



FIRST BERLIN
Equity Research

VITA 34 INTERNATIONAL AG

GERMANY /
HEALTHCARE

PRICE TARGET: €20.00
PREVIOUS CLOSE: €12.43
UPSIDE: 60.9%

INITIATING COVERAGE
12 July 2007



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VITA 34 INTERNATIONAL AG

GERMANY / HEALTHCARE

Primary exchange: Frankfurt Prime Standard
Symbol: V3V ISIN: DE000A0BL849

RATING: Buy

PRICE TARGET: €20.00

RISK RATING: Medium

INITIATING COVERAGE

COMPANY PROFILE

Vita 34 International AG is a private umbilical-cord blood bank headquartered in Leipzig, Germany. The company offers expectant parents the one-time opportunity to preserve and store their baby's umbilical-cord blood for potential medical use. Vita 34 employs approximately 84 full-time employees.

KEY POINTS

Vita 34 is the largest umbilical-cord blood bank in the German-speaking area, with a market share of some 66%, which represents only 1.2% of the total number of expectant parents. This low penetration is mainly due to a lack of awareness among expectant parents about the possibility and advantages of storing stem cells.

Umbilical-cord blood stem cells have already been applied successfully in cases of cancer and other blood and immunodeficiency disorders. Stem cells can also potentially be used to treat a wider range of diseases such as heart disease, stroke, Alzheimer's, multiple sclerosis, and others. We believe stem-cell research is progressing more rapidly than any other field of medical research.

Market penetration in countries with a high awareness of stem-cell storage range from 9-15%. This shows that market potential in Germany is large. We estimate the potential market size at approx. €1.1bn. We believe market penetration can be increased through intensified marketing efforts.

Strengthened by new funds of €m, raised from the initial public offering in March 2007, Vita 34 has implemented new marketing measures and is expanding its sales force substantially from 9 to 40 in 2008.

Strong Q2/07 results show an acceleration of sales growth driven by increasing storage units in Germany and Spain. We anticipate sales to roughly double by 2009, by which time the new, fully-trained sales force will be working to its full potential.

RECOMMENDATION

We are initiating coverage of Vita 34 International AG with a Buy recommendation and €20.00 price target. We believe Vita 34's shares are undervalued, offering potential upside of some 61% from current levels. The share price had a weak start after the IPO in March 2007. The initial downward trend reached a low of €9.91 in May, before starting to recover in June. We expect this positive momentum to continue. We believe recent pressure on Vita 34's share has created a compelling buying opportunity, which is supported by solid fundamentals and numerous catalysts that will drive sales growth over the next 12 to 24 months.

The company has recently taken several positive marketing steps that will accelerate sales growth substantially. The strong preliminary Q2/07 results published on 10 July showed sales in H1/07 growing roughly 51% y-o-y, confirming our positive view on the company's excellent perspectives.

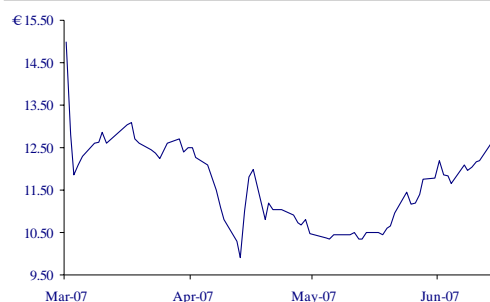
RISKS

Risks to our price target include but are not limited to: marketing risk, competition risk, financial risk, and a lack of progress in scientific research.

TRADING DATA

Market capitalisation (11.07.07)	€2.90m
Shares outstanding	2.65m
Closing price (11.07.07)	€12.43
52-week range	€9.91 / 15.00
Free float (according to company)	42%
Average daily share volume (year)	8,466

STOCK OVERVIEW



Source: Bloomberg & First Berlin

FINANCIAL HISTORY & PROJECTIONS

	2006	2007E	2008E	2009E
Revenue €m	11.56	14.27	18.75	28.89
Yr/Yr growth	12.9%	23.5%	31.4%	54.1%
Operating profit €m	0.50	-2.65	-2.58	0.89
Operating margin	4.3%	-18.6%	-13.7%	3.1%
Net income €m	-2.87	-2.53	-2.60	0.60
EPS €	-1.40	-0.96	-0.98	0.23
P/E	-8.9	-12.9	-12.7	54.0

COMPANY DATA (as of 31 March 2007 unless noted)

Liquid assets	€1.63m
Current assets	€16.36m
Intangible assets	€0.60m
Total assets	€4.33m
Current liabilities	€3.10m
Total shareholders' equity	€2.40m

ANALYST INFORMATION

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INVESTMENT CASE

We are initiating coverage on Vita 34 with a Buy recommendation and Medium risk rating. Our price target is €20, approximately 2.4x our FY08 sales forecast of €18.8m.

Our valuation is conservative and roughly in line with our peer-group universe, which, based on median or mean, is currently trading at an average EV/sales multiple of 1.7x to 2.7x for FY08. We arrive at our price target by using our discounted-cash-flow (DCF) model, supported by a peer-group analysis comprising of mainly small-cap, high-growth, cord-blood banking, medical technology and life sciences companies.

We believe Vita 34's current low valuation reflects market participants' lack of understanding of the company's business model, as well as general negative sentiment against embryonic stem-cell companies due to moral issues, which do not apply to Vita 34. We anticipate that increasing investor awareness about Vita 34's attractive medium-risk and high-reward profile, a robust quarterly performance – combined with positive news flow from progress on stem-cell therapies – will act as catalysts for the stock.

Vita 34's business of collecting and storing a newborn child's umbilical-cord blood is a simple, medium-risk business model, which benefits from progress in the biotech field.

As a private, umbilical-cord blood bank, Vita 34 offers expectant parents the one-time opportunity to preserve and store their baby's umbilical-cord blood (UCB) for possible future medical use. A growing body of evidence supports the therapeutic use of UCB in over 70 diseases including cancer and other blood and immunodeficiency disorders. UCB also offers the promise of a wider range of indications in the future such as heart disease, stroke, Alzheimer's, multiple sclerosis, diabetes, bone, skin and tissue regeneration, and others.

Increasing growth of stem-cell research and related therapies should drive demand for storing umbilical-cord blood stem cells.

Stem-cell research represents one of the most under-penetrated market opportunities of the health-care sector. We believe Vita 34 is well-positioned to prosper within this fast-growing market. We estimate total market potential in Germany at approximately €1.1bn.

The company is the largest UCB bank in the German-speaking area with a market share of approx. 66%. This, however, represents only 1.2% of expectant parents. This very low penetration rate shows the huge potential of this emerging market, when compared with penetration rates in more developed UCB-bank markets such as South Korea, Greece or Taiwan; ranging between 9% to 15% of birthing parents. We conclude that expectant parents' awareness of UCB storage is still very low and could be increased substantially through intensified marketing.

Strong Q2/07 results. We anticipate strong top-line growth over the period 2007 to 2009.

Vita 34 reported strong Q2/07 results. We believe sales growth will accelerate – roughly doubling in the period 2007 to 2009 – from increased marketing and a significantly expanded sales force up from 9 to 40. This will enable more comprehensive physician targeting and expansion into key regions within Germany. In addition, the company's sales reach in Europe will grow through the establishment of further distribution partnerships similar to that with Secuvita in Spain. The company has been profitable since 2004. Expected losses will result from investment in growth but will be short-lived. The company raised €9m from the initial public offering in March 2007 and financials are very solid.

High entry barriers in home market of Germany limits risk.

Vita 34 has strategic partnerships (as required by German law) for production accreditation with more than 840 clinics in Germany, out of a total of some 950. This number exceeds any other competitor's in the German-speaking area and creates substantial entry barriers for potential competitors.



