

## Buy

Target price: € 16.50

Price: € 14.45

05/08/06

5:30 p.m.

Last rating/Target Pr.:

Buy /€ 16.50

Last analysis:

03/31/2006

S&amp;P rating: n.a.

Medical Technology

Number of shares:

3,3,25 m

Market capitalisation:

€ 47.0 m

Index: Tech All Share

Index weight: 0.09 %

Beta: 1.60

Accounting:

IFRS

Calendar: AGM on

05/30/2006

Dividend 06e: €0.20

ISIN: DE0005659700

Bloomberg: EUZ GY

Reuters: EUZG.DE

Dr. Alexander Burger

PhD in Economics

MSc in Economics

Investment analyst

Tel. +49 7 11 1 27-7 40 29

alexander.burger@LBBW.de

## Equity Research

Landesbank Baden-

Württemberg

Am Hauptbahnhof 2

70173 Stuttgart

[www.LBBW.de](http://www.LBBW.de)

## Eckert &amp; Ziegler

05/09/2006

Event: Telephone conference on Q1 2006

## Commendable Q1

Eckert & Ziegler (EUZ) was able to present quite commendable Q1 financials, which exceeded our expectations on all counts. However, we believe that EUZ will incur higher R&D expenses, over the course of this year, for the approval of SpondylAT. This means that we continue to feel secure in our forecasts for the full fiscal year. We are leaving our forecasts, our rating and our target share price unchanged.

Share Data	EPS current €	EPS previous €	PSR	EV/EBITDA	PER
2005	0.51	-	1.1	7.7	28.2
2006e	0.57	0.57	0.9	6.7	25.5
2007e	0.86	0.86	0.8	5.4	16.8
2008e	1.15	1.15	0.7	4.6	12.6

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

- The company's sales growth, from €8.6m to €11.3m, surprised us positively. Here, the new acquisitions apparently had a greater impact than we expected.
- On the earnings side, the product mix – which was improved by the acquisitions – led to a considerably higher gross profit margin of 45.7% that clearly beat our assumption of a 43.5% gross profit margin.
- The R&D costs of €0.1m, which EUZ booked during the first quarter of 2006, were only one quarter of what we expected. We had assumed that the expenditures would increase due to the efforts to gain approval for SpondylAT. This effect will now apparently be pushed out into a later quarter, but we believe that it cannot be avoided. According to management, it will be about €1.0m during 2006.
- The company's balance sheet performance should also be positively noted. Accounts receivable and inventories were able to be reduced and debt continued to be converted from short term into long term debt. EUZ's management characterises this performance as essentially sustainable, given that controlling net working capital also includes bonus agreements with the responsible personnel.

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

€mn	Q1 2005	Q1 2006e	Q1 2006
<b>Revenues</b>	<b>8,6</b>	<b>10,5</b>	<b>11,3</b>
y-o-y		22,8 %	31,6 %
<b>Gross profit</b>	<b>3,4</b>	<b>4,6</b>	<b>5,2</b>
y-o-y		36,3 %	53,3 %
<i>Gross margin</i>	<i>39,2 %</i>	<i>43,5 %</i>	<i>45,7 %</i>
<b>EBITDA</b>	<b>1,3</b>	<b>1,0</b>	<b>2,1</b>
y-o-y		-19,6 %	65,9 %
<i>EBITDA margin</i>	<i>15,0 %</i>	<i>9,8 %</i>	<i>19,0 %</i>
<b>EBIT</b>	<b>0,4</b>	<b>0,0</b>	<b>1,0</b>
y-o-y		-98,3 %	145,1 %
<i>EBIT margin</i>	<i>4,9 %</i>	<i>0,1 %</i>	<i>9,1 %</i>
<b>Net profit</b>	<b>0,5</b>	<b>0,0</b>	<b>0,7</b>
y-o-y		-108,4 %	40,1 %
<i>Net profit margin</i>	<i>-</i>	<i>neg.</i>	<i>5,8 %</i>
<b>EPS (€)</b>	<b>0,15</b>	<b>-0,01</b>	<b>0,21</b>

Quelle: Eckert &amp; Ziegler AG

- With respect to making a year-on-year comparison, with Q1 2005, it should be noted that last year's financials were adjusted for IFRS. This means that slight discrepancies result with Q1 2005 reporting.

