

EL.EN.**BUY**SECTOR: *Industrials*

Price (Eu):

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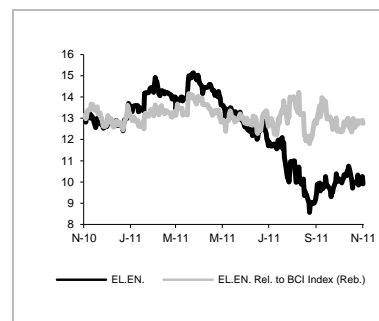
Target Price (Eu):

16.60

Worsening Economic Environment Makes It Difficult To Achieve Guidance

- El.En Group's quarterly results lower than expected.** Sales came in at Eu49.1mn in 3Q11, up 14.0% YoY (after posting 10.4% growth in 1Q11 and 4.2% in 2Q11), in line with our estimate. Over 9M11, the industrial division reported 23.3% YoY sales growth, boosted by higher sales in China and Brazil; sales for medical systems showed a mid-single-digit increase (+4.9% YoY) as a result of strong growth at Cynosure (+20% YoY in euro) due to the consolidation of Eleme Medical and HOYA ConBio, and El.En posted a negative performance (-5.1% YoY). In 3Q11 EBITDA decreased by 40.2% YoY to Eu2.2mn; the margin on sales decreased to 4.5% due to non-recurring costs at Cynosure relating to the acquisition made during the year and pricing pressure within the medical business. EBIT was penalised by higher risk provisions, and turned negative at Eu-0.6mn, whereas we were expecting a positive result. The Group posted a pre-tax loss of Eu0.2mn, down from a profit of Eu0.6mn in 3Q10, despite positive changes in the USD/EUR exchange rate in the quarter. The Group's net cash position remained broadly unchanged QoQ at Eu42.7mn, in line with our expectations.
- El.En ex-Cynosure posted lower growth and profitability.** El.En excluding Cynosure posted a growth rate of 4.4% YoY in 3Q11, higher than in 2Q11 when it recorded +2.7%. The EBITDA margin was 5.0%, half that of 3Q10. EBIT went down by 85.7% YoY but remained positive at Eu0.3mn. Pre-tax profit came to Eu0.8mn, benefiting from positive FOREX changes in the quarter, while net debt increased to Eu3.8mn from Eu2.7mn in 2Q11.
- Guidance at risk; 2011 estimates revised downwards.** Management stated that the annual goal (limited to El.En ex-Cynosure) of increasing EBIT compared to 2010 will now be difficult to achieve. We have therefore revised our estimates. Sales have been left basically unchanged while we have revised EBITDA downwards to take into account increased price pressure within the medical sector, especially in 2011. Changes in pre-tax profit reflect those in EBITDA. The positive changes in our EPS estimates for 2012 and 2013 are due to lower minorities at El.En ex-Cynosure and a lower tax rate at Cynosure.
- BUY confirmed.** Our target price (based on an SoP valuation) is basically unchanged at Eu16.6, suggesting there is still upside of over 70%. We reiterate our positive stance on the stock as i) El.En should benefit from high exposure to the medical and aesthetic treatment sector, which enjoys sustainable growth drivers; and ii) Cynosure's turnaround, sustained by the acquisitions of Eleme Medical and HOYA ConBio and the marketing of new products, should provide a further boost to the Group's results. Finally, El.En excluding Cynosure is trading at 2.0x EV/EVITDA and at 0.2x EV/sales on 2011 which makes the valuation undemanding.
- Risks.** The main risks to our recommendation are: a worsening macroeconomic environment, limited credit availability, increasing competitive pressure in the medical sector and finally, high USD/EUR volatility.

EL.EN. - 12m Performance



Eu/USD: 1.33 2010; 1.35 2011/12

RATING: Unchanged**TARGET PRICE (Eu): from 16.70 to 16.60**

Change in EPS est:	2011E	2012E
	-19.7%	n.m

STOCK DATA

Reuters code:	ELEN.MI
Bloomberg code:	ELN IM

Performance	1m	3m	12m
Absolute	-2.5%	-9.6%	-24.6%
Relative	2.1%	-8.4%	-2.2%
12 months H/L:	15.14/8.56		

SHAREHOLDER DATA

No. of Ord. shares (mn):	5
Total No. of shares (mn):	5
Mkt Cap Ord (Eu mn):	48
Total Mkt Cap (Eu mn):	48
Mkt Float - ord (Eu mn):	22
Mkt Float (in %):	46.3%
Main shareholder:	
Cangioli Andrea	13.5%

