

# HAEMATO AG

Germany / Pharma  
 Frankfurt  
 Bloomberg: HAE GR  
 ISIN: DE0006190705

2015 Results

**RATING**  
**PRICE TARGET**  
 Return Potential 19.0%  
 Risk Rating High

**ADD**  
**€6.00**

## SOLID TOP LINE GROWTH BUT WEAKER GROSS MARGIN

Full year results were mixed compared to our forecasts. Sales continued to be strong in H2 2015 allowing revenues to reach €230m for the full year (FBe: €220m). However, the core parallel import business continued to be impacted by a lower gross margin, due to price fluctuations resulting from the mix in regional sourcing. HAEMATO generated net income (NI) of €5.5m for 2015 and will pay out a €0.30 dividend to shareholders. We have increased our revenue forecasts but trimmed our gross margin assumptions to account for the persistent difficult pricing environment. The company is also set to launch its first own label medical product this year with promising margins. Our adjusted estimates and DCF model produce a new fair value of €6.00 (previously: €6.2). Our rating is now Add (previously: Buy).

**Strong pick up in sales but lower profitability** Sales remained brisk in H2/15 at €128m compared to €102m in H1/15. We note that the first six months were still burdened by the tail end of a regulatory bottleneck (see report 16 April 2015). Full year sales climbed 13% Y/Y to €230m, driven partly by strong demand for oncology, and topped our figure of €220m. The 5.9% gross margin (GM) in H2/15 was lower than we anticipated (8.2%) due to price pressure. HAEMATO sources pharmaceuticals for its parallel import business from a variety of regions, which can lead to price swings when supply is short. Moreover, HAEMATO continues to expand its product offering (currently over 800 medications), and each new pharmaceutical requires an import approval that adds to the direct costs.

**Medical Devices segment to provide higher margin revenues** In a recent meeting with management, we learned that HAEMATO should be able to begin selling its first branded lifestyle product for cosmetic treatments. The hyaluron acid based product with lidocaine is a high demand product used commonly for facial treatments. Although we are unable to quantify potential unit sales, we do expect to see initial revenues by the end of 2016 after the product receives CE approval within the next six months. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	173.57	202.67	229.73	248.10	275.40	305.69
Y-o-y growth	593.1%	16.8%	13.3%	8.0%	11.0%	11.0%
EBIT (€m)	9.93	8.23	8.22	8.32	9.61	11.16
EBIT margin	5.7%	4.1%	3.6%	3.4%	3.5%	3.6%
Net income (€m)	8.38	6.98	5.54	6.26	7.11	7.99
EPS (diluted) (€)	0.41	0.34	0.27	0.30	0.34	0.38
DPS (€)	0.30	0.30	0.30	0.30	0.30	0.30
FCF (€m)	-0.25	4.73	0.95	10.14	4.16	4.46
Net gearing	23.6%	39.6%	49.0%	42.3%	45.2%	46.8%
Liquid assets (€m)	14.59	5.17	5.24	5.51	3.75	3.29

### 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 03 May 2016

Closing Price € 5.04  
 Shares outstanding 20.78m  
 Market Capitalisation € 104.79m  
 52-week Range € 4.10 / 5.26  
 Avg. Volume (12 Months) 22,378

Multiples	2015	2016E	2017E
P/E	18.9	16.7	14.7
EV/Sales	0.6	0.5	0.5
EV/EBIT	15.9	15.7	13.6
Div. Yield	5.9%	5.9%	5.9%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Dec 2015

Liquid Assets € 2.50m  
 Current Assets € 52.90m  
 Intangible Assets € 34.60m  
 Total Assets € 107.00m  
 Current Liabilities € 35.60m  
 Shareholders' Equity € 58.30m

### SHAREHOLDERS

MPH AG 50.1%  
 Free Float 49.9%

We believe the company will also be able to add a second product with strong market potential in H2 2017. HAEMATO has a breast implant product in the pipeline and already has a production source lined up. However, management expect the CE approval to take up to 12 months. For medical devices activities, the company plans to outsource production und use existing distribution channels. We believe this segment will thus have a much more attractive cost structure and should help mitigate the fluctuating margins of the parallel import activities once volumes increase.

