Buy

Medical

Share price: €9.10

Last Rating: Buy

Last Report: 10 August 2004

S&P-Rating: -

Number of shares: 3.3m

Market Capitalisation: €29.6m

Index: Tech All Share

Index weighting: 0.08%

Accounting: US-GAAP

Calendar: FY 2004 30 March 2005

DPS 2004e: -

ISIN DE0005659700

Bloomberg: EUZ GR

Reuters: EUZG.DE

Eckert & Ziegler

09 November 2004

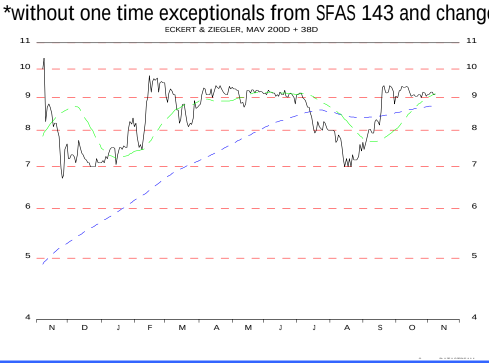
Business is moving along...

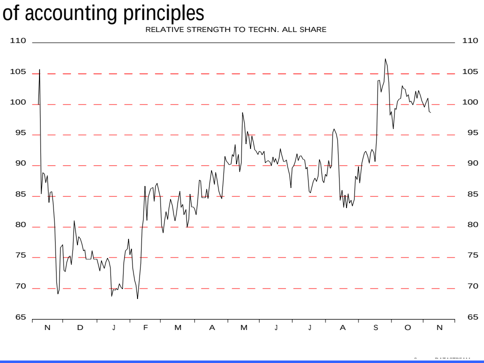
Eckert & Ziegler's (EZAG) 9M 2004 results, released today, were slightly below our expectations. However, since we expect Q4 2004 to be strong, as usual, we are leaving our forecasts unchanged. The solid development of EZAG's core businesses is convincing and the therapy division shows substantial growth. In our opinion, the share price's valuation remains favourable, particularly in relation to expected earnings growth (excluding exceptionals). We continue to recommend EZAG as a Buy.

Share Data	EPS current €	EPS previous €	PSR	EV/EBITDA	PER
2002	0,25	0,25	0,9	4,0	32,7
2003e*	0,25	0,25	0,9	4,0	32,7
2004e	0,20	0,20	0,8	4,2	46,1

Company Data	Net sales €m	EBITDA €m	EBIT €m	EBIT-Margin	Net Profit €m
2003*	29,2	5,9	2,2	7,5 %	0,8
2004e*	35,8	5,6	1,9	5,4 %	0,6
2005e	41,1	7,6	3,7	9,0 %	1,6

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





Summary

- \+ Isotope specialist known worldwide
- \+ Expansion of the core business through forward integration
- \+ High growth potential for brachy-therapy in Europe
- \+ Further cost reimbursement for brachy-therapy possible
- – Weak market growth for industrial applications
- – Out-patient reimbursement for brachy-therapy still unresolved
- – Exceptionals distort quarterly and full-year comparisons

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

The Company

SWOT Profile

Strengths

- Isotope specialist known worldwide
- Solid core business
- Strong innovation, also in markets where this is poor
- Profitable company

Opportunities

- Further and, possibly, even general reimbursement for brachy-therapy
- Expansion of the core business through forward integration
- Increasing demand for PET through an expansion of the indications to which it can applied

Weaknesses

- Weak market growth in industrial applicators division
- Still no general reimbursement for treatment of prostate cancer with seeds
- Strong fluctuations in quarterly results (due to exceptionals)

Risks

- Economic trend risks
- Exchange rate risk (largely conversion risk)
- Further cost reimbursements rejected

Business activities

Isotope specialist

Applications in the industrial, diagnostic medical, and medical therapeutic fields

- Eckert & Ziegler (EZAG) is an isotope producer based in Berlin. The company's products are used in industrial applications, for example for gas or other detectors, as well as in medical applications. Industrial applications include primarily radiation sources for detector instruments. EZAG also manufactures products for radiation therapy, primarily radioactive permanent implants (seeds) to treat prostate cancer in the early stages. Following various acquisitions, EZAG's product range also includes equipment for the application of radiation sources.

Employees

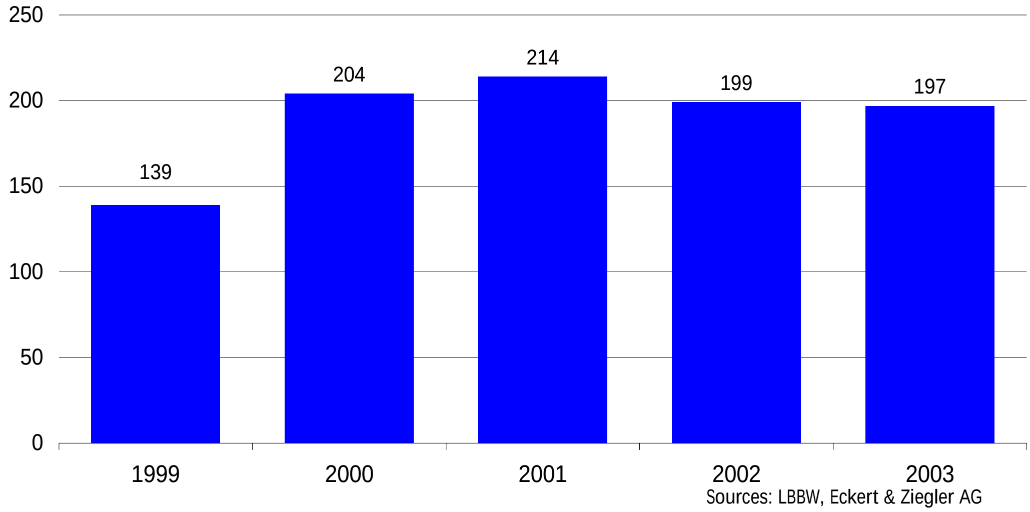
The number of employees has reached a plateau

- At the end of FY 2003 EZAG employed 197 workers. Over the last few years, the development of the number of employees was shaped by two major factors: business growth and entry into the biotechnology field through the acquisition of a stake in the biotech company NEMOD.

