

HAEMATO AG

Germany / Pharma
 Frankfurt
 Bloomberg: HAE GR
 ISIN: DE0006190705

H1/19
 Results

RATING
BUY

PRICE TARGET
€ 4.80

Return Potential 54.3%
 Risk Rating High

Q2 REMAINS SLOW; MEDICAL CANNABIS TO TAKE GROWTH REINS

Six month reporting showed revenue and EBIT down 35% and 85% respectively. The topline undershot our target by 18% and EBIT missed our estimate by 79%, due to the revenue shortfall and a lower than expected other income result. On a positive note, the gross margin of 8% remains at a historically high level, thanks to an improved product mix after the company culled the portfolio of low margin products in H2/18. We lower our outlook on the H1/19 revenue and earnings miss but believe we are approaching a trough in sales. Our recalibrated DCF model now yields a fair value of €4.8 (old: €5.8). We upgrade the stock to Buy from Add given the upside to our price target after the recent share price depreciation.

Revenue remains sluggish in Q2 On a quarterly basis, sales contracted some 7% Q/Q after a 22% drop in Q1. H1 revenue was down 35% Y/Y as a result. We attribute the bad performance chiefly to persistent market fears triggered by fake meds, which compromised the supply chain last year (see note of 5 May 2019). HAEMATO has stepped up customer outreach to reassure pharmacies of its rigorous controls and processes and garner important feedback to bolster safety even further. This has resonated well, but it takes time to regain trust. Therefore we do not expect an uptick in sales until Q4 and have dialled back our H2 forecasts (see table 4).

Regulatory clarification; sort of. . . Regulators have been grappling over the import quota for years with opponents campaigning for its abolition arguing that it has produced a mountain of bureaucratic red tape and compromised drug safety. After months of negotiation, the German Central Association of Statutory Health and Nursing Insurance Funds and the German Association of Pharmacies have hatched a new framework based on a 2% monthly savings mechanism to replace the incumbent 5% quota for parallel imports in the sales mix. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018	2019E	2020E
Revenue (€m)	229.73	275.61	289.86	274.12	199.61	229.56
Y-o-y growth	13.3%	20.0%	5.2%	-5.4%	-27.2%	15.0%
EBIT (€m)	8.22	13.44	9.42	8.50	2.68	6.47
EBIT margin	3.6%	4.9%	3.2%	3.1%	1.3%	2.8%
Net income (€m)	5.54	11.04	6.98	6.28	-1.13	4.49
EPS (diluted) (€)	0.27	0.53	0.32	0.27	-0.05	0.20
DPS (€)	0.30	0.30	0.30	0.10	0.10	0.15
FCF (€m)	2.59	12.80	-2.91	6.75	1.51	6.03
Net gearing	54.8%	27.2%	17.4%	23.5%	27.2%	23.2%
Liquid assets (€m)	2.45	9.79	6.47	5.59	1.20	4.69

RISKS

Regulatory changes in healthcare systems, spending cuts in healthcare systems, homogenization of pharmaceutical prices within the European Union.

COMPANY PROFILE

HAEMATO AG is a supplier of specialty pharmaceuticals focused on growth markets in the indication groups of oncology, HIV / AIDS and other chronic diseases. The company boasts a broad customer base of over 4,800 pharmacies and eleven wholesalers in Germany, while over 1,300 pharmacies and another five wholesalers in Austria also source from HAEMATO.

MARKET DATA

As of 06 Sep 2019

Closing Price	€ 3.11
Shares outstanding	22.87m
Market Capitalisation	€ 71.13m
52-week Range	€ 2.95 / 5.50
Avg. Volume (12 Months)	13,126

Multiples	2018	2019E	2020E
P/E	11.6	n.a.	15.8
EV/Sales	0.3	0.4	0.4
EV/EBIT	9.8	31.2	12.9
Div. Yield	3.2%	3.2%	4.8%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2019

Liquid Assets	€ 9.49m
Current Assets	€ 61.34m
Intangible Assets	€ 38.45m
Total Assets	€ 115.61m
Current Liabilities	€ 26.00m
Shareholders' Equity	€ 73.58m

SHAREHOLDERS

MPH Health Care AG	49.9%
Baring Asset Management	2.9%
Free Float	47.2%



Although we fail to see how this solution reduces red tape or increases drug safety, we believe the new framework will at least help clear up regulatory overhang weighing on the market. But pharmacies have already been vocal since the 1 July implementation about the complexity of the new rules, so we think it will take time for the market to adjust.

