BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

17th June 2015

Healthcare

Korian

The investment for « Ageing Well »

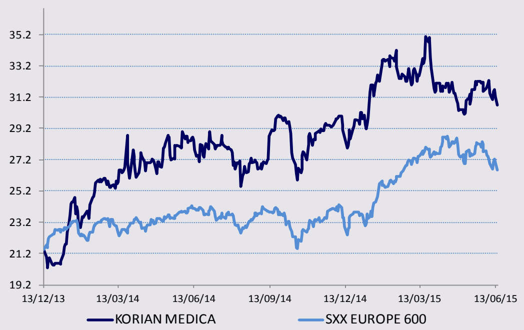
Fair Value EUR34 (price EUR30.70)

BUY

Coverage initiated

Bloomberg	KORI FP
Reuters	KORI.PA
12-month High / Low (EUR)	35.1 / 25.5
Market capitalisation (EURm)	2,426
Enterprise Value (BG estimates EURm)	3,893
Avg. 6m daily volume ('000 shares)	87.30
Free Float	46.7%
3y EPS CAGR	7.3%
Gearing (12/14)	78%
Dividend yields (12/15e)	1.95%

YE December	12/14	12/15e	12/16e	12/17e
Revenue (EURm)	2,500	2,616	2,733	2,850
EBIT(EURm)	235.6	260.7	280.8	300.4
Basic EPS (EUR)	1.33	1.45	1.57	1.76
Diluted EPS (EUR)	1.43	1.45	1.57	1.76
EV/Sales	1.57x	1.49x	1.37x	1.25x
EV/EBITDA	10.9x	10.4x	9.5x	8.6x
EV/EBIT	16.6x	14.9x	13.3x	11.9x
P/E	21.5x	21.2x	19.5x	17.4x
ROCE	3.0	3.4	3.6	3.8



KORIAN

We are initiating coverage of Korian with a Buy recommendation and a Fair Value of EUR34. The merger between Korian and Medica has enabled the pooling of complementary networks and expertise and the creation of a benchmark French group in "Ageing Well" in Europe. Now in working order, growth prospects for the new pairing are very real in both organic terms and through acquisitions in a high-potential market. The group is forecasting sales of EUR2.6bn for 2015 and targeting EUR3bn out to 2017.

- **Organic growth and merger synergies…**Organic growth (+4.5% over three years on average) should remain one of the main drivers to development via the extension of facilities or project tenders in the four groups in which the group is established (France, Germany, Italy and Belgium). Further out, earnings should benefit from synergies unlocked by the merger for EUR7.5m in 2015, followed by EUR15m in 2016 and EUR20-25m thereafter.

- **…Underpinned by new acquisitions:** following the merger and in view of advantageous market conditions, the group has clearly optimised its balance sheet. On the basis of our forecasts, we estimate the group has the capacity to mobilise around EUR100m a year after dividends to ramp-up its development.

- **Property management that could be optimised:** the group is primarily a tenant of the buildings where it operates. Rental commitments are high and weigh on margins, with a high cost-to-income ratio, especially in Germany (62.1%).

- **Fair Value of EUR34:** Average of a DCF valuation with WACC of 7% calculated on the basis of leveraged beta of 1.2x and a DCF including additional rental costs on the market value of the property assets fully owned by the group.

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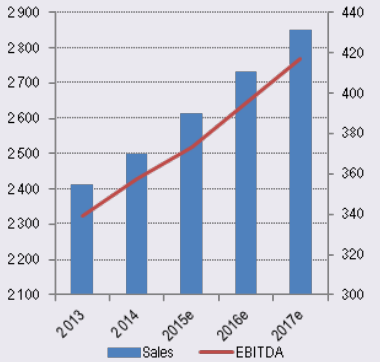

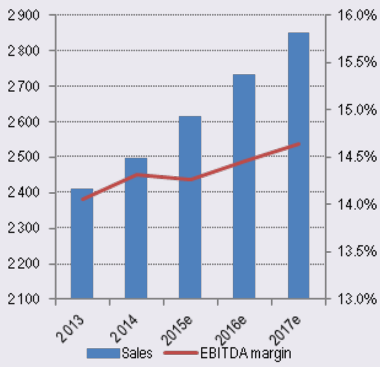

Company description

Born from the merger between Medica and Korian occurred March 18, 2014, with retroactive effect from 1 January 2014 for accounting and tax purposes, Korian occupies a leading place in Europe. Present in 4 countries (France, Germany, Belgium and Italy), the group operates more than 57,500 beds in almost 600 institutions. With the ambition to be the reference company in the market Ageing Well, the group's strategy aims to offer services tailored to each stage of aging in nursing homes, post-acute & rehabilitation care clinic , residential services and home care. The development will be achieved through organic growth and realization of acquisitions on existing areas, but also in new countries.

Shareholders	
Predica	24.05%
Groupe Covéa	12.03%
Groupe Malakoff Médéric	6.44%
Groupe Batipart	5.75%
ACM Vie	5.03%
Free Float	46.71%

Simplified Profit & Loss Account (EURm)	**2013**	**2014**	**2015e**	**2016e**	**2017e**
Revenues	2,413	2,500	2,616	2,733	2,850
Change (%)	*-%*	*3.6%*	*4.7%*	*4.5%*	*4.3%*
Adjusted EBITDA	339	358	373	395	417
EBIT	232	236	261	281	300
Change (%)	*-%*	*1.4%*	*10.6%*	*7.6%*	*7.1%*
Financial results	(71.4)	(59.6)	(65.2)	(66.8)	(59.3)
Pre-Tax profits	161	176	195	214	241
Tax	(64.0)	(67.9)	(76.2)	(83.4)	(94.0)
Profits from associates	2.2	0.0	0.0	0.0	0.0
Minority interests	(3.2)	(3.3)	(3.5)	(3.6)	(3.8)
Net profit	96.0	105	116	127	143
Restated net profit	92.5	113	116	127	143
Change (%)	*-%*	*21.9%*	*2.6%*	*9.5%*	*13.0%*
Cash Flow Statement (EURm)					
Operating cash flows	134	239	297	312	323
Change in working capital	(15.3)	8.4	4.1	4.1	4.1
Capex, net	(137)	(142)	(161)	(167)	(158)
Financial investments, net	72.3	10.9	0.0	0.0	0.0
Dividends	(7.6)	(47.0)	(23.7)	(23.9)	(24.2)
Other	NM	NM	NM	NM	NM
Net debt	721	1,488	1,467	1,317	1,148
Free Cash flow	75.6	170	301	316	327
Balance Sheet (EURm)					
Tangible fixed assets	557	1,165	1,214	1,266	1,307
Intangibles assets	1,419	3,331	3,331	3,331	3,331
Cash & equivalents	51.9	235	291	243	215
current assets	228	382	202	374	476
Other assets	72.4	142	462	315	246
Total assets	2,328	5,256	5,500	5,529	5,575
L & ST Debt	773	1,717	1,758	1,560	1,363
Others liabilities	NM	NM	NM	NM	NM
Shareholders' funds	769	1,902	2,041	2,192	2,359
Total Liabilities	1,559	3,354	3,459	3,337	3,216
Capital employed	1,932	4,408	4,716	4,771	4,824
Ratios					
Operating margin	9.63	9.43	9.96	10.26	10.54
Tax rate	39.75	38.58	39.00	39.00	39.00
Net margin	3.98	4.19	4.42	4.64	5.03
ROE (after tax)	4.18	4.88	5.87	5.99	6.30
ROCE (after tax)	3.08	2.95	3.37	3.59	3.80
Gearing	93.80	78.25	71.86	60.10	48.66
Pay out ratio	72.29	45.25	41.36	38.12	34.05
Number of shares, diluted (000)	79,038	79,038	79,797	80,563	81,337
Data per Share (EUR)					
EPS	1.21	1.33	1.45	1.57	1.76
Restated EPS	1.17	1.43	1.45	1.57	1.76
% change	*-%*	*21.9%*	*1.6%*	*8.5%*	*12.0%*
BVPS	9.72	24.06	25.58	27.21	29.01
Operating cash flows	1.70	3.02	3.72	3.87	3.97
FCF	0.96	2.16	3.77	3.92	4.03
Net dividend	0.60	0.60	0.60	0.60	0.60

Source: Company Data; Bryan, Garnier & Co ests.

