

May 30th, 2011

Europe | Poland | Healthcare Services

DR. KALLIWODA
RESEARCH GmbH**Initiating Coverage****BUY**

Target price: PLN 4.24

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

Last Price:	2.90
	High Low
Price 52 W.:	3.18 2.52
Market Cap. (Mill. PLN)	82.22
No. of Shares (in Mill.)	28.35

Shareholders

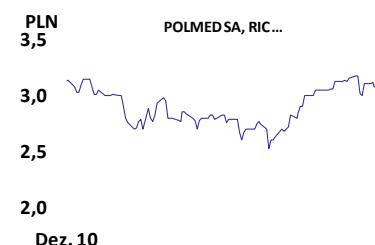
Polmed Medical	49.14%
Radoslaw Szubert	2.44%
Romuald Magdon	2.44%
NPN II Med S.a.r.l	42.45%
Free float	3.53%

Performance

4 Weeks	-7.64%
13 Weeks	2.47%
26 Weeks	-5.84%
52 Weeks	-
YTD	-5.84%

Dividend

	in PLN	in %
2008	0.17	5.86%
2009	0.04	1.38%
2010	0.04	1.38%
2011e	0.04	1.38%



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POLMED S.A.**Top pick in the Polish health services sector**

■ Polmed S.A. is a provider of a wide range of basic and specialised medical services. Polmed's customers include the public Polish health insurance NFZ (Narodowy Fundusz Zdrowia), individuals, companies and private insurance companies. With currently 20 proprietary medical and one holiday centre, the company is the number four provider of healthcare services in Poland.

■ The Polish market offers big potential for companies such as Polmed. Since 2000, the economy has developed dynamically and average monthly salaries have increased by 67.6% (Source: Polish Statistical Office (GUS)). As the population has become wealthier, the fertility rate has fallen to currently 1.3 children per woman (Source: CIA World Fact Book) and the share of 60+ old people has increased. However, the quality of public healthcare services is still far behind Western European standards, which is why a growing number of Poles chooses to go to a private medical center.

■ In Q1 2011, Polmed generated total sales of PLN 6.8m which showed a 20.9% growth y-o-y. Since January 2011, the company has opened two new medical centers throughout Poland, with the total number now equal to 20. Due to a 39.3% higher CoGS y-o-y the company's EBIT decreased from PLN 1.6m to PLN 1.2m and the operating margin from 28.1% to 18.2%. However, with new medical centers reaching the break-even and additional contracts with corporate clients Polmed's financial results should develop favorably in the remaining quarters of 2011.

■ In our view, Polmed is a very interesting long-term investment. From our peer group of Polish and other European providers of healthcare services, the company has the highest profitability and the best balance sheet structure. We believe that its management which owns the majority of the shares is very cost-conscious and puts a strong focus on the creation of shareholder value. In light of the above, we believe that a DCF-based price target of PLN 4.24 is justified. With an upside potential of 46.3% at present, we rate the stock a Buy.

PLN m	2008	2009	2010E	2011E	2012E	2013E
Net sales	13.82	18.64	24.18	32.16	41.80	53.51
EBITDA	3.54	3.94	3.82	5.88	7.83	10.55
EBIT	3.24	3.60	3.16	5.01	6.69	9.10
Net income	2.53	3.04	3.09	4.11	5.25	7.06
EPS	0.18	0.11	0.11	0.15	0.19	0.25
BVPS	1.42	1.35	1.48	1.58	1.72	1.89
CFPS	0.06	0.07	-0.29	-0.16	-0.06	0.03
RoE	12.74%	8.26%	7.39%	9.16%	10.80%	13.17%
Net margin	18.31 %	16.32 %	12.78 %	12.79 %	12.57 %	13.19 %
Working capital (PLNm)	1.83	-0.16	0.76	1.58	2.41	3.53
Equity ratio (in %)	86.05%	86.58%	80.98%	75.67%	71.16%	70.26%
EBIT margin	23.41%	19.30%	13.07%	15.58%	16.01%	17.00%

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1 Company profile

Polmed S.A provides healthcare service for individuals, corporate and insurance clients. 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 850 renowned medical partners all over Poland. The company was founded in 1999 and is headquartered in Starogard Gdanski in the North of Poland. It consists of two 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. 400 people (own employees and external consultants/doctors).

2 Current development

In 2010, Polmed generated total sales of PLN 24.2m, whereof 48.4% stemmed from contracts with the public NFZ. The sales increase of 29.7% y-o-y was mainly attributable to a 111.3% increase of revenues from private health insurances as well as 65.6% higher sales from individuals. Revenues from private insurances increased that strongly as a result of a much higher number of covered polices from PZU Zycie S.A. (31,341 vs. 20,876 in 2009) which is a subsidiary of PZU S.A, the biggest insurance company in the CEE region. In 2010, Polmed signed two major contracts: with NFZ over PLN 10.8m and with PZU Zycie over PLN 5.1m. The company started operations in seven new medical centres.

Although administration expenses (office costs etc.) and other operating costs (mostly representation costs) decreased by 0.9% and 80.9% y-o-y respectively, EBIT (PLN 3.2m) went down by 12.2% respectively. The reason was mainly a 49.6% y-o-y increase in CoGS (comprise costs of energy, medical materials, external partners/doctors and personnel) which was basically the result of the opening of several new medical centres which initially were not able to cover their costs. Due to an improved net financial result and lower tax expenses, net income in 2010 grew by 1.6% y-o-y to PLN 3.1m.

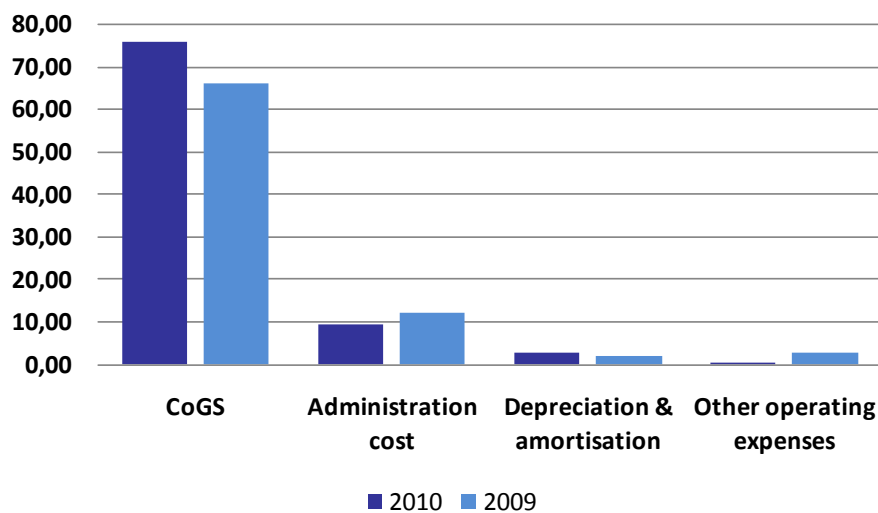
Management have proposed to pay out PLN 1.1m (PLN 0.04 per share) of the net profit in 2010 as dividend to shareholders. This equals a payout ratio of 36.7% and a dividend yield of currently 1.4%.

