



19 November 2010

Investment Research

Buy

Recommendation unchanged

Share price: EUR 13.00

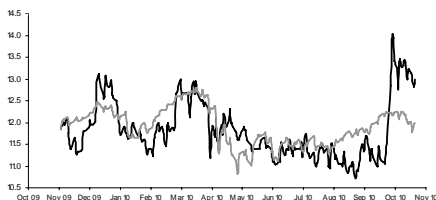
closing price as of 18/11/2010

Target price: EUR 14.60

Target Price unchanged

Reuters/Bloomberg	ELEN.MV/ELN IM
Daily avg. no. trad. sh. 12 mth	6.752
Daily avg. trad. vol. 12 mth (m)	0.08
Price high 12 mth (EUR)	14.04
Price low 12 mth (EUR)	10.71
Abs. perf. 1 mth	17.1%
Abs. perf. 3 mth	13.9%
Abs. perf. 12 mth	-0.3%
Market capitalisation (EURm)	63
Current N° of shares (m)	5
Free float	47%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	149	176	192
EBITDA (m)	(4)	12	18
EBITDA margin	nm	6.7%	9.5%
EBIT (m)	(13)	4	10
EBIT margin	nm	2.1%	5.4%
Net Profit (adj.)(m)	3	2	5
ROCE	-8.5%	2.6%	7.3%
Net debt/(cash) (m)	(69)	(75)	(79)
Net Debt Equity	-0.4	-0.5	-0.5
Net Debt/EBITDA	17.1	-6.4	-4.4
Int. cover(EBITDA/Fin.int)	15.1	(19.1)	(61.7)
EV/Sales	0.3	0.2	0.2
EV/EBITDA	nm	3.3	1.9
EV/EBITDA (adj.)	nm	3.3	1.9
EV/EBIT	nm	10.7	3.3
P/E (adj.)	nm	38.1	13.9
P/BV	0.6	0.7	0.7
OpFCF yield	10.8%	37.9%	19.6%
Dividend yield	0.0%	0.3%	0.3%
EPS (adj.)	(1.09)	0.34	0.93
BVPS	18.71	19.05	19.95
DPS	0.00	0.04	0.04



Source: Factset  
Shareholders: Majority shareholders 53%;

For company description please see summary table footnote

9M 10 results

The facts: El.En. published its 9M 10 results on Friday 12 November.

**9M 10 El.En group consolidated results:** 9M 10 sales were up by 26.3% Y/Y (higher than our forecast of +24.8%); this increase was due to the signs of recovery of the demand for “capital goods”. Furthermore, thanks to the process of operating cost reduction realised by the management, even though the investments and the expense in R&D were maintained, the group realised a positive EBITDA of EUR 9.3m (higher than our forecast of EUR 9.0m) and a positive EBIT of EUR 2.8m which showed a strong improvement compared to the negative performance in 9M 09 (EUR -10.5m).

EL.EN GROUP: 9M 10 CONSOLIDATE results

	9M 09a	9M 10a	% Chg	Akros 9M 10e	Vs Estimates
Sales	106.8	134.9	+26.3%	133.3	+1.2%
EBITDA	(4.0)	9.3	n.m.	9.0	+3.3%
% margin	n.m.	6.9%		6.8%	

Source: Company Data

**9M 10 El.En. group excluding Cynosure estimates:** 9M 10 consolidated results, excluding Cynosure, were better compared to the fully consolidated results thanks to a structure of the European companies that resulted to be more flexible than Cynosure’s structure. The group registered a higher increase in revenues and thanks to a lower impact from fixed costs on revenues, EBIT margin of 5.8% was higher than 2.1% marked by the fully consolidates financials.

EL.EN GROUP: 9M 10 EXCLUDING CYNOSURE results

	9M 09a	9M 10a	% Chg	Akros 9M 10e	Vs Estimates
Sales	71.6	93.0	+30.3%	92.3	+0.8%
EBITDA	0.9	8.7	n.m.	8.2	+6.1%
% margin	1.3%	9.3%		8.9%	

Source: Company Data

**Positive FY 10 outlook:** the management said that 9M results decidedly exceeded the forecast targets. Q4 10 results should confirm the trend of the first nine months of the year, so, the management forecasts a strong growth in the annual revenues and FY 10 EBIT margin of the group excluding Cynosure to be higher than 5.8% realised in 9M 10.

