3 April 2007

Equity Research Institutionals

Company

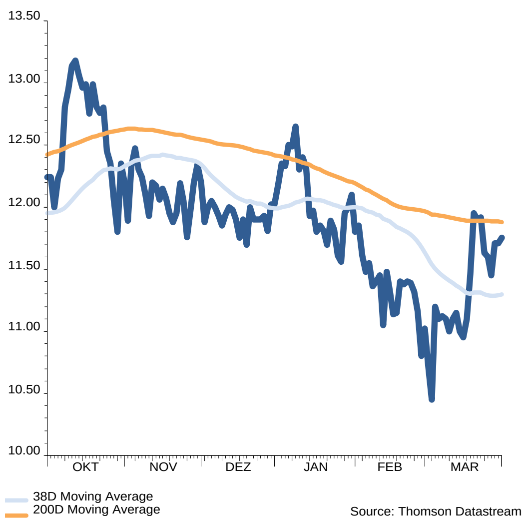
Flash

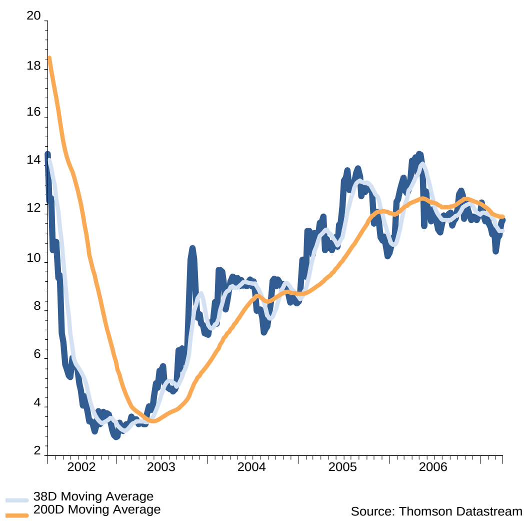
Eckert & Ziegler

Rating **Buy**

All eyes on the future

- Further revenue and earnings increase targeted for 2007
- Recovery tendency in the Radiopharmaceutical segment
- Opportunistic acquisition strategy
- Exit from SpondylAT burdened FY 2006 result





Buy

Target price: € 17.00
Price: € 11.78
04/03/07
12:00 h

Last rating/Target Pr.:
Buy /€ 16.50
Last analysis:
11/07/2006
S&P rating: n.a.
Medical Technology
Number of shares:
3.3 m
Market capitalisation:
€ 36 m
Index: Tech All Share
Index weight: 0.06 %
Beta: 1.60

Accounting:
IFRS
Calendar:
on 08.05.2007
Q1/07
Dividend 2007e:
0.30 €

ISIN: DE0005659700
Bloomberg: EUZ GY
Reuters: EUZG.DE

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Eckert & Ziegler

04/03/2007

Topic: 2006 financial statements

All eyes on the future

The 2006 financial statements of Eckert & Ziegler met our expectations. The exit from the development project, SpondylAT, burdened the result in the fourth quarter. The management is optimistic for the current fiscal year and expects an ongoing revenue and earnings increase. The 2006 loss-maker - the Radiopharmaceutical segment – should recover in 2007. We have adjusted our valuation model for the current circumstances and reiterate our Buy rating for the Eckert & Ziegler share. Our positive view is also a result of the low valuation multiples, for example a 2008 PER in the single-digits.

Share ratio	Earnings per share **new** €	old €	EV/Sales	EV/EBITDA	PER
2005	**0.51**	0.51	0.9	5.5	23.0
2006	**0.71**	0.76	0.7	4.0	16.9
2007e	**0.95**	0.91	0.6	3.4	12.2
2008e	**1.16**	1.15	0.5	3.0	9.7

Company ratios	Sales m €	EBITDA m €	EBIT m €	EBIT-Margin	Net result m €
2005	41.8	6.4	2.5	6.1 %	1.6
2006	50.4	10.4	5.9	11.7 %	2.2
2007e	55.6	10.8	5.9	10.6 %	3.0
2008e	61.2	11.7	6.6	10.8 %	3.6

