

# ENEL-MED S.A.



Price target: PLN 8

Initiating Coverage

Rating: REDUCE

**Centrum Medyczne ENEL-MED S.A. (ENE) is one of the largest private providers of medical services in Poland.** In two hospitals and 23 own medical centers, the company offers the full spectrum of healthcare services including hospital & outpatient care, diagnostics, sports medicine and dental services for individuals, corporate and insurance clients. ENE's revenues stem from subscriptions, fees-for-service, private insurances and public NFZ.

**ENE, which was founded in 1993 by the Rozwadowski family, was originally a dental clinic. Today, through own medical facilities in the largest cities and >1,400 partners the company covers whole Poland.** It is particularly strong in the capital Warsaw, where the average monthly salary is 50% higher than in PL (c. PLN 6,000). ENE's competitive advantages are its service quality and low dependence on public health fund NFZ, which accounts for just 3.8% of total sales.

**Private health services in Poland are interesting for three reasons: (1) the service quality and availability of state-owned medical facilities is considered weak (2) private spending on health in PL is still far below OECD average and (3) Poland has one of the lowest birth rates in Europe.** As incomes grow and unemployment remains relatively low, Poles prefer private doctors over public ones, for which it sometimes takes more than a year to get an appointment. According to PMR, the market for private health services, which in 2015 was worth PLN 40bn, is expected to grow at c. 7% on average in the near future. While for diagnostic imaging services and elderly care PMR expects a CAGR of >14% and 6.8%, aesthetic medicine in PL is forecast to grow by 15-20% on average.

**We recommend to REDUCE ENEL-MED with a 12-months PT (60% DCF, 20% peer group, 20% transaction multiples) of PLN 8, 6.4% below current level.** We believe that due to its comprehensive service offering and great service quality ENE is among the best health providers in PL. However, we think that it is currently overvalued given (1) cost pressure due to lack of qualified staff and expensive medical technology (2) volatile contract volumes of NFZ, which suffers especially from emigration and (3) lack of support by NFZ and potential issues relating to acquisition of clients in the new elderly care business. Since 2014, the activity of strategic and financial investors in the Polish healthcare sector has markedly declined.

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Net sales	206.71	213.68	226.27	249.11	274.41	299.21
Adj. EBITDA	16.53	14.93	14.03	16.44	22.23	29.62
Adj. EBIT	5.97	5.24	2.94	3.24	7.13	13.17
Adj. Net income	2.44	5.94	3.00	3.35	6.43	11.23
Adj. EPS	0.11	0.25	0.13	0.14	0.27	0.48
DPS	0.00	0.10	0.10	0.11	0.12	0.13
Dividend yield	0.00%	1.17%	1.17%	1.29%	1.40%	1.52%
RoE	4.35%	46.88%	2.73%	3.04%	5.71%	9.48%
Net gearing	55.61%	-21.78%	4.45%	15.55%	14.74%	11.76%
EV/Sales	1.00x	0.97x	0.91x	0.83x	0.75x	0.69x
Adj. EV/EBITDA	12.49x	13.83x	14.71x	12.55x	9.29x	6.97x
Adj. P/E	77.73x	33.90x	67.27x	60.11x	31.35x	17.94x

## Company profile

ENEL-MED is a leading private provider of comprehensive healthcare services in Poland. It currently operates 23 medical centers and 2 hospitals.

Website	www.enel.pl
Sector	Healthcare
Country	Poland
ISIN	PLENLM000017
Reuters	ENE.WA
Bloomberg	ENE.PW

## Share information

Last price	8.55
Number of shares (m)	23.57
Market cap. (PLNm)	201.50
Market cap. (EURm)	44.98
52-weeks range	PLN 13 / PLN 8.50
Average volume	952

## Performance

4-weeks	-4.47%
13-weeks	-19.34%
26-weeks	-22.27%
52-weeks	-22.97%
YTD	-7.27%

## Shareholder structure

Adam Rozwadowski	30.23%
Anna Rozwadowska	30.23%
Generali PTE	10.09%
PZU PTE	7.54%
Jacek Rozwadowski	4.29%
Bartosz Rozwadowski	4.13%
Free float	13.49%

## Financial calendar

Annual report 2015 (exp.) March 19, 2016

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## Investment Case

- Centrum Medyczne ENEL-MED S.A. (ENE) is a leading private provider of medical services in Poland. The company owns 2 hospitals and 23 medical centers in the largest Polish cities. As it also has co-operation agreements with >1,400 partners, it is able to provide its services countrywide. ENEL-MED's service offering comprises hospital and outpatient care as well as diagnostics, sports medicine and dental services. The company's competitive advantages are its excellent service quality and the low dependence on the public health insurance NFZ, which at the end of 9M/15 accounted for just 3.8% of total sales.
- ENEL-MED was established in 1993 as a dental clinic. Today, it provides comprehensive health services to individuals as well as >3,000 corporate and insurance clients. In the capital Warsaw, where average salaries are c. 50% higher than in other parts of Poland, ENE has a particularly strong market position. After the sale of 7 diagnostic imaging centers in March 2014, which generated proceeds of PLN 52.5m and a book profit of PLN 35.6m, the company announced a new strategy, which foresees investments in additional medical and dental centers as well as expansion into aesthetic medicine and elderly care.
- The Polish market for health services is worth PLN 105bn, of which the public segment accounts for 61.9%. PMR estimates the value of the private segment at PLN 40bn and forecasts a CAGR of c. 7%. The main growth drivers are increasing incomes, declining unemployment rates, bad quality of public health services and demographic trends. While for diagnostic imaging and elderly care, PMR expects a CAGR of >14% and 6.8% respectively, for aesthetic medicine in Poland other firms forecast a growth rate of 15-20% y-o-y in the future. Poland is still far behind other countries in terms of health indicators such as private spending on health per capita, diagnostic exams per 1k inhabitants and share of 65+ year old people in long-term care.
- In 9M/15, ENE's revenues increased by 7.7% y-o-y to PLN 171.7m, which mainly stemmed from rapid growth of subscriptions and commercial services. EBITDA and net income were negatively impacted by a higher share of COGS, distribution and depreciation expenses. For full-year 2015, we forecast total revenues of PLN 226.3m (+5.9% y-o-y), an EBITDA of PLN 14m (-6% on an adj. basis) and net income of PLN 3m (-49.6% on an adj. basis). Due to increasing capacity utilization of new medical facilities and higher depreciation we estimate that in 2016 revenues will reach PLN 249.1m (+10.1%), EBITDA PLN 16.4m (+17.2%) and net income PLN 3.4m (+11.9%).
- We recommend to REDUCE ENE with a 12-months PT of PLN 8. We believe that due to its comprehensive offering and great service quality ENE is among the best health providers in Poland. However, we think that it is currently overvalued given (1) cost pressure due to lack of qualified staff and expensive medical technology (2) volatile contract volumes of NFZ mainly due to emigration of working population to Western Europe and (3) lack of support by NFZ and potential problems relating to acquisition of clients in the new elderly care business. Since 2014, the activity of strategic and financial investors in the Polish healthcare sector has markedly declined.

## SWOT Analysis

### Strengths

- One of the Polish leaders in the area of comprehensive healthcare services
- Very strong brand name in PL; leading position in the largest and richest Polish city Warsaw
- Diversified revenue sources: (1) Corporate and insurance clients (2) Individuals (3) Public insurance NFZ, which however only accounts for 3.8% of total sales
- 95% of ENE's doctors have second level of specialisation; ENEL-MED has the ISO:9001 certificate
- The Rozwadowski family, which founded the company in 1993, owns 68.9% of the shares

### Opportunities

- Healthcare spending per capita in PL is still far below Western European levels; public healthcare is considered as being of bad quality
- Opening of additional medical and dental centers across Poland, thus expansion of the own network of medical facilities, which would make ENE even more interesting for potential investors
- In the long run, elderly homes are a very promising business due to demographic trends and bad quality of public elderly care; PMR forecasts a CAGR of 6.8% to c. PLN 8bn in 2020
- Healthcare tourism
- M&A transactions in 2012-14 in the sector in PL (BUPA-LUX MED, Life Healthcare-Scanmed Multimedis) were valued at historical EV/EBITDA of 13.5x-14x

### Weaknesses

- In the last years, ENE's share price has been mainly driven by M&A transactions in the Polish healthcare sector
- Low free float

### Threats

- Strong dependence on government regulation; it remains unclear, which plans the new Polish government has with regard to the healthcare sector
- Risk that it will take ENE quite long to reach the break-even with its elderly homes: (1) retirement benefits are relatively low in PL (c. EUR 460 per month on average) (2) currently, NFZ does not co-finance these homes and (3) interest among foreigners may be weaker than expected due to prejudices against PL and the geographical distance
- Lack of qualified medical staff and increasing costs
- Liquidity risks relating to development of medical infrastructure
- Legal risks relating to medical mistakes

## Valuation

We have valued Centrum Medyczne ENEL-MED S.A. by using a weighted average of our DCF model (60%), peer group (20%) and transaction-based fair value (20%). Our 12-months price target for the stock is PLN 8, which implies a downside of 6.4%.

