M1 Kliniken AG

Germany / Healthcare Facilities & Services
Frankfurt
Bloomberg: M12 GR
ISIN: DE000A0STSQ8

Re-initiation of coverage

RATING	**BUY**
PRICE TARGET	**€ 14.00**
Return Potential	100.6%
Risk Rating	High

A THING OF BEAUTY

We re-initiate coverage of M1 Kliniken AG (M1) with a Buy rating and €14 price target. In our view, the company's growth prospects are excellent. M1 was an early mover in Germany's lifestyle and beauty market and forged a disruptive network of branded clinics for cosmetic treatments. Now the company is accelerating the international expansion of its clinic network and wants to double the number of beauty centres by YE24 (currently ~50). A $51bn addressable beauty market underpins our optimism, and we believe M1's operational upside is currently underappreciated by the market.

Cosmetics treatments no longer exclusive to the well-heeled For the beauty industry, erasing signs of aging is the holy grail, but at the turn of the century cosmetic treatments were considered a luxury and risky. This perception has changed, thanks largely to new technology and procedures. M1 specialises in non-invasive injectables, such as botox, which works by relaxing muscle movements that cause twitches and distressing wrinkles.

More than just a boutique beauty centre In our view, M1 distinguishes itself in a extremely fragmented cosmetic treatment market with a highly scalable business that is centrally orchestrated by the M1 mother ship in Berlin. Strong purchasing power also entrenches M1 as a price leader and drives a self-reinforcing business model, whereby affordable pricing attracts new clients into a complete lifestyle and beauty ecosystem.

Haemato story poorly understood but makes sense M1 also now holds a 68% stake in the specialty pharma operator, Haemato AG. Investors have been unconvinced by the business combination, and we believe this scepticism has held back M1's share price recovery, even though operations have recovered from pandemic lockdowns with treatment numbers rising again. In our view, consolidation of all trading activities under Haemato plus the prospects of bringing private label prodcuts to market via Haemato will allow M1 to focus on what it does best: provide cosmetic treatments at market-leading pricing. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018	2019	2020	2021E	2022E	2023E
Revenue (€ m)	65.21	77.22	159.59	313.80	353.94	424.30
Y-o-y growth	38.2%	18.4%	106.7%	96.6%	12.8%	19.9%
EBITDA (€ m)	7.17	11.35	8.89	16.23	22.44	27.86
EBITDA margin	11.0%	14.7%	5.6%	5.2%	6.3%	6.6%
Net income (€ m)	6.63	9.73	7.43	9.39	13.13	15.64
EPS (diluted) (€)	0.39	0.56	0.37	0.33	0.45	0.54
DPS (€)	0.30	0.00	0.00	0.00	0.00	0.00
FCF (€ m)	0.92	-8.71	12.65	14.00	7.84	6.40
Net gearing	-39.6%	3.6%	15.1%	-7.4%	-11.4%	-13.5%
Liquid assets (€ m)	25.38	9.10	21.96	24.09	26.06	31.49

RISKS

Risks include, but are not limited to the ability to retain management and key medical staff, legal and market risks.

COMPANY PROFILE

M1 Kliniken AG is a provider of aesthetic medical procedures at competitive prices. The company is headquartered in Berlin and controls an extensive network of ~50 beauty clinics across Germany, continental Europe, the UK, and Australia. The company also operates a pharmaceutical trade and parallel import business through ist Haemato AG subsidiary.

MARKET DATA

As of 1 December 2021

Closing Price	€ 6.98
Shares outstanding	19.64m
Market Capitalisation	€ 137.11m
52-week Range	€ 6.74 / 12.10
Avg. Volume (12 Months)	20,969

Multiples	**2020**	**2021E**	**2022E**
P/E	19.0	21.5	15.4
EV/Sales	1.1	0.6	0.5
EV/EBITDA	20.5	11.2	8.1
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW

COMPANY DATA

As of 30 Jun 2021

Liquid Assets	€ 29.86m
Current Assets	€ 130.21m
Intangible Assets	€ 3.69m
Total Assets	€ 195.95m
Current Liabilities	€ 44.32m
Shareholders' Equity	€ 136.36m

SHAREHOLDERS

MPH Healthcare AG	69.1%
Free Float	30.9%

Analyst: Ellis Acklin, Tel. +49 (0)30 - 80 93 96 83

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INVESTMENT CASE

A thing of beauty

M1 Kliniken finds itself at the vanguard of the beauty and lifestyle economy with its network of branded beauty clinics. The company pursues a “highest quality at the best price” strategy for its cosmetic treatment services and was a first mover in this segment. A strong growth trajectory was interrupted by the pandemic, but M1 was able to absorb lost business without severe long-term effects on its balance sheet. Now we believe M1 is poised for a strong recovery with bookings trending higher and expansion into international frontiers.

Cosmetic treatments no longer just for celebrities and well-heeled urbanites

Not so long ago, cosmetic “enhancements” were largely frowned upon. But thanks to shifting social attitudes at the turn of the century, cosmetic treatments have become commonplace. New product launches, increasing affordability, and even amended reimbursement policies in some regions to cover botox injections are also major factors in a global cosmetic treatment industry that was thought to be worth over $51bn in 2018.

Aggressive expansion strategy

M1 operates a network ~50 treatment facilities in Germany and abroad. The company is a cost leader with a proven business concept that specializes in a handful of popular procedures. Management aim to grow M1’s clinic network to 100 locations by YE24 with a focus on internationalisation. We have discounted this number in our model to account for ongoing pandemic headwinds and other unforeseen factors that can derail execution and target 85 clinics by YE24. This equates to a 2022-2024 revenue CAGR of 19% for the Beauty segment and a 14% CAGR at the M1 group level that includes Haemato’s trade business.

Business combination with Haemato has potential on several levels

In our view, M1’s former trade business was a good idea but misplaced next to the core cosmetic treatment operations. Haemato’s roots are in trading pharmaceuticals via a vast distribution network that now covers over 7,100 partner pharmacies, clinics, and doctors across Germany and Austria. We think this is the right platform to market M1 Select, an affordable, high-quality cosmetic brand that targets ingredient conscious consumers. Haemato also has the legal credentials to launch and market private-label meds and is early in the process of getting its own botox product certified. This stands to greatly improve M1’s material expenses in the medium term for one of its top treatments.

Smooth face, big bucks

We think M1 Kliniken is primed to profit from an improved sales mix with a greater contribution from its cash cow beauty treatment business, which is built to generate perpetual motion effects—highly affordable treatments self-reinforce with treatment renewals at ~4 to 6 month intervals to sustain the anti-aging effects. A clarified regulatory environment, a portfolio reshuffle, and opportunities to grow the early-stage cosmeceuticals business should spur further good momentum in the Trade segment (Haemato).

Share is attractively valued

We use a discounted cash flow method to value M1 Kliniken and start coverage with a Buy rating and €14 price target. We like the company for its overall business approach and clever positioning in the growing cosmetic treatment industry. M1 stock was hit hard by pandemic concerns when the company had to shut down clinics during the first-wave, hard-lockdowns in early 2020. Issues resurfaced in Q2/21, when M1 screened out newly vaccinated customers as a precaution, which depressed treatment numbers. Plus, the Haemato takeover has been poorly understood. The stock is trading near historical lows, despite the upturn in M1’s Q3 cosmetic treatment figures in terms of volume and revenue per procedure and Haemato’s strong growth and profitability YTD.

SWOT ANALYSIS

STRENGTHS

- **Strong market position and branding** M1 was an early mover in the German lifestyle and beauty market and enjoys a strong position. Thanks to its M1 Med Beauty brand and services, beauty treatments are becoming affordable for the mainstream and feel less clinical.
- **Organisational structure** Administration of M1's growing clinic network is centralised in Berlin, Köpenick. This allows the clinics to focus squarely on their patient treatments without the distraction and costs of in-house administration. We think this is a significant advantage over small practices with staff stretched by overlapping duties.
- **Price leadership** M1 is also firmly entrenched in the market as a cost-leader thanks to its strong purchasing power. M1 buys directly from manufacturers and is typically a top customer of its suppliers, such as the pharmaceuticals heavyweights, Allergan and Galderma. This allows the company to offer treatment at best-in-market pricing.
- **Treatment specialisation** Although the company offers a full spectrum of cosmetic procedures, M1 specialises in a handful of the most popular treatments and focuses on injectables. This allows M1 to leverage its sourcing power and maximise capacities at its clinics.
- **Asset-light business model** M1's stable of out-patient facilities is rented. We do not see the company becoming a landlord in the future but expect it to continue leasing suitable commercial space. Expansion CapEx runs between €100k and €200k per clinic, while maintenance CapEx is also low for both M1 and Haemato.

WEAKNESSES

- **Haemato dilutes profitability** Haemato's trading business is characterised by high sales volumes and low margins. While the business combination provides operational synergies, the big payoff for the business combination is several years down the road, when Haemato can launch private label products such as botulinum toxin.
- **Reporting transparency** M1 consolidates the trading activities of Haemato alongside its beauty treatment operations. Although the former is listed and also publishes half-yearly, segmental reporting is limited at both companies making it difficult to gauge and track profitability. Plus, the combined track record is still too short to assess LFL performance. We note the welcomed addition of several segment KPI's with M1's Q3 reporting, but Haemato's segmental reporting remains quite obfuscated.
- **Near-term profitability** M1's growth is now shifting to international frontiers, where the company has already broken ground. Management indicate that these facilities are comparable to their German brethren some 5 years ago and will take time to build up the M1 brand in new markets with higher ad spend and rebates.
- **Trade segment can be vulnerable** Haemato operations hinge strongly on well-connected staff in sourcing and sales. The loss of key personnel though poaching is not easy to quickly compensate for. Although Haemato has a much improved position in specialty pharma, it essentially remains a trading operation for now with no formidable IP such as private label products, technology or digitalisation elements that can box out rivals.

Opportunities

- **Beauty is now a lifestyle** The German market for beautification, rejuvenation, anti-aging services is thought to be worth > €3.8bn, while Germans spend some €3.3bn p.a. on cosmeceuticals. We think beauty trends are in the early stage and now men are beginning to invest more in their appearance and are increasingly found in clinic waiting rooms.
- **Branded cosmeceuticals** M1 Select products currently make minor topline contributions (2020: ~€1m), but the re-homed product line is a much better fit at Haemato with its distribution infrastructure and network, and we see good headroom to grow.
- **Greater internationalisation** The German market is now well covered with a network of 34 M1 Med Beauty centres and affiliates by YE21. Now the company will hone in on other European markets, the UK, and Australia where it already exists. Over the long-term, far flung markets in North America and Asia are also enticing.
- **Private label materials** The merger with Haemato paves the way for M1 to reduce dependency on expensive branded botox and hyaluronic acid products over the midterm. If Haemato can successfully bring a private label product to market (see page 15), this could be a margin windfall for the injectables business.