Proportion of employees working in production has declined in recent years

- Looking at the breakdown of employees by position, it is apparent that the proportion of employees working in production has declined in recent years. That is not surprising given that increasing automation, the upward learning curve and the benefits of scale, usually lead to higher productivity. As a result, it is possible to increase production while keeping the number of employees constant, or even reducing the proportion of employees working in production relative to the group as a whole.

Number of employees



Sources: LBBW, Eckert & Ziegler AG

R&D guarantees its technical and economic headstart

- The R&D division has long played a key role at EZAG. For EZAG, innovation signifies a time lead, and therefore an economic headstart, over the competition. This headstart can only be maintained via continual R&D investment. That means, in turn, that the number of personnel in the research department has to keep pace with business development and company growth. This is reflected for in the fact that R&D employees have accounted for 25% of the workforce over the last five years.

Stronger sales orientation

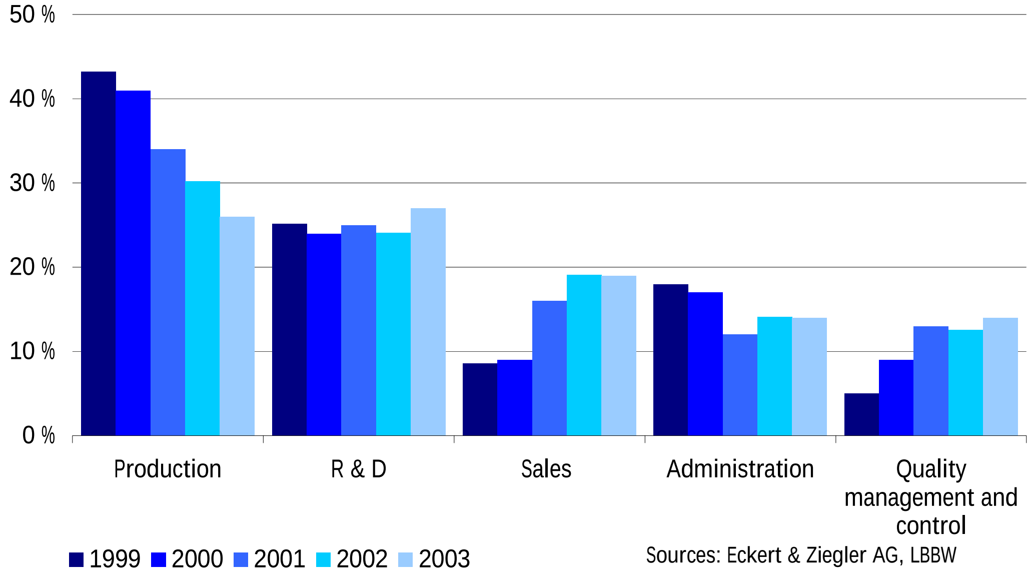
Focus on therapy and equipment support this trend

- The company's stronger sales orientation is also evident from the growing proportion of the sales force relative to the group total, with quality management and control also keeping pace. To be profitable, it is not enough to only invent or to manufacture products but these must also be brought successfully to the client, for "money is earned in sales." With an increasing focus on the treatment of oncological diseases with radioactive permanent implants and the entry into the business of applicators for therapeutic radiation sources, the importance of the sales force has further increased.

Decentralised international administration, however still room for economies of scale

- The proportion of employees in administration at EZAG is hardly low. However, the fact that the company is active in many countries and has a relatively small sales volume must be taken into account. As a result, it was barely possible to push the proportion of employees in administration below 15%. However, we believe that this proportion can decline further due to the company's acquisition strategy, which we will discuss more fully later in the report.

Employees by position (as a % of total work force)



Sources: Eckert & Ziegler AG, LBBW

Sales and profit growth

- Our summary of sales and profit growth only goes back as far as 2000 because in that year EZAG switched its reporting from total cost to cost-of-sales accounting. We believe the last four years offer an acceptable basis from which EZAG's growth may be evaluated.

	2000	2001	2002	2003
Sales	23,6	32,8	31,2	29,2
y-o-y		39,0 %	-4,9 %	-6,5 %
Gross profit	9,4	14,0	15,3	13,5
y-o-y	-	49,8 %	8,7 %	-11,9 %
Gross profit margin	39,7 %	42,8 %	48,9 %	46,1 %
EBITDA	4,6	12,7	6,3	5,9
y-o-y	-	175,2 %	-50,7 %	-6,0 %
EBITDA margin	*19,5 %*	*38,6 %*	*20,0 %*	*20,1 %*
EBIT	2,0	5,1	2,0	2,2
y-o-y	-	149,1 %	-60,9 %	10,2 %
EBIT margin	*8,7 %*	*15,5 %*	*6,4 %*	*7,5 %*
Net income (before exceptionals)	1,3	3,2	0,3	0,8
y-o-y	-	158,6 %	-89,3 %	139,6 %
Return on sales	*5,3 %*	*9,9 %*	*1,1 %*	*2,8 %*
Net income	1,3	3,2	0,3	- 1,3
y-o-y	-	158,6 %	-89,3 %	-465,6 %
Return on sales	*5,3 %*	*9,9 %*	*1,1 %*	*-4,3 %*
Earnings per share (before exceptionals)	0,39	1,00	0,11	0,25
Earnings per share	0,39	1,00	0,11	-0,42

Sources: Eckert & Ziegler AG, LBBW

Volatile sales development

- At first glance, sales growth is surprising. Following sharp increases in both 2000 and 2001, the next two years registered sales declines. Operations played a partial role here: sales and forecasts for highly promising radiation sources for radioactive stents collapsed following the surprisingly rapid approval for drug-eluting stents.

Stent business collapses

Seed business compensates for this decline

- However, EZAG was able to compensate for some of this development through other activities, for example stepping up its involvement in the permanent implant (seeds) business. Seeds are used to treat the early stages of oncological diseases.

Exchange-rate developments go against EZAG

- EZAG was unable to offset US dollar/euro exchange rates. This was unfavourable for EZAG's sales because although the USA accounts for 70% to 75% of sales, these sales are reported in euros. This translation risk cannot be hedged, and was responsible for EZAG's declining sales in 2002 and 2003.