### DCF model

in PLNm	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	
<b>Net sales</b>	<b>249.11</b>	<b>274.41</b>	<b>299.21</b>	<b>326.35</b>	<b>346.99</b>	<b>368.99</b>	<b>382.02</b>	<b>395.51</b>	<b>409.48</b>	
(y-o-y change)	10.1%	10.2%	9.0%	9.1%	6.3%	6.3%	3.5%	3.5%	3.5%	
<b>EBIT</b>	<b>3.24</b>	<b>7.13</b>	<b>13.17</b>	<b>19.91</b>	<b>23.60</b>	<b>26.94</b>	<b>27.62</b>	<b>28.32</b>	<b>29.03</b>	
(EBIT margin)	1.3%	2.6%	4.4%	6.1%	6.8%	7.3%	7.2%	7.2%	7.1%	
<b>NOPLAT</b>	<b>2.62</b>	<b>5.78</b>	<b>10.66</b>	<b>16.13</b>	<b>19.11</b>	<b>21.82</b>	<b>22.37</b>	<b>22.94</b>	<b>23.52</b>	
+ Depreciation & amortisation	13.20	15.09	16.46	17.95	19.08	20.29	21.01	21.75	22.52	
= Net operating cash flow	15.83	20.87	27.12	34.07	38.20	42.11	43.38	44.69	46.04	
- Total investments (Capex and WC)	-25.65	-17.10	-18.84	-20.71	-21.69	-23.14	-23.49	-24.38	-25.31	
Capital expenditure	-24.38	-15.28	-16.65	-18.15	-19.30	-20.51	-21.24	-21.99	-22.76	
Working capital	-1.28	-1.82	-2.18	-2.56	-2.40	-2.62	-2.25	-2.39	-2.55	
= Free cash flow (FCF)	-9.83	3.77	8.28	13.36	16.50	18.98	19.89	20.31	20.72	
<b>PV of FCFs</b>	<b>-8.95</b>	<b>3.11</b>	<b>6.20</b>	<b>9.06</b>	<b>10.15</b>	<b>10.58</b>	<b>10.05</b>	<b>9.30</b>	<b>8.60</b>	
<b>PV of FCFs in explicit period</b> 58.10										
<b>PV of FCFs in terminal period</b> 114.43										
<b>Enterprise value (EV)</b>	<b>172.53</b>									
+ Net cash / - net debt (31 December 2015)	-4.90									
+ Investments / - minorities	0.00									
<b>Shareholder value</b>	<b>167.63</b>									
<b>Number of shares outstanding (m)</b>	<b>23.57</b>									
<b>Terminal EBIT margin</b>										
<b>WACC</b>	<b>10.3%</b>		<b>4.1%</b>	<b>5.1%</b>	<b>6.1%</b>	<b>7.1%</b>	<b>8.1%</b>	<b>9.1%</b>	<b>10.1%</b>	
Cost of equity	12.3%		6.3%	11.25	13.37	15.49	17.61	19.73	21.85	23.97
Pre-tax cost of debt	7.0%		7.3%	9.01	10.60	12.18	13.76	15.34	16.93	18.51
Normal tax rate	19.0%		8.3%	7.47	8.70	9.92	11.15	12.37	13.60	14.83
After-tax cost of debt	5.7%		9.3%	6.34	7.32	8.29	7.85	10.24	11.21	12.19
Share of equity	70.0%		10.3%	5.48	6.27	7.06	7.85	8.64	9.43	10.22
Share of debt	30.0%		11.3%	4.79	5.44	6.09	6.74	7.39	8.04	8.70
<b>Fair value per share in PLN (today)</b>	<b>7.11</b>		12.3%	4.23	4.78	5.32	5.86	6.40	6.95	7.49
<b>Fair value per share in PLN (in 12 months)</b>	<b>7.85</b>									

Source: East Value Research GmbH

### Peer Group Analysis

Our peer group comprises other listed providers of comprehensive medical services from Western Europe, North America and Africa.

#### International peers:

- (1) *MediClin AG*: MediClin, which is based in Offenburg, operates 49 medical facilities in Germany (hospitals in the acute segment, rehabilitation centers, elderly homes, medical service centers). It is divided in three segments: the Post-acute segment offering services in the fields of subsequent nursing treatment and curative treatment; the Acute segment encompassing medical offerings with focus on neurology, neurological early rehabilitation, psychosomatic medicine, psychiatry, orthopedics, internal medicine as well as special expertise in the areas of cardiology, oncology and otolaryngology (ENT); and Other Activities consisting mainly of nursing care.

In 2014, MediClin generated revenues of EUR 545m. The company's majority shareholder is the 2nd largest private medical chain in Germany Asklepios Kliniken (c. 150 medical facilities, EUR 3bn of revenues in 2014) with 52.7%. The insurance company ERGO Versicherungsgruppe holds 35% of the shares.

- (2) *HCA Holdings Inc.:* HCA, which is headquartered in Nashville/US, owns and operates approximately 166 hospitals (162 general acute care hospitals, three psychiatric clinics, one rehabilitation hospital) and approximately 113 freestanding surgery centers in 20 US states and London/UK. In 2014, it generated revenues of USD 36.9bn.
- (3) *Rhön-Klinikum AG:* Rhön-Klinikum, which is based in Bad Neustadt, operates 10 hospitals and 8 medical service centers throughout Germany. In 2014, the company generated revenues of EUR 1.5bn. Asklepios Kliniken, which is family-owned, holds 17.6% of the shares in Rhön-Klinikum.

In September 2013, Rhön-Klinikum sold to Fresenius Helios 43 of its hospitals and 15 of its medical centers for EUR 3.1bn (EV/Sales 2013 = c. 1.5x; EV/EBITDA 2013 = c. 12.3x). Due to the transaction Fresenius Helios, which earlier had tried to take over 100% of Rhön-Klinikum, became the largest operator of medical facilities in Europe with 177 facilities and revenues of EUR 5.5bn. The primary objectives of the transaction were the expansion of presence in Germany and the achievement of scale effects e.g. in purchasing.

- (4) *Ramsay Health Care Ltd.:* Ramsay Health Care, which is based in Gilberton/Australia, is engaged in operating private hospitals. The company owns and operates 212 hospitals and day surgery facilities across Australia, the United Kingdom, France, Indonesia and Malaysia. In fiscal-year 2014/15, Ramsay Health Care generated revenues of AUD 7.4bn.
- (5) *Universal Health Services Ltd.:* Universal Health Services, which is based in King of Prussia/US, operates medical facilities in the US. It owns 26 acute care hospitals and 203 behavioral health centers in 38 US states incl. Washington D.C., UK, Puerto Rico and US Virgin Islands. In 2014, Universal Health Services generated revenues of USD 8.1bn.
- (6) *Tenet Healthcare Corp.:* Tenet Healthcare, which is based in Dallas/US, is a healthcare services company. The company operates 87 hospitals, 19 short-stay surgical hospitals, >425 outpatient centers including 9 facilities in UK. In 2014, Tenet Healthcare generated total sales of USD 16.6bn.
- (7) *LifePoint Health Inc.:* LifePoint Health, which is based in Brentwood/US, provides healthcare services. The company, through its subsidiaries, operates more than 65 community hospitals, nearly 40 post-acute service providers and facilities including home health and hospice services, long-term care services, nursing homes and assisted living facilities; and more than 30 outpatient centers, including urgent care centers, diagnostic imaging centers, ambulatory surgery centers, and radiation oncology programs. In 2014, LifePoint Health generated revenues of USD 4.5bn.

