

Equity | Switzerland | Medical Technology
19 July 2006

NobelDirect: Expert panel issues critical report



Findings of Expert Report

On 19 July 2006, the Expert Panel released their six page report, which is likely to set the foundation for the final MPA decision in August 2006. The **conclusions** are: **1]** Advantages of NobelDirect are unsubstantiated; **2]** Minimal experience can lead to complications; **3]** Bone loss is larger in some patients than one would expect; **4]** NobelDirect should not be marketed until company claims are revised; and **5]** Even after claims have been revised, for the purpose of patient safety, NobelDirect should be used with great caution until the company can show good solid scientific evidence based on thorough treatment results.

Where from here?

The expert reports suggests to us that NOBE has been launching new products with limited clinical data as well as potentially making false and misleading statements about the performance of NobelDirect. Given that NobelDirect has virtually no advantages over traditional two stage implant systems, but carries the important risk of causing unexplained large bone loss in some patients, **we believe there is no reason why such a product should be commercially available.** We continue to believe that a label change or product recall may carry with it uncertain legal implications for the estimated +60,000 implants implanted.

Investment conclusion

Unlike market consensus, we believe the uncertainties surrounding NobelDirect are far from resolved. As we are unable to make a decision which way the Swedish MPA may rule, we have decided to retain our **'Neutral'** stance on NOBE.

Estimates (Dec)

(EUR)	2004A	2005A	2006E	2007E	2008E
	Other GAAP	IFRS	IFRS	IFRS	IFRS
EPS (Adjusted)	3.78	4.86	6.48	7.80	9.11
EPS Change (YoY)	24.5%	28.5%	33.4%	20.4%	16.8%
Dividend / Share	1.72	2.25	2.27	2.73	3.19

Valuation (Dec)

	2004A	2005A	2006E	2007E	2008E
P/E	49.1x	38.2x	28.7x	23.8x	20.4x
Dividend Yield	0.93%	1.21%	1.22%	1.47%	1.72%
EV / EBITDA*	33.6x	25.6x	20.3x	16.6x	14.1x
Free Cash Flow Yield*	2.38%	1.78%	3.14%	3.81%	4.50%

* For full definitions of *iQmethod*SM measures, see page 10.

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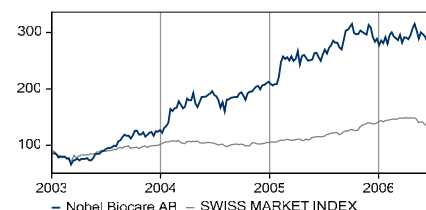
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Stock Data

Price	CHF290.75
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	CHF260.50-CHF324.00
Mrkt Val / Shares Out (mn)	CHF7,314 / 25.2
Average Daily Volume	100,738
ML Symbol / Exchange	NBCHF / SWX
Bloomberg / Reuters	NOBE VX / NOBE.VX
ROE (2006E)	43.7%
Net Dbt to Eqty (Dec-2005A)	NA
Est. 5-Yr EPS / DPS Growth	19.2% / 16.1%
Free Float	100.0%



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Refer to important disclosures on page 11 to 12. Analyst Certification on page 10.

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iQprofileSM Nobel Biocare

Key Income Statement Data (Dec)	2004A	2005A	2006E	2007E	2008E
(EUR Millions)	Other GAAP	IFRS	IFRS	IFRS	IFRS
Sales	388	485	597	699	799
EBITDA Adjusted	133	175	221	269	317
Depreciation & Amortization	(20.0)	(12.8)	(16.2)	(20.1)	(24.6)
EBIT Adjusted	113	162	205	249	292
Net Interest & Other Income	(0.78)	(4.49)	3.41	4.04	5.95
Tax Expense / Benefit	(24.0)	(33.8)	(45.2)	(55.6)	(66.5)
Net Income (Adjusted)	96.8	124	163	197	232
Average Fully Diluted Shares Outstanding	25.9	25.9	26.0	26.2	26.4

