

Vita 34 AG

BUY (BUY) | Target EUR 7.50 (EUR 6.10)

Price (last closing price) : EUR 6.95 | Upside : 8%

Est. change EPS	2016e +3%	2017e -
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Vita 34 confirms profitability in 2014; first dividend proposal driving share

Wednesday, 15 April 2015



Capital

V3V GY V3VGn.f	
Market Cap (EURm)	22.0
Enterprise value (EURm)	18.9
Extrema 12 months	7.3 3.6
Free Float (%)	71.8%

Performance (%)	1m	3m	12m
Absolute	29.6	39.6	48.2
Perf. rel. "sector"	22.1	15.1	1.5
Perf. rel. CDAX	25.0	11.7	12.2

P & L	12/15e	12/16e	12/17e
Sales (EURm)	14.2	14.5	14.8
EBITDA (EURm)	2.8	3.0	3.1
EBIT (EURm)	1.6	1.8	1.8
Attr. net profit (EURm)	1.1	1.2	1.2
EPS (EUR)	0.37	0.39	0.41
Dividend (EUR)	0.15	0.15	0.17
P/E (x)	19.7	18.5	17.8
P/B (x)	1.0	0.9	0.9
Dividend yield (%)	2%	2%	2%
FCF yield (%)	4%	7%	8%
EV/Sales (x)	1.3	1.3	1.3
EV/EBITDA (x)	6.7	6.3	6.2
EV/EBIT (x)	11.4	10.6	10.2
Gearing (%)	-17%	-21%	-26%
Net Debt/EBITDA (x)	n.m.	n.m.	n.m.

Next Events

1Q15 results 23 April 15

Review of the financial results 2014

Vita 34 confirmed its preliminary 2014 figures published on 4 March. Led by a strong 4Q, total annual revenues increased to EUR 13.8m (PY: EUR 13.6m), up 1.7% yoy. EBITDA increased both absolutely and relatively, rising to EUR 2.8m (PY: EUR 2.7m), resulting in an EBITDA margin increase from 19.6% to 20.1%. EBIT improved to EUR 1.7m (PY: EUR 1.5m). Due to a positive swing in the financial result from EUR -126k to EUR 7k, net income increased disproportionately from EUR 0.8m to EUR 1.0m.

Outlook 2015 and medium term

In the 2014 annual report Vita 34 confirmed its flat outlook for 2015, i.e. total output (sales and other operating income) of EUR ~15.2m and EBITDA of EUR ~2.8m. The company also issued flat guidance for EBIT, EBITDA margin and the number of newly incorporated stem cell deposits. For the medium term, Vita 34 expects sales growth of ~10% and a stable EBITDA margin of more than 20%, driven by the storage and marketing of umbilical cord tissue and the development of other projects.

Dividend and multiples: there is still upside potential for the share

As mentioned in the previous update, Vita 34 is solidly financed and offers sustained profitability which is expected further pick up in the next years. Regarding the sustainable operating CF development, Vita 34 has business model that support the CF development (the storage of the products may take many years and decades before its application, until then Vita 34 generates corresponding annual revenues from storage). We expect free cash flow yield of 4% in 2015e and 7% in 2016e. Due to the amount of net cash, the EV multiples are rather on a low level (EV / EBITDA of 6.7x in 2015e and 6.3x in 2016E).

Vita 34's equity story offers three drivers for the stock price going forward: 1) **Continued market share gains**; 2) **Dividends**. The company's first-ever dividend (EUR 0.15 proposed) was a positive surprise and should support the current momentum of the stock. Based on the current share price, the dividend yield is an attractive 2.1% in this low interest rate environment. Moreover, we assume the dividend policy will be sustainable, turning Vita 34 into a solid value stock. The company's sustainable FCF growth also suggests the dividend may be increased in the medium term. 3) **Catch-up potential**. Book value per share, at EUR 7.29, is still above the current share price. In addition, Vita 34's stable business model and outlook for continued positive net earnings and dividend payments support this catch-up potential.

Supported by attractive multiples, sustainable FCF growth, an attractive dividend policy and a book value per share well above the stock price, we raise our target price to EUR 7.50 (previously EUR 6.10) and reiterate our BUY recommendation.

