MPH Mittelstaendische Pharma Holding AG

Germany / Healthcare
Frankfurt
Bloomberg: 93MV GR
ISIN: DE000A0NF697

Initiation of Coverage

RATING	**BUY**
PRICE TARGET	**EUR5.50**
Return Potential	124.1%
Risk Rating	High

LOWERING THE COST OF HEALTHCARE THROUGH EFFICIENCY

MPH is a Berlin, Germany based healthcare holding company with several holdings. At this point the lion's share of company revenues is generated through the sale of generics and parallel imports in low competition, but high priced niches. With the recent acquisition of a 52% stake in Windsor AG the company has gained access to a broader range of healthcare activities which could serve as a growth driver on their own, but are particularly attractive when viewed in terms of potential cross-selling effects and synergies in procurement. We initiate coverage of MPH with a Buy recommendation and fair value of EUR5.50.

Parallel importing – Low risk, high yield The largest part of MPH's group revenues is derived through parallel importing of pharmaceuticals. This is a pure trading business, with the benefit that German legislation has actually set a minimum level for parallel imports to be dispensed at pharmacies (currently 5% of volume). MPH has quickly built up an impressive standing within several important niches. We anticipate this growth to continue going forward as the company can add additional products to its portfolio.

Generics bring margins While margins in the German generics market have been dropping steadily due to high competition, the past has shown that players in specialized indications, such as oncology and HIV, can be very profitable. Currently generics only account for a very small part of MPH due to limited number of formulations on the market. We anticipate that MPH will continue to expand its portfolio of generic drugs and see growth and profitability in this segment helping the company as a whole.

Initiating coverage with a Buy recommendation, Fair Value EUR5.50 Based on our DCF Model (1.5% TV Growth Rate and WACC of 10.2%) we derive a fair value for preferred shares of MPH of EUR5.50 on a 12-18 month horizon. This represents an upside of roughly 125% to the current share price. In line with our rating guidelines we initiate the stock with a Buy recommendation.

FINANCIAL HISTORY & PROJECTIONS

	2010A	2011A	2012E	2013E	2014E	2015E
Revenue (EURm)	112.40	145.50	200.79	236.93	274.84	310.57
Y-o-y growth	n.a.	29.4%	38.0%	18.0%	16.0%	13.0%
EBIT (EURm)	10.41	10.63	22.49	18.72	21.99	26.09
EBIT margin	9.3%	7.3%	11.2%	7.9%	8.0%	8.4%
Net income (EURm)	9.11	8.63	12.76	11.68	14.08	19.44
EPS (diluted) (EUR)	0.24	0.23	0.31	0.28	0.34	0.47
DPS (EUR)	0.20	0.20	0.23	0.25	0.28	0.31
FCF (EURm)	0.61	-2.07	-4.91	6.29	15.64	13.43
Net gearing	10.0%	31.1%	46.8%	35.9%	9.8%	-4.2%
Liquid assets (EURm)	0.75	2.46	1.34	6.16	19.51	29.41

RISKS

Regulatory changes in healthcare system, spending cuts in healthcare systems, homogenization of pharmaceutical prices within the European Union.

COMPANY PROFILE

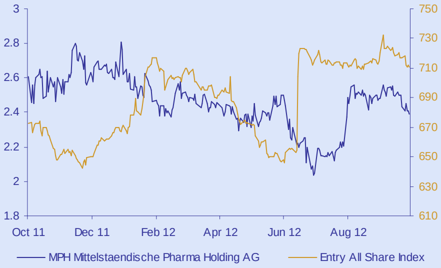
MPH is a Berlin, Germany based healthcare company, specializing in the field of parallel importing of pharmaceuticals as well as generics.Through a majority stake in Windsor AG the company is active in other healthcare activities which will likely gain importance in the future.

MARKET DATA

	As of 10/23/2012
Closing Price	EUR 2.45
Shares outstanding	41.17m
Market Capitalisation	EUR 101.03m
52-week Range	EUR 2.04 / 2.81
Avg. Volume (12 Months)	49,428

Multiples	2011A	2012E	2013E
P/E	11.4	7.7	8.4
EV/Sales	0.8	0.6	0.5
EV/EBIT	10.7	5.1	6.1
Div. Yield	8.1%	9.4%	10.2%

STOCK OVERVIEW



COMPANY DATA

	As of 30 June 2012
Liquid Assets	EUR 8.90m
Current Assets	EUR 65.30m
Intangible Assets	EUR 45.30m
Total assets	EUR 115.60m
Current Liabilities	EUR 37.00m
Shareholders' Equity	EUR 68.50m

SHAREHOLDERS

Magnum AG	24.0%
Windsor AG (MPH)	23.0%
Free Float	53.0%

Analyst: Stefan Muehlbauer, Tel. +49 (0)30 - 80 93 96 88

CONTENTS **PAGE**

INVESTMENT CASE

Low risk – high return business model

While companies in the healthcare field are generally plagued by high development risks and costs, this is not the case for companies such as MPH. With a focus on parallel importing of pharmaceuticals and generics (as well as other low risk healthcare activities) the company does not face high development cost for new products, or the risk of products failing in clinical trials. In fact, tailwinds on the regulatory front such as a mandatory minimum volume of parallel imports dispensed at pharmacies and increased prescription volumes of generics in the German market set the stage for profitable growth for the company through introducing new products and deeper penetration of the market. We currently project a CAGR2010-2015E of 23% in terms of revenues and 20% in terms of operating profit.

Pressure in the healthcare system favours companies such as MPH

Given the constant need to cut costs in the healthcare system companies such as MPH which offer products and services to help curb expenditures in the healthcare market (in this case generics and parallel imports) are set to benefit from the current pressures on the system overall. While there is a mandatory 16% discount on patent protect drugs which have hurt MPHs margins in the past 18 months, in general we do see a clear trend for success for generics companies and parallel importers. MPH in our opinion, especially following the acquisition of Windsor AG which further boosts efficiency and lowers risk of negative impacts from healthcare cuts, stands to benefit from cost cutting needs in the system and increased use of generics and parallel imports in terms of prescription volume going forward.

Windsor AG stake brings synergies and additional growth potential

Through the acquisition of a 52% stake in Windsor AG the company has gained access to additional attractive healthcare activities which on their own already represent the potential for significant revenue growth (although this is only a minor effect as these activities currently only account for roughly 12% of group revenues). However, the nature of these holdings (which we will touch on in more detail later in this report) allow the company to take advantage of not only cross-selling opportunities within the holdings, but also realize certain amount of cost synergies.

Attractive dividends & low valuation

Given that the company largely operates low capital intensive businesses the need for hoarding cash within the company is low. Therefore since its inception the company has disbursed a large part of its yearly earnings in the form of dividends. When taking a look at the dividend yield at the current share price it can be seen that the company yields at roughly 9%. We see this level of yield continuing well in the future. At the same time the valuation of the company is quite low with a P/E ratio for the year 2012E of roughly 8. In our eyes given the low risk nature, high growth potential in terms of both revenues and products, low valuation and high dividend yield we view preferred shares of MPH as a very attractive investment and consequently initiate coverage of the stock with a Buy recommendation and a target price of EUR5.50.

SWOT ANALYSIS

STRENGTHS

- **Healthy business environment** Given the constant need of the German (and globally many other) healthcare systems to cut costs legislation favours companies such as MPH: While the past decade has seen price measures installed on all pharmaceutical players, also parallel importers and generics players, we believe that those companies that help lower overall cost to healthcare systems will be in a much stronger position in the long run than those with patent-protected “me too” products.
- **Solid position as a parallel importer** While MPH is still one of the smaller players on the block, the company since its inception has shown that is has the know-how to build a significant parallel importing franchise with the ability to grow rapidly in terms of revenues (CAGR 20010-2015E 23%) while maintaining high margins even in the face of adversity – such as for example the 2010 enacted 16% mandatory discount granted to statutory health insurance funds (SHIFs) on all patent protected pharmaceutical products in the German market.
- **Rapid growth – low capital needs** As has been shown over the past years, MPH is in a position where it can expand its generics, parallel importing and other healthcare franchises with a minimum of capital needs – as compared to other healthcare companies. While one of the most significant cost factors for most pharmaceutical companies is R&D (of course this only holds true for innovative pharmaceutical and biotechnology companies) this is a cost block not faced by MPH. Likewise, the company does not require large scale production facilities given the use of contract manufacturers for generics and a relatively small production for parallel imports (manually repackaging pharmaceuticals). We therefore see MPH’s growth continuing with very little investment needs by the company in the near term.

