

October 31, 2011

Europe | Poland | Healthcare Services

DR. KALLIWODA  
RESEARCH GmbH

## Update

## BUY

Target price: PLN 3.93

Industry: Healthcare Services  
Country: Poland  
ISIN: PLPOLMD00011  
Reuters: POMP.WA  
Website: www.polmed.pl

Last Price: 1.95  
High 3.18 Low 1.77  
Price 52 W.: 3.18  
Market Cap. (Mill. PLN) 55.28  
No. of Shares (in Mill.) 28.35

## Shareholders

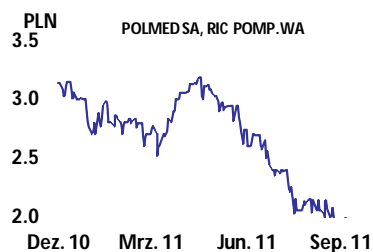
Polmed Medical 49.14%  
NPN II Med S.a.r.l 42.45%  
Radoslaw Szubert 2.44%  
Romuald Magdon 2.44%  
Free float 3.53%

## Performance

4 Weeks -1.52%  
13 Weeks -17.02%  
26 Weeks -36.69%  
52 Weeks -35.43%  
YTD -35.43%

## Dividend

	in PLN	in %
2008	0.17	8.72%
2009	0.04	2.05%
2010	0.04	2.05%
2011e	0.04	2.17%



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## POLMED S.A.

## Outperforming the peers

- In H1/11, Polmed generated sales of PLN 15.6m, which were 40.1% higher y-o-y. At the same time, ENEL-MED, its main competitor, only grew by 23.9% y-o-y. In the first half of 2011, Polmed's EBIT margin amounted to 14.1% and was significantly higher than both its Polish and international peers, including ENEL-MED. Despite the opening of three new medical centers - the total number is now equal to 20 - the company's net gearing at the end of June 2011 was a modest 10.2%.
- The market for private health services in Poland is growing at a brisk pace. According to Frost & Sullivan, the market was worth €3.2bn in 2009 and will grow to at least €5.0bn by 2014. The market is highly competitive; all major players plan to invest aggressively in the next five years to expand their networks of hospitals and out-patient clinics. In our view, there is a high potential for corporate transactions in the space.
- Polmed is the #1 medical services provider in the north of Poland and the #4 largest provider nationwide. Management's strategic priority is to become the #3 player nationwide by year-end 2012. The current #3 player is ENEL-MED, a family-owned business, which went public in June 2011 and has high exposure to the hospital services segment of the market. Polmed is strategically focused on the out-patient segment, which enables a more rapid expansion compared to ENEL-MED.
- The H1/11 results have confirmed our positive view on Polmed, however, after our latest discussions with the management, we have decided to reduce our result estimates and increase our CAPEX forecasts. Consequently, our DCF-based price target for the stock goes down from PLN 4.24 to PLN 3.93, which after the recent share price drop implies an upside of 101.3%. We rate Polmed a Buy as it (1) is more profitable and has a healthier balance sheet than its peers (2) focuses on outpatient care, which requires lower investments than hospital care and (3) has a dividend yield of 2.1%.

PLN m	2008	2009	2010	2011E	2012E	2013E
Net sales	13.82	18.64	24.18	33.85	44.00	56.33
EBITDA	3.54	3.94	3.82	5.99	7.69	10.45
EBIT	3.24	3.60	3.16	4.81	6.15	8.48
Net income	2.53	3.04	3.09	3.89	4.36	5.95
EPS	0.18	0.11	0.11	0.14	0.15	0.21
BVPS	1.42	1.35	1.48	1.57	1.68	1.83
CFPS	0.06	0.07	-0.29	-0.41	-0.39	0.09
RoE	12.74%	8.26%	7.39%	8.73%	9.14%	11.47%
Net margin	18.31%	16.32%	12.78%	11.49%	9.91%	10.57%
Working capital (PLNm)	1.83	-0.16	0.76	5.71	7.17	8.65
Equity ratio (in %)	86.05%	86.58%	80.98%	78.06%	65.30%	66.95%
EBIT margin	23.41%	19.30%	13.07%	14.21%	13.98%	15.05%

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## 1 Company profile

Polmed S.A provides healthcare services for individuals as well as corporate and insurance clients such as Michelin, Billa, E.LeClerc, PGNiG and PZU. Its services include among others basic and specialist medical care, full medical diagnostics, rehabilitation, vaccinations and laboratory treatments, which are offered through a network of proprietary medical centres and over 900 renowned medical partners all over Poland. The company was founded in 1999 and is headquartered in Starogard Gdanski, approx. 40 km from the city of Gdansk. It consists of two fully-owned subsidiaries, Polmed Zdrowie Sp. z.o.o and Polmed Development Sp. z.o.o. Polmed has been listed on the Warsaw Stock Exchange since October 2010 and, according to our estimates, currently employs in total c. 600 people (own employees and external consultants/doctors).

