GBC AG
Investment Research

Research Report (Update)

MPH Mittelständische Pharma Holding AG

„Very good half-year figures in 2012; Windsor acquisition accelerates growth significantly; target price increased“

Target Price: 4,70 €

Rating: BUY

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section 34b of the Securities Trading Act (WpHG) on page II and ff.

Completion: 11.09.2012 **First Publication: 12.09.2012**

Rating: Buy
Price target: € 4.70

current price: € 2.50
10/09/2012 / ETR

currency: EUR

Key date:

ISIN: DE000A0NF697

WKN: A0NF69

Ticker symbol: 93MV

Number of shares/PS³: 19.0
Number of shares/OS³: 22.1
Marketcap³: 102.92
EnterpriseValue³: 114.76
³ in m / in EUR m

Freefloat/PS: 56.2 %
Freefloat/OS: 0.0 %

Transparency Level:
Entry Standard
Market Segment:
Open Market
Accounting Standard:
IFRS

Financial year-end: 12/31

Designated Sponsor:
CBS

Analyst:

Cosmin Filker
filker@gbc-ag.de

* catalogue of potential conflicts of interests on page IV

MPH Mittelständische Pharma Holding AG *5

Company profile

Sector: Pharmaceutical

Speciality: Procurement, production and licensing of pharmaceutical products

Employees: 121 (30/06/2012)

Founded: 2008

Registered office: Berlin

Executive Board: Patrick Brenske, Dr. Christian Pahl

MPH Mittelständische Pharma Holding AG (MPH AG) is a listed management holding company strategically focused on the Pharma and Healthcare segments. The Pharma segment consists of the existing business of HAEMATO PHARM AG. HAEMATO PHARM AG focuses on the indication segments Oncology, HIV, Rheumatism, Neurology and Cardiovascular Disease. The existing veterinary business of HAEMATO Vet GmbH, as well as the new businesses Healthcare Solutions GmbH (consultation services for pharmacies) and Nutri Care GmbH (consultation services on nutritional topics) are organised in the new Healthcare segment. The shareholding in Windsor AG also includes Simgen GmbH (generics and foreign business) and Pharmigon GmbH (manufacture of customised patient drugs). Project planning with regard to Windsor AG includes the Healthcare Facilities segment.

P&L in EURm / Due date	31/12/2010	31/12/2011	31/12/2012e	31/12/2013e
Sales	112.41	145.52	200.62	230.71
EBITDA	10.64	11.01	20.69	20.02
EBIT	10.40	10.64	19.99	18.22
Net profit	9.13	8.64	13.10	11.75
Figures in EUR				
Net Profit per share	0.24	0.23	0.32	0.29
Dividend per share	0.20	0.20	0.25	0.25
Ratios				
EV/Sales	1.02	0.79	0.57	0.5
EV/EBITDA	10.79	10.42	5.55	5.73
EV/EBIT	11.03	10.79	5.74	6.3
P/E	11.27	11.91	7.86	8.76
P/B		2.06		

Financial Dates:

Date: Event
26/09/2012: 2. ZKK - Zürcher Kapitalmarkt Konferenz

**** last research published by GBC:**

Date: publication/price target in €/Rating
22/5/2012: RS / 4.20 / BUY
10/5/2012: RS / 4.10 / BUY
14/3/2012: RS / 4.10 / BUY
14/2/2012: RG / 4.50 / BUY
25/1/2012: RS / 4.50 / BUY

RS = Research Report; RG = Research Guide;
** the research reports can be found on our webside www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

Company

Shareholder structure

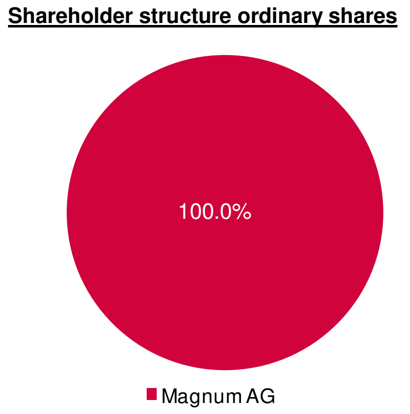
Ordinary shares

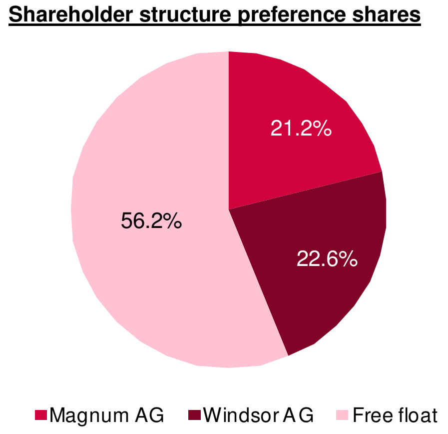
Shareholder	Number in million (shares)
Magnum AG	22.14 (100.0%)
Free float	0 (0.0%)
Total	**22.14 (100.0%)**

Preference shares

Shareholder	Number in million (shares)
Magnum AG	4.0 (21.2%)
Windsor AG	4.3 (22.6%)
Free float	10.7 (56.2%)
Total	**19.03 (100.0%)**