Distorted basis of comparison between 2001 and 2002

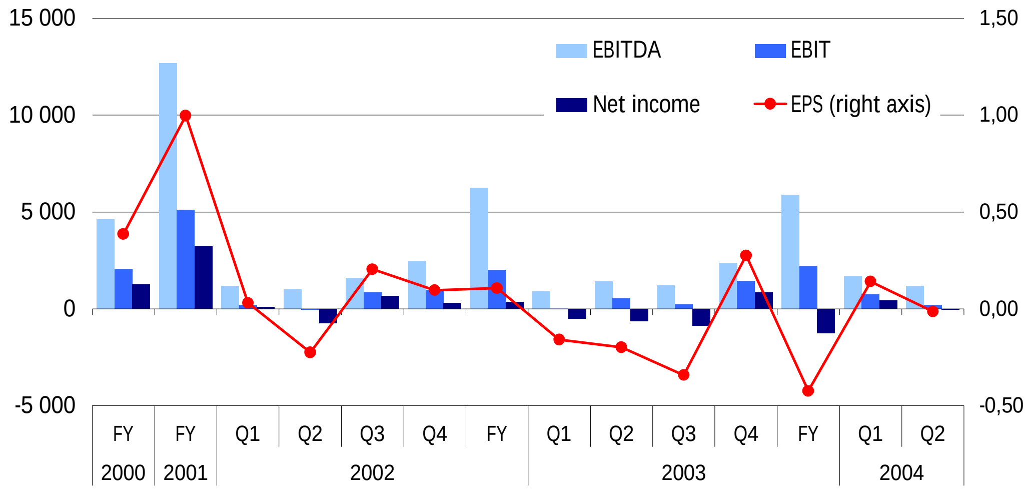
- The sales decline also partially impacted profits. However, it should be noted that 2001 earnings also contain substantial payments from a lawsuit that ruled in EZAG's favour. This was reported under other operating income. R&D expenses at NEMOD also burdened results in 2002 and 2003.

R&E expense for NEMOD

First-time consolidation of NEMOD and US-GAAP changes

- Exceptional items, which necessitates the separate reporting of net profit before and after exceptionals, were the result of the initial consolidation of NEMOD, as well as accounting changes under US GAAP in provisions for the disposal of radioactive materials. These items amounted to about €2m and account for the difference between net profit before and exceptionals.

Earnings size (€'000; EPS in €)



Sources: Eckert & Ziegler AG; LBBW

High earnings volatility in quarterly results impede forecasts

- Also conspicuous is EZAG's relatively high earnings volatility, which renders quarterly forecasting particularly difficult. The exceptionals mentioned above also play a major role. Occasionally, these are reported in full before the year-end, thus distorting quarterly results.

Business development in the current financial year

€m	9M 2003	9M 2004	Q3 2003	Q3 2004
Net sales	**18,9**	**25,3**	**6,0**	**8,5**
y-o-y		33,6 %		42,5 %
Gross profit	**8,5**	**11,1**	**2,9**	**3,3**
y-o-y		30,5 %		14,7 %
Gross profit margin	*45,1 %*	*44,1 %*	*48,7 %*	*45,8 %*
EBITDA	**3,5**	**4,1**	**1,2**	**1,2**
y-o-y		15,9 %		2,3 %
EBITDA margin	*18,6 %*	*16,1 %*	*20,1 %*	*13,3 %*
EBIT	**0,8**	**1,3**	**0,2**	**0,3**
y-o-y		67,1 %		41,4 %
EBIT margin	*4,0 %*	*5,0 %*	*3,7 %*	*2,3 %*
Net income*	**0,0**	**0,5**	**0,5**	**0,1**
y-o-y		-		-75,7 %
*Return on net sales**	-	*2,1 %*	*8,1 %*	*1,4 %*
Net income	**- 2,1**	**0,5**	**- 0,9**	**0,1**
y-o-y		-		-113,7 %
Return on net sales	*neg.*	*1,8 %*	*neg.*	*1,4 %*
Earnings per share (€)	**-0,02**	**0,15**	**0,15**	**0,03**
Earnings per share (€)	**-0,70**	**0,15**	**-0,34**	**0,03**

*before minorities and exceptionals

Sources: Eckert & Ziegler AG; LBBW

Sales were below expectations

- 9M 2004 sales were about €1m lower than our forecasts. The summer months apparently impacted sales more than we had forecast.

Good cost control

- However, EZAG had tight control over costs. R&D expenses were sharply reduced following the NEMOD's exit from developing drugs, so that EBIT was only €0.3m below our forecasts.

Tax payments

- Tax payments accounted for a decline in Q3 2004 net profits (Q3 2003 showed tax credits).

Deconsolidation profit will be first reported in Q4 2004!

- EZAG's Q3 2004 earnings per share also show deconsolidation proceeds from the termination agreement with NEMOD. We do not follow this method and will report the (non-cash) deconsolidation profit beginning in Q4 2004.

EZAG's markets

Markets undergoing change...

- EZAG was always active in various markets and remains so today. However, the markets relevant to the company have changed significantly over the years.

Cardiology was a key part of the equity story, but is no longer an issue

- For example, at the time of the company's stock market flotation, radiation sources for cardiologic applications ("radioactive-eluting stents") were an important part of the equity story. Following the unexpected and rapid successes of competitors – Johnson & Johnson or Boston Scientific, for example – with drug-eluting stents, this market is no longer significant for EZAG. Although there are plans to apply the technology to peripheral stents, it is hardly likely that the so-called drug-eluting producers will let this market escape their attention, and thereby will dry up the market for radiation therapy.

