

VITA 34 INTERNATIONAL AG

GERMANY / HEALTH CARE

Primary exchange: Frankfurt
 Bloomberg symbol: V3V GR
 ISIN: DE000A0BL849

COMPREHENSIVE UPDATE

RATING:	Buy
PRICE TARGET:	€7.00
RETURN POTENTIAL:	58.2%
RISK RATING:	Medium

VITA 34 CONTINUES TO PRIORITIZE EXPANSION

VITA 34 is the oldest private umbilical cord blood (UCB) bank in Germany, and has a dominant share of its domestic market. After international expansion in recent years, which we expect to continue in the future, VITA 34 is now also the second largest player in the private UCB banking market in Europe. The company's growth prospects are tied to increased penetration of the German market as well as entries into more country market in Europe. We reiterate our Buy rating and €7.00 price target.

UCB stem cells are of growing medical importance They have superior properties to adult stem cells that are collected from bone marrow or peripheral blood. Consequently, UCB stem cells are used increasingly as the preferred source for stem cell transplant procedures, especially in children. There is also potential for the future use of UCB stem cells in regenerative medicine, although this remains mostly a theoretical prospect at this point in time.

VITA 34 has two strategic priorities over the mid-term First, the company needs to optimize its presence in the domestic market. A mismatch between geographic customer concentration and regional distribution of consumer purchasing power has a negative impact on VITA 34's ability to realize the full potential of the German market. Second, the company seeks to continue its international expansion, with primary focus on underserved European country markets.

We look for 7.0% sales growth in FY2011, and EBIT margin expansion to 5.0% Despite a weak Q1 report back in April, management confirmed its FY2011 outlook for revenues above €18M and improved profitability on international expansion. For the current year, we now forecast sales of €18.2M (+7.0% Y/Y) and EBIT of €0.91M (up 22.1% Y/Y). Germany should account for 68% of FY2011 revenues, but Italy should contribute 30% of EBIT due to high profit margins in this country.

FINANCIAL HISTORY & PROJECTIONS

	2009	2010	2011E	2012E	2013E	2014E
Revenue (€m)	15.10	16.96	18.15	19.42	20.78	22.17
Y-o-y growth	n.a.	12.4%	9.9%	7.0%	6.0%	6.0%
EBIT (€m)	0.16	0.74	0.91	1.55	2.18	2.55
EBIT margin	1.1%	4.4%	5.0%	8.0%	10.5%	11.5%
Net income (€m)	0.60	0.48	0.53	0.76	1.15	1.37
EPS (diluted) (€)	0.23	0.18	0.20	0.29	0.43	0.52
EV / Sales (x)	1.1	0.9	0.9	0.8	0.8	0.7
EV / EBIT (x)	98.2	21.4	17.5	10.2	7.3	6.2
P/E (x)	19.6	24.2	22.1	15.5	10.2	8.6
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF (€m)	0.42	0.03	0.17	0.42	0.66	0.77
Net gearing	0.7%	1.0%	0.9%	0.8%	0.8%	0.7%
Liquid assets (€m)	6.06	3.69	3.54	2.96	3.62	4.39

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 31 March, VITA 34 had 138 full-time employees.

TRADING DATA

Closing price (14.06.11)	€4.43
Shares outstanding	2.65m
Market capitalisation	€11.71m
52-week range	€4.30/5.50
Avg. vol. (twelve months)	4,452

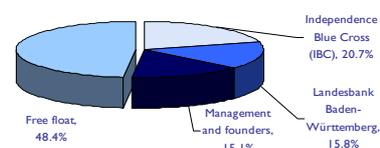
STOCK OVERVIEW



COMPANY DATA (as of 31 March 2011)

Liquid assets	€2.18m
Current assets	€6.90m
Intangible assets	€6.95m
Total assets	€26.58m
Current liabilities	€4.00m
Shareholders' equity	€18.52m

SHAREHOLDERS





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INVESTMENT CASE

THE UCB STORAGE INDUSTRY IS GROWING

The value of umbilical cord blood as a rich store of haemopoietic stem cells (HSC-s) is today well recognized in the scientific community. UCB stem cells are a preferred source for transplantation procedures and are used increasingly in such procedures as an alternative to adult stem cells harvested from bone marrow and peripheral blood. This creates growing demand for stored UCB units, which in our view creates significant growth opportunity both for public and private cord blood banks.

VITA 34 DOMINATES THE UNDERPENETRATED GERMAN MARKET

VITA 34 is the largest private cord blood bank in Germany, and has partnerships with around 90% of German clinics. While the German market is large, the penetration rate for private UCB banking services is less than 3%. This is a major growth opportunity that VITA 34 is looking to capture, even though a substantial marketing effort and time will be required to realize the untapped potential of this market.