BALANCE SHEET DATA

	2011
Book value (Eu mn):	94
BVPS (Eu):	19.51
P/BV:	0.5
Net Financial Position (Eu mn):	41
Enterprise value (Eu mn):	93

Key Figures	2009A	2010A	2011E	2012E	2013E
Sales (Eu mn)	149	190	206	229	248
Ebitda (Eu mn)	-4	14	15	20	25
Net profit (Eu mn)	-5	1	0	4	7
EPS - New (Eu)	-1.090	0.269	0.083	0.808	1.513
EPS - Old (Eu)	-1.090	0.269	0.103	0.290	0.622
DPS (Eu)	0.000	0.200	0.083	0.228	0.497

Ratios & Multiples	2009A	2010A	2011E	2012E	2013E
P/E	nm	36.9	nm	12.3	6.5
Div. Yield	0.0%	2.0%	0.8%	2.3%	5.0%
EV/Ebitda	nm	4.2	6.3	4.6	3.6
ROCE	-12.1%	5.7%	4.0%	6.7%	9.8%

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EL.EN. - KEY FIGURES

		2009A	2010A	2011E	2012E	2013E
	Fiscal year end	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013
PROFIT & LOSS (Eu mn)	Sales	149	190	206	229	248
	EBITDA	(4)	14	15	20	25
	EBIT	(13)	5	5	9	13
	Financial income (charges)	1	0	0	0	0
	Associates & Others	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit (Loss)	(12)	5	4	8	12
	Taxes	(4)	(4)	(3)	(4)	(5)
	Tax rate (%)	32.9%	-90.7%	-70.0%	-43.9%	-40.3%
	Minorities & discontinue activities	(11)	(1)	(1)	(1)	(0)
	Net profit	-5	1	0	4	7
	Total extraordinary items	0	0	0	0	0
Ebitda excl. extraordinary items	(4)	14	15	20	25	
Ebit excl. extraordinary items	(13)	5	5	9	13	
Net profit restated	(5)	1	0	4	7	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	5	5	5	5	5
	EPS stated fd	-1.090	0.269	0.083	0.808	1.513
	EPS restated fd	-1.090	0.269	0.083	0.808	1.513
	BVPS fd	18.706	19.940	19.513	20.094	21.109
	Dividend per share (ord)	0.000	0.200	0.083	0.228	0.497
	Dividend per share (sav)					
Dividend pay out ratio (%)	0.0%	76.0%	100.0%	28.2%	32.9%	
CASH FLOW (Eu mn)	Gross cash flow	(19)	8	11	15	19
	Change in NWC	12	(5)	(9)	(8)	(7)
	Capital expenditure	(10)	(6)	(7)	(8)	(8)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(18)	(3)	(5)	(0)	3
	Acquisitions, divestments & others	2	1	(18)	0	0
	Dividend	(1)	(0)	(1)	(0)	(1)
	Equity financing/Buy-back	1	(1)	0	0	0
Change in Net Financial Position	1	6	(34)	2	2	
BALANCE SHEET (Eu mn)	Total fixed assets	38	37	37	38	39
	Net working capital	52	56	65	72	80
	Long term liabilities	5	4	28	21	15
	Net capital employed	94	97	130	131	134
	Net financial position	69	75	41	43	45
	Group equity	163	172	172	175	179
	Minorities	73	78	78	78	78
Net equity	90	94	94	97	102	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	48	48	48	48	48
	Adjustments (associate & minorities)	(87)	(87)	(86)	(86)	(86)
	Net financial position	69	75	41	43	45
	Enterprise value	66	60	93	91	89
RATIOS(%)	EBITDA margin*	nm	7.5%	7.2%	8.6%	9.9%
	EBIT margin*	nm	2.9%	2.2%	3.8%	5.3%
	Gearing - Debt/equity	-42.2%	-43.6%	-24.0%	-24.9%	-25.3%
	Interest cover on EBIT	13.3	nm	nm	nm	nm
	Debt/Ebitda	17.11	nm	nm	nm	nm
	ROCE*	-12.1%	5.7%	4.0%	6.7%	9.8%
	ROE*	-5.6%	1.4%	0.4%	4.1%	7.3%
	EV/CE	0.6	0.6	0.8	0.7	0.7
	EV/Sales	0.4	0.3	0.4	0.4	0.4
	EV/Ebit	nm	11.0	20.2	10.3	6.8
Free Cash Flow Yield	-13.0%	-1.9%	-3.9%	-0.3%	2.3%	
GROWTH RATES (%)	Sales	-32.7%	27.3%	8.6%	11.3%	7.9%
	EBITDA*	nm	nm	3.5%	33.8%	23.7%
	EBIT*	nm	nm	-15.2%	91.3%	47.7%
	Net profit	nm	nm	-68.5%	875.0%	87.2%
	EPS restated	nm	nm	-69.2%	875.0%	87.2%

