

Reporting on 14 Nov 2008

# Buy

Current €18.77

Target €33.10

Current price equivalent  
\$25.48

Market cap  
€90,553t  
\$122.9m

52-week high/low  
€30.09/€17.52

Q3 ending on 30 Sep 2008

Price perf.	1M	3M	12M
Price (€)	17.5	24.2	28.9
Absolute (%)	2.8	-20.8	-34.7
Rel market (%)	17.3	16.5	29.3
Rel sector (%)	31.4	34.3	41.7

EPS change	1M	3M	12M
EPS FY1 (%)	0.0	0.0	N/A
IBES EPS (%)	0.0	0.0	N/A
Sector EPS (%)	3.8	5.1	-5.3
Market EPS (%)	-3.0	-5.8	N/A

Source: DKIB, Thomson IBES

ELEN.MI ELN IM

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## EL.En

Preview for Q3. A decent quarter in a weak environment

**EI.En. will report its Q3 2008 results tomorrow at market close. We expect a good organic revenue performance driven once again by the medical business. We estimate EBITDA at €8.7m (+28% YoY) and EBT at €7.1m (+19% YoY). The market would welcome any comment about the possible impact of the current weak marco environment, in our view. We reiterate our Buy and DCF target price of €33.1 per share.**

### EL.En forecasts

Year	Sales EUR m	EBITDA margin %	Operating margin %	Net		P/E x	EV/ EBITDA x	FCF yield %	Yield %
				income EUR m	EPS EUR				
Dec-2006A	154	5.8	2.5	0	0.08	223.0	7.3	(14.1)	1.6
Dec-2007A	193	13.6	11.0	18	1.24	15.1	2.2	15.8	5.9
Dec-2008E	235	14.6	12.0	7	1.48	12.7	4.5	(0.1)	4.5
Dec-2009E	267	15.1	12.4	8	1.67	11.3	3.8	9.8	4.4
Dec-2010E	293	15.5	12.7	9	1.89	9.9	3.3	14.6	5.5

Source: Company data, Dresdner Kleinwort Research estimates

- ▶ We estimate Group's top line at €53m in Q3 2008 (+14% YoY). Having released a strong +25% YoY in Q2 2008 and +28% YoY in Q1 2008, we expect Group revenues to be affected by: 1) a 9% depreciation in €/€ rate; 2) a slight deceleration in Cynosure (fully consolidated, 23.82% owned), which has already disclosed sales of US\$38m (+21% YoY, after +30% in Q2 2008 and 41% in Q1 2008). We expect sharp growth in the industrial segment (+28% YoY), benefiting from the newly acquired GLI (Feb. 2008).
- ▶ We will focus on the performance of other EI.En.'s operations (excluding Cynosure), and the Group's cash generation. Please note that Net cash position decreased to €52m in H1 2008 from €84m at year-end 2007 mainly to reflect a different reclassification of marketable securities at Cynosure (USD27m) and the acquisition of GLI (€3.8m), including the consolidation of its net debt of ca. €1.4m.
- ▶ Pending the results release, we reiterate our positive stance on the stock, which reflects: 1) deep commitment to the Chinese, Japanese and Brazilian markets; 2) opportunity to manage an effective turnaround at Lasercut and Deka and 3) compelling valuation. EI.En. is trading 3.8x EV/EBITDA 09E and 11.3x P/E 09E, which we do not think is challenging considering: 1) the huge Group's Net cash and 2) that EPS CAGR is expect at 15% in the next 3 years.

**Online research:**

[www.dresdnerkleinwort.com/research](http://www.dresdnerkleinwort.com/research)

**Bloomberg:**

DKIB1<GO>

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**EI.En. Group Preview Q3 2008**