VITA 34 IS EXPANDING INTERNATIONALLY

VITA 34 is stepping up its presence outside Germany through a combination of strategic partnerships and acquisitions. The company already has an established presence in the Spain, one of the largest private UCB banking markets in Europe, as well as Italy, which in turn is one of the most profitable markets. The strategy for further international expansion is to emphasize underserved and overlooked country markets in Europe. In our view, international expansion, combined with strong presence in the domestic German market, can result over time in a geographic footprint that makes VITA 34 a highly attractive strategic partner to larger companies in the private UCB banking industry.

VITA 34 DIFFERENTIATES ITSELF THROUGH QUALITY

Quality control standards are of utmost importance when dealing with cellular therapies. Therapeutic uses of stem cells are only successful when high numbers of viable cells are used. VITA 34 implements the highest quality control standards, which well exceed industry recommended standards. Poor quality control could lead to unusable banked units and the lack of availability of UCB HSC-s when they are needed for treatment. If, in the future, one cord blood bank's samples consistently led to failed treatments, it would result in virtually irreparable reputation damage. By ensuring such high quality standards, VITA 34 ensures that treatment with its banked UCB units have a higher probability of success; and thus limit the exposure to such reputation risk.



SWOT ANALYSIS

STRENGTHS

- **Experienced management team.** VITA 34's CEO, Dr med. Eberhard Lampeter, has scientific expertise with stem cells and in diabetes research. The CFO, Mr Jörg Ulbrich, has many years of commercial and management experience at VITA 34.
- **Strong position in Germany** VITA 34 is the oldest and largest private cord blood bank in Germany with a position protected by a regulated market posing strong barriers to entry.
- **Public banking option and reduced regulatory risk** There is a heated public debate regarding the ethics of private cord blood banking. Although VITA 34 derives the majority of its revenues from private UCB storage services, the company also offers a public banking option, which shields the company from the potential adverse effects of changing industry regulation.

WEAKNESSES

- **High exposure to the German market** VITA 34 generates the majority of its sales in Germany, which creates a large dependence on its home market.
- **Limited international expansion** In comparison to competitors, VITA 34's international expansion has been modest. CryoSave is now the largest private UCB bank in Europe and is active in 42 different countries on 3 continents. VITA 34 may struggle to gain market share as it competes with CryoSave in other European countries.
- **Static market penetration** VITA 34 has struggled to increase market penetration in Germany, and the majority of revenues remain concentrated in the region around its Leipzig headquarters where purchasing power is significantly lower compared to the western parts of the country.

OPPORTUNITIES

- **UCB stem cell private banking is a high-growth market** Stem cells therapy is an emerging and dynamic field with the potential to establish itself as the next generation medical treatment for a wide number of diseases. The popularity of UCB banking is likely to increase as science advances and public awareness increases.
- **International expansion could add significant growth** The company is expanding into new countries such as Spain, Italy, and Slovenia. This has the potential to increase revenues as VITA 34 gains access to further attractive markets.

THREATS

- **Pricing pressures may increase** In some countries such as Greece and Spain it is customary for gynaecologists to request payments for recommending private cord blood banks to expectant parents. German doctors do not currently request these payments. If this practice were to become customary, it could squeeze EBIT margins and would have the potential to make the business unprofitable.
- **Difficulties penetrating the German market** While market penetration in Germany is very low compared to international markets, creating more awareness among expectant parents may prove more difficult and costly than anticipated.
- **Macroeconomic challenges** Recession and high unemployment have been correlated to lower birth rates. There has been a significant slowdown in the growth of the private UCB market in Spain since mid 2008, though it is currently unclear whether this is due to a decreased percentage of parents opting to privately bank their baby's UCB, or a decreased number of births. With looming doubts over the health of the Euro zone economy, it is likely that a prolonged recession will negatively affect both birth rates and UCB banking rates in those countries most affected by poor economic conditions.



MANAGEMENT

VITA 34 is led by an experienced management team, which combines experts with both scientific and business expertise.

MANAGEMENT BOARD

CEO. Dr med. Eberhard Lampeter has been CEO since establishing VITA 34. Dr. med. Lampeter founded VITA 34 in Leipzig in 1997. The Virchow Prize winner has dealt with diabetes research intensively since his studies, and in doing so became aware of approaches for using stem cells in potential therapies. Dr. med. Eberhard F. Lampeter was Director of the Early Detection Center at the Diabetes Research Institute of the University of Duesseldorf from 1990 to 1997, following a previous position at the hospital in Munich-Schwabing. He has published some 50 scientific papers on diabetes, immunology and stem cell transplantation.

CFO. Jörg Ulbrich was promoted to the management board as CFO in November 2009. Before that he was Commercial Director with procurement power at VITA 34 AG for many years. He has worked for the company since 1997 and has had a significant contribution to the building and development of VITA 34. After his studies in Business and Engineering he was a commercial employee at a project management and general contracting firm.

