Research-Update
May 6th, 2009
MeVis Medical Solutions AG

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Buy *(unchanged)*

Summary

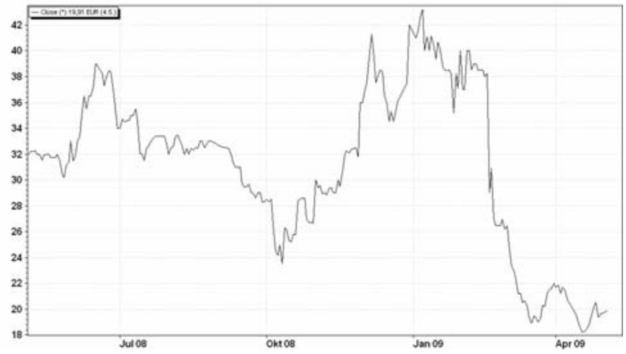
- ***Revenue increased:*** Last year the software developer turned over EUR 10.8 m and so surpassed the preceding year's figures by 37 percent. Thanks to the complete consolidation of Hologic business, which existed as a joint venture up until October, a sharp increase in revenue is also expected this year in terms of figures. A small organic increase should also be possible, despite the crisis.

- ***New products:*** Several new products that were launched over the last few months, or will be available this year, were also determining factors. Together with Siemens, an ultrasound breast volume scanner was presented as the latest innovation, with which the diagnosis of breast cancer is to be further improved. First sales are expected in this quarter already. However, this product is not expected to have any significant influence on results until the second half of the year.

- ***Promising market outlook:*** Despite the present period of weakness, the demand for specialised software for medical diagnosis devices should continue to increase dynamically.

- ***High price potential:*** The fair value determined by us lies almost 100 percent above the current quoted price.

Target price	**EUR 38.60 Euro**
Current price	EUR 19.91 Euro *(Xetra)*



Statistics	1 M	3 M	12 M
High (Euro)	21.69	40.00	43.22
Low (Euro)	18.21	18.21	18.21
Performance	-6.1%	-50.2%	-38.2%
∅-volume (Euro/day)	18.065	28.510	34.642

Basic data

ISIN / WKN	DE000A0LBFE4 / A0LBFE
Sector	Software / Medical technology
Based in	Bremen
Website	www.mevis.de
Outstanding shares	1.7 m
IPO	November 2007
Segment	Prime Standard
Market capitalization	EUR 33.8 m
Free Float	approx. 40 %
Accounting	IFRS

Financial Year (31.Dec.)	2007	2008	2009e	2010e		
Revenue (EUR m)	7.9	10.8	15.7	18.8	CAGR Revenue 07-10 (e)	33.6%
Revenue growth	-5.3%	36.7%	45.4%	20.0%	CAGR EBIT 07-10 (e)	67.7%
EBIT (EUR m)	0.8	0.7	1.9	3.8	CAGR EpS 07-10 (e)	157.8%
EBIT-margin	10.2%	6.2%	12.1%	20.2%		
EpS	0.08	1.25	0.91	1.33	Enterprise Value (EUR m)	31.7
Dividend / share	-	-	-	-	Book Value (EUR m)	32.6
PSR	4.28	3.13	2.15	1.79	EV / Revenue 09 (e)	2.0
PER	256.0	16.0	22.0	14.9	EV / EBIT 09 (e)	16.7
Dividend yield	-	-	-	-	Price / Book Value	1.0

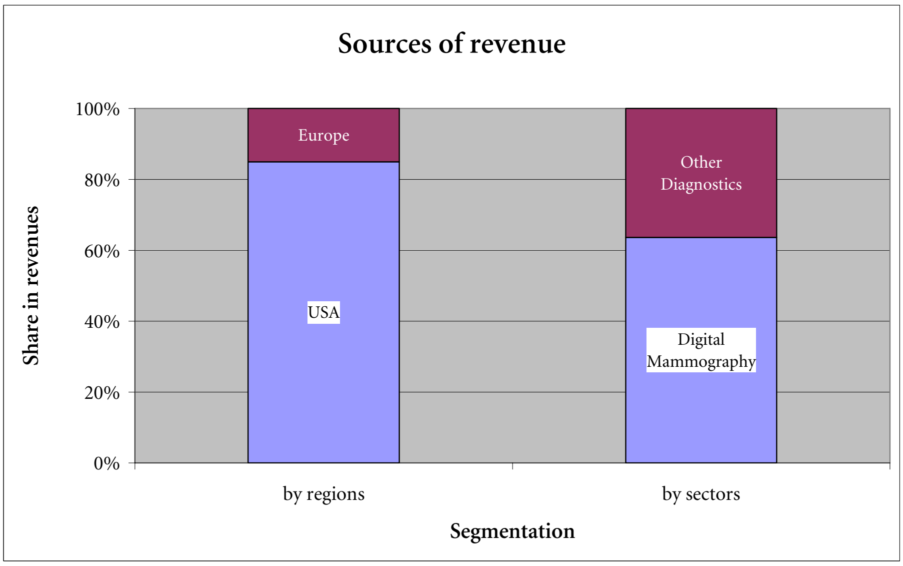
** all calculations based on a share number of 1.697 m.*