## 2 SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Number 4 on the Polish market for private healthcare services</li> <li>- In H1/11, Polmed grew almost twice as much as ENEL-MED, the number 3</li> <li>- Market leader in Northern Poland</li> <li>- Management owns majority of shares</li> <li>- Both CEO and Vice President of the Board have degrees in medicine and management</li> <li>- Much more profitable than Polish and international peers</li> <li>- Less indebted than most competitors</li> <li>- Dividend paying company</li> <li>- Additional management support from major investor NPN/Krokus</li> <li>- Focus on medical centres, which are much less CAPEX-intensive than hospitals</li> </ul>	<ul style="list-style-type: none"> <li>- New medical centres need 3-6 months to achieve the break-even</li> <li>- Very low free float</li> <li>- Limited negotiation capability regarding remuneration with specialized doctors</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Opening of new medical centers across Poland</li> <li>- Expansion into rehabilitation services and SPAs</li> <li>- Increasing share of corporate clients, who generate highest gross margins</li> <li>- Despite high income growth and a quickly ageing population, per capita, healthcare spending in Poland is still far behind Western European levels</li> <li>- More government tax incentives for buying private health insurance</li> <li>- Share option plan in the short-term in order to keep and attract most qualified personnel</li> <li>- A Poland-wide marketing campaign, which would positively affect sales</li> <li>- Acquisition of a medtech or biotech company, which would diversify revenues</li> </ul>	<ul style="list-style-type: none"> <li>- Strong dependence on government regulation</li> <li>- Intensifying competition</li> <li>- Loss of qualified medical personnel</li> <li>- Wrong choice of location for medical centres</li> <li>- Change of conditions relating to co-operation with NFZ</li> <li>- Liquidity risks relating to the development of medical infrastructure</li> <li>- Risk relating to co-operation with external partners</li> <li>- Legal risks relating to medical mistakes</li> <li>- Challenges in terms of managing a larger and geographically dispersed entity</li> </ul>

### 3 Current development

#### Revenues

In H1/11, Polmed generated total sales of PLN 15.6m, which were 40.1% higher y-o-y. While the share of low-margin public insurance NFZ in sales from medical services went down from 57.2% in the first half of 2010 to 42.2%, the share of corporate clients, which are most profitable, increased from 14.4% to 24.6%. In H1/11, Polmed signed contracts worth in total PLN 6.7m with the largest Polish gas exploration & production company PGNiG. The subject of the contracts, which all have duration of two years, is the provision of medical services for PGNiG's employees in Poland. As of today, the total volume of the contracts, which Polmed has signed so far in 2011 with PGNiG equals PLN 13m.

The remuneration, which Polmed gets from PGNiG (and other corporate customers) is paid on a monthly basis and is calculated as the number of employees, who received treatment from Polmed in a given month, multiplied by a certain lump sum per patient. In addition, PGNiG pays Polmed remuneration for the examination of job candidates.

#### H1 2011 results vs. our estimates and previous year

in PLNm	H1 2011	H1 2011E	H1 2010	H1/11 vs H1/11E	H1/11 vs H1/10
<b>Net sales</b>	<b>15.56</b>	<b>15.52</b>	<b>11.11</b>	0.3%	40.1%
<b>EBITDA</b>	<b>2.95</b>	<b>2.90</b>	<b>2.32</b>	1.6%	26.9%
<i>EBITDA margin</i>	18.9%	18.7%	20.9%		
<b>EBIT</b>	<b>2.20</b>	<b>2.48</b>	<b>1.99</b>	-11.3%	10.4%
<i>EBIT margin</i>	14.1%	16.0%	17.9%		
<b>Net income</b>	<b>1.95</b>	<b>2.02</b>	<b>1.86</b>	-3.7%	4.6%
<i>Net margin</i>	12.5%	13.0%	16.8%		

Source: Company data, Dr. Kalliwoda Research GmbH

## Sales split H1 2011 vs. previous year

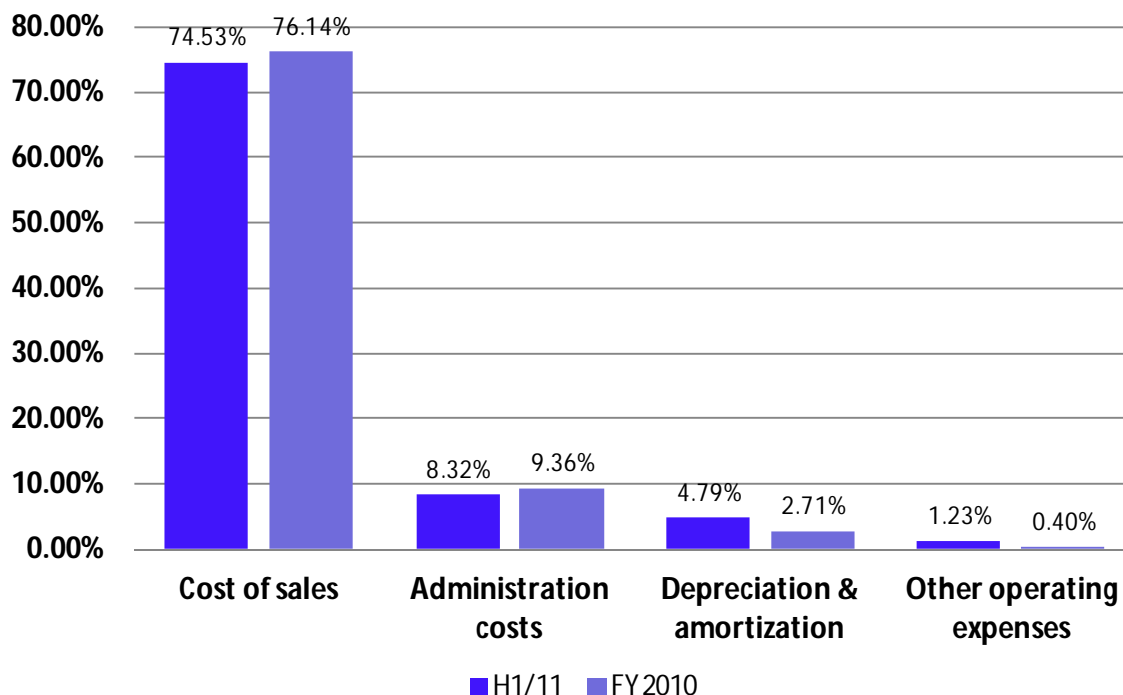
in PLNm	H1 2011	H1 2010
<b>Medical services</b>	<b>15.00</b>	<b>9.99</b>
<i>Share in total sales</i>	96.4%	90.0%
<i>thereof: NFZ</i>	42.2%	52.7%
<i>thereof: Corporate clients</i>	24.6%	14.4%
<i>thereof: Private health insurances</i>	24.7%	20.9%
<i>thereof: Individuals &amp; clinics</i>	8.6%	12.0%
<b>Rents from medical infrastructure</b>	<b>0.31</b>	<b>0.82</b>
<i>Share in total sales</i>	2.0%	7.4%
<b>Others (holiday center &amp; vaccinat.)</b>	<b>0.25</b>	<b>0.29</b>
<i>Share in total sales</i>	1.6%	2.6%
<b>Total net sales</b>	<b>15.56</b>	<b>11.11</b>