SUPERVISORY BOARD

The Supervisory Board at VITA 34 is chaired by Dr. Holger Födisch who is also member of the management board of Dr. Födisch Umweltmesstechnik AG. The vice chairman is Richard J. Neeson who is also the Senior Vice President of Independence Blue Cross (IBC) and President and Director of the Boards of several IBC subsidiaries. Both are accompanied by Dr med. Uwe Marx who is a project manager at GO-BIO at Technische Universität Berlin and co-founder of VITA 34.



STEM CELLS AND THEIR MEDICAL SIGNIFICANCE

Stem cells are found in all multicellular organisms and are distinguished by their ability to differentiate into one or more diverse specialized cell types. This unique property of stem cells is called plasticity. Stem cells can also self-renew. There are three major types of stem cells in the human body – haemopoietic, mesenchymal and neural. This compares to over 200 major types of differentiated cells.

Haematopoietic stem cells (HSC-s) are the most important of the three types of stem cells. They are pluripotent and can differentiate into both white and red blood cells.

Stem cells have significant practical and theoretical significance in medicine. In current clinical practice, their only established therapeutic use is in haemopoietic stem cell transplant (HSCT) procedures. Extensive research is being conducted in the field of regenerative medicine, where stem cells theoretically can be used as raw material to restore damaged tissues or organs. However, such research is for the most part in its infancy, and if successful, its practical applications are many years away.

STEM CELL TRANSPLANTS

Stem cell transplants can be of two main types depending on the source of stem cells. Autologous transplants use the patient's own stem cells, while allogeneic transplants use the stem cells of other persons. The major complication following allogeneic procedures is graft-versus-host disease (GVHD), a condition in which the transplanted cells attack the host's system because they recognize it as foreign. The risk of GVHD exists even when the donor is a closely related family member, and is very high when the donor is an unrelated person. To avoid GVHD, it is critical to match the human leukocyte antigen (HLA) of the host and donor, since this is the marker used by the immune system to recognize foreign bodies.

REGENERATIVE MEDICINE

On the theoretical front, current research is being conducted to investigate the potential future use of stem cells for regenerative medicine and the treatment of diseases such as Parkinson's, sclerosis, spinal cord injuries, muscle damage, and even cancer.

It is safe to say that customers of UCB private banking services are in part betting on the future progress of medicine as a science. They become customers based on the conviction that HSC-s harvested from stored UCB one day could be used as part of novel therapies to treat their child or other family members who may suffer from currently incurable chronic conditions, such as diabetes, sclerosis and cancer.



UMBILICAL CORD BLOOD STEM CELLS

Based on the current state of technology, UCB offers the only combination of a rich source of HSC-s with cost-effective and reliable methods for collection and preservation.

UCB is believed to be a superior source of haemopoietic stem cells, particularly when compared to bone marrow and peripheral blood in adult individuals. This explains the accelerating shift in recent years towards the use of cord blood cells in HSCT procedures.

UCB COMPARED TO ADULT STEM CELLS

Adult stem cells can be harvested from peripheral blood, where they are found in very low concentration, or preferably from bone marrow. There are five distinct advantages of using UCB as a source compared to bone marrow:

- **Superior Quality.** UCB is much richer in HSC-s and stem cells harvested from cord blood tend to be more active than adult stem cells.
- **Lower Risk of Rejection.** Because the foetus benefits from the protection of the mother's immune system in the womb, the white blood cells in UCB are less active compared to those found in the blood of adults. Thus, cord blood stem cell transplant recipients have a significantly lower risk developing complications such as GVHD. Importantly, in the case of allogeneous transplants this makes possible the use of UCB HSC-s even with low HLA compatibility between host and donor.
- **Ease of Collection.** The procedure for collecting and storing umbilical cord blood is non-invasive and painless for the donor, which is not the case with bone marrow collection.
- **Storage and Availability.** UCB can be stored with cryopreservation. Frozen UCB can be easily transported and thawed for use on demand at any time. By contrast, adult stem cells have to be used immediately because their half-life is only one day.
- **Donor Matching.** The search for a matching donor can take months in the case of bone marrow to just days with frozen UCB. In the case of private UCB banking, when no search for an HLA-matching donor is required, the frozen cord blood can be readily available for treatment within hours.

On the other hand, there are two main disadvantages of UCB relative to bone marrow as a source of stem cells. We should note that hundreds of clinical trials are under way around the world that seek to develop improved methods of the use of UCB stem cells in transplant procedures.

- **Slow Engraftment.** UCB stem cells take a longer time to grow and proliferate in the donor (a process known as engraftment). Time to engraftment is a critical factor for the survival of transplant patients. Clinical trials are being conducted, for example, by Fate Therapeutics which are investigating the effect of treatment of cord blood with certain agents on engraftment rates and times.



- Insufficient Quantity.** UCB may be insufficient in quantity for adult patients. Two approaches to address this issue are being investigated at the moment. One is the use of expanded UCB HSC-s “ex-vivo”, which involves the cultivation of additional stem cells from the cord blood source in the lab before transplantation. Another approach is double cord blood transplants, which involves the combination of two UCB units to increase the quantity of HSC-s. We note that this likely superior approach may not be available to customers of private UCB banks, since these customers only have access to one stored UCB unit per child.