COMPANY OVERVIEW

HISTORY

Vita 34 was founded in 1997 as the first private autologous umbilical-cord blood (UCB) bank in Europe, with its headquarters in Leipzig, Germany. Since its foundation the company raised approximately €9.3m from venture capital, private placements and silent partnerships. Vita 34 achieved break-even in 2001 – being profitable since 2004 – and is by far the market leader in its home country of Germany. To accelerate the penetration rate in its core markets, the company conducted its initial public offering on the Prime Standard of the Frankfurt Stock Exchange on 27 March 2007; placing 600,000 shares at €15 per share and raising some €9m. The majority of these funds will be invested mainly in building up the sales team and reinforcing marketing activities.

Vita 34 is organised as a holding company called ‘Vita 34 International AG’, which owns the German ‘Vita 34 AG’. Vita 34 AG is active in German-speaking countries Austria and Switzerland, and has had distribution partnerships with Spanish company Secuvita since 2006, and Danish UCB bank Stemcare since 2005. In 2004, holding company Vita 34 International AG acquired the United States UCB bank Corcell, which was sold to Cord Blood America, Inc. in October 2006. Corcell did not meet Vita 34’s management’s expectations, as it became clear that expansion into the competitive US market to achieve critical mass was not possible without investing substantial financial resources. Vita 34 decided to strengthen its focus on the German-speaking countries, and has distribution plans into the rest of Europe through selected partnerships. In future, we believe the company will simplify its holding structure and merge the German Vita 34 AG into the holding company.

In addition, Vita 34 is engaged in research of new stem-cell-based concepts of therapy for diseases of the nervous system, heart and circulation system. The company finances this research through third-party funds and in cooperation with partner universities. In this way Vita 34 minimises risk from early research in this highly promising field; at the same time building up expertise and maintaining a foot in the ‘cell therapy’ door, which could result in large benefits from potential breakthroughs in the future. Vita 34 works together with cooperation partners of different universities such as its heart surgery programme with the University of Rostock.

SIMPLE BUSINESS MODEL

Vita 34’s business is the collection and storage of a newborn’s umbilical-cord blood (UCB). Vita 34 is a private, UCB bank which offers expectant parents the one-time opportunity to preserve and store their baby’s umbilical-cord blood. This blood contains stem cells, which can be used for the treatment of more than 70 life-threatening diseases such as certain cancers and other blood disorders. There is also the potential for stem cells to be used for a wider range of indications in the future; such as heart disease, stroke, Alzheimer’s, multiple sclerosis, diabetes, bone, skin and tissue regeneration, and others. As a result, by preserving their children’s stem cells, parents are biologically insuring additional treatment options for their children, if they contract a disease in the future which could be treated by stem-cell transplantation. Also



encouraging is that there is no ethical controversy in the extraction of UCB stem cells, since the afterbirth would otherwise be discarded as biological waste.

Expectant parents will usually learn about Vita 34 through several sources; such as printed advertisements in specialised magazines, the Internet, and from cooperating insurance companies such as BKK Fahr. Expectant parents then contact Vita 34's call centre requesting information. After sending an information package, the call centre's sales people will contact the expectant parents and follow up during their decision-making process. If the parents are convinced about the advantages of the products they will sign the open-ended contract; usually 4-6 weeks before childbirth. Vita 34 charges an initial collection and processing fee of €1,990 including VAT and yearly storing charge of €30 after the child's first birthday.

COLLECTION AND STORAGE PROCEDURE

Vita 34 sends an extraction set to the expectant parents 4-5 weeks prior to childbirth, which they take with them to the hospital. All materials are coded so not to be mistaken. In the 30 seconds after the umbilical cord is clamped, the blood has to be drained into a sterile, anti-coagulating, blood-collection bag within 3-5 minutes by an obstetrician, nurse-midwife, or designated collector. Normally 60 to 120 millilitres of blood is collected.

Blood extraction does not harm the baby as it is taken from the umbilical cord, which is connected to the placenta. The blood is then transported to the laboratory within, at most, 24 hours. In the laboratory, employees take a blood sample to examine its quality, which is then communicated to the parents. The blood is tested for volume, number and viability of nucleated cells, sterility, blood typing, Rh status, presence of bacteria or virus, and percentage of vital stem cells. Only if the results of the examination are satisfying will the parents receive a certificate and the bill.

The sample is then ready for cryopreservation (cryo=cold). The blood is stored in big steel tanks using nitrogen so that the temperature amounts to -196°C. Vita 34 stores the entire UCB sample and not only the extracted blood cells like other companies. This has the advantage that certain blood components, which can be potentially useful in the future, are not discarded.



VITA 34'S MARKETING STRATEGY

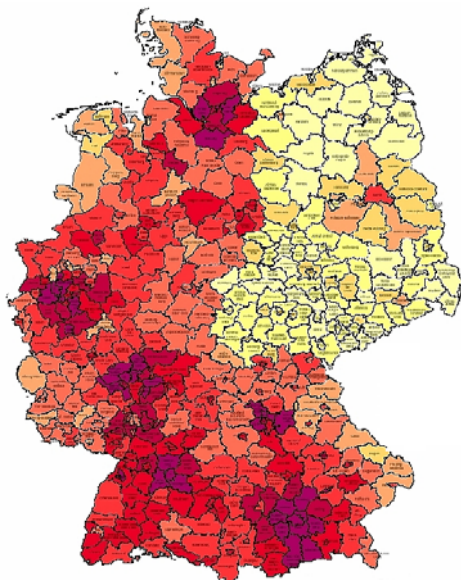
CLEAR LEADERSHIP IN GERMANY – SUBSTANTIAL UPSIDE POTENTIAL

In Germany, Vita 34 currently stores more than 43,000 UCB samples; far more than its key competitors Eticur with some 1,000 and BasicCell with less than 500. Vita 34 is the largest UCB bank in the German-speaking area. Only limited data on the German UCB market is currently available. We conservatively estimate that Vita 34's market share is approx. 66%, but could be as high 80%. This market share, however, only represents 1.2% of expectant parents. This very low penetration rate shows the huge potential of this emerging market, if compared with penetration rates in more developed UCB storing markets such as South Korea with 15%, Greece with 10-12% and Taiwan with 9% of expectant parents. We believe that expectant parents' awareness of UCB storage is still very low and could be increased substantially through improved marketing.

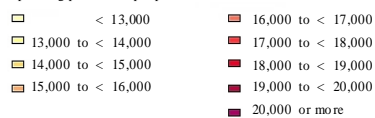
The tremendous upside potential from the company's current status becomes clear when we make a regional analysis of Vita 34's exposure in Germany. Most of Vita 34's contracts are closed in the economically weak state of Saxony, around Vita 34's Leipzig headquarters and, in general, in the new federal states. Here Vita 34 achieves 3% and, in some specific cities, more than 4% market share. This geographic development is due to Vita 34's local contacts with doctors and parents, which confirms the company's growth potential through marketing campaigns. Moreover, in clinics where Vita 34 has a strong presence and where almost every pregnant woman receives information about storing umbilical cord blood, the company has a market share of some 7%. Vita 34 is aiming to expand its market penetration throughout the whole German-speaking area through presentations and other marketing strategies, especially in regions with a high population and purchasing power such as Munich, Rhein-Main, Hamburg, and the Ruhr area.

