

Vita 34 AG

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

9M 2013
 Results

RATING
BUY

PRICE TARGET
€5.90

Return Potential 85.5%
 Risk Rating Medium

COST CONTAINMENT BEARS FRUIT - GUIDANCE INCREASED

Vita 34 published its 9M 2013 results on 24 October, which were characterised by the company's transition into a specialised bio banking firm with a broader service offering. Declining sales in the company's stem cell storage business were almost completely offset by sales generated in the biotechnology segment. While Vita 34's sales development was generally in line with our expectations, EBIT beat our estimate due to lower than anticipated operating expenditures - a result of the firm's FY 2012 cost containment measures. Most importantly, Vita 34 specified guidance for FY 2013. Given its streamlined cost structure, the firm now predicts EBITDA in the current fiscal year will amount to at least EUR1.5m (previously: at least EUR1.0m). Our updated DCF model yields a new price target of EUR5.90 (previously: EUR5.70). We reiterate our Buy recommendation.

Q3 UCB storages almost at prior year's level In 9M 2013 Vita 34 registered 5,382 umbilical cord blood (UCB) storages (9M/12: 5,570 storages), which corresponds to a decrease of 3% y/y. However, the downward trend seems to flatten out. Q3 2013's storages were almost at prior year's level (-2% y/y to 1,812 storages; Q2/13: -2% y/y; Q1/13: -7% y/y).

Due to the lower number of storages, sales of the storage business decreased to EUR9.6m (9M/12: EUR10.1m). However, the decline was almost completely offset by sales generated in the company's biotechnology segment (EUR0.35m vs. EUR0.06m in 9M/12). At the group level, Vita 34 reported sales of EUR9.9m (FBe: EUR10.2m; 9M/12: EUR10.1m).

With regard to regional sales distribution, sales of the Spanish activities remained at prior year's level (EUR2.5m), whereas sales in the DACH region (Germany, Austria, Switzerland) declined by 2.4% y/y to EUR7.9m.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2010	2011	2012	2013E	2014E	2015E
Revenue (€m)	16.96	16.00	13.60	13.92	14.38	14.98
Y-o-y growth	n.a.	-5.7%	-15.0%	2.3%	3.3%	4.2%
EBIT (€m)	0.74	-0.34	-0.74	0.77	1.02	1.30
EBIT margin	4.4%	-2.1%	-5.5%	5.5%	7.1%	8.7%
Net income (€m)	0.35	1.26	-0.58	0.48	0.85	1.07
EPS (diluted) (€)	0.13	0.48	-0.20	0.16	0.28	0.36
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	0.03	-1.69	1.36	0.76	1.15	1.31
Net gearing	93.0%	74.6%	79.7%	69.5%	66.8%	63.7%
Liquid assets (€m)	3.69	3.03	3.50	2.46	3.62	4.93

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 stem cell bank headquartered in Leipzig, Germany. The company offers expectant parents the one-time opportunity to preserve and store their baby's umbilical-cord blood and umbilical-cord stem cells for potential medical use.

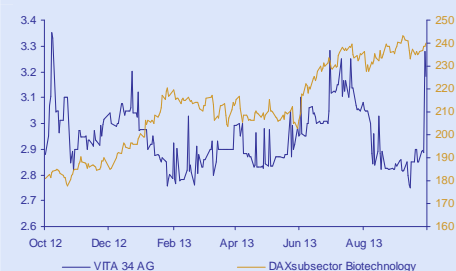
MARKET DATA

As of 25 Oct 2013

Closing Price	€ 3.18
Shares outstanding	3.03m
Market Capitalisation	€ 9.62m
52-week Range	€ 2.75 / 3.35
Avg. Volume (12 Months)	1,419

Multiples	2012	2013E	2014E
P/E	n.a.	18.4	10.2
EV/Sales	0.8	0.8	0.8
EV/EBIT	n.a.	14.2	10.7
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2013

Liquid Assets	€ 2.79m
Current Assets	€ 7.39m
Intangible Assets	€ 20.99m
Total Assets	€ 35.10m
Current Liabilities	€ 3.67m
Shareholders' Equity	€ 20.77m

SHAREHOLDERS

Founder/Management	20.4%
Landesbank Baden-Württemberg	13.8%
HSCI OJSC	12.5%
Elvaston Partners GmbH	7.8%
Free Float	45.5%



FY 2012's cost containment measures bear fruit Vita 34's 9M 2013 operating expenditures (OPEX) were lower than we had anticipated. Sales & marketing costs declined by 21% y/y to EUR3.49m (FBe: 3.65m; 9M/12: EUR4.40m) and general & administrative costs decreased 13% y/y to EUR2.10m (FBe: 2.05m; 9M/12: EUR2.40m). Thus, group-level EBIT of EUR0.67m (9M/12: EUR-0.59m) beat our estimate of EUR0.45m. Vita 34's storage business contributed EUR0.52m (9M/12: EUR-0.62m) to EBIT, the biotechnology segment reported EBIT of EUR0.15m (9M/12: EUR0.03m). Since the company's tax burden was higher than we had anticipated, net income (after minorities) for the period of EUR0.32m (FBe: EUR0.32m; 9M/12: EUR-0.45m) was in line with our expectation.