THE USE OF UCB STEM CELLS IS INCREASING STEADILY

According to the US National Marrow Donor Program (NMDP), the share of UCB in total HSCT procedures worldwide is constantly increasing. Out of a total of 5,250 transplantations facilitated by the NMDP in 2010 (representing nearly 10% of the worldwide total), a record high of 22% used UCB stem cells and 78% used adult stem cells. This compares to virtually zero market share of UCB HSC-s in 2000 and just 10% in 2005.

The pace of market penetration of cord blood stem cells is accelerating, with strong market share gains in recent years. Considering its quantity limitations, UCB is used as a stem cell source primarily in pediatric patients aged 18 years or less, where it has already achieved majority market share over the adult stem cells alternative.

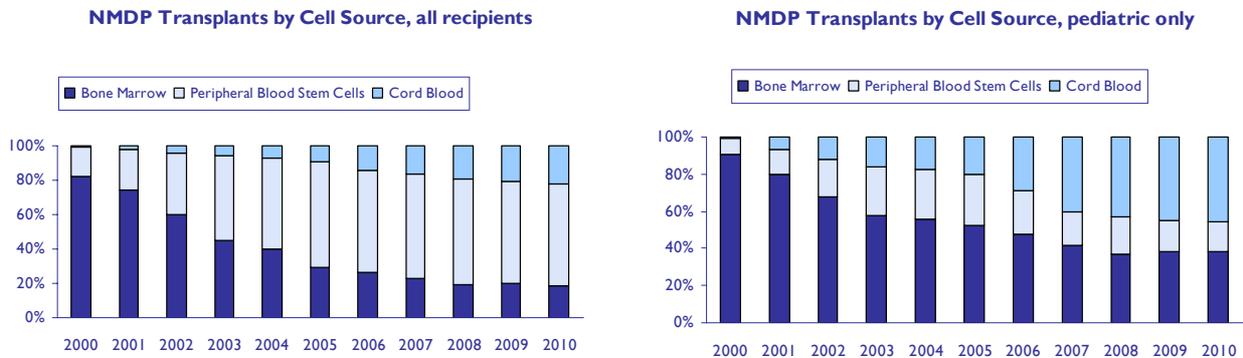


Figure 1

Source: National Marrow Donor Program (NMDP)



THE UCB BANKING INDUSTRY

Collection of UCB began in the late 1980-ies after research demonstrated that haemopoietic stem cells found in cord blood can be medically useful in transplantation. The National Marrow Donor Program, a US non-profit organization, estimates that by 2015 there will be 10,000 cord blood transplants performed annually worldwide.

PUBLIC VS. PRIVATE BANKING

In order to store cord blood for use in transplantation procedures, a number of UCB banks have been created around the world. There are two major UCB banking models – public and private.

Public banking is sponsored by governments and non-profit organizations. Under this model, parents donate their cord blood and have no guarantee that their children and other relatives will have access to it in the future. The objective of public banking is to develop a large global repository of frozen UCB for use in allogeneic transplantations.

By contrast, private banking is a paid service offered by for-profit corporations, which offers parents to store the UCB for later use if needed for autologous transplants on their child, or in allogeneic transplants for other family relatives.

VITA 34 offers both private and public banking services. However, private banking accounts for the vast majority of the company's revenues, and represents the main focus of its marketing efforts.

POTENTIAL CHALLENGES FOR PRIVATE BANKING

Private UCB banking has been the subject of heated debate focusing on its actual benefits and ethical concerns. Some of the frequently outlined issues are:

- **Ethics Debate.** The main ethical issue for private UCB storage is the low likelihood of the stored blood ever being used for any treatment. A major study published in 2008 estimates the lifetime probability of receiving an autologous stem cell transplant at 1/435 and the likelihood of an allogeneic transplant from a sibling at 1/400, compared to a likelihood of any allogeneic transplant of 1/217. The ethical argument raised by some is that private UCB banking may lead to the waste of valuable sources of stem cells that might be needed to treat other people.
- **Limited Usability.** UCB stem cells cannot be used for autologous transplants in the cases of some malignancies such as leukaemia, because the UCB blood cells already have the associated genetic mutations. This makes the private UCB concept inapplicable in the case of these diseases.
- **Insufficient Quantity.** The use of potentially beneficial double cord transplants might not be possible in the case of private banking since there is only one available UCB unit, unless private and publicly donated units are combined.



REGULATORY FRAMEWORK

Since the cord blood banking industry deals with human organs and blood, the regulatory environment needs to be monitored closely. In our assessment, the regulatory risk in the industry is high. There are at two major sources of regulatory risk – evolving standards for public and private banking; and potential for restrictive legislation on private banking.