* Excluding extraordinary items

Source: Intermonte SIM estimates

3Q11 Results

El.En Group

The El.En Group posted sales of Eu49.1mn in 3Q11, up 14.0% YoY (after posting 10.4% growth in 1Q11 and 4.2% in 2Q11), in line with our estimate.

Over 9M11, the industrial division reported sales up 23.3% YoY (with cutting lasers sales, the biggest reference market, up 34.2% YoY), boosted by higher sales in emerging markets (mainly China and Brazil). Sales for medical systems showed a mid-single-digit increase (+4.9% YoY) as a result of strong growth at Cynosure (+20% YoY in euro) due to the consolidation of Eleme Medical and HOYA ConBio, and a negative performance at El.En (-5.1% YoY). The service business did well, with sales up 12.3% YoY.

In 3Q11 EBITDA decreased by 40.2% YoY to Eu2.2mn; the margin on sales decreased to 4.5% due to non-recurring costs at Cynosure relating to the acquisition made during the year and pricing pressure within the medical business. EBIT was penalised by higher risk provisions, and turned negative at Eu-0.6mn, whereas we were expecting a positive result. The Group posted a pre-tax loss of Eu0.2mn, down from a profit of Eu0.6mn in 3Q10, despite positive changes in the USD/EUR exchange rate in the quarter.

The Group's net cash position remained broadly unchanged QoQ at Eu42.7mn, in line with our expectations.

El.En Group 3Q11 results

(€ mn)	1Q10A	1Q11A	2Q10A	2Q11A	3Q10A	3Q11A	3Q11E	A v E	9M10A	9M11A	2010A	2011E
Sales	41.1	45.3	50.8	52.9	43.1	49.1	50.0	-1.8%	134.9	147.3	189.8	206.1
YoY growth %		10.4%		4.2%		14.0%	16.1%			9.2%		8.6%
EBITDA	1.4	2.1	4.2	3.5	3.7	2.2	3.0	-27.0%	9.3	7.9	14.3	14.8
Ebitda margin %	3.4%	4.7%	8.3%	6.7%	8.5%	4.5%	6.0%		6.9%	5.3%	7.5%	7.2%
YoY growth %		54.7%		-16.3%		-40.2%	-18.0%			-15.2%		3.5%
Total D&A	(1.9)	(2.6)	(2.4)	(2.5)	(2.2)	(2.8)	(1.5)		(6.4)	(7.9)	(8.9)	(10.2)
EBIT	(0.5)	(0.5)	1.9	1.0	1.5	(0.6)	1.5	n.m.	2.8	-0.1	5.4	4.6
Ebit margin %	-1.2%	-1.0%	3.7%	1.9%	3.4%	-1.2%	3.0%		2.1%	0.0%	2.9%	2.2%
YoY growth %		-4.5%		-47.1%		n.m.	2.7%			-102.3%		-15.2%
Net financials & Participations	0.1	(0.8)	(0.4)	(0.2)	(0.9)	0.3	(0.2)		(1.1)	(0.7)	(0.7)	(0.6)
Pretax Profit	(0.4)	(1.3)	1.5	0.8	0.6	(0.2)	1.3	n.m.	1.7	-0.8	4.7	4.0
Taxes											(4.3)	(2.8)
Minorities											(0.8)	(0.8)
Group Net Profit											1.3	0.4
Net margin %											0.7%	0.2%
YoY growth %												-68.5%

Source: Intermonte Sim

El.En ex Cynosure

El.En excluding Cynosure posted a growth rate of 4.4% YoY in 3Q11, higher than in 2Q11 when it recorded +2.7% growth. The EBITDA margin was 5.0%, half that of 3Q10. EBIT went down by 85.7% YoY but remained positive at Eu0.3mn. Pre-tax profit came to Eu0.8mn, benefiting from positive FOREX changes in the quarter, while net debt increased to Eu3.8mn from Eu2.7mn at the end of 2Q11.

