

PLUS – Company of the month

GENERAL MEDICAL CLINICS

GMCP £4.73m 28.5p PLUS

General Medical Clinics, known as GenMed, is a London based provider of primary care services. Through its four clinics and one walk-in centre the company provides all aspects of primary care including GP consultations, practice nursing and general health checks.

Founded in 1998, GenMed listed on the PLUS-quoted market at the end of 2006 raising £1.5 million through a placing at 34p.

The company has made good progress in recent years, with the 2004 acquisition of Finsbury Healthcare, which comprised of one clinic in Finsbury Circus in the City of London, expanding its reach. In 2005 the company won a five year contract from the Department of Health to run an NHS walk in centre at Liverpool Street Station, located in the heart of the City. Opening in December that year, the unit was the first privately run walk in centre in London. This deal provides GenMed with a stable monthly income stream and also an additional payment for every patient seen.

The company makes its money in a number of ways. In addition to payments from the NHS described above, the cash flows in from charges for one-off appointments, fees from individual membership plans - whereby customers can pay an annual fee for unlimited consultations - and from the Company Doctor Scheme. This scheme is focused on corporate clients operating in the City and membership to it provides employees with year round access to GenMed's services. The scheme has proven to be attractive to corporates for a number of reasons, namely that it reduces time taken off by employees to visit their family GP, is an attractive employee benefit and helps to improve productivity. For larger corporates GenMed will also run in-house clinics.

Recent Trading

At the end of September the company released its results for the year to 31st May 2008. While revenues grew slightly, from £6.39 million to £6.54 million, a fall in gross margins from 52.8% to 49.9% meant that gross profits fell from £3.38 million to £3.27 million. Relatively flat administration expenses meant that operating profits of £202,797 were posted as opposed to £322,431 in the previous year. Cash flow from operating activities was very strong over the period with an inflow of £379,650. That helped the net cash position grow from £1.42 million at the end of May 2007 to £1.74 million.

A near £100,000 boost from receivable interest meant that pre-tax profits were just short of £300,000, down from £355,000 in 2007. If we strip out one-off costs of £130,000 however, pre-tax profits would have been broadly flat at £430,000. A rise in the effective tax rate from 15.4% to 26.9%, along with the fall in profits, meant that basic earn-

ings of 2.2p seen in 2007 were cut to 1.3p. On an adjusted basis however, basic earnings were 1.9p down from 2.7p. Due to the solid performance the company recommended a maiden dividend payment of 0.4p per share.

Operational highlights of the period included the opening of new clinics at Canary Wharf in October 2007, providing access to an estimated 100,000 office workers, and at Chancery Lane, the heart of the London law district, in April 2008. At the Liverpool Street walk in clinic over 22,000 patients were treated over the year, a rise of 11% over 2007. Despite the difficult trading conditions GenMed lost none of its corporate customers during the year.

Going forward the company plans to open a new full service medical centre in Baker Street in December this year. The clinic will provide the same range of services available at its existing clinics although will also offer certain tailored services in order to attract potential residential customers. The area around the clinic has a number of potential customers, both corporate and residential. On the corporate side, the clinic will be well placed to serve the circa 5,000 workers based in the same office building, and on the residential side the clinic is a stone's throw from the affluent Regents Park area, home to many high net worth individuals. The expansion is a key part of GenMed's strategy and has only been undertaken following a thorough review of the likelihood of commercial success in the Baker Street area. This approach will be applied by the company before any further clinics are opened or acquired.

Assessment

Due to costs associated with opening the new Baker Street clinic, estimated to be around £300,000, it will be difficult for GenMed to post growth in pre-tax profits in the current year to May 2009. However, with a very strong cash position and a compelling product the company looks well placed to grow significantly in the long-term. The current market conditions should throw up opportunities to acquire existing businesses at attractive prices and we would not be surprised to see further news on this front in the coming months.

On a valuation basis, if we strip out the net cash and use the historic adjusted earnings figure of 1.9p the shares trade on a multiple of 9.5 times, which we think looks good value given the massive opportunities to grow within London and potentially into other major cities in the UK. The greatest threat at present seems to be from corporate customers cancelling contracts in order to cut costs, but in that respect is encouraging to see no losses during the second half of the previous financial year.

GenMed is one of the only PLUS-quoted companies to pay a dividend, which adds to the attraction of the shares. Given that the total £65,381 payment is well covered by earnings, cash flow and cash in the bank we would expect that this would be at least maintained in the current financial year if trading does not take a significant turn for the worst. **Long-term buy.**