- (8) *Select Medical Holdings Corp.*: Select Medical Holdings, which is based in Mechanicsburg/US, is an operator of both specialty hospitals and outpatient rehabilitation clinics in the United States. The company operates 111 long-term acute care hospitals and 17 acute medical rehabilitation hospitals in 28 states. Select is also a leading operator of outpatient rehabilitation clinics, with approximately 1,028 locations in 31 states and the District of Columbia. Moreover, the company provides medical rehabilitation services on a contract basis at nursing homes, assisted living and senior care centers, schools and worksites. In 2014, Select Medical Holdings generated revenues of USD 3.1bn.
- (9) *Life Healthcare Group Ltd.*: Life Healthcare, which is based in Ilovo/South Africa, is a healthcare group with operations in South Africa, Botswana, Poland (100%-owned Scanmed Multimedis S.A.) and India (46.3% shareholding Max Healthcare Institute Ltd.). It operates among others >70 hospitals, 7 acute rehabilitation, 6 mental healthcare and 18 renal dialysis facilities. In Poland, it owns 10 hospitals, 36 medical centers and 7 inpatient cardiology centers. In fiscal-year 2014/15, Life Healthcare generated revenues of ZAR 14.6bn. The Polish business contributed ZAR 648m.

Company	EV/Sales		EV/EBITDA		P/E		P/BVPS	EBITDA margin	Net gearing
	2016E	2017E	2016E	2017E	2016E	2017E	Latest	2014	Latest
MediClin AG (EUR)	0.40x	0.39x	5.90x	5.61x	12.59x	11.89x	1.23x	6.30%	14.59%
HCA Holdings Inc. (USD)	1.37x	1.31x	6.97x	6.62x	11.23x	10.21x	n.a	20.00%	n.a
Rhön-Klinikum AG (EUR)	1.20x	1.16x	8.85x	8.29x	22.71x	20.37x	1.63x	4.40%	-29.19%
Ramsay Health Care Ltd. (AUD)	1.72x	1.64x	11.21x	10.48x	23.97x	21.82x	6.76x	14.70%	164.47%
Universal Health Services Inc. (USD)	1.46x	1.38x	7.96x	7.49x	14.79x	13.52x	2.60x	18.30%	81.44%
Tenet Healthcare Corp (USD)	0.97x	0.92x	7.42x	7.04x	9.85x	7.19x	2.87x	11.70%	2020.20%
LifePoint Health Inc. (USD)	0.86x	0.82x	6.63x	6.25x	16.17x	15.15x	1.35x	14.50%	91.11%
Select Medical Holdings Corp (USD)	0.96x	0.92x	8.43x	7.70x	11.31x	9.45x	1.62x	11.50%	322.00%
Life Healthcare Group Holdings Ltd. (ZAR)	0.59x	0.54x	2.12x	1.95x	13.49x	12.29x	0.64x	27.70%	139.55%
<b>Median</b>	<b>0.97x</b>	<b>0.92x</b>	<b>7.42x</b>	<b>7.04x</b>	<b>13.49x</b>	<b>12.29x</b>	<b>1.63x</b>	<b>14.50%</b>	<b>115.33%</b>
Centrum Medyczne Enel-Med S.A. (PLN)	0.83x	0.75x	12.55x	9.29x	60.11x	31.35x	1.84x	23.65%	4.48%
<b>Premium/discount</b>	<b>-14.8%</b>	<b>-18.6%</b>	<b>69.2%</b>	<b>31.9%</b>	<b>345.6%</b>	<b>155.1%</b>	<b>13.4%</b>		
<b>Fair value Enel-Med (PLN)</b>	<b>6.40</b>								

Source: Thomson Reuters Eikon, East Value Research GmbH

Transaction-based fair value:

Target	Buyer	Date	Implied EV for 100% excl. earn-out	EV/EBITDA
LUX MED Sp. z.o.o	BUPA PLC	Dec 2012	1625.00	14.00x
Scanmed Multimedis S.A.	Life Healthcare Group Ltd.	Apr 2014	213.20	13.53x
<b>Median</b>				<b>13.76x</b>
Adj. 2014 EBITDA ENEL-MED				14.93
<b>Implied EV ENEL-MED (in PLNm)</b>				<b>205.46</b>
<b>Implied equity value ENEL-MED</b>				<b>200.56</b>
Number of shares outstanding (m)				23.57
<b>Equity value per share (in PLN)</b>				<b>8.51</b>

Source: East Value Research GmbH

**Price target calculation**

Valuation method	Fair value	Weight
DCF model	7.11	60%
Peer group analysis	6.40	20%
M&A transactions	8.51	20%
<b>Weighted average (present value)</b>	<b>7.25</b>	
<b>In 12-months (PV * (1+WACC))</b>	<b>8.00</b>	

Source: East Value Research GmbH



Polish peers:

Company	Owners	Listed yes/no	Number of facilities	Revenues in 2014	EBITDA margin in 2014
LUX MED Sp. Z.o.o	BUPA PLC	no	7 hospitals, in total 183 medical facilities, comprehensive service offering incl. also diagnostic imaging, elderly care and aesthetic medicine	>PLN 1bn	n.a
Medicover Sp. Z.o.o	Luxemburg-based Medicover Group, which is present in 14 European countries	no	1 hospital, 31 medical centers, 16 diagnostic centers, 10 pharmacies & drug stores, 7 clinics for treatment of infertility	c. PLN 870m	n.a
EMC Instytut Medyczny S.A.	Private equity fund Penta Investments & insurance company PZU	yes	10 hospitals and 19 medical centers mostly in South-Western and Northern Poland; comprehensive medical offering	PLN 243.1m	3%
Polmed S.A.	Management & Krokus Private Equity	yes	20 medical centers offering outpatient care	PLN 61.1m	12.9%
Grupa Nowy Szpital S.A.	Management	no	12 hospitals, also operation of medical centers and ambulance	PLN 275m	n.a
Dom Lekarski S.A.	Management	yes	6 medical facilities mostly in the city of Szczecin offering different kind of medical services e.g. hand and general surgery, orthopaedics, laryngology	PLN 30m	5.4%

Source: East Value Research GmbH

## Recent results

### Revenues and Profitability

In 9M/15, Centrum Medyczne ENEL-MED S.A. generated total revenues of PLN 171.7m compared to PLN 159.4m last year, which corresponded to a growth rate of 7.7% y-o-y. Excluding the seven diagnostic centers, which the company sold in March 2014 for PLN 52.5m to the largest Polish private provider of healthcare services LUX MED Sp. z.o.o, the growth equaled c. 16%. Sales from subscriptions and commercial services (insurance, fees-for-service) increased by 18% and 17% respectively y-o-y.

in PLNm	9M/15	9M/14*	change (%)
<b>Net sales</b>	<b>171.72</b>	<b>159.40</b>	7.7%
<b>EBITDA</b>	<b>10.69</b>	<b>48.06</b>	-77.8%
<i>EBITDA margin</i>	<i>6.2%</i>	<i>30.2%</i>	
<b>EBIT</b>	<b>2.60</b>	<b>40.79</b>	-93.6%
<i>EBIT margin</i>	<i>1.5%</i>	<i>25.6%</i>	
<b>Net income</b>	<b>2.49</b>	<b>41.66</b>	-94.0%
<i>Net margin</i>	<i>1.5%</i>	<i>26.1%</i>	

\* in 9M/14, results included the one-off gain from the sale of 7 diagnostic centers of PLN 35.6m

Source: Company information, East Value Research GmbH

Between January and September 2015, ENEL-MED's EBIT equaled PLN 2.6m compared to PLN 40.8m last year, which however included a profit from sale of the seven diagnostic centers of PLN 35.6m. Net income in 9M/15 was negatively affected by a tax payment of PLN 896k vs. a tax refund of PLN 356k in the previous year.

