Company Research

Aevis

Not rated

The greatest wealth is health!

July 4, 2012

Price CHF 24.60

Key Figures (CHF m)	2011	2012E	2013E	2014E
Total Revenues	300.2	360.0	400.0	425.0
yoy-change	-	20%	11%	6%
EBITDA	37.6	52.0	71.5	81.0
EBITDA-margin	13%	14%	18%	19%
EBIT	23.0	30.0	46.5	53.0
EBIT-margin	8%	8%	12%	12%
Net profit	8.5	16.8	29.6	34.7
EPS	0.67	1.32	2.34	2.74
NAV/Share (CHF)	11.5	14.9	17.2	20.0
Dividend per share	0.0	0.0	0.0	0.0
Dividend yield	n.m.	0.0%	0.0%	0.0%
Enterprise Value (CHF m)				
Market cap	311.9	311.9	311.9	311.9
+ Net debt (cash)	338.4	295.0	273.3	244.6
= Enterprise value	650.3	606.9	585.2	556.5
Valuation				
EV/Sales	2.2	1.7	1.5	1.3
EV/EBITDA	17.3	11.7	8.2	6.9
EV/EBIT	28.3	20.2	12.6	10.5
P/E adj.	36.9	18.6	10.5	9.0
Price / NAV	2.1	1.7	1.4	1.2
Debt figures				
Interest cover	4.2	6.1	8.4	9.5
Net debt /EBITDA	9.0	5.7	3.8	3.0
Equity ratio	24%	29%	32%	35%
Gearing	232%	156%	125%	97%
Return				
ROCE (NOPAT)	3.2%	4.1%	6.0%	6.8%

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AEVIS Holding will issue a 4 year straight bond to partially refinance its existing credit facilities and to finance further growth. The definite terms (coupon and size) will be fixed depending on investors' demand on 12 July 2012. Due to the following investment highlights we consider this straight bond to offer a compelling risk reward profile:

Exposure to resilient structural growth market: AEVIS owns the second largest network of private hospitals in Switzerland for Swiss and foreign patients (about 5% of AEVIS patients are from abroad; this is above the national average of 2-3%). The healthcare industry is one of the world's largest and fastest-growing industries, consuming over 10% of GDP of most developed nations (Switzerland: 11.4%). From 1996 to 2009 the average annual growth rate of Swiss healthcare expenditures was 3.5%. Having a decent exposure to the upper segment of self-paying private patients, cost cutting measures of the public healthcare sector are not a major issue for AEVIS.

Benefitting from ongoing consolidation process: The Swiss hospital industry is still highly fragmented. Many clinics lack an attractive service offering and are loss-making. AEVIS has a proven track record of acquiring and restructuring such hospitals. The constraints of price pressure, cost containment and quality requirements caused by the Swiss healthcare reform, will even spur the ongoing consolidation process.

Strong platform to attract patients and doctors: AEVIS owns 10 private clinics and an assisted living residence. It is the only private hospital group which is present in the French, German and Italian speaking regions of Switzerland. Due to its size it has a strong position to negotiate beneficial agreements with Swiss healthcare insurance companies. As most of its hospitals are not part of cantonal hospital lists and as it has state-of-the art infrastructure (operating theatres, patient rooms, etc.) it offers an interesting platform for attending doctors and their patients.

Stable credit metrics: With an EBITDA-interest coverage of 6x in FY 2012 and even higher ratios in FY 2013 and FY 2014 as well as an equity ratio of 29%, AEVIS has solid credit metrics.

Corporate bond "structurally senior" to mortgages: Although real estate mortgages are senior to non-secured debt, AEVIS' outstanding mortgages are "structurally subordinated" since they do not include any financial covenants. This in contrast to the straight bonds.

Improved corporate governance: After the merger of the Group's clinic operations (Genolier Swiss Medical Network, GSMN) with the real estate portfolio (SHP) to the newly founded AEVIS Group, potential conflicts of interests of the major shareholders have been eliminated.

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Transaction

AEVIS Holding SA will issue a straight bond with a duration of 4 years. Its definitive coupon and size will be determined depending on investors' demand on 12 July 2012. The proceeds will be used to partially refinance existing credit facilities and to finance growth. The improved base financing will enable AEVIS to free-up working capital lines to cope with higher working capital demands due to its growing business volume. Altogether, the new financing structure will increase AEVIS' flexibility and diversify the company's funding sources.

Term Sheet Straight Bond

Issuer:	AEVIS Holding SA
Issue Amount:	CHF 50 mn with the possibility to increase up to CHF 70 mn
Coupon:	3 7/8% -4 3/4% p.a.
Issue Price:	100.5%
Placement Price:	Placement price depends on supply and demand
Term:	4 years
Book Building:	4 July to 12 July 2012, 12.30 CET
Assurances:	Pari-passu, negative pledge (with exemptions), default (incl. cross-default) change of control
Listing:	SIX Swiss Exchange on 3 August 2012
Use of Proceeds:	Debt refinancing, acquisition financing, general corporate purposes
Lead Manager:	Neue Helvetische Bank AG

2nd largest network of private clinics in Switzerland

Company description

After Hirslanden (owned by South African Medi-Clinic Corporation), AEVIS operates the second largest network of private clinics in Switzerland, through its subsidiary Genolier Swiss Medical Network SA. It is the only one to be established in all three linguistic regions.

The company has shifted its focus completely to healthcare and sold its controlling stake of 51% in L'Agefi in 2009 (former media and publishing division).

AEVIS is not active in the field of high-end medicine (e.g. brain and heart surgeries, transplantations, etc.) and clinical research. Its clinics provide standard surgical treatments and elective surgery (surgery that is scheduled in advance because it does not involve a medical emergency).

As of today, AEVIS operates 11 private clinics with more than 1,000 practising physicians and 2,000 employees. AEVIS is also affiliated with Klinik Pyramide am See AG, which operates two private clinics in Zurich. Its first class hospital care is being offered to Swiss and foreign patients.

Acquisitional growth strategy

AEVIS' growth strategy focuses on increasing revenues and profits through the acquisition of underperforming clinics that can be restructured and operationally optimized. It is AEVIS' vision to grow the network further up to 20 to 25 clinics in 10 to 15 cantons. As the Group's presence in Vaud and Ticino is already very high, its continued growth will be mainly focused on the German speaking cantons. Thereby, AEVIS expects to acquire another two to three clinics within the next two years with preliminary discussions already being held.

In the past, it was a strategic decision of the Group (the former Genolier Swiss Medical Network – GSMN) not to invest in real estate in order to keep its balance sheet lean (asset-light strategy) and to focus on the growth of its geographic coverage of its operations in Switzerland. Most of the buildings of AEVIS' clinics were owned by Swiss Healthcare Properties AG (SHP), a specialized real estate investment and development company, which was ultimately owned by the main shareholders of GSMN.