El.En ex Cynosure 3Q11 results

(€ mn)	1Q10A	1Q11A	2Q10A	2Q11A	3Q10A	3Q11A	9M10A	9M11A	2010A	2011E
Sales	28.4	30.9	35.5	36.4	29.1	30.4	93.0	97.7	132.6	138.5
YoY growth %		8.8%		2.7%		4.4%		5.1%		4.5%
EBITDA	1.7	2.4	3.9	3.7	3.0	1.5	8.7	7.6	13.3	12.0
Ebitda margin %	6.0%	7.8%	11.1%	10.1%	10.4%	5.0%	9.3%	7.8%	10.1%	8.7%
YoY growth %		41.7%		-6.7%		-49.7%		-12.3%		-10.0%
Total D&A	(0.7)	(1.4)	(1.4)	(1.5)	(1.2)	(1.3)	(3.3)	(4.1)	(5.0)	(5.8)
EBIT	1.0	1.0	2.5	2.2	1.8	0.3	5.4	3.5	8.4	6.2
Ebit margin %	3.4%	3.3%	7.2%	6.0%	6.3%	0.9%	5.8%	3.5%	6.3%	4.5%
YoY growth %		3.9%		-14.0%		-85.7%		-35.5%		-25.8%
Net financials & Participation:	0.1	(1.0)	(0.0)	(0.2)	(1.2)	0.5	(1.1)	(0.7)	(0.7)	(0.7)
Pretax Profit	1.1	(0.0)	2.5	2.0	0.6	0.8	4.3	2.8	7.7	5.5
Taxes									(3.7)	(3.2)
Minorities									(1.8)	(1.5)
ex Cynosure Net Profit									2.2	0.8
Net margin %									1.7%	0.6%
YoY growth %										-61.4%

Source: Intermonte Sim

Guidance

In the press release management stated: "The results reflect however economic conditions that had already proved more complex than expected during the first six months of the year, and that from July have been deteriorating rapidly also impacting upon our markets: growth in the industrial sector, though exceeding 20%, is lower than expected, while the medical sector grows or maintains its positions, but had to acknowledge a reduction in margins. Notwithstanding the worsened economic environment the Group is determined to pursue its growth objectives, seizing market opportunities through product innovation, to which in 2011 were devoted more resources than in 2010, but also through the consolidation and adaptation to current market conditions of the production and distribution structures created to better operate on the most interesting markets."

Cynosure

Third-quarter 2011 sales increased 48% YoY to USD28.3mn from USD19.1mn in 3Q10 (in euro the growth was 36% YoY). Gross profit for the three months ending 30th September 2011 was 56.5% compared with 56.1% for the same period in 2010. The improvement in the gross margin reflects slightly higher average selling prices as well as a favourable geographic and product mix.

The net loss for the quarter came to USD0.8mn, including USD0.4mn of expenses associated with the company's June acquisition of the aesthetic laser assets of HOYA ConBio. The company achieved operating breakeven on an adjusted basis, excluding the acquisition expenses, compared with an operating loss of USD1.0mn for the third quarter of 2010. This improvement in operating performance reflects increased revenues and improved leverage on operating expenses.

Internationally, laser product revenue grew 60% YoY: this result was primarily attributable to the impact of the HOYA ConBio and SmoothShapes XV acquisitions. In North America, 3Q laser product revenue grew 16% YoY organically, largely due to improvements in the North American lending environment, and by 54% YoY overall.

Business Outlook: "Revenue through the first nine months of 2011 is 29% ahead of our pace in 2010. Our newly acquired aesthetic laser products are performing well...We have begun to realize some initial synergies from our acquisition of ConBio, and we expect additional synergies and cost savings from the transaction as we complete the integration process. Our balance sheet remains healthy, with USD66 million in cash and securities and no long-term debt, and we continue to explore potential acquisition opportunities."