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1. Investment Case

Why the interest now?

The reason for writing now

After completing the merger and delivering the targets set for 2014, the group is in working order to unlock the synergies announced and continue its expansion in a buoyant market. In the short term, organic sales growth is ensured by a respectable pipeline of authorisations and beds to refurbish, although growth momentum is set to involve fresh acquisitions, probably with openings in new countries.

Cheap or Expensive?

Valuation

Our Fair Value of EUR34 is based on a DCF valuation with a WACC of 7%. In addition to the BG research team's risk free rate of 2% and risk premium of 6.4%, this discount rate takes into account a levered beta of 1.2x calculated on the basis of an unlevered beta of 1 and net debt adjusted for the current valuation of the group's property assets.

When will I start making money?

Catalysts

The new pairing's ability to generate robust organic growth and deliver the synergies announced (if not exceed them) are the two main valuation factors for the group in the short term. Further out, we estimate that optimising resources, especially those relative to property assets, should also be a key factor. Finally, we estimate that the opening of new regions via acquisitions with the aim of sustaining growth over the long term and diversifying risks should also be a catalyst.

What's the value added?

Difference from the consensus

Now up and running and as if the consensus we validate the announced synergies, we highlight an effort rate (Rents / EBITDAR) particularly high and difficult to improve in the short term in Germany and Belgium. We highlight the financial capacity of the group to enable it to densify its network through acquisitions.

Could I lose money?

Risks to our investment case

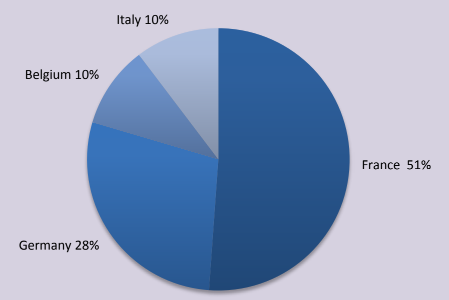
In addition to outside risk factors due to the sector (regulatory, social etc.), the main valuation risk factors are the non-realisation of organic growth targets and synergies, or the addition of dilutive acquisitions in order to obtain a foothold in new regions.

Please see the section headed "Important information" on the back page of this report.

Korian snapshot

Fig. 1: Group network

Network in number of beds



Network by segment in number of beds

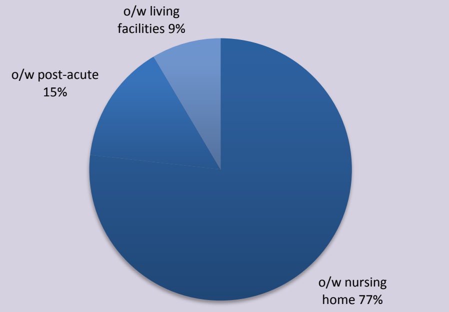
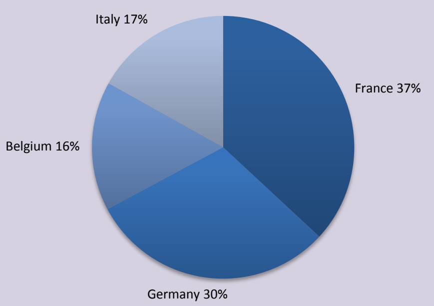


Fig. 2: Pipeline characteristics

Pipeline split by country



Pipeline vs. Operational beds by country

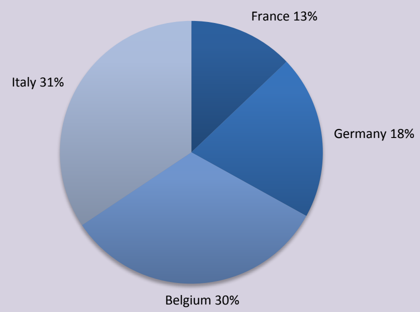
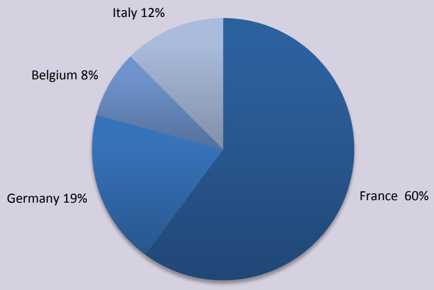


Fig. 3: Results by country

2014 Revenue



2014 EBITDA

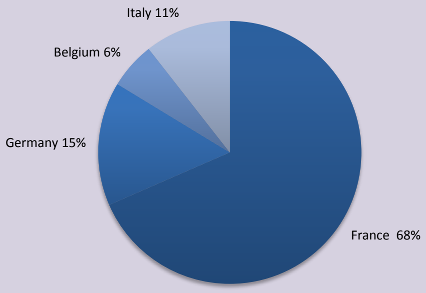
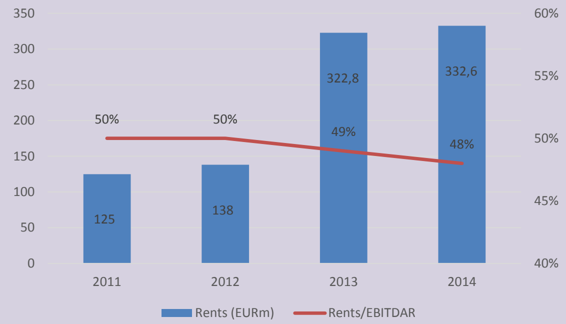
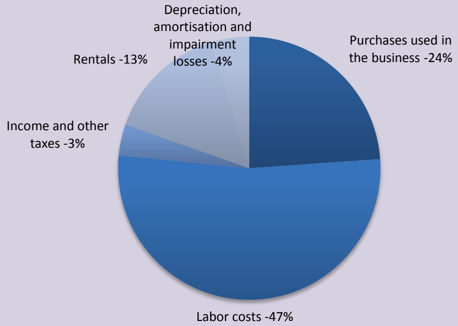


Fig. 4: P&L account structure

Group rents & rents/EBITDAR trend



P&L structure



SWOT

STRENGTHS	WEAKNESSES
Size of the network, with a leading position in each country.	The group's EBITDA margin is largely affected by a high cost-to-income ratio (Rents/EBITDAR) outside France, especially in Germany.
Group strategy focused on a wide range of "Ageing Well" services tailored to each stage of ageing in nursing homes, post-acute & rehabilitation care clinics, residential services and home-care.	A shortage of medical staff and/or a possible increase in staff turnover, especially following the merger even if personnel charges seem to be under control.
The successful merger, which strengthens confidence in management's ability to deliver sustained growth.	Debt level regarding the group's asset-light strategy

OPPORTUNITIES	**THREATS**
The number of people over 80 is set to rise sharply in coming years as a result of the overall ageing of the population in Europe.	Regulatory risk involved in obtaining and maintaining operating permits and subsequent agreements.
These elderly people have higher means for funding their care in the countries where the group is developed or intends to expand.	Risks associated with changes in rates and social policies in different countries.
Regulatory constraints, with a majority of small groups, thereby providing acquisitions opportunities.	

