

HAEMATO AG

Germany / Pharma
 Frankfurt
 Bloomberg: HAE GR
 ISIN: DE0006190705

2014 Results

RATING
BUY

PRICE TARGET
€6.70

Return Potential 27.4%
 Risk Rating High

POSTIVE 2014 RESULTS DESPITE UNEXPECTED HEADWINDS

HAEMATO AG published final results for FY 2014. Revenues were in line with our projection and earnings were slightly below our estimates. The company grew its top line 16.8% on a fully consolidated basis and expects revenue growth to continue in the current fiscal year. Management will propose a dividend of €0.30 per share to shareholders at this year's AGM matching the 2013 dividend. We have rolled our DCF model forward by one year which results in an increased target price to €6.70 from €6.40. Our recommendation remains Buy.

Sales remain strong despite unexpected headwinds Full year sales climbed 16.8% to €202.7m in 2014 compared to the consolidated figure of €173.6m for 2013 and were in line with our estimate. Sales would have been even higher if not for surprise developments in Italy last summer completely unrelated to HAEMATO that temporarily caused a bottleneck in the distribution channels of parallel importers throughout Europe for select pharmaceuticals (see page 2).

Operating cash flows turn positive, liquidity remains solid Net income for the year translated into positive operating cash flows for HAEMATO amounting to €6.6m (2013: -€3.8m), due mainly to a positive working capital development. This resulted in FCF of €0.9m for 2014 compared to -€4.7m in the previous year. Cash and equivalents remained healthy with a reported balance of €2.4m compared to €2.8m in 2013. The equity ratio stood at 58% compared to 59% at the end of 2013.

Market trends support positive outlook We believe HAEMATO is well positioned to capitalise on trends in the healthcare industry; particularly the need to combat rising healthcare costs. Parallel imports and generics are key in the efforts to curb pharmaceutical expenses. The company combines strong sourcing with established distribution channels in these areas. We expect growth to continue this year with regulatory headwinds easing and maintain our Buy recommendation.

FINANCIAL HISTORY & PROJECTIONS

	2011A	2012A	2013A*	2014A	2015E	2016E
Revenue (€m)	10.86	25.04	173.57	202.67	219.90	242.99
Y-o-Y growth	n.a.	130.7%	593.1%	16.8%	8.5%	10.5%
EBIT (€m)	1.19	9.19	9.93	8.23	10.37	12.32
EBIT margin	10.9%	36.7%	5.7%	4.1%	4.7%	5.1%
Net income (€m)	1.48	6.84	7.94	6.98	7.75	9.31
EPS (diluted) (€)	0.11	0.34	0.41	0.34	0.37	0.45
DPS (€)	0.25	0.25	0.30	0.30	0.30	0.31
FCF (€m)	-8.88	-4.00	-4.66	0.92	7.91	8.60
Net gearing	10.3%	-31.5%	25.8%	39.6%	37.6%	32.1%
Liquid assets (€m)	3.32	7.53	3.32	2.42	4.10	6.47

*consolidated from 1 April 2013

RISKS

Regulatory changes in healthcare systems, spending cuts in healthcare systems, homogenization of pharmaceutical prices within the European Union.

COMPANY PROFILE

HAEMATO AG, a subsidiary of MPH Mittelständische Pharma Holding AG, is a pharma company focusing on the sale of generics and parallel imports in high priced niches. The company is targeting selected pharmaceutical products in a small number of clinical indications such as oncology or HIV.

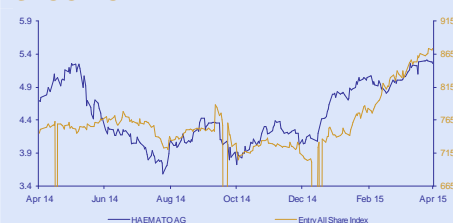
MARKET DATA

As of 15 Apr 2015

Closing Price € 5.26
 Shares outstanding 20.78m
 Market Capitalisation € 109.23m
 52-week Range € 3.58 / 5.31
 Avg. Volume (12 Months) 41,731

Multiples	2014A	2015E	2016E
P/E	15.7	14.1	11.7
EV/Sales	0.7	0.6	0.6
EV/EBIT	16.2	12.9	10.8
Div. Yield	5.7%	5.7%	6.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2014

Liquid Assets € 10.22m
 Current Assets € 51.86m
 Intangible Assets € 41.92m
 Total Assets € 99.22m
 Current Liabilities € 24.06m
 Shareholders' Equity € 56.88m

SHAREHOLDERS

MPH AG 68.5%
 Free Float 31.5%



Positive results driven by gross margin increase

Gross profit totaled €16.3m for the year corresponding to an 8.0% margin (2013: 6.8%). The 120 basis point GM improvement stemmed largely from the reduction of the mandatory discount granted to health insurance funds last year to 7% after the 16% mandatory discount expired on 31 December 2013. Given the overall financial strength of health insurance funds, we expect the regulator to favor a lower discount rate going forward. Operating income (EBIT) was lower than expected, due to higher personnel and other expense ratios for the year. As a result, the EBIT margin fell 160 bps to 4.1%. Consequently, net income of €7.0m was below our estimate.

