LB≡BW

Stock information.

Buy

Target share price: €18.00

Share price: €9.75

Last rating: Buy

Last report: 09/11/2004

S&P rating: n.r.

Medical technologies

Number of shares: 3.25m

Market capitalisation: €31.7m

Index: Techn. All Share

Index weighting: 0.09%

Beta: 1.6

Accounting: US GAAP

Calendar: FY 2004 on 30/03/2005

Dividend 2004e: -

ISIN DE0005659700

Bloomberg: EUZ GR

Reuters: EUZG.DE

Eckert & Ziegler

2 February 2005

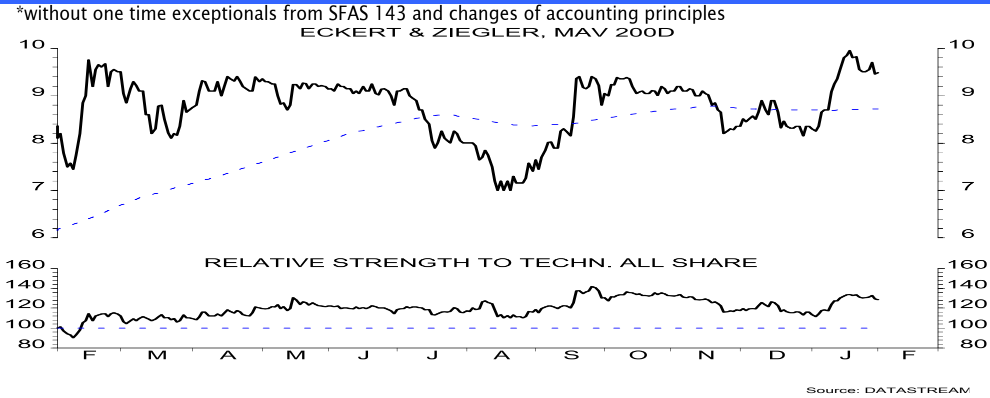
2004 earnings growth beat expectations

Eckert & Ziegler released preliminary FY 2004 results yesterday. Although sales were slightly below our expectations, profit growth, however, was significantly ahead of our estimate. Given this, we have substantially revised our share valuation and continue to recommend the Eckert & Ziegler share as a Buy.

Share Data	EPS current €	EPS previous €	PSR	EV/EBITDA	PER
2003*	0,25	0,25	1,0	4,8	35,1
2004*	0,66	0,20	0,9	4,1	14,7
2005e	0,54	0,48	0,8	3,6	17,9
2006e	0,71	-	0,7	3,1	13,8

Company Data	Revenues €m	EBITDA €m	EBIT €m	EBIT-Margin	Net Profit €m
2003*	29,2	5,9	2,2	7,5 %	0,8
2004*	34,5	6,8	3,2	9,2 %	2,0
2005e	40,7	7,9	4,1	10,0 %	1,8
2006e	47,0	8,9	4,9	10,5 %	2,3

*without one time exceptionals from SFAS 143 and changes of accounting principles



Summary

++	**Higher than expected profit growth**	--	**Market growth in industrial applications tends to be weak**
+	Isotope specialist known worldwide	-	Out-patient reimbursement for brachy-therapy partly unresolved
+	High growth potential for brachy-therapy in Europe continues	-	Uncertain company profit forecast

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

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Isotope specialist

Company profile

- Eckert & Ziegler (EZAG) is an isotope producer based in Berlin. The company's products are used in industrial and medical applications such as in radiation sources for detector instruments, for example, but also as therapeutic products in cancer treatment (seeds).

Valuation

No multiple valuation

Multiple valuation

- We have not used a multiple valuation for EZAG. Possible peer group companies, such as IBT or Theragenics, are either still loss making or there is no data available for multiple comparison.