GERMANY'S PURCHASING POWER AGAINST VITA 34'S REGIONAL PENETRATION

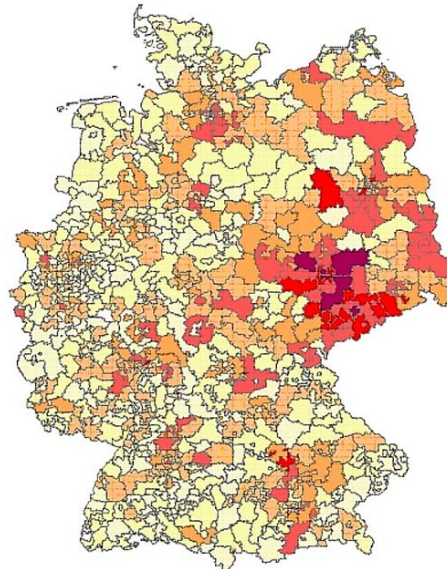
Purchasing power in Germany (2005)



Spending power in €per person



Vita's contracts in Germany (2005)



Contract distribution (number per postal code)



MARKETING & SALES STRATEGY – EXPANSION UNDERWAY

Vita 34's marketing strategy will focus mainly on increasing penetration in Germany, but also in other European countries. To do this, the company is strengthening its marketing muscle by increasing communication, publicity and public relations, as well as its sales force. Vita 34's goal is to create higher awareness about the benefits of stem-cell storage among several target groups. The company has four key target groups which are relevant in the decision process of closing a storage contract:

- 1) Expectant parents
- 2) Gynecologists and midwives
- 3) Clinics and insurance companies
- 4) Opinion leaders (lobbying)

In order to better inform expectant parents and facilitate the contractual process, the company has expanded its call centre to currently 12 trained people. Until recently, Vita 34's field staff consisted of eight sales representatives and two midwives, and was split into seven areas within in the German-speaking region. The field staff's aim has been to educate professional groups such as gynaecologists, obstetricians and midwives to achieve higher acceptance. This collaboration with midwives and gynaecologists is essential, as they inform and advise expectant parents.



However, in strategic measures to increase penetration, the company has decided to divide the German region into 10 smaller zones. Each zone will eventually have a field staff of four, consisting of one regional manager, two sales reps and one midwife – bringing the number of field staff up to 40 by 2008.

Furthermore, the company plans to hire a key accounts manager to manage Vita 34's existing strategic partnerships with private insurance companies such as Debeka, Delta Lloyd, MLP Leipzig, BKK Fahr and Swiss Life, as well as to pursue new companies. We see this as substantial upside potential to sales, as insurance companies are an attractive information channel which will leverage Vita's UCB-storage services by exposing the company to a new group of potential clients.

UMBILICAL CORD BLOOD (UCB) STORAGE MARKET POTENTIAL IN GERMANY

The total UCB-storage market is determined by the annual number of births, which in Germany amounts to 680,000. Based on our estimate of Vita 34's average net price per storage of €1,550 including rebates and cancellations, we value the German market at €1.1bn. The key question is how much of this market can be tapped by Vita 34 and other UCB banks.

We have considered statistics from a Canadian market study, which showed that approximately 70% of interviewed pregnant women in the US had little awareness about the possibility of storing UCB for future therapeutic use. However, after being informed fully, 14% of the interviewed women were willing to invest in this option (Fernandez et al. CMAJ. 2003). If we assumed a similar response in Germany, the market that can be addressed would be worth some €150m.

Furthermore, experience of UCB banks in the US shows that couples with a certain intellectual and social status and a yearly combined income of some \$45,000 (approx. 30% of expectant parents) understand the value of UCB stem cells and are largely open to consider storing for private use. Vita's current German clients are also typically studied, well-situated couples. We therefore believe there is a similar pattern in Germany as in the US and currently estimate the economical threshold in Germany at a net income of some €35,000 (approx. \$45,000) which, according to our estimates, roughly represents some 30-40% of expectant parents. As a result, we conservatively estimate a target market value of €16m-422m, which could, however, expand as stem cells show additional value for further diseases. We therefore see huge value for Vita 34 in pursuing an aggressive marketing strategy to increase awareness of its services and benefits.

PAN-EUROPEAN EXPANSION – SPAIN'S SECVITA INVESTMENT CASE

Vita 34 plans to expand its pan-European reach through strategic partnerships, which will have a similar shape to the company's collaboration with Spanish company Secuvita. Madrid-based Secuvita is responsible for marketing and collecting UCB, which is then transported to Germany for storing by Vita 34. This partnership was closed in February 2006 and became active in April 2006. Within a year, Secuvita achieved important collaborations with local companies such as the Durango Group – a leader in medical, physical and mental advice to



expectant mothers – and the Madrid Hospital Group. Secuvita has a strong management team, which has implemented a similar marketing strategy to Vita 34's, adapting it to the local environment. As a result, the company has been able to generate 172 blood storage units in 2006. We expect this to increase to more than 1,000 in 2007 – adding some €0.7m to sales according to our estimates and exceeding Vita 34's expectations substantially.

VITA 34 SALES MODEL

We have modelled Vita 34's sales on annual new-birth statistics in Germany and Spain, and our assessment of the impact of the company's aggressive marketing measures. According to our model, we anticipate that Vita 34 will be able to increase sales from €1.6m in 2006 to roughly €8.9m in 2009, based on conservative assumptions and estimates.

In our model, we have estimated an average net price per storage of €1,550, including rebates and cancellations. Based on the 680,000 births annually in Germany, we conservatively estimate Vita 34 to increase market share from the current 1.3% to 2.6% by 2009. However, we see considerable upside to these forecasts.

Based on 405,000 annual new births in Spain, we have also assumed a conservative Spanish market share which still remains below the 1% for several years. Despite Secuvita's excellent performance so far, we want to see more data before assuming higher growth rates going forward.

Year	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Stem cell banking Germany								
Annual number of births Germany (T)	680	680	680	680	680	680	680	680
Achievable market share	1.0%	1.1%	1.3%	1.7%	2.6%	3.7%	4.6%	5.3%
Vita 34 storage units (T)	6.6	7.4	8.7	11.5	18.0	25.0	31.0	36.3
<i>y-o-y growth</i>		11.7%	18.6%	32.0%	55.9%	38.9%	24.0%	17.0%
Average price per contract excl. VAT (€)	1,550	1,550	1,550	1,550	1,550	1,550	1,550	1,550
Achievable sales Germany (T€)	10,233	11,426	13,555	17,893	27,900	38,750	48,050	56,225
Stem cell banking other countries:								
Achievable sales Spain (T€)	0	130	715	858	987	1,135	1,306	1,501
<i>y-o-y growth</i>			449.2%	20.0%	15.0%	15.0%	15.0%	15.0%
Total sales Vita 34 (T€)	10,233	11,556	14,271	18,752	28,887	39,885	49,356	57,726

Table 1

Source: First Berlin

ENTRY BARRIERS IN THE GERMAN MARKET

The German Medicines Law updated on August 2004 states that clinics involved in the collection of UCB require a production accreditation. In order to obtain this, clinics have to close a cooperation agreement each single blood bank they work with for training of the clinic's personnel.

Since 2004, Vita 34's field staff has made substantial efforts to set in place strategic partnerships with clinics. The company already has contracts with more than 840 hospitals in Germany, from a total of some 950. This number exceeds any other competitor's in the



German-speaking area. We believe that due to optimisation of resources and the significant training necessary, clinics will generally not have more than one or two UCB-bank partnerships. This implies that new competitors on the market will have difficulties in entering into partnerships with clinics and offering their services. The only alternative is to store the blood elsewhere in Europe, such as Life Sciences Group in Belgium, which, however, brings disadvantages. German expectant parents are more likely to trust a company which has a storage place in Germany and is thus regulated by German law.