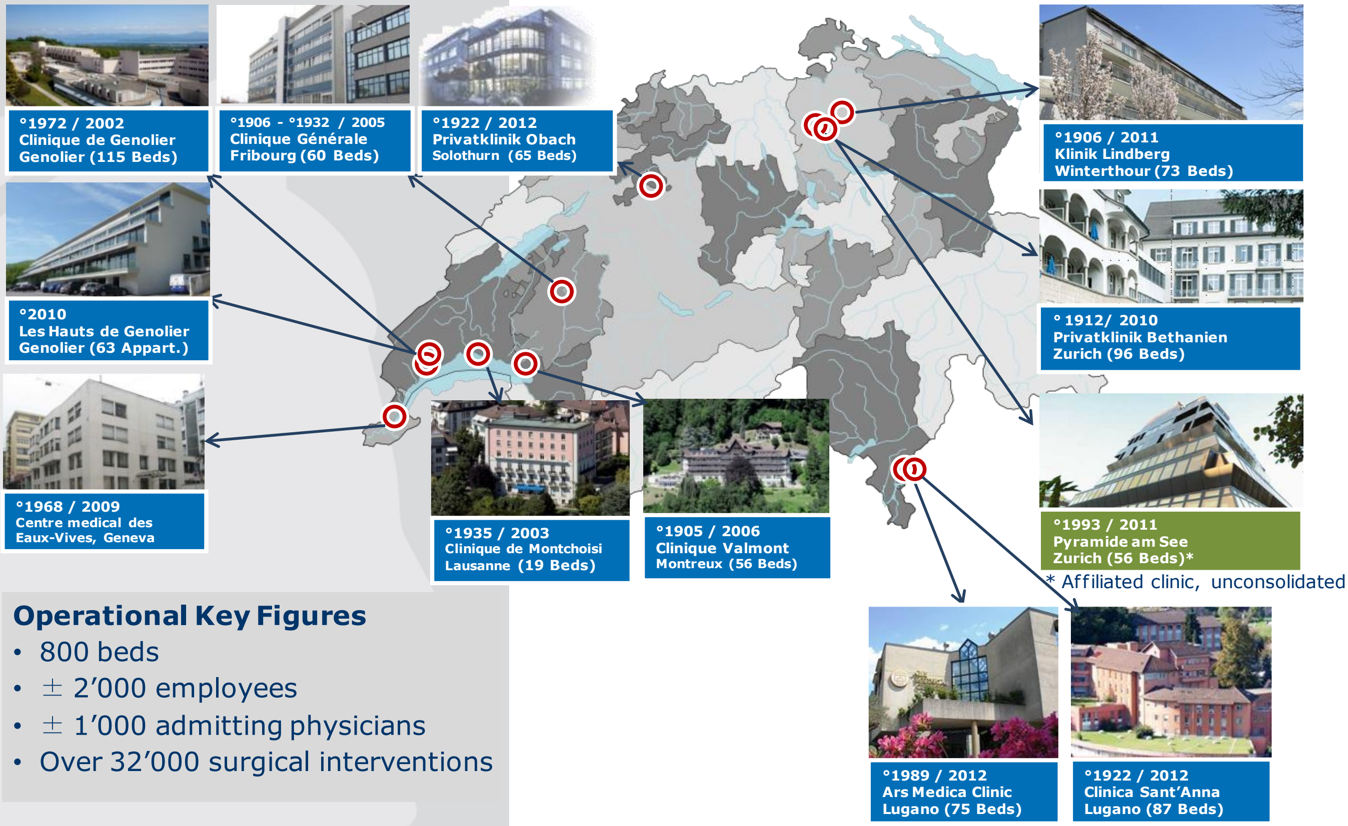
Integrated business model with hospital ownership

However, as the clinic properties have always been a very important asset for the operations of the Group, GSMN tried to reflect this importance with long-term rental agreements (e.g. 40 year lease contract for Clinique de Genolier), the core and shell principle (mostly applied to commercial buildings; the tenant needs to provide for the completion of the property to match its occupational requirements) as well as emption and pre-emption rights to control the ownership of the buildings. The integration of the real-estate further accentuates its importance for the long-term orientation and stability of the Group in order to have an integrated business model and to support its growth.

AEVIS' private clinics

The following section provides a short overview over AEVIS' clinics:

Clinics overview



Operational Key Figures
- 800 beds
- ± 2'000 employees
- ± 1'000 admitting physicians
- Over 32'000 surgical interventions

Source: AEVIS

Clinique de Genolier - the Group's flagship facility

Located between Geneva and Lausanne, **Clinique de Genolier** is the flagship facility of AEVIS. With 115 beds and 154 admitting physicians, it is one of the largest private clinics in Switzerland. Clinique de Genolier has built a strong reputation in the treatment of cancer with its radiation oncology centre ranking among Europe's most modern facilities. With its up-to-date medical imaging department, the clinic excels in general and digestive surgery, orthopaedics and plastic surgery. Gynaecology, neurology and even cardiology complete the range. The Clinic also has an outpatient centre, providing specialised consultations, outpatient health-care services, laboratory investigations and medical imaging services to all patients, whether they are private, semi-private or state insured. Clinique de Genolier offers one of the most up-to-date operating suites in Europe. The new operating rooms are equipped with the latest innovations in medical technology, including telemedicine.

Assisted living in Les Hauts de Genolier

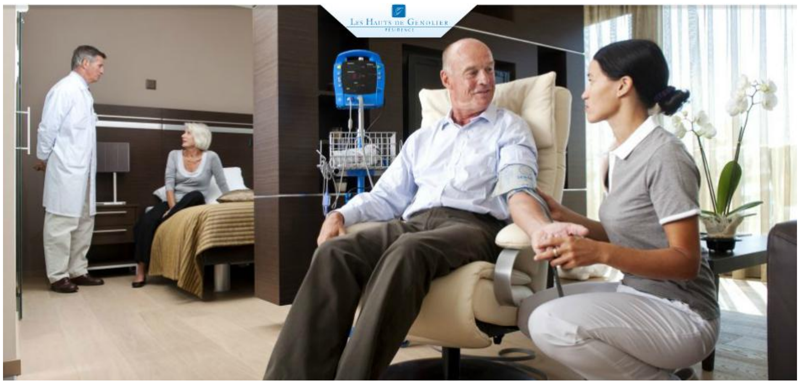
With the acquisition of Privatklinik Bethanien, AEVIS became an important player in German speaking Switzerland

MRI apparatus and operation theatre at Clinique de Genolier

Source: AEVIS

Les Hauts de Genolier is an upscale medical and assisted living building that has been built in 2008/09. It houses 63 hotel suite like residences with balcony. A direct underground passage links the property to the Clinique de Genolier building. The basic construction design of the property is a mixture of a luxury hotel with representative reception and communal areas (wellness, restaurant and conference rooms).

Hotel suite like residence at Les Hauts de Genolier



Source: AEVIS

Acquired in 2010, **Privatklinik Bethanien** in Zurich offers 96 beds and just over 200 admitting physicians. Its specialties include general and visceral surgery, gynaecology and obstetrics, ear, nose & throat, maxillo-facial surgery, orthopaedic surgery, plastic and reconstructive surgery, and urology. In 2010, Bethanien inaugurated new VIP rooms and a new maternity.

