



Investment Research

Buy

(Initiating Coverage)

Share price: EUR 11.97

closing price as of 24/09/2009

Target price: EUR 16.70

Reuters/Bloomberg	ELEN.MV/ELN IM
Daily avg. no. trad. sh. 12 mth	7,928
Daily avg. trad. vol. 12 mth (m)	0.10
Price high 12 mth (EUR)	23.45
Price low 12 mth (EUR)	9.08
Abs. perf. 1 mth	4.1%
Abs. perf. 3 mth	20.9%
Abs. perf. 12 mth	-49.1%

Market capitalisation (EURm)	58
Current N° of shares (m)	5
Free float	47%

Key financials (EUR)	12/08	12/09e	12/10e
Sales (m)	222	146	164
EBITDA (m)	29	(2)	9
EBITDA margin	13.0%	nm	5.4%
EBIT (m)	21	(9)	2
EBIT margin	9.3%	nm	0.9%
Net Profit (adj.)(m)	8	(1)	1
ROCE	13.6%	-5.6%	0.9%
Net debt/(cash) (m)	(68)	(53)	(45)
Net Debt Equity	-0.4	-0.3	-0.3
Net Debt/EBITDA	-2.4	29.2	-5.1
Int. cover(EBITDA/Fin.int)	(19.2)	2.8	(12.2)
EV/Sales	0.5	0.5	0.5
EV/EBITDA	4.2	nm	9.9
EV/EBITDA (adj.)	4.2	nm	9.9
EV/EBIT	5.9	nm	58.5
P/E (adj.)	8.1	nm	nm
P/BV	0.7	0.6	0.6
OpFCF yield	15.5%	18.2%	-0.3%
Dividend yield	2.5%	0.0%	1.7%
EPS (adj.)	1.72	(0.23)	0.22
BVPS	20.04	19.51	19.73
DPS	0.30	0.00	0.20



Source: Factset

Shareholders: Majority shareholders 53%;

For company description please see summary table footnote

Laser technology: an undervalued growth potential

Although the current year is proving to be a difficult period for the laser industry owing to the economic and financial crisis, this sector is showing a strong growth potential due to medical/aesthetic demand. In fact, the global market for aesthetic products is expected to reach USD 8.2bn by 2012, with a growth rate of 11.7% per year.

The stock has underperformed the market (the stock underperformed the FTSE Italia STAR Index by 48.0% Y/Y); therefore, we believe that, given the very good fundamentals and the potential boost due to an economic recovery, the stock has very strong recovery potential in the coming months.

- ✓ **Key growth drivers** - We believe that El.En. group is currently an attractive investment case. In our opinion, at the current price the stock certainly does not incorporate certain important drivers for the coming future: **1)** the ageing population in the most industrialised countries, combined with the increased personal income of “baby boomer”; **2)** media and cultural influences: the current cultural and aesthetic canons push people to focus more and more on “looking after their bodies” and on “caring about their look”. Proof of this is that the demand for aesthetic treatments is not elastic in the economic crisis; **3)** the strong capacity of the group to generate cash even in a difficult economic scenario, thus supporting the group’s development and the strong R&D investments; **4)** the several innovative products launched on the market in the last few years; **5)** further opportunities for external growth; **6)** the possibility to develop/enter new laser market niches thanks to the launch of new technologies/applications; **7)** the strong growth potential and the fast improvement in the group’s profitability in the event there is an economic recovery.
- ✓ **Valuation** – **1)** based on our SOP valuation calculated using the DCF models of Cynosure and of El.En. group excluding Cynosure, although we have used conservative parameters in our DCF models given the currently low visibility on the business trend, we have obtained a Fair Value of EUR 18.80 per share; **2)** based on our SOP valuation calculated using the DCF model of El.En. group excluding Cynosure and the current market value of Cynosure, we have obtained a value of EUR 16.70 per share. These values are supported by the comparison of the 2009e and 2010e P/BV with the main listed players. Furthermore, if we apply a 09e P/BV of 1.0x (a still conservative multiple value), we obtain an El.En. group value of EUR 19.5 per share, higher than the SOP value based on the DCF models.
- ✓ **Rating** - Based on our SOP valuation based on DCF model of El.En. group excluding Cynosure and the current market value of Cynosure and supported by the P/BV comparison, our recommendation is **Buy**. We have set a Target Price of EUR 16.70 per share.

It is important to highlight that, the stock shows an upside of over 40% on the current price.

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Company overview

From the scientific research to a global player in the laser industry

Founded in 1981 in Florence, from an Italian university professor and his student, El.En., acronym of Electronic Engineering, developed its activity of design, production and distribution of electronic equipments for the industrial sector and the research sector. Very soon the company entered into its first few cooperation agreements with Italian research institutes (CNR and ENEA) and, as from 1983, year in which it was realized by the company the first kit for therapeutic lasers, El.En. continuously increased the design and the production of complete laser systems for new innovative applications in several sectors, from the medical to the industrial sector.

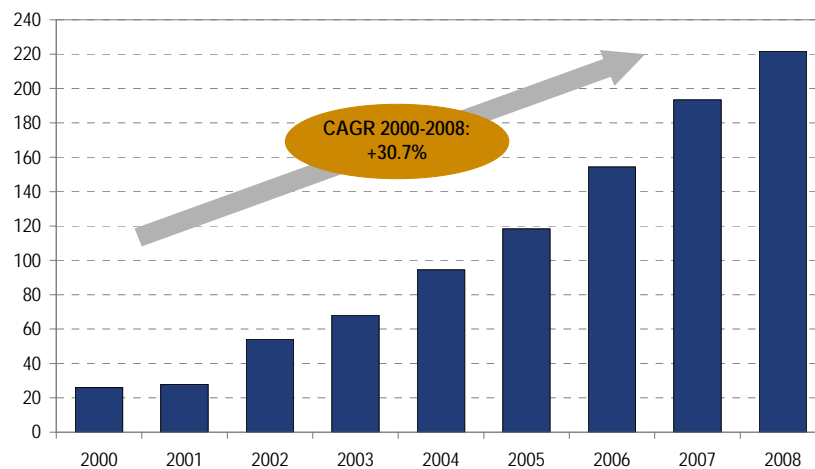
As from 1989, the group began its operating expansion with a gradual increase up to reach the current group's structure. Between 1990 and 1992, three companies were founded: 1) *DEKA Mela* for distributing biomedical devices in Italy and abroad; 2) *Lasit* for the production of industrial laser marking systems; 3) *Cutlite Penta* for the production of industrial laser cutting systems.

At the end of 2000, El.En. Group was listed on the "Nuovo Mercato" of Italian Stock Exchange (currently the stock is listed on Star Segment of Italian Stock Exchange).

Thanks to the listing, the group was able to finance its internalisation process. In April 2002, the group strengthened its position in the field of medical laser devices with the acquisition of *Cynosure*, one of the most important American companies in this sector. In April 2003 El.En. took over another American company, *Lasercut*, specialized in the production of industrial laser devices for cutting die-boards and metals. Lastly, the group acquired *Asclepion*, the dermatological business unit of the Carl Zeiss Meditec (Germany) in May of 2003.

The company has grown progressively through the acquisition of leading companies in sectors able to increase and/or generate production and distribution synergies. Therefore, in our opinion, El.En. is a success story, thanks to its strategy combining organic and external growth the group can boast a solid upward sales trend from the listing in 2000.

EL.EN. GROUP: Sales trend 2000-2008 (EUR m)



Source: Company data

A world player in the laser industry

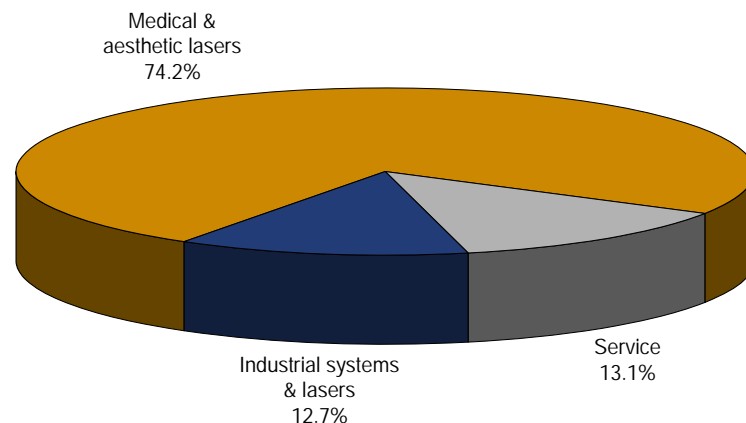
El.En. is the parent company of an industrial high-tech group operating in the opto-electronics sector. The company exploits its own technology and multidisciplinary know-how to produce *laser sources (gas, liquid, solid-state and semiconductors) and innovative laser systems for medical and industrial 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, aesthetics, physiotherapy, dentistry and gynaecology;*
- 2) **industrial laser systems** for applications that range from the *cutting, marking and welding of metals, wood, plastic and glass to the decoration of leather and fabric,* and through to the conservative restoration of works of art;
- 3) **systems for scientific applications and research.**

Along with its main activity of selling laser systems, the group also operates in *the after-sales service activity;* this is an indispensable support for the installation and the maintenance of the group's laser systems and devices. Therefore, part of El.En. results derives from the sale of spare parts, consumer items and technical assistance.

EL.EN. GROUP: FY 08 Sales breakdown by sector

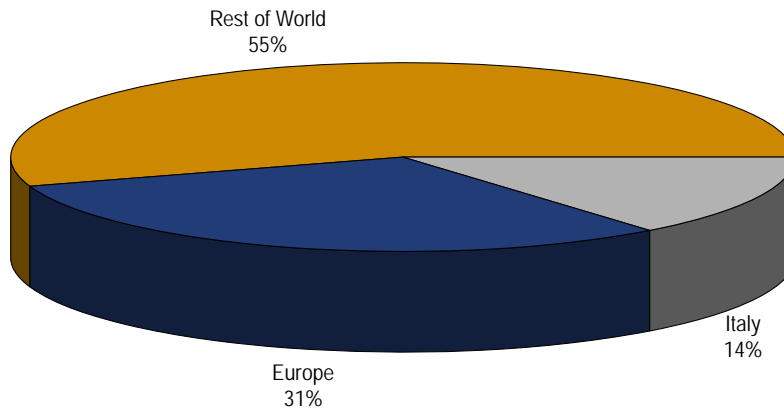


Source: Company data

The group today has about 870 employees and operates through 6 research centres located in Italy, the USA and Germany and 8 production facilities located in Italy, the USA, Germany, China and Brazil.

The group sales organisation is differentiated by geographical markets and by product ranges. The group distributes its products through its sales network and its commercial subsidiaries, which directly serve the distribution channel, and some sales representatives in those markets in which the group is not directly present (its products are sold in over 100 markets). Lastly, El.En. has a widespread after sale service.

EL.EN. GROUP: FY 08 Sales breakdown by geographical area




Source: Company data


The group's structure has been created over the years through the establishment and the acquisition of new companies. Each group company has a specific role, which depends on the geographical reference market, on its technological specialty and on the particular position in the merchandise market the group serves.