UMBILICAL CORD BLOOD – A TREATMENT WITH GREAT POTENTIAL

UNDERSTANDING UMBILICAL CORD BLOOD STEM CELLS

Stem cells represent the beginning of life. All cells and tissues of the human body originate from these cells, which are capable of continuously propagating and differentiating into various kinds of cells or tissues. Cord blood or placenta blood is the blood which remains in umbilical-cord vessels and the placenta after cord clamping. This blood contains a high number of stem cells, which wander from the liver and spleen to the bone marrow in the last third of pregnancy, traversing the blood circulation of the child including the placenta and the umbilicus. Cord blood stem cells are multipotent, meaning that under the right stimuli they can differentiate into several other cell types and tissue present in the body. In this way they can offer a cure for disorders in which defective or missing cells could be replaced via stem-cell transplantation. There is already a lot of research in progress around the world, evidenced by thousands of scientific articles published in leading journals and magazines. However, despite the significant scientific strides, stem-cell research is still in its infancy.

UMBILICAL CORD BLOOD STEM CELLS TRANSPLANT IS GAINING POPULARITY

The first successful umbilical cord blood (UCB) transplantation was performed in 1988 in France when a six-year-old boy with severe Fanconi's anaemia received cryopreserved UCB from a HLA-identical sister without the disorder (Gluckman et al. NEJM. 1989; 321; 1174). Since then, around 7,000 UCB transplantations have been conducted worldwide, 6,000 thereof during the last decade. This shows the increasing acceptance of this procedure in the last few years. Statistics show an encouraging success rate of some 85% including cases with bad preconditions. Around two thirds of these patients suffered from leukaemia or other blood diseases. The rest suffered from congenital disturbances or collapse of the bone marrow. UCB stem cells are at present mostly applied as an alternative therapy for bone-marrow transplant, especially in children. After high-dose chemotherapy and radiation of patients, tumour cells and with them all fast-growing tissues such as bone marrow are destroyed. Bone marrow has to be replaced, as it produces red and white blood cells, and platelets, which are essential for life.

Generally, there are two types of cord-blood stem-cell transplants; 1) 'autologous', where the patient's own stem cells are used, and 2) 'allogenic', where cells are sourced from the UCB of a



genetically compatible donor. The degree of matching between the donated stem cells and a patient depends on particular blood-cell proteins called human leukocyte antigens, or HLA. The higher the HLA compatibility, which in the case of autologous transplants is 100%, the lower the risk of potential complications, such as graft versus host disease (GVHD) and death.

UMBILICAL CORD BLOOD STEM CELLS TAKING SHARE FROM BONE MARROW TRANSPLANT

Umbilical-cord blood stem cells outclass bone-marrow transplant in various ways. In contrast to UCB donation, the bone-marrow extraction is an invasive procedure with high risks for the donor such as anaesthesia-related, surgical complications including infection risk, and others. In addition, umbilical stem cells have lower rejection rates (graft versus host disease) as they are relatively premature and the immune system does not easily identify them as 'strange', even if the donor is not the recipient. UCB storage is particularly beneficial for racial minorities or children with rare forms of leukaemia with difficulties in finding rapidly a bone-marrow stem-cell match. One third of patients needing bone-marrow transplantation don't find a donor, and 80% of these have been able to find a UCB match. Statistics show that 100m babies are born worldwide per year, providing a better chance to get the right tissue type for many patients awaiting treatment. According to some studies, the possibility of UCB transplantation raises the survival chance from 20% to 50%.

The advantage if the donor is the recipient (autologous) is that UCB is a guaranteed HLA match, which results in no risk of rejection and a lower risk of graft versus host disease, in which the transplanted cells attack the patient's body. HLA are antigens on cells which have been shown to strongly influence human allotransplantation and transfusions in refractory patients. The probability that siblings have the same kind of tissue type is 25%, otherwise it is one to many million.

STILL SOME LIMITATIONS TO OVERCOME

The most relevant limitation for the use of UCB stem cells is believed to be the relatively low amount of stem cells in umbilical cord blood, which is why most transplantations have occurred in children. However, we should clarify that this concern applies more to allogenic transplants. In general, an umbilical cord provides on average of 80ml of blood containing 700m nucleated cells. The minimum recommended concentration of nucleated cells per kilogram of body weight is 20m/kg for allogenic and 10m/kg for autologous transplantation. These are sufficient for treating an individual of up to 35 kg (allogenic) and 70 kg (autologous). Several academic studies show that an important reason for failures in UCB transplantation was the low dose of nucleated cells infused. Scientist Gluckman (NEJM 2001), writing on allogenic transplants, observed that 'patients who received no more than 10m nucleated cells per kilogram had a 75% probability of death, whereas recipients of at least 30 million nucleated cells per kilogram had a 30% probability of death'.

In addition, research experts have found many ways to multiply UCB stem cells one hundredfold. However, these methods still have to pass clinical trials to receive approval for treatment. We expect to see some approvals within the next 2-5 years. Several academic



institutions and scientists (Moezzi et al. Elsevier 2005; Denning-Kendall et al.; Stem cells 2003) as well as biotech companies are multiplying stem cells through the addition of growth factors called cytokines (e.g. Cell-Genix-Germany-CE certified for research / Gamida-Israael-Phase I study, etc). Another interesting approach is the bioreactor – a closed system where stem cells multiply through the addition of a medium with nutrients in the form of a therapy kit, such as Aastrom's Replicell System, which claims to increase volume of stem cells by 100-200 times in 12 days. The system is currently in a phase III study in the US and in Europe it is CE-certificated. Vita 34 is cumulating expertise in the field through the collaboration with Leipzig University (in pre-clinical studies achieved 10- to 100-fold increase in 4-14 days). Vita 34 also expects to cooperate later with the company with the most efficient approved technology.

The second limitation of UCB stem cells is the slower engraftment, which is the process by which transplanted cells start to grow and reproduce within the recipient. Premature stem cells still have to absolve more cycles of division, which takes a longer estimated time of some 26 days compared with roughly 18 days with bone-marrow transplant, until the patient has sufficient blood and immune cells. This acceptance time can be dangerous as the patient is not capable to resist infections. Nevertheless, a recent US study in 503 children with acute leukaemia (Eapen et al., The Lancet, 2007) – comparing transplant of bone marrow with UCB stem cells – showed that the key factor for a positive or negative outcome was actually the HLA match, with dose dependence being a secondary factor, and better or worse engraftment being rather a consequence from the two other factors.

Third, stored stem cells will only provide insurance as long as they are viable. A number of academic studies (Spurr et al. Cryobiology, 2002; Broxmeyer et al. PNAS, 2003) have proved that frozen stem cells retain viability and functional capacity for up to 15 years. Studies on longer periods have not been performed yet. However, analyses by the German Fraunhofer-Institut for Biomedizinische Technik in St. Ingbert suggest that the stored blood is durable for many centuries. In cryopreservation, no chemical or biological process takes place. Simulation models for the calculation of the possible effect of terrestrial or cosmical irradiation on the half time of living cells give a potential half-life for cells of 1,000 to 50,000 years. We did not find any robust evidence in literature pointing to a premature mutation of cells before one or two centuries.

Lastly, several organisations have been conservative in recommending stem-cell banking, with the argument that the probability of a baby ever using the stored stem cells has been calculated as low as between 0.005% and 0.0037%. However, during the last few years, increasing scientific evidence has positioned the stem cell as a cornerstone of future medical treatments. We therefore expect this figure will dramatically increase as the number of clinical uses of stem cells increases.

USE OF UMBILICAL CORD BLOOD STEM CELLS BEYOND CHEMOTHERAPY

The use of stem cells from umbilical cord blood is increasing rapidly. Today, it can not only be used after chemotherapy treatment, but as part of the therapy regimen in more than 70 different diseases, including all types of cancer, bone-marrow failure syndromes, hemoglobinopathies/blood disorders such as atropic anaemia, sickle cell anaemia (pathological



deformation of red blood cells) or Retinoblastoma, inborn errors of metabolism and immunodeficiencies.

