LBBW **News Flash.**

Buy

Target price: € 19.50
Price: € 11.95
08/08/06
17:30 h

Last rating/Target Pr.: Buy /€ 16.50

Last analysis: 05/09/2006

S&P rating: n.a.

Medical Technology

Number of shares: 3.3 m

Market capitalisation: € 38.8 m

Index: Tech All Share

Index weight: 0.09 %

Beta: 1.60

Accounting: IFRS

Calendar: Quarterly report on 11/07/2006

Dividend 06e: 0.20 €

ISIN: DE0005659700

Bloomberg: EUZ GY

Reuters: EUZG.DE

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Eckert & Ziegler

08/08/2006

Reason for News Flash: Q2 financials comment

Core business proves to be the cash cow

EUZ's revenues in Q2 were slightly below our projection; we had expected the acquisitions to provide a greater boost to revenues. By contrast, EUZ topped our expectations at the earnings level, although this was also partly due to time delays with SpondylAT, on which the Company is pinning its hopes. The lower expenditure led to an increase in the Company's earnings per share guidance to more than € 0.70. We have revised our own forecast as well, and maintain our Buy recommendation while raising our target price from € 16.50 to € 19.50.

Share Data	EPS current €	EPS previous €	PSR	EV/EBITDA	PER
2005	0,51	-	0,9	6,4	23,3
2006e	0,76	0,57	0,8	4,8	15,7
2007e	0,91	0,86	0,6	4,1	13,2
2008e	1,15	1,15	0,6	3,6	10,4

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	8,6	4,1	8,2 %	2,4
2007e	60,2	10,1	5,5	9,1 %	2,9
2008e	68,3	11,5	6,6	9,6 %	3,6

- The Nuclear Medicine and Industry division, the core business of EUZ, proved to be the cash cow. With sales growth of 15.7 % to € 12.4 million, the division generated a return on sales of 10.9 % (before minorities).
- The performance of the Therapy division was, rather disappointingly, weak. Revenues for this division rose by only 6.5 % to € 8.8 million with a 3.8 % return on sales (before minorities).
- The Radiopharmaceuticals division did not exist in its present form in the same quarter of last year. As we see it, however, the fact that this division broke even (before minorities) despite the integration costs, is encouraging.
- The delays in the discussions with the German Federal Institute for Drugs and Medical Devices (BfArm) surrounding the Phase III trials for SpondylAT will initially entail cost savings, which have prompted the Company to raise its earnings guidance.

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

Valuation

Multiple-based valuation

- For the reasons set out in a previous study (particularly the scarcity of currently available information on the Company's competitors), we continue avoid the use of a multiple-based valuation.

Discounted cash flow valuation

DCF model - assumptions	
Risk free interest rate	3,9 %
Market premium	5,9 %
Beta factor	1,60
Cost of equity	13,3 %
Cost of debt (after tax)	3,8 %
Equity ratio target	60,0 %
WACC	9,5 %
Terminal growth rate	1,0 %

Source: LBBW

- We have revised our forecast for EUZ and have, in our DCF model, adjusted the risk-free interest rate and market risk premium to current conditions.
- The DCF model with a five-year detailed phase and a five-year projection phase based on growth drivers derived from it reads as follows:

