

HAEMATO AG

Germany / Pharma
 Frankfurt
 Bloomberg: HAE GR
 ISIN: DE0006190705

H1/15 Results

RATING
BUY

PRICE TARGET
€6.00

Return Potential 39.2%
 Risk Rating High

SALES IN LINE, PROFITABILITY LOWER; TRIMMING FORECASTS

Sales for the six month period continued to be blunted by the regulatory bottleneck in the parallel import distribution channels. Consequently, revenues were off last year's pace but in line with our estimate. Profitability was lower Y/Y due to lower sales volumes and some pricing pressure affecting the gross margin (GM). Once quality control restrictions were lifted by the regulator in April, sales grew some 24% Q/Q. However, we have lowered our margin assumptions to account for the current environment. This results in a new fair value and price target of €6.00 (previously: €6.70). Our rating remains Buy.

Sales beginning to pick up although profitability fails to match prior year levels After a sluggish H2/14 and start to 2015 owing to the Italian Black Swan (see report 16 April 2015), revenues began to pick up at the end of the reporting period when the Paul Ehrlich Institute lifted quality control restrictions in the parallel import channel. However, the negative impact led to an expected 11% Y/Y decline in sales to €101m (H1/14: €114m, FBe: €106m). The 7.8% GM in H1/15 was also lower than we anticipated (8.2%) due to price pressure. Moreover, operating expenses edged higher Y/Y and EBIT fell to €4.2 (H1/14: €5.6m, FBe: €5.0m). With distribution channels now fully open, we expect sales to pick up further in the second half of the year. But after speaking with management, we do not expect an improvement in margins for now.

Operating cash flow off last year's pace; still positive The lower net income combined with slower inventory turnover led to a 70% Y/Y decline in operating cash flow to €1.3m (H1/14: €8.8m) with inventory stagnating in warehouses, due to the regulatory bottleneck. Cash flow from investment activities for the period totalled €6.2m owing to the higher number of disposals than acquisitions. Cash flow from financing amounted to €-6.3m due mainly to the dividend paid out with no significant changes in debt. HAE ended the period with cash on the balance sheet of €2.0m compared to €2.4m at the end of 2014 (p.t.o.)

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	8.99	9.36
EBIT margin	10.9%	36.7%	5.7%	4.1%	4.1%	3.9%
Net income (€m)	1.48	6.84	7.94	6.98	6.61	7.06
EPS (diluted) (€)	0.11	0.34	0.41	0.34	0.32	0.34
DPS (€)	0.25	0.25	0.30	0.30	0.30	0.30
FCF (€m)	-8.88	-4.00	-4.66	0.92	2.44	4.97
Net gearing	10.3%	-31.5%	25.8%	39.6%	41.7%	43.5%
Liquid assets (€m)	3.32	7.53	3.32	2.42	2.36	1.41

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 28 Aug 2015

Closing Price € 4.31
 Shares outstanding 20.78m
 Market Capitalisation € 89.56m
 52-week Range € 3.73 / 5.35
 Avg. Volume (12 Months) 33,909

Multiples	2014A	2015E	2016E
P/E	12.8	13.6	12.7
EV/Sales	0.2	0.2	0.2
EV/EBIT	5.1	4.7	4.5
Div. Yield	7.0%	7.0%	7.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2015

Liquid Assets € 2.00m
 Current Assets € 52.70m
 Intangible Assets € 34.60m
 Total Assets € 104.70m
 Current Liabilities € 31.90m
 Shareholders' Equity € 55.50m

SHAREHOLDERS

MPH AG 57.0%
 Free Float 43.0%

**Figure 1: H1/15 vs estimates and prior year period**

All figures in EUR '000	H1/15A	H1/15E	Delta	H1/14A	Delta
Sales	101,477	105,600	-3.9%	114,130	-11.1%
EBIT	4,211	4,960	-15.1%	5,665	-25.7%
margin	4.1%	4.7%	-	5.0%	-
Net income	2,768	3,690	-25.0%	4,876	-43.2%
margin	2.7%	3.5%	-	4.3%	-
EPS (in EUR diluted)	0.13	0.18	-25.0%	0.23	-43.2%

Source: First Berlin Equity Research, company

Ramping up operations for higher sales volumes Personal expenses climbed to €2.5m in H1/15 compared to €2.0m in the prior year period. The company increased its staff in preparation for the upswing in sales and ended the period with 190 employees (2014: 146). Other operating expenses increase some 8% Y/Y to €3.2m (H1/14: €2.9m). This was caused by the ramp up of facilities to accommodate the storage of various pharmaceuticals in transit prior to distribution. Rental expenses consequently increased for the period. The lower GM combined with the slight rise in OpEx led to EBIT declining to €4.2m in H1/15 (H1/14: €5.7m) Net income for the period totalled €2.8m compared to €4.9m in the prior period.