EL.EN.: brand references in the medical & aesthetic division and in the industrial laser system division

Medical - Aesthetic lasers



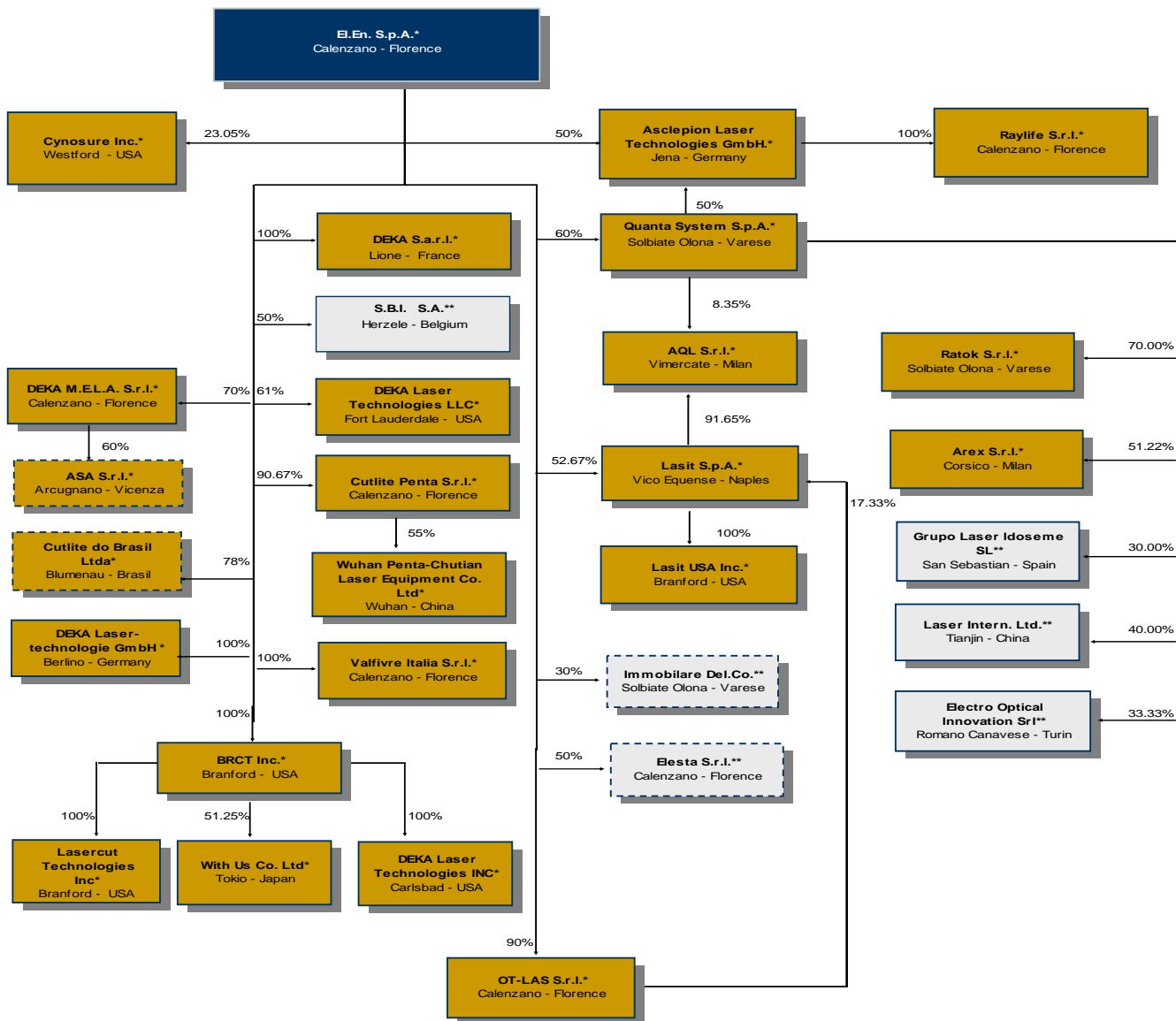
Industrial lasers



Source: Company presentation

Organisation

EL.EN. GROUP: organisation chart



Source: Company data

* Full consolidation

** Equity consolidation

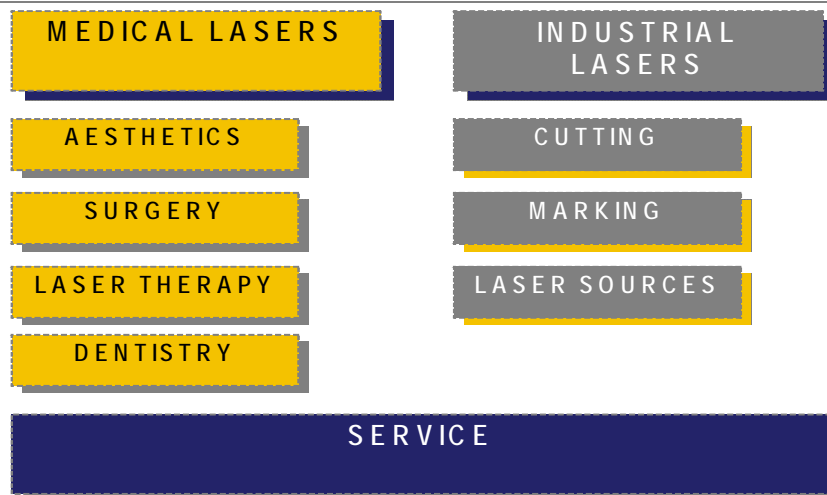
The group's organisation (see chart on the previous page) reflects the various business areas in which it operates. The group is organised as a crossing between the technology and the markets in which El.En. is present in order to obtain better penetration into new segments and into new geographical areas:

- **El.En. SpA** develops, manufactures and distributes laser sources and laser systems for medicine, aesthetics and industry;
- **Cynosure Inc.** and **Asclepion Laser Technologies GmbH** develop, manufacture, and distribute medical laser systems;
- **Quanta System SpA** develops, manufactures and distributes laser systems for medicine, industry and scientific research;
- **ASA Srl** develops, produces and distributes laser equipment for physical therapy;
- **Deka M.E.L.A. Srl**, **Deka Sarl**, **Deka Lasertechnologie GmbH**, **Deka Laser Technologies Inc.**, **With Us** distribute medical laser equipment;
- **Cutlite Penta Srl**, **Cutlite do Brasil** and **Wuhan Penta Chutian** develop produce and distribute laser systems for flat cutting;
- **Ot-Las Srl** is involved in the manufacture of laser systems for the marking of large surfaces; while **Lasit SpA with AQL Srl and Lasit USA Inc.** for the marking of small surfaces.

It is important to highlight that despite the significant stake held by third parties in Cynosure (the controlling stake, 23.08%, is held by El.En. SpA.), this subsidiary falls into the area of consolidation because El.En. holds the controlling stake of Cynosure on account of a clause in the by-laws giving it the right to appoint the members of the board; this clause is valid as long as El.En. holds 20% of the company's shares.

In order to simplify and to clarify the complex organisation and the strategic shareholdings of the group activities, we sum up the above organization chart in the following simplified diagram.

EL.EN. GROUP: synthetic organization chart



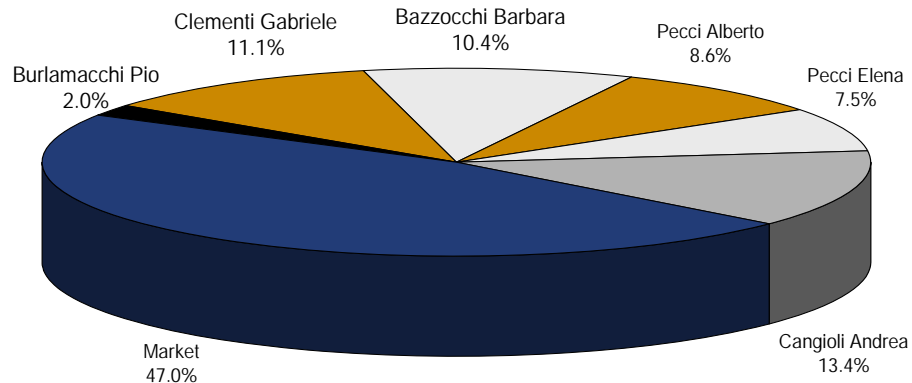
Source: Company data

Shareholder and management structure

Shareholders structure

Currently, approximately 47.0% of the share capital is on the market, while 53.0% is owned by the founders and some historical shareholders.

EL.EN. GROUP: current main shareholders



Source: Data as Shareholding meeting (April 2009)

Management structure

Currently, the top management consists of four historical key managers, who can boast significant experience in the laser sector. The key managers report directly to the BoD (this is currently composed of 8 directors, 2 of whom are independent) chaired by Gabriele Clementi, one of the main founders.

We believe that a clarification is needed for Cynosure, the US subsidiary listed on NASDAQ: though El.En. has control of Cynosure's BoDs, the operating management is free-standing and it is in the hands of a group of local managers.

Lastly, El.En. uses compensation programs (stock option plans) that provide for incentives that align the interests of shareholders and management (30 people).

EL.EN. GROUP: key managers

Name	Position
Gabriele Clementi	President
Andrea Canglioli	Executive Director
Barbara Bazzocchi	Executive Director
Leonardo Masotti	Head of Scientific Committee

Source: Company data

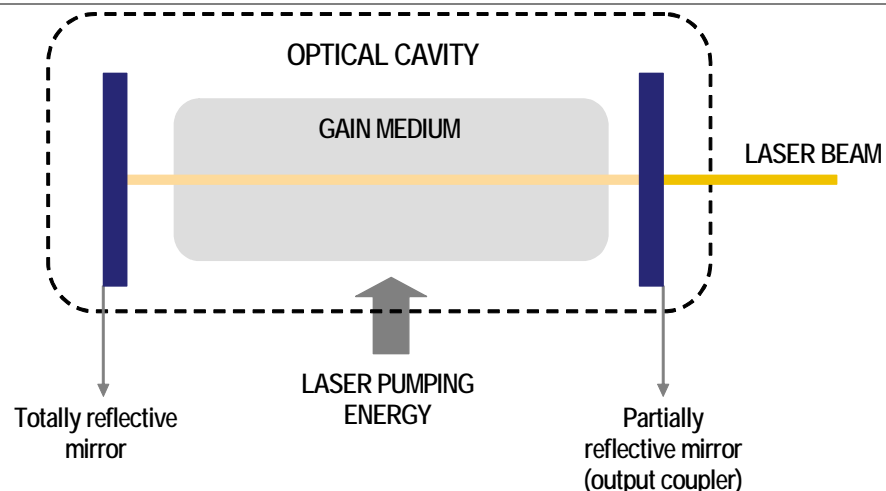
The laser market

What is a laser?

The word laser is the abbreviation of the term "*Light Amplification by Stimulated Emission of Radiation.*" It is a device that emits a special form of light. Unlike natural lights that come in different wavelengths and colours, laser light come in a single colour or wavelength (thus scientists call it "monochromatic"). Another peculiar feature of a laser light is that it is coherent: laser beams will not vary in time and position and therefore will not spread into other directions; while natural light sources produce incoherent light which usually spreads in different directions.

The essential parts of a laser are the "gain medium" and the "optical cavity". There should also be an external source that supplies energy to the gain medium. The gain medium is a material with properties that allow it to amplify light by stimulated emission; the gain medium in a laser can be a material in any form (solid, liquid, gas or plasma). In its simplest form, a cavity consists of two mirrors arranged so that light bounces back and forth, each time passing through the gain medium. Typically, one of the two mirrors, the output coupler, is partially transparent. The output laser beam is emitted through this mirror. Light of a specific wavelength that passes through the gain medium is amplified (increases in power); the surrounding mirrors ensure that most of the light passes many times through the gain medium, being amplified repeatedly. Part of the light between the mirrors (that is, within the cavity) passes through the partially transparent mirror and escapes as a beam of light. Stimulation or amplification of the light is achieved by a method called pumping. Pumping is in fact the supply of an external source of energy to the gain medium. The source of energy can be electricity or any other external energy source.

Laser source and its main components

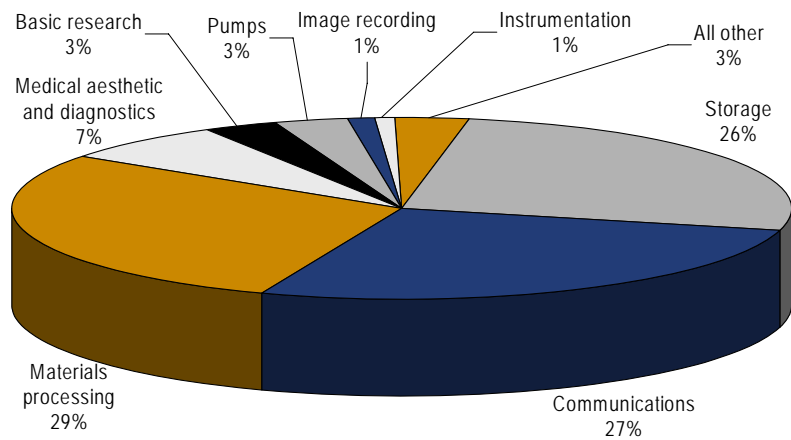


Source: Banca Akros's elaboration on Company data

Laser application industry

Since 1960, when the first few commercial lasers were introduced, the laser market has grown rapidly. Thanks to its technological flexibility, lasers are today used in a wide range of applications, as shown in the graph below.

