

Add

Downgrade from Buy

Current €10.03

Target €11.00

Previous €33.10

Current price equivalent

\$13.54

Market cap

€48,388t

\$65,312t

52-week high/low

€26.71/€9.080

Price perf.	1M	3M	12M
Price (€)	12.6	13.6	25.0
Absolute (%)	-15.1	-26.3	-59.9
Rel market (%)	-16.3	-14.3	-27.5
Rel sector (%)	-18.0	-22.6	-34.0

EPS change	1M	3M	12M
EPS FY1 (%)	-63.3	-63.3	-64.4
IBES EPS (%)	0.0	0.0	-18.9
Sector EPS (%)	0.0	-9.8	-30.3
Market EPS (%)	0.0	-5.9	-31.3

Source: DKIB, Thomson IBES

ELEN.MI ELN IM

Research Analysts

Carmelo Pappalardo

+39 02 7240 2584

carmelo.pappalardo@dkib.com

EL.En

Poor momentum but compelling valuation

After several quarters of unprecedented growth the EL.En. Group has suffered the effect of the global economic slowdown, which was swift and particularly severe in the last quarter. For this reason we have made a 60% cut to our EPS in 2009 and subsequent years. We downgrade the stock from BUY to ADD and set a new target of €11.0 per share.

EL.En forecasts

Year	Sales EUR m	EBITDA margin %	Operating margin %	Net income EUR m	EPS EUR	P/E x	EV/ EBITDA x	FCF yield %	Yield %
Dec-2007A	193	13.6	11.0	18	1.24	8.1	8.9	29.5	11.0
Dec-2008A	222	12.5	9.4	7	1.45	6.9	3.2	(23.7)	8.5
Dec-2009E	188	9.2	4.9	3	0.61	16.4	2.7	11.4	3.4
Dec-2010E	205	10.9	6.2	4	0.75	13.4	2.2	5.0	4.5
Dec-2011E	218	11.9	7.0	4	0.87	11.5	1.8	11.7	5.2

Source: Company data, Dresdner Kleinwort Research estimates

- ▶ The EL.En. earnings momentum was particularly poor in Q4 2008. Group revenues came in at €56.5m or -0.4% YoY with a sharp deterioration in EBITDA at €3.8m (-58.6% YoY). After posting an impressive double-digit revenue growth for thirteen consecutive quarters clearly outperforming the industry trend, Cynosure's top line slumped in Q4 2008. Revenues come in at US\$25.5m or -30.3% YoY vs +21.2% in Q3, +30.1% in Q2 and +41.0% in Q1.
- ▶ The magnitude of the current macroeconomic downturn is still uncertain and this should keep affecting EL.En earning momentum and investor's sentiment on the stock, in our view. For this reason we have significantly revised downwards our estimates and set a new target of €11.0 per share.
- ▶ We downgrade the stock from BUY to ADD. Since the beginning of this year EL.En. shares have lost 30% of its value and now are trading at 3.2x EV/EBITDA 2009 which seems to be particularly compelling for us. The stock is also trading at 16.4x P/E 2009 with a premium fully justified by the Group's strong net cash position of €67.9m at year-end 2008.

▶ EL.En. is a leading laser manufacturer in Europe and one of the major players in the laser industry. EL.En and its subsidiaries manufacture and market globally multidisciplinary laser systems for industrial and medical applications used in dermatology, aesthetics, physiotherapy, dentistry and gynaecology. Through Cynosure, listed in December 2005, fully consolidated and now 23.39% controlled, the group addresses the key niches of the aesthetic lasers used to perform a wide range of non-invasive procedures including skin rejuvenation, hair removal and cellulite reduction.

▶ The EL.En. Group's earnings momentum was particularly weak in Q4 2008. Group revenues came in at €56.5m or

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Dresdner Bank AG, Sede di Milano, Piazza degli Affari 3, 20123 Milano. Telephone: +39 02 72 40 21 Fax: + 39 02 80 57 63 9 A Member of the Commerzbank Group.

