

MPH Mittelstaendische Pharma Holding AG

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

2014 Results

RATING	BUY
PRICE TARGET	€5.00
Return Potential	104.9%
Risk Rating	High

FULL YEAR RESULTS MIXED, LOWERING TARGET PRICE

MPH Mittelstaendische Pharma Holding AG (MPH) reported its full year 2014 results 15 May. Company sales declined 3.3% Y/Y to €219.3m compared to €226.8m in the prior year. EBIT was 13% lower Y/Y at €10.9m (2013: €12.5m), whereas net income (NI) rose 14% Y/Y to €85m. The results were also mixed compared to our forecasts. We have adjusted our forecasts and DCF model resulting in a new target price of €5.00 (€6.10). Our rating remains Buy.

Top line hurt by lower HAEMATO performance Sales came in at €219.3m compared to our projection of €236.1m. MPH's largest holding, HAEMATO AG, contributed €202.7m to group level sales, on our calculations. This implies that the group's healthcare and medical services segment, M1 Med Beauty AG, generated some €16.6m in revenues. We trace the slight slump in group sales to the regulatory issues surrounding parallel importers which we reported on in our HAEMATO note of 16 April 2015 (see overleaf for recap).

Balance sheet remains solid Due chiefly to a lower bottom line and working capital investments, operating cash flow was negative at -€0.5m. However, this was more than compensated by cash flows from financing totalling €6.6m. The company exited 2014 with some €10.1m in cash, whereas financial debt (short- and long term) increased to €37.7m compared €31.8m in 2013. This equates to a net debt/EBITDA ratio of 2.2x (2013: 1.8x). The equity ratio edged 100 basis points higher to 63.1%.

Dialling back forecasts and target price We have recalibrated our near term projections to reflect the profitability metrics booked by HAEMATO in 2014. Mainly, we have adjusted our margin structure to account for increased competition. At the same time, clearing regulatory bottlenecks support our assumption of renewed sales growth of 7.6% for 2015 followed by 9.3% in 2016. Our DCF model yields a new fair value and TP of €5.00 (€6.00).

FINANCIAL HISTORY & PROJECTIONS

	2011A	2012A	2013A	2014A	2015E	2016E
Revenue (€m)	145.50	205.71	226.84	219.25	236.00	258.00
Y-o-y growth	n.a.	41.4%	10.3%	-3.3%	7.6%	9.3%
EBIT (€m)	10.63	21.88	12.50	10.92	11.85	12.82
EBIT margin	7.3%	10.6%	5.5%	5.0%	5.0%	5.0%
Net income (€m)	8.63	18.40	7.49	8.45	8.90	9.70
EPS (diluted) (€)	0.23	0.36	0.16	0.12	0.12	0.13
DPS (€)	0.20	0.22	0.11	0.12	0.12	0.12
FCF (€m)	0.13	5.43	-5.70	-2.29	18.22	7.62
Net gearing	6.2%	34.5%	42.2%	40.1%	35.6%	61.8%
Liquid assets (€m)	2.46	14.57	5.85	10.12	12.20	12.68

RISKS

Regulatory changes in healthcare systems, 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 fields of pharmaceuticals, medical and patient care. The strategic focus of the group's activities lays within the therapeutic areas of chronic diseases and aesthetics. It is expected that these segments will gain further growth also due to the future development of the German healthcare market.

MARKET DATA

As of 15 May 2015

Closing Price	€ 2.44
Shares outstanding	42.81m
Market Capitalisation	€ 104.46m
52-week Range	€ 2.01 / 3.02
Avg. Volume (12 Months)	30,345

Multiples	2014A	2015E	2016E
P/E	21.4	21.0	19.3
EV/Sales	0.7	0.7	0.6
EV/EBIT	14.4	13.3	12.3
Div. Yield	4.9%	4.9%	4.9%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2014

Liquid Assets	€ 10.12m
Current Assets	€ 68.15m
Intangible Assets	€ 5.36m
Total Assets	€ 150.20m
Current Liabilities	€ 28.64m
Shareholders' Equity	€ 68.77m

SHAREHOLDERS

Magnum AG	63.5%
Free Float	36.5%

**Table 1: P&L KPIs vs estimates**

in EURm	FY-14A	FY-14E	Delta	FY-13A	Delta
Sales	219.3	236.1	-7.1%	226.8	-3.3%
EBIT	10.9	14.8	-26.2%	12.5	-12.6%
margin	5.0%	6.3%	-	5.5%	-
Net income*	8.5	6.1	39.3%	7.5	13.5%
margin	3.9%	2.6%	-	3.3%	-
EPS (in EUR diluted)	0.12	0.14	-17.4%	0.16	-26.2%

