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Straumann (Buy, PT CHF 420)

Dental implant guru Jerry Niznick going European

FACTS:

We had the chance to talk to Jerry Niznick, the notorious "godfather of the American implant industry" yesterday while he was in town to establish the European subsidiary of Implant Direct, his new dental implant company that went live in January 2006 after having been under a non-competing restriction period with Zimmer following the sale of Niznick's Paragon to Sulzer Medica in 2001. Niznick claims that Implant Direct is currently selling at a run rate of 100,000 implants (sales of USD 15 mn) and that he has an inventory of 350,000 implants.

COMMENT:

Implant Direct's business strategy is to minimize marketing expenses by selling products direct from the factory through its website. Thereby, with a 2007 run rate of only USD 15 mn in sales (USD 30 mn and USD 45 mn targeted for 2008 and 2009, respectively), Implant Direct has already become profitable. All implants, the first of which were sold in October 2006, are priced at USD 150 apiece, some 50%-75% below large players' list prices.

Of the established players, Zimmer is particularly exposed to Implant Direct with former Paragon users as clients, being predominantly active in the US, and its offering lacking product and scientific differentiation. Biomet and Nobel Biocare are next in the line to be impacted - the former because it is significantly exposed to the US market and lacks differentiation on product, reputation and brand levels, the latter because of its exposure to the US market and because of Implant Direct's product compatibility. Straumann has the least to fear because it still generates some 75% of its revenues outside of the US, and because its products are not (yet) directly compatible.

CONCLUSION:

Niznick is going after the leading players' power users and he is giving away products to penetrate the market, thereby gaining an average of 15 new clients a day. Niznick claims that 1) the industry will see prices declines, 2) recent innovation by major players is not significant, and 3) scientific differentiation does not matter too much. He agrees, however, that Straumann users are "a breed of their own" and that they are tough to attack because they are relying on scientific data. Our Straumann (Buy, PT CHF 420) and Nobel Biocare (Hold, PT CHF 350) recommendations remain unchanged.