Delivery room at Privatklinik Bethanien

Source: AEVIS

About half of all Ticinesi were born in one of AEVIS' clinics in Ticino

Founded in 1989, **Ars Medica Clinic** (near Lugano) has become the undisputed leader and the cantonal reference centre for orthopaedic surgery and traumatology of the locomotor system. Perfectly organised around this discipline, with 12 in-house consulting rooms, 75 beds, a specialist emergency unit, dedicated radiology department, 4 operating theatres fully equipped for arthroscopic and prosthetic surgery and a physiotherapy unit complete with pool, Ars Medica carries out more than 3'000 operations every year.

Founded in 1922, **Clinica Sant'Anna** is the largest maternity hospital in Ticino and one of the largest maternity clinics in Switzerland with approx. 900 births every year and a neonatal unit for the intensive care of premature babies. With 80 beds, it occupies a key position in the region's public healthcare, particularly in the fields of women's health, senology, oncology, internal medicine and, with its 5 operating theatres, specialist surgery.

Clinique Générale – an impressive turnaround story

Clinique Générale is the main private hospital in the Canton of Fribourg, with 60 beds. The facilities comprise four operating rooms. Since Clinique Générale addresses primarily local patient's needs, it has applied for its inclusion on the official hospital list of the Canton Fribourg. Subsequently, the Canton of Fribourg has earmarked the clinic as an exclusive centre for orthopaedics, neurosurgery and ear, nose & throat. Other specialities include gynaecology, general surgery and general medicine.

Clinique de Montchoisi has a capacity of 25 licensed beds. The clinic is located in the city of Lausanne. The central location and modern, state-of-the-art equipment attract in and outpatients and allow it to focus on high valued-added services. The clinic offers services in general surgery, ophthalmology, orthopaedics, gynaecology and plastic surgery and medical imaging. In 2011, the clinic opened a new radiology unit comprising a new CT scanner and MRI machine.

Clinique Valmont – the Group's only rehabilitation centre

Restaurant at Clinique de Montchoisi

Source: AEVIS

Clinique Valmont, located above Montreux with views on Lake Geneva and the Alps, is a rehabilitation centre with 88 licensed beds. Clinique Valmont specialises in orthopaedic and neurological rehabilitation and takes care of patients suffering from multiple trauma, degenerative diseases, strokes or any other patient on the way to rehabilitation. Clinique Valmont also offers care for patients with Parkinson's disease and an Alzheimer Testing centre. It is the Group's only rehabilitation centre and thus benefits from a patient influx coming from the other clinics.

Centre Médico-Chirurgical des Eaux-Vives is a multi-disciplinary outpatient centre located in Geneva. CMEV opened Geneva's first private radio-oncology centre in October 2007. This cancer radiotherapy centre provides radiotherapy for all type of cancer, systemic treatments to all patients with basic health insurance. The Centre also has several chemotherapy and immunotherapy rooms and an experienced team of physicians. In addition to general medicine, this centre has built in specialities in practically all disciplines with pneumology and paediatrics being two of its key specialities.

Radiotherapy at Eaux-Vives

Source: AEVIS

Privatklinik Obach was acquired in January 2012. The clinic is the largest private clinic in the canton of Solothurn. It has 65 beds, 3 operating theatres and 2 delivery rooms. Its 42 independent physicians carry out more than 4'000 operations each year.

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Privatklinik Lindberg's (Winterthur) medical spectrum is very broad. Areas of expertise include obesity medicine, the treatment of metabolism problems, cardiology, medicine of the musculoskeletal system, traumatology and visceral surgery, urology and gynaecology. A nursing facility for convalescents and senior citizens completes the health care services on offer. It counts 73 beds and 210 employees. Each year, its 110 physicians receive over 11'000 ambulatory patients. Around 2'700 patients are hospitalised yearly in the Clinic. The Group acquired a participation of 49% in July 2011 and the remaining 51% in May 2012. It intends to restructure the activity of Klinik Lindberg and plans to develop the obesity centre of AEVIS for both Swiss and foreign patients.

Pyramide am See – 20% cross shareholding

Pyramide am See manages two clinics in the canton of Zurich: Klinik Pyramide am See for private patients and Klinik Pyramide Schwerzenbach for semi-private patients. AEVIS signed a cooperation agreement with Dr. George (founder of Pyramide am See) by which the Group is committed to acquire a participation of 20% in Pyramide am See in exchange for a corresponding participation of 20% in Privatklinik Bethanien. The closing of this cross-participation is still subject to the fulfilment of conditions precedent, with a deadline expiring on September 30, 2012.

Clinique Esthétique Spontini – the only foreign clinic exposure

On February 21, 2012, AEVIS has taken over the business activities and assets of **Clinique Esthétique Spontini** in Paris. This institution was closed and placed in administration in October 2011. Clinique Spontini has 24 rooms, 4 operating theatres, a room for minor surgery, and an entire floor dedicated to cosmetic medicine, with 3 treating rooms. Work is currently in progress on upgrading the rooms and reception areas (the clinic has been entirely renovated 10 years ago). The clinic will be reopened during summer 2012 and be positioned as a specialist clinic for plastic and cosmetic surgery. It will be a specialised unit of AEVIS in Paris, and is **not** part of an overall development strategy in France.

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Business profile

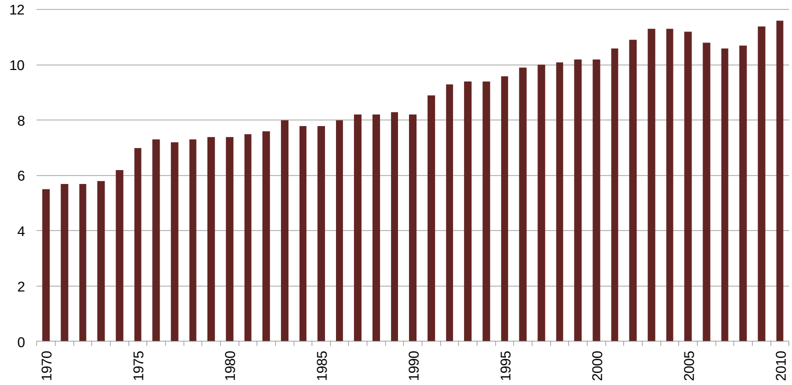
The Swiss healthcare market

Several structural growth drivers for Swiss healthcare market

Switzerland faces the same trends and challenges as many other Western countries: the population is aging, meaning increased demand for healthcare services. The baby boomer generation is entering the healthcare market in large numbers. The healthcare sector is expanding more than the average economy, and it will continue to do so.

An actual survey conducted by the OECD reveals that total health expenditure amounted to 11.4% of Switzerland's domestic product in 2009. About 30% of these health expenditures are caused by hospitals. Switzerland's high standards of living and the fact that every Swiss resident is under a legal duty to contract a basic health insurance coverage explain this situation.