Key Cash Flow Statement Data

Net Income (Reported)	89.5	155	163	197	232
Depreciation & Amortization	20.0	12.8	16.2	20.1	24.6
Change in Working Capital	(6.60)	(33.9)	(9.00)	(6.89)	(6.67)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	30.0	(24.0)	7.25	4.07	3.90
Cash Flow from Operations	133	110	178	215	254
Capital Expenditure	(19.9)	(25.1)	(30.5)	(35.5)	(41.0)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	(13.1)	0.19	0	0	0
Cash Flow from Investing	(33.1)	(24.9)	(30.5)	(35.5)	(41.0)
Share Issue / (Repurchase)	8.40	10.9	0	0	0
Cost of Dividends Paid	(21.5)	(43.9)	(56.7)	(57.0)	(69.4)
Cash Flow from Financing	(13.1)	(151)	(147)	(179)	(213)
Non Cash Changes to Debt	NA	NA	NA	NA	NA
Change in Net Debt	(86.7)	65.6	(15.7)	(47.4)	(143)
Net Debt	(194)	(163)	(179)	(226)	(370)

Key Balance Sheet Data

Property, Plant & Equipment	32.0	42.2	53.1	64.9	77.4
Goodwill	119	130	130	130	130
Other Intangibles	4.09	6.86	10.3	13.9	17.9
Other Non-Current Assets	15.7	14.8	17.9	21.0	24.0
Trade Receivables	71.0	105	113	133	152
Cash & Equivalents	195	164	180	227	370
Other Current Assets	33.8	52.5	61.4	71.8	82.1
Total Assets	470	516	566	662	854
Long-Term Debt	0.71	0	0	0	0
Other Non-Current Liabilities	35.5	28.9	38.8	45.4	51.9
Short-Term Debt	0	0.55	0.55	0.55	0.55
Other Current Liabilities	77.7	129	137	161	184
Total Liabilities	114	158	177	207	236
Total Equity	356	358	389	455	617
Total Equity & Liabilities	470	516	566	662	854

Key Metrics

iQmethodSM - Bus Performance*

Return On Capital Employed	26.6%	35.3%	40.0%	42.4%	39.6%
Return On Equity	30.3%	34.8%	43.7%	46.7%	43.2%
Operating Margin	29.6%	39.8%	34.3%	35.6%	36.6%
Free Cash Flow (MM)	113	84.5	147	179	213

iQmethodSM - Quality of Earnings*

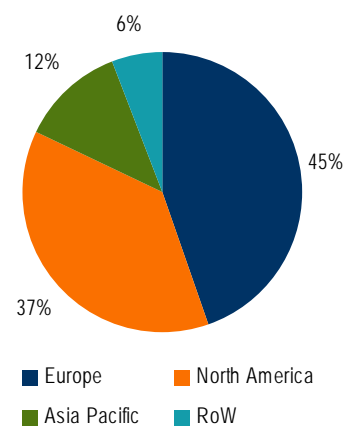
Cash Realization Ratio	1.37x	0.88x	1.09x	1.09x	1.09x
Asset Replacement Ratio	2.13x	2.37x	2.32x	2.20x	2.09x
Tax Rate	21.1%	17.9%	21.7%	22.0%	22.3%
Net Debt/Equity	-54.5%	-45.7%	-46.0%	-49.8%	-59.9%
Interest Cover	8.81x	7.57x	NM	NM	NM

* For full definitions of iQmethodSM measures, see page 10.

Company Description

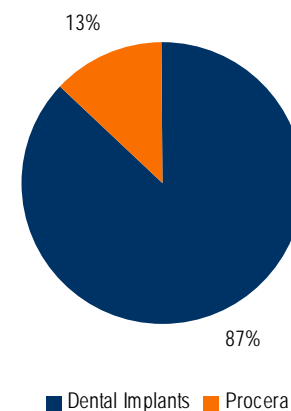
Nobel Biocare is the world leader in innovative esthetic dental solutions. It offers a one-stop-shop for restorative esthetic dentistry, offering a wide range of innovative Crown & Bridge & Implant products. In dental implants, Nobel Biocare holds world #1 position with c.33% market share. The company markets its products to dental specialists, general practitioners, and dental technicians.