-0.4% YoY (+10.2% in Q3, +24.8% in Q2 and +27.6% in Q1) with a sharp deterioration in EBITDA at €3.8m (-58.6% YoY). Q4 2008 EBIT came to €1.3m (€7.8m in Q4 2007) with EBT at €1.8m (22.5m in Q4 2007). The Group's net cash position stood at €67.9m, down from €87.3m in 2007, reflecting non-recurring capex spending in real estate (overall capex was €13m), dividend payments and buybacks (€7m).

- ▶ From a divisional standpoint, sales of lasers for medical applications totalled €42.0m in Q4 2008 (-1.7% YoY), the first negative performance since 2001. Notwithstanding the upturn in CO2 laser systems sales, the Group's performance was penalised by that of Cynosure. After posting an impressive double-digit revenue growth for thirteen consecutive quarters, Cynosure's top line slumped in Q4 2008 (revenues at US\$25.5m or -30.3% YoY vs +21.2% in Q3, +30.1% in Q2 and +41.0% in Q1).
- ▶ Q4 2008 sales of lasers for industrial applications were disappointing as well (-13.2% YoY vs +44.1% in Q3, +52.9% in Q2 and +30.8% in Q1). It should be noted that 2008 results were affected by the full consolidation of Spain's Grupo Laser Idoseme (€12m in sales, out of which c€3 intercompany and €0.1m EBIT according to our estimates).
- ▶ Since our initiation of coverage we have adopted a positive stance on EI.En reflecting: 1) the solid and sustainable fundamentals of the laser industry supported by virtuous technological, demographic and social trends; 2) Cynosure's strong competitive positioning. The US subsidiary outperformed the overall laser industry growth for several quarters due to its innovation capabilities allowing rapid market penetration by products like Smartlipo, the Body Sculpting workstation, Affirm and other anti-ageing multi-energy platforms; 3) the Group's huge cash availability.
- ▶ More generally, we consider aesthetic a killer application. Ageing baby boomers, affordability and accessibility of treatments, cultural and media influences, cost-effective of minimally/non invasive and safe procedures can improve usage of treatments allowing deeper penetration into a wide base of consumers worldwide. Moreover the target end-user market is penetrating wellness and spa centre offering laser applications in addition to traditional dermatologists and plastic surgeons.
- ▶ However, after several quarters of unprecedented growth the overall laser industry has suffered the effect of the global economic slowdown, which was swift and particularly severe in Q4 2008. Most importantly, the tightening of credit markets caused some practitioners to be unable to meet payment obligations and some physicians opted to postpone spending. The strengthening of the €/€ exchange rate in Q4 2008 also reduced the competitiveness of the US industry, which is characterized by large export flows, thus contributing to further affecting revenue growth.

Laser Industry - Sales Evolution

USDm	Q4'06	Q1'07	Q2'07	Q3'07	Q4'07	Q1'08	Q2'08	Q3'08	Q4'08
Candela	39.0	38.7	41.1	35.1	35.7	38.9	38.5	26.9	28.8
Palomar	38.6	31.5	32.8	31.4	26.9	23.0	23.1	24.2	17.2
Cutera	30.5	23.3	23.9	28.1	26.5	21.6	24.8	19.1	17.9
Syneron	35.0	32.3	37.5	33.1	38.1	34.1	38.2	28.5	14.2
Cynosure	24.6	26.1	30.1	31.5	36.6	36.8	39.2	38.2	25.5
Total Revenues	167.7	151.9	165.4	159.2	163.7	154.4	163.8	136.9	103.5
<i>Candela</i>	<i>-5.7%</i>	<i>15.6%</i>	<i>9.9%</i>	<i>-9.3%</i>	<i>-8.4%</i>	<i>0.5%</i>	<i>-6.3%</i>	<i>-23.4%</i>	<i>-19.5%</i>
<i>Palomar</i>	<i>78.6%</i>	<i>40.4%</i>	<i>-10.6%</i>	<i>12.0%</i>	<i>-30.3%</i>	<i>-26.9%</i>	<i>-29.4%</i>	<i>-22.9%</i>	<i>-36.0%</i>
<i>Cutera</i>	<i>27.3%</i>	<i>12.0%</i>	<i>-2.1%</i>	<i>12.2%</i>	<i>-13.2%</i>	<i>-7.0%</i>	<i>3.7%</i>	<i>-32.0%</i>	<i>-32.3%</i>
<i>Syneron</i>	<i>47.6%</i>	<i>36.2%</i>	<i>36.4%</i>	<i>7.7%</i>	<i>8.7%</i>	<i>5.5%</i>	<i>1.8%</i>	<i>-13.8%</i>	<i>-62.8%</i>
<i>Cynosure</i>	<i>52.3%</i>	<i>52.2%</i>	<i>66.2%</i>	<i>69.9%</i>	<i>48.8%</i>	<i>41.0%</i>	<i>30.1%</i>	<i>21.2%</i>	<i>-30.3%</i>
YoY Growth	32.2%	29.2%	14.8%	12.9%	-2.4%	1.7%	-1.0%	-14.0%	-36.7%
Candela	23.3%	25.5%	24.8%	22.0%	21.8%	25.2%	23.5%	19.6%	27.8%
Palomar	23.0%	20.8%	19.8%	19.7%	16.4%	14.9%	14.1%	17.7%	16.6%
Cutera	18.2%	15.3%	14.4%	17.7%	16.2%	14.0%	15.1%	14.0%	17.3%
Syneron	20.9%	21.3%	22.7%	20.8%	23.3%	22.1%	23.3%	20.8%	13.7%
Cynosure	14.7%	17.2%	18.2%	19.8%	22.3%	23.8%	23.9%	27.9%	24.6%
Revenue Share	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, Dresdner Kleinwort Research estimates