Moreover, umbilical cord blood can differentiate not only into blood cells, but also into neurons, muscle, liver, bone, cartilage cells, and cells which cover the inside of vessels. This offers a huge potential in the healing of many cureless diseases by replacing cell defects with these stem cells, which then differentiate into the needed tissue. As a result, there is also the potential for stem cells to address more indications in the future, including treatment of Alzheimer's disease, heart disease, muscular dystrophy, liver disease, bone regeneration, skin and tissue regeneration for burn victims, stroke, Lou Gehrig's Disease, spinal-cord injuries, diabetes, and Multiple Sclerosis. Many of these procedures are still at an investigational stage.

We believe that expanded applications for cell therapies, such as in myocardial infarction with some 2.6m patients per year (US and Europe) and peripheral artery disease with some 2.0m patients per year (US and Europe), will drive market growth in the next five to ten years. There are currently a number of Phase I and Phase II clinical studies underway using bone-marrow stem cells, treating patients with myocardial infarction. Encouraging experimental results also raise expectations among the scientific community for umbilical stem cells. To give a few examples, in April 2005 the journal 'Cardiovascular Research' published an article about an encouraging cardiovascular study at the University of Rostock, which showed in an animal model that UCB stem cells support the new vascularisation after a heart infarct, reducing the amplitude of the infarct and the mortality rate. In another case, trials at the University of Zurich and the Deutsche Herz Zentrum in Berlin, showed that heart valves out of UCB stem cells grew with a child's heart, which avoided repeat surgery and associated risks and pain. Until today, a problem for many children with heart failure was that artificial heart valves had to be exchanged after some time because of the ongoing heart growth.



FINANCIAL POSITION

FINANCIALS STRENGTHENED AFTER IPO

The highlight in Q1/07 was the successfully completed initial public offering (IPO), which significantly improved Vita 34's balance sheet and cash position. Gross proceeds from the IPO amounted to approximately €m. The IPO-related costs deducted, we estimate net proceeds at around €3.4m. Consequently, we believe the company has secured enough funding to continue business for the next couple of years. As the company has been profitable since 2004, these funds are intended to significantly accelerate sales growth. Vita 34 is in the process of expanding its field sales staff in Germany as well as implementing new marketing measures to increase awareness among the key groups of interest and expectant parents.

PRELIMINARY Q2/07 RESULTS

The company published a very robust set of preliminary Q2/07 results on 10 July, which were in general better than expected. Revenues increased by an impressive 66% y-o-y to €3.9m, outpacing the strong momentum already observed in Q1/07, when revenues rose 37% to €3.5m. The Q2/07's number of underlying quarterly storage units also hit a new record of 2,550, compared with 2,446 in Q1/07 and 1,698 in Q2/06. These strong Q2 figures demonstrate the excellent sales-growth prospects for the company in FY07 and beyond.

The operating result improved to €0.4m in Q2/07 – compared with -€0.3m in Q2/06 – mainly thanks to the stronger sales level. We estimate that marketing and sales expenditures increased only slightly compared with the level showed in Q1/07 of €1.6m. We believe this figure will increase substantially over the coming quarters, as several marketing campaigns and the sales-representatives hiring process are underway.

The company reported a negative financial result of €1.0m from the impairment of the share's hold on Cord Blood America (CBAI). During the disposal of Corecell to CBAI, Vita 34 received 18.5m shares valued at \$0.11 per share and totalling \$2.0m as part of the agreement. Since then the share price has sharply declined to roughly \$0.05 at the end of Q2/07, totalling a loss of \$1.1m, or approx. €0.8m. In addition, the company wrote down two credit accounts from CBAI by approx. €0.2m. It is difficult to predict the future performance of CBAI, however, due to the significance of the share's decline and lack of recovery prospects, an impairment was necessary. Nevertheless, in Q1/07 the company booked an extraordinary profit from the Corecell sale transaction of €1.2m, which will now be diminished on a full-year basis. Vita 34 reported a net loss of €0.8m for Q2/07

The company also gave its outlook for 2007, with sales to increase by 20% to 25% and the number of stem-cell storage units by roughly 30%, which is in our view conservative and implies slower growth in H2/07.

OUTLOOK FOR FY07 AND BEYOND

After a strong sales performance in H1/07, we have projected that Vita 34 will increase FY07 revenues by 23.5% to €14.3m, generated mainly in Germany (up 18.6% to €13.5m) and Spain



(up 449.2% to €0.7m). We forecast the gross margin to increase slightly to 70.2% from 68.3% in FY06 due to economies of scale and improved processing. We expect this improvement trend to continue beyond 2007. In addition, we expect operating expenses to rise substantially from increased marketing and sales expenses on the back of a progressive expansion of the field staff from 9 to 40 by 2008. We have projected marketing and sales expenses of €0.3m in FY07 from €5.4m in FY06. Thus, we estimate an operating loss of €2.7m in FY07 from an operating profit of €0.5m in FY06. We anticipate interest income to improve slightly compared with last year due to the positive effect of funds raised from the IPO. However, FY07 results will be affected by the extraordinary expense of €1.0m from the impairment of the share's hold on CBAI. We also project that the extraordinary income of €1.2m from the sale of CBAI will counter balance this result. As such, we forecast a loss before taxes of €3.7m. We have conservatively assumed that Vita 34 will be unable to book a positive tax benefit from posted loss. Current law is still under review and has not finalised the procedure for companies listed on the stock market. As the law now stands, it still affects Vita 34 in relation to the change of ownership, which after the IPO was substantial. As a result, based on a zero-tax result, we have projected a net loss of €2.5m.

We expect sales growth to accelerate in FY08 by 31.4% to €18.8m and in FY09 by an impressive 54.1% to €28.9m. Our model assumes that market share in Germany will increase from roughly 1.1% in 2006 to 2.6% in 2009. This will mainly be the result of a progressively expanded sales force, which, considering a training process of some six to 12 months, we estimate to be fully productive some 12-18 months later and thus having the strongest impact on FY09's sales. We have projected that the company will slightly reduce operating loss to €2.6m and net loss will come in slightly higher at €2.6m in FY08, before returning to profitability with an operating profit of €0.9m and net profit of €0.6m in FY09 – a clear commitment by management. For our net-profit projections, we have assumed a 30% tax rate from FY09.

For the years following 2009, we anticipate continuing double-digit sales growth and profitability to increase strongly to hit the 20% range towards 2012. Stem-cell storage is one of the most under-penetrated health-care markets, allowing substantial upside, driven by increasing findings in the therapeutic field. We believe Vita 34, as Germany's market leader, has a clear advantage, which, added to the characteristics of the business and competitive environment, will keep the company's operating margin above 20% for a few years beyond 2012. The company's expansion into new European countries will boost sales growth.

Our 2008 through 2012 projections, which are roughly in line with the company's, were the basis for our projections thereafter. We have modelled revenue and net-earning projections until 2020 according to the typical life cycles of technologies and markets as well as taking patterns in the health-care industry into consideration. Long term, we project sales growth and profitability to decrease as new therapies and technologies enter the scene.



VALUATION APPROACH

I. TWO-STAGE DCF VALUATION

We have assessed Vita 34's fair value based on a two-stage discounted-cash-flow model. We have projected sales, operating profit and free cash flows until 2020, taking into consideration typical life-cycle patterns in the health-care industry. Using the First Berlin methodology which takes into account company-specific risk factors, we have derived a cost of equity (COE) of 12.6% for Vita 34. Taking into consideration a debt ratio of 7.3%, we estimated a WACC of 12.0%, which we used to discount the projected cash flows. Including our FY07 estimated net cash of €0.2m, we value Vita 34 at €2.9m, which implies a fair share price of €20.00.

Using our ten-factor risk analysis, we have determined a Medium risk rating for Vita 34. The main risk factors we have identified are marketing risk, competition risk, financial risk, and a lack of progression in scientific research.