Free Cashflow (€m)	2006e	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e
Revenues	**50,2**	**60,2**	**68,3**	**73,1**	**77,5**	**82,1**	**87,0**	**92,3**	**97,8**	**103,7**
Grwoth (yoy)	*20,0 %*	*20,0 %*	*13,5 %*	*7,0 %*	*6,0 %*	*6,0 %*	*6,0 %*	*6,0 %*	*6,0 %*	*6,0 %*
EBIT	4,1	5,5	6,6	8,0	9,7	9,9	10,4	11,1	11,7	12,4
EBIT margin	*8,2 %*	*9,1 %*	*9,6 %*	*11,0 %*	*12,5 %*	*12,0 %*	*12,0 %*	*12,0 %*	*12,0 %*	*12,0 %*
Taxes	1,1	1,9	2,3	3,1	3,8	3,9	4,2	4,4	4,7	5,0
Tax rate	*29,3 %*	*37,2 %*	*36,5 %*	*40,0 %*	*40,0 %*	*40,0 %*	*40,0 %*	*40,0 %*	*40,0 %*	*40,0 %*
Depreciation/Amortisation	4,5	4,7	4,9	5,2	5,4	5,7	6,1	6,5	6,8	7,3
to revenues	*8,9 %*	*7,8 %*	*7,2 %*	*7,1 %*	*7,0 %*	*7,0 %*	*7,0 %*	*7,0 %*	*7,0 %*	*7,0 %*
Provisions	3,0	3,3	3,6	4,0	4,4	4,9	5,2	5,5	5,9	6,2
to revenues	*6,0 %*	*5,5 %*	*5,3 %*	*5,5 %*	*5,7 %*	*6,0 %*	*6,0 %*	*6,0 %*	*6,0 %*	*6,0 %*
Change	-0,2	0,3	0,3	0,4	0,4	0,5	0,3	0,3	0,3	0,4
Cashflow from operating activiti	**7,2**	**8,6**	**9,6**	**10,5**	**11,7**	**12,2**	**12,7**	**13,4**	**14,2**	**15,1**
Investments	3,3	3,6	4,0	4,4	4,8	4,9	5,2	5,5	5,9	6,2
to revenues	6,6 %	6,0 %	5,8 %	6,0 %	6,2 %	6,0 %	6,0 %	6,0 %	6,0 %	6,0 %
Working Capital	12,2	15,1	16,4	17,8	19,4	20,5	21,8	23,1	24,5	25,9
to revenues	24,3 %	25,0 %	24,0 %	24,4 %	25,1 %	25,0 %	25,0 %	25,0 %	25,0 %	25,0 %
Change	0,8	2,9	1,3	1,5	1,6	1,1	1,2	1,3	1,4	1,5
Free Cashflow	**3,1**	**2,1**	**4,2**	**4,6**	**5,3**	**6,2**	**6,2**	**6,6**	**7,0**	**7,4**

Source: LBBW

- Taking into account an anticipated perpetual growth rate of 1.0 %, this yields a fair value of € 19.87 per share.

Calculation of share value (€mn)	
Present value planned Free Cashflows	32,1
Present value Terminal Value	36,0
Enterprise Value	**68,1**
Ratio Terminal Value to Enterprise Value	*52,9 %*
Net financial debt	3,1
Minorities	0,3
Provisions for pensions	0,2
Fair value	**64,6**
Number of shares (mn)	3,3
Fair value per share (€)	**19,87**

Source: LBBW

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

Sensitivity analysis				
Value per share (€)		**Discounting rate**		
		8,5 %	*9,5 %*	*10,5 %*
	0,0 %	20,32	18,71	17,34
Terminal value growth	*1,0 %*	21,79	**19,87**	18,28
	2,0 %	23,71	21,34	19,44

Source: LBBW

Recommendation

- As we see it, the fair value derived from the DCF model is a very suitable basis for a new target price.

Buy with a target price of € 19.50

- We have raised our target price from € 16.50 to € 19.50 and reaffirm our Buy rating for EUZ.

Trends in the current business year

Unpleasant revenue surprise

- The revenue trends in the second quarter and in the first half came as an unpleasant surprise to us. After generating revenue growth of 31.6 % in Q1, the comparable figure in Q2 stood at only 16.2 %. We had projected stronger growth from the acquisitions and from the Therapy division.

Costs well under control

Delays with

- At the earnings level, however, EUZ has the cost side well under control, despite the integration efforts, as evidenced by the fact that our expectations were clearly exceeded. It is worth mentioning, however, that we had projected higher R&D expenditure in Q2. This was due to delays in talks with the BfArm about phase III trials of the drug SpondylAT for the treatment of Ankylosing Spondylitis. As a result, the projected costs for a

SpondylAT

corresponding clinical trial were not incurred. This prompted EUZ to raise its earnings per share guidance: instead of a target corridor between € 0.50 and € 0.70, it now projects EPS in excess of € 0.70. We have incorporated this upwards revision in our own forecasts.

