

Summary of Rating Report

Schön Klinik SE

6th May 2014

Rating Rationale

Rating of 6th May 2014	
Company Rating:	BBB
Outlook:	Stable
Subject of rating:	
<p>The newly incorporated Schön Klinik SE is the group parent company of Schön Holding GmbH & Co. KG (SHD), which holds the shares in the 15 hospitals operated by Schön Klinik at 17 locations. The Schön Klinik Group specialises in acute care in orthopaedics, psychosomatics and neurology. With over 8,800 employees, it generated total revenues of € 639.2 million in 2013.</p>	
Strengths:	
<ul style="list-style-type: none"> ■ High and stable cash flows from operating activities ■ Specialises in high-growth medical disciplines ■ Above-average proportion of privately insured patients ■ High innovativeness and efficiency 	
Weaknesses:	
<ul style="list-style-type: none"> ■ Large proportion of mezzanine capital in equity ■ Relatively high capital costs 	
Opportunities:	
<ul style="list-style-type: none"> ■ Demographic trends and growing importance of specific medical disciplines ■ Growth through capacity expansion ■ Conversion of fee systems in psychiatry and psychosomatics ■ Further process optimisation at the clinics 	
Threats:	
<ul style="list-style-type: none"> ■ Deterioration in underlying political conditions ■ Sustained increase in shortage of trained staff 	

Euler Hermes Rating rates Schön Klinik SE BBB for its creditworthiness and sustainability. We expect a positive development in the rating over the next twelve months.

The rating reflects the high and stable cash flows from operating activities secured by the mandate to provide medical care in connection with the numerous cases for which treatment is provided. The operating subgroup SHD exhibits very good operating earnings potential both in absolute terms and compared with its peer group. This is chiefly due to the focus on individual fast-growing disciplines such as psychosomatics, neurology and orthopaedics as well as specific indications in internal medicine and surgery, something which also materially sets Schön Klinik apart from the peer group. In addition, the income structure is characterised by a relatively large proportion of privately insured and elective-benefit patients.

The shares have been remeasured in connection with the adjustments to the group's corporate structure and the related transfer of the shares in operating business to Schön Klinik SE. We consider the capital structure at the level of Schön Klinik SE, which holds a large proportion of mezzanine capital, to be good even after the discounts on goodwill. The financial ratios (deleveraging potential and interest coverage ratios) estimated on the basis of the EBITDA generated by the operating subgroup SHD are satisfactory. The credit facilities available to the group ensure good financial flexibility.

The hospital sector is subject to strict regulation. Command-economy elements (bed number stipulations, remuneration rules) impose heavy restrictions on free competition. At the same time, personnel and material costs are rising steadily, exerting pressure on earnings potential. Moreover, funding by the states is declining on account of tight public-sector budgets, forcing clinic operators to fill the gap. This in turn is fuelling the pressure to achieve productivity and efficiency gains. The greatest challenge facing the health care sector is the increasingly widening gap caused by tighter funding on the one hand and the demographically induced growth in demand and the rising scope for medical treatment as a result of medical/technical and therapeutic advances on the other. In our view, the mounting shortage of health care professionals and nursing staff poses a further key challenge for the health care sector. We rate positively the clear strategic focus on individual core medical disciplines and the targeted growth in these areas by means of high-quality treatment. This places the Schön Klinik group in a very good position and is allowing it to achieve nationwide awareness levels.

Looking forward, it wants to expand primarily on an organic basis by widening capacities and establishing and developing intelligent medical care structures. The relatively high profitability is to be maintained by means of continuous process optimisation and the implementation of efficiency-boosting projects. In our view, the group is highly innovative and has an effective management. With the modifications to its corporate structures, the group is now ready to enter the next generation. In addition, the scope for accessing the capital market has been improved.

Execution of the rating

The rating request was submitted by Schön Klinik SE (client) on 17th March 2014. The company, including the Schön-Klinik Nürnberg-Fürth, was visited on 24th and 25th March 2014. This rating report was presented to the client on 6th May 2014, meaning that the rating process has now been concluded. The notation proposal and the report on which it was based were reviewed by the Rating Committee on 24th April 2014 and reconfirmed on the 6th May 2014 and approved in their current form. If this rating is not made public, the rating refers to this date. If the rating assessment is published on the rating agency's website (www.eulerhermes-rating.com), it will be followed by a subsequent one-year monitoring process. During this period, the company and the environment in which it operates remain under observation. The rated company is subject to unrestricted disclosure obligations during this period. Any change in the rating agency's assessment will result in a change in the published rating, meaning that the rating as shown on the internet represents the current rating assessment at all times. Continued publication after the expiry of the monitoring period is contingent upon a follow-up rating being conducted.