Source: Company data, Dr. Kalliwoda Research GmbH

Other major contracts, which Polmed has signed since January, were (1) with the state-owned insurance NFZ over PLN 10.5m for the provision of medical services in 2011 and (2) with PZU Pomoc S.A., a subsidiary of the biggest insurance company in the CEE region PZU S.A., for the provision of medical services for its employees and clients. The contract with PZU has an unlimited duration and is remunerated based on a fee-per-service model.

## Profitability

### Share in sales H1 2011 vs. FY 2010



Source: Company data, Dr. Kalliwoda Research GmbH

Compared to H1/10, the EBIT margin in H1/11 went down, however it improved vs. full-year 2010. While Polmed opened in total seven clinics in 2010, it added four new ones in H1/11 (in Warszawa, Wroclaw, Poznan and already a second one in Gdansk). As a new medical center usually starts covering its costs 3-6 months after opening, the gross margin in full-year 2010 (excluding depreciation from CoGS) was only 23.9%. In H1/11, the higher capacity utilisation in Polmed's clinics led to an improved gross margin of 25.4% and also lowered the share of administration costs compared to 2010 (8.2% vs. 9.4%).

Similar to EBIT, the net margin also decreased vs. H1/10, from 16.8% to 12.5%. Due to higher debt and interest expenses it was also slightly lower than in full-year 2010, when it amounted to 12.8%.

### ***Balance Sheet and Cash Flow***

The lower net profit negatively affected Polmed's cash flow. With investments into working capital amounting to 16.2% of total sales (FY 2010: 17.4%), the operating cash flow reached PLN 106k (PLN 1.9m).

In H1/11, the cash flow from investment amounted to PLN -9.3m and was almost as high as in whole 2010 (PLN -10.1m). Our estimate for the full-year 2011 is PLN 11.8m.

With a cash flow from financing of PLN -208k (PLN +1.6m), the total cash outflow in H1/11 was PLN 9.4m (PLN 6.6m). As of 30 June 2011, Polmed's liquid funds amounted to PLN 735k (PLN 10.2m).

At the end of June 2011, the interest-bearing debt consisted of pension provisions (PLN 50k), liabilities from leasing of cars and medical equipment of PLN 1.9m and bank debt of PLN 3.1m. With an equity position amounting to PLN 42.6m (equity ratio of 82.1%), the net gearing was equal to 10.2%, which is low compared to our Polish and international peer group.

## **4 Polmed vs. its Polish peers**

Polmed is currently the #1 provider of healthcare services in Northern Poland and the #4 in the entire country. The market leader in Poland is LUX-MED (owned by the private equity fund Mid-Europa Partners), which is followed by the international group Medicover and listed ENEL-MED. Polmed's strategic goal is to become #3 on the Polish market soon.

Although its bottom-line was weaker than we expected in H1/11, Polmed presented much better results than its main competitors ENEL-MED, EMC Instytut Medyczny and Swissmed Centrum Zdrowia. Also, the company is much less indebted than its peers and, given its forecast future growth, currently looks more attractive in terms of trading multiples.

## Polish healthcare sector – H1/11 results and trading multiples

in PLNm	Polmed	ENEL-MED*	EMC Instytut Medyczny	Swissmed
<b>Net sales</b>	<b>15.56</b>	<b>81.15</b>	<b>71.12</b>	<b>26.55</b>
<i>y-o-y change</i>	40.1%	23.9%	12.1%	6.6%
<b>EBITDA</b>	<b>2.95</b>	<b>8.82</b>	<b>3.88</b>	<b>2.20</b>
<i>EBITDA margin</i>	18.9%	10.9%	5.4%	8.3%
<b>EBIT</b>	<b>2.20</b>	<b>3.55</b>	<b>0.38</b>	<b>0.11</b>
<i>EBIT margin</i>	14.1%	4.4%	0.5%	0.4%
<b>Net income</b>	<b>1.95</b>	<b>1.61</b>	<b>-1.49</b>	<b>-0.69</b>
<i>Net margin</i>	12.5%	2.0%	-2.1%	-2.6%
<b>Net gearing</b>	<b>10.18%</b>	<b>52.77%</b>	<b>100.04%</b>	<b>116.71%</b>
<b>EV/EBIT 2011</b>	<b>12.40</b>	<b>13.60</b>	<b>n.a</b>	<b>n.a</b>
<b>P/E 2011</b>	<b>14.22</b>	<b>17.90</b>	<b>n.a</b>	<b>n.a</b>
<b>P/BVPS (current)</b>	<b>1.30</b>	<b>1.98</b>	<b>0.97</b>	<b>1.01</b>
<b># Medical centers/hospitals/diagnostic laborat.</b>	<b>20/0/0</b>	<b>10/1/9</b>	<b>16/8/0</b>	<b>9/2/0</b>