Discounted cash flow method

- Our DCF model is based on the following assumptions:

Calculation data

Equity ratio	60,0 %	Revenue growth	7,0 %
Debt ratio	40,0 %	EBIT margin	10,0 %
Risk free interest rate	3,6 %	Tax rate	40,0 %
Market premium	6,1 %	Provision ratio	11,0 %
Company specific premiur	1,6	Depreciation ratio	7,0 %
Beta	0,0	Investment ratio	7,0 %
WACC	9,5 %	Working capital ratio	25,0 %
		Sustainable growth	1,0 %

Source: LBBW

- Based on an explicit five-year forecast and on five-year, value driver based forecasts, our DCF model produces the following calculation:

DCF model (€ tsd)	2005e	2006e	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e
Revenues	**40 700**	**47 009**	**51 709**	**55 329**	**59 202**	**63 346**	**67 780**	**72 525**	**77 602**	**83 034**
EBIT	**4 070**	**4 936**	**5 429**	**5 810**	**6 216**	**6 335**	**6 778**	**7 253**	**7 760**	**8 303**
EBIT margin	10,0 %	10,5 %	10,5 %	10,5 %	10,5 %	10,0 %	10,0 %	10,0 %	10,0 %	10,0 %
Taxes	1 890	2 237	2 386	2 403	2 578	2 534	2 711	2 901	3 104	3 321
Margin	-50,0 %	-48,0 %	-46,0 %	-43,0 %	-43,0 %	-40,0 %	-40,0 %	-40,0 %	-40,0 %	-40,0 %
Minorities	-120,1	-132,1	-145,3	-159,9	-175,9	-190	-203,3	-217,6	-232,8	-249,1
Margin	-0,3 %	-0,3 %	-0,3 %	-0,3 %	-0,3 %	-0,3 %	-0,3 %	-0,3 %	-0,3 %	-0,3 %
Depreciation/Amortisation	-3 780	-3 969	-4 167	-4 376	-4 595	-4 434	-4 745	-5 077	-5 432	-5 812
Margin	-9,3 %	-8,4 %	-8,1 %	-7,9 %	-7,8 %	-7,0 %	-7,0 %	-7,0 %	-7,0 %	-7,0 %
Provisions	4 730	5 203	5 723	6 296	6 925	6 968	7 456	7 978	8 536	9 134
Margin	11,6 %	11,1 %	11,1 %	11,4 %	11,7 %	11,0 %	11,0 %	11,0 %	11,0 %	11,0 %
Annual change	430	473	520	572	630	43	488	522	558	598
Cashflow from operating activities	6 270	7 008	7 585	8 195	8 686	8 088	9 096	9 733	10 414	11 143
Investments	2 875	3 306	3 637	4 001	4 401	4 434	4 745	5 077	5 432	5 812
Margin	7,1 %	7,0 %	7,0 %	7,2 %	7,4 %	7,0 %	7,0 %	7,0 %	7,0 %	7,0 %
Working Capital	10 930	11 681	12 483	13 551	14 726	15 837	16 945	18 131	19 400	20 758
Margin	26,9 %	24,8 %	24,1 %	24,5 %	24,9 %	25,0 %	25,0 %	25,0 %	25,0 %	25,0 %
Annual change	930	751	802	1 068	1 175	1 110	1 109	1 186	1 269	1 358
Free Cashflow	**2 465**	**2 951**	**3 147**	**3 126**	**3 111**	**2 543**	**3 243**	**3 470**	**3 713**	**3 972**

Source: LBBW

Fair value per share: €24.16

- These forecasts, as well as a terminal growth rate of 1.0%, produce an entity value of €72.1m or €24.16 per share. We have conducted a sensitivity analysis, which led to the following result:

Sensitivity analysis

Value of equity (€m)				Value of equity per share (€)			
	Discounting rate				Discounting rate		
Growth	8,5 %	9,5 %	10,5 %	Growth	8,5 %	9,5 %	10,5 %
0,0 %	72,8	67,4	63,0	**0,0 %**	24,41	22,61	21,12
1,0 %	78,7	72,1	66,7	**1,0 %**	26,37	24,16	22,37
2,0 %	86,3	77,9	71,4	**2,0 %**	28,94	26,12	23,92

Source: LBBW

Comment

Sales below our expectations

- According to preliminary FY 2004 results, sales increased by around 18% to €35m. Our sales estimate was higher at €36m.

Therapy progressing well

- However, within the divisions, growth was highly positive, particularly in the brachy-therapy division - which includes the acquired Afterloader business. According to the company, sales in this division increased from €10.8m to €16.2m.

Therapy division has high margins

Deconsolidation profit

- The Therapy division is characterised by higher margins, which partly explains the positive earnings surprise. However, it must be taken into account that the EPS of €1.5 includes a non-cash item of around €0.39, which is due to the deconsolidation of the NEMOD holding. However, excluding this item, the company’s EPS of €0.66 is still substantially higher than our estimate of €0.20.