Higher earnings forecast

Outlook

EUZ is holding on to the Therapy division

- Although the revenue and earnings performance in the Nuclear Medicine and Industry division is particularly striking while the Therapy division's performance appears rather disappointing, EUZ still clearly intends to hold on to its therapy business. According to the Company, this is due to the high gross margin that will be translated into a higher return on sales as the number of cases and volume of revenues increases.

Phase III trials for SpondylAT

- Developments in connection with drug candidate SpondylAT remain exciting:
  - Judging by the current state of discussions with BfArm, complete phase III trials will definitely have to be carried out.

Design still unclear

  - Current discussions centre mainly on the design of this study. While EUZ wants to test SpondylAT against a placebo, BfArm is currently insisting on a comparison study with TNF inhibitors, which would make a study involving 150 patients approx. € 4 million more expensive.

Possibility of subsidies

  - In this case, however, politics would be at the ready: according to EUZ, it would have the option to finance a large portion of clinical development costs via subsidies.

Start of phase III not until 2007

  - The next talks between EUZ and BfArm are scheduled for the end of August; according to the management board, there are signs that clinical phase III trials for SpondylAT will not begin this fiscal year.
- EUZ has raised its own earnings per share guidance and now projects a figure in excess of € 0.70 per share, rather than a target range of between € 0.50 and € 0.70.

Profit & Loss Account	**2004**	**2005**	**2006e**	**2007e**	**2008e**
€mn					
Revenues	**35,5**	**41,8**	**50,2**	**60,2**	**68,3**
Cost of Sales	-19,2	-23,3	-26,1	-31,3	-35,5
Gross Profit	**16,3**	**18,5**	**24,1**	**28,9**	**32,9**
Margin	*45,9%*	*44,2%*	*48,0%*	*48,1%*	*48,1%*
R&D Expenses	-0,4	-0,5	-0,5	-1,8	-1,9
G&A Expenses	-12,5	-16,2	-20,1	-21,7	-24,4
Other Income	0,0	0,8	0,7	0,0	0,0
EBITDA	**7,2**	**6,4**	**8,6**	**10,1**	**11,5**
Margin	*20,2%*	*15,4%*	*17,1%*	*16,9%*	*16,8%*
Depreciation and Amortisation	-3,7	-3,9	-4,5	-4,7	-4,9
EBIT	**3,4**	**2,5**	**4,1**	**5,5**	**6,6**
Margin	*9,7%*	*6,1%*	*8,2%*	*9,1%*	*9,6%*
Net Financial Income/Expense	0,2	-0,3	-0,4	-0,5	-0,4
EBT	**3,6**	**2,2**	**3,8**	**5,0**	**6,2**
Margin	*10,2%*	*5,3%*	*7,5%*	*8,3%*	*9,0%*
Income Taxes	-1,3	-0,7	-1,1	-1,9	-2,3
EAT	**2,3**	**1,5**	**2,7**	**3,1**	**3,9**
Margin	*6,5%*	*3,6%*	*5,3%*	*5,2%*	*5,7%*
Extraordinaries	1,1	0,0	0,0	0,0	1,0
Minorities	-0,1	0,1	-0,2	-0,3	-0,3
Net Profit	**3,3**	**1,6**	**2,4**	**2,9**	**3,6**
Margin	*9,4%*	*3,8%*	*4,8%*	*4,8%*	*5,3%*
Earnings per share before extraordinaries (€)	**0,72**	**0,51**	**0,76**	**0,91**	**1,15**
Earnings per share before minorities(€)	**1,11**	**0,48**	**0,84**	**0,99**	**1,24**
Earnings per share before extraordinaries and minorities (€)	**0,75**	**0,48**	**0,84**	**0,99**	**1,24**
Earnings per share (€)	**1,08**	**0,51**	**0,76**	**0,91**	**1,15**

Source: Eckert & Ziegler AG, LBBW

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Date	Rating

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