Please see the section headed "Important information" on the back page of this report.

2. Korian: A European leader in working order

On 18th November 2013, Korian announced it had signed a protocol agreement to merge with Medica, with the aim of creating a European leader in services for the elderly. The merger took place on 18th March 2014 and the company was renamed Korian.

This merger comes under the framework of a beneficial demographic backdrop (with demographic growth and the ageing population in Europe) and economic context (purchasing power of over-65s, who are set to account for more than 54% of purchasing power in France in 2015), with an ageing and increasingly dependent population.

2.1. Positioning of the offer

In this context, the Korian and Medica groups, who were leading players in the market for a medico-social and sanitary response to the increasingly ageing and dependent population, decided they would like to strengthen their leading positions in the "Ageing Well" sector. The merger enabled the groups to pool their complementary networks and expertise and the merged entity is now well-equipped to offer a genuine growth project responding to the challenges in a sector that is in the throes of change and rapidly expanding.

An offer resolutely focused on "Ageing Well"...

Within the group, Ageing Well care is organised into four distinct and complementary sectors:

- **Nursing homes,** the aim of which is long-term care for elderly persons for whom remaining at home has become difficult in view of the complexity of their care and the cost of their dependence.

- **Post-acute and rehabilitation care clinics,** which aim to provide temporary care (around 30 days) following hospitalisation or illness for physically dependent patients in order to reduce their physical incapacity and to restore their autonomy before they return home. The group still has 7 psychiatric clinics in **France**, recalling that this activity was sold in Germany in 2013.

…although post-acute and psychiatric care homes still remain

- **Services residences,** which welcome autonomous elderly people. These residences are made up of apartments with an *à-la-carte* services offering such as catering, laundry, parking spaces, sauna and balneotherapy, and events organisation.

- **Home care**, including home hospitalisation and home nursing care services, which provide an alternative to hospitalisation by intervening where the patient lives (home, nursing home, or living facilities) and aim to shorten, if not avoid, hospital stays. This activity is ensured in France, Germany and Italy.

Please see the section headed "Important information" on the back page of this report.

2.2. Operating facilities

The group's offer includes a network with more than 57,500 beds located in around 600 establishments, and around 40,000 employees in France, Germany, Italy and Belgium.

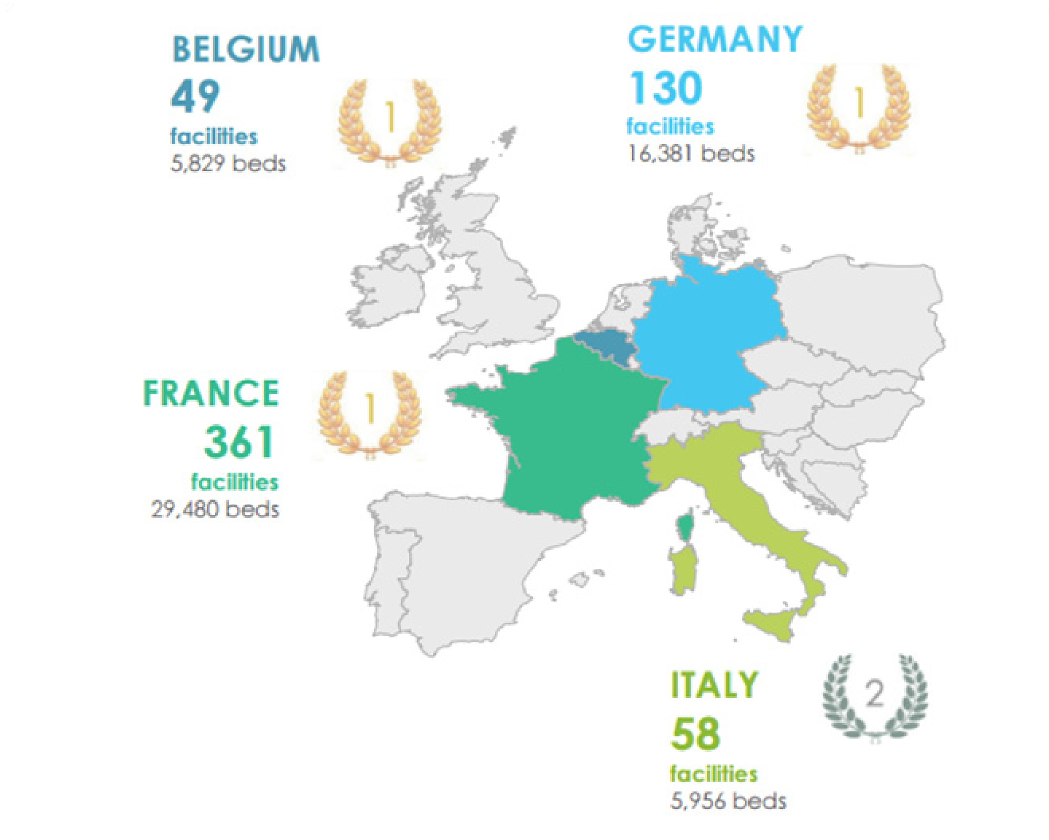
Fig. 5: Facilities split

2014	No. of facilities	No. of beds
France	361	29 480
Germany	130	16 381
Belgium	49	5 829
Italy	58	5 956
Total	**598**	**57 646**

Number of facilities by segment	2014
o/w nursing home	459
o/w post-acute	88
o/w living facilities	51
o/w Home care (no. of patients)	9000

Source: Company Data.

Fig. 6: Presence in four European countries



Source: Company Data

Please see the section headed "Important information" on the back page of this report.

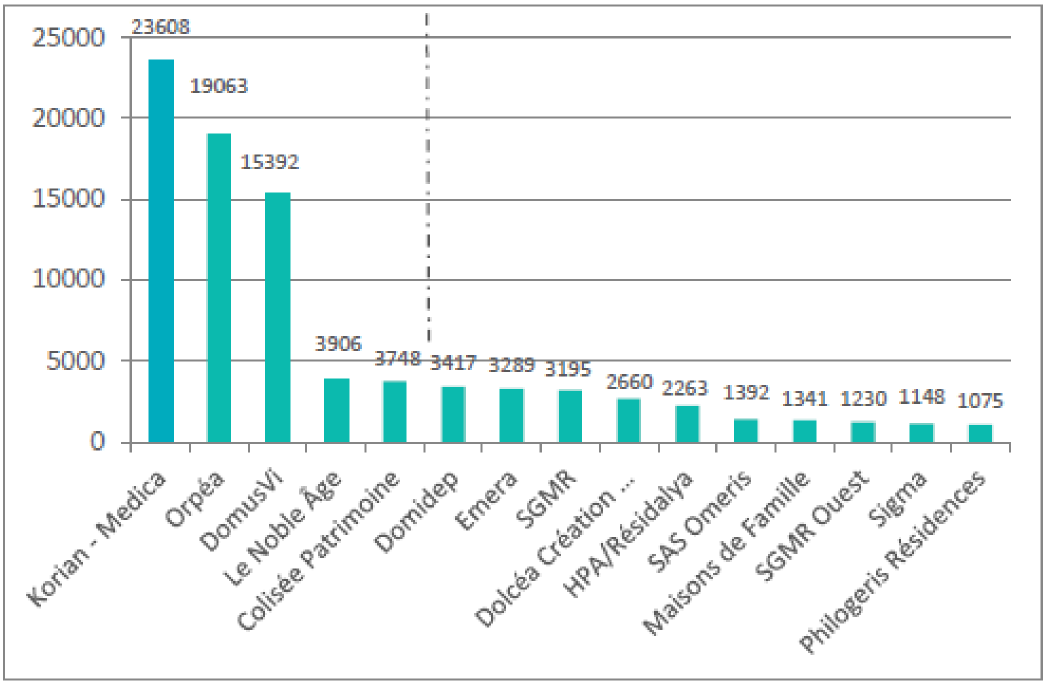
2.2.1. France

In France, the group's offer is developed under the Korian brand name, within more than 360 establishments and almost 30,000 beds representing slightly more than 51% of the group's offer. The group is present in four market segments.