World laser market by applications



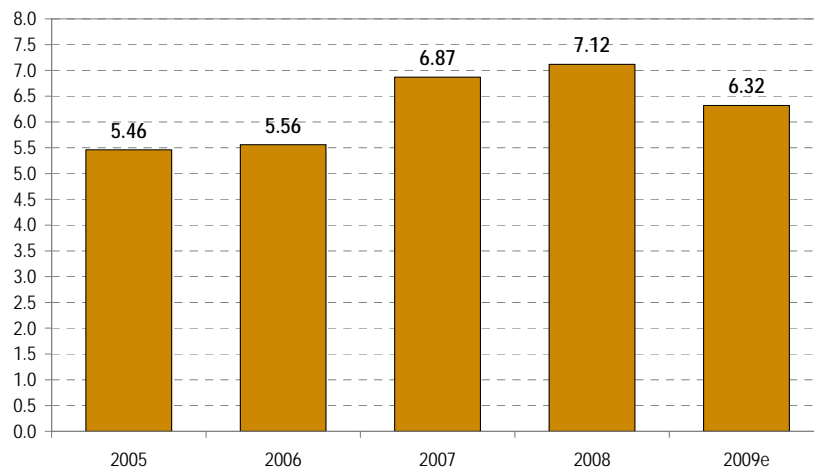
Source: Laser Focus World 2009

Based on the various fields of application, laser sources can be very different. El.En. group internally produces gas laser (CO₂ laser, excimer laser, copper vapour laser), liquid laser (organic dye lasers) and solid-state laser sources (Nd: YAG, Ho: YAG, Er: YAG ruby laser, alexandrite laser), while it purchases the semiconductor lasers (or laser diodes).

Market trend

The *Laser & Photonics Marketplace Seminar in June 2009* highlighted the fact that the current global economic crisis is now having a strong impact on laser and laser system manufacturers. The companies in the laser industry that supply the fabricated metal products, one of the major laser markets, have received cancellations and requests to delay order shipments; the companies that supply the medical and the aesthetic sectors and all other reference markets have suffered a sudden halt in orders. Therefore, based on the Seminar's forecast, including as a factor the growing dependence on consumer sectors and cyclical industries, a worst case scenario for 2009, could see industrial, medical/aesthetic and semiconductor laser markets falling by as much as 20% or more.

Worldwide commercial laser revenues (USD bn)



Source: Laser Focus World 2009

However, the numerous Seminar participants stressed that the current market decline has largely been caused by the global economic downturn and not by any inherent weakness in the laser market because “Lasers are an established technology, and no other technology exists to compete with it in the markets they serve” (Mr Belforte, *editor-in-chief of Industrial Laser Solutions*). Therefore, the market forecast suggests that, when signs of an inversion of the current negative economic trend can be seen, there will be a clear recovery in the laser industry, both those laser segments that are reliant on consumer spending (aesthetic, aesthetic surgery, dermatology, odonto-stomatology, ophthalmology...) and the laser sectors that are reliant on the cycle of industrial investments.

- The laser market for medical and aesthetic applications

MARKET EVOLUTION

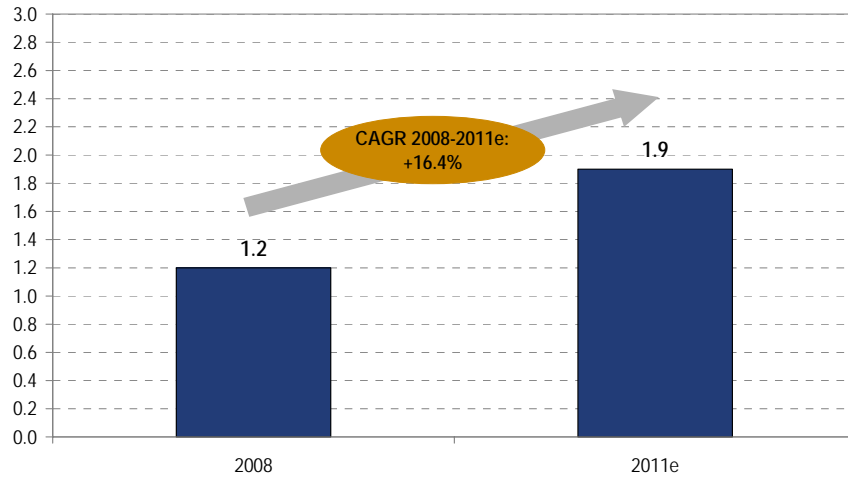
The growing use of lasers for medical and aesthetic applications cannot be attributed to any one specific application, but to the several new applications and their widespread uses. In the medical segment, laser sources have long been used in ophthalmologic surgery, mainly to correct myopia and presbyopia. Over the past few years, laser systems have been largely adopted by doctors, who have used them in many sectors, from dentistry to surgery, from therapeutic to diagnostic. This is due to the fact that, in medical and aesthetic laser equipment, the laser interacts in different ways with a biological tissue based on the wavelength and on the energy density applied to such tissue. They are used for cutting, ablation, cautery and biostimulation with great benefits in terms of *substantially less invasive surgical operations*.

Since this sector moves in step with the consumer economy, it is recording a strong slowdown in the current year; nevertheless it is destined to restart to grow, at least in some interesting niches, at the beginning of the economic recovery.

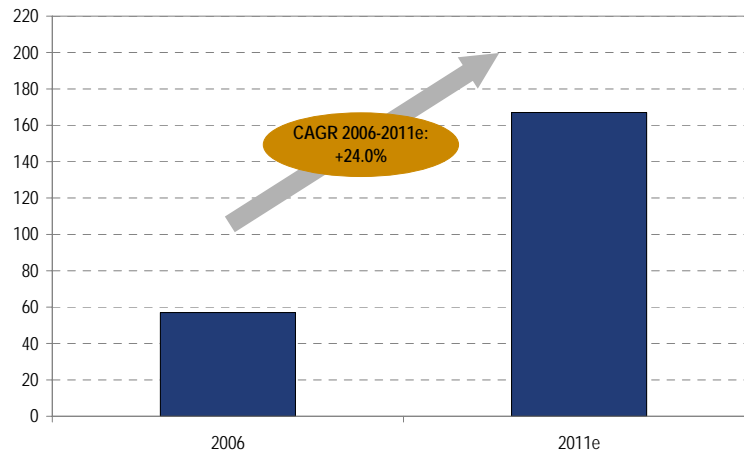
Aesthetic is the most interesting segment of the sector. According to a recent research report published by *Medical Insight*, the global market for aesthetic products will exceed USD 5.4bn in 2008. This dynamic market is expected to reach USD 8.2bn by 2012, a growth rate of 11.7% per year.

The two main segments with a prominent role in the record industry growth should be body shaping and skin tightening, two categories in which El.En. group boasts a strong market share with several innovative products and a great deal of technical know-how. Based on the foregoing report, *total worldwide sales of aesthetic devices, currently estimated at USD 1.2bn, will rise by 10.3% per year and reach over USD 1.9bn in 2011. **Body shaping** and **skin tightening** devices will drive aggressive expansion in the device category. All body shaping platforms, with a growth per year of 21.0%, are forecast to increase from the expected USD 361.9m in 2009 to USD 752.9m in global sales by 2012. Sales of skin tightening devices are expected to rise by 14.9% annually, from USD 87.8m in 2007 to USD 176.0m by 2012.* The rapid emergence of energy-based technologies and innovative devices is creating new sources of revenue for brands that are currently on the market and that will pave the way for others to enter the field. Body shaping encompasses a range of procedures that target size and weight reduction, as well as toning, firming and cellulite treatment. Skin tightening procedures address wrinkles and skin laxity of the face and body. In 2006, over 14 million procedures were performed in this category, generating in excess of USD 4bn in practitioner fees; based on the forecast, these areas will reach more than 36 million procedures and over USD 8bn in professional fees by 2011.

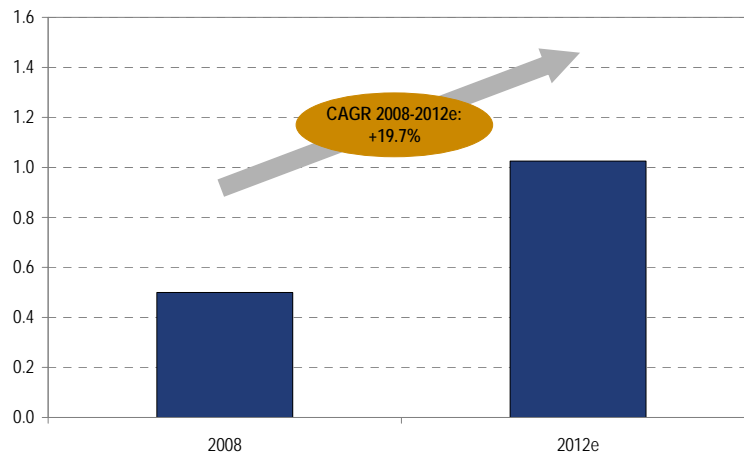
Expected growth of worldwide sales of aesthetic equipment (USD bn)



Non-invasive aesthetic procedures (in millions)



Body shaping and skin tightening equipment revenue (USD bn)



Source: Medical Insight, Inc.

KEY DRIVERS

The main key drivers for growth in the medical/aesthetic application industry are the following:

- the ageing of the population in the most industrialised countries combined with the increased personal income of “baby boomer”;
- the media and cultural influences: the current cultural and aesthetic canons push people to focus more and more on “looking after their bodies” and on “caring about their look”. The proof of this is that the demand for aesthetic treatments is not elastic in the economic crisis;
- the technological improvement can offer aesthetic treatments with less invasive and safer solutions;
- the price of the aesthetic treatments has been coming down over the years: this allows for stronger penetration in terms of clients and patients;
- the wide diffusion of health and spa centres in the last few years, often combined with medical structures that offer their conventional spaces to new revenue streams;
- the treatments based on lasers or other light-based devices, though traditionally used by dermatologists and plastic surgeons, are playing a crucial role for other medical classes, such as opticians, otolaryngologists, obstetricians and gynaecologists (mini-invasive surgery).

MARKET POSITIONING AND MAIN COMPETITORS

As shown in the following table, the main listed players in the medical/aesthetic sector are Candela, Syneron, Palomar, Cutera, Biolase, Lumenis and Lasersight in the USA, Quantel in France and Wavelight in Germany. All these players have strong brand awareness and can show recognised product brands in one or more segment.

Unlike most players, El.En. *group is present in almost every segment with a wide product range. Besides, El.En. is the only player that uses its laser sources in the medical/aesthetic applications.*

EL.EN. GROUP: Competitor positioning

	Ophthalmology	Dermatology Aesthetics	Dentistry	Surgery	Physiotherapy
CANDELA		X			
SYNERON		X			
PALOMAR		X			
CUTERA		X			
BIOLASE		X	X		
LASERSIGHT	X				
LUMENIS		X			
QUANTEL	X	X			
EL.EN		X	X	X	X

Source: BANCA AKROS estimates

It is important to highlight that despite the several acquisitions made by the main players during the last few years, *the medical/aesthetic laser market is still very fragmented* and is made up of niche segments with several small-sized players. The proof of this is that *the leading 20 companies, among them El.En. group, which together reached total aesthetic product sales of about USD 3.3bn in 2008, represent more than 65% of the overall market; while around 45% of the market is composed of very small companies with a market share that is definitely not significant.* Therefore, *further market concentration is expected in the mid term.*

A revealing instance of the foregoing statement is *the merger agreement between Syneron and Candela* signed a few weeks ago (under the terms of the merger agreement, Candela

shareholders will receive 0.2911 Syneron ordinary shares for each share of Candela common stock they own. Based on the closing stock price of the Syneron common stock on 8th September 2009, Candela shareholders will receive USD 2.84 per share of consideration, or a total consideration of approximately USD 65m. The new entity will be the first player of the medical/aesthetic laser market in terms of revenues). The acquisition of Candela by Syneron could be considered a win-win operation because two companies are highly complementary. Syneron has a strong cash position, a strong reliance on the non-core physicians, but a limited international business infrastructure; while Candela has been a pioneer in the laser industry for nearly 40 years and can boast a wide distribution network and good brand awareness, but currently shows some difficulties at the level of financial structure and, consequently, some difficulties in facing the current economic crisis and the potential lose of the litigation with Palomar. Therefore, we believe that the merger with Candela has opened the way for Syneron to enter a new significant segment of the medical/aesthetic laser market, immediately becoming a big player.