In 9M/15, ENEL-MED's profitability was affected by a higher cost structure, especially a higher share of CoGS and distribution expenses as well as larger depreciation due to investments in medical facilities and equipment.

### Balance sheet and Cash flow

At the end of September 2015, ENEL-MED had equity of PLN 109.3m (59.9% ratio). While fixed assets equaled PLN 113.6m (31/12/2014: PLN 93.9m), intangible assets, which mainly comprise brand rights, software and licenses, amounted to PLN 3.3m (PLN 3.1m). We estimate that working capital equaled PLN -5m (PLN -8.6m). As of 30 September 2015, ENEL-MED had interest-bearing debt of PLN 45.1m compared to PLN 32.4m at the end of 2014.

Between January and September 2015, ENEL-MED generated an operating cash flow of PLN 5.4m compared to PLN 9.9m in 9M/14. The main reason were higher investments in working capital y-o-y (PLN 6.3m vs. PLN 1.5m) and a one-off in 9M/14 of PLN 37.6m. While cash flow from investing, which in 9M/14 was affected by the sale of seven diagnostic centers, equaled PLN -23.3m (9M/14: PLN 47.9m), cash flow from financing amounted to PLN -2.7m (PLN -7.3m) as the company repaid debt. Compared to January 2015, ENEL-MED's cash position declined by PLN 20.7m to PLN 22.8m.

## Financial forecasts

### Revenues and Profitability

We have based our model of Centrum Medyczne ENEL-MED S.A. on the segments "Medical centers + ENEL-CARE", "Hospitals", "Diagnostics", "Dentistry" and "Others". As management clearly focus their efforts on services, for which customers pay either out-of-the-pocket or through subscriptions, the main risks to our assumptions are an increasing unemployment rate in Poland and decreasing disposable incomes.

*Medical centers + ENEL-CARE:* This refers to sales of ENEL-MED's 23 own comprehensive medical centers as well as its own subscription service ENEL-CARE. It also includes the new activities relating to sports medicine (ENEL-SPORT brand), aesthetic medicine (ESTELL) and elderly care (in December 2015, ENE bought 65% in the JOVIMED facility in Ksawerow for PLN 882k). Thus, we expect that this business segment will be the fastest-growing in the coming years and forecast a CAGR 14-24E of 8%.

*Hospitals:* While ENEL-MED plans to increase the share of revenues from hospital services, for which customers pay on their own, the public health insurance NFZ remains the most important payer in that area. This fact constitutes a risk factor as NFZ is an institution, which is controlled by politicians. Nevertheless, we believe that in this area, which is the most profitable in the long run, ENEL-MED could grow its sales at a CAGR 14-24E of 3.6%.

*Diagnostics:* In March 2014, ENEL-MED sold seven out of its 10 diagnostic imaging centers to LUX MED, which led to a 47.2% decline of revenues in full-year 2014. Nevertheless, the company is re-building the diagnostics segment, but in locations, where it is providing other medical services. With regard to investments, ENEL-MED focuses on the most modern 3-Tesla MRIs, which should also result in increasing depreciation expenses in the coming years. By 2024, we expect that the revenues of ENE's diagnostic segment will grow at an average rate of 4.4% per year.

*Dentistry:* Dentistry is one of the areas, which has strategic importance for ENEL-MED. By the end of 2016, the company wants to be the market leader in Poland. We forecast that by 2024 this segment will grow its revenues at a CAGR of 4.6%.

*Others*: This segment comprises all other sales e.g. those relating to medical materials. In our view, it will grow at 0.9% y-o-y on average until 2024.

in PLNm	2015E	2016E	2017E	2018E
<b>Medical centers &amp; Enel-Care</b>	<b>173.00</b>	<b>192.89</b>	<b>215.07</b>	<b>236.58</b>
(% of net sales)	76.5%	77.4%	78.4%	79.1%
<b>Hospitals</b>	<b>12.43</b>	<b>13.05</b>	<b>13.70</b>	<b>14.39</b>
(% of net sales)	5.5%	5.2%	5.0%	4.8%
<b>Diagnostics</b>	<b>12.14</b>	<b>12.86</b>	<b>13.64</b>	<b>14.45</b>
(% of net sales)	5.4%	5.2%	5.0%	4.8%
<b>Dentistry</b>	<b>26.21</b>	<b>27.78</b>	<b>29.45</b>	<b>31.21</b>
(% of net sales)	11.6%	11.2%	10.7%	10.4%
<b>Others</b>	<b>2.50</b>	<b>2.53</b>	<b>2.55</b>	<b>2.58</b>
(% of net sales)	1.1%	1.0%	0.9%	0.9%
<b>Total net sales</b>	<b>226.27</b>	<b>249.11</b>	<b>274.41</b>	<b>299.21</b>
(change y-o-y)	5.9%	10.1%	10.2%	9.0%

Source: East Value Research GmbH

in PLNm	2015E	2016E	2017E	2018E
<b>Net sales</b>	<b>226.27</b>	<b>249.11</b>	<b>274.41</b>	<b>299.21</b>
<b>EBITDA</b>	<b>14.03</b>	<b>16.44</b>	<b>22.23</b>	<b>29.62</b>
<i>EBITDA margin</i>	6.2%	6.6%	8.1%	9.9%
<b>EBIT</b>	<b>2.94</b>	<b>3.24</b>	<b>7.13</b>	<b>13.17</b>
<i>EBIT margin</i>	1.3%	1.3%	2.6%	4.4%
<b>Net income</b>	<b>3.00</b>	<b>3.35</b>	<b>6.43</b>	<b>11.23</b>
<i>Net margin</i>	1.3%	1.3%	2.3%	3.8%

Source: East Value Research GmbH

in PLNm	Q1/13	Q2/13	Q3/13	Q4/13	2013
<b>Net sales</b>	<b>48.63</b>	<b>49.05</b>	<b>52.82</b>	<b>56.21</b>	<b>206.71</b>
<i>y-o-y change</i>	8.2%	11.7%	15.7%	21.5%	14.3%
<b>EBITDA</b>	<b>3.19</b>	<b>2.87</b>	<b>4.52</b>	<b>5.95</b>	<b>16.53</b>
<i>EBITDA margin</i>	6.6%	5.8%	8.6%	10.6%	8.0%
<b>EBIT</b>	<b>-0.55</b>	<b>0.34</b>	<b>2.85</b>	<b>3.34</b>	<b>5.97</b>
<i>EBIT margin</i>	-1.1%	0.7%	5.4%	5.9%	2.9%
<b>Net income</b>	<b>-1.05</b>	<b>-0.34</b>	<b>1.65</b>	<b>2.18</b>	<b>2.44</b>
<i>Net margin</i>	-2.2%	-0.7%	3.1%	3.9%	1.2%

in PLNm	Q1/14	Q2/14	Q3/14	Q4/14	2014	Q1/15	Q2/15	Q3/15	Q4/15E	2015E
<b>Net sales</b>	<b>54.01</b>	<b>54.92</b>	<b>50.47</b>	<b>54.28</b>	<b>213.68</b>	<b>56.42</b>	<b>58.09</b>	<b>57.22</b>	<b>54.54</b>	<b>226.27</b>
<i>y-o-y change</i>	11.1%	12.0%	-4.4%	-3.4%	3.4%	4.5%	5.8%	13.4%	0.5%	5.9%
<b>EBITDA</b>	<b>3.41</b>	<b>39.35</b>	<b>5.31</b>	<b>2.46</b>	<b>50.53</b>	<b>3.82</b>	<b>2.64</b>	<b>4.23</b>	<b>3.34</b>	<b>14.03</b>
<i>EBITDA margin</i>	6.3%	71.7%	10.5%	4.5%	23.6%	6.8%	4.5%	7.4%	6.1%	6.2%
<b>EBIT</b>	<b>0.72</b>	<b>37.02</b>	<b>3.05</b>	<b>0.05</b>	<b>40.84</b>	<b>1.27</b>	<b>0.03</b>	<b>1.30</b>	<b>0.34</b>	<b>2.94</b>
<i>EBIT margin</i>	1.3%	67.4%	6.0%	0.1%	19.1%	2.3%	0.0%	2.3%	0.6%	1.3%
<b>Net income</b>	<b>0.81</b>	<b>38.39</b>	<b>2.47</b>	<b>-0.13</b>	<b>41.54</b>	<b>1.74</b>	<b>-0.25</b>	<b>1.01</b>	<b>0.50</b>	<b>3.00</b>
<i>Net margin</i>	1.5%	69.9%	4.9%	-0.2%	19.4%	3.1%	-0.4%	1.8%	0.9%	1.3%

Source: Company information, East Value Research GmbH

## **CAPEX and Working capital**

We expect that ENEL-MED's gross CAPEX will reach PLN 37.6m in 2015. In 2016, when the company plans to open a second ENEL-SPORT clinic in Warsaw for children and a new medical center with a 3-Tesla MRI in Katowice among others, we estimate gross CAPEX at PLN 24.4m. Beyond 2016, we think that it will amount to 5.6% of yearly sales.

