

EL.En

Positive earnings momentum to continue in Q1 2008

Buy

Current €25.01

Target €33.10

Previous Unchanged

Current price equivalent
\$39.02

Market cap

€120.7m

\$188.2m

52-week high/low

€36.04/€22.72

Price perf.	1M	3M	12M
Price (€)	25.0	24.1	35.2
Absolute (%)	0.0	2.8	-29.0
Rel market (%)	-6.7	3.8	-7.3
Rel sector (%)	-6.2	0.3	-18.2

EPS change	1M	3M	12M
EPS FY1 (%)	29.7	24.4	N/A
IBES EPS (%)	-6.1	NM	N/A
Sector EPS (%)	-1.8	-3.1	-6.9
Market EPS (%)	-1.3	-13.5	-17.2

Source: DKIB Research, Thomson IBES

Reuters **Bloomberg**
ELEN.MI ELN IM Equity

Detailed **estimates**,
valuations and additional
research can be accessed
directly from the links below

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We expect positive earnings momentum to extend into Q1 2008. We estimate a good performance in both the industrial and medical segments notwithstanding 14% depreciation in the US\$ vs Q1 2007. Q1 2008 profitability should be lower than under the FY target due to the seasonal weakness of the early months of the year. Pending the results release on May 15 we stick to our BUY rating and €33.1 TP.

EL.En forecasts

Year	Sales EUR m	EBITDA margin %	Operating margin %	Net income EUR m	EPS EUR	P/E x	EV/ EBITDA x	FCF Yield %	Yield %
Dec-2005A	118	12.6	8.4	25	2.06	12.3	3.1	17.3	2.2
Dec-2006A	154	5.8	2.5	0	0.08	301.6	10.7	(10.4)	1.2
Dec-2007A	193	11.0	11.0	18	1.24	20.5	8.7	11.7	4.3
Dec-2008E	235	14.6	12.0	7	1.48	16.9	5.4	(0.1)	3.3
Dec-2009E	267	15.1	12.4	8	1.67	15.2	5.7	7.3	3.3

Source: Company data, Dresdner Kleinwort Research estimates

- ▶ We look for Group top line at €52.8m (+23% yoy), with robust growth expected in the industrial segment at €7.3m (+32% yoy), also benefiting from the new scope of consolidation, which now includes Spain's GLI – fully consolidated since the beginning of February.
- ▶ We expect another strong quarter for the medical business (€38m, +21% yoy), driven by the aesthetic segment and Cynosure. The overall performance will be weighted by ca. 14% depreciation in the average US\$ exchange rate.
- ▶ We expect EBITDA at €6.3m (+25 yoy) and EBIT margin at 9.6% in Q1 2008E, lower than our FY2008E target of 12%, due to the EL.En Group's historically lower seasonality in the first half of the year. Group's EBT should come in at €5.0m (+43% yoy).
- ▶ Pending the results release on May 15 we confirm our BUY recommendation and DCF-derived target of €33.1 per share.

Online research:

www.dresdnerkleinwort.com/research

Bloomberg:

DKIB1<GO>

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EI.En. Group Preview Q1 2008

€ m	Q1'08E	Q1'07	Change	Change (%)
Revenues	52.8	43.0	9.8	22.8
- Industrial Laser	7.3	5.5	1.7	31.6
- Medical Laser	38.2	31.6	6.6	21.0
- Assistance	7.3	5.9	1.4	24.0
Change in finished goods	4.0	3.3	0.7	22.8
Other income	0.4	0.3	0.1	22.8
Value of production	57.2	46.6	10.6	22.8
Purchases	-23.8	-19.2	-4.6	24.2
Change in row materials	1.1	0.9	0.2	22.8
Other direct cost	-4.8	-4.2	-0.6	14.0
Gross Margin	29.6	24.1	5.6	23.2
% on sales	56.1	55.9	0.2	
Other cost and services	-10.9	-8.8	-2.0	22.8
Labour cost	-12.5	-10.2	-2.3	22.8
EBITDA	6.3	5.0	1.2	24.9
EBITDA margin (%)	11.9	11.7	0.2	
D&A	-1.2	-1.2	0.0	0.0
EBIT	5.1	3.8	1.2	32.6
EBIT margin (%)	9.6	8.9	0.7	
Net financial income	-0.1	0.2	-0.4	-144.7
Other Income/Expences	0.0	-0.6	0.6	-100.0
EBT	5.0	3.5	1.5	43.2