Cynosure 3Q11 results

(USD mn)	1Q10A	1Q11A	2Q10A	2Q11A	3Q10A	3Q11A	9M10A	9M11A
Sales	18.9	21.9	21.5	26.3	19.1	28.3	59.4	76.5
YoY growth %		15.9%		22.6%		48.4%		28.7%
EBIT	-2.5	-1.9	-0.9	-1.2	-1.0	-0.4	-4.4	-3.5
Ebit margin %	-13.2%	-8.7%	-4.2%	-4.5%	-5.1%	-1.4%	-7.4%	-4.6%
YoY growth %		24.0%		-32.4%		60.2%		20.4%
Net Profit	-2.8	-1.9	-1.5	-1.3	-0.5	-0.8	-4.7	-4.0
Net margin %	-14.8%	-8.7%	-6.9%	-4.9%	-2.4%	-2.8%	-8.0%	-5.2%
YoY growth %		32.1%		12.0%		-72.2%		15.7%

Source: Intermonte Sim

Cynosure 3Q11 results

(Eu mn)	1Q10A	1Q11A	2Q10A	2Q11A	3Q10A	3Q11A	9M10A	9M11A
Sales	13.7	16.0	16.9	18.3	14.7	20.0	45.3	54.3
YoY growth %		17.1%		8.5%		35.7%		20.0%
EBIT	-1.8	-1.4	-0.7	-0.8	-0.8	-0.3	-3.3	-2.5
Ebit margin %	-13.2%	-8.7%	-4.2%	-4.5%	-5.1%	-1.4%	-7.2%	-4.6%
YoY growth %		23.2%		-17.3%		63.6%		23.7%
Net Profit	-2.0	-1.4	-1.2	-0.9	-0.4	-0.6	-3.5	-2.9
Net margin %	-14.8%	-8.7%	-6.9%	-4.9%	-2.4%	-2.8%	-7.8%	-5.3%
YoY growth %		31.4%		22.1%		-57.4%		19.4%

Source: Intermonte Sim

Estimates

El.En Group

Following 3Q11 results, we have revised our forecasts. Sales estimates have been left basically unchanged. We have revised EBITDA downwards to take into account greater price pressure within the medical sector, especially in 2011. Changes in pre-tax profit reflect those in EBITDA. The positive changes in our EPS estimates for 2012 and 2013 are due to lower minorities at El.En ex-Cynosure and a lower tax rate at Cynosure. We are now assuming a USD/EUR exchange rate of 1.35, down from 1.40.

El.En Group Change in estimates				
(€ mn)	2010A	2011E	2012E	2013E
Sales new	189.8	206.1	229.4	247.5
Sales old		208.9	231.4	250.9
	% change	-1.3%	-0.9%	-1.4%
EBITDA new	14.3	14.8	19.8	24.5
EBITDA old		18.9	22.2	24.6
	% change	-21.7%	-10.8%	-0.4%
EBIT new	5.4	4.6	8.8	13.0
EBIT old		6.8	9.7	13.3
	% change	-32.4%	-9.3%	-2.3%
Pretax Profit new	4.7	4.0	8.2	12.4
Pretax Profit old		6.0	9.0	12.6
	% change	-33.3%	-8.9%	-1.6%
Group net profit new	1.3	0.4	3.9	7.3
Group Net Profit old		0.5	1.4	3.0
	% change	-19.7%	178.6%	143.3%

Source: Intermonte Sim

El.En Group P&L CONSOLIDATED

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E	CAGR10-13E
Sales	193.4	221.7	149.1	189.8	206.1	229.4	247.5	9.3%
YoY growth %		14.6%	-32.7%	27.3%	8.6%	11.3%	7.9%	
EBITDA	26.3	28.8	(4.0)	14.3	14.8	19.8	24.5	19.6%
Ebitda margin %	13.6%	13.0%	-2.7%	7.5%	7.2%	8.6%	9.9%	
YoY growth %		9.4%	n.m.	n.m.	3.3%	34.2%	23.4%	
Total D&A	(5.0)	(8.3)	(8.6)	(8.9)	(10.2)	(11.0)	(11.5)	
EBIT	21.3	20.6	(12.6)	5.4	4.6	8.8	13.0	33.7%
Ebit margin %	11.0%	9.3%	-8.4%	2.9%	2.2%	3.8%	5.2%	
YoY growth %		-3.5%	n.m.	n.m.	-15.8%	93.0%	47.0%	
Net financials & Participations	14.1	1.5	0.3	(0.7)	(0.6)	(0.6)	(0.6)	
Pretax Profit	35.4	22.1	(12.3)	4.7	4.0	8.2	12.4	38.1%
Taxes	(10.5)	(7.9)	(4.1)	(4.3)	(2.8)	(3.6)	(5.0)	
Minorities	(7.3)	(5.9)	11.1	0.8	(0.8)	(0.7)	0.0	
Group Net Profit	17.7	8.3	(5.3)	1.3	0.4	3.9	7.3	79.6%
Net margin %	9.1%	3.8%	-3.5%	0.7%	0.2%	1.7%	3.0%	
YoY growth %		-52.8%	n.m.	n.m.	-68.2%	n.m.	89.7%	

Source: Intermonte Sim

El.En ex Cynosure

We left sales estimates basically unchanged for the 2011-2013 period. As far as profitability is concerned, we have cut our EBITDA estimates by 11.4% on average for 2011-13 to take into account some difficulties in the European market for medical and aesthetic treatments which should translate into lower margins due to a degree of price pressure. Finally, group net profit changes are positive due to lower minorities.