Departure into bio-technology aroused hopes of "bio-dollars"

Antibodies from competitor Antisoma were a flop

Termination agreement

Deconsolidation

Deconsolidation profit of €1.2m

- EZAG's departure into biotechnology caught investors' interest once "bio-dollars" were mentioned. The most important drug candidate at the biotechnology subsidiary NEMOD, an antibody for treating various cancers, seemed to offer enormous potential. However, the prospects of finding an external partner to develop this product were dashed following the failure of a product from its most important competitor, Antisoma. EZAG has meanwhile cut its losses. Following the termination agreement in June 2004, EZAG is released from its obligation to further finance the clinical development of this drug candidate. EZAG, however, retains the rights to research development so far. As a result of the decision to deconsolidate NEMOD as of 31.12.2004, non-cash exceptional profit of €1.2m will be reported at year-end. Thus, like many before it, these "bio-dollars" evaporated into thin air.
- EZAG's current markets are best understood according to application. We differentiate between:
  - **Industrial applications**, in which manufacturers of measurement and testing technology are supplied with the necessary radiation sources. EZAG includes this division under the heading Industry;
  - **Diagnostic Medical applications**, which at EZAG are combined under the heading Nuclear Imaging. This includes calibrator and reference radiators for gamma cameras and for positron emission tomography (PET), and finally
  - **Medical Therapeutic applications**, which fall under the general heading Therapy at EZAG.

Industrial applications

Radiation sources for measurement and testing technology

- The Industrial Application division is, basically, EZAG's core business. The company develops, produces and sells radioactive components to equipment manufacturers of measurement and testing technology. This equipment is used to determine physical characteristics, such as thickness, density and lead content, for example. Since 11 September 2001, such detectors are increasingly employed for passenger security checks at airports.

Small specialist market

- The market for these radiation sources is a somewhat small specialist market. The implement's areas of application, which are equipped with EZAG's radiation sources, are also vulnerable to economic factors.

Demand for security products

- Special factors, such as the increased need for security, worldwide, following 11 September 2001, have increased demand for initial equipment – for example, detectors at airports.

Radiation sources are expendable materials

- This market generates a certain level of stability for EZAG in that radiation sources are expendable materials that need to be replaced after a certain time (generally once or twice a year).

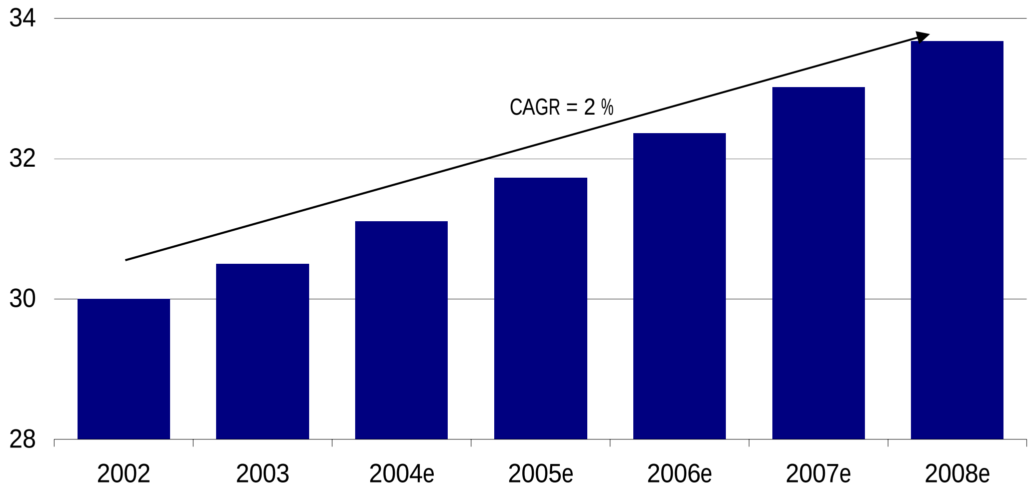
Exchange rate risks

- EZAG derives a substantial share of its sales in this division from outside the euro zone, mostly in US dollars. A weak US dollar, combined with EZAG reporting in euros, produces translation risks for sales, which had a correspondingly negative impact in Q3 2004.

Market volume: €31m
Growth: 2 % p.a.
Market share: around 33 %

- We assume that market volume will reach around €31m this year. The sustainable rate of growth should continue at around 2% per year and, according to the company, EZAG's market share is about one-third.

Global market - radiation sources for industrial use (€m)



Source: LBBW

Diagnostic medical applicationss

- Diagnostic medical applications at EZAG are grouped under Nuclear Imaging.

PET is already a success story in the USA

PET is making only slow progress in Europe

- This division at EZAG delivers calibrator and reference radiation for gamma cameras and for positron emission tomography (PET). PET is increasingly used in diagnostics and the number of diseases that can be diagnosed using PET scanners continues to grow. PET is already a success story in the USA. Although the reimbursement of costs for diagnosing metastasis, as part of cancer treatment, has existed for a long time, in September 2004 reimbursement was expanded to include diagnosing Alzheimer's disease. In many European countries, only private health insurance companies reimburse and then only on a case-by-case basis. Also in Germany, public insurance companies reject reimbursement for this high-quality but expensive diagnosis. A while back, a cancer patient successfully sued its medical insurance company for PET diagnosis reimbursement. However, we

Europe, reimbursement is often unavailable

believe it is too early to say whether this will result in other patients' claims being met on a case-by-case basis or will even result in a general reimbursement for metastasis diagnosis for cancer patients.

Follow-up business with expendable materials

- It is also the case, in this division, that the market is not solely determined by the initial equipment business. These radiation sources, too, must be replaced once or twice a year, which gives EZAG follow-up business in supplying the materials.

