performaxx® Research

Research-Update
September 8th, 2009
MeVis Medical Solutions AG

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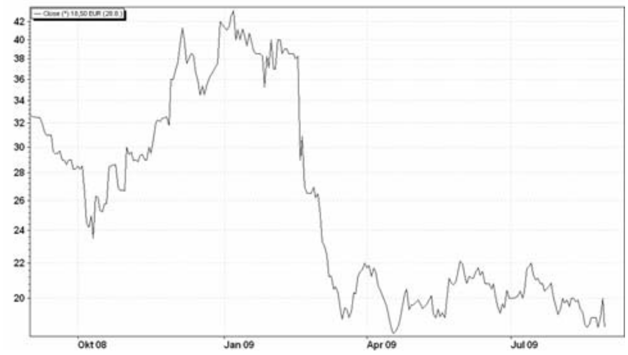
Buy *(unchanged)*

Target price	**EUR 34.88 Euro**
Current price	EUR 19.20 Euro *(Xetra)*



Statistics	1 M	3 M	12 M
High (Euro)	20.00	22.00	43.22
Low (Euro)	18.50	18.50	18.21
Performance	-2.8%	-9.4%	-41.0%
∅-volume (Euro/day)	16.4 k	16.3 k	26.9 k

Summary

- ***Acquisition driven increase in revenues:*** In the first half of the year, the software specialist for medical imaging applications increased its revenues by 16.3 percent to EUR 6.4 m. However, adjusted by the effects of consolidation, a decline by 20 percent was recorded that particularly affected the core business segment of Digital Mammography and here especially the sales of licences. By contrast, revenues generated from maintenance contracts increased more than threefold.

- ***Result remains positive:*** In a difficult economic climate, a positive half-year result was achieved once again, but compared with the previous year there was a considerable decline.

- ***Medium-term prospects remain good:*** Given the irreversible trend towards the digitisation of medicine, the demand for appropriate software should continue to increase at a dynamic rate. As the leading supplier of such specialist solutions, Mevis will also benefit from this trend even though the pace of development over the next few months will probably still be dictated by the crisis in the US hospital sector.

- ***Recommendation confirmed:*** Despite a reduction in our estimates, we still see great potential in the share price and continue to rate the share with "Buy".

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 32.6 m
Free Float	approx. 40 %
Accounting	IFRS

Financial Year (31.Dec.)	2007	2008	2009e	2010e		
Revenue (EUR m)	7.9	10.8	14.0	16.8	CAGR Revenue 07-10 (e)	28.6%
Revenue growth	-5.3%	36.7%	29.6%	20.0%	CAGR EBIT 07-10 (e)	43.9%
EBIT (EUR m)	0.8	0.7	1.1	2.4	CAGR EpS 07-10 (e)	133.5%
EBIT-margin	10.2%	6.2%	7.6%	14.3%		
EpS	0.08	1.25	0.33	0.99	Enterprise Value (EUR m)	38.7
Dividend / share	-	-	-	-	Book Value (EUR m)	32.3
PSR	4.12	3.02	2.33	1.94	EV / Revenue 09 (e)	2.8
PER	246.9	15.4	58.2	19.4	EV / EBIT 09 (e)	36.2
Dividend yield	-	-	-	-	Price / Book Value	1.0

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

Please note the disclosures on the last page!

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Recent development

Consolidation effect allows growth in revenues

Thanks to last autumn's full takeover of the Hologic business, which up until then had been run as a joint venture with Siemens, Mevis was able to record a 16 percent increase in revenues to EUR 6.4 m in the first six months of the year. However, this figure conceals the fact that the software specialist for medical imaging applications who operates mainly in the American market was very much affected in the period under review by the deep crisis afflicting the hospital sector in the United States. Accordingly, the company is reporting a drop in revenues of around 20 percent when the effects of consolidation are taken into account. One area that was particularly badly affected was the core business of Digital Mammography, whose revenues shrank in organic terms by more than a quarter. However, when the effect of consolidation is added in, revenues in this division were around a third higher than the previous year's figure, amounting to EUR 4.5 m. In contrast to what we were initially expecting, there were no signs of recovery in the months of April to June either. Quite the contrary: In the second quarter, a drop in revenues of 4.5 percent to EUR 2.9 m was recorded at a Group level even without taking of the consolidation effect into account.

EUR m	Half-Year 2008	Half-Year 2009	Change
Revenue	5.47	6.37	*16.3%*
Digital Mammography	*3.37*	*4.50*	*33.6%*
Other Diagnostics	*2.11*	*1.87*	*-11.5%*
EBIT	0.93	0.47	*-49.2%*
Digital Mammography	*2.26*	*2.70*	*19.6%*
Other Diagnostics	*-1.27*	*-2.22*	*-74.6%*
Net profit	0.92	0.16	*-82.6%*

Mevis' revenue and profit development; source: company statements

Still profitable

As the company's capacities have been also geared up since last year to cater for a much higher level of revenues, the collapse in demand has resulted in a shortfall in capacity utilisation and thus in a disproportionate decline in profit. Thus the EBIT came in at EUR 0.47 m only, representing the half of the previous year's figure, although at the same time it benefited from a increased income from the capitalization of cost development expenses, which was EUR 0.6 m higher than in the previous year and from an increase in other operational income (mainly public subsidies) which trebled to EUR 0.8 m. Other factors contributing to the decline in profits were increased depreciation (tangible assets, capitalised development cost and depreciable intangible assets such as the customer base acquired) which increased from EUR 0.4 to 1.2 m primarily as a result of the acquisitions which were made last year. As the financial result showed moreover a deficit of almost EUR 80 thousand (following a profit of EUR 0.58 m the previous year) because of the drop in interest on deposits and the new charges resulting from the compounding – without any effect on liquidity – of the purchase price instalments to cover last year's takeovers, the net profit for the period fell by four-fifths to just EUR 0.16 m. However, it is remarkable that even in the extremely weak second quarter a minimal profit (EBIT of EUR 34 thousand) was still generated, which the company attributes not least to the cost-reduction measures which have now been implemented.

