

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&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

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

Quelle: Eckert & 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					
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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Buy	Hold	Sell
41.4 %	44.8 %	13.8 %

Rating changes of the last 12 months

Date	Rating
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