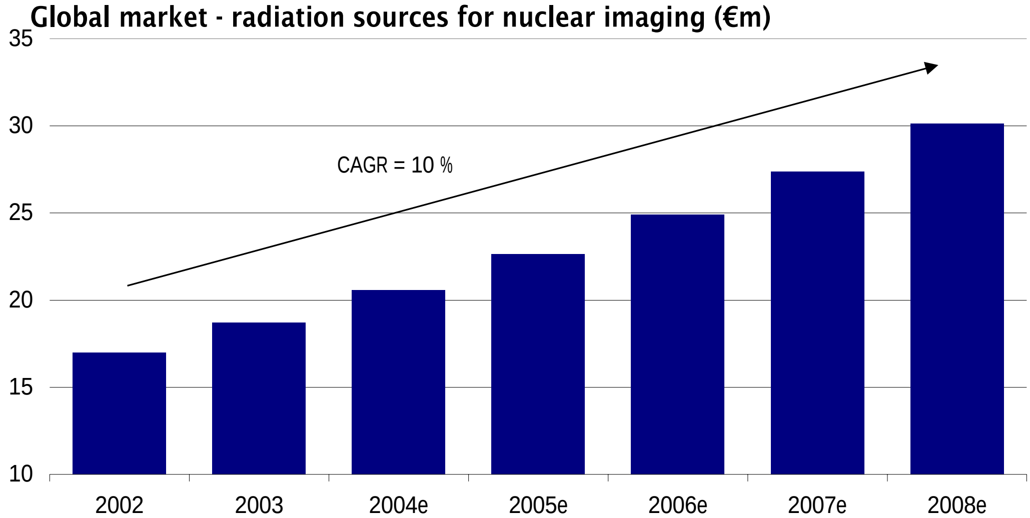
Exchange rate risk

- Since the USA is a forerunner when it comes to reimbursing for PET scans, the market there for the relevant equipment and for the necessary radiation sources is developing faster and more positively than in most European markets. However, this results in translation risks for sales. So far, higher market and sales growth have better compensated for this development than in the Industrial division.

Volume: €21m Growth: 10 % p.a. Market share: around 60 %

- We expect the market for radiation sources to reach almost €21m in the current year with annual growth reaching 10% once again. According to the company, EZAG's market share is around 60%.

Global market - radiation sources for nuclear imaging (€m)



Source: LBBW

Medical therapeutic applications

Focus on oncology

- Medical therapeutic applications' product portfolio, and its target markets, focus on oncology. Cancer is one of the largest indicators in health care. We estimate the world market in 2003 at just US$28bn. According to our estimates, average annual growth is still around the 11% mark and is also supported by demographic developments in industrialised countries: Because cancer is also a disease where the incidence increases with age, it is becoming more prevalent as the population ages.

Demography underpins market growth

Focus on prostate cancer, equipment also used in treating other types of cancer

- This total market view plays only a subordinate role at EZAG, however. With regard to cancer, early-stage prostate cancer is the most interesting type of cancer for EZAG. However, via acquisitions, EZAG has entered the equipment business for the application of radiation therapy and is thus also active in the treatment of other types of cancer.

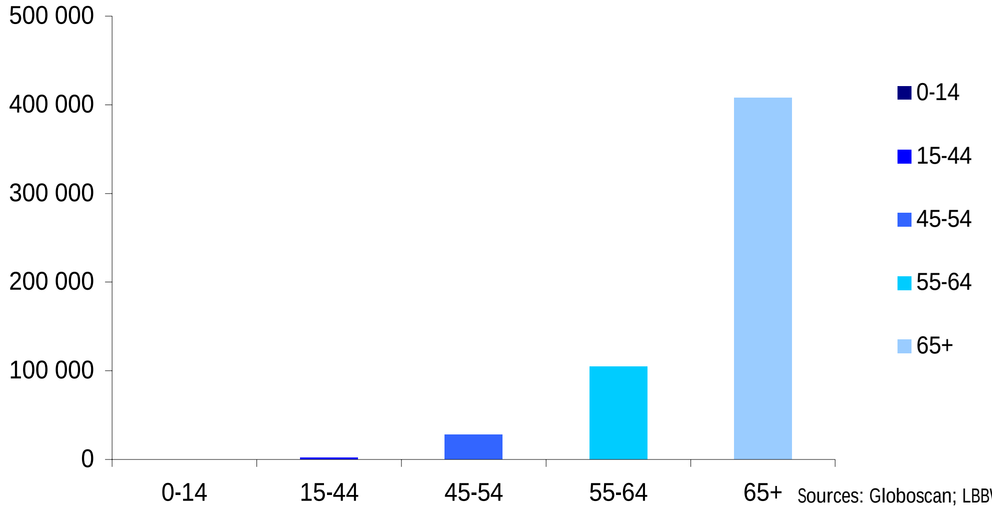
Brachy-therapy only used for early-stage tumours

- In Germany, prostate cancer is the second-highest cause of death of cancer of the internal organs. If the tumour is diagnosed early, treatment with brachy-therapy is generally possible: The tumour is confined to a small area, adhesion with surrounding tissue has not yet occurred, and metastasis has not yet formed (so-called T1 and T2 tumours). Larger tumours, adhesion or metastasis (T3 and T4) cannot be treated with brachy-therapy. Such tumours are generally treated with invasive surgery or with chemotherapy.

Typically affects older men

- Prostate cancer is typically a disease affecting older men, but in rare cases it can also develop in younger men.

Incidence of prostate cancer by age group

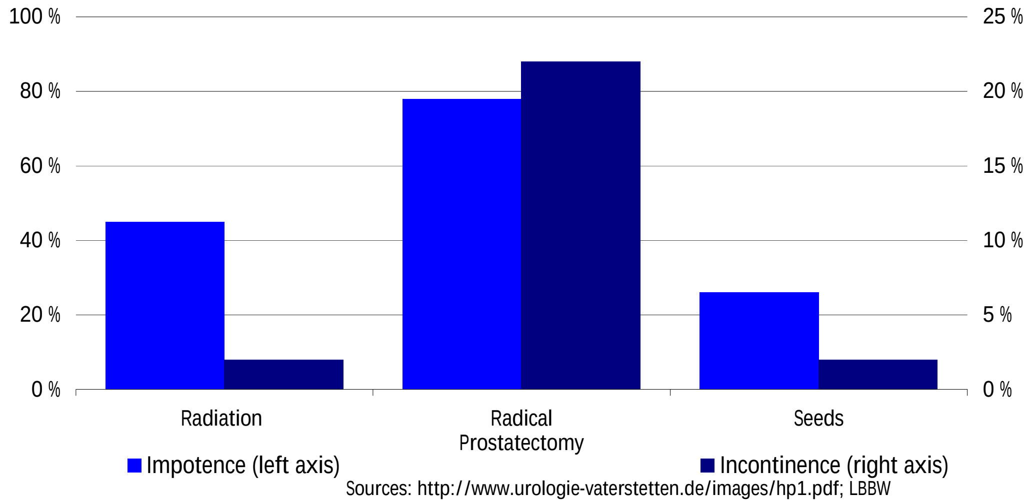


Sources: Globoscan; LBBW

Simplified explanation of seed implants

- We have already presented in detail the procedure for permanent seed implants in many previous reports and for this reason, we will forego the details in this section. In simple terms, the procedure involves applying small radiation sources with a cannula directly into the tumour in order to irreparably damage the surrounding cancer tissue while the healthy tissue around the tumour remains largely unscathed.