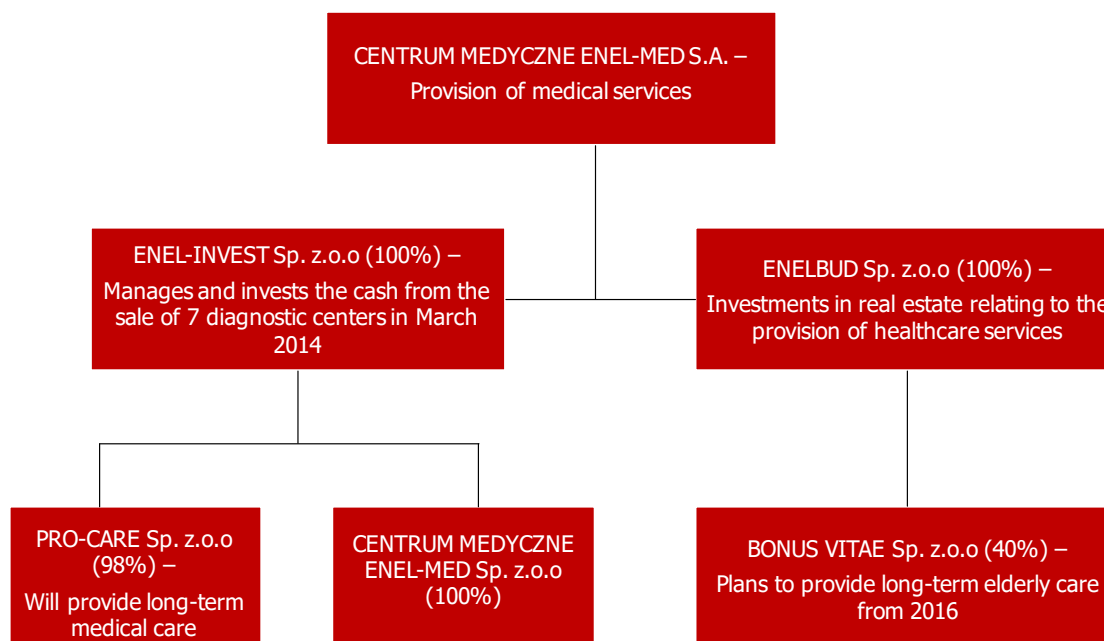
We have assumed that working capital will be positive in the long run. While we expect the working capital/sales ratio to advance from -3.5% in 2014 to 1.7% in the future, we forecast that the cash conversion cycle will increase to 3 days (2014: -15 days).

## **Business description**

Centrum Medyczne ENEL-MED S.A., which is based in Warsaw, is the leading provider of comprehensive medical services in Poland including hospital & outpatient care, diagnostics (MRI, CT, USG), sports medicine and dental care. The company owns 2 hospitals in Warsaw and 23 medical centers in the largest Polish cities Warsaw, Gdansk, Poznan, Wroclaw, Katowice and Krakow. Due to its co-operation with >1,400 medical partners ENEL-MED is able to provide its services countrywide. The company's customers include individuals, corporates as well as insurances. ENEL-MED S.A. has been listed on the Warsaw Stock Exchange since 2011 and currently has >2,000 employees (thereof 1,100 doctors).

For the provision of its services, ENEL-MED receives payments from four different sources: the public health insurance NFZ, monthly subscriptions from private individuals or companies, private health insurances and directly from private customers (so-called fees-for-service). At the end of 9M/15, the share of NFZ in ENEL-MED's total sales only amounted to 3.8% (down from 5.6% in full-year 2014).

## Organizational structure



Source: Company information, East Value Research GmbH

## Company history

1993: Opening of the ENEL-MED medical center in the district of Zacisze in Warsaw. At the beginning, it was supposed to be a dental clinic, however later was extended with general medical services.

1998: Opening of a hospital in Zacisze in Warsaw. The facility had 19 beds and two operation rooms.

Introduction of the Enel-Care subscription product for medium-sized and large companies.

1999: Opening of a medical facility at ul. Jana Pawla II in Warsaw (Atrium Plaza) with a dental clinic.

2002: Opening of another facility in the Atrium Plaza building: A specialized medical center.

2003: Extension of the service offering with teleradiology, which allows sending digital images of MRI (magnetic resonance), CT (computer tomography) and RTG exams. ENEL-MED was the first to introduce this kind of service in Poland.

Opening of a MRI in the district hospital in Lomza.

2004: ENEL-MED receives the ISO 9001:2000 certificate. The company initiates the co-operation with the public health fund NFZ and opens the first medical facility (outpatient care, dental care, RTG) in the Warsaw shopping mall Blue City.

Introduction of the insurance product medi-care together with InterRisk S.A. (Vienna Insurance Group).

2005: Opening of a medical facility in the Arkadia shopping mall in Warsaw with e.g. dental clinic, outpatient care, rehabilitation etc. ENE also opens a CT center in Poznan.

2006: Opening of a diagnostic center in the hospital in Warsaw-Bielany with angiography, radiology, MRI and CT. ENEL-MED also opens a first medical facility in Poznan with e.g. dental, USG, gastroscopy and RTG center.

2007: Transformation into a joint-stock company.

Introduction of a system for teleradiological archivization.

ENEL-MED opens a new medical facility in Wroclaw with complex service offering. In addition, it opens a diagnostic center in Mielec.

2008: Opening of diagnostic centers in Boleslawiec and Krakow. Also, ENEL-MED opens the sixth medical facility in Warsaw on ul. Pulawska.

2009: Opening of a diagnostic center in Lublin with a MRI and computer tomograph.

2010: Start of co-operation with the analytical lab ALAB, which allows all ENE's doctors and patients to access exam results online.

Opening of first multi-profile medical facility in Lodz and the first in Poland private consultancy on sarkoidosis. Also, opening of a highly specialized medical consultancy on eyes in Warsaw, the new medical facility on ul. Domaniewska in Warsaw as well as two medical facilities at company sites for employees of the Millennium bank and the Polish Central Bank (NBP).

As an agent, ENEL-MED starts selling health insurance policies of Signal Iduna, Inter Polska, Generali and Allianz.

Co-operation agreement with Generali insurance company.

NFZ contract for the diagnostic center (computer tomograph, magnetic resonance) in Lublin, which will be valid in 2011.

2011: IPO on the main market of the Warsaw Stock Exchange, which was accompanied by a capital increase of PLN 35.5m (7.1m new shares at PLN 5 per share).

Start of construction of a new hospital in Warsaw (Al. Jerozolimskie) with 28 beds and 2 operation rooms. Launch of a specialized medical facility in Gdansk with a diagnostic center as well as diagnostic centers in Konin and Warsaw. Total cost of all these investments is PLN 58m.

2012: Contract with the public health insurance NFZ for the provision of diagnostic imaging services in Lomza, Lublin, Poznan, Konin and Mielec.

Agreements with the Wolski hospital for the provision of MRI exams.

2013: Acquisition of new clients and renewal/extension of co-operation with existing customers e.g. LG Electronics, Ruch, PGE Group, Polish Central Bank (NBP), Raiffeisen Polska, UNIQUA insurance company, Generali.

