



Research Report (Anno)

M1 Kliniken AG



**Company maintains high growth rate;
Plans to double the number of sites by the end of 2020;
Focus on strong foreign growth and new treatment areas**

Target Price: 21,30 €

Rating: BUY

IMPORTANT NOTE:

Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section § 85 WpHG und Art. 20 MAR on page 16

Note on research as a “minor non-monetary benefit” according to the MiFID II regulation: This research meets the requirements for being classified as a “minor non-monetary benefit”. For more information, see the disclosure under “1. Research under MiFID II”

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Target price valid until: max. 31/12/2020

M1 Kliniken AG^{*5a,11}

Rating: BUY
Target Price: 21.30 €
(previous TP: 19.00 €)

Current price: 11.40
05/08/19 / XETRA / 4:21 pm
currency: EUR

Key information:

ISIN: DE000A0STSQ8
WKN: A0STSQ
Ticker symbol: M12
Number of shares³: 17,500
Marketcap³: 199,50
EnterpriseValue³: 162,57
³ in € million

Transparency level:
Open Market

Market segment:
Freiverkehr

Accounting standard:
IFRS

FY-End: 31/12

Designated Sponsor:
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* catalogue of potential conflicts of interest on page 17

Unternehmensprofil

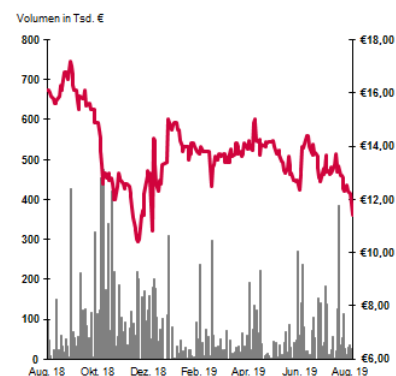
Sector: Klinik und Dienstleistungen

Focus: Medizinische Schönheitsbehandlungen

Founded: 2007

Headquarter: Berlin

Executive Board: Patrick Brenske, Dr. Walter von Horstig



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

P&L in EURm \ FY-End	31/12/2018	31/12/2019e	31/12/2020e	31/12/2021e
Sales	65.21	81.75	100.45	117.63
EBITDA	7.17	8.38	10.36	14.66
EBIT	6.46	7.93	9.86	14.16
Net profit	6.61	7.62	8.60	11.00

Per Share Ratios in EUR

EPS	0.38	0.44	0.49	0.63
DPS	0.30	0.30	0.35	0.40

Ratios

EV/Sales	2.49	1.99	1.62	1.38
EV/EBITDA	22.67	19.40	15.69	11.09
EV/EBIT	25.17	20.50	16.49	11.48
P/E-Ratio	30.18	26.18	23.20	18.14
Book-Value	3.13			

Financial dates

23/08/2019: AGM
27/08/2019: HY-Report 2019

**last research published by GBC:

Date: Publication / Target Price in EUR / Rating

24/09/2018: RS / 19.00 / BUY

17/05/2018: RS / 18.50 / BUY

16/10/2017: RS / 16.15 / BUY

11/05/2017: RS / 11.90 / BUY

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EXECUTIVE SUMMARY

- In financial year 2018, M1 Kliniken AG was again able to maintain its high growth rate, and with a 38.2% revenue growth to EUR 65.21 million (previous year: EUR 47.19 million), even exceeded our previous forecasts. The on-schedule continued opening of new sites, taking the number of specialist centres to 24 (previous year: 19) and the corresponding increase in the number of medical treatments to around 190,000 (previous year: approx. 150,000), formed the basis for the increased growth momentum. In addition to the new sites, the M1 Group had widened the range of treatments in 2018 to include laser treatments and aesthetic dentistry.
- Although the company recorded an EBIT increase to EUR 6.46 million (previous year: EUR 5.72 million) as a result of revenue growth, this was – as expected – disproportionately low, which was evident from the fall of the EBIT margin to 9.9% (previous year: 12.1%). In particular, investments in the construction of the new specialist centres and the typical start-up phases, characterised by low earnings levels, were responsible for this. In addition, the company showed slightly stronger development in the lower-margin retail sector (trading in medicines and supplying treatment centres).
- For the current and upcoming financial year, M1-Management is anticipating a significant expansion of its network of clinics. By the end of 2020, the number of beauty clinics in operation is set to increase to 50, with around 20 sites abroad. In our view, this planned expansion should be financially achievable. We anticipate investments in the amount of approx. EUR 100,000 per site (operating equipment, treatment instruments, etc.), which would correspond to an investment volume of EUR 2.6 million by the end of 2020.
- At the same time, M1 Kliniken AG is planning to extend its network of clinics offering aesthetic dental treatments. We assume that the number of M1 Dental sites will have increased to ten by 2020. This area is particularly interesting, as there is high demand, with high price sensitivity among customers. Here, as in the beauty sector, M1 Kliniken AG is also positioning itself as a cost leader.
- We see a further growth driver in the expansion of the company's own cosmetic product brand, M1 Select. The high-quality cosmetic products currently distributed through the company's own online channels and its network of clinics are to be gradually more strongly positioned for sale in the B2C sector. Here, for example, new revenue potential should be tapped through the planned medium-term placement in the stationary retail sector.
- In line with the corporate guidance, we expect the double-digit revenue growth to continue in the coming financial years on this basis. Our earnings forecasts take into account the typical expansion expenses, and we therefore expect a disproportionately low increase in earnings for 2019 and 2020. Rising margin levels are therefore expected to reach the "steady" state again from financial year 2021.
- Under our updated DCF valuation model, we have calculated a stock price target of EUR 21.30 (previously: EUR 19.00). The roll-over effect due to the change in the price target horizon to the end of financial year 2020 (previously: 2019) and the first-time consideration of the higher forecasts for 2021 led to the increase in the price target. We continue to assign a BUY rating.