Sales split 2010 vs. 2009

in PLN'000	2010	Share	2009	Share
Medical services	22,295	92.2%	17,154	92.0%
<i>thereof: NFZ</i>	10,783	48.4%	10,532	61.4%
<i>thereof: Corporate clients</i>	3,964	17.8%	2,703	15.8%
<i>thereof: Private health insurances</i>	4,899	22.0%	2,319	13.5%
<i>thereof: Individual patients & medical centers</i>	2,649	11.9%	1,600	9.3%
Provision of medical infrastructure	1,139	4.7%	618	3.3%
Holiday center "NEPTUN"	378	1.6%	418	2.2%
Sale of medical materials	366	1.5%	448	2.4%
Total sales	24,178	100.0%	18,638	100.0%

Source: Company data, Dr. Kalliwoda Research GmbH

Share in sales 2010 vs. 2009 (%)



Source: Company data, Dr. Kalliwoda Research GmbH

At the end of December 2010, Polmed had a very solid balance sheet structure. The equity ratio totalled 81.0% and the net gearing was equal to -16.2%. The total financial debt of PLN 3.4m mainly comprised long-term bank debt and leasing of cars and medical equipment. It was offset by a cash position of PLN 10.2m which was positively affected by a good operating performance in the fiscal-year 2010 and a capital increase of PLN 3.5m in October 2010.

In 2010, Polmed generated a positive operating cash flow of PLN 1.9m. As it is a service company, it does not have almost any inventories. The CAPEX of PLN 10.1m stemmed from investments into seven new medical and rehabilitation centres.

In Q1 2011, Polmed's financial results continued to develop positively. Between January and March 2011, the company generated sales of PLN 6.8m which were 20.9% higher than in Q1 2010. In the first three months of 2011, Polmed signed two new contracts: (1) with the major Polish gas company PGNiG for the provision of medical services for its employees which is worth over PLN 5.9m and has a duration of two years and (2) with the branches of the public health insurance NFZ in Katowice and Gdansk over PLN 2m. In addition, in March 2011 the company's new medical centre in Poznan (Western Poland) commenced operations.

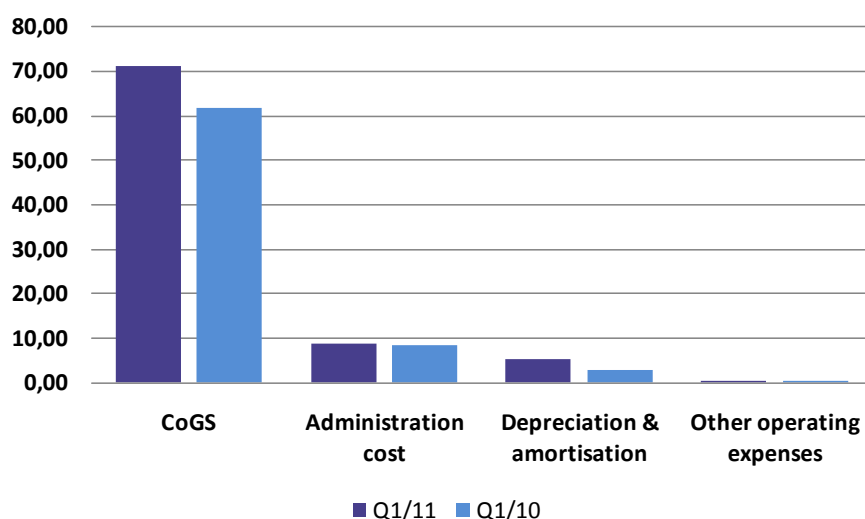
In April, Polmed opened another new medical centre in Gdansk (Northern Poland), thus increasing the total number of medical centres to 20.

Sales split Q1 2011 vs. Q1 2010

in PLN'000	Q1 2011	Share	Q1 2010	Share
Medical services	6,236	92.3%	5,142	92.0%
<i>thereof: NFZ</i>	2,744	44.0%	3,183	61.9%
<i>thereof: Corporate clients</i>	1,310	21.0%	828	16.1%
<i>thereof: Private health insurances</i>	1,434	23.0%	720	14.0%
<i>thereof: Individual patients & medical centers</i>	748	12.0%	411	8.0%
Provision of medical infrastructure	324	4.8%	190	3.4%
Holiday center "NEPTUN"	108	1.6%	123	2.2%
Sale of medical material	88	1.3%	134	2.4%
Total sales	6,756	100.0%	5,589	100.0%

Source: Dr. Kalliwoda Research GmbH

Share in sales Q1/11 vs. Q1/10 (%)



Source: Company data, Dr. Kalliwoda Research GmbH

Despite significantly higher sales y-o-y, EBIT (-21.7% to PLN 1.2m) and net income (-21.8% to PLN 1m) went down compared to Q1/10. This was the result of a 39.3% increase y-o-y of CoGS. In Q1 2011, Polmed opened one new medical centre. In addition, the usage rates of the ones, which the company opened in 2010, have increased, leading to higher energy and personnel costs. Despite significantly lower EBIT y-o-y, Polmed operating margin of 18.2% is still impressive, especially when compared with its main competitors.

According to our estimates, Polmed had net debt of PLN 0.1m at the end of March 2011. The net debt position has deteriorated since Q1 2010 – Polmed had PLN 12m net cash then – due to a capital increase of PLN 7.9m at Polmed Development Sp. z.o.o which was fully paid-in by the sole shareholder Polmed S.A. The reason for the capital measure were additional capital requirements relating to the company's planned investments into new medical centres.

With a significantly lower cash position (PLN 2.5m after PLN 14.2m at the end of March 2010), the equity ratio decreased from 90% to 87.4%. However, compared with other similar companies, it is still extraordinary high.