\* 2011 trading multiples are based on ENEL-MED's guidance

Source: Company data, Thomson Reuters Knowledge, Dr. Kalliwoda Research GmbH

In contrast to its competitors, Polmed focuses on medical centres, which require significantly lower CAPEX than hospitals (KRe: PLN 3-4m vs. PLN 10m). According to our estimates, Polmed currently utilises its medical centres to 30-40%. Compared to ENEL-MED, which has a capacity utilisation of 70-80% in Warsaw, where most of its facilities are located, the company's current profit margins are in our view extraordinarily high.

## 5 Outlook

We maintain our positive view on Polmed, which in our view is the most attractive stock in the highly promising Polish healthcare sector. Due to the fact that the company has lost 31.6% in market value since our initial report in May 2011 (the small cap index sWIG80 has lost 29.5% since then), we think that the stock is currently valued at attractive trading multiples, especially compared to its main competitor ENEL-MED.

After recent discussions with the management, we have however adjusted our DCF model of the company. We now believe that similar to the whole sector in Poland Polmed's revenues will grow at least by 20% y-o-y until 2015. We maintain our view that this growth will be primarily driven by high-margin corporate clients and private health insurances, which should grow at a CAGR 10-15 of 49.9% and 38.4% respectively. Based on our estimates, NFZ will grow at a CAGR 10-15 of 14.5% and lower its share from 48.4% in 2010 to 26%. In order to attract more companies as clients, Polmed will continue to open new medical centers primarily in the biggest Polish cities such as Warszawa, Poznan, Krakow and Wroclaw.

## Sales forecasts 2011E-15E

in PLNm	2011E	2012E	2013E	2014E	2015E
<b>Medical services</b>	<b>32.63</b>	<b>42.55</b>	<b>54.58</b>	<b>67.80</b>	<b>81.48</b>
<i>(change y-o-y)</i>	46.4%	30.4%	28.3%	24.2%	20.2%
<i>(% of net sales)</i>	96.4%	96.7%	96.9%	97.1%	97.2%
<b>thereof: NFZ</b>	<b>13.84</b>	<b>15.11</b>	<b>17.19</b>	<b>19.66</b>	<b>21.19</b>
<i>% share</i>	42.4%	35.5%	31.5%	29.0%	26.0%
<b>thereof: Corporate clients</b>	<b>8.03</b>	<b>12.34</b>	<b>17.47</b>	<b>23.59</b>	<b>29.99</b>
<i>% share</i>	24.6%	29.0%	32.0%	34.8%	36.8%
<b>thereof: Private health insurances</b>	<b>8.06</b>	<b>11.74</b>	<b>15.83</b>	<b>20.00</b>	<b>24.85</b>
<i>% share</i>	24.7%	27.6%	29.0%	29.5%	30.5%
<b>thereof: Individuals/clinics</b>	<b>2.71</b>	<b>3.36</b>	<b>4.09</b>	<b>4.54</b>	<b>5.46</b>
<i>% share</i>	8.3%	7.9%	7.5%	6.7%	6.7%
<b>Rents from medical infrastructure</b>	<b>0.68</b>	<b>0.84</b>	<b>1.01</b>	<b>1.21</b>	<b>1.41</b>
<i>(change y-o-y)</i>	-40.6%	23.5%	21.3%	19.2%	16.5%
<i>(% of net sales)</i>	2.0%	1.9%	1.8%	1.7%	1.7%
<b>Others (holiday center &amp; vaccinat.)</b>	<b>0.54</b>	<b>0.62</b>	<b>0.73</b>	<b>0.84</b>	<b>0.92</b>
<i>(change y-o-y)</i>	-27.2%	13.8%	18.9%	14.5%	10.0%
<i>(% of net sales)</i>	1.6%	1.4%	1.3%	1.2%	1.1%
<b>Total net sales</b>	<b>33.85</b>	<b>44.00</b>	<b>56.33</b>	<b>69.84</b>	<b>83.81</b>

Source: Dr. Kalliwoda Research GmbH

The company's gross margin will continuously improve as new medical centers start covering their costs, which usually takes 3-6 months after opening. The fact that Polmed will be less dependent on external partners in the future, will lead to both a lower share of CoGS and administration costs. We estimate that the gross margin will increase from 23.9% in 2010 to 26.3% in 2015 and the share of administration costs in total sales from 9.4% to 6.0% respectively.

