



22 February 2008

Equity Research Institutionals

Company

Flash

Eckert & Ziegler

Rating

Buy (unchanged)

Active participation in market consolidation

Letter of intent for the merger of seed implants with IBt

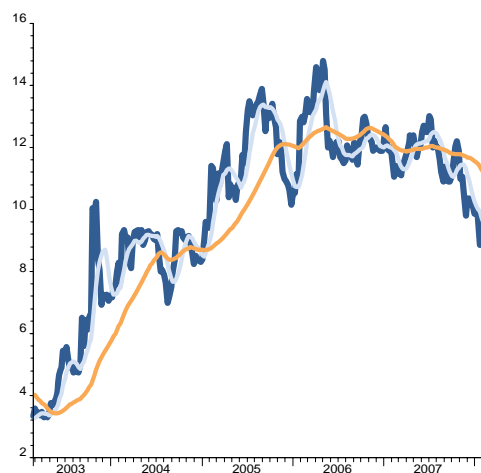
Market position is strengthened

Attractive price level for Eckert & Ziegler's seed implants



— 38D Moving Average
— 200D Moving Average

Source: Thomson Datastream



— 38D Moving Average
— 200D Moving Average

Source: Thomson Datastream



Buy

Target price: € 14.00

Price: € 9.30

02/22/08

10:50 h

Last rating/Target Pr.:

Buy /€ 14.00

Last analysis:

12/07/2007

S&P rating: n.a.

Medical Technology

Number of shares:

3.3 m

Market capitalisation:

€ 30.2 m

Index: Tech All Share

Index weight: 0.05 %

Beta: 1.60

Accounting:

IFRS

Calendar:

on 03/28/08

2007 result

Dividend 2008e: 0.35

ISIN: DE0005659700

Bloomberg: EUZ GY

Reuters: EUZG.DE

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Eckert & Ziegler

02/22/2008

Topic: consolidation in the field of Brachytherapy (seed implants)

Active participation in the consolidation process

Eckert & Ziegler has signed a letter of intent with the Belgian seed implants manufacturer for prostate cancer, IBt, regarding the merger of both brachytherapy divisions. On conclusion of the transaction, Eckert & Ziegler would own just under 30% of all IBt shares. We view the step taken by Eckert & Ziegler of actively participating in the previously non-existent consolidation process in Europe as making strategic sense. As it up to now only concerns a letter of intent, this Flash just describes the possible effects.

Share ratio	Earnings per share		EV/Sales	EV/EBITDA	PER
	new	old			
	€	€			
2006	0.71	0.71	0.9	4.3	13.1
2007e	0.66	0.66	0.7	3.5	14.2
2008e	1.01	1.01	0.6	3.3	9.2
2009e	1.07	1.07	0.6	3.2	8.7

Company ratios	Sales	EBITDA	EBIT	EBIT-Margin	Net result
	m €	m €	m €		m €
2006	50.4	10.4	5.9	11.7 %	2.2
2007e	52.8	10.0	5.9	11.2 %	2.1
2008e	57.4	10.8	6.3	10.9 %	3.2
2009e	58.5	11.0	6.4	11.0 %	3.4

- In the deal, Eckert & Ziegler's Brachytherapy division (seed implants) is valued at € 23.45 m. We assess this as an attractive price level.
- By means of the transaction, a new top player is born in the European seed market. Eckert & Ziegler and IBt will then catch up with the previous market leader, Oncura, with a market share of 50%. Eckert & Ziegler's market presence can be considerably strengthened in regions such as Benelux and Great Britain, where up to now it has been poorly represented.
- Eckert & Ziegler's hopes are pinned on the development of brachytherapy in Europe and especially in Germany. However, there are still many obstacles in this respect. In order to hold on to this business segment in the future, a strong market position is necessary and worthwhile. We view the active participation in the European consolidation process as positive.

Please note the disclaimer on the last page of this study.

Merger of the implant divisions

Contribution in kind in the scope of a capital increase

Further increase of shareholding in IBt likely

Value of BEBIG (Brachytherapy): € 23.45 m

Value of the tumour radiotherapy devices: a good € 5 m

Value of the whole Therapy segment: € 28.45 m

Attractive price level

Details of the transaction

- Eckert & Ziegler has signed a letter of intent with its Belgian rival, IBt, concerning a merger of both implant divisions (Brachytherapy). Within the scope of the transaction, Eckert & Ziegler plans to place its Brachytherapy division as a contribution in kind in the scope of a capital increase by IBt. In addition, IBt still has the opportunity to take over the rest of Eckert & Ziegler's Therapy business (tumour radiotherapy devices so-called afterloaders) at a later date. Eckert & Ziegler would own just under 30% of IBt's shares on conclusion of the deal.
- In addition to this, Eckert & Ziegler will receive an option to increase its holding of IBt shares acquired from the capital increase with additional voting rights for IBt's AGM ("beneficiary shares"). For the transfer of these 5 million voting rights IBt would receive share packages from Eckert & Ziegler from its treasury shares. Eckert & Ziegler would then have to issue a compulsory takeover bid to the IBt shareholders according to Belgian stock exchange regulations.