OEM order billed and earn-out payments

- In addition to higher margins in the Therapy division, profits were boosted by the OEM order that was billed in Q4 2004, as well as payments from the earn-out agreement decided upon at the time of the MMI acquisition.

Until now only very imprecise sale and profit forecasts have emanated from the company

Outlook

- Management's statements so far, regarding FY 2005, have been meagre. Sales growth is expected to remain double digit, which alone is not very precise. For EPS, EZAG has given a forecast ranging between €0.50 and €0.80. Given that the number of shares is 3.25m, this implies - give or take – about one million euros.
- With our slight forecast increases, we are more at the conservative end of the company's guidance.

Substantial share price potential

Fair value of €24 probably not achievable within the period our recommendation is valid

Target share price €18

Buy

Recommendation

- We have already pointed out what we believe to be EZAG's substantial share price potential in our company report dated 09/11/2004. However, at that point, our forecasts were considerably more conservative than they are today.
- Our estimate revisions produce a fair value per share of over €24 according to the DCF method. We do not believe that this fair value will be achieved within the period our recommendation is valid. This is because of the broad profit range from the company, which – even though we are at the more conservative end – signifies forecast uncertainty for the investor. In addition, even at its fair value, EZAG would be too small for many institutional investors and for other investors; the market is, often, simply too illiquid.
- Given this background, we consider that a 25% discount to the company's fair value is reasonable and set our target share price at €18.00. Our Buy recommendation on EZAG is therefore unchanged.

Profit & Loss Account €m	2002	2003	2004e	2005e	2006e
Revenues	**31,2**	**29,2**	**34,5**	**40,7**	**47,0**
Cost of Sales	-16,0	-15,7	-18,1	-21,6	-25,4
Gross Profit	**15,3**	**13,5**	**16,4**	**19,1**	**21,6**
Margin	*48,9%*	*46,1%*	*47,5%*	*47,0%*	*46,0%*
R&D Expenses	-3,4	-2,2	-0,8	-1,4	-1,6
G&A Expenses	-11,3	-9,3	-12,5	-13,6	-15,0
Other Income	1,4	0,2	0,1	0,0	0,0
EBITDA	**6,3**	**5,9**	**6,8**	**7,9**	**8,9**
Margin	*20,0%*	*20,1%*	*19,7%*	*19,3%*	*18,9%*
Depreciation and Amortisation	-4,3	-3,7	-3,6	-3,8	-4,0
EBIT	**2,0**	**2,2**	**3,2**	**4,1**	**4,9**
Margin	*6,4%*	*7,5%*	*9,2%*	*10,0%*	*10,5%*
Net Financial Income/Expense	-1,1	-0,3	-0,2	-0,3	-0,3
EBT	**0,9**	**1,9**	**3,0**	**3,8**	**4,7**
Margin	*2,9%*	*6,4%*	*8,8%*	*9,3%*	*9,9%*
Income Taxes	-0,6	-1,0	-0,9	-1,9	-2,2
EAT	**0,3**	**0,8**	**2,1**	**1,9**	**2,4**
Margin	*1,1%*	*2,8%*	*6,2%*	*4,6%*	*5,2%*
Extraordinaries	0,0	-2,0	1,2	0,0	0,0
Minorities	0,0	-0,1	-0,1	-0,1	-0,1
Net Profit	**0,3**	**-1,3**	**3,2**	**1,8**	**2,3**
Margin	*neg.*	*neg.*	*9,3%*	*4,3%*	*4,9%*
Earnings per share before extraordinaries (€)	**0,11**	**0,25**	**0,66**	**0,54**	**0,71**
Earnings per share before minorities(€)	**0,11**	**-0,39**	**1,09**	**0,58**	**0,75**
Earnings per share before extraordinaries and minorities (€)	**0,11**	**0,28**	**0,70**	**0,58**	**0,75**
Earnings per share (€)	**0,11**	**-0,42**	**1,05**	**0,54**	**0,71**

Source: LBBW

LBBW uses a three-stage, absolute share rating system. The individual ratings are linked to the following expectations: **Buy:** The price potential of the share is at least 10%. **Hold**: The price potential of the share is between 0% and 10%. **Sell:** A negative price performance of the share is expected. Ratings relate to a time horizon of up to 6 months.

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