



10 May 2007

Equity Research Institutionals

Company

Flash

Eckert & Ziegler

Rating

Buy (unchanged)

Buzz on the operating front

Earnings in Q1 2007 in line with our expectations ▶

Further reduction in Radiopharmaceutical losses ▶

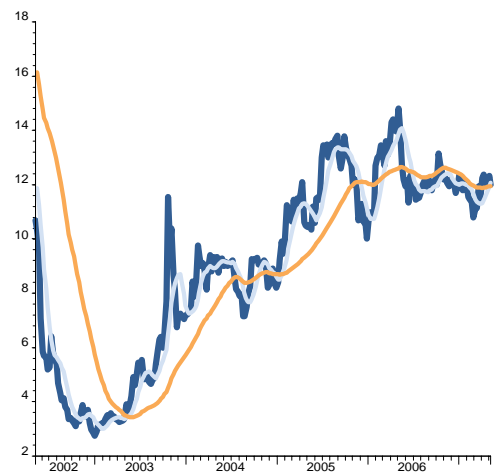
Nuclear Medicine and Industry the most profitable unit ▶

Company upbeat about the rest of the year ▶



— 38D Moving Average
— 200D Moving Average

Source: Thomson Datastream



— 38D Moving Average
— 200D Moving Average

Source: Thomson Datastream



Buy

Target price: € 17.00

Price: € 11.99

05/10/07

8:00 h

Last rating/Target Pr.:

Buy /€ 17.00

Last analysis:

04/10/2007

S&P rating: n.a.

Medical Technology

Number of shares:

3.3 m

Market capitalisation:

€ 38.4 m

Index: Tech All Share

Index weight: 0.06 %

Beta: 1.60

Accounting:

IFRS

Calendar:

on 06/12/07 AGM

Dividend 2007e: 0.30

ISIN: DE0005659700

Bloomberg: EUZ GY

Reuters: EUZG.DE

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Eckert & Ziegler

05/10/2007

Occasion: comments on Q1 results

Buzz on the operating front

Eckert & Ziegler has posted strong Q1 results, which are in line with our optimistic expectations. Sales were in fact slightly ahead of our estimate. The operating activities are doing well. The company is optimistic about the rest of the year and has confirmed its guidance for 2007. We are leaving our estimates unchanged and confirm our buy recommendation with a target price of € 17.

Share ratio	Earnings per share		EV/Sales	EV/EBITDA	PER
	new	old			
	€	€			
2006	0.71	0.71	0.9	4.3	16.6
2007e	0.95	0.95	0.8	4.0	12.4
2008e	1.16	1.16	0.7	3.7	10.2
2009e	1.36	1.36	0.7	3.3	8.7

Company ratios	Sales	EBITDA	EBIT	EBIT-Margin	Net result
	m €	m €	m €		m €
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	11.8	6.6	10.8 %	3.6
2009e	65.4	13.0	7.5	11.5 %	4.3

- All the key figures such as sales, EBIT and net profit showed two-digit growth in Q1. Once again, the biggest earnings contribution came from the Nuclear Medicine and Industry unit. There was a further reduction in the loss generated by Radiopharmaceuticals, but as yet no breakeven.
- The quarterly earnings were depressed by a weak US dollar since the bulk of sales generated with customers in North America is invoiced in USD.
- Eckert & Ziegler is positive about the rest of the year. The company expects a further rise in sales in implants for the treatment of prostate cancer, in industrial components and tumour radiation equipment. The company has confirmed its guidance for 2007, namely sales of € 55 m and an EPS of € 0.90.

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

Isotope manufacturer in Berlin

**Substantial market shares
Mature markets
Innovation leader**

Operating earnings: +21%

Earnings depressed by weak US dollar

Company profile

- Eckert & Ziegler has a global presence in the field of isotope technology and is a holding company for a number of specialised subsidiaries involved in processing radioisotopes and the development, manufacture and distribution of isotope-technology components, medical systems or related products. The company's products are used in industrial and medical applications, such as radiation sources for detection systems, but also as therapeutic products used in cancer treatment. Eckert & Ziegler includes the following units: Nuclear Medicine and Industry (sales of € 25 m in 2006), Therapy (€ 20 m) and Radiopharmaceuticals (€ 5 m). The latter was only hived off from the Nuclear Medicine and Industry unit in 2006 and its products and services concentrate on radiopharmaceutical applications in nuclear medicine.
- Eckert & Ziegler operates in niche markets where it has a market share of over two thirds in some market segments. These markets are mostly relatively small and mature, which means that they are only growing slowly, but Eckert & Ziegler is an innovation leader in these niches.

Review of Q1 2007

- Eckert & Ziegler's sales rose 15% to € 13.0 m in Q1 (LBBWe: € 12.8 m). The EBIT (operating earnings as per Eckert & Ziegler's definition) climbed 21% to € 1.3 m. The net profit was depressed yoy by a deterioration in the financial result and higher tax rate.