- The lapsed fiscal year showed a pleasing performance. Revenues increased by 20.5% to € 50.4 m (LBBWe: € 50.2 m), EBIT (acc. to the def. of Eckert & Ziegler: operating profit) rose to € 5.9 m. However, the new segment, Radiopharmaceuticals, posted a loss because of the withdrawal from the rheumatism drug SpondylAT.
- In 2007 the Berlin-based company is targeting a revenue increase of 10% to € 55 m (LBBWe: € 55.6 m) and a rise in EPS to € 0.9 (LBBWe: € 0.95, 2005: € 0.71). This tendency is also favoured through the omission of burdening factors from 2006.
- In 2007 portfolio optimisation should be pushed ahead with. The withdrawal from non-strategic peripheral activities and the opportunistic acquisition strategy is also a part of this.

Company profile

Isotopic producer based in Berlin

- Eckert & Ziegler is a globally active company in the field of isotopic technology and acts as a holding company for a number of specialised subsidiaries. The latter work in the field of processing radioisotopes as well as the development, manufacture and distribution of isotopic-technical components, medical equipment or related products. The Berlin-based firm's products are used in the industrial and medical field, to develop radiation sources for detection equipment, but also to be used as therapeutic products in the treatment of cancer. Eckert & Ziegler is comprised of the segments Nuclear Medicine and Industry (2006 revenues: € 25 m), Therapy (€ 20 m) and Radiopharmaceuticals (€ 5 m). The latter segment was only just spun-off from the Nuclear Medicine and Industry segment in 2006. Its products and services are concentrated on radiopharmaceutical applications in Nuclear Medicine.

High market shares
Mature markets
Innovation leader

- Eckert & Ziegler is active in niche markets where the company has a market share of more than two thirds in sub-markets. These markets are usually comparatively small and mature, which means they only show moderate growth. In these fields Eckert & Ziegler stands out as the innovation leader.

Review of 2006

Key data 2006

- The 2006 financial statements show the following key data:

€mn	2006	2005	Δ in %	2006 LBBWe
Revenues	**50.4**	**41.8**	**20.5%**	**50.2**
EBIT	**5.9**	**2.9**	**103.9%**	**5.6**
EBIT margin	*11.7 %*	*6.9 %*		*11.2 %*
Net profit	**2.2**	**1.6**	**39.7%**	**2.4**
Net profit margin	*4.4 %*	*3.8 %*		*4.8 %*
EPS (€)	**0.71**	**0.51**	**39.1%**	**0.76**

Source: Eckert & Ziegler AG, LBBW

SpondylAT drain

- The exit from the development project SpondylAT for the treatment of Morbus Bechterew was a big burdening factor in 2006. This step was revealed to the capital market in December 2006. Earlier talks with the Federal Institute for Drugs and Medical Devices (BfArM) were decisive in this regard, as the institute insisted that it would only approve a SpondylAT clinical study under strict conditions and with minor indications. The exit led to a burden of € -0.19 per share (or € 0.6 m net). We had already referred to the uncertainty factor "SpondylAT" in past studies.

2006 revenues: +20%

- In 2006 Eckert & Ziegler managed to increase revenues by a good 20% to € 50.4 m (LBBWe: € 50.2 m). However, this included a basis effect, as the newly acquired businesses were not consolidated for the entire 12 months in 2005. Organic growth still amounted to 10% and the gross margin increased from 44% to 47%.

EBIT swing

Q4 better than expected

- EBIT doubled to € 5.9 m. This does not include the costs associated with the withdrawal from the development of the rheumatism drug SpondylAT. Our previous full-year estimate of € 4.1 m was based on a continuation of the development project and assumed a loss of € -1.5 m. This yields an adjusted 2006 EBIT estimate of € 5.6 m. Excluding the SpondylAT effect, the fourth quarter saw a better performance than we had previously thought.

"Problem child" Radiopharmaceuticals

- The individual segments contributed differently to the reported EPS of € 0.71. The Nuclear Medical and Industrial Metrology segment proved the most successful segments with an EPS contribution of € 0.92. In the Therapy segment EPS reached € 0.27. The new segment, Radiopharmaceuticals, was the problem child, where Eckert & Ziegler had to post a loss of € –0.51 per share. High development costs for the synthesis equipment family, Modular-Lab, had a negative impact, among others, as well as the exit from the rheumatism drug SpondylAT.