Although it is difficult to imagine M&A operation between the above mentioned main sector players in the coming future, we cannot rule out that these operators can play a leading role in this market concentration phase, acquiring very specialised small operators to entry new segments or new niches.

■ The laser market for industrial applications

MARKET FEATURES

We have concentrated on the segments where El.En. operates (the group produces laser sources and devices for cutting and marking); hence, we have not considered laser systems for telecoms, optical storage and the defence sector.

Laser cutting is, above all, precise, clean and silent. The beam can be focused on an extremely small area (from 0.1 to 1mm in diameter). The area in proximity to the cut edge has a very low heat alteration. Moreover, the laser cut has the capacity to operate on complex profiles and with very small rays of curvature. The laser is a non-contact instrument that guarantees: total absence of mechanical pressure on the piece; cutting capability independent of hardness of the material; capability of cutting coated or surface treated materials. Laser cutting also has a high degree of automation and flexibility, which offers: ease of integration with other automated systems; capability of adapting immediately to changes in production requirements. In many cases, laser cutting can produce finished pieces that do not require further processing (polishing, de-burring, finishing etc.).

Laser marking is a technique of making markings on material surface directly by the high energy of laser radiation. The technique is classified under several kinds depending on the kind of laser (wavelength) used and marking system. Materials that can be marked include metals, plastic, glass and wood. The advantages of laser marking compared to traditional systems are: 1) it is a non-contact process; 2) the marks are permanent; 3) the process is free of contamination (unlike ink or dye printing or chemical etching); 4) it is usually faster than competing processes; 5) the process can easily be automated, it is extremely flexible because the system is computer controlled, so modifications can be achieved by a few clicks of a mouse button and it is easy to integrate into production systems.

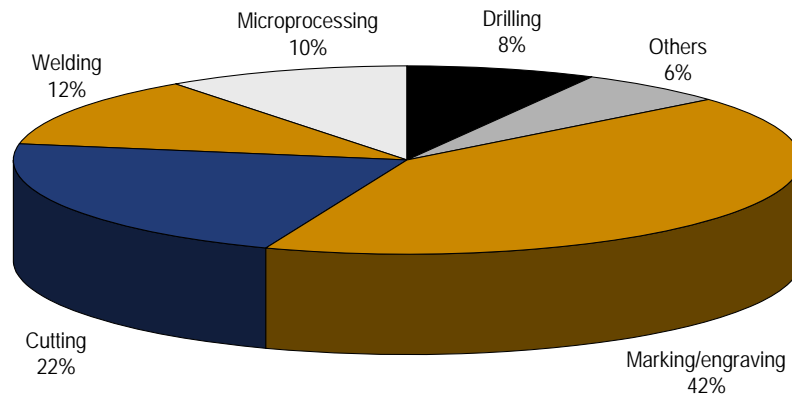
These segments are characterised by:

- the strong dependence on the business cycle, particularly on the manufacturing sector, which represents the main target of industrial laser productions of El.En. Group's;
- the industrial applications have longer technological cycles and average life than medical applications, which are characterised by a faster pace of innovation.

MARKET EVOLUTION

Owing to the deep crisis that has been hitting customers of the industrial laser sector, this market is expected to fall by 32% in 2009 to the level of 2004 (source: *Laser Focus World 2009*).

Worldwide industrial laser applications by units in 2008



Source: *Laser Industry Solution*

Based on an article published on *Laser Industry Solution*, despite the current significant slowdown, the fundamentals of the industrial laser market all remain strong and laser materials processing is still on a technology growth curve. The article highlights that “the technology competition will erode major laser markets and the only threats will come from new laser technology such as ultra-fast pulse lasers with their cold processing capability. So, technology is there for growing markets, when economic pressures are relieved, be it in 2009 or later. It took the laser industry three years to return to growth from the 1992 recession low point. But then markets were just developing and applications such as marking/engraving were immature. Metal cutting had not spread globally into nations developing an industrial base. The economic forces that are stultifying the industrial laser market are serious and the timing of a recovery is, as this is being written, not clear. But recovery will come, and the markets will regain their health, and the industry will grow again”.

MARKET POSITIONING AND MAIN COMPETITORS

As shown in the following table, the most significant players in the industrial sector include three listed companies in the USA (Rofin-Sinar and Cymer), one unlisted operator in Germany (Trumpf Group), one unlisted operator in Japan (Amada) and Prima Industrie, an Italian player listed on the Italian Stock Exchange active in the laser cutting sector.

Ei.En. group is present in all the segments with a wide product range, just like the big players.

Lastly, it is important to highlight that the industrial laser business is highly fragmented; the top 10 suppliers earn about 86% of total laser revenues, while an array of small suppliers share less than 5% of the market. Yet, the recession is so severe that every supplier will be forced to pick and choose the laser businesses in which it wants to continue to compete. Afterward, not only will there be fewer players, but the remaining players will play in fewer niches (source: *Laser Focus World 2009*).

EL.EN. GROUP: Competitor positioning in the industrial sector

	Laser sources	Laser cutting	Laser marking	Others
ROFIN-SINAR	X	X	X	
CYMER	X			X
TRUMPF Group		X		X
AMADA	X	X		X
PRIMA INDUSTRIE	X	X		
EL.EN	X	X	X	

Source: BANCA AKROS estimates

■ **The laser market: a strong competitive sector**

As highlighted in the above paragraphs, the laser sector is very competitive due to the high numbers of players. In the industrial laser segment, the distinctive features are equipment power, production flexibility, software versatility and good value for money; while, in the medical/aesthetic laser segment the distinctive features are strong innovative product offer, high effectiveness of the devices and the design.

Therefore, high technological know-how and a strong ability to continuously innovate the application range are of prime importance in all laser segments in order to maintain a high market share and to identify sector niches characterised by high added value.

An international player: a two pillar business model

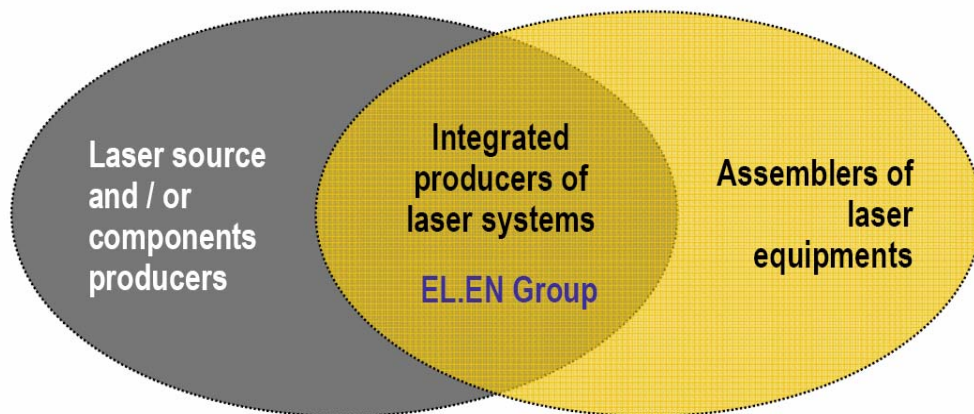
El.En. group's role in the laser industry, with a presence in several markets, is reflected in the group's own business model, which is based on the interaction of two fundamental features.

Vertical integration of the value chain

As already explained in the above paragraphs, unlike other companies in the laser industry, which only design and produce laser applications and sell them to assemblers, El.En. is a fully-integrated operator. In fact, the company has its own in-house laser design teams and produces and assembles its own laser systems.

Therefore, El.En. group can boast two competitive advantages over most of the players: not only does it have control of the know-how of the entire value-added chain, it also has the skills and ability to develop a wide range of products in several niches of the laser sector.

EL.EN. GROUP: a vertically integrated supply chain



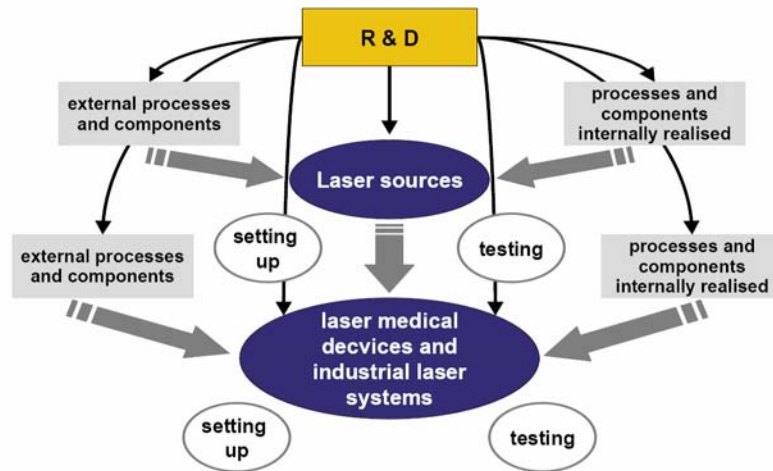
Source: Company data

R&D: the prime driving force of the group

The company's strong focus on R&D activities through continuous and significant investments (around 10% of sales) and the strong cooperation with research institutes are strong strengths to maintaining leadership in its sectors.

From the beginning, these two factors have been fundamental growth drivers for EL.En. group. As shown in the following diagram, R&D is the core activity from which the manufacturing process comes to life. R&D is the driving force of the internal production of laser sources and components, both in the medical/aesthetic laser sector and in the industrial laser sector and of the design of the components and the processes carried out externally.

EL.EN. GROUP: MANUFACTURING PROCESS



Source: Company data

Competitive advantages of El.En. group's business model

Thanks to this business model, the group boasts the following competitive advantages compared to both small players operating in a single laser sector and big players operating in several laser markets:

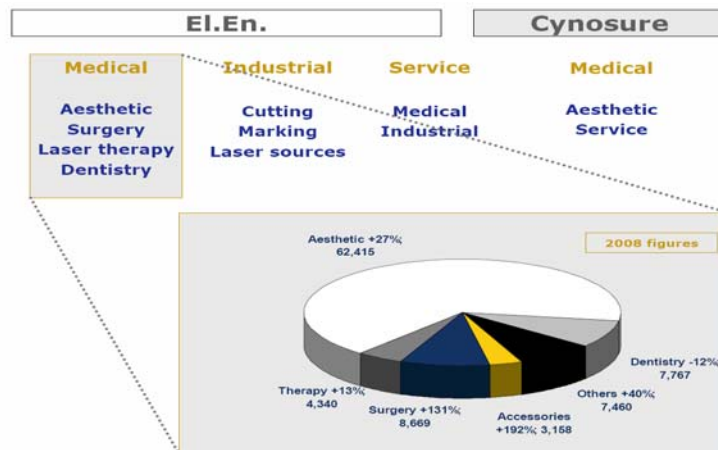
- 1) **Strong innovative and multidisciplinary know-how** - the group's strong know-how in all process phases, from the design and construction of the laser sources to the technology used in the wide range of applications, allows El.En. to continuously develop innovative laser devices and equipments;
- 2) **Complete control of the core phases** – the control of the critical phases of the value channel allows the group to react to market changes at the right time;
- 3) **Product diversification** – the fact that the group is present in both the industrial laser sector and in the medical/aesthetic laser sector at a local and international level and that it has good product diversification means the group has significant growth opportunities and the continuous chance to identify new market niches with high value added;
- 4) **Good production flexibility** - the good production flexibility allows the group to quickly meet customer needs.

Business divisions: specific applications for specific needs

Medical/Aesthetic division (El.En. group excluding Cynosure)

The activities of this division can be divided into four application fields: AESTHETICS, SURGERY, LASER THERAPY and DENTISTRY.