El.En ex Cynosure Change in estimates

(€ mn)	2010A	2011E	2012E	2013E
Sales new	132.6	138.5	148.0	160.0
Sales old		141.5	150.0	163.5
% change		-2.1%	-1.3%	-2.1%
EBITDA new	13.3	12.0	13.6	16.3
EBITDA old		14.8	15.3	17.0
% change		-18.9%	-11.1%	-4.1%
EBIT new	8.4	6.2	7.4	9.8
EBIT old		7.5	8.0	10.7
% change		-17.3%	-7.5%	-8.4%
Pretax Profit new	7.7	5.5	6.7	9.1
Pretax Profit old		6.2	7.0	9.9
% change		-11.3%	-4.3%	-8.1%
Group net profit new	2.2	0.8	1.9	3.2
Group Net Profit old		1.0	1.7	3.3
% change		-15.1%	11.9%	-3.2%

Source: Intermonte Sim

El.En ex Cynosure P&L

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E	CAGR10-13E
Sales	110.3	140.0	101.8	132.6	138.5	148.0	160.0	6.5%
YoY growth %		26.9%	-27.3%	30.3%	4.5%	6.9%	8.1%	
EBITDA	12.3	18.5	2.3	13.3	12.0	13.6	16.3	6.9%
Ebitda margin %	11.1%	13.2%	2.2%	10.1%	8.7%	9.2%	10.2%	
YoY growth %		50.2%	-87.6%	n.m.	-10.0%	13.3%	19.9%	
Total D&A	(2.7)	(4.6)	(3.7)	(5.0)	(5.8)	(6.2)	(6.5)	
EBIT	9.6	13.8	(1.5)	8.4	6.2	7.4	9.8	5.4%
Ebit margin %	8.7%	9.9%	-1.4%	6.3%	4.5%	5.0%	6.1%	
YoY growth %		44.7%	n.m.	n.m.	-25.8%	19.4%	32.4%	
Net financials & Participations	17.7	(0.1)	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)	
Pretax Profit	27.3	13.8	(2.0)	7.7	5.5	6.7	9.1	5.7%
Taxes	(4.6)	(5.1)	(0.9)	(3.7)	(3.2)	(3.0)	(3.8)	
Minorities	(1.0)	(0.6)	(0.2)	(1.8)	(1.5)	(1.8)	(2.1)	
Group Net Profit	21.6	8.1	(3.1)	2.2	0.8	1.9	3.2	13.2%
Net margin %	19.6%	5.8%	-3.0%	1.7%	0.6%	1.3%	2.0%	
YoY growth %		-62.5%	n.m.	n.m.	-61.4%	124.2%	67.8%	

Source: Intermonte Sim

Cynosure

Following the release of 3Q11 results, we have adjusted our 2011 forecasts for Cynosure, lowering operating results to take into consideration non-recurring costs associated with the acquisitions carried out. Our 2012 and 2013 net profit estimates benefit from a lower tax rate. For completeness, we report our estimates in both USD and in EUR.

Cynosure Change in estimates				
(€ mn)	2010A	2011E	2012E	2013E
Sales new	61.5	76.2	91.0	97.8
Sales old		76.2	91.0	97.8
% change		-0.1%	0.0%	0.0%
EBITDA new	1.2	3.0	6.7	8.8
EBITDA old		4.5	7.4	8.3
% change		-33.2%	-9.8%	6.4%
EBIT new	(2.7)	(1.4)	1.9	3.8
EBIT old		(0.3)	2.2	3.3
% change		n.m.	-14.7%	16.2%
Pretax Profit new	(2.8)	(1.3)	2.0	3.9
Pretax Profit old		0.2	2.5	3.4
% change		n.m.	-21.0%	15.7%
Group net profit new	(3.4)	(0.9)	1.4	2.7
Group Net Profit old		(0.4)	1.0	1.6
% change		n.m.	37.6%	70.8%