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Operating performance in 2014 and beginning of 2015

In the stem cell storage segment, revenues grew by 1.5% to EUR 13.3m in 2014. The weak performance in the Spanish market with a decline in sales of 14.8% yoy stressed the positive development in the DACH region with sales growth of 6% yoy. The biotechnology segment also grew yoy to EUR 501k (+8% yoy).

In recent months, Vita 34 has implemented its strategic goal of 'geographic expansion' and is now active in more than 20 countries. Its most recent expansion steps were the following:

- 2014: market entry in Monaco with Italian partner Sorgente
- 2015: Cooperation agreement with the Lithuanian cord blood bank "Imunolita "

Vita 34 now works with 15,000 gynaecologists throughout Europe and has contracts with 1,500 clinics for the collection of umbilical cord blood (cord blood).

Vita 34's geographic presence via subsidiaries and partnerships

Subsidiary	Region	Partner	Region
SecuVita	Spain	Bio Save	Montenegro
Vita 34 Slovakia	Slovakia		Serbia
Vita 34 Austria	Austria		Bosnia-Herzegovina
stellacure	Germany		Macedonia
	Italy		Romania
	Spain		Croatia
			Slovenia
		CordónVida	Chile
		Sorgente	Italy
			Monaco
		biogenini	Bulgaria
		AS "Imunolita"	Lithuania
			Estonia
			Latvia

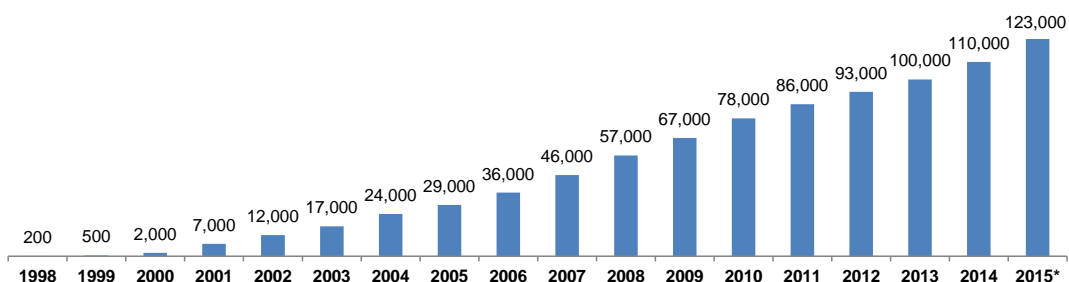
Source: Company data , Oddo Seydler Bank AG

Outside of Europe, Vita 34 is active in Mexico, Chile and Vietnam. At YE 2014, the company signed a letter of intent with the Vietnamese private clinic Van Hahn Hospital to review a collaboration to build a stem cell centre. In April 2015, the cooperation agreement was concluded.

Development of stem cell deposits

In 2014, Vita 34 added a total of 7,378 new stem cell deposits, representing an increase of 2.9% yoy. Adding the deposits from the acquisition of Vivocell, as of 2 January 2015 the company has a total of 123,000 stem cell deposits vs. 110,000 at YE 2014.

Cumulative depots 1998 to 2015*



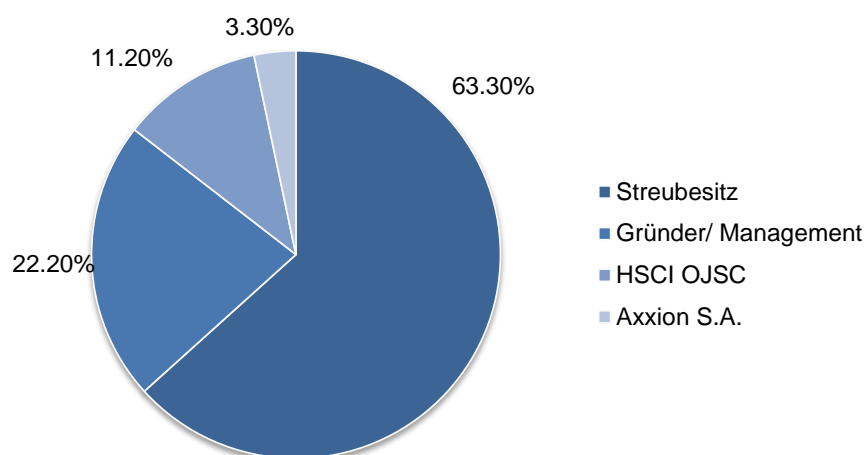
Source: Company data (*as of 02.01.15), Oddo Seydler Bank AG