The other business areas of Polmed, mostly provision of medical infrastructure and the holiday centre NEPTUN, contributed only 7-8% to total sales both in 2010 and Q1/11.

3 Business model

Polmed is a provider of healthcare services in Poland. Currently, the company operates 21 medical and holiday centres in Gdansk, Gdynia, Borzechowo, Tczew, Pinczyn, Zblewo, Rywald, Semlin, Starogard Gdanski, Olsztyn (Northern Poland), Warszawa (Central Poland), Poznan (Western Poland), Katowice, Krakow and Sosnowiec (Southern Poland). Polmed focuses on regional centres where the population is relatively wealthy and can afford paying for its services.

Through its fully-owned subsidiaries Polmed Medical Sp. z.o.o and Polmed Development Sp. z.o.o, Polmed provides medical services and medical infrastructure respectively which are its core businesses. Additional revenues are generated through the operation of a holiday centre which the company owns in Borzechowo as well as the sale of medical materials.

Provision of medical services

This business area comprises the provision of medical diagnostic and consulting through currently 20 proprietary medical centres which are mostly based in Northern Poland, but also in other parts of the country. Polmed provides medical consulting in the following areas: internal diseases, gynaecology, teething troubles, eye diseases, neurology, cardiology, diabetes, urology, dentistry, dermatology and industrial medicine.

The company generates revenues in three different ways. Its most important source of income is the Polish National Health Fund (NFZ) which is the public, compulsory health insurance in Poland. The contracts which Polmed has signed with NFZ for the provision of basic medical treatment, specialist treatment, dentistry, rehabilitation and profligacy accounted for 44% (KRe) of its total sales in Q1 2011. As NFZ is a public compulsory health insurance, we believe that the gross margins for these revenues are the lowest (KRe: 15-17%). Other important sources of income are services provided for private health insurance companies (23% share in Q1 2011) and corporate customers (21% share). Polmed has signed contracts with leading Polish insurance companies such as PZU S.A. which is the market leader in Poland with a share of 43.4% (Source: PZU S.A.) in the total market for life insurances, Inter Polska S.A., Cigna, Medica, Allianz and Signal Iduna.

When it comes to the area of industrial medicine, the company works together with such well-known firms as Michelin Polska, Indykpol and PGNiG. According to the Polish law, every employer has to ensure that his employees receive an adequate prophylactic medical treatment e.g. new hires or employees who were more than 30 days on a medical leave. For its customers, Polmed takes over the organisation and coordination of respective measures. According to our estimates, sales relating to industrial medicine are most profitable with a gross margin of 30-35%.

Revenues from medical services which were not covered by insurances or corporate clients accounted for 12% of total segment sales in Q1 2011 (KRe).

Provision of medical infrastructure

In this business segment, which accounted for 4.8% of total sales in Q1 2011, the fully owned subsidiary Polmed Development acquires and develops buildings for Polmed S.A. which uses them for the provision of medical services. Polmed Development finances the whole investment including the necessary medical equipment and subsequently leases the property to Polmed S.A. The reason why Polmed has chosen this structure is tax optimisation. In Poland medical services are not subject to VAT which makes it impossible for Polmed S.A, which provides such services, to subtract the VAT. Polmed Development is able to get back the whole VAT and use it for financing of new medical centres.

With the opening of new medical centres in the coming years, the share of Polmed Development in total sales will likely increase. The subsidiary may also lease its properties to third-party providers of medical services.

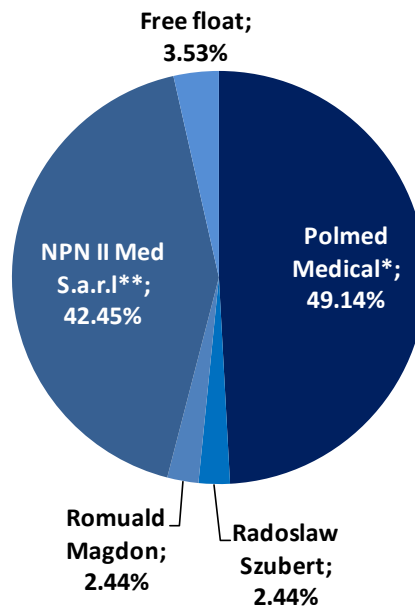
The holiday centre NEPTUN

Apart from the operation of medical centers, Polmed also operates a proprietary holiday center in Borzechowo, 50 km from the city of Gdansk. The center is situated next to the Borzechowo Lake and offers rooms and bungalows for 90 people. The center is used among others for conferences, courses and business meetings.

In the coming years, Polmed plans to introduce recreational and sport activities in the center. In addition, it considers building a SPA resort and introducing medical rehabilitation which could be financed to a certain extent by subsidies from the European Union.

In Q1 2011, NEPTUN contributed 1.6% to Polmed's total sales. Due to the company's investment plans, we believe that its contribution will increase in the coming years.

4 Shareholder structure



Share holder	Share
Polmed Medical*	49.14%
Radoslaw Szubert	2.44%
Romuald Magdon	2.44%
NPN II Med S.a.r.l.**	42.45%
<i>Free float</i>	3.53%

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

** Consultant to the fund is Krokus PE

5 Market and competition

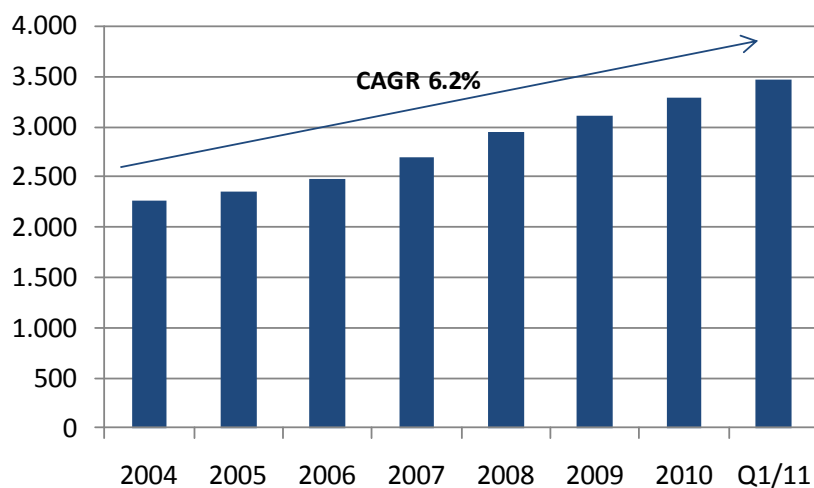
As the sixth biggest country of the European Union with a quickly ageing population, but still relatively low health expenses per capita, Poland is a very attractive market for companies from the healthcare sector. Also, with increasing incomes, more and more people can afford paying for private medical services. As healthcare services in Poland are still relatively cheap compared to Western European countries and North America, an additional factor, which we believe will spur the growth of the healthcare market there is “health tourism”.