Figure 1: Results vs. estimates

in EURm	FY2014A	FY2014E	Delta	FY2013A*	Delta
Sales	202.7	206.2	-1.7%	173.6	16.8%
EBIT	8.2	10.1	-18.5%	9.9	-17.1%
margin	4.1%	4.9%	-	5.7%	-
Net income	7.0	8.0	-12.3%	7.9	-12.1%
margin	3.4%	3.9%	-	4.6%	-
EPS (in EUR diluted)	0.34	0.38	-11.6%	0.41	-17.2%

* considered from 1 April 2013

Source: First Berlin Equity Research, Company

Figure 2: Balance sheet KPI's

in EURm	End of FY13	End of FY14	Delta
Cash	3.3	2.4	-26.9%
Short-term investments	11.3	2.7	-75.7%
Financial debt (short- and long-term)	29.6	28.5	-3.7%
Equity	58.2	59.0	1.3%
Total assets	98.9	101.7	2.9%

Source: First Berlin Equity Research, Company

Figure 3: Cash flow KPI's

in EURm	FY 2013	FY 2014	Delta
Operating cash flow	-3.8	6.6	-
Cash flow from investment activities	3.6	-1.8	-
Cash flow from financing activities	2.1	-5.6	-
Consolidation basis-related changes	-6.0	0.0	-
Net cash flow	-4.2	-0.9	-

Source: First Berlin Equity Research, Company

Sales in 2014 gated by unexpected distribution bottleneck In an event completely unrelated to HAEMATO and its operations, Italy's national regulator for drugs, AIFA, discovered illegal pharmaceuticals in the country's parallel import channel last summer triggering an investigation into the illegal trafficking. The drugs in question were black listed across the EU regardless of their national origin and quarantined so that authorities could verify their legality. Although there was no connection between the investigation and HAEMATO, the ensuing quality controls impacted the company's operations as well as those of rival parallel importers, when their stocks piled up waiting to be inspected and released from quarantine. AIFA recently announced that it has concluded its investigation and certified that the drugs in question exported after 1 July 2014 are completely legal. While we cannot quantify the exact impact of this Black Swan on HAEMATO's sales volumes last year, this clearly blunted sales in H2 2014.



Management to propose a dividend of €0.30 per share HAEMATO AG confirmed its strategy to disburse a large part of yearly earnings in the form of dividends. At this year's AGM (to be held on 9 June), management will propose a dividend of €0.30 in line with both our estimate and last year's dividend of €0.30. This equates to a dividend yield of 5.7% at the current share price level.

Lowering forecasts to account for slow start to 2015 Management guidance calls for sales growth in 2015. We believe the Italian Black Swan has impacted sales during the first quarter this year too and have tightened our forecasts accordingly by shifting our top-line growth expectations out by one year. That said, our sources have confirmed that all distribution channels will be wide open for "business as usual" by the end of April. We have edged our margin assumptions upwards starting in 2016 to account for a stable outlook on the mandatory discount and improving operating leverage on higher sales volumes. We also believe there could be some upside to our post 2015 forecasts if the company succeeds in moving into other markets in the future. Presently, sales are dominated by Germany with a small portion traced to Austria. We now look for sales to increase 8.5% Y/Y in 2015 followed by 10.5% growth in 2016. We have adjusted our assumptions for personnel and other operating expenses going forward to reflect the improved operating leverage with the higher sales volumes.

Figure 4: Adjustments to our forecasts

in EURm	2015E			2016E		
	Old	New	% change	Old	New	% change
Sales	246.4	219.9	-10.8%	270.5	243.0	-10.2%
EBIT	11.6	10.4	-10.6%	12.9	12.3	-4.5%
Margin (%)	4.7%	4.7%	-	4.8%	5.1%	-
Net income	9.0	7.7	-13.9%	9.9	9.3	-5.9%
Margin (%)	9.0%	8.6%	-	10.8%	8.6%	-
EPS € (diluted)	0.43	0.37	-13.3%	0.48	0.45	-6.6%

Source: First Berlin Equity Research, Company



VALUATION

We have rolled our model forward one year, which results in an enterprise value of €163.6m. The shareholder value of €139.2m converts to a fair value of €6.70 per share. We thus issue a new price target of €6.70 (€6.40) and maintain our Buy rating for the company.