Figure 2: Revised estimates 2015E – 2017E

All figures in EUR '000	2015E			2016E		
	Old	New	% change	Old	New	% change
Sales	219,901	219,901	0.0%	242,991	242,991	0.0%
EBIT	10,367	8,986	-13.3%	12,324	9,360	-24.1%
margin	4.7%	4.1%	-	5.1%	3.9%	-
Net income	7,749	6,607	-14.7%	9,313	7,407	-20.5%
margin	9.0%	8.6%	-	10.8%	8.6%	-
EPS € (diluted)	0.37	0.32	-14.1%	0.45	0.36	-20.8%

Source: First Berlin Equity Research

Revised estimates to reflect current cost structure HAEMATO booked higher operating costs Y/Y both on relative and absolute terms. Personal costs corresponded to 2.2% of revenues (H1/14: 1.8%) whereas other operating expenses equalled 3.1% of sales (H1/14: 2.5%). We have revised our estimates to reflect the current cost structure, while retaining our revenue forecasts.

In our view, HAEMATO is well positioned to capitalise on trends in the healthcare industry; particularly the need to combat rising healthcare costs. However, we have edged our GM assumptions lower to reflect the shifting environment in the EU with further integration of European healthcare markets. We believe this will whittle down margins earned in the parallel import of pharmaceuticals. We have also adjusted our DCF model to account for acquisitions and disposals made in H1/15. Based on our new forecasts, we now see fair value at €6.00 (previously: €6.70). Our rating remains Buy.



DCF VALUATION

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	7,727	8,015	8,909	9,996	11,122	12,206	13,271	14,163
+ depreciation & amortisation	1,911	1,575	1,266	1,059	922	834	779	747
Net operating cash flow	9,639	9,590	10,175	11,056	12,044	13,039	14,050	14,911
- total investments (CAPEX and WC)	7,204	-3,663	-3,866	-3,702	-3,475	-3,174	-2,788	-1,813
Capital expenditures	-660	-486	-529	-571	-609	-644	-674	-691
Working capital	2,285	-3,177	-3,336	-3,131	-2,866	-2,530	-2,114	-1,122
Free cash flows (FCF)	16,843	5,927	6,310	7,354	8,569	9,865	11,262	13,097
PV of FCF's	16,296	5,193	5,007	5,286	5,578	5,816	6,013	6,334

All figures in thousands	
PV of FCFs in explicit period	90,906
PV of FCFs in terminal period	58,573
Enterprise value (EV)	149,479
+ Net cash / - net debt	-24,435
Shareholder value	125,045

Fair value per share in EUR	6.00
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WACC		Terminal growth rate						
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
6.4%	Cost of equity	10.16	10.88	11.73	12.76	14.02	15.61	17.66
7.4%	Pre-tax cost of debt	8.45	8.94	9.52	10.18	10.98	11.93	13.10
8.4%	Tax rate	7.17	7.52	7.92	8.38	8.90	9.52	10.26
9.4%	After-tax cost of debt	6.17	6.43	6.71	7.04	7.41	7.83	8.32
10.4%	Share of equity capital	5.37	5.56	5.78	6.02	6.29	6.59	6.93
11.4%	Share of debt capital	4.72	4.87	5.03	5.21	5.41	5.63	5.88
12.4%		4.18	4.30	4.43	4.56	4.71	4.88	5.06
13.4%		3.73	3.83	3.92	4.03	4.15	4.27	4.41

* please note our model runs though 2028 and we have shown only the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Revenues	173,566	202,674	219,901	242,991	272,150	302,086
Cost of goods sold	161,848	186,376	202,309	224,767	252,283	280,250
Gross profit	11,718	16,298	17,592	18,224	19,867	21,836
Personnel costs	3,540	4,502	4,838	5,346	5,594	6,075
Depreciation and amortisation	1,813	2,056	1,911	1,575	1,266	1,059
Other operating expenses	4,837	6,009	6,157	6,561	7,335	8,097
Operating income (EBIT)	9,934	8,233	8,986	9,360	10,782	12,210
Net financial result	-927	-1,365	-1,120	-957	-945	-977
Pre-tax income (EBT)	9,006	6,867	7,866	8,403	9,838	11,233
Income taxes	627	-111	1,258	1,345	1,873	2,214
Earnings after tax (EAT)	8,380	6,979	6,607	7,059	7,964	9,019
Minority interests	-440	0	0	0	0	0
Net income / loss	7,940	6,979	6,607	7,059	7,964	9,019
Diluted EPS (in €)	0.41	0.34	0.32	0.34	0.38	0.43
EBITDA	11,747	10,288	10,897	10,935	12,049	13,269
Dividend per share (in €)	0.30	0.30	0.30	0.30	0.30	0.30
Ratios						
Gross margin	6.8%	8.0%	8.0%	7.5%	7.3%	7.2%
EBIT margin on revenues	5.7%	4.1%	4.1%	3.9%	4.0%	4.0%
EBITDA margin on revenues	6.8%	5.1%	5.0%	4.5%	4.4%	4.4%
Net margin on revenues	4.6%	3.4%	3.0%	2.9%	2.9%	3.0%
Tax rate	7.0%	-1.6%	16.0%	16.0%	19.0%	19.7%
Expenses as % of revenues						
Personnel costs	2.0%	2.2%	2.2%	2.2%	2.1%	2.0%
Depreciation and amortisation	1.0%	1.0%	0.9%	0.6%	0.5%	0.4%
Other operating expenses	2.8%	3.0%	2.8%	2.7%	2.7%	2.7%
Y-Y Growth						
Revenues	593.1%	16.8%	8.5%	10.5%	12.0%	11.0%
Operating income	8.1%	-17.1%	9.1%	4.2%	15.2%	13.2%
Net income/ loss	16.1%	-12.1%	-5.3%	6.8%	12.8%	13.2%



BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Assets						
Current assets, total	53,470	51,559	49,724	52,812	57,878	61,819
Cash and cash equivalents	3,316	2,424	2,358	1,408	1,852	1,308
Short-term investments	11,277	2,743	2,743	2,743	2,743	2,743
Receivables	7,107	10,478	9,640	9,986	10,853	11,679
Inventories	30,786	34,188	33,256	36,948	40,703	44,362
Other current assets	144	174	174	174	174	174
Non-current assets, total	45,386	50,142	43,312	42,224	41,487	40,998
Property, plant & equipment	353	1,094	1,315	1,360	1,421	1,494
Goodwill & other intangibles	42,585	41,354	39,882	38,747	37,950	37,388
Other assets	2,448	7,695	2,116	2,116	2,116	2,116
Total assets	98,856	101,702	93,037	95,036	99,365	102,817
Shareholders' equity & debt						
Current liabilities, total	22,151	25,663	19,313	17,174	18,460	19,814
Short-term debt	12,543	12,554	5,688	2,688	2,688	2,688
Accounts payable	6,660	7,244	7,760	8,621	9,907	11,261
Current provisions	1,704	3,243	3,243	3,243	3,243	3,243
Other current liabilities	1,245	2,623	2,623	2,623	2,623	2,623
Long-term liabilities, total	18,468	17,056	22,069	25,381	26,694	26,006
Long-term debt	17,059	15,960	20,972	24,285	25,597	24,910
Other liabilities	1,409	1,097	1,097	1,097	1,097	1,097
Shareholders' equity	58,237	58,983	51,655	52,481	54,211	56,997
Total consolidated equity and debt	98,856	101,702	93,037	95,036	99,365	102,817
Ratios						
Current ratio (x)	2.41	2.01	2.57	3.08	3.14	3.12
Quick ratio (x)	1.02	0.68	0.85	0.92	0.93	0.88
Equity ratio	59%	58%	56%	55%	55%	55%
Net gearing	26%	40%	42%	43%	44%	41%
Book value per share (€)	2.97	2.84	2.49	2.53	2.61	2.74
Net cash	-15,009	-23,346	-21,558	-22,821	-23,689	-23,546
Return on equity (ROE)	13.6%	11.8%	12.8%	13.5%	14.7%	15.8%



CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
EBIT	9,934	8,418	8,986	9,360	10,782	12,210
Depreciation and amortisation	1,813	2,056	1,911	1,575	1,266	922
EBITDA	11,747	10,474	10,897	10,935	12,049	13,132
Changes in working capital	-7,113	6,232	2,285	-3,177	-3,336	-3,131
Other adjustments	-8,898	-10,144	-10,079	-2,301	-2,818	-3,191
Operating cash flow	-4,264	6,562	3,104	5,457	5,894	6,948
CAPEX	-400	-5,645	-440	-243	-272	-302
Investments in intangibles	0	0	-220	-243	-257	-269
Free cash flow	-4,665	917	2,444	4,971	5,365	6,377
Debt financing, net	428	182	-1,854	313	1,313	-2,688
Equity financing, net	5,045	430	0	0	0	0
Other changes in cash	-6,262	-2,421	-655	-6,234	-6,234	-6,234
Net cash flows	-4,653	-892	-65	-950	444	-2,544
Cash, start of the year	7,529	3,316	2,424	2,358	1,408	1,852
Cash, end of the year	2,875	2,424	2,358	1,408	1,852	-692
EBITDA/share (in €)	0.60	0.50	0.52	0.53	0.58	0.64
Y-Y Growth						
Operating cash flow	n.m.	n.m.	-52.7%	75.8%	8.0%	17.9%
Free cash flow	n.m.	n.m.	166.5%	103.4%	7.9%	18.9%
EBITDA/share	22.0%	-17.5%	5.9%	0.3%	10.2%	10.1%

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...6	↓	↓	↓	↓
7	26 August 2014	€4.07	Buy	€6.40
8	2 December 2014	€4.22	Buy	€6.40
9	16 April 2015	€5.26	Buy	€6.70
10	Today	€4.31	Buy	€6.00

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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%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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