MPH Health Care AG

Germany / Healthcare
Frankfurt
Bloomberg: 93M GR
ISIN: DE000A0L1H32

2018
Annual Report

RATING	**BUY**
PRICE TARGET	**€ 7.50**
Return Potential	99.5%
Risk Rating	High

PORTFOLIO DRIVES NAVPS GROWTH

Full year reporting confirmed preliminary results with net income reaching €37m equal to EPS of €0.86 (2017: €32m; €0.74). NAVPS climbed to €6.3 compared to €5.6 at YE17. The performance was driven by the core listed holdings: HAEMATO AG, M1 Kliniken AG and CR Capital Real Estate AG with the residential property developer spearheading the gains. The proposed €0.20 per share dividend was recently approved at the AGM and equals a 5.3% yield. Our updated sum-of-the-parts model yields a €7.5 price target (old: €7.1). We maintain our Buy rating.

Core holdings spur bottom line and NAV accretion Thanks mainly to the good share price performance of CR Capital Real Estate (+60%) in 2018, MPH's net income climbed to €37m. The property developer achieved 35% annualised bottom line growth to €7.8m owing to good execution of its residential development pipeline around the affordable housing segments of Berlin and Leipzig. The company plans to reward investors with a 50% hike in its dividend to €1.50 / share. Meanwhile, M1 Kliniken shares appreciated ~14% last year as the company further expanded its network of clinics with six new locations in Germany. M1 management continue to target growth of up to 50 clinics (current 23) across Germany and abroad by YE 2020. HAEMATO AG shares slid some 8% last year as revenue retreated 5% Y/Y. However, the gross margin rose ~80 basis points to 7.7% helping maintain solid profitability. HAEMATO reduced its dividend payout to €0.10 (proposed €0.30) in order to intensify investments into new products and process controls.

Dividend remained at high level thanks to balanced portfolio Last year MPH increased its dividend to €0.20 from the previous €0.12 level. The portfolio is well exposed to growing segments of the German healthcare industry and stands to create value for investors. Each participation benefits from strong market impulses including concerns over rising healthcare costs, beauty and lifestyle trends, and a tight residential property market that is fuelling a media frenzy as the Berlin Senate grapples with solutions to appease disgruntled renters. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019E	2020E	2021E
Pro-forma Rev. (€m)[1]	347.50	359.56	355.85	405.02	453.94
Y/Y growth	5.6%	3.5%	-1.0%	13.8%	12.1%
Operating revenue (€m)	34.24	39.53	30.46	32.04	33.57
EBIT (€m)	32.3	37.6	28.5	30.0	31.4
Net income (€ m)	31.86	37.03	27.44	28.89	30.29
EPS (diluted) (€)	0.74	0.86	0.64	0.67	0.71
DPS (€)	0.20	0.20	0.20	0.21	0.21
NAV (€m)	240.66	269.13	288.00	308.16	329.53
Net gearing	2.4%	4.8%	4.1%	3.6%	3.2%
Liquid assets (€ m)	8.29	1.08	2.13	3.05	3.32

[1] We provide pro-forma revenue of M1 Kliniken, HAEMATO and CR Capital as a reference.

RISKS

Regulatory changes in healthcare systems, homogenization of pharmaceutical prices within the EU, and prolonged macro economic downturns that limit private healthcare spend.

COMPANY PROFILE

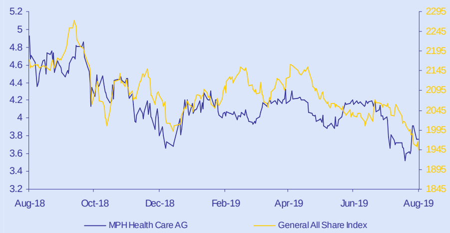
MPH Health Care AG is a Berlin-based investment company focused on the purchase and further development of companies positioned chiefly in growth segments of the healthcare market. These primarily entail specialty pharmaceuticals for chronic diseases and lifestyle and beauty treatments. The company also holds a stake in a residential property developer.