Higher taxes + minorities

- The reported net income of € 2.2 m (LBBWe. € 2.4 m) was burdened by a higher tax rate of 34% and higher minority interests of € 324 thousand. The higher value of minority interests has been a result of a positive performance in the industrial products that are produced by companies holding minority shares.

Dividend of € 0.25

- At the AGM on 12 June 2007 a dividend payment of € 0.25 per share should be proposed for FY 2006. This yields a dividend yield of 2.1% based on the year-end share price of € 12.02. The pay-out ratio amounts to 35.2%.

Sensitive to currency fluctuations

- Eckert & Ziegler is pretty much affected by currency fluctuations. As a result, the increase of the Euro against the US$ and Yen had a burdening effect.

Outlook 2007

Revenue increase of 10%

In 2007 earnings should increase further

- Eckert & Ziegler expects revenues to increase by 10% to € 55 m (LBBWe: € 55.6 m). Furthermore, earnings are anticipated to grow further with a rise of EPS to € 0.90 (LBBWe: € 0.95). Earnings benefit from the following points:

  1. **Drop in extraordinary costs**: A withdrawal from the development project such as the withdrawal from SpondylAT in 2006 should not be on the agenda anymore.
  2. **Recovery of the 2006 problem child, "Radiopharmaceuticals"**: The start-up losses will probably be reduced further. This trend is being supported by positive indications in the thus far difficult German market. PET diagnostics for certain types of cancer should therefore be reimbursed by the compulsory health insurance funds in the ambulant field. Modular equipment for composition is set to make its first positive profit contributions. This field refers to parts of the modular system of equipment ModularLab for the automated composition of radiopharmaceuticals and chemicals.

3. **Product innovations:** The market launch of a new piece of tumour radiation equipment (PDR) will take place in the therapy segment in the summer. Smaller development projects are on the agenda in the nuclear medical segment and industrial metrology.

Portfolio optimisation

Continual portfolio optimisation

- In 2007 another portfolio optimisation is on Eckert & Ziegler's agenda. The company strives to accelerate the sale of strategic non-core activities on the one hand, while it aims to make selective acquisitions on the other. The company is well prepared for acquisitions with liquid funds of € 4.7 m and marketable securities of € 1.1 m on the 2006 balance sheet. The company could take on debt should the financial needs increase the liquid funds. In 2006 Eckert & Ziegler only exhibited a gearing of 14% with an equity ratio of 57%. In our view the Berlin company should be able to shoulder acquisitions in the region of € 15 – 20 m without any problems as far as balance sheet issues are concerned.

Acquisitions at a price of € 15-20 m should go without problems

Date	Acquired company	Additional information
March 2nd, 2005	EURO-PET Berlin Zyklotron GmbH	Acquisition of 70 % of the company Cash acquisition No price revealed Nuclearmedical generics/radiopharmaceutical products
June 30th, 2005	f-con Europe GmbH	Acquisition of 51 % of the company Revenues of app. € 3 m with "moderate profitability" Headcount of 10 Contrast agents for PET
August 11th, 2005	Analytics Inc. (USA)	Acquisition of 100 % of the company Products for the surveillance of nuclear power plants Calibration sources for nuclear medicine Revenues of app. USD 3 m with a double-digit EBT-margin Financed by a vendor note
September 15th, 2005	SpondylAT by Altmann	Radioactive therapy to treat Morbus Bechterew Price up to € 1.6 m with additional requirements to Altmann Conditional approval by BfArM until end of 2005 Clinical Phase III study required
January 1th, 2006	Radiopharmacaproduction by Charité	better cooperation in nuclear medicine

Source: Eckert & Ziegler AG, LBBW

"Management of residues"

In the past Eckert & Ziegler has often taken over parts of other companies which could no longer be operated profitably by them anymore. Eckert & Zielger would then integrate the acquired companies into the group and subsequently concentrate and streamline administration, sales and production. Eckert & Ziegler itself calls this proceeding the "management of residues". We estimate that the acquisition prices will remain below € 10 m as in the past.