Health expenses per capita in selected OECD countries

in USD per capita	Medical services	Hospital services	Outpatient services
USA	2,746	771	1,931
Germany	540	206	260
Spain	510	100	367
Slovakia	214	58	177
Hungary	167	41	122
Poland	119	14	95
Czech Republic	101	17	83
Average OECD	523	180	326

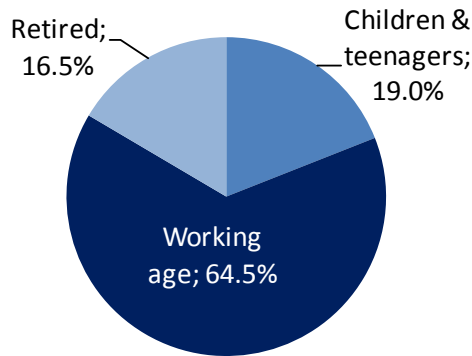
Source: OECD

Average monthly income in Poland (2004-Q1/11) in PLN

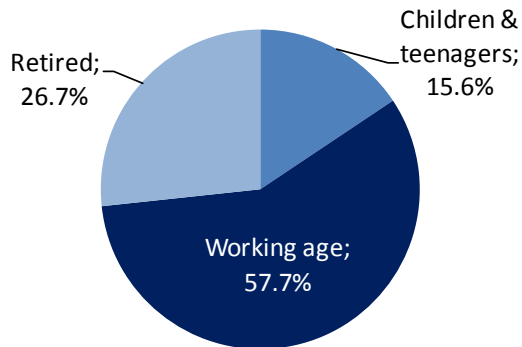


Source: GUS (Polish Statistical Office)

Demographic structure in 2009



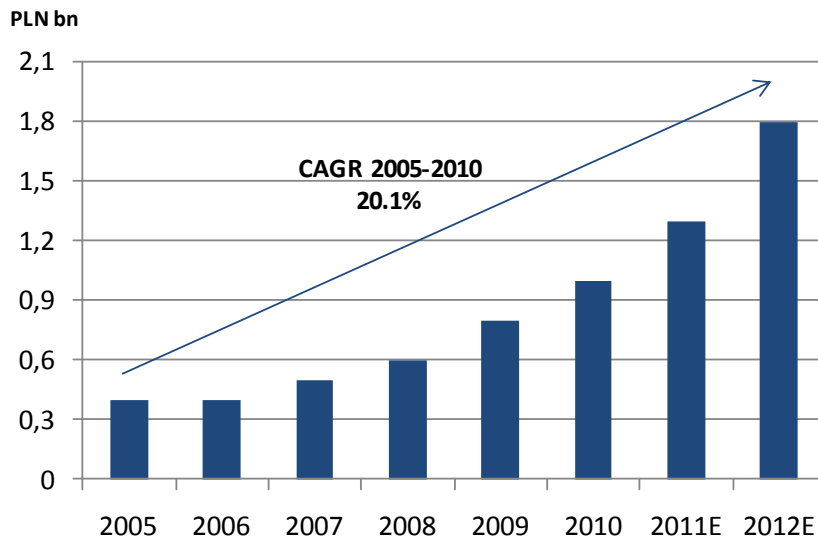
Demographic structure in 2035



Source: GUS (Polish Statistical Office)

The Polish healthcare market consists of a public segment and a private one, which is the most dynamic. For example, the segment of private health insurances has grown at a CAGR of 20.1% between 2005 and 2010. The state-controlled segment is organized by the National Health Fund (NFZ) which acts as a health insurance but also operates the state-owned hospitals and medical centers.

The market for private health insurance 2005-2012E (in PLN bn)



Source: PMR Research

Narodowy Fundusz Zdrowia (NFZ)

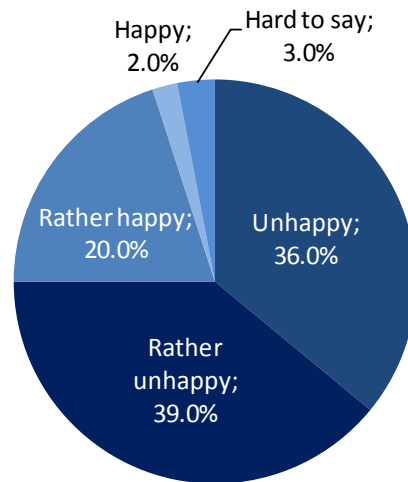
The NFZ was founded in 2004 and is the government institution which finances the public health services. With the compulsory insurance premiums which it charges from all employees, entrepreneurs and self-employed on a monthly basis, the NFZ refunds the health services and drug costs of the patients.

The monthly insurance premium which the NFZ charges the insured equals to 9.0% of the calculation base. The calculation base is the monthly gross revenue less the contributions to the social security which is equal to 13.7% of gross revenue.

Private health sector

It is common opinion in Poland that the services which are provided by the public medical facilities are of bad quality. In addition, patients often have to wait several months before they can visit a specialist. Thus, the Poles are increasingly using services provided by private healthcare companies.

Are you happy or unhappy with the private healthcare sector in Poland?



Source: Survey by CBOS in 2010

With a high number of domestic and international companies, the Polish market for healthcare services is very competitive. Below is a description of Polmed's main competitors:

(1) LUX MED Group Sp. z.o.o.

The LUX MED Group is the leader in private medical care services in Poland. The company provides outpatient care and diagnostics throughout the country. Currently, it operates in total 71 clinics under the following brand names: LUX MED, Centrum Medyczne LIM, Medycyna Rodzinna and PROMEDIS. It also has two AVI Diagnostic Imaging Centers and co-operates with 1,000 partner companies in Poland. The LUX MED Group currently has contracts with over 2,000 companies and provides healthcare services to c. 700,000 individual patients. The Group also includes FADO S.A., a company that offers mobile diagnostics. LUX MED is owned by the private equity fund Mid-Europa Partners.

(2) ENEL-MED S.A.