Threats

- **Regulatory changes** Haemato's parallel import operations hinge largely upon laws requiring pharmacies to generate at least 2% of sales from drugs sourced from parallel trade (§ 129 Absatz 2 SGB V), and lawmakers review these support mechanisms regularly. Stricter safety guidelines for cosmetic procedures could also compromise the current strategy and operating model of the Beauty business.
- **Brand tarnishing** M1's success to date has been driven in large part by branding and a good reputation. These factors are strongly influenced by social media, which could turn against the company if the present high level of customer satisfaction is compromised.
- **Economic downturn** The company has never had to weather a severe economic crisis. Given that beauty treatments are elective and thus paid for out of pocket, lighter consumer wallets could reduce demand for what is essentially a luxury service.
- **Operating risks** The company may struggle to staff its clinic network with enough qualified doctors, while wage inflation could also cut into margins. M1 runs its own academy to train doctors and has access to a good pool of candidates. But a shortage of specialists could gate expected growth.

VALUATION

We regard M1 Kliniken as a cosmetic treatment service provider and seller of medications and cosmeceuticals through Haemato and use a three-phase DCF model to value the company. In our view, this approach is best suited to the mixed business model. The first phase is based on explicit clinic expansion forecasts through 2024. Subsequent phase 2 projections run through 2030 and are based on growth as well as normalised earnings assumptions, while phase 3 reflects TV (terminal value) based on a 2.0% terminal growth rate.

M1 is making cosmetic treatments affordable for the mainstream without compromising quality. We expect a strong growth trajectory over the midterm led by the international expansion of its clinic network and forecast a three-year revenue CAGR of 14% for the period 2022 to 2024. M1 offers good cash generation potential, thanks to manageable working capital and low CapEx needs for both the Beauty and Trade operations. We believe the gross margin should top 17% over the medium term. Our model factors in a 2.0% terminal growth rate and a 7.8% terminal EBIT margin.

We assign a 9.8% COE (cost of equity) to the growing business based on our multifactor risk model which takes into account company specific risks such as (1) strength of management; (2) earnings quality; (3) transparency; (4) financial risk; (5) competitive position; (6) as well as company size and free float. The primary risks in our view are execution of the international rollout, and possible regulatory changes for Haemato's parallel import activities.

After discussing the financing strategy with management, we believe the will be predominantly equity financed over the long term and assume a 90% equity ratio in our WACC. Haemato is mainly factoring its receivables now, but we think the company should be able to secure bank debt at roughly < 4% if needed and factor in a 0.1% risk free rate (10y German government bond interest rate is negative) into our 9.1% WACC. These assumptions result in fair shareholder value of €275m or €14 per share.

All figures in EUR '000	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Sales	**313,801**	**353,937**	**424,301**	**465,621**	**506,846**	**541,720**	**566,695**	**585,733**
NOPLAT	**8,216**	**12,041**	**15,054**	**18,486**	**21,745**	**23,158**	**27,555**	**31,065**
(+) depreciation & amortisation	5,281	6,384	7,791	9,281	9,746	10,636	9,460	8,729
Net operating cash flow	13,496	18,425	22,845	27,766	31,491	33,793	37,014	39,795
(-) Total investments (CAPEX and WC)	-2,007	-13,232	-18,818	-15,848	-15,722	-15,491	-12,319	-11,065
(-) Capital expenditures	-6,804	-8,141	-9,395	-10,426	-10,403	-10,935	-9,205	-8,667
(-) Working capital	4,797	-5,090	-9,423	-5,421	-5,319	-4,557	-3,113	-2,399
Free cash flows (FCF)	11,489	5,193	4,026	11,919	15,769	18,302	24,696	28,729
PV of FCF's	**11,415**	**4,729**	**3,360**	**9,116**	**11,054**	**11,758**	**14,541**	**15,504**

All figures in EUR '000	
PV of FCFs in explicit period	112,630
PV of FCFs in terminal period	220,798
Enterprise value (EV)	333,428
+ Net cash / - net debt	-17,360
+ Investments / minority interests	-41,497
Shareholder value	274,571
Fair value per share in EUR	**14.00**

		Terminal EBIT margin						
		6.3%	6.8%	7.3%	7.8%	8.3%	8.8%	9.3%
WACC	6.1%	22.00	24.25	26.50	28.74	30.99	33.24	35.49
	7.1%	16.87	18.53	20.20	21.86	23.52	25.18	26.84
	8.1%	13.43	14.70	**15.98**	**17.26**	**18.53**	19.81	21.09
	9.1%	10.95	11.96	**12.97**	**13.98**	**14.99**	16.00	17.01
	10.1%	9.09	9.91	**10.72**	**11.54**	**12.35**	13.17	13.98
	11.1%	7.65	8.31	8.98	9.65	10.32	10.99	11.65

Cost of equity	9.8%
Pre-tax cost of debt	4.0%
Tax rate	25.0%
After-tax cost of debt	3.0%
Share of equity capital	90.0%
Share of debt capital	10.0%
WACC	**9.1%**

		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	6.1%	21.77	23.64	25.92	28.74	32.35	37.12	43.72
	7.1%	17.44	18.67	20.12	21.85	23.96	26.58	29.93
	8.1%	14.28	15.14	**16.12**	**17.26**	**18.60**	20.21	22.16
	9.1%	11.89	12.50	**13.19**	**13.98**	**14.89**	15.95	17.20
	10.1%	10.01	10.46	**10.97**	**11.54**	**12.18**	12.91	13.76
	11.1%	8.50	8.85	9.23	9.65	10.12	10.65	11.25
	12.1%	7.27	7.54	7.83	8.15	8.50	8.90	9.33

**Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes*

WHERE WE COULD BE WRONG

Upside risks to price target and rating (1) Our clinic expansion assumptions may be too conservative. As we write in the forecasts section overleaf, our model factors in a 15% discount on the number of beauty centres the company believes it can open to account for delays—particularly while the pandemic plays out; (2) there may be a way to increase the gross margin if Haemato's recently started approval process for private label botox successfully develops faster than expected. Our forecasts do not presently account for any upside from this scenario.

Downside risks to price target and rating (1) The M1 Med Beauty chain is a market newcomer outside Germany, and it may take longer than expected for international clinics to achieve the same reputation and level of success enjoyed on M1's home turf; (2) competition is currently limited to a handful of poorly coordinated operators of smaller networks, but the arrival of a well organised rival could have a deleterious impact on M1's market share; (3) Haemato's specialty pharma business has been volatile in the past, due to black swan events and regulatory headwinds. Depending on unwavering political will is not entirely prudent.

COMPANY PROFILE

M1 Kliniken AG was founded in 2012 with a vision to exploit a market opportunity in the beauty and lifestyle services segment. The company was a first mover and has helped make cosmetic procedures affordable for the mainstream with its "highest quality at the best price" approach, while also succeeding in making treatments feel less clinical with lifestyle branding and concepts.

M1 has built up a disruptive network of branded M1 Med Beauty outpatient clinics and operates a private clinic for plastic and cosmetic surgery at its Schlossklinik in Berlin-Köpenick. This centre ranks among Europe's most modern facilities and houses six operating theatres alongside 35 beds for inpatient procedures.

Figure 1: Clinic portfolio including surgical affiliates and Schlossklinik

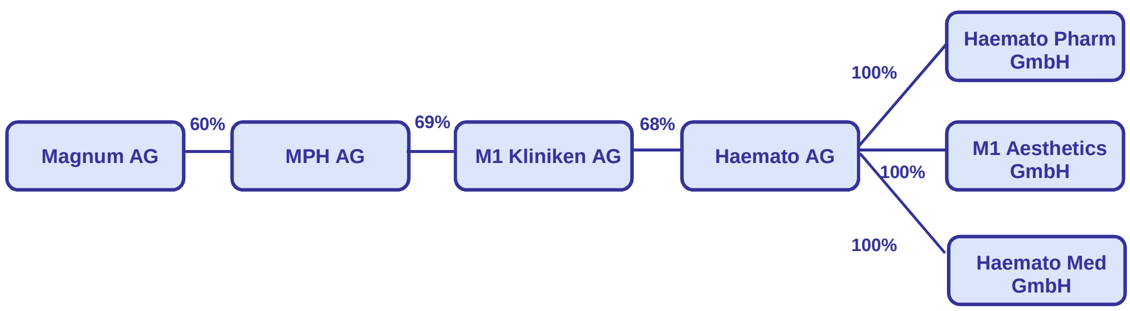
Group	2012	2015	2016	2017	2018	2019	2020	9M/21
German M1 Med Beauty	Berlin 1	Cologne Düsseldorf Essen Munich 1	Nuremberg Frankfurt Hanover Brunswick Stuttgart 1 Bremen Hamburg 1	Mannheim Münster Wiesbaden Leipzig Berlin 2 Berlin 3	Dresden Hamburg 2 Munich 2 Constance	Dortmund Stuttgart 2 Bielefeld Rostock		Kiel Erfurt Freiburg Karlsruhe Augsburg
	+1	+4	+7	+6	+4	+4	+0	+5
International M1 Med Beauty					Vienna	Melbourne Sydney Amsterdam Rotterdam Linz Zürich	Liverpool London Graz Zagreb	The Hague
	+0	+0	+0	+0	+1	+6	+4	+1
Surgical clinics		Schlossklinik			Frankfurt Munich Düsseldorf		Hamburg Hannover	Zürich
	+0	+1	+0	+0	+3	+0	+2	+1

Source: First Berlin Equity Research; M1 Kliniken

The corporate strategy is anchored by specialization in the most popular procedures. Hyaluronic acid and botox injections make up the lion's share of treatments, while breast augmentation, eyelid surgery, and liposuction are the most frequent surgical procedures.

Last summer, M1 Kliniken acquired a majority stake in Haemato AG from MPH Health Care in a contribution in kind share deal (details overleaf). The company distributes specialty pharmaceuticals via its well-developed parallel import and wholesale channels and will play an instrumental role in M1's sourcing and distribution strategies.

