

M1 Kliniken AG

Germany / Healthcare Facilities & Services

Frankfurt

Bloomberg: M12 GR

ISIN: DE000A0STSQ8

H1 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 11.70**

148.9%

High

CLINIC EXPANSION HIGHLIGHTS H1

Six month reporting confirmed prelims and showed good progress in the clinic expansion. M1 has opened five new clinics YTD with a further two centres slated for the fall. The company reported EBITDA of €7.6m, which translated into €10.2m in operating cash flow for the period. The Beauty segment contributed €2.6m to the group EBIT result, while Trade (Haemato) added €1.9m. We recently lowered our Trade targets to account for building regulatory headwinds faced by Haemato's Specialty Pharma business but left Beauty estimates unchanged. Despite tightening household budgets, we reckon most patients will not want to compromise their appearance by skipping treatments to save a few bucks next year. We remain Buy-rated on M1 with an €11.7 target price.

Group revenue 16% lower Y/Y This owes to the absence of non-recurring antigen test kit sales (~25m) that inflated Haemato's H1/21 performance. Adjusted for the €25m in one-off sales, group revenue was in line with the prior year comp. H1/22 EBITDA tallied €7.4m but undershot the prior year figure by 24%, due to missing test kit sales (table 3 overleaf).

Beauty segment turnover up 16% year over year The €27.9m notched in H1/22 was spearheaded by a 32% increase in international clinic turnover (table 1 overleaf). Beauty EBIT fell some 12%, due chiefly to the performance of the international component that includes high start-up costs for the new facilities. Treatment figures totalled 190k in H1 vs 163k in the prior year period led by a 50% rise across international centres with the UK in particular prospering from an aggressive pricing strategy. Germany notched a 10% Y/Y increase in treatments. While the international KPI is eye catching, M1 does not publish like-for-like (LFL) figures for Beauty; however, management hinted on the earnings call that LFL growth was likely around 25%. As we wrote in our last update (18 August 2022), we believe the Beauty business will remain resilient despite the impact of mounting economic turbulence on household wallets. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	77.22	159.59	314.61	286.51	315.09	351.70
Y-o-y growth	18.4%	106.7%	97.1%	-8.9%	10.0%	11.6%
EBITDA (€m)	11.35	8.89	17.82	17.12	20.19	26.26
EBITDA margin	14.7%	5.6%	5.7%	6.0%	6.4%	7.5%
Net income (€m)	9.73	6.83	8.90	6.51	8.01	10.92
EPS (diluted) (€)	0.56	0.37	0.45	0.33	0.41	0.56
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-8.71	12.65	15.90	18.62	11.15	15.44
Net gearing	-9.7%	7.5%	-10.8%	-20.0%	-22.9%	-27.0%
Liquid assets (€m)	9.10	21.96	37.87	29.61	36.13	46.30

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 Aug 2022

Closing Price	€ 4.70
Shares outstanding	19.64m
Market Capitalisation	€ 92.32m
52-week Range	€ 4.62 / 8.40
Avg. Volume (12 Months)	16,592

Multiples	2021	2022E	2023E
P/E	10.4	14.2	11.5
EV/Sales	0.4	0.4	0.4
EV/EBITDA	6.7	6.9	5.9
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2022

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

SHAREHOLDERS

MPH Healthcare AG	69.1%
Free Float	30.9%

**Table 1: Six month Beauty segment performance**

In EURm	H1/22		H1/21		Variance	
	Germany	International	Germany	International	Germany	International
Sales	24.0	3.8	21.1	2.9	14%	32%
EBIT	3.7	-1.2	3.3	-0.4	14%	n.m.
Margin	16%	-30%	16%	-12%	-	-

Source: First Berlin Equity Research; M1 Kliniken

Haemato shows good profitability The Lifestyle & Aesthetics (L&A) segment led Haemato's H1/22 profitability contributing a 29% gross margin (GM) on €24m in turnover for the period. Meanwhile, the optimised Specialty Pharma portfolio helped boost segment GM to 6.1% for the reporting period. This is a vast improvement over the ~4% GM normally booked by this business. Specialty Pharma turnover tallied €97m for the period.

L&A chiefly markets self-payer products for use in aesthetic medicine and for treatments but also includes diagnostic and Corona prevention products. Last year, Haemato recorded some €25m in antigen test kit sales at a 33.7% GM, but changing market conditions meant that this performance could not be repeated.

Table 2: Segment breakdown of Haemato (Trade) performance

EURm	Specialty Pharma	Lifestyle & Aesthetics
Revenue	97.1	23.9
Gross profit	5.9	6.2
Margin	6.1%	26.1%

Source: First Berlin Equity Research; Haemato AG

Haemato's overall higher profitability also owes to a leaner staff, which has been roughly halved over the past 12 months without a loss in efficiency. The company reported an EBIT margin of 3.6% in H1/22 vs 0.7% in H1/20, which is a better comp for the current business than the 4.8% margin notched in H1/21. The latter included test kits.