All figures in T€	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Net sales	11,556	14,271	18,751	28,887	39,885	49,355	57,726	66,385
Operating profit	496	-2,651	-2,575	886	5,758	9,218	12,541	15,681
Net income / loss	-2,866	-2,528	-2,602	601	4,010	6,431	8,756	10,953
+ depreciation & amortis. (excl. GW)	300	330	356	385	416	441	467	495
= net operating cash flow	-2,566	-2,198	-2,245	985	4,426	6,872	9,223	11,448
- total investments (Capex and WC)	-2,561	-1,476	-1,180	-1,456	-1,687	-2,100	-3,159	-3,770
Capital expenditure	-2,882	-995	-590	-836	-879	-915	-1,897	-2,412
working capital	321	-481	-590	-620	-808	-1,185	-1,262	-1,358
+/- others (incl. adj. on net interest, prov., etc)	-36	-55	-46	-46	-39	-32	-25	-19
Free cash flow (FCF)	-5,163	-3,729	-3,472	-517	2,700	4,739	6,039	7,659
PV of FCF's	0	-3,328	-2,766	-368	1,714	2,686	3,055	3,458

All figures in T€	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net sales	76,343	85,504	95,764	107,256	119,054	130,960	144,056
Operating profit	19,055	20,604	19,278	19,468	19,848	19,621	17,338
Net income / loss	13,313	14,397	13,467	13,598	13,863	13,703	12,104
+ depreciation & amortis. (excl. GW)	525	556	590	625	663	702	744
= net operating cash flow	13,838	14,953	14,057	14,224	14,526	14,405	12,848
- total investments (Capex and WC)	-3,885	-4,301	-4,136	-4,010	-2,987	-3,357	-3,979
Capital expenditure	-2,718	-3,067	-2,723	-2,675	-1,738	-1,825	-1,917
working capital	-1,167	-1,234	-1,413	-1,307	-1,224	-1,509	-2,042
+/- others (incl. adj. on net interest, prov., etc)	-14	-9	-4	-28	-25	-23	-21
Free cash flow (FCF)	9,940	10,644	9,917	10,213	11,539	11,049	8,869
PV of FCF's	4,006	3,829	3,185	2,928	2,952	2,523	1,808

All figures in T€	
PV of FCF's in Phase I	25,683
PV of FCF's in Phase II (terminal value)	18,027
Enterprise value (EV)	43,710
+ net cash / - net debt (2007E)	9,216
(2007E)	0
Shareholder value	52,926
shares outstanding (m)	2,647
Fair value per share €	20.00

WACC	12.0%
cost of equity	12.6%
pre-tax cost of debt	6.0%
normal tax rate	30.0%
after-tax cost of debt	4.2%
share of equity	92.7%
share of debt	7.3%
Terminal growth	2.0%

Sensitivity analysis

		Discount rate						Fair value per share (€)
		9.0%	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%
Terminal growth	0.5%	28.17	24.48	21.52	19.11	17.11	15.43	14.01
	1.0%	28.90	24.99	21.89	19.38	17.31	15.58	14.12
	1.5%	29.73	25.56	22.30	19.67	17.53	15.75	14.25
	2.0%	30.67	26.20	22.75	20.00	17.77	15.92	14.38
	2.5%	31.76	26.93	23.25	20.36	18.03	16.12	14.52
	3.0%	33.03	27.76	23.82	20.75	18.31	16.33	14.68
	3.5%	34.53	28.72	24.46	21.20	18.63	16.56	14.85



II. PEER GROUP COMPARISON

As a second approach, we have used a peer-group analysis. As is often the case with small-cap health-care companies, there are almost no listed firms truly comparable to Vita 34 in relation to strategy, technology, business model, and risk profile. However, we have identified a broad peer group consisting of 12 companies, mostly from the US, and active in UCB banking, life-science tools and medical-technology fields. These peers match some of the characteristics that best describe Vita 34, including strategy, business model and risk profile. Almost all peers have taken a relevant position within a strong-growing segment of the health-care market. Our findings are summarised in the following table:

	Company All figures in m€	Share price	Number of shares	Market cap.	EV	EV/ Sales06	EV/ Sales07E	EV/ Sales08E	Sales 2006	Sales 2007E	Sales 2008E	CAGR 2005-2008
Cord blood banks	ViaCell (US)	4.6	38.8	178.5	139.8	3.4	2.6	1.9	41.2	54.2	73.9	30%
	Cord Blood Bank America (US)	0.0	41.5	3.0	7.0	2.8	1.3	0.9	2.5	5.4	7.5	68%
	Cryocell international (US)	1.8	11.7	21.0	17.9	1.4	1.2	0.9	13.0	15.2	19.7	21%
	Mean cord blood					2.5	1.7	1.2	0.0	0.0	0.0	40%
Life sciences	Affymetrix (US)	19.2	68.6	1,316.1	1,136.4	4.2	4.1	3.8	269.2	280.3	303.0	3%
	Invitrogen (US)	56.7	46.8	2,650.9	2,650.5	2.8	2.8	2.7	957.2	942.1	992.6	3%
	Qiagen (US)	13.6	150.6	2,042.6	1,722.2	4.9	4.2	3.8	352.9	409.2	454.5	15%
	Mean life sciences					4.0	3.7	3.4	0.0	0.0	0.0	7%
Medical technology	Pulsion (GER)	5.8	9.5	55.3	55.3	2.3	1.9	1.4	24.5	29.4	38.8	24%
	Biolase (US)	4.4	24.5	107.5	99.3	1.9	1.8	1.4	52.8	56.6	70.7	15%
	Conceptus (US)	14.5	29.4	426.0	406.5	12.8	7.9	5.3	31.7	51.1	77.2	69%
	Immunicon (US)	1.4	27.7	39.0	31.8	4.8	2.6	1.1	6.6	12.1	28.4	101%
	Lifecell Corp (US)	23.4	33.9	793.8	740.1	10.3	6.9	4.5	107.3	136.2	165.8	32%
	Zymogenetics (US)	10.7	68.1	727.5	531.8	27.6	25.6	6.1	19.2	20.8	86.8	39%
	Mean medical technology					10.0	7.8	3.3				47%
	Mean peers			697	628	6.1	4.9	2.7				
Median peers			302	273	3.1	2.6	1.7					
	Vita34 fair value (DCF-model)			53.9	44.5	3.9	3.1	2.4	11.6	14.3	18.8	22%

Table 2

Source: Bloomberg, Thomson Financial, First Berlin

The difficulty here however is that Vita 34, similar to some of its peers, will be investing strongly and will therefore be unprofitable on an earnings and EBITDA basis for the next couple of years. Therefore, a comparison makes no sense unless one uses EV/sales multiples. In addition, positive effects from investments will start to significantly boost revenues in late 2008. We therefore believe 2008 data is the most relevant. Based on 2008 figures, the average EV/sales ratio for the peer group based on mean and median is in the range of 1.7x to 2.7x. These figures suggest that our fair value, calculated by our DCF-valuation model at 2.4x, is within this range.

We note that Vita 34 has a leading market position (66% market share in Germany) which can not be matched by other cord-blood banks such as Cord Blood America or Cryocell International. This explains our estimated premium valuation of Vita 34 compared with these two peers. In addition, we believe the life-science tools group is an interesting comparable, since these companies usually have a leading position in a certain market. For example, Qiagen is one of the leading providers of solutions for the separation and purification of proteins, with an estimated market share of 60% in this core market. However, due to Vita 34's smaller size and scope of its sales volume, we see a discount to this subset as warranted. We additionally believe a small discount to the mean of the medical-technology subset is warranted.



Overall we see upside to our valuation, since our peer-group analysis does not take into account data from 2009, when the company's new sales team will be fully productive – generating a significantly stronger sales increase of 54% and bringing the EV/sales multiple down substantially.