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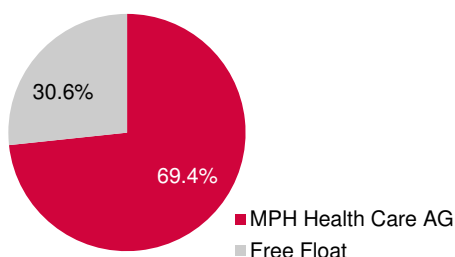
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COMPANY

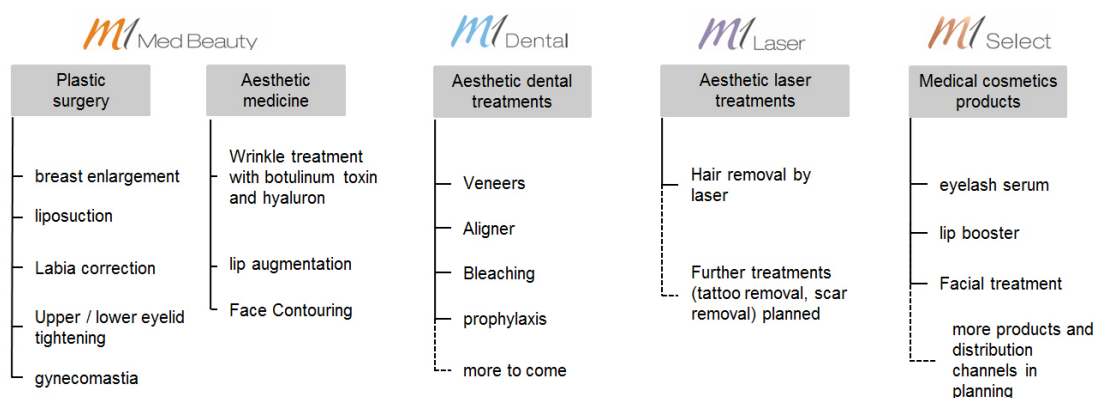
Shareholders Structure

Shareholders in %	
MPH Health Care AG	69.4%
Free Float	30.6%

Source: M1 Kliniken AG; GBC AG



Current corporate structure



Source: M1 Kliniken AG; GBC AG

At its 25 sites (24 specialist centres + 1 inpatient clinic), the M1 Group offers medical services within the beauty industry. Plastic surgery is offered exclusively under the brand name **“M1 Med Beauty”** brand at the Schlossklinik in Berlin. The private clinic was granted a licence for clinical operations in June 2015. Within the four-storey building, the company has six operating rooms and several non-invasive treatment rooms, and 35 inpatient beds.

Non-surgical treatments, such as wrinkle treatments, lip enlargements and face contouring, are offered throughout Germany in the 24 specialist centres. In terms of the number of centres, the M1 Group’s growth momentum has been strong in recent years. In 2018, a total of four new sites were added in the aesthetic medicine sector, including one in Vienna – which, as the first centre abroad, also marked the starting point for foreign expansion.

In 2018, the first aesthetic dental treatment centre was opened in Berlin, complementing the aesthetic medical area. In the last few months, additional treatment sites have opened in Munich, Frankfurt and Hamburg. M1 Kliniken AG offers dental treatments under the brand name **“M1 Dental”**, such as bleaching, prophylaxis, alignment, etc. for private paying patients. The opening of additional sites and/or the expansion of the treatment range (e.g. implants) should support the planned growth in this area. Finally, aesthetic laser treatments are also being offered under **“M1 Laser”** for the first time. No extra specialist centres need be opened or tenant fixtures installed for this range of services so that the existing infrastructure in specialist centres can be used.

The product range is completed by the medical cosmetic products, which are distributed under the **“M1 Select”** brand name. This product line was introduced in December 2017 and is currently primarily distributed via the M1 specialist centres and the online shop. There are also plans to use the retail sector as a distribution channel in the future.

In addition, the purchase and logistics of medicines and medical devices in the health and beauty sector will also be covered by M1 Aesthetics GmbH. For this activity, the company has a wholesale trade authorisation pursuant to Section 52a of the German Medicinal Products Act (Arzneimittelgesetz – AMG). The fact that this important business unit is also addressed is to be seen as a total vertical integration of the upstream value creation stages. For example, product deliveries to the M1 Schlossklinik or the specialist consulting centres are also covered, and therefore the potential economies of scale remain within the M1 Group.