**Figure 1: 2015 vs estimates and prior year period**

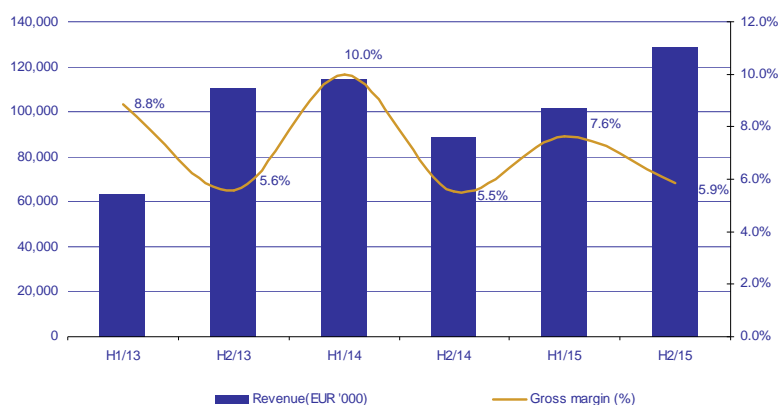
All figures in EUR '000	H2 2015	H2 2015E	% delta	H2 2014	% delta	FY 2015	FY 2014	% delta
Revenue	128,250	118,424	8.3%	88,544	44.8%	229,727	202,674	13.3%
Gross profit	7,534	9,853	-23.5%	4,902	53.7%	15,237	16,298	-6.5%
Margin (%)	5.9%	8.3%	-	5.5%	-	6.6%	8.0%	-
EBIT	4,014	4,115	-2.5%	2,567	56.4%	8,316	8,233	1.0%
Margin (%)	3.1%	3.5%	-	2.9%	-	3.6%	4.1%	-
Net income	2,772	3,285	-15.6%	1,940	42.9%	5,539	6,979	-20.6%
EPS diluted (\$)	0.13	0.16	-15.6%	0.09	42.9%	0.27	0.34	-20.6%

Source: First Berlin Equity Research, company

**Operational structure increases alongside sales growth** Personnel expenses climbed to €5.4m in 2015 compared to €4.5m in the prior year. The 20% Y/Y rise is mainly occasioned by the increase in staff to facilitate the higher sales volumes as well as a slightly higher wage structure, due to the higher minimum wage for lower level staff members. The company employed an average staff of 173 employees in 2015 (2014: 146). Other operating expenses increased some 8% Y/Y to €6.5m (2014: €6.0m). This was caused by the ramp up of facilities to accommodate the storage of various pharmaceuticals in transit prior to distribution. Other income rose 47% Y/Y to €6.5m, driven chiefly by revaluation gains (€5.0m) of financial assets. Despite the lower GM and slight rise in OpEx, EBIT edged 1.0% higher Y/Y to €8.3m (2014: €8.2m) helped by the higher other income result. The net financial result includes depreciation of financial assets in the amount of €0.6m. NI for the period totalled €5.5m compared to €7.0m in the prior year.

For the six month period, the company generated its highest revenue total in three years and has shown a strong pick up in sales since the removal of the well reported regulatory bottleneck last April. The trough in H2 2014 was attributable to the Italian Black Swan (see report 16 April 2015), which gated distribution channels for parallel importers. The GM reflects a choppy sourcing environment, which is heavily influenced by the regional mix and scarcity of certain products at various times.

**Figure 2: Revenue and gross margin development**



Source: First Berlin Equity Research, company



**Balance sheet remains stable; operating cash flow positive** Total assets grew to €107m (2014: €102m), mainly due the increase in financial assets to €12.5m (2014: €7.5m). These include stakes in listed companies. Net debt, including the €5.2m participation certificate, totalled €28.6m at year end. Shareholders' equity remained stable at €58.3m (2014: €59m) after distributing dividends of €6.2m to shareholders. The equity ratio thus dipped lower to 55% vs 58% in 2014, due to the larger asset base.

**Figure 4: Balance sheet KPIs**

All figures in EUR '000	FY 2015	FY 2014	% delta
Cash	2,449	2,424	1.0%
Short-term investments	2,791	2,743	1.7%
Financial debt (short- and long-term)	28,617	23,303	22.8%
Equity	58,289	58,983	-1.2%
Total assets	106,989	101,701	5.2%

Source: First Berlin Equity Research; Company

Net operating cash flow totalled €1.4m for the year compared to €6.6m 2014. The decrease can be traced to an increase in working capital. Cash flow from investing totalled €-0.4m in 2015, and cash flow from financing amounted to €-0.9m on our numbers. Thus total cash consumed for the year equalled €0.03m leaving HAEMATO with some €2.5m in cash and equivalents on the balance sheet.

