

# MPH Mittelstaendische Pharma Holding AG

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

## Final FY 2013 Results & Invitation to AGM

**RATING**  
**BUY**

**PRICE TARGET**  
**€6.10**

Return Potential 102.0%  
 Risk Rating High

## PREFERRED SHARES TO BE CONVERTED INTO ORDINARY SHARES

MPH published its final FY 2013 results on 14 May. Since the company already released preliminary key performance indicators (KPIs) in March, the market was already aware of FY 2013's top and bottom line development. MPH is guiding for increased sales and profitability during the current fiscal year. At this year's AGM, which will be held on 27 June, shareholders will be asked to vote on the proposed dividend, the conversion of preferred shares into ordinary shares, and the issuance of 1.65m bonus shares (25:1 ratio). We have adjusted our forecasts for our estimates revision at the group's most important subsidiary HAEMATO AG, the slower than anticipated ramp-up of MPH's other healthcare activities, the significantly higher than previously forecast gross margin of non-HAEMATO AG activities, and the issuance of bonus shares following the anticipated approval at this year's AGM. Based on increased estimates for the non-HAEMATO AG activities, our updated DCF model yields an unchanged price target of EUR6.10. We reiterate our Buy recommendation.

**Declining bottom line because FY 2012 was boosted by one-offs** As anticipated, MPH group's bottom-line result decreased y/y due to positive one-off items associated with the sale of real estate properties during FY 2012 (at former subsidiary Windsor AG - name was changed to HAEMATO AG in June 2013). MPH's most important subsidiary HAEMATO AG reported FY 2013 sales of EUR217m (annual run-rate) and net income after minorities of EUR7.9m, which was in line with our expectations (see our HAEMATO AG comment dated 24 April). With reported FY 2013 group-level sales of EUR226.8m (FBe: EUR235.5m; FY12: EUR205.7m), MPH fell slightly short of our expectation due to the slower ramp-up of the group's non-HAEMATO AG healthcare activities. Due to higher than anticipated material costs (as percentage of sales: 92.6% vs. FBe of 89.3%) and operating expenditures (such as personnel costs of EUR5.8m vs. FBe of EUR5.1m), EBIT of EUR12.5m (FBe: EUR14.9m; FY12: EUR21.9m) was also below our forecast. At the bottom line, income after minorities came in at EUR6.4m (FBe: EUR8.1m; FY12: EUR14.7m). (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2011A	2012A	2013A	2014E	2015E	2016E
Revenue (€m)	145.50	205.71	226.84	236.14	258.11	283.66
Y-o-y growth	n.a.	41.4%	10.3%	4.1%	9.3%	9.9%
EBIT (€m)	10.63	21.88	12.50	14.44	17.51	20.84
EBIT margin	7.3%	10.6%	5.5%	6.1%	6.8%	7.3%
Net income (€m)	8.63	14.71	6.45	6.97	8.85	10.42
EPS (diluted) (€)	0.23	0.36	0.16	0.16	0.21	0.24
DPS (€)	0.20	0.22	0.11	0.11	0.14	0.17
FCF (€m)	0.13	5.43	-5.70	9.09	12.28	10.10
Net gearing	6.2%	34.5%	42.2%	53.0%	74.2%	116.3%
Liquid assets (€m)	2.46	14.57	5.85	3.91	-0.68	3.73

### 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 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 21 May 2014

Closing Price	€ 3.02
Shares outstanding	41.17m
Market Capitalisation	€ 124.33m
52-week Range	€ 2.70 / 3.58
Avg. Volume (12 Months)	55,870

Multiples	2013A	2014E	2015E
P/E	19.6	18.1	14.3
EV/Sales	0.7	0.6	0.6
EV/EBIT	12.2	10.5	8.7
Div. Yield	3.6%	3.8%	4.8%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Dec 2013

Liquid Assets	€ 5.85m
Current Assets	€ 55.97m
Intangible Assets	€ 54.35m
Total Assets	€ 127.48m
Current Liabilities	€ 27.62m
Shareholders' Equity	€ 61.57m

### SHAREHOLDERS

Magnum AG	21.0%
Free Float	79.0%



**Solid balance sheet** Due mainly to the lower bottom line result and working capital investments (net working capital at year end 2013: EUR31.8m; end FY12: EUR30.4m), MPH's FY 2013 operating cash flow was negative at EUR-4.4m (FY12: EUR6.6m). Net cash flow for the period including changes in the consolidation basis (EUR0.5m vs. EUR3.1m in FY12) amounted to EUR-8.7m (FY12: EUR12.1m).