Update on clinical trials Haemato is currently discussing the structure of the clinical trials with authorities. These will likely cover 500 - 700 patients and might be conducted at M1 premises to help keep costs in check. The company reckons the trials will kick off in H1/23 and run around 18 months setting up potential EU approval by mid-2025. Given that the botulinum toxin has already been approved in South Korea, management do not expect any issues in the European process.



SIX MONTH REPORTING KPIS

Table 3: Second quarter vs FBe and prior year

In EURm	Q2/22	Q2/22E	Variance	Q2/21	Variance	H1/22	H1/21	Variance
Sales	75.2	74.3	1%	84.2	-11%	138.7	165.0	-16%
EBITDA	3.2	3.6	-11%	5.9	-46%	7.4	9.9	-25%
Margin	4.3%	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; Haemato AG

Table 4: Financial highlights

in EURm	H1/22	2021	Variance
Liquid assets	26.0	37.9	-31%
Interest bearing debt	8.3	19.2	-57%
Net debt / (net cash)	-17.7	-15.0	-
Intangible assets	60.3	60.4	0%
Total assets	190.0	198.1	-4%
Total equity	142.7	139.9	2%
Equity ratio	75%	71%	-

Source: First Berlin Equity Research; M1 Kliniken

Table 5: Cash flow developments

in EURm	H1/22	H1/21	Variance
Operating cash flow	10.2	3.5	191%
Cash flow from investments	-8.5	1.2	-
Free cash flow	1.7	4.7	-64%
Conversion rate	23%	48%	-
Cash flow from financing	-13.5	6.1	-
Net cash flow	-11.8	10.8	-

Source: First Berlin Equity Research; M1 Kliniken

Good operating cash flow Free cash flow declined vs the prior year comp. This stems from a €-7.9m investment in ST financial assets. Adjusted for this outflow, FCF would have totalled €9.6m for the period. The company exited H1 with net liquidity of ~€18m giving M1 good financial flexibility to pursue its growth strategy and fund the upcoming clinical trials for Haemato's own-branded botulinum toxin. We estimate the cost at ~€10m.



VALUATION MODEL

All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Sales	286,507	315,088	351,703	387,362	418,791	444,738	463,104	476,263
NOPLAT	7,918	9,830	13,516	18,305	22,088	25,727	28,440	29,774
(+) depreciation & amortisation	6,560	7,084	8,234	8,049	8,188	7,955	7,117	6,988
(=) Net operating cash flow	14,478	16,914	21,750	26,355	30,276	33,682	35,557	36,762
(-) Total investments (CAPEX and WC)	-911	-11,437	-12,700	-12,097	-11,723	-10,412	-10,081	-9,580
(-) Capital expenditures	-7,782	-8,417	-9,287	-8,792	-8,712	-7,916	-8,174	-8,220
(-) Working capital	6,871	-3,019	-3,414	-3,305	-3,011	-2,496	-1,907	-1,360
(=) Free cash flows (FCF)	13,567	5,477	9,050	14,258	18,553	23,270	25,476	27,182
PV of FCF's	13,139	4,812	7,211	10,305	12,164	13,839	13,743	13,300

All figures in EUR '000		Terminal EBIT margin							
		6.9%	7.4%	7.9%	8.4%	8.9%	9.4%	9.9%	
PV of FCFs in explicit period	101,059	7.2%	16.15	17.49	18.82	20.16	21.50	22.83	24.17
PV of FCFs in terminal period	155,231	8.2%	13.30	14.34	15.38	16.42	17.46	18.50	19.54
Enterprise value (EV)	256,290	9.2%	11.24	12.07	12.90	13.73	14.56	15.39	16.22
+ Net cash / - net debt	15,061	10.2%	9.67	10.35	11.03	11.70	12.38	13.05	13.73
+ Investments / minority interests	-41,497	11.2%	8.45	9.00	9.56	10.12	10.68	11.24	11.80
Shareholder value	229,854	12.2%	7.46	7.92	8.39	8.86	9.33	9.80	10.26
Fair value per share in EUR	11.70	13.2%	6.64	7.04	7.43	7.83	8.23	8.62	9.02

		Terminal growth rate							
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
Cost of equity	11.0%	7.2%	16.51	17.53	18.73	20.16	21.89	24.03	26.75
Pre-tax cost of debt	4.5%	8.2%	13.92	14.64	15.47	16.42	17.54	18.88	20.50
Tax rate	25.0%	9.2%	11.95	12.47	13.06	13.73	14.50	15.39	16.44
After-tax cost of debt	3.4%	10.2%	10.39	10.78	11.21	11.70	12.25	12.88	13.60
Share of equity capital	90.0%	11.2%	9.13	9.43	9.76	10.12	10.53	10.99	11.50
Share of debt capital	10.0%	12.2%	8.09	8.32	8.58	8.86	9.17	9.51	9.89
WACC	10.2%	13.2%	7.22	7.41	7.61	7.83	8.07	8.33	8.62