**Figure 4: Revised estimates**

All figures in € '000	2016E			2017E		
	old	new	% delta	old	new	% delta
Revenue	242,991	248,105	2.1%	272,149	275,396	1.2%
Gross profit	18,224	16,375	-10.1%	19,867	18,330	-7.7%
Margin (%)	7.5%	6.6%	-	7.3%	6.7%	-
EBIT	9,360	8,316	-11.1%	10,757	9,613	-10.6%
Margin (%)	3.9%	3.4%	-	4.0%	3.5%	-
Net income	7,052	6,259	-11.2%	7,894	7,105	-10.0%
EPS diluted (\$)	0.34	0.30	-11.2%	0.93	0.34	-10.0%

Source: First Berlin Equity Research

**Revised estimates reflect lowered gross margin assumptions** We have increased our 2016 top line forecast to €248m after the stronger than expected H2 2015. Over the mid-term, we look for a three year revenue CAGR of 10%. We have lowered our GM assumptions, due to aforementioned price pressure, and only expect these to edge higher once the Medical Devices activities begin to generate meaningful volumes in H2 2017. That said, until we have better visibility on run rates for Medical Devices, we have not modelled for significant GM improvement.

In our view, HAEMATO remains well positioned to capitalise on trends in the healthcare industry; particularly the need to combat rising healthcare costs. Strong trends in lifestyle beauty treatments should also provide some tailwinds for its nascent Medical Devices segment. This should unlock new growth opportunities with much more attractive margins over the mid-term for the company. Based on our new forecasts and rolled over DCF model, we now see fair value at €6.00 (previously: €6.20). Our rating is now Add (previously: Buy).



## DCF VALUATION

All figures in EUR '000	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Sales	248,105	275,396	305,690	334,730	364,856	395,869	425,559	453,220
NOPLAT	6,321	7,306	8,478	9,630	10,983	12,204	13,435	14,657
+ depreciation & amortisation	1,608	1,281	1,072	929	839	785	754	735
Net operating cash flow	7,928	8,587	9,550	10,559	11,823	12,989	14,189	15,392
- total investments (CAPEX and WC)	4,310	-4,466	-4,902	-2,991	-4,771	1,146	-3,218	1,782
Capital expenditures	-496	-535	-577	-547	-576	-603	-624	-640
Working capital	4,806	-3,930	-4,325	-2,444	-4,195	1,749	-2,594	2,422
Free cash flows (FCF)	12,238	4,122	4,648	7,568	7,052	14,135	10,971	17,174
PV of FCF's	11,486	3,512	3,597	5,317	4,499	8,188	5,771	8,203

All figures in thousands	
PV of FCFs in explicit period	93,300
PV of FCFs in terminal period	58,035
Enterprise value (EV)	151,335
+ Net cash / - net debt	-26,167
+ Investments / minority interests	0
Shareholder value	125,168
Fair value per share (€)	6.02

		Terminal growth rate						
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
WACC	7.1%	9.31	9.71	10.18	10.73	11.39	12.19	13.19
	8.1%	7.74	8.01	8.31	8.67	9.08	9.57	10.15
	9.1%	6.53	6.72	6.93	7.17	7.44	7.75	8.12
	10.1%	5.58	5.71	5.86	6.02	6.21	6.42	6.66
	11.1%	4.81	4.90	5.01	5.13	5.26	5.41	5.57
	12.1%	4.18	4.25	4.33	4.41	4.51	4.61	4.73
	13.1%	3.65	3.70	3.76	3.83	3.90	3.97	4.06
	WACC	10.1%						

\*Please note our model runs through 2028 and we have only shown the abbreviated version for formatting purposes