Source: Company data, Dresdner Kleinwort Research estimates

- ▶ EI.En. has performed strongly over the last few quarters with 2007FY revenues at €193m, +25% yoy, and net profit at €18m, boosted by €13m of extraordinary gains from the sale of 950,000 Cynosure shares. The combination of strong demand and continued operating efficiency have enabled Cynosure to post record results, with US\$-denominated revenues jumping 59%, reflecting rapid market penetration by products like Smartlipo workstation and Affirm, a new anti-ageing multi-energy platform. By contrast, volatile trading hit the industrial segment due to higher prices and shrinking sales volumes.
- ▶ We expect the positive earnings momentum to continue into Q1 2008. We estimate Group top line at €52.8m (+23% yoy), driven by sharp growth in the industrial segment (+32% yoy), benefiting from the newly acquired GLI of Spain – fully consolidated since the start of February. We expect another positive organic quarter for the medical business, which should be led higher by Cynosure, but the overall performance will continue to be weighed by ca. 14% depreciation in the average USD exchange rate. We expect Group's EBT at €5m (+43% yoy).
- ▶ Pending the results release on May 15, we reiterate our positive stance on the stock, which reflects: 1) EI.En's deep commitment to the Chinese, Japanese and Brazilian markets; 2) the opportunity to manage an effective turnaround of some loss-making subsidiaries like Lasercut and Deka Lms and 3) the compelling valuation of the stock. EI.En. is trading at 5.3x EV/EBITDA 2008E and 16.9x P/E 2008E, which we do not think is challenging considering that we expect EPS to grow by 41.3% in the next three years. Stripping out Cynosure's value, other Group assets are currently trading at 4.8x EV/EBITDA 2008E.

EI.En Group - Quarterly performance

€m	Q1'06	Q2'06	Q3'06	Q4'06	Q1'07	Q2'07	Q3'07	Q4'07	Q1'08E
Revenues	34.3	37.8	34.9	47.4	43.0	47.1	46.7	56.7	52.8
- Industrial Lasers	4.4	6.4	4.9	7.3	5.5	5.0	4.7	7.6	7.3
- Medical Lasers	25.3	27.2	25.7	35.0	31.6	35.7	35.6	42.9	38.2
- Assistance	4.7	4.3	4.2	4.9	5.9	6.4	6.4	6.2	7.3
Gross Margin	18.1	20.0	18.8	25.4	24.1	26.6	26.3	31.2	29.6
EBITDA	2.9	4.2	-3.9	6.2	5.0	6.8	6.8	7.7	6.3
EBIT	1.7	3.1	-5.0	4.4	3.8	5.3	6.0	6.2	5.1
yoy growth (%)									
Revenues	37.3	41.2	19.3	26.8	25.2	24.5	33.8	19.7	22.8
- Industrial Lasers	13.6	79.0	21.3	-8.3	27.0	-22.1	-4.8	4.3	31.6
- Medical Lasers	44.1	38.3	20.1	38.1	24.8	31.3	38.4	22.5	21.0
- Assistance	29.7	19.2	12.5	25.8	26.0	51.1	50.9	24.8	24.0
Gross Margin	32.1	34.2	19.7	24.0	33.1	33.2	39.6	22.5	23.2
EBITDA	25.9	62.7	-199.5	0.8	72.3	61.2	-277.5	24.7	24.9
EBIT	16.3	77.9	-270.9	16.3	125.2	68.4	-219.0	41.5	32.6
Margin (%)									
Gross Margin	52.6	52.9	54.0	53.7	55.9	56.6	56.4	55.0	56.1
EBITDA margin	8.5	11.1	-11.1	13.0	11.7	14.4	14.7	13.6	11.9
EBIT margin	5.0	8.3	-14.4	9.3	8.9	11.2	12.8	11.0	9.6

Source: Company data, Dresdner Kleinwort Research estimates

EI.En Group P&L

€m	2006	2007	2008E	2009E	2010E
Revenues	154.4	193.4	234.7	266.9	292.5
<i>growth (%)</i>	30.4	25.3	21.3	13.7	9.6
Change in inventory	6.5	6.7	7.9	8.7	9.3
Other income	1.8	1.9	2.3	2.7	2.9
Value of Production	162.8	202.1	244.9	278.3	304.8
Purchase of raw materials	-65.0	-76.8	-91.6	-103.4	-112.7
Change in inventory	1.1	3.1	3.7	4.2	4.6
Other direct costs	-16.6	-20.1	-23.7	-26.5	-28.4
Gross Margin	82.3	108.2	133.3	152.7	168.2
Other operating costs	-38.6	-38.6	-47.1	-53.8	-59.3
Value Added	43.7	69.5	86.2	98.9	109.0
Labour cost	-34.3	-43.2	-52.0	-58.7	-63.8
EBITDA	9.4	26.3	34.3	40.2	45.2
<i>EBITDA Margin (%)</i>	6.1	13.6	14.6	15.1	15.5
D&A	-5.2	-5.0	-6.1	-7.2	-8.1
EBIT	4.2	21.3	28.1	33.1	37.1
<i>EBIT Margin (%)</i>	2.7	11.0	12.0	12.4	12.7
Net financial income	2.1	0.7	1.8	1.8	1.9
Profit of Associated	-0.4	-0.1	0	0	0
Other Income/Expences	0	13.4	0	0	0
EBT	5.9	35.4	29.9	34.8	39.1
Taxes	-4.5	-10.5	-13.5	-15.0	-16.4
Minorities	-1.0	-7.3	-9.3	-11.8	-13.5
Net Profit post Minorities	0.4	17.7	7.1	8.0	9.1