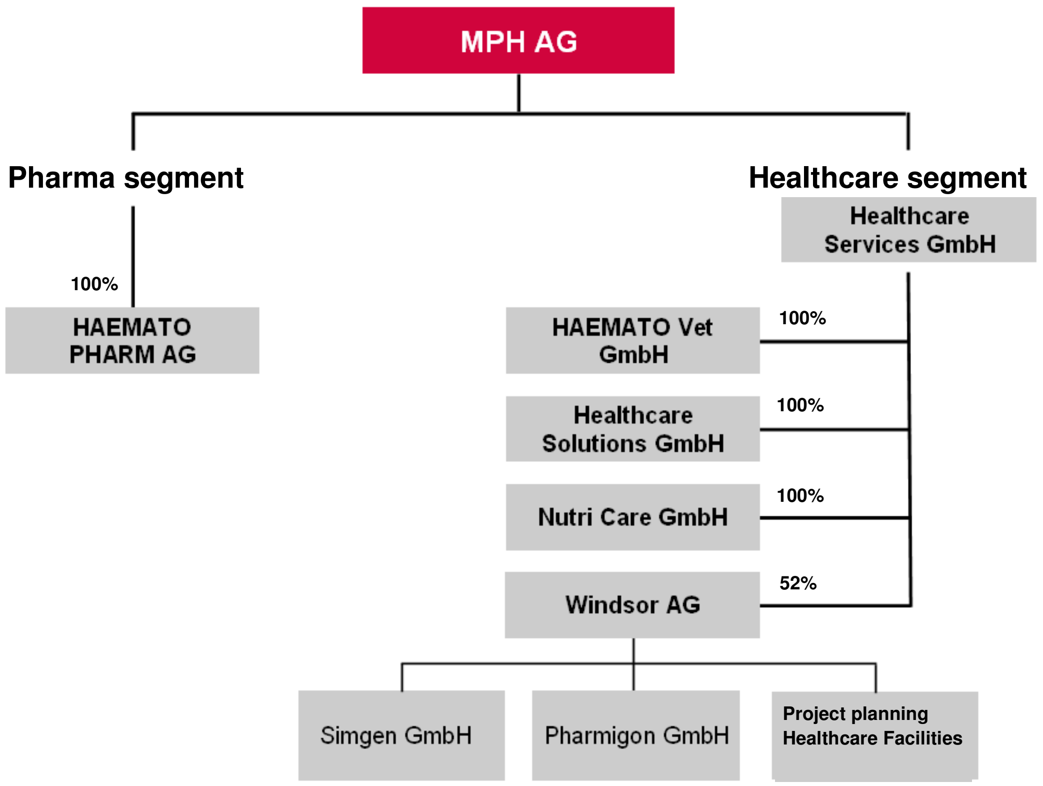
Source: MBH AG; GBC AG; status as of 30.06.2012





Source: MPH AG; GBC AG

Business segments / shortened group of consolidated companies



Source: MPH AG; GBC AG

MPH Mittelständische Pharmaholding AG (MPH AG) expanded its business activities significantly with the acquisition of a 52% share in the Berlin based Windsor AG (May 2012). According to the statement by the board of management, MPH AG expects high synergy effects, in particular thanks to the related acquisition of the Windsor shareholdings Simgen GmbH and Pharmigon GmbH. In future, the already established channels into non-EU countries offered by **Simgen GmbH** are intended to be used to expand MPH's activities also into these regions. This circumstance is of particular interest as no manufacturer discounts in these regions exist and higher margins are to be expected. At the same time, a vertical expansion of value generation will be realised with the integration of the contractor **Pharmigon GmbH**.

The real estate segment of Windsor AG, which will also be fully included in the group of consolidated companies of MPH AG, should initially be developed further. MPH AG has profited from this already in the current business year, particularly due to the sale of two real estate projects which have generated a high level of sales and earnings since the consolidation of Windsor AG. In future, additional project developments in the healthcare facilities segment should be promoted further.

Development of MPH into the 2 segments “Healthcare” and “Pharma”

Healthcare segment
The newly acquired subsidiaries are summarised under the Healthcare segment. In the last reporting period, MPH AG also founded two new subsidiaries in this segment, **Healthcare Solutions GmbH** and **Nutri Care GmbH**. In accordance with the company strategy, the two new subsidiaries should also serve as a sales channel to increase product sales, not only for the existing business (HAEMATO PHARM AG) but also for the Windsor subsidiary (Simgen GmbH). Especially in the Ophthalmology segment, Healthcare Solutions GmbH will address pharmacies and also provide consultation services to pharmacies. Nutri Care GmbH will provide consultation services to physicians on nutritional topics.

The Healthcare segment is completed by the already existing business in the Veterinary segment, which is bundled in **HAEMATO Vet GmbH**.

Pharma segment
With the focus on parallel imports and generics in the indication segments Oncology, HIV, Rheumatism, Neurology and Cardiovascular Diseases, the already existing business of the subsidiary **HAEMATO PHARM AG** is already assigned to the Pharma segment. Even though the company continues to have high rates of growth in sales, this segment suffers from a decrease in margins due to the increase in statutory manufacturer discounts. According to company statements, this circumstance was used as an opportunity to realise the expansion described through the vertical and horizontal integration of new subsidiaries.

Management

Board of Management

Patrick Brenske

Patrick Brenske acquired his business expertise during studies at the American University, Washington D.C., and the Frankfurt School of Finance, from which he graduated with a master's degree. He gained his experience in the pharmaceutical segment as head of purchasing and sales at HAEMATO PHARM AG, for which he has been responsible since 2007. Since its incorporation in 2009, Patrick Brenske has been a director of MPH Mittelständische Pharma Holding AG responsible for the business operations of MPH.

Dr. Christian Pahl

Dr. Pahl was appointed to the management board of MPH Mittelständische Pharma Holding AG on 17.05.2010. He is responsible for the finance department at MPH. After studying Business Administration and obtaining his doctorate in Financial Sciences, Dr. Pahl started his career at the auditing company Arthur Andersen in Hamburg. Before joining MPH, Dr. Pahl held CFO positions in medium-sized companies in the fields of semiconductor development, electrical household appliances and telecommunications.

Supervisory Board

Andrea Grosse

Andrea Grosse was born in Nuremberg in 1965 and has been Chairwoman of the Supervisory Board of MPH since 01.03.2010. After studying law at the LMU in Munich and postgraduate training in Munich and London, Andrea Grosse started her career as a lawyer in Munich in 1995. Since 2001 she has been working as a lawyer for a supra-regional law firm with offices in Munich and Berlin.