## INCOME STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
<b>Revenues</b>	<b>173,566</b>	<b>202,674</b>	<b>229,727</b>	<b>248,105</b>	<b>275,396</b>	<b>305,690</b>
Cost of goods sold	-161,845	-186,376	-214,454	-231,730	-257,066	-284,903
<b>Gross profit</b>	<b>11,721</b>	<b>16,298</b>	<b>15,273</b>	<b>16,375</b>	<b>18,330</b>	<b>20,787</b>
Personnel expenses	-3,540	-4,501	-5,409	-5,706	-6,059	-6,419
Other OpEx	-4,837	-6,009	-6,462	-6,699	-7,436	-8,254
Other income	8,403	4,501	6,622	5,955	6,059	6,114
Depreciation & amortisation	-1,813	-2,056	-1,799	-1,608	-1,281	-1,072
<b>Operating income (EBIT)</b>	<b>9,934</b>	<b>8,233</b>	<b>8,225</b>	<b>8,316</b>	<b>9,613</b>	<b>11,156</b>
Net financial result	-927	-1,366	-2,197	-1,284	-1,254	-1,291
<b>Pre-tax income (EBT)</b>	<b>9,007</b>	<b>6,867</b>	<b>6,028</b>	<b>7,033</b>	<b>8,359</b>	<b>9,865</b>
Income taxes	-627	112	-489	-774	-1,254	-1,874
Minority interests	0	0	0	0	0	0
<b>Net income / loss</b>	<b>8,380</b>	<b>6,979</b>	<b>5,539</b>	<b>6,259</b>	<b>7,105</b>	<b>7,990</b>
<b>Diluted EPS (in \$)</b>	<b>0.41</b>	<b>0.34</b>	<b>0.27</b>	<b>0.30</b>	<b>0.34</b>	<b>0.38</b>
<b>EBITDA</b>	<b>11,747</b>	<b>10,289</b>	<b>10,024</b>	<b>9,924</b>	<b>10,894</b>	<b>12,228</b>
<b>Ratios</b>						
Gross margin	6.8%	8.0%	6.6%	6.6%	6.7%	6.8%
EBIT margin on revenues	5.7%	4.1%	3.6%	3.4%	3.5%	3.6%
EBITDA margin on revenues	6.8%	5.1%	4.4%	4.0%	4.0%	4.0%
Net margin on revenues	4.8%	3.4%	2.4%	2.5%	2.6%	2.6%
Tax rate	7.0%	-1.6%	8.1%	11.0%	15.0%	19.0%
<b>Expenses as % of revenues</b>						
Personnel expenses	-2.0%	-2.2%	-2.4%	-2.3%	-2.2%	-2.1%
Other OpEx	-2.8%	-3.0%	-2.8%	-2.7%	-2.7%	-2.7%
Depreciation & amortisation	-1.0%	-1.0%	-0.8%	-0.6%	-0.5%	-0.4%
<b>Y-Y Growth</b>						
Revenues	n.a.	16.8%	13.3%	8.0%	11.0%	11.0%
Operating income	n.a.	-17.1%	-0.1%	1.1%	15.6%	16.1%
Net income/ loss	n.a.	-16.7%	-20.6%	13.0%	13.5%	12.5%



## BALANCE SHEET

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
<b>Assets</b>						
<b>Current assets, total</b>	<b>53,470</b>	<b>51,559</b>	<b>52,860</b>	<b>50,527</b>	<b>53,698</b>	<b>58,662</b>
Cash and equivalents	3,316	2,424	2,449	2,717	961	503
ST financial assets	11,277	2,743	2,791	2,791	2,791	2,791
Trade receivables	7,107	10,478	4,725	5,438	6,036	6,700
Inventories	30,786	34,188	41,677	38,093	42,257	46,833
Other ST assets	984	1,727	1,218	1,489	1,652	1,834
<b>Non-current assets, total</b>	<b>45,387</b>	<b>50,142</b>	<b>54,129</b>	<b>53,555</b>	<b>53,275</b>	<b>53,264</b>
Property, plant & equipment	354	1,094	1,308	1,354	1,415	1,489
Goodwill & other intangibles	42,585	41,354	40,213	39,055	38,248	37,680
Financial assets	2,237	7,480	12,474	12,898	13,337	13,790
Deferred taxes	211	214	134	248	275	306
<b>Total assets</b>	<b>98,857</b>	<b>101,702</b>	<b>106,989</b>	<b>104,082</b>	<b>106,972</b>	<b>111,926</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>22,151</b>	<b>25,663</b>	<b>35,588</b>	<b>27,005</b>	<b>28,575</b>	<b>30,308</b>
Trade payables	6,660	7,244	5,684	7,619	8,451	9,367
ST debt	11,271	12,554	21,636	12,688	12,688	12,688
Provisions	1,703	3,243	4,309	3,722	4,131	4,585
Other ST financial liabilities	1,272	474	539	496	551	611
Other current liabilities	1,245	2,148	3,420	2,481	2,754	3,057
<b>Long-term liabilities, total</b>	<b>18,468</b>	<b>17,056</b>	<b>13,112</b>	<b>18,763</b>	<b>19,212</b>	<b>20,676</b>
Long-term debt	17,059	15,959	12,190	17,502	17,814	19,127
LT provisions	79	20	21	21	21	21
Deferred tax liabilities	1,330	1,077	901	1,241	1,377	1,528
<b>Shareholders' equity</b>	<b>58,238</b>	<b>58,982</b>	<b>58,289</b>	<b>58,314</b>	<b>59,186</b>	<b>60,942</b>
<b>Total consolidated equity and debt</b>	<b>98,857</b>	<b>101,702</b>	<b>106,989</b>	<b>104,082</b>	<b>106,972</b>	<b>111,926</b>
<b>Ratios</b>						
Current ratio (x)	2.4	2.0	1.5	1.9	1.9	1.9
Quick ratio (x)	1.0	0.7	0.3	0.5	0.4	0.4
Net debt	13,737	23,346	28,586	24,681	26,750	28,520
Net gearing	24%	40%	49%	42%	45%	47%
Return on equity (ROE)	14.4%	11.8%	9.5%	10.7%	12.0%	13.1%
Capital employed (CE)	39,587.6	45,285.6	47,655.2	41,736.7	44,920.8	48,751.2
Return on capital employed (ROCE)	25%	18%	17%	20%	21%	23%