Future prospects

Weak demand in the USA

Given the huge significance of the North American hospital market to medical technology companies in general and therefore to Mevis as well, there is currently no sign of a sustainable return to the rates of growth and margins seen before the crisis. In so far, the latest reports from America carry little good news: American hospitals are continuing to be plagued by the consequences of increased unemployment (reduced level of insurance cover among the population) and by ongoing funding problems which in many cases have been exacerbated considerably by unsuccessful interest rate swaps. It is therefore not surprising that in the current climate eight out of every ten hospitals have reduced or deterred their investment plans (source: American Hospital Association). Another problem which will also have an impact in the medium term is the issue of healthcare reform which is increasingly the subject of heated debate in the USA and has already resulted in price concessions from hospitals and may also result in tighter rules on competition and taxation.

Diversification of revenue base sensible

Bearing this in mind, the efforts being made by the Bremen-based software specialist to consistently expand its market presence by pushing ahead with the development and launching of new products – even though this involves high levels of initial outlay – appear to be a necessary step to ensuring future growth. The strategy of expanding direct contact with customers primarily on the basis of existing installations and thus of making sales outside of the OEM sector which has so far been dominant also appears to be a convincing one. Evidence showing that these approaches are proving successful is provided not least by the rapidly increasing proportion of revenue generated from maintenance contracts which in the first half of the year accounted for almost a fifth of revenue (following on from 6 percent the previous year). But this is still not big enough to compensate in the short term for the lack of dynamic growth in the licensing business with software for digital mammography. The same is true of the new product launches which were recently implemented or are scheduled for the second half of the year, as for instance the DynaCAD Prostate software for diagnosing and monitoring the treatment of prostate cancer: It is expected that in the coming months the revenue and profit contributions to be expected from this will not be big enough to make up for the weakness in the core business. This is of course all the more likely because in the end they cater for the same market in medical technology and are therefore likely to be affected by the same problems of a lack of funds among customers.

Adjustment of our assessments

With this in mind, we are forced to drop our previous assumption of a slight organic increase in revenues for 2009. Instead of our previous assumption of EUR 15.7 m, we are therefore working on the basis of a figure of EUR 14 m, which, although it implies a slight recovery compared with the first half of the year, does in fact represent an organic decline in revenues compared with 2008. If we retain the assumed growth rates, this reduction will also result in a reduction in the sequence of revenues for the years ahead. We also consider our previous profit assessment as no longer realistic and are now assuming a figure of EUR 0.6 m. On the other hand, given that the target market is generally very attractive and the company's positioning offers excellent prospects, we consider the previous target margin to be achievable (in the medium term), which is why we are not changing the assumed profitability figures from 2011 onwards. All in all, our modifications result in the following exemplary model business development over the next eight years:

	2009	2010	2011	2012	2013	2014	2015	2016
Revenues (m EUR)	**14.0**	**16.8**	**20.2**	**24.2**	**28.5**	**33.1**	**38.1**	**43.8**
Growth		20.0%	20.0%	20.0%	18.0%	16.0%	15.0%	15.0%
Net yield	4.0%	10.0%	15.0%	19.0%	19.0%	17.0%	15.0%	13.5%
Profit (m EUR)	**0.56**	**1.68**	**3.02**	**4.60**	**5.42**	**5.63**	**5.71**	**5.91**
Profit growth		200%	80.0%	52.0%	18.0%	3.8%	1.5%	3.5%

Fair value of EUR 34.88 per share

Assuming a perpetual income growth rate of 2 percent from 2017 and taking into consideration a discounting rate of 9.9 percent (consisting of a risk-free interest rate of 3.0 percent, a long-term risk premium for stock investments of 5.3 percent and a beta factor of 1.3), this results in a company value of EUR 59.2 m. This corresponds to EUR 34.88 per share, around 80 per cent above the current stock market price.

Conclusion

Our recommendation: „Buy“

In the first half of the year and in particular in the months of April to June, Mevis paid a high tribute to the deep crisis affecting the American hospital sector, its most important sales market. Although sales rose by 16.3 percent overall thanks to the consolidation of last year's takeovers, in organic terms a decline in sales of around 20 percent had to be contended with. The profit trend was just as weak, with a large drop in both EBIT and net profit. This means that the figures did not live up to our expectations and we are now assuming that the lean period will last longer and extend far into next year. Although the company is in an excellent position both in terms of technology and in terms of its overall strategy, unless there is a sustained recovery in the target market, even the highly promising new product launches will do no more than partially compensate for the cyclical decrease in demand in the core business. With this in mind, we have reduced our assessments particularly for this year and the next, but we keep up our fundamentally positive assessment and continue to grade the share as “Buy” at the reduced price level.

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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.

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Date of publication	Price at the time of publication	Recommendation
2008-06-08	EUR 21.20	Buy
2008-05-06	EUR 19.91	Buy
2008-02-24	EUR 26.99	Buy
2008-12-17	EUR 36.55	Buy

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