Source: Company data, Dresdner Kleinwort Research estimates

EL.En Group Balance Sheet

€m	2006	2007	2008E	2009E	2010E
Intangible asset	7.193	6.6	7.4	8.3	9.0
Tangible asset	13.7	19.8	22.8	25.6	28.5
Financial asset	4.9	6.3	10.1	10.1	10.1
Net Fixed Asset	25.8	32.7	40.3	44.1	47.6
Inventories	38.6	46.6	55.8	63.0	68.8
Receivables	36.7	42.3	51.3	58.4	64.0
Other Current Asset	10.4	10.5	12.7	14.4	15.8
Trade payables	-23.6	-28.6	-34.4	-38.9	-42.3
Other non-financial liabilities	-15.9	-20.6	-24.7	-27.9	-30.4
Reserve	-4.8	-5.1	-6.2	-7.0	-7.7
Working capital	41.4	45.1	54.5	62.0	68.3
Reserve for Personnel	-2.6	-2.5	-3.0	-3.4	-3.7
Net Invested Capital	64.6	75.3	91.8	102.7	112.2
Short Term Financial Debt	1.3	2.8	2.0	2.0	2.0
M/LT Financial Debt	1.9	3.441	1.9	1.9	1.9
Cash and Deposit	24.4	61.5	85.4	90.3	99.5
Treasury Stock	34.0	32.0	0.4	0.4	0.4
Net Financial Debt	-55.1	-87.3	-81.9	-86.8	-96.0
Group Shareholder Equity	72.1	88.295	90.1	94.1	99.2
Minorities Shareholder Equity	47.7	74.3	83.6	95.4	109.0
Total Shareholder Equity	119.7	162.6	173.7	189.5	208.1

Source: Company data, Dresdner Kleinwort Research estimates

EL.En Group Cash Flow

€m	2006	2007	2008E	2009E	2010E
Beginning NFP	73.4	55.1	87.3	81.9	86.8
Net income/loss	1.4	24.9	16.4	19.9	22.7
Depreciation & Amortization	3.4	0.0	4.2	5.3	6.3
Change in working capital	-11.6	-3.7	-9.4	-7.5	-6.3
Net change in reserve	0.4	-0.1	0.5	0.4	0.3
Cash flows from operations	-6.4	21.2	11.8	18.0	23.0
Intangible assets	-0.5	-0.6	-1.1	-1.3	-1.0
Tangible assets	-5.9	-7.5	-7.0	-7.8	-8.8
Financial Investments	-0.5	-1.4	-3.8	0.0	0.0
Other change	0.9	2.7	0.0	0.0	0.0
Cash flows from investing	-6.0	-6.9	-11.9	-9.1	-9.8
Change in Equity	-3.2	19.3	0.0	0.0	0.0
Cash flows from financing	-3.2	19.3	0.0	0.0	0.0
Dividends	-2.6	-1.4	-5.3	-4.1	-4.0
Change in NFP	-18.2	32.2	-5.4	4.9	9.2
Final NFP	55.1	87.3	81.9	86.8	96.0

Source: Company data, Dresdner Kleinwort Research estimates

Disclosure appendix

Disclosures under US regulations

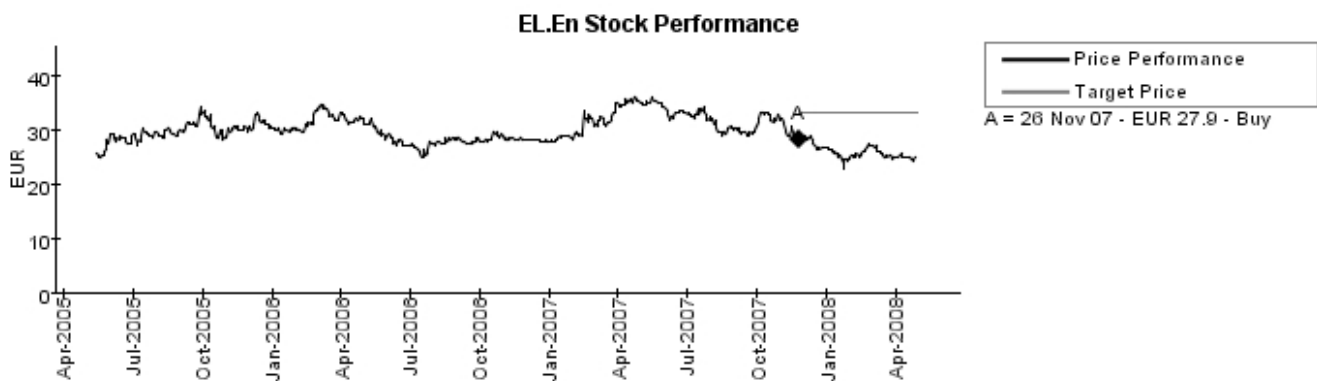
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Add:	5-10% increase in share price	Reduce:	5-10% decrease in share price
Hold:	+5%/-5% variation in share price		

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Sell/Reduce	76	12%	12	16%
Total	655		196	

Source: Dresdner Kleinwort

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