WEAKNESSES

- **Small product portfolio in generics** While this point has already improved over recent history, the company still offers only a modest portfolio of generic drugs. While part of this is natural, given the very select number of clinical indications served by the company (where competition is low and prices for generics are still relatively high) we do acknowledge that a broader portfolio within those indications will serve as a growth driver within the generics division. As of the time of this writing the company offers 12 generic products which is going to be expanded step by step going forward.
- **A small fish in a big pond** In the generics field (but not so much in parallel importing) size is beautiful. At this point MPH remains a smaller player which is not an immediate problem, but does weaken the company in terms of recognition factor amongst pharmacies. We believe however, that MPH’s concentration on just a few specialized clinical indication areas serves to equalize this factor to some extent.
- **Other holdings still very small** While the company has made a name for itself to some extent in generics and parallel importing its other activities are currently still very small. While this could also be categorized as an opportunity and much of the smallness stems from the fact that some holdings were only acquired in early 2012, we believe at this point the company is still categorized by a too large proportion of revenues stemming from just two activities.

OPPORTUNITIES

- **Growth of other holdings** With the acquisition of the majority stake in former shareholder Windsor AG the company gained access to a range of activities which could potentially become very lucrative for the company. One factor in particular we want to highlight here is that with growth in other healthcare related niches the company can further decrease its already low risk profile through diversification – i.e. becoming less dependent on reimbursement prices of generics, and other healthcare system austerity measures.
- **Expanded penetration with pharmacies** At this time the sales activities of MPH especially in terms of parallel importing and generics already have a fairly good penetration into Germany. However, we believe that as MPH's activities in these areas are expanded the company can become an even more important partner for existing pharmacy clients and also open the door to additional pharmacies. Given the small number of sales reps, a necessity for MPH, which stands in contrast to the large (and costly) sales operations of other players, particularly in the generics market, the company has made excellent progress here over the past 24 months and we expect this progress to continue going forward.
- **Expansion outside of Germany** At this time the activities of MPH are focused almost exclusively on the German market. While the German market for pharmaceuticals is still among the largest in the world, we would welcome a diversification into other high priced European markets, mostly for reason of risk diversification in regards to healthcare spending cuts in the company's home market. We see signs that the company is aiming for a cautious international expansion, i.e. German speaking countries in Europe, starting in the near term.

THREATS

- **Regulatory pressure to cut healthcare costs** As we will outline later in this report, healthcare costs continue to rise steadily and with an ageing population and ever more expensive treatments hitting the market we do not see an end to this. Over the past decade we have seen a number of initiatives in the German (and other) markets aimed to reduce these ever rising costs. While MPH's primary activities are aimed to lower the burden on healthcare systems it can not be ruled out that the company will be hit by additional cost cutting initiatives.
- **Pharmaceutical pricing levels within EU homogenizing** In the field of parallel importing MPH acquires patent protected pharmaceuticals in a low cost country in order to re-import them into Germany were they can be sold at a higher price. Should pharmaceutical pricing levels in the EU homogenize profit margins of MPH would be hit. However, given the current problems within the EU, we do not see the risk of homogenizing prices as an immediate threat as it looks unlikely that purchasing power in countries such as Greece, Spain and Romania will reach the high levels of Germany any time soon.
- **Legal restrictions on parallel importing** Another, albeit very minor, risk for the company would be a change in the legal framework of parallel importing. We see this risk as extremely small at this time, given that parallel importing is one of the few activities where healthcare systems can save money on patent protected drugs. In fact at this time the German healthcare system actively encourages parallel importing through legally enforced a minimum volume of 5% of overall volume of pharmaceutical products sold at each pharmacy in Germany.

VALUATION

We initiate coverage of MPH Mittelständische Pharma Holding with a Buy recommendation and a target price of EUR5.50. This target price is based on our discounted cash flow (DCF) model. Given that MPH and its subsidiaries are currently in rapid expansion we view our DCF model as the most appropriate valuation method to derive a fair value of the company as other valuation approaches will fail to capture the growth prospects in the mid-term. More importantly though, while there are several listed generics players in the German and European markets, there are no notable parallel importers listed on any exchange to our knowledge, making attempts to perform a valid peer group valuation of MPH nearly impossible.

Discounted Cash Flow

Given that MPH Mittelständische Pharma holding is at this time only at the very beginning of its development in terms of the broadness of its product portfolio and development of newly formed or added subsidiaries we utilize our DCF model to derive a fair value for shares of MPH.

We utilize a WACC of 10.2% and a TV growth rate of 1.5% in our model, which derives a fair value of EUR5.50 for shares of MPH Mittelständische Pharma Holding. This represents an upside of roughly 125% for preferred shares of MPH over a timeframe of 12-18 months.

Table 1: DCF valuation model

All figures in EUR m	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Net sales	**201**	**237**	**275**	**311**	**339**	**369**	**400**	**432**
NOPLAT	**18**	**15**	**17**	**21**	**24**	**26**	**29**	**31**
+ depreciation & amortisation	1	1	1	0	0	0	0	0
Net operating cash flow	18	16	18	21	24	26	29	31
- total investments (CAPEX and WC)	-18	-8	-1	-6	-4	-5	-5	-5
Capital expenditures	0	0	0	0	0	0	0	0
Working capital	-18	-8	-1	-6	-4	-5	-5	-5
Free cash flows (FCF)	0	7	17	15	19	22	24	27
PV of FCF's	**0**	**7**	**14**	**11**	**13**	**13**	**13**	**13**

All figures in EURm	
PV of FCFs in explicit period	174
PV of FCFs in terminal period	69
Enterprise value (EV)	243
+ Net cash / - net debt	-15
+ Investments / minority interests	0
Shareholder value	228

Fair value per share in EUR	5.50

WACC	10.2%
Cost of equity	15.0%
Pre-tax cost of debt	10.0%
Tax rate	30.0%
After-tax cost of debt	7.0%
Share of equity capital	40.0%
Share of debt capital	60.0%

Fair value per share in EUR	5.50

Terminal growth rate

WACC	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
6.2%	9.50	9.80	10.16	10.60	11.14	11.83	12.73
7.2%	8.04	8.23	8.45	8.71	9.01	9.38	9.84
8.2%	6.93	7.05	7.19	7.35	7.53	7.75	8.01
9.2%	6.06	6.14	6.23	6.33	6.45	6.58	6.74
10.2%	5.35	5.40	5.46	5.53	5.61	5.69	5.79
11.2%	4.76	4.80	4.84	4.89	4.94	5.00	5.06
12.2%	4.27	4.30	4.32	4.36	4.39	4.43	4.48
13.2%	3.85	3.87	3.89	3.91	3.94	3.97	4.00

Source: First Berlin Equity Research

Given that a DCF Model is highly sensitive to changing assumptions we have completed a sensitivity analysis to investigate the impact of varying WACC and TV growth assumptions in our model. As can be seen in the table above the fair value range using various metrics ranges from EUR3.85 to EUR12.73. We believe our conservative assumptions utilizing a WACC of 10.2% and TV growth of 1.5% are realistic.

We initiate coverage of MPH Mittelständische Pharma Holding with a price target of EUR5.50, this represents an upside of roughly 125% to the current share price. In line with our rating guidelines this corresponds to a Buy recommendation.

COMPANY PROFILE

MPH Mittelstaendische Pharma Holding AG is a Berlin, Germany based holding company specializing in the pharmaceutical field. The lion's share of the company's current activities stems from its Haemato Pharm holding which is active in the field of generics and parallel imports of pharmaceuticals. Through the acquisition of a 52% stake in former major shareholder Windsor AG, leading to full consolidation within the MPH group, the company has been able to expand the number of holdings and therefore activities in the life science field. Actual revenue and net profit contribution at this point remains small, but in our opinion could become a significant growth driver down the road.

ACQUISITION OF 52% STAKE IN WINDSOR AG

In May 2012 MPH announced that it had acquired a 52% stake in Windsor AG, one of the shareholders in the company. Following the acquisition of this majority stake MPH restructured its own activities, splitting its business into two main segments – pharmaceuticals and healthcare. While the existing generics and parallel importing activities (Haemato Pharm AG) were integrated in the newly formed pharmaceuticals segment, the activities gained through the consolidation of Windsor AG, together with the company's own veterinary medicines business (Haemato Vet GmbH) and two newly formed entities (Healthcare Solutions GmbH and Nutri Care GmbH) were moved into the newly formed healthcare segment.

Through the acquisition of Windsor AG and its healthcare related businesses the company has the opportunity to leverage significant effects in terms of synergies when using the company's existing network of clients (currently roughly 3,100 pharmacies) as well as using the Windsor AG's Simgen AG's distribution channels into non-EU markets to sell generics into these markets. We welcome the move to expand into non-EU countries given that a broader global footprint will help the company mitigate the risk of healthcare expenditure cuts in any particular country.

