

Small Caps Opportunity

EL.EN

BUY

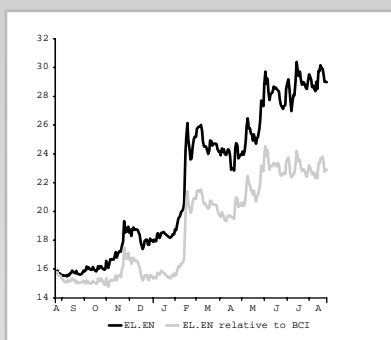
Target Price (Eu):

36.0

Current Price (Eu):

29.5

12 Months Performance



Source: Thomson Financial



Cynosure Listing... the Fastest Way to Bring Out the Hidden Value

- Listing of Cynosure on Nasdaq...
- ...the fastest way to bring out EI En's hidden value.
- We estimate a Cynosure value at US\$ 155mn...
- ...Which gives an implicit valuation of the other activities of 4x 2005 EV/EBITA.

(continued overleaf)

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- **Listing of Cynosure on Nasdaq...** El.En announced the start of the process for the listing of its subsidiary Cynosure on the Nasdaq (El.En currently controls 78% of the company). Cynosure operates in the medical lasers sector in the US market, a sector which has recorded 50% sales growth even in 2Q05. The operation is still in its early stages and the only information that has been released is the value of the maximum number of shares that will be offered: US\$75mn (the percentage of the capital this refers to is unknown, only that it does not refer to 100%).
- **...the fastest way to bring out El.En's hidden value.** Bought in 2002 at a time of operational difficulties, Cynosure has faced up to a period of restructuring (change of management, new products offered thanks to cross selling with El.En), the results of which were shown last year. We believe that the news of the listing is important for two reasons:
 - 1) it will help to reduce the discount at which El.En is trading to US peers: 45% in terms of EV/EBITA and 20% in P/E terms;
 - 2) it could allow the El.En group to grow externally in a market that is currently growing rapidly but is also characterised by serious fragmentation.
- **We estimate a Cynosure value at US\$ 155mn...** In our opinion the listing of Cynosure will allow El.En to value this asset in line with the American peers currently listed on Nasdaq. Applying these multiples (16x 2006 EV/EBIT) to our estimates for Cynosure yields a valuation of US\$155mn.
- **...Which gives an implicit valuation of the other activities of 4x 2005 EV/EBITA.** El.En's 78% stake would currently be valued at Eu98mn (or 75% of current El.En capitalization), which would give El.En's other activities the implicit multiple of 4x 2005 EV/EBITA.
- **BUY. Target at Eu 36.** The story is very attractive anyway: newsflow will improve in the next few months because of:
 - a) strong results still in sight and
 - b) Cynosure's IPO.
 El.En keeps all the right ingredients for a success story:
 - a) good management
 - b) an international presence and
 - c) in a sector, which is still growing very fast.

We think that our valuation could be considered conservative, as we didn't take still into account the value that could be probably outcrop with the listing of Cynosure.

EL.EN - Key Figures

Name	RIC	Sector	Price	Mkt Cap	MkT Float %	Vol. x000
El.En	ELN.MI	Capital Goods	29.50	136	33%	19.6
	Sales	EBITDA	EBITA	Net Profit	Nfp	BV
2003A	69.3	5.6	2.3	0.5	13.3	44.2
2004A	96.1	10.6	5.8	3.6	8.7	46.7
2005E	114.7	14.5	11.3	4.9	9.5	53.3
2006E	129.1	19.3	15.7	7.0	13.1	61.9
	P/E	P/BV	EV/EBITDA	EV/EBITA	Debt/Equity	Div.Yield
2003A	99.3	3.1	22.9	56.0	-30%	0.8%
2004E	51.6	2.9	12.0	22.1	-19%	1.2%
2005E	23.2	2.5	8.8	11.3	-18%	1.2%
2006E	17.2	2.2	6.6	8.1	-21%	1.2%

Source: Intermonte SIM estimates

Listing of Cynosure on Nasdaq

El.En has announced the start of the process for the listing of its subsidiary Cynosure on the Nasdaq (El.En currently controls 78% of the company). The operation is still in its early stages and the only information that has been released is the value of the maximum value of the stake offered: US\$75mn (the percentage of the capital this refers to is unknown, only that it does not refer to 100%).

Cynosure: an Attractive Restructuring Story with Huge Sales Growth

The company, acquired in 2002, operates in the medical laser sector, principally in the US (hair removal, treatments for vascular lesions, skin rejuvenation). Cynosure holds 26 US patents and markets fifteen different systems. The first two years post-acquisition saw serious difficulties, 2002-03 was characterized by operating losses. In September 2003 the change of management led to a restructuring of the company, which already began to bear fruit last year when Cynosure finally generated positive EBIT.