EVOLVING STANDARDS AND GUIDELINES

Each major country market for UCB banking operates under published guidelines for the collection and storage of cord blood units. These guidelines do differ from country to country, which makes it potentially challenging for companies providing private banking services to expand organically worldwide. Accordingly, local partnerships and acquisitions are the typical path for international expansion. The public segment of the industry is working on the establishment of global networks of UCB banks. A notable example is the US National Marrow Donor Program (NMDP), which is actively developing such a network.

Both public and private cord blood bank can receive accreditation from various industry bodies, such as the American Association of Blood Banks (AABB) or the Foundation for the Accreditation of Cellular Therapy (FACT). Such accreditations may be required to operate in certain country markets.

RESTRICTIVE LEGISLATION

This is a risk primarily for the private banking segment of the industry, and is therefore highly relevant for companies such as VITA 34. The European Group on Ethics in Science and New Technologies in the EU and the American Academy of Pediatrics in the US have both issued negative opinions on private cord blood banking. They outline ethical issues for private storage and caution against allegedly empty promises made by private companies regarding the potential future usefulness of privately stored UCB in unproven areas such as regenerative medicine. However, it is important to note that both reports have recommended against legal bans on private banking, which is seen as excessive interference in free markets.

In our view, a future EU-wide ban on private cord blood banking is highly unlikely. However, regulation is quite restrictive in some individual countries, and there is no guarantee that it will not become more restrictive in the future. For example, in Italy – one of VITA 34's most important markets from a profitability point of view – the storage of UCB for private banking purposes has been forbidden since 2003. It is still legal, however, to collect cord blood in Italy and export the blood in another EU country for storage. Similar regulation exists in France.

It is very important to stress that the implications of restrictive regulation in select EU countries are not necessarily negative for companies like VITA 34. In fact, the ban on private USB storage in France and Italy is precisely the source of a lucrative exports opportunity, which VITA 34 and its competitors have explored. Therefore, in these two countries more relaxed regulation might actually deprive private UCB banks of lucrative high-margin business.



VITA 34 MARKETS AND COMPETITION

The **UCB banking industry is highly competitive and fragmented**. Geographic fragmentation is a natural consequence of varying country regulations. At the country level, financial barriers to entry are low but several other factors serve to protect entrenched players. These factors include qualified personal, GMP (good manufacturing practice) certifications, and industry positioning in terms of the number of partnering hospitals where UCB can be collected.

Several companies have managed to establish strong international presence over time, largely through local partnerships and acquisitions. VITA 34 competes with both international and local players in the country markets where the company is present. The largest international players are US-based Cryo Cell and Cord Blood America, as well as Dutch company CryoSave, which dominates the European market.

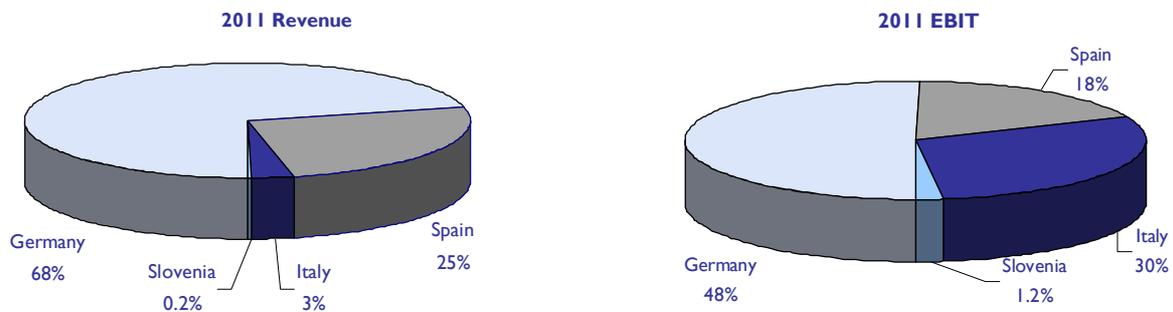


Figure 2

Source: First Berlin

Germany and German-speaking countries. VITA 34's home market has a leading contribution to revenues (68% expected in 2011) and profits (48% expected in 2011). VITA 34's presence is the strongest in the area around Leipzig, where the company is headquartered. In the German market, VITA 34 has dominant market share estimated at over 80%. The main competitors in Germany include CryoSave, Cord Blood America, SeraCell and Eticur. In addition to Germany, VITA 34 also does business in Austria and Switzerland.

Spain. The second largest market for VITA 34 is Spain. In 2010, the company acquired 88% of its country partner SECUVITA for €4.9M. Spain is one of the main European markets for private UCB banking, where local CryoSave subsidiary Crio Cord has a leading position and SECUVITA holds the number two market share.

Italy. VITA 34 entered the Italian market in late 2009 via a partnership with Sorgente S.r.l. The Italian market offers very high profit margins because private UCB storage in the country is forbidden and collected UCB units are exported for preservation at VITA 34's facilities in Leipzig. Accordingly, while Italy is expected to account for only 3% of VITA 34's 2011 revenues, the EBIT contribution of this country market is expected to be as high as 30%.