Swiss health care expenditures as % of GDP (1970-2010)

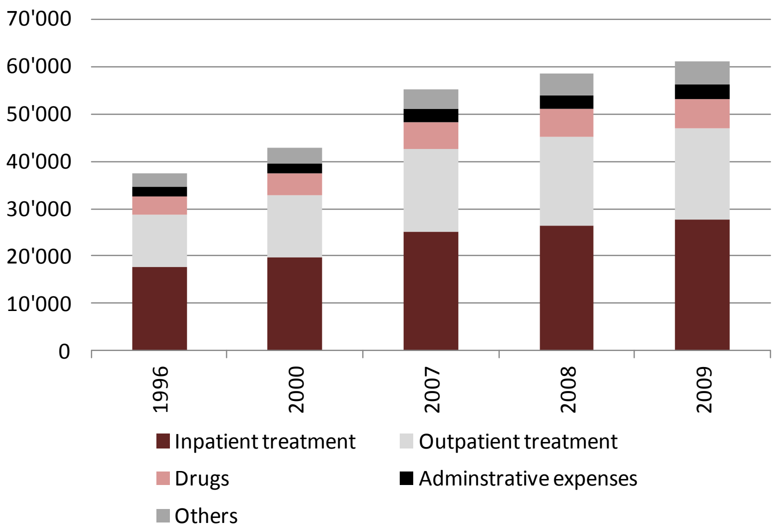


Source: OECD Health Data 2011

Swiss healthcare market with 3.5% CAGR from 1996 - 2009

Switzerland's healthcare spending increased at an annual growth rate of 3.5% from CHF 38 bn in 1996 to CHF 61 bn in 2009. Outpatient treatment (32% of total spending in 2009) achieved the highest growth rate at 4.1%, followed by inpatient treatment (46% of total spending) at 3.3%.

Breakdown of healthcare spending in Switzerland



Source: Interpharma

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Public and private funding of Swiss healthcare system

The Swiss healthcare system is financed by a combination of public and private sector health insurance plans, as well as the federal government and cantonal authorities.

According to the Health Insurance Act (Krankenversicherungsgesetz - KVG) every person living in Switzerland is obliged to take out a basic health insurance policy (Grundversicherung). Health insurance premiums are not dependent on income, but are calculated based on a personal risk profile. Health insurance covers the costs of medical treatment and hospitalisation of the insured. However, the insured person pays part of the cost of treatment. This is done by means of an annual excess (called franchise), which ranges from CHF 300 to a maximum of CHF 2,500 as chosen by the insured person and by a charge of 10% of the costs over and above the excess up to a stop-loss amount of CHF 700.

Less than 20% of Swiss inhabitants with complementary insurance policy

The compulsory insurance can be supplemented by private "complementary" insurance policies that allow for coverage of some of the treatment categories not covered by the basic insurance or to improve the standard of room and service in case of hospitalisation. This can include dental treatment and private ward hospitalisation which are not covered by the compulsory insurance. The share of Swiss inhabitants with complementary insurance policies is just below 20%.

However, patients who only have a basic insurance can still apply for a semi-private or single room, though their health insurance will not pay for the upgrade. In this case, the patients have to settle their additional room charges.

Hospital Financing Reform

In several countries, there has been considerable progress on reforms to hospital financing using Diagnostic Related Group (DRG) based payments. As a result, a new organisation, Swiss DRG SA, has been established in Switzerland to develop and maintain a national schedule of Swiss Diagnostic Related Groups, initially based on the German DRG model.

Introduction of DRGs to achieve transparency and to increase competition

DRGs are being implemented to achieve transparency and to promote the exchange of healthcare services between the different geographical areas within Switzerland. DRGs are providing a prerequisite for more competition between the service providers because services and products delivered by hospitals can be compared, regarding cost as well as quality. Once fully implemented throughout Switzerland by 2012, this national schedule will govern payments for compulsory social insurance schemes to all hospitals (including private hospitals). Scales will be computed based on 42 hospitals that delivered data to Swiss DRG. The split of funding will see insurers provide a maximum 45% of the price of a service and cantons providing 55% of the price of a service.

As the fixed costs for using a hospital's facilities are a new part of the Swiss DRG lump-sums payments, many hospitals in Switzerland have assumed direct responsibility for their real estate. This leads to the hospital having to directly plan, implement and finance future renovations and new buildings. Consequently, a hospital organization has to compile its operational figures more transparently and accurately to be able to negotiate with banks and other lenders. After the merger of GSMN (Genolier Swiss Medical Network) and SHP (Swiss Hospital Properties) AEVIS now also owns all of its premises.

Implementation of DRGs with a lot of side noise

However, for the time being, the implementation of DRGs at the legislative level by the cantons and at the contractual level by the insurance companies is chaotic, and the interpretation of the law as well as the adjustment of rates will often end up with cases being brought before the federal price supervisor and in court.

Hospital lists reduce scope for autonomous decisions

Along with the DRG reform, hospital lists have been established, specifying those hospitals which will be able to receive the canton's funding of 55% of each service delivered. In return, most hospitals on the lists are obliged to accept at least 50% of patients with basic health insurance policy and to run an accident and emergency unit. It therefore becomes clear that cantonal hospital lists can reduce scope for hospital managers to make autonomous decisions on the mix of services they choose to provide.

Hospitals that are excluded from hospital lists can still stipulate a contract with insurers to reimburse their services. They are not allowed to claim cantonal cost sharing (the cantonal part will be paid by the patients or their supplementary health insurance) but they have no prescriptions in health care service offerings.

Because less than 20% of patients living in Switzerland have a complementary health insurance, private clinics without a compelling strategy are now increasingly caring for patients with general insurance to fully utilize their infrastructure.

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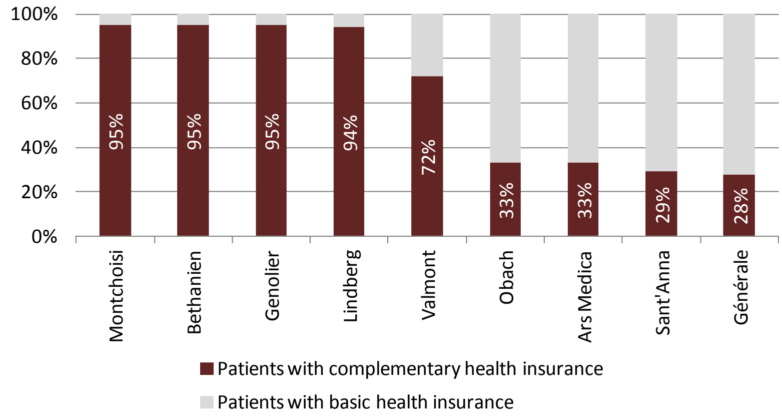
Most of AEVIS' hospitals are not on the cantonal hospital lists

Whereas Hirslanden Group still prefers having as many of its hospitals on the cantonal hospital lists as possible, AEVIS has always been quite reluctant in this matter. Thanks to the successful signing of new contracts with health care insurers (e.g. Helsana) and thanks to its relatively high degree of patients with compulsory health insurance policies the funding of its health care services has been secured.