Turnover growth, however, remained high throughout the last few years, with a 2002-04 CAGR of 35%. The positive impact of the restructuring was shown in 1H results: sales +50% YoY, recovery at operating level was also confirmed with EBIT moving from US\$0.3mn to US\$1.3mn. For the year in progress we estimate that the American subsidiary's EBIT could rise to 10% of sales, for an overall EBIT of around US\$10mn.

Cynosure 2004-2007 Estimates

(US\$ mn)	2004A	2005E	2006E	2007E
Sales	40.4	56.0	66.0	76.0
<i>Growth</i>	<i>58.1%</i>	<i>38.7%</i>	<i>17.9%</i>	<i>15.2%</i>
Gross Margin	21.2	31.4	38.0	44.1
<i>Margin%</i>	<i>52.4%</i>	<i>56.0%</i>	<i>57.5%</i>	<i>58.0%</i>
Ebit	1.2	5.2	9.8	11.6
<i>Margin%</i>	<i>3.0%</i>	<i>9.2%</i>	<i>14.8%</i>	<i>15.2%</i>

Source: Intermonte SIM

Cynosure IPO will Help to Close the Huge Discount to Peers

The Cynosure IPO must be considered to be excellent news, with two very important implications:

- 1) it will help to reduce the discount at which El.En is trading to US Peers: 45% in EV/EBITA '05 terms and 20% in terms of P/E '05;
- 2) it will provide new resources to allow El.En to grow externally in a market which is still characterised by serious fragmentation. We would also like to point out that at the end of 2004 the El.En group held a positive financial position.

Looking to Peers, We Set a Value of US\$155mn for Cynosure

From the figures obtained from the information document released by the SEC it is not possible to deduce the overall value of Cynosure. The only information involves the maximum value that has been assigned to the part that will be offered in the IPO (partly through capital increase and partly through sale of shares): US\$75mn.

EL.EN - Peer Group (Medical Aesthetic Laser Companies)

(mn \$) Company	Mkt Cap	Ev/Sales		Ev/Ebita	
		'05	'06	'05	'06
Laserscope	642.2	4.5	3.7	18.7	15.8
Candela Corp	253.4	1.8	1.5	11.9	10.8
Cutera Inc	257.9	2.6	2.2	21.1	12.9
Biolase	128.5	1.4	1.0	nm	13.9
Palomar	443.8	5.5	4.6	31.0	24.0
Syneron	887.4	9.0	6.8	26.1	18.2
<i>Average</i>		<i>4.1</i>	<i>3.3</i>	<i>21.8</i>	<i>16.0</i>
El.En	135.7	1.1	1.0	11.2	7.8

Source: JCF and Bloomberg

We have assumed a valuation for 100% of Cynosure of US\$155mn. This value was reached by applying the average multiple for the sector for 2006 (16x EBIT) to our estimates for Cynosure's EBITA.

Cynosure Valuation

Cynosure Ebit '06 (mn \$)	9.8
Average Peers Ev/Ebit '06	16.0x
Equity Value (mn \$)	155.3
Value of El.En stake (78%)	121.1
Value of El.En the Satke (Eu)	98.3

Source: Intermonte SIM

Which Gives an Implicit Valuation of the Other Activities of 4x 2005 EV/EBITA

With Cynosure valued at US\$155mn, the 78% held by El.En would have a value of US\$121mn (equal to Eu98mn at the current Eu/US\$ exchange rate of 1.22).

The implicit capitalisation of other activities (industrial and European medical lasers) would be just Eu37mn (or even around Eu24mn bearing cash in mind as well). The implicit multiples of the remaining activities could be therefore: 4x EV/EBIT '05.

Implicit Value El.En (without Cynosure) on '05 Multiples

Current Mkt Cap	135.7
Implicit Value	37.4
PNF '04	8.7
Ebit '05 without Cynosure	7.0
Ev/Ebit'05	4.1

Source: Intermonte SIM

Newsflow will Keep Very Strong

We think that newsflow will improve in the next few months. Cynosure listing will help EI.En to close the discount vs Us peers. Moreover we expect that EI.En (which has still a positive NFP) could growth externally both in the two sectors: Industrial Laser division and Medical Laser.

In the next few quarters we expect still strong results. The market for cosmetic lasers in the United States is showing that the record growth levels of 2004 could well be repeated in 2005. The quarterly results of companies listed on the Nasdaq in 2Q have once again included record sales: Syneron +43%, Palomar +48% and Laserscope +56%.

All the companies have also raised their targets for FY05 commenting that there is no sign of a slowdown in the market.

Overall we believe that EI.En has all the right ingredients for a success story:

- 1) good management;
- 2) an international presence;
- 3) it forms part of a fast growing sector.

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