Publication of the company's strategy for the period 2014-2016, which foresees investments worth PLN 50m that are supposed to be financed either by a new investor or sale of diagnostic imaging centers:

- (1) Establishment of highly specialised medical centers for commercial services in the areas of sports, aesthetic, men's, women's and child's medicine as well as ophthalmology. Expected break-even after 2 years.
- (2) Opening of medical facilities that are financed by subscriptions especially in Katowice, Poznan, Wroclaw and Szczecin.
- (3) Investments in brand marketing and increase of capacity utilisation of facilities in Lodz, Krakow, Poznan, Wroclaw and Gdansk to 85% (EVR: currently 50-60%, thus much lower than in the capital Warsaw).
- (4) Opening of highly specialised dental clinics and achievement of leading position on the market.
- (5) Implementation of a new IT system.
- (6) Development of services in the area of long-term elderly care.

2014: Sale of seven diagnostic imaging centers (7 out of total 10) for PLN 58.5m (PLN 52.5m excluding debt) to LUX MED Sp. Z.o.o, the largest private provider of comprehensive medical services in Poland. The transaction was conducted at an estimated EV/EBITDA 2013 of c. 13x. The centers were located in Lomza, Wolomin, Poznan, Konin, Lublin, Mielec and in the Bielany hospital in Warsaw.

Opening of a new multi-profile medical center in Warsaw, which offers services in the areas of diagnostics, dentistry and rehabilitation. With 1,500 sqm, it is currently the largest of ENEL-MED's facilities.



Opening of a new ESTELL clinic for aesthetic medicine in Warsaw with an expected break-even after 2 years. The facility is supposed to provide commercial services relating to cosmetology, aesthetic medicine and gynaecology.

Co-operation agreement with the leading sports club in Poland Legia Warszawa. ENEL-MED is supposed to provide comprehensive medical services for the members of the club including children, teenagers and adults.

2015: Opening of a second medical facility with advanced dentistry in Wroclaw and the first one with comprehensive medical services in Katowice.

Opening of a sports clinic ENEL-SPORT at the site of Legia Warszawa.

## Business segments

*Medical centers and Enel-Care:* This segment comprises the results of the currently 23 medical facilities, which ENEL-MED operates in the largest Polish cities Warsaw, Poznan, Wroclaw, Katowice, Lodz and Gdansk. In 2014, it generated revenues of PLN 152.8m (71.5% of ENE's total sales).

*Hospitals:* This segment comprises the results of ENEL-MED's two hospitals in Warsaw: Zacisze and Centrum. In 2014, it had revenues of PLN 12.3m, which corresponded to a share of 5.8% in the company's total sales. While the hospital in Zacisze is profitable, we expect that Centrum will only reach the break-even on EBITDA level in 2016.

Hospital	Opening	Number of beds	Number of operation rooms	Medical services
Zacisze	1998	19	2	child and general surgery, plastic surgery, vascular surgery, gynecology, laryngology, ophthalmology, urology
Centrum	2012	28	2	backbone and hand surgery, plastic, orthopaedic and neuro surgery, psychological advice

Source: Company information, East Value Research GmbH

The main risk in the area of hospital care in Poland is the dependence on the public health fund NFZ. Experience of e.g. the private medical chain Medicover has shown that a hospital will never be profitable if it finances its services only with patient's money. Nevertheless, in our view ENEL-MED's strategy, which foresees a further increase of the share of commercial sales in its hospitals, makes sense as it reduces the dependence on NFZ, which is a state-owned institution that is controlled by politicians.

*Diagnostics:* This segment comprises the results of ENEL-MED's currently three diagnostic centers in Gdansk and Warsaw, which offer magnetic resonance (MRI), computer tomograph (CT) and USG exams. In 2014, this business area generated revenues of PLN 19m (8.9% of the company's total sales).

Again, a major risk, which we see here, is the public insurance NFZ, which is the main payer for diagnostic exams in Poland.

*Dentistry:* This segment comprises the results of ENEL-MED's dentistry segment, which in 2014 generated revenues of PLN 25.7m (12% share in ENE's total sales). The company currently operates c. 50 dental centers and plans to expand further in this area in order to become the leader on the highly dispersed Polish market.

In our view, this area has great potential for commercial sales as dental treatments are by far not as expensive as e.g. those in hospitals and most Poles are able to pay for them from their own pocket.

*Others:* This segment comprises all other sales e.g. those relating to medical materials. In 2014, it accounted for 1.8% of ENEL-MED's total sales or PLN 3.9m.

## **Management**

*Adam Rozwadowski (CEO):* Mr Adam Rozwadowski is founder and CEO of ENEL-MED and is also co-head of the Polish Association of Private Hospital Operators. Together with his wife, he is also the company's largest shareholder. Before establishing ENEL-MED in 1993, he worked in management positions at the utility STOEN in Warsaw. Mr Adam Rozwadowski graduated with a Master's degree in Electrical Engineering from the Technical University in Gdansk.

*Jacek Rozwadowski (Vice President of the Management Board):* Mr Jacek Rozwadowski is Vice President of the Board of ENEL-MED and Managing Director. As such, he is responsible for the realization of the company's strategy and supervises its business areas. Before joining ENEL-MED in 2002, he worked in sales and marketing at DAF Trucks and as project manager at Elektrim S.A. Mr Jacek Rozwadowski graduated with a Master's degree in Marketing from the Higher School of Business and Administration in Warsaw.

## Market environment

### The Polish healthcare market

The Polish healthcare market is worth PLN 105bn and consists of the public (PLN 65bn) and private segment (PLN 40bn). The National Health Fund NFZ is financed by an obligatory premium that all employees and entrepreneurs in Poland have to pay on a monthly basis and which currently amounts to 9% of the gross income. In 2016, it plans to increase its spending by 6.9% y-o-y to PLN 69.5bn.

Private health expenditures are financed by monthly subscriptions, health insurances and out-of-pocket expenditures (so-called fees-for-service). The market research firm PMR expects them to grow at a CAGR of c. 7% to PLN 56.2bn by 2020. The main growth drivers are low quality of public health services, growing GDP and incomes and still relatively low private health spending per capita. The diagnostic segment, which PMR forecasts to increase at a CAGR of >14% in the coming years from PLN c. 900m in 2014, is one of the most promising areas of the health market in Poland.

in USD per capita, purchasing power parity	Total health expenditures (2013)
USA	8,713
Germany	4,819
Spain	2,898
Switzerland	6,325
Portugal	2,514
Slovakia	2,010
Greece	2,366
Slovenia	2,511
Estonia	1,542
United Kingdom	3,235
Hungary	1,720
Poland	1,530
Czech Republic	2,040
<b>Average OECD</b>	<b>3,403</b>

Source: OECD Health data (latest available), East Value Research GmbH

Country	MRI exams per 1k inhabitants (2012)	MRI exams per 1k inhabitants (2013)	Country	CT exams per 1k inhabitants (2012)	CT exams per 1k inhabitants (2013)
USA	104.8	106.9	USA	256.8	240.4
Spain	64.5	69.7	Spain	90.4	96.2
Slovakia	40.9	46.3	Slovakia	107.6	122.8
Slovenia	33.2	36.2	Slovenia	52.6	55.1
Estonia	46.8	51.2	Estonia	393.3	494.6
Hungary	34.1	34.8	Hungary	86.2	92.0
Poland	18.1	22.8	Poland	37.8	55.2
Czech Republic	43.2	45.2	Czech Republic	94.5	95.8
<b>Average OECD</b>	<b>53.0</b>	<b>56.7</b>	<b>Average OECD</b>	<b>136.2</b>	<b>148.1</b>

Source: OECD Health data (latest available), East Value Research GmbH

Country	PET exams per 1k inhabitants (2012)	PET exams per 1k inhabitants (2013)
USA	5.0	5.5
Spain	2.1	2.3
Slovakia	1.0	1.2
Slovenia	n.a	n.a
Estonia	n.a	n.a
Hungary	1.4	1.4
Poland	0.7	0.9
Czech Republic	3.2	3.2
<b>Average OECD</b>	<b>2.8</b>	<b>3.1</b>

Source: OECD Health data (latest available), East Value Research GmbH

While the private health market in Poland is highly promising in the long run, industry participants have been talking about several major issues, which affect all private companies from the sector: (1) lack of stability when it comes to contract volumes from NFZ, whose funding suffers from still relatively high unemployment and emigration (2) increasing personnel costs due to emigration and growing costs relating to medical technology and (3) still relatively low disposable incomes of Poles, which limit their ability to pay for health services out-of-the-pocket. Thus, although the demand for health services is growing significantly due to demographic change and a trend towards a healthy lifestyle, profitability of the private providers is suffering. Moreover, in contrast to the period 2012-2014, when there were several significant M&A transactions in the still-dispersed Polish healthcare sector, the activity of investors has gone down markedly. The situation of private healthcare providers would improve if the Polish government introduced subsidies for additional health insurances. However, this does not seem currently very likely.