* before minority interests

Source: First Berlin Equity Research; company

2014 Revenue KPI gated by unexpected distribution bottleneck in HAEMATO operations In an event completely unrelated to HAEMATO and its operations, Italy's national regulator for drugs, AIFA, discovered illegal pharmaceuticals in the country's parallel import channel last summer. This triggered an investigation into the illegal trafficking. The drugs in question were blacklisted across the EU regardless of their national origin and quarantined so that authorities could verify their legality. Although there was no connection between the investigation and HAEMATO, the ensuing quality controls impacted the company's operations as well as those of rival parallel importers, when their stocks piled up waiting to be inspected and released from quarantine. AIFA recently announced that it has concluded its investigation and certified that the drugs in question exported after 1 July 2014 are completely legal. While we cannot quantify the exact impact of this Black Swan on HAEMATO's sales volumes last year, it clearly blunted sales in H2 2014.

Management to propose a dividend of €0.12 per share MPH confirmed its strategy to disburse a large part of yearly earnings to shareholders in the form of dividends. At this year's AGM to be held in Berlin on 25 June, management will propose a €0.12 dividend. This is slightly higher than our forecast (FBe: €0.11) and last year's dividend of €0.11. This equates to a 4.9% yield at the current share price level. We expect this number to remain stable over the near-term.

Adjusting our forecasts to account for regulatory issues After speaking with management, we have shifted our forecasts out one year. This stems mainly from the Italian Black Swan described above. The issue impacted the last six months of 2014 and spilled into the start of 2015, and adversely impacted the first four months of 2015. We have also dialled back our margin assumptions in view of intensified competition for HAEMATO in the parallel import space.

Company guidance for the year calls for an increase in sales volume. Optimism is supported by the market trends in the German healthcare market and the so called "second healthcare market," which includes services that are not financed by private or public health insurances. The latter should provide tailwinds to the M1 Med Beauty activities. On the HAEMATO side, the Paul Ehrlich Institute officially announced on 22 April that the regulatory quality control measures have been cancelled. We believe the HAEMATO parallel import channels are once again wide open which should provide a strong sales boost for the rest of 2015.

Table 2: Revised estimates

in EURm	2015E			2016E		
	Old	New	% change	Old	New	% change
Sales	258.1	236.0	-8.6%	283.7	258.0	-9.0%
EBIT	17.8	11.9	-33.4%	21.0	12.8	-39.0%
Margin (%)	6.9%	5.0%	-	7.4%	5.0%	-
Net income	11.8	8.9	-24.6%	13.7	9.7	-28.9%
Margin (%)	4.6%	3.8%	-	4.8%	3.8%	-
EPS € (diluted)	0.19	0.12	-38.0%	0.22	0.13	-42.0%

Source: First Berlin Equity Research



DCF VALUATION

All figures in EUR m	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net sales	236.00	258.00	283.45	310.96	340.07	369.97	399.45	426.82
NOPLAT	10.22	11.11	11.95	15.41	17.44	19.97	23.02	26.52
+ depreciation & amortisation	1.72	2.27	1.85	1.20	1.29	1.29	1.25	1.19
Net operating cash flow	11.94	13.38	13.80	16.61	18.73	21.26	24.27	27.71
- total investments (CAPEX and WC)	7.60	-4.35	-4.05	-4.16	-4.16	-4.01	-3.66	-3.07
Capital expenditures	-1.18	-1.29	-1.31	-1.31	-1.30	-1.27	-1.22	-1.14
Working capital	8.78	-3.06	-2.74	-2.85	-2.86	-2.74	-2.44	-1.93
Free cash flows (FCF)	19.53	9.03	9.76	12.45	14.57	17.25	20.61	24.64
PV of FCF's	18.39	7.71	7.56	8.76	9.30	9.99	10.83	11.75

All figures in EURm	
PV of FCFs in explicit period	163.4
PV of FCFs in terminal period	122.8
Enterprise value (EV)	286.2
+ Net cash / - net debt	-15.0
+ Investments / minority interests	-57.2
Shareholder value	213.9