€m	Q3'08E	Q3'07	Change	Change (%)	9M'08E	9M'07	Change	Change (%)
<b>Revenues</b>	<b>53.2</b>	<b>46.7</b>	<b>6.5</b>	<b>14.0</b>	<b>166.8</b>	<b>136.7</b>	<b>30.1</b>	<b>22.0</b>
- Industrial Laser	6.0	4.7	1.3	28.3	20.8	15.2	5.7	37.3
- Cut	2.3	1.9	0.4	20.0	8.1	6.4	1.7	27.2
- Marking & Welding	1.9	1.8	0.1	7.0	6.2	5.8	0.4	6.5
- Laser Sources	1.6	0.9	0.7	80.0	6.1	2.8	3.3	118.3
- Restoring & Conserving	0.2	0.1	0.1	150.0	0.4	0.2	0.2	145.4
- Medical Laser	40.0	35.6	4.4	12.4	124.5	102.9	21.7	21.1
- CO2 Chirurgic	1.8	0.9	0.9	100.0	5.7	2.3	3.4	151.9
- Terapy	0.7	0.7	0.0	-4.0	2.8	2.8	0.0	-1.2
- Aesthetic	32.2	29.1	3.1	10.8	99.7	83.2	16.5	19.8
- Dental	2.3	2.2	0.1	4.0	6.1	5.8	0.3	4.7
- Other	2.4	2.5	-0.1	-3.0	8.3	8.2	0.1	1.1
- Accessories	0.7	0.2	0.4	180.0	2.0	0.6	1.4	232.1
- Assistance	7.1	6.4	0.8	12.0	21.4	18.7	2.8	14.8
Change in finished goods	0.5	1.3	-0.9	-65.8	4.9	7.9	-3.0	-37.7
Other income	0.4	0.5	-0.1	-13.8	1.0	1.2	-0.2	-17.0
<b>Value of Production</b>	<b>54.0</b>	<b>48.5</b>	<b>5.6</b>	<b>11.5</b>	<b>172.7</b>	<b>145.8</b>	<b>26.9</b>	<b>18.5</b>
Purchases	-20.0	-18.1	-1.9	10.7	-67.4	-57.3	-10.1	17.6
Change in row materials	1.1	0.6	0.5	88.8	5.8	2.5	3.3	132.9
Other direct cost	-5.1	-4.7	-0.4	8.9	-16.9	-14.0	-3.0	21.2
<b>Gross Margin</b>	<b>30.0</b>	<b>26.3</b>	<b>3.7</b>	<b>14.3</b>	<b>94.2</b>	<b>77.0</b>	<b>17.2</b>	<b>22.4</b>
<b>% on sales</b>	<b>56.5</b>	<b>56.4</b>	<b>0.2</b>		<b>56.5</b>	<b>56.3</b>	<b>0.2</b>	
Other cost and services	-10.8	-9.7	-1.1	11.2	-34.1	-28.1	-6.0	21.5
Labour cost	-10.5	-9.8	-0.8	8.0	-33.4	-30.2	-3.2	10.5
<b>EBITDA</b>	<b>8.7</b>	<b>6.8</b>	<b>1.9</b>	<b>27.5</b>	<b>26.6</b>	<b>18.7</b>	<b>8.0</b>	<b>42.9</b>
<b>EBITDA margin (%)</b>	<b>16.4</b>	<b>14.7</b>	<b>1.8</b>		<b>16.0</b>	<b>13.6</b>	<b>2.3</b>	
D&A	-1.6	-0.9	-0.7	84.2	-4.4	-3.6	-0.8	23.6
<b>EBIT</b>	<b>7.1</b>	<b>6.0</b>	<b>1.2</b>	<b>19.3</b>	<b>22.2</b>	<b>15.1</b>	<b>7.2</b>	<b>47.5</b>
<b>EBIT margin (%)</b>	<b>13.4</b>	<b>12.8</b>	<b>0.6</b>		<b>13.3</b>	<b>11.0</b>	<b>2.3</b>	
Net financial income	0.4	0.3	0.1	19.2	1.3	0.8	0.4	54.1
Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-17.1
Other Income/Expences	0.0	-0.2	0.2	-101.1	-0.1	-1.4	1.3	-92.8
<b>EBT</b>	<b>7.5</b>	<b>6.1</b>	<b>1.4</b>	<b>23.1</b>	<b>23.3</b>	<b>14.4</b>	<b>8.9</b>	<b>61.8</b>