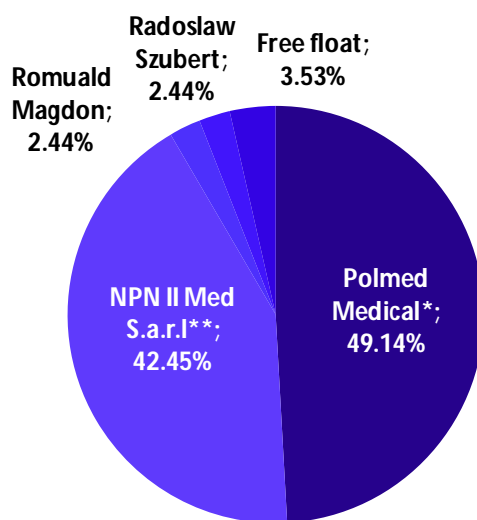
After a drop in 2012 y-o-y (to 14%) due to new medical centers (KRe: 6), we forecast that the EBIT margin will increase to 16.4% in 2015. As the market saturates and Polmed reaches a mature stage of development, we believe that the EBIT margin will decrease afterwards.

In the coming years, the net profit margin will be affected by relatively high interest payments as we believe that in-line with its peers Polmed will finance its expansion mainly by new debt. In our model, we have assumed a net margin of 11-13% and net gearing of 10-20% in the long-term.



We believe that the weak share price performance in the recent past should be used by investors to build up positions in the stock. In our view, Polmed is an attractive long-term investment opportunity for anyone, who would like to gain exposure to the highly promising Polish healthcare market.

## 6 Shareholder structure



Shareholder	Share
Polmed Medical*	49.14%
NPN II Med S.a.r.l**	42.45%
Radoslaw Szubert	2.44%
Romuald Magdon	2.44%
Free float	3.53%

\* Both Radoslaw Szubert and Romuald Magdon own 50% of the shares

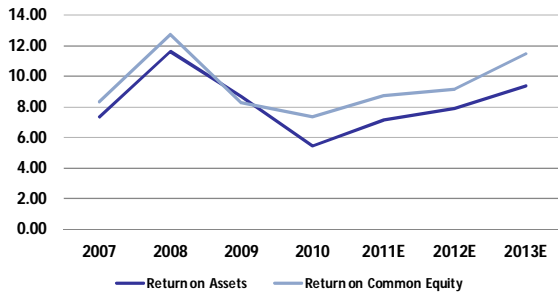
\*\* Consultant to the fund is Krokus PE

## 7 Financial ratios

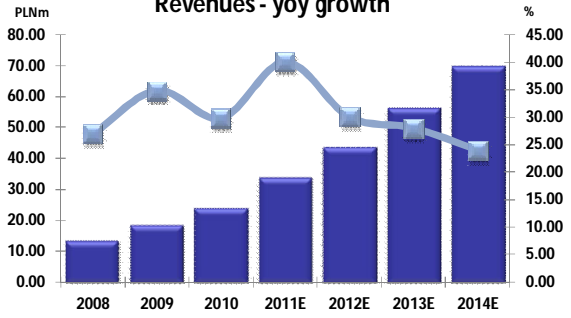
Fiscal year	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Gross margin	33.03%	37.13%	33.98%	23.86%	25.36%	25.36%	25.86%	26.06%
EBITDA margin	19.56%	24.63%	22.00%	13.46%	17.71%	17.48%	18.55%	19.19%
EBIT margin	18.44%	23.41%	19.30%	13.07%	14.21%	13.98%	15.05%	15.69%
Net margin	14.29%	18.31%	16.32%	12.78%	11.49%	9.91%	10.57%	11.37%
Return on equity (ROE)	8.34%	12.74%	8.26%	7.39%	8.73%	9.14%	11.47%	14.09%
Return on assets (ROA)	7.33%	11.61%	8.66%	5.48%	7.17%	7.89%	9.40%	11.37%
Return on capital employed (ROCE)	7.97%	12.25%	7.54%	6.00%	7.95%	8.00%	10.43%	12.84%
Net debt (in PLNm)	0.02	0.30	-14.86	-6.77	6.17	18.50	17.81	17.20
Net gearing	0.11%	1.49%	-40.35%	-16.17%	13.85%	38.78%	34.32%	30.53%
Equity ratio	84.20%	86.05%	86.58%	80.98%	78.06%	65.30%	66.95%	68.23%
Current ratio	1.77	2.58	4.68	2.35	1.50	1.30	1.40	1.45
Quick ratio	1.54	2.25	4.46	2.01	0.86	0.77	0.87	0.93
Net interest cover	29.53	33.71	-17.99	-6.21	545.61	8.01	7.52	9.44
EBITDA/Net debt	106.50	11.54	-0.28	-0.48	0.97	0.42	0.59	0.78
Tangible BVPS	1.33	1.42	1.35	1.48	1.57	1.68	1.83	1.99
Capex/Sales	n.a	0.37%	21.87%	53.53%	34.75%	35.39%	7.11%	6.41%
Working capital/Sales	1.18%	13.23%	-0.83%	3.12%	16.86%	16.29%	15.36%	14.95%
EV/Sales	5.47	4.31	3.20	2.47	1.76	1.35	1.06	0.85
EV/EBITDA	25.89	16.85	15.12	15.63	9.95	7.75	5.71	4.45
EV/EBIT	29.69	18.42	16.57	18.87	12.40	9.69	7.03	5.44
P/Tangible BVPS	1.46	1.37	1.45	1.32	1.24	1.16	1.07	0.98
P/E	17.55	10.79	17.53	17.89	14.22	12.67	9.29	6.96
P/FCF	40.92	35.19	26.20	-6.78	-4.75	-4.97	22.69	13.45