The following graph gives an overview about the patient profiles of AEVIS' clinics:

Patient profiles at AEVIS

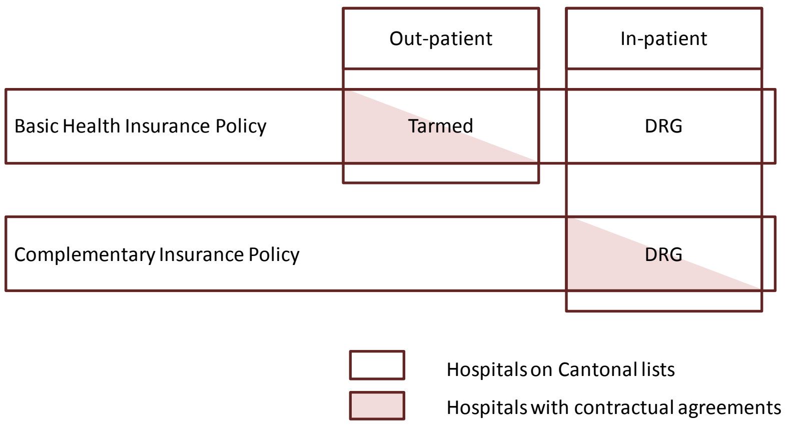


Source: AEVIS

Whereas Montchoisi, Privatklinik Bethanien, Clinique de Genolier and Privatklinik Lindberg are clearly focusing on patients with supplementary health insurances, Privatklinik Obach in Winterthur, Ars Medica and Sant'Anna in Ticino as well as Clinique Générale in Fribourg have a high degree of patients with basic health insurance. The later four have therefore applied and are now part of the cantonal hospital lists.

With the amendments to the Swiss Health Insurance Act ("KVG") there is now a free hospital choice for in-patients as long as the hospital figures on the cantonal hospital list or the in-patients have a supplementary private or semi-private health insurance. There are no restrictions for out-patients. The health care costs that occur when treating out-patients are still calculated by using Tarmed tariffs. Tarmed stands for "Tarif Médical". It is a time-based fee scale which covers all medical services in an ambulatory setting.

Tariff structure and compensation



Source: NHB

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Very heterogeneous market with strong regional differences

AEVIS and Hirslanden with different business models

Consolidation trend offers attractive acquisition opportunities

Competitive landscape

The Swiss hospital landscape is very heterogeneous and primarily displays strong regional differences. The market is essentially divided between general public (state-owned) hospitals and privately held specialized clinics (private hospitals). These hospitals offer very different services depending on their size and ownership status. Their sizes also greatly differ, from five beds to more than 2,000 beds. There are five university hospitals throughout the country, with total 6,000 beds for 7.7 million inhabitants. The 14 biggest hospitals, nine percent of all hospitals, contain 45 percent of all beds, which reflects their importance in healthcare provision. In contrast, the 87 smallest hospitals of acute care, 54 percent of all hospitals, offer only 13 percent of all beds.

The new case-based lump-sum payments (DRGs) place hospitals from peripheral regions in increasing difficulty, because they have too few cases per service group to be able to treat these effectively and efficiently. There is a conflict between broad regional hospital service coverage and economically sensible use of the expensive infrastructure, as well as maintenance of a 24-hour operation. According to our assessment, especially small and middle-sized hospitals will probably search solutions in specialising, e.g. in focusing on medical services in which they have a competitive advantage. In fact, many specialised hospitals do already exist, often run by private owners. Parallel to specialisation, Swiss hospitals are forced into networking by the constraints of price pressure, cost containment and quality requirements. Public as well as private hospitals are collaborating more: some merge completely, some combine certain services. We therefore expect the ongoing consolidation to continue. Consequently, the number of health companies is expected to decrease and private clinics will increasingly tend to form medical groups such as AEVIS or Hirslanden Group.

Hirslanden (operates 14 private hospitals in Switzerland with roughly 1,500 beds) and AEVIS (11 clinics with 800 beds) are not following the same business model. Whereas Hirslanden has most of its physicians on its payroll, the clinics of AEVIS do not directly employ the doctors who practice in their facilities. They are granted admission rights. Those physicians may work in other private – but rarely public – hospitals as well and choose the medical facility that suits them best to operate their patients. Another benefit of having attending doctors only is the fact that they are independent and therefore may be held personally liable for any findings of medical errors.

Competitive edge

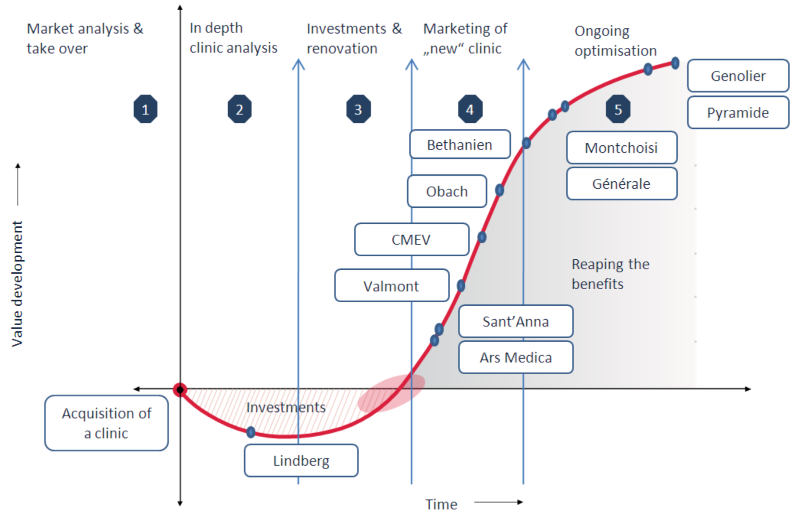
In order to attract physicians and patients, it is important to have state-of-the-art facilities and medical equipment. As a consequence, AEVIS needs to generate returns comparable to best-in-class peers to keep its ability to continuously invest into the modernization and development of its infrastructure. AEVIS is therefore constantly looking for opportunities to improve its operating efficiency. The idea of creating a network of top-class institutions is based on the fact that a group can operate more efficiently, since it will benefit from various synergies, be it in terms of bargaining power or the number of procedures conducted, which will result in superior infrastructure utilization rates, and hence reduced costs. This irreversible industry trend should provide AEVIS with an array of attractive acquisition opportunities in the future.

Restructuring, repositioning and process optimisation as key success factors

"Buy-Invest-Reap"-strategy

The following chart gives an overview about AEVIS' "Buy-Invest-Reap"-strategy and the current status of all of its clinics in their development process. Whereas Clinique de Genolier is running at full speed, a lot of restructuring work needs to be done at recently acquired Privatklinik Lindberg in Winterthur.

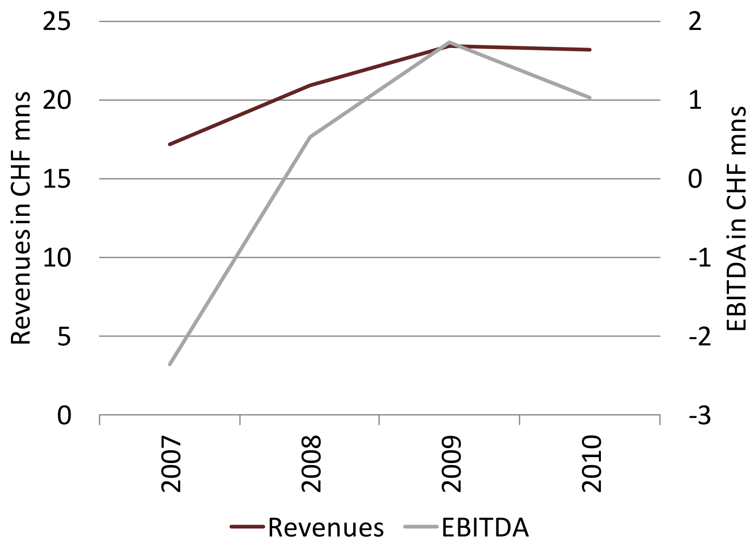
"Buy-Invest-Reap"-strategy of AEVIS



Source: AEVIS

As an example we would like to highlight the financial development of Clinique Générale in Fribourg.