Dr. Marion Braun

Dr. Braun was born in Heidelberg in 1953 and has been a member of the Supervisory Board of MPH since 29.06.2010. After studying Human Medicine in Heidelberg and Rome and training as a specialist in Internal Medicine at Heidelberg University Hospital, Dr. Braun has been working as an internist specialising in diabetology in her own practice in Schlüchtern since 1993. Dr. Braun is a member of the Board of Management at the eG of the Diabetologists of Hessen and the “Hessische Fachgesellschaft Diabetologie” (HFD) as well as a member of the consulting committee of the Association of Statutory Heath Insurance Physicians of Hesse.

Prof. Sabine Meck

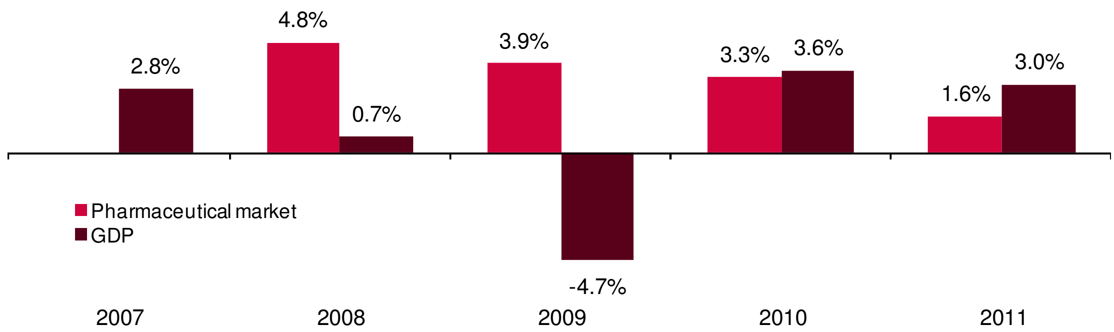
Prof. Meck was born in Hattingen in 1955. She has been a member of the Supervisory Board of MPH Mittelständische Pharma Holding AG since 11.06.2009 and the Deputy Chairwoman of the Supervisory Board since 29.06.2010. After studying Social Sciences, Psychology, Sports Sciences and Slavonic Studies, she obtained her doctorates as Dr. rer. soc. and Dr. phil. in 1985 and 1999. Today Prof. Meck holds the chair of Psychology and Sociology in Finance at the SMI Steinbeis-Hochschule in Berlin and works as a science journalist.

Market and market environment

Development of the pharmaceutical market - Burdened by AMNOG in 2011

The German pharmaceutical market is regarded as comparatively resistant to economic trends and showed steady growth in recent years, despite recessive tendencies in the general economic development. However, in the preceding financial year 2011, the German pharmaceutical market only exhibited below-average sales growth of +1.6% to a total of €31.9 billion. At the same time, the general economic development was characterised by recovery tendencies and increased by +3.0%.

Change in the German pharmaceutical market vs. GDP



Source: Federal Statistical Office, IMS Health

This development again reflects the cost-saving measures (e.g. compulsory manufacturer discounts) set forth in the Pharmaceutical Market Restructuring Act (AMNOG). As one of the principal measures of this, the rate of the compulsory discount was raised in August 2010 from 6% to 16%.

Markets in Generics and Parallel Imports are growing strongly at an above-average level

Against the background of the cost-savings efforts, the markets in Generics and Parallel Imports which are important for MPH AG were characterised by an above-average growth dynamic. In the Generics segment, sales increased by 3.5% compared to the previous year. The Parallel Imports segment, for which no current data was available when the study was created, also recorded dynamic growth rates over the previous years. A good example for this is the increase in the market for parallel imports in Germany which increased by +13% in the financial year 2010. Here too, a higher growth rate is evident compared to the overall market.

As before, the most important drivers of future market development in Germany will be increasing health awareness and demographic trends in the population. Increasing life expectancy and the associated increasing ageing of the population will lead to a constant increase in health expenditure. The fact that the major part of pharmaceutical costs is incurred by the older age groups plays a large role here.

In this environment, a continuing above-average development in the markets for Generics and Parallel Imports can be expected. The European pharmaceutical market, which is not yet consolidated and is characterised by a heterogeneous structure, thus makes possible the utilisation of price differences through parallel imports. Generics too occupy an important position in the overall pharmaceutical market. In this, the future potential for generics is based not only on the cost-savings endeavours promoted by the health insurance companies, but also on the expiry of patents in Germany. According to Stada AG, the volume of the patents expiring in Germany by 2017 should stand at some €6.1 billion.

Business development in first half-year 2012 - Strong growth in sales and earnings

in million €	First HY 2011	Δ 2011/2012	First HY 2012
Sales revenues	70.27	+41.3%	99.30
EBITDA (*margin*)	6.53 *(9.3%)*	+68.4%	11.00 *(11.1%)*
EBITDA (*margin*)	6.12 *(8.7%)*	+74.2%	10.65 *(10.8%)*
Profit for the period before minorities	5.03	+93.4%	9.74
Profit for the period after minorities	5.03	+38.4%	6.67
EPS in € (after minorities)	0.13	+38.4%	0.17