Chart 1: Sales by Region (FY05A)



Source: Nobel Biocare

Chart 2: Sales by Product (FY05E)



Source: Nobel Biocare, Merrill Lynch estimates

Stock Data

Price to Book Value 12.0x

Expert Panel Publishes Report

On 19 July 2006, the Expert Panel, which was appointed by the Swedish Medical Products Agency (MPA) to investigate allegations that NobelDirect causes excessive bone loss, published their findings. The report details, implications and investment conclusion are highlighted below.

Summary of expert findings

The **six page expert report**, which is likely to set the foundation of the final decision by the Swedish MPA on NobelDirect in August 2006, highlighted the following key conclusive points:

- **NobelDirect advantages unsubstantiated** – the experts indicated that the following advantages in NOBE's procedures' catalogue are unsubstantiated:
 - Easy to use and therefore good for less skilful dental physicians even if you have never placed dental implants before;
 - Is good for preventing marginal bone loss and the stability of the averial bone crest;
 - Implant can be placed in a single stage and can be performed flapless, with minimal surgical invasion; and
 - After healing the abutment section of the implant can be restored like a natural tooth.
- **Minimal experience can lead to complications** - in NOBE's reference material there is no support for the above mentioned benefits and none of the claims above can be supported by the information given to the agency. Furthermore, the experts stated that the minimal surgical experience and flapless surgery can lead to risk of complications and the prosthetic restoration of the implant is not obvious due to potential tissue damage from mechanical surgery.
- **Bone loss is larger than one would expect** – data shows that NobelDirect can work as a satisfying product as a prosthetic retention element. However for some patients, the bone loss is larger than one would expect. In addition the percentage of patients with large bone losses is also larger than expected, which is surprising given NOBE's claimed advantages.
- **Should not be marketed until claims revised** – the agency indicated that NobelDirect should not be marketed before the claimed advantages have been revised.
- **Used with great caution** – even after claims have been revised, for the purpose of patient safety, NobelDirect should be used with great caution until Nobel Biocare can show good solid scientific evidence based on thorough treatment results.

Where from here?

Final Decision - August 2006

With the expert report now published, NOBE has three weeks to provide feedback on the content of the report. We understand that the MPA is likely to make a decision two weeks following, which would equate to the month of August 2006.

Based on content of the expert report, it confirms to us that Nobel Biocare has been launching new products with limited clinical data as well as potentially making false and misleading comments about the performance of NobelDirect and potentially NobelPerfect (which has not been discussed in this expert report). Given that NobelDirect has virtually no advantages over traditional two stage implant systems, but carries the important risk of causing unexplained large bone loss in some patients, **we believe there is no reason why such a product should be available in the market.** This is particularly the case, when other available systems, either from Nobel Biocare or other manufacturers, show good long-term success.

Legal Aspect - Wide Open

With the expert panel clearly stating that NobelDirect does show large bone loss in some patients and that Nobel Biocare's claims were unsubstantiated and thus in our view potentially misleading many of its customers, we believe the risk of litigation is wide open. In the event of a negative decision, the Swedish regulator would need to communicate their concerns to other regulatory bodies, including the U.S. FDA.

With over 60,000 NobelDirect implants placed worldwide (or an estimated 20,000 – 30,000 in the U.S.) as at end of 2005, a **public labeling change or withdrawal of this product may be seen as a likely trigger point for U.S. lawyers to become active** and advertise their services to patients who have received these implants. Questions that may be asked by NOBE's customers, patients and lawyers may include:

1. **Why did Nobel Biocare continue to sell NobelDirect implants** when it was put on notice by a number of qualified researchers (some of them being their own consultants) in as early as Q2 2005, that there could be excessive bone loss compared to conventional implants?;
2. Was Nobel Biocare in a position to make claims that NobelDirect provided "**better esthetics**" and "**more stable marginal gingival tissue**"?; and
3. Did Nobel Biocare have enough clinical data to suggest that NobelDirect provided "**guaranteed success even for non-specialists**"?.