## CASH FLOW STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
<b>Pre-tax income</b>	<b>8,991</b>	<b>6,867</b>	<b>6,028</b>	<b>7,033</b>	<b>8,359</b>	<b>9,865</b>
Depreciation and amortisation	1,813	2,056	1,799	1,608	1,281	1,072
Changes in working capital	-7,196	6,175	-44	3,192	-3,248	-3,567
Other adjustments	-5,600	-7,632	-5,893	-424	-439	-453
Net financial result	928	1,366	1,621	1,284	1,254	1,291
<b>Operating cash flow</b>	<b>-1,064</b>	<b>8,832</b>	<b>3,510</b>	<b>12,692</b>	<b>7,208</b>	<b>8,207</b>
Interest income	23	183	8	10	10	10
Interest expense paid	-1,371	-1,551	-1,629	-1,294	-1,264	-1,301
Tax paid	-1,412	-902	-489	-774	-1,254	-1,874
<b>Net operating cash flow</b>	<b>-3,824</b>	<b>6,561</b>	<b>1,400</b>	<b>10,634</b>	<b>4,700</b>	<b>5,041</b>
CapEx	-27,282	-5,645	-796	-496	-535	-577
Proceeds from disposal of fixed assets	30,854	3,813	342	0	0	0
<b>Cash flow from investing</b>	<b>3,572</b>	<b>-1,832</b>	<b>-454</b>	<b>-496</b>	<b>-535</b>	<b>-577</b>
<b>Free cash flow (FCF)</b>	<b>-252</b>	<b>4,729</b>	<b>946</b>	<b>10,138</b>	<b>4,165</b>	<b>4,464</b>
Equity inflow, net	5,045	430	0	0	0	0
Debt inflow, net	427	183	5,313	-3,636	313	1,313
Dividend paid to shareholders	-3,407	-6,234	-6,234	-6,234	-6,234	-6,234
<b>Cash flow from financing</b>	<b>2,065</b>	<b>-5,621</b>	<b>-921</b>	<b>-9,870</b>	<b>-5,921</b>	<b>-4,921</b>
<b>Net cash flows</b>	<b>-4,213</b>	<b>-892</b>	<b>25</b>	<b>268</b>	<b>-1,757</b>	<b>-457</b>
Cash, start of the year	7,529	3,316	2,424	2,449	2,717	961
<b>Cash, end of the year</b>	<b>3,316</b>	<b>2,424</b>	<b>2,449</b>	<b>2,717</b>	<b>961</b>	<b>503</b>
<b>EBITDA/share (in €)</b>	<b>0.60</b>	<b>0.50</b>	<b>0.48</b>	<b>0.48</b>	<b>0.52</b>	<b>0.59</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.a.	n.m.	-78.7%	659.5%	-55.8%	7.3%
Free cash flow	n.a.	n.m.	-80.0%	971.5%	-58.9%	7.2%
EBITDA/share	n.a.	-17.4%	-2.6%	-1.0%	9.8%	12.2%

**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...9	↓	↓	↓	↓
10	16 April 2015	€5.26	Buy	€6.70
11	13 November 2015	€4.88	Buy	€6.00
12	14 December 2015	€4.77	Buy	€6.20
13	Today	€5.04	Add	€6.00

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- valuation methods and principles
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