An offer spread over four European countries with leading positions in retirement homes in France, Germany and Belgium.

In the nursing home segment, Korian has a leading position in the commercial private offering (21% of the offering with more than 23,600 beds).

Fig. 7: Nursing home commercial private sector in France



Source: Company Data ; Mensuel des Maisons de Retraite, January 2015.

Concerning post-acute and rehabilitation care clinics, the commercial private sector is dominated by Korian and Orpea, with a combined market share of about 40%.

2.2.2. Germany

The group's business in Germany is developed under the Phönix and Curanum brands, primarily in the nursing home segment, in which the group is the leader in the private sector (37% of the overall offering with almost 13,670 beds representing around 1.8% market share).

Please see the section headed "Important information" on the back page of this report.

Fig. 8: Nursing home commercial private sector in Germany

Rang	Opérateur	Nombre de lits
1	Groupe Korian (Curanum, Phönix)	13,670
2	Victor's Bau + Wert AG (Pro Seniore)	12,540
3	Casa Reha Holding AG	9,445
4	Kursana Residenzen GmbH	8,889
5	Alloheim Senioren-Residenzen GmbH	7,534
6	Vitanas GmbH & Co. KGaA	7,398
7	Marseille-Kliniken AG	6,401
8	Silver Care Holding GmbH	5,898
9	Cura Kurkliniken Seniorenwohn- und Pflegeheime GmbH	5,508
10	Azurit Rohr GmbH	4,690

Source: Pfegmarkt 12/2014.

The group also has a services residence offering (more than 2,100 apartments stemming primarily from Curanum) adjacent to nursing homes, as well as home care or ambulatory services that are also dependent on the nursing homes.

2.2.3. Italy

With the management of 58 sites spread throughout nine regions, **Segesta** and **Aetas** are the only players operating in all branches of the health sector in Italy (nursing homes, post-acute and rehabilitation care clinics, services residences and home care). The group has 46 nursing homes in Italy, in nine regions.

The group has 12 post-acute and rehabilitation care clinics. **Segesta** operates two services residences in Lombardy, attached to nursing home. In Lombardy, Veneto, Latium and Apulia, **Segesta** has a rehabilitation and home care service serving more than 9,000 patients.

2.2.4. Belgium

In Belgium, the group's brand is the Senior Living Group, which is primarily present in the nursing home market. Korian also operates a few services residences.

Please see the section headed "Important information" on the back page of this report.

3. Development strategy resolutely focused on international expansion

3.1. Organic growth …

2014 was a busy year with the group undertaking a number of sizeable operations, including the successful absorption of **Medica** in France, completion of the minorities buyout at **Curanum** in Germany, acquisition of the remaining capital in **Kinetika Sardegna** in Italy and the acquisition of **Ry du Chevreuil** in Belgium.

Development resolutely focused on international activities….

On the basis of the current pipeline and our price assumptions and occupancy rates (see appendix), we estimate average sales growth over the next three years at 4.5%, including +5.5% stemming from **international** activities (40% of consolidated sales) and +3.7% from **France**.

Note that we have taken as a base the pro-forma 2013 and 2014 accounts which take into consideration:

- the takeover of Curanum by Korian on 1st January 2013;
- the takeover of Senior Living by Medica on 1st January 2013;
- the disposal of Korian's psychiatric division before 1st January 2013;
- the merger of Korian and Medica on 1st January 2013;
- the integration of 100% of Kinetika Sardegna (28%-owned until 30th June 2014 and accounted for by the equity method during 2013 and H1 2014) on 1st January 2013;
- the adjustment for all the expenses concerning these mergers and acquisitions.

…in organic terms on the basis of a significant pipeline under refurbishment and construction...

Fig. 9: Current operational network and pipeline

	Operational beds	Beds under refurbishment	Beds under construction	Beds under refurbishment & construction vs.operational beds in %
France	26 374	2 383	723	12%
Germany	13 832	869	1 680	18%
Belgium	4 491	0	1 338	30%
Italy	4 533	1 272	151	31%
Total	49 230	4 524	3 892	17%

Source: Company Data; Bryan, Garnier & Co ests.

Korian boasts clear visibility on its business sector and encouraging prospects. The group is targeting sales of around EUR2.6bn in 2015 (+4% vs. 2014). In addition, Korian has reiterated its sales target of EUR3bn out to 2017.

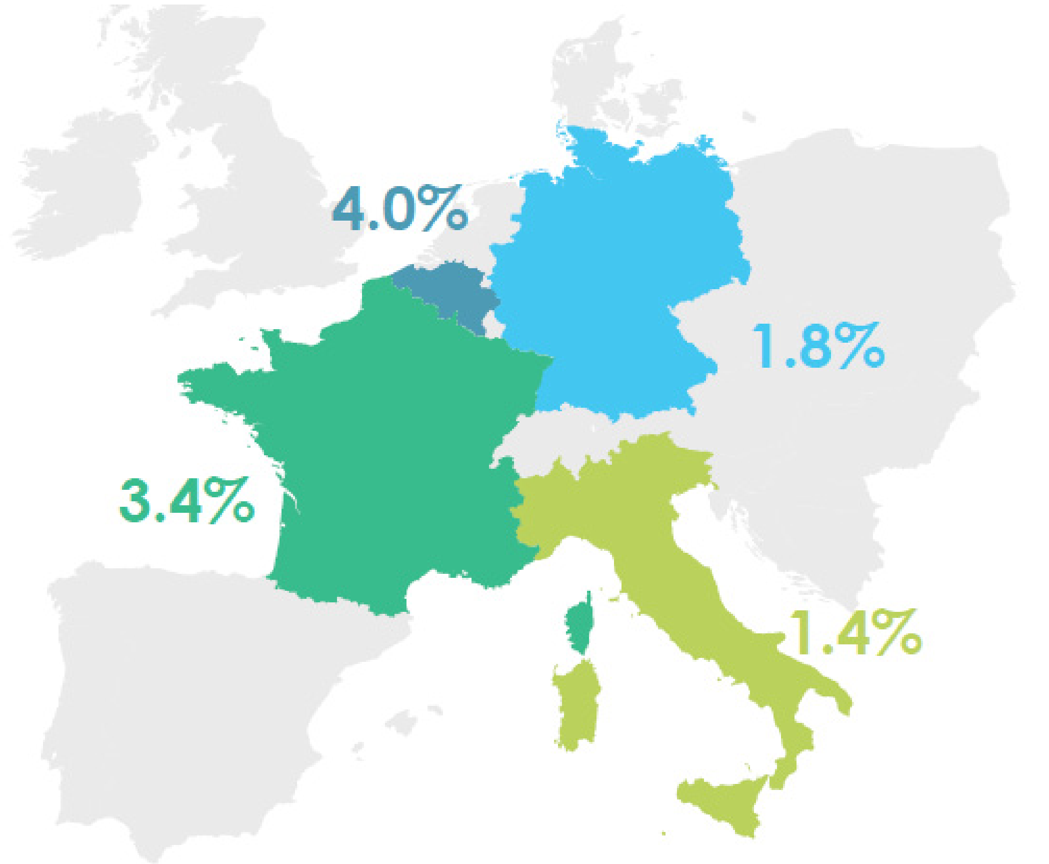
3.2. …and the aim to strengthen its network via acquisitions

Acquisitions are part of the group's DNA with the aim of continuing to actively take part in the sector consolidation.