TRIGGERS

As a small health-care company, Vita 34's share price will be driven by news flow on the status of certain strategic, operative and financial targets. Looking ahead, we expect 2007 and 2008 to be exciting years for the company. Vita 34 is undergoing an expansion process by aggressively building up its German sales organisation, penetrating new regions and increasing marketing activity. We therefore believe that announcements on the number of stored stem cells will be relevant share-price drivers. During the next twelve months, news flow on new co-operations with clinics in the German-speaking area and insurance companies will also boost the share price.

The company is also expanding in Europe and other countries through strategic cooperations with local players. We expect new deals with local partners will give Vita 34 a wider reach in the larger European markets.

Although the company's finances are good, we believe financial reporting will play an important role for investors. We forecast sales growth to accelerate substantially during the coming quarters. Strong quarterly sales development will be a key driver for the company and its stock. This also applies to the company's target of profitability in 2009.

Finally, we expect news flow on the progress of new cell therapies to provide an additional boost to the share, making the value of storing stem cells more evident.



RISKS AND CONCERNS

Vita 34 is subject to many business risks typical to the health-care and specifically to the blood-bank industries. These include, but are not limited to:

MARKETING RISK

The company has initiated an aggressive expansion of its marketing measures including its field force. While we observe that in other countries such as the US, these types of measures usually drive a sales acceleration, it can not be guaranteed that Vita 34's new marketing measures will produce the anticipated results in Germany. Moreover, any delay in the field force's hiring and training process would negatively affect the company's sales and profit targets.

For marketing in other European countries, Vita 34 is dependant on partners for the commercialisation of its products. As UCB banking is a relatively new industry, visibility on the professionalism and focus of the company's partners is difficult to predict. While the partners chosen so far such as Secuvita in Spain have, in our opinion, strong expertise in this field and have also given signs of a commitment to marketing cord-blood storage, the partners' efforts and priorities may change in the future and lead to a deterioration of sales.

COMPETITION RISK

In general, barriers to market entry are relatively low, which could lead to an intensified competitive landscape. However, German law demands a production accreditation. This requires clinics to have a cooperation contract including an in-depth training with each stem-cell bank they are collecting for, creating in our view, substantial barriers to entry. We believe clinics will prefer to work with a limited number of blood banks. Nevertheless, we can not rule out the possibility for potential new competitors to offer new incentives to clinics for adding new UCB banks.

FINANCIAL RISK

The company is looking forward to returning to profitability during FY09, which will imply a self-sustainable business model. However, we cannot entirely rule out the chance that expectant parents will be harder to convince about cord-blood benefits than hitherto experienced, leading to lower revenues, higher-than-expected costs and the delay of the 2009 profitability target. In such a case, the company may need to invest additional funds in the business to finance its marketing-organisation growth. Disappointing news flow on scientific progress with regard to the therapeutic uses of cord blood could have a negative impact on sales, requiring higher marketing efforts and making it difficult to achieve financial targets.

SCIENTIFIC RISK

Scientific advancements in the current and future therapeutic uses of UCB determine the value of UCB storage. Progress in this field has been tremendous so far, producing encouraging data from academia and companies' research. However, any negative outcome or setback from ongoing research to expand therapeutic applications to new diseases will have a negative impact on the UCB-storage sector and Vita 34.



INCOME STATEMENT ANALYSIS

All figures in T€	2005	2006	2007E	2008E	2009E	2010E
Revenues	10,233	11,556	14,271	18,751	28,887	39,885
Cost of goods sold	-3,403	-3,661	-4,253	-5,550	-8,522	-11,846
Gross profit	6,830	7,895	10,018	13,201	20,365	28,039
Marketing and selling expenses	-4,291	-5,396	-9,281	-12,223	-15,744	-18,105
General & administrative expenses	-1,625	-2,118	-3,516	-3,621	-3,766	-4,180
Other operating income	444	358	269	215	183	164
Other operating expenses	-165	-243	-141	-147	-152	-160
Operating income (EBIT)	1,193	496	-2,651	-2,575	886	5,758
Net financial result	-160	-26	-26	-27	-28	-29
Extraordinary income / expenses	0	0	-1,000	0	0	0
Income before taxes & minority interests	1,033	470	-3,678	-2,602	858	5,729
Income taxes	-547	-287	0	0	-257	-1,719
Income/loss from continuing operations	486	183	-3,678	-2,602	601	4,010
Loss/gain from discontinued operations	-2,404	-3,049	1,150	0	0	0
Net income / loss	-1,918	-2,866	-2,528	-2,602	601	4,010
EPSE	-1.07	-1.40	-0.96	-0.98	0.23	1.52
Diluted EPSE	-1.07	-1.40	-0.96	-0.98	0.23	1.52
EPSE adjusted on exceptionals	0.27	0.09	-1.01	-0.98	0.23	1.52
EBITDA	1,455	796	-2,321	-2,219	1,271	6,174
Ratios						
Gross margin	66.7%	68.3%	70.2%	70.4%	70.5%	70.3%
EBIT margin	11.7%	4.3%	-18.6%	-13.7%	3.1%	14.4%
EBITDA margin	14.2%	6.9%	-16.3%	-11.8%	4.4%	15.5%
Net income margin	-18.7%	-24.8%	-17.7%	-13.9%	2.1%	10.1%
Tax rate	53.0%	61.1%	0.0%	0.0%	30.0%	30.0%
Expenses as % of revenues						
Marketing and selling expenses	41.9%	46.7%	65.0%	65.2%	54.5%	45.4%
General & administrative expenses	15.9%	18.3%	24.6%	19.3%	13.0%	10.5%
Other operating income	4.3%	3.1%	1.9%	1.1%	0.6%	0.4%
Other operating expenses	1.6%	2.1%	1.0%	0.8%	0.5%	0.4%
Y-o-y growth						
Total revenues		12.9%	23.5%	31.4%	54.1%	38.1%
Operating income		-58.4%	-634.6%	2.9%	134.4%	550.0%
Net income/ loss		-49.4%	11.8%	-2.9%	123.1%	567.7%



