GBC AG Investment Research

M1 Kliniken AG*5a,11

Rating: BUY
Target Price: €19.00
(until now: €18.50)

Current Price: 15.50
24/09/18 / XETRA / 09:02 am
Currency: EUR

Key data:

ISIN: DE000A0STSQ8
WKN: A0STSQ
Ticker symbol: M12
Number of shares³: 17.500
Marketcap³: 271.25
EnterpriseValue³: 245.06
³ in Mio. / in Mio. EUR

Transparency Level:
Open Market

Market Segment:
Freiverkehr

Accounting standard:
IFRS

Financial Year-End: 31/12

Designated Sponsor:
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* possible conflicts of interest on page 8

Date of completion: 24/09/18 (13:42 Uhr)

Date of first distribution: 11.10.18 (10:00 Uhr)

Target Price valid until: max. 31/12/2019

Company profile

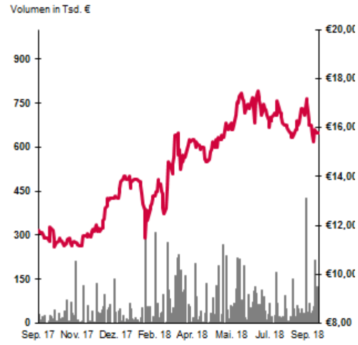
Sector: Clinic and services

Focus: Medical beauty treatments

Established: 2007

Registered office: Berlin

Board of management: Patrick Brenske, Dr. Walter von Horstig



The M1 Kliniken Group operates medical centres for aesthetic and plastic surgery at sites in densely populated areas of Germany. The company covers a highly specialised range of aesthetic medical treatments, which are performed by renowned and highly experienced doctors at very competitive prices. Its subsidiary, M1 Aesthetics GmbH, specialises in purchasing and distributing pharmaceutical, medical and medical technology products for aesthetic medicine, plastic surgery and cosmetic dermatology.

P&L in €m \ FY-End	31/12/2017	31/12/2018e	31/12/2019e	31/12/2020e
Revenue	47.19	62.62	81.20	93.45
EBITDA	6.18	8.01	10.86	12.61
EBIT	5.71	7.61	10.41	12.11
Net profit	5.78	6.15	8.09	9.28
Key figures in €				
EPS	0.38	0.35*	0.46*	0.53*
Dividend per share	0.30	0.30	0.30	0.30
based on 17.5m shares				
Ratios				
EV/Revenue	5.19	3.91	3.02	2.62
EV/EBITDA	39.65	30.59	22.57	19.43
EV/EBIT	42.92	32.20	23.54	20.24
P/E-Ratio	46.93	44.11	33.53	29.23
Price-Book-Ratio	5.74			

Finanztermine

**latest research by GBC:
Date: publication/ target price in EUR / Rating
17/05/2018: RS / 18.50 / BUY
16/10/2017: RS / 16.15 / BUY
11/05/2017: RS / 11.90 / BUY
31/03/2017: RS / 11.20 / BUY
** The research studies indicated above may be viewed at www.gbc-ag.de, or requested from GBC AG, Halderstr. 27, D86150 Augsburg

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COMPANY DEVELOPMENT 1.HY 2018

Strong growth in revenue achieved in the first half-year

P&L (in €m)	1st HY 2016	1st HY 2017	1st HY 2018
Revenue	18.50	22.26	28.93
EBIT	3.05	4.16	3.46
EBIT-margin	*16.5%*	*18.7%*	*12.0%*
EAT	2.89	3.69	3.37
EPS in €	0.19	0.25	0.20

Source: M1 Kliniken AG; GBC AG

As during previous periods, M1 Kliniken AG has achieved high revenue momentum based on expanded treatment capacities as well as the accompanying increased treatment figures, continuing its positive growth trend. The revenue achieved for the half-year 2018 amounts to EUR 28.93 million (PY: EUR 22.26 million), which represents a 30.0% increase on the previous year's figure. In the previous year, M1 Kliniken opened five specialist centres for dermal filler treatments, which, after a typical start-up period, contributed to revenue growth in the first half-year. The locations in Munich (Stachus) and Frankfurt that opened in the first half-year 2018 are still in the typical start-up phase and, consequently, are naturally still significantly below the long-term achievable level of revenue.