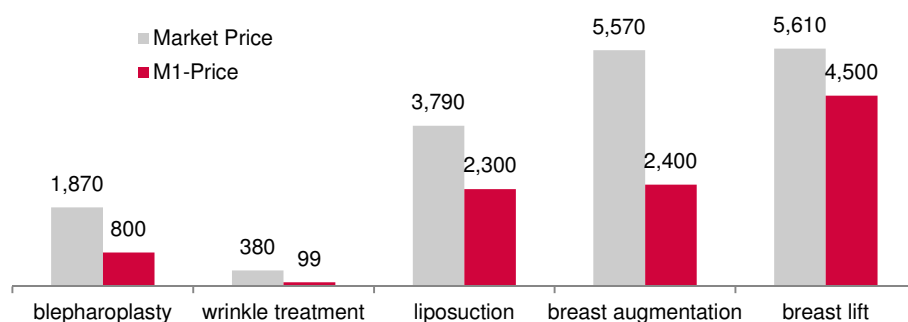
Corporate strategy

In general, the strategy of the M1 Group focuses on broad, regionally-diversified customer access on the one hand, and on achieving cost leadership on the other hand. At the same time, the international roll-out of business operations, which began with the opening of the site in Vienna, is also to be further promoted.

The 24 current sites already provide strong, regionally-diversified customer access. With three sites in Berlin, and two in both Hamburg and Munich, the company is present in key metropolitan regions. In addition, there is a M1 specialist site presence across Germany in other cities such as Düsseldorf, Cologne, Stuttgart, Frankfurt, Hanover, etc. By the end of the year 2020, up to 30 specialist centres in Germany and a further 20 centres abroad are to be opened.

The envisaged cost leadership – an important strategic component for the M1 Group – has largely been achieved. For all treatments, the prices charged by the company are significantly below the standard market levels.

Comparison Market Price vs. M1-Price (in €)



Source: *mybody.de*; M1 Kliniken AG; GBC AG

There are various factors contributing to the cost leadership of the M1 Group. The company offers only those treatments which are most frequently requested by customers. This achieves a high degree of standardisation, combined with corresponding scale effects. Another benefit of the high level of standardisation is the ability to optimise the process chain to the point of high utilisation, and effective and efficient use of resources (e.g. operating rooms) and employees. This generates cost benefits, which smaller competitors – approx. 95% of the competitive environment – cannot generate.

In addition, the combination of services offered for the field of beauty treatments with the procurement of medicines and medical devices is an important strategic cornerstone of the M1 Group. Particular emphasis is placed here on possible synergy effects, such as the use of economies of scale. With the standardised offer of products and services, low purchase prices can be achieved with suppliers in order to be able to offer customers comparatively low prices for products and services.

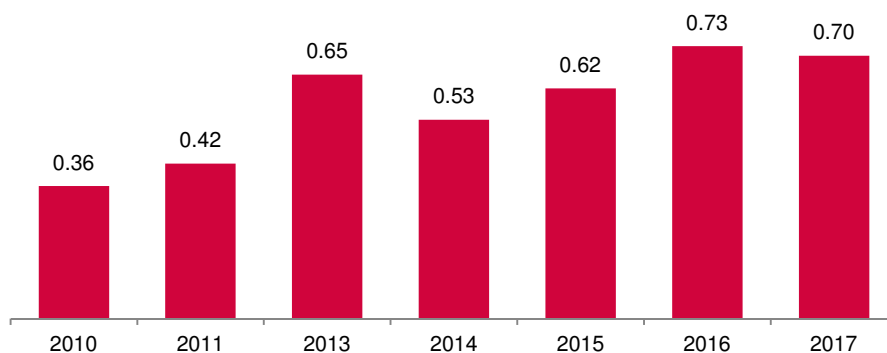
On the other hand, with the horizontal coverage of the upstream value creation stages for beauty treatments, the group gains a better understanding of the processes and can accordingly also enhance synergy effects here. For example, the experience gained from the large number of beauty treatments performed can be used profitably in the commercial sector. It is planned to build up a product portfolio of medicines and medical devices that has been optimised to meet existing customer requirements, in order to achieve further cost benefits.

MARKET AND MARKET ENVIRONMENT

M1 Kliniken AG specialises in beauty treatments and products and services in the beauty sector in a growing market environment. In addition to a generally greater willingness to undergo beauty treatments, the market environment not only benefits from technological advances, which can offer treatments at a reasonable cost, but also from an increasing willingness to spend money on medical treatments.

The latest statistics from the ISAPS (International Society of Aesthetic Plastic Surgery) show that as a result, a total of 704,800 treatments were carried out in Germany in 2017, which corresponds to a year-on-year decline of 3.5%. While this decline related solely to surgical procedures, non-surgical treatments saw a significant year-on-year increase of 5.1%. Despite the decline in development in 2017, the multi-year trend in beauty treatments should still be regarded as positive. Compared to 2010, the number of beauty treatments has almost doubled, having increased by 98.3%.

