

Recommendation:
BUY (BUY)

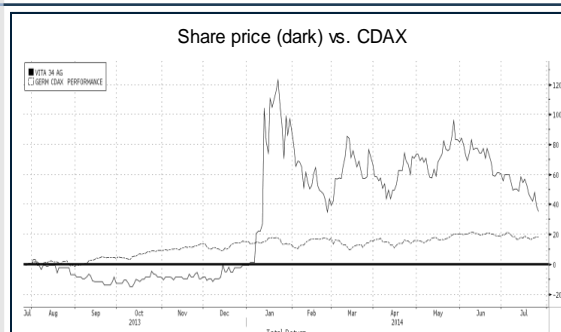
Risk:
HIGH (HIGH)

Price Target:
EUR 6.00 (7.10)

25 July 2014

2Q/14 results

- Vita 34 published 2Q/14 results, which came in below our expectations. The number of new storages of UCB and tissue in 2Q/14 declined to 1,736 (PY: 1,956; YoY -11.2%). Total operating income fell to EUR 3.1m in the 2Q/14 (PY: EUR 3.6m; YoY -13.8%). Revenues decreased to EUR 2.9m in 2Q/14 (PY: EUR 3.3m; YoY -12%) of which EUR 2.7m was attributable to the Stem Cell Banking segment (PY: EUR 3.1m). Revenues in the Biotechnology segment amounted to EUR 0.17m (PY: EUR 0.22m).
- EBITDA in 2Q/14 declined to EUR 0.2m (PY: EUR 0.6m), corresponding to 8% margin (PY: 16.7%). EBIT declined to EUR -16k (PY: EUR 252k), while EPS in 2Q/14 fell to EUR -0.02 (PY: EUR 0.04).
- The revenues in 2Q/14, both in DACH and Spain regions were below the prior year level. Nevertheless, the company remains confident of being able to achieve its targets for FY 2014 (slight increase in revenues and EBITDA of EUR ~3.3m). A onetime restructuring of the production process at the end of 2Q/14 led to a shift of revenues from 2Q/14 into 2H/14. While we expect that these shifted revenues should contribute to the top line and EBITDA in 2H/14, in our view, it will be challenging for Vita 34 to achieve EBITDA of EUR ~3.3m, even assuming potential acquisitions.
- As the acquisitions are an integral part Vita 34 growth strategy, we do not exclude possible takeovers in 2H/14. However, our estimates do not assume acquisition growth.
- Given the weak results achieved in 2Q/14 as well as slower than anticipated development of the new offering for the cryo-preservation of umbilical cord tissue we reduced our estimates. Our DCF-based valuation derives now EUR 6.55/share. We reduce our PT to EUR 6.00 (old: EUR 7.10), but confirm our BUY recommendation.



Source: CBS Research AG, Bloomberg

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
Revenue	13.3	13.9	13.9	14.2	14.3	14.6
EBITDA	2.8	3.3	3.0	3.4	3.1	3.5
EPS	0.37	0.50	0.42	0.52	0.43	0.53

www.vita34.de

WKN: AOBLL84

Reuters: V3VGN.DE

Sector: Healthcare

ISIN: DE000AOBLL849

Bloomberg: VSV GR Equity

Short company profile

Vita 34 AG is a private umbilical cord blood bank in Europe, which specializes in collection, preparation and long-term storage of umbilical cord blood and tissue

Share data:

Share price (last closing price, EUR):	4.55
Shares outstanding (m):	3.03
Market capitalisation (EURm):	14.07
Enterprise value (EURm):	11.94
Ø daily trading volume (3 m., no. of shares):	11,854

Performance data:

High 52 weeks (EUR):	7.75
Low 52 weeks (EUR):	2.64
Absolute performance (12 months):	52.96
Relative performance: (vs. CDAX)	
1 month	-18.96%
3 months	-20.0%
6 months	47.7%
12 months	26.8%

Shareholders:

HSCI OJSC	17.20%
Landesbank Baden-Württemberg	8.60%
Founder/Management	18.70%
Free float	55.50%

Financial calendar:

AGM	28 August 2014
3Q/14 figures	23 October 2014

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Y/E 31.12., EUR m	2010	2011	2012	2013	2014E	2015E	2016E
Sales revenues	17.0	16.0	13.6	13.6	13.3	13.9	14.3
Total operating income	18.1	16.6	14.4	14.9	14.7	15.3	15.7
Gross profit	10.8	9.5	8.0	8.1	7.9	8.2	8.5
EBITDA	1.7	0.6	0.4	2.7	2.8	3.0	3.1
EBIT	0.7	-0.3	-0.7	1.5	1.6	1.8	1.9
Net income/loss	0.3	1.2	-0.6	0.8	1.1	1.2	1.3
EPS	0.18	0.48	-0.20	0.28	0.37	0.42	0.43
Gross margin	63.8%	59.1%	59.1%	59.5%	59.3%	59.3%	59.3%
EBITDA margin	9.9%	4.0%	3.0%	19.6%	20.9%	21.7%	21.7%
EBIT margin	4.4%	-2.1%	-5.5%	10.8%	11.8%	13.0%	13.0%
EV/EBITDA	7.1	18.7	28.8	4.5	4.3	4.0	3.9
EV/EBIT	16.1	n.m.	n.m.	8.1	7.6	6.6	6.4
P/E	25.3	9.5	n.m.	16.3	12.2	10.8	10.5

Source: Vita 34 AG; CBS Research AG

Appendix

Discounted Cash Flow Model

EUR m	PHASE 1			PHASE 2							PHASE 3
	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	∞
Sales	13.3	13.9	14.3	14.7	15.2	15.6	16.0	16.4	16.8	17.1	
Sales growth	-1.8%	4.5%	2.7%	3.2%	3.4%	2.6%	2.5%	2.6%	2.0%	2.0%	
EBIT	1.6	1.8	1.9	1.9	2.0	2.0	2.1	2.1	2.2	2.2	
EBIT margin	11.8%	13.0%	13.0%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	
Income tax on EBIT	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	
Depreciation and amortisation	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.4	1.4	
Change in net working capital	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Net capital expenditure	-1.1	-1.1	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3	-1.4	-1.4	
Free cash flow	1.1	1.4	1.4	1.4	1.4	1.5	1.5	1.6	1.6	1.6	
Present values	1.1	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.7	0.7	8.8
Present value Phase 1	3.4										
Present value Phase 2	5.8										
Present value Phase 3	8.8										
Total present value	18.0										
+Excess cash	3.3										
- Financial debt, pension liabilities and silent investors	-1.3										
- Minority interest	-0.2										
Fair value of equity	19.8										
Number of shares (m)	3.0										
Fair value per share (EUR)	6.55										

Risk free rate	3.5%	Target equity ratio	70.0%
Equity risk premium	6.0%	Beta (fundamental)	1.40
Debt risk premium	2.5%	WACC	9.55%
Tax shield	32%	Terminal growth	2.0%

Sensitivity analysis						
Terminal growth (Phase 3)						
	1.0%	1.5%	2.0%	2.5%	3.0%	
WACC	8.6%	6.95	7.19	7.46	7.78	8.16
	9.1%	6.55	6.75	6.98	7.24	7.55
	9.6%	6.19	6.36	6.55	6.77	7.02
	10.1%	5.87	6.02	6.18	6.37	6.58
	10.6%	5.59	5.72	5.85	6.01	6.19

