

Buy**Target price: € 16.50**Price: € 13.50
03/31/06
09:02 hLast rating/Target Pr.:
Buy /€ 18.00Last analysis:
11/08/05

S&P rating: n.a.

Medical Technology

Number of shares:
3.3 mMarket capitalisation:
43.88 m

Index: Tech All Share

Index weight: 0.09 %

Beta: 1.60

Accounting: IFRS

Calendar:
Analyst conference on
04/04/06

Dividend 06e: 0.20 €

ISIN: DE0005659700

Bloomberg: EUZ GY

Reuters: EUZG.DE

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At issue: 2005 financial statements

The seedling is slowing maturing, but still needs TLC

EUZ has met its original targets in full with its 2005 financial statements. Expenses in the shape of a clinical trial of the SpondylAT rheumatism drug are on the cards for 2006, and the company intends maintain its acquisition strategy driven by opportunity. We have comprehensively reviewed our projections against this backdrop and have adjusted our valuation. Our target price is down to € 16.50, but we reaffirm our recommendation to Buy EUZ.

Share Data	EPS current €	EPS previous €	PSR	EV/EBITDA	PER
2005	0,51	0,40	1,0	7,2	26,3
2006e	0,57	0,70	0,9	6,3	23,9
2007e	0,86	0,81	0,7	5,1	15,7
2008e	1,15	-	0,7	4,3	11,7

Company Data	Revenues €m	EBITDA €m	EBIT €m	EBIT-Margin	Net Profit €m
2005	41,8	6,4	2,5	6,1 %	1,6
2006e	50,2	7,4	3,3	6,5 %	1,8
2007e	60,2	9,1	4,8	8,0 %	2,7
2008e	66,2	10,8	6,3	9,5 %	3,6

	2005	2004	annual change	2005 LBBWe	deviation
Revenues (€m)	41,8	35,5	17,6 %	42,3	-1,2 %
EBIT (€m)	2,5	3,4	-26,5 %	2,7	-6,1 %
Net profit (€m)	1,6	3,3	-52,3 %	1,4	13,6 %
EPS (€)	0,51	1,08	-52,6 %	0,40	28,1 %

Source: Eckert & Ziegler AG, LBBW

- The significant deviation of earnings per share from our estimate is attributable to the fact that the acquisitions resulted in a greater reduction of tax than we had anticipated. Moreover, EUZ still holds approx. 100,000 of its own shares, which also explains some of the deviation with the smaller number of shares. Beneficial exceptional factors (deconsolidation of NEMOD) affected the previous year, fiscal 2004, meaning that direct comparison would not appear to make sense.

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

No multiple-based valuation

Conservative assumptions in the value driver phase

Valuation

Multiple-based valuation

- We continue to refrain from any multiple-based valuation of EUZ for the familiar reasons. The data available on potential peers has deteriorated even more now that IBT was taken over by unlisted CurieMed in the past year.

Discounted cash flow valuation

- Our DCF model is based on the following assumptions:

DCF model - assumptions

Risk free interest rate	3,7 %
Market premium	5,5 %
Beta factor	1,60
Cost of equity	12,5 %
Cost of debt (after tax)	3,7 %
Equity ratio target	60,0 %
WACC	9,0 %
Terminal growth rate	1,0 %

Source: LBBW

- We have, compared with our previous analysis, adjusted the risk-free interest rate and the market risk premium to current circumstances.
- We subjected our projections for EUZ to a comprehensive review. In the phase of our DCF model based on value drivers we opted for very conservative assumptions, enabling us to omit the discount of 25% previously applied to calculation of the target price.
- Our current DCF calculation reads as follows:

Free Cashflow (€m)	2006e	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e
Revenues	50,2	60,2	66,2	70,8	75,1	80,3	86,0	92,0	98,4	105,3
<i>Growth (yoy)</i>	<i>20,0%</i>	<i>20,0%</i>	<i>10,0%</i>	<i>7,0%</i>	<i>6,0%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>
EBIT	3,3	4,8	6,3	7,8	9,4	8,0	8,6	9,2	9,8	10,5
<i>EBIT margin</i>	<i>6,5%</i>	<i>8,0%</i>	<i>9,5%</i>	<i>11,0%</i>	<i>12,5%</i>	<i>10,0%</i>	<i>10,0%</i>	<i>10,0%</i>	<i>10,0%</i>	<i>10,0%</i>
Taxes	1,1	1,8	2,4	3,0	3,6	3,2	3,4	3,7	3,9	4,2
<i>Tax rate</i>	<i>39,0%</i>	<i>40,0%</i>	<i>40,0%</i>	<i>40,0%</i>	<i>40,0%</i>	<i>40,0%</i>	<i>40,0%</i>	<i>40,0%</i>	<i>40,0%</i>	<i>40,0%</i>
Depreciation/Amortisation	4,1	4,3	4,5	4,8	5,0	5,6	6,0	6,4	6,9	7,4
<i>to revenues</i>	<i>8,2%</i>	<i>7,2%</i>	<i>6,9%</i>	<i>6,7%</i>	<i>6,7%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>
Provisions	3,6	3,9	4,3	4,7	5,2	8,8	9,5	10,1	10,8	11,6
<i>to revenues</i>	<i>7,1%</i>	<i>6,5%</i>	<i>6,5%</i>	<i>6,7%</i>	<i>6,9%</i>	<i>11,0%</i>	<i>11,0%</i>	<i>11,0%</i>	<i>11,0%</i>	<i>11,0%</i>
Change	0,3	0,4	0,4	0,4	0,5	3,6	0,6	0,7	0,7	0,8
Cashflow from operating activities	6,6	7,7	8,9	10,0	11,3	14,1	11,8	12,6	13,5	14,4
Investments	3,3	3,6	4,0	4,4	4,8	5,6	6,0	6,4	6,9	7,4
<i>to revenues</i>	<i>6,6%</i>	<i>6,0%</i>	<i>6,0%</i>	<i>6,2%</i>	<i>6,4%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>
Working Capital	14,1	15,1	16,4	17,9	19,5	20,1	21,5	23,0	24,6	26,3
<i>to revenues</i>	<i>28,1%</i>	<i>25,1%</i>	<i>24,8%</i>	<i>25,2%</i>	<i>25,9%</i>	<i>25,0%</i>	<i>25,0%</i>	<i>25,0%</i>	<i>25,0%</i>	<i>25,0%</i>
Change	2,7	1,0	1,3	1,5	1,6	0,6	1,4	1,5	1,6	1,7
Free Cashflow	0,6	3,1	3,5	4,2	4,8	7,8	4,4	4,7	5,0	5,4

