59	314.61	286.51	314.17	349.79
Y-o-y growth	18.4%	106.7%	97.1%	-8.9%	9.7%	11.3%
EBITDA (€m)	11.35	8.89	17.82	17.45	20.41	26.60
EBITDA margin	14.7%	5.6%	5.7%	6.1%	6.5%	7.6%
Net income (€m)	9.73	6.83	8.90	6.71	8.14	11.13
EPS (diluted) (€)	0.56	0.37	0.45	0.34	0.41	0.57
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-8.71	12.65	15.90	18.94	11.42	15.84
Net gearing	-9.7%	7.5%	-10.8%	-20.2%	-23.2%	-27.4%
Liquid assets (€m)	9.10	21.96	37.87	29.93	36.72	47.29

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 17 Aug 2022

Closing Price	€ 5.02
Shares outstanding	19.64m
Market Capitalisation	€ 98.61m
52-week Range	€ 4.80 / 9.94
Avg. Volume (12 Months)	16,770

Multiples	2021	2022E	2023E
P/E	11.1	14.7	12.1
EV/Sales	0.4	0.4	0.4
EV/EBITDA	7.0	7.2	6.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2021

Liquid Assets	€ 37.90m
Current Assets	€ 110.20m
Intangible Assets	€ 60.40m
Total Assets	€ 198.10m
Current Liabilities	€ 43.40m
Shareholders' Equity	€ 139.90m

SHAREHOLDERS

MPH Healthcare AG	69.1%
Free Float	30.9%



SECOND QUARTER PRELIMS

Table 1: Second quarter Group results vs FBe and prior year

In EURm	Q2/22	Q2/22E	Variance	Q2/21	Variance	H1/22	H1/21	Variance
Sales	75.5	74.3	2%	84.2	-10%	139.0	165.0	-16%
EBITDA	3.2	3.6	-11%	5.9	-46%	7.4	9.9	-25%
Margin	4.2%	4.8%	-	5.9%	-	5.3%	6.0%	-
EBIT	1.7	1.9	-11%	4.5	-62%	4.5	7.1	-37%
Margin	2.3%	2.6%	-	3.9%	-	3.2%	4.3%	-

Source: First Berlin Equity Research; M1 Kliniken

Beauty numbers are up. . . H1 Beauty segment revenue climbed 16% Y/Y to €28m (H1/21: €24m), thanks to the ongoing clinic expansion, which saw five new centres opened in H1. Treatment numbers approached 100k in Q2 after totalling ~90k in the first quarter keeping M1 on track to hit our target of 396k for the full year. Factoring in the higher number of clinics in H1/22, we estimate that the number of Q2 treatments per clinic was also stable Y/Y at around 2.2k.

Beauty EBIT was somewhat softer Y/Y at €2.6m (H1/21: €2.9m). This owes to lower profitability of the foreign clinics that incurred higher start-up expenses. The German clinics continue to generate an EBIT margin in the 15% to 20% range, while the international facilities showed good growth in treatments (+50%) to 30k with turnover close to €4m (+40%). However, price campaigns designed to spur activity weighed on EBIT of the international clinics (€-1.1m).

Table 2: H1/22 segment KPIs

	Unit	Beauty	Trade*	M1 Kliniken
Revenue	€m	27.9	93.1	139.0
EBIT	€m	2.6	1.8	4.5
Margin	%	9.3	1.9	3.2

*Haemato results adjusted for eliminations

Source: First Berlin Equity Research; M1 Kliniken

. . . while Haemato emphasises high margin products Haemato sales (Trade segment) declined some 20% Y/Y to €121m (H1/21: €151.5m), but this owes largely to hard prior year comps that included some €25m in non-recurring antigen test-kit sales. The company's H1/22 EBITDA also retreated 36% Y/Y to €5.1m, due to the absence of the high margin test kit sales. But the 4.2% margin is encouraging, particularly against the 1.8% EBITDA margin in H1/20, which is probably the better comp for the current business (minus antigen tests), and shows the progress of the revamped portfolio. Haemato noted another stronger contribution from the Lifestyle & Aesthetics segment although this was not quantified.