Source: Company data, Dr. Kalliwoda Research GmbH

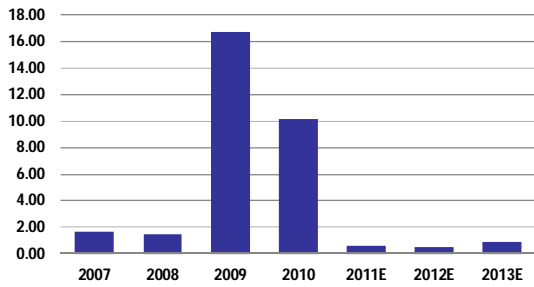
Return development (%)



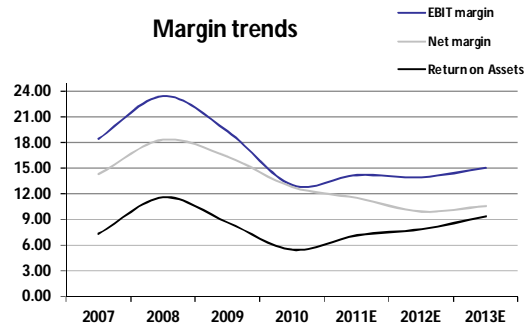
Revenues - yoy growth



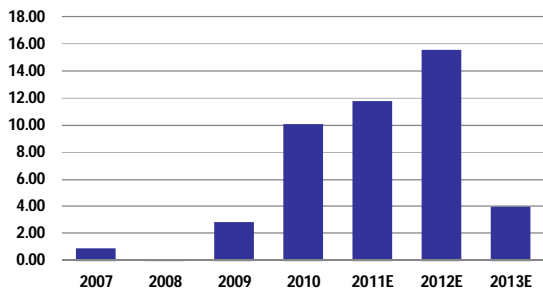
Liquid funds (PLNm)



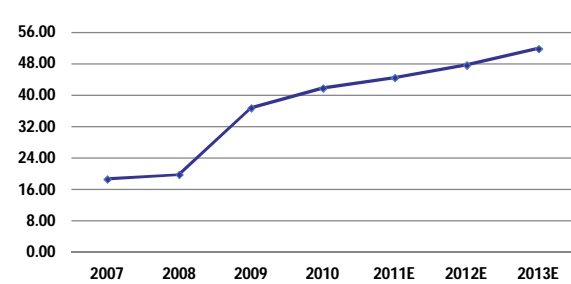
Margin trends



CAPEX (PLNm)



Book value (PLNm)



Source: Company data, Dr. Kalliwoda Research GmbH

## 8 Profit and loss statements

in PLNm	2007	2008	2009	2010	2011E	2012E	2013E	2014E
<b>Net sales</b>	<b>10.89</b>	<b>13.82</b>	<b>18.64</b>	<b>24.18</b>	<b>33.85</b>	<b>44.00</b>	<b>56.33</b>	<b>69.84</b>
Cost of goods sold	-7.29	-8.69	-12.30	-18.41	-25.26	-32.84	-41.76	-51.64
<b>Gross profit</b>	<b>3.60</b>	<b>5.13</b>	<b>6.33</b>	<b>5.77</b>	<b>8.58</b>	<b>11.16</b>	<b>14.57</b>	<b>18.20</b>
Other operating income	0.20	0.29	0.39	0.40	0.51	0.52	0.53	0.54
Administration costs	-1.37	-1.71	-2.28	-2.26	-2.78	-3.47	-4.02	-4.59
Other operating expenses	-0.12	-0.17	-0.50	-0.10	-0.32	-0.51	-0.62	-0.74
<b>EBITDA</b>	<b>2.30</b>	<b>3.54</b>	<b>3.94</b>	<b>3.82</b>	<b>5.99</b>	<b>7.69</b>	<b>10.45</b>	<b>13.41</b>
Depreciation & Amortization	-0.30	-0.30	-0.35	-0.66	-1.18	-1.54	-1.97	-2.44
<b>EBIT</b>	<b>2.01</b>	<b>3.24</b>	<b>3.60</b>	<b>3.16</b>	<b>4.81</b>	<b>6.15</b>	<b>8.48</b>	<b>10.96</b>
Net financial results	-0.07	-0.10	0.20	0.51	-0.01	-0.77	-1.13	-1.16
<b>EBT</b>	<b>1.94</b>	<b>3.14</b>	<b>3.80</b>	<b>3.67</b>	<b>4.80</b>	<b>5.39</b>	<b>7.35</b>	<b>9.80</b>
Income taxes	-0.38	-0.61	-0.76	-0.58	-0.91	-1.02	-1.40	-1.86
<b>Net income / loss</b>	<b>1.56</b>	<b>2.53</b>	<b>3.04</b>	<b>3.09</b>	<b>3.89</b>	<b>4.36</b>	<b>5.95</b>	<b>7.94</b>
EPS	0.11	0.18	0.11	0.11	0.14	0.15	0.21	0.28
DPS	0.10	0.17	0.04	0.04	0.04	0.04	0.06	0.12