### Prospects of elderly care in Poland

With 1.26 children on average per woman, Poland is one of the countries with the lowest birth rate in the OECD. According to ZUS (state-owned social insurance), the number of retirees reached >5m in April 2015 compared to 4.35m in 2006 (c. +15%). In total, the number of Poles, who were either retired or not able to work, equalled 7.27m.

Country	Average birth rate per woman (2013)
USA	1.86
Germany	1.41
Spain	1.27
Switzerland	1.52
Portugal	1.21
Slovakia	1.34
Greece	1.30
Slovenia	1.55
Estonia	1.52
United Kingdom	1.83
Hungary	1.34
Poland	1.26
Czech Republic	1.46
<b>Average OECD</b>	<b>1.67</b>

Source: OECD Health data (latest available), East Value Research GmbH

Country	Share of people with 65 years and older (2014)
USA	14.5%
Germany	20.8%
Spain	18.4%
Switzerland	17.5%
Portugal	20.0%
Slovakia	13.5%
Greece	19.7%
Slovenia	17.5%
Estonia	18.4%
United Kingdom	17.6%
Hungary	17.6%
Poland	14.9%
Czech Republic	17.3%
<b>Average OECD</b>	<b>16.2%</b>

Source: OECD Health data (latest available), East Value Research GmbH

In a report from 2015, the consultancy PwC concluded that the market for long-term elderly care in Poland is highly promising. First, the number of people with 65+ years is expected to increase by c. 3m to 8.5m by 2035. Second, Poland's society is subject to the same trends as developed countries, which lead to a higher number of older people living without care: (1) growing number of singles and (2) increasing mobility of children and grandchildren. And third, Poland is currently far behind other countries when it comes to the share of people over 65 years, who receive long-term care (5% vs. 14% on average in OECD), and the number of beds per 1,000 inhabitants over 65 years (20 vs. 50 on average in OECD).

While PwC forecasts that the value of the market for long-term care will increase at a CAGR 14-20E of 6.8% to c. PLN 8bn, growth rates could be even higher as currently only 50% of demand is met due to insufficient financing. On the one hand, the average retirement benefit in Poland is still significantly lower than e.g. in Germany (c. EUR 460 vs. c. EUR 820). On the other, Polish NFZ still does not support long-term care, which is why it is difficult for private operators of elderly homes to reach profitability.

In our view, this situation could be partially offset by retirees from richer Western European countries, which often also have large Polish-born populations. For example in neighbouring Germany, people often cannot afford long-term care (costs of EUR 3,250 on average vs. EUR c. 1,000 in Poland) despite much higher retirement benefits than in Poland and government subsidies. While press articles e.g. on Bloomberg.com and gazeta.pl suggest that this could be a huge opportunity for the private operators of elderly homes in Poland, we believe that there are two significant factors that limit the growth: (1) still existing prejudices against Poland and (2) the geographical distance. Thus, we think that the main target group of Polish elderly homes should be Polish-born populations and the most promising locations for elderly homes are those relatively close to the Western border.

Country	Number of Poles as of 31/12/2014 (in thousands)
United Kingdom	685
Germany	614
Ireland	113
Netherlands	109
Italy	96
France	63
Belgium	49
Sweden	43
Other EU	129

\* plus c. 600k Polish-born ethnic Germans, who emigrated between 1950 and 1990

Source: GUS (31/12/2014), German Federal Migration Office BAMF, East Value Research GmbH

	Germany	Poland
Average retirement benefit	EUR 820/month	EUR 460/month
Average cost of long-term care	EUR 3,250/month	EUR 1,000/month
State insurance covers costs of long-term care?	Up to EUR 1,612/month for nursing in D (dependent on patient's condition) and max. EUR 728/month for nursing abroad; insurance premium amounts to 2.35% of an employee's monthly gross salary (50% pays the employer)	no

Source: bkk24.de, Bloomberg.com, gazeta.pl, East Value Research GmbH

### **The aesthetic medicine market**

According to Newseria Biznes and Lea Futur, aesthetic medicine is a booming market in Poland. For respective treatments, Poles spend in total >PLN 1bn per year and the market is growing 15-20% y-o-y. The high growth compared to other countries stems from the fact that the Polish market is still much less developed than Western Europe or the US. The two fastest-growing segments of aesthetic medicine are plastic surgeries, which are worth PLN >200m alone, and less-invasive aesthetic dermatology (e.g. botox treatments).

## Profit and loss statement

in PLNm	2013	2014	2015E	2016E	2017E	2018E
<b>Net sales</b>	<b>206.71</b>	<b>213.68</b>	<b>226.27</b>	<b>249.11</b>	<b>274.41</b>	<b>299.21</b>
Cost of goods sold	-176.71	-183.08	-196.17	-214.48	-231.88	-247.30
<b>Gross profit</b>	<b>30.00</b>	<b>30.60</b>	<b>30.09</b>	<b>34.63</b>	<b>42.53</b>	<b>51.91</b>
Other operating income	1.63	36.31	1.40	1.47	1.54	1.62
Distribution costs	-6.97	-7.62	-8.07	-8.89	-9.79	-10.68
Administration costs	-6.05	-8.12	-7.92	-8.97	-10.15	-11.37
Other operating expenses	-2.08	-0.63	-1.47	-1.80	-1.91	-1.87
<b>EBITDA</b>	<b>16.53</b>	<b>50.53</b>	<b>14.03</b>	<b>16.44</b>	<b>22.23</b>	<b>29.62</b>
Depreciation & Amortization	-10.56	-9.69	-11.09	-13.20	-15.09	-16.46
<b>EBIT</b>	<b>5.97</b>	<b>40.84</b>	<b>2.94</b>	<b>3.24</b>	<b>7.13</b>	<b>13.17</b>
Net financial results	-2.58	0.70	1.00	0.90	0.80	0.70
<b>EBT</b>	<b>3.39</b>	<b>41.54</b>	<b>3.94</b>	<b>4.14</b>	<b>7.93</b>	<b>13.87</b>
Income taxes	-0.82	-0.08	-0.95	-0.79	-1.51	-2.63
Minorities	-0.14	0.09	0.00	0.00	0.00	0.00
<b>Net income / loss</b>	<b>2.44</b>	<b>41.54</b>	<b>3.00</b>	<b>3.35</b>	<b>6.43</b>	<b>11.23</b>
EPS	0.11	1.76	0.13	0.14	0.27	0.48
DPS	0.00	0.10	0.10	0.11	0.12	0.13
<b>Share in total sales</b>						
Net sales	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-85.49 %	-85.68 %	-86.70 %	-86.10 %	-84.50 %	-82.65 %
Gross profit	14.51 %	14.32 %	13.30 %	13.90 %	15.50 %	17.35 %
Other operating income	0.79 %	16.99 %	0.62 %	0.59 %	0.56 %	0.54 %
Distribution costs	-3.37 %	-3.57 %	-3.57 %	-3.57 %	-3.57 %	-3.57 %
Administration costs	-2.93 %	-3.80 %	-3.50 %	-3.60 %	-3.70 %	-3.80 %
Other operating expenses	-1.00 %	-0.30 %	-0.65 %	-0.72 %	-0.69 %	-0.62 %
EBITDA	8.00 %	23.65 %	6.20 %	6.60 %	8.10 %	9.90 %
Depreciation & Amortization	-5.11 %	-4.53 %	-4.90 %	-5.30 %	-5.50 %	-5.50 %
EBIT	2.89 %	19.11 %	1.30 %	1.30 %	2.60 %	4.40 %
Net financial results	-1.25 %	0.33 %	0.44 %	0.36 %	0.29 %	0.23 %
EBT	1.64 %	19.44 %	1.74 %	1.66 %	2.89 %	4.63 %
Income taxes	-0.40 %	-0.04 %	-0.42 %	-0.32 %	-0.55 %	-0.88 %
Minorities	-0.07 %	0.04 %	0.00 %	0.00 %	0.00 %	0.00 %
Net income / loss	1.18 %	19.44 %	1.32 %	1.35 %	2.34 %	3.75 %