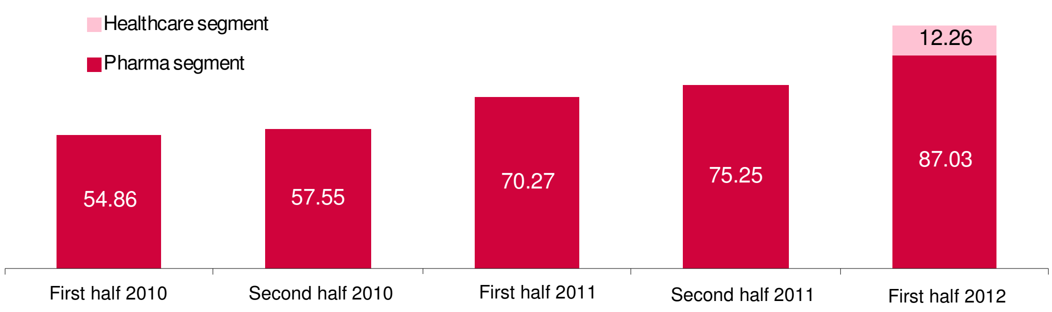
Source: MPH AG; GBC AG

Sales development - Pharma continues to be dynamic; Healthcare with first sales

The published half-year figures for MPH AG are comparable only to a limited degree with the previous year's figures, particularly in light of the inclusion for the first time of the subsidiary Windsor AG which was acquired in May 2012. To achieve better comparability, we have included the published half-year figures 2012 for Windsor AG below. Even though full consolidation only took place in May of the current financial year 2012, this procedure provides a realistic picture due to the fact that Windsor AG generated the major part of its sales and earnings only after this point in time.

In accordance with the company strategy, the MPH group will report separately for the Pharma and Healthcare segments. The existing business of HAEMATO PHARM AG is found in the Pharma segment, and the newly joined subsidiaries Healthcare Solutions GmbH, Nutri Care GmbH and the Windsor business are bundled in the Healthcare segment. In accordance with segment reporting, the level of sales in the Pharma segment was €87.03 million (HAEMATO PHARM AG). This can be compared with the figures for MPH AG for the preceding year at €70.27 million, which represent an organic growth for MPH AG of +23.9%.

Sales revenues (in million €)



Source: MPH AG; GBC AG

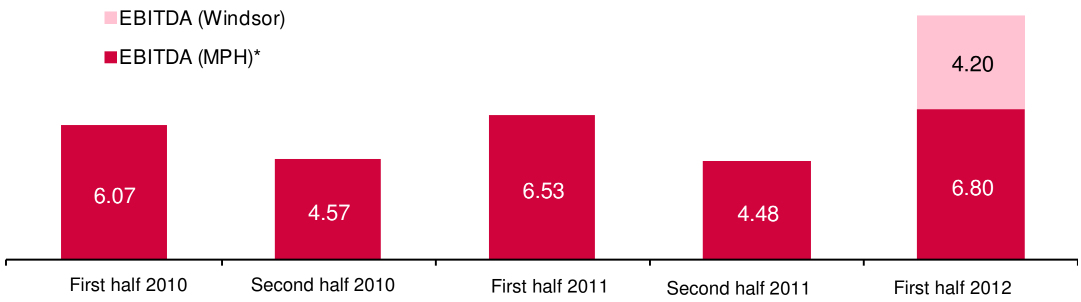
Organically too, MPH AG was thus able to continue its existing growth dynamics. In the preceding reporting period too, this development was based on a high number of licences for generics (12) and approvals for imports (more than 500). In addition, the company profited from the cost-savings efforts of the health industry which have a positive effect particularly on patent-free drugs (generics) and patent-protected parallel imports.

According to segment reporting, the MPH group at the same time achieved inorganic sales as part of the Windsor acquisition amounting to €12.26 million. According to the half-year report of Windsor AG, the sales level stood at €9.39 million, while the Pharma subsidiaries Simgen GmbH and Pharmigon GmbH recorded a high sales share with €6.43 million. The discrepancy between the Windsor half-year report and MPH segment reporting can be explained in particular by a share deal by the Windsor group which was considered there as a deconsolidation profit, but was posted as sales in the MPH group. According to information from the company, this conforms to the requirements of the auditor.

Earnings development - Significant increase in first half of 2012

Based on the operating earnings EBITDA (earnings before interest, taxes, depreciation and amortisation), MPH AG was able to record significant growth compared to the previous year, which is analogous to the trend in sales. With an EBITDA of €11.00 million, the previous year's figure of €6.53 million was significantly exceeded. The corresponding EBITDA margin also rose to an above-average level of 11.1% (PY: 9.3%). To achieve better comparability, we adjusted the EBITDA reported by Windsor AG (based on the half-year figures for 2012) amounting to €4.20 million. The EBITDA of the "old business" determined by us and classified as organic thus stands at €6.80 million. This would correspond to growth of + 4.1% compared to the previous year.

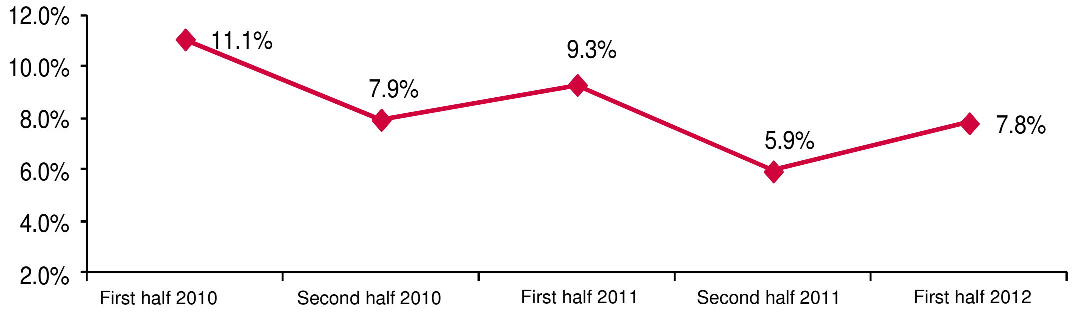
EBITDA (in million €)



*Source: MPH AG; GBC AG; *GBC calculation based on elimination of the Windsor EBITDA*

The EBITDA margin for MPH's old business resulting from our adjustment was 7.8% in the first six months (PY: 9.3%). Here, the fact becomes evident that MPH AG with its business model depends strongly on the regulatory environment. Special earnings strains were caused here by the increase in the compulsory manufacturer discount from 6% to 16% that was implemented in 2010 and which has a negative effect on MPH AG earnings. This explains the recent regressive development of the EBITDA margin. Despite this, MPH AG was again able to achieve a clear improvement in the earnings relationship in the first six months of 2012 compared to the second half-year of 2011. In addition to a lean cost structure, the company can control the margin situation directly via the sales mix (generics vs. parallel import).