Figure 2: Ownership flow



Source: First Berlin Equity Research; M1 Kliniken

M1 Kliniken is headquartered in Berlin, Germany and floated its shares on the Open Market of the Frankfurt Stock Exchange in 2015. Prior to the Haemato business combination and the disrupted 2020, revenues topped €77m in 2019 equal to a 27% five year CAGR.

Figure 3: Expanding network of branded beauty centres

Source: First Berlin Equity Research; M1 Kliniken

BUSINESS MODEL

M1 is making beauty procedures affordable for the masses, while ensuring quality on par with private practices. The company also markets EU original pharmaceuticals as a parallel importer and wholesaler as well as biosimilars and branded cosmeceuticals through its subsidiary, Haemato AG. Together, these two segments cover both self-paid (Beauty) and insurance financed medical services and products (Trade).

BEAUTY SEGMENT

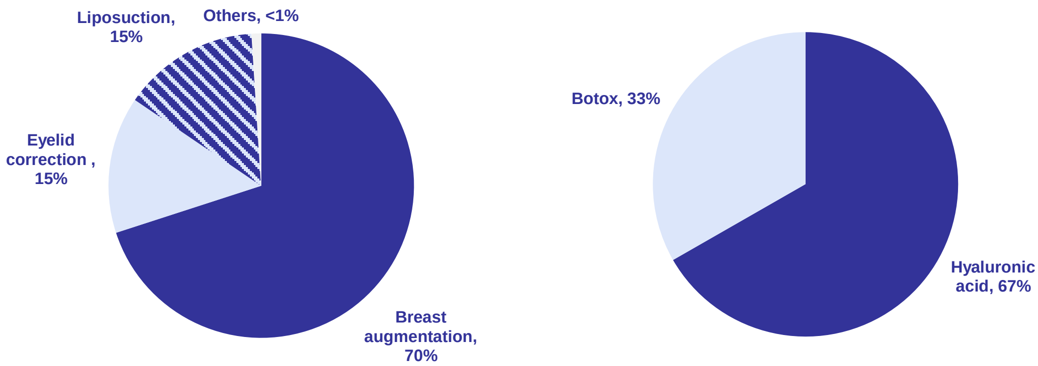
Not so long ago, cosmetic “enhancements” were largely frowned upon. But thanks to shifting social attitudes at the turn of the century, cosmetic treatments have become commonplace. Fortune Business reckons the global market was worth some $51bn in 2018, while Germans shelled out some €3.8bn for fresher appearances that year.

To capitalise on this market opportunity, M1 has built up a disruptive stable of branded beauty centres for non-invasive treatments and affiliated inpatient clinics for surgical procedures. A portfolio of more than 40 M1 Med Beauty clinics serves as the operational backbone with several more set to come online in the coming months.

Strategic cornerstones

Treatment specialisation Although the company offers a full spectrum of cosmetic treatments, M1 specialises in a handful of the most popular procedures providing the company with several key advantages: (1) high order volumes leading to procurement savings for materials such as botox, hyaluronic acid or breast implants; (2) accelerated ramp up of medical staff expertise; and (3) higher capacity utilisation rates throughout the clinics.

Figure 4: Breakdown of M1’s surgical and non-invasive treatments



Source: First Berlin Equity Research; M1 Kliniken

Cost leadership M1 is also firmly entrenched in the market as a cost leader, thanks to its strong purchasing power. The company buys directly from manufacturers and is a top customer of the pharmaceuticals giants, Allergan and Galderma.

Streamlined operations M1 further distinguishes with organizational efficiency. Administration for its clinic network is centralized in Berlin so that centres can focus solely on patients and treatment quality. We regard this as a key advantage over private practices where doctors have to not only treat patients but are also heavily involved in running the business.

Below market pricing These tenets allow M1 Kliniken to pass savings on to patients and execute its "best price" strategy, which in turn generate perpetual motion effects—highly affordable treatments self-reinforce with treatment renewals at ~4 to 6 month intervals to sustain the anti-aging effects.

We estimate the company can undercut rivals by an average of ~50% for most procedures (Table 1). And since these treatments are elective and self-paid, demand is highly price-sensitive, which means M1 is in essence creating market demand by making affordable-treatments accessible to lower income earners.

Table 1: Price comparison of most common procedures

	M1 pricing	Market pricing	*Discount*
Fillers	From €99	€300 to €500	*67% to 80%*
Botox	From €100	€200 to €250	*50% to 60%*
Liposuction	From €1,200	€1,500 to €5,000	*20% to 76%*
Breast augmentation	From €2,400	€6,000 to €8,000	*60% to 70%*

Source: First Berlin Equity Research; M1 Kliniken

M1 Med Beauty leads expansion

As of 9M/21, M1 runs 42 M1 Med Beauty outpatient clinics, the flagship Schlossklinik in Berlin-Köpenick, and six affiliated surgical clinics scattered across Germany's metropolises.

Affiliated clinics are rented space in hospitals or third party clinics to boost surgical capacity. This model also helped M1 expand its surgical footprint and improve proximity to reduce travel hassles for patients.

Having built a sprawling network of M1 Med Beauty centres on its home turf, the company began to internationalise its portfolio in 2018 with its first clinic abroad in Vienna, Austria and has since opened up new facilities in the Netherlands, the UK, Switzerland, Croatia, and Australia. Management expect to open the doors at new locations in Brisbane, Australia, and three more in Germany by YE21, while two new sites in Austria are in the set-up phase.

Figure 5: M1's geographic footprint

Source: First Berlin Equity Research; M1 Kliniken

Where are the growth opportunities? Clinic expansion stalled last year in the face of pandemic headwinds but has revved up again in recent months with five German clinics coming online plus one more in The Hague, Netherlands. The pipeline includes four potential openings by YE21 and another six already identified for H1/22.

With the German market close to being fully covered, we look for 2022 growth to concentrate on M1's existing international markets. In particular, the UK has room for another 15-20 locations according to M1 brass. The company is also assessing new international markets for possible entrance in 2023.

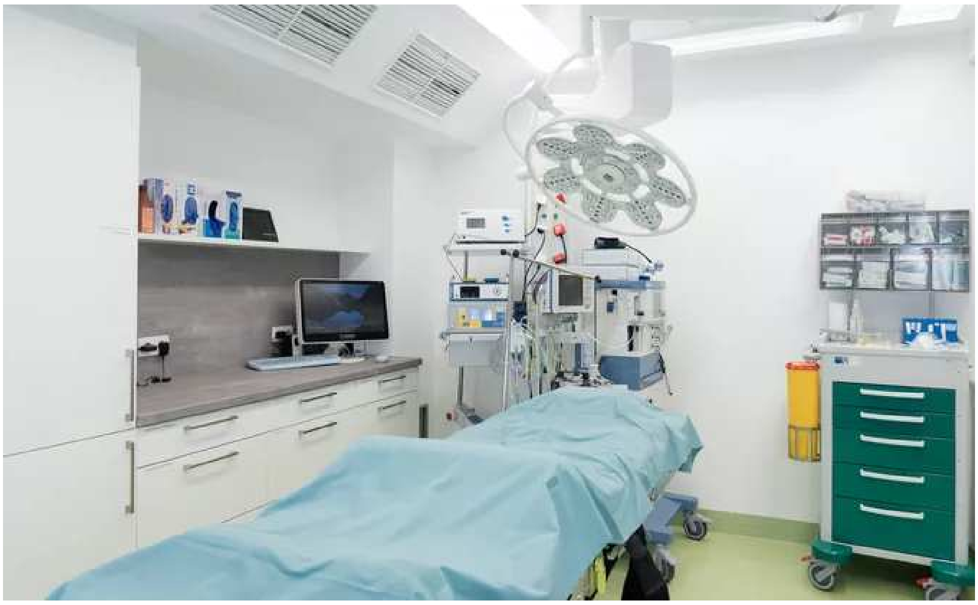
Sticking to the injectables model We do not expect M1 to offer surgical procedures abroad, due to higher regulatory hurdles. In our view, the German blueprint for its thriving injectables business can be readily replicated in a number of EU member countries and M1 can rely on its home supply chain for materials—HA (hyaluronic acid) comes from Germany

Mid-term corporate goals By YE24, M1 management want to operate up to 100 treatment centres and house ~200 doctors and cosmetic surgeons. This would give the company capacity for revenues ranging from €120m to €150m. The 2024 targets could prove ambitious in today's pandemic world, but not impossible.

Medical staffing

M1 employs its entire medical staff on the books. The company has ~12 surgeons on the payroll to handle invasive procedures, which tally ~1% of overall treatments. About half of these surgeons reside at M1's Schlossklinik with the balance scattered throughout Germany and one in Switzerland. We expect the surgical staff to remain stable going forward with international growth focused squarely on the injectables business.

Figure 6: M1 Schlossklinik Berlin



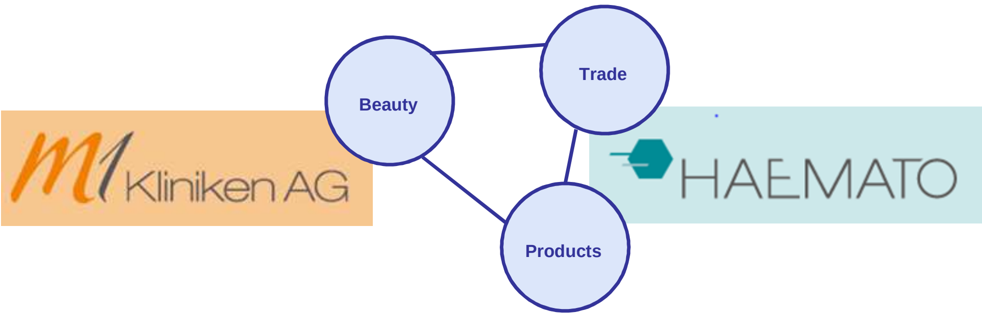
Source: First Berlin Equity Research; M1 Kliniken AG

Highly qualified and trained The bulk of the medical staff (~100) executes the injectables business. In addition to their medical degrees, these specialists hone their injectable skills at the M1 Akadamie with 1-on-1 training courses over several weeks. Initial treatments are always supervised by a senior doctor, while advanced training is ongoing to keep pace with the latest techniques in the fast evolving injectables field. Full credentials normally require two years of practical experience and advanced training.