## Balance Sheet

in PLNm	2013	2014	2015E	2016E	2017E	2018E
<b>Assets</b>						
Cash and cash equivalents	0.57	51.87	30.27	18.12	8.69	1.34
Short-term financial assets	0.22	4.40	9.90	0.00	0.00	0.00
Inventories	0.97	1.50	1.61	1.76	1.91	2.03
Trade accounts and notes receivables	14.79	10.90	12.16	14.76	17.76	21.00
Prepaid expenses, deferred charges and others	2.68	2.22	4.07	4.48	4.94	5.39
<b>Current assets</b>	<b>19.24</b>	<b>70.89</b>	<b>58.02</b>	<b>39.12</b>	<b>33.30</b>	<b>29.76</b>
Property, plant and equipment	108.46	93.92	119.00	130.00	130.01	130.02
Other intangible assets	3.32	3.09	3.31	3.43	3.57	3.71
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Other assets	1.15	1.12	0.61	0.62	0.63	0.64
Long-term financial assets	4.65	1.05	2.31	2.36	2.40	2.45
Non-consolidated investments	0.01	0.00	0.00	0.00	0.00	0.00
<b>Non-current assets</b>	<b>117.58</b>	<b>99.18</b>	<b>125.22</b>	<b>136.41</b>	<b>136.61</b>	<b>136.82</b>
<b>Total assets</b>	<b>136.82</b>	<b>170.08</b>	<b>183.24</b>	<b>175.53</b>	<b>169.91</b>	<b>166.59</b>
<b>Liabilities</b>						
Trade payables	17.68	18.39	16.12	17.63	19.06	20.33
Short-term financial debt	14.28	17.85	30.30	24.30	18.30	12.30
Other short-term liabilities	4.87	4.85	6.80	7.14	7.50	7.87
Pension provision	0.59	1.72	1.47	1.62	1.78	1.94
Other provisions	0.03	0.03	0.00	0.00	0.00	0.00
<b>Current liabilities</b>	<b>37.45</b>	<b>42.84</b>	<b>54.69</b>	<b>50.69</b>	<b>46.64</b>	<b>42.44</b>
Long-term financial debt	23.45	12.58	13.00	9.00	5.00	1.00
Other long-term liabilities	2.82	0.05	0.02	0.07	0.07	0.08
Pension provision	0.19	0.29	0.30	0.43	0.47	0.51
Deferred tax liabilities	4.56	4.51	5.20	4.56	3.34	0.00
<b>Long-term liabilities</b>	<b>31.02</b>	<b>17.42</b>	<b>18.52</b>	<b>14.06</b>	<b>8.89</b>	<b>1.59</b>
<b>Total liabilities</b>	<b>68.47</b>	<b>60.27</b>	<b>73.22</b>	<b>64.75</b>	<b>55.53</b>	<b>44.04</b>
<b>Shareholders equity</b>	<b>67.84</b>	<b>109.39</b>	<b>110.02</b>	<b>110.78</b>	<b>114.38</b>	<b>122.55</b>
Minority interests	0.51	0.42	0.00	0.00	0.00	0.00
<b>Total liabilities and equity</b>	<b>136.82</b>	<b>170.08</b>	<b>183.24</b>	<b>175.53</b>	<b>169.91</b>	<b>166.59</b>

## Cash Flow Statement

in PLNm	2013	2014	2015E	2016E	2017E	2018E
Net income / loss	2.44	41.54	3.00	3.35	6.43	11.23
Depreciation	10.56	9.69	11.09	13.20	15.09	16.46
Change of working capital	1.21	-3.00	-3.05	-1.28	-1.82	-2.18
Others	3.32	-35.85	-0.66	0.64	1.22	3.34
<b>Net operating cash flow</b>	<b>17.52</b>	<b>12.37</b>	<b>10.37</b>	<b>15.92</b>	<b>20.92</b>	<b>28.85</b>
<b>Cash flow from investing</b>	<b>-2.26</b>	<b>44.15</b>	<b>-37.64</b>	<b>-24.38</b>	<b>-15.28</b>	<b>-16.65</b>
Free cash flow	15.25	56.52	-27.27	-8.46	5.64	12.19
<b>Cash flow from financing</b>	<b>-9.25</b>	<b>-10.19</b>	<b>5.67</b>	<b>-3.69</b>	<b>-15.06</b>	<b>-19.54</b>
Change of cash	6.01	46.33	-21.60	-12.15	-9.43	-7.35
Cash at the beginning of the period	-8.99	-2.98	51.87	30.27	18.12	8.69
Cash at the end of the period	-2.98	43.35	30.27	18.12	8.69	1.34

## Financial ratios

Fiscal year	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
<b>Profitability and balance sheet quality</b>								
Gross margin	14.51%	14.32%	13.30%	13.90%	15.50%	17.35%	19.10%	19.90%
EBITDA margin	8.00%	23.65%	6.20%	6.60%	8.10%	9.90%	11.60%	12.30%
EBIT margin	2.89%	19.11%	1.30%	1.30%	2.60%	4.40%	6.10%	6.80%
Net margin	1.18%	19.44%	1.32%	1.35%	2.34%	3.75%	5.10%	5.65%
Return on equity (ROE)	4.35%	46.88%	2.73%	3.04%	5.71%	9.48%	12.89%	13.62%
Return on assets (ROA)	3.92%	26.62%	1.13%	1.37%	3.26%	6.26%	9.37%	10.51%
Return on capital employed (ROCE)	4.56%	32.04%	1.74%	2.10%	4.69%	8.59%	11.81%	12.52%
Economic Value Added (in PLNm)	-5.72	27.63	-11.03	-10.26	-6.94	-2.15	2.04	3.36
Net debt (in PLNm)	37.73	-23.83	4.90	17.23	16.86	14.42	3.82	-9.63
Net gearing	55.61%	-21.78%	4.45%	15.55%	14.74%	11.76%	2.81%	-6.34%
Equity ratio	49.58%	64.32%	60.04%	63.11%	67.32%	73.57%	77.69%	81.38%
Current ratio	0.51	1.65	1.06	0.77	0.71	0.70	0.99	1.45
Quick ratio	0.42	1.57	0.96	0.65	0.57	0.53	0.78	1.20
Net interest cover	2.31	-58.51	-2.94	-3.60	-8.92	-18.81	-30.63	-39.33
Net debt/EBITDA	2.28	-0.47	0.35	1.05	0.76	0.49	0.10	-0.23
Tangible BVPS	2.88	4.64	4.67	4.70	4.85	5.20	5.77	6.45
CAPEX/Sales	-12.47%	4.06%	-16.64%	-9.79%	-5.57%	-5.57%	-5.56%	-5.56%
Working capital/Sales	-2.79%	-3.53%	-1.99%	-1.29%	-0.51%	0.26%	1.02%	1.65%
Cash Conversion Cycle (in days)	-8	-15	-7	-5	-3	-1	1	3
<b>Trading multiples</b>								
EV/Sales	1.00	0.97	0.91	0.83	0.75	0.69	0.63	0.59
Adj. EV/EBITDA	12.49	13.83	14.71	12.55	9.29	6.97	5.45	4.84
Adj. EV/EBIT	34.57	39.39	70.17	63.73	28.93	15.68	10.37	8.75
P/Tangible BVPS	2.97	1.84	1.83	1.82	1.76	1.64	1.48	1.33
Adj. P/E	77.73	33.90	67.27	60.11	31.35	17.94	12.10	10.28
P/FCF	13.21	3.56	-7.39	-23.81	35.75	16.52	14.51	11.86

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