Source: Intermonte Sim

Cynosure P&L									
(€ mn)		2007A	2008A	2009A	2010A	2011E	2012E	2013E	CAGR10-13E
Sales		90.3	94.5	52.0	61.5	76.2	91.0	97.8	16.7%
	YoY growth %		4.7%	-45.0%	18.3%	23.8%	19.5%	7.5%	
EBITDA		14.8	12.1	(8.0)	1.2	3.0	6.7	8.8	96.7%
	Ebitda margin %	16.3%	12.8%	-15.4%	1.9%	3.9%	7.3%	9.0%	
	YoY growth %		-18.0%	n.m.	n.m.	159.2%	122.0%	32.3%	
Total D&A		(2.3)	(3.7)	(4.8)	(3.9)	(4.4)	(4.8)	(5.0)	
EBIT		12.5	8.5	(12.9)	(2.7)	(1.4)	1.9	3.8	n.m.
	Ebit margin %	13.8%	9.0%	-24.7%	-4.4%	-1.8%	2.1%	3.9%	
	YoY growth %		-31.7%	n.m.	-78.8%	-48.9%	n.m.	104.3%	
Net financials & Participations		2.3	1.7	0.8	(0.1)	0.1	0.1	0.1	
Pretax Profit		14.8	10.1	(12.1)	(2.8)	-1.3	2.0	3.9	n.m.
Taxes		(6.0)	(3.2)	(2.6)	(0.6)	0.4	(0.6)	(1.2)	
Minorities		0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Group Net Profit		8.7	6.9	(14.7)	(3.4)	(0.9)	1.4	2.7	n.m.
	Net margin %	9.7%	7.3%	-28.3%	-5.5%	-1.2%	1.5%	2.8%	
	YoY growth %		-20.4%	n.m.	-77.1%	-73.5%	n.m.	98.7%	

Source: Intermonte Sim

Cynosure P&L									
(USD mn)		2007A	2008A	2009A	2010A	2011E	2012E	2013E	CAGR10-13E
Sales		123.8	139.0	72.5	81.5	104.7	122.8	132.1	17.4%
	YoY growth %		12.3%	-47.8%	12.4%	28.4%	17.3%	7.5%	
EBITDA		20.2	17.8	(11.1)	1.5	4.1	9.0	11.9	97.9%
	Ebitda margin %	16.3%	12.8%	-15.4%	1.9%	3.9%	7.3%	9.0%	
	YoY growth %		-12.0%	n.m.	-113.8%	168.9%	118.0%	32.3%	
Total D&A		(3.2)	(5.4)	(6.8)	(5.2)	(6.1)	(6.5)	(6.8)	
EBIT		17.1	12.5	(17.9)	(3.6)	(1.9)	2.5	5.2	n.m.
	Ebit margin %	13.8%	9.0%	-24.7%	-4.4%	-1.8%	2.1%	3.9%	
	YoY growth %		-26.7%	n.m.	-79.8%	-47.0%	n.m.	104.3%	
Net financials & Participations		3.2	2.5	1.1	-0.1	0.1	0.1	0.1	
Pretax Profit		20.2	14.9	(16.8)	(3.7)	(1.8)	2.7	5.3	n.m.
Taxes		(8.3)	(4.8)	(3.7)	(0.8)	0.6	(0.8)	(1.6)	
Minorities		0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Group Net Profit		12.0	10.2	(20.5)	(4.5)	(1.2)	1.9	3.7	n.m.
	Net margin %	9.7%	7.3%	-28.3%	-5.5%	-1.2%	1.5%	2.8%	
	YoY growth %		-14.6%	n.m.	-78.2%	-72.5%	n.m.	98.7%	

Source: Intermonte Sim

Valuation

SOP

For our valuation of El.En, we have used a sum of the parts (SoP) model, adding the value of El.En without Cynosure (based on a discounted cash flow model) to the market value of El.En's 23.37% stake in Cynosure (listed on NASDAQ). Our new target price of Eu16.6, basically unchanged compared to our last note dated 31st August, is the result of a lower equity value given to El.En ex-Cynosure (-9.6% due to downward revised estimates and a higher risk free rate) offset by a higher equity value for Cynosure (+23.8%).