Changes in the shareholder structure

Over the past year and in the beginning of 2015, some significant changes have taken place within the shareholder structure. A year ago, Landesbank Baden - Württemberg was holding around 8.60% of the shares of Vita 34. These shares were sold gradually over the past few months and fell below the threshold of 3% on 31 March 15. This could now open up to further increases in the share price due to the decreased selling pressure from LBBW.

Whereas, Axxion showed up as a new strategic investor. Axxion invests in companies, inter alia, which are offering products for children and families.

Current shareholder structure



Source: Company data (as of 10.04.2015), Oddo Seydler Bank AG

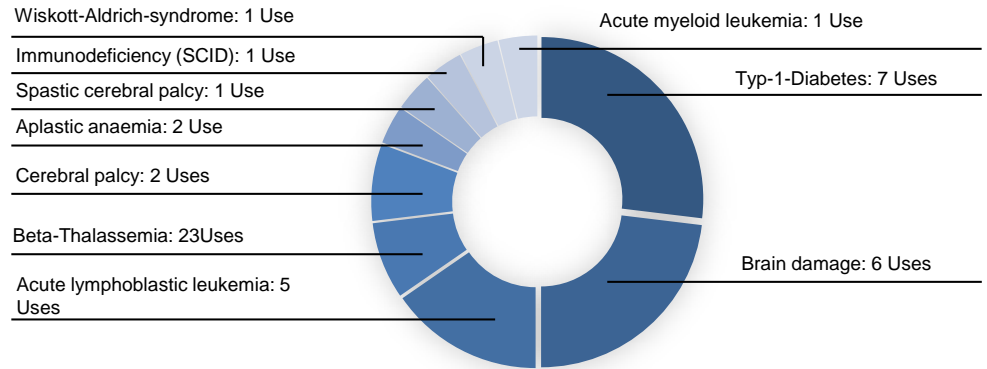
How stem cell treatment options have evolved in 2014?

Stem cells from bone, blood and cord blood / tissue can be used to treat various disease indications. For the following diseases (not an exhaustive list) stem cells are part of standard treatment:

- Leukaemia and lymphomas
- Multiple myeloma and other plasma cell disorders
- Aplastic anaemia and other bone marrow failure
- SCID and other hereditary disorders of the immune system
- Hemoglobinopathies
- Hurler syndrome and other inherited metabolic disorders
- Myelodysplastic and myeloproliferative disorders
- Familial lymphohistiocytosis

Of the 63 therapeutic stem cell treatments reported to date to Cord Blood Europe (CBE), a European society for private cord blood banks, 28 (44% of total treatments) were carried out using Vita 34 preparations (date of information: March 2015). In 2014, 3 treatments with preparations of Vita 34 were carried out.

Therapeutic treatments using Vita 34 stem cell preparations



Source: Company data, Oddo Seydler Bank AG

Several clinical studies are currently being conducted to investigate the use of autologous stem cells (i.e. stem cells removed, stored, and later given back to the same person) in autoimmune diseases, metabolic diseases, brain damage and, in particular, methods for restoring individual tissue and organ replacement. As of the end of March 2015, over 4800 clinical studies were listed on the website clinicaltrials.gov on the topic "stem cells" (including already completed studies). This 4800 includes over 300 studies based explicitly on stem cells from umbilical cord blood; and of these 300 studies, more than half (>160 studies) are currently either in the process of recruiting patients or will commence in the foreseeable future.