Source: Company data, Dr. Kalliwoda Research GmbH

## 9 Balance sheets

in PLNm	2007	2008	2009	2010	2011E	2012E	2013E	2014E
<b>Current assets</b>	<b>3.48</b>	<b>4.64</b>	<b>20.28</b>	<b>17.14</b>	<b>12.06</b>	<b>14.02</b>	<b>16.46</b>	<b>19.48</b>
Cash and cash equivalents	1.67	1.47	16.73	10.17	0.59	0.48	0.89	1.03
Inventories	0.03	0.04	0.07	0.11	0.15	0.19	0.25	0.31
Trade accounts and notes receivables	1.36	2.58	2.63	4.53	6.31	7.84	9.26	11.48
Prepaid expenses, deferred charges and others	0.42	0.55	0.86	2.33	5.01	5.51	6.06	6.67
<b>Non-current assets</b>	<b>18.69</b>	<b>18.45</b>	<b>22.27</b>	<b>34.54</b>	<b>45.00</b>	<b>59.03</b>	<b>61.07</b>	<b>63.10</b>
Property, plant and equipment	6.95	6.70	10.40	22.65	33.25	47.25	49.25	51.25
Intangible assets	11.70	11.70	11.73	11.77	11.75	11.78	11.82	11.85
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax assets	0.04	0.04	0.13	0.12	0.00	0.00	0.00	0.00
<b>Total assets</b>	<b>22.17</b>	<b>23.08</b>	<b>42.54</b>	<b>51.68</b>	<b>57.06</b>	<b>73.06</b>	<b>77.52</b>	<b>82.58</b>
<b>Current liabilities</b>	<b>1.97</b>	<b>1.80</b>	<b>4.34</b>	<b>7.30</b>	<b>8.06</b>	<b>10.77</b>	<b>11.72</b>	<b>13.41</b>
Trade payables	1.02	0.72	2.67	4.88	3.11	3.60	4.00	4.95
Short-term financial debt	0.29	0.46	0.63	1.09	2.30	4.40	4.80	5.40
Other liabilities	0.36	0.40	0.59	0.17	1.42	1.49	1.57	1.64
Advances received	0.30	0.22	0.44	1.17	1.22	1.28	1.35	1.42
<b>Long-term liabilities</b>	<b>1.53</b>	<b>1.42</b>	<b>1.37</b>	<b>2.53</b>	<b>4.46</b>	<b>14.58</b>	<b>13.90</b>	<b>12.83</b>
Long-term financial debt	1.39	1.29	1.22	2.27	4.40	14.50	13.80	12.70
Pension provision	0.01	0.02	0.01	0.05	0.06	0.08	0.10	0.13
Deferred tax liabilities	0.13	0.12	0.14	0.21	0.00	0.00	0.00	0.00
<b>Shareholders equity</b>	<b>18.67</b>	<b>19.86</b>	<b>36.83</b>	<b>41.85</b>	<b>44.54</b>	<b>47.70</b>	<b>51.90</b>	<b>56.34</b>
<b>Total consolidated equity and debt</b>	<b>22.17</b>	<b>23.08</b>	<b>42.54</b>	<b>51.68</b>	<b>57.06</b>	<b>73.06</b>	<b>77.52</b>	<b>82.58</b>

Source: Company data, Dr. Kalliwoda Research GmbH

## 10 Cash flow statements

in PLNm	2007	2008	2009	2010	2011E	2012E	2013E	2014E
<b>Net income</b>	<b>1.56</b>	<b>2.53</b>	<b>3.04</b>	<b>3.09</b>	<b>3.89</b>	<b>4.36</b>	<b>5.95</b>	<b>7.94</b>
Depreciation	0.30	0.30	0.35	0.66	1.18	1.54	1.97	2.44
Working capital	0.07	-1.08	1.97	-1.93	-4.95	-1.46	-1.48	-1.79
Others	0.34	-0.16	-0.45	0.11	0.00	0.00	0.00	0.00
<b>Net operating cash flow</b>	<b>2.26</b>	<b>1.60</b>	<b>4.91</b>	<b>1.92</b>	<b>0.12</b>	<b>4.44</b>	<b>6.44</b>	<b>8.59</b>
<b>Cash flow from investing</b>	<b>-0.91</b>	<b>-0.02</b>	<b>-2.80</b>	<b>-10.08</b>	<b>-11.76</b>	<b>-15.57</b>	<b>-4.00</b>	<b>-4.48</b>
<b>Free cash flow</b>	<b>1.35</b>	<b>1.57</b>	<b>2.11</b>	<b>-8.15</b>	<b>-11.64</b>	<b>-11.13</b>	<b>2.44</b>	<b>4.11</b>
Cash flow from financing	-1.10	-1.77	13.15	1.60	2.06	11.02	-2.03	-3.98
Change in cash	0.25	-0.20	15.26	-6.55	-9.58	-0.11	0.41	0.14
<b>Cash, start of the year</b>	<b>1.42</b>	<b>1.67</b>	<b>1.47</b>	<b>16.73</b>	<b>10.17</b>	<b>0.59</b>	<b>0.48</b>	<b>0.89</b>
<b>Cash, end of the year</b>	<b>1.67</b>	<b>1.47</b>	<b>16.73</b>	<b>10.17</b>	<b>0.59</b>	<b>0.48</b>	<b>0.89</b>	<b>1.03</b>
Free cash flow per share	0.05	0.06	0.07	-0.29	-0.41	-0.39	0.09	0.15