DCF valuation model								
All figures in EUR '000	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net sales	219,901	242,991	272,150	302,086	332,295	362,201	391,178	414,648
NOPLAT	8,891	10,550	11,763	13,133	14,456	15,727	16,928	17,867
+ depreciation & amortisation	1,850	1,527	1,234	1,094	1,015	978	972	986
Net operating cash flow	10,740	12,077	12,997	14,227	15,471	16,705	17,899	18,853
- total investments (CAPEX and WC)	-1,687	-2,235	-4,667	-4,661	-4,567	-4,379	-4,096	-3,146
Capital expenditures	-660	-729	-801	-873	-942	-1,006	-1,065	-1,106
Working capital	-1,027	-1,506	-3,865	-3,788	-3,625	-3,373	-3,031	-2,040
Free cash flows (FCF)	9,054	9,842	8,330	9,566	10,904	12,326	13,803	15,707
PV of FCF's	8,455	8,344	6,413	6,686	6,921	7,101	7,221	7,461

All figures in thousands	
PV of FCFs in explicit period	98,109
PV of FCFs in terminal period	65,481
Enterprise value (EV)	163,590
+ Net cash / - net debt	-24,435
Shareholder value	139,155

Fair value per share in EUR	6.70
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WACC		Terminal growth rate						
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
6.1%	Cost of equity	12.00	12.76	13.65	14.75	16.10	17.83	20.12
7.1%	Pre-tax cost of debt	9.88	10.37	10.95	11.63	12.44	13.43	14.65
8.1%	Tax rate	8.29	8.63	9.02	9.47	9.99	10.61	11.34
9.1%	After-tax cost of debt	7.07	7.31	7.59	7.90	8.25	8.65	9.13
10.1%	Share of equity capital	6.10	6.28	6.48	6.70	6.94	7.22	7.54
11.1%	Share of debt capital	5.32	5.45	5.60	5.76	5.94	6.14	6.36
12.1%		4.67	4.77	4.88	5.00	5.13	5.28	5.44
13.1%	Fair value per share in EUR	4.13	4.21	4.29	4.38	4.48	4.59	4.71

*please note our model runs to 2029. We have published an abbreviated version for layout purposes

Source: First Berlin Equity Research



INCOME STATEMENT

All figures in EUR '000	2012A	2013A	2014A	2015E	2016E	2017E
Revenues	25,043	173,566	202,674	219,901	242,991	272,150
Cost of goods sold	19,332	161,848	186,376	201,869	222,823	249,595
Gross profit	5,711	11,718	16,298	18,032	20,168	22,555
Personnel costs	818	3,540	4,502	4,618	5,103	5,655
Depreciation and amortisation	785	1,813	2,056	1,850	1,527	1,234
Other operating expenses	4,476	4,837	6,009	5,498	5,832	6,528
Operating income (EBIT)	9,188	9,934	8,233	10,367	12,324	14,249
Net financial result	-489	-927	-1,365	-1,142	-1,237	-1,195
Pre-tax income (EBT)	8,698	9,006	6,867	9,225	11,087	13,054
Income taxes	1,283	627	-111	1,476	1,774	2,486
Earnings after tax (EAT)	7,414	8,380	6,979	7,749	9,313	10,568
Minority interests	-577	-440	0	0	0	0
Net income / loss	6,837	7,940	6,979	7,749	9,313	10,568
Diluted EPS (in €)	0.34	0.41	0.34	0.37	0.45	0.51
EBITDA	9,972	11,747	10,288	12,216	13,850	15,482
Dividend per share (in €)	0.25	0.30	0.30	0.30	0.31	0.36
Ratios						
Gross margin	22.8%	6.8%	8.0%	8.2%	8.3%	8.3%
EBIT margin on revenues	36.7%	5.7%	4.1%	4.7%	5.1%	5.2%
EBITDA margin on revenues	39.8%	6.8%	5.1%	5.6%	5.7%	5.7%
Net margin on revenues	27.3%	4.6%	3.4%	3.5%	3.8%	3.9%
Tax rate	14.8%	7.0%	-1.6%	16.0%	16.0%	19.0%
Expenses as % of revenues						
Personnel costs	3.3%	2.0%	2.2%	2.1%	2.1%	2.1%
Depreciation and amortisation	3.1%	1.0%	1.0%	0.8%	0.6%	0.5%
Other operating expenses	17.9%	2.8%	3.0%	2.5%	2.4%	2.4%
Y-Y Growth						
Revenues	130.7%	593.1%	16.8%	8.5%	10.5%	12.0%
Operating income	674.0%	8.1%	-17.1%	25.9%	18.9%	15.6%
Net income/ loss	361.6%	16.1%	-12.1%	11.0%	20.2%	13.5%