On 7th of May, 2012 MPH acquired the 52% stake in a combined cash and share deal. In a first step MPH acquired 2.2m Windsor AG shares at the market price for cash and in the second step issued 3,177,155 new ordinary shares in exchange for 5m shares in Windsor AG. The new share issue was completely subscribed by MPH's main shareholder Magnum AG.

PHARMA - GENERICS & PARALLEL IMPORTS

As mentioned above, the largest part of MPH's business (90% of revenues) are currently generated through the company's activities in parallel imports and generics. The company in the past, pre Windsor acquisition generated virtually all of its revenues and profits through these activities. When taking a look at MPH's activities in this field it is important to mention that rather than servicing the whole market using a broad product portfolio such as is the case for larger generics and parallel import players in the German market, requiring a significant sales force and high cost base, MPH only targets very select pharmaceutical products in a small number of clinical indications. These indications are:

- HIV
- Oncology
- Rheumatoid Arthritis
- Neurology
- Cardiovascular

This stands in stark contract to other generics and parallel import players who tend to look at the broader market and include as many indication areas as possible in their product offering. While this works for larger companies who have the ability to sustain a large sales force, we welcome the business model of MPH given that the indications served by the company tend to have a lower sales volume than indications such as antibiotics (i.e. less interesting for larger players) and therefore less pricing pressure (particularly on generics). We estimate that the company generates roughly 60% of revenues within the pharmaceutical segment from oncology products, 20% from HIV and the remaining 20% from rheumatoid arthritis, neurology and cardiovascular products.

In this part of the business there needs to be a clear differentiation as to what the company is doing for each of these pharmaceutical business areas. Both Generics and Parallel Imports are done through the company's Haemato Pharm holding:

Parallel Importing – So far the most important part

By far the largest activities (roughly 90% of group revenues in H1) within the MPH portfolio currently is parallel importing of pharmaceuticals, i.e. taking advantage of price discrepancies on patent protected products within different EU member countries. Under the law parallel importers are allowed to purchase a drug in a low cost country and then resell it in a high price country (such as for example Germany). While barriers of entry to this business are quite low, given that legally all that is required is a registration with the Bundesinstitut für Arzneimittel (BfArM) which is relatively straight forward and does not require parallel importers to complete additional clinical trials, this business does require a high level of know-how in terms of sourcing and logistics in order to remain profitable and have good standing with German pharmacies.

We believe that MPH through its holding Haemato Pharm has this high level of know-how given that the company has proven over the past years that it can source products in such a way that it has established itself as a strong partner for the pharmacies the company serves as well as doing so with solid profitability (7.3% EBIT margin in 2011).

Another thing which needs to be mentioned in this regard is the low capital intensity of this activity. Haemato Pharm can not just simply take packages of pharmaceuticals, sourced for example in Spain, and sell them to German pharmacies. German law requires that both packaging and labelling (i.e. package inserts) conform to German law. This repackaging however does not require a large investment in machinery but can rather be completed through the use of low-skilled labour, allowing the company to expand rapidly without the need for investments in manufacturing or packaging equipment.

Generics – Small but beautiful

The second most important business activity within MPH's holdings, and also within Haemato Pharm, is generics. Generic drugs are copies of drugs where patent protection has expired. While larger player such as STADA, Hexal (Owned by Novartis) or Ratiopharm (Owned by Teva) are the "big kids on the block" in Germany the market remains fragmented. Unlike its larger peers MPH follows a strategy which offers generics for clinical indications where competition and total volumes are quite low – see above for a complete list – but prices are high. In terms of business strategy the sale of generics in identical indications as parallel import allows the company to utilize sales synergies when dealing with its pharmacy clients and is able to offer attractive package deals of parallel imports and generics in order to bring maximum profitability from each of the roughly 3,100 pharmacies served by the company.

This activity is also marked by a low capital need given that Haemato Pharm can source generics through contract manufacturers in order to insure low prices in sourcing and no need for significant investments into manufacturing capacities as the company grows. The contract manufacturer model is quickly becoming industry standard with even larger players more often relying on such services in order to keep own operating costs low.

HEALTHCARE – A POTENTIAL DRIVER GOING FORWARD

Following the acquisition of a 52% stake and subsequent full consolidation of Windsor AG the company has created the healthcare segment as the new home for the new holdings it gained through the acquisition. Within this new segment virtually all activities stem from either Windsor AG or have been newly created, with the exception of Haemato Vet GmbH which is a company focused on products for the animal care market which already previously was part of the MPH group.

At this time activities within the healthcare segment of the company are only marginal contributors to the company's total revenues (roughly 12% in H1 2012) and more significantly in EBITDA (38% in H1 2012, largely driven by the companies real estate activities) but we believe the company is in a solid position to build this portfolio of companies and ensure a solid growth path going forward.

COMPETITIVE POSITION

As mentioned before, the company has activities in several different areas of the healthcare universe ranging from generics and parallel importing – which represent the largest part of MPH's current business – into smaller business areas such as veterinary products and clinical nutrition. While we view all areas as potential growth drivers for the company it is our opinion that for some time to come the company's success (and share price development) will be driven by the company's activities in generics and parallel importing. For this reason the majority of this section will focus on the company's competitive position in these activities. We shall also touch briefly on the company's standing in its other markets but acknowledge that growth in these activities at this point are less determined by market forces but rather through the company's ability to execute on developing these entities initially.

GENERICS IN GERMANY – A COMPETITIVE MARKET

Within Germany the competitive situation can still be described as crowded with the "big three" – Ratiopharm (owned by Teva), Hexal (owned by Novartis) and publicly listed STADA acting as the most prominent players. The remainder of the market is highly fragmented with generics companies of literally all sizes present in the market.

However, taking a look at MPH's competitive situation as compared to "the big three" - or in fact any broad range generics player – would give the wrong impression. While the general approach to being active in Germany's generic market tends to be to offer as many different generics products in virtually all clinical indications forms the basis for most generics company's business plans this is not the case of Haemato Pharm. MPH's generics brand's approach is different, focusing exclusively on a small number of clinical indications where competition from other generics players is low and prices (and hence margins) are still relatively high.

When taking a look at the two different approaches in the generics market it becomes clear that MPH through Haemato Pharm is on the right path. The "broad range" strategy focuses on high volume generics in a broad range of indications. This usually requires a significant sales force, i.e. significant costs, in order to have a solid position in the German market. For smaller players such as MPH such a strategy would require significant funding to get such activities started with a successful outcome still difficult to achieve given that the incumbents have several decades head start. In the case of MPH the strategy to focus on a few select clinical indication areas – such as for example cancer and HIV – where there is a lower number of competitors with less price pressure than on broad range generics such as for example antibiotics, makes sense. These indication areas are lucrative for smaller players but are not (due to lower volumes) indication areas which are targeted aggressively by larger players. The other benefit here is that the company needs to target fewer pharmacies given that in the case of for example HIV the number of pharmacies who sell a significant volume of HIV medications is limited. The same goes for indications such as cancer. Through an efficient process of finding out which pharmacies are relevant to the company's generics offering – hence out of the more than 20,000 pharmacies in Germany the company needs to focus on less than 25% for these indications, leading to a much more manageable sales operation.

While these indications, particularly oncology, are becoming more interesting to other players going forward, we do not anticipate competitive pressure to increase for Haemato Pharm in these indication areas, given that larger (i.e. higher volume) indication areas continue to grow as well with a large number of upcoming patent expirations.

Another theme which has dominated the German generics market over the past years has been consolidation. In the past we have seen the acquisition of Hexal by Novartis and Ratiopharm by Teva, number three in the German market STADA has long been rumoured to be a takeover candidate as well. One reason why this market is still consolidating is not to increase productivity and benefit from economies of scale, but rather to gain market entry (or in the case of Teva, a better footing in the market). Likewise we believe that as the market consolidates in Germany specialized generics companies such as Haemato Pharm may also attract the eye of larger players in the future and could be viewed as a takeover candidate given the lucrative nature of specialized generics offered by the company.

PARALLEL IMPORTS IN GERMANY – A FRAGMENTED MARKET

The situation of parallel importers in Germany at this time is still highly fragmented with some "big fish" in the pond, such as for example privately held Kohlpharma and many smaller companies making up the rest. Another thing that needs to be pointed out here is that virtually all companies (with the exception of MPH's Haemato Pharm) are privately owned companies, leading to very few insights into the particulars of any given company, such as for example their profitability, leading us to make assumptions as to how MPH's own profitability in parallel importing compares to the larger players. Anecdotal evidence leads us to believe however that profitability is comparable.