Selected research projects and conducting institutions

Regulated study (announced or started) in 2014

Autism	Duke-University Durham (USA)
cerebral palsy	University of Texas Health Science Center
Hearing loss	Florida Hospital for Children in Orlando

Regulated study (announced or started) in 2015

Multiple Sclerosis	Ottawa Hospital
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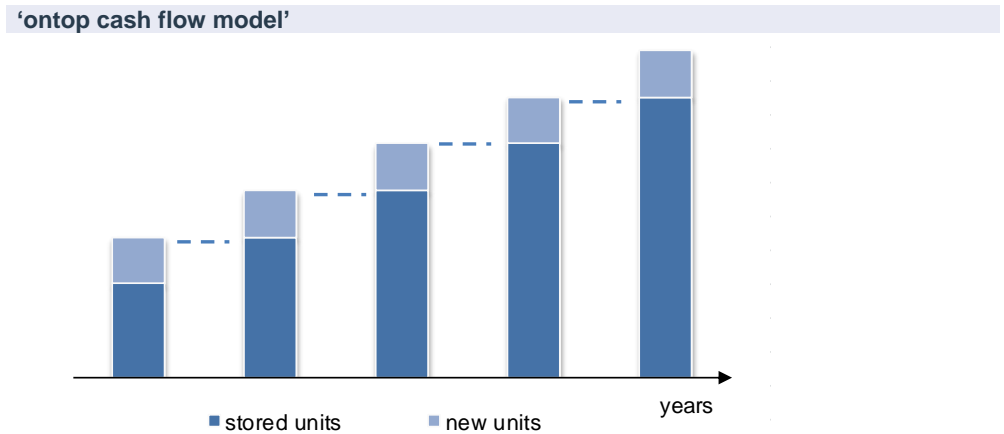
Source: Oddo Seydler Bank AG

Key figures analysis

Cash flow analysis

Vita 34 offers various product models; prices are based on the length of the storage period. Customers pay annually, or, in the case of the Vita Plus 25 and Vita Plus 50 products, they can pay 25 or 50 years in advance, respectively.

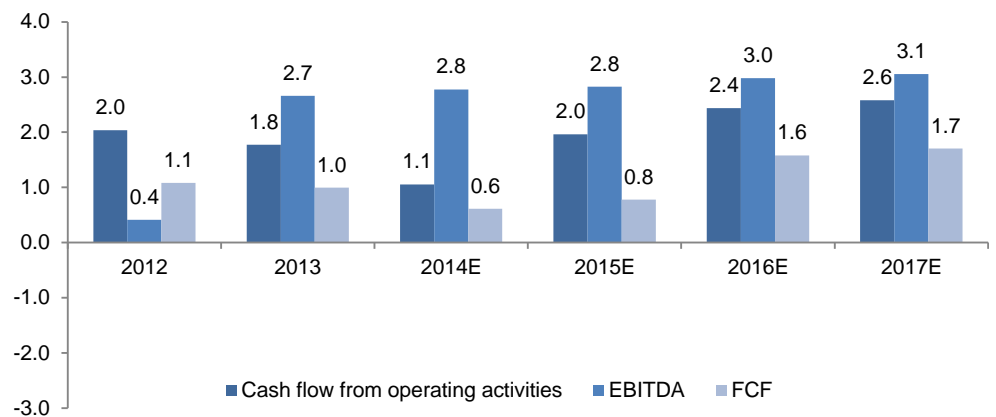
Annual fee payments for stem cell storage provide a long-term stable and recurring cash flow. Each contract on the basis of annual fees increases recurring revenues in the future (ontop cash flow model).



Source: Company data, Oddo Seydler Bank AG

In 2014, the operating cash flow was negatively affected by a working capital effect in the amount of EUR -1.5m (changes in receivables and other assets). For our future estimates, we do not expect major changes within the working capital and expect a rising CF and FCF.