- ▶ We expect the overall industry to slightly change its strategic focus in 2009 and Cynosure to benefit from such a structural change. Most of the laser industry players, including Candela, Palomar, Cutera, Syneron and Cynosure, have announced sweeping cost-reducing plans. Sales growth is unlikely to remain their biggest strategic priority in our view.
- ▶ Given the headwinds facing the global economy, a strengthening of Cynosure's competitive standing in 2009 should not be ruled out. The Group has announced a number of steps to bring expenses into line with its current revenue levels including a 17% headcount cut and other cost-cutting initiatives. Overall, management is expecting annualized savings of between USD8m and USD10m. With more than USD95m in cash and securities, we believe the company has huge resources to implement its strategy.
- ▶ We continue to see some positives for EI.En.'s investment case: 1) management seems committed to speeding up its recent ventures in China, Japan, India and Brazil and to performing an effective turnaround in some loss-making subsidiaries; 2) the Group's medical lasers division ex Cynosure proved particularly resilient with +37.1% YoY growth in Q4 2008; 3) with EI.En. shares trading 3.2x EV/EBITDA 2009, the current stock valuation seems to be compelling.
- ▶ Finally, we believe that EI.En. share price performance should benefit from Cynosure's likely re-rating. The latter lost >40% of its value on very disappointing Q4 2008 numbers and its current market cap is lower than the value of the Group's cash and marketable securities (US\$95m or US\$7.5 per share). We highlight that the elasticity of EI.En. share price to a 1 USD fluctuation in Cynosure share price stands at 0.46x.
- ▶ We are confident about the laser industry growth potential in the medium-long run. However, we believe that the magnitude of the current macroeconomic downturn is still uncertain and this should keep affecting EI.En. earning momentum and investor's sentiment on the stock. For this reason we have significantly revised downwards our estimates and set a new target of €11.0 per share and downgrade the stock from BUY to ADD.

El.En Group - Change in Estimates

€m	2009E	2010E	2011E	CAGR '08-'11
New Revenues	188	205	218	-0.6%
Old Revenues	267	293	317	+10.6%
<i>new vs old</i>	<i>-29.6%</i>	<i>-29.8%</i>	<i>-31.5%</i>	
New EBITDA	17.3	22.3	25.8	-2.5%
Old EBITDA	40.2	45.2	50.0	+13.5%
<i>new vs old</i>	<i>-57.0%</i>	<i>-50.7%</i>	<i>-48.4%</i>	
New EBITDA Margin	9.2%	10.9%	11.9%	
Old EBITDA Margin	15.1%	15.5%	15.8%	
<i>new vs old</i>	<i>-5.9%</i>	<i>-4.6%</i>	<i>-3.9%</i>	
New Net Income	3.0	3.6	4.2	-16.2%
Old Net Income	8.0	9.1	9.9	+11.4%
<i>new vs old</i>	<i>-63.3%</i>	<i>-60.3%</i>	<i>-57.2%</i>	