Well incentivised to avoid staff churn Remuneration packages include a fixed salary as well as a variable component to incentivise performance and longer tenure. The blend provides good security, while new doctors build up their client bases, which is then well rewarded with bonus schemes. In general, we believe this model equates to an attractive above-market wage and helps mitigate staff turnover, which is largely limited to quality control decisions made by management. The company keeps a full pipeline of candidates and recruits for its expanding network through medical journals and periodicals, such as the *Deutsches Ärzteblatt*.

TRADE SEGMENT: HAEMATO AG

Figure 7: Business combination with M1 and Haemato



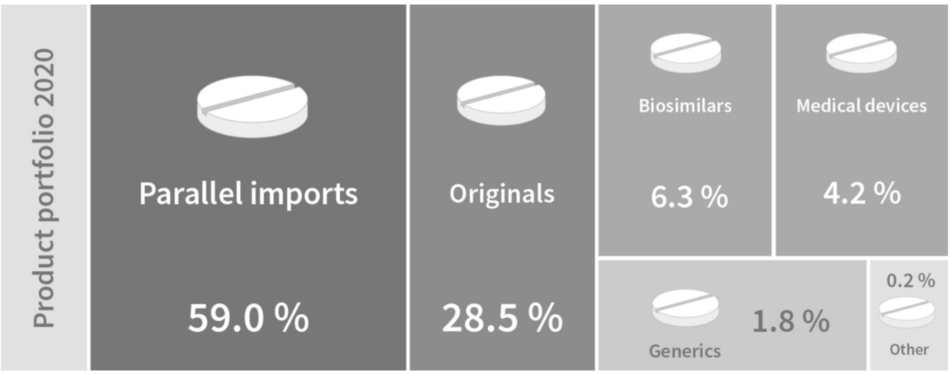
Source: First Berlin Equity Research; M1 Kliniken

Last summer, M1 Kliniken acquired a 48% stake in Haemato from MPH Health Care in a contribution in kind share deal. MPH received 2.143m M1 shares from a capital raise in exchange for its 11.012m HAEMATO shares. M1 now owns 68% of Haemato after transferring its M1 Aesthetics GmbH subsidiary to Haemato in a separate contribution in kind transaction (overleaf).

Haemato is a provider of specialty pharmaceuticals. After an extensive portfolio reshuffle over 2017 to 2019, the company now focuses on the indication areas of oncology, HIV, rheumatology, neurology and ophthalmology. The portfolio includes several blockbuster drugs such as Keytruda or Enbrel. Operations centre around the parallel import and wholesale of off-patent and patent-protected meds with a price tag north of €800.

The company runs a predominantly B2B business model and acts as an agent between pharmaceutical producers / suppliers and over 7,100 partner pharmacies, clinics, and doctors across Germany and Austria.

Figure 8: Business overview



Source: First Berlin Equity Research; Haemato AG

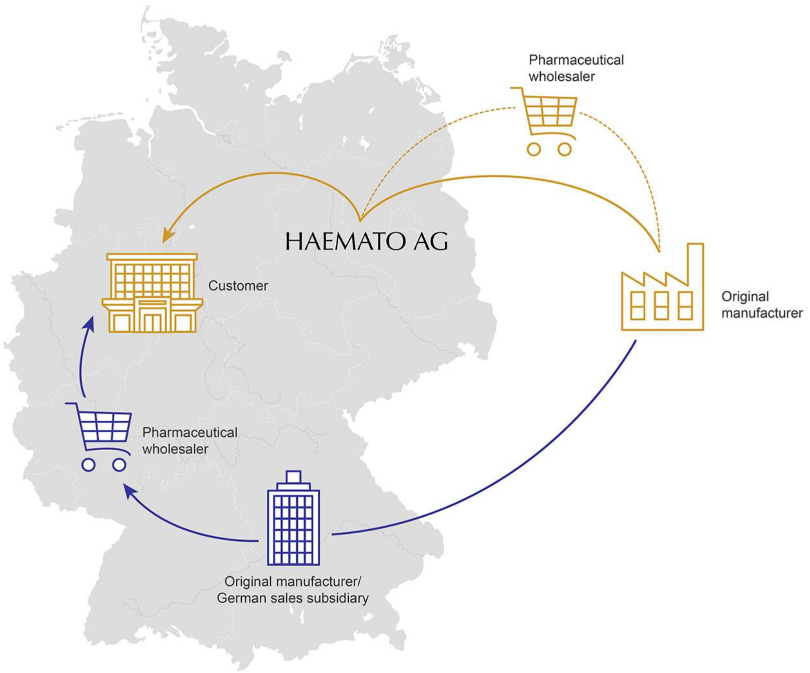
The business of reselling and distributing meds features low investment requirements compared to research-based pharmaceutical companies and generates steady revenues. The various meds are purchased across Europe, re-packaged in Berlin, and sold to pharmacy customers, while the focus on expensive drugs gives Haemato a competitive advantage, alongside product expertise, agile operations, and customer knowledge.

Parallel import business model We think parallel trade activities account for some 60% of Haemato's topline. The company does not actively develop or manufacture pharmaceuticals or medical products. Rather Haemato buys, repackages, and peddles the products of other original manufacturers in a form of arbitrage.

Meds are sourced from low cost countries, where manufacturers benefit from more favourable taxation and production costs, and shipped to Haemato's processing facility in Berlin. There they are unpacked and vetted for quality, repacked, and localised with new labels for distribution to Haemato's network of pharmacies.

We figure this model shaves some 10% off the price of branded meds for pharmacies, which helps check soaring costs for the healthcare sector. Market watchers estimate the savings in Germany top €200m per annum.

Figure 9: Parallel import flow of medicines



Source: B2B Medical; First Berlin Equity Research

Rational for Haemato combination still poorly understood

Ensuring cost leadership model Haemato wants to populate its product portfolio with private label versions of hyaluronic acid (HA) and botulinum toxin A—the key ingredients used in cosmetic applications such as dermal fillers and Botox injections—and signed an exclusive licensing and supply agreement for botox with Huons BioPharma Co., Ltd. in October.

Depending on the price point of the treatment, we figure some 30% - 50% of M1's injectables COGS is traced to materials. Today, M1 sources only branded products from the majors such as Allergan and Galderma, and the ability to negotiate better pricing is likely plateauing and will presumably be exhausted over the mid-term.

Haemato has the legal credentials and facilities to become a certified seller of its own botox and HA materials. Once approved, Haemato will be able to offer a private label product to M1, which will slash material costs by up to 50% with the elimination of high marketing outlays baked into the pricing of the branded injectables M1 currently sources.

While this is not a story for 2022, due to the lengthy approval process, we reckon certification will roughly coincide with the exhaustion of M1's negotiating power with its suppliers. We think this scenario should start positively impacting M1's earnings in 2025; not to mention this would be an earnings windfall for Haemato's lower margin trade business. For now, we have not included this in our estimates.

Distribution efficiency M1 also wants to leverage Haemato's expertise and its extensive European sourcing and distribution infrastructure to capitalise on growing opportunities in the product business. This corporate reshuffling allows M1 to focus on its cosmetic treatment business and properly align core competencies with operations. Doctors can now treat patients without the distraction of the former trade segment, while Haemato's procurement and sales team handle product distribution. Haemato in turn gains access to M1's well-developed brand and social media presence providing synergies for its evolving product portfolio.

Bringing M1 Aesthetics GmbH under the Haemato roof

In December, Haemato announced the acquisition of a 100% stake in M1 Aesthetics GmbH, a subsidiary of M1 Kliniken AG. In a contribution in kind transaction, HAEMATO issued 2.467m shares to M1 in exchange for full ownership of M1 Aesthetics.

The move directly links M1 Aesthetics to Haemato's superior distribution networks and infrastructure. Haemato's Berlin-based fulfilment and distribution centre was recently upgraded with improved digitalisation and is now well equipped to facilitate high volumes of cosmeceuticals and skin care products.

We think adding M1 Aesthetics to the Haemato mother ship will help accelerate the branded product strategy that promises high gross margins. Management want product revenues to approach €50m with a 20% EBIT margin by YE24.

PRODUCTS—M1 SELECT

The M1 Select line of take-away products was launched in December 2017 to help promote the M1 Med Beauty brand at its specialist clinics. The proprietary product line comprises medical skincare products that are formulated and developed in close collaboration with dermatology specialists without animal testing, so there is no risky in-house development.

The skin care line (table 2) includes offerings for anti-aging, skin smoothing, and daily cleaning routines, while adhering to M1's strategic mandate of delivering high quality products with "Made in Germany" branding at prices affordable for the mainstream. The company markets M1 Select cosmeceuticals over its online shop, Amazon, and directly at the beauty centres, while retail distribution is also in the works. Social media initiatives and influencer partnerships help drive online sales and create brand loyalty.

Figure 10: Categories and selected products

Source: First Berlin Equity Research; M1 Select

Highly concentrated active ingredients without undesirable additives M1 Select products use only high-quality, pure and anti-allergenic ingredients such as pure hyaluronic acid, silver or witch hazel that are proven in their moisturising and anti-aging effects. The products also avoid the use of unnecessary additives.

Table 2: M1 Select product overview

	Product type	Active Ingedient	€ / 100ml	Category
Lashes	Eyelash growth serum	Hyaluronic acid	399.0	Lip & eye care
Lipbooster	Plumping lip care	Capsaocon	198.0	Lip & eye care
Clean Gentle Cleansing Foam	Skin cleansing foam	Allantoin	9.9	Blemishes
Pure Rich Cream	Rich face care	Hyaluronic acid	49.8	Moisturiser
Pure Gel-Cream	Light face care	Hyaluronic acid	49.8	Moisturiser
Rejuve Night Cream	Retinol face care	0.3% retinol; HA	49.8	Anti-aging
Pure Rich Eye Cream	Rich eye care	Hyaluronic acid, caffeine	132.7	Moisturiser
Pure Serum	Hyaluronic face concentrate	Hyaluronic acid	66.3	Moisturiser
Shield Serum	Antioxidant face concentrate	Fruit & vegetable extracts	66.3	Moisturiser
Smooth Serum	Pore refining face concentrate	Hamamelis	66.3	Blemishes
Hollywood Glow Serum	Multi vitamin face concentrate	0.1% retinol; hyaluronic acid	66.3	Moisturiser
Rejuve Night Serum	Retinol face concentrate	1% retinol	66.3	Anti-aging
Pure Night Serum	Regenerating face care	Hyaluronic acid	49.8	Moisturiser
CC Cream SPF20	Tinted day cream	Hyaluronic acid	37.3	Anti-aging
Sun 50	Sun screen SPF50	UVA/UVB filter system	14.9	Anti-aging
Sun 30 Lip Care	Lip balm SPF 30	UVA/UVB filter system	61.7	Sun care
Fresh	After sun care	Hamamelis	9.9	Sun care
Care Repair Hand Cream	Hand cream	Vitamin E; ricinus oil	13.2	Moisturiser
Sanitiser	Disenfectant	Ethanol	5.7	Disinfectant

Source: First Berlin Equity Research; M1 Select

COMPETITIVE LANDSCAPE

M1 KLINIKEN

M1 is a market trailblazer with a business model unique in European in terms of scope and organisation. Competition is highly fragmented and made up chiefly of small private practices run mostly by 1 doctor handling cosmetic treatments and administration. We have identified two rivals with similar models.