Source: Company data, Dr. Kalliwoda Research GmbH

## 11 DCF model

in PLNm	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
<b>Net sales</b>	<b>33.85</b>	<b>44.00</b>	<b>56.33</b>	<b>69.84</b>	<b>83.81</b>	<b>92.19</b>	<b>99.57</b>	<b>105.54</b>	<b>110.82</b>
(y-o-y change)	40.0%	30.0%	28.0%	24.0%	20.0%	10.0%	8.0%	6.0%	5.0%
EBIT	4.81	6.15	8.48	10.96	13.76	15.07	16.10	16.87	17.48
(EBIT margin)	14.2%	14.0%	15.0%	15.7%	16.4%	16.4%	16.2%	16.0%	15.8%
<b>NOPLAT</b>	<b>3.90</b>	<b>4.98</b>	<b>6.87</b>	<b>8.88</b>	<b>11.14</b>	<b>12.21</b>	<b>13.04</b>	<b>13.67</b>	<b>14.16</b>
+ Depreciation & amortisation	1.18	1.54	1.97	2.44	2.93	3.23	3.48	3.69	3.88
= Net operating cash flow	5.08	6.52	8.84	11.32	14.08	15.44	16.53	17.36	18.04
- Total investments (Capex and WC)	-16.72	-17.03	-5.49	-6.27	-6.86	-6.66	-6.73	-6.67	-6.72
Capital expenditure	-11.76	-15.57	-4.00	-4.48	-4.97	-5.26	-5.52	-5.73	-5.91
Working capital	-4.95	-1.46	-1.48	-1.79	-1.90	-1.40	-1.21	-0.94	-0.80
= Free cash flow (FCF)	-11.64	-10.51	3.35	5.05	7.21	8.77	9.80	10.69	11.32
<b>PV of FCF's</b>	<b>-11.45</b>	<b>-9.44</b>	<b>2.75</b>	<b>3.79</b>	<b>4.94</b>	<b>5.49</b>	<b>5.60</b>	<b>5.58</b>	<b>5.39</b>
PV of FCFs in explicit period	17.83								
PV of FCFs in terminal period	88.16								
<b>Enterprise value (EV)</b>	<b>105.99</b>								
+ Net cash / - net debt	-4.33								
<b>Shareholder value</b>	<b>101.66</b>								
<b>Number of shares outstanding (m)</b>	<b>28.35</b>								
<b>WACC</b>	<b>9.5%</b>								
Cost of equity	11.5%	5.5%	9.73	10.55	11.38	12.20	13.03	13.85	14.67
Pre-tax cost of debt	6.0%	6.5%	6.55	7.09	7.63	8.17	8.71	9.25	9.79
Normal tax rate	19.0%	7.5%	4.80	5.18	5.57	5.95	6.34	6.72	7.11
After-tax cost of debt	4.9%	8.5%	3.68	3.97	4.26	4.55	4.84	5.13	5.42
Share of equity	70.0%	9.5%	2.91	3.14	3.36	3.59	3.81	4.04	4.26
Share of debt	30.0%	10.5%	2.35	2.53	2.71	2.89	3.07	3.25	3.42
<b>Fair value per share in PLN (today)</b>	<b>3.59</b>	<b>11.5%</b>	1.92	2.07	2.21	2.36	2.50	2.65	2.79
<b>Fair value per share in PLN (in 12 months)</b>	<b>3.93</b>								

Source: Dr. Kalliwoda Research GmbH

## 12 Peer group analysis

Our peer group, which includes listed healthcare service providers from other EU countries, shows that Polmed continues to trade at a c. 11% premium. However, this is in our opinion justified given the fact that despite high investments into new medical centers across Poland Polmed has much better profitability and balance sheet ratios.

Compared to ENEL-MED, the only listed Polish competitor, for whom financial forecasts are available, Polmed currently trades at a c. 18% discount.

Nevertheless, we believe that due to Polmed's extremely low free float of 3.5% the peer group analysis is not an appropriate method and therefore have excluded it from our price target calculation.

### Foreign peers

Company	EV/EBITDA		EV/EBIT		P/E		EBITDA margin	Net gearing	P/BVPS
	2012E	2013E	2012E	2013E	2012E	2013E	Latest	Latest	Latest
MediClin AG (Germany)	6.98	6.32	11.64	11.81	12.17	12.17	3.80%	29.25%	1.08
Curanum AG (Germany)	7.41	6.12	11.86	9.06	10.25	6.83	9.70%	126.52%	1.24
Marseille-Kliniken AG (Germany)	4.71	4.01	9.22	6.57	7.82	4.69	7.02%	222.94%	1.38
MATERNUS-Kliniken AG (Germany)	8.10	7.32	13.66	11.16	n.a	5.80	6.30%	n.a	n.a
Oral Hammaslaakarit PLC (Finland)	5.73	4.23	9.37	7.14	10.47	7.85	5.33%	31.86%	1.87
Le Noble Age S.A. (France)	5.03	4.68	6.51	5.96	11.14	10.28	9.88%	28.40%	1.51
Global Health Partner AB (Sweden)	6.31	5.07	8.47	6.15	14.93	10.45	9.77%	0.88%	1.53
IASO S.A. (Greece)	7.00	n.a	n.a	n.a	3.55	n.a	15.58%	120.91%	0.29
<b>Median</b>	<b>6.65</b>	<b>5.07</b>	<b>9.37</b>	<b>7.14</b>	<b>10.47</b>	<b>7.85</b>	<b>8.36%</b>	<b>31.86%</b>	<b>1.24</b>
Polmed SA (Poland)	7.75	5.71	9.69	7.03	12.67	9.29	18.93%	10.18%	1.30
<b>Premium/discount</b>	<b>16.59%</b>	<b>12.56%</b>	<b>3.43%</b>	<b>-1.49%</b>	<b>21.09%</b>	<b>18.31%</b>			
<b>Fair value Polmed SA (PLN)</b>	<b>1.75</b>								

Source: Thomson Reuters Knowledge, Dr. Kalliwoda Research GmbH

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