*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	315,088	351,703
Cost of goods sold	-45,611	-122,807	-259,305	-232,192	-254,345	-278,962
Gross profit	31,606	36,784	55,305	54,315	60,742	72,742
Personnel expenses	-12,622	-16,685	-22,129	-20,915	-22,992	-27,211
Other operating expenses	-7,913	-11,866	-16,232	-16,900	-18,335	-20,272
Other operating income	283	655	879	618	775	997
EBITDA	11,354	8,888	17,823	17,117	20,191	26,256
Depreciation & amortisation	-3,402	-4,483	-5,688	-6,560	-7,084	-8,234
Operating income (EBIT)	7,952	4,405	12,135	10,557	13,107	18,022
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	10,848	13,349	18,207
Tax result	-3,036	-1,352	-3,545	-2,712	-3,337	-4,552
Minority interests	0	-602	-1,975	-1,627	-2,002	-2,731
Net income / loss	9,729	6,825	8,905	6,509	8,009	10,924
Diluted EPS (in €)	0.56	0.37	0.45	0.33	0.41	0.56
Ratios						
Gross margin	40.9%	23.0%	17.6%	19.0%	19.3%	20.7%
EBITDA margin	14.7%	5.6%	5.7%	6.0%	6.4%	7.5%
EBIT margin	10.3%	2.8%	3.9%	3.7%	4.2%	5.1%
Net margin	12.6%	4.3%	2.8%	2.3%	2.5%	3.1%
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%	7.3%	7.3%	7.7%
Other operating expenses	10.2%	7.4%	5.2%	5.9%	5.8%	5.8%
Depreciation & amortisation	4.4%	2.8%	1.8%	2.3%	2.2%	2.3%
Y-Y Growth						
Revenues	18.4%	106.7%	97.1%	-8.9%	10.0%	11.6%
Operating income	22.7%	-44.6%	175.5%	-13.0%	24.1%	37.5%
Net income/ loss	46.7%	-29.8%	30.5%	-26.9%	23.1%	36.4%



BALANCE SHEET

All figures in EUR '000	2019	2020	2021	2022E	2023E	2024E
Assets						
Current assets, total	59,317	122,406	110,195	95,564	106,963	122,560
Cash and cash equivalents	9,098	21,960	37,868	29,606	36,128	46,300
Short-term investments	23,626	32,184	18,155	18,700	19,261	19,838
Receivables	22,243	20,480	16,308	17,327	19,104	21,508
Inventories	1,520	42,327	35,202	27,190	29,646	32,004
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	91,524
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	59,617	59,335
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	184,702	197,434	214,084
Shareholders' equity & debt						
Current liabilities, total	14,431	58,070	43,417	26,078	28,626	31,444
Short-term debt	2,376	25,536	18,432	0	0	0
Accounts payable	7,778	15,841	12,845	12,724	13,937	15,286
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	46,504	48,507	51,238
Shareholders' equity	68,222	85,754	95,026	101,535	109,544	120,469
Total consolidated equity and debt	92,815	188,741	198,111	184,702	197,434	214,084
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	-29,606
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%	-24.6%
Equity ratio	73.5%	61.1%	70.6%	80.2%	80.1%	80.2%
Book value per share (in €)	3.9	4.4	4.8	5.2	5.6	6.1
Return on equity (ROE)	14.3%	8.0%	9.4%	6.4%	7.3%	9.1%



CASH FLOW STATEMENT

All figures in EUR '000	2019	2020	2021	2022E	2023E	2024E
Net income	9,729	7,427	10,880	8,136	10,012	13,656
Depreciation and amortisation	3,402	4,483	5,644	6,560	7,084	8,234
Tax expense	3,016	1,352	3,545	2,712	3,337	4,552
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	17,117	20,191	26,256
Changes in working capital	-12,034	-595	-3,650	7,630	-2,156	-2,431
Tax paid	-5,677	-726	-30	-2,712	-3,337	-4,552
Net operating cash flow	-5,370	9,538	15,686	22,035	14,697	19,273
CapEx	-1,346	-1,446	-1,335	-4,720	-4,896	-5,237
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	-3,544	-3,831
Free cash flow	-8,706	12,654	15,899	18,616	11,154	15,442
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	-8,262	6,522	10,172
Cash, start of the year	25,383	9,098	21,960	37,868	29,606	36,128
Cash, end of the year	9,098	21,960	37,868	29,606	36,128	46,300
EBITDA/share (in €)	0.65	0.48	0.91	0.87	1.03	1.34
Y-Y Growth						
Operating cash flow	100.0%	-23.3%	104.5%	-11.6%	18.0%	30.0%
Free cash flow	n.m.	n.m.	25.6%	17.1%	-40.1%	38.4%
EBITDA/share	52.0%	-26.3%	89.7%	-4.0%	18.0%	30.0%

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Ggf. Inhaltlich Verantwortlicher gem. § 6 MDStV

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The production of this recommendation was completed on 31 August 2022 at 08:45

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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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	18 August 2022	€5.02	Buy	€11.70
5	Today	€4.70	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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