EL.EN. GROUP (excluding Cynosure): sales breakdown of Medical/Aesthetic division



Source: Company Presentation

AESTHETICS – The group’s applications in this sector are: *hair removal* (this is the most widespread aesthetic laser application and it is realised through Nd:YAG and CO₂ laser systems and through light pulse systems; using these applications it is possible to obtain selective thermal damage of the hair bulb in order to stop the roots growing again, thereby minimising harmful effects to the surrounding tissue), *laserlipolysis* (the group has entered the liposuction field, the aesthetic surgery most widely used in the world, by supplying a mini-invasive version using laser technology), *non ablative photo-rejuvenation*, *fractional micro-ablative photo-rejuvenation* (*skin rejuvenation* consists in stimulating the skin to make it more elastic and in the removing of wrinkles and surface pigmentations; using laser technology this treatment is decidedly less intensive than traditional methods), *vascular lesions*, *benign pigmented lesions*, *skin-tightening*, *body shaping* (this treatment uses invasive and not-invasive technologies in order to reduce body fat and cellulite in certain areas of the body by reshaping them; even in this case, laser technology is less invasive and more effective than traditional methods, *acne scars*, *minor skin surgery*, *psoriasis and vitiligo*, *tattoo removal*. For each of the foregoing applications the group can supply international markets with one or other of the laser technologies offered by the group’s various companies and through the group’s numerous brands. The most well-known and successful products are: *Mediostar* of Asclepion, *Synchro* and *Photosilk* of Deka and *Elite* of Cynosure (hair removal systems); *Smartlipo* of Deka, which is distributed by Cynosure in the USA and by Deka in the rest of the world, and *Smartlipo MPX* of Cynosure (laserlipolysis); *Smartxide DOT* of Deka, *Matisse* of Quanta and *Affirm* of Cynosure (skin resurfacing); *Triactive* of Deka and *Raylife* of Asclepion (body shaping).

SURGERY – The group has been widening its presence in this sector given that the laser technology is destined to play an ever more important role in surgery; in fact, by exploiting the interaction synergies between light and tissue, the sort of surgery possible using laser applications is on the cutting edge in terms of mini-invasivity. Each kind of laser, based on its wavelength and its emission features, suits a particular surgical field. Thanks to the applications developed by Deka and Asclepion, the group is present particularly in plastic surgery and gynaecology. Furthermore, ranging from general surgery to deeper

applications, Quanta System has developed a very wide range of surgical lasers (general surgery, bronchoscopy, cancer treatment, endovascular treatment, ENT, gastroenterology, gynaecology, laparoscopy, neurosurgery, percutaneous laser disk decompression, pneumology, proctology, prostate surgery, soft tissues surgery, ureteral stones, lithotripsy, urology, vascular treatments).

DENTISTRY – Lasers have been used in odontostomatology for years. Various types of laser are employed in the dental field for a variety of applications, including the elimination of caries, decontamination of periodontal pockets, teeth whitening and oral mucosa surgery. Many dentists use lasers combined with traditional therapeutic methods in their daily practice in a myriad of different operations. Obviously, lasers cannot totally replace or radically change operating methods, but they can be used to accompany and back up traditional instruments. In this field, El.En. group has developed several laser applications that are used in certain treatments of oral medicine and surgery, conservation, endodontics, implantology, periodontology and teeth whitening.

LASER THERAPY – The laser therapies developed by ASA Laser are a modern and non-invasive approach to pain therapy. The clinical applications of ASA therapies are specifically aimed at the treatment of bone, muscle, and tendon pathologies, such as: temporomandibular pain, neck pain, shoulder pain, haematomas, muscle lesions, lumbago, sciatalgia, osteoarthritis and chondropathies, osteocondritis dissecans and osteochondral lesions, rachialgia, fibromyalgia, synovitis and bursitis, tendinopathies, distortions and post-traumatic oedemas, ulcers, wounds, burns, bedsores.

EL.EN.: Wide range of medical/aesthetic devices

EL.EN.: Aesthetic treatments

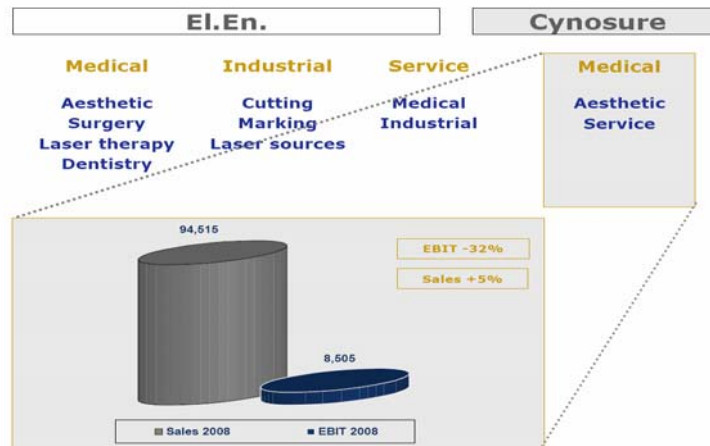


Source: Company Presentation

Cynosure

Cynosure is the group's USA subsidiary; it is listed on the Nasdaq Global Market. It develops and manufactures a broad array of light-based aesthetic and medical treatment systems. The products are used to provide a diverse range of treatment applications, such as hair removal, skin rejuvenation and scar reduction, as well as the treatment of vascular lesions; furthermore, the products are used by professionals in the aesthetic and medical markets on a worldwide basis. Cynosure currently supports customers in over 60 countries through subsidiaries and global distributors.

CYNOSURE: sales and profitability in 2008 (EUR M)



Source: Company Presentation

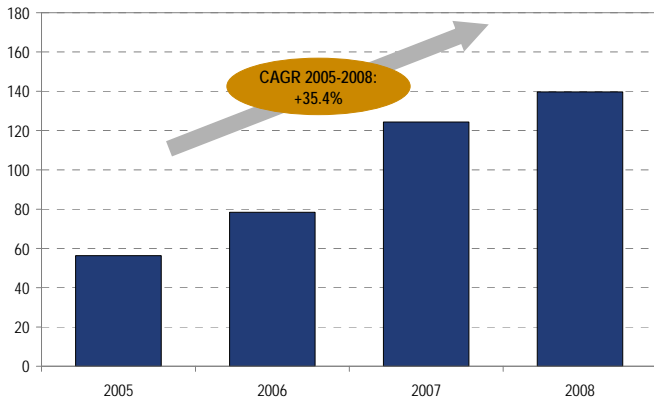
IFRS Data

The acquisition of Cynosure, realised in 2002, was a very synergic operation for El.En. group. In terms of technology, the group enriched its product portfolio with specific complementary laser technologies, but, most of all, this acquisition was very important because El.en. group gained a presence in the USA through this operation, the world's biggest market, where it was only marginally present previously.

In fact, after a restructuring period (the benefits of the turnaround were initially felt in 2004 and became evident in 2005), Cynosure mainly became the distribution platform in the USA for several applications developed by the El.En. medical/aesthetic division. A revealing example is the strong success obtained by the *Smartlipo* technology (a less invasive technique than conventional liposuction methods for fat reduction and body toning; according to the latest data published by MRG-Millennium Research Group, the global authority on medical technology market intelligence. Smartlipo is currently "one of the first laserlipolysis available in the market") developed by El.En. and distributed in the US by Cynosure; the sales of this application contributed strongly to Cynosure's revenue growth in the past few years (Cynosure's sales CAGR 2005-2008 was 35.4%). Cynosure launched an innovative version of Smartlipo application in 2008. Smartlipo MPX is distributed worldwide by Cynosure (not only in the USA); it combines the Smartlipo technology with Cynosure's owner technology Multiplex. This further innovation, in our opinion, should be one of the main drivers for the group in the coming years.

Furthermore, Cynosure signed a multi-year, funded cooperative agreement with Unilever Ltd last July to develop and market light-based devices addressed to the home use personal care market. This project, which is currently in its embryonic stage, could become an interesting innovative driver to enter a new laser market niche in the medium term.

CYNOSURE: Sales trend 2005-2008 (USD m)



Source: Company data

CYNOSURE: Evolution of a core product



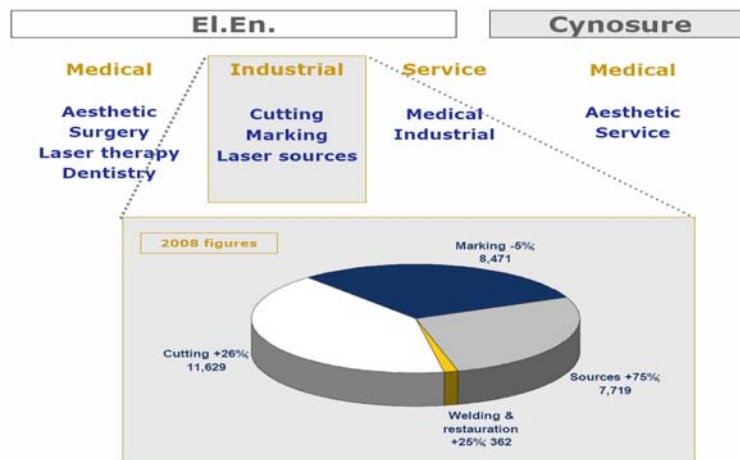
Source: Company Presentation

Laser industrial division

The activities of this division can be divided into four application fields: CUTTING, MARKING and WELDING.

With more than 1,000 laser systems and more than 1,500 high power laser sources installed in more than 40 countries El.En. is one of the world leaders in the business of industrial lasers. The internal R&D department and the collaboration with the most important research institutes both in Italy and in the world provide the best technological support for before and after sales. El.En. can follow process development with its costumers along with the product development, thus achieving effective solutions in collaboration with the most qualified partners. The internal design and manufacturing of the major components of the laser sources, from precision mechanics to high power electronics, allow El.En. to control and improve the features of the various systems that depend on the application. Lastly, El.En.'s direct technical assistance covers the major industrialised countries in Europe, America and Asia. All the service centres are ready to provide prompt technical service thanks to a full stock of spare parts on site and fully trained technicians.

EL.EN. GROUP: sales breakdown of Laser Industrial division



Source: Company Presentation

The group's laser cutting activity is predominantly carried out by the Italian company CULITE PENTA. Though founded only in 1992, this company is the leading manufacturer in CO2 laser cutting machine for die-boards and acrylic in Italy. Laser marking is carried out by OT-LAS, LASIT and AQL.

EL.EN.: Industrial laser applications



Source: Company Presentation

EL.EN.: innovative laser industrial equipments



Source: Company data

Group strategy

- The group activity will be focused to reach the following strategic targets:
- R&D: the management wants to continue to invest heavily in R&D because it is considered an essential instrument to develop innovative and competitive products and services.
- Further expansion of its international presence: the management wants to continue to invest in order to strengthen its position in those markets it is already present (improving its relationship with the current distributors, strengthening its sales network). Furthermore, the management intends to grow in the markets characterised by interesting growth rates.
- Internal and external growth: though the group is currently focused on a strategy of internal growth it is, nevertheless, paying attention to interesting market opportunities for external growth (joint ventures, acquisitions).

Swot Analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ▪ High technological know-how thanks to continuous significant investments in R&D ▪ Vertical integration of the value chain ▪ Product diversification and wide range of applications in all sectors ▪ Good international presence ▪ Strong cash generation ▪ Low dependence on the suppliers of raw materials and components 	<ul style="list-style-type: none"> ▪ High competitive markets ▪ Possibility to offset pricing pressure only through high product turnover ▪ Rigid cost structure (high labour costs, high commercial investments) ▪ Need to keep a high stock level in order to dispatch clients' orders at the right time
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ▪ Further opportunities for external growth ▪ Further potential growth in the markets with interesting growth rates ▪ Possibility to play a leading role when the market recovers ▪ Possibility to develop/enter new laser market niches thanks to the launch of new technologies/applications 	<ul style="list-style-type: none"> ▪ Risk of sustained weakness in the laser industrial sector, especially in Europe ▪ In spite of first few signs of improvement, the visibility on the consumption trend is still low ▪ Market threats (second-hand goods, new technologies, killer applications)

H1 09 results and outlook 2009

H1 09 consolidated results

H1 09 consolidated revenues amounted to EUR 72.6m, down by 36.2% YoY; this negative trend has been affected by the global economic downturn, which only marginally affected the group in 2008.

This decrease is due to the 42.0% reduction in the sales of Medical/aesthetic laser systems and the 44.8% drop in Industrial laser systems; while positive growth has been registered in the revenues from the sale of technical services, spare parts and consumables, up 7%, thus proving that end users have been intensively utilizing the group's systems. This trend reveals that the decrease in demand for the group's systems is not to be blamed only on the decrease in the final demand, but also on the *uncertainty that has discouraged potential customers from committing themselves to new investments* and mainly on the *weak credit conditions that inhibited many customers who had already decided to buy upon obtaining the needed financial support*.