Based on the 9M results on the foregoing management guidance, we increase our FY 10e sales of the group excluding Cynosure from EUR 118m to EUR 123.1m (+21% vs previous +16%) and we raise our FY 010e EBIT from EUR 5.3m to EUR 7.3m (EBIT margin of 5.9% vs previous 4.5%). Therefore, FY 10e sales of consolidated group grew from EUR 170.9m to EUR 175.9m (+17.9% vs previous +14.6%) and, consequently, FY 010e EBIT rose from EUR 1.9m to EUR 3.7m (EBIT margin of 2.1% vs previous 1.1%).

**Conclusion & Action:** we confirm our Buy recommendation and, based on our revised estimates we have increased our target price from EUR 14.0 to EUR 14.6 per share (this target is obtained applying a discount of 10% on the fair value of EUR 16.2 per share calculated using our SoP based on DCF models of Cynosure and the El.En. group excluding Cynosure; this discount reflects an amount of penalisation applied to mid/small caps in light of their stocks’ low liquidity).

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## El.En.: Summary tables

<b>PROFIT &amp; LOSS (EURm)</b>	<b>12/2007</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010e</b>	<b>12/2011e</b>	<b>12/2012e</b>
<b>Sales</b>	<b>193</b>	<b>222</b>	<b>149</b>	<b>176</b>	<b>192</b>	<b>209</b>
Cost of Sales & Operating Costs	167	193	153	164	174	188
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>26.3</b>	<b>28.8</b>	<b>-4.0</b>	<b>11.8</b>	<b>18.2</b>	<b>21.0</b>
<b>EBITDA (adj.)*</b>	<b>26.3</b>	<b>28.8</b>	<b>-4.0</b>	<b>11.8</b>	<b>18.2</b>	<b>21.0</b>
Depreciation	-5.0	-8.3	-8.6	-8.1	-7.8	-8.0
<b>EBITA</b>	<b>21.3</b>	<b>20.6</b>	<b>-12.6</b>	<b>3.7</b>	<b>10.4</b>	<b>13.0</b>
<b>EBITA (adj)*</b>	<b>21.3</b>	<b>20.6</b>	<b>-12.6</b>	<b>3.7</b>	<b>10.4</b>	<b>13.0</b>
Amortisations and Write Downs	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>21.3</b>	<b>20.6</b>	<b>-12.6</b>	<b>3.7</b>	<b>10.4</b>	<b>13.0</b>
<b>EBIT (adj.)*</b>	<b>21.3</b>	<b>20.6</b>	<b>-12.6</b>	<b>3.7</b>	<b>10.4</b>	<b>13.0</b>
Net Financial Interest	0.6	1.5	0.3	0.6	0.3	0.4
Other Financials	0.0	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Recurrent Items	13.4	0.0	0.0	0.0	0.0	0.0
<b>Earnings Before Tax (EBT)</b>	<b>35.4</b>	<b>22.1</b>	<b>-12.3</b>	<b>4.3</b>	<b>10.7</b>	<b>13.4</b>
Tax	-10.5	-7.9	4.1	-3.7	-5.4	-5.4
<i>Tax rate</i>	<i>29.5%</i>	<i>35.6%</i>	<i>32.9%</i>	<i>85.0%</i>	<i>50.0%</i>	<i>40.0%</i>
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-7.3	-5.9	11.1	1.0	-0.9	-1.2
<b>Net Profit (reported)</b>	<b>18</b>	<b>8</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>7</b>
<b>Net Profit (adj.)</b>	<b>8</b>	<b>8</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>7</b>
<b>CASH FLOW (EURm)</b>	<b>12/2007</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010e</b>	<b>12/2011e</b>	<b>12/2012e</b>
Cash Flow from Operations before change in NWC	30.0	22.5	0.3	8.8	13.2	16.1
Change in Net Working Capital	-3.9	-12.1	5.9	15.0	-0.9	-3.6