Growth opportunities are numerous in a market that remains fragmented and is still widely dominated by the public and/or associative sectors (see appendix 3), bearing in mind that despite its leadership position, Korian's market shares are low.

…but also by continuing acquisitions in existing regions

Fig. 10: Korian market share



Source: Company Data;

This strategy was again illustrated in early 2015 in Germany with the acquisition of Evergreen. Located in western Germany, this regional company operates six establishments and is developing four projects that should help increase the network by more than 1,100 beds in nursing homes and services residences further out, for additional sales of more than EUR35m. For Korian, Germany is one of the regions in which the group would like to strengthen its leadership position with the aim of growing by more than 1,000 beds a year as of 2016 and combining organic growth and acquisitions.

The opening of new countries is also part of the group's strategy

In addition to the countries where it is currently located, the group aims to build new development platforms. European countries remain favourite targets on condition that they have a population density similar to those where the group is already situated (Spain). In financial terms, investment criteria are an IRR of > 12% after tax with ROCE of > 7% in year three.

Please see the section headed "Important information" on the back page of this report.

4. Financial capacity: means of continuing acquisitions

4.1. Financial restructuring mostly complete....

At end-2013, under the framework of the merger, the group set up bridging loans in order to cover the requirements of the operation. During 2014, in view of beneficial market conditions, the group rapidly negotiated a refinancing contract for all of this debt.

The new syndicated loan contract was signed on 12th March 2014 and was fully drawn down for the entire reimbursement of the Korian and Medica syndicated loans. It includes two tranches maturing in five years:

- A refinancing tranche for the Korian and Medica syndicated loans for EUR800m.

- A revolving tranche of EUR300m destined to finance the Group's general requirements.

The covenant's limit (debt-property debt)/(EDITDA – 6.5% of property debt) is set at 4.5x over the duration of the loan (2.9x at end-2014). This financing has no real guarantee and enables the Group to subscribe to debts outside the syndicated loan for EUR700m in property debt and for EUR150m in non-property debt.

A massive financial overhaul was undertaken during the merger…

Following the merger, Korian was able to diversify its financing sources. In 2014, the group issued a private bond placement of EUR45m on attractive terms with a fixed coupon of 3.65% and a 7.5-year maturity.

In addition, in December 2014, Korian undertook a German private placement, issuing *Schuldschein* for EUR358.5m with maturities of five, six and seven years (average at 6.1 years) at fixed and variable rates. Initially planned to total EUR125m, the *Schuldschein* was increased to EUR358.5m in order to meet extremely high demand from European and Asian institutional investors. A complementary issue of EUR16m with a maturity of seven years was undertaken in January 2015. With the exception of German issuers, this operation was the largest undertaken in 2014 in the *Schuldschein* market.

Finally, the Group also completed a programme to restructure its interest rate hedging contracts. This restructuring helped reduce the average cost of financing, while reducing the risk thanks to an extension in the hedging maturity. The total cost of this restructuring represented EUR24m.

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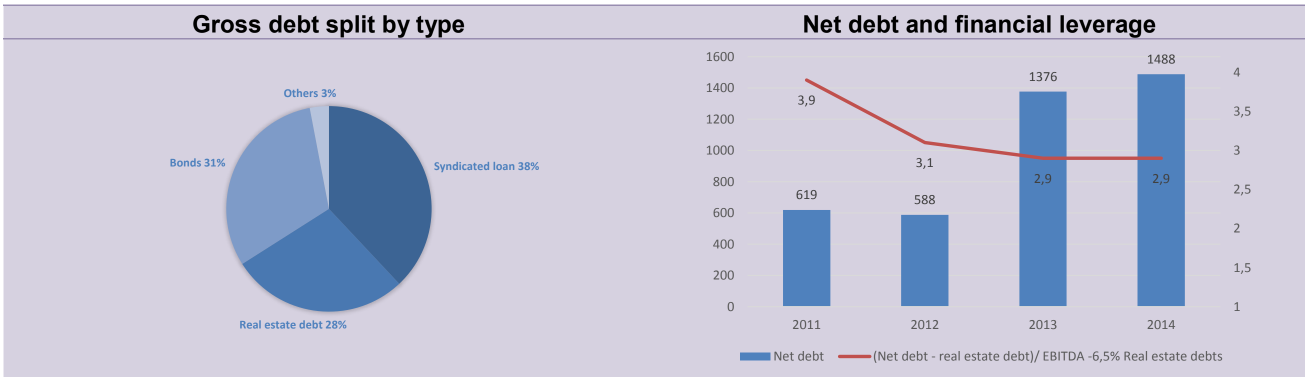
Fig. 11: Debt characteristics



Source: Company Data; Bryan, Garnier & Co ests.

With this refinancing, the group has significant leeway to continue its development after having optimised its financing costs (average debt rate of 3.8% having enabled a near-17% decrease in financial expenses in 2014) and extended its debt maturity to now stand at 5.2 years vs. 4.3 previously. The financing operations following the refinancing of syndicated loans enabled a part reimbursement of the refinancing tranche at EUR150m.

… providing the group significant leeway for continuing its momentum …

In all, the Group's gross debt of EUR1.716bn on 31st December 2014 broke down as follows:

- Bank borrowings for EUR650m corresponding to the refinancing tranche of EUR800m after reimbursement of EUR150m in December. The group therefore had the EUR300m available on the renewable loan.
- Property debt for EUR486m.
- Medium-term loans for EUR36.3m.
- Bonds placed with private investors for a total amount of EUR537m.

The Group's debt is 72% at variable rates. In view of the financial instruments used, the variable-rate loan portfolio is hedged for more than 67% and on this basis, sensitivity of financial costs over one year to a 100bp change in the Euribor three-month rate is as follows:

- A 100bp rate increase would increase the group's financial debt by EUR4.3m.
- A 100bp decrease would reduce financial debt by EUR1.3m.

Finally, the Group had a net cash pile of EUR235.6m at the end of the year.

Please see the section headed "Important information" on the back page of this report.

4.2. and generation of substantial free cash flow

Based on our forecasts, we estimate that the group has the ability to mobilise around EUR100m a year after dividends at least, either to pay down debt or to make acquisitions.

4.2.1. Earnings forecasts

On a same-structure basis and for the current year, our forecast for a 4.7% increase in sales to EUR2.616bn is in line with the group's target for around EUR2.6bn. Thereafter, our 2016 and 2017 estimates stand at EUR2.733bn and EUR2.850bn respectively and take into account the embedded growth in the existing pipeline. The group's 2017 target is for EUR3bn vs. our estimate of EUR2 850 which does not include new acquisitions.