Revenues and EBITDA development of Clinique Générale



Source: AEVIS, NHB

Successful turnaround at Clinique Générale in Fribourg

Clinique Générale is the result of the merger of two private hospitals in Fribourg that were in financial distress. The clinics were integrated into AEVIS (or GSMN at that time) in summer 2005. An overcapacity issue (20% utilisation rate!) was identified as being the cause of the clinics' financial distress. To solve this problem, AEVIS transferred all patients into the less favourable hospital and renovated the other clinic. When the renovation was finished patients were relocated and the second building sold. With the new setup Clinique Générale had a profitable operating structure and turned into positive EBITDA territory in FY 2008. Due to a cantonal plan, effective since October 1, 2011, Clinique Générale is granted exclusivity in orthopaedics and ENT (ear, nose & throat) in Fribourg which should further boost its revenues and EBITDA figures going forward.

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Financial profile

The unaudited pro forma consolidated income statement and balance sheet have been derived from the financial statements of GSMN, SHP, Ars Medica Clinic, Salus Medica Clinic and Privatklinik Obach. The objective of this pro forma consolidated information is to show what the significant effect on the historical financial information might have been, had the merger with SHP and the acquisition of the three clinics occurred on January 1, 2011. Since GSMN was the operating company, we have also included its FY 2011 stand alone figures for better comparability.

Income statement (CHFk)

	GSMN Stand alone 2011	GSMN & SHP incl. Acquisitions 2011 pro forma	2012e	2013e	2014e
Revenues	**200'818**	**300'238**	**360'000**	**400'000**	**425'000**
Growth (%)			*79.3%*	*11.1%*	*6.3%*
Medical services	*(12'276)*	*(32'722)*	*(42'000)*	*(46'000)*	*(52'000)*
Production expenses	*(43'871)*	*(63'626)*	*(80'000)*	*(85'000)*	*(90'000)*
Personnel expenses	*(77'428)*	*(123'367)*	*(140'000)*	*(145'000)*	*(150'000)*
Other operating expenses	*(26'296)*	*(34'557)*	*(40'000)*	*(46'000)*	*(45'000)*
Operating expenses GSMN clinics	(159'871)	(254'272)	(302'000)	(322'000)	(337'000)
Others			(1'500)	(2'000)	(2'500)
Total operating expenses	(159'871)	(254'272)	(303'500)	(324'000)	(339'500)
EBITDAR	**40'947**	**45'966**	**56'500**	**76'000**	**85'500**
Margin (%)	*20.4%*	*15.3%*	*15.7%*	*19.0%*	*20.1%*
Rental expenses	(16'921)	(8'345)	(4'500)	(4'500)	(4'500)
% Revenue	*(8.4%)*	*(2.8%)*	*(1.3%)*	*(1.1%)*	*(1.1%)*
EBITDA	**24'026**	**37'621**	**52'000**	**71'500**	**81'000**
Margin (%)	*12.0%*	*12.5%*	*14.4%*	*17.9%*	*19.1%*
Depreciation & Amortisation	(15'773)	(14'615)	(22'000)	(25'000)	(28'000)
% Revenue	*(7.8%)*	*4.9%*	*6.1%*	*6.3%*	*6.6%*
EBIT	**8'253**	**23'006**	**30'000**	**46'500**	**53'000**
Margin (%)	*9.9%*	*7.7%*	*8.3%*	*11.6%*	*12.5%*
Net financial result	(5'324)	(8'874)	(8'500)	(8'500)	(8'500)
Extraordinary result	(1'615)	(1'786)	0	0	0
Profit before income tax	**1'314**	**12'346**	**21'500**	**38'000**	**44'500**
Taxes	(843)	(3'888)	(4'730)	(8'360)	(9'790)
Tax rate (%)	*(64.2%)*	*(24.0%)*	*(22.0%)*	*(22.0%)*	*(22.0%)*
Profit for the year	**471**	**8'458**	**16'770**	**29'640**	**34'710**
Margin (%)	*0.2%*	*2.8%*	*4.7%*	*7.4%*	*8.2%*

Source: NHB

Company Research

EBITDA margin expected to increase to 19% until 2014

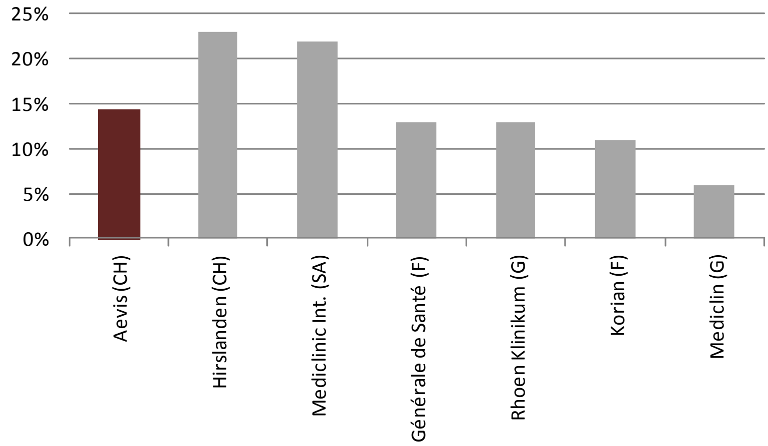
Swiss clinics with above average EBITDA margins

AEVIS has grown significantly in the past few years. On the back of several acquisitions AEVIS has increased its revenues from CHF 110 mn in FY 2007 to CHF 201 mn in FY 2011. Due to the acquisition of Ars Medica and Sant'Anna at the beginning of FY 2012, the full integration of Privatklinik Obach in FY 2012 as well as the positive impact from the acquisition of Privatklinik Lindberg done in mid FY 2011 and now contributing for 12 months AEVIS revenues are expected to grow to CHF 360 mn in FY 2012.

Thanks to higher utilisation rates, we predict revenues for FY 2013 and FY 2014 to grow by 11% and 6% respectively. Despite the repositioning and integration costs of the aforementioned clinics but thanks to the discontinuation of substantial rental costs EBITDA margin is expected to increase to 14.4% in FY 2012. As the newly acquired clinics walk along the J-curve in AEVIS' "buy-invest-reap"-strategy their profitability is expected to improve continuously. We therefore estimate AEVIS' EBITDA-margin to increase from 14.4% in FY 2012 to 19.1% in FY 2014. During this time period the operational leverage will play into AEVIS' hands and substantially improve its profitability.

The following chart summarises the EBITDA margins of AEVIS (in FY 2012e) and its quoted international peers. It becomes clear, that Swiss hospitals are generating higher operating margins than clinics in Germany and France. Less specialisation and more exposure to "low-margin business" such as long-term care are mainly responsible for their underperformance.

Peer group comparison – EBITDA margin



Source: AEVIS, NHB

Since AEVIS is depreciating its real estate portfolio over its useful live (100 years), there is no positive revaluation result in its income statement.