REASONS TO BE POSITIVE ABOUT A TURNAROUND

Medical cannabis products to seize growth reins HAEMATO will enter the promising medical cannabis business. Medical marijuana is rapidly becoming one of the most popular alternative treatments for chronic pain ranging from migraines, and arthritis, to injury-related discomfort. Canada and multiple US States have spearheaded legislative change towards its use. Germany joined the ranks in March 2017 and is paving the way for cannabis treatments as a substitute for highly addictive opioid drugs. Doctors are now able to prescribe cannabis flowers and extracts, which are covered by most insurers by up to 60% of the prescription amount.

We believe HAEMATO is capable of capitalising on the strong trends in medical cannabis, which could result in initial revenue streams as early as Q1/20. The company has secured the required licensing and has started to build up its supply chain. The existing infrastructure and staffing should be able to execute with little further investment. Plus, there will be lower regulatory hurdles to clear than for the now idling hyaluronic acid business HAEMATO wanted to introduce.

German market is promising but slow to evolve At this juncture, it is difficult to quantify potential sales volumes for HAEMATO. The German market is in its infancy and slow to develop because: (1) German doctors remain conservative towards medical cannabis products; (2) price volatility; (3) low supply choking off patient access; and (4) red tape gating the tender process for local cannabis farmers. For now, Germany has to rely on costly imports from the Netherlands and Canada to meet the high, pent-up demand. Nevertheless, the German market for medical cannabis grew 70% on an annualised basis last year and is expected to hit €200m by 2023. We believe medical cannabis products will be a good complement to HAEMATO's core oncology and neurology offerings and help smooth out some of the parallel import volatility.



RESULTS POOR AFTER SIX MONTHS BUT MAY BE AT A LOW

Table 1: Six month results vs prior year and forecasts

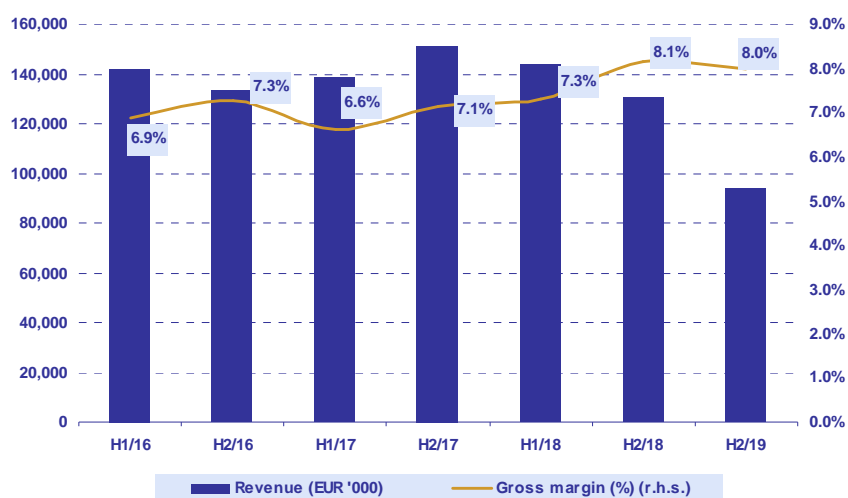
All figures in EUR '000	6M/19	6M/19E	variance	6M/18	variance
Revenue	94,009	114,996	-18.3%	143,745	-34.6%
Gross profit	7,505	8,970	-16.3%	10,508	-28.6%
Margin	8.0%	7.8%	-	7.3%	-
EBIT	708	3,318	-78.7%	6,485	-89.1%
Margin	0.8%	2.9%	-	4.5%	-
Net Income	-2,101	2,420	-	5,044	-
Margin	-2.2%	2.1%	-	3.5%	-