In order to face the sales drop, *the group promptly performed a set of actions aimed at reducing the operative costs; however, the effects of the actions have not been able to reduce fixed cost sufficiently enough to offset the decrease in revenues in the period* (it is important to highlight that the group, in line with its strategic view, has not reduced the investments and expense in R&D). Therefore, H1 09 EBITDA was negative for EUR 4.5m with a -6.2% impact on revenues, compared to H1 08 EBITDA positive for EUR 17.9m. H1 09 EBIT was negative for EUR 9.0m, equal to -12.5% of revenues, as opposed to the positive EUR 15.1m in the same period of 2008.

EL.EN. GROUP: H1 09 consolidate results (EUR m)

	H1 08a	H1 09a	%Chg
Sales	113.6	72.6	-36.2%
EBITDA	17.9	(4.5)	n.m.
Margin %	15.8%	-6.2%	
EBIT	15.1	(9.0)	n.m.
Margin %	13.3%	-12.5%	

Source: Company data

Data in US Gaap

■ Cynosure's H1 09 results

The extraordinary growth recorded in the last few years was halted in fourth quarter 2008 by the impact of the global financial crisis; following the economic crisis, in particular in the US, H1 09 revenues recorded a strong drop, around 53.0%. As shown in the following table, the sales trend impacted negatively on H1 09 profitability.

CYNOSURE: H1 09 results (USD m)

	H1 08a	H1 09a	%Chg
Sales	76.0	35.6	-53.0%
Net loss	9.5	(6.3)	n.m.
Margin %	12.5%	n.m.	

Source: Company data

Data in US Gaap

■ El.En. group excluding Cynosure H1 09 results

Considering the importance of the subsidiary Cynosure in the group's results and the substantial stake held in the company by third parties (the controlling share held by El.En. SpA as of June 30th 2009 was 23.08%), we have analysed the results of the first six months of El.En. group in H1 09 excluding Cynosure.

Though registering a loss, the H1 09 consolidated results, excluding Cynosure, were better compared to the full consolidate results, which were affected by the severe economic downturn in the US, the main market for Cynosure. The group registered a lower decrease in revenues and a lower impact from fixed costs on revenues, thus limiting the loss from operations to 3.8% on revenues with respect to 12.5% reported in the full area of consolidation. Consolidated Revenues were EUR 49.0m (down by 29.3%); EBITDA was positive for EUR 0.2m (0.3% on revenues); EBIT was negative for EUR 1.9m (-3.8% on revenues).

EL.EN. GROUP excluding CYNOSURE: H1 09 results (EUR m)

	H1 08a	H1 09a	%Chg
Sales	69.3	49.0	-29.3%
EBITDA	8.4	0.2	-98.0%
Margin %	12.2%	0.3%	
EBIT	6.9	(1.9)	n.m.
Margin %	10.0%	-3.8%	

Source: Company data

FY 09 Outlook

■ Cynosure

Based on some positive signs in the second quarter, Mr. Davin, CEO and Chairman of Cynosure, said: "although the third quarter traditionally has been the weakest for the aesthetic industry, we are hopeful that the macroeconomic environment will begin to stabilize as we move through the balance of 2009 [...]. We continue to carefully manage our business, *with the goal to be cash flow neutral for the year*".

■ El.En. group excluding Cynosure

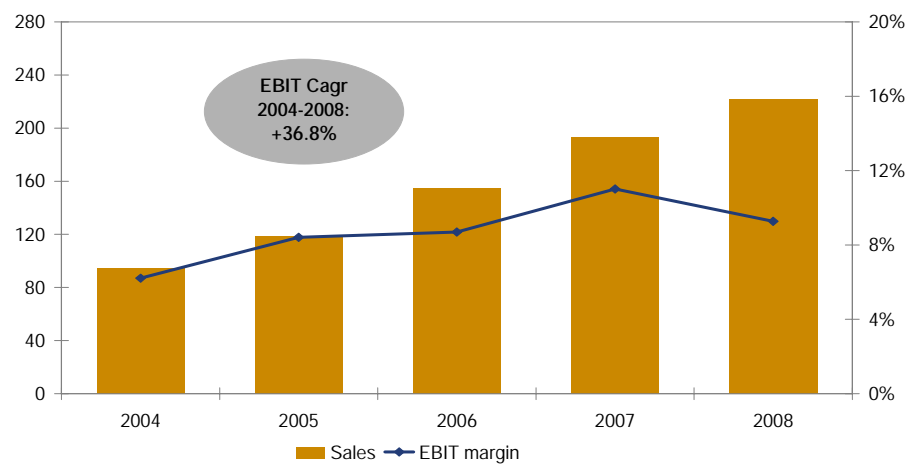
The FY 09 guidance on to the consolidated financials, excluding Cynosure, released at the beginning of the year suggested there would be a *decrease in revenues in the range of 15% - 20%* and an *EBIT of 4% on revenues*.

Since the results for the first six months are lower than expected, affected by the persistent and stronger economic downturn and by the fact that market conditions in the summer did not confirm certain positive signs that had been recorded in March and April, *the management stated that the annual targets could not be met*, but specified that "the effect of the expense reductions should allow an improved result, positive, for the second semester, hopefully recovering a good part of the losses generated in the first six months".

Cash flow generation

The good profitability recorded in the past few years (consolidated EBIT margin rose from 6.2% in 2004 to 9.3% in 2008) has translated into good cash flow generation. In turn, this has allowed El.En. to fully finance its significant R&D investments, which are essential for any company to realise high internal growth. Furthermore, El.En. could rack up several acquisitions in the past few years without the need to leverage its financial structure (D/E was -0.4x and Debt/EBITDA was -2.4x in 2008).

EL:EN: GROUP: profitability trend 2004-2008 (EUR m)



Source: Banca Akros on Company data

In spite of the current fall in group sales and profitability, owing to the ongoing global economic recession and the continued restrictive credit environment in the aesthetic laser industry, the group will rapidly regain the historical margin and cash flow generation as soon as the recovery materialises in 2010.

EL:EN: GROUP: Cash flow model (EUR m)

	2008	2009e	2010e	2011e
Net Profit (reported) + Minorities	14.2	-5.3	1.5	7.1
Non cash items	8.3	7.0	7.4	7.8
Cash Flow	22.5	1.7	8.8	14.9
Change in Net Working Capital	-12.1	8.8	-9.0	-6.7
Capex	-27.5	-10.2	-8.4	-8.1
Operating Free Cash Flow (OpFCF)	-17.1	0.3	-8.5	0.1
Net Financial Investment	0.0	0.0	0.0	0.0
Dividends	5.3	1.4	0.0	1.0
Others (incl.Capital Increase)	-7.6	-16.1	0.1	-1.8
Free Cash Flow	-19.4	-14.4	-8.4	-0.8
Net Debt (Cash)	-67.9	-53.5	-45.0	-44.3
Debt / Equity	-0.4x	-0.3x	-0.3x	-0.2x
Debt / EBITDA	-2.4x	29.2x	-5.1x	-2.5x

Source: BANCA AKROS estimates

2009e - 2011e estimates

Based on the above mentioned FY 09 outlook and on the expected economic recovery in 2010, we forecast:

FY 09e – as the consequence of the drop in sales, which began in last quarter 2008 and has been ongoing this year in all segments, we estimate that the group's revenues in 2009 will decrease by over 30% and consequently there will be a significant negative impact on profitability;

FY 10-11e – assuming the first few signs of the economic recovery at the beginning of 2010 are real, we estimate there will be a sales rebound in 2010 and further growth in 2011. Thanks to the realised structural efficiencies and an increase in sales volumes, we estimate that El.En. group will progressively recover profitability as of 2010, both for Cynosure and for the other El.En. divisions.

The following tables are summaries of our forecast.

CYNOSURE: 2009-2011 forecasts

PROFIT & LOSS (USD m)	2008	2009e	%Chg	2010e	%Chg	2011e	%Chg
Sales	139.7	73.5	-47.4%	90.0	22.5%	105.3	17.0%
EBITDA	17.9	(6.5)	-136.4%	4.5	nm	10.7	138.5%
<i>EBITDA margin</i>	12.8%	-8.9%		5.0%		10.1%	
Depreciation & amortization	(5.4)	(5.1)		(5.2)		(5.6)	
EBIT	12.5	(11.6)	-192.8%	(0.7)	nm	5.1	nm
<i>EBIT margin</i>	9.0%	-15.8%		-0.8%		4.9%	

Source: BANCA AKROS estimates

PROFIT & LOSS (EUR m)	2008	2009e	%Chg	2010e	%Chg	2011e	%Chg
Sales	94.9	52.5	-44.7%	64.3	22.5%	75.2	17.0%
EBITDA	12.1	(4.6)	-138.3%	3.2	nm	7.6	138.5%
<i>EBITDA margin</i>	12.8%	-8.9%		5.0%		10.1%	
Depreciation & amortization	(3.6)	(3.6)		(3.7)		(4.0)	
EBIT	8.5	(8.3)	-197.5%	(0.5)	nm	3.6	nm
<i>EBIT margin</i>	9.0%	-15.8%		-0.8%		4.9%	

Source: BANCA AKROS estimates

EL.EN. (excluding Cynosure): 2009-2011 forecasts

PROFIT & LOSS (EUR m)	2008	2009e	%Chg	2010e	%Chg	2011e	%Chg
Sales	140.0	100.1	-28.5%	106.9	6.8%	119.7	12.0%
EBITDA	18.5	2.54	-86.2%	5.7	124.8%	10.6	85.9%
<i>EBITDA margin</i>	13.2%	2.5%		5.3%		8.9%	
Depreciation & amortization	(4.6)	(3.4)		(3.6)		(3.9)	
EBIT	13.8	(0.8)	-106.0%	2.1	nm	6.8	227.7%
<i>EBIT margin</i>	9.9%	-0.8%		1.9%		5.7%	

Source: BANCA AKROS estimates

EL.EN. GROUP: 2009-2011 forecasts

PROFIT & LOSS (EUR m)	2008	2009e	%Chg	2010e	%Chg	2011e	%Chg
Sales	221.7	146.5	-33.9%	164.3	12.2%	187.2	13.9%
EBITDA	28.8	(1.8)	-106.4%	8.9	<i>nm</i>	17.9	102.3%
<i>EBITDA margin</i>	13.0%	-1.25%		5.40%		9.59%	
Depreciation & amortization	(8.3)	(7.0)		(7.4)		(7.8)	
EBIT	20.6	(8.8)	-143.0%	1.5	<i>nm</i>	10.12	572.7%
<i>EBIT margin</i>	9.3%	-6.0%		0.9%		5.4%	
Net financial income(charges)	1.5	0.7		0.7		0.8	
Non Recurrent items	0.0	0.0		0.0		0.0	
Pre-tax profit	22.1	(8.2)	-137.1%	2.2	<i>nm</i>	10.9	388.3%
Taxes	(7.9)	2.9		(0.8)		(3.8)	
<i>Tax rate</i>	35.6%	35.0%		35.0%		35.0%	
Minorities	(5.9)	4.2		(0.4)	<i>nm</i>	(2.8)	
Net profit	8.3	(1.1)	-113.3%	1.0		4.3	305.4%

Source: BANCA AKROS estimates

Valuation

Although El.En. holds the controlling stake in Cynosure on account of a clause in the by-laws, which give it the right to appoint the members of the board, El.En. S.p.A. holds only 23.08% of Cynosure. Therefore, we believe that the SoP (Sum-of-the-parts) of the valuations of *Cynosure* and *El.En. group, excluding Cynosure*, is the best evaluation method to highlight the contribution for each part to the group's value.

In the following paragraphs we calculate two different SOP:

- SOP based on DCF models of Cynosure and El.En. group excluding Cynosure;
- SOP based on DCF model of El.En. group excluding Cynosure and the current market value of Cynosure;

Furthermore, we are also presenting a comparison based on the 2009e and 2010e P/BV with the main listed players.

