



# VITA 34 INTERNATIONAL AG

GERMANY / HEALTH CARE

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

RATING: Buy

PRICE TARGET: €12.00

RISK RATING: Medium

**WEAK H1 – PRICE TARGET REDUCED, BUT SHARE IS A BUY**

## 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. As of 30 June, Vita 34 had 120 full-time employees.

## KEY POINTS

**H1 results disappoint – 2008 and 2009 sales forecasts lowered** Vita 34 published H1 2008 results earlier today which came in below our expectations. Sales declined by 3% to €7.2m (€7.4m); management's new outlook for FY 2008 foresees roughly flat sales of €15m-16m (2007: €15.4m), against old guidance of double-digit growth (our estimate +23% to €19.0m). We believe it is unlikely that the company will achieve our original 2009 sales target of €28.9m. We therefore downgrade our sales estimates for 2008 to €15.5m (+0.5% growth) and 2009 to €21.0m (+35.5% growth). We believe that the positive impact of marketing measures on sales growth will be slower than earlier anticipated, meaning a delay of roughly one year to the achievement of targets.

**Underlying stem cell storage units suggest next growth wave has started** Storage units increased by 6.8% to 5,306 in H1 2008 which, based on the typical six-week delay to sales, suggests that revenues in Q3 2008 may recover. Moreover, when looking at monthly storage figures since June 2007, we see that the storage unit growth trend was interrupted in October 2007 – possibly because of undue fears from doctors and parents over skin stem cells as a replacement technology – but started to grow again in March 2008.

**Marketing measures will support further growth** The company launched TV advertisements in December 2007, which it will continue to do. Vita 34 has also introduced seventeen new people to its sales team since its IPO and continues to build relationships with insurance companies; so far the company has deals with seven companies. We believe these measures will spark a quick recovery in sales. Management, however, stated that they would spend Vita 34's marketing budget more cautiously – but also more effectively. As such, we expect marketing expenditures to be lower than previously planned.

**EBIT forecast for 2008 and 2009 reduced also** The H1 2008 operating loss for continuing operations came in at €0.9m, in line with our expectations. The company confirmed that the full-year operating loss will be approx. €2.5m (we increase our €2.4m estimate accordingly), despite lower sales growth. In addition, we reduce our 2009 EBIT projection from €0.9m to -€1.5m, assuming that the company achieves profitability in H2 2009, but not on a full-year basis (as previously expected).

## RECOMMENDATION

Vita 34's H1 2008 results came in weaker than expected; we therefore downgrade our sales estimates for 2008 on. We expect to see a small negative impact on EBIT until 2010, given management's tight short-term budgeting. We believe the disappointing H1 figures will impair investor sentiment significantly, which is reflected by the depressed share price. However, we believe Vita 34's current low enterprise value of €6.9m (market cap of €14.9m) – equating to a 2007 EV/sales of merely 0.4x – is too low and does not reflect Vita 34's above-average growth prospects following the implementation of marketing measures. We refer to peer Cryo-Save AG, which is growing well with attractive margins; we believe Vita 34 can exploit its dominant position in Germany. After adjusting our DCF model, we downgrade our rating to Buy (from Strong Buy) and lower our price target to €12.00 from €22.00.

## 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.

IMPORTANT DISCLOSURES ARE AT THE BACK OF THIS REPORT

## TRADING DATA

Market capitalisation (11.07.08)	€14.87m
Shares outstanding	2.65m
Closing price (11.07.08)	€5.62
52-week range	€5.43 / 18.13
Free float (according to company)	47%
Average daily share volume (year)	6,242

## STOCK OVERVIEW



Source: Bloomberg & First Berlin

## FINANCIAL HISTORY & PROJECTIONS

	2006	2007	2008E	2009E
Revenue €m	11.56	15.43	15.50	21.00
Yr/Yr growth	12.9%	33.5%	0.5%	35.5%
Operating profit €m	0.50	-0.83	-2.50	-1.51
Operating margin	4.3%	na	na	na
Net income €m	-2.87	-1.19	-1.84	-1.00
EPS €	-1.40	-0.47	-0.74	-0.40
P/E	na	na	na	na

## COMPANY DATA (as of 30 June 2008)

Liquid assets	€6.21m
Current assets	€12.38m
Intangible assets	€12.64m
Total assets	€30.38m
Current liabilities	€2.36m
Shareholders' equity	€19.08m

## ANALYST INFORMATION

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## FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.	Date of publication	Previous day closing price	Recommendation	Price target	Interim high	% change to high
Initial Report	12 July 2007	€12.43	Buy	€20.00	-	-
	↓	↓	↓	↓	↓	↓
3	31 October 2007	€17.05	Buy	€22.00	€17.50	2.6%
4	7 December 2007	€13.34	Buy	€22.00	€13.33	-0.1%
5	5 February 2008	€10.50	Buy	€22.00	€10.60	1.0%
6	Today	€5.62	Buy	€12.00	-	-

Source: Bloomberg & First Berlin

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**STRONG BUY:** Expected return greater than 50% and a high level of confidence in management's financial guidance

**BUY:** Expected return greater than 25%

**ADD:** Expected return between 0% and 25%

**REDUCE:** Expected negative return between 0% and -15%

**SELL:** Expected negative return greater than -15%

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

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