€mn	Q1 2007	Q1 2006	Δ in %	Q1 2007e
Revenues	13.0	11.3	15%	12.8
EBIT	1.3	1.1	18%	1.3
<i>EBIT margin</i>	<i>10.0%</i>	<i>9.7%</i>		<i>10.2%</i>
Net profit	0.76	0.65	16%	0.7
<i>Net profit margin</i>	<i>5.8%</i>	<i>5.8%</i>		<i>5.8%</i>
EPS (€)	0.24	0.21		0.22

Source: Eckert & Ziegler AG, LBBW

■ Nuclear Medicine and Industry:

Although sales in Nuclear Medicine and Industry rose by a nominal 11%, in real terms they were depressed by a weak US dollar, so that sales in fact only rose 2% to just under € 6 m. The segment made the biggest contribution to the net profit in Q1 at € 0.6 m.

Still on growth course**Q1 2007: still in the red****Guidance confirmed****Company upbeat****PET for lung cancer now also available in statutory, ambulatory health care****Trade fair presence****Risk factors**■ **Therapy:**

Sales in this unit rose 25% to € 5.4 m with a positive performance from the supply of tumour radiation systems (+27%) and a 20% increase in sales from implants for the treatment of prostate cancer. The Therapy segment contributed € 0.3 m to the net profit in Q1.

■ **Radiopharmaceuticals:**

Sales in the Radiopharmaceuticals unit rose by an imposing 44% to € 0.5 m, driven by both a rise in sales in the Modular-Lab product group and from contrast agents for positron emissions tomography (PET). However, on the operating front, the company's problem division from 2006 could not quite recover and still posted a loss of € -0.2 m.

Outlook

- Eckert & Ziegler has confirmed its guidance for FY 2007. The company is forecasting a 10% increase in sales to € 55 m (LBBWe: € 55.6 m), a net profit of € 2.8 m (LBBWe: € 2.97 m) and an EPS of € 0.90 (LBBWe: € 0.95).

- The company is upbeat about the rest of the year.

Positron emission tomography (PET) for diagnosing specific forms of lung cancer will now be available to patients with statutory health insurance not only in hospital, but also through statutory, ambulatory health care. In future, this is likely to have a positive impact on the earnings trend in the Radiopharmaceuticals unit. However, it is likely to take some time for the trend to feed through to Eckert & Ziegler's results and we do not therefore expect any significant increase in earnings until 2008 onwards. If PET is also approved for other types of cancer such as prostate cancer or even Alzheimer's, it could have an even greater impact on earnings.

Eckert & Ziegler exhibits at many international trade fairs such as in Montpellier. This is likely to boost the company in the current financial year, among other things on the back of the roll-out of an afterloader.

- However, the company has also drawn attention to potential risks in 2007.

As persistently weak US dollar to over € 1.35/USD, for example, is likely to depress the earnings trend. According to management, however, the exchange rate would only give cause for concern from above € 1.40/USD.

The German government is planning to cut the rate of corporate and other company taxes. As a result, the value of the loss carryovers could be reduced, leading to a write-off of deferred taxes.

Valuation

Multiples comparison

- A peer-group comparison still makes little sense in view of the scarcity of available data from competitors.

Discounted cash-flow valuation

- The free cash-flow forecast can be divided into three phases. The period 2007 to 2009 is based on concrete cash-flow projections. For phase two, which runs from 2010 to 2016, we have calculated our free cash-flow forecasts using value drivers. For the cash flows from 2017, we have assumed a terminal growth rate of 1.0%. The assumptions in our model have been upgraded. We now assume a risk-free interest rate of 4.2% and a risk premium of 4.7%. The other parameters are unchanged.

DCF model - assumptions	
Risk free interest rate	4.2 %
Market premium	4.7 %
Beta factor	1.60
Cost of equity	11.7 %
Cost of debt (after tax)	4.0 %
Equity ratio target	60.0 %
WACC	8.6 %
Terminal growth rate	1.0 %

Source: LBBW

- The free cash-flow projections are as follows:

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
<i>Growth (yoy)</i>	<i>10.4 %</i>	<i>10.0 %</i>	<i>7.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>
EBIT	5.9	6.6	7.5	8.5	8.8	9.4	9.9	10.5	11.1	11.8
<i>EBIT margin</i>	<i>10.6 %</i>	<i>10.8 %</i>	<i>11.5 %</i>	<i>12.3 %</i>	<i>12.0 %</i>	<i>12.0 %</i>	<i>12.0 %</i>	<i>12.0 %</i>	<i>12.0 %</i>	<i>12.0 %</i>
Taxes	1.8	2.2	2.6	3.0	3.2	3.4	3.6	3.8	4.0	4.3
<i>Tax rate</i>	<i>36.0 %</i>	<i>36.0 %</i>	<i>36.0 %</i>	<i>36.0 %</i>	<i>36.0 %</i>	<i>36.0 %</i>	<i>36.0 %</i>	<i>36.0 %</i>	<i>36.0 %</i>	<i>36.0 %</i>
Depreciation/Amortisation	4.9	5.2	5.5	5.7	5.1	5.5	5.8	6.1	6.5	6.9
<i>to revenues</i>	<i>8.8 %</i>	<i>8.5 %</i>	<i>8.3 %</i>	<i>8.3 %</i>	<i>7.0 %</i>	<i>7.0 %</i>	<i>7.0 %</i>	<i>7.0 %</i>	<i>7.0 %</i>	<i>7.0 %</i>
Provisions	4.4	4.8	5.3	5.8	4.4	4.7	5.0	5.3	5.6	5.9
<i>to revenues</i>	<i>7.9 %</i>	<i>7.9 %</i>	<i>8.1 %</i>	<i>8.4 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>
Change	0.4	0.4	0.5	0.5	-1.4	0.3	0.3	0.3	0.3	0.3
Cashflow from operating activities	9.4	10.0	10.9	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
<i>to revenues</i>	<i>6.5 %</i>	<i>6.5 %</i>	<i>6.7 %</i>	<i>7.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>	<i>6.0 %</i>
Working Capital	16.1	17.5	19.1	20.8	20.6	21.8	23.1	24.5	26.0	27.6
<i>to revenues</i>	<i>28.9 %</i>	<i>28.6 %</i>	<i>29.1 %</i>	<i>30.0 %</i>	<i>28.0 %</i>	<i>28.0 %</i>	<i>28.0 %</i>	<i>28.0 %</i>	<i>28.0 %</i>	<i>28.0 %</i>
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	4.6	4.9	5.3	5.2	5.8	6.1	6.5	6.9	7.3

Source: LBBW

- The DCF valuation gives a fair value of a good € 22.

No satisfactory data

Adjustment in assumptions
for our projections

Free cash flow trend

Calculation of share value (€mn)

Present value planned Free Cashflows	35.1
Present value Terminal Value	41.1
Enterprise Value	76.2
<i>Ratio Terminal Value to Enterprise Value</i>	<i>54.0 %</i>
Net financial debt	4.1
Minorities	0.4
Provisions for pensions	0.2
Fair value	71.6
Number of shares (mn)	3.3
Fair value per share (€)	22.02

Source: LBBW

Recommendation**Buzz on the operating front**

- Eckert & Ziegler has had a good start to 2007 with strong Q1 results. The operating divisions are on growth course. Even Radiopharmaceuticals – hitherto the company's problem division – has seen a further reduction in the loss and breakeven should soon be within sight.

Capital market still adopting wait-and-see approach

- The capital market is sticking to its wait-and-see approach and as a result, we do not expect Eckert & Ziegler's share price to come near the fair value of € 22 within the next six months. A surge in earnings in the Radiopharmaceuticals unit could spark off a rise in the share price.

Target price of € 17 confirmed

- We confirm our buy rating for Eckert & Ziegler with a target price of € 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
<i>Margin</i>	<i>44.2%</i>	<i>47.5%</i>	<i>47.5%</i>	<i>47.5%</i>	<i>48.0%</i>
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	11.8	13.0
<i>Margin</i>	<i>15.4%</i>	<i>20.7%</i>	<i>19.4%</i>	<i>19.2%</i>	<i>19.7%</i>
Depreciation and Amortisation	-3.9	-4.5	-4.9	-5.2	-5.5
EBIT	2.5	5.9	5.9	6.6	7.5
<i>Margin</i>	<i>6.1%</i>	<i>11.7%</i>	<i>10.6%</i>	<i>10.8%</i>	<i>11.5%</i>
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
<i>Margin</i>	<i>5.3%</i>	<i>9.4%</i>	<i>9.2%</i>	<i>9.9%</i>	<i>10.9%</i>
Income Taxes	-0.7	-1.6	-1.8	-2.2	-2.6
EAT	1.5	3.1	3.3	3.9	4.6
<i>Margin</i>	<i>3.6%</i>	<i>6.2%</i>	<i>5.9%</i>	<i>6.4%</i>	<i>7.0%</i>
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
<i>Margin</i>	<i>3.8%</i>	<i>4.4%</i>	<i>5.3%</i>	<i>5.9%</i>	<i>6.6%</i>
Earnings per share before extraordinaries (€)	0.51	0.90	0.95	1.16	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	1.16	1.36

Source: Eckert & Ziegler AG, LBBW

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Buy	Hold	Sell
46.1 %	40.9 %	13.0 %

Rating History

Date	Rating
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11/11/2003	Hold

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