SOP

■ Cynosure

We have run our DCF analysis based on the following assumption:

- Sales and profitability forecast: a) for the period 2009/2011e we assume the estimates given in the previous paragraphs; b) for the period 2012/2013e, we estimate a sales CAGR of 8.7%, (we remind investors that the global market for aesthetic products is expected to grow by 11.7% per year in the same period); c) as regards long-term forecasts, we assume a stable EBIT margin at 8.8% (higher than the current level, because we believe that, given the strong actions aimed at increasing structure efficiency, the growing reference sector and some innovative products launched on the market, it is a sustainable level);

- A WACC calculated by assuming: a) a risk-free rate of 4.0% and a market risk premium of 3.5%; b) a target capital structure with debt covering 0.0% of the net capital employed, reflecting the group's unleveraged financial structure, due to the strong cash generation; c) a beta of 1.30 to take into account the reduced visibility on the business trend and on sales recovery in the coming years and the higher riskiness due to the current crisis;
- A terminal growth rate of 2.0%.

Our assumptions are shown in the following tables.

CYNOSURE: WACC calculation

Risk free rate	4.00%
Beta	1.30
Mkt risk premium	3.50%
Cost of Equity	8.55%
% equity	100.0%
Cost of Debt (gross)	4.50%
Tax rate	35.00%
Cost of Debt (net)	2.90
% debt	0.0%
WACC	8.55%

Source: BANCA AKROS estimates

CYNOSURE: Free Cash Flow projection (EUR m)

	2009e	2010e	2011e	2012e	2013e
EBITA	-8.3	-0.5	3.6	7.6	7.8
Taxes	2.2	0.2	-1.3	-2.7	-2.7
Tax rate	26.5%	35.0%	35.0%	35.0%	35.0%
NOPLAT	-6.1	-0.3	2.4	4.9	5.1
Depreciation & other provisions	3.6	3.7	4.0	4.2	4.3
Operating Cash Flow	-2.5	3.4	6.3	9.1	9.4
Capex	-3.2	-2.7	-2.5	-2.3	-2.3
Change in Net Working Capital	-6.3	4.3	4.0	4.1	0.9
Free Operating Cash Flow (FOCF)	-11.9	5.0	7.8	10.9	8.0

Source: BANCA AKROS estimates

CYNOSURE: DCF analysis

Perpetual Growth Rate	2.00%
WACC	8.55%
Terminal Value	95.3
Discounting Rate of Terminal Value	0.61
Discounted Terminal Value	58.3
Cumulated DFOCF	12.5
Financial Assets as of 31/12/08	14.3
Enterprise Value (EUR m)	85.1
Net Financial Cash as of 31/12/08 (EUR m)	52.9
Equity Value (EUR m)	138.1
Equity Value (USD m)	193.3

Source: BANCA AKROS estimates

■ El.En. group (excluding Cynosure)

We have run our DCF analysis based on the following assumption:

- Sales and profitability forecast: a) for the period 2009/2011e we assume the estimates given in the previous paragraphs; b) for the period 2012/2013e, we estimate a sales CAGR of 5.7%, (we remind investors that the laser industry division is characterised by strong cyclicalities and shows lower growth rates in the medium term compared to the laser medical division which, on the contrary, is driven by the high expected growth rates for the global market of aesthetic products); c) in terms of long-term forecasts, we assume a stable EBIT margin of 7.6% (higher than the current level because we believe that, given the strong actions aimed at increasing the structure efficiency, the growing reference sector, the strong R&D investments and the some innovative products launched on the market, it is a sustainable level);
- A WACC calculated by assuming: a) a risk-free rate of 4.5% and a market risk premium of 4.0%; b) a target capital structure with debt covering 0.0% of net capital employed, reflecting the group's unleveraged financial structure due to the strong cash generation; c) a beta at 1.30 to take into account the reduced visibility on the business trend and the higher risks due to the current crisis;
- A terminal growth rate of 2.0%.

EL.EN. GROUP (excluding Cynosure): WACC calculation

<i>Risk free rate</i>	4.50%
Beta	1.30
<i>Mkt risk premium</i>	4.00%
Cost of Equity	9.70%
<i>% equity</i>	100.0%
<i>Cost of Debt (gross)</i>	4.50%
<i>Tax rate</i>	32.00%
Cost of Debt (net)	3.06%
<i>% debt</i>	0.0%
WACC	9.70%

Source: BANCA AKROS estimates

EL.EN. GROUP (excluding Cynosure): Free Cash Flow projection (EUR m)

	2009e	2010e	2011e	2012e	2013e
EBITA	-0.8	2.1	6.8	9.8	10.1
Taxes	0.3	-0.7	-2.4	-3.4	-3.5
<i>Tax rate</i>	37.0%	35.0%	35.0%	35.0%	35.0%
NOPLAT	-0.5	1.3	4.4	6.4	6.6
Depreciation & other provisions	3.4	3.6	3.9	4.0	4.1
Operating Cash Flow	2.8	5.0	8.3	10.4	10.7
Capex	-7.0	-5.7	-5.6	-5.4	-5.2
Change in Net Working Capital	5.5	0.9	-2.7	-1.7	-1.0
Free Operating Cash Flow (FOCF)	1.3	0.2	0.0	3.3	4.4

Source: BANCA AKROS estimates

EL.EN. GROUP (excluding Cynosure): DCF analysis

Perpetual Growth Rate	2.00%
WACC	9.70%
Terminal Value	65.2
Discounting Rate of Terminal Value	0.57
Discounted Terminal Value	37.4
Cumulated DFOCF	6.4
Financial Assets as of 31/12/08	0.0
Enterprise Value (EUR m)	43.8
Net Financial Cash as of 31/12/08 (EUR m)	15.0
Equity Value (EUR m)	58.7

Source: BANCA AKROS estimates

EL.EN. GROUP: SOP based on DCF models

	Stake	Reference Method	Equity Value (EUR m)
El.En. group (excluding Cynosure)	100.00%	DCF model	58.70
Cynosure	23.08%	DCF model	31.87
Group Equity Value			90.60
Value per share (EUR)			18.80
Price as of 24/09/09 (EUR)			11.91
Upside (downside)			57.8%

Source: BANCA AKROS estimates

Based on our SOP valuation explained in the above table, and although we have used conservative parameters in our DCF models given the currently low visibility on the business trend, we have obtained a Fair Value of EUR 18.80 per share, thus an upside of above 50.0% on the current share price.

EL.EN. GROUP: SOP based on DCF model of El.En. group excluding Cynosure and the current market value of Cynosure

	Stake	Reference Method	Equity Value (EUR m)
El.En. group (excluding Cynosure)	100.00%	DCF model	58.70
Cynosure (price as of 24/09/09 – EUR)	23.08%	Mkt value	21.97
Group Equity Value			80.70
Value per share (EUR)			16.73
Price as of 24/09/09 (EUR)			11.91
Upside (downside)			40.5%

Source: BANCA AKROS estimates

Based on our SOP valuation explained in the above table, we have obtained a value of EUR 16.73 per share, thus an upside of 40.0% on the current share price.

Multiple comparison

As shown in the following table, 09e and 10e P/BV are below 1x for almost all peers; this means that we can highlight that the market certainly does not consider the growth forecast for the medical/aesthetic laser sector and the potential rapid increase in sales and profitability in the event there is a recovery in consumption. In fact, at the current prices, the market values of most of the players are lower than the shareholders' equities. The current prices do not reflect any value in terms of technological know-how, R&D investments, brand awareness, market positioning, distribution channel compared to the small players.

EL.EN. GROUP: peer multiples (as of 24 September 2009)

	09e P/BV	10e P/BV
Medical / aesthetic laser sector peers		
SYNERON MEDICAL	1.4x	1.4x
PALOMAR	1.9x	-
CUTERA	1.1x	1.1x
<i>Sector average</i>	<i>1.5x</i>	<i>1.3x</i>
Industrial laser sector peers		
ROFIN SINAR TECHNOLOGIES	1.7x	1.6x
GSI TECHNOLOGY	1.2x	1.1x
PRIMA INDUSTRIE	1.0x	1.0x
<i>Sector average</i>	<i>1.3x</i>	<i>1.2x</i>
TOTAL AVERAGE	1.4x	1.2x
EL.EN. GROUP	0.5x	0.5x

Source: Facset data and BANCA AKROS estimates

As shown in the following table, *El.En. group is trading at highly undemanding multiples. This confirms the strong undervaluation highlighted by our SOP valuation.*

We remind investors that this strong discount compared to the peers' average is completely unjustified because:

- unlike most players, El.En. group is present in almost every segment with a wide product range and a good market positioning;
- El.En. is the one of few players that uses its laser sources in its applications;
- unlike most players, especially in the industrial laser sector, El.En. shows a net cash position.

Furthermore, if we apply a 09e P/BV of 1.0x (a still conservative multiple), we obtain an El.En. group fair value of EUR 19.50 per share, *higher than the SOP fair value of EUR 18.80 per share calculated in the above paragraph.*

Conclusion

RECOMMENDATION AND TARGET PRICE

Based on the foregoing consideration, our recommendation is **Buy** and, considering our *SOP valuation based on DCF model of El.En. group excluding Cynosure and the current market value of Cynosure* and supported by the P/BV comparison, we have set a **Target Price of EUR 16.70 per share**, with an upside of 40.0% on the current share price.

The current strong undervaluation of the stock is clear considering the growth potential and the fast improvement in the group's profitability in case of an economic recovery.

TRIGGERS

We believe that El.En. group is currently an attractive investment case.

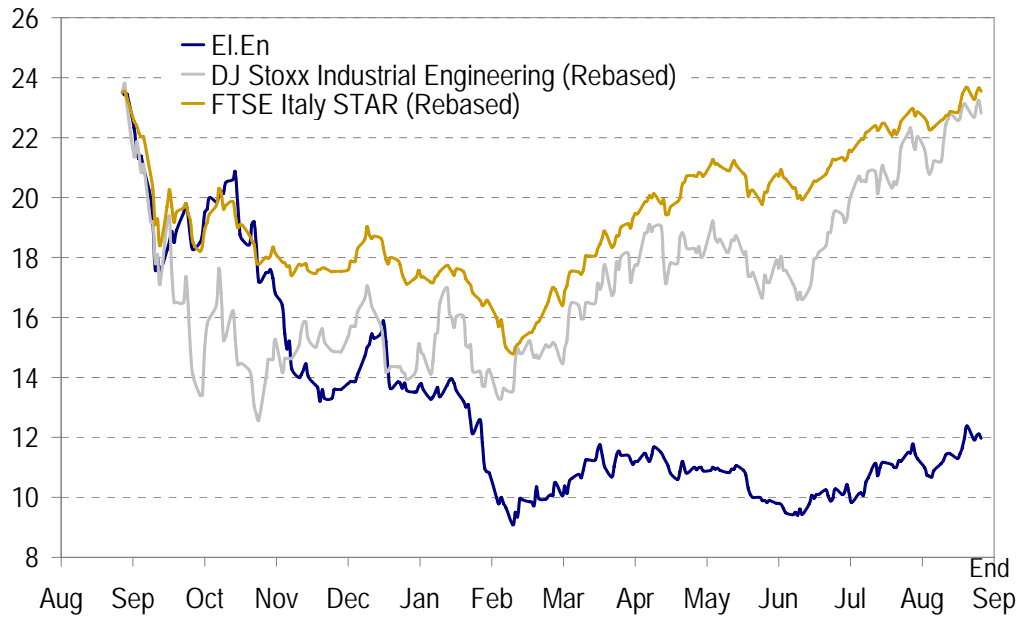
In our opinion, and at the current price, the stock certainly does not incorporate some important drivers for the coming future, namely:

- the ageing population in the most industrialised countries combined with the increased personal income of "baby boomer";
- media and cultural influences: the current cultural and aesthetic canons push people to focus more and more on "looking after their bodies" and on "caring about their look". The proof of this is that the demand for aesthetic treatments is not elastic in the economic crisis;
- the strong capacity of the group to generate cash even in a difficult scenario, thus supporting the group's development and the strong R&D investments;
- the several innovative products launched on the market in the last few years;
- further opportunities for external growth;
- the possibility to develop/enter new laser market niches thanks to the launch of new technologies/applications;
- the strong growth potential and the fast improvement in the group's profitability in case of an economic recovery.

STRONG UNDERVALUATION

The stock has underperformed the market (the stock underperformed the FTSE Italia STAR Index by 48.0% Y/Y); therefore, we believe that, given the very good fundamentals and the potential boost due to an economic recovery, the group has a very strong recovery potential in the coming months.