Number of beauty treatments in Germany (in m)



Source: ISAPS; GBC AG

By far the most sought-after surgical beauty treatments in Germany in 2017 were breast enlargements (46,164), liposuction (45,871) and eyelid correction (46,086). These three operations are among the standard procedures performed by M1 Kliniken AG, and are offered with corresponding cost benefits. The same applies to non-surgical treatments, such as subcutaneous injections of botulinum toxin (220,211) and hyaluronic acid (137,919), which are also the most frequently requested, and are offered at a particularly reasonable price by M1 Clinics.

With the expansion of the range – to include laser treatments for hair or tattoo removal, for example – the M1 Group is also addressing potentially high-growth markets. For example, in 2017 (according to ISAPS statistics), 21.6% more permanent hair removals were carried out by laser than in the previous year. Supporting this dynamic development, tattoo removal is expected to be a key laser treatment in the future, especially since the German Federal Government has agreed that tattoo removals must only be carried out by physicians specialising in plastic surgery, or dermatologists. Until now, there have been no regulations in this area. This requirement plays into the M1 Group's hands, as laser treatments are already offered by its specialist centres. The high future market potential for laser-assisted tattoo removal derives from the currently strong demand for tattoos, which will naturally lead to a high demand for corrections in the coming years. According to a Statista survey, one in four Germans has a tattoo and a further 21% are thinking about getting one.

COMPANY DEVELOPMENT

Key figures

P&L (in €m)	FY 2017	FY 2018	FY 2019e	FY 2020e	FY 2021e
Revenue	47.19	65.21	81.75	100.45	117.63
Other operating income	0.26	0.18	0.10	0.10	0.30
Total income	47.46	65.39	81.85	100.55	117.93
Material expenses	-28.70	-42.26	-51.99	-63.89	-74.10
Gross profit	18.76	23.13	29.86	36.66	43.82
Personell expenses	-7.17	-9.44	-13.08	-16.00	-17.60
Depreciation	-0.46	-0.71	-0.45	-0.50	-0.50
Other operating expenses	-5.41	-6.51	-8.40	-10.30	-11.56
EBIT	5.71	6.46	7.93	9.86	14.16
Interest income	1.66	1.64	1.60	1.60	1.60
Interest expenses	-0.01	-0.01	0.00	0.00	-0.05
EBT	7.36	8.09	9.53	11.46	15.71
Taxes	-1.58	-1.48	-1.91	-2.87	-4.71
Other taxes	-0.01	0.00	0.00	0.00	0.00
EAT	5.78	6.61	7.62	8.60	11.00
EBITDA	6.18	7.17	8.38	10.36	14.66
in % of revenues	13.1%	11.0%	10.2%	10.3%	12.5%
EBIT	5.71	6.46	7.93	9.86	14.16
in % of revenues	12.1%	9.9%	9.7%	9.8%	12.0%
EPS in €	0.35	0.38	0.44	0.49	0.63
Dividend per share in €	0.30	0.30	0.30	0.40	0.50
Number of shares in millions	16.50	17.50	17.50	17.50	17.50

Business development in 2018

P&L (in €m)	FY 2015	FY 2016	FY 2017	FY 2018
Revenue	34.94	35.96	47.19	65.21
EBITDA	7.23	4.65	6.18	7.17
EBITDA-margin	20.7%	12.9%	13.1%	11.0%
EBIT	7.02	4.36	5.71	6.46
EBIT-margin	20.1%	12.1%	12.1%	9.9%
EAT	6.63	5.01	5.78	6.61
EPS in €	0.44	0.33	0.38	0.38

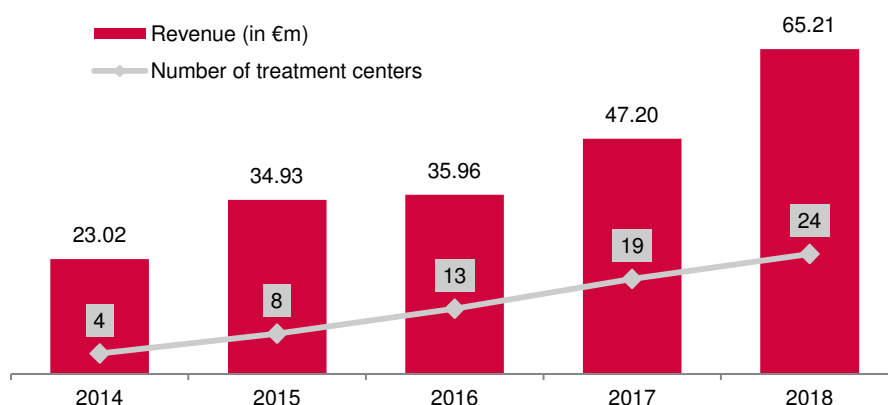
Source: M1 Kliniken AG; GBC AG

Revenue development in 2018

In 2018, as expected, M1 Kliniken AG was once again able to increase its year-on-year growth rate and revenues by 38.2% to EUR 65.21 million (previous year: EUR 47.19 million). Our revenue forecast (GBC forecast: EUR 62.62 million) was also demonstrably exceeded.