Valuation

Valuation according to multiples

Data basis of comparable companies not satisfactory

Against the background of the ongoing lack of competitor data, we are sticking to our valuation approach of abstaining from a valuation according to multiples. The latter would require the existence of comparable companies and reliable data which are both not given to a satisfactory extent.

Discounted cash flow valuation

- The free cash flow forecasts can be split into three phases. The years 2007 to 2009 are underlying concrete cash flow forecasts. In phase two, which comprises the period from 2010 to 2016, we have calculated the free cash flows on the basis of value drivers. For the cash flows beyond 2017 we are assuming a terminal growth rate of 1.0%. Our DCF model is based on the following fundamental assumptions:

DCF model - assumptions	
Risk free interest rate	4.0 %
Market premium	4.9 %
Beta factor	1.60
Cost of equity	11.8 %
Cost of debt (after tax)	3.9 %
Equity ratio target	60.0 %
WACC	8.7 %
Terminal growth rate	1.0 %

Source: LBBW

- As far as the fundamental assumptions are concerned, we have only adjusted the risk free interest rate and the risk premium to the current market circumstances. The other assumptions are unchanged from our last Stock Information on Eckert & Ziegler.

- The free cash flow forecasts paints the following picture:

Free Cashflow (€m)	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e
Revenues	**55.6**	**61.2**	**65.4**	**69.4**	**73.5**	**77.9**	**82.6**	**87.6**	**92.8**	**98.4**
Grwoth (yoy)	*10.4 %*	*10.0 %*	*7.0 %*	*6.0 %*	*6.0 %*	*6.0 %*	*6.0 %*	*6.0 %*	*6.0 %*	*6.0 %*
EBIT	5.9	6.6	7.5	8.5	8.8	9.4	9.9	10.5	11.1	11.8
EBIT margin	*10.6 %*	*10.8 %*	*11.5 %*	*12.3 %*	*12.0 %*	*12.0 %*	*12.0 %*	*12.0 %*	*12.0 %*	*12.0 %*
Taxes	1.8	2.2	2.6	3.0	3.2	3.4	3.6	3.8	4.0	4.3
Tax rate	*36.0 %*	*36.0 %*	*36.0 %*	*36.0 %*	*36.0 %*	*36.0 %*	*36.0 %*	*36.0 %*	*36.0 %*	*36.0 %*
Depreciation/Amortisation	4.9	5.1	5.4	5.7	5.1	5.5	5.8	6.1	6.5	6.9
to revenues	*8.8 %*	*8.4 %*	*8.2 %*	*8.2 %*	*7.0 %*	*7.0 %*	*7.0 %*	*7.0 %*	*7.0 %*	*7.0 %*
Provisions	4.4	4.8	5.3	5.8	4.4	4.7	5.0	5.3	5.6	5.9
to revenues	*7.9 %*	*7.9 %*	*8.1 %*	*8.4 %*	*6.0 %*	*6.0 %*	*6.0 %*	*6.0 %*	*6.0 %*	*6.0 %*
Change	0.4	0.4	0.5	0.5	-1.4	0.3	0.3	0.3	0.3	0.3
Cashflow from operating activiti	**9.4**	**10.0**	**10.8**	**11.8**	**9.4**	**11.7**	**12.4**	**13.2**	**13.9**	**14.8**
Investments	3.6	4.0	4.4	4.8	4.4	4.7	5.0	5.3	5.6	5.9
to revenues	6.5 %	6.5 %	6.7 %	7.0 %	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %
Working Capital	16.1	17.5	19.1	20.8	20.6	21.8	23.1	24.5	26.0	27.6
to revenues	28.9 %	28.6 %	29.1 %	30.0 %	28.0 %	28.0 %	28.0 %	28.0 %	28.0 %	28.0 %
Change	2.9	1.4	1.6	1.7	-0.2	1.2	1.3	1.4	1.5	1.6
Free Cashflow	**2.8**	**4.5**	**4.9**	**5.2**	**5.2**	**5.8**	**6.1**	**6.5**	**6.9**	**7.3**

Source: LBBW

- The DCF valuation yields a fair value of € 22.

