

M1 Kliniken AG

Germany / Healthcare Facilities & Services

Frankfurt

Bloomberg: M12 GR

ISIN: DE000A0STSQ8

2022 prelims

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 10.50**

35.0%

High

BEAUTY BUSINESS MARGINS UP

Preliminary 2022 results showed good profitability, thanks to solid contributions from M1 Beauty and Haemato AG. But the numbers were off last year's pace, due to the absence of the corona test-kit business, which boosted 2021 Trade segment results. The Beauty segment racked up €60m in sales (+14% Y/Y) and notched a 190 basis point increase in the operating margin to 11.7%. Group revenues (€285m) and EBIT (€9.3m) matched FBe while pre-tax earnings (€10.2m) overshot our target. Clinic expansions remain on track, while momentum for the injectables business remains strong. M1 also announced a 1.5m share buy-back to commence on 28 April. We have adjusted our forecasts to account for the increase in the mandatory discount rate for pharmaceuticals in 2023 to 12% (old: 7%) and also upped the risk free rate in our DCF model to 2.4% (old: 1.3%). We remain Buy-rated on M1 with a €10.5 TP (old: €11.1)

Full steam ahead with clinic expansion. . . . Having built a sprawling network of M1 Med Beauty centres on its home turf, the company began to internationalise its portfolio in 2018. M1 reported eight clinic openings in four countries in 2022, including M1's first centre in Budapest (Hungary). Several new beauty centres are already in the works to broaden the Eastern European footprint: Sofia (Bulgaria) and Bucharest (Romania). Local beauty doctors there are keen to join the M1 team, thanks to attractive remuneration packages and growth prospects. M1 brass expects the clinic network to reach 60 centres this year and reiterated its mid-term goal of operating between 75 and 100 M1 Med Beauty centres by YE25 (FBe: 82).

. . . to capitalise on booming injectables market 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. 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 . . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019	2020	2021	2022E	2023E	2024E
Revenue (€m)	77.22	159.59	314.61	285.32	288.71	332.81
Y-o-y growth	18.4%	106.7%	97.1%	-9.3%	1.2%	15.3%
EBITDA (€m)	11.35	8.89	17.82	15.85	17.09	21.30
EBITDA margin	14.7%	5.6%	5.7%	5.6%	5.9%	6.4%
Net income (€m)	9.73	6.83	8.90	5.07	5.50	7.03
EPS (diluted) (€)	0.56	0.37	0.45	0.26	0.28	0.36
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-8.71	12.65	15.90	18.69	10.03	8.32
Net gearing	-9.7%	7.5%	-10.8%	-20.2%	-22.8%	-23.4%
Liquid assets (€m)	9.10	21.96	37.87	29.86	35.54	38.90

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 28 Apr 2023

Closing Price	€ 7.78
Shares outstanding	19.64m
Market Capitalisation	€ 152.82m
52-week Range	€ 3.72 / 9.06
Avg. Volume (12 Months)	14,905

Multiples	2021	2022E	2023E
P/E	17.2	30.1	27.8
EV/Sales	0.6	0.6	0.6
EV/EBITDA	10.1	11.3	10.5
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
Shareholders' Equity	€ 139.90m

SHAREHOLDERS

MPH Healthcare AG	69.1%
Free Float	30.9%



. . . growth. These include Botox and other substances that relax / freeze facial muscles, and dermal fillers, which plump softer tissue. About 560k such treatments were performed in 2021 on Germans, not renowned for being beauty-obsessed. These factors suggest M1 is in the early stages of a strong growth phase.

Table 1: Prelims vs FBe and prior year

EURm	2022	2022E	Variance	2021	Variance
Revenue	285.3	285.3	0%	314.6	-9%
EBIT	9.3	9.4	-1%	12.1	-23%
Margin	3.3%	3.3%	-	3.8%	-
EBT	10.2	9.7	5%	14.4	-29%
Margin	3.6%	3.4%	-	4.6%	-

Source: First Berlin Equity Research; M1 Kliniken

German network spurs Beauty earnings 2022 Beauty segment revenue climbed 14% Y/Y to €60m and topped our estimate (€58m). EBIT for the segment declined to €5.2m (FBe: €5.7m) vs €7m in 2021, owing to the increase in start-up costs for international clinics, which are now marching towards profitability. The new Budapest clinic was already operating in the black 6 months after opening its doors. The German clinic network reported a strong uptick in operating income to €9.4m (+51%) resulting in a 6.1 percentage point increase in the EBIT margin to 18.3%.