While concrete data for the parallel importing field is scarce we do have some insights from IMS Health and others which show that Haemato Pharm is in a solid position within this market. At this time we estimate that Haemato Pharm has a market share of roughly 7%, making it the 6th largest player at this time. This means the company has progressed nicely and has moved up 4 spots since 2009 when it was ranked the 10th largest parallel importer of pharmaceuticals in Germany.

The largest company active in the field of pharmaceutical parallel imports is Kohlpharma. Founded in 1979 the privately held company generated EUR660m in revenues through parallel imports in 2011. The company, which has a very broad product portfolio with roughly 600 active ingredients currently marketed (as of January 2012) has been harder hit by mandatory discounts in the German market than MPH. While we have seen negative impacts on MPH's margins due to the increase of mandatory discounts to healthcare insurance companies the company was still able to grow its topline and bottom line significantly and in turn expand its business. Kohlpharma has in the same time seen revenues and profitability impacted and had to let go of roughly 300 employees since the implementation of discounts to counteract the negative effects. We see this as a testament to the low cost base with which MPH has been able to expand its parallel importing business in selected indications.

Altogether the top five pharmaceutical parallel importers generated roughly EUR2bn in revenues in 2011. Beyond the top five at this time the market becomes very fragmented with each player making significantly less than EUR100m in sales. Currently we do not expect a wave of consolidation in the market, given that adding smaller operators into the portfolio will not likely bring significant operating benefits to the larger players.

FINANCIAL HISTORY AND OUTLOOK

In the past the company has shown impressive growth in its core business of parallel importing and generics. This will in the future be helped by other businesses acquired through the 52% stake in Windsor AG, which was consolidated for the first time in H1 2012. For H1 2012 the company showed a revenue growth of 41.3% which includes the Windsor AG stake. Organic growth in revenues for the period was an impressive 24%.

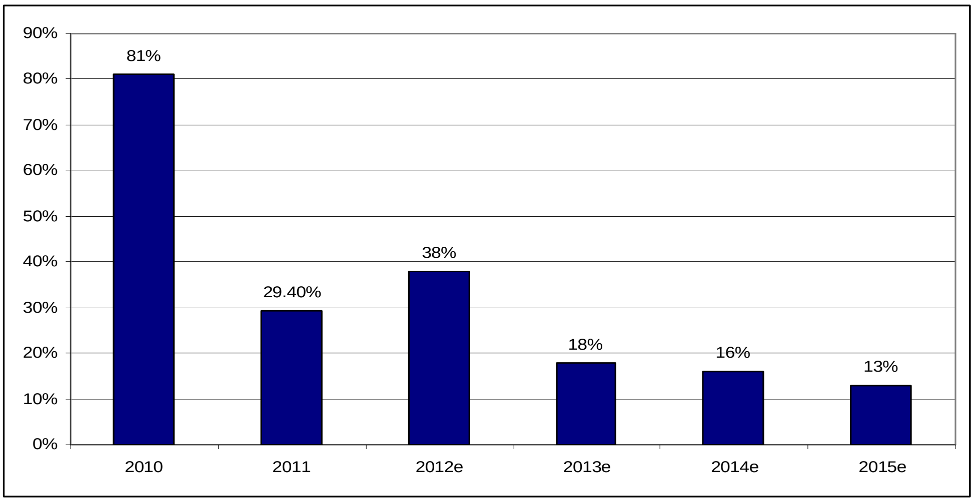
Given the first time consolidation of Windsor AG as of H1 2012 comparability with past years is hampered a bit, but given that the company has created two new segments – pharmaceuticals and healthcare – and will continue to report on these in the future transparency is maintained. In general it can be said that the “old” MPH can be found in the segment pharmaceuticals and newly acquired or formed activities (with exception of animal health, Haemato Vet GmbH) are grouped in the healthcare segment.

P&L

Following the acquisition of Windsor AG the company’s P&L for H1 2012 experienced some help from first time consolidation. As mentioned above, revenue growth for H1 was 41.3% and on an organic basis was 24%. This is roughly in line with top line growth in 2011. For FY 2012 we project revenue growth for the group of 38% which means revenues for the first time breaking above EUR200m during the business year.

For the years ahead we project slowing growth rates beginning in 2013E. Here we project revenue growth of 18% with a continued slight slowing in the years ahead. We have to point out that given the growth prospects of the newly acquired activities our estimates for revenue growth could be cautious. As many of these new activities are still very much at the beginning we believe there is most likely a significant upside risk to our estimates once a longer track record for these activities is established.

Figure 1: Revenue Growth Rate Development

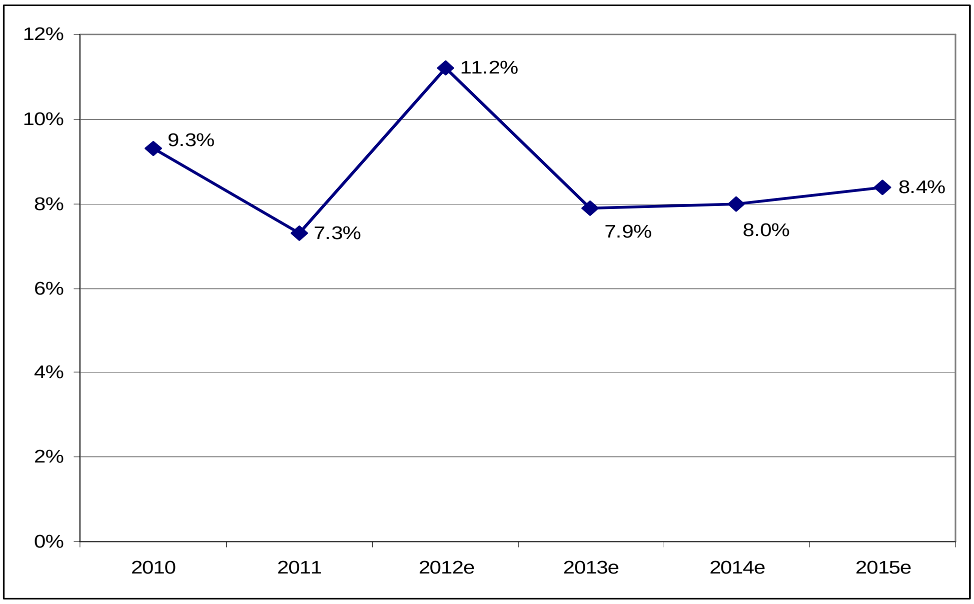


Source: First Berlin Equity Research, MPH Mittelstaendische Pharma Holding AG

In contrast, margin development over the past 18-24 months has been difficult, driven mostly by the introduction of a mandatory discount (increase from 6% to 16%) in 2010. While there are discussions about rolling back this discount given the financial positions of SHIFs in Germany at the moment, we do not believe that discounts will be rolled back given the long term dire straits of SHIFs. Our base case scenario therefore maintains the 16%

discount and also does not take into account strong impact from the newly acquired Windsor activities. The chart below shows our margin development assumptions until the year 2015E. Again we believe that our assumptions are quite conservative, given that there could be significant upside stemming from the healthcare activities. At this early stage however, we believe it is too early to take a major impact from these activities into our estimates.

Figure 2: EBIT Margin Development 2010-2015E



Source: First Berlin Equity Research, MPH Mittelstaendische Pharma Holding AG

BALANCE SHEET

Another thing which has seen significant changes from the consolidation of Windsor AG is the company's balance sheet. Not only has the company gained access to roughly 4.3m of its own preference shares owned by Windsor AG (which it plans to sell in a private placement) but also balance sheet value has increased by roughly 60% to EUR115m at the end of H1 2012.

The most important aspect when looking at MPH's balance sheet in our opinion is inventories and receivables. Here, although the company is already working relatively efficiently, we see further improvements possible as additional activities of the group become larger contributors. Inventories and receivables at this point are quite high with inventory turnover at 75 days in 2012E (60.2 days in 2011). This stems largely from the nature of business which makes up the lion's share of MPH at this time. In parallel importing it is not uncommon to have relatively high levels of inventories stemming from bulk importation of pharmaceuticals and then selling these bulk lots off over a longer period of time. The same holds true for receivables, given that government payers (i.e. SHIFs) tend to pay for bills reliably, but with a certain time delay.

At this time we do not model significant improvements in both days sales outstanding (DSO) or inventory turnover, but believe that even modest improvements here will have a significant impact on working capital.

MARKET ENVIRONMENT

At this time MPH is predominantly active in the field of pharmaceutical generics and parallel importing. While the company is also active in additional business areas, such as clinical nutrition and animal health, these activities at this time are still quite small, with the lions share of revenues (roughly 90%) stemming from the previously mentioned activities.