Source: Bloomberg; CBS Research AG

Key figures and ratios

	2009	2010	2011	2012	2013	2014E	2015E	2016E
Valuation multiples and dividend yield								
EV/ Sales (x)	0.8	0.7	0.7	0.9	0.9	0.9	0.9	0.8
EV/ EBITDA (x)	n.m.	7.1	18.7	28.8	4.5	4.3	4.0	3.9
EV/ EBIT (x)	n.m.	16.1	n.m.	n.m.	8.1	7.6	6.6	6.4
P/E (x)	n.m.	25.3	9.5	n.m.	16.3	12.2	10.8	10.5
P/B (Price to book ratio) (x)	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Per share data (in EUR)								
EPS (Basic earnings per share)	0.23	0.18	0.48	-0.20	0.28	0.37	0.42	0.43
CPS (Operating cash flow per share)	0.43	0.38	-0.26	0.72	0.59	0.56	0.80	0.85
Free cash flow per share	-0.08	-1.33	-0.06	0.40	0.34	0.23	0.45	0.49
Book value/share (ex. non-controlling interest)	7.13	6.98	7.46	7.14	6.97	7.34	7.76	8.20
Growth rates								
Sales (%)	0.9%	12.4%	-5.7%	-15.0%	-0.4%	-1.8%	4.5%	2.7%
Gross profit (%)	3.4%	6.7%	-12.6%	-15.0%	0.2%	-2.2%	4.5%	2.7%
EBITDA (%)	-140.5%	128.3%	-62.2%	-35.1%	542.0%	4.4%	8.8%	2.6%
EBIT (%)	-107.1%	358.6%	-145.1%	121.5%	-298.0%	7.1%	14.6%	2.9%
Net income (%)	-134.8%	-19.0%	161.3%	-145.9%	-244.7%	34.6%	13.1%	3.0%
Profitability								
Gross margin (%)	67.2%	63.8%	59.1%	59.1%	59.5%	59.3%	59.3%	59.3%
EBITDA margin (%)	4.9%	9.9%	4.0%	3.0%	19.6%	20.9%	21.7%	21.7%
EBIT margin (%)	1.1%	4.4%	-2.1%	-5.5%	10.8%	11.8%	13.0%	13.0%
EBT margin (%)	4.4%	3.9%	-3.1%	-6.3%	9.9%	11.9%	13.0%	13.0%
Net margin (%)	3.9%	2.8%	7.9%	-4.3%	6.2%	8.5%	9.2%	9.2%
ROCE	0.8%	3.5%	-1.5%	-3.3%	6.5%	6.7%	7.3%	7.1%
ROE	3.2%	2.6%	6.5%	-2.9%	4.0%	5.2%	5.5%	5.4%
ROTA	1.9%	1.4%	3.5%	-1.6%	2.3%	3.1%	3.5%	3.4%
Solvency								
Net debt (EUR m)	-4.6	0.1	0.2	-1.4	-2.6	-3.3	-4.6	-6.1
Equity ratio (%)	60.6%	51.3%	57.6%	56.0%	59.8%	61.9%	62.8%	63.7%
Interest coverage ratio (x)	1.0	2.6	-1.3	-3.6	7.2	26.3	30.1	31.0
Fixed Assets/ CAPEX								
Fixed assets turnover ratio (x)	0.9	0.8	0.7	0.5	0.5	0.5	0.5	0.6
CAPEX (EUR m)	-0.7	-5.2	-1.0	-1.0	-0.8	-1.1	-1.1	-1.2
CAPEX/ Depreciation (%)	93.8%	108.2%	66.5%	62.5%	43.4%	42.2%	43.6%	43.9%
CAPEX/ Sales (%)	3.6%	6.0%	4.0%	5.3%	3.8%	3.8%	3.8%	3.8%
Depreciation/ Sales (%)	3.8%	5.6%	6.1%	8.5%	8.8%	9.0%	8.7%	8.7%