BALANCE SHEET ANALYSIS

All figures in T€	2005	2006	2007E	2008E	2009E	2010E
Assets						
Current assets, total	8,687	7,853	13,797	10,953	11,184	14,667
Cash and cash equivalents	6,647	3,029	8,814	4,960	4,150	6,454
Marketable securities	0	2,318	2,388	2,459	2,533	2,609
Accounts receivable	759	951	980	1,273	1,783	2,585
Inventory	474	605	714	1,313	1,733	1,994
Others	807	950	903	948	986	1,025
Non-current assets, total	18,382	17,957	16,683	17,295	18,159	19,079
Property, plant and equipment	1,915	2,182	2,400	2,568	2,697	2,831
Intangible assets	15,385	12,444	13,191	13,586	14,266	14,979
<i>-thereof goodwill</i>	14,942	11,911	12,030	12,391	12,639	12,892
Other financial assets	35	35	67	73	80	89
Long-term receivables	554	604	725	776	830	888
Assets for disposal	0	2,375	0	0	0	0
Deferred tax claims and others	493	317	301	292	286	292
Total assets	27,069	25,810	30,480	28,249	29,343	33,746
Shareholders' equity & debt						
Current liabilities, total	2,623	3,499	3,129	3,484	3,839	4,142
Creditors	125	214	235	242	250	257
Trade payables and other liabilities	1,282	784	941	1,223	1,468	1,688
Liabilities from income taxes	0	111	117	122	131	140
Other short-term liabilities	861	1,629	1,303	1,342	1,409	1,452
Provisions	355	761	533	554	582	605
Long-term liabilities, total	8,805	8,759	8,979	8,994	9,133	9,223
Creditors	1,890	1,750	1,750	1,750	1,750	1,750
Other debts	1,942	1,888	1,907	1,812	1,830	1,848
Provisions	0	375	386	398	418	439
Deferred income	4,973	4,746	4,936	5,035	5,135	5,187
Shareholders equity, total	15,641	12,935	18,372	15,770	16,371	20,381
Share capital	2,047	2,047	2,647	2,647	2,647	2,647
Capital reserve	15,629	15,629	23,169	23,169	23,169	23,169
Other reserves	-64	96	71	71	71	71
Loss carryforward / retained earnings	-1,971	-4,837	-7,515	-10,117	-9,516	-5,506
Credits from disposed unit	0	617	0	0	0	0
Total shareholders equity & debt	27,069	25,810	30,480	28,249	29,343	33,746
Ratios						
Current ratio	3.31	2.24	4.41	3.14	2.91	3.54
Quick ratio	2.82	1.14	3.13	1.79	1.55	2.18
Equity ratio (as %)	57.8%	52.5%	60.3%	55.8%	55.8%	60.4%
Debt to equity ratio (gearing as %)	56.3%	64.6%	48.9%	57.0%	55.8%	45.3%
Net debt	-4,632	-3,383	-9,216	-5,427	-4,683	-7,056
Capital employed (CE)	1,492	1,438	2,169	2,933	3,689	4,640
Return on equity (ROE)	-24.5%	-19.6%	-15.8%	-15.2%	3.7%	21.8%
Return on capital employed (ROCE)	159.9%	33.9%	-147.0%	-100.9%	26.8%	138.3%
Return on net assets (RONA)	-257.1%	-195.6%	-140.2%	-102.0%	18.1%	96.3%
Days of sales outstanding (DSO)	13	27	24	22	19	20



CASH FLOW ANALYSIS

All figures in T€	2005	2006	2007E	2008E	2009E	2010E
Income before taxes (adj. on discontinued operations)	1,033	470	-3,678	-2,602	858	4,010
Depreciation and amortisation	262	300	330	356	385	416
Investment in working capital	458	321	-481	-590	-620	-808
Others (provisions, non cash exp., interest, etc.)	-685	-54	-81	-73	-66	-59
Operating cash flow	1,068	1,037	-3,910	-2,908	557	3,559
CAPEX	-339	-2,882	-995	-590	-836	-879
Free cash flow	729	-1,845	-4,905	-3,498	-279	2,680
Financial cash flow	5,918	-1,773	10,689	-355	-532	-376
Change in cash	6,647	-3,618	5,785	-3,853	-811	2,304
Cash, start of the year	0	6,647	3,029	8,814	4,960	4,150
Cash, end of the year	6,647	3,029	8,814	4,960	4,150	6,454
Y-o-y growth						
Operating cash flow		-2.9%	-477.0%	25.6%	-119.2%	538.6%
Free cash flow		-353.1%	-165.8%	28.7%	92.0%	1060.9%
Financial cash flow		-130.0%	702.9%	-103.3%	-49.8%	29.3%



APPENDIX I: MANAGEMENT

Dr med. Eberhard Lampeter established Vita 34 in 1997 and has been CEO since. Dr Lampeter received a doctorate from the University of Leipzig in 1984. He worked as an intern at the University of Leipzig until 1989 and gained the Virchow prize in 1988. Before setting up Vita 34, Dr Lampeter worked for the Diabetes research group at the München-Schwabing hospital and as director of the centre for the early detection of diabetes at the University of Düsseldorf.

Peter Boehnert has served as CFO since 2001. From 1987 to 2001, Mr Boehnert held leading positions at Gillette, Schindler Deutschland Holding GmbH and Morgan Matroc Limited.

Oliver Papavlassopoulos has been Chief Marketing Officer since January 2006. Before joining Vita 34, Mr Papavlassopoulos held leading marketing positions at Procter & Gamble, Lindt & Sprüngli and Center Parks.

The supervisory board at Vita 34 is headed by Richard J. Neeson, who is chairman. He is accompanied by Hubertus Leonhardt, Joseph Jacovini, Steven Udvarhelyi, Prof Dr med. Christoph Hohbach and Dr med. Uwe Marx.

APPENDIX II: CLASSIFICATION OF STEM CELLS

Stem cells represent the beginning of life. All cells and tissues of the human body originate from these cells, which are capable of continuously propagating and differentiating into various kinds of cells or tissues. They can be classified into broad categories based on their ability of differentiation:

- 1) **Totipotent stem cells** are only found in early embryos (1-3 days) and are capable of forming a complete organism.
- 2) **Pluripotent stem cells** exist in the undifferentiated inner-cell mass of the blastocyst (5-14 days) and can form any of the more than 200 different cell types found throughout the body. Pluripotent stem cells derive from frozen embryos and are bred in a laboratory. The embryos normally will not survive when stem cells are taken out, which has ethical implications. Pluripotent stem cells can potentially carry an increased risk of cancer due to their very early stage of differentiation. The extraction of and research with these embryonic stem cells is forbidden in Germany.
- 3) **Multipotent stem cells** derive from fetal tissue, umbilical-cord blood, placenta blood and adult stem cells. These can only differentiate into a limited number of cell types, limiting their ability to differentiate more than pluripotent stem cells. Multipotent stem cells are already differentiated to some degree but can still form a number of tissues which has proved to be successful in cell-based therapies. Therefore one cell type develops into blood cells, another into muscle, bone or connective tissue. Bone-marrow or peripheral-blood stem cells contain adult stem cells which give rise only to white and red blood cells.
- 4) **Unipotent stem cells** can only form one class of tissue.



APPENDIX III: PRIVATE VS PUBLIC CORD-BLOOD BANKING

In private cord-blood banks, expectant parents pay the bank to preserve the cord blood for personal use, either for their donating child or for a relative. Alternatively, public banks (as well as some private banks) have opted to accept donations. Not everyone is eligible to donate and not all donations will be stored. Donators lose all ownership of their child's stem cells. The bank stores core-blood donations and can sell them to any patient requiring the stem cells. Prices usually paid by the patient's insurance amount to some €20,000, which is where these banks generate their income.

The worldwide private-banking industry of cord blood is a rapidly growing industry. In the last four years the market has grown more than 80%. In 2003, there were about 75,000 parents who privately banked UCB stem cells. In 2007, more than 150,000 parents are estimated to privately bank UCB stem cells. We expect this growth to continue at a rapid pace. The market is estimated to be higher than \$1bn by 2010.



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I, Christian Orquera, certify that the views expressed in this report accurately reflect my personal and professional views about the subject company; and I certify that my compensation is not directly linked to any specific financial transaction including trading revenue or asset management fees; neither is it directly or indirectly related to the specific recommendation or views contained in this research. In addition, I possess no shares in the subject company.

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First Berlin's investment rating system includes an investment recommendation and a risk rating. Our recommendations, which are a function of our expectation of total return (forecast price appreciation and dividend yield) in the year specified, are as follows:

BUY: Expected return greater than 15%
HOLD: Expected return between 0% and 15%
SELL: Expected negative return

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

Up until 30 June 2005, First Berlin's investment rating system was five tiered and was a function of our expectation of return (forecast price appreciation and dividend yield) over the specified year. Our investment ratings were as follows: STRONG BUY: expected return greater than 20%, BUY: expected return greater than 10%, HOLD: fairly valued, REDUCE: expected return between -10% and 0%, SELL: expected return to depreciate by more than 15%. In addition, we had a SPECULATIVE BUY recommendation for stocks which we projected had the potential to give a return of 50% or more but which we also expected to be exceptionally volatile (movement up or down of 50% or more). Our risk ratings were Low, Medium, High and Speculative and were a reflection of expected price volatility, the strength of the balance sheet and the predictability of earnings.

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