Revenue and EBIT (in €m)

Source: M1 Kliniken AG; GBC AG

The current expansion phase and the opening up of new treatment fields such as aesthetic dentistry are initially accompanied by disproportionately high development of expenses. These are related to initial investments (specific leasehold improvements, rental expenses, etc.) in the development of a new location. In addition, a newly established location only achieves its location-specific level of revenue after a time delay, which initially has a negative effect on the gross profit margin. Accordingly, the EBIT of EUR 3.46 million was slightly below the previous year's extraordinarily strong level of EUR 4.16 million. However, the EBIT margin was within our expectations at 12.0% (PY: 18.7%), as we had assumed such a high speed of expansion.

In comparison to the EBIT, the after-tax result of EUR 3.37 million (PY: EUR 3.69 million), showed only a disproportionately small decrease. In particular, income from investments (dividend income from unlisted investments) that amounted to EUR 0.74 million caused the financial result to increase significantly to EUR 0.82 million compared to the previous year (PY: EUR 0.08 million), which had a corresponding positive effect on the after-tax result.

FORECASTS AND MODEL ASSUMPTIONS

P&L (in €m)	FY 2017	FY 2018e	FY 2019e	FY 2020e
Revenue	47.19	62.62	81.20	93.45
EBITDA	6.18	8.01	10.86	12.61
EBIT-margin	*12.1%*	*12.1%*	*12.2%*	*13.0%*
EAT	5.78	6.15	8.09	9.28
EPS in €	0.38	0.35*	0.46*	0.53*

Source: M1 Kliniken AG; GBC AG; based on 17.5m shares (post-money)

The half-year figures for M1 Kliniken AG are in line with our expectations. Both the 30% growth in revenue to EUR 28.93 million and an EBIT margin of 12.0% form an excellent basis for achieving our revenue and earnings forecast for 2018. We continue to view the location expansions that have been implemented as well as those that are expected as the biggest growth factor, which represents an extended basis for an increase in treatment capacities and trading revenues. With both of the locations that were newly added in the first half-year of 2018, the Company has more than 20 outpatient specialist centres and a clinic in Berlin. In the second half-year, more specialist centres are to be opened and a second specialist clinic location will be established in Essen. In addition, the Company is planning an international roll-out with the opening of a specialist centre in Austria. By the financial year 2020, we even see the number of locations rising to 50 as a realistic scenario. New treatment fields, such as the addition of laser treatments (hair removal, tattoo removal, etc.), are currently also in the pipeline and could contribute to further growth stimulus in the future.

The development of further revenue streams is currently being implemented, according to corporate specifications. Therefore, in the first quarter of 2018, the field of aesthetic dentistry was added to the service portfolio. This area is interesting, as there is a much higher demand here, with a similarly high price sensitivity among customers. Over the coming financial years, 10-15 dental locations are to be developed in Germany.

For the rapid implementation of the location expansion, M1 Kliniken AG recently successfully carried out a capital increase. After a total of 1 million shares were issued at a price of EUR 15.30, the gross issuing proceeds amounted to EUR 15.30 million. The newly raised capital should support the planned location expansion over the next financial years. According to our information, the total investment amount per specialist centre is in the low six-digit range respectively. Although dental clinics are accompanied by slightly higher levels of investment compared to specialist centres, we believe the newly acquired capital is sufficient in order to achieve the planned number of clinics.

In addition, the company will continue to push the commercial sector for the higher-margin own-brands for the retail segment. To this effect, the roll-out of the B2C business took place at the beginning of 2018, which sees care products sold online and in specialist centres under the brand name M1 Select (m1-select.de). The placement in stationary retail is planned for the medium term and should open up new sales potential out of this.