Medical One runs a network of cosmetic treatment centres throughout Germany's major hub cities offering a full range of surgical procedures as well as injection services, although plastic surgery is the operational fulcrum. Pricing is significantly higher than M1 for most treatments—breast augmentation runs ~€5.9k vs M1's quote of €2.4k. We regard Medical One as more of a network of doctors operating under a common brand and believe the company suffers from organisational inefficiency evidenced by poor financial performance. The company last reported results for 2017 with revenue of €18m and a €-3m net loss.

docboom GmbH operates a small network of beauty centres located in Hamburg, Berlin, and Düsseldorf. The company also provides a full array of cosmetic treatments at price points slightly higher than M1. There were no publicly available financials.

HAEMATO

Haemato competes in Germany's parallel import and pharmaceutical wholesale markets with several companies, although the business models all vary to some degree**.** After Haemato restocked its product portfolio to feature specialty pharmaceuticals with unit prices >€800, we regard Medios as the closest peer in terms of Haemato's wholesale activities.

Abacus Medicine Group is a supplier of original prescription medicines in Europe via a parallel import business model. The company was founded in 2014 and is headquartered in Alkmaar, NE. Abacus reported revenue of €663m with AEBITDA (adj. EBITDA) of €13.0m in 2020. We do not regard the company as a direct competitor to Haemato, because it focuses on its home Dutch market.

Kohlpharma GmbH was founded in 1979 and ranks as Germany's top pharmaceutical importer. Operations centre on the parallel import of meds for distribution to German pharmacies and pharmaceutical wholesalers. The Merzig, Saarland based company also provides a contract manufacturing and packaging service for customers requiring secondary packaging. Kohlpharma reported €653m in revenues with net profit of €29m in 2019.

EMRAmed GmbH is a leading supplier of EU medicines and pursues a re- and parallel import strategy. The fully-owned subsidiary of MPA Pharma boasts a 35 year track record in distributing high quality meds. ERMAmed is headquartered in Trittau, Germany, and markets some 2,100 patent and non-patent protected meds, generic products, EU pharmacy-only medicines (OTC), and narcotics.

Medios AG is the top German provider of specialty pharma solutions, which covers meds with unit pricing north of €800. Acting chiefly as a wholesaler, the company covers all relevant aspects of the supply chain in this field including: (1) pharmaceutical supply; and (2) the manufacture of patient-specific therapies including blistering. Medios grew 2020 sales 21% on an annualised basis to €627m. AEBITDA tallied €15m for the year.

M1'S LATEST FINANCIAL RESULTS

M1 reports a full set of financials on a half-year basis and revenue with operating profit KPIs at the three and nine month junctures. Segmental reporting had previously been limited to annual sales results, but the company included a breakdown of headline sales and earnings KPI's in its Q3/21 presentation. Given the recent takeover and consolidation of Haemato AG, investors will certainly welcome the greater transparency.

NINE MONTH FIGURES

The company reported good 9M/21 results with treatments topping 84k in Q3 (+10% Y/Y; +2.4% Q/Q). This is a solid performance in a traditionally slow period, when people's summertime activities mean less crowded waiting rooms at the clinics.

Table 3: Nine month KPIs

In EURm	9M/21	9M/20	*Variance*
Sales	237.4	81.9	*190%*
EBITDA	13.3	8.8	*51%*
EBIT	9.1	5.8	*57%*
NI	8.3	7.6	*9%*

Source: First Berlin Equity Research; M1 Kliniken

The Q3 performance was encouraging after a challenging H1, when operations were hampered by pandemic effects. Clinics were widely open for business in Q2, thanks to extensive hygiene protocols. But bookings suffered from a 14 week black-out window instituted by M1 around patients' vaccinations—no procedures were scheduled less than two weeks pre-vaccination or less than six weeks post-vaccination. This precautionary interval led to a 20% clinic underutilisation in H1/21.

The company noted on the earnings call that German clinics performed at a high level in October in terms of treatments and revenues with November also off to a strong start. Importantly, there have been no signs that rising incident numbers are affecting bookings. Management also indicated expectations that a hard lockdown is not on the government's agenda in Germany, whereas soft-lockdowns—no large gatherings >1k; 8PM closing times and 2G requirements for hospitality—will not impact the clinics. But with the emergence of the Omicron variant, a future reassessment cannot be ruled out.

Table 4: Segmental breakdown

In EURm	Beauty	Trade*	M1 Kliniken
Sales	37.0	200.4	237.4
EBIT	4.5	4.6	9.1
Margin	*12%*	*2%*	*4%*
**Haemato results adjusted for eliminations*			

Source: First Berlin Equity Research; M1 Kliniken

Established clinics showing good profitability Although the relatively new international stable of clinics is generating an operating loss, the EBIT margin for the German portfolio is already within the targeted 15% to 20% range and serves as a blueprint for the upside of the foreign assets, which currently require more ad spend and rebates to boost capacity utilisation.

Table 5: Clinic performance by region

In EURm	Germany	Abroad	Beauty
Sales	32.9	4.1	37.0
EBIT	5.3	-0.8	4.5
Margin	*16%*	*-20%*	*12%*

Source: First Berlin Equity Research; M1 Kliniken

Six new M1 Med Beauty clinics YTD Meanwhile, clinic expansions resumed after largely idling in the home market in 2020. M1 opened four new beauty centres in Germany during H1 and another two facilities as of November. Several openings are in the works before YE21 including Brisbane, Australia. We also expect higher beauty-clinic capacity utilisation in H2, and December should be a good month since the Christmas holidays overlap the weekends this year.

Table 6: M1 Kliniken six month financial highlights

in € '000	H1/21	2020	*variance*
Cash	29,858	21,960	*36%*
Financial debt (short- and long-term)	18,407	30,563	*-40%*
Net debt	-11,451	8,603	-
Total assets	195,951	188,741	*4%*
Total equity	136,357	115,319	*18%*
Equity ratio	70%	61%	-

Source: First Berlin Equity Research; M1 Kliniken

Haemato on track to deliver strong annualised growth The parallel importer and wholesaler reported a solid uptick in Q3/21 sales and profitability, thanks to good momentum in special pharmaceutical operations and cosmeceuticals sales. Revenues grew 9% on an annualised basis to €65m, while EBITDA climbed to €1.7m compared to €1.0m in the prior year period. On a nine month basis, revenues topped €216m (9M/20: €176m), and EBITDA tallied €9.7m vs €3.1m in 9M/20.

FINANCIAL OUTLOOK: PATH TO 100+ CLINICS

M1 Kliniken breaks down its reporting into two segments. Beauty captures the performance of M1's clinic network, and Trade accounts for the parallel import, wholesale, and product businesses under the Haemato roof.

Table 7: Segment forecasting

in € '000	2021E	2022E	2023E	2024E	*CAGR '22 - '24*
Revenue					
Beauty	49,523	59,974	71,199	83,304	*19%*
Trade	264,278	293,963	353,102	382,317	*13%*
Group	**313,801**	**353,937**	**424,301**	**465,621**	*14%*
Y/Y growth					
Beauty	*n.a.*	*21%*	*19%*	*17%*	-
Trade	*n.a.*	*11%*	*20%*	*8%*	-
Group	*n.a.*	*13%*	*20%*	*10%*	-
Gross profit					
Beauty	31,365	37,983	45,092	52,759	*19%*
Trade	20,191	23,579	28,404	28,892	*13%*
Group	**51,556**	**61,562**	**73,496**	**81,651**	*17%*
Gross margin					
Beauty	*63%*	*63%*	*63%*	*63%*	-
Trade	*8%*	*8%*	*8%*	*8%*	-
Group	*16%*	*17%*	*17%*	*18%*	-
** Trade segment reflects Haemato targets adjusted for eliminations*					

Source: First Berlin Equity Research estimates

M1 ASSUMPTIONS

M1 Kliniken is at the vanguard of the beauty & lifestyle industry with its growing network of clinics and affordable-treatment business model. Industry trends support plans for continued expansion of its proven concept.

Clinic rollout targets At the end of 2020, M1 controlled a portfolio containing 37 M1 Med Beauty out-patient centres, the M1 Schlossklinik and five affiliated in-patient clinics for a total of 43 facilities. By YE24, M1 wants to operate up to 100 treatment centres and house up to 200 doctors and cosmetic surgeons. While we have a high degree of confidence in the overall success, our own forecast are more conservative than management's underlying assumptions to account for unforeseen factors that might hamper the rollout.

We note the record number of new openings in a year was 11 in 2019 before the pandemic. Assuming 47 operating facilities at YE21, the company would have to average 17.6 new centres p.a. to hit the 100 clinic target. This feels ambitious, particularly since the pandemic is still playing out and supply chain issues are disrupting plans in countless other sectors.

As of early November, M1 had opened six new sites (five in Germany and one in The Hague, Netherlands), and we expect the number of M1 Med Beauty centres to expand at a 23% CAGR for the period 2021 to 2024 and hit 85 (Table 8 overleaf).