REVISED OUTLOOK

Table 3: Updated forecasts and TP

	old	new	revision	upside	dividend yield	total return
Price target (€)	14.0	11.7	-16.4%	85.3%	5.2%	90.5%
All figures in € '000	2022E			2023E		
	old	new	revision	old	new	revision
Revenue ¹	298,633	286,507	-4.1%	330,577	314,165	-5.0%
Gross profit	56,300	55,538	-1.4%	65,327	61,565	-5.8%
Margin (%)	18.9%	19.4%	-	19.8%	19.6%	-
EBIT	11,674	10,889	-6.7%	16,383	13,326	-18.7%
Margin (%)	3.9%	3.8%	-	5.0%	4.2%	-
¹ after eliminations						

Source: First Berlin Equity Research estimates

For M1 Beauty, our updated model now factors in higher expansion costs in 2022. We stick to our 2023 estimates for the segment, despite growing macro-headwinds. We concede that German household budgets will be somewhat stretched next year as higher energy bills roll in, but we argue that €100 to €150 every 4 -6 months for beauty treatments is tenable and leave our treatment assumptions unchanged.

For the Trade segment (Haemato) we have: (1) adjusted 2022 FBe to better reflect the H1 performance; and (2) lowered our 2023 estimates to account for building regulatory headwinds. German policy makers are weighing options to increase the manufacturer's rebate for patented pharmaceuticals by 5% in 2023, which would impact the performance of Haemato's Specialty Pharma business.



VALUATION MODEL

All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Sales	286,507	314,165	349,793	384,648	415,473	440,941	459,033	472,042
NOPLAT	8,167	9,994	13,780	18,591	22,431	26,111	28,842	30,177
(+) depreciation & amortisation	6,560	7,080	8,226	8,038	8,174	7,939	7,099	6,970
(=) Net operating cash flow	14,727	17,074	22,005	26,629	30,606	34,050	35,942	37,148
(-) Total investments (CAPEX and WC)	-835	-11,335	-12,553	-11,978	-11,624	-10,328	-10,023	-9,538
(-) Capital expenditures	-7,782	-8,413	-9,277	-8,779	-8,696	-7,897	-8,154	-8,199
(-) Working capital	6,947	-2,922	-3,275	-3,199	-2,928	-2,431	-1,868	-1,339
(=) Free cash flows (FCF)	13,892	5,739	9,452	14,652	18,982	23,722	25,919	27,609
PV of FCF's	13,403	5,019	7,492	10,526	12,360	14,000	13,865	13,386

All figures in EUR '000		Terminal EBIT margin							
		7.1%	7.6%	8.1%	8.6%	9.1%	9.6%	10.1%	
PV of FCFs in explicit period	102,657	7.3%	16.21	17.50	18.79	20.09	21.38	22.67	23.96
PV of FCFs in terminal period	154,376	8.3%	13.39	14.39	15.40	16.41	17.41	18.42	19.42
Enterprise value (EV)	257,034	9.3%	11.33	12.14	12.94	13.75	14.55	15.35	16.16
+ Net cash / - net debt	15,061	10.3%	9.77	10.42	11.08	11.74	12.39	13.05	13.70
+ Investments / minority interests	-41,497	11.3%	8.54	9.08	9.62	10.17	10.71	11.25	11.80
Shareholder value	230,597	12.3%	7.54	8.00	8.45	8.91	9.37	9.82	10.28
Fair value per share in EUR	11.70	13.3%	6.73	7.11	7.50	7.88	8.27	8.65	9.04

		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	11.1%	7.3%	16.52	17.52	18.70	20.09	21.78	23.85	26.47
Pre-tax cost of debt	4.5%	8.3%	13.96	14.67	15.47	16.41	17.51	18.81	20.39
Tax rate	25.0%	9.3%	12.00	12.51	13.09	13.75	14.51	15.38	16.41
After-tax cost of debt	3.4%	10.3%	10.44	10.83	11.26	11.74	12.28	12.90	13.61
Share of equity capital	90.0%	11.3%	9.19	9.48	9.81	10.17	10.57	11.02	11.53
Share of debt capital	10.0%	12.3%	8.15	8.38	8.64	8.91	9.22	9.56	9.93
WACC	10.3%	13.3%	7.28	7.47	7.67	7.88	8.12	8.38	8.67