Fig. 12: Forecasts

Consolidated	2013	2014	2015e	2016e	2017e
Total sales	2 413.5	2 499.5	2 616.5	2 733.5	2 850.4
Organic Growth		3.6%	4.7%	4.5%	4.3%
EBITDAR	662.3	690.2	720.0	757.1	794.7
% of revenue	27.4%	27.6%	27.5%	27.7%	27.9%
Rents	322.8	332.6	346.8	361.8	377.4
Rents/EBITDAR	48.7%	48.2%	48.2%	47.8%	47.5%
EBITDA	339.5	357.6	373.2	395.4	417.3
% of revenue	14.1%	14.3%	14.3%	14.5%	14.6%

Source: Company Data; Bryan, Garnier & Co ests.

The 30bp improvement in EBTIDAR margin between 2014 and 2017 stems primarily from taking account of the synergies unlocked by the merger and confirmed by the group for around EUR7.5m in 2015, EUR15m in 2016 and between EUR20m and EUR25m thereafter.

…and high free cash flow generation

For coming years, we have assumed an average increase in rents of 2% on a same-structure basis in view of their indexation, which would enable an ongoing improvement in the cost-to-income ratio (rents/EBITDAR) from 48.2% in consolidated terms in 2014 to 47.5% in 2017.

With the aim of focusing the majority of resources on development, debt should remain stable over the period with financial expenses of around EUR60m (average debt rate of 3.8%).

Concerning the tax rate, we have taken the group's assumption of 39% over the next three years. In 2014, the tax rate came in at 38.6% and included the Company Value Added Contribution in France (CVAE) as well as the *Imposta Regionale Sulle Attività Produttive* (IRAP) in Italy. Finally, note that since 2014, only 75% of net financial expenses can be deducted.

4.2.2. Cash flow statement

With 2015e EBITDA of almost EUR375m assuming a zero contribution from working capital requirements, financial expenses of EUR65m and a tax rate of 39%, representing taxes of EUR76m, free cash flow stands at EUR230m. After reimbursing debt of around EUR80m and paying dividends in cash for EUR30m, the group could mobilise EUR120m either to pay down debt or continue its expansion via acquisitions.

On this last point and in order to be able to grasp all opportunities, the group will propose at the General Meetings the coming years to maintain the dividend at EUR0,60 per share and the option for payment in shares. Last year, this option was taken up for 73% and helped limited the cash pay-out to EUR29.8m as well as strengthen equity by slightly more than EUR17m.

5. Property management: an optimisation would be timely

The group is primarily a tenant of the property in which it operates its facilities with around 80% of buildings under lease at present and 20% directly-owned.

5.1. Significant rental commitments

Although the group considers this situation balanced and describes it as an asset-light model, the amount of rents implied is nevertheless very high, even though property debt is lower (on 31st December 2014, property debt totalled EUR486m or 28% of the group's gross debt).

Fig. 13: Minimum non-cancellable lease payments

EURm	2014
due in less than one year	302,1
due in between one and five years	1 070,1
due in more than five years	1 536,5
Total undiscounted commitments	2 908,7

Source: Company Data; Bryan, Garnier & Co ests.

In addition, the prevailing financial backdrop is not favourable to this operating method.

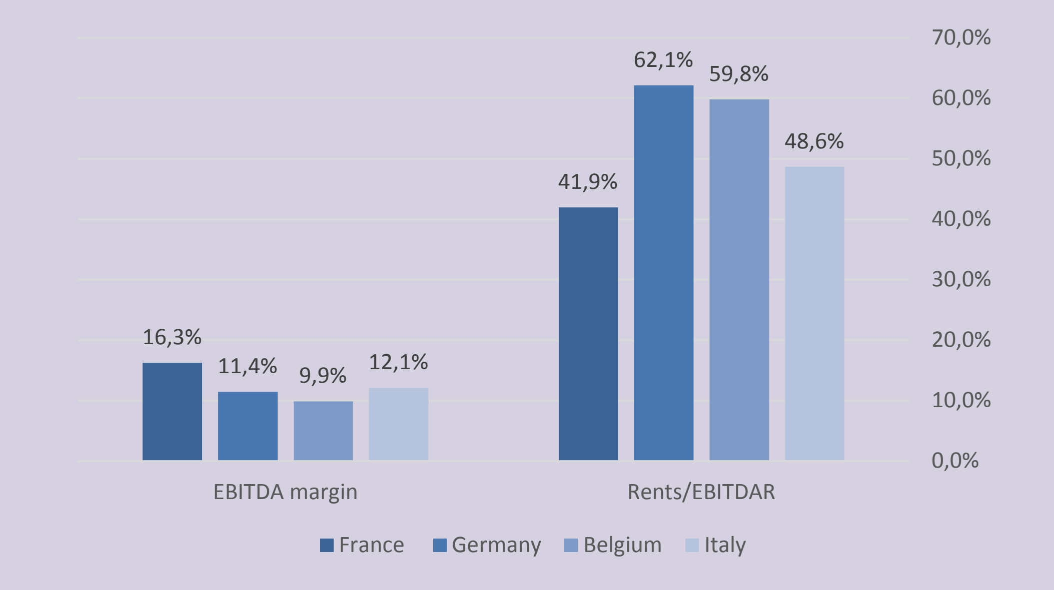
Operations undertaken in establishments under lease contracts …

On the one hand, lease contracts are the object of indexation that automatically weighs on earnings whereas in contrast, the assets that are fully owned and financed by debt can benefit from the decline in interest rates. Note that in France, rents are indexed while being capped at inflation, either to the rental revision index (RRI) or to inflation (IPC), or to the construction cost index (CCI), or to a basket of the ICC, IPC and IPT indices (key rate for increase in nursing homes). In Germany, rents are increased according to the country's national index.

In addition, and this is especially the case in Germany, rental commitments are long (between 20 and 25 years) and difficult to renegotiate before the maturity date. Furthermore, with its development via acquisitions, the group could have inherited more or less advantageous contracts. From this perspective, we note that while the cost-to-income ratio (rents including charges/EBITDAR) is not excessive in consolidated terms at 48% in 2014, with a one-point improvement relative to 2013 (on a pro-forma basis), it shows different situations between the group's four countries of location, with a ratio of less than 42% in France and lower than 50% in Italy, but almost 60% in Belgium and more than 62% in Germany.

Please see the section headed "Important information" on the back page of this report.

Fig. 14: 2014 Cost to income ratio by country



Source: Company Data; Bryan, Garnier & Co ests.

…that could do with being overhauled in view of cost-to-income ratios especially in Germany and Belgium

In Germany, while the facts are simple, management recognises that an improvement in the cost-to-income ratio is set to be gradual in view of the residual duration of leases and a high number of lessors in comparison with France for example.