The client is solely and exclusively liable for any errors or omissions in the documents and information supplied openly and willingly in response to our requests for information. The client has reviewed the rating report and confirms that all of the information which it contains is correct and complete in all significant respects, that no major aspects have been concealed and that any forward-looking statements which it may include are based on plausible, verifiable and current data and have been prepared by the client with the diligence of a prudent businessman. However, the client cannot be held liable if actual results differ from the forward-looking statements, in particular the projections, presented in this document. Changes in the economic environment and unforeseen events may impair the validity of the forward-looking statements and projections.

The rating report may not be construed as constituting a recommendation to participate in certain facilities. All recipients of the information should conduct their own independent analyses, credit assessments and other reviews and evaluations which are customary and necessary to reach a final decision about the participation in certain facilities. It should be noted that the summaries of contracts, legislation and other documents included in the report are no replacement for examination of the corresponding full texts. As of the date on which this information is published, it is not possible to guarantee that the information has not changed since being collected and that all information provided is still valid. The client is under no obligation to update the information.

The publication of this rating report may be prohibited by law in certain jurisdictions. The client therefore requests that any persons who gain possession of this information enquire about and comply with any such restrictions. The client does not assume any liability of any kind towards anyone with respect to the dissemination of this rating report in any jurisdiction whatsoever.

The client's management has submitted to Euler Hermes Rating GmbH a written letter of representation.

We have prepared this report to the best of our abilities and knowledge.

Euler Hermes Rating GmbH

Hamburg, 6th May 2014

Analysten

Gundel Bergknecht, Senior Analyst und Project Manager
Jörg Walbaum, Senior Analyst

Ratingkomitee

Kai Gerdes, Director
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Principal sources of information

- Consolidated financial statements of Schön Klinik SE as of 31 December 2013
- Consolidated financial statements of Schön Holding GmbH & Co. KG for 2012 and 2013
- Report on the audit of the non-cash equity issue
- Extracts from internal reports
(e.g. SHD subgroup's business performance in 2013, analysis of bank liabilities etc.)
- Market analyses
- Strategy paper and medium-term forecast for Schön Klinik SE for 2014 - 2019
- Medium-term forecast of the SHD subgroup for 2014 - 2019
- Documents on corporate structure
- Conversations with management

Ratingmethode

Issuer rating, company rating manual of Euler Hermes Rating GmbH, March 2012 version

Appendix: Rating notations

category	explanation
AAA	AAA rated companies demonstrate an excellent credit quality. Such companies are characterized by an extremely positive future outlook and are viewed as being “first class” business partners. Although the various security elements can certainly change, such changes – to the extent this can be assessed - are highly unlikely to adversely affect the fundamentally strong position of such companies.
AA	AA rated companies demonstrate very high quality with respect to future security. Along with the AAA rated companies, this group forms the so-called “quality class.” Security margins may, however, be comparatively thinner, the solidity of the security elements may fluctuate more or individual assessment components may indicate a greater long-term risk than is the case for AAA rated companies.
A	A rated companies demonstrate high quality with respect to future security. They show many favourable features which secure their future. Nevertheless, there may be isolated factors which reveal a slightly in-creased susceptibility to the worsening of circum-stances and general economic conditions in the future.
BBB	BBB rated companies demonstrate reasonable quality with respect to future security. Compared to A rated companies, however, it is more likely that worsening of general economic conditions could weaken the capability of fulfilling financial obligations.
BB	BB rated companies still have structures adequate to secure their future. Yet they are subject to greater insecurities. Negative business developments or changes in the general financial and economic conditions can make it impossible for them to fulfil their financial obligations in a suitable manner.
B	B rated companies lack the usual structures to secure their future. Negative business developments or changes in the general financial and economic conditions will most likely make it impossible for them to fulfil their financial obligations in a suitable manner.
CCC	CCC rated companies have structures which greatly endanger the security of their future. Capital service is in jeopardy. Such a company is dependent on a favourable development of general economic conditions if it is to be able to meet its financial obligations in the long term.
CC	Companies receiving a CC rating have very little security for their future. Capital service is in great jeopardy.
C	C rated companies have the least future security of all. The basic conditions enabling such debtors to fulfil their financial obligations are extremely poor. Default is imminent.
D	Companies with a D rating are already in default of payment or have filed for bankruptcy. The D rating is irrelevant for the future; it documents solely the bankruptcy of the company.
SD	If an issuer defaults with respect to a certain financial liability or class of liabilities but is still able to honour its payment obligations under other financial liabilities or classes of liabilities within the requisite period, it is assigned SD (selective default) status.
NR	A debtor or an issuer not rated by Euler Hermes Rating is classified as NR (Not Rated).
PLUS (+) MINUS (-)	Rating notations from AA to CCC may be complemented by a PLUS (+) or MINUS (-) if required, in order to show their relative position within the respective rating category.