In combination with these growth factors, we continue to assume a two-digit revenue momentum for the coming financial years. In the current growth phase, which is expected to extend over the coming financial years, M1 Kliniken AG should be characterised by corresponding up-front investments. At the same time, the newly added locations are expected to have a comparatively low revenue base within the typical start-up phase of about nine months and therefore low profit contributions. For the coming financial years, we therefore only forecast a constant development of the EBIT margin, which should stabilise between 12.2% (2018e) and 13.0% (2019e). After completion of the growth phase, higher EBIT margins are possible, which we have taken into account in our DCF valuation model.

In our updated DCF model, we have also taken into consideration the capital increase that was carried out along with the associated slight dilutive effect. In contrast, due to the largely guaranteed financing of the location expansion, we have slightly increased the revenue momentum in the continuity phase of our valuation model to 9.0% (previously: 8.0%), which resulted in the target price increasing slightly to EUR 19.00 (previously: EUR 18.50). Based on the current share price of EUR 15.80, we are maintaining our BUY rating.

Valuation

Model assumptions

We rated M1 Kliniken AG using a three-stage DCF model. Starting with the specific consolidated estimates for the years 2018-2020 in phase 1, the outlook for 2021 to 2025 was developed in phase 2 using value drivers. We expect increases in revenue of 9.0 % (until now 8.0 %). We have set 16.0% as the target EBITDA margin. We have included the tax rate in phase 2 at 30.0%. Additionally, after the end of the forecast horizon, a residual value is determined in the third phase by means of a perpetual annuity. As the final value, we assume a growth rate of 3.0 %.

Determining the capital costs

The weighted average cost of capital (WACC) of M1 Kliniken AG is calculated from the equity cost and the cost of debt. The market premium, the company-specific beta, as well as the risk-free interest rate have to be determined in order to determine the equity cost.

The risk-free interest rate is derived from the current structured interest rate curves for risk-free bonds in accordance with the recommendations from the “Fachausschuss für Unternehmensbewertung und Betriebswirtschaft” (FAUB, Special Committee for Business Valuation and Business Management) of the “Institut der Wirtschaftsprüfer in Deutschland e.V.” (Institute of Public Auditors in Germany). This is based on the zero bond interest rate calculated using the Svensson Method published by the German Bundesbank. In order to compensate for short-term market fluctuations, the average returns for the previous three months are used and the result is rounded up to the nearest 0.25 basis points. The value currently used for the risk-free interest rate is 1.25 % (previously: 1.25 %).

We set the historical market premium of 5.50 % as a reasonable expectation of the market premium. This is supported by historical analyses of equity market returns. The market premium reflects in a percentage the improved return expected from equity markets relative to low-risk government bonds.

According to GBC estimates, a beta of 1.46 is currently determined. We have extended this beta using a market-oriented approach. As part of a regression analysis of the M1-share price on the SDAX and CDAX, we have calculated a smoothed market-oriented beta of 0.46 using the Blume method. As a basis for calculating the weighted capital costs, we extended the previous fundamental beta (2/3 weighting) using the market-oriented approach (1/3 weighting), which resulted in a beta of 1.13.

The cost of equity of 7.47% was calculated using the assumptions made (previously: 7.47%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the equity costs of 100%, the resulting weighted average costs of capital (WACC) amount to 7.47% (previously: 7.47%).

Valuation result

As part of the DCF valuation model, the resulting fair value per share at the end of the 2018 financial year corresponds to the stock price target of EUR 19.00 (previously: EUR 18.50). The target price increase reflects the guaranteed financing of the location expansion that was secured after the successful capital increase (EUR 15.30 million) and the increased growth potential over the medium term.

