

Buy

Target price:
€18.50

Price: €13.10
8 Aug 2005 5:30 pm

Previous rating:
Buy

Last analysis:
10.05.2005

S&P rating: n.r.

Medical technology

Number of shares:
3.25 million

Market capitalisation:
€ 42.6 million

Index: Tech All Share

Index weighting: 0.1 %

Beta: 1.60

Accounting:
US-GAAP

Dates:
Q3 on 8 Nov 2005
2005e dividend € 0.15

ISIN DE0005659700

Bloomberg: EUZ GR

Reuters: EUZG.DE

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Eckert & Ziegler

9 August 2005

Headed in the right direction.

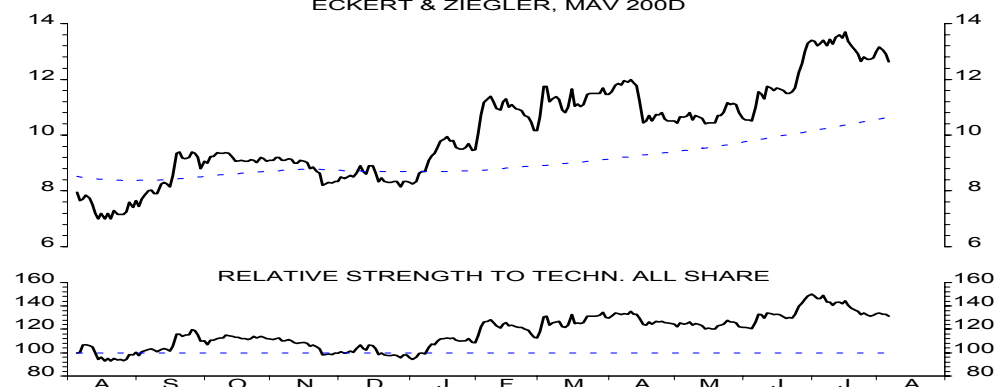
Eckert & Ziegler (EUZ) released its figures for the first half of 2005 today. With Q1 dragged down by delays in the delivery of equipment, the Company managed to recoup these losses in Q2. We reaffirm our forecasts and are adjusting our valuation model to take account of the latest figures. We reaffirm our Buy rating for EUZ and have raised our target price from € 18.00 to € 18.50.

Share Data	EPS current €	EPS previous €	PSR	EV/EBITDA	PER
2003*	0,25	0,25	1,3	7,2	47,1
2004*	0,74	0,74	1,2	6,3	17,7
2005e	0,55	0,55	1,0	5,4	23,6
2006e	0,72	0,72	0,9	4,8	18,3

Company Data	Revenues €m	EBITDA €m	EBIT €m	EBIT-Margin	Net Profit €m
2003*	29,2	5,9	2,2	7,5 %	0,8
2004*	34,5	6,8	3,2	9,2 %	2,3
2005e	40,7	7,9	4,1	10,0 %	1,8
2006e	47,0	8,9	4,9	10,5 %	2,3

*without one time exceptionals from SFAS 143 and changes of accounting principles

ECKERT & ZIEGLER, MAV 200D



Source: DATASTREAM

Highlights

- ++ Internationally renowned and established isotope specialist.
- + Further high growth potential for brachytherapy in Europe
- + Further growth via projected acquisitions
- Revenues postponed.
- Weak growth in sub-markets
- Uncertain profit forecast on the part of EZAG.

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

No multiple-based valuation

Company profile

- Eckert & Ziegler (EUZ) is a Berlin-based maker of isotopes. Its products are used for industrial and medical purposes, e.g. as a source of radiation for detection equipment as well as in therapeutic products for treating cancer (so-called seeds).

Valuation

Multiple-based valuation

- We have not carried out any multiple-based valuation for EZAG. Potentially comparable companies such as IBT or Theragenics are either still operating at a loss or reliable data required for a peer group comparison is not available.

Company	Currency	Price	EPS		PER		EV	EBITDA		EV/EBITDA	
			05e	06e	05e	06e		05e	06e	05e	06e
IBT	€	5,40	-0,08	0,18	neg.	30,0	43,1	1,2	2,6	35,9	16,7
Theragenics	USD	3,45	n.a.	n.a.	n.a.	n.a.	48,1	n.a.	n.a.	n.a.	n.a.
Eckert & Ziegler	€	13,10	0,55	0,72	23,6	18,3	42,6	7,9	8,9	5,4	4,8

Sources: Bloomberg; LBBW

Discounted cash flow method

- Our DCF model is based on the following assumptions:

DCF model - assumptions

Risk free interest rate	3,3 %
Market premium	5,8 %
Beta factor	1,60
Cost of equity	12,6 %
Cost of debt (after tax)	3,5 %
Equity ratio target	60,0 %
WACC	8,9 %
Terminal growth rate	1,0 %

Source: LBBW

- The risk-free interest rate and the risk premium have been adjusted to allow for current values; the other figures have not been changed since our last analysis.
- On the basis of a detailed five-year detailed plan and a five-year projection supported by growth drivers, the DCF calculation reads as follows:

Free Cashflow (€m)	2005e	2006e	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e
Revenues	40,7	47,0	51,7	55,3	59,2	63,3	67,8	72,5	77,6	83,0
<i>Growth (yoy)</i>	<i>18,1 %</i>	<i>15,5 %</i>	<i>10,0 %</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>	<i>7,0 %</i>
EBIT	4,1	4,9	5,4	5,8	6,2	6,3	6,8	7,3	7,8	8,3
<i>EBIT margin</i>	<i>10,0 %</i>	<i>10,5 %</i>	<i>10,5 %</i>	<i>10,5 %</i>	<i>10,5 %</i>	<i>10,0 %</i>	<i>10,0 %</i>	<i>10,0 %</i>	<i>10,0 %</i>	<i>10,0 %</i>
Taxes	1,9	2,2	2,4	2,4	2,6	2,5	2,7	2,9	3,1	3,3
<i>Tax rate</i>	<i>50,0 %</i>	<i>48,0 %</i>	<i>46,0 %</i>	<i>43,0 %</i>	<i>43,0 %</i>	<i>40,0 %</i>	<i>40,0 %</i>	<i>40,0 %</i>	<i>40,0 %</i>	<i>40,0 %</i>
Depreciation/Amortisation	3,8	4,0	4,2	4,4	4,6	4,4	4,7	5,1	5,4	5,8
<i>to revenues</i>	<i>9,3 %</i>	<i>8,4 %</i>	<i>8,1 %</i>	<i>7,9 %</i>	<i>7,8 %</i>	<i>7,0 %</i>	<i>7,0 %</i>	<i>7,0 %</i>	<i>7,0 %</i>	<i>7,0 %</i>
Provisions	4,7	5,2	5,7	6,3	6,9	7,0	7,5	8,0	8,5	9,1
<i>to revenues</i>	<i>11,6 %</i>	<i>11,1 %</i>	<i>11,1 %</i>	<i>11,4 %</i>	<i>11,7 %</i>	<i>11,0 %</i>	<i>11,0 %</i>	<i>11,0 %</i>	<i>11,0 %</i>	<i>11,0 %</i>
Change	0,4	0,5	0,5	0,6	0,6	0,0	0,5	0,5	0,6	0,6
Cashflow from operating activities	6,4	7,1	7,7	8,4	8,9	8,3	9,3	10,0	10,6	11,4
Investments	2,9	3,3	3,6	4,0	4,4	4,4	4,7	5,1	5,4	5,8
<i>to revenues</i>	<i>7,1 %</i>	<i>7,0 %</i>	<i>7,0 %</i>	<i>7,2 %</i>	<i>7,4 %</i>	<i>7,0 %</i>	<i>7,0 %</i>	<i>7,0 %</i>	<i>7,0 %</i>	<i>7,0 %</i>
Working Capital	10,9	11,7	12,5	13,6	14,7	15,8	16,9	18,1	19,4	20,8
<i>to revenues</i>	<i>26,9 %</i>	<i>24,8 %</i>	<i>24,1 %</i>	<i>24,5 %</i>	<i>24,9 %</i>	<i>25,0 %</i>	<i>25,0 %</i>	<i>25,0 %</i>	<i>25,0 %</i>	<i>25,0 %</i>
Change	0,9	0,8	0,8	1,1	1,2	1,1	1,1	1,2	1,3	1,4
Free Cashflow	2,6	3,1	3,3	3,3	3,3	2,7	3,4	3,7	3,9	4,2

Source: LBBW

**Fair value per share:
€ 24.83**

- This forecast, combined with an assumed final growth rate of 1.0 % produces a fair value of € 24.83 per share.

Calculation of share value (€mn)

Present value planned Free Cashflows	24,3
Present value Terminal Value	49,7
Enterprise Value	74,0
<i>Ratio Terminal Value to Enterprise Value</i>	<i>67,2 %</i>
Net financial debt	- 7,1
Minorities	0,2
Provisions for pensions	0,2
Disposable assets	0,0
Fair value	80,7
Number of shares (mn)	3,3
Fair value per share (€)	24,83

Source: LBBW

- We have subjected this figure to a sensitivity analysis, which produces the following result:

Sensitivity analysis

Value per share (€)	Discounting rate			
	7,9 %	8,9 %	9,9 %	
	0,0 %	25,07	23,12	21,53
Terminal value growth	1,0 %	27,27	24,83	22,90
	2,0 %	30,22	27,03	24,61

Source: LBBW

Recommendation

- We do not think that the fair value of € 24.83 calculated for the share will be achieved during our recommendation period. This is because of the still very broad range of EPS forecasts for the Company (€ 0.50 - € 0.80) and the tight market for the stock. For this reason, we have deducted a 25% discount from the fair value calculated and are raising our target price slightly from € 18.00 to € 18.50

Performance this fiscal year

	6M 2005	6M 2004	annual change	6M 2005 LBBWe	deviation
Revenues (€m)	18,8	16,8	18,1 %	18,7	0,5 %
EBIT (€m)	1,4	0,9	46,2 %	1,0	42,7 %
Net profit (€m)	0,8	0,4	100,0 %	0,8	-0,7 %
EPS (€)	0,24	0,13	91,9 %	0,24	1,4 %

Source: Eckert & Ziegler AG, LBBW

Production costs lower than expected

- EUZ's revenues fully lived up to our expectations. As well as this, EBIT exceeded our estimates as a result of the lower-than-expected production costs. On the other hand, our net earnings forecast was correct as tax payments were higher than expected.