The basis for this revenue development is the on-schedule introduction of new sites, with an increase in the number of specialist centres from 19 to 24 (as of 31/12/18). New additions for 2018 are the specialist centres in Hamburg, Konstanz, Munich, Dresden and Vienna. In addition, the range of aesthetic dental treatments (M1 Dental) offered in Berlin, Munich and Frankfurt am Main was expanded, as was the laser treatment range (M1 Laser) offered in Berlin. On this basis, the number of treatments increased by almost 25% to around 190,000 (previous year: approx. 150,000), whereby the typical start-up phase for new sites must be taken into account. In addition, most of the new sites were opened in the second half-year, which means, that the number of treatments can be expected to jump sharply within the current financial year due to base effects alone.

Revenue (in €m) and number of treatment centers



Source: M1 Kliniken AG; GBC AG

On the one hand, the M1 Group revenues comprise income from the beauty segment, which contains the operating activities in the private clinics and the aesthetic surgery treatment services. In addition, the company receives revenues from its trading segment, which includes the sales of medicines and medical devices. In this segment, primarily purchasing activities are bundled in order to achieve attractive purchase prices for customers (treatment centres).

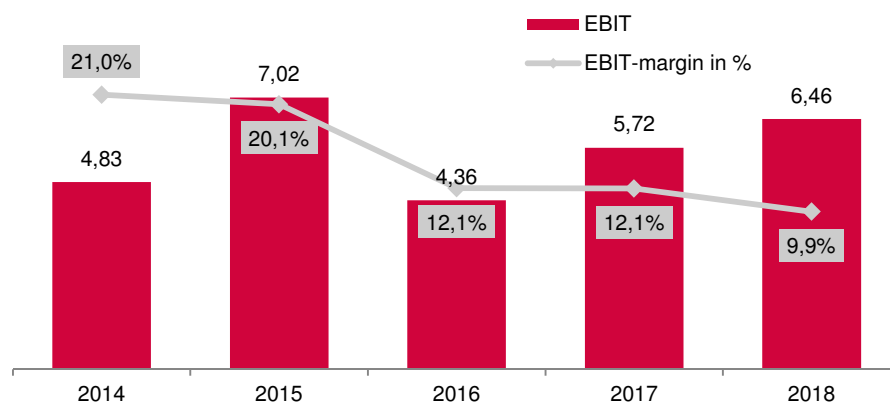
As in past financial years, the comparatively lower-margin trading sector accounted for EUR 35.43 million (previous year: EUR 25.83 million) – the majority of the revenue. In

the beauty segment, the company generated EUR 29.78 million (previous year: EUR 21.37 million). Both business segments made similar contributions to the group-wide revenue growth, with sector-specific revenue growths of 37.2% (trade) and 39.4% (beauty).

Development of the operating result in 2018

Although the dynamic revenue growth was accompanied by an increase in EBIT to EUR 6.46 million (previous year: EUR 5.72 million), the EBIT increase was disproportionately low, as expected. This becomes clear in the decline of the EBIT margin to 9.9%, after the value of 12.1% achieved in both of the previous years. Here, investments in the construction of the new specialist centres and the internationalisation of the business model are particularly notable, and naturally incur higher expenses. At the same time, new sites, particularly in the start-up phase, still make a small contribution to earnings.

EBIT (in €m) and EBIT-margin (in %)



Source: M1 Kliniken AG; GBC AG

In addition, it should be noted that the significantly weaker trading revenues (gross profit margin: 4.9%) in absolute terms, starting from a higher level, with a plus of EUR 9.61 million, increased more than the significantly higher-margin beauty revenues (gross profit margin: 71.8%), which were up by EUR 8.41 million. This caused a disproportionately large increase in the materials expenses and therefore a decline in the gross profit margin to 35.5% (previous year: 39.7%). Together with the outlined start-up expenses, this explains why the earnings development remained below our expectations (EBIT forecast GBC: EUR 7.61 million).

It is worth mentioning that the current expansion drive is almost entirely financed by M1 Kliniken AG's own resources, and so there are no significant financial expenses. On the contrary, the financial result has been positive in each of the last three years due to the dividends received from the investment in the listed CR Capital Real Estate AG and the guaranteed dividend from the HC Grundbesitz GmbH investment. In 2018, the financial result was EUR 1.63 million (previous year: EUR 1.65 million), which was a significant contribution to the overall results of the M1 Group. After tax, this amounted to EUR 6.61 million (previous year: EUR 5.78 million), which corresponded to an increase of 14.5%.