Chart 3: Nobel Biocare's Claims – Snapshot from NobelDirect Brochure

perfect for patients

guaranteed success even for non-specialists

You don't have to be a specialist to prepare the site for NobelDirect®. The tapered design is very similar to a natural tooth root and it's very easy to achieve good initial stability. Additionally, there are few drill steps and a minimum amount of tooling required.



Once you've placed the implant, the TiUnite® surface promotes unbeatable osseointegration to the alveolar bone. Because the TiUnite® surface goes beyond the implant threads and onto the collar of the NobelDirect® implant, it is possible to vary the vertical placement.

clear advantages for you

- Minimally invasive surgery
- Flexibility – the abutment part can be prepared to an optimized adaptation of the gingival margin
- Ease-of-use – no need for a separate abutment to be attached
- Less chair time – no need for multiple appointments

more satisfied patients

- Less chair time
- Fewer visits
- More comfort – minimally invasive procedure for minimal discomfort
- Better esthetics – more stable marginal gingival tissue

easily the quickest way to a beautiful smile

The NobelDirect® family has 2 new additions: NobelDirect® Oval for replacing lost wide roots and teeth. And NobelDirect® Posterior, which further simplifies implant procedures in the posterior part of the mouth.

Source: Nobel Biocare website. Snapshot from the NobelDirect Groovy Oval Posterior 3.0 brochure.

Reputation Damage

Although NOBE appears to continue to benefit from its strong historic reputation as a company whose products are based on clinical research, we believe its recently launched products such as NobelDirect and NobelPerfect (which are backed by little clinical data) appears to have created some headwind in the clinical community. The feedback that we have received at the Academy of Osseointegration (the largest dental implant meeting in the U.S.) back in March 2006, that the company's focus has changed significantly over the past three years, away from an institution that made science a priority to an organization that is more concerned about launching new production more quickly without having long-term data, has also been evident in a recent survey by *OsseoNews*; as a reminder *OsseoNews* is one of the world's largest dental implant resource sites with ~17,000 members. The responses to *OsseoNews*' question:

"Do you think there will be any major repercussions from the recent NobelDirect dental implant saga?" can be found at:

http://osseonews.blogs.com/osseodaily/2006/01/nobel_responds_.html

It is for the aforementioned reasons/uncertainties, that a **positive decision is vital for NOBE's shares not to come under pressure**, particularly in light of its relatively high valuation of a CY06 P/E of ~29x.

What would we like to see?

While we continue to admire what the senior management team has achieved at NOBE over the past 3 years, including very significant margin expansion as well as reinvigorating top line growth, we believe its strategy has become too fiscally orientated. Although the investment community would be satisfied with 16-18% top line growth per year for the next three years, it appears that management has lost contact with its shareholders and some of its loyal customers, by trying to grow sales at well over 20%, which in our view has required the company to launch products to soon without sufficient clinical documentation. We hope management will refocus of being the **market leader in clinical research** in the exciting area of dental implants with **less emphasis of beating previous sales growth records**.

Investment conclusion

Unlike market consensus, we believe the uncertainties surrounding NobelDirect are far from resolved. As we are unable to make a decision which way the Swedish Medical Products Agency may rule later this year, we have decided to retain our **'Neutral'** stance on Nobel Biocare.

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Table 1: Nobel Biocare Profit & Loss Model

