

# MPH Mittelstaendische Pharma Holding AG

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

FY 2012 &  
 Q1 2013 Results

**RATING**  
**BUY**

**PRICE TARGET**  
**€6.10**

Return Potential 80.0%  
 Risk Rating High

## FRESENIUS SE-STYLE GROUP REORGANISATION

MPH Mittelstaendische Pharma Holding AG ("MPH") released its final FY 2012 results on 7 May. Sales and operating income development were in line with our expectations. MPH predicts further sales growth in FYs 2013E and 2014E as well as satisfactory income due to the company's underlying profitability. We have adjusted our estimates for 2013E and subsequent years for the increased competition in the firm's pharmaceuticals segment as well as the ramp-up of higher margin healthcare activities. Our updated DCF model yields a new price target of EUR6.10 (previously: EUR5.50). We reiterate our Buy rating.

**Sales +41% y/y; EBIT +106% y/y** In FY 2012 group level sales increased by 41% y/y to EUR205.7m (FBe: EUR200.8m; FY11: EUR145.5m). MPH's pharmaceuticals segment accounted for sales of EUR186.8m or 91% of the group total. The company's newly founded healthcare segment generated EUR18.9m in sales or 9% of total revenue.

EBIT of EUR21.9m (FBe: EUR22.5m; FY11: EUR10.6m) was in line with our estimate. Even though MPH's financial result was lower than we had expected following the consolidation of Windsor AG, the company beat our bottom-line estimate. Net income after minorities grew to EUR14.7m (FBe: EUR12.8m; FY11: EUR8.6m) or EUR0.37 (FBe: EUR0.31; FY11: EUR0.21) per share.

**Windsor AG consolidation boosts liquidity position** Despite higher investments in working capital, MPH's operating cash flow improved markedly y/y to EUR6.6m (FY11: EUR1.4m) due to the improved bottom-line result. Net cash flow including exceptional items associated with changes in the company's consolidation basis (+EUR3.1m) amounted to EUR12.1m (FY11: EUR1.7m). Liquid funds thus increased to EUR14.6m (end of FY11: EUR2.5m). Financial debt (short- and long-term) amounted to EUR33.3m (end of FY11: EUR17.8m). However, based on FY 2012's higher operating profit, MPH's net debt/EBITDA ratio improved to 0.8 (end of FY11: 1.4) at year-end 2012. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2011A	2012A	2013E	2014E	2015E	2016E
Revenue (€m)	145.50	205.71	243.35	286.67	325.37	355.58
Y-o-y growth	n.a.	41.4%	18.3%	17.8%	13.5%	9.3%
EBIT (€m)	10.63	21.88	17.03	21.36	25.70	31.67
EBIT margin	7.3%	10.6%	7.0%	7.4%	7.9%	8.9%
Net income (€m)	8.63	14.71	9.57	12.39	15.02	23.55
EPS (diluted) (€)	0.23	0.36	0.23	0.30	0.36	0.57
DPS (€)	0.20	0.22	0.22	0.25	0.28	0.31
FCF (€m)	0.13	5.43	4.08	8.43	19.70	18.80
Net gearing	6.2%	34.5%	38.3%	24.1%	-4.6%	-20.5%
Liquid assets (€m)	2.46	14.57	11.24	18.61	36.02	51.29

### 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 24 May 2013

Closing Price	€ 3.39
Shares outstanding	41.17m
Market Capitalisation	€ 139.53m
52-week Range	€ 2.04 / 3.93
Avg. Volume (12 Months)	83,113

Multiples	2012A	2013E	2014E
P/E	9.4	14.5	11.2
EV/Sales	0.8	0.6	0.5
EV/EBIT	7.2	9.2	7.4
Div. Yield	6.5%	6.5%	7.4%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Dec 2012

Liquid Assets	€ 14.57m
Current Assets	€ 62.25m
Intangible Assets	€ 47.15m
Total Assets	€ 111.62m
Current Liabilities	€ 30.30m
Shareholders' Equity	€ 54.13m

### SHAREHOLDERS

Magnum AG	25.0%
Windsor AG (MPH)	25.0%
Free Float	50.0%



Due to the consolidation of Windsor AG (“Windsor”), the company’s goodwill increased to EUR40.2m (end of FY11: EUR37.3m). Since MPH’s equity position improved to EUR67.4m (end of FY11: EUR49.3m) because of FY 2012’s positive bottom-line development, goodwill in relation to equity declined to 59.6% (end of FY11: 75.7%).