DCF-model

M1 Kliniken AG - Discounted Cashflow (DCF) model

Value driver used in the DCF-model´s estimate phase:

consistency - phase	
Sales growth	9.0%
EBITDA-margin	16.0%
Depreciation on fixed assets	9.0%
Working capital to sales	15.3%

final - phase	
Perpetual growth rate	3.0%
Perpetual EBITA margin	17.1%
Effective tax rate in terminal value	30.0%

Three-phase DCF - model:

Phase	**estimate**			**consistency**					**final**
in mEUR	GJ 18e	GJ 19e	GJ 20e	GJ 21e	GJ 22e	GJ 23e	GJ 24e	GJ 25e	TV
Sales	62.62	81.20	93.45	101.86	111.03	121.02	131.91	143.78	
Sales change	32,7%	29.7%	15.1%	9.0%	9.0%	9.0%	9.0%	9.0%	3.0%
Sales to fixed assets	13,92	16.24	16.99	16.99	16.99	16.99	16.99	16.99	
EBITDA	8.01	10.86	12.61	16.30	17.76	19.36	21.11	23.01	
EBITDA-margin	12,8%	13.4%	13.5%	16.0%	16.0%	16.0%	16.0%	16.0%	
EBITA	7.61	10.41	12.11	15.80	17.22	18.78	20.46	22.31	
EBITA-margin	12,2%	12.8%	13.0%	15.5%	15.5%	15.5%	15.5%	15.5%	17.1%
Taxes on EBITA	-2,28	-3.12	-3.63	-4.74	-5.17	-5.63	-6.14	-6.69	
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	5,33	7.29	8.48	11.06	12.06	13.14	14.33	15.61	
Return on Capital	35,3%	50.9%	47.1%	54.0%	55.9%	55.9%	55.9%	55.9%	58.0%
Working Capital (WC)	9.80	13.00	15.00	15.58	16.99	18.52	20.18	22.00	
WC to sales	15.6%	16.0%	16.1%	15.3%	15.3%	15.3%	15.3%	15.3%	
Investment in WC	1.03	-3.20	-2.00	-0.58	-1.40	-1.53	-1.67	-1.82	
Operating fixed assets (OFA)	4.50	5.00	5.50	6.00	6.53	7.12	7.76	8.46	
Depreciation on OFA	-0.40	-0.45	-0.50	-0.50	-0.54	-0.59	-0.64	-0.70	
Depreciation to OFA	8.9%	9.0%	9.1%	9.0%	9.0%	9.0%	9.0%	9.0%	
CAPEX	-0.64	-0.95	-1.00	-0.99	-1.08	-1.18	-1.28	-1.40	
Capital Employed	14.30	18.00	20.50	21.58	23.52	25.64	27.95	30.46	
EBITDA	8.01	10.86	12.61	16.30	17.76	19.36	21.11	23.01	
Taxes on EBITA	-2.28	-3.12	-3.63	-4.74	-5.17	-5.63	-6.14	-6.69	
Total Investment	0.39	-4.15	-3.00	-1.57	-2.48	-2.71	-2.95	-3.21	
Investment in OFA	-0.64	-0.95	-1.00	-0.99	-1.08	-1.18	-1.28	-1.40	
Investment in WC	1.03	-3.20	-2.00	-0.58	-1.40	-1.53	-1.67	-1.82	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	6.12	3.59	5.98	9.98	10.12	11.03	12.02	13.10	375.40

Value operating business (due date)	274.34	291.23
Net present value explicit free Cashflows	47,55	47.51
Net present value of terminal value	226.79	243.72
Net debt	-41.80	-41,28
Value of equity	316.14	332.52
Minority interests	0.00	0.00
Value of share capital	316.14	332.52
Outstanding shares in m	17.50	17.50
Fair value per share in €	18.07	**19.00**

Cost of Capital:

Risk free rate	1.3%
Market risk premium	5.5%
Beta	1.13
Cost of equity	7.5%
Target weight	100.0%
Cost of debt	4.5%
Target weight	0.0%
Taxshield	28.7%
WACC	**7.5%**

Return on Capital	**WACC**				
	6.5%	**7.0%**	**7.5%**	**8.0%**	**8.5%**
56.0%	23.37	20.62	18.49	16.81	15.45
57.0%	23.71	20.91	18.75	17.03	15.64
58.0%	24.06	21.20	**19.00**	17.25	15.84
59.0%	24.40	21.50	19.25	17.48	16.03
60.0%	24.75	21.79	19.51	17.70	16.23

ANNEX

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BUY	The expected return, based on the derived target price, incl. dividend payments within the rel 10%.
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