*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	2019	2020	2021	2022E	2023E	2024E
Revenues	77,217	159,591	314,610	286,507	314,165	349,793
Cost of goods sold	-45,611	-122,807	-259,305	-230,970	-252,600	-276,068
Gross profit	31,606	36,784	55,305	55,538	61,565	73,725
Personnel expenses	-12,622	-16,685	-22,129	-21,642	-23,499	-27,743
Other operating expenses	-7,913	-11,866	-16,232	-17,029	-18,433	-20,375
Other operating income	283	655	879	583	773	992
EBITDA	11,354	8,888	17,823	17,450	20,406	26,598
Depreciation & amortisation	-3,402	-4,483	-5,688	-6,560	-7,080	-8,226
Operating income (EBIT)	7,952	4,405	12,135	10,889	13,326	18,373
Net financial result	3,045	-2,248	963	-1,009	-1,110	-1,221
Other financial results	1,768	6,622	1,327	1,300	1,352	1,406
Pre-tax income (EBT)	12,765	8,779	14,425	11,181	13,568	18,558
Tax result	-3,036	-1,352	-3,545	-2,795	-3,392	-4,640
Minority interests	0	-602	-1,975	-1,677	-2,035	-2,784
Net income / loss	9,729	6,825	8,905	6,708	8,141	11,135
Diluted EPS (in €)	0.56	0.37	0.45	0.34	0.41	0.57
Ratios						
Gross margin	40.9%	23.0%	17.6%	19.4%	19.6%	21.1%
EBITDA margin	14.7%	5.6%	5.7%	6.1%	6.5%	7.6%
EBIT margin	10.3%	2.8%	3.9%	3.8%	4.2%	5.3%
Net margin	12.6%	4.3%	2.8%	2.3%	2.6%	3.2%
Tax rate	23.6%	15.4%	24.6%	25.0%	25.0%	25.0%
Expenses as % of revenues						
Personnel costs	16.3%	10.5%	7.0%	7.6%	7.5%	7.9%
Other operating expenses	10.2%	7.4%	5.2%	5.9%	5.9%	5.8%
Depreciation & amortisation	4.4%	2.8%	1.8%	2.3%	2.3%	2.4%
Y-Y Growth						
Revenues	18.4%	106.7%	97.1%	-8.9%	9.7%	11.3%
Operating income	22.7%	-44.6%	175.5%	-10.3%	22.4%	37.9%
Net income/ loss	46.7%	-29.8%	30.5%	-24.7%	21.4%	36.8%