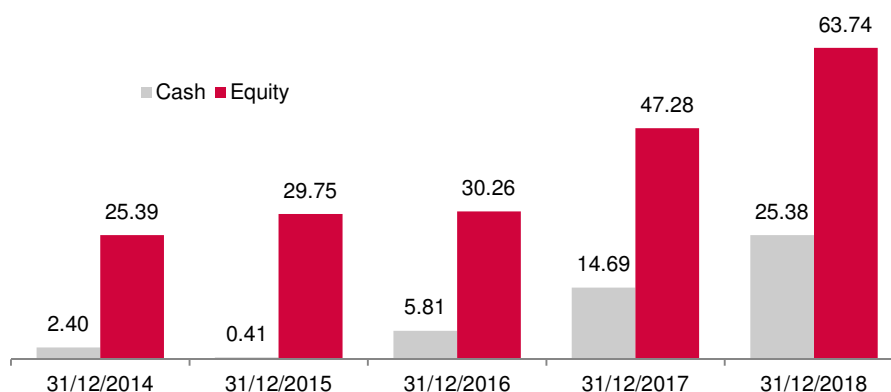
Balance sheet and financial situation

in €m	31/12/2016	31/12/2017	31/12/2018
Equity	30.26	47.28	63.74
Equity-ratio	94.0%	93.5%	91.6%
Working Capital	6.58	8.01	12.94
Goodwill	8.03	8.03	8.03
Operating assets	1.28	4.26	5.84
Long-term financial assets	5.88	8.76	11.06
Cash	5.81	14.69	25.38
Cashflow - operating	7.94	2.09	2.86
Cashflow - investing	1.98	-4.65	-1.94
Cashflow - financing	-4.52	11.44	9.78

Source: M1 Kliniken AG; GBC AG

In recent financial years, the expansion strategy of M1 Kliniken AG has been primarily financed by equity capital. In 2017, a capital increase (net proceeds: EUR 15.74 million) was successfully implemented, followed by a further capital increase in financial year 2018 (net proceeds: EUR 14.80 million). Taking into consideration the positive post-tax results, this led to a gradual increase in equity to EUR 63.74 million (31/12/17: EUR 47.28 million). Similarly, at 91.6% (31/12/17: 93.5%), the company has an above-average equity base.

Equity and Cash (in €m)



Source: M1 Kliniken AG; GBC AG

The capital increases carried out in the last two financial years also led to a significant increase in liquid assets to EUR 25.38 million (31/12/17: €14.69 million). As a result, the company has sufficient financial leeway to implement the envisaged expansion strategy, whereby it is expected that a further 26 specialist centres will have been opened by the end of the coming financial year 2020. The investments required to open a new site are comparatively low, and are mainly limited to equipping the clinic premises and acquiring treatment instruments. Clinic premises are only purchased in a few cases and are instead usually rented. As a result, the capital expenditure cash flow in the previous financial year, despite the five new sites and the expanded treatment portfolio, was at a low level, at EUR -1.94 million (previous year: EUR -4.65 million). This is due to a liquidity inflow from the operating business in the amount of EUR 2.86 million (previous year: EUR 2.09 million), which was sufficient to cover the capital expenditures.

FORECASTS AND VALUATION

P&L (in €m)	FY 2018	FY 2019e	FY 2020e	FY 2021e
Revenue	65.21	81.75	100.45	117.63
EBIT	6.46	7.93	9.86	14.16
EBIT-margin	9.9%	9.7%	9.8%	12.0%
EAT	6.61	7.78	8.82	11.00
EPS in €	0.38	0.45	0.50	0.63

Source: GBC AG

Forecast principles

Our revenue and earnings forecasts are based primarily on the company's statement that by the end of 2020, the number of specialist centres in the **beauty segment** is expected to increase from the current 24 to 50. The plan is to open a further seven sites in Germany, and at the same time, to further strengthen the internationalisation strategy by opening around 20 sites abroad. After the opening of the first foreign M1 clinic in Austria, the network of outpatient clinics in Switzerland, the Netherlands and the UK is to be expanded in the coming years. The company has already demonstrated in previous financial years that it is in a position to dynamically increase the number of sites. Between 2016 and 2018, the number of M1 clinics increased from 13 to 24.

The capital investments for M1 Kliniken AG that are associated with the new openings are achievable. Since the premises are rented, the only investments typically required are in the operating and office equipment of the clinics (including treatment devices). In the beauty sector, we expect an investment volume of approx. EUR 100,000 per site, which corresponds to a total investment volume of around EUR 2.6 million by the end of 2020.

In addition to the currently operating further inpatient clinics could also be opened to expand the private clinic capacity. Even if we do not specifically assume the expansion of the private clinic capacities operated by M1 Kliniken AG in our forecasts, the company has a sufficient liquidity portfolio to achieve the acquisition of clinic properties in the short term.

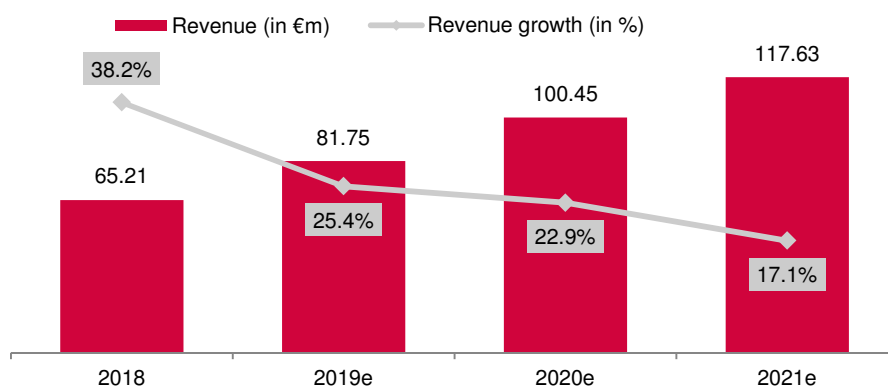
In addition to expanding the network of clinics in the beauty sector, new treatment ranges such as **laser treatments (M1 Laser)** and **aesthetic dentistry (M1 Dental)** are increasingly being addressed. While M1 Laser can be readily implemented in the existing network of clinics, M1 Dental is operated in each individual clinic. In Berlin, Frankfurt am Main and Munich, M1 Kliniken AG has already opened its first M1 Dental sites. By the end of 2020, the company could expand its treatment network to ten sites. This area is therefore particularly interesting, as there is a much higher demand here, with a similarly high price sensitivity among customers. Health insurance companies often do not pay for cosmetic dental treatments, which has led to increasing "dental tourism" in recent years. By offering standardised procedures, M1 Kliniken AG could establish itself as a price leader in this area.