Analyst: Dipl.-Volkswirt Dr. Adam Jakubowski
+49 (0)89 447716-0 • kontakt@performaxx.de

Recent development

Revenue grows by 37 percent

The software provider for medical imaging applications turned over EUR 10.8 m in the last financial year and has thereby mostly confirmed the preliminary figures released in early February. In comparison with the previous year, an overall increase of 37 percent was realised. Two major effects have contributed to this rise: On November 1st, a consolidation of the revenues from the business with the breast cancer specialist Hologic, of which only 51 percent were hitherto flowing into the group account was executed; in addition, an acquisition has been made in the lung CT business. Here, early in 2008, the relevant branch of R2 Technologies was acquired and the software launched during the summer under the group's own name. Overall, however, digital mammography still continues to dominate the revenue structure, with a 63 percent revenue share. In regional terms, the US market continues to play the key role and in 2008 almost 85 percent of revenues were generated here.



Primary and secondary business segmentation; source: company statements

Profit benefits by exchange rate effects

Growth was even stronger for profit, which rose from EUR 0.1 m to EUR 2.1 m. However, this increase was based exclusively on visibly improved financial result. This profited, on the one hand, from the high level of interest earned, which flowed into the business from the investment of revenue generated during the IPO, and, on the other hand, from advantageous exchange rate fluctuations. The associated net earnings from exchange rate fluctuations and from hedging amounted to EUR 1.3 m, compared to a EUR 0.3 m loss in the previous year. Nevertheless, without these effects Mevis was not yet able to convert the positive revenue trend into a corresponding increase in results; the EBIT actually decreased slightly from EUR 0.8 m to EUR 0.7 m. However, it should be noted that in 2008, for reasons of transparency and consistency of results, Mevis had transferred the statement of exchange rate effects from the EBIT to the financial result for the first time. Had the company maintained the previous practice, it would have been able to report an EBIT rise from EUR 0.5 m to almost EUR 2 m, which would have meant a rise from 6 to 18 percent in the EBIT margin. Aside from these changes in accounting, however, there were also real effects which burdened last year's operating results. On the one hand, there were the expenses in connection with the takeover of the Hologic business, on the other hand, the consequences of a massive increase in personnel, which, due to the economic down-turn, was not yet accompanied by adequate increases in income. In view of the existing expansion plans and the high levels of investment in the expansion of the product range, the management sees this transitional discrepancy as an advance effort which should pay off in terms of future growth.

EUR m	Financial Year 2007	Financial Year 2008	Change
Revenue	7.89	10.84	*+37.4%*
EBIT	0.81	0.67	*-17.5%*
Net profit	0.13	2.11	*+1501.5%*

Mevis' revenue and profit development; source: company statements

New source of revenues

The expectation resulting from the takeover of the entire Hologic business – to be able to intensify respective collaborations through the separation of projects pursued with Siemens or Hologic – was already confirmed early this year with a further product launch. Together with Siemens, a new ultrasound breast volume scanner was recently presented whose diagnostic software was compiled by MeVis BreastCare, a joint venture between Mevis and the Munich-based DAX-listed company. According to company statements, the new technique offers not only superior diagnostic results in cases where digital mammography becomes unreliable (patients with dense breast tissue), but also varied and flexible options for making evaluations and comparisons. So, for instance, doctors can easily juxtapose recordings taken at different time points and make software-assisted comparisons in order to be able to quickly and reliably judge changes in the tissues examined. The improvements in clinical procedures that are made possible thereby also offer the clients improvements in efficiency, an important consideration in the current, financially restricted environment. Mevis anticipate generating the first revenues from the new product during the second quarter.

Full development pipeline

The software for the ultrasound breast volume scanner is only one of several Mevis innovations which are presently in different development phases and are to be launched over the course of the next few months. These include, for instance, software supporting digital tomosynthesis of the breast, a three-dimensional enhancement of mammography, from which a clear improvement in quality of diagnosis is expected. The product is presently still undergoing FDA approval, but is already being increasingly sold outside the US. DynaCAD Prostate, an enhancement of the DynaCAD product family, with which MRT examinations and biopsies of prostate cancer are to be simplified and improved, is scheduled to be launched during the second half of the year. In addition to other developments, great hope is being placed in a product supporting 3D computer tomography of the lungs that, should it be successful, promises clear advances in diagnosis and observation of lung tumours – the deadliest cancer by far.

Future prospects

Short-term uncertainties

The uniqueness of the present economic crisis is made clear, not least, by the fact that this time there are also sectors affected that were hitherto regarded as being immune to economic cycles. This includes especially medical technology whose past development was determined above all by technical progress, and was, therefore, characterised by continuous growth throughout various economic cycles. In the meantime, however, even the world-largest suppliers of medical equipment are reporting a dramatic decline in orders that is primarily attributable to the financing bottlenecks in American clinic chains. These are due to both direct income depletion as a consequence of dramatically rising unemployment in the US (the laid off often lose their health insurance, deferrable treatments are suspended etc.) and to bottlenecks in municipal bond market, the clinics' most important money source to-date. As a consequence, investment plans are being deferred or reduced. According to a poll by the Moody's rating agency in November, more than half of the US clinics have abandoned planned building measures, 45 percent have given up on planned investments in new instruments and 39 percent have put their IT investment on hold.