Improved net liquidity position Even though Vita 34 reported a profit for the 9M 2013 period (loss in 9M/12), the firm's operating cash flow was below prior year's level (EUR1.3m vs. EUR1.5m in 9M/12) due to changes in the firm's working capital (lower deferred income and reduction of liabilities, amongst others). Due mainly to the repayment of financial debt amounting to EUR1.4m (9M/12: debt reduction of EUR1.0m), net cash flow was EUR-0.7m (9M/12: EUR-0.1m). Liquid funds at the end of September thus amounted to EUR2.8m (end of FY12: EUR3.5m). Financial debt (short- and long-term) decreased to EUR0.7m (end of FY12: EUR2.1m). Due to 9M 2013's net profit, Vita 34's equity position improved to EUR20.8m (end of FY12: EUR20.5m), which corresponds to an equity ratio of 59.2% (end of FY12: 56.0%).

Increased guidance for FY 2013 Vita 34 specified guidance for the current fiscal year. EBITDA is now expected to amount to at least EUR1.5m (previously: at least EUR1.0m) in the current fiscal year.

Regulatory approval of "VitaPlusUmbilicalCord" Important milestones with regard to the company's transition into a stem cell bank have been achieved during Q3 2013. Most importantly, the company received first collection permits according to §20b German Pharmaceuticals Act for clinics in Germany for its new product "VitaPlus UmbilicalCord" (allows storage of the entire umbilical cord) by the authorities at the end of the third quarter. In May 2013 Vita 34 had already received permission for the processing, cryo-preservation and storage of umbilical cord blood. Vita 34 is thus the only private stem cell bank in Germany that is capable of storing UCB and tissue. The approval has been an important step to (re-)position the firm as a specialist for cryo-preservation of biological materials.

Increased regional presence Vita 34 also forged ahead with regard to its regional expansion. During Q3 2013 the company's co-operation with partner Bio Save was expanded to Romania and Croatia (see our comment dated 29 July). In its biotechnology segment, Vita 34 is working on two environmental projects (three years duration each) in Brazil and Vietnam.

Changes to our forecasts The downward trend in Vita 34's market seems to be flattening out. We thus stick to our top-line estimates for FY 2013 and subsequent years. However, we have increased our forecasts due to higher than anticipated cost savings. In our last update (published on 29 July), we had already pointed out that further improvements in the cost structure may cause us to lower our OPEX assumptions. Changes to our forecasts are shown in table 2 (next page). Our updated DCF model yields a new price target of EUR5.90 (previously: EUR5.70). We reiterate our Buy recommendation.

(p.t.o.)

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

All figures in €m	9M-13A	9M-13E	Delta	9M-12A	Delta
Sales	9.91	10.21	-2.9%	10.11	-2.0%
EBIT	0.67	0.45	49.3%	-0.59	-
margin	6.7%	4.4%	-	-5.8%	-
Net income	0.32	0.32	0.9%	-0.45	-
margin	3.2%	3.1%	-	4.7%	-
EPS (diluted, in €)	0.11	0.11	0.9%	-0.15	-

Source: First Berlin Equity Research, Vita 34 AG

Table 2: Changes to forecasts

All figures in €m	2013E			2014E			2015E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	13.92	13.92	0.0%	14.38	14.38	0.0%	14.98	14.98	0.0%
EBIT	0.58	0.77	30.9%	0.98	1.02	4.4%	1.29	1.30	1.2%
margin	4.2%	5.5%	-	6.8%	7.1%	-	8.6%	8.7%	-
Net income	0.43	0.48	9.4%	0.82	0.85	4.0%	1.06	1.07	1.1%
margin	3.1%	3.4%	-	5.7%	5.9%	-	7.1%	7.2%	-
EPS (diluted, in €)	0.14	0.16	9.4%	0.27	0.28	4.1%	0.35	0.36	1.1%

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...29	↓	↓	↓	↓
30	18 March 2013	€2.81	Buy	€5.20
31	2 May 2013	€2.95	Buy	€5.20
32	29 July 2013	€3.12	Buy	€5.70
33	Today	€3.18	Buy	€5.90

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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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