BALANCE SHEET

All figures in EUR '000	2019	2020	2021	2022E	2023E	2024E
Assets						
Current assets, total	59,317	122,406	110,195	95,746	107,281	123,079
Cash and cash equivalents	9,098	21,960	37,868	29,931	36,716	47,290
Short-term investments	23,626	32,184	18,155	18,700	19,261	19,838
Receivables	22,243	20,480	16,308	17,327	19,054	21,404
Inventories	1,520	42,327	35,202	27,047	29,427	31,639
Other current assets	2,830	5,455	2,662	2,742	2,824	2,909
Non-current assets, total	33,498	66,336	87,916	89,138	90,471	91,523
Property, plant & equipment	15,990	15,763	15,267	16,860	18,599	19,933
Goodwill & other intangibles	8,455	38,328	60,393	60,022	59,616	59,334
Financial assets	8,971	12,003	12,003	12,003	12,003	12,003
Other assets	82	242	253	253	253	253
Total assets	92,815	188,741	198,111	184,884	197,752	214,602
Shareholders' equity & debt						
Current liabilities, total	14,431	58,070	43,417	26,011	28,531	31,285
Short-term debt	2,376	25,536	18,432	0	0	0
Accounts payable	7,778	15,841	12,845	12,657	13,841	15,127
Accruals	1,940	3,506	3,821	4,203	4,623	5,086
Other current liabilities	2,337	13,187	8,319	9,151	10,066	11,073
Long-term liabilities, total	10,163	15,353	14,791	10,585	10,757	10,933
Long-term debt	84	5,027	4,375	0	0	0
Other liabilities	994	1,569	2,289	2,295	2,302	2,309
Minority interests	0	29,565	44,877	46,554	48,589	51,373
Shareholders' equity	68,222	85,754	95,026	101,734	109,875	121,010
Total consolidated equity and debt	92,815	188,741	198,111	184,884	197,752	214,602
Ratios						
Current ratio (x)	9.6	7.9	4.1	2.1	2.5	3.7
Quick ratio (x)	9.1	7.6	4.0	1.4	1.7	2.6
Net debt/(net cash)	-14,473	-25,234	-6,638	8,603	-15,061	-29,931
Net debt / EBITDA	-0.6	1.0	-0.8	-1.7	-1.8	-1.8
Net gearing	-21.2%	-29.4%	-7.0%	8.5%	-13.7%	-24.7%
Equity ratio	73.5%	61.1%	70.6%	80.2%	80.1%	80.3%
Book value per share (in €)	3.9	4.4	4.8	5.2	5.6	6.2
Return on equity (ROE)	14.3%	8.0%	9.4%	6.6%	7.4%	9.2%



CASH FLOW STATEMENT

All figures in EUR '000	2019	2020	2021	2022E	2023E	2024E
Net income	9,729	7,427	10,880	8,385	10,176	13,919
Depreciation and amortisation	3,402	4,483	5,644	6,560	7,080	8,226
Tax expense	3,016	1,352	3,545	2,795	3,392	4,640
Other adjustments	-4,067	-4,213	-1,150	-1,300	-1,352	-1,406
Net interest result	261	417	437	1,009	1,110	1,221
Operating cash flow	12,341	9,466	19,356	17,450	20,406	26,598
Changes in working capital	-12,034	-595	-3,650	7,706	-2,059	-2,293
Tax paid	-5,677	-726	-30	-2,795	-3,392	-4,640
Net operating cash flow	-5,370	9,538	15,686	22,361	14,955	19,666
CapEx	-1,346	-1,446	-1,335	-4,720	-4,891	-5,228
Other investments and disposals	-2,071	4,390	1,069	1,300	1,352	1,406
Interest income	81	172	479	0	0	0
Cash flow from investing	-3,336	3,116	213	-3,420	-3,539	-3,821
Free cash flow	-8,706	12,654	15,899	18,941	11,416	15,845
Debt financing, net	-65	4,043	-4,219	-22,807	0	0
Equity financing, net	0	0	14,485	0	0	0
Paid dividend	-5,250	-129	-1,658	0	0	0
Interest expense	-3	-335	-506	-1,009	-1,110	-1,221
Redemption rights	-2,261	-3,201	-4,075	-3,062	-3,522	-4,050
Cash flow from financing	-7,579	378	4,027	-26,878	-4,631	-5,270
Consolidation adjustments	0	-4,175	0	0	0	0
Net cash flow	-16,285	8,857	19,913	-7,937	6,785	10,574
Cash, start of the year	25,383	9,098	21,960	37,868	29,931	36,716
Cash, end of the year	9,098	21,960	37,868	29,931	36,716	47,290
EBITDA/share (in €)	0.65	0.48	0.91	0.89	1.04	1.35
Y-Y Growth						
Operating cash flow	100.0%	-23.3%	104.5%	-9.8%	16.9%	30.3%
Free cash flow	n.m.	n.m.	25.6%	19.1%	-39.7%	38.8%
EBITDA/share	52.0%	-26.3%	89.7%	-2.1%	16.9%	30.3%

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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 18 August 2022 at 13:58

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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.

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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	31 March 2022	€7.22	Buy	€14.00
3	7 June 2022	€6.54	Buy	€14.00
4	Today	€5.02	Buy	€11.70

INVESTMENT HORIZON

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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

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SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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