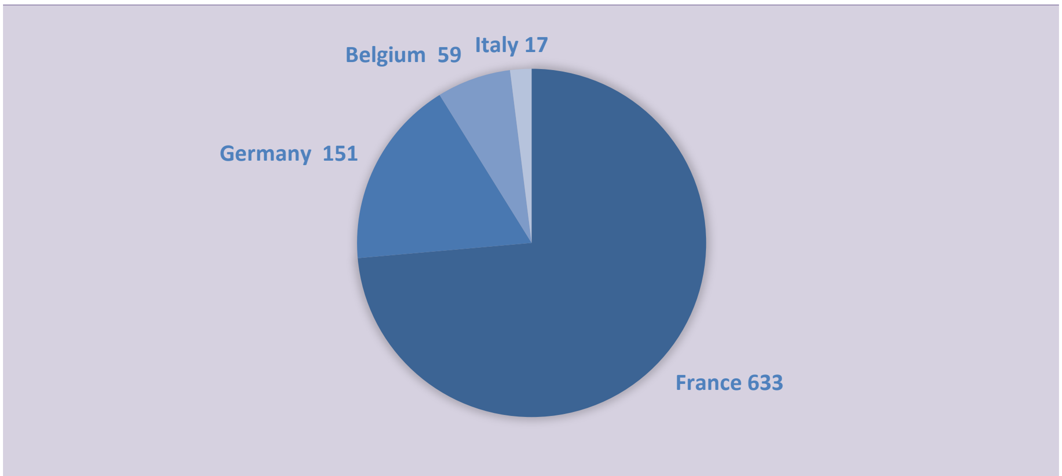
5.2. Fully-owned property assets

The group's fully-owned property assets account for around 20% of the assets operated, or almost 120 units. This property is mostly located in France (around 100 units).

Property debt represented EUR486m on 31st December 2014, or 28% of gross debt (EUR1.717bn).

The estimated value of these assets stood at EUR861m.

Fig. 15: Estimated value of real estate in EURm by country



Source: Company Data; Bryan, Garnier & Co ests.

6. Valuation: a FV of EUR34

Based on a DCF valuation and a separate valuation of property and the operating business, our Fair Value works out to EUR34.

6.1. DCF: target of EUR36

We have taken into account the following main assumptions:

- WACC of 7% with a cost of equity of 9.7%, on the basis of:
  - A risk-free rate of 2%, which corresponds to the average over five years of 7-year rates in the five main European countries, namely Germany, France, UK, Italy and Switzerland.
  - A market risk premium of 6.4%, which is calculated on the basis of an arithmetical average of three-year risk premiums on the Stoxx50, Stoxx600 and CAC40 indices.
  - A beta of 1.2 corresponding to the levered beta calculated on the basis of an unlevered beta of 1 and net debt adjusted for property at its market value (communicated by the group).
- A growth rate to infinity of 2.5% as of 2024 with a normal average EBIT margin of 11% compared with that in 2014 of 9.9% in pro-forma terms and 10% estimated for 2015.
- A recurring average rate of 35%, compared with almost 29% in 2014.
- An amount of maintenance investments equivalent to 3.5% of sales.

Fig. 16: Discounted cash flow model (1)

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Long -term assumptions
Revenue	2 616	2 733	2 850	2 965	3 077	3 185	3 289	3 388	3 481	3 568	
% chg. In revenue	4,7%	4,5%	4,3%	4,0%	3,8%	3,5%	3,3%	3,0%	2,8%	2,5%	2,5%
EBIT	261	281	300	314	328	342	355	368	381	393	
EBIT margin	10,0%	10,3%	10,5%	10,6%	10,7%	10,7%	10,8%	10,9%	10,9%	11,0%	11,0%
- IS	-91	-98	-105	-110	-115	-120	-124	-129	-133	-137	
+ DAP	113	115	117	119	121	122	124	124	125	125	
as a % of revenue	4,3%	4,2%	4,1%	4,0%	3,9%	3,8%	3,8%	3,7%	3,6%	3,5%	3,5%
+ Chg in WCR	4,1	4,1	4,1	3,7	3,2	2,6	2,1	1,4	0,7	0,0	
as a % of revenue	0,2%	0,2%	0,1%	0,1%	0,1%	0,1%	0,1%	0,0%	0,0%	0,0%	0,0%
Operating Cash Flow	286	301	316	327	338	347	357	365	373	380	
- Capex	-161	-167	-158	-156	-153	-149	-144	-138	-132	-125	
as a % of revenue	-6,1%	-6,1%	-5,6%	-5,3%	-5,0%	-4,7%	-4,4%	-4,1%	-3,8%	-3,5%	-3,5%
- Acquisitions											
Free Cash Flow	125	135	158	171	185	199	213	227	241	255	
Discount coefficient	0,96	0,90	0,84	0,78	0,73	0,68	0,64	0,60	0,56	0,52	
Discounted FCF	121	121	133	134	135	136	136	135	134	133	

Source: Company Data; Bryan, Garnier & Co ests.

Please see the section headed "Important information" on the back page of this report.

Fig. 17: Discounted cash flow model (2)

Sum of discounted FCF	**1318**
Terminal Value	2974
- Net Debt	1488
- Minority Interest	-2
+ Financial investments (book value)	33
Equity Value	2838
Number of shares (m)	79,0
Fair Value (EUR)	35,9

Source: Company Data; Bryan, Garnier & Co ests.

6.2. Valuation of property assets + DCF: target price of EUR32

Assuming the value of property assets communicated by the group, i.e. EUR860m and generation of cash flow by operating activity including additional rental charges for the market value of these assets, we obtain a valuation per share of almost EUR32, assuming a 6% rental rate and an average annual growth rate of 1.5%.

Fig. 18: OpCo discounted cash flow and PropCo valuation (1)

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Long -term assumptions
Revenue	2 616	2 733	2 850	2 965	3 077	3 185	3 289	3 388	3 481	3 568	
% chg. In revenue	4,7%	4,5%	4,3%	4,0%	3,8%	3,5%	3,3%	3,0%	2,8%	2,5%	2,5%
EBIT	261	281	300	314	328	342	355	368	381	393	
EBIT margin	10,0%	10,3%	10,5%	10,6%	10,7%	10,7%	10,8%	10,9%	10,9%	11,0%	11,0%
Additional rents	51,6	52,4	53,2	54,0	54,8	55,6	56,4	57,3	58,1	59,0	
EBIT	209,1	228,2	247,2	260,5	273,6	286,4	298,9	311,0	322,5	333,5	
EBIT margin	8,0%	8,3%	8,7%	8,8%	8,9%	9,0%	9,1%	9,2%	9,3%	9,3%	
- IS	-73	-80	-87	-91	-96	-100	-105	-109	-113	-117	
+ DAP	0	0	0	0	0	0	0	0	0	0	
as a % of revenue	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
+ Chg in WCR	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
as a % of revenue	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Operating Cash Flow	136	148	161	169	178	186	194	202	210	217	
- Capex	0	0	0	0	0	0	0	0	0	0	
as a % of revenue	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
- Acquisitions											
Free Cash Flow	136	148	161	169	178	186	194	202	210	217	
Discount coefficient	0,95	0,87	0,79	0,72	0,65	0,60	0,54	0,49	0,45	0,41	
Discounted FCF	129	128	127	122	116	111	105	100	94	89	

Source: Company Data; Bryan, Garnier & Co ests.

Please see the section headed "Important information" on the back page of this report.

Fig. 19: OpCo discounted cash flow and PropCo valuation (2)

Sum of discounted FCF	**1122**
Terminal Value	1992
Entreprise Value	3114
Real Estate	860
- Net Debt	1488
- Minority Interest	-2
+ Financial investments (book value)	33
Equity Value	2520
Number of shares (m)	79,0
Fair Value (EUR)	31,9

Source: Company Data; Bryan, Garnier & Co ests.