**Strong Q1 2013 financial key performance indicators** MPH has released financial key performance indicators for Q1 2013 on 23 May. Sales grew 31% y/y to EUR53m (Q1/12: EUR41m) and EBIT grew 34% y/y to EUR4.2m (Q1/12: EUR3.1m), which corresponds to an improved EBIT margin of 7.8% (Q1/12: 7.6%).

**Guidance 2013E and 2014E** Because the pharmaceuticals market offers attractive growth potential in the areas of patent-free as well as patent-protected pharmaceuticals, the company is generally optimistic with regard to its future development. MPH predicts further sales growth in FYs 2013E and 2014E as well as satisfactory income due to the company’s underlying profitability (i.e. low fixed costs).

**Forging ahead with group reorganisation** MPH was a pure pharmaceuticals company at the beginning of 2011. Following the acquisition of a majority stake in Windsor AG in 2012 (and subsequent divestment of Windsor’s real estate activities), MPH is forging ahead in the current fiscal year with the reorganisation of its structure à la Fresenius SE with a view to becoming a healthcare group.

At the beginning of April, MPH announced that it had sold 35% of HAEMATO PHARM AG (“HAEMATO PHARM”) to Windsor for 6.9m new Windsor shares. The remaining 65% in HAEMATO PHARM will be sold to Windsor during H1 2013. Proceeds from the sale will be used for investments in other high-margin healthcare activities. Following the transaction, Windsor AG will be a publicly listed pharmaceuticals company with annual sales of more than EUR200m. MPH’s stake in Windsor will be around 70% after the transaction.

Following discussions with management, we believe that MPH’s healthcare activities will be organised in a “healthcare” segment and the remaining activities such as HAEMATO-Vet in a third segment.

In our view, the new structure creates additional value for MPH shareholders, while at the same time reducing balance sheet risk. By selling its 100% stake in HAEMATO PHARM to Windsor (HAEMATO PHARM will become a 100% subsidiary of Windsor), MPH will replace its goodwill with cash and shares (depending on final transaction terms). Moreover, MPH will benefit from dividend payments from Windsor and also has a comfortable liquidity position to invest in its higher margin healthcare activities (pharmaceuticals segment saw margin pressure in FY 2012 due to increased competition). In addition, since Windsor shares traded around EUR2.40-EUR2.50 at the end of March 2013 (before MPH announced selling of its 35% in HAEMATO PHARM – not taking into account a discount for the newly issued shares), MPH will be able to realise capital gains when selling part of its Windsor stock (currently traded around EUR3.30).

**Adjustments to our forecasts, Buy rating confirmed** Given MPH’s dynamic top-line development in FY 2012 and following discussions with management, we have increased our sales growth assumptions for 2013E and 2014E. With regard to net income, we believe that increased competition in the company’s pharmaceuticals segment will burden operating development in the current fiscal year, leading to a slightly lower than previously anticipated profitability. However, we continue to model a gradual increase in profitability due to a further optimisation of the company’s cost structure and due to the ramp-up of higher margin healthcare activities. Changes to our forecasts are shown in table 2 (see next page).

Our updated DCF model (shifted one year ahead) yields a new price target of EUR6.10 (previously: EUR5.50). We reiterate our Buy recommendation.

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

in €m	FY-12A	FY-12E	Delta	FY-11A	Delta
Sales	205.71	200.79	2.4%	145.52	41.4%
EBIT	21.88	22.49	-2.7%	10.64	105.6%
margin	10.6%	11.2%	-	7.3%	-
Net income	14.71	12.76	15.3%	8.64	70.2%
margin	7.2%	6.4%	-	5.9%	-
EPS, diluted (€)	0.37	0.31	20.7%	0.21	78.2%

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

**Table 2: Changes to estimates**

in €m	2013E			2014E			2015E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	236.93	243.35	2.7%	274.84	286.67	4.3%	310.57	325.37	4.8%
EBIT	18.72	17.03	-9.0%	21.99	21.36	-2.9%	26.09	25.70	-1.5%
margin	7.9%	7.0%	-	8.0%	7.5%	-	8.4%	7.9%	-
Net income	11.68	9.57	-18.0%	14.08	12.39	-12.0%	19.44	15.02	-22.8%
margin	4.9%	3.9%	-	5.1%	4.3%	-	6.3%	4.6%	-
EPS, diluted (€)	0.28	0.23	-18.0%	0.34	0.30	-12.0%	0.47	0.36	-22.8%

Source: First Berlin Equity Research

**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 October 2012	€2.45	Buy	€5.50
	↓	↓	↓	↓
2	6 November 2012	€2.48	Buy	€5.50
3	Today	€3.39	Buy	€6.10

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**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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