Source: LBBW

- This forecast, combined with an assumed final growth rate of 1.0%, produces a fair value of € 16.57 per share.

Calculation of share value (€mn)

Present value planned Free Cashflows	27,8
Present value Terminal Value	29,2
Enterprise Value	57,0
<i>Ratio Terminal Value to Enterprise Value</i>	<i>51,2%</i>
Net financial debt	5,4
Minorities	0,1
Provisions for pensions	0,1
Fair value	51,4
Number of shares (mn)	3,1
Fair value per share (€)	16,57

Source: LBBW

- We have subjected this figure to a sensitivity analysis:

Sensitivity analysis

Value per share (€)		Discounting rate		
		8,0%	9,0%	10,0%
	0,0%	16,97	15,52	14,31
Terminal value growth	1,0%	18,31	16,57	15,15
	2,0%	20,11	17,92	16,20

Source: LBBW

**Our forecasts
adjusted**

**Buy with a target
price of € 16.50**

Recommendation

- EUZ largely met the targets it had set itself for 2005. The proposed dividend of € 0.15 is fully in line with what we expected.
- We have lowered our earnings forecast against the backdrop of the likely expenses arising from clinical trial of the SpondylAT rheumatism drug in 2006. As opposed to our previous analysis, we incorporated much more upbeat estimates than before in our forecast of revenues and for the subsequent years.
- Our new target price of € 16.50 is set closely in line with our calculation of a fair value of € 16,57, and we continue to give EUZ a Buy rating.

Profit & Loss Account	2004	2005	2006e	2007e	2008e
€mn					
Revenues	35,5	41,8	50,2	60,2	66,2
Cost of Sales	-19,2	-23,3	-27,1	-31,9	-34,4
Gross Profit	16,3	18,5	23,1	28,3	31,8
<i>Margin</i>	<i>45,9%</i>	<i>44,2%</i>	<i>46,0%</i>	<i>47,0%</i>	<i>48,0%</i>
R&D Expenses	-0,4	-0,5	-1,8	-1,8	-1,8
G&A Expenses	-12,5	-16,2	-18,1	-21,7	-23,7
Other Income	0,0	0,8	0,0	0,0	0,0
EBITDA	7,2	6,4	7,4	9,1	10,8
<i>Margin</i>	<i>20,2%</i>	<i>15,4%</i>	<i>14,7%</i>	<i>15,2%</i>	<i>16,4%</i>
Depreciation and Amortisation	-3,7	-3,9	-4,1	-4,3	-4,5
EBIT	3,4	2,5	3,3	4,8	6,3
<i>Margin</i>	<i>9,7%</i>	<i>6,1%</i>	<i>6,5%</i>	<i>8,0%</i>	<i>9,5%</i>
Net Financial Income/Expense	0,2	-0,3	-0,4	-0,4	-0,3
EBT	3,6	2,2	2,9	4,5	5,9
<i>Margin</i>	<i>10,2%</i>	<i>5,3%</i>	<i>5,7%</i>	<i>7,4%</i>	<i>9,0%</i>
Income Taxes	-1,3	-0,7	-1,1	-1,8	-2,4
EAT	2,3	1,5	1,8	2,7	3,6
<i>Margin</i>	<i>6,5%</i>	<i>3,6%</i>	<i>3,5%</i>	<i>4,4%</i>	<i>5,4%</i>
Extraordinaries	1,1	0,0	0,0	0,0	1,0
Minorities	-0,1	0,1	0,0	0,0	0,0
Net Profit	3,3	1,6	1,8	2,7	3,6
<i>Margin</i>	<i>9,4%</i>	<i>3,8%</i>	<i>3,5%</i>	<i>4,4%</i>	<i>5,4%</i>
Earnings per share before extraordinaries (€)	0,72	0,51	0,57	0,86	1,15
Earnings per share before minorities(€)	1,11	0,48	0,57	0,86	1,15
Earnings per share before extraordinaries and minorities (€)	0,75	0,48	0,57	0,86	1,15
Earnings per share (€)	1,08	0,51	0,57	0,86	1,15

Source: Eckert & Ziegler AG, LBBW

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Percentage of companies within this rating category		
Buy	Hold	Sell
43.0 %	43.0 %	13.9 %

Rating changes of the last 12 months: none

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