Dec Y/E (EURm)	FY03A	FY04A	FY05A	FY06E	FY07E	FY08E	FY09E	FY10E
Europe	157.7	189.8	216.5	244.6	273.9	304.1	334.5	364.6
North America	121.8	132.1	180.1	239.6	292.3	342.0	386.5	432.8
Asia/Pacific	37.1	45.6	60.1	77.5	90.7	104.3	118.9	133.1
RoW	17.3	20.9	27.9	35.7	42.1	48.6	55.4	62.1
Total Sales	334.0	388.4	484.5	597.3	699.0	798.9	895.2	992.6
Cost Of Goods Sold	-78.8	-78.8	-86.0	-99.8	-112.5	-126.2	-139.7	-153.9
Gross Profit	255.1	309.6	398.5	497.6	586.5	672.7	755.6	838.8
Selling Expenses	-119.2	-132.9	-156.3	-188.2	-216.7	-244.5	-271.3	-298.8
Administration Expenses	-36.3	-49.6	-62.8	-74.7	-84.6	-94.3	-103.0	-112.2
Research & Development	-13.6	-14.0	-17.1	-29.9	-36.3	-41.5	-43.0	-44.7
Other Operating Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	86.1	113.1	162.3	204.9	248.8	292.4	338.4	383.1
Financial Revenue	3.0	12.1	17.0	3.4	4.1	6.0	9.1	12.7
Financial Expense	-3.6	-12.8	-21.4	0.0	0.0	0.0	0.0	0.0
Net Financial	-0.6	-0.8	-4.5	3.4	4.0	5.9	9.1	12.7
EBT	85.5	114.4	157.8	208.3	252.9	298.4	347.5	395.8
Tax Expense	-17.5	-23.7	-33.8	-45.2	-55.6	-66.5	-78.2	-89.9
Net Income (b/f Minorities)	68.1	90.7	124.0	163.1	197.3	231.8	269.3	306.0
Minority Interest	-0.7	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Net Income (a/f Minorities b/f Non-recurring)	67.4	90.2	124.0	163.1	197.3	231.8	269.3	306.0
Non-recurring	5.8	1.7	30.6	0.0	0.0	0.0	0.0	0.0
Tax on Non-recurring	-1.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net Income (a/f Non-recurring)	72.0	91.6	154.7	163.1	197.3	231.8	269.3	306.0
EPS (before Non-recurring) - normal	2.67	3.52	4.86	6.48	7.80	9.11	10.58	12.02
EPS (before Non-recurring) - diluted	2.55	3.48	4.79	6.27	7.52	8.77	10.19	11.58
EPS (before GW) - normal	3.04	3.86	4.86	6.48	7.80	9.11	10.58	12.02
EPS (before GW) - diluted	2.91	3.81	4.79	6.27	7.52	8.77	10.19	11.58