<b>Cash Flow from Operations</b>	<b>26.1</b>	<b>10.4</b>	<b>6.2</b>	<b>23.8</b>	<b>12.3</b>	<b>12.4</b>
Capex	-9.2	-27.5	-10.8	-9.0	-8.7	-8.7
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
<b>Free Cash Flow</b>	<b>16.9</b>	<b>-17.1</b>	<b>-4.6</b>	<b>14.8</b>	<b>3.6</b>	<b>3.7</b>
Dividends	1.4	5.3	1.4	0.0	0.2	0.2
Other (incl. Capital Increase & share buy backs)	13.8	-7.8	15.4	-8.2	0.3	0.3
<b>Change in Net Debt</b>	<b>32</b>	<b>-20</b>	<b>12</b>	<b>7</b>	<b>4</b>	<b>4</b>
NOPLAT	18	13	-8	2	7	8
<b>BALANCE SHEET &amp; OTHER ITEMS (EURm)</b>	<b>12/2007</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010e</b>	<b>12/2011e</b>	<b>12/2012e</b>
Net Tangible Assets	19.8	26.3	29.8	40.2	41.1	41.8
Net Intangible Assets (incl. Goodwill)	6.6	6.4	7.0	7.0	7.0	7.0
Net Financial Assets & Other	6.4	26.5	9.4	9.4	9.4	9.4
<b>Total Fixed Assets</b>	<b>32.8</b>	<b>59.2</b>	<b>46.2</b>	<b>56.6</b>	<b>57.5</b>	<b>58.2</b>
Net Working Capital	50.3	62.4	56.5	41.5	42.3	46.0
<b>Net Capital Invested</b>	<b>83.1</b>	<b>122</b>	<b>103</b>	<b>98.1</b>	<b>99.8</b>	<b>104</b>
<b>Group Shareholders Equity</b>	<b>163</b>	<b>181</b>	<b>163</b>	<b>164</b>	<b>169</b>	<b>177</b>
<i>o/w own Shareholders Equity</i>	<i>93.6</i>	<i>96.7</i>	<i>90.2</i>	<i>91.9</i>	<i>96.2</i>	<i>103</i>
<b>Net Debt</b>	<b>-87.3</b>	<b>-67.9</b>	<b>-68.8</b>	<b>-75.4</b>	<b>-79.4</b>	<b>-83.7</b>
Provisions	2	2	3	3	3	3
Other Net Liabilities or Assets	5	6	6	7	7	8
<b>Net Capital Employed</b>	<b>83</b>	<b>122</b>	<b>103</b>	<b>98</b>	<b>100</b>	<b>104</b>
<b>GROWTH &amp; MARGINS</b>	<b>12/2007</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010e</b>	<b>12/2011e</b>	<b>12/2012e</b>
<i>Sales growth</i>	<i>25.3%</i>	<i>14.6%</i>	<i>-32.7%</i>	<i>17.9%</i>	<i>9.4%</i>	<i>8.7%</i>
<b>EBITDA (adj.)* growth</b>	<b>179.2%</b>	<b>9.4%</b>	<b>-chg</b>	<b>+chg</b>	<b>54.5%</b>	<b>15.4%</b>
<i>EBITA (adj.)* growth</i>	<i>404.9%</i>	<i>-3.5%</i>	<i>-chg</i>	<i>+chg</i>	<i>181.5%</i>	<i>25.1%</i>
<i>EBIT (adj)* growth</i>	<i>404.9%</i>	<i>-3.5%</i>	<i>-chg</i>	<i>+chg</i>	<i>181.5%</i>	<i>25.1%</i>
<i>Net Profit growth</i>	<i>577.5%</i>	<i>1.6%</i>	<i>-65.5%</i>	<i>-42.4%</i>	<i>173.2%</i>	<i>51.4%</i>
<b>EPS adj. growth</b>	<b>567.7%</b>	<b>0.2%</b>	<b>-chg</b>	<b>+chg</b>	<b>173.2%</b>	<b>51.4%</b>
<i>DPS adj. growth</i>	<i>266.7%</i>	<i>-72.7%</i>	<i>-chg</i>	<i>+chg</i>	<i>25.0%</i>	<i>25.0%</i>
<b>EBITDA margin</b>	<b>13.6%</b>	<b>13.0%</b>	<b>nm</b>	<b>6.7%</b>	<b>9.5%</b>	<b>10.1%</b>
<i>EBITDA (adj)* margin</i>	<i>13.6%</i>	<i>13.0%</i>	<i>nm</i>	<i>6.7%</i>	<i>9.5%</i>	<i>10.1%</i>
<i>EBITA margin</i>	<i>11.0%</i>	<i>9.3%</i>	<i>-8.4%</i>	<i>2.1%</i>	<i>5.4%</i>	<i>6.2%</i>
<i>EBITA (adj)* margin</i>	<i>11.0%</i>	<i>9.3%</i>	<i>-8.4%</i>	<i>2.1%</i>	<i>5.4%</i>	<i>6.2%</i>
<i>EBIT margin</i>	<i>11.0%</i>	<i>9.3%</i>	<i>nm</i>	<i>2.1%</i>	<i>5.4%</i>	<i>6.2%</i>
<i>EBIT (adj)* margin</i>	<i>11.0%</i>	<i>9.3%</i>	<i>nm</i>	<i>2.1%</i>	<i>5.4%</i>	<i>6.2%</i>