Liquid funds at the end of December 2013 thus decreased y/y to EUR5.9m (end FY12: EUR14.6m). Financial debt (short- and long-term) amounted to EUR31.8m (end FY12: EUR33.3m). The company's net debt to EBITDA ratio of 1.85 (end FY12: 0.82) is still at a solid level. MPH's goodwill increased to EUR48.2m (end FY12: EUR40.2m) or 78.2% (end FY12: 74.2%) of shareholders' equity due to FY 2013' consolidation of Dr. Fischer Medical Care (+EUR7.9m y/y) and M1 Med Beauty Med Berlin (+EUR0.1m y/y). However, since EUR37.3m (or 77.4% of MPH's goodwill) are attributable to subsidiary HAEMATO AG, we do not see the risk of significant impairments of the group's goodwill position. In contrast, due to subsidiary HAEMATO AG's positive share price development (+57% since the last balance sheet date 30 September), the hidden value for MPH shareholders increased further. Shareholders' equity as of the end of 2013 increased to EUR61.6m (end FY12: EUR54.1m), which corresponds to an equity ratio of 48.3% (end FY12: 48.5%).

**Guidance 2014E** MPH predicts sales and profitability to increase during the fiscal year due to the changes in the German legislation (reduction of the mandatory discount granted to statutory health insurance funds on all patent-protected pharmaceutical products in the German market from 16% to 7% - see our comment dated 28 November 2013) and the ramp-up of its beauty and lifestyle activities. While we remain conservative with regard to the positive effect associated with the reduction of the mandatory discount due to the uncertainties related to pricing by wholesalers and competitors from FY 2014E onwards (see our HAEMATO AG comment dated 24 April 2014), we believe that increased profitability in coming years will mainly be borne by the beauty and lifestyle activities.

**AGM agenda** MPH will hold its AGM on 27 June. Amongst others, shareholders will be asked to vote on the following important agenda items:

- (1) Dividend distribution. Management proposes to payout a dividend of EUR0.10 per ordinary share and of EUR0.11 per preferred share.
- (2) Conversion of preferred shares in ordinary shares. MPH plans to convert the currently outstanding 19m preferred shares in ordinary shares. Afterwards there will be 41m ordinary shares outstanding.
- (3) Issuance of bonus shares. Management proposes to use EUR4.9m of FY 2013's earnings for the issue of 1.6m bonus shares (25:1 ratio - corresponds to an issue price at the current share price level of EUR3.00). The number of outstanding shares would increase to 42.8m afterwards.

**Adjustments to our forecasts** We have adjusted our forecasts for our estimates revision at the group's most important subsidiary HAEMATO AG, the slower than anticipated ramp-up of MPH's other healthcare activities, and the issuance of bonus shares following the anticipated approval at this year's AGM.

However, following discussions with management, we have increased our sales and profitability assumptions for the non-HAEMATO AG activities. MPH is planning to open a second beauty and lifestyle location in the densely populated Ruhr, which is anticipated to accelerate top line growth in the beauty and lifestyle business. In addition, the significantly lower material costs (FBe as a percentage of sales: 30%) are forecast to lead to a gradual improvement in the group's gross profit.

The downward revision to our short- and mid-term estimates is offset by our increased long-term forecasts. Changes to our financial forecasts are shown in table 2 overleaf.



We also lowered our dividend per share assumptions for the coming years. While MPH beat our DPS forecast for FY 2013 (EUR0.11 dividend per preferred share plus value of bonus shares of EUR0.12 per share totalling to EUR0.23 per share; FBe: DPS of EUR0.20), we now assume a lower dividend distribution to shareholders in the future. However, even based on our lower DPS estimates MPH is currently yielding at 4%.

**Buy recommendation reiterated at unchanged price target** Our updated DCF model yields an unchanged price target of EUR6.10. Given the (still) attractive dividend yield, the underlying growing sales and earnings base of subsidiary HAEMATO AG and the attractive growth opportunities in the beauty and lifestyle segment, we reiterate our Buy recommendation.