Slovenia. Slovenia is a small country market with just 20,000 births annually. However, this market shares the same profitability dynamics as Italy. VITA 34 established presence in this market in early 2009 in partnership with Izvorna Celina d.o.o.



VITA 34 STRATEGIC GROWTH PLAN

VITA 34 has two strategic priorities. The first is to improve presence in its domestic market of Germany. And the second is to expand further internationally, with priority on countries with high birth rates or regulations that favour high-margin exports of stored UCB.

GERMAN MARKET PENETRATION

VITA 34 seeks to improve its presence in the western parts of Germany where purchasing power is still meaningfully higher compared to the east, more than 20 years after the country’s unification. The majority of VITA 34’s domestic business is done in the Saxony region, particularly in hospitals in and near Leipzig where the company is headquartered.

Higher penetration of the western parts of Germany can be a significant source of revenue growth for VITA 34. Since the company dominates the German market with 80% share, expansion in the country basically requires improved market penetration for UCB storage services in general. A combination of educational, marketing and pricing efforts will be required in order to accelerate this penetration rate in the future. At the moment only 2-3% of expectant parents in Germany chose to use private UCB banking services.

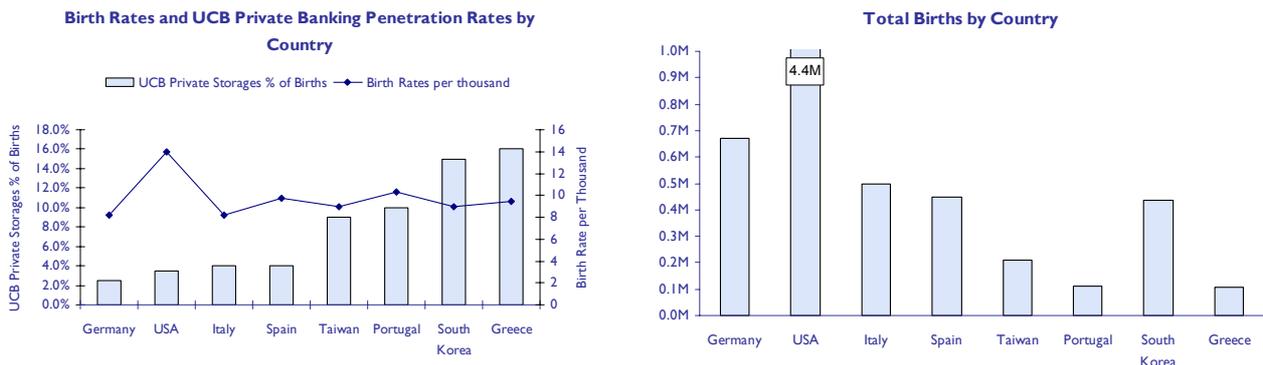


Figure 3

Sources: Eurostat, VITA 34, First Berlin

CONTINUED INTERNATIONAL EXPANSION

VITA 34 is one of the few players in the UCB banking industry that have managed to establish a cross-country footprint. Continued international expansion is a strategic priority for the company. We expect that due to resource constraints, the near-term priority will be continued expansion in Europe, despite the fact that countries such as the US, Taiwan and South Korea represent very attractive markets for private cord blood banking.

From a **revenue growth** perspective, countries with high birth rates or high penetration of UCB private storage services are natural priorities for VITA 34. Natural targets in this respect in Europe represent Greece (16% market penetration of UCB private banking) and Portugal (10% penetration). However, we expect VITA 34 to focus its continued expansion in Europe on smaller and underserved markets where competition is less intense. The recently announced intention to enter the Slovakian market is a move in this direction.



From a **profitability** point of view, jurisdictions with restrictive legislation on private UCB storage services, present attractive opportunities for profitable exports of the collected UCB units back to VITA 34's headquarters in Germany. VITA 34 is already present in one such market in Europe, which is Italy. Another example of a country market with similar regulation and export opportunity is France.

FINANCIAL FORECASTS

Q1 Results Were on Track Given Seasonality. VITA 34 reported results for Q1 2011 back in April. Revenues for the quarter were €3.7m, up 9.3% over the same period in the previous year. Q1 EBIT was -€410K, compared to positive prior-year operating profit of €160K. Similar to last year, the company settled a significant amount of trade payables in Q1. This resulted in negative quarterly OCF of -€2.4M. Cash at period-end was €2.1M.

Revenue Trends. Our sales forecast for FY2011 now stands at €18.2M (+7.0% Y/Y). We expect a flattish market in Germany to be offset by the effects of continued international expansion. However, a significant portion of the expected international topline improvement this year will not be organic. The results of Spanish subsidiary SECUVITA will be consolidated for the entire 12-month period in 2011, compared to just eight months last year. Spain is expected to have a 25% contribution to sales in 2011. Therefore, this factor accounts for most of the 7% total revenue improvement at VITA 34's that we expect to see this year.