MARKET DATA

MARKET DATA	As of 14 Aug 2019
Closing Price	€ 3.76
Shares outstanding	42.81m
Market Capitalisation	€ 160.98m
52-week Range	€ 3.52 / 4.93
Avg. Volume (12 Months)	20,408

Multiples	2018	2019E	2020E
P/E	4.3	5.9	5.6
EV/EBIT	4.6	6.1	5.8
P/NAV	0.6	0.6	0.5
Div. Yield	5.3%	5.4%	5.5%

STOCK OVERVIEW



COMPANY DATA

COMPANY DATA	As of 31 Dec 2018
Liquid Assets	€ 1.08m
Current Assets	€ 1.15m
Financial Assets	€ 285.10m
Total Assets	€ 286.25m
Current Liabilities	€ 0.36m
Shareholders' Equity	€ 269.12m

SHAREHOLDERS

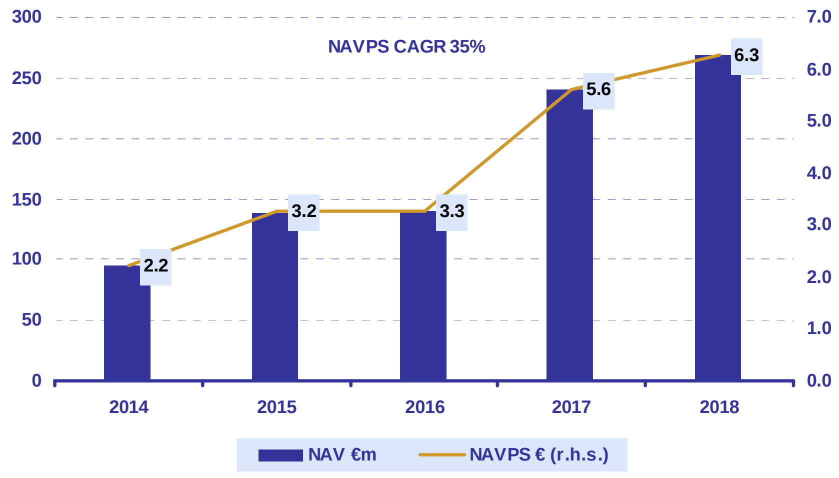
Magnum	60.0%
Argenta Asset Mngt	2.1%
Baring Fund Managers	1.9%
Free Float	36.0%

Analyst: Ellis Acklin, Tel. +49 (0)30 - 80 93 96 83

MPH NAV & BALANCE SHEET DEVELOPMENTS

NAV climbed to €269m (2017: €241m) corresponding to NAVPS of €6.3 (+12%). This good performance owes to the 16% rise in net income spurred by €31m in revaluation gains plus €8.3m in investment income stemming from dividends received from participations.

Figure 1: NAV and NAVPS developments



Source: First Berlin Equity Research; MPH Health Care

The financial assets position entailing the three listed holdings remains the dominant line item on the balance sheet and rose to €285m in 2018 (2017: €249m; +14%). Shareholders' equity of €269m compares to a balance sheet total of €286m at year end. The 94% equity ratio matched the prior year level. MPH exited the year with cash and cash equivalents of €1.0m.

Table 1: Financial highlights

All figures in EUR '000	2018	2017	*variance*
Cash	1,017	1,239	*-18%*
Financial assets	285,097	249,046	*14%*
Financial debt (short- and long-term)	14,087	14,090	*0%*
Net debt	13,070	12,851	*2%*
Total assets	286,253	257,378	*11%*
Shareholders' equity	269,128	240,666	*12%*
Equity ratio	*94%*	*94%*	-
NAV	269,128	240,665	*12%*
NAVPS (€)	6.3	5.6	*12%*

Source: First Berlin Equity Research; MPH Health Care

First quarter 2019 prelims More recently, MPH reported KPIs for the three month period. Q1/19 net income totalled €-6m and NAV retreated to €263m. NAVPS was €6.2 (-2% YTD) and represents a 46% premium to the share price. The sluggish start to 2019 owes chiefly to mixed Q1 share price developments for the holdings: CR Capital Real Estate (+0.6%), HAEMATO (+7.5%) and M1 Kliniken (-10%). M1 Kliniken shares have been stronger lately after publication of positive 2018 prelims.