Furthermore, the company is almost exclusively focused on the German pharmaceutical market at this time – with some small steps taken towards internationalization since the acquisition of the Windsor AG stake (through the Simgen holding of Windsor). Therefore the most important market to examine in this report is the German pharmaceuticals market.

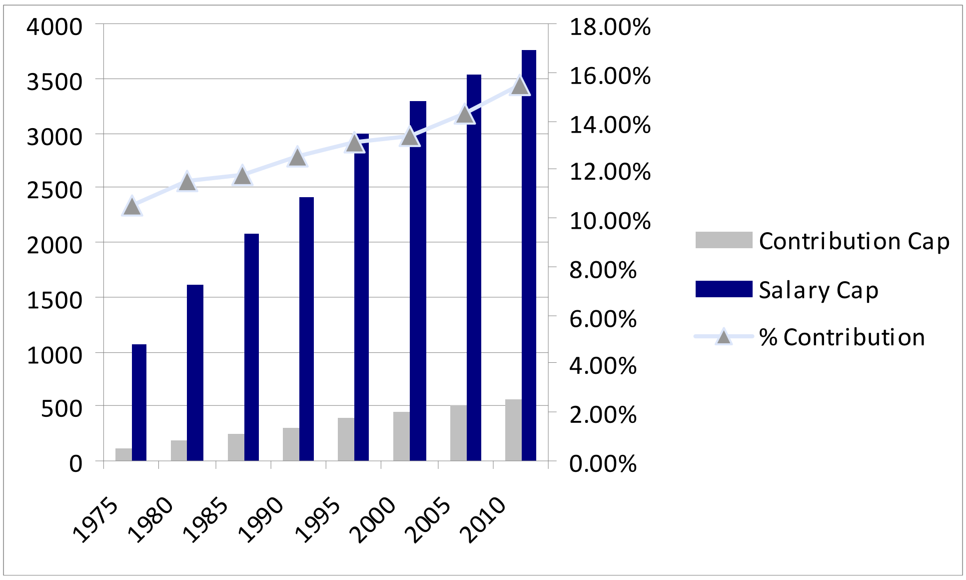
GERMANY – THE 4TH LARGEST PHARMACEUTICAL MARKETS

Germany is currently the fourth largest pharmaceuticals market (number 3 until it was overtaken by China this year) in the world. The German healthcare system is dominated by government health insurance funds (SHIFs) which cover roughly 90% of the population with the remaining 10% of insured persons covered under private health insurance plans. Altogether virtually all of the population has access to healthcare coverage. Given the dominating standing of SHIFs in the role of payer of healthcare services within the system it is a given that any changes to reimbursement behaviour (i.e. healthcare reforms and austerity programs) have a significant effect on all players in the market.

To get a better understanding as to the spending limitations and more importantly anticipated costs due to an aging population in Germany it is important to take a look at the mechanics of SHIFs. Statutory health insurance funds are funded through a set percentage withheld by employers from wages. These contributions are split evenly between employees and employer and therefore represent very reasonable health insurance coverage rates for the employee and their non-working immediate family members (spouse and children).

Over the past 10 to 15 years the German healthcare system has seen several changes and shortfalls at SHIFs has been an issue plaguing the industry. While many initiatives have been taken to curb rapid cost expansion, such as for example introducing small co-pays for doctor's visits the system is consistently underfunded. In 2012 the situation for the first time has relaxed a bit, with discussion regarding paybacks to insurance payers on the overage amassed (and first SHIFs already distributing some funds to their policy takers). However, this should be seen more as a near term effect rather than a change in the overall problem – an aging population with ever expanding medical needs.

Figure 3: Contributions to German Statutory Health Funds



Source: First Berlin Equity Research, German Statistics Office

While the above chart paints a picture of large increases in terms of SHIF contribution paid by insured persons we believe the real issue is future contributions into the system.

Germany with an average age of 44.3 years is one of the oldest populations on average in Europe. Coupled with the lowest birth rate in Europe this does not give a happy picture for fund generation of SHIFs. In 2002 the German government had several studies completed to investigate the effects of an aging population on the contribution rate of government health insurance. Results from these studies range from 16% contribution to well above 30% by 2030. We do however note, that assumptions in many of these studies are unlikely to be realistic (for example some studies assume medical cost inflation of only 1%, i.e. below inflation rate for the entire economy). Other studies in the range below 20% assume a constant medical cost per capita until the year 2030, which is not realistic given that old age requires higher medical expenses given that old age diseases such as cancer, Alzheimer's and dementia are some of the most expensive medical issues to treat.

Table 2: Research Studies for German Healthcare Contributions

Research Study	Year	% Contribution	Assumptions
Knappe 1995	2030	16%	Constant spending, rising share of retired people
Erbsland/Wille 1995	2040	15-16%	Constant spending, rising share of retired people
DIW 2000	2040	34%	Productivity growth 2.1%, medical cost inflation 1%, unchanged morbidity
Bzuttler/Fickel/Lautenschlager	2040	>30%	Rising costs
Hof 2001	2050	21-26%	Changing income and expenses
Pfaff 2002	2050	21.4%	Costs rising faster than income, lower retirement checks, equal share of female and male workig population

Source: First Berlin Equity Research, German Government

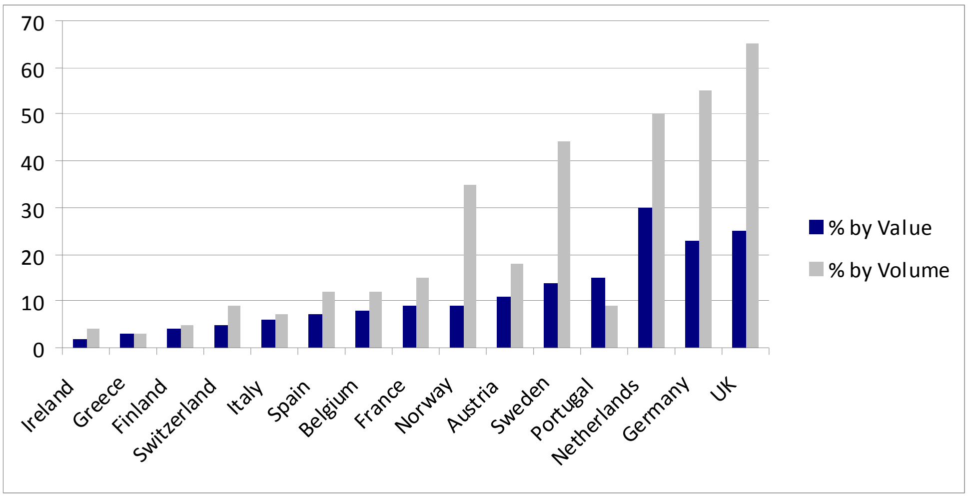
While estimates above 30% are rare in the studies represented in the chart above, we believe that they are realistic if one takes into account that the basis of these studies was that healthcare benefits remain the same. Actually these assumptions in themselves are flawed as the amount of services offered through government healthcare insurances have been cut since the year 2000. Lower reimbursement for dental care, eyeglasses and co-pay for doctors visits are just a few examples of this. On the other hand it is not viable to actually increase healthcare contributions to 30% without very forceful political headwind. Therefore the only option, in our opinion, will be to curb healthcare spending even further going forward, i.e. favouring cheaper drugs with proven benefit rather than high priced experimental drugs.

One example of this in the German - and other markets - can already be seen as certain initiatives call for setting reimbursement levels of newly introduced drugs higher than existing treatments only if a significant clinical benefit in terms of treatment results can be shown.

GENERICS DRUGS – LOWER COST, SAME LEVEL OF CARE

One very effective method to curb the increases in healthcare costs has long been the use of generic drugs. Once patent protection for an originator product ends the market is open for the introduction of generic drugs which have the same active ingredient as the originator brand but due to a much lower cost of development (very limited clinical trials which only check for bioequivalence) and much lower marketing expenditures (doctors already know the brand for years) can be offered significantly cheaper than the original. The use of generics has been increasing steadily in Germany. While in the 1980's the percentage was still at a low level, accounting for roughly 30% of all prescriptions where the originator brand has gone off patent, by 2008 this has increased to 85% while the percentage by price lags behind due to lower prices as indicated later in this section. This large amount of growth in the number of generics dispensed can largely be attributed to political pressure resulting from the need to cut healthcare expenditures. In terms of total drug prescriptions this relates to roughly 62% of scripts in 2008 (i.e. accounting for the total market of patent protected and off-patent substances).