Side effects (% of patients attended)



Sources: http://www.urologie-vaterstetten.de/images/hp1.pdf; LBBW

Results are at least as good as from other methods

- Seed implants generally achieve at least as favourable a result as radical prostatectomy (invasive surgery involving the removal of the prostate) or external radiation treatment.

Out-patient treatment is possible

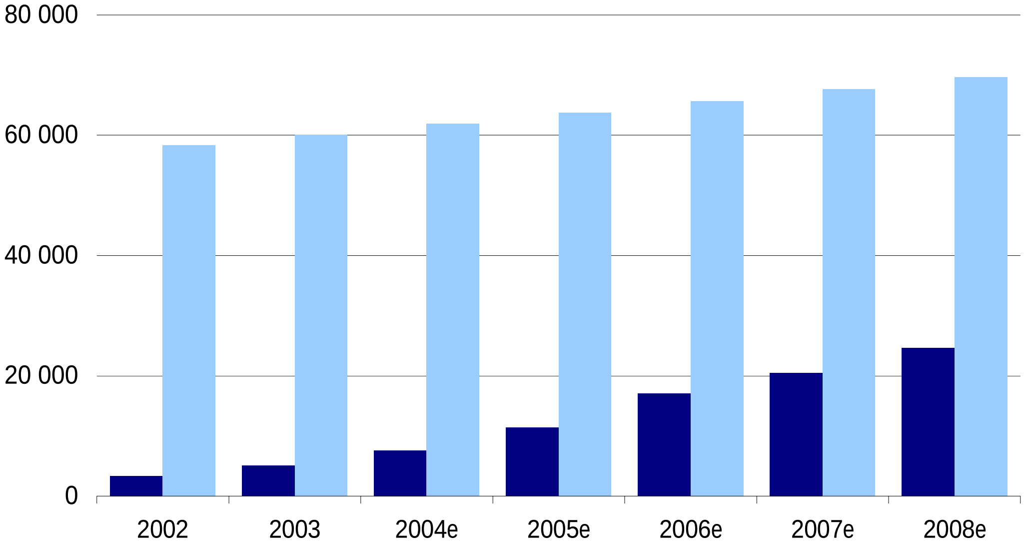
Lower side effects

- The main advantages here are firstly, the possibility of having outpatient treatment. Radical prostatectomy usually involves one-to-two weeks in hospital. Secondly, the side effects from seed treatment are substantially lower than with conventional methods, which, however, remain unavoidable in later-stage tumours.

Greater preventative care is important for market development in Europe

- Since an early-stage tumour is a prerequisite for seed implants application, early diagnosis plays a particularly important role. In the USA, using medical check-up to establish an early diagnosis is widespread. Even though scientific debate is currently underway with widely differing viewpoints concerning which parameter (e.g. PSA value or another) is useful, it remains undisputed that cancer medical check-ups are far more widespread in the USA than in Europe, that prostate cancer is recognised earlier and, as a result, treatment with seeds is more of an option.

Prostate implants - number of patients treated



Sources: Eckert & Ziegler AG; LBBW

The USA is at a high level with low growth rates

Europe should be able to grow at much higher rates

- By now, the number of cases in the USA where patients are treated with seed implants is at a high level (around 3% annual growth) where only further minimal growth is possible based on demographic changes. In Europe, by contrast, the basis for the development of seed therapy to treat prostate cancer is much smaller. On average, only one man in six undergoes a medical check-up for prostate cancer. We believe a 50% increase, in the incidence of prostate cancer, each year to 2006 is possible. This includes reimbursements that have already been agreed upon (such as in Belgium or in Germany for in-patient treatment, for example), as well as reimbursement agreements that we expect in future. We believe growth will slow to 20% per annum after 2006

Impossible to realistically estimate market volume

- In our opinion, it is impossible to realistically estimate market volume. Firstly, the application of seed implants is confined to early-stage tumours. That means the fewer the number of men going for a medical check-up, the smaller the market. Secondly, the conditions for reimbursement vary greatly from country to country and are still undergoing change in some regions. Finding out how large the market really is can be calculated only by using reliable reimbursement figures.

EZAG's acquisition strategy: Profitable through the concentration of production

- In addition to its focus on permanent seed implants to treat prostate cancer, EZAG has cautiously moved into a related equipment area through targeted acquisitions. The afterloader divisions acquired from Schering (CIS Bio) and HEK are a useful addition to EZAG's business with medical therapeutic radiation sources. Afterloaders are applicators for radiation sources that can generally be used for other types of cancer apart from prostate cancer, such as cancer of the larynx, breast cancer or also cancer of the cervix. In these cases, the general reimbursement is secured in most cases.

Forward integration

- This acquisition strategy is intended firstly, to combine and centralise products that are not profitable on a stand-alone basis. Secondly, acquisitions represent forward integration in that EZAG integrates some (potential) customers into the group. This makes more sense than maintaining independent operations and rising losses which could have

Business in expendable materials

meant the risk of closure, and this could have cost EZAG customers. In this way, EZAG can provide not only the equipment, but also the expendable materials that go with it, that is, the radiation sources.

Outlook

Small markets but good growth

- With its core businesses industrial and diagnostic medical applicators, EZAG is based in relatively small markets, which nevertheless show some substantial growth rates.

EZAG has a high market share

- Taking also into account that EZAG has a relatively high market share in both markets, it is clear that significant company growth can really come only from the third division namely, medical-therapeutic applications.