RECAPPING KEY 2018 PORTFOLIO DEVELOPMENTS

Table 2: Share price development of listed holdings

	2017			2018			
	MPH shares (k)	Share price (€)	Value (€k)	MPH shares (k)	Share price (€)	Value (€k)	*Variance*
HAEMATO AG	11,011	5.08	55,936	11,012	4.65	51,206	*-8%*
M1 Kliniken AG	12,371	13.18	163,050	12,095	15.00	181,421	*11%*
CR Capital Real Estate AG	1,151	20.30	23,365	1,195	32.60	38,948	*67%*
Total			**242,351**			**271,575**	***12%***
* Bloomberg YE closing prices for 2017 and 2018							

Source: First Berlin Equity Research; MPH; Bloomberg

M1 KLINIKEN AG 2018 REPORTING

Table 3: M1 2018 full year results vs FBe

in € '000	2018	2018E	variance	2017	variance
Revenue	65,209	59,136	*10.3%*	47,195	*38.2%*
EBIT	6,460	7,169	*-9.9%*	5,703	*13.3%*
Margin (%)	*9.9%*	*12.1%*	-	*12.1%*	-
Net Income	6,613	6,215	*6.4%*	5,778	*14.5%*
Margin (%)	*10.1%*	*10.5%*	-	*12.2%*	-

Source: First Berlin Equity Research; M1 Kliniken

M1 wants to double clinic network by YE20 Full year results showed 38% top line growth alongside a 13% rise in operating income to €6.5m. Profitability increased despite ongoing expenditures into new locations plus the training and further education of > 60 doctors in the M1 Academy.

Management reiterated expansion targets to fortify its market position, which now includes dermatological laser (M1 Laser) and aesthetic dental (M1 dental) treatments. The company wants to add some 27 M1 Beauty centres by YE20 with ~20 locations abroad to compliment a stable of 30 German outpatient clinics. Last year, the company opened its first international clinic in Vienna, Austria.

Product portfolio taking expanded M1 develops and markets its own brand of medical cosmetic products under “M1 Select”. The portfolio comprises antioxidant serums, intensive sun screens, and highly concentrated hyaluronic acid-based moisturisers. Following the early 2018 launch, M1 Select achieved sales in the six digit Euro range last year, and management see mid-term sales potential in the lower double digit €m range.

Table 4: M1 balance sheet developments

in € '000	2018	2017	*variance*
Cash	25,384	14,687	*73%*
Financial debt (short- and long-term)	150	214	-
Net debt	-25,234	-14,473	*74%*
Total assets	69,554	50,569	*38%*
Shareholders' equity	63,743	47,280	*35%*
Equity ratio	92%	93%	-

Source: First Berlin Equity Research; M1 Kliniken

Shareholders' equity rose to €64m in 2018 (2017: €47m), and the equity ratio remained a stout 92%. The company also conducted a cap hike last September raising gross proceeds of €15m to finance the aforementioned clinic expansion. Management will propose a €0.30 per share dividend to the AGM slated for 23 August.

CR CAPITAL REAL ESTATE 2018 REPORTING

Table 5: CR Capital profit and loss highlights

All figures in EUR '000	2018	2018E	*Variance*	2017	*Variance*
Revenue	26,309	23,122	*13.8%*	10,409	*152.8%*
EBIT	11,560	8,909	*29.8%*	3,994	*189.4%*
Margin (%)	43.9%	38.5%	-	38.4%	-
Net income	7,800	7,653	*1.9%*	5,767	*35.2%*
EPS diluted ($)	4.25	4.08	*4.2%*	3.14	*35.4%*

Source: First Berlin Equity Research; CR Capital

Record revenue and earnings beat targets Revenue of €26m more than doubled (+152%) on an annualised basis spurred by strong project development activities in Leipzig. The company confirmed the handover of 96 flats from its Schkeuditz project last year. Revenue and EBIT (€12m) overshot our projections (table 5). CR Capital booked higher than expected revaluation gains of ~€10m on its investment properties accounting for the high variance to our EBIT target (FBe: €9m).

Table 6: CR Capital balance sheet developments

All figures in EUR '000	2018	2017	*Variance*
Cash	3,940	1,984	*98.6%*
Assets held for sale	1,810	9,381	*-80.7%*
Investment properties	19,064	10,852	*75.7%*
Total assets	45,439	42,066	*8.0%*
Financial debt (short- and long-term)	1,944	9,016	*-78.4%*
Net debt	-1,996	7,032	-
Shareholders' equity	35,405	28,388	*24.7%*
Equity ratio	*77.9%*	*67.5%*	-

Source: First Berlin Equity Research; CR Capital

Balance sheet highlighted by 9% rise in equity ratio Total assets climbed to €45m (2017: €42m), stemming mainly from the increase in investment properties. This line item rose 76% to €19m, thanks to value extraction of the projects and revaluation gains. CR Capital also sold the MED medical centre acquired in 2017, which offset some of the portfolio uplift. The company did not publish a breakdown of its investment properties in the annual report.