Lifestyle & Aesthetics (L&A) driving Haemato profitability The subsidiary reported a 13% Y/Y decline in sales to €248m (2020: €285m), while EBIT (€8.3m) landed within the guided range (€8m to €10m) and narrowly missed FBe (€8.6m). The Y/Y underperformance is traced to the non-recurring covid-19 test-kit sales that boosted 2021 results.

The self-payer Lifestyle and Aesthetics (L&A) segment accounted for €43m of the topline (2021: €65m). However, the 2021 comp was hard, due to the €25m in non-recurring test-kit sales last year. L&A contributed heavily to the strong earnings performance, thanks to its 27% gross margin, resulting in €11.5m in gross profit for Haemato. Meanwhile, the insurance-reimbursed Specialty Pharma operations accounted for €205m of Haemato turnover with a 5% gross margin

OTHER HAEMATO DEVELOPMENTS

New regulatory headwinds for Haemato subsidiary We are updating our Trade segment forecasts (overleaf) to account for the changes to Germany's drug pricing and reimbursement laws, which require a general mandatory price markdown from all pharmaceutical companies to the statutory health insurances, known as the "mandatory discount". As of 1 January, the regulator has increased this discount from 7% to 12% for the year 2023. Portfolio and operational optimisation undertaken by Haemato over the past quarters will help offset some of the impact on its Specialty Pharma business, but we now expect 2023 revenue and EBIT at similar levels to 2022. The mandatory discount is set to revert to 7% in 2024.



VALUATION MODEL

Table 2: Changes to FBe and TP

	old	new	revision	upside	dividend yield	total return
Price target (€)	11.1	10.5	-5.4%	85.3%	0.0%	85.3%
	2023E			2024E		
All figures in € '000	old	new	revision	old	new	revision
Revenue ¹	315,088	288,709	-8.4%	351,703	332,813	-5.4%
Gross profit	60,742	54,959	-9.5%	72,742	62,834	-13.6%
Margin (%)	19.3%	19.0%	-	20.7%	18.9%	-
EBIT	13,107	10,558	-19.4%	18,022	13,682	-24.1%
Margin (%)	4.2%	3.7%	-	5.1%	4.1%	-
¹ after eliminations						

Source: First Berlin Equity Research estimates

Sticking to Buy rating; target price reset to €10.5 The equity ratio increased to 72.6% (YE21: 70.6%) on the back of a €3.2m rise in equity to €143m. We have adjusted near-term FBe to account for the aforementioned regulatory headwinds as well as a slower rollout of new M1 Med Beauty centres the next two years. We now target 82 clinics at YE25 (old: 96), which compares to the latest guide of 75 to 100 facilities at that juncture. The company will publish its 2022 annual report on 17 May, and we will fully update our model then.

The change in our TP mainly reflects the increase in our risk free rate assumption to 2.4% (old: 1.3%) to track the development in the German 10y Bund. This is somewhat offset by lower regulatory risk now factored into the WACC estimate. Haemato's Lifestyle & Aesthetics business has taken the earnings growth reins from its Specialty Pharma segment; thus reducing the exposure of Haemato's earnings to regulatory volatility. Finally, we have adjusted the Haemato minority stake in our DCF model to reflect the company's lower market cap. The combined effects point to a TP of €10.5 (old: €11.1)

Table 3: DCF Model

All figures in EUR '000	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Sales	285,320	288,709	332,813	366,796	403,794	431,196	450,321	464,647
NOPLAT	6,997	7,919	10,262	15,120	19,235	23,307	26,330	27,906
(+) depreciation & amortisation	6,522	6,535	7,621	7,628	7,917	7,919	7,358	7,486
(=) Net operating cash flow	13,520	14,454	17,883	22,747	27,151	31,227	33,688	35,392
(-) Total investments (CapEx and WC)	-170	-10,043	-15,890	-13,087	-12,719	-10,949	-10,053	-9,485
(-) Capital expenditures	-7,065	-9,832	-10,857	-9,735	-9,310	-8,406	-8,130	-8,011
(-) Working capital	6,895	-211	-5,033	-3,352	-3,410	-2,544	-1,923	-1,475
(=) Free cash flows (FCF)	13,350	4,411	1,992	9,660	14,432	20,278	23,635	25,907
PV of FCFs	13,350	4,119	1,679	7,343	9,898	12,548	13,196	13,051