Low starting base for brachy-therapy in Europe

Business confined to Europe

Active in promoting preventative care

Further cost reimbursement is possible

- This view is supported by further arguments, which we have already mentioned in part. Firstly, the starting base for EZAG is relatively small. Although this applies only to the European market, EZAG has already signed a cooperation agreement with Theragenics whereby the business activities with seeds at Theragenics is limited to North America and at EZAG it is limited to Europe. Secondly, EZAG is not confined to the so-called "existing market" for prostate cancer. The company is active also in improving preventative care for men, for example by participating at the first Berlin Men's' Health Day. Thirdly, we expect that in the near future, at least in the most important European markets Germany and France, general reimbursement will occur. In Germany a DRG invoice number has already been drawn up for brachy-therapy to ensure reimbursement for in-patient care.

HTA is underway to decide on general reimbursement

However, one of brachy-therapy's main advantages is outpatient care. There is still a Health-Technology-Assessment (HTA) underway which will determine whether there will be general reimbursement. Given the advantages the procedure offers – particularly regarding side effects – we are optimistic that a favourable decision regarding general reimbursement will be reached.

Valuation

- We usually rely on a DCF model and a peer-group comparison for our company valuations.

Peer group comparison of little value here

Markets or companies are too dissimilar

- However, in our opinion, a peer-group comparison makes little sense in EZAG's case. A peer group confined to group of small, listed German medical technology companies would mix apples with pears since these groups are active in completely different markets. Generally speaking, these markets are characterised by vastly different sizes and growth rates versus EZAG. In our view, this does not allow for a meaningful comparison. Alternatively, EZAG's direct competitors, such as Amersham, are so large and diversified, that a comparison is equally meaningless. This difficulty has increased following General Electric's takeover of Amersham.

IBT is active only in some of EZAG's

- Smaller listed competitors such as IBT, for example, are only partial direct competitors to EZAG. In addition, there is the problem that, according to current analyst consensus estimates, IBT will be profitable only as of 2006,

markets and is not yet profitable

New product is not yet on the market

at the earliest. In our view, this is based on the assumption that market introduction of Optisource®, a plastic-coated palladium seed with FDA approval, envisaged for Q1 2005, will be a success. Also, IBT has to switch to another standard, namely iodine seeds. Here the company still has to work on development and achieving approval. Accordingly, a peer-group comparison would have to be confined solely to EBIT or EBITDA comparisons. In our opinion, however, that can only be an initial indicator for EZAG's valuation since the company is far more diversified than IBT and is already profitable (even excluding the expected profit from deconsolidation).

Peer group given for information purposes only

- We thus present a peer group for EZAG, for informational purposes, but we are not using it as an indication for valuation.

Company	Currency	Share price	Earnings per share			PER			EV	EBITDA			EV/EBITDA		
			03	04e	05e	03	04e	05e		03	04e	05e	03	04e	05e
IBT	€	4,70	-0,65	-0,34	-0,04	**neg.**	**neg.**	**neg.**	30,8	-3,6	-1,7	-0,1	**neg.**	**neg.**	**neg.**
Theragenics	USD	3,79	0,00	n.v.	n.v.	**n.m.**	**n.v.**	**n.v.**	50,5	5,3	n.v.	n.v.	**9,6**	**n.v.**	**n.v.**
Eckert & Ziegler	€	9,10	0,28	0,20	0,48	32,7	46,1	18,9	23,8	5,9	5,6	7,6	4,0	4,2	3,1

Sources: Bloomberg; LBBW

DCF according to the entity approach

- Our DCF model is based on the entity approach with a five-years of explicit estimates, a five-year value-driver calculation and the resulting terminal value. The calculation parameters of our model are:

Calculation parameters		**Value drivers (Phase II)**	
Target capital structure (Equity:Debt	60:40	Net sales growth rate	7,0 %
Risk free interest rate	3,9 %	EBIT margin	10,0 %
Risk premium	5,8 %	Tax rate	40,0 %
Beta	1,6	Reserves as a % of net sales	11,0 %
Company-specific debt premium	2,5 %	Depreciation as a % of net sal	8,0 %
WACC	9,4 %	Capex as a % of net sales	8,0 %
		Working Capital a % of net sa	23,0 %
		Long term growth rate	1,0 %

Source: LBBW

€15.84 per share

- Based on these calculation parameters, the DCF model produces an equity value of €47.2m or €15.84 per share.

DCF model (€ '000)	2004e	2005e	2006e	2007e	2008e	2009e	2010e	2011e	2012e	2013e
Net sales	**35 771**	**41 137**	**47 513**	**52 264**	**55 923**	**59 838**	**64 026**	**68 508**	**73 304**	**78 435**
EBIT	**1 940**	**3 702**	**4 989**	**5 488**	**5 872**	**5 984**	**6 403**	**6 851**	**7 330**	**7 843**
EBIT margin	5,4 %	9,0 %	10,5 %	10,5 %	10,5 %	10,0 %	10,0 %	10,0 %	10,0 %	10,0 %
- Income tax expense	900	1 688	2 247	2 398	2 415	2 394	2 561	2 740	2 932	3 137
Income tax rate	-55,9 %	-50,0 %	-48,0 %	-46,0 %	-43,0 %	-40,0 %	-40,0 %	-40,0 %	-40,0 %	-40,0 %
+ Depreciation	-3 700	-3 885	-4 079	-4 283	-4 497	-4 787	-5 122	-5 481	-5 864	-6 275
Depreciation as a % of net sales	-10,3 %	-9,4 %	-8,6 %	-8,2 %	-8,0 %	-8,0 %	-8,0 %	-8,0 %	-8,0 %	-8,0 %
Reserves	4 300	4 730	5 203	5 723	6 296	6 582	7 043	7 536	8 063	8 628
Reserves as a % of net sales	12,0 %	11,5 %	11,0 %	11,0 %	11,3 %	11,0 %	11,0 %	11,0 %	11,0 %	11,0 %
+Change in reserves	2 451	430	473	520	572	287	461	493	528	564
= Operating cashflow	7 191	6 329	7 295	7 894	8 526	8 664	9 424	10 084	10 790	11 545
- Capital expenditure	2 500	2 875	3 306	3 637	4 001	4 787	5 122	5 481	5 864	6 275
Capex as a % of sales	7,0 %	7,0 %	7,0 %	7,0 %	7,2 %	8,0 %	8,0 %	8,0 %	8,0 %	8,0 %
Working capital	10 000	10 930	11 681	12 483	13 551	13 763	14 726	15 757	16 860	18 040
Working capital as a % of sales	28,0 %	26,6 %	24,6 %	23,9 %	24,2 %	23,0 %	23,0 %	23,0 %	23,0 %	23,0 %
- Increase in working capital	4 019	930	751	802	1 068	212	963	1 031	1 103	1 180
=Free Cashflow	**672**	**2 524**	**3 237**	**3 455**	**3 458**	**3 665**	**3 339**	**3 573**	**3 823**	**4 090**

Source: LBBW

Sensitivity analysis with different discount rates and growth rates of returns in perpetuity

- By the nature of their structure, DCF models are dependant upon underlying assumptions. In order to also demonstrate this for EZAG, we have conducted a sensitivity analysis. This is to show to what extent the enterprise value fluctuates when two of the parameters, namely the WACC (weighted average cost of capital) and the assumed growth rate of returns in perpetuity, vary.