Attractive prospects for 2019 We expect this year to be shaped chiefly by phase II construction activities at the Schkeuditz project in Leipzig. CR Capital also plans to break ground for planned duplex units located in the Berlin exurbs (Stahnsdorf), while working through the permitting process for the Velten project. Management also continues to assess new projects in its core regions to replenish the early stage pipeline.

In our view market tailwinds remain strong, given the much publicised housing shortage and soaring rents. While the regulator continues to grapple with rising rent levels, we believe it will eventually address the overarching issue—sputtering construction and supply! As long as CRC secures its development pipeline, we see plenty of work to be done in an apartment starved market.

HAEMATO AG 2018 REPORTING

Table 7: HAEMATO profit and loss highlights

In EURm	2018	2018E	*variance*	2017	*variance*	H2/18	H2/ 17	*variance*
Revenue	274.1	305.1	*-10.2%*	289.4	*-5.3%*	130.4	151.0	*-13.7%*
Gross profit	21.1	19.7	*7.2%*	20.0	*5.8%*	10.6	10.8	*-1.6%*
Margin (%)	*7.7%*	*6.5%*	-	*6.9%*		*8.1%*	*7.1%*	-
EBIT	8.5	11.1	*-23.4%*	9.4	*-9.6%*	2.0	6.2	*-67.9%*
Margin (%)	*3.1%*	*3.6%*	-	*3.2%*	-	*1.5%*	*4.1%*	-
Adjusted EBIT	4.8	5.6	*-13.8%*	2.9	*64.2%*	2.2	1.7	*29.5%*
Margin (%)	*1.8%*	*1.8%*	-	*1.0%*	-	*1.7%*	*1.1%*	-
Net Income	6.3	8.8	*-28.4%*	7.0	*-9.5%*	1.2	4.8	*-75.1%*
Margin (%)	*2.3%*	*2.9%*	-	*2.4%*	-	*0.9%*	*3.2%*	-

Source: First Berlin Equity Research; HAEMATO AG

Revenue growth hits the gravity well. . . Sales missed our target by 10% and the prior year result by 5%. EBIT and net income also contracted Y/Y and undershot our forecasts. Our full year targets were based on the expectation that the good run rates reported in H1/18 and H2/17 would continue into H2/18. This did not materialise. HAEMATO attributed the underperformance to: (1) the culling of several low margin products from the portfolio, and (2) patent expiry on other high revenue medications in its offerings. The former helped boost the gross margin, but the 80 bps margin increase could not offset of the revenue shortfall to the bottom line.

. . . but gross margin uptick boosts gross profit Despite the weaker top line performance, the company remained comfortably profitable. Gross profit for the year expanded 6% to €21m, thanks to an 80 basis point uptick in the growth margin (GM). HAEMATO achieved an unprecedented 8.1% gross margin in H2/18 attributing the good GM performance to the aforementioned portfolio optimisation that is an ongoing element of core operations.

On an adjusted basis—excluding the largely non-cash other operating income line item—EBIT climbed significantly (+64% Y/Y). The adjusted EBIT margin also improved 80 basis points to 1.8% in 2018. We attribute this to the optimised portfolio and its positive impact on the GM.

Table 8: HAEMATO balance sheet developments

In €'000	2018	2017	*variance*
Cash	5,588	6,470	*-13.6%*
Short-term financial assets	2,889	9,236	*-68.7%*
Financial debt (short- and long-term)	22,680	28,050	*-19.1%*
Net debt	14,202	12,344	*15.1%*
Total assets	116,505	122,028	*-4.5%*
Shareholders' equity	75,665	70,927	*6.7%*
Equity ratio	65%	58%	-

Source: First Berlin Equity Research; HAEMATO AG

Equity ratio helped by the debt to equity swap Last year, HAEMATO placed 0.9m new shares from its authorised capital at €5.95 per share. The €5.2m in proceeds were used to retire participation certificates of equal value. Consequently, the share capital increased to 22.87m shares. Shareholders' equity improved to €75m (2017: €71m). The equity ratio climbed to 65% vs 58% at year end 2017 resulting from the combined effects of the lower asset base, cap hike, and positive net income result.

