

## 14/03/2017 - GBC Executive interview with Mr. Patrick Brenske, Chairman of M1 Kliniken AG

Company: M1 Kliniken AG<sup>\*5a,5b,11</sup>

ISIN: DE000A0STSQ8

Analyst: Cosmin Filker

Latest stock quote: 9.15 € (XETRA closing price of 13/03/2017)

Date of completion / Date of publication: 14/03/2017

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As specialist for cosmetic medical treatment, M1 Kliniken AG runs a cosmetic surgery clinic in Berlin and additionally owns another 13 centres of expertise located throughout Germany. In the recent years, the M1 Group has achieved a remarkable growth in the direct payer market for medical services; a quintuple increase of the turnover within four fiscal years has made M1 Kliniken AG a leading provider. The company plans to open further locations and thus continue the high growth dynamic. GBC analyst Cosmin Filker spoke with M1 Chairman Patrick Brenske about the future potentials of M1 Kliniken AG.

**GBC AG: Mr. Brenske, the M1 Group has strongly grown during the past fiscal years, continuously expanding its market share in the field of cosmetic treatments in Germany. What were the crucial factors for the company's dynamic growth?**

**Patrick Brenske:** Firstly, there is the extension of our operating capacities from one to six operating rooms and the increase of the number of our centres of expertise in Germany from six to twelve within the last year. Furthermore, targeted marketing allowed us to increase distinctly the level of awareness of the M1 Med Beauty brand. The average number of customer enquiries per day increased from approx. 100 at the beginning of 2016 to over 1,000 at the end of 2016.

**GBC AG: What distinguishes you from your competitors?**

**Patrick Brenske:** M1 regards itself as the price and quality leader. This seems to be contradictory but, in our opinion, it is not. The quality of our medical services has top priority. This is what we want to offer for the best possible price. Qualified medical specialists exclusively render the medical services, and we only use high-quality products made by well-known manufacturers. We carry out operations in our own, state-of-the-art specialist hospitals. Among other things, as the biggest provider the economies of scale and optimised procedures allow us to offer attractive prices. Thus, we are able to address a distinctly wider range of customers than our competitors can.

**GBC AG: In 2016 alone, the M1 Group has opened six new centres of expertise. In future, you are also planning to open more centres of expertise. What financing needs are required due to this site expansion?**

**Patrick Brenske:** For 2017, we are planning to open another five centres of expertise. The investment needs depend on the locations and the sizes. We plan to finance this investment from the cash flow.

**GBC AG: Your affiliated company M1 Aesthetics GmbH also covers the purchase and the logistics of pharmaceuticals in the health and cosmetic field. What cost advantages result for the M1 Group here?**

**Patrick Brenske:** Our competitors largely are licensed single practices. Unlike us, as a specialized clinic, they are not able to take advantage of economies of scale. In the case

of breast implants, for example, we directly negotiate with the manufacturers. As their largest single customer, we receive the best purchase price in the market. In addition, the manufacturers support us in further educating our doctors in the same way that we support them in the further development of their products.

**GBC AG: Regarding cosmetic treatments, the German market is rather underdeveloped compared to the U.S. market. What potentials do you see in Germany, and how do you assess the further demand for cosmetic operations?**

**Patrick Brenske:** The United States and Brazil are the world's largest markets for cosmetic treatment. Germany is the fourth largest. In terms of breast augmentations, six times more operations are carried out in the U.S.A. than in Germany, although the population of the US is only four times greater than Germany's. In society, cosmetic operations are increasingly perceived as natural. Meanwhile, this also applies to men. The market will continue to grow merely by the expected establishment of these international trends. In addition, the price leadership of the M1 Group secures additional market potentials that will not be achieved by the established providers.

**GBC AG: The equity ratio of over 90% (30/06/2016) leaves the M1 Group considerable room for further growth. What are the most important factors for the future development of the company?**

**Patrick Brenske:** Continued growth and gaining additional market shares are intended to increase the level of awareness of the M1 Med Beauty brand. This includes setting up more centres of competence and establishing one additional hospital location. In the medium term, the concept can also be expanded to other European countries.

**GBC AG: During the past fiscal years, the EBIT margin has levelled off at somewhere slightly above 20%. Could higher levels also be reached here due to the expected further sales growth and thus the use of economies of scale?**

**Patrick Brenske:** The goal is to keep the EBIT margin above 20%. In the process, there are two opposing effects. The growth attained through the establishment of new locations will initially burden the financial results. The economies of scale gained in this way will improve them at a later time. Higher EBIT margins will be possible if all cost reduction potentials of the value chain are comprehensively applied. At this time, we are vigorously pursuing this topic.

**GBC AG: With the 2015 EPS being €0.44, a dividend of €0.30 was first paid for fiscal year 2015. This corresponds to a dividend payout ratio of almost 70%. Do you plan to continue this payout-friendly dividend policy?**

**Patrick Brenske:** We will stick to our dividend policy; however, we will have to differentiate in the future. On the one hand, the growth must be financed; on the other hand, we know that many shareholders appreciate our dividend policy. This aspect should also be considered together with the value increases from the stock price development. In the future, we will weigh this carefully.

**GBC AG: Mr. Brenske, where do you see the M1 Group in five years?**

**Patrick Brenske:** The business model provides growth perspectives for several years merely due to the geographical expansion. We expect a concentration process where we will have a prominent position as a market leader or a major provider, depending on the segment. The M1 Med Beauty brand is intended to transport the highest level of quality

with the best price. In addition, this successful model can be transferred into other fields of medical treatment with a high share of direct payers.

**GBC AG: Mr. Brenske, thank you very much for this interview.**

## ANNEX

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|------|---|
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