Sensitivity analysis

Equity value (€m)		WACC		Equity value per share (€)		WACC	
Growth	**8,4 %**	**9,4 %**	**10,4 %**	**Growth**	**8,4 %**	**9,4 %**	**10,4 %**
0,0 %	48,1	45,0	42,3	**0,0 %**	16,14	15,08	14,19
1,0 %	51,0	47,2	44,2	**1,0 %**	17,10	15,84	14,80
2,0 %	54,8	50,1	46,4	**2,0 %**	18,36	16,80	15,56

Source: LBBW

Recommendation

Two firm pillars in the core business

- EZAG has two solid pillars in its core businesses namely, industrial and medical-diagnostic applicators of radiation sources. The markets are relatively small and demonstrate only low to medium growth. However, EZAG has achieved a very good market position in these fields.

Third pillar has great growth potential

- The company's third core business namely, medical-therapeutic applications, is rather young and, particularly in brachy-therapy in Europe, EZAG's specialisation, it is still relatively immature. In our opinion, the opportunity for above-average market growth is good. We have discussed our reasons for this view in the market section of this report.

Buy

- After reworking our assumptions, our DCF model reveals a clear undervaluation for the company. For this reason, we maintain our Buy recommendation for EZAG's shares.

Profit & loss account €m	**2003**	**2004e**	**2005e**
Net sales	**29,2**	**35,8**	**41,1**
Cost of goods sold	-15,7	-19,7	-22,2
Gross profit	**13,5**	**16,1**	**18,9**
Margin	*46,1%*	*45,0%*	*46,0%*
Research and development expenses	-2,2	-0,8	-1,4
Selling, general and administrative expenses	-9,3	-13,4	-13,8
Other operating income and expenses, net	0,2	0,1	0,0
EBITDA	**5,9**	**5,6**	**7,6**
Margin	*20,1%*	*15,8%*	*18,4%*
Depreciation	-3,7	-3,7	-3,9
EBIT	**2,2**	**1,9**	**3,7**
Margin	*7,5%*	*5,4%*	*9,0%*
Financial result	-0,3	-0,3	-0,3
Income before tax	**1,9**	**1,6**	**3,4**
Margin	*6,4%*	*4,5%*	*8,2%*
Income tax expense	-1,0	-0,9	-1,7
Net income before exceptionals and minorities	**0,8**	**0,7**	**1,7**
Margin	*2,8%*	*2,0%*	*4,1%*
Exceptionals	-2,0	1,2	0,0
Minorities	-0,1	-0,1	-0,1
Net income/loss (-) for the Group	**-1,3**	**1,8**	**1,6**
Margin	*neg.*	*5,0%*	*3,8%*
EPS before exceptionals (€)	**0,25**	**0,20**	**0,48**
EPS before minorities (€)	**-0,39**	**0,62**	**0,52**
EPS before exceptionals and minorities (€)	**0,28**	**0,23**	**0,52**
EPS (€)	**-0,42**	**0,59**	**0,48**

Balance Sheet €m	2003	2004e	2005e
Assets	**45,7**	**53,8**	**56,6**
Goodwill	6,0	7,8	7,8
Other intangible assets	3,7	5,0	3,6
Property, plant and equipment	14,9	13,8	15,6
Financial assets	0,5	0,1	0,1
Other assets	2,2	1,9	1,3
Total non-current assets	**27,3**	**28,6**	**28,4**
Inventories	3,0	6,0	5,0
Total accounts receivable	3,7	6,7	9,2
Other receivables and assets	2,8	6,7	7,9
Cash and cash equivalents	8,9	5,8	6,1
Total current assets	**18,4**	**25,2**	**28,2**
Liabilities and shareholders' equity	**45,7**	**53,8**	**56,6**
Total shareholders' equity	28,8	30,8	33,0
Minority interests	0,2	0,0	0,0
Pension reserves	0,1	0,2	0,2
Other reserves	1,8	4,3	4,7
Financial debt	4,3	4,5	4,5
Trade accounts payable	0,7	2,7	3,2
Other liabilities	9,8	11,4	10,9

Cashflow statement €m	2003	2004e	2005e
Net income/loss (-) for the year	**- 1,3**	**1,8**	**1,6**
Depreciation	3,7	3,7	3,9
Change in pension reserves	0,0	0,0	0,0
Change in working capital	- 0,5	- 3,8	- 2,2
Other changes	2,2	0,0	0,0
Operating cashflow	**4,2**	**1,7**	**3,3**
Additions to property, plant & equip. and intangibl	- 1,5	- 3,6	- 4,1
Sale of property, plant & equipment	1,2	1,1	1,2
Other changes	0,7	- 1,0	- 0,1
Cashflow from investing activities	**0,3**	**- 3,5**	**- 3,0**
Proceeds from issuance of common stock	0,0	0,0	0,0
Dividends paid	0,0	0,0	0,0
Change in financial debt	- 1,6	0,2	0,0
Other changes	0,0	- 1,0	0,0
Cashflow from financing activities	**- 1,6**	**- 0,8**	**0,0**
Other changes	- 0,1	- 0,5	0,0
Change in cash and cash equivalents	**2,8**	**- 3,1**	**0,3**
Cash and cash equivalents - beginning of the year	6,1	8,9	5,8
Cash and cash equivalents - end of the year	**8,9**	**5,8**	**6,1**

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