All figures in EUR '000	WACC	Terminal EBIT margin							
		6.2%	6.7%	7.2%	7.7%	8.2%	8.7%	9.2%	
PV of FCFs in explicit period	117,734	7.8%	13.98	14.99	16.00	17.00	18.01	19.02	20.03
PV of FCFs in terminal period	104,083	8.8%	11.86	12.64	13.42	14.20	14.98	15.76	16.54
Enterprise value (EV)	221,817	9.8%	10.27	10.88	11.50	12.12	12.73	13.35	13.97
+ Net cash / - net debt	15,061	10.8%	9.03	9.52	10.02	10.52	11.01	11.51	12.01
+ Investments / minority interests	-30,304	11.8%	8.03	8.44	8.84	9.25	9.65	10.06	10.46
Shareholder value	206,574	12.8%	7.22	7.55	7.88	8.22	8.55	8.89	9.22
Fair value per share in EUR	10.50	13.8%	6.53	6.81	7.09	7.37	7.65	7.93	8.21
		Terminal growth rate							
	WACC	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	
		7.8%	14.68	15.34	16.11	17.00	18.07	19.36	20.94
Cost of equity	11.7%	8.8%	12.60	13.07	13.59	14.20	14.90	15.72	16.69
Pre-tax cost of debt	4.5%	9.8%	10.98	11.32	11.69	12.12	12.60	13.15	13.80
Tax rate	25.0%	10.8%	9.68	9.93	10.21	10.52	10.86	11.25	11.69
After-tax cost of debt	3.4%	11.8%	8.62	8.81	9.02	9.25	9.50	9.78	10.10
Share of equity capital	90.0%	12.8%	7.74	7.89	8.05	8.22	8.41	8.62	8.85
Share of debt capital	10.0%	13.8%	7.00	7.11	7.24	7.37	7.52	7.68	7.85
WACC	10.8%								

¹Please note our model runs through 2033 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	285,320	288,709	332,813
Cost of goods sold	-45,611	-122,807	-259,305	-232,192	-233,749	-269,979
Gross profit	31,606	36,784	55,305	53,128	54,959	62,834
Personnel expenses	-12,622	-16,685	-22,129	-21,026	-21,234	-23,382
Other operating expenses	-7,913	-11,866	-16,232	-16,868	-17,367	-19,132
Other operating income	283	655	879	618	735	984
EBITDA	11,354	8,888	17,823	15,852	17,093	21,303
Depreciation & amortisation	-3,402	-4,483	-5,688	-6,522	-6,535	-7,621
Operating income (EBIT)	7,952	4,405	12,135	9,330	10,558	13,682
Net financial result	3,045	-2,248	963	-384	-807	-888
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	10,246	11,103	14,201
Tax result	-3,036	-1,352	-3,545	-2,562	-2,776	-3,550
Minority interests	0	-602	-1,975	-2,613	-2,831	-3,621
Net income / loss	9,729	6,825	8,905	5,072	5,496	7,029
Diluted EPS (in €)	0.56	0.37	0.45	0.26	0.28	0.36
Ratios						
Gross margin	40.9%	23.0%	17.6%	18.6%	19.0%	18.9%
EBITDA margin	14.7%	5.6%	5.7%	5.6%	5.9%	6.4%
EBIT margin	10.3%	2.8%	3.9%	3.3%	3.7%	4.1%
Net margin	12.6%	4.3%	2.8%	1.8%	1.9%	2.1%
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%	7.4%	7.4%	7.0%
Other operating expenses	10.2%	7.4%	5.2%	5.9%	6.0%	5.7%
Depreciation & amortisation	4.4%	2.8%	1.8%	2.3%	2.3%	2.3%
Y-Y Growth						
Revenues	18.4%	106.7%	97.1%	-9.3%	1.2%	15.3%
Operating income	22.7%	-44.6%	175.5%	-23.1%	13.2%	29.6%
Net income/ loss	46.7%	-29.8%	30.5%	-43.0%	8.4%	27.9%