Source: Bloomberg; CBS Research AG

Income statement

IFRS EUR m	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Revenues	15.0	15.1	17.0	16.0	13.6	13.6	13.3	13.9	14.3
YoY growth	-3.0%	0.9%	12.4%	-5.7%	-15.0%	-0.4%	-1.8%	4.5%	2.7%
Cost of sales	-5.1	-5.0	-6.1	-6.5	-5.6	-5.5	-5.4	-5.7	-5.8
as % of sales	34.4%	32.8%	36.2%	40.9%	40.9%	40.5%	40.7%	40.7%	40.7%
Gross profit	9.8	10.1	10.8	9.5	8.0	8.1	7.9	8.2	8.5
as % of sales	65.6%	67.2%	63.8%	59.1%	59.1%	59.5%	59.3%	59.3%	59.3%
Other operating income	0.7	0.6	1.1	0.6	0.7	1.4	1.4	1.4	1.5
as % of sales	4.9%	3.7%	6.6%	3.8%	5.5%	10.2%	10.6%	10.2%	10.2%
Selling expenses	-9.6	-7.6	-7.2	-7.0	-5.8	-4.7	-4.7	-4.8	-4.9
as % of sales	64.4%	50.5%	42.7%	43.6%	42.4%	34.7%	35.4%	34.3%	34.3%
Administrative expenses	-2.9	-2.8	-3.0	-2.9	-3.1	-2.9	-2.9	-3.0	-3.1
as % of sales	19.6%	18.3%	18.0%	18.3%	22.7%	21.4%	22.0%	21.5%	21.5%
Other operating expenses	-0.2	-0.1	-0.9	-0.5	-0.7	-0.4	-0.1	-0.1	-0.1
as % of sales	1.6%	0.9%	5.4%	3.1%	5.0%	2.9%	0.6%	0.6%	0.6%
EBITDA	-1.8	0.7	1.7	0.6	0.4	2.7	2.8	3.0	3.1
as % of sales	-12.2%	4.9%	9.9%	4.0%	3.0%	19.6%	20.9%	21.7%	21.7%
Depreciation and amortisation	-0.4	-0.6	-0.9	-1.0	-1.2	-1.2	-1.2	-1.2	-1.2
as % of sales	3.0%	3.8%	5.6%	6.1%	8.5%	8.8%	9.0%	8.7%	8.7%
EBIT	-2.3	0.2	0.7	-0.3	-0.7	1.5	1.6	1.8	1.9
as % of sales	-15.2%	1.1%	4.4%	-2.1%	-5.5%	10.8%	11.8%	13.0%	13.0%
EBT (Earnings before income taxes)	-2.4	0.7	0.7	-0.5	-0.9	1.3	1.6	1.8	1.9
as % of sales	-15.9%	4.4%	3.9%	-3.1%	-6.3%	9.9%	11.9%	13.0%	13.0%
Income taxes	0.4	-0.1	-0.3	1.7	0.2	-0.6	-0.5	-0.6	-0.6
as % of EBT	17.5%	9.4%	47.6%	340.1%	-28.8%	-41.3%	-32.0%	-32.0%	-32.0%
Net income	-2.0	0.6	0.3	1.2	-0.6	0.8	1.1	1.2	1.3
as % of sales	-13.1%	3.9%	2.1%	7.4%	-4.5%	5.8%	8.1%	8.8%	8.8%
Thereof:									
Non controlling interests	0.0	0.0	-0.1	-0.1	0.0	-0.1	0.0	-0.1	-0.1
Earnings attributable to shareholders	-2.0	0.6	0.5	1.3	-0.6	0.8	1.1	1.3	1.3
as % of sales	-13.1%	3.9%	2.8%	7.9%	-4.3%	6.2%	8.5%	9.2%	9.2%
EPS									
Basic EPS in EUR	-0.64	0.23	0.18	0.48	-0.20	0.28	0.37	0.42	0.43
Diluted EPS in EUR	-0.74	0.23	0.18	0.48	-0.20	0.28	0.37	0.42	0.43

Source: Vita 34 AG, CBS Research AG

Balance sheet

IFRS EUR m	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Assets									
Non-current assets	19.8	19.4	26.5	27.1	28.4	27.3	27.2	27.1	27.0
% of total assets	65.2%	62.2%	72.4%	77.9%	77.7%	76.6%	75.2%	72.1%	69.2%
Intangible assets	12.8	12.7	20.4	20.1	21.4	21.1	20.8	20.6	20.4
PPE	3.1	3.3	3.8	4.2	4.5	4.8	4.9	5.1	5.2
Investments	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial assets	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Deferred tax assets	0.7	0.7	0.0	0.7	0.7	0.0	0.0	0.0	0.0
Non-current trade receivables	2.0	1.8	1.7	1.7	1.4	1.2	1.2	1.2	1.2
Restricted cash	1.1	0.7	0.5	0.4	0.3	0.2	0.2	0.2	0.2
Other long term assets	3.9	3.4	2.3	2.8	2.5	1.4	1.4	1.4	1.4
Current assets	10.6	11.8	10.1	7.7	8.2	8.3	9.0	10.5	12.0
% of total assets	0.3	37.8%	27.6%	22.1%	22.3%	23.4%	24.8%	27.9%	30.8%
Inventories	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6
Trade receivables	1.6	2.3	2.9	2.7	2.7	2.8	2.7	2.8	2.9
Other receivables and assets	1.1	0.8	1.4	1.4	1.4	2.1	2.1	2.1	2.1
Short-term investments	0.9	2.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	6.4	6.1	3.7	3.0	3.5	2.9	3.6	5.0	6.4
Total assets	30.3	31.2	36.7	34.7	36.6	35.6	36.1	37.6	39.0
Shareholders' equity and liabilities									
Shareholders' equity	18.1	18.9	18.8	20.0	20.5	21.3	22.4	23.6	24.9
as % of total equity and liabilities	59.7%	60.6%	51.3%	57.6%	56.0%	59.8%	61.9%	62.8%	63.7%
Equity of shareholder's of Vita 34	18.1	18.9	18.5	19.7	20.3	21.1	22.2	23.5	24.8
Non-controlling interest	0.0	0.0	0.3	0.3	0.2	0.2	0.1	0.1	0.0
Non-current liabilities and provisions	8.6	8.8	10.4	10.5	10.5	10.4	10.4	10.5	10.6
as % of total equity and liabilities	28.3%	28.2%	28.4%	30.4%	28.7%	29.1%	28.8%	27.9%	27.0%
Interest bearing loans	1.5	1.4	1.8	1.8	0.3	0.2	0.2	0.2	0.2
Deferred income	5.4	5.6	5.8	6.8	8.0	8.2	8.2	8.3	8.4
Other non-current liabilities	1.7	1.8	2.8	1.9	2.2	2.0	2.0	2.0	2.0
Current liabilities and provisions	3.6	3.5	7.5	4.2	5.6	4.0	3.3	3.5	3.6
as % of total equity and liabilities	11.9%	11.2%	20.3%	12.1%	15.3%	11.1%	9.3%	9.3%	9.3%
Deferred income	0.5	0.6	1.1	1.2	1.4	1.4	1.5	1.7	1.8
Trade payables	1.1	0.8	0.9	0.6	1.2	1.1	0.8	0.8	0.8
Interest bearing loans	0.1	0.1	2.1	1.4	1.8	0.1	0.1	0.1	0.1
Other current liabilities	1.9	1.9	3.4	1.0	1.3	1.3	0.8	0.8	0.8
Total equity and liabilities	30.3	31.2	36.7	34.7	36.6	35.6	36.1	37.6	39.0