Table 8: FB assumptions for clinic expansion

	2021E	2022E	2023E	2024E
New openings	6	12	13	13
Number of YE centres	47	59	72	85
Y/Y growth	*20%*	*26%*	*24%*	*20%*
Doctors per location	1.7	1.7	1.6	1.6
Treatments / day	1,572	1,923	2,306	2,726

Source: First Berlin Equity Research estimates

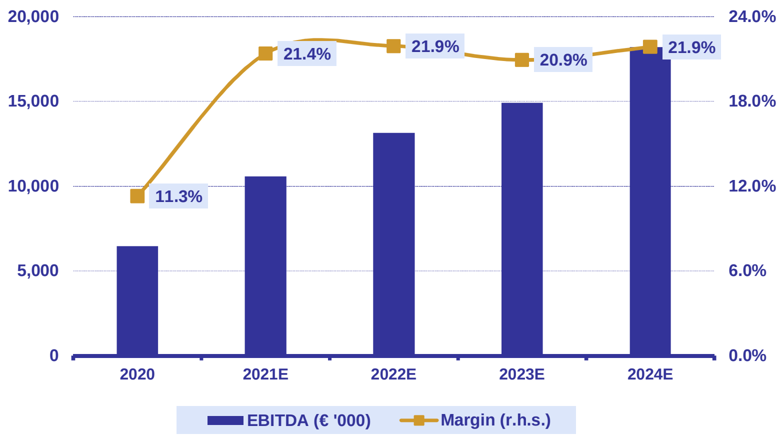
Doctor staffing assumptions The number of doctors and their bookings is the key driver in our model. We assume each mature clinic will house two doctors once operations hit their stride. Our doctors per location assumptions reflect the time required for physician staffing to reach maximum capacity during the strong expansion phase we calculate through 2024. Our inputs equate to 136 physicians on the payroll in 2024, which would give M1 the capacity for 2,726 treatments per day across its network.

Capacity utilisation While there is no simple formula for the time required for a clinic to reach maximum capacity, M1 management hinted that it generally takes 9 to 12 months for a German-based clinic to break even. For some facilities, this can be much quicker. The M1 Med Beauty centre in Berlin's Hackescher Market, for instance, benefited greatly from good proximity to its target group in the centre of the German capital.

We reckon the 2021 cosmetic treatment run-rate is currently ~330k including about 3,500 surgeries. On our numbers, HA injections account for two-thirds of non-invasive treatments, while botox injections make up the balance. Breast augmentation is the most popular surgery followed by eyelid corrections.

The cost of internationalisation M1 will shift its expansion focus abroad in 2022. A mature German clinic will generate a 15% - 20% EBIT margin after 24 months as evidenced by the breakout of EBIT performance for German clinics in Q3 reporting. But reaching this level of profitability may take up to an additional year for clinics abroad, depending on the location and the amount of marketing needed to establish the M1 Med Beauty brand. Soft start-up costs in the form of additional marketing spend and treatment rebates generally run up to €200k and are reflected in the topline and 'Other OpEx' line item of the P&L.

Figure 11: Beauty segment EBITDA developments



Source: First Berlin Equity Research estimates; Haemato AG

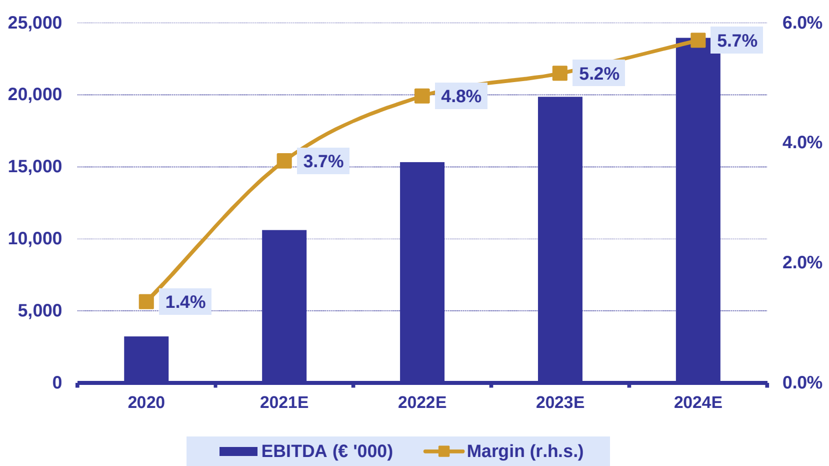
We regard EBITDA as the key operating indicator for M1, due to the high depreciation and amortisation from clinic expansion and capitalised leases that impact operating income (EBIT). We look for the Beauty EBITDA margin to hover just above 20%.

HAEMATO ASSUMPTIONS

Haemato makes its crust with its parallel import business. The company now also controls the M1 Select product line and wants to launch a branded botulinum toxin once this is certified. We gather the clinical trial process will take several years and do not expect sales until late 2024 at the earliest. We have therefore not factored branded botox sales into our model until there is greater certification clarity.

Aside from the core parallel import and wholesale activities, we assume products including M1 Select will add some €13m to the Haemato topline this year. And thanks to the better operational match with Haemato's infrastructure, we think the contribution could be north of €44m in 2023.

Figure 12: Trade segment EBITDA developments



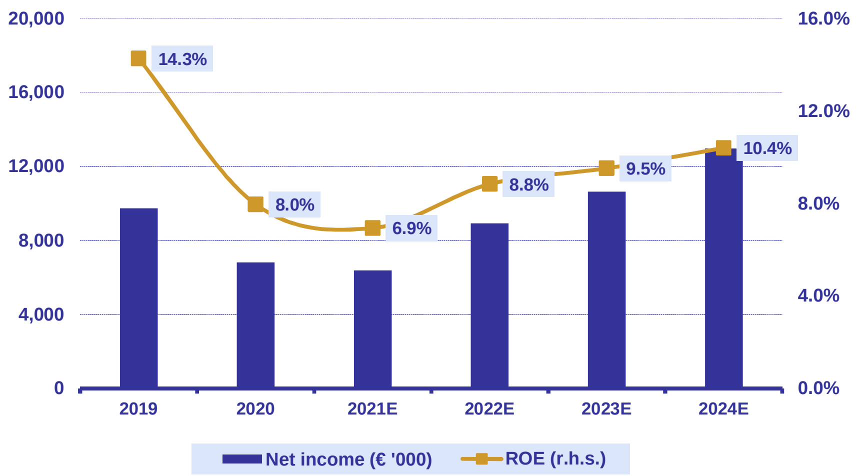
Source: First Berlin Equity Research estimates; Haemato AG

Haemato management have recently communicated a greater focus on profitability over topline growth. The company hired a new COO to further digitalise administration and sales processes to help reduce staffing expenses. We look for Haemato sales to climb at a 15% CAGR for the period 2021 to 2024. Our EBITDA targets equate to a 61% CAGR for the same period, although we note that earnings comps are less challenging, due to the poor performance in 2020.

M1 KLINIKEN'S RISING PROFITABILITY WILL DRIVE RETURNS

Although investors have been concerned about the lower margin structure of Haemato operations, we believe the combination will generate good returns with Haemato's profitability improving and the normalisation of clinic capacity utilisation rates with abating pandemic headwinds.

Figure 13: ROE developments for M1 Group



Source: First Berlin Equity Research estimates; M1 Kliniken

BALANCE SHEET

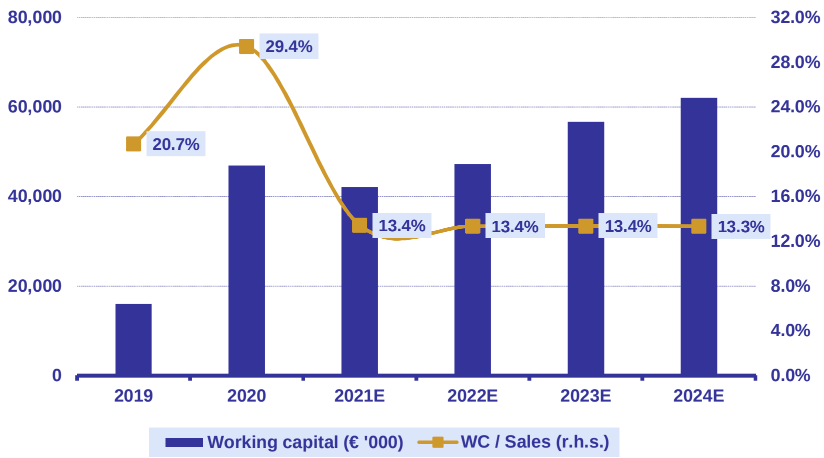
Asset-light business model M1's stable of out-patient facilities are rented. We do not expect the company to become a landlord in the future but to continue to lease suitable commercial space. Expansion CapEx mainly encompasses common furnishings such as flooring, medical equipment furniture and lighting fixtures. We estimate these hard set-up costs to run between €100k and €200k per clinic.

Maintenance CapEx is low for M1 (FBe: ~€500k p.a.) and chiefly covers IT needs as well as other fixtures at corporate facilities. Haemato is likewise asset-light. The company rents a production and fulfilment centre in the Berlin exurbs to facilitate its trading operations, and there is little expensive processing machinery.

Low financing needs Haemato issued 475,000 new shares for net proceeds of €14.2m at the end of March 2021 to facilitate expansion into self-payer markets for branded cosmetics and the adoption of a private label botulinum toxin into its portfolio. Until the parameters of the clinical trials are set, it is too early to quantify the costs. But the likely range is between €5m and €10m. Haemato exited H1/21 with €14m in cash, while the M1 Kliniken Group ended the period with some €30m in its coffers.

M1 traditionally carries no debt on its balance sheet. Haemato still has some debt facilities for working capital financing but has signalled that it will pay these down and factor receivables when needed.

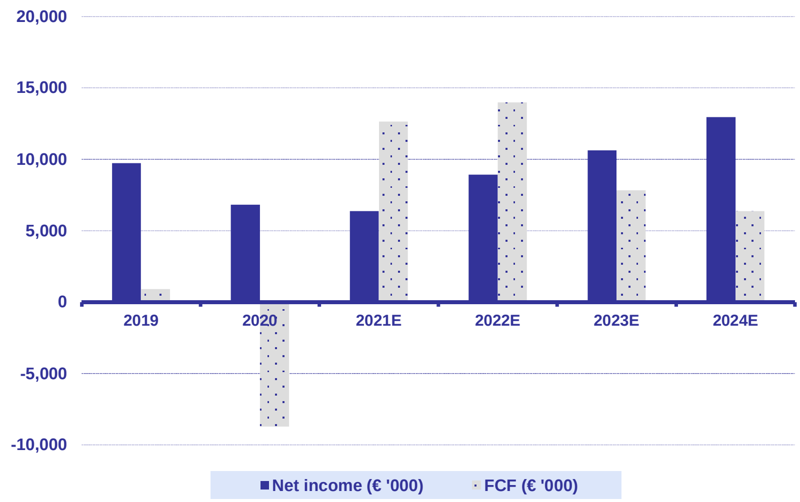
Figure 14: Working capital and WCR developments



Source: First Berlin Equity Research estimates; M1 Kliniken

Smooth face, big bucks M1 should realise good cash flow conversion going forward, as the mature German clinic network is a cash cow, and Haemato contributions are steady now that the company has the right product portfolio. The higher rate of FCF to NI owes to the high 'rights of use' amortisation that sifts down to the bottom line.