## Recommendation

- EUZ released fiscal year guidance of €50m in sales, which is in-line with our forecast. With respect to earnings per share, EUZ expects €0.75; we are far more conservative here with an estimate of €0.57. The reason we have done this is because of management's admission that it wants to continue to opportunistically pursue its acquisition strategy. Moreover, we also believe that there is a risk that BfArm's requirements to approve SpondylIAT could be more rigorous than previously expected. This could result in the necessity of higher expenses.
- We do not currently believe that there is any reason to change our forecasts, our rating or our target share price and continue to recommend EUZ's share with a Buy, at a target share price of €16.50.

**EUZ's sales guidance is in-line with our forecast; more optimistic on earnings**

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

Profit & Loss Account	2004	2005	2006e	2007e	2008e
€mn					
<b>Revenues</b>	<b>35,5</b>	<b>41,8</b>	<b>50,2</b>	<b>60,2</b>	<b>66,2</b>
Cost of Sales	-19,2	-23,3	-27,1	-31,9	-34,4
<b>Gross Profit</b>	<b>16,3</b>	<b>18,5</b>	<b>23,1</b>	<b>28,3</b>	<b>31,8</b>
<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
<b>EBITDA</b>	<b>7,2</b>	<b>6,4</b>	<b>7,4</b>	<b>9,1</b>	<b>10,8</b>
<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
<b>EBIT</b>	<b>3,4</b>	<b>2,5</b>	<b>3,3</b>	<b>4,8</b>	<b>6,3</b>
<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
<b>EBT</b>	<b>3,6</b>	<b>2,2</b>	<b>2,9</b>	<b>4,5</b>	<b>5,9</b>
<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
<b>EAT</b>	<b>2,3</b>	<b>1,5</b>	<b>1,8</b>	<b>2,7</b>	<b>3,6</b>
<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
<b>Net Profit</b>	<b>3,3</b>	<b>1,6</b>	<b>1,8</b>	<b>2,7</b>	<b>3,6</b>
<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
<b>Earnings per share (€)</b>	<b>1,08</b>	<b>0,51</b>	<b>0,57</b>	<b>0,86</b>	<b>1,15</b>

Source: Eckert &amp; Ziegler AG, LBBW

Please note

This research report is impartial investment research. A copy of our policy on impartial investment research is available on request. Please note that the individuals who prepared this research report may also be involved in the preparation of non-impartial research.

This research report and the information contained therein is furnished and has been prepared solely for information purposes by LBBW. It is furnished for your private information with the express understanding, which recipient acknowledges, that it is not an offer or solicitation to buy, hold or sell, or a means by which such securities or related derivatives may be offered or sold.

This research report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this research report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) of the United Kingdom (the "Financial Promotion Order"); or (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this research report relates is available only to such persons and will be engaged in only with such persons. Persons who are not relevant persons should not rely on this research report.

The information in this report has been obtained by LBBW from sources reasonably believed to be reliable. LBBW can not verify such information, however, and because of the possibility of human or mechanical error by our sources, LBBW or others, no representation is made by LBBW that the information contained in this report is accurate in all material respects, reliable or complete. LBBW does not accept any liability for the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. None of LBBW, its affiliates, directors, officers or employees shall have any liability whatsoever for any indirect or consequential loss or damage arising from any use of this report. The recommendations contained in this report are statements of opinion and not statements of fact. Changes to assumptions, opinions and estimates may be made without notice and may have a material impact on any performance detailed.

Percentage of companies within this rating category		
Buy	Hold	Sell
41.4 %	44.8 %	13.8 %

#### Rating changes of the last 12 months

Date	Rating
------	--------

Historic information on performance is not indicative of future performance. LBBW may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and LBBW is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. However, where a recommendation in a research report differs from the recommendations in this report, concerns the same security, derivative or issuer and is issued within twelve months of this report, LBBW will indicate clearly and prominently such change and the date of this report in the new report.

Nothing in this report constitutes legal, accounting or tax advice. This report has no regard to the specific investment objectives, financial situation or needs of any specific recipient. Investments in general involve some degree of risk. The investments discussed in this document may not be suitable for all recipients and an investor may not get back the amount originally invested. Recipients should make their own investment decisions based upon their own financial objectives and financial resources. If in doubt, prior to taking any investment decision recipients should contact an investment adviser. Where investment is made in currencies other than the investor's base currency, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Levels and bases for taxation may

change.

This document is intended for the benefit of market counterparties and intermediate customers (as detailed in the UK Financial Service Authority's rules).

**Distributed in the UK by LBBW, which is authorised and regulated by the Financial Services Authority.**

We draw attention to the fact that LBBW or a company associated with it have made an agreement on the production of financial analyses relating to the issuer or its financial instruments, and support the company in the market by entering buy or sell orders.