

# VITA 34 AG

Germany / Health care  
 Primary exchange: Frankfurt  
 Bloomberg: V3V GR  
 ISIN: DE000A0BL849

9M 2012 results

**RATING**  
**BUY**

**PRICE TARGET**  
**€5.20**

Return Potential 55.1%  
 Risk Rating Medium

## FY 2012 WILL BE YEAR OF TRANSITION FOR VITA 34

VITA 34 has released 9M 2012 figures on 30 October. Sales and operating development were burdened by declining umbilical cord blood storages - particularly in Spain and Germany. The company has already begun to streamline its cost structure during the current fiscal year and continues to expand internationally in order to compensate for the difficult market environment in important European markets. Since these efforts are expected to materialise from FY 2013 onwards, VITA 34 lowered guidance for the current fiscal year. The firm now expects EBITDA to come in below prior year's level (previously: moderate increase in EBITDA). Based on revised estimates, our DCF model yields a new price target of €5.20 (previously: €5.40). We maintain our Buy recommendation.

**Challenging market environment in important markets** Due mainly to the continuing tight market environment in VITA 34's important European markets Germany and Spain, umbilical cord blood storages fell 18.6% y/y to 5,570 (9M/11: 6,840) in 9M/11. Thus, group sales declined 16.5% y/y to €10.11m (FBe: €10.99m; 9M/11: €12.10m). Sales in the DACH region decreased 14.1% y/y to €8.12m (9M/11: €9.46m), Spanish activities suffered a setback in sales growth of 33.0% y/y to €2.48m (9M/11: €3.70m).

VITA 34's gross margin of 62.2% (9M/11: 60.0%) was better than we had anticipated (FBe: 60.5%), whereas SG&A costs of €6.80m (FBe: €6.86m; 9M/11: €7.65m) were in line with our forecast. However, due to the weak sales development, EBIT of €-0.59m (FBe: €-0.38m; 9M/11: €-0.39m) was below our estimates. At the net level, the company reported income of €-0.45m (FBe: €-0.28m; 9M/11: €0.57m) or €-0.15 (FBe: €-0.09; 9M/11: €0.21) per share.

**Strong operating cash flow** In 9M/12, VITA 34 generated a strong operating cash flow of €1.49m (9M/11: €-1.61m; prior year's operating cash flow burdened by debt reduction amounting to €2.8m). Liquid funds at the end of September 2012 amounted to €3.09m (end of FY/11: €3.03m). (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

|                    | 2010  | 2011  | 2012E  | 2013E | 2014E | 2015E |
|--------------------|-------|-------|--------|-------|-------|-------|
| Revenue (€m)       | 16.96 | 16.00 | 13.59  | 14.35 | 15.04 | 15.67 |
| Y-o-y growth       | n.a.  | -5.7% | -15.1% | 5.6%  | 4.8%  | 4.2%  |
| EBIT (€m)          | 0.74  | -0.34 | -0.77  | 0.44  | 0.72  | 0.81  |
| EBIT margin        | 4.4%  | -2.1% | -5.7%  | 3.0%  | 4.8%  | 5.2%  |
| Net income (€m)    | 0.35  | 1.19  | -0.61  | 0.52  | 0.74  | 0.83  |
| EPS (diluted) (€)  | 0.13  | 0.45  | -0.20  | 0.17  | 0.25  | 0.27  |
| DPS (€)            | 0.00  | 0.00  | 0.00   | 0.00  | 0.00  | 0.00  |
| FCF (€m)           | 0.03  | -1.69 | 0.45   | 0.55  | 0.57  | 0.60  |
| Net gearing        | 93.0% | 74.6% | 84.4%  | 77.7% | 74.9% | 72.1% |
| Liquid assets (€m) | 3.69  | 3.03  | 2.10   | 1.65  | 2.22  | 2.81  |

### RISKS

Risks to our price target include but are not limited to: marketing risk, competition risk, financial risk, and a lack of progress in scientific research.

### COMPANY PROFILE

VITA 34 AG is a private umbilical-cord blood bank headquartered in Leipzig, Germany. The company offers expectant parents the one-time opportunity to preserve and store their baby's umbilical-cord blood for potential medical use.

### MARKET DATA

As of 01 Nov 2012

|                         |               |
|-------------------------|---------------|
| Closing Price           | € 3.35        |
| Shares outstanding      | 3.03m         |
| Market Capitalisation   | € 10.14m      |
| 52-week Range           | € 2.46 / 3.52 |
| Avg. Volume (12 Months) | 2,184         |

| Multiples  | 2011 | 2012E | 2013E |
|------------|------|-------|-------|
| P/E        | 9.8  | n.a.  | 22.6  |
| EV/Sales   | 0.9  | 1.0   | 1.0   |
| EV/EBIT    | n.a. | n.a.  | 31.6  |
| Div. Yield | 0.0% | 0.0%  | 0.0%  |

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Sep 2012

|                      |          |
|----------------------|----------|
| Liquid Assets        | € 3.09m  |
| Current Assets       | € 8.03m  |
| Intangible Assets    | € 21.19m |
| Total assets         | € 36.27m |
| Current Liabilities  | € 5.11m  |
| Shareholders' Equity | € 20.40m |

### SHAREHOLDERS

|                              |       |
|------------------------------|-------|
| Founder/Management           | 20.4% |
| Landesbank Baden-Württemberg | 13.8% |
| HSCI OJSC                    | 10.5% |
| Elvaston Partners GmbH       | 7.8%  |
| Free Float                   | 47.5% |



Even though the company reported a net loss in 9M/12, VITA 34's equity position as of 30 September 2012 improved to €20.65m (end of FY/11: €20.01m) due to the issuance of 0.38m new shares associated with the BioPlanta acquisition (see our comment dated 18 June). Given the reduction in short- and long-term financial debt to €2.16m (end of FY/11: €3.18m), the firm reported net liquidity of €0.93m (end of FY/11: net debt of €0.16m) at the end of 9M/12.