Figure 15: FCF conversion

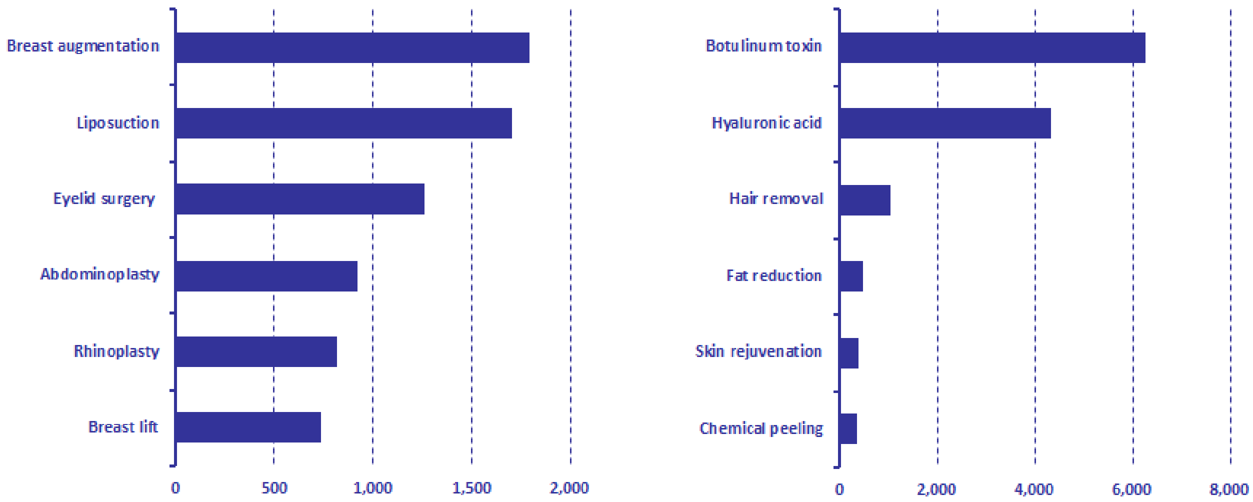


Source: First Berlin Equity Research estimates; M1 Kliniken

BEAUTY MARKET TRENDS & STATISTICS

Innovation was transformative At the turn of the century, the cosmetic enhancement business was largely a matter of surgeon and scalpel. It was expensive and largely reserved for the well-heeled. A common facelift often topped $20k, and the lengthy recovery was fraught with severe bruising. Results also varied. Thanks in large part to technological advancements and improved products, treatments are now much more affordable, and increasingly "minimally invasive."

Figure 16: Most popular global surgical and non-invasive treatments in 2019 (in '000)



Source: ISAPS

Cosmetic surgery is big business. . . Market watcher Fortune reckons the global cosmetic surgery market will top $67bn in 2026 on the basis of a 3.6% CAGR for 2019 to 2026. Current growth is fuelled by: (1) technology developments; (2) changing social attitudes; and (3) increasing per capita income.

. . . and non-invasive injectables is the place to be Grand View Research thinks non-invasive treatments will rise at an even stronger clip and projects a 13.9% CAGR for 2021 to 2028, while Fortune believes the global market for botulinum toxin—the most popular non-surgical procedure—will reach $7.7bn by 2027 equal to a 7.5% CAGR during forecast period.

THE GERMAN MARKET

In Europe, ISAPS surveys ranked Germany just behind Italy in terms of cosmetic treatments performed (~983k) in 2019. The German market was valued at €3.8bn in 2018 with both men and women queuing up in increasing numbers to have their wrinkles zapped and brows smoothed. Botox was by far the most popular non-surgical procedure with a 59% share. Although German women are still 6.4x more likely to have their faces frozen, this figure was 15x in 2010.

Table 9: Breakdown 2019 surgical procedures in Germany

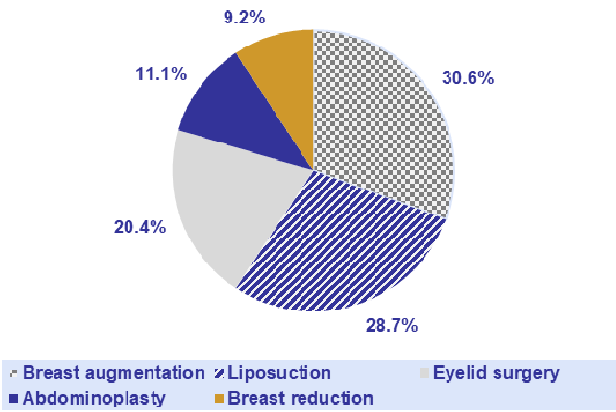
Face and head	
Brow lift	7,404
Ear surgery	6,454
Eyelid surgery	44,592
Facelift	8,759
Facial bone contouring	1,509
Fat grafting (face)	15,032
Neck lift	3,618
Rhinoplasty	14,166
Total	**101,534**

Body & extremities	
Abdominoplasty	24,280
Buttock augmentation	5,029
Buttock lift	1,928
Liposuction	62,865
Low er body lift	1,928
Thigh lift	3,283
Upper arm lift	6,608
Labiaplasty	6,789
Total	**112,710**

Breast	
Breast augmentation	66,972
Breast implant removal	5,895
Breast lift	19,712
Breast reduction	20,243
Gynecomastia	9,178
Total	**122,000**

Source: ISAPS

Figure 17: Most common surgical procedures in Germany



Source: ISAPS

Table 10: Breakdown of 2019 non-surgical procedures in Germany

Injectables	
Botulinum toxin	379,984
Calcium hydroxylapatite	2,864
Hyaluronic acid	236,778
Poly-L-Lactic acid	908
Total	**620,534**

Facial rejuvination	
Chemical peel	3,772
Full field ablative	1,467
Micro-Ablative resurfacing	2,764
Photo-Rejuvination	1,062
Total	**9,065**

Other	
Hair removal	112
Non-surgical fat reduction	17,518
Total	**17,630**

Most common procedures	
Botulinum toxin	59.3%
Hyaluronic acid	36.6%
Non-surgical fat reduction	2.7%
Chemical peel	0.6%
Calcium hydroxylapatite	0.4%

Source: ISAPS

PANDEMIC ALSO PROVIDING SOME TAILWINDS

Many beauty surgeons and centres feared the worst at the onset of the pandemic and had to shut down during pervasive lockdowns. But business is through the roof since doors opened again.

In the US, the American Academy of Facial Plastic and Reconstructive Surgery reckons that the pandemic has led to a 10% jump in surgical procedures. In France, cosmetic surgeries are up 20% according to the French Society of Aesthetic Plastic Surgeons, while clinics in Italy note revenues are up by over a third.

Meanwhile, the German Society of Plastic, Reconstructive, and Aesthetic Surgeons (DGPRÄC) says facial rejuvenations are up 15% in M1's home market. We see several factors that explain the resiliency.

Zoom-gloom equals Zoom-boom for beauty market Legions of workers have been stuck teleworking from home and subjected to hours of staring at their faces on highly unflattering video conferencing. Unhappy with their appearance, men and women are filling up waiting rooms at beauty centres. Zoom has altered how we see ourselves, and we expect this "Zoom-boom" to persist now that corporates are supporting long-term work-from-home (WFH) initiatives.

Discreet recover Remote working has removed another important hurdle. Patients can now recuperate inconspicuously at home, while ghastly bruising and swelling fade. And thanks to the rise in minimally invasive outpatient procedures, patients no longer have to schedule time off.

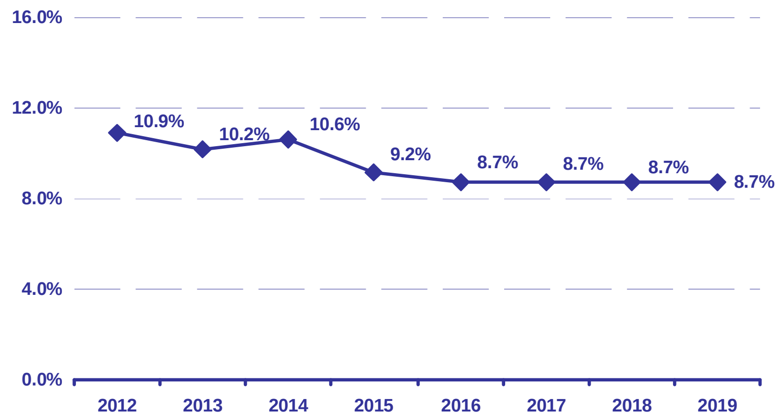
Wallets are flush Despite the economic upheaval inflicted by the pandemic, households are actually flush with cash these days. For the white-collar workforce, it was largely business as usual during lockdowns. But spending was also restricted with little money spent on clothes, evenings out, and travel. Well performing stock portfolios have also created wealth.

SIZABLE ADDRESSABLE MARKETS FOR HAEMATO

Pharmaceuticals Haemato makes its crust with its parallel import business. According to market watcher, IQVIA, the European parallel import business was worth some €5.7bn 2019, and Germany accounted for roughly half of this total.

Grand View Research valued the German pharmaceutical market at some $41bn in 2019 and calls for expansion at a 6.0% CAGR for the period 2020 to 2027. The share of parallel imports in the German pharmaceutical market peaked in 2010 at around 12.7% and has been stable of late after hitting a trough in 2016. The 8.7% ratio in 2019 equates to a market volume of ~$3.6bn. Haemato is firmly entrenched with its parallel trade business focused on high priced indications.

Figure 18: Share of parallel trade in German pharmacies



Source: Statista

Cosmeceuticals Haemato also now controls the M1 Select cosmetics line after taking over M1 Aesthetics GmbH from the parent company at the end of 2020. The brand includes products for anti-aging, skin smoothing, and daily cleaning routines. The German market for cosmeceuticals was valued at €3.3bn in 2018 by Statista, and, in its latest report, Zion research forecasts the anti-aging market to reach $163bn by 2028. We thus see ample opportunity for Haemato to grow sales of branded products that address a broad range of skin care categories.

