# Nobel Biocare

Company Update **NEUTRAL**

Equity | Switzerland | Medical Technology
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# Expert Panel Report Indicates NobelDirect Withdrawal

Merrill Lynch


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## Expert Panel Makes Further Remarks on NobelDirect

The Expert Panel, which is advising the Swedish Medical Products Agency (MPA) on the safety of the NobelDirect implant, has responded to NOBE's rebuttal letter from 31 Aug 2006 in a critical manner. The key points are: **1]** NobelDirect should not be seen as a developed product, but more of a prototype that should be used with extreme care and under a strictly controlled environment; **2]** Although NOBE stated that "The NobelDirect implant was specifically designed to prevent marginal bone loss at the alveolar crest", several studies suggest more than 3mm of bone loss in 14-55% of patients; **3]** Bone destruction can be of such an extent that it represents a big clinical problem for the patient's bone and the treating dentist; **4]** Further treatment can lead to the implant and the adjacent jaw bone to be removed during surgical procedure; **5]** Panel regards some of NOBE's marketing as seriously misleading and expressed their concerns about the overlapping of NobelDirect data / publications and regards this behavior by NOBE as scientific misconduct; **6]** The panel has looked at materials from the press and personal statements by the clinics involved, which suggests that clinicians have felt threatened and pressured by NOBE after criticizing the NobelDirect implant.

## Investment Conclusion - Neutral

We interpret the comments by the Expert Panel as **very serious** and view the probability of a NobelDirect recall by the MPA as higher than before. Our analysis suggests that: **1] Positive decision** would value NOBE at CHF364 per share; **2] NobelDirect label change** would bring this to CHF340, while **3] Product withdrawal** and the resulting uncertainties would bring this to CHF268. Given the uncertainties facing the company we retain our **'Neutral'** recommendation.

### Estimates (Dec)

| (EUR) | 2004A | 2005A | 2006E | 2007E | 2008E |
|---|---|---|---|---|---|
| | Other GAAP | IFRS | IFRS | IFRS | IFRS |
| EPS (Adjusted) | 3.78 | 4.86 | 6.20 | 7.87 | 9.40 |
| EPS Change (YoY) | 24.5% | 28.5% | 27.7% | 27.0% | 19.4% |
| Dividend / Share | 1.72 | 2.25 | 2.22 | 2.76 | 3.29 |

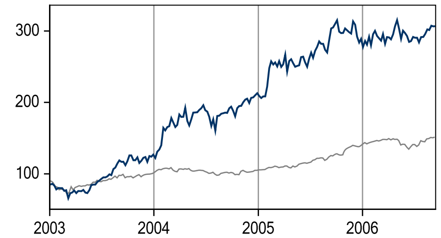
### Valuation (Dec)

| | 2004A | 2005A | 2006E | 2007E | 2008E |
|---|---|---|---|---|---|
| P/E | 51.3x | 39.9x | 31.2x | 24.6x | 20.6x |
| Dividend Yield | 0.89% | 1.16% | 1.15% | 1.42% | 1.70% |
| EV / EBITDA* | 35.2x | 26.7x | 21.2x | 17.2x | 14.3x |
| Free Cash Flow Yield* | 2.28% | 1.71% | 2.81% | 3.67% | 4.42% |

* For full definitions of *iQmethod* SM measures, see page 8.

### Stock Data

| | |
|---|---|
| Price | CHF307.75 |
| Investment Opinion | C-2-7 |
| Volatility Risk | HIGH |
| 52-Week Range | CHF265.00-CHF324.00 |
| Mrkt Val / Shares Out (mn) | CHF7,741 / 25.2 |
| Average Daily Volume | 129,110 |
| ML Symbol / Exchange | NBCHF / SWX |
| Bloomberg / Reuters | NOBE VX / NOBE.VX |
| ROE (2006E) | 41.9% |
| Net Dbt to Eqty (NAA) | NA |
| Est. 5-Yr EPS / DPS Growth | 20.2% / 17.0% |
| Free Float | 100.0% |






Refer to important disclosures on page 9 to 10. Analyst Certification on page 8.

# *iQprofile* SM Nobel Biocare

| Key Income Statement Data (Dec) | 2004A | 2005A | 2006E | 2007E | 2008E |
|---|---|---|---|---|---|
| (EUR Millions) | Other GAAP | IFRS | IFRS | IFRS | IFRS |
| Sales | 388 | 485 | 595 | 712 | 827 |
| EBITDA Adjusted | 133 | 175 | 220 | 272 | 327 |
| Depreciation & Amortization | (20.0) | (12.8) | (16.2) | (20.1) | (24.8) |
| EBIT Adjusted | 113 | 162 | 204 | 251 | 302 |
| Net Interest & Other Income | (0.78) | (4.49) | (4.61) | 3.99 | 5.96 |
| Tax Expense / Benefit | (