Source: First Berlin Equity Research; HAEMATO AG

Six month sales missed our target by 18% and undershot the prior year result by 35%. EBIT and net income also retreated significantly Y/Y and missed our forecasts by a wide margin. Our H1 targets were based on the expectation that ongoing production optimisation would have an incrementally positive impact in Q2. We had also expected the strong trend in the other income line item to continue, albeit at a more conservative level as in previous years. These factors did not materialise. The contraction in sales makes our FY19 forecasts untenable.

Gross margin encouraging despite poor results On a positive note, the H1 gross margin (GM) remained steady at 8% after hitting an unprecedented 8.1% (+80 bps increase) in H2/18. HAEMATO attributes this to the improved product mix after the portfolio was culled of lower margin offerings late last year. Although the higher GM has been unable to offset the revenue shortfall, we think it is key to sustainably higher profitability over the long term even if sales remain sluggish in the interim as the company adds new higher margin products to its portfolio.

Figure 1: Revenue and gross margin development



Source: First Berlin Equity Research; HAEMATO AG

**Table 2: Balance sheet KPI's**

All figures in EUR '000	H1/19	2018	variance
Cash	9,485	5,588	69.7%
Short-term financial assets	2,242	2,889	-22.4%
Financial debt (short- and long-term)	22,046	22,680	-2.8%
Net debt	10,319	14,202	-27.3%
Total assets	115,610	116,505	-0.8%
Shareholders' equity	73,575	75,665	-2.8%
Equity ratio	64%	65%	-

Source: First Berlin Equity Research; HAEMATO AG

Balance sheet solid with stable equity ratio Total assets slipped to €116m (2018: €117m), stemming mainly from the decline in long-term financial assets. Net debt remained steady at €22m (YE18: €23m) and the company exited the six month period with €9.5m in cash and cash equivalents. Shareholders equity also remained stable with a still healthy 64% equity ratio, despite the net loss.

Table 3: Cash flow overview

All figures in EUR '000	H1/19	H1/18	variance
Net operating cash flow	6,266	1,676	273.9%
Cash flow from investing	-387	6,448	-
Cash flow from financing	-1,975	-30	-
Net cash flows	3,904	8,094	-51.8%
Free cash flow (FCF)	5,879	8,124	-27.6%

Source: First Berlin Equity Research; HAEMATO AG

Bottom line and financial asset disposals boost cash flows Net operating cash flow totalled €6.3m for the year compared to €1.7m in H1/18. The improvement stems chiefly from lower working capital consumption and the reversal of the non-cash write-down to financial assets. Cash flow from investing totalled €-0.4m in H1/19 with no significant investments reported for the period.

Cash flow from financing amounted to €-2.0m owing mainly to repayment of bank debt. The change in cash for the year equalled €3.9m leaving HAEMATO with some €9.5m in cash and equivalents on the balance sheet (2018: €5.6m). We thus see the company as adequately financed for the next operational milestones.

Reducing H2/19 forecasts on slow sales recovery In May, we dialled back our 2019 growth targets on the weaker than expected H2/18 results (see note of 5 May 2019). Our forecasts were based on the assumption of a pick-up in sales in Q2, due to ongoing production optimisation. We had also expected further financial asset revaluation gains to impact earnings. These factors failed to materialise. We are cutting our estimates again (table 4 overleaf) to reflect the slow recovery of sales throughput and now look for the next uptick in Q4 with Q3 remaining on par with the quarterly performances in H1/19.

The gross margin remains encouraging. We think a GM of ~8% is key for HAEMATO to restore sustainable profitability over the long term and welcome the new emphasis on higher margin offerings, even if the topline recovery remains slow in the interim.