MANAGEMENT BOARD

M1 Kliniken AG

Dr von Horstig joined the M1 Med Beauty Berlin GmbH as Managing Director in April 2017 and was appointed to the management board of M1 Kliniken AG in October 2017. From 2009 to the beginning of 2017, he served as the managing director of a DRK blood donation service and was responsible for the comprehensive economic restructuring of the company. During the period from 1999 to 2004, Dr von Horstig was founder, managing director and board member of several start-up companies in the service and biotech sectors, before joining the Underberg Group as commercial director. Prior to that, he worked as a management consultant for Bain & Company and the ABB Group. Dr von Horstig studied business administration at the University of Mannheim and St. Gall, where he also completed his PhD thesis.

Haemato AG

Mr Patrick Brenske was named to the Haemato executive board in November 2020 and took over as CEO and sole member of the executive board in March 2021. Between June 2015 and November 2020, he served as a member of the Management Board of M1 Kliniken AG. Mr Brenske has also been a member of the MPH Health Care AG management board since 2009. From 2007 to 2012, he served as purchasing and sales director at Haemato Pharm AG. Mr Brenske studied at the American University, Washington D.C., and at the Frankfurt School of Finance.

SUPERVISORY BOARD

Chairman
Dr Albert Wahl

Deputy Chairman
Uwe Zimdars

Board Member
Prof. Dr Dr Sabine Meck

Shareholders & Stock Information

Stock Information	
ISIN	DE000A0STSQ8
WKN	A0STSQ
Bloomberg ticker	M12 GR
No. of issued shares	19,643,403
Transparency Standard	Open Market
Country	Germany
Sector	Health Care
Subsector	Pharma

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
MPH Healthcare AG	69.1%
Free Float	30.9%

Source: M1 Kliniken AG

INCOME STATEMENT

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Revenues	**65,209**	**77,217**	**159,591**	**313,801**	**353,937**	**424,301**
Cost of goods sold	-42,261	-45,611	-122,807	-262,245	-292,375	-350,804
Gross profit	**22,948**	**31,606**	**36,784**	**51,556**	**61,562**	**73,496**
Personnel expenses	-9,440	-12,622	-16,685	-21,884	-25,249	-29,400
Other operating expenses	-6,511	-7,913	-11,866	-14,337	-15,753	-18,800
EBITDA	**7,175**	**11,354**	**8,888**	**16,235**	**22,438**	**27,863**
Depreciation & amortisation	-692	-3,402	-4,483	-5,281	-6,384	-7,791
Operating income (EBIT)	**6,483**	**7,952**	**4,405**	**10,954**	**16,054**	**20,072**
Net financial result	1,634	3,045	-2,248	-464	-517	-575
Non-operating expenses	0	1,768	6,622	1,250	1,300	1,352
Pre-tax income (EBT)	**8,117**	**12,765**	**8,779**	**11,741**	**16,837**	**20,848**
Tax result	-1,486	-3,036	-1,352	-2,348	-3,704	-5,212
Minority interests	0	0	-602	-3,006	-4,203	-5,004
Net income / loss	**6,631**	**9,729**	**6,825**	**6,387**	**8,931**	**10,633**
Diluted EPS (in €)	**0.39**	**0.56**	**0.37**	**0.33**	**0.45**	**0.54**

Ratios						
Gross margin	35.2%	40.9%	23.0%	16.4%	17.4%	17.3%
EBITDA margin	11.0%	14.7%	5.6%	5.2%	6.3%	6.6%
EBIT margin	9.9%	10.3%	2.8%	3.5%	4.5%	4.7%
EBT margin	12.4%	16.5%	5.5%	3.7%	4.8%	4.9%
Net margin	10.2%	12.6%	4.3%	2.0%	2.5%	2.5%
Tax rate	18.3%	23.6%	15.4%	20.0%	22.0%	25.0%
Expenses as % of revenues						
Personnel costs	14.5%	16.3%	16.3%	14.0%	14.0%	13.0%
Other operating expenses	10.0%	10.2%	11.0%	11.0%	11.0%	11.0%
Depreciation & amortisation	1.1%	4.4%	2.8%	1.7%	1.8%	1.8%
Y-Y Growth						
Revenues		18.4%	106.7%	96.6%	12.8%	19.9%
Operating income		22.7%	-44.6%	148.7%	46.6%	25.0%
Net income/ loss		46.7%	-29.8%	-6.4%	39.8%	19.1%

BALANCE SHEET

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Assets						
Current assets, total	**44,627**	**59,317**	**122,406**	**126,982**	**137,755**	**158,704**
Cash and cash equivalents	25,384	9,098	21,960	24,093	26,058	31,494
Short-term investments	1,087	23,626	32,184	33,150	34,144	35,168
Receivables	16,739	22,243	20,480	19,773	22,516	26,956
Inventories	1,404	1,520	42,327	44,348	49,250	59,126
Other current assets	13	2,830	5,455	5,619	5,787	5,961
Non-current assets, total	**24,927**	**33,498**	**66,336**	**67,860**	**69,617**	**71,221**
Property, plant & equipment	5,489	15,990	15,763	17,401	19,245	20,832
Goodwill & other intangibles	8,287	8,455	38,328	38,214	38,126	38,144
Financial assets	11,056	8,971	12,003	12,003	12,003	12,003
Other assets	95	82	242	242	242	242
Total assets	**69,554**	**92,815**	**188,741**	**194,842**	**207,372**	**229,925**
Shareholders' equity & debt						
Current liabilities, total	**5,659**	**14,431**	**58,070**	**45,314**	**44,706**	**51,616**
Short-term debt	0	2,376	25,536	5,000	0	0
Accounts payable	908	7,778	15,841	21,952	24,507	29,398
Accruals	2,353	1,940	3,506	3,857	4,242	4,666
Other current liabilities	2,398	2,337	13,187	14,506	15,956	17,552
Long-term liabilities, total	**153**	**10,163**	**15,353**	**10,331**	**10,337**	**10,343**
Long-term debt	150	84	5,027	0	0	0
Other liabilities	3	994	1,569	1,574	1,580	1,586
Minority interests	**0**	**0**	**29,565**	**47,056**	**51,258**	**56,262**
Shareholders' equity	**63,743**	**68,222**	**85,754**	**92,141**	**101,071**	**111,704**
Total consolidated equity and debt	**69,554**	**92,815**	**188,741**	**194,842**	**207,372**	**229,925**
Ratios						
Current ratio (x)	8.8	9.6	7.9	4.1	2.1	2.8
Quick ratio (x)	8.1	9.1	7.6	4.0	1.4	1.8
Net debt/(net cash)	-5,798	-14,473	-25,234	-6,638	8,603	-19,093
Net gearing	-9.1%	-21.2%	-29.4%	-7.2%	8.5%	-17.1%
Book value per share (in €)	3.64	3.90	4.37	4.69	5.15	5.69
Return on equity (ROE)	10.4%	14.3%	8.0%	6.9%	8.8%	9.5%

CASH FLOW STATEMENT

All figures in EUR '000	2018	2019	2020	2021E	2022E	2023E
Net income	**6,631**	**9,729**	**7,427**	**9,392**	**13,133**	**15,636**
Depreciation and amortisation	692	3,402	4,483	5,281	6,384	7,791
Tax expense	1,482	3,016	1,352	2,348	3,704	5,212
Changes in w orking capital	-1,827	-12,034	-595	5,343	-4,411	-8,596
Other adjustments	-1,001	-4,067	-4,213	-1,250	-1,300	-1,352
Net interest result	-1,634	261	417	464	517	575
Operating cash flow	**4,343**	**307**	**8,871**	**21,577**	**18,027**	**19,266**
Tax paid	-1,482	-5,677	-726	-2,348	-3,704	-5,212
Interest income	158	81	172	329	356	384
Net operating cash flow	**3,019**	**-5,289**	**9,710**	**19,559**	**14,679**	**14,438**
CapEx	-2,323	-1,346	-1,446	-6,804	-8,141	-9,395
Other investments and disposals	223	-3,839	4,387	0	0	0
Cash flow from investing	**-2,101**	**-5,185**	**2,941**	**-6,804**	**-8,141**	**-9,395**
Free cash flow	**918**	**-10,474**	**12,651**	**12,755**	**6,537**	**5,044**
Debt financing, net	-65	-65	4,043	-25,563	-5,000	0
Equity financing, net	14,800	0	0	14,485	0	0
Paid dividend	-4,950	-5,250	-129	0	0	0
Interest expense	-8	-3	-335	-793	-872	-960
Cash flow from financing	**9,776**	**-5,318**	**3,579**	**-11,871**	**-5,872**	**-960**
Consolidation adjustments	0	0	-4,175	0	0	0
Net cash flow	**10,694**	**-16,285**	**8,857**	**2,133**	**1,965**	**5,436**
Cash, start of the year	14,689	25,383	9,098	21,960	24,093	26,058
Cash, end of the year	**25,383**	**9,098**	**21,960**	**24,093**	**26,058**	**31,494**
EBITDA/share (in €)	**0.43**	**0.65**	**0.48**	**0.83**	**1.14**	**1.42**
Y-Y Growth						
Operating cash flow	18.6%	-92.9%	2789.6%	143.2%	-16.5%	6.9%
Free cash flow	n.m.	n.m.	n.m.	0.8%	-48.7%	-22.9%
EBITDA/share	6.1%	52.0%	-26.3%	72.8%	38.2%	24.2%

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Anschrift:
First Berlin Equity Research GmbH
Mohrenstr. 34
10117 Berlin
Germany

Vertreten durch den Geschäftsführer: Martin Bailey

Telefon: +49 (0) 30-80 93 9 680
Fax: +49 (0) 30-80 93 9 687
E-Mail: info@firstberlin.com

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First Berlin Equity Research GmbH

Authored by: Ellis Acklin, Senior Analyst
All publications of the last 12 months were authored by Ellis Acklin.

Company responsible for preparation: First Berlin Equity Research GmbH, Mohrenstraße 34, 10117 Berlin

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Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy[1]	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

[1] The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	2 December 2021	€6.98	Buy	€14.00

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- **key sources of information in the preparation of this research report**

- **valuation methods and principles**
- **sensitivity of valuation parameters**

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