EBITDA margin* (MPH)



*Source: MPH AG; GBC AG; *GBC calculation based on elimination of the Windsor EBITDA*

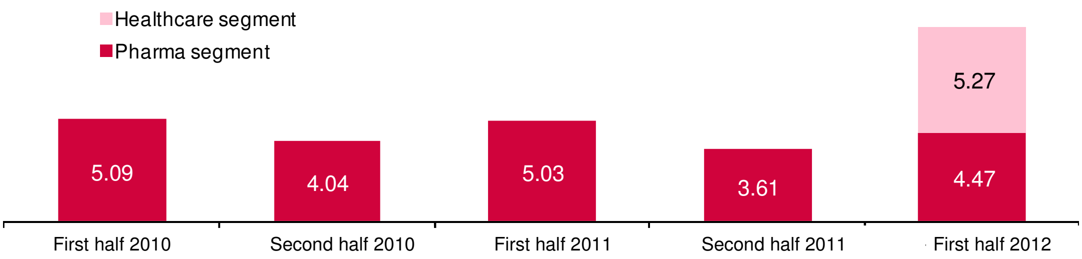
The main proportion of the Windsor EBITDA comes from the sale of real estate (asset deal and share deal). These are the project companies "22. Projektgesellschaft Mitte mbH, Berlin" and "Projektgesellschaft Rungestraße 21 mbH, Berlin".

In the course of an increasing utilisation of bank loans to finance growth, interest expenses increased in the first half of 2012 compared to the previous year. The financial result was accordingly reduced from - €0.31 million (first HY 10) to - €0.65 million (first HY 11).

The relatively low taxation rate is also worth noting. With regard to the earnings before tax of €10.01 million (PY: €5.80 million), MPH AG shows tax expenses amounting to - €0.27 million (PY: - €0.77 million). This corresponds to a low taxation rate of 2.7% (PY: 13.3%). On the one hand, a share deal made on the level of the Windsor group (reduced tax burden) caused a general decrease in tax expenses. In accordance with information from the company, the percentage tax burden at a group level and on a full year basis for 2012 should be at the same level as the previous year. The deferred tax liabilities accrued by 30.06.2012 of €1.19 million should thus be settled for the most part by the end of year 2012.

MPH AG has continued segment reporting also on the level of profit for the period (before minorities). In the Pharma segment, the scale of €4.47 million achieved was 11.1% below the comparable previous year level of €5.03 million. In parallel with this, the Healthcare segment (Windsor segment) for the first time contributed earnings amounting to €5.27 million. The evident difference compared to the Windsor half-year figures (period profit as per Windsor half-year report: €3.23 million) can mainly be ascribed to the fact that MPH AG first consolidated in May 2012. Since that time, Windsor AG has made significantly positive earnings contributions, which were able to more than compensate for the negative period profit of the first quarter.

Earnings after tax before minorities (in million €)



Source: MPH AG; GBC AG

MPH AG currently holds a 52% share in Windsor AG. Accordingly, 48% of the Windsor profit goes to the minority shareholders of Windsor AG. In the period under review, the proportion to be given to the minorities represented €2.78 million. Accordingly, the period profit accruing to the shareholders of MPH AG came to a total of €6.97 million (PY: €5.03 million).

Balance sheet situation - Continues to be solid after first Windsor consolidation

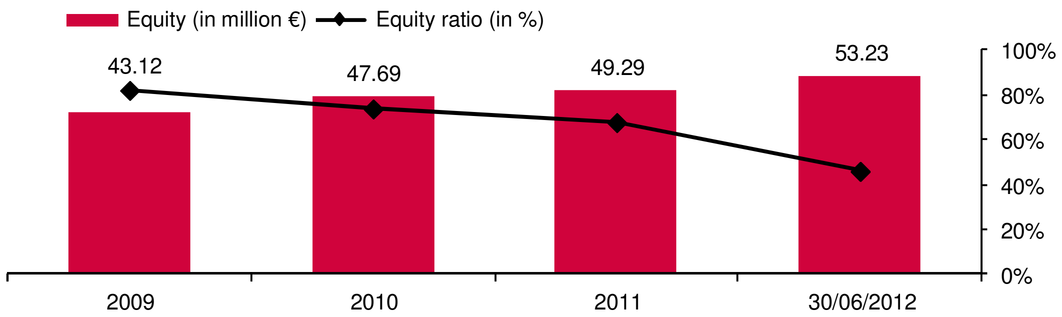
in million €	31.12.2011	30.06.2012
Equity *(equity ratio)*	49.29 *(67.8%)*	68.48 *(59.2%)*
Equity after minorities (equity ratio)	48.29 *(67.8%)*	53.23 *(46.0%)*
Working Capital	22.14	34.05
Financial liabilities	17.84	32.50
Liquid assets	2.46	9,00
Total assets	67.80	115.63

Source: MPH AG; GBC AG

The asset situation was also significantly influenced by the inclusion of Windsor AG which took place in May 2012. Thanks to the full consolidation of Windsor AG, a significant expansion of total assets from €67.80 million (31.12.11) to €115.63 million (30.06.12) becomes foremost evident . This expansion corresponds largely to the total balance sheet assets of Windsor which amounted on 30.06.12 to €44.17 million.