## El.En.: Summary tables

<b>RATIOS</b>	<b>12/2007</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010e</b>	<b>12/2011e</b>	<b>12/2012e</b>
Net Debt/Equity	-0.5	-0.4	-0.4	-0.5	-0.5	-0.5
Net Debt/EBITDA	-3.3	-2.4	17.1	-6.4	-4.4	-4.0
Interest cover (EBITDA/Fin.interest)	nm	nm	15.1	nm	nm	nm
Capex/D&A	183.3%	332.6%	126.0%	111.1%	111.3%	108.7%
Capex/Sales	4.8%	12.4%	7.2%	5.1%	4.5%	4.2%
NWC/Sales	26.0%	28.2%	37.9%	23.6%	22.0%	22.0%
ROE (average)	9.9%	8.7%	3.1%	1.8%	4.8%	6.8%
ROCE (adj.)	23.1%	13.6%	-8.5%	2.6%	7.3%	8.7%
WACC	9.1%	10.1%	9.5%	9.5%	9.5%	9.5%
ROCE (adj.)/WACC	2.5	1.3	-0.9	0.3	0.8	0.9
<b>PER SHARE DATA (EUR)***</b>	<b>12/2007</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010e</b>	<b>12/2011e</b>	<b>12/2012e</b>
Average diluted number of shares	4.8	4.8	4.8	4.8	4.8	4.8
EPS (reported)	3.71	1.73	-1.09	0.34	0.93	1.41
EPS (adj.)	1.72	1.72	-1.09	0.34	0.93	1.41
BVPS	19.40	20.04	18.71	19.05	19.95	21.32
DPS	1.10	0.30	0.00	0.04	0.04	0.05
<b>VALUATION</b>	<b>12/2007</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010e</b>	<b>12/2011e</b>	<b>12/2012e</b>
EV/Sales	0.8	0.5	0.3	0.2	0.2	0.1
EV/EBITDA	6.1	4.2	nm	3.3	1.9	1.3
<b>EV/EBITDA (adj.)*</b>	<b>6.1</b>	<b>4.2</b>	<b>nm</b>	<b>3.3</b>	<b>1.9</b>	<b>1.3</b>
EV/EBITA	7.5	5.9	-3.6	10.7	3.3	2.1
<b>EV/EBITA (adj.)*</b>	<b>7.5</b>	<b>5.9</b>	<b>-3.6</b>	<b>10.7</b>	<b>3.3</b>	<b>2.1</b>
EV/EBIT	7.5	5.9	nm	10.7	3.3	2.1
<b>EV/EBIT (adj.)*</b>	<b>7.5</b>	<b>5.9</b>	<b>nm</b>	<b>10.7</b>	<b>3.3</b>	<b>2.1</b>
<b>P/E (adj.)</b>	<b>15.6</b>	<b>8.1</b>	<b>nm</b>	<b>38.1</b>	<b>13.9</b>	<b>9.2</b>
P/BV	1.4	0.7	0.6	0.7	0.7	0.6
Total Yield Ratio	-4.1%	-2.2%	0.0%	-0.3%	-0.3%	
EV/CE	2.1	1.3	0.5	0.4	0.4	0.3
OpFCF yield	20.2%	15.5%	10.8%	37.9%	19.6%	19.8%
OpFCF/EV	16.4%	8.5%	13.8%	60.2%	36.1%	44.8%
Payout ratio	29.7%	17.4%	0.0%	10.2%	4.7%	3.9%
Dividend yield (gross)	4.1%	2.2%	0.0%	0.3%	0.3%	0.4%
<b>EV AND MKT CAP (EURm)</b>	<b>12/2007</b>	<b>12/2008</b>	<b>12/2009</b>	<b>12/2010e</b>	<b>12/2011e</b>	<b>12/2012e</b>
Price** (EUR)	26.8	13.9	12.0	13.0	13.0	13.0
Outstanding number of shares for main stock	4.8	4.8	4.8	4.8	4.8	4.8
<b>Total Market Cap</b>	<b>129</b>	<b>66.9</b>	<b>57.7</b>	<b>62.7</b>	<b>62.7</b>	<b>62.7</b>
<b>Net Debt</b>	<b>-87.3</b>	<b>-67.9</b>	<b>-68.8</b>	<b>-75.4</b>	<b>-79.4</b>	<b>-83.7</b>
<i>o/w Cash &amp; Marketable Securities (-)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>o/w Gross Debt (+)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<b>Other EV components</b>	<b>118</b>	<b>123</b>	<b>56</b>	<b>52</b>	<b>51</b>	<b>49</b>
Enterprise Value (EV adj.)	<b>160</b>	<b>122</b>	<b>45</b>	<b>40</b>	<b>34</b>	<b>28</b>