With estimated revenues of PLN 138m for fiscal-year 2010, ENEL-MED is the third biggest provider of medical services in Poland. The company's service offer includes primary outpatient care, specialist outpatient care (including dental care), hospital services, and diagnostic imaging. With currently ten medical centers, seven diagnostic laboratories and one multi-profile hospital, ENEL-MED is present in Warszawa, Krakow, Poznan, Lodz, and Wroclaw, which are the most important Polish economic centers. In addition, it co-operates with more than 400 partner institutions around Poland. At the end of September

2010, the company had almost 1,000 corporate clients and over 300,000 individual customers. ENEL-MED is owned by the Rozwadowski family and has been on the Polish market since 1993. In June 2011, the company will conduct an IPO on the Warsaw Stock Exchange. The additional capital from the capital increase will be invested in the opening of new medical centers and hospitals. According to its IPO prospectus, ENEL-MED plans to spend PLN 74m over the next three years, which will be invested in a new hospital in Warsaw and additional medical centers across Poland.

(3) *Medicover Holding S.A.*

Headquartered in Luxembourg, Medicover is an international healthcare group with a presence in Germany, Czech Republic, Poland, Ukraine, Romania, Hungary and Slovakia. The company, which with sales of PLN 468m in 2010 is currently number two on the Polish market (Source: Rzeczpospolita.pl), provides primary and specialist care, diagnostic testing, hospital services and follow-up care. In Poland, Medicover operates under the following brands: Medicover, Medicover Insurance, Synevo (diagnostic laboratories), Medicopharma pharmacies, medical chain Centrum Medyczne Damiana. With currently 25 medical centers, the company serves more than 6,000 companies and more than 400,000 individual patients.

(4) *EMC Instytut Medyczny S.A.*

EMC is headquartered in Wroclaw in Lower Silesia and is an operator of currently five hospital and 11 medical centers, which offer basic and specialist care. The company is present in Southern and Western Poland, but also operates two medical centers in Ireland. EMC has been listed on the stock exchange since 2005. It operates under the following brands: EMC, Lubmed, Mikulicz, Powiatowe Centrum Zdrowia, Formica and Silesia Med Serwis.

(5) *Swissmed Centrum Zdrowia S.A.*

Swissmed was founded in 1996 in the city of Gdansk in Northern Poland. The company currently operates one hospital and eight medical centers and offers the full scope of medical services. It currently focuses on the so-called “triple city” in Northern Poland (Gdansk, Gdynia and Sopot) as well as Warsaw, however also plans to expand to other parts of Poland in the coming years.

The following paragraph describes the competition within the segments of the health market, which are relevant for Polmed:

(1) *Medical centers*

With its medical centers, Polmed is mainly present in Northern Poland, where it is market leader. However, the company has also opened health centers in Warsaw, Poznan, Lodz and Katowice, which are very important economic centers.

In Warsaw, where Polmed currently has one medical center, the competition is particularly intense. LUX MED (32 medical centers) and Medicover (11) are very strong there. In Krakow, the strongest operator is the local company Scanned with 11 medical centers. The weakest competition is in Lodz, where there is only a small number of private medical centers. In our view, the reasons are the city's relatively low incomes and weak economy which has been dominated by the textile industry in the past.

(2) *Dentistry*

In this area, Polmed competes on the one hand with LUX MED, Medicover and ENEL-MED, and on the other with small dental clinics and private dentistry chains. One such chain is Dent-A-Medical S.A., which has been listed in the NewConnect segment of the Warsaw Stock Exchange since 2009 and had sales of PLN 2.9m in 2010.

(3) *Diagnostics*

No private provider of outpatient care is offering diagnostics services throughout Poland. The segment is dominated by specialized providers such as Euromedic, Voxtel, Helimed and Alliance Medical.

6 Growth strategy

We believe Polmed is the right choice for investors who want to benefit from the excellent growth prospects of the health services sector in Poland. The sector is set to grow with a CAGR of 15-20% (Source: PMR) over the coming years, which will be spurred especially by private health insurances and corporate customers, two customer groups where Polmed focuses on.

In our view, Polmed has chosen the right strategy which will ensure that the company will generate higher profitability than its peers. After the construction of seven new medical centres in 2010, the company plans to open 6-7 new ones by the end of 2012 which would bring the total number to 27. The medical centres will be opened in the biggest Polish cities such as Warszawa, Poznan and Wroclaw which have the highest incomes per capita in the country, thus

ensuring that the demand for Polmed's services will be strong enough. Polmed's target is to reach a Poland-wide presence with proprietary medical centres and No 3 market position (according to the management, Polmed is currently number four). In contrast to e.g. ENEL-MED or Medicover, the company does not target the segment of hospital care, which in our opinion is positive as hospitals require much higher CAPEX and personnel costs than medical centres (KRe: c. PLN 10m for one hospital vs. PLN 3-4m for one medical centre).

The country-wide presence will have two major advantages for Polmed: first, the company will be able to realise contracts across Poland and thus will be more attractive as a partner for big companies and insurances, which according to our estimates generate gross margins of 30-35%. Second, a higher number of proprietary medical centres will reduce the need for partners, who are usually very costly.

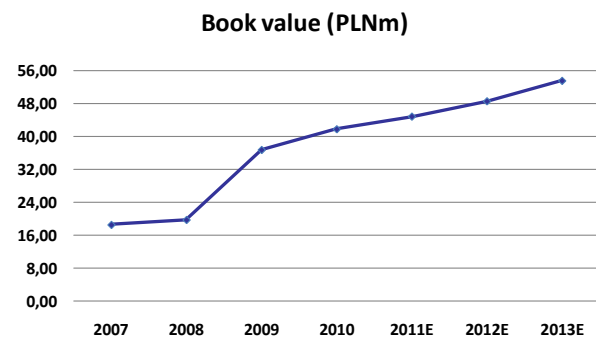
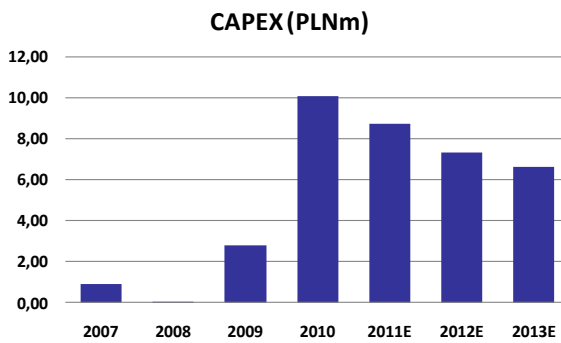
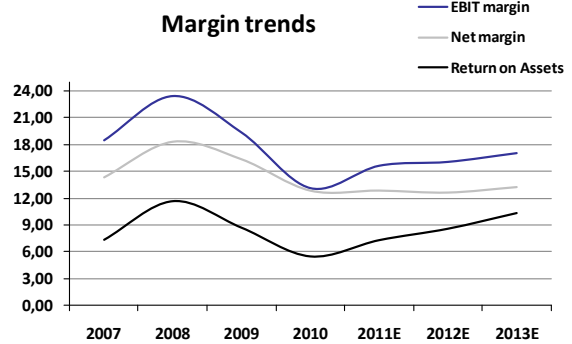
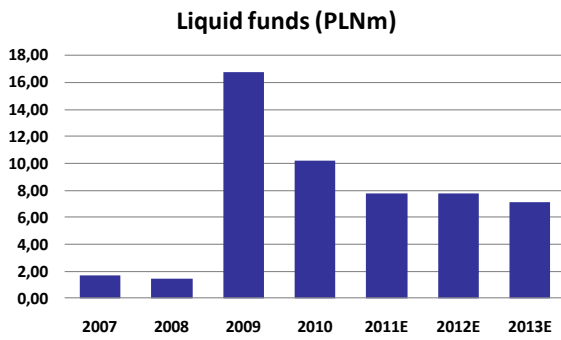
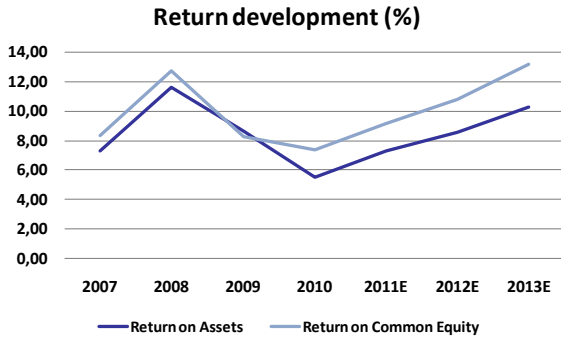
An additional factor, which in our opinion will boost profitability, is that with less new medical centres the existing ones will soon generate enough revenues to cover the costs. In short, we believe that Polmed has the potential to grow at above-market rates in the next three years. The primary contributors to growth will be new medical centres as well as additional contracts from corporate clients and insurances which should lower the share of less profitable NFZ revenues to c. 30% by 2014. Additional sales triggers will be the holiday centre NEPTUN. We do not expect Polmed to enter the market for SPAs before 2014.

A strongly growing share of contracts from corporate clients and insurances should improve the operating margins significantly in the near future. We forecast that the EBIT margin will increase to 19.1% in 2015 (from 13.1% in 2010), when the market for healthcare services as well as Polmed itself should reach a mature stage of development. Due to its subsidiary Polmed Development, which acquires and develops real estate, we forecast that the company will maintain a relatively high share of debt (20%).

7 Financial ratios

Fiscal year	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Gross margin	33.03%	37.13%	33.98%	23.86%	27.06%	27.66%	28.76%	29.86%
EBITDA margin	19.56%	24.63%	22.00%	13.46%	16.41%	16.86%	17.87%	18.94%
EBIT margin	18.44%	23.41%	19.30%	13.07%	15.58%	16.01%	17.00%	18.05%
Net margin	14.29%	18.31%	16.32%	12.78%	12.79%	12.57%	13.19%	14.07%
Return on equity (ROE)	8.34%	12.74%	8.26%	7.39%	9.16%	10.80%	13.17%	15.29%
Return on assets (ROA)	7.33%	11.61%	8.66%	5.48%	7.29%	8.55%	10.29%	11.93%
Return on capital employed (ROCE)	7.97%	12.25%	7.54%	6.00%	8.42%	9.91%	12.24%	14.32%
Net debt (in PLNm)	0.02	0.30	-14.86	-6.77	-1.03	2.32	3.65	1.94
Net gearing	0.11%	1.49%	-40.35%	-16.17%	-2.29%	4.76%	6.80%	3.23%
Equity ratio	84.20%	86.05%	86.58%	80.98%	75.67%	71.16%	70.26%	70.42%
Current ratio	1.77	2.58	4.68	2.35	1.52	1.45	1.40	1.50
Quick ratio	1.54	2.25	4.46	2.01	1.23	1.14	1.07	1.15
Net interest cover	29.53	33.71	-17.99	-6.21	-73.33	32.32	23.64	26.24
EBITDA/Net debt	106.50	11.54	-0.28	-0.48	-5.14	3.04	2.62	6.37
Tangible BVPS	1.33	1.42	1.35	1.48	1.58	1.72	1.89	2.12
Capex/Depreciation	n.a	0.17	11.82	19.73	10.05	6.48	4.56	3.01
Working capital/Sales	1.18%	13.23%	-0.83%	3.12%	4.91%	5.77%	6.59%	7.21%
EV/Sales	7.56	5.96	4.42	3.41	2.56	1.97	1.54	1.26
EV/EBITDA	35.76	23.28	20.89	21.59	14.00	10.52	7.81	6.07
EV/EBIT	41.01	25.45	22.89	26.07	16.44	12.30	9.05	6.99
P/Tangible BVPS	2.18	2.04	2.15	1.96	1.83	1.69	1.53	1.37
P/E	26.10	16.04	26.07	26.60	19.99	15.65	11.65	8.95
P/FCF	60.86	52.33	38.96	-10.08	-17.85	-45.73	107.61	18.49

Source: Company data, Dr. Kalliwoda Research GmbH



Source: Company data, Dr. Kalliwoda Research GmbH

8 SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> - Number 4 on the Polish market for private healthcare services - Market leader in Northern Poland - Management owns majority of shares - Both CEO and Vice President of the Board have degrees in medicine and management - Much more profitable than Polish and international peers - Less indebted than most competitors - Dividend paying company - Additional management support from major investor NPN/Krokus - Focus on medical centres which are much less CAPEX-intensive than hospitals 	<ul style="list-style-type: none"> - Contracts with public NFZ account for >40% of total sales from medical services - Very low free float - Strong dependence on government regulation - Limited negotiation capability regarding remuneration with specialized doctors
Opportunities	Risks
<ul style="list-style-type: none"> - Opening of new medical centers across Poland - Expansion into rehabilitation services and SPAs - Increasing share of corporate clients which generate highest gross margins - Despite high income growth and a quickly ageing population, per capita, healthcare spending in Poland is still far behind Western European levels - More government tax incentives for buying private health insurance - Share option plan in the short term in order to keep and attract most qualified personnel - A Poland-wide marketing campaign which would positively impact sales - Acquisition of a medtech or biotech company which would diversify revenues 	<ul style="list-style-type: none"> - Intensifying competition - Loss of and inability to find qualified medical personnel - Wrong choice of location for medical centres - Change of conditions relating to co-operation with NFZ - Liquidity risks relating to the development of medical infrastructure - Risk relating to co-operation with external partners - Legal risks relating to medical mistakes - Challenges in terms of managing a larger and geographically dispersed entity

9 Profit and loss statements

in PLNm	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Net sales	10.89	13.82	18.64	24.18	32.16	41.80	53.51	65.28
Cost of goods sold	-7.29	-8.69	-12.30	-18.41	-23.45	-30.24	-38.12	-45.79
Gross profit	3.60	5.13	6.33	5.77	8.70	11.56	15.39	19.49
Other operating income	0.20	0.29	0.39	0.40	0.42	0.45	0.47	0.49
Administration costs	-1.37	-1.71	-2.28	-2.26	-2.98	-3.83	-4.85	-5.85
Other operating expenses	-0.12	-0.17	-0.50	-0.10	-0.27	-0.35	-0.46	-0.58
EBITDA	2.30	3.54	3.94	3.82	5.88	7.83	10.55	13.56
Depreciation & Amortization	-0.30	-0.30	-0.35	-0.66	-0.87	-1.13	-1.45	-1.77
EBIT	2.01	3.24	3.60	3.16	5.01	6.69	9.10	11.78
Net financial results	-0.07	-0.10	0.20	0.51	0.07	-0.21	-0.38	-0.45
EBT	1.94	3.14	3.80	3.67	5.08	6.49	8.71	11.34
Income taxes	-0.38	-0.61	-0.76	-0.58	-0.96	-1.23	-1.66	-2.15
Net income / loss	1.56	2.53	3.04	3.09	4.11	5.25	7.06	9.18
EPS	0.11	0.18	0.11	0.11	0.15	0.19	0.25	0.32
DPS	0.10	0.17	0.04	0.04	0.04	0.05	0.07	0.10

Source: Company data, Dr. Kalliwoda Research GmbH

10 Balance sheets

in PLNm	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Current assets	3.48	4.64	20.28	17.14	17.05	19.80	22.56	27.98
Cash and cash equivalents	1.67	1.47	16.73	10.17	7.78	7.76	7.15	9.18
Inventories	0.03	0.04	0.07	0.11	0.14	0.18	0.23	0.27
Trade accounts and notes receivables	1.36	2.58	2.63	4.53	6.03	7.84	10.03	12.24
Prepaid expenses, deferred charges and others	0.42	0.55	0.86	2.33	3.10	4.03	5.16	6.29
Non-current assets	18.69	18.45	22.27	34.54	42.32	48.54	53.71	57.27
Property, plant and equipment	6.95	6.70	10.40	22.65	30.52	36.70	41.84	45.37
Intangible assets	11.70	11.70	11.73	11.77	11.80	11.83	11.87	11.90
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
Total assets	22.17	23.08	42.54	51.68	59.37	68.34	76.27	85.25
Current liabilities	1.97	1.80	4.34	7.30	11.19	13.63	16.08	18.59
Trade payables	1.02	0.72	2.67	4.88	6.22	8.02	10.11	12.14
Short-term financial debt	0.29	0.46	0.63	1.09	3.50	4.00	4.20	4.50
Other liabilities	0.36	0.40	0.59	0.17	0.19	0.21	0.23	0.25
Advances received	0.30	0.22	0.44	1.17	1.28	1.41	1.55	1.71
Long-term liabilities	1.53	1.42	1.37	2.53	3.26	6.08	6.60	6.62
Long-term financial debt	1.39	1.29	1.22	2.27	3.20	6.00	6.50	6.50
Pension provision	0.01	0.02	0.01	0.05	0.06	0.08	0.10	0.12
Deferred tax liabilities	0.13	0.12	0.14	0.21	0.00	0.00	0.00	0.00
Shareholders equity	18.67	19.86	36.83	41.85	44.92	48.63	53.59	60.03
Total consolidated equity and debt	22.17	23.08	42.54	51.68	59.37	68.34	76.27	85.25

Source: Company data, Dr. Kalliwoda Research GmbH

11 Cash flow statements

in PLNm	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Net income	1.56	2.53	3.04	3.09	4.11	5.25	7.06	9.18
Depreciation	0.30	0.30	0.35	0.66	0.87	1.13	1.45	1.77
Working capital	0.07	-1.08	1.97	-1.93	-0.82	-0.83	-1.12	-1.18
Others	0.34	-0.16	-0.45	0.11	0.00	0.00	0.00	0.00
Net operating cashflow	2.26	1.60	4.91	1.92	4.16	5.56	7.39	9.78
Capital expenditure	-0.91	-0.02	-2.80	-10.08	-8.77	-7.35	-6.63	-5.33
Free cashflow	1.35	1.57	2.11	-8.15	-4.61	-1.80	0.76	4.45
Financial Cash Flow	-1.10	-1.77	13.15	1.60	2.22	1.77	-1.37	-2.42
Change in cash	0.25	-0.20	15.26	-6.55	-2.39	-0.03	-0.61	2.03
Cash, start of the year	1.42	1.67	1.47	16.73	10.17	7.78	7.76	7.15
Cash, end of the year	1.67	1.47	16.73	10.17	7.78	7.76	7.15	9.18
Free Cashflow per share	0.05	0.06	0.07	-0.29	-0.16	-0.06	0.03	0.16

Source: Company data, Dr. Kalliwoda Research GmbH

12 DCF model

in PLNm	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Net sales	32.16	41.80	53.51	65.28	77.03	88.59	99.22	108.15	114.63
(y-o-y change)	33.0%	30.0%	28.0%	22.0%	18.0%	15.0%	12.0%	9.0%	6.0%
EBIT	5.01	6.69	9.10	11.78	14.75	16.89	18.74	20.32	21.51
(EBIT margin)	15.6%	16.0%	17.0%	18.1%	19.1%	19.1%	18.9%	18.8%	18.8%
NOPLAT	4.06	5.42	7.37	9.55	11.95	13.68	15.18	16.46	17.43
+ Depreciation & amortisation	0.87	1.13	1.45	1.77	2.09	2.40	2.69	2.93	3.11
= Net operating cash flow	4.93	6.56	8.82	11.32	14.04	16.09	17.87	19.39	20.54
- Total investments (Capex and WC)	-9.59	-8.19	-7.74	-6.51	-6.66	-6.73	-6.64	-6.95	-6.78
Capital expenditure	-8.77	-7.35	-6.63	-5.33	-5.44	-5.75	-5.79	-6.30	-6.42
Working capital	-0.82	-0.83	-1.12	-1.18	-1.22	-0.97	-0.85	-0.64	-0.36
= Free cash flow (FCF)	-4.66	-1.63	1.08	4.81	7.37	9.36	11.23	12.45	13.76
PV of FCF's	-4.38	-1.38	0.82	3.31	4.57	5.23	5.66	5.65	5.63
PV of FCFs in explicit period	30.95								
PV of FCFs in terminal period	77.57								
Enterprise value (EV)	108.51								
+ Net cash / - net debt	-0.14								
Shareholder value	108.38								
Number of shares outstanding (m)	28.35								
WACC	11.0%								
Cost of equity	12.5%								
Pre-tax cost of debt	6.0%								
Normal tax rate	19.0%								
After-tax cost of debt	4.9%								
Share of equity	80.0%								
Share of debt	20.0%								
Fair value per share in PLN (today)	3.82								
Fair value per share in PLN (in 12 months)	4.24								

		Terminal EBIIT margin						
		15.8%	16.8%	17.8%	18.8%	19.8%	20.8%	21.8%
WACC	7.0%	7.88	8.34	8.80	9.26	9.72	10.18	10.63
	8.0%	6.05	6.38	6.72	7.05	7.39	7.72	8.06
	9.0%	4.84	5.09	5.35	5.60	5.86	6.11	6.37
	10.0%	3.98	4.18	4.38	4.58	4.78	4.98	5.18
	11.0%	3.34	3.50	3.66	3.82	3.98	4.14	4.30
	12.0%	2.85	2.98	3.11	3.24	3.37	3.50	3.64
	13.0%	2.46	2.57	2.68	2.79	2.89	3.00	3.11

Source: Dr. Kalliwoda Research GmbH

13 Peer group analysis

We have cross-checked our DCF fair value with two peer groups: the first one contains listed healthcare service providers from other EU countries, whereas the other comprises Polmed's Polish peers for which financial data is available.

The analysis shows that Polmed currently trades with a premium to its peers. However, this is in our opinion justified given the fact that (1) Polmed is implementing a nationwide roll-out strategy, which should translate into a dynamic growth of the business in the next three years, and (2) it has much better profitability and balance sheet ratios. Most of the company's peers generate EBITDA margins of less than 10% and have a significant net gearing. This also holds for Polmed's competitors in Poland.

In our view, a particularly good example of Polmed's quality is a comparison with ENEL-MED's estimated 2010 results. With estimated sales of PLN 138m in 2010, ENEL-MED generated the same net profit (PLN 1m) as Polmed with revenues of PLN 6.8m in Q1/11.

Foreign peers

Company	EV/Sales		EV/EBITDA		EV/EBIT		P/E		EBITDA margin	Net gearing	Equity ratio
	2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E	Latest	Latest	Latest
MediClin AG (EUR)	0.48	0.46	n.a	n.a	12.98	12.12	21.01	21.01	2.62%	23.26%	48.53%
Curanum AG (EUR)	0.89	0.86	8.63	8.29	14.02	12.88	14.29	14.29	-2.83%	284.56%	20.79%
Marseille-Kliniken AG (EUR)	0.48	0.46	5.87	4.91	15.55	10.60	26.14	8.71	5.87%	220.84%	12.76%
MATERNUS-Kliniken AG (EUR)	0.86	0.84	7.93	6.84	12.33	10.74	9.24	9.24	11.47%	-719.21%	-9.10%
Oral Hammaslaakarit PLC (EUR)	0.94	0.81	11.15	7.49	22.36	11.79	24.30	16.20	7.16%	18.74%	52.43%
Le Noble Age S.A. (EUR)	0.88	0.82	8.36	7.30	10.74	8.99	13.59	11.50	9.62%	114.82%	26.72%
ATHENS MEDICAL C. S.A. (EUR)	0.91	0.85	13.93	8.09	146.01	16.62	-4.60	n.a	-1.74%	107.86%	31.98%
Euromedica S.A. (EUR)	2.04	1.97	14.68	11.91	33.62	19.66	-4.00	4.00	-3.41%	282.03%	18.46%
Global Health Partner AB (SEK)	1.26	1.08	11.92	8.02	16.65	10.03	31.00	17.71	5.83%	8.69%	58.06%
IASO S.A. (EUR)	1.32	1.32	9.13	8.40	24.15	21.44	11.50	11.50	5.73%	109.81%	32.77%
Median	0.90	0.85	9.13	8.02	16.10	11.95	13.94	11.50	5.78%	108.84%	29.35%
Polmed SA (PLN)	2.55	1.96	13.95	10.49	16.38	12.26	19.99	15.65	23.33%	0.31%	87.36%
Premium/discount	183.88%	132.22%	52.76%	30.73%	1.76%	2.59%	43.39%	36.06%			

Source: Thomson Reuters Knowledge, Dr. Kalliwoda Research GmbH

Polish peers

in PLNm	Market cap	Enterprise value	Sales 2010	EBITDA margin 2010	Net income 2010	EV/Sales 2010	EVEBITDA 2010	P/E 2010	Net gearing	Equity ratio
EMC Instytut Medyczny S.A.	98.93	95.21	128.08	6.94%	0.83	0.74	10.71	119.19	-6.20%	42.67%
ENEL-MED S.A.*	117.83	134.86	138.00	10.58%	1.00	0.98	9.24	117.83	31.39%	49.77%
Swissmed Centrum Zdrowia S.A.	70.36	89.36	48.05	6.86%	-0.46	1.86	27.08	-152.96	44.41%	53.26%
Median	98.93	95.21	128.08	6.94%	83.00%	0.98	10.71	117.83	31.39%	49.77%

* Calculations are post-IPO. The company will be listed at the beginning of June 2011.

Source: Thomson Reuters Knowledge, ENEL-MED IPO Prospectus, Parkiet.com, Dr. Kalliwoda Research GmbH

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