Financials of the deal

- The business unit Brachytherapy (BEBIG) will be transferred to IBt free of debt. It will be valued in the scope of the transaction at 5.5 times EBITDA (€ 3.9 m) plus the value of net working capital, so IBt will have to pay € 23.45 m for Eckert & Ziegler's implant division. This equals € 21.5 m for the assets and € 1.95 m for net working capital.
- Furthermore, IBt still has the opportunity for 12 months to acquire the tumour radiotherapy devices (afterloaders). The price should correspond to 6 times EBITDA, but at least € 5 m.
- Eckert & Ziegler's Therapy segment (brachytherapy and tumour radiotherapy) would then be valued at € 28.45 m with regard to the deal. This would equal € 9.10 per share.
- IBt will finance the deal through a bond and by issuing new IBt shares to Eckert & Ziegler by using authorised capital of € 3.47 per share.

Interim conclusion

- We assess the rating of the Therapy segment value of € 28.45 m to be appropriate; it is in line with the best case scenario from our last study (cf. 7 December 2007).

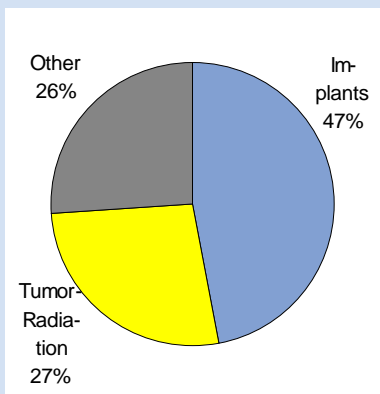
Valuation of the Therapy segment according to LBBW

Summary for Therapy (rounded)

in €	Worst Case fair value	LBBW-Scenario fair value	Best Case fair value
Therapy	€ 3.30	€6.30	€9.80

Source: LBBW

Therapy revenues (2007e: € 20 m)

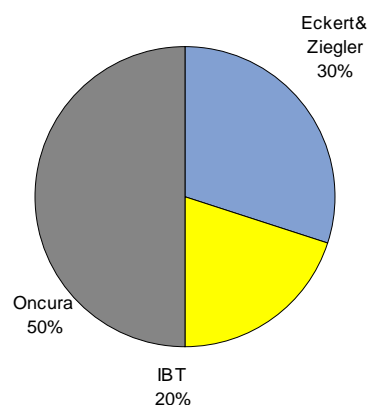


Source: LBBW

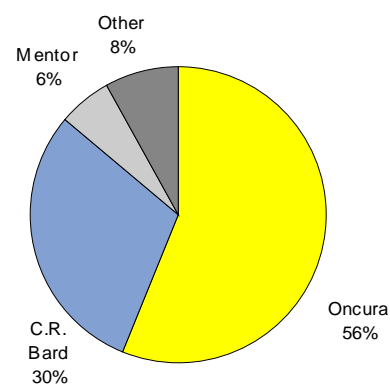
Overview of the deal

- **Situation in the USA:** The treatment of prostate cancer in the USA using seeds (permanent implants), where a carcinoma is identified early, is very much in practice. Around one third of carcinomas of the prostate diagnosed in the USA are treated with seeds. A consolidation of the market estimated at US\$ 250 m already occurred in the USA.
- **Situation in Europe:** We estimate the European market for seed therapy (Jod) to be € 35 m. Up to now no market consolidation has been entered into. According to the market research institute, Frost & Sullivan, the European market should increase by 9% each year. Eckert & Ziegler is only active in the European market for seed therapy (Jod). With an estimated 2,000 treatments per year and an average reimbursement per implantation of nearly € 5,400, the company from Berlin obtains revenues of around € 10 m per year, which would equal a market share of one third. The American company Oncura (50%) and the Belgian company IBT (20%) are the competitors in the market.

Market participants European seed market



US seed market



Sources: US seed market: Frost & Sullivan, European seed market: Eckert & Ziegler

Europe: no market consolidation up to now

**Valuation of brachytherapy:
Hope here, but obstacles in
the way**

**Participation in market
consolidation**

More market presence

**No cash payments
Cost and profit synergies**

**Change of direction for
Radiopharmacy**

Sceptical at first

The market for tumour radiotherapy devices (afterloaders) should reach a volume of € 100 m worldwide. We assess Eckert&Ziegler's share of this to be € 12-13 m.