In the future, trading the company's own products under the brand name **M1 Select** will also gain in importance. The high-quality cosmetic products currently distributed through the company's own online channels and its network of clinics are to be gradually more strongly positioned for sale in the B2C sector. Here, for example, new revenue potential should be tapped through the planned medium-term placement in the stationary retail sector.

Revenue forecasts 2019 – 2021

Based on the planned increase in the number of sites and the resulting significant increase in treatment capacity, as well as assuming an increase in site-specific revenue, we assume double-digit growth rates in revenue for the coming financial years. Although the expected newly opened sites may not yet produce high revenues in the current financial year, the company should benefit from the clinics opened in the second half-year of 2018, for example, and corresponding revenue growth in 2019. As a result, the 50 clinics which are anticipated by 2020 will only achieve their full impact on revenues from the financial years 2021/2022. This also includes the typical start-up phase, which is usually characterised by low sales and earnings in the first six to nine months.

Revenue forecasts 2019 – 2021 (in €m)

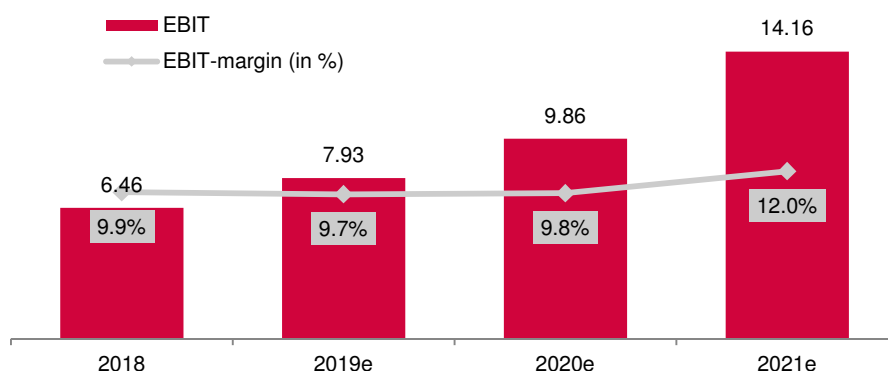


Source: GBC AG

Earnings forecasts 2019 - 2021

As in the previous financial year, the expansion strategy should have an impact on the development of the company's results. In addition to the low earnings contributions during the start-up phase of new sites, investments in marketing, personnel, etc. may also reduce the earnings margin during the current growth phase.

EBIT-forecasts 2019 – 2021 (in €m)



Source: GBC AG

Accordingly, the M1 Management Board does forecast an increase in the operating result, with double-digit revenue growth continuing, but this is expected to be disproportionately low in comparison to revenues. At least for the current and upcoming financial year, we therefore expect a slight decline in the EBIT margin compared to financial year 2018. Rising margin levels are therefore expected to reach the “steady” state again from financial year 2021.

Valuation

Model assumptions

We have assessed M1 Kliniken AG using a three-stage DCF model. Starting with the specific estimates for the years 2019 to 2021 in phase 1, the outlook for 2022 to 2026 was developed in the second phase using value drivers. We expect increases in revenue of 9.0%. We have set 15.0% as the target EBITDA margin. We have included the tax rate of 30.0% in phase 2. Additionally, at the end of the forecast horizon, a residual value is determined in the third phase using the perpetual annuity. As the final value, we assume a growth rate of 3.0%.

Determining capital costs

The weighted average cost of capital (WACC) of M1 Kliniken AG is calculated using the equity costs and the cost of debt. The fair market premium, the company-specific beta and the risk-free interest rate must be determined in order to calculate equity costs.

The risk-free interest rate is derived from the current structured interest rate curves for risk-free bonds in accordance with the recommendations of the German Special Committee for Business Valuation and Business Management (Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft, FAUB) of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e.V.). This is based on the zero bond interest rate calculated using the Svensson Method published by the German Bundesbank. In order to compensate for short-term market fluctuations, average returns for the previous three months are used and earnings are rounded up to the nearest 0.25 basis points. **The value currently used for the risk-free interest rate is 1.00% (previously: 1.25%).**

We set the historical market premium of 5.50% as a reasonable expectation of the market premium. This is supported by historical analyses of stock market returns. The market premium reflects how many per cent more return can be expected from stock markets compared to low-risk government bonds.