Operating CF, FCF and EBITDA, 2012-2017e, EUR m

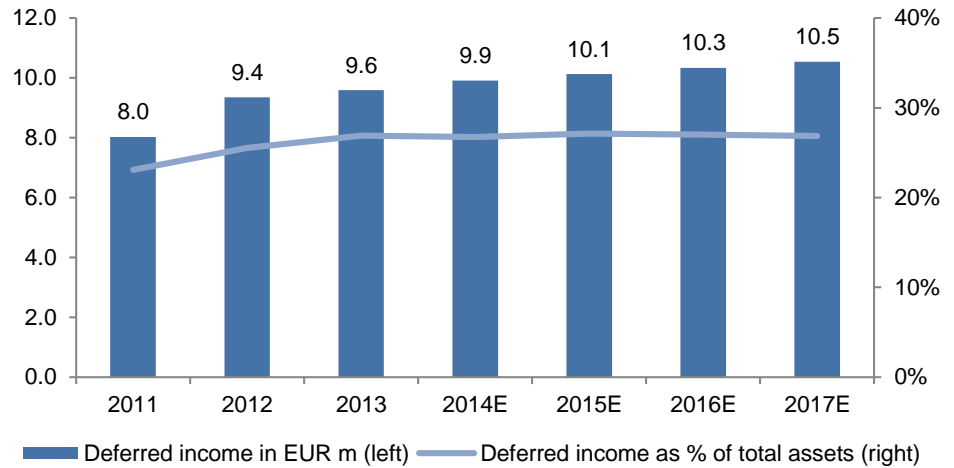


Source: Company data, Oddo Seydler Bank AG

Financial statement analysis

The majority of Vita 34's customers opt to pay their storage fee in advance. Such fees appear as deferred revenues, and are recognised as income on a linear basis over the storage period.

Deferred revenues, 2011-2017e



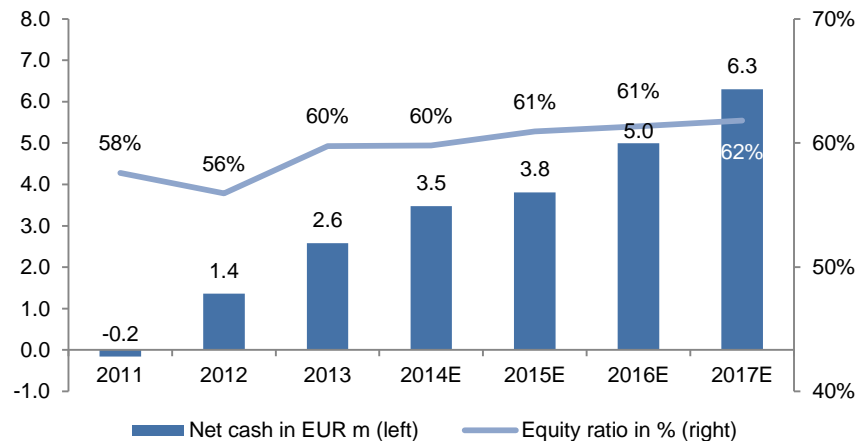
Source: Company data, Oddo Seydler Bank AG

As of YE 2014, deferred revenues accounted for approx. 27% of Vita 34's total assets (see chart). Since the majority of customers opt to pay in advance, we expect this balance sheet item to increase in both the short and long terms. This trend is partly offset by the annual linear resolution of this balance sheet position, which is, in consequence, contributing to the annual revenues.

We assume that the cash position will support a low debt level in the future. Further, this would stabilize the net interest result and cash could be used to finance smaller acquisitions or a regular dividend payment without taking on debt.

The equity ratio already stands very strong at ~60% (YE 2014), and we estimate that it will increase slightly in the coming years. Vita 34 states that its long-term equity ratio target is a minimum of 50%.