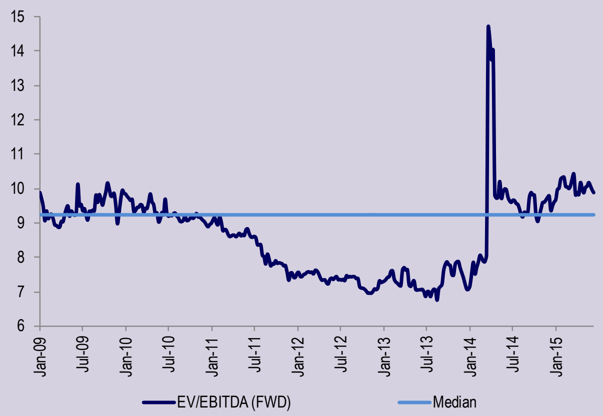
6.3. Peer comparison

		EV		**EV /Sales**		**EV/EBIT**		**PER**	
	Last price	2015e	2016e	2015e	2016e	2015e	2016e	2015e	2016e
KORIAN	32	3 952	3 883	1,51	1,42	15,05	13,53	20,7	18,3
ORPEA	64,2	5 613	5 471	2,39	2,13	17,13	15,29	24,0	20,9
Average				1,95	1,78	16,09	14,41	22,37	19,58
Source I/B/E/S									

Source: Thomson Reuters.

6.4. Median historical multiples

EV / EBITDA



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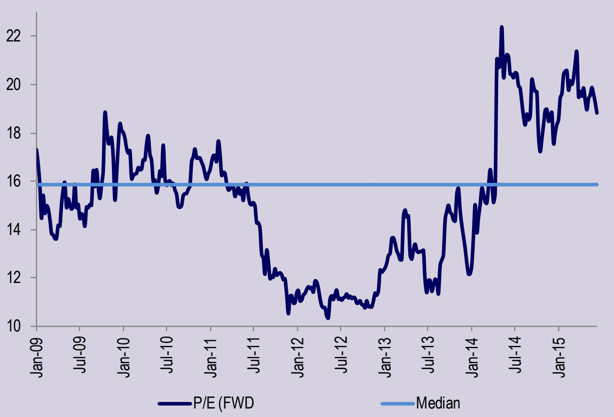

Source: Thomson Reuters.

Appendix 1: Segment information

France	2013	2014	2015e	2016e	2017e
Revenue	1 441,4	1 503,3	1 562,3	1 621,3	1 680,3
Growth		4,3%	3,9%	3,8%	3,6%
Organic growth					
% of total sales	59,7%	60,1%	59,7%	59,3%	59,0%
% change ADR (legal+turnover)			0%	0%	0%
Expansion based on current pipeline (number of rooms) and refurbishment			1035	1035	1035
% change ADR of new rooms (based on ADR of existing rooms)			0%	0%	0%
EBITDAR	401,8	421,7	437,4	457,2	477,2
% of revenue	27,9%	28,1%	28,0%	28,2%	28,4%
Rents	168,9	176,9	182,0	187,1	192,5
Rents/EBITDAR	42,0%	41,9%	41,6%	40,9%	40,3%
EBITDA	232,9	244,8	255,5	270,1	284,7
% of revenue	16,2%	16,3%	16,4%	16,7%	16,9%

Source: Company Data; Bryan, Garnier & Co ests.

Germany	2013	2014	2015e	2016e	2017e
Revenue	461,2	476,2	505,5	534,7	564,0
Growth		3,3%	6,1%	5,8%	5,5%
Organic growth					
% of total sales	19,1%	19,1%	19,3%	19,6%	19,8%
% change ADR (legal+turnover)			0%	0%	0%
Expansion based on current pipeline (number of rooms)			850	850	850
% change ADR of new rooms (based on ADR of existing rooms)			0%	0%	0%
EBITDAR	137,9	143,9	151,6	160,4	169,2
% of revenue	29,9%	30,2%	30,0%	30,0%	30,0%
Rents	91,2	89,4	94,7	100,2	106,1
Rents/EBITDAR	66,1%	62,1%	62,4%	62,5%	62,7%
EBITDA	46,7	54,5	57,0	60,2	63,1
% of revenue	10,1%	11,4%	11,3%	11,3%	11,2%

Source: Company Data; Bryan, Garnier & Co ests.

Belgium	2013	2014	2015e	2016e	2017e
Revenue	202,0	207,6	220,0	232,3	244,7
Growth		2,8%	6,0%	5,6%	5,3%
Organic growth					
% of total sales	8,4%	8,3%	8,4%	8,5%	8,6%
% change ADR (legal+turnover)			0%	0%	0%
Expansion based on current pipeline (number of rooms)			267,6	267,6	267,6
% change ADR of new rooms (based on ADR of existing rooms)			0%	0%	0%
EBITDAR	49,9	51,0	53,7	57,4	61,2
% of revenue	24,7%	24,6%	24,4%	24,7%	25,0%
Rents	28,7	30,5	32,5	34,5	36,7
Rents/EBITDAR	57,5%	59,8%	60,5%	60,2%	60,1%
EBITDA	21,2	20,5	21,2	22,9	24,4
% of revenue	10,5%	9,9%	9,6%	9,8%	10,0%

Source: Company Data; Bryan, Garnier & Co ests.

Please see the section headed "Important information" on the back page of this report.

Italy	2013	2014	2015e	2016e	2017e
Revenue	308,9	312,4	328,7	345,1	361,4
Growth		1,1%	5,2%	5,0%	4,7%
Organic growth					
% of total sales	12,8%	12,5%	12,6%	12,6%	12,7%
% change ADR (legal+turnover)			0%	0%	0%
Expansion based on current pipeline (number of rooms)			237	237	237
% change ADR of new rooms (based on ADR of existing rooms)			0%	0%	0%
EBITDAR	72,7	73,6	77,3	82,1	87,1
% of revenue	23,5%	23,6%	23,5%	23,8%	24,1%
Rents	34,0	35,8	37,8	39,8	42,0
Rents/EBITDAR	46,8%	48,6%	48,9%	48,5%	48,3%
EBITDA	38,7	37,8	39,5	42,3	45,1
% of revenue	12,5%	12,1%	12,0%	12,3%	12,5%

Source: Company Data; Bryan, Garnier & Co ests.

Appendix 2: Determination of daily prices (care, accommodation, services)

	France	Belgium	Italy	Germany
Dependency expenses	10% Resident and "Conseil Général"	40% Health insurance	45% Regional health insurance	50% Long-term care insurance (National health insurance)
Care	20% Health insurance			
Accommodation and services	70% Resident (pricing freedom for new resident, then regulated)	60% Resident (pricing freedom for new resident, then regulated)	55% Resident (pricing freedom)	35% Resident or Welfare state
Rent				15% City

Source: Company Data; Bryan, Garnier & Co ests.

Appendix 3: Main nursing home characteristics by country

	France	Belgium	Italy	Germany
Ageing population (>85 years old) by 2035	+72% (3.2m in 2035)	+65% (0.4m in 2035)	+66% (3.0m in 2035)	+70% (3,6m in 2035)
Number of existing beds	590,000	137,000	390,000	875,000
Korian Medica market share	3.4%	4.0%	4.0%	1.8%
Breakdown by type of operator (no. of beds)	Public: 49% Private non-profit: 29% Private commercial: 13% Private com. top 5: 9%	Public: 31% Private non-profit: 25% Private commercial: 31% Private com. top 5: 13%	Public: 47% Private non-profit: 35% Private commercial: 13% Private com. top 5: 5%	Public: 6% Private non-profit: 57% Private commercial: 31% Private com. top 5: 6%
Average price per day	EUR110	EUR110	EUR90	EUR100

Source: Company Data; Bryan, Garnier & Co ests.

Please see the section headed "Important information" on the back page of this report.

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Stock rating

BUY

Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL

Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL

Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements including a SWOT analysis, positive momentum, technical aspects and the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 57.4% NEUTRAL ratings 38% SELL ratings 4.6%

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