Regulatory headwinds brewing? Last year, an investigation into the origin of ineffective cancer medications found that lengthy parallel import supply chains had been compromised and are vulnerable to: (1) stolen medications; (2) counterfeit products, and (3) tampering. The "Lunapharm-Skandal" was the focus of media attention. Although these risks are nothing new to the sector, we believe the bad optics of the incident will ratchet up the pressure on the German regulator to rethink the country's parallel import strategy to reduce supply chain risks. The Falsified Medicines Directive (FMD) 2011/62/EU came into force on 9 February 2019 and is designed to greatly reduce such breaches in the supply chain. This will track meds in the supply chain according to barcodes assigned to each unit package at original production and help lower the volume of counterfeit or unauthorised prescription medicine in the legal supply chain.

HAEMATO is already FMD-compliant and is working with the authorities to ramp up the effectiveness of the new controls. Nevertheless, the bad optics of the Lunapharm scandal will certainly heighten tensions between suppliers and the pharmaceutical industry, which could dampen growth potential for the sector over the near term until trust in the supply chain is restored.

Ramping up investments to unlock new opportunities and optimise processes HAEMATO management proposed a €0.30 share dividend to the AGM in July. However, the company wants to expand its product portfolio to enter new market segments. And management want to invest in tighter process controls to counteract supply chain vulnerability to fake meds. Therefore, MPH (55% stake) suggested a €0.10 per share dividend to free up some €4.5m in liquidity for the envisioned investments. This proposal was adopted by the AGM.

VALUATION

We use a sum-of-the-parts valuation methodology to value MPH. Value is driven by the projected fair value of HAEMATO, M1 Kliniken, and CR Capital, which we have valued separately on a DCF basis. Based on the current stakes, we derive a fair value of €350m for the listed holdings. We add the book value of the non-listed holdings to this figure and subtract the 2018 net debt and holding costs. Given the 42.8m shares outstanding (SO), we now see fair value for MPH at €7.5 per share (old: €7.1) corresponding to a Buy rating. The uplift in fair value owes chiefly to the increased valuation of CR Capital.

	Shareholdings	SO	MPH stake	Share price*	Fair value[1]	Projected value
Unit	**k**	**k**	**%**	**€**	**€**	**€k**
HAEMATO AG	12,145	21,980	55%	3.4	5.8	70,441
M1 Kliniken AG	12,095	16,500	73%	12.0	19.8	239,481
CR Capital Real Estate AG	1,195	1,878	64%	41.8	40.0	47,800
Projected value of listed holdings						**357,722**

** Source: Bloomberg (Previous day's closing price)*

Fair value of listed portfolio	**€k**	**357,722**
Non-listed investment (book value)	€k	13,522
Net debt	€k	12,918
Present value of holding costs	€k	-35,430
Total fair value	**€k**	**322,896**
MPH shares outstanding	k	42,814
Fair value per share	**€**	**7.5**

[1] First Berlin Equity Research currently covers HAEMATO AG (Add / PT: EUR5.8), M1 Kliniken AG (Buy / PT: EUR19.8) and CR Capital (Buy / PT: EUR40)

Source: First Berlin Equity Research estimates

We regard MPH as an attractive opportunity for investors seeking exposure to the growing affordable health care and housing segments with shares currently trading some 39% below NAVPS of €6.2.

INCOME STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Pro-forma revenues[1]	**347,504**	**359,565**	**355,855**	**405,018**	**453,945**
Fair value gains on investments	25,583	31,019	20,842	22,267	23,631
Income from participations	848	170	300	350	400
Investment income	7,380	8,317	9,315	9,424	9,536
Other operating income	425	28	29	31	32
Operating revenue	**34,236**	**39,534**	**30,486**	**32,071**	**33,600**
SG&A	-1,177	-1,146	-1,203	-1,263	-1,327
Other OpEx	-360	-703	-738	-775	-814
Net loss from participations	-392	0	0	0	0
Depreciation & amortisation	-21	-45	-16	-17	-18
EBIT	**32,286**	**37,640**	**28,529**	**30,016**	**31,442**
Interest expense	-499	-507	-504	-504	-504
Interest income	332	209	0	0	0
EBT	**32,119**	**37,342**	**28,025**	**29,512**	**30,938**
Income taxes	-264	-317	-560	-590	-618
Net income / loss	**31,855**	**37,025**	**27,465**	**28,922**	**30,319**
Minority interests	0	0	0	0	0
Net income after minorities	**31,855**	**37,025**	**27,436**	**28,892**	**30,287**
EPS (in €)	**0.74**	**0.86**	**0.64**	**0.67**	**0.71**

[1]Pro-forma revenue of M1 Kliniken, HAEMATO and CR Capital as a reference.