Net cash and equity ratio, 2011-2017e



Source: Company data, Oddo Seydler Bank AG

Profit and loss account

IFRS EUR m	2012	2013	2014	2015E	2016E	2017E
Revenues	13.6	13.6	13.8	14.2	14.5	14.8
YoY growth	-15.0%	-0.4%	1.7%	3.0%	1.9%	1.9%
Cost of sales	-5.6	-5.5	-5.9	-5.7	-5.8	-5.9
as % of sales	40.9%	40.5%	42.9%	40.2%	40.2%	40.2%
Gross profit	8.0	8.1	7.9	8.5	8.7	8.8
as % of sales	59.1%	59.5%	57.1%	59.8%	59.8%	59.8%
Other operating income	0.7	1.4	1.7	1.0	1.1	1.1
as % of sales	5.5%	10.2%	12.1%	7.3%	7.4%	7.4%
Selling expenses	-5.8	-4.7	-4.4	-4.3	-4.4	-4.5
as % of sales	42.4%	34.7%	32.1%	30.5%	30.5%	30.5%
Administrative expenses	-3.1	-2.9	-3.3	-3.3	-3.4	-3.4
as % of sales	22.7%	21.4%	23.9%	23.4%	23.5%	23.3%
Other operating expenses	-0.7	-0.4	-0.1	-0.2	-0.1	-0.1
as % of sales	5.0%	2.9%	1.0%	1.7%	1.0%	1.0%
EBITDA	0.4	2.7	2.8	2.8	3.0	3.1
as % of sales	3.0%	19.6%	20.1%	19.9%	20.6%	20.7%
Depreciation and amortisation	-1.2	-1.2	-1.1	-1.2	-1.2	-1.2
as % of sales	8.5%	8.8%	7.9%	8.3%	8.4%	8.2%
EBIT	-0.7	1.5	1.7	1.6	1.8	1.8
as % of sales	-5.5%	10.8%	12.3%	11.6%	12.2%	12.5%
EBT (Earnings before income taxes)	-0.9	1.3	1.7	1.6	1.7	1.8
as % of sales	-6.3%	9.9%	12.3%	11.5%	12.0%	12.3%
Income taxes	0.2	-0.6	-0.7	-0.5	-0.6	-0.6
as % of EBT	-28.8%	-41.3%	-41.7%	-32.0%	-32.0%	-32.0%
Net income	-0.6	0.8	1.0	1.1	1.2	1.2
as % of sales	-4.5%	5.8%	7.2%	7.9%	8.2%	8.4%
Thereof:						
Non controlling interests	0.0	-0.1	-0.1	0.0	0.0	0.0
Earnings attributable to shareholders	-0.6	0.8	1.1	1.1	1.2	1.2
as % of sales	-4.3%	6.2%	8.0%	7.9%	8.2%	8.4%
EPS						
Basic EPS in EUR	-0.20	0.28	0.36	0.37	0.39	0.41
Diluted EPS in EUR	-0.20	0.28	0.36	0.37	0.39	0.41

Source: Company Data, Oddo Seydler Bank AG

Balance sheet

IFRS EUR m	2012	2013	2014	2015E	2016E	2017E
Assets						
Non-current assets	28.4	27.3	27.1	27.1	26.7	26.4
% of total assets	77.7%	76.6%	73.1%	72.6%	69.9%	67.3%
Intangible assets	21.4	21.1	20.6	20.6	20.3	20.0
PPE	4.5	4.8	4.6	4.7	4.6	4.5
Investments	0.0	0.0	0.0	0.0	0.0	0.0
Other financial assets	0.1	0.1	0.6	0.6	0.6	0.6
Deferred tax assets	0.7	0.0	0.0	0.0	0.0	0.0
Non-current trade receivables	1.4	1.2	1.1	1.1	1.1	1.1
Restricted cash	0.3	0.2	0.2	0.2	0.2	0.2
Other long term assets	2.5	1.4	1.9	1.9	1.9	1.9
Current assets	8.2	8.3	10.0	10.2	11.5	12.8
% of total assets	22.3%	23.4%	26.9%	27.4%	30.1%	32.7%
Inventories	0.6	0.6	0.3	0.5	0.4	0.4
Trade receivables	2.7	2.8	3.9	3.6	3.8	3.8
Other receivables and assets	1.4	2.1	2.1	2.1	2.1	2.1
Short-term investments	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	3.5	2.9	3.7	4.1	5.2	6.6
Total assets	36.6	35.6	37.1	37.3	38.2	39.2