BALANCE SHEET

All figures in EUR '000	2011A	2012A	2013A	2014A	2015E	2016E
Assets						
Current assets, total	9,882	19,913	53,470	51,559	54,763	59,444
Cash and cash equivalents	3,316	7,529	3,316	2,424	4,102	5,862
Short-term investments	18	8,518	11,277	2,743	2,743	2,743
Receivables	916	1,497	7,107	10,478	10,242	10,652
Inventories	5,062	1,968	30,786	34,188	35,949	38,460
Other current assets	570	400	144	174	174	174
Non-current assets, total	30,232	22,577	45,386	50,142	50,041	49,243
Property, plant & equipment	764	763	353	1,094	1,315	1,603
Goodwill & other intangibles	4,195	8,165	42,585	41,354	39,697	38,610
Other assets	25,273	13,649	2,448	7,695	9,030	9,030
Total assets	40,114	42,490	98,856	101,702	104,804	108,687
Shareholders' equity & debt						
Current liabilities, total	4,239	2,435	22,151	25,663	26,151	26,954
Short-term debt	583	502	12,543	12,554	12,543	12,543
Accounts payable	1,231	734	6,660	7,244	7,743	8,547
Current provisions	959	1,173	1,704	3,243	3,243	3,243
Other current liabilities	1,466	27	1,245	2,623	2,623	2,623
Long-term liabilities, total	7,221	6,476	18,468	17,056	18,156	18,156
Long-term debt	5,628	5,209	17,059	15,960	17,059	17,059
Other liabilities	1,593	1,267	1,409	1,097	1,097	1,097
Shareholders' equity	28,654	33,579	58,237	58,983	60,498	63,577
Total consolidated equity and debt	40,114	42,490	98,856	101,702	104,804	108,687
Ratios						
Current ratio	2.33	8.18	2.41	2.01	2.09	2.21
Quick ratio	1.14	7.37	1.02	0.68	0.72	0.78
Equity ratio	0.71	0.79	0.59	0.58	0.58	0.58
Financial leverage	1.44	1.29	1.70	1.72	1.73	1.71
Book value per share	2.03	1.62	2.97	2.84	2.91	3.06
Net cash	-2,877	10,336	-15,009	-23,346	-22,756	-20,996
Return on equity (ROE)	5.3%	20.8%	13.6%	11.8%	12.8%	14.6%
Days of sales outstanding (DSO)	30.8	21.8	14.9	18.9	17.0	16.0
Days of inventory turnover	174.7	37.2	69.4	67.0	65.0	63.0
Days in payables (DIP)	42.5	13.9	15.0	14.2	14.0	14.0



CASH FLOW STATEMENT

All figures in EUR '000	2011A	2012A	2013A	2014A	2015E	2016E
EBIT	1,183	9,186	9,934	8,419	10,367	12,324
Depreciation and amortisation	2,633	785	1,813	2,056	1,850	1,527
EBITDA	3,816	9,971	11,747	10,474	12,216	13,850
Changes in working capital	-1,039	-7,453	-7,113	6,232	-1,027	-1,506
Other adjustments	-1,063	-496	-8,898	-10,144	-2,618	-3,011
Operating cash flow	1,714	2,023	-4,264	6,562	8,572	9,334
CAPEX	-10,594	-6,021	-400	-5,645	-440	-486
Investments in intangibles	0	0	0	0	-220	-243
Free cash flow	-8,880	-3,999	-4,665	917	7,912	8,605
Debt financing, net	-1,689	470	428	182	0	0
Equity financing, net	-23	-1,824	5,045	430	0	0
Other changes in cash	7,925	9,565	-6,262	-2,421	-6,234	-6,234
Net cash flows	-2,667	4,212	-4,653	-892	1,678	2,371
Cash, start of the year	5,983	3,316	7,529	3,316	2,424	4,102
Cash, end of the year	3,316	7,528	2,875	2,424	4,102	6,473
EBITDA/share (in €)	0.28	0.49	0.60	0.50	0.59	0.67
Y-Y Growth						
Operating cash flow	n.a.	18.0%	n.m.	n.m.	30.6%	8.9%
Free cash flow	n.a.	n.m.	n.m.	n.m.	762.8%	8.8%
EBITDA/share	n.a.	76.4%	22.0%	-17.5%	18.7%	13.4%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	27 August 2013	€3.00	Buy	€5.70
2...5	↓	↓	↓	↓
6	4 June 2014	€4.49	Buy	€6.40
7	26 August 2014	€4.07	Buy	€6.40
8	2 December 2014	€4.22	Buy	€6.40
9	Today	€5.26	Buy	€6.70

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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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