Source: Company data, Dresdner Kleinwort Research estimates

El.En Group P&L

€m	2006	2007	2008	2009E	2010E	2011E
Revenues	154.4	193.4	221.5	188.0	205.2	217.5
<i>growth</i>	<i>30.4%</i>	<i>25.3%</i>	<i>14.5%</i>	<i>-15.1%</i>	<i>9.2%</i>	<i>6.0%</i>
Change in inventory	6.5	6.7	4.2	3.4	3.5	3.5
Other income	1.8	1.9	1.8	1.3	1.1	1.0
Value of Production	162.8	202.1	227.6	192.6	209.9	222.0
Purchase	-65.0	-76.8	-85.4	-71.7	-77.9	-82.3
Change in inventory	1.1	3.1	6.6	7.5	9.2	9.8
Other direct costs	-16.6	-20.1	-22.9	-20.3	-22.2	-23.5
Gross Margin	82.3	108.2	125.9	108.1	119.0	125.9
Other operating costs	-38.6	-38.6	-52.0	-52.2	-54.9	-56.0
Value Added	43.7	69.5	73.9	55.9	64.1	69.9
Labour cost	-34.3	-43.2	-46.2	-38.6	-41.8	-44.1
EBITDA	9.4	26.3	27.8	17.3	22.3	25.8
<i>EBITDA Margin</i>	<i>6.1%</i>	<i>13.6%</i>	<i>12.5%</i>	<i>9.2%</i>	<i>10.9%</i>	<i>11.9%</i>
D&A	-5.2	-5.0	-7.0	-8.1	-9.5	-10.6
EBIT	4.2	21.3	20.8	9.1	12.8	15.2
<i>EBIT Margin</i>	<i>2.7%</i>	<i>11.0%</i>	<i>9.4%</i>	<i>4.9%</i>	<i>6.2%</i>	<i>7.0%</i>
Net financial income	2.1	0.7	1.6	1.5	1.5	1.5
Profit of Associated	-0.4	-0.1	-0.1	0	0	0
Other Income	0	13.4	0.2	0	0	0
EBT	5.9	35.4	22.5	10.6	14.3	16.7
Taxes	-4.5	-10.5	-8.1	-4.2	-5.7	-6.7
Group Net Profit	1.4	24.9	14.4	6.4	8.6	10.0
Minorities	-1.0	-7.3	-7.3	-3.4	-4.9	-5.8
Net Profit	0.4	17.7	7.1	3.0	3.6	4.2

Source: Company data, Dresdner Kleinwort Research estimates

El.En Group Balance Sheet

€m	2006	2007	2008	2009E	2010E	2011E
Intangible asset	7.193	6.592	6.7	6.7	7.3	8.0
Tangible asset	13.7	19.8	27.2	30.6	31.7	32.0
Financial asset	4.9	6.310	7.9	7.9	7.9	7.9
Net Fixed Asset	25.8	32.7	41.8	45.2	47.0	48.0
Inventories	38.6	46.6	62.3	60.8	64.8	67.6
Receivables	36.7	42.3	49.2	41.8	45.6	48.3
Other Current Asset	10.4	10.5	12.0	10.2	11.1	11.8
Trade payables	-23.6	-28.6	-32.4	-28.4	-30.6	-32.0
Other non-financial liabilities	-15.9	-20.6	-23.3	-20.4	-22.0	-23.0
Reserve	-4.8	-5.1	-5.8	-5.0	-5.4	-5.7
Working capital	41.4	45.1	62.0	58.9	63.5	67.0
Reserve for Retirement	-2.6	-2.5	-2.7	-2.2	-2.4	-2.5
Net Invested Capital	64.6	75.3	101.1	102.0	108.1	112.4
Short Term Financial Debt	1.3	2.8	2.0	2.0	2.0	2.0
M/LT Financial Debt	1.9	3.4	1.9	1.9	1.9	1.9
Cash and Deposit	24.4	61.5	71.4	72.8	73.6	77.1
Treasury Stock	34.0	32.0	0.4	0.4	0.4	0.4
Net Financial Debt	-55.1	-87.3	-67.9	-69.3	-70.1	-73.6
Group Shareholder Equity	72.1	88.3	87.5	86.4	88.3	90.4
Minorities Shareholder Equity	47.7	74.3	81.5	84.9	89.9	95.7
Total Shareholder Equity	119.7	162.6	169.1	171.3	178.2	186.1