We expect that *the level of business* will be flat across all main geographic markets for VITA 34 this year. Internationally, the fiscal and economic crisis facing most south-European countries will represent a significant headwind for VITA 34 this year – both in Spain (impacting the topline) and Italy (slowing down profit growth). We expect that the topline contribution of international markets at VITA 34 will increase from 23% to 29% of total revenues in FY2011. The majority of this increase will be due to the full-year consolidation of SECUVITA. VITA 34 has also announced that it plans to enter the Slovakian market in 2011. However, we expect the effect of this market entry on current-year topline growth to be negligible.

In the German market, a recurring theme from the FQ1 sales result in FY2011 will be the current lack of funding from the German Cord Blood Bank for public UCB banking. This means that VITA 34 will not be able to have the usual level of public banking business this year. The company will seek to offset this with increased marketing efforts in private banking, but we expect the near-term effects of these efforts to be modest.

Looking beyond FY2011, we expect the rate of revenue growth to continue to gravitate in the 6-7% range between FY2012 and FY2014. We see two main drivers of this sustained topline growth momentum. First, international expansion is set to continue, serving as a source of both organic growth in companies where VITA 34 has already established presence, and acquisition-related growth upon new country market entries. Second, marketing efforts in Germany should begin to pay off, particularly in the wealthier western parts of the country. VITA 34 is already well positioned in terms of country-wide coverage with hospital partnerships. The company is placing stronger emphasis on new distribution channels,



including the Internet. Finally, recently introduced more flexible pricing and financing arrangements for customers should begin to yield benefits as soon as the latter part of 2011, with an increasingly pronounced effect on domestic revenue growth in the 2012-2014 period.

Margins and Profits. We forecast an improvement in EBIT margin at VITA 34 from 4.4% in FY2010 to 5.0% in FY2011. This implies EBIT of €0.91M this year (+22% Y/Y). A key source of margin expansion will be the modestly growing level of business in Italy, which has operating margin as high as 40%, compared to just 3% in Germany.

The positive influence of international expansion on margins is a fundamental trend, which we expect to continue to benefit VITA 34's bottom line over the next several years. This is the primary source of the EBIT margin expansion we model for the 2011-2012 period. One additional source of such expansion is expected to be cost controls, which have been outlined by management as a priority for the mid-term, with already visible improvements in OPEX-to-sales during FY2010. These two drivers for profitability improvements – geographic mix shifts and OPEX efficiency – should offset the effect of the pricing environment, which we expect to be flat at best both domestically and abroad.

Bottom line, we project EPS to reach €0.20 (+9.9% Y/Y) in FY2011 and to reach €0.52 by FY2014 (a 2011-14 CAGR of 37%) on margins expansion. For the current year, we also forecast FCF of €173K after working capital investments of €369K (unchanged operating cash cycle) and €906K worth of investments in fixed assets (tangible and intangible). We expect VITA 34 to have €3.54M in cash at the end of FY2011.



INCOME STATEMENT ANALYSIS

All figures in €000	2009A	2010A	2011E	2012E	2013E	2014E
Revenues	15,097	16,963	18,150	19,421	20,780	22,173
Cost of goods sold	4,958	6,140	6,534	6,992	7,377	7,871
Gross Profit	10,139	10,823	11,616	12,429	13,403	14,301
S&M	7,629	7,241	7,442	7,768	8,104	8,426
G&A	2,763	3,048	3,267	3,302	3,325	3,548
Other Operating Income (Expense)	415	209	0	194	208	222
Operating income	162	743	908	1,554	2,182	2,550
Net financial result	496	-77	-91	-388	-416	-443
Other financial income and expenses	0	0	0	0	0	0
Income before income taxes and minority interests	658	666	817	1,165	1,766	2,106
Income taxes	62	317	286	408	618	737
Minority interests	0	134	0	0	0	0
Net income / loss	596	483	531	757	1,148	1,369
Diluted EPS	0.23	0.18	0.20	0.29	0.43	0.52
EBITDA	739	1,687	1,849	2,396	2,959	3,289
Ratios						
Gross margin	67.2%	63.8%	64.0%	64.0%	64.5%	64.5%
EBIT-Margin	1.1%	4.4%	5.0%	8.0%	10.5%	11.5%
EBITDA margin	4.9%	9.9%	10.2%	12.3%	14.2%	14.8%
Net Income Margin	3.9%	2.8%	2.9%	3.9%	5.5%	6.2%
Tax Rate	9.4%	47.6%	35.0%	35.0%	35.0%	35.0%
Expenses as % of revenues						
S&M	50.5%	42.7%	41.0%	40.0%	39.0%	38.0%
G&A	18.3%	18.0%	18.0%	17.0%	16.0%	16.0%
Other Operating Income (Expense)	2.7%	1.2%	0.0%	1.0%	1.0%	1.0%
Y-Y Growth						
Total revenues	n.a.	12.4%	7.0%	7.0%	7.0%	6.7%
Operating income	n.a.	358.6%	22.1%	71.2%	40.4%	16.9%
Net income/ loss	n.a.	-19.0%	9.9%	42.7%	51.6%	19.3%