Figure 4: Generics Market Share by Country (%)



Source: First Berlin Equity Research, European Generics Association

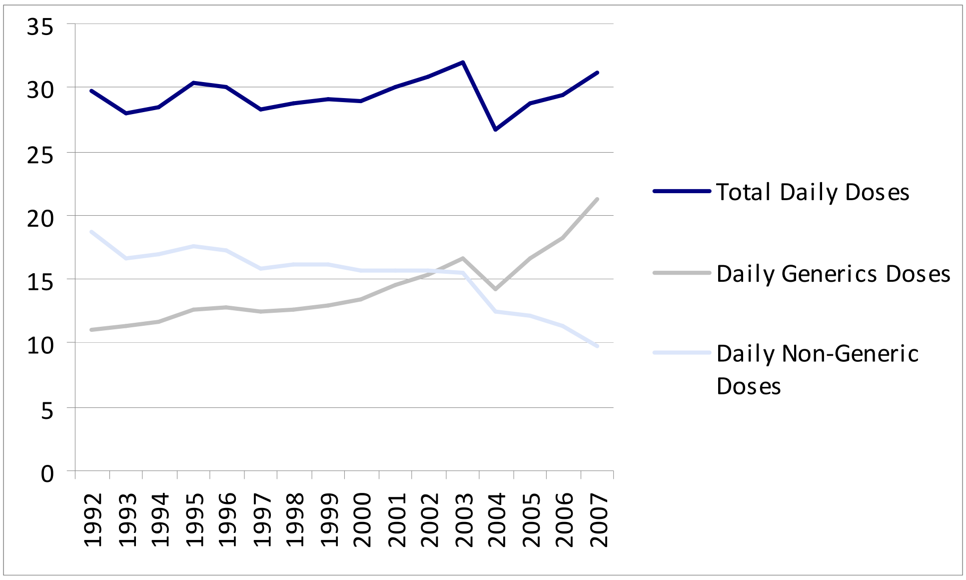
German generics environment

The use of generics in Germany is extremely widespread in comparison to other European countries and only lags behind the UK, however even though pricing levels of generics drugs are already lower than those of originator brands the past several years have seen a significant amount of pricing pressure at the hands of the German government – especially in very competitive indications such as antibiotics. Price pressure has been observed to a lesser extent in the specialized niches where MPH is active.

Since 2010 the pressure on generics pricing in Germany has decreased slightly given that pricing levels in the country for these types of drugs are already at very reasonable levels. At this time we see a larger degree of price pressure on patent protected drugs with governmental influence on generics pricing waning in the country – one of the examples here is the mandatory 16% discount (6% before 2010) granted by drug manufacturers to German SHIFs. This of course spells good news for generics manufacturers and gives more clarity on the pricing development moving forward.

Never the less, as can be seen in the chart below the degree to which generics are used in the German healthcare market is increasing steadily and especially since the introduction of the so called aut-idem rule in 2004 has experienced another push. The following chart is not based on the value of prescriptions, but rather on the daily doses of pharmaceuticals consumed by patients in the country (as based on pharmaceuticals sales volume at pharmacies) for those medications for which generics exist.

Figure 5: Pharmaceutical Prescription Trends in Germany (in %)



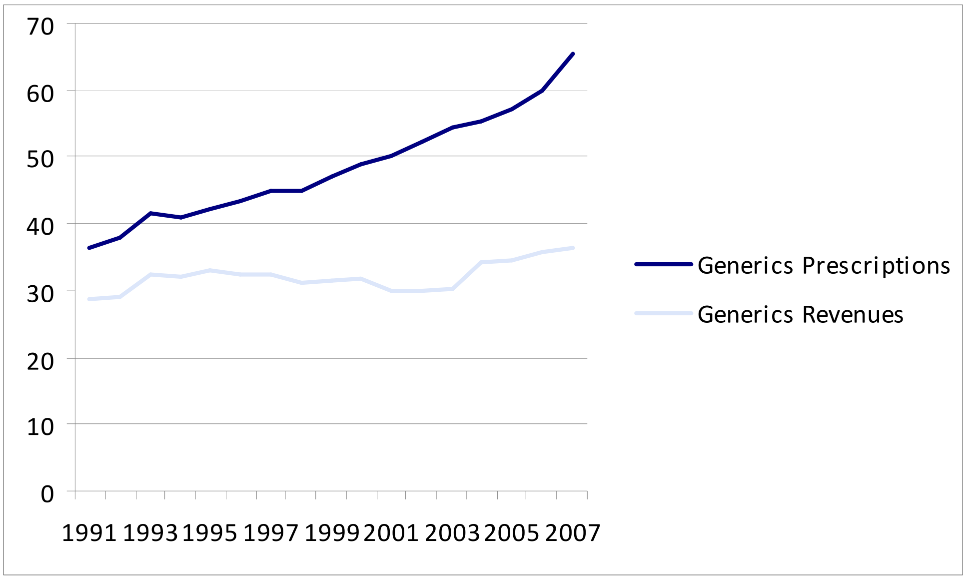
Source: First Berlin Equity Research, Arzneimittel Verordnungsreport

The introduction of the aut-idem rule as mentioned above was a a very large driver of generics penetration in the country as the rule calls on pharmacists to prescribe the cheapest possible drug that fulfils the prescription requirements set by the physician. In non-technical terms this means that physicians write the prescription calling for an active ingredient rather than the brand name of a specific drug (for example omeprazole rather than the brand name Prilosec/Losec). Since that time many additional measures have been introduced which allowed generics to gain further penetration, but at the same time also measures which have lowered the cost of generics which has led to some margin pressure within the German pharmaceuticals market. However, given the lower cost of introducing a generic drug to the market even with measures to curb costs the German market still remains quite profitable for efficiently run generics companies.

The following chart illustrates more effectively the true dimension of generics penetration in Germany as a proportion of the off-patent pharmaceuticals sold in Germany. As can be seen the trend clearly favours generics whenever they are available for a given product with penetration reaching close to 70% at this time. However, in terms of total market value generics only make up roughly 37% of the total value of the off-patent pharmaceuticals market, which is a result of the heavy discount generics represent towards originator brands which remain on a high pricing level even post patent expiration.

One might argue since generics penetration is already so high it might be difficult to achieve an even higher penetration. However, that is only part of the story: Given that a large number of products are set to see their patent protection expire in the coming years the market for generics products continues to grow. Experts have named this wave of patent expiration the “patent cliff”.

Figure 6: Germany - Generics Marketshare Development



Source: First Berlin Equity Research, Arzneimittel Verordnungsreport

PRODUCTS AND SERVICES

As outlined earlier in this report MPH is active in a broad range of healthcare related activities, with the majority falling into the areas of generic drugs and parallel importing of patent protected drugs. Furthermore the company is active in healthcare related fields such as animal health and clinical nutrition – the later stemming from the acquisition of a 52% stake in former shareholder Windsor AG. In this section we will focus predominantly on MPH's generics and parallel importing activities, given that they account for roughly 90% of revenues at this time. We will also briefly touch on the company's other healthcare and pharmaceuticals related activities to give a quick overview of potential growth stemming from these activities in the future.

PHARMACEUTICALS – THE CURRENT MAIN DRIVER

Before the acquisition of the 52% stake in Windsor AG the company was focused almost exclusively on this segment. With a strong track record in both revenue growth and new product introduction the company has been able to quickly become a strong partner to pharmacies and has established a good reputation among its customers.

PARALLEL IMPORTED PHARMACEUTICALS

One very powerful tool to cut healthcare expenditures (and one of the only measures without active government pricing controls to save money on those products which still enjoy patent protection) is to exploit the discrepancies in pricing for a particular pharmaceutical product within member states of the EU. A drug is acquired in an EU member country and then imported into Germany where it is repackaged to comply with German regulations.

Particularly, harmonization in terms of regulations, manufacturing standards and quality control across the EU has made it easier for parallel importers to profit from these pricing differences given that the act of gaining approval to sell any given parallel imported drug acquired through documented (and legal) channels within the EU follows the legal framework of a safe drug – regardless of where in the EU it was acquired.

Given that pricing for pharmaceuticals tends to be lower in other European member countries as compared to high priced countries such as Germany, companies such as MPH can benefit from this arbitrage, profiting from a governmental push to increase the use of parallel imports to lower drug expenditures in the healthcare system. At this time there is a quota in place for pharmacists in Germany which requires that 5% of the volume of prescription products dispensed must be parallel imported drugs from other EU member states in order to lower pricing levels on those drugs for which patent protection – and hence no generics – exists. While there is currently no active discussion about increasing this mandatory level of parallel imports ongoing we do hold the believe that with rising pressure on the healthcare system this quota could increase one day. For the time being our base case holds to this 5% quota going forward.