In the course of the balance sheet consolidation, equity also expanded to €68.48 million (31.12.11: €49.29 million). This increase reflects, on the one hand, the period profit achieved in the first six months, and on the other hand, the dividend payment made in June (€7.61 million). In parallel with this, the Windsor equity was merged with the MPH figures. To be taken into account here are the minority shares for 48% of the Windsor shares (€15.25 million) as well as the MPH shares held by Windsor AG, which as own shares (-€4.32 million) reduce the MPH equity. Measured against total assets, the company records an equity ratio (incl. minority shares) of 59.2% (31.12.11: 67.8%). Without minorities, equity amounts to €53.23 million (equity ratio: 46.0%).

Equity after minorities



Source: MPH AG; GBC AG

Alongside the equity increase, an increase in borrowed capital was also responsible for the expansion of total assets. MPH AG thus recorded a significant increase in the area of interest-bearing liabilities (bank loans, bonds) of €32.50 million (31.12.11: €17.84 million). Consolidation effects (Windsor bonds on 30.06.12: €5.24 million) but also active borrowing to finance growth by MPH AG play an important role here.

On the asset side, short-term as well as long-term assets increased significantly. The short-term assets particularly were characterised by an increase of inventories at HAEMATO PHARM AG to €36.83 million (31.12.11: €17.27 million). Due to the Windsor consolidation, the company for the first time also shows other short-term financial assets amounting to €8.75 million. To a large part, these are attributable to a real estate sale (share deal) by Windsor AG for which receipt of payment is still pending.

In the course of the acquisition of the Windsor subsidiaries Simgen GmbH and Pharmigon GmbH, the goodwill, which was previously solely attributed to the MPH subsidiary HAEMATO PHARM AG, increased from €37.32 million (31.12.11) to €40.17 million.

Forecast & model assumptions - Inorganic effects increase growth dynamics

in million €	FY 2011	FY 2012e*	FY 2012e	FY 2013e*	FY 2013e
Sales revenues	145.52	184.80	200.62	212.52	230.71
EBITDA (*margin*)	11.01 *(7.6%)*	13.91 *(7.6%)*	20.69 *(10.3%)*	16.05 *(7.6%)*	20.02 *(8.7%)*
EBITDA (*margin*)	10.64 *(7.3%)*	13.44 *(7.3%)*	19.99 *(10.0%)*	15.53 *(7.3%)*	18.22 *(7.9%)*
Annual profit	8.64	10.07	13.10	10.74	11.75
EPS	0.23	0.24	0.32	0.26	0.29

*old estimates on MPH AG basis (stand-alone estimates)

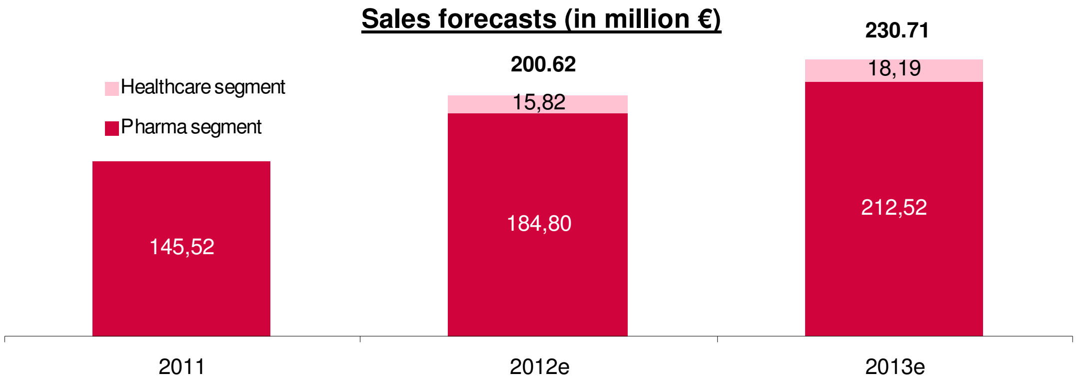
Source : GBC AG

Sales forecasts - Healthcare contribution increases sales forecasts significantly

Compared to our last research study (dated 22.05.2012), we have expanded the MPH forecasts only by the additional potential arising from the Windsor acquisition. The basis for this is provided by our forecasts for the previously existing business of MPH AG (HAEMATO PHARM AG and HAEMATO Vet GmbH), which we left unchanged in the light of unchanged premises. In the Pharma segment, we expect consistently high sales dynamics against the background of an attractive market environment for generics manufacturers and parallel importers. With the simultaneous expansion of the number of generics approvals and licences for parallel imports, we regard increased sales to €184.80 million (full year 2012e) and to €212.52 million (full year 2013e) as realistic.

In parallel with this, the earnings of the fully consolidated Windsor AG will have the effect of increasing sales, as they already have as of 30.06.2012. According to the Windsor AG half-year report, half-year sales amounted to €9.39 million. This figure, however, includes positive effects from the sale of real estate companies, a circumstance which we do not expect for the second half of 2012. MPH indeed intends to drive forward the development of real estate particularly in the segment of healthcare facilities, but for us this is currently very difficult to calculate. We are therefore only including the Windsor pharmaceutical subsidiaries Simgen GmbH and Pharmigon GmbH in our forecasts. In the first half of 2012, the sales of these subsidiaries came to a total of €6.43 million, a figure which we also see as realistic for the second half of 2012. In addition to sales earnings of €2.96 million, total sales in the financial year 2012 should be around €200.62 million (HAEMATO; Pharmigon, Simgen + real estate).

According to our planning estimates, inorganic sales growth for the coming financial year is based only on the Windsor Pharma segment. In view of increased sales efforts by the new controlling company of the group, we regard sales at a level of €18.19 million (2012e: €12.86 million) as realistic. On a group basis, we therefore expect sales in financial year 2013 to increase to €230.71 million.