BALANCE SHEET

All figures in EUR '000	2019	2020	2021	2022E	2023E	2024E
Assets						
Current assets, total	59,317	122,406	110,195	95,792	102,414	113,459
Cash and cash equivalents	9,098	21,960	37,868	29,857	35,540	38,904
Short-term investments	23,626	32,184	18,155	18,700	19,261	19,838
Receivables	22,243	20,480	16,308	17,229	17,484	20,092
Inventories	1,520	42,327	35,202	27,264	27,305	31,716
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	88,459	91,756	94,992
Property, plant & equipment	15,990	15,763	15,267	16,228	16,954	17,657
Goodwill & other intangibles	8,455	38,328	60,393	59,975	62,545	65,079
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	184,250	194,170	208,451
Shareholders' equity & debt						
Current liabilities, total	14,431	58,070	43,417	26,078	27,498	30,952
Short-term debt	2,376	25,536	18,432	0	0	0
Accounts payable	7,778	15,841	12,845	12,724	12,808	14,793
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
Shareholders' equity	68,222	85,754	95,026	100,098	105,594	112,623
Minority interests	0	29,565	44,877	47,490	50,321	53,942
Total equity	68,222	115,319	139,903	147,588	155,915	166,566
Total consolidated equity and debt	92,815	188,741	198,111	184,250	194,170	208,451
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	-29,857
Net debt / EBITDA	-0.6	1.0	-0.8	-1.9	-2.1	-1.8
Net gearing	-21.2%	-29.4%	-7.0%	8.6%	-14.3%	-26.5%
Equity ratio	73.5%	61.1%	70.6%	80.1%	80.3%	79.9%
Book value per share (in €)	3.9	4.4	4.8	5.1	5.4	5.7
Return on equity (ROE)	14.3%	8.0%	9.4%	5.1%	5.2%	6.2%



CASH FLOW STATEMENT

All figures in EUR '000	2019	2020	2021	2022E	2023E	2024E
Net income	9,729	7,427	10,880	7,685	8,328	10,651
Depreciation and amortisation	3,402	4,483	5,644	6,522	6,535	7,621
Tax expense	3,016	1,352	3,545	2,562	2,776	3,550
Other adjustments	-4,067	-4,213	-1,150	-1,300	-1,352	-1,406
Net interest result	261	417	437	384	807	888
Operating cash flow	12,341	9,466	19,356	15,852	17,093	21,303
Changes in working capital	-12,034	-595	-3,650	7,654	653	-4,051
Tax paid	-5,677	-726	-30	-2,562	-2,776	-3,550
Net operating cash flow	-5,370	9,538	15,686	20,945	14,970	13,703
CapEx	-1,346	-1,446	-1,335	-3,901	-6,295	-6,790
Other investments and disposals	-2,071	4,390	1,069	1,300	1,352	1,406
Interest income	81	172	479	350	0	0
Cash flow from investing	-3,336	3,116	213	-2,251	-4,943	-5,384
Free cash flow	-8,706	12,654	15,899	18,694	10,027	8,319
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	-734	-807	-888
Redemption rights	-2,261	-3,201	-4,075	-3,164	-3,537	-4,067
Cash flow from financing	-7,579	378	4,027	-26,705	-4,344	-4,955
Consolidation adjustments	0	-4,175	0	0	0	0
Net cash flow	-16,285	8,857	19,913	-8,011	5,683	3,364
Cash, start of the year	25,383	9,098	21,960	37,868	29,857	35,540
Cash, end of the year	9,098	21,960	37,868	29,857	35,540	38,904
EBITDA/share (in €)	0.65	0.48	0.91	0.81	0.87	1.08
Y-Y Growth						
Operating cash flow	100.0%	-23.3%	104.5%	-18.1%	7.8%	24.6%
Free cash flow	n.m.	n.m.	25.6%	17.6%	-46.4%	-17.0%
EBITDA/share	52.0%	-26.3%	89.7%	-11.1%	7.8%	24.6%

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

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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...1	↓	↓	↓	↓
2	2 December 2021	€6.98	Buy	€14.00
3	31 March 2022	€7.22	Buy	€14.00
4	7 June 2022	€6.54	Buy	€14.00
5	18 August 2022	€5.02	Buy	€11.70
6	31 August 2022	€4.70	Buy	€11.70
7	24 November 2022	€4.84	Buy	€11.10
8	Today	€7.78	Buy	€10.50

INVESTMENT HORIZON

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

UPDATES

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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/>

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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