Q1 problems solved

- Q1 was characterised by delays in delivering equipment due to regulatory obstacles in the target countries. These delays were made up for in Q2.

Commencement of production of radiopharmaceuticals in Italy

Outlook

- EUZ yesterday announced the commencement of production of radiopharmaceuticals in Italy. The contrast media for diagnosing cancer are being produced in conjunction with the local university clinic Policlinico di Milano.
- The production of radiopharmaceuticals marks the entry into a very interesting market for EUZ. According to the Company, the basic materials alone for the contrast media used in positron emission tomography (PET) have a global market value of € 400 mn. However, this should not be construed as suggesting that EUZ is on the verge of any major increases in revenues and earnings. For one thing, EUZ is merely in the initial throes of entering this market. For another, the PET market in particular is growing only slowly in Europe and hardly at all in Germany as the statutory health insurance funds have not yet agreed to cover the costs. In our view, it is not possible to predict whether, when and, if so, to what extent the cost reimbursement situation will change.

Entry into an interesting but difficult market

No information disclosed on the in-licensed radioactive generic

- In our view, a further interesting question is when EUZ is finally going to provide its investors with more detailed information on radioactively marked generic, which the Company inlicensed in a few months ago. So far, no information has been disclosed on the substance involved, the party it has been licensed from, the price and the indication for which it is to be used. To date, EUZ has merely stated that sales of the generic should generate additional revenues of around € 2 mn as of 2007.

Profit & Loss Account	2002	2003	2004e	2005e	2006e
€m					
Revenues	31,2	29,2	34,5	40,7	47,0
Cost of Sales	-16,0	-15,7	-18,1	-21,6	-25,4
Gross Profit	15,3	13,5	16,4	19,1	21,6
<i>Margin</i>	<i>48,9%</i>	<i>46,1%</i>	<i>47,5%</i>	<i>47,0%</i>	<i>46,0%</i>
R&D Expenses	-3,4	-2,2	-0,8	-1,4	-1,6
G&A Expenses	-11,3	-9,3	-12,5	-13,6	-15,0
Other Income	1,4	0,2	0,1	0,0	0,0
EBITDA	6,3	5,9	6,8	7,9	8,9
<i>Margin</i>	<i>20,0%</i>	<i>20,1%</i>	<i>19,7%</i>	<i>19,3%</i>	<i>18,9%</i>
Depreciation and Amortisation	-4,3	-3,7	-3,6	-3,8	-4,0
EBIT	2,0	2,2	3,2	4,1	4,9
<i>Margin</i>	<i>6,4%</i>	<i>7,5%</i>	<i>9,2%</i>	<i>10,0%</i>	<i>10,5%</i>
Net Financial Income/Expense	-1,1	-0,3	-0,2	-0,3	-0,3
EBT	0,9	1,9	3,0	3,8	4,7
<i>Margin</i>	<i>2,9%</i>	<i>6,4%</i>	<i>8,8%</i>	<i>9,3%</i>	<i>9,9%</i>
Income Taxes	-0,6	-1,0	-0,9	-1,9	-2,2
EAT	0,3	0,8	2,1	1,9	2,4
<i>Margin</i>	<i>1,1%</i>	<i>2,8%</i>	<i>6,2%</i>	<i>4,6%</i>	<i>5,2%</i>
Extraordinaries	0,0	-2,0	1,2	0,0	0,0
Minorities	0,0	-0,1	-0,1	-0,1	-0,1
Net Profit	0,3	-1,3	3,2	1,8	2,3
<i>Margin</i>	<i>1,1%</i>	<i>neg.</i>	<i>9,3%</i>	<i>4,3%</i>	<i>4,9%</i>
Earnings per share before extraordinaries (€)	0,11	0,25	0,66	0,54	0,71
Earnings per share before minorities(€)	0,11	-0,39	1,09	0,58	0,75
Earnings per share before extraordinaries and minorities (€)	0,11	0,28	0,70	0,58	0,75
Earnings per share (€)	0,11	-0,42	1,05	0,54	0,71

Source: LBBW

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Buy: The price potential of the share is at least 10%. **Hold:** The price potential of the share is between 0% and 10%. **Sell:** A negative price performance of the share is expected. Ratings relate to a time horizon of up to 6 months.

Ratings of the last 12 months

Date	Rating
2004-08-10	Buy
2004-10-20	Buy
2004-11-09	Buy
2005-02-02	Buy
2005-04-06	Buy
2005-05-10	Buy

Distribution of ratings in percent

Buy	Hold	Sell
42,3 %	41,8 %	16,0 %

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