DPS	0.85	1.72	2.25	2.27	2.73	3.19	3.70	4.21
% Change	FY03A	FY04A	FY05A	FY06E	FY07E	FY08E	FY09E	FY10E
Europe	16.8%	20.4%	14.0%	13.0%	12.0%	11.0%	10.0%	9.0%
North America	-3.8%	8.4%	36.4%	33.0%	22.0%	17.0%	13.0%	12.0%
Asia/Pacific	11.4%	23.0%	31.7%	29.0%	17.0%	15.0%	14.0%	12.0%
Total Sales	7.3%	16.3%	24.8%	23.3%	17.0%	14.3%	12.0%	10.9%
Cost Of Goods Sold	3.7%	-0.1%	9.2%	16.0%	12.8%	12.2%	10.6%	10.2%
Gross Profit	8.5%	21.3%	28.7%	24.9%	17.9%	14.7%	12.3%	11.0%
Selling Expenses	-2.5%	11.5%	17.6%	20.4%	15.2%	12.8%	11.0%	10.1%
Administration Expenses	22.2%	36.5%	26.8%	18.8%	13.3%	11.5%	9.2%	9.0%
Research & Development	3.7%	3.4%	21.7%	75.0%	21.7%	14.3%	3.4%	3.9%
EBIT	22.6%	31.4%	43.5%	26.3%	21.5%	17.5%	15.7%	13.2%
EBT	25.2%	33.8%	37.9%	32.0%	21.4%	18.0%	16.5%	13.9%
Net Income (a/f Minorities b/f Non-recurring)	59.1%	33.9%	37.5%	31.5%	20.9%	17.5%	16.2%	13.6%
EPS (before Non-recurring) - normal	44.9%	31.1%	25.6%	30.9%	20.0%	16.7%	16.2%	13.6%
EPS (before GW) - normal	44.2%	27.2%	25.8%	33.4%	20.4%	16.8%	16.2%	13.6%
Margin Analysis	FY03A	FY04A	FY05A	FY06E	FY07E	FY08E	FY09E	FY10E
Gross Profit	76.4%	79.7%	82.3%	83.3%	83.9%	84.2%	84.4%	84.5%
Selling Expenses	35.7%	34.2%	32.3%	31.5%	31.0%	30.6%	30.3%	30.1%
Administration Expenses	10.9%	12.8%	13.0%	12.5%	12.1%	11.8%	11.5%	11.3%
Research & Development	4.1%	3.6%	3.5%	5.0%	5.2%	5.2%	4.8%	4.5%
EBIT	25.8%	29.1%	33.5%	34.3%	35.6%	36.6%	37.8%	38.6%
EBT	25.6%	29.5%	32.6%	34.9%	36.2%	37.3%	38.8%	39.9%
Net Income (a/f Minorities b/f Non-recurring)	20.2%	23.2%	25.6%	27.3%	28.2%	29.0%	30.1%	30.8%
Tax Rate	20.4%	20.7%	21.4%	21.7%	22.0%	22.3%	22.5%	22.7%
Interest Cover (x)	148.5	146.0	36.2	NM	NM	NM	NM	NM
Gearing	-61.3%	-119.8%	-84.0%	-85.1%	-99.0%	-149.2%	-202.0%	-257.0%
ROE	28.7%	28.5%	43.3%	43.7%	46.7%	43.2%	37.8%	33.6%