Source: Company data, Dresdner Kleinwort Research estimates

El.En Group Cash Flow Statemet

EURm	2006	2007	2008	2009E	2010E	2011E
Beginning NFP	73.4	55.1	87.3	67.9	69.3	70.1
Net income/loss	1.4	24.9	14.4	6.4	8.6	10.0
Depr & Amort	3.4	3.7	5.5	7.1	8.5	9.8
Change in working capital	-11.6	-3.7	-16.9	3.1	-4.6	-3.5
Net change in reserve	0.4	-0.1	0.2	-0.4	0.2	0.1
Cash flows from operations	-6.4	24.9	3.2	16.0	12.7	16.5
Intangible assets	-0.5	-0.8	-0.4	-0.3	-1.0	-1.1
Tangible assets	-5.9	-10.1	-12.6	-10.2	-9.2	-9.7
Financial Investments	-0.5	-1.4	-1.6	0.0	0.0	0.0
Other change	0.9	1.6	0.0	0.0	0.0	0.0
Cash flows from investing	-6.0	-10.6	-14.6	-10.5	-10.3	-10.8
Cash flows from Equity	-3.2	19.3	-2.5	0.0	0.0	0.0
Dividends	-2.6	-1.4	-5.4	-4.1	-1.6	-2.2
Change in NFP	-18.2	32.2	-19.4	1.4	0.8	3.5
Final NFP	55.1	87.3	67.9	69.3	70.1	73.6

Source: Company data, Dresdner Kleinwort Research estimates

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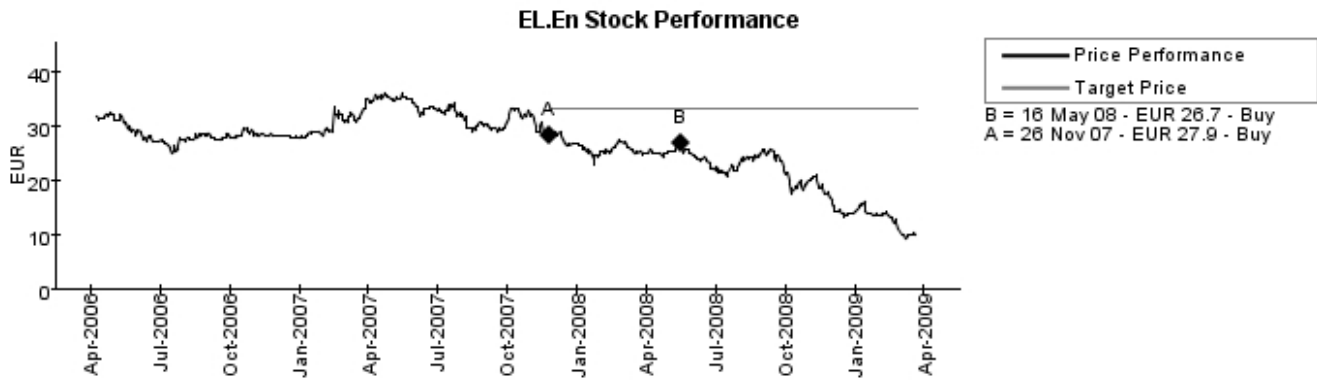
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(Except as otherwise noted, expected performance over next 12 months)

Buy: 10% or greater increase in share price	Sell: 10% or more decrease in share price
Add: 5-10% increase in share price	Reduce: 5-10% decrease in share price
Hold: +5%/-5% variation in share price	

Sector* relative basis

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

- Buy: Stock expected to outperform its sector and be among the most attractive in its sector.
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Buy/Add	334 55%	38 11%
Hold	174 29%	14 8%
Sell/Reduce	95 16%	17 18%
Total	603	69

Source: Dresdner Kleinwort Research

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