The negative extraordinary result in FY 2011 refers to costs related to a public takeover offer, costs for DRG's implementation and costs related to the extraordinary events of 2010 following the ordinary general meeting (see legal proceedings in the corporate governance chapter on p.22).

For the current fiscal year we expect a net profit of CHF 16.8 mn with a positive trend in the upcoming years.

Company Research

Thanks to Swiss GAAP FER there is no goodwill on AEVIS' balance sheet

Cash Flow Statement (CHFk)

	2012e	2013e	2014e
Profit for the year	16'770	29'640	34'710
Depreciation & Amortisation	22'000	25'000	28'000
Operating cash flow before change in NWC	**38'770**	**54'640**	**62'710**
Change in net working capital	(2'000)	(3'000)	(4'000)
Operating cash flow after change in NWC	**36'770**	**51'640**	**58'710**
Properties	(40'000)	0	0
Fixed assets	(70'000)	(30'000)	(30'000)
Other long-term assets	0	0	0
Financial assets	5'000	0	0
Investment cash flow	**(105'000)**	**(30'000)**	**(30'000)**
Equity financing	0	0	0
Interest bearing debt	80'000	0	0
Dividends paid	0	0	0
Financing cash flow	**80'000**	**0**	**0**
Total cash flow	**11'770**	**21'640**	**28'710**

Source: NHB

According to our assessment, AEVIS should be able to generate a positive operating cash flow of more than CHF 51 mn from FY 2013 onwards. Cash flow from investing activities only considers "normal" capital expenditures for the clinics already owned by AEVIS.

After deducting investment cash flows from operating cash flows, AEVIS ends up with a positive free cash flow of CHF 22 mn in FY 2013 and CHF 29 mn in FY 2014.

Since AEVIS adopts Swiss GAAP FER accounting, the company has no goodwill in its balance sheet. Whenever AEVIS acquires a new hospital, the resulting goodwill is offset against equity at the date of acquisition. Intangible assets only consist of external costs for software and internet websites of the group. If AEVIS did not apply to this rather conservative accounting rule, its equity ratio would be substantially higher.

We have integrated the unaudited consolidated pro forma figures of AEVIS in the following table as well as the figures of a simple business combination of GSMN & SHP. As we did not know the exact amount of mutual receivables and payables and other liabilities, several balance sheet items could not be determined and are therefore marked "n.a.".

The value of the properties (CHF 384 mn) is based on a market valuation done by the independent Swiss valuation company Wüest and Partner (W&P). In valuing AEVIS' real estate holdings, W&P applied the discounted cash flow (DCF) method, by which the market value of a property is determined as the total of all projected future (100 years) net earnings discounted to the valuation date. Until the end of the individual lease terms, W&P is applying rental rates based on the company's financial plans (with caps and floors). For the remaining period W&P is relying on a potential rental income (based on a different type of use; i.e. office space), which - in most cases - is considerably lower than the rental income the property is generating as a hospital.

AEVIS had an equity ratio of 24% at the end of FY 2011 (consolidated pro forma figures). Recent acquisitions as well as capex for maintenance and renovation in FY 2012 can be financed by the existing credit facilities and the planned corporate bond. As we predict net profits for the upcoming years and no dividend payments, equity is expected to increase from CHF 189 mn in FY 2012 to CHF 253 mn in FY 2014. But all these calculations do not include any further clinic acquisitions.

Balance sheet (CHFk)

	GSMN & SHP Combined 2011	GSMN & SHP incl. Acquisitions 2011 pro forma	2012e	2013e	2014e
ASSETS					
Cash and cash equivalents	14'424	7'131	26'194	47'834	76'544
Other current assets	n.a.	81'042	73'757	76'757	80'757
% Revenue		*27.0%*	*20.5%*	*19.2%*	*19.0%*
Current assets	**n.a.**	**88'173**	**99'951**	**124'591**	**157'301**
Fixed assets	377'996	489'056	520'000	525'000	527'000
Financial assets	23'802	30'286	25'000	25'000	25'000
Other long-term assets	n.a.	6'180	5'000	5'000	5'000
Non-current assets	**n.a.**	**525'522**	**550'000**	**555'000**	**557'000**
Total assets	**n.a.**	**613'695**	**649'951**	**679'591**	**714'301**
EQUITY & LIABILITIES					
Other current liabilities	n.a.	80'011	80'000	80'000	80'000
% Revenue		*26.6%*	*22.2%*	*20.0%*	*18.8%*
Current liabilities	**n.a.**	**80'011**	**80'000**	**80'000**	**80'000**
Interest bearing debt	241'164	345'570	321'164	321'164	321'164
Deferred payment liabilities	n.a.	1'177	20'000	20'000	20'000
Deferred income and tax liabilities	n.a.	41'195	40'000	40'000	40'000
Non-current liabilities	**n.a.**	**387'942**	**381'164**	**381'164**	**381'164**
Total liabilities	**n.a.**	**467'953**	**461'164**	**461'164**	**461'164**
Total equity	**n.a.**	**145'741**	**188'787**	**218'427**	**253'137**
Total equity and liabilities	**n.a.**	**613'694**	**649'951**	**679'591**	**714'301**
Interest bearing debt	**241'164**	**345'570**	**321'164**	**321'164**	**321'164**

Source: NHB

Company Research

Comfortable key credit metrics

No material clinic acquisitions without capital increase

Credit metrics

Key ratios for debt investors are cash flow related metrics (EBITDA), as they form the key criteria to meet debt obligations such as interest payments and the repayment of debt.

We consider AEVIS' credit metrics as comfortable. Since EBITDA is expected to grow substantially from FY 2012 onwards, EBITDA/interest coverage will be 9.5x in FY 2014. Financial gearing comes down steadily falling to 97% in FY 2014. The company's leverage is expected to decrease from 56% in FY 2011 to 45% in FY 2014.

Credit metrics

	2011	2012e	2013e	2014e
EBITDA/interest coverage	4.2	6.1	8.4	9.5
EBIT/interest coverage	2.6	3.5	5.5	6.2
Net debt/EBITDA	9.0	5.7	3.8	3.0
Equity ratio	24%	29%	32%	35%
Gearing	232%	156%	125%	97%
Leverage	56%	49%	47%	45%
LTV	55%			

Source: NHB

At 9x, net debt/EBITDA 2011 looks quite high at first sight. But bearing in mind that AEVIS owns most of its hospital properties, this ratio needs to be compared to the ratios of property companies. Allreal – which issued a straight bond in 2011 – had a net debt/EBITDA ratio 2011 of 7.3x. Züblin – the other issuer of a straight bond in 2011 – had a net debt/EBITDA ratio in 2011 of 14.7x.

Based on an equity ratio of around 29% in FY 2012, it is clear, that AEVIS cannot conduct any substantial clinic acquisition without raising additional equity. As of today, the share capital of AEVIS amounts to CHF 63.4 mn, representing 12,678,479 registered shares of a nominal value of CHF 5. The authorised capital amounts to CHF 17.7 mn representing 3,539,239 shares of a nominal value of CHF 5. At the current share price of CHF 25 this would correspond to a capital increase of CHF 87.5 mn.

Financial covenants

Unlike most corporate bonds, the bond AEVIS is issuing also has financial covenants. This is typical for real estate companies, but quite unique for a clinic network.