Table 4: Revisions to estimates and price target

	old	new	revision	upside	dividend yield	total return
Price target (€)	5.8	4.8	-17.2%	54.3%	3.2%	57.6%
All figures in € '000		2019E			2020E	
	old	new	revision	old	new	revision
Revenue	246,709	199,614	-19.1%	271,380	229,556	-15.4%
EBIT	7,435	2,683	-63.9%	8,960	6,467	-27.8%
Margin (%)	3.0%	1.3%	-	3.3%	2.8%	-
Net income	5,580	-1,134	n.a.	6,636	4,492	-32.3%
EPS diluted (€)	0.24	-0.05	n.a.	0.29	0.20	-32.3%

Source: First Berlin Equity Research

VALUATION MODEL

Our revised forecasts result in a €4.8 price target (old: €5.8). HAEMATO shares have retreated some 35% YTD. Given 54% upside to fair value, our rating moves to Buy (old: Add). We believe we are approaching a trough in sales, and the company is taking positive steps to de-risk operations with the introduction of a strong portfolio and new business segments.

In EUR '000		2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Sales		199,614	229,556	250,216	270,233	291,852	312,281	331,018	347,569
NOPLAT		2,039	4,915	6,238	7,767	8,485	9,654	10,616	11,443
(+) depreciation & amortisation		1,437	1,079	926	973	1,051	1,031	1,034	1,086
Net operating cash flow		3,476	5,994	7,164	8,739	9,536	10,685	11,651	12,529
(-) Total investments (CAPEX and WC)		4,949	-485	-2,753	-1,899	-417	-2,158	-1,774	-2,258
(-) Capital expenditures		-1,797	-758	-826	-892	-963	-1,031	-1,059	-1,112
(-) Working capital		6,746	272	-1,927	-1,008	547	-1,128	-715	-1,146
Free cash flows (FCF)		8,425	5,509	4,412	6,840	9,119	8,527	9,876	10,271
PV of FCF's		8,194	4,892	3,577	5,065	6,166	5,264	5,568	5,288
Terminal EBIT margin									
In EUR '000			3.3%	3.8%	4.3%	4.8%	5.3%	5.8%	6.3%
PV of FCFs in explicit period	65,067	6.5%	5.95	6.80	7.64	8.49	9.33	10.17	11.02
(+) PV of FCFs in terminal period	61,828	7.5%	4.93	5.56	6.19	6.83	7.46	8.09	8.73
Enterprise value (EV)	126,896	8.5%	4.18	4.67	5.16	5.65	6.14	6.63	7.12
(+) Net cash / (-) net debt	-17,775	9.5%	3.61	4.00	4.39	4.77	5.16	5.54	5.93
(+) Investments / minority interests	0	10.5%	3.17	3.48	3.79	4.10	4.41	4.72	5.02
Shareholder value	109,120	11.5%	2.80	3.06	3.31	3.56	3.81	4.06	4.31
Fair value per share (€)	4.80	12.5%	2.50	2.71	2.92	3.13	3.33	3.54	3.75
Terminal growth rate									
			0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
Cost of equity	14.0%	6.5%	7.06	7.45	7.92	8.49	9.17	10.03	11.14
Pre-tax cost of debt	5.3%	7.5%	5.89	6.16	6.46	6.83	7.25	7.76	8.39
Tax rate	24.0%	8.5%	5.00	5.19	5.40	5.65	5.93	6.26	6.65
After-tax cost of debt	4.0%	9.5%	4.31	4.45	4.60	4.77	4.97	5.19	5.44
Share of equity capital	55.0%	10.5%	3.76	3.86	3.97	4.10	4.23	4.39	4.57
Share of debt capital	45.0%	11.5%	3.31	3.38	3.47	3.56	3.66	3.77	3.90
WACC	9.5%	12.5%	2.93	2.99	3.06	3.13	3.20	3.29	3.38