BALANCE SHEET

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Assets					
Current assets, total	**8,288**	**1,153**	**2,212**	**3,133**	**3,413**
Cash and equivalents	1,239	1,018	2,069	2,983	3,254
ST financial assets	7,046	64	65	67	68
Trade receivables	0	3	3	3	3
Inventories	0	7	7	7	7
Other ST assets	3	61	67	74	81
Non-current assets, total	**249,069**	**285,100**	**302,945**	**322,212**	**343,344**
Property, plant & equipment	4	2	3	4	5
Goodwill & other intangibles	18	1	1	1	1
Financial assets	249,047	285,097	302,940	322,207	343,338
Total assets	**257,357**	**286,253**	**305,156**	**325,346**	**346,757**
Shareholders' equity & debt					
Current liabilities, total	**229**	**327**	**345**	**363**	**383**
Trade payables	37	28	28	28	28
Provisions	70	99	102	105	108
Other ST financial liabilities	90	87	96	105	116
Other current liabilities	32	113	119	125	131
Long-term liabilities, total	**16,483**	**16,798**	**16,812**	**16,826**	**16,840**
Long-term debt	14,000	14,000	14,000	14,000	14,000
Deferred tax liabilities	2,483	2,798	2,812	2,826	2,840
Shareholders' equity	**240,665**	**269,127**	**288,000**	**308,156**	**329,534**
Minority interests	0	0	0	0	0
Total equity	**240,665**	**269,128**	**288,000**	**308,156**	**329,534**
Total consolidated equity and debt	**257,377**	**286,253**	**305,156**	**325,346**	**346,757**
NAV	**240,665**	**269,128**	**288,000**	**308,156**	**329,534**
NAVPS (€)	**5.62**	**6.29**	**6.73**	**7.20**	**7.70**

CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019E	2020E	2021E
Net income	**31,855**	**37,025**	**27,436**	**28,892**	**30,287**
Depreciation and amortisation	21	45	16	17	18
Revaluation gains	-25,946	-30,360	-20,844	-22,268	-23,632
Changes in working capital	2,485	7,058	23	26	27
Other adjustments	-457	-830	0	0	0
Net financial result	167	299	504	504	504
Tax expense	264	317	560	590	618
Operating cash flow	**8,389**	**13,554**	**7,695**	**7,760**	**7,821**
Investment income	-7,380	-8,317	-9,315	-9,424	-9,536
Tax paid	0	-41	-560	-590	-618
Net operating cash flow	**1,009**	**5,196**	**-2,179**	**-2,254**	**-2,333**
CapEx	-11	-11	-17	-18	-19
Payments from acquistions of consildated companies & other business units	-15,978	0	0	0	0
Proceeds from disposal of fixed assets	13,160	11,783	3,000	3,000	2,500
Payments for investment in financial assets	0	-16,644	0	0	0
Investment income	7,380	8,317	9,315	9,424	9,536
Interest income	332	208	0	0	0
Cash flow from investing	**4,883**	**3,653**	**12,298**	**12,406**	**12,017**
Equity inflow, net	0	0	0	0	0
Debt inflow, net	0	0	0	0	0
Dividend paid to shareholders	-5,137	-8,563	-8,563	-8,735	-8,910
Interest expense	-499	-507	-504	-504	-504
Cash flow from financing	**-5,636**	**-9,070**	**-9,067**	**-9,239**	**-9,414**
Net cash flows	**256**	**-221**	**1,051**	**914**	**271**
Cash, start of the year	983	1,239	1,018	2,069	2,983
Cash, end of the year	**1,239**	**1,018**	**2,069**	**2,983**	**3,254**
Free cash flow (FCF)	**5,892**	**8,849**	**10,118**	**10,152**	**9,684**
Y-Y Growth					
Operating cash flow	n.a.	415.0%	n.m.	n.m.	n.m.
Free cash flow	n.a.	50.2%	14.3%	0.3%	-4.6%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 October 2012	€2.45	Buy	€5.50
2...15	↓	↓	↓	↓
16	30 May 2017	€3.62	Buy	€5.80
17	23 November 2017	€3.54	Buy	€6.90
18	13 June 2018	€5.06	Buy	€7.10
19	Today	€3.76	Buy	€7.50

Authored by: Ellis Acklin, Analyst

Company responsible for preparation:

First Berlin Equity Research GmbH
Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 83 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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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.

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