According to GBC estimation methods, a beta of 1.46 currently applies. We have extended this beta using a market-oriented approach. As part of a regression analysis of the M1 share price on the SDAX and CDAX, we have calculated a smoothed market-oriented beta of 0.45 using the *Blume* method (previously: 0.46). As a basis for calculating the weighted capital costs, we extended the previous fundamental beta (2/3 weighting) using the market-oriented approach (1/3 weighting), which resulted in a beta of 1.12 (previously: 1.13).

The cost of equity of 7.16% was calculated using the assumptions made (previously: 7.47%) (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of the equity costs of 100%, the resulting weighted average cost of capital (WACC) amounts to 7.16% (previously: 7.47%).

Valuation result

Taking into consideration the roll-over effect, we have calculated a new stock price target of EUR 21.30 using the updated DCF valuation model (previously: EUR 19.00).

DCF-Modell

M1 Kliniken AG - Discounted Cashflow (DCF) model

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

consistency - phase		final - phase	
Revenue growth	8.0%	Perpetual growth rate	3.0%
EBITDA-margin	15.0%	Perpetual EBITA margin	15.6%
Depreciation on fixed assets	9.0%	Effective tax rate in terminal value	30.0%
Working capital to sales	15.0%		

Three-phase DCF - model:

Phase in mEUR	estimate			consistency					final TV
	FY 19e	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	
Revenue (RE)	81.75	100.45	117.63	127.04	137.20	148.17	160.03	172.83	
Revenue change	25.4%	22.9%	17.1%	8.0%	8.0%	8.0%	8.0%	8.0%	3.0%
Revenue to fixed assets	9.62	9.05	9.05	9.05	9.05	9.05	9.05	9.05	
EBITDA	8.38	10.36	14.66	19.06	20.58	22.23	24.00	25.92	
EBITDA-margin	10.2%	10.3%	12.5%	15.0%	15.0%	15.0%	15.0%	15.0%	
EBITA	7.93	9.86	14.16	17.89	19.32	20.86	22.53	24.33	
EBITA-margin	9.7%	9.8%	12.0%	14.1%	14.1%	14.1%	14.1%	14.1%	15.6%
Taxes on EBITA	-1.59	-2.47	-4.25	-5.37	-5.79	-6.26	-6.76	-7.30	
Tax rate	20.0%	25.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	6.34	7.40	9.91	12.52	13.52	14.60	15.77	17.03	
Return on Capital	33.8%	34.4%	39.2%	42.6%	40.9%	40.9%	40.9%	40.9%	43.1%
Working Capital (WC)	13.00	14.20	16.36	19.06	20.58	22.23	24.00	25.92	
WC to sales	15.9%	14.1%	13.9%	15.0%	15.0%	15.0%	15.0%	15.0%	
Investment in WC	-0.06	-1.20	-2.16	-2.70	-1.52	-1.65	-1.78	-1.92	
Operating fixed assets (OFA)	8.50	11.10	13.00	14.04	15.16	16.37	17.68	19.10	
Depreciation on OFA	-0.45	-0.50	-0.50	-1.17	-1.26	-1.36	-1.47	-1.59	
Depreciation to OFA	5.3%	4.5%	3.8%	9.0%	9.0%	9.0%	9.0%	9.0%	
CAPEX	-3.11	-3.10	-2.40	-2.21	-2.39	-2.58	-2.78	-3.01	
Capital Employed	21.50	25.30	29.36	33.09	35.74	38.60	41.69	45.02	
EBITDA	8.38	10.36	14.66	19.06	20.58	22.23	24.00	25.92	
Taxes on EBITA	-1.59	-2.47	-4.25	-5.37	-5.79	-6.26	-6.76	-7.30	
Total Investment	-3.17	-4.30	-4.56	-4.90	-3.91	-4.22	-4.56	-4.93	
Investment in OFA	-3.11	-3.10	-2.40	-2.21	-2.39	-2.58	-2.78	-3.01	
Investment in WC	-0.06	-1.20	-2.16	-2.70	-1.52	-1.65	-1.78	-1.92	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cashflows	3.62	3.60	5.85	8.78	10.87	11.74	12.68	13.70	434.52

Value operating business (due date)	316.75	335.83
Net present value explicit free Cashflows	48.97	48.88
Net present value of terminal value	267.78	286.96
Net debt	-36.91	-36.85
Value of equity	353.66	372.69
Minority interests	0.00	0.00
Value of share capital	353.66	372.69
Outstanding shares in m	17.50	17.50
Fair value per share in €	20.21	21.30

Cost of Capital:

Risk free rate	1.0%
Market risk premium	5.5%
Beta	1.12
Cost of equity	7.2%
Target weight	100.0%
Cost of debt	4.5%
Target weight	0.0%
Taxshield	28.7%
WACC	7.2%

Return on Capital	WACC				
	6.2%	6.7%	7.2%	7.7%	8.2%
41.1%	26.60	23.11	20.48	18.42	16.78
42.1%	27.17	23.59	20.89	18.78	17.09
43.1%	27.73	24.07	21.30	19.13	17.40
44.1%	28.30	24.54	21.70	19.49	17.71
45.1%	28.87	25.02	22.11	19.84	18.02

ANNEX

I.

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