Source: Company, Banca Akros estimates.

## Notes

\* Where EBITDA (adj.) or EBITA (adj.) or EBIT (adj.) = EBITDA (or EBITA or EBIT) +/- Non Recurrent Expenses/Income

\*\*Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

\*\*\*EPS (adj.) diluted = Net Profit (adj.)/Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported/Avg DIL. Ord. (+ Ord. equivalent) Shs.

Sector: Industrial Engineering/Industrial Machinery

Company Description: EL.EN. is an industrial high-tech group operating in the opto-electronics sector. The company exploits its own technology and multidisciplinary know-how to produce laser sources (gas, liquid, solid-state and semiconductors) and innovative laser systems for medical and industrial applications. El.En. Group, one of the leading operators in Europe and the world in the laser market, designs, manufactures and markets at an international level: 1) medical laser devices used in dermatology, surgery, cosmetics, physiotherapy, dentistry and gynaecology 2) industrial laser systems for applications that range from the cutting, marking and welding 3) systems for scientific applications and research.

## ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a **total return**, measured by the upside potential (including dividends and capital reimbursement) over a **12 month time horizon**.

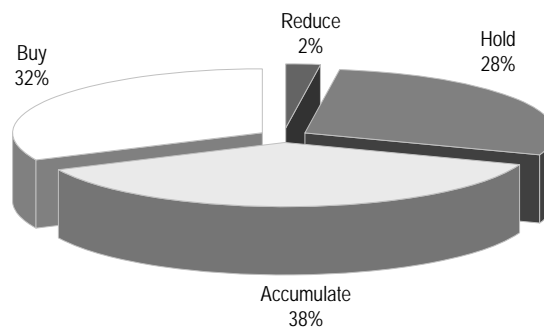
The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce and Sell (in short: B, A, H, R, S)**.

Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

### Meaning of each recommendation or rating:

- **Buy:** the stock is expected to generate total return of **over 20%** during the next 12 months time horizon
- **Accumulate:** the stock is expected to generate total return of **10% to 20%** during the next 12 months time horizon
- **Hold:** the stock is expected to generate total return of **0% to 10%** during the next 12 months time horizon.
- **Reduce:** the stock is expected to generate total return of **0% to -10%** during the next 12 months time horizon
- **Sell:** the stock is expected to generate total return **under -10%** during the next 12 months time horizon
- **Rating Suspended:** the rating is suspended due to a capital operation (take-over bid, SPO, ...) where the issuer of the document (a partner of ESN) or a related party of the issuer is or could be involved or to a change of analyst covering the stock
- **Not Rated:** there is no rating for a company being floated (IPO) by the issuer of the document (a partner of ESN) or a related party of the issuer

**Banca Akros Ratings Breakdown**

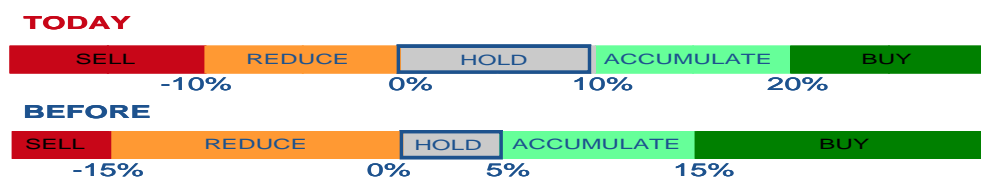


### History of ESN Recommendation System

**Since 18 October 2004**, the Members of ESN are using an Absolute Recommendation System (before was a Relative Rec. System) to rate any single stock under coverage.

**Since 4 August 2008**, the ESN Rec. System has been amended as follow.

- Time horizon changed to 12 months (it was 6 months)
- Recommendations Total Return Range changed as below:



Il presente documento è stato redatto da Paola Saglietti (socio AIAF) che svolge funzioni di analista presso Banca Akros SpA ("Banca Akros"), soggetto responsabile della produzione del documento stesso.

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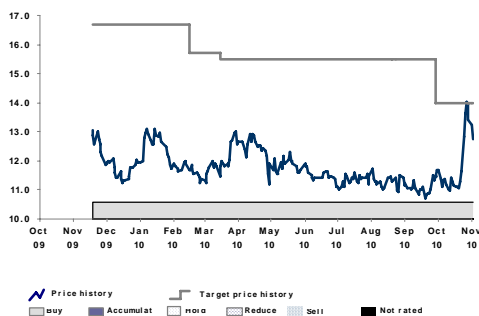
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#### Recommendation history for El.En.

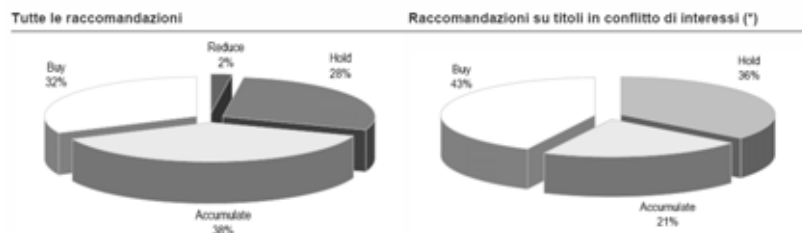
Date	Recommendation	Target price	Price at change date
15-Nov-10	Buy	14.60	13.14
29-Sep-10	Buy	14.00	11.45
15-Mar-10	Buy	15.50	11.45
15-Feb-10	Buy	15.70	11.69
25-Sep-09	Buy	16.70	12.00

Source: Factset & ESN, price data adjusted for stock splits.

This chart shows Banca Akros continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Paola Saglietti (since 28/09/2009)



#### Percentuale delle raccomandazioni al 30 settembre 2010



(\*) Si informa che la percentuale degli emittenti in potenziale conflitto di interessi con Banca Akros è pari al 16% del totale degli emittenti oggetto di copertura

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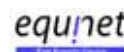
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