Source : GBC AG

Earnings forecasts - Improvement of earnings margins expected

Thanks to the consolidation of the new subsidiaries, MPH AG is assuming realisation of scale effects in the Pharma segment which should have a positive effect primarily on the earnings situation of the company. At the same time, the Windsor subsidiaries should show higher margin levels, not only because of the great depth of value generation through job order production (Pharmigon GmbH), but also because foreign markets will be addressed that are not affected by compulsory manufacturer discounts (Simgen GmbH). We will consider this circumstance in our forecasts from the financial year 2013.

On the earnings side, the current financial year 2012 will initially be influenced positively by special effects relating to the sale of real estate. This becomes evident in the expected above-average EBITDA margin of 10.3% (full year 11: 7.6%). The EBITDA margin will normalise again when the special effects cease from the financial year 2013. Here, we expect an EBITDA of €20.02 million, which corresponds to an EBITDA margin of 8.7%. In our previous stand-alone forecasts, we had expected an EBITDA margin of 7.6% for 2013. Our raised expectations reflect the general improvement of the earnings situation mentioned. At the same time, this figure serves our current DCF model as a target that can be reached in the long-term.

It is important that earnings after tax of the Windsor subsidiaries will accrue to 48% of the minority shares. Accordingly, earnings after tax at group level will typically only increase sub-proportionally with regard to the sales increase. For the current financial year 2012, we expect earnings after tax to total €13.10 million (EPS: €0.32). In the coming financial year, earnings after tax should normalise due to ceased sales earnings to €11.75 million (EPS: €0.29).

Valuation

DCF valuation

Model assumptions

We valued MPH AG using a three-phase DCF model. Starting from the real-life estimates for the years 2012 to 2013 in phase 1, the second phase from 2014 to 2019 forecasts the effect of value drivers. We hereby expect sales to increase by 5.0%. We took as our target an EBITDA margin of 8.7%. The tax ratio applied in phase 2 was 25.0%. For the third phase beyond the forecast horizon, a residual value was calculated using a perpetual annuity formula. For the final value we assume a growth rate of 3.0%.

Calculating the cost of capital

The weighted average cost of capital (WACC) for MPH AG is calculated on the basis of internal capital costs and external capital costs. In order to determine the internal cost of capital, the fair market premium, the company beta and the risk-free interest rate need to be established.

The interest rate for 10-year German federal bonds is taken as the risk-free interest rate. This is currently 2.00% (previously: 2.00%).

We used the historic market premium of 5.50% as a suitable expectation of market premium. This is supported by historical analyses of stock market yields. The market premium reflects the percentage of the expected excess return of the stock market over the low-risk government bonds.

Using the GBC estimation method there is currently a beta of 1.5429.

Applying the chosen premises, the internal capital costs are calculated at 10.49% (previously: 9.78%) (beta multiplied with risk premium plus 10-year interest rate). As we assume a long-term weighting of internal capital costs of 90%, the weighted average cost of capital (WACC) is 9.92% (previously: 9.54%).

Valuation result

Discounting future cash flows was carried out using the entity approach. We calculated the relevant capital cost (WACC) at 9.92%. The resulting fair value per share at the end of financial year 2013 corresponds to a **target price of €4.70**. In the target price calculated in this way, the addition of the Windsor shares resulting from the capital increase in kind (price per Windsor share: €1.49) with a value of €7.45 million was also taken into account. The increase compared to our previous target price (€4.20) resulted on the one hand from roll-over effects, as the new price target is formulated on the basis of the end of the financial year 2013. Our valuation model also takes into account the additional potential through the full consolidation of the Windsor subsidiaries.

MPH AG - Discounted Cashflow (DCF) model scenario

Value driver of the DCF - model after the estimate phase:

consistency - phase	
Sales growth	5.0%
EBITDA-Margin	8.7%
Depreciation to fixed assets	16.4%
Working Capital to sales	13.0%

final - phase	
Eternal growth rate	3.0%
Eternal EBITA - margin	8.0%
Effective tax rate in final phase	25.0%

three phases DCF - model:

Phase	estimate		consistency						final
In € m	FY 2012e	FY 2013e	FY 2014e	FY 2015e	FY 2016e	FY 2017e	FY 2018e	FY 2019e	Terminal Value
Sales	200.62	230.71	242.25	254.36	267.08	280.43	294.46	309.18	
Sales change	37.9%	15.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	3.0%
Sales to fixed assets	21.12	23.07	22.02	22.02	22.02	22.02	22.02	22.02	
EBITDA	20.69	20.02	21.08	22.13	23.24	24.40	25.62	26.90	
EBITDA-Margin	10.3%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	
EBITA	19.99	18.22	19.44	20.33	21.35	22.41	23.53	24.71	
EBITA-Margin	10.0%	7.9%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Taxes on EBITA	-3.00	-4.56	-4.86	-5.08	-5.34	-5.60	-5.88	-6.18	
Taxes to EBITA	15.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBI (NOPLAT)	16.99	13.67	14.58	15.25	16.01	16.81	17.65	18.53	
Return on capital	71.4%	37.4%	36.4%	35.9%	35.9%	35.9%	35.9%	35.9%	35.2%
Working Capital (WC)	27.00	30.00	31.49	33.07	34.72	36.46	38.28	40.19	
WC to sales	13.5%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	
Investment in WC	-4.86	-3.00	-1.49	-1.57	-1.65	-1.74	-1.82	-1.91	
Operating fixed assets (OAV)	9.50	10.00	11.00	11.55	12.13	12.73	13.37	14.04	
Depreciation on OAV	-0.70	-1.80	-1.64	-1.80	-1.89	-1.98	-2.08	-2.19	
Depreciation to OAV	7.4%	18.0%	16.4%	16.4%	16.4%	16.4%	16.4%	16.4%	
Investment in OAV	-8.54	-2.30	-2.64	-2.35	-2.47	-2.59	-2.72	-2.86	
Capital employed	36.50	40.00	42.49	44.62	46.85	49.19	51.65	54.23	
EBITDA	20.69	20.02	21.08	22.13	23.24	24.40	25.62	26.90	
Taxes on EBITA	-3.00	-4.56	-4.86	-5.08	-5.34	-5.60	-5.88	-6.18	
Total invesment	-13.39	-5.30	-4.13	-3.92	-4.12	-4.33	-4.54	-4.77	
Invesmtent in OAV	-8.54	-2.30	-2.64	-2.35	-2.47	-2.59	-2.72	-2.86	
Investment in WC	-4.86	-3.00	-1.49	-1.57	-1.65	-1.74	-1.82	-1.91	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	4.29	10.17	12.09	13.12	13.78	14.47	15.19	15.95	252.57