Prognosis withdrawn

Faced with this difficult economic background (resulting, for instance, in Philips – one of the largest medical technology manufacturers worldwide – announcing the intention to cut 1,600 jobs in the medical technology sector) Mevis also had to revise their expansion plans. As the group generates almost 85 percent of revenue in the US, the investment shortcomings of the American clinics have a direct effect on the order situation. For this reason, in February, the company cancelled the former schedule according to which revenue of roughly EUR 19 m and an EBIT of EUR 6.5 m should have been achieved in 2009. An alternative prognosis was not published due to the prevailing uncertainties; however, the current year is still to bring a clear increase in revenue, as well as an improvement in operating results during the second half of the year.

Medium-term prospects still intact

In our last Newsflash we also took this heightened uncertainty as grounds for revising our estimates. For the current year we are working from the basis of a revenue in the region of EUR 15.7 m, which, even taking into account the effect of consolidation, still assumes a minimum of organic growth. Given that human resources were rapidly increased over the last year in expectation of higher growth rates, this stagnation should have an above-average effect on results, which we now assess at EUR 1.9 m before tax and interest (instead of EUR 5.7 m back in December). However, we still believe that the company, with its product range and the forced development efforts, is on the right track to benefit from the basically excellent opportunities, the present crisis notwithstanding, in the targeted markets. The trend towards digitalisation of medical engineering as well as the increasing spread of image-generating and image based diagnostic and treatment procedures continue intact, so that the demand for suitable software should continue to grow at a high rate according to trend. Due to this conviction our estimates expect a perceptibly more dynamic growth and increasing margins from 2010 on already. Upon the whole, our assessment rests on the following assumptions about business performance over the next eight years:

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Revenues (m EUR)	**15.7**	**18.8**	**22.6**	**27.1**	**32.0**	**37.1**	**42.7**	**49.1**
Growth		20.0%	20.0%	20.0%	18.0%	16.0%	15.0%	15.0%
Net yield	9.8%	12.0%	15.0%	19.0%	19.0%	17.0%	15.0%	13.5%
Profit (m EUR)	**1.54**	**2.26**	**3.39**	**5.15**	**6.08**	**6.31**	**6.41**	**6.63**
Profit growth		46.9%	50.0%	52.0%	18.0%	3.8%	1.5%	3.5%

Fair value of EUR 38.60 per share

This results in a shareholder value of EUR 65.5 m. We assume a discount rate of 9.9 percent based on risk-free interest of 3.0 percent, a long-term risk premium for share investments of 5.3 percent and a beta factor of 1.3. For the time period beyond 2017, no longer recorded in detail, a perpetual income growth rate of 2 percent was assumed. The calculated value corresponds to EUR 38.60 per share, the number of securities having been corrected by the 122 thousand shares held by Mevis itself.

Conclusion

Our recommendation: „Buy“

Despite the bleak environment towards the end of the year, in 2008 Mevis achieved a strong increase in revenues and raised the after-tax profit considerably due to extraordinary items. Thanks to the consolidation of the previous year's takeovers, the Bremen-based group will also exhibit high levels of growth this year and continue to remain profitable. Similarly, we view the medium-term prospects as unvaryingly optimistic: The group is active in promising markets, is one of the leading innovators and enjoys an excellent market position, thanks to collaborations with leading hardware suppliers. The full development pipeline gives cause for hope that previous successes can be transferred to further medical fields. Admittedly, in view of the present crisis – particularly in the US healthcare market – it is uncertain when the return to the old dynamics and thereby also the former profitability will succeed. All things considered, we feel justified in our assessments of the group up until now. We see the current stock market price, which lies almost 50 percent below the fair value we have estimated, as a good entrance opportunity and maintain our “buy” recommendation.

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We will be glad to provide further details in a personal meeting.

Our contact details:

Performaxx Research GmbH
Innere Wiener Strasse 5b
81667 Munich

Tel.: + 49 (0) 89 / 44 77 16-0
Fax: + 49 (0) 89 / 44 77 16-20

Internet: http://www.performaxx.de
E-mail: kontakt@performaxx.de

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The stock prices used in this analysis are – unless otherwise indicated – closing prices as of the penultimate trading day before the date of publication. Docu-ments and statements given us by the company itself were used for this analysis as well as information provided by third parties (e.g. news agen-cies, research institutes) considered reliable and plausible. Where necessary, these third parties are named within the text.

Author of this report is Dipl.-Volkswirt Dr. A. Jakubowski (financial analyst). The company responsible for the issue is Performaxx Research GmbH. The Performaxx Research GmbH has no further orders for studies or updates for the company analyzed here. In the past twelve months the Performaxx Re-search GmbH has published the following reports for the company here analyzed:

Date of publication	Price at the time of publication	Recommendation
2008-02-24	EUR 26.99	Buy
2008-12-17	EUR 36.55	Buy

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