**New product “VitaPlusUmbilicalCord”** After the reporting period, VITA 34 expanded its product portfolio and achieved a significant milestone in its business development: According to the company, VITA 34 has developed the first GMP process worldwide that allows storage of the entire umbilical cord. The firm has already applied for the production permit for the collection and processing of umbilical cord tissue in accordance with the German Pharmaceuticals Act. VITA 34 expects a significant sales contribution through umbilical cord storage from 2013 onwards.

**FY 2012 guidance lowered** Due to the before mentioned difficult market environment in important European markets such as Germany and Spain, VITA 34 lowered guidance for the current fiscal year. While sales are still expected to decline y/y, the firm now expects EBITDA to come in below prior year's level as well (previously: moderate increase in EBITDA).

VITA 34 also issued first statements regarding corporate development in the next fiscal year. Based on currently ongoing cost containment efforts (cost savings of roughly €1.37m) and successful regional expansion (encouraging development of the firm's Serbian cooperation partner Bio Save doo and establishment of umbilical cord blood bank with Mexican partner CryoLifeCells, amongst others), the firm expects EBITDA to increase again in FY 2013.

**Buy rating confirmed, target price lowered** We have adjusted our estimates for FY 2012 and subsequent years to the firm's lower guidance as well as the continuing cost containment measures. In our view, especially mid- and long-term profitability will improve due to the company's strict cost discipline (extraordinary items related to the cost containment efforts in 9M/12: roughly €0.4m). Changes to our forecasts are shown in figure 2 below. In our view, fiscal year 2012 will be a year of transition for VITA 34. The group is reviewing (and optimising) its cost structure and is pursuing its international expansion strategy in order to reduce dependence on the (economic) development in single regional markets through broader diversification. We still believe that VITA 34's acquisition of BioPlanta should fuel the group's regional expansion since BioPlanta is present in numerous markets abroad.

Our updated DCF model yields a new price target of €5.20 (previously: €5.40). We maintain our Buy recommendation.

**Figure 1: Estimates vs. reported figures**

| All figures in €m | 9M-12A | 9M-12E | Delta | 9M-11A | Delta  |
|-------------------|--------|--------|-------|--------|--------|
| Sales             | 10.11  | 10.99  | -8.0% | 12.10  | -16.5% |
| EBIT              | -0.59  | -0.36  | -     | -0.39  | -      |
| margin            | -5.8%  | -3.2%  | -     | -3.2%  | -      |
| Net income        | -0.45  | -0.28  | -     | 0.57*  | -      |
| margin            | -4.5%  | -2.5%  | -     | 4.7%   | -      |
| EPS (in €)        | -0.15  | -0.09  | -     | 0.21*  | -      |

\* including positive one-off effect (capitalization of deferred taxes)

Source: VITA 34; First Berlin Equity Research

**Figure 2: Changes to forecasts**

| All figures in €m   | 2012E |       |        | 2013E |       |        | 2014E |       |        |
|---------------------|-------|-------|--------|-------|-------|--------|-------|-------|--------|
|                     | Old   | New   | Delta  | Old   | New   | Delta  | Old   | New   | Delta  |
| Sales               | 15.35 | 13.59 | -11.5% | 16.24 | 14.35 | -11.6% | 16.93 | 15.04 | -11.2% |
| EBIT                | 0.16  | -0.77 | -      | 0.50  | 0.44  | -13.0% | 0.97  | 0.72  | -25.2% |
| <i>margin</i>       | 1.1%  | -5.7% | -      | 3.1%  | 3.0%  | -      | 5.7%  | 4.8%  | -      |
| Net income          | 0.37  | -0.61 | -      | 0.77  | 0.52  | -32.6% | 1.26  | 0.74  | -41.2% |
| <i>margin</i>       | 2.4%  | -4.5% | -      | 4.7%  | 3.6%  | -      | 7.5%  | 4.9%  | -      |
| EPS (diluted, in €) | 0.12  | -0.20 | -      | 0.25  | 0.17  | -31.8% | 0.42  | 0.25  | -41.6% |

Source: First Berlin Equity Research

**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

| Report No.:    | Date of publication | Previous day closing price | Recommendation | Price target |
|----------------|---------------------|----------------------------|----------------|--------------|
| Initial Report | 12 July 2007        | €12.43                     | Buy            | €20.00       |
| 2...25         | ↓                   | ↓                          | ↓              | ↓            |
| 26             | 26 April 2012       | €2.96                      | Buy            | €5.60        |
| 27             | 18 June 2012        | €2.91                      | Buy            | €5.70        |
| 28             | 23 July 2012        | €2.74                      | Buy            | €5.40        |
| 29             | Today               | €3.35                      | Buy            | €5.20        |

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**STRONG BUY:** Expected return greater than 50% and a high level of confidence in management's financial guidance

**BUY:** Expected return greater than 25%

**ADD:** Expected return between 0% and 25%

**REDUCE:** Expected negative return between 0% and -15%

**SELL:** Expected negative return greater than -15%

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