BALANCE SHEET ANALYSIS

All figures in €000	2009A	2010A	2011E	2012E	2013E	2014E
Assets						
Current Assets, Total	11,768	10,139	10,429	10,126	11,071	12,145
Cash and Cash Equivalents	6,055	3,687	3,540	2,962	3,622	4,394
Short-Term Investments	2,000	1,500	1,500	1,500	1,500	1,500
Receivables	2,334	2,914	3,232	3,459	3,701	3,949
Inventories	554	626	716	766	808	863
Other Current Assets	825	1,412	1,440	1,440	1,440	1,440
Non-Current Assets, Total	19,382	26,549	26,511	26,639	26,901	27,271
Property, Plant & Equipment	3,319	3,767	3,370	3,110	2,956	2,882
Goodwill & Other Intangibles	12,706	20,441	20,804	21,192	21,608	22,051
Other Assets	3,357	2,341	2,337	2,337	2,337	2,337
Total Assets	31,150	36,688	36,939	36,766	37,972	39,416
Shareholders' Equity & Debt						
Current Liabilities, Total	3,500	7,455	6,440	5,509	5,567	5,641
Short-Term Debt	125	2,060	1,000	0	0	0
Accounts Payable	813	892	985	1,054	1,112	1,186
Current provisions	363	39	16	16	16	16
Other current liabilities	2,199	4,464	4,439	4,439	4,439	4,439
Longterm Liabilities, Total	8,777	10,415	10,995	10,995	10,995	10,995
Long Term Debt	1,375	1,760	2,500	2,500	2,500	2,500
Deferred Revenue	5,616	5,838	5,808	5,808	5,808	5,808
Other Liabilities	1,786	2,817	2,687	2,687	2,687	2,687
Minority interests	406	339	325	325	325	325
Shareholders Equity	18,467	18,479	19,180	19,937	21,085	22,455
Total Consolidated Equity and Debt	31,150	36,688	36,939	36,766	37,972	39,416
Ratios						
Current ratio	3.36	1.36	1.62	1.84	1.99	2.15
Quick ratio	3.20	1.28	1.51	1.70	1.84	2.00
Financial Leverage	1.69	1.99	1.93	1.84	1.80	1.76
Book Value per Share	6.98	6.98	7.25	7.53	7.97	8.48
Net cash	6,555	1,367	1,540	1,962	2,622	3,394
Return on Equity (ROE)	3.2%	2.6%	2.8%	3.8%	5.4%	6.1%
Days of sales outstanding (DSO)	56.4	62.7	65.0	65.0	65.0	65.0
Days of inventory turnover	40.8	37.2	40.0	40.0	40.0	40.0



CASH FLOW ANALYSIS

All figures in €000	2009A	2010A	2011E	2012E	2013E	2014E
EBIT	162	743	908	1,554	2,182	2,550
Depreciation and amortization	577	944	942	842	777	739
EBITDA	739	1,687	1,849	2,396	2,959	3,289
Changes in Working Capital	324	-113	-369	-207	-226	-228
Other Adjustments	86	-566	-400	-796	-1,034	-1,181
Operating Cashflow	1,149	1,008	1,081	1,392	1,699	1,881
CAPEX	-541	-491	-545	-583	-623	-665
Investments in Intangibles	-185	-487	-363	-388	-416	-443
Free cashflow	423	30	173	421	660	772
Debt Financing, net	-125	626	-320	-1,000	0	0
Equity Financing, net	0	0	0	0	0	0
Other Changes in Cash	-617	-3,222	0	0	0	0
Net Cash Flows	-319	-2,566	-147	-579	660	772
Cash, start of the year	6,374	6,055	3,687	3,540	2,962	3,622
Cash, end of the year	6,055	3,489	3,540	2,962	3,622	4,394
EBITDA/share	0.28	0.64	0.70	0.91	1.12	1.24
Y-Y Growth						
Operating Cashflow	n.a.	-12.3%	7.2%	28.8%	22.0%	10.7%
Free cashflow	n.a.	-92.9%	478.0%	143.0%	56.7%	16.9%
EBITDA/share	n.a.	128.3%	9.6%	29.6%	23.5%	11.1%

**FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY**

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	12 July 2007	€12.43	Buy	€20.00
2...17	↓	↓	↓	↓
18	14 October 2010	€5.35	Buy	€7.00
19	25 March 2011	€5.35	Buy	€7.00
20	3 May 2011	€4.93	Buy	€7.00
21	Today	€4.43	Buy	€7.00

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BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

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

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