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

All figures in €m	FY-13A	FY-13E	Delta	FY-12A	Delta
Sales	226.84	235.54	-3.7%	205.71	10.3%
EBIT	12.50	14.87	-15.9%	21.88	-42.9%
margin	5.5%	6.3%	-	10.6%	-
Net income	6.45	8.09	-20.3%	14.71	-56.2%
margin	2.8%	3.4%	-	7.2%	-
EPS (in €, diluted)	0.17	0.20	-15.0%	0.37	-55.4%

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

**Table 2: Changes to forecasts**

All figures in €m	2014E			2015E			2016E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	286.67	236.14	-17.6%	325.37	258.11	-20.7%	355.63	283.66	-20.2%
EBIT	22.17	14.44	-34.9%	25.88	17.51	-32.3%	29.32	20.84	-28.9%
margin	7.7%	6.1%	-	8.0%	6.8%	-	8.2%	7.3%	-
Net income	13.57	6.97	-48.7%	15.91	8.85	-44.4%	17.83	10.42	-41.6%
margin	4.7%	3.0%	-	4.9%	3.4%	-	5.0%	3.7%	-
EPS (in €, dil.)	0.33	0.16	-50.6%	0.39	0.21	-46.5%	0.43	0.24	-43.8%

Source: First Berlin Equity Research



Table 3: Valuation\*

DCF valuation model									
All figures in EUR m	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	
Net sales	236.14	258.11	283.66	311.74	342.59	376.44	413.39	453.23	
<b>NOPLAT</b>	<b>10.39</b>	<b>12.52</b>	<b>15.02</b>	<b>16.47</b>	<b>17.92</b>	<b>19.39</b>	<b>21.16</b>	<b>23.36</b>	
+ depreciation & amortisation	1.73	1.84	1.43	1.55	1.56	1.55	1.52	1.49	
Net operating cash flow	12.13	14.37	16.45	18.02	19.48	20.94	22.69	24.85	
- total investments (CAPEX and WC)	-2.10	-1.20	-4.89	-5.30	-5.71	-6.13	-6.53	-6.87	
Capital expenditures	-1.42	-1.29	-1.42	-1.45	-1.47	-1.49	-1.49	-1.47	
Working capital	-0.68	0.09	-3.48	-3.85	-4.23	-4.64	-5.05	-5.39	
Free cash flows (FCF)	10.03	13.17	11.56	12.72	13.77	14.81	16.16	17.99	
<b>PV of FCF's</b>	<b>9.45</b>	<b>11.26</b>	<b>8.97</b>	<b>8.95</b>	<b>8.80</b>	<b>8.59</b>	<b>8.50</b>	<b>8.58</b>	
<b>All figures in EURm</b>									
PV of FCFs in explicit period	158.9								
PV of FCFs in terminal period	167.5								
Enterprise value (EV)	326.4								
+ Net cash / - net debt	-26.0								
+ Investments / minority interests	-40.4								
Shareholder value	260.1								
<b>Fair value per share in EUR</b>	<b>6.10</b>								
Terminal growth rate									
<b>WACC</b>	<b>10.2%</b>								
Cost of equity	15.0%	6.2%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
Pre-tax cost of debt	10.0%	7.2%	12.86	13.72	14.75	16.00	17.54	19.50	22.07
Tax rate	30.0%	8.2%	10.13	10.69	11.33	12.09	12.99	14.09	15.45
After-tax cost of debt	7.0%	9.2%	8.14	8.51	8.94	9.42	9.99	10.66	11.45
Share of equity capital	40.0%	10.2%	6.63	6.89	7.18	7.51	7.88	8.31	8.81
Share of debt capital	60.0%	11.2%	5.45	5.64	5.85	6.07	6.33	6.62	6.95
		12.2%	4.52	4.66	4.81	4.97	5.15	5.36	5.58
		13.2%	3.78	3.88	3.99	4.10	4.24	4.38	4.54
<b>Fair value per share in EUR</b>	<b>6.10</b>	13.2%	3.16	3.24	3.32	3.41	3.51	3.61	3.73

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

\* Please note: In our DCF model we use a planning period until 2028.  
For layout reasons the table above only displays figures until 2021.

**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...2	↓	↓	↓	↓
3	27 May 2013	€3.39	Buy	€6.10
4	6 September 2013	€2.80	Buy	€6.10
5	28 November 2013	€3.05	Buy	€6.10
6	Today	€3.02	Buy	€6.10

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**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%

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