EL.EN. GROUP: 1 year price trend in EUR compared to Dow Jones Industrial Engineering and FTSE Italy STAR



Source: FactSet

Upcoming Corporate Events Calendar

Date	Event Type	Description	Period
13/11/09	Results	Q3 2009 Results	2009Q3

ESN Table Source

El.En.: Summary tables

PROFIT & LOSS (EURm)	2006	2007	2008	2009e	2010e	2011e
Sales	154	193	222	146	164	187
Cost of Sales & Operating Costs (excl. Pers. Expenses)	-82.8	-0.7	-119	-133	-154	-111
Personnel Expenses	-26.6	-0.2	-34.3	-43.2	-46.1	-40.0
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	9.4	26.3	28.8	-1.8	8.9	17.9
EBITDA (adj.)*	9.4	26.3	28.8	-1.8	8.9	17.9
D & A	-5.2	-5.0	-8.3	-7.0	-7.4	-7.8
EBIT	4.2	21.3	20.6	-8.8	1.5	10.1
EBIT (adj.)*	4.2	21.3	20.6	-8.8	1.5	10.1
Net Financial Interest	1.9	0.6	1.5	0.7	0.7	0.8
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	0.0	13.4	0.0	0.0	0.0	0.0
Earnings Before Tax (EBT)	6.1	35.4	22.1	-8.2	2.2	10.9
Tax	-4.7	-10.5	-7.9	2.9	-0.8	-3.8
<i>Tax rate</i>	<i>77.1%</i>	<i>29.5%</i>	<i>35.6%</i>	<i>35.0%</i>	<i>35.0%</i>	<i>35.0%</i>
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-0.2	-7.3	-5.9	4.2	-0.4	-2.8
Net Profit (reported)	1.2	17.7	8.3	-1.1	1.0	4.3
Net Profit (adj.)	1.2	8.2	8.3	-1.1	1.0	4.3
CASH FLOW (EURm)	2006	2007	2008	2009e	2010e	2011e
Cash Flow from Operations before change in NWC	6.6	30.0	22.5	1.7	8.8	14.9
Change in Net Working Capital	-11.6	-3.9	-12.1	8.8	-9.0	-6.7
Cash Flow from Operations	-5.0	26.1	10.4	10.5	-0.1	8.2
Capex	-5.4	-9.2	-27.5	-10.2	-8.4	-8.1
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	-10.4	16.9	-17.1	0.3	-8.5	0.1
Dividends	1.4	1.4	5.3	1.4	0.0	1.0
Other (incl. Capital Increase & share buy backs)	-8.6	20.2	-7.8	-16.1	0.1	-1.8
Change in Net Debt	-17.7	38.5	-19.6	-14.4	-8.4	-0.8
NOPLAT	1.8	17.7	12.9	-5.6	1.0	6.6
BALANCE SHEET & OTHER ITEMS (EURm)	2006	2007	2008	2009e	2010e	2011e
Net Tangible Assets	13.7	19.8	26.3	40.3	41.3	41.6
Net Intangible Assets (incl. Goodwill)	7.2	6.6	6.4	6.4	6.4	6.4
Net Financial Assets & Other	4.9	6.4	26.5	26.5	26.5	26.5
Total Fixed Assets	25.8	32.8	59.2	73.2	74.2	74.5
Net Working Capital	46.5	50.3	62.4	53.6	62.6	69.3
Shareholders Equity	72.1	93.6	96.7	94.1	95.2	98.5
Minorities Equity	47.7	69.0	84.3	80.1	80.1	82.3
Net Debt	-55.1	-87.3	-67.9	-53.5	-45.0	-44.3
Provisions	2.6	2.5	2.5	2.1	2.2	2.2
Other Net Liabilities or Assets	5.1	5.3	6.1	3.9	4.4	5.0
Net Capital Employed/Invested	72.2	83.1	122	127	137	144
GROWTH & MARGINS	2006	2007	2008	2009e	2010e	2011e
<i>Sales growth</i>	<i>30.4%</i>	<i>25.3%</i>	<i>14.6%</i>	<i>-33.9%</i>	<i>12.2%</i>	<i>13.9%</i>
<i>EBITDA growth</i>	<i>-36.6%</i>	<i>179.2%</i>	<i>9.4%</i>	<i>-chg</i>	<i>+chg</i>	<i>102.3%</i>
<i>EBITDA (adj.)* growth</i>	<i>-36.6%</i>	<i>179.2%</i>	<i>9.4%</i>	<i>-chg</i>	<i>+chg</i>	<i>102.3%</i>
<i>EBIT growth</i>	<i>-57.6%</i>	<i>404.9%</i>	<i>-3.5%</i>	<i>-chg</i>	<i>+chg</i>	<i>572.7%</i>
<i>EBIT (adj.)* growth</i>	<i>-57.6%</i>	<i>404.9%</i>	<i>-3.5%</i>	<i>-chg</i>	<i>+chg</i>	<i>572.7%</i>
<i>Net Profit growth</i>	<i>-95.1%</i>	<i>577.5%</i>	<i>1.6%</i>	<i>-chg</i>	<i>+chg</i>	<i>305.4%</i>
<i>EPS adj. growth</i>	<i>-95.1%</i>	<i>567.7%</i>	<i>0.2%</i>	<i>-chg</i>	<i>+chg</i>	<i>305.4%</i>
<i>DPS adj. growth</i>	<i>-45.5%</i>	<i>266.7%</i>	<i>-72.7%</i>	<i>-chg</i>	<i>+chg</i>	<i>0.0%</i>
<i>EBITDA margin</i>	<i>6.1%</i>	<i>13.6%</i>	<i>13.0%</i>	<i>nm</i>	<i>5.4%</i>	<i>9.6%</i>
<i>EBITDA (adj.)* margin</i>	<i>6.1%</i>	<i>13.6%</i>	<i>13.0%</i>	<i>nm</i>	<i>5.4%</i>	<i>9.6%</i>
<i>EBIT margin</i>	<i>2.7%</i>	<i>11.0%</i>	<i>9.3%</i>	<i>nm</i>	<i>0.9%</i>	<i>5.4%</i>
<i>EBIT (adj.)* margin</i>	<i>2.7%</i>	<i>11.0%</i>	<i>9.3%</i>	<i>nm</i>	<i>0.9%</i>	<i>5.4%</i>

El.En.: Summary tables

RATIOS	2006	2007	2008	2009e	2010e	2011e
Net Debt/Equity	-0.5	-0.5	-0.4	-0.3	-0.3	-0.2
Net Debt/EBITDA	-5.8	-3.3	-2.4	29.2	-5.1	-2.5
Interest cover (EBITDA/Fin.interest)	nm	nm	nm	2.8	nm	nm
Capex/D&A	104.1%	183.3%	332.6%	145.4%	114.0%	103.5%
Capex/Sales	3.5%	4.8%	12.4%	7.0%	5.1%	4.3%
NWC/Sales	30.1%	26.0%	28.2%	36.6%	38.1%	37.0%
ROE (average)	1.7%	9.9%	8.7%	-1.2%	1.1%	4.4%
ROCE (adj.)	2.6%	23.1%	13.6%	-5.6%	0.9%	5.6%
WACC	9.1%	9.1%	10.1%	9.7%	9.7%	9.7%
ROCE (adj.)/WACC	0.3	2.5	1.3	-0.6	0.1	0.6

PER SHARE DATA (EUR)***	2006	2007	2008	2009e	2010e	2011e
Diluted number of shares	4.7	4.8	4.8	4.8	4.8	4.8
EPS (reported)	0.26	3.71	1.73	-0.23	0.22	0.88
EPS (adj.)	0.26	1.72	1.72	-0.23	0.22	0.88
BVPS	15.34	19.40	20.04	19.51	19.73	20.41
DPS	0.30	1.10	0.30	0.00	0.20	0.20

VALUATION	2006	2007	2008	2009e	2010e	2011e
EV/Sales	1.1	0.8	0.5	0.5	0.5	0.5
EV/EBITDA	18.2	6.1	4.2	nm	9.9	4.9
EV/EBITDA (adj.)*	18.2	6.1	4.2	nm	9.9	4.9
EV/EBIT	40.6	7.5	5.9	nm	58.5	8.7
EV/EBIT (adj.)*	40.6	7.5	5.9	nm	58.5	8.7
P/E (adj.)	nm	15.6	8.1	nm	nm	13.6
P/BV	1.8	1.4	0.7	0.6	0.6	0.6
Total Yield Ratio	-1.1%	-4.1%	-2.5%	0.0%	-1.7%	
EV/CE	2.5	2.1	1.3	0.8	0.8	0.8
OpFCF yield	-3.8%	20.2%	15.5%	18.2%	-0.3%	14.2%
OpFCF/EV	-2.9%	16.4%	8.5%	13.1%	-0.2%	9.3%
Payout ratio	116.6%	29.7%	17.4%	0.0%	92.0%	22.7%
Dividend yield (gross)	1.1%	4.1%	2.5%	0.0%	1.7%	1.7%

EV AND MKT CAP (EURm)	2006	2007	2008	2009e	2010e	2011e
Price** (EUR)	27.9	26.8	13.9	12.0	12.0	12.0
Outstanding number of shares for main stock	4.7	4.8	4.8	4.8	4.8	4.8
Total Market Cap	131	129	66.9	57.7	57.7	57.7
Net Debt	-55.1	-87.3	-67.9	-53.5	-45.0	-44.3
o/w Cash & Marketable Securities	0.0	0.0	0.0	0.0	0.0	0.0
o/w Short Term Debt	0.0	0.0	0.0	0.0	0.0	0.0
o/w Long Term Debt	0.0	0.0	0.0	0.0	0.0	0.0
Other EV components	95.6	118	123	75.8	75.3	74.9
Enterprise Value (EV adj.)	171	160	122	80	88	88

Source: Company, Banca Akros estimates.

Notes

* Where EBITDA (adj.) or EBIT (adj.) = EBITDA (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.

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: medical laser devices used in dermatology, surgery, cosmetics, physiotherapy, dentistry and gynaecology; industrial laser systems for applications that range from the cutting, marking and welding; 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**.

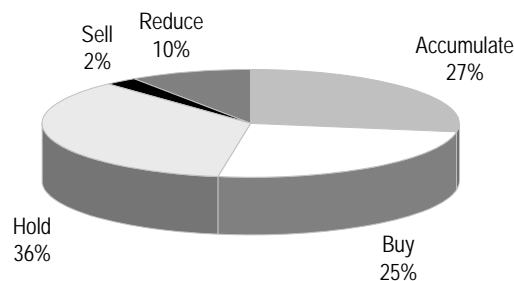
The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce and Sell (in short: B, A, H, R, S)**.

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

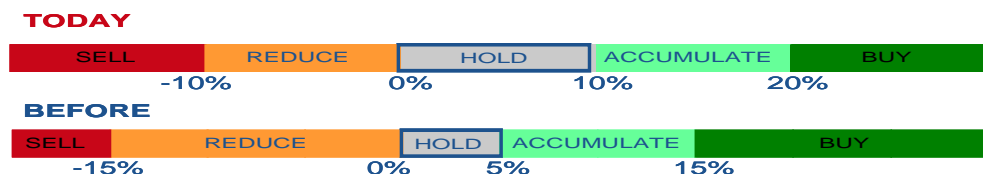


History of ESN Recommendation System

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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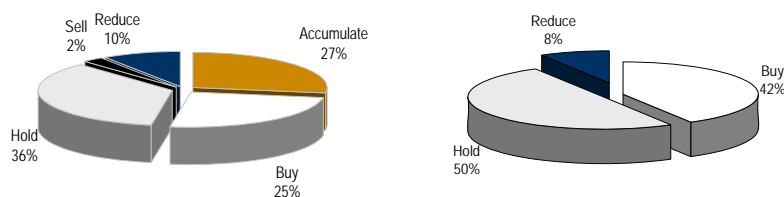
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Percentuale delle raccomandazioni al 30 giugno 2009

Tutte le raccomandazioni Raccomandazioni su titoli in conflitto di interessi (*)



(*) Si informa che la percentuale degli emittenti in potenziale conflitto di interessi con Banca Akros è pari al 14% del totale degli emittenti oggetto di copertura

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