Source: Vita 34 AG; CBS Research AG;

Cash flow statement

IFRS EUR m	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
EBT	-2.4	0.7	0.7	-0.5	-0.9	1.3	1.6	1.8	1.9
Depreciation and amortization	0.4	0.6	0.9	1.0	1.2	1.2	1.2	1.2	1.2
Gains/losses on the disposal of non-current assets	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash expenses /income	-0.1	-0.1	-0.1	0.1	0.0	-0.1	0.0	0.0	0.0
Share-based payments expense	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finance revenue	-0.5	-0.7	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Finance costs	0.6	0.2	0.3	0.3	0.2	0.2	0.1	0.1	0.1
Increase/decrease in receivables and other assets	-0.8	-0.2	-0.2	0.3	0.5	-0.5	0.1	-0.2	0.0
Increase/ decrease in inventories	0.0	0.0	-0.1	0.1	0.0	0.1	-0.1	0.0	0.0
Increase/decrease in liabilities	-0.2	0.1	-0.2	-2.7	0.1	-0.1	-0.6	0.0	0.0
Increase/decrease in provisions	-0.2	0.3	-0.3	0.0	0.2	-0.4	-0.1	0.0	0.0
Increase/decrease in deferred income	0.3	0.3	0.3	1.1	1.3	0.2	0.2	0.2	0.2
Interest paid	-0.2	-0.2	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Income taxes paid	0.0	0.0	0.0	0.0	-0.2	0.0	-0.5	-0.6	-0.6
Cash flow from/ used in operating activities	-2.9	1.1	1.0	-0.7	2.0	1.8	1.7	2.4	2.6
Cash flow from investing activities	0.3	-1.4	-4.5	0.5	-0.9	-0.8	-1.0	-1.1	-1.1
Cash flow from financing activities	0.0	-0.1	1.0	-0.3	-0.8	-1.6	0.0	0.0	0.0
Changes in consolidation scope	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Net cash for the period	-2.6	-0.3	-2.6	-0.5	0.5	-0.6	0.7	1.4	1.5
Cash and cash equivalents, beginning of year	9.0	6.4	6.0	3.5	3.0	3.5	2.9	3.6	5.0
Cash and cash equivalents at year's end	6.4	6.0	3.5	3.0	3.5	2.9	3.6	5.0	6.4

Source: Vita 34 AG; CBS Research AG;

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Date	Recommendation	Price at change date	Price target
25 July 2014	BUY (Update)	EUR 4.55	EUR 6.00
13 May 2014	BUY (Initial Coverage)	EUR 5.16	EUR 7.10

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