El.En Group - SOP (€ mn)

	Method	€ mn	€ per share	previous (31-08-2011)	change
El.En ex Cynosure	DCF	53.7	11.1	12.3	-9.6%
El.En stake in Cynosure (23.37%)	market value	26.3	5.4	4.4	23.8%
Total Equity Value		79.9	16.6	16.7	-0.8%
El.En Share Price			9.9	9.9	0.0%
potential upside			67.4%	68.7%	

Source: Intermonte Sim

DCF

Once we restate El.En's EV for the value of its stake in Cynosure (Eu26.3mn based on market price) we can see that El.En ex-Cynosure is trading at really undemanding multiples, even at our DCF fair value.

El.En ex Cynosure multiples at our DCF fair value

	2010	2011	2012	2013
P/E	16.0	38.4	22.8	11.6
EV/Sales	0.29	0.27	0.26	0.24
EV/Ebitda	2.8	2.6	2.5	2.3
EV/Ebit	4.5	5.1	4.8	3.6

Source: Intermonte Sim

El.En ex Cynosure multiples at current market price

	2010	2011	2012	2013
P/E	17.2	25.3	11.3	6.7
EV/Sales	0.22	0.17	0.18	0.18
EV/Ebitda	2.2	2.0	1.9	1.8
EV/Ebit	3.4	3.8	3.5	3.0

Source: Intermonte Sim

Multiples

As a sanity check, we have compared multiples for El.En and Cynosure with those of peer groups made up respectively of companies operating in the industrial lasers and medical lasers sector. As shown in the table, El.En ex Cynosure is trading at a huge discount to peers. Cynosure is trading at a discount to its US medical peers based on P/Sales, in line based on P/BV.

El.En - Industrial peer comparison

Company	EV/Sales			EV/EBITDA			EV/EBIT			P/E			P/BV		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Rofin Sinar	0.8x	0.8x	0.7x	5.3x	5.0x	4.1x	6.1x	6.1x	4.9x	10.4x	12.6x	10.7x	1.3x	1.2x	1.1x
Cymer	1.8x	1.8x		10.3x	11.2x		12.5x	13.7x		18.3x	23.1x	13.5x	2.0x	1.9x	
Amada	0.6x	0.6x	0.6x	6.5x	5.3x	5.3x	11.0x	7.7x	7.4x	20.8x	14.9x	14.1x	0.5x	0.5x	0.5x
Coherent	1.2x	1.2x	1.0x	7.0x	6.3x	5.0x	9.0x	7.8x	5.9x	14.8x	14.0x	12.3x	2.1x	1.8x	1.7x
GSI	0.7x	0.7x	0.5x				9.2x	9.7x	2.7x	24.8x	31.5x	9.4x			
Prima Industrie	0.6x	0.6x	0.5x	8.5x	6.1x	5.2x	14.8x	8.9x	7.5x	18.6x	6.2x	5.0x	0.7x	0.7x	0.6x
Mean	0.9x	0.9x	0.7x	7.5x	6.8x	4.9x	10.4x	9.0x	5.7x	18.0x	17.1x	10.9x	1.3x	1.2x	1.0x
Median	0.8x	0.8x	0.6x	7.0x	6.1x	5.1x	10.1x	8.4x	5.9x	18.5x	14.4x	11.5x	1.3x	1.2x	0.9x
El.En ex Cynosure*	0.2x	0.2x	0.2x	2.0x	1.9x	1.8x	3.8x	3.5x	3.0x	25.3x	11.3x	6.7x	0.3x	0.3x	0.3x
El.En Group*	0.5x	0.4x	0.4x	6.3x	4.6x	3.6x	20.2x	10.3x	6.8x	n.m.	12.2x	6.5x	0.8x	0.8x	0.8x

Source: Factset data and (*) Intermonte SIM estimates

El.En - Medical peer comparison

Company	P/Sales		P/BV	
	2011	2012	2011	2012
Syneron	1.8x	1.6x	1.7x	1.6x
Palomar	2.8x	2.4x	1.2x	1.2x
Cutera	2.1x	1.9x	1.2x	
Biolase	2.0x	1.4x		
Solta Medical	1.3x	1.1x	1.1x	1.1x
Mean	2.0x	1.7x	1.3x	1.3x
Median	2.0x	1.6x	1.2x	1.2x
Cynosure*	1.4x	1.2x	1.3x	1.3x

Source: Factset data and (*) Intermonte SIM estimates

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DETAILS ON STOCKS RECOMMENDATION

Stock NAME	EL.EN.		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	16.60	Previous Target (Eu):	16.70
Current Price (Eu):	9.90	Previous Price (Eu):	10.35
Date of report:	16/11/2011	Date of last report:	24/10/11

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