As described earlier in this report, MPH's Haemato Pharm AG is active in cherry picked indication areas for which the company provides parallel imported drugs – i.e. the same as is the focus for the company's generics activities; Haemato Pharm AG focuses primarily on the indication areas Oncology, HIV, Neurology, Rheumatoid Arthritis and Cardiovascular. Once again, these niches might have a lower volume of prescriptions than other "popular" indication areas – such as for example anti-viral or antibiotic drugs - however the pricing level for these types of products is generally quite high and competition from bigger players tends to be lower.

At this point Haemato Pharm AG has more than 500 product approvals in this segment and therefore is a very strong player within the indication areas served. One added bonus in the field of parallel importing that needs to be mentioned is the potential for cross selling. Given that there is only a limited supply for parallel imported drugs in Germany, since pharmaceutical companies can judge quite efficiently how much stock they leave with wholesalers in low cost countries, Haemato Pharm is in a position where it can essentially choose who to sell their parallel imported drugs to, the company can require pharmacists to also purchase their generics drugs in a bundle deal to get their hands on Haemato Pharm's coveted parallel imports.

The mechanics of parallel importing

In the simplest of terms, parallel importing of pharmaceutical products can be described as "buy low, sell high". However, as is usual in regulated markets where price setting ability within a highly regulated market is difficult, the before used simple expression to describe the business is only part of the story. A parallel importing company takes advantage of the different pricing levels for pharmaceutical products among the member countries of the EU by purchasing the products at low cost, importing them into a country with higher medicine costs (in the case of Haemato Pharm this is currently Germany), repackaging the products to meet the country's specific regulatory requirements (such as language, package design, etc.) and selling it at a higher price – yet maintaining a discount to the same product in the German market sold by the original manufacturer.

Due to a harmonized regulatory environment across the European Union the issue of product safety is a non-issue, given that products sold, for example, in Greece have to meet the same standards on manufacturing practice, sourcing of raw materials and regulatory approval as those products marketed in Germany. This makes it simple as a parallel importing company faces a minimum of bureaucracy when gaining regulatory approval to sell their parallel imported products. No clinical trials are required, as long as the product was sourced in the EU and it can be assured that product meets European approval guidelines.

One issue which is vitally important to profitability is low costs. Through the company's focus on specific niches and the resulting lower number of pharmacies which need to be worked with on a regular basis the company requires only a very limited sales force (which works mostly through the telephone as opposed to costly site visits) of 10 persons at the moment. We believe the company can sustain its current growth path by adding 1 or 2 persons per year to this sales force. This stands in stark contrast to other parallel import and sales operations which sometimes employ several hundreds of people to service Germany's more than 21,000 pharmacies.

Every Industry has its Black Sheep

One recent example – which actually serves as a benefit to companies such as MPH's Haemato Pharm AG who comply with the legal framework - does show that in the future regulations on behalf of parallel importers might become more stringent. The case in question involved "parallel importers" who procured sacks of pills which were destined for the treatment of HIV in Africa, repackaged them according to German specifications and sold them on the German market. While the risk to patients were likely very small given that these pills were produced under GMP, this practice is highly illegal and will most certainly bring legal repercussions to the companies involved in this case or possible future cases. Even though the case involved HIV medications, an area MPH's Haemato Pharm is targeting, the company was not involved in this case. We believe that companies involved in parallel importing could face tougher scrutiny as to their sourcing activities in the future following this criminal offense. While this tougher scrutiny might discourage new entrants into the market we do not believe additional regulations will cause a major burden for existing operations such as Haemato Pharm who already perform their sourcing and re-selling activities with transparency and in full accordance with the legal framework.

GENERICS

As described earlier in this report MPH's activities in the generics field are likewise limited to a handful of low volume, low competition, high price indication areas such as oncology and HIV. While there are most certainly other attractive niches as well we believe current off-patent products and those which are set to lose patent protection in the next years serve as a strong base for the company to continue to build its franchise.

At this time the company has 12 registrations in its portfolio and we believe that management will work diligently to continue to add new generics formulations as time goes on. Revenue generation (once relationships with pharmacies have been built – which is the case for MPH) tends to grow with each additional product added – likewise productivity goes up as well as fixed cost and sales expenditures do not increase significantly with each additional product.

MPH at this time is still a very minor player in the generics field and will likely never reach the size of such industry heavy weights in the German market such as STADA, Ratiopharm or Hexal. However, this is also not the business model of the company and ambitions to become a broad range generics player on behalf of MPH would make us quite nervous. Rather, we – and the company's management – see the company's generics activities as a supplement to trading activities in the parallel importing business and see generics as revenue and margin accretive when sold to pharmacies in combination.

ACTIVITIES IN HEALTHCARE

Through the acquisition of the Windsor stake and subsequent split into the segments pharma and healthcare the company has bundled virtually all activities gained through the Windsor stake acquisition as well as the two newly formed holdings and the company's own animal health franchise into the healthcare segment. At first look it appears that the different holdings within this segment hold little use beyond being additional holdings with little or no cross selling potentials. This, fortunately, is far from the truth. Most holdings within this segment can directly or indirectly be utilized to expand the core business of the company.

Haemato Vet GmbH – parallel importing and generics for animal health

Targeted at veterinary care this holding of MPH has been founded in 2010 and has been able to generate first revenues (albeit very small) already in 2011. Here the company's lead product is PernasanPro Vet which is a food additive for the care of joints and tendons of horses, cats and dogs. While this has very little to do with the company's activities within generics and parallel importing we believe that the company can use PermasanPro Vet to gain footing within the veterinary market in Germany and then ultimately use these connections for cross selling of the company's generics brands given that animal care medications tend to be different dosages of human medicines (obviously lower dosage for small animals such as cats or much higher in large animals such as horses).

Healthcare Solutions GmbH – helping pharmacies

This is a newly formed holding of MPH and therefore no revenues have been generated up to this point. However, in the future the company aims to offer consulting for pharmacies, a field which is not only lucrative but serves as an extended sales force for the company's products aimed for the pharmacy (such as generics and parallel imports for Haemato Pharm AG but also patient individual medicines produced by Pharmigon GmbH).

Nutri Care GmbH – nutrition consulting for doctors and clinics

One subject which is gaining more traction in the medical field is nutrition and its impact on health related issues. Here the company will specifically focus on giving nutritional consulting for doctors who are faced with treating patients with specific dietary needs. Here we could foresee cross selling potential for the company's personalized medicines manufactured at Pharmigon GmbH.

While there is additional holdings within the company we believe just listing these specific cases gives a good overview of the cross selling potentials among the different holdings the company has and believe the product portfolio of the company is geared towards continued growth going forward and becoming more robust in terms of margin generation as all these holdings begin working in unison – and therefore becoming less dependent on just one business line which could be impacted by singular measures in the healthcare system in terms of cost cuts. Be it through independence from the healthcare system through dealing with private payers (such as for example in the veterinary care field or through healthcare real estate activities of Windsor AG) or through international expansion (such as selling generics through Simgen AG).

MANAGEMENT

CEO

Patrick Brenske has gained his business know-how through his studies at the American University in Washington D.C and at the Frankfurt School of Finance which he graduated from with a Master degree in business. Mr Brenske was able to collect insights and expertise in the healthcare field through his work at Haemato Pharm AG in the fields of sourcing and sales which he has been leading since 2007. In 2009 Mr Brenske was appointed as CEO of MPH since its formation in 2009 and is responsible for the operative business activities of the company.

CFO

Dr. Christian Pahl was appointed to the board of MPH in May 2010 and is responsible for group finances. Before joining MPH Dr. Pahl was able to gain extensive know-how of the business world through his studies of Business at University and subsequent doctorate in Finance. Dr. Pahl started his career with Arthur Andersen and from there on held CFO positions within several mid-sized companies in the technology and telecommunications sectors.

Supervisory Board

Chairwoman – Andrea Grosse was born in 1965 in Nuremburg, Germany and has been Chairwoman of MPH's supervisory board since March 2010. Following her university studies in juris prudence at the Ludwig Maximilian University in Munich, Germany, and legal internship in Munich, Germany and London, England, Mrs Grosse began her career as a lawyer in 1995 in Munich, Germany.

Vice Chairwoman – Prof. Dr. Dr. Sabine Meck, born 1955 in Hattingen, Germany, has been a member of the supervisory board of MPH since June 2009 and since June 2010 vice chairwoman of the supervisory board. Following her university studies Professor Meck completed two doctorates in Philosophy and Sociology and currently chairs the courses of Financial Psychology and Sociology at the SMI Steinbeis-Hochschule in Berlin, Germany. Professor Meck is also active as a scientific journalist.