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



INCOME STATEMENT

All figures in EUR '000	2015	2016	2017	2018	2019E	2020E
Revenues	229,727	275,614	289,862	274,121	199,614	229,556
Cost of goods sold	-214,454	-256,145	-269,778	-252,994	-183,765	-211,651
Gross profit	15,273	19,469	20,084	21,127	15,848	17,905
Personnel expenses	-5,409	-6,005	-6,209	-6,322	-6,125	-6,254
Other OpEx	-6,462	-8,420	-8,948	-8,520	-6,399	-6,887
Other income	6,622	10,202	6,476	3,675	796	2,781
EBITDA	10,024	15,246	11,270	9,959	4,120	7,546
Depreciation & amortisation	-1,799	-1,805	-1,854	-1,456	-1,437	-1,079
Operating income (EBIT)	8,225	13,441	9,416	8,503	2,683	6,467
Net financial result	-1,632	-1,814	-1,958	-1,059	-1,283	-1,244
Other financial result	-565	632	631	320	-2,499	0
Pre-tax income (EBT)	6,028	12,259	8,089	7,764	-1,099	5,223
Income taxes	-489	-1,222	-1,106	-1,488	-36	-731
Minority interests	0	0	0	0	0	0
Net income / loss	5,539	11,037	6,983	6,276	-1,134	4,492
Diluted EPS (in €)	0.27	0.53	0.32	0.27	-0.05	0.20
Ratios						
Gross margin	6.6%	7.1%	6.9%	7.7%	7.9%	7.8%
EBIT margin on revenues	3.6%	4.9%	3.2%	3.1%	1.3%	2.8%
EBITDA margin on revenues	4.4%	5.5%	3.9%	3.6%	2.1%	3.3%
Net margin on revenues	2.4%	4.0%	2.4%	2.3%	-0.6%	2.0%
Tax rate	8.1%	10.0%	13.7%	19.2%	-3.3%	14.0%
Expenses as % of revenues						
Personnel expenses	2.4%	2.2%	2.1%	2.3%	3.1%	2.7%
Other OpEx	2.8%	3.1%	3.1%	3.1%	3.2%	3.0%
Depreciation & amortisation	0.8%	0.7%	0.6%	0.5%	0.7%	0.5%
Y-Y Growth						
Revenues	13.3%	20.0%	5.2%	-5.4%	-27.2%	15.0%
Operating income	-0.1%	63.4%	-29.9%	-9.7%	-68.4%	141.0%
Net income/ loss	-20.6%	99.3%	-36.7%	-10.1%	n.m.	n.m.



BALANCE SHEET

All figures in EUR '000	2015	2016	2017	2018	2019E	2020E
Assets						
Current assets, total	52,860	59,431	67,350	60,673	50,491	55,266
Cash and equivalents	2,449	9,790	6,470	5,588	1,199	4,692
ST financial assets and securities	2,791	7,084	9,236	2,889	2,947	3,006
Trade receivables	4,725	4,118	8,320	7,320	5,469	6,289
Inventories	41,677	37,893	43,114	44,377	40,277	40,591
Other ST assets	1,218	546	210	499	599	689
Non-current assets, total	54,129	57,342	54,678	55,832	57,649	58,374
Property, plant & equipment	1,308	1,178	1,106	1,046	2,203	2,226
Goodwill & other intangibles	40,213	39,259	38,941	38,677	37,879	37,535
Financial assets	12,474	16,769	14,496	15,973	17,431	18,477
Deferred taxes	134	136	135	136	136	136
Total assets	106,989	116,772	122,028	116,505	108,140	113,640
Shareholders' equity & debt						
Current liabilities, total	35,588	28,709	31,569	25,483	19,219	21,468
Trade payables	5,684	6,410	7,522	8,469	9,264	10,670
ST debt	21,636	1,912	7,821	7,680	4,000	4,000
Provisions	4,309	7,187	7,249	361	366	371
Other ST financial liabilities	539	813	1,229	684	599	689
Other current liabilities	3,420	12,387	7,748	8,290	4,990	5,739
Long-term liabilities, total	13,112	24,972	19,531	15,357	16,589	17,634
Long-term debt	12,190	24,209	19,000	15,000	16,264	17,264
LT provisions	21	13	13	26	26	26
Deferred tax liabilities	901	750	518	332	299	344
Shareholders' equity	58,289	63,092	70,928	75,665	72,333	74,538
Total consolidated equity and debt	106,989	116,772	122,028	116,505	108,140	113,640
Ratios						
Current ratio (x)	1.5	2.1	2.1	2.4	2.6	2.6
Quick ratio (x)	0.3	0.8	0.8	0.6	0.5	0.7
Equity ratio	54%	54%	58%	65%	67%	66%
Net debt	31,916	17,144	12,344	17,775	19,664	17,261
Net gearing	55%	27%	17%	23%	27%	23%
Return on equity (ROE)	9.5%	17.5%	9.8%	8.3%	-1.6%	6.0%
Capital employed (CE)	47,655	41,454	49,375	48,367	41,981	41,387
Return on capital employed (ROCE)	17%	32%	19%	18%	6%	16%



CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017	2018	2019E	2020E
Net income	6,028	11,037	6,983	6,276	-1,134	4,492
Depreciation and amortisation	1,799	1,805	1,854	1,456	1,437	1,079
Change to LT accruals	1,712	1,855	1,031	-82	5	5
Change in financial asset valuations	-4,994	-9,657	-3,559	-1,943	-1,516	-1,105
Asset disposals	-899	60	-811	-546	0	0
Income from participations	0	-632	-631	-320	-200	-200
Tax result	1,010	1,372	-636	1,485	36	731
Net interest expense	1,630	1,815	1,958	1,059	1,283	1,244
Operating cash flow	6,286	7,655	6,189	7,385	-89	6,247
Change in inventory	-7,489	3,784	-5,221	525	4,100	-313
Change in trade rec & other assets	4,947	992	-5,627	1,064	1,751	-910
Change in payable & other liabilities	-224	569	-3,111	-7,468	-2,622	2,289
Interest income	8	44	2	16	6	2
Tax paid	-490	-246	-582	-1,031	-36	-731
Net operating cash flow	3,037	12,798	-8,350	491	3,109	6,583
CapEx	-797	-626	4,805	-1,064	-1,797	-758
Income from investments	354	632	631	7,327	200	200
Cash flow from investing	-443	7	5,436	6,263	-1,597	-558
Free cash flow (FCF)	2,594	12,805	-2,914	6,754	1,513	6,026
Equity inflow, net	0	0	7,447	5,198	0	0
Debt inflow, net	5,313	1,695	701	-5,165	-2,416	1,000
Financing expenses paid	-1,648	-1,858	-1,959	-1,075	-1,288	-1,246
Dividend paid to shareholders	-6,234	-5,301	-6,594	-6,594	-2,198	-2,287
Cash flow from financing	-2,569	-5,464	-406	-7,636	-5,902	-2,533
Net cash flows	25	7,341	-3,320	-882	-4,389	3,493
Cash, start of the year	2,424	2,449	9,790	6,470	5,588	1,199
Cash, end of the year	2,449	9,790	6,470	5,588	1,199	4,692
EBITDA/share (in €)	0.48	0.73	0.52	0.44	0.18	0.33
Y-Y Growth						
Operating cash flow	-61.7%	321.4%	n.m.	n.m.	533.2%	111.7%
Free cash flow	-57.5%	393.6%	n.m.	n.m.	-77.6%	298.3%
EBITDA/share	-2.6%	52.1%	-28.8%	-16.6%	-58.6%	83.1%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	27 August 2013	€3.00	Buy	€5.70
2...18	↓	↓	↓	↓
19	23 May 2018	€6.06	Buy	€7.70
20	13 September 2018	€5.36	Buy	€7.60
21	17 May 2019	€4.99	Add	€5.80
22	Today	€3.11	Buy	€4.80

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First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

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

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

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

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

RISK ASSESSMENT

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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