Source: Company data, Dresdner Kleinwort Research estimates

## EL.En Group Quarterly Trend

€m	Q3'06	Q4'06	Q1'07	Q2'07	Q3'07	Q4'07	Q1'08	Q2'08	Q3'08E
Revenues	34.9	47.4	43.0	47.1	46.7	56.7	54.9	58.8	53.2
- Industrial Lasers	4.9	7.3	5.5	5.0	4.7	7.6	7.2	7.6	6.0
- Medical Lasers	25.7	35.0	31.6	35.7	35.6	42.9	40.9	43.6	40.0
- Assistance	4.2	4.9	5.9	6.4	6.4	6.2	6.7	7.6	7.1
Gross Margin	18.8	25.4	24.1	26.6	26.3	31.2	30.7	32.4	30.0
EBITDA	-3.9	6.2	5.0	6.8	6.8	7.7	8.1	8.7	8.7
EBIT	-5.0	4.4	3.8	5.3	6.0	6.2	6.9	7.1	7.1
EBT	-4.4	4.8	3.5	4.9	6.1	21.0	7.3	7.5	7.5
YoY growth (%)									
Revenues	19.3	26.8	25.2	24.5	33.8	19.7	27.6	24.8	14.0
- Industrial Lasers	21.3	-8.3	27.0	-22.1	-4.8	4.3	30.8	52.9	28.3
- Medical Lasers	20.1	38.1	24.8	31.3	38.4	22.5	29.5	22.2	12.4
- Assistance	12.5	25.8	26.0	51.1	50.9	24.8	14.6	17.7	12.0
Gross Margin	19.7	24.0	33.1	33.2	39.6	22.5	27.6	21.5	14.3
EBITDA	-199.5	0.8	72.3	61.2	-277.5	24.7	61.9	28.2	27.5
EBIT	-270.9	16.3	125.2	68.4	-219.0	41.5	80.3	34.8	19.3
Margin (%)									
Gross Margin (%)	54.0	53.7	55.9	56.6	56.4	55.0	55.9	55.1	56.5
EBITDA margin (%)	-11.1	13.0	11.7	14.4	14.7	13.6	14.8	14.8	16.4
EBIT margin (%)	-14.4	9.3	8.9	11.2	12.8	11.0	12.6	12.1	13.4

Source: Company data, Dresdner Kleinwort Research estimates

## Disclosure appendix

### Disclosures under US regulations

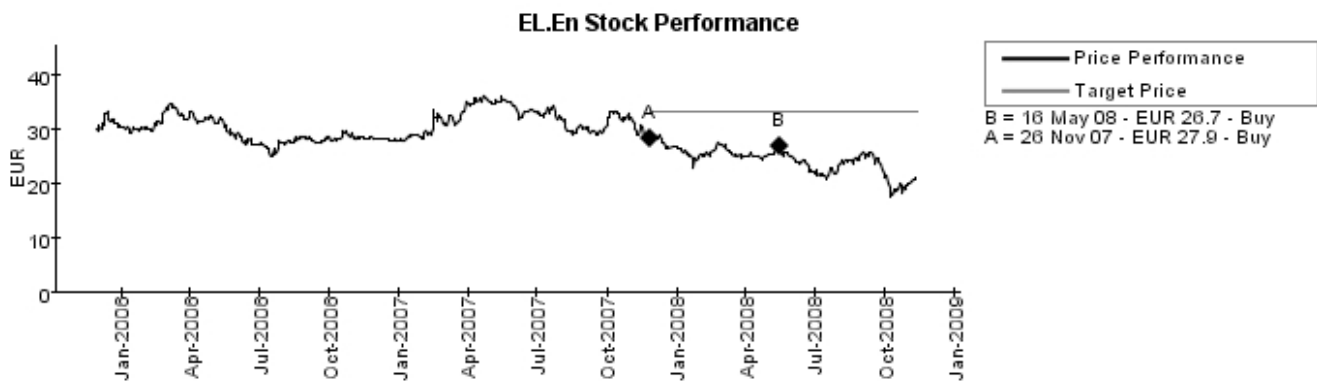
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(Except as otherwise noted, expected performance over next 12 months)

Buy:	10% or greater increase in share price	Sell:	10% or more decrease in share price
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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#### Sector\* relative basis

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Buy/Add	335	57%	45	13%
Hold	180	31%	17	9%
Sell/Reduce	73	12%	9	12%
<b>Total</b>	<b>588</b>		<b>71</b>	

Source: Dresdner Kleinwort

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