- **Valuation of brachytherapy:** Eckert & Ziegler's hopes are pinned on the development of its Brachytherapy segment in Europe and especially in Germany. However, there are still obstacles in its way, which are dependent on methods, personally motivated and politics-related. The seed implementation can only be used in cancer stage T1/T2 and is thus limited to an early-illness stage. As the provision ethics in Europe continue to leave a lot to be desired in comparison to the Americans, the expansion of brachytherapy is limited. This could be accounted for, in our opinion, by the fact that the PSA blood test is not compensated for in many European countries. Furthermore, many doctors and the decision makers in the health insurance funds still have to be convinced of the advantages of the therapy in comparison to the traditional prostatectomy.

Assessment of the deal

- As a result of the transaction Eckert & Ziegler can now actively take part in the consolidation in the European market. Together with IBt's market share of 20%, the company will be able to stand up to the European market leader Oncura. This should also yield stronger pricing power.
- In European regions such as Benelux and Great Britain, where up to now Eckert & Ziegler has not been very strongly represented, the Berlin based company's market presence can be further strengthened.
- Because of the increase in capital in exchange for a contribution in kind, there is no cash involved in the deal, which thus means that there will be no financing problem for either of the parties. In the future as a result of the deal, cost and profit synergies from production and sales of seeds could be increased. This is why the deal is interesting for both contracting parties.

New Executive Board for Radiopharmacy

- The Supervisory Board appointed Dr. Heß as the third Executive Board member effective March 1, 2008. In the 2006 fiscal year the new segment Radiopharmacy was spun off from the Nuclear Medicine and Industry segment. The new segment focuses on products and services concerning radiopharmaceutical uses for nuclear medicine. It supplies radioactive radiopaque material for positron emission tomography (PET), radiopharmaceutical generic drugs and facilities for their manufacture, so-called system modules (ModularLAB), from production plants in German and Italy. Radiopharmacy contributes approximately 15% to Group revenues.
- The strategy used in the Radiopharmacy segment has to prove itself first. The new Executive Board is a good start. After the disappointment at SpondylAT we are for the time being sceptical of this. We so far still view this segment as a risky investment.

Recommendation

- We rate the step taken by Eckert & Ziegler of actively participating in the previously non-existent consolidation process in Europe as making strategic sense. We estimate the price which the Berlin-based company will receive for its Brachytherapy division as attractive. The deal should lead to future cost and profit synergies. As it up to now only concerns a letter of intent, this Flash just analyses the transaction descriptively. We will adjust our earnings estimates on hearing more details regarding restructuring costs, synergies and profit potential.

Profit & Loss Account	2006	2007e	2008e	2009e	2010e	2011e
€mn						
Revenues	50,4	52,8	57,4	58,5	59,7	60,9
Cost of Sales	-26,5	-26,5	-28,8	-29,4	-29,9	-30,6
Gross Profit	23,9	26,3	28,6	29,2	29,8	30,3
<i>Margin</i>	47,5%	49,8%	49,8%	49,8%	49,9%	49,8%
R&D Expenses	-0,3	-0,2	-0,4	-0,4	-0,4	-0,4
G&A Expenses	-19,0	-20,2	-22,0	-22,0	-22,4	-22,8
Other Income	1,3	0,0	0,0	0,0	0,0	0,0
EBITDA	10,4	10,0	10,8	11,0	11,4	11,6
<i>Margin</i>	0,2	0,2	0,2	0,2	0,2	0,2
Depreciation and Amortisation	-4,5	-4,1	-4,5	-4,6	-4,8	-4,9
EBIT	5,9	5,9	6,3	6,4	6,6	6,7
<i>Margin</i>	11,7%	11,2%	10,9%	11,0%	11,1%	11,0%
Net Financial Income/Expense	-1,1	-1,0	-0,8	-0,7	-0,6	-0,5
EBT	4,7	4,9	5,5	5,7	6,0	6,2
<i>Margin</i>	0,1	0,1	0,1	0,1	0,1	0,1
Income Taxes	-1,6	-1,8	-2,0	-2,1	-2,2	-2,3
EAT	3,1	3,1	3,4	3,6	3,8	3,9
<i>Margin</i>	0,1	0,1	0,1	0,1	0,1	0,1
Extraordinaries	-0,6	-0,8	0,0	0,0	0,0	0,0
Minorities	-0,3	-0,3	-0,3	-0,3	-0,3	-0,3
Net Profit	2,2	2,1	3,2	3,4	3,5	3,7
<i>Margin</i>	4,4%	3,9%	5,6%	5,7%	5,9%	6,0%
Earnings per share before extraordinaries (€)	0,90	0,91	1,01	1,07	1,12	1,16
Earnings per share before minorities(€)	0,81	0,74	1,09	1,15	1,20	1,24
Earnings per share before extraordinaries and minorities (€)	1,00	0,99	1,09	1,15	1,20	1,24
Earnings per share (€)	0,71	0,66	1,01	1,07	1,12	1,16

Source: Eckert & Ziegler AG, LBBW

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Percentage of companies within this rating category		
Buy	Hold	Sell
57.2 %	31.4 %	11.4 %

Rating History

Date	Rating
03/31/2004	Buy
11/11/2003	Hold

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