WACC		WACC	Terminal growth rate						
			0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
Cost of equity	15.0%	6.2%	10.45	10.93	11.49	12.18	13.02	14.10	15.51
Pre-tax cost of debt	10.0%	7.2%	8.38	8.67	9.01	9.40	9.87	10.45	11.15
Tax rate	30.0%	8.2%	6.84	7.02	7.23	7.48	7.76	8.09	8.48
After-tax cost of debt	7.0%	9.2%	5.65	5.78	5.91	6.07	6.24	6.44	6.68
Share of equity capital	40.0%	10.2%	4.72	4.80	4.90	5.00	5.11	5.24	5.38
Share of debt capital	60.0%	11.2%	3.97	4.03	4.09	4.16	4.23	4.32	4.41
		12.2%	3.36	3.40	3.44	3.49	3.54	3.59	3.66
Fair value per share in EUR	5.00	13.2%	2.85	2.88	2.91	2.94	2.97	3.01	3.05

* Our model runs through 2028. We have only shown through 2022 for formatting issues

Source: First Berlin Equity Research



INCOME STATEMENT

All figures in EUR m	2012A	2013A	2014A	2015E	2016E	2017E
Revenues	205.71	226.84	219.25	236.00	258.00	283.45
Cost of goods sold	178.26	210.02	197.43	212.16	231.94	254.77
Gross profit	27.45	16.82	21.82	23.84	26.06	28.69
Personnel costs	4.19	5.82	6.48	7.08	7.74	8.50
Depreciation & amortisation	1.01	1.72	1.83	1.72	2.27	1.85
Other operating income (expense)	-7.85	-7.56	-8.01	-8.57	-8.77	-9.92
Operating income (EBIT)	21.88	12.50	10.92	11.85	12.82	14.06
Net financial result	-1.41	-1.22	-1.60	-1.32	-1.41	-1.41
Pre-tax income (EBT)	20.47	11.28	9.31	10.54	11.41	12.65
Income taxes	2.07	3.77	0.86	1.63	1.71	2.11
Minority interests	-3.69	-1.05	-3.50	-3.86	-4.23	-4.83
Net income / loss	18.40	7.49	8.45	8.90	9.70	10.54
Diluted EPS (in €)	0.36	0.16	0.12	0.12	0.13	0.13
EBITDA	22.89	14.22	12.75	13.57	15.09	15.91
Ratios						
Gross margin	13.3%	7.4%	10.0%	10.1%	10.1%	10.1%
EBIT margin on revenues	10.6%	5.5%	5.0%	5.0%	5.0%	5.0%
EBITDA margin on revenues	11.1%	6.3%	5.8%	5.7%	5.9%	5.6%
Net margin on revenues	7.2%	2.8%	2.3%	2.1%	2.1%	2.0%
Tax rate	10.1%	33.4%	9.2%	15.5%	15.0%	16.7%
Y-Y Growth						
Revenues	41.4%	10.3%	-3.3%	7.6%	9.3%	9.9%
Operating income	105.8%	-42.9%	-12.7%	8.6%	8.2%	9.7%
Net income/ loss	113.2%	-59.3%	12.8%	5.3%	9.0%	8.7%