Member – Dr. med. Marion Braun was born 1953 in Heidelberg, Germany, and has been member of MPH's supervisory board since June 2010. Following her university education in the field of medicine in Heidelberg, Germany and Rome, Italy, Dr. Braun continued her studies in the field of internal medicine. In 1993 Dr. Braun started practicing medicine in her own practice with a focus on diabetes in Schluechtern, Germany. Furthermore Dr. Braun holds leading positions in several diabetes- and medicine-related interest groups.

FINANCIAL TABLES

Table 3: Profit & Loss

All figures in EUR m	2010A	2011A	2012E	2013E	2014E	2015E
Revenues	**112**	**146**	**201**	**237**	**275**	**311**
Cost of goods sold	96	129	170	208	241	272
Gross profit	**17**	**17**	**31**	**29**	**34**	**38**
S&M	0	0	0	0	0	0
G&A	0	0	0	0	0	0
R&D	0	0	0	0	0	0
Other operating income (expense)	-5	-4	-6	-7	-8	-9
Operating income (EBIT)	**10**	**11**	**22**	**19**	**22**	**26**
Net financial result	0	-1	-1	-1	-1	-1
Non-operating expenses	0	0	0	0	0	0
Pre-tax income (EBT)	**10**	**10**	**21**	**18**	**21**	**25**
Income taxes	1	1	5	4	5	5
Minority interests	0	0	-4	-2	-2	0
Net income / loss	**9**	**9**	**13**	**12**	**14**	**19**
Diluted EPS (in €)	**0.24**	**0.23**	**0.31**	**0.28**	**0.34**	**0.47**
EBITDA	**11**	**11**	**23**	**19**	**23**	**26**
Ratios						
Gross margin	14.9%	11.5%	15.4%	12.1%	12.2%	12.3%
EBIT margin on revenues	9.3%	7.3%	11.2%	7.9%	8.0%	8.4%
EBITDA margin on revenues	9.5%	7.6%	11.5%	8.2%	8.3%	8.4%
Net margin on revenues	8.1%	5.9%	6.4%	4.9%	5.1%	6.3%
Tax rate	9.9%	12.2%	22.0%	22.0%	22.0%	22.0%
Y-Y Growth						
Revenues	n.a.	29.4%	38.0%	18.0%	16.0%	13.0%
Operating income	n.a.	2.1%	111.6%	-16.8%	17.5%	18.7%
Net income/ loss	n.a.	-5.3%	47.8%	-8.5%	20.6%	38.1%

Source: First Berlin Equity Research, MPH Mittelstaendische Pharma Holding AG

Table 4: Cash Flow

All figures in EUR m	2010A	2011A	2012E	2013E	2014E	2015E
EBIT	**10**	**11**	**15**	**19**	**22**	**26**
Depreciation and amortisation	0	0	1	1	1	0
EBITDA	**11**	**11**	**15**	**19**	**23**	**26**
Changes in working capital	-8	-6	-18	-8	-1	-6
Other adjustments	-1	-3	-2	-5	-6	-7
Operating cash flow	**1**	**2**	**-5**	**6**	**16**	**13**
CAPEX	-1	-1	0	0	0	0
Investments in intangibles	0	-3	0	0	0	0
Free cash flow	**1**	**-2**	**-5**	**6**	**16**	**13**
Debt financing, net	**3**	**12**	**8**	**8**	**8**	**8**
Equity financing, net	**0**	**0**	**3**	**0**	**0**	**0**
Other changes in cash	**-5**	**-7**	**-8**	**-9**	**-10**	**-12**
Net cash flows	**-1**	**2**	**-1**	**5**	**13**	**10**
Cash, start of the year	1	1	2	1	6	20
Cash, end of the year	**0**	**3**	**1**	**6**	**20**	**29**
EBITDA/share (in €)	**0.28**	**0.29**	**0.56**	**0.47**	**0.55**	**0.63**
Y-Y Growth						
Operating cash flow	n.a.	67.8%	n.m.	n.m.	148.8%	-14.1%
Free cash flow	n.a.	n.m.	n.m.	n.m.	148.8%	-14.1%
EBITDA/share	n.a.	3.2%	94.0%	-15.9%	17.4%	14.4%

Source: First Berlin Equity Research, MPH Mittelstaendische Pharma Holding AG

Table 5:

All figures in EUR m	2010A	2011A	2012E	2013E	2014E	2015E
Assets						
Current assets, total	**26**	**30**	**55**	**69**	**91**	**108**
Cash and cash equivalents	1	2	1	6	20	29
Short-term investments	0	0	0	0	0	0
Receivables	11	4	9	11	13	14
Inventories	13	21	35	43	50	56
Other current assets	0	2	9	9	9	9
Non-current assets, total	**39**	**43**	**49**	**49**	**49**	**49**
Property, plant & equipment	0	0	1	1	1	1
Goodwill & other intangibles	38	39	46	46	46	46
Other assets	0	4	2	2	2	2
Total assets	**64**	**73**	**104**	**118**	**140**	**157**
Shareholders' equity & debt						
Current liabilities, total	**13**	**17**	**40**	**50**	**58**	**61**
Short-term debt	2	12	20	20	20	20
Accounts payable	6	4	7	8	9	10
Current provisions	3	1	6	6	6	6
Other current liabilities	3	1	7	16	23	24
Long-term liabilities, total	**4**	**6**	**7**	**7**	**7**	**7**
Long-term debt	4	6	6	6	6	6
Deferred revenue	0	0	0	0	0	0
Other liabilities	0	0	1	1	1	1
Minority interests	**0**	**0**	**4**	**6**	**8**	**8**
Shareholders' equity	**48**	**49**	**53**	**55**	**67**	**81**
Share Capital	38	38	41	41	41	41
Capital Reserve	0	0	4	4	4	4
Other Reserves	0	11	0	1	1	1
Treasury Stock	0	0	0	0	0	0
Loss carryforward / retained eranings	9	0	3	5	7	14
Total consolidated equity and debt	**64**	**73**	**104**	**118**	**140**	**157**
Ratios						
Current ratio	2.02	1.74	1.37	1.39	1.56	1.78
Quick ratio	0.97	0.51	0.49	0.53	0.71	0.86
Financial leverage	1.35	1.47	1.97	2.14	2.10	1.93
Book value per share	1.25	1.30	1.28	1.34	1.62	1.97
Net cash	-5	-15	-25	-20	-6	3
Return on equity (ROE)	19.1%	17.5%	24.2%	21.1%	21.1%	23.9%
Days of sales outstanding (DSO)	35.7	10.8	17.0	17.0	17.0	16.0
Days of inventory turnover	51.1	60.2	75.0	75.0	75.0	75.0

Source: First Berlin Equity Research, MPH Mittelstaendische Pharma Holding AG

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 October 2012	EUR2.45	Buy	EUR5.50

Stefan Muehlbauer

First Berlin
Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 88
Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

FIRST BERLIN POLICY

In an effort to assure the independence of First Berlin research neither analysts nor the company itself trade or own securities in subject companies. In addition, analysts' compensation is not directly linked to specific financial transactions, trading revenue or asset management fees. Analysts are compensated on a broad range of benchmarks. Furthermore, First Berlin receives no compensation from subject companies in relation to the costs of producing this report.

ANALYST CERTIFICATION

I, Stefan Muehlbauer, certify that the views expressed in this report accurately reflect my personal and professional views about the subject company; and I certify that my compensation is not directly linked to any specific financial transaction including trading revenue or asset management fees; neither is it directly or indirectly related to the specific recommendation or views contained in this research. In addition, I possess no shares in the subject company.

INVESTMENT RATING SYSTEM

First Berlin's investment rating system is five tiered and includes an investment recommendation and a risk rating. Our recommendations, which are a function of our expectation of total return (forecast price appreciation and dividend yield) in the year specified, are as follows:

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%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

Up until 16 May 2008, First Berlin's investment rating system was three tiered and was a function of our expectation of return (forecast price appreciation and dividend yield) over the specified year. Our investment ratings were as follows: BUY: expected return greater than 15%; HOLD: expected return between 0% and 15%; and SELL: expected negative return.

ADDITIONAL DISCLOSURES

First Berlin's research reports are for qualified institutional investors only.

This report is not constructed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer would be illegal. We are not soliciting any action based upon this material. This material is for the general information of clients of First Berlin. It does not take into account the particular investment objectives, financial situation or needs of individual clients. Before acting on any advice or recommendation in this material, a client should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should be relied upon as such. Opinions expressed are our current opinions as of the date appearing on this material only; such opinions are subject to change without notice.