Source: Merrill Lynch estimates

19 July 2006

Table 2: Nobel Biocare Balance Sheet Model

Dec Y/E (EURm)	FY03A	FY04A	FY05A	FY06E	FY07E	FY08E	FY09E	FY10E
Cash & Equivalents	109.5	194.9	163.9	179.6	227.0	370.2	539.3	732.9
Trade Receivables	59.2	71.0	105.0	113.5	132.8	151.8	170.1	188.6
Deferred Tax Asset	6.2	1.3	1.3	1.6	1.9	2.2	2.4	2.7
Other Receivables	9.5	2.3	15.7	14.9	17.5	20.0	22.4	24.8
Inventories	22.4	17.6	30.1	35.8	41.9	47.9	53.7	59.6
Pre-paid Expenses & Accruals	5.7	12.6	5.4	9.0	10.5	12.0	13.4	14.9
Current Assets	212.4	299.7	321.4	354.4	431.6	604.1	801.4	1023.5
Fixed Assets	28.1	32.0	42.2	53.1	64.9	77.4	89.9	102.0
Intangible Assets	125.3	122.8	137.3	140.8	144.3	148.3	152.1	155.5
Associated Companies	2.3	4.4	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Assets	9.2	10.5	13.2	16.1	18.9	21.6	24.2	26.8
Other Receivables	1.3	0.8	1.6	1.8	2.1	2.4	2.7	3.0
Non Current Assets	166.1	170.4	194.3	211.8	230.2	249.6	268.8	287.2
Total Assets	378.5	470.1	515.7	566.2	661.8	853.7	1070.2	1310.7
Borrowings	0.1	0.0	0.6	0.6	0.6	0.6	0.6	0.6
Trade Payable	9.1	12.9	18.9	20.9	24.5	28.0	31.3	34.7
Income Taxes Payable	15.5	21.1	30.3	32.9	38.4	43.9	49.2	54.6
Other Liabilities	14.6	10.8	37.3	35.8	41.9	47.9	53.7	59.6
Accruals & Deferred Income	22.8	32.9	42.1	47.8	55.9	63.9	71.6	79.4
Current Liabilities	62.1	77.7	129.1	137.9	161.3	184.3	206.5	228.9
Borrowings	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liabilities	7.4	13.3	12.2	14.9	17.5	20.0	22.4	24.8
Provisions	22.4	22.2	16.6	23.9	28.0	32.0	35.8	39.7
Non Current Liabilities	30.5	36.2	28.9	38.8	45.4	51.9	58.2	64.5
Total Liabilities	92.6	113.8	158.0	176.8	206.8	236.2	264.6	293.4
Net Assets	286.0	356.3	357.7	389.4	455.1	617.5	805.6	1017.3
Share Capital	32.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3
Share Premium	79.6	88.5	98.4	98.4	98.4	98.4	98.4	98.4
Minority Interest	2.5	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Retained Profits	171.5	233.7	352.3	458.7	598.9	761.3	949.4	1161.2
Total Shareholders Equity	286.0	356.3	357.7	389.4	455.0	617.4	805.6	1017.3
Balance Sheet - Analytical Ratios	FY03A	FY04A	FY05A	FY06E	FY07E	FY08E	FY09E	FY10E
Working Capital (m)	40.9	27.2	28.9	37.5	43.8	50.1	56.2	62.3
Change in Working Capital	4.1	(13.8)	1.7	8.6	6.4	6.3	6.0	6.1
WC / Sales (%)	12.3%	7.0%	6.0%	6.3%	6.3%	6.3%	6.3%	6.3%
Trade Receivable / Sales (%)	17.7%	18.3%	21.7%	19.0%	19.0%	19.0%	19.0%	19.0%
Inventories / Sales (%)	6.7%	4.5%	6.2%	6.0%	6.0%	6.0%	6.0%	6.0%
Trade Payable / Sales (%)	2.7%	3.3%	3.9%	3.5%	3.5%	3.5%	3.5%	3.5%
Gross debt (m)	(0.8)	(0.7)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Net (debt)/cash (m)	108.7	194.2	163.3	179.0	226.4	369.7	538.8	732.3
Change in net (debt) / cash (m)	87.3	85.5	(30.9)	15.7	47.4	143.2	169.1	193.5
Net Debt/Equity (%)	-38.0%	-54.5%	-45.7%	-46.0%	-49.8%	-59.9%	-66.9%	-72.0%
Gearing (Net debt / Net debt +Equity) (%)	-61.3%	-119.8%	-84.0%	-85.1%	-99.0%	-149.2%	-202.0%	-257.0%
Debt / Equity	38.0%	54.5%	45.7%	46.0%	49.8%	59.9%	66.9%	72.0%
ROE (using average equity) %	28.7%	28.5%	43.3%	43.7%	46.7%	43.2%	37.8%	33.6%
ROA (using average assets) %	4.6%	5.5%	9.1%	30.2%	32.1%	30.6%	28.0%	25.7%
Net Tangible Assets (m)	160.7	233.5	220.4	336.3	390.1	540.1	715.7	915.3
NTA per Share (diluted)	6.3	9.1	8.7	13.4	15.3	21.2	28.1	36.0