Shareholders' equity and liabilities

Shareholders' equity	20.5	21.3	22.2	22.7	23.5	24.2
as % of total equity and liabilities	56.0%	59.8%	59.8%	60.9%	61.4%	61.8%
Equity of shareholder's of Vita 34	20.3	21.1	22.1	22.7	23.5	24.2
Non-controlling interest	0.2	0.2	0.1	0.0	0.0	0.0
Non-current liabilities and provisions	10.5	10.4	11.1	10.7	10.7	10.8
as % of total equity and liabilities	28.7%	29.1%	29.8%	28.6%	28.1%	27.6%
Interest bearing loans	0.3	0.2	0.2	0.2	0.2	0.2
Deferred income	8.0	8.2	8.4	8.4	8.5	8.6
Other non-current liabilities	2.2	2.0	2.5	2.1	2.1	2.1
Current liabilities and provisions	5.6	4.0	3.8	3.9	4.0	4.2
as % of total equity and liabilities	15.3%	11.1%	10.4%	10.5%	10.6%	10.6%
Deferred income	1.4	1.4	1.5	1.7	1.8	2.0
Trade payables	1.2	1.1	0.7	0.7	0.7	0.7
Interest bearing loans	1.8	0.1	0.1	0.1	0.1	0.1
Other current liabilities	1.3	1.3	1.5	1.4	1.4	1.4
Total equity and liabilities	36.6	35.6	37.1	37.3	38.2	39.2

Source: Company Data, Oddo Seydler Bank AG

Cash flow statement

IFRS EUR m	2012	2013	2014	2015E	2016E	2017E
EBT	-0.9	1.3	1.7	1.6	1.7	1.8
Depreciation and amortization	1.2	1.2	1.1	1.2	1.2	1.2
Gains/losses on the disposal of non-current assets	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash expenses /income	0.0	-0.1	-0.2	0.0	0.0	0.0
Share-based payments expense	0.0	0.0	0.0	0.0	0.0	0.0
Finance revenue	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Finance costs	0.2	0.2	0.1	0.1	0.1	0.1
Increase/decrease in receivables and other assets	0.5	-0.5	-1.5	0.3	-0.2	-0.1
Increase/ decrease in inventories	0.0	0.1	0.3	-0.2	0.0	0.1
Increase/decrease in liabilities	0.1	-0.1	-0.3	0.0	0.0	0.0
Increase/decrease in provisions	0.2	-0.4	-0.1	-0.1	0.0	0.0
Increase/decrease in deferred income	1.3	0.2	0.3	0.2	0.2	0.2
Interest paid	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Income taxes paid	-0.2	0.0	-0.1	-1.0	-0.6	-0.6
Cash flow from/ used in operating activities	2.0	1.8	1.1	2.0	2.4	2.6
Purchase of intangible assets	-0.3	-0.3	-0.3	-0.8	-0.5	-0.5
Purchase of property, plant und equipment	-0.7	-0.5	-0.2	-0.4	-0.3	-0.3
Purchase of companies	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of short term investments	0.0	0.0	0.0	0.0	0.0	0.0
Cash received from short-term investments	0.0	0.0	0.0	0.0	0.0	0.0
Interest received	0.0	0.0	0.0	0.1	0.1	0.1
Cash flow from investing activities	-0.9	-0.8	-0.4	-1.1	-0.8	-0.8
Cash flow from financing activities	-0.8	-1.6	0.2	-0.1	0.0	0.0
Changes in consolidation scope	0.2	0.0	0.0	0.0	0.0	0.0
Net cash for the period	0.5	-0.6	0.8	0.8	1.6	1.8
Cash and cash equivalents, beginning of year	3.0	3.5	2.9	3.7	4.5	6.1
Cash and cash equivalents at year's end	3.5	2.9	3.7	4.5	6.1	7.9

Source: Company Data, Oddo Seydler Bank AG

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Oddo Seydler uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months:

- BUY: The expected performance of the share price is above +10%.
 HOLD: The expected performance of the share price is between 0% and +10%.
 SELL: The expected performance of the share price is below 0%.

This rating system is only a guideline. Therefore, deviations from this system may apply.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
15 April 2015	BUY (Update)	EUR 6.95	EUR 7.50
06 March 2015	BUY (Update)	EUR 5.25	EUR 6.10
13 January 2015	BUY (Update)	EUR 5.10	EUR 6.30
03 December 2014	BUY (Update)	EUR 4.50	EUR 6.30
24 October 2014	BUY (Update)	EUR 4.32	EUR 6.00
25 July 2014	BUY (Update)	EUR 4.55	EUR 6.00
13 May 2014	BUY (Initial Coverage)	EUR 5.16	EUR 7.10

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow,

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