Calculation of share value (€mn)	
Present value planned Free Cashflows	34.9
Present value Terminal Value	40.9
Enterprise Value	**75.8**
Ratio Terminal Value to Enterprise Value	*54.0 %*
Net financial debt	4.9
Minorities	0.4
Provisions for pensions	0.1
Fair value	**70.4**
Number of shares (mn)	3.3
Fair value per share (€)	**21.65**

Source: LBBW

- We have conducted a sensitivity analysis on the basis of this fair value and this has resulted as follows:

Sensitivity analysis				
Value per share (€)		**Discounting rate**		
		7.7 %	*8.7 %*	*9.7 %*
	0.0 %	22.09	20.20	18.63
Terminal value growth	*1.0 %*	23.98	**21.65**	19.78
	2.0 %	26.54	23.54	21.24

Source: LBBW

Recommendation

DCF analysis and multiples show low valuation

- Our DCF analysis and valuation according to multiples indicates a clear undervaluation of Eckert & Ziegler. As such, the company is only valued at a single-digit PER on the basis of 2008.

Price target of € 17

- Nevertheless, we do not expect the market to move in the direction of the fair value of € 22 within the investment horizon of 6 months. Although the uncertainty regarding the development project, SpondylAT, is over, the market may, all the same, want to see an operating progress of the company first, before it grants higher share prices. We are applying a discount of 25% from the fair value and set our new price target at € 17.

Profit & Loss Account	2005	2006	2007e	2008e	2009e
€mn					
Revenues	**41,8**	**50,4**	**55,6**	**61,2**	**65,4**
Cost of Sales	-23,3	-26,5	-29,2	-32,1	-34,0
Gross Profit	**18,5**	**23,9**	**26,4**	**29,1**	**31,4**
Margin	*44,2%*	*47,5%*	*47,5%*	*47,5%*	*48,0%*
R&D Expenses	-0,5	-0,3	-0,6	-0,6	-0,7
G&A Expenses	-16,2	-19,0	-19,9	-21,9	-23,2
Other Income	0,8	1,3	0,0	0,0	0,0
EBITDA	**6,4**	**10,4**	**10,8**	**11,7**	**12,9**
Margin	*15,4%*	*20,7%*	*19,4%*	*19,2%*	*19,7%*
Depreciation and Amortisation	-3,9	-4,5	-4,9	-5,1	-5,4
EBIT	**2,5**	**5,9**	**5,9**	**6,6**	**7,5**
Margin	*6,1%*	*11,7%*	*10,6%*	*10,8%*	*11,5%*
Net Financial Income/Expense	-0,3	-1,1	-0,8	-0,5	-0,4
EBT	**2,2**	**4,7**	**5,1**	**6,1**	**7,1**
Margin	*5,3%*	*9,4%*	*9,2%*	*9,9%*	*10,9%*
Income Taxes	-0,7	-1,6	-1,8	-2,2	-2,6
EAT	**1,5**	**3,1**	**3,3**	**3,9**	**4,6**
Margin	*3,6%*	*6,2%*	*5,9%*	*6,4%*	*7,0%*
Extraordinaries	0,0	-0,6	0,0	1,0	2,0
Minorities	0,1	-0,3	-0,3	-0,3	-0,3
Net Profit	**1,6**	**2,2**	**3,0**	**3,6**	**4,3**
Margin	*3,8%*	*4,4%*	*5,3%*	*5,9%*	*6,6%*
Earnings per share before extraordinaries (€)	**0,51**	**0,90**	**0,95**	**1,15**	**1,36**
Earnings per share before minorities(€)	**0,48**	**0,81**	**1,04**	**1,24**	**1,45**
Earnings per share before extraordinaries and minorities (€)	**0,48**	**1,00**	**1,04**	**1,24**	**1,45**
Earnings per share (€)	**0,51**	**0,71**	**0,95**	**1,15**	**1,36**

Source: Eckert & Ziegler AG, LBBW

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Percentage of companies within this rating category		
Buy	Hold	Sell
48.2 %	37.6 %	14.3 %

Rating History

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

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