Source: Merrill Lynch estimates

19 July 2006

Table 3: Nobel Biocare's Cash Flow Model

Dec Y/E (EURm)	FY03A	FY04A	FY05A	FY06E	FY07E	FY08E	FY09E	FY10E
EBT	85.5	114.4	157.8	208.3	252.9	298.4	347.5	395.8
EBIT non-recurring	5.8	1.7	30.6	0.0	0.0	0.0	0.0	0.0
Disposals of Options in Associate	-4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation/Amortisation	20.0	20.0	12.8	16.2	20.1	24.6	29.7	35.5
Financial Income/Expense	0.6	-2.3	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Cash Items	2.9	7.3	-31.0	0.0	0.0	0.0	0.0	0.0
(Increase) / Decrease in Trade & Other Receivables	-24.9	-11.5	-41.1	-14.8	-26.7	-26.2	-25.4	-25.6
(Increase) / Decrease in Inventories	4.2	4.8	-12.5	-5.7	-6.1	-6.0	-5.8	-5.8
Increase / (Decrease) in Trade & Other Payables	10.8	0.2	19.6	11.5	25.9	25.5	24.5	24.8
Increase / (Decrease) in Provisions	1.3	9.8	-0.3	3.8	0.0	-2.1	-5.2	-8.8
Tax Expense	-18.3	-13.1	-28.3	-45.2	-55.6	-66.5	-78.2	-89.9
Operating Cash Flow	83.4	131.3	107.8	174.1	210.5	247.7	287.2	326.1
Interest received	2.2	2.8	3.3	3.4	4.1	6.0	9.1	12.7
Purchase (-) / Sales (+) of Intangible Assets	-1.1	-3.8	-5.5	-6.5	-7.5	-9.0	-10.0	-11.0
Purchase (-) / Sales (+) of Fixed Assets	-12.8	-16.1	-19.6	-24.0	-28.0	-32.0	-36.0	-40.0
Disposals of Options in Associate	4.7	0.0	38.6	0.0	0.0	0.0	0.0	0.0
Increase / (Decrease) in Investment in Associate	0.0	-13.1	-3.6	0.0	0.0	0.0	0.0	0.0
Acquisition of subsidiary	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-7.0	-30.3	-21.6	-27.1	-31.4	-35.0	-36.9	-38.3
Sale of Treasury Shares / New Shares	20.5	0.0	-117.2	-74.6	-74.6	0.0	0.0	0.0
Redemption of Warrants & Options	4.9	8.4	10.9	0.0	0.0	0.0	0.0	0.0
Increase / (Decrease) in Borrowings	-27.5	0.0	-0.7	-15.7	-47.4	-143.2	-169.1	-193.5
Interest Paid	-1.6	-1.2	-1.5	0.0	0.0	0.0	0.0	0.0
Dividends Paid	-13.1	-21.5	-43.9	-56.7	-57.0	-69.4	-81.1	-94.3
Financing Cash Flow	-16.8	-14.3	-152.5	-147.1	-179.0	-212.7	-250.3	-287.8
Net Increase/ (Decrease) in Funds	59.6	86.7	-66.3	0.0	0.0	0.0	0.0	0.0
Cash Flow - Analytical Ratios	FY03A	FY04A	FY05A	FY06E	FY07E	FY08E	FY09E	FY10E
Operating Cash Flow growth (%)	18.6%	57.5%	-17.9%	61.6%	20.9%	17.7%	15.9%	13.5%
CFPS (normal)	3.32	5.19	4.29	7.05	8.48	9.96	11.64	13.31
CFPS (diluted)	3.18	5.13	4.23	6.82	8.18	9.60	11.21	12.82

Source: Merrill Lynch estimates

Analyst Certification

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Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

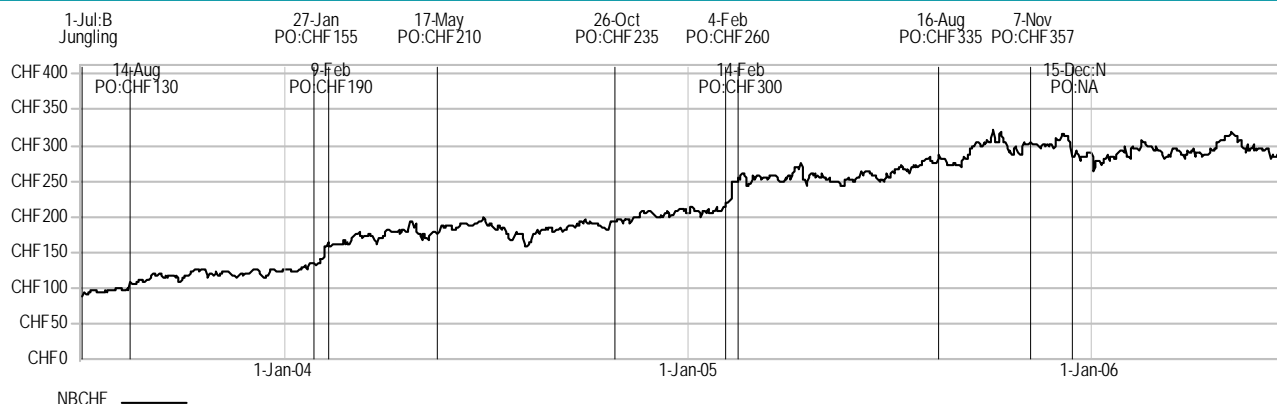
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B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of June 30, 2006 or such later date as indicated.

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	94	44.34%	Buy	32	34.04%
Neutral	100	47.17%	Neutral	27	27.00%
Sell	18	8.49%	Sell	0	0.00%

Investment Rating Distribution: Global Group (as of 30 Jun 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
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Neutral	1398	48.80%	Neutral	404	28.90%
Sell	203	7.09%	Sell	45	22.17%

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