BALANCE SHEET

All figures in EUR m	2012A	2013A	2014A	2015E	2016E	2017E
Assets						
Current assets, total	62.25	55.97	68.15	63.68	67.93	74.92
Cash and cash equivalents	14.57	5.85	10.12	12.20	12.68	15.89
Short-term investments	0.00	0.00	0.00	0.00	0.00	0.00
Receivables	12.38	7.91	11.52	8.41	9.19	9.92
Inventories	23.40	31.30	35.40	31.97	34.95	38.00
Other current assets	11.89	9.77	9.15	9.15	9.15	9.15
Non-current assets, total	49.37	71.51	82.05	81.61	80.63	80.09
Property, plant & equipment	1.09	1.71	2.41	2.27	1.49	1.11
Goodwill & other intangibles	47.15	54.35	53.56	53.26	53.06	52.89
Other assets	1.12	15.45	26.08	26.08	26.08	26.08
Total assets	111.62	127.48	150.20	145.29	148.56	155.01
Shareholders' equity & debt						
Current liabilities, total	30.30	27.62	28.64	22.65	22.36	37.02
Short-term debt	20.55	14.78	14.36	1.00	0.00	13.50
Accounts payable	5.40	7.44	7.21	7.56	8.26	9.31
Current provisions	2.37	2.29	3.82	3.82	3.82	3.82
Other current liabilities	1.97	3.11	3.26	10.28	10.28	10.39
Long-term liabilities, total	13.96	20.66	26.83	35.18	45.18	31.68
Long-term debt	12.71	17.06	23.36	31.71	41.71	28.21
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	1.25	3.60	3.47	3.47	3.47	3.47
Minority interests	13.23	17.62	25.96	29.82	34.05	38.88
Shareholders' equity	54.13	61.57	68.77	57.65	46.98	47.43
Share Capital	41.17	41.17	42.81	42.81	42.81	42.81
Capital Reserve	-2.71	4.33	2.69	2.69	2.69	2.69
Other Reserves	0.08	0.00	0.00	0.00	0.00	0.00
Treasury Stock	-4.58	-5.25	-0.02	-0.02	-0.02	-0.02
Loss carryforward / retained earnings	20.18	19.64	20.72	20.63	20.96	21.42
Total consolidated equity and debt	111.62	127.48	150.20	145.29	148.56	155.01
Ratios						
Current ratio	2.05	2.03	2.38	2.81	3.04	2.02
Quick ratio	1.28	0.89	1.14	1.40	1.48	1.00
Equity ratio	60.3%	62.1%	63.1%	60.2%	54.5%	55.7%
Financial leverage	2.06	2.07	2.18	2.52	3.16	3.27
Book value per share	1.31	1.50	1.61	1.35	1.10	1.11
Net debt	19	26	28	21	29	26
Net debt/ EBITDA	0.82	1.83	2.17	1.51	1.92	1.62
Return on equity (ROE)	27.2%	10.5%	7.2%	8.8%	11.6%	12.0%
Days of sales outstanding (DSO)	22.0	12.7	19.2	13.0	13.0	12.8
Days of inventory turnover	47.9	54.4	65.4	55.0	55.0	54.4



CASH FLOW STATEMENT

All figures in EUR m	2012A	2013A	2014A	2015E	2016E	2017E
EBIT	21.88	12.48	10.91	11.85	12.82	14.06
Depreciation and amortisation	1.01	1.72	1.83	1.72	2.27	1.85
EBITDA	22.89	14.21	12.74	13.57	15.09	15.91
Changes in working capital	-13.03	-5.30	0.05	8.78	-3.06	-3.53
Other adjustments	-3.25	-13.36	-13.28	-2.95	-3.12	-3.52
Operating cash flow	6.61	-4.45	-0.49	19.40	8.91	8.86
CapEx	-1.18	-1.25	-1.08	-0.94	-1.03	-1.04
Investments in intangibles	0.00	0.00	-0.73	-0.24	-0.26	-0.27
Acquisitions/disposals of subsidiaries	0.27	-0.28	5.28	0.00	0.00	0.00
Cash flow from investing activities	-0.91	-1.52	3.47	-1.18	-1.29	-1.31
Free cash flow	5.43	-5.70	-2.29	18.22	7.62	7.55
Debt financing, net	10.72	-1.43	5.88	-11.00	-2.00	0.00
Equity financing, net	0.00	7.98	2.49	0.00	0.00	0.00
Other changes in cash	-4.04	-9.57	-1.81	-5.14	-5.14	-5.14
Cash flow from financing activities	6.68	-3.02	6.56	-16.14	-7.14	-5.14
Net cash flows	12.11	-8.72	4.26	2.08	0.48	2.42
Cash, start of the year	2.46	2.46	2.46	2.46	2.46	2.46
Cash, end of the year	14.57	5.85	10.12	12.20	12.68	15.10
EBITDA/share (in €)	0.56	0.35	0.30	0.32	0.35	0.37
Y-Y Growth						
Operating cash flow	806.1%	n.m.	n.m.	n.m.	-54.1%	-0.6%
Free cash flow	4080.4%	n.m.	n.m.	n.m.	-58.2%	-0.9%
EBITDA/share	92.3%	-37.9%	-13.8%	6.5%	11.2%	5.4%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 October 2012	€2.45	Buy	€5.50
2...6	↓	↓	↓	↓
7	4 June 2014	€3.13	Buy	€6.10
8	1 September 2014	€2.49	Buy	€6.10
9	2 December 2014	€2.36	Buy	€6.10
10	Today	€2.44	Buy	€5.00

Ellis Acklin

First Berlin
Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 83

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

info@firstberlin.com

www.firstberlin.com

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BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

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

SELL: Expected negative return greater than -15%

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