Value operating business (due date)	194.65	203.80
Net present value explicit free Cashflows	64.42	60.64
Net present value of terminal value	130.23	143.16
Net debt	8.95	10.48
Net present value of options	0.00	0.00
Value of equity	185.70	193.32
Minority interests	0.00	0.00
Value of share capital	185.70	193.32
Outstanding shares in m	41.167	41.167
Fair value per share in €	**4.51**	**4.70**

Cost of capital

Risk free rate	2.0%
Market risk premium	5.5%
Beta	1.54
Cost of equity	10.5%
Target weight	90.0%
Cost of debt	6.5%
Target weight	10.0%
Taxshield	25.0%
WACC	**9.9%**

Sensitivity analysis - fair value per share in €

	WACC				
Return on Capital	7.9%	8.9%	9.9%	10.9%	11.9%
29.2%	5.66	4.71	4.05	3.56	3.19
32.2%	6.17	5.11	4.37	3.83	3.41
35.2%	6.68	5.51	**4.70**	4.10	3.64
38.2%	7.19	5.91	5.02	4.36	3.87
41.2%	7.69	6.31	5.34	4.63	4.09

Conclusion

Very good half-year figures in 2012; Windsor acquisition accelerates growth significantly; target price increased

In the present half-year report for 2012, MPH Mittelständische Pharmaholding AG fully consolidated for the first time the Berlin company Windsor AG which was acquired in May 2012 (current shareholding: 52%). This resulted in significant differences in the profit situation as well as in the asset situation compared to previous reports.

MPH AG assigned the newly joined Windsor subsidiaries to the new Healthcare segment, in accordance with the new segmentation. At the same time, two new companies were founded for this segment, Healthcare Solutions GmbH and Nutri Care GmbH. MPH AG primarily intends to provide consultation services to pharmacies and physicians, which in our opinion represents a new and promising sales channel for the already existing business. The existing main revenue source of MPH AG, HAEMATO PHARM AG, is bundled in the new Pharma segment.

As before, the main sales contribution came from the subsidiary HAEMATO PHARM AG also in the last reporting period, with €87.03 million (PY: €70.27 million). The sales increase of +23.9% achieved compared to the previous year fits into the previously high sales dynamics in the field of Generics and Parallel Imports. Furthermore, the company is profiting from an attractive market environment characterised by savings efforts in the healthcare industry. In addition, MPH AG also shows inorganic sales growth. Due to the consolidation of Windsor AG, now fully assigned to the Healthcare segment, total sales for the first half of 2012 amounted to €99.30 million. Windsor AG thus contributes sales through the pharmaceutical subsidiaries and the sale of real estate projects amounting to €12.26 million.

Inorganic sales growth in addition caused a significant increase in operating earnings. The EBITDA increased in total to €11.00 million, significantly exceeding the previous year's figure of €6.53 million by +68.4%. According to our calculations, the organic EBITDA increased by +4.1%. The principal part of earnings growth can thus be explained through inorganic effects, particularly with the sale of real estate projects at the Windsor level. The already existing business of MPH AG therefore shows solid margin development while sales continue to develop dynamically.

We have formulated our forecasts for the current and the coming financial year building on this foundation. On a full-year basis for 2012, we expect increased sales of €200.62 million. This sales expectation corresponds with our unchanged stand-alone forecasts, in addition to the sales contribution by Windsor AG. We applied the same procedure also to our sales forecasts for the coming financial year 2013 (€230.71 million). On the level of operating earnings (EBITDA), we included an improvement in the EBITDA margin in the calculation, which includes, on the one hand, the expected higher margin levels of the Pharma companies of Windsor AG and, on the other hand, possible scale effects. The forecast EBITDA margin for the coming financial year 2013 of 8.7% (€20.02 million) serves our DCF valuation model as a target value to be reached in the long term.

Within the DCF model, we calculated a fair value per share of €4.70 on the basis of the financial year 2013. The valuation thus shows a strong upward potential. We therefore confirm the BUY rating and regard MPH Mittelständische Pharmaholding AG as an attractive investment.

Annex

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The analysts responsible for this analysis are:

Cosmin Filker, Dipl. Betriebswirt (FH), Financial Analyst

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GBC AG
Halderstraße 27
D 86150 Augsburg

Tel.: 0821/24 11 33-0
Fax.: 0821/24 11 33-30

Internet: http://www.gbc-ag.de

E-Mail: compliance@gbc-ag.de

GBC AG®
- R E S E A R C H & I N V E S T M E N T A N A L Y S E N -

GBC AG
Halderstraße 27
86150 Augsburg
Internet: http://www.gbc-ag.de
Fax: ++49 (0)821/241133-30
Tel.: ++49 (0)821/241133-0
Email: office@gbc-ag.de