The financial covenants of the bond are the followings:

- The equity ratio must be at least 20% (from 31 December 2012 onwards); AEVIS equity ratio stood at 24% at the end of FY 2011
- The company's financial leverage is restricted to 60%; AEVIS leverage was 56% at the end of FY 2011
- The loan to value ratio (LTV; mortgage amount / appraised value of the properties) must be below 70%; it currently stands at 55%

According to our forecasts, no financial covenant should be at risk until FY 2014. If it did, the straight bond needs to be redeemed prior to maturity.

Company Research

Corporate Governance

AEVIS is subject to the Swiss corporation and stock exchange law and also applies to the Swiss Code of Best Practice for Corporate Governance.

Management

AEVIS' board of directors consists of six members with Dr. Christian Wenger being the executive chairman. Each member is elected for a one-year term and may be re-elected for successive terms. Whereas Michel Reybier is only active as a member of the board, the other major shareholder Antoine Hubert is also active as a Group senior Manager. In his role as Managing Director, Mr. Hubert is assisted by GSMN's CEO Beat Röthlisberger. Apart from the Managing Director and the CEO, the Chief Financial Officer (Gilles Frachon) and the Chief Administrative Officer (Séverine Van der Schueren) belong to the Senior Management team.

Executive Chairman: Dr. Christian Wenger, Swiss 1964, is a partner of the law firm Wenger & Vieli in Zurich. Mr. Wenger specializes in commercial and business law. He serves as member of the board of several listed and non-listed companies. Furthermore, he is a member of the Swiss-American Chamber of Commerce and belongs to the Executive Committee SECA (Swiss Private Equity & Corporate Finance Association).

Managing Director: Antoine Hubert, Swiss, 1966; prior to acquiring a stake in Clinique de Genolier in 2002 and founding G.S.M.N. in 2004, Mr. Hubert was mainly active in the property and real estate industry.

Chief Executive Officer of GSMN: Beat Röthlisberger, Swiss, 1966; Mr. Röthlisberger has held several positions in the controlling and finance departments of Biberist and Allseas Group. Prior to joining Clinique de Genolier in 2006, he served as CFO at Reymond SA, a distributor of luxury products and accessories. Mr. Röthlisberger became CFO of GSMN in May 2010 and CEO in December 2010.

Shareholder structure and free float

10% free float

A group composed of MRSI (Medical Research, Services and Investments S.A.; owned by Antoine Hubert, Géraldine Reynard-Hubert and Michel Reybier), HRFP (HR Finance & Participations S.A.; owned by Antoine Hubert and Géraldine Reynard-Hubert), EMER Holding (owned by Michel Reybier), Antoine Hubert, Géraldine Reynard-Hubert, Michel Reybier and Alain Fabarez holds an aggregate of 11.4 mn shares of AEVIS, representing 90% of its share capital. The Group's free float therefore stands just below 10%.

Legal proceedings

Several litigations are still pending in relation with a dispute the current management of AEVIS had with a group of shareholders around Michael Schroeder in 2010. Provisions of CHF 4.8 mn have been built in the financial statements for such litigations.

Based on the information we got from management, provisions have been built rather conservatively. The release of part of the provisions could therefore have a positive impact on future profits. At the moment legal proceedings are underway to recover CHF 4.5 mn (related to advisory fees following the shareholders' intent to takeover AEVIS) from the then directors and CEO. While the recovery may square off liabilities, AEVIS is also claiming indirect damages of CHF 4 mn from these former executives. We are not considering any releases of provisions in our estimates.

Conclusion

We consider the straight bond an interesting investment opportunity.

Exposure to resilient structural growth market

AEVIS is active in a resilient structural growth market; in 2009, Switzerland spend 11.4% of its GDP on health, the seventh highest amongst all OECD countries; the average yearly growth rate of healthcare spending was 3.5% between 1996 and 2009; the healthcare market has proven to be relatively robust to any economic slowdown.

Ongoing industry consolidation plays into AEVIS' hands

AEVIS is benefitting from the ongoing consolidation process in the hospital industry. It has a proven track record of buying and restructuring under-utilised private clinics that were loss-making in the past.

AEVIS is focused on "premium" patients, which improves its pricing potential.

Strong platform to attract patients and physicians

Since most of its clinics are not included on cantonal hospital lists, these hospitals have a higher freedom of choice regarding the mix of services they choose to provide. This setup together with state-of-the-art facilities and medical equipment makes AEVIS an interesting partner and workplace for attending doctors.

AEVIS is expected to achieve profitable growth and to generate solid free cash flows in the upcoming years. However, sizeable acquisitions can only be conducted via a capital increase.

No goodwill on balance sheet

Since AEVIS adopts Swiss GAAP FER accounting, the company has no goodwill in its balance sheet. Its property portfolio will be depreciated over a period of 100 years. As a result, its net profit and equity cannot be boosted by positive non-liquidity-related revaluation results. We support this conservative accounting approach.

Straight bond "structurally senior" to mortgages

Although real estate mortgages are senior to non-secured debt, AEVIS outstanding mortgages are "structurally subordinated" to this straight bond as they do not contain financial covenants.

Last but not least, the two controlling shareholders (owning 90% of the company),who are both members of the board of directors, with Mr. Antoine Hubert being the board's executive delegate, would lose their equity investment before the corporate bond could not be redeemed at 100%.

SWOT-Analysis

Strengths

- Active in a structural growth market
- Exposure to non-cyclical industry
- Presence in all three linguistic regions in Switzerland – strong bargaining position with health care insurance companies
- Entrepreneurial and modern platform to attract reputed and experienced doctors
- Exposure to the high-end of the healthcare market, being less affected by cost containment measures (see risks below)

Weaknesses

- Partially exposed to regulated market – cost containment efforts in public sector
- Pressure for ongoing technological innovation requires high levels of capital spending

Opportunities

- Business model with potential for scalability and higher profitability
- Ageing population – desire for improved quality of life; apart from treatments against dementia and cancer, cardiovascular and orthopedic surgery support individuals to remain active in their old age
- Growth in healthcare tourism – more and more patients are travelling abroad in order to obtain health services – their motives range from receiving higher quality, faster treatments, receiving services which are unavailable in home countries to lower cost
- Supplementary insurance drives the potential market size for AEVIS since patients have the freedom of hospitals choice and many of the hotel services offered by private clinics are covered by this insurance
- Most of the attending doctors prefer to work for private clinics not figuring on cantonal hospital lists → no concessions
- The increasing freedom of movement of persons in Europe tends to facilitate the recruitment of physicians as well as qualified medical personnel

Threats

- Regulatory risks – recurring debates in the Swiss parliament regarding health care cost could severely affect the reimbursement system of the hospital sector
- Decrease in private health coverage takers
- Increasing competition among hospitals and other healthcare providers
- The effect of an economic slowdown; but the healthcare market has proved to be relatively robust to such adverse economic circumstances; however a prolonged and severe economic crisis may lead to a change in patient's behaviour and preference

regarding both the choice of the services provided and the insurance coverage

- Risk of allegations or damage to the Group's reputation due to medical errors or mistakes made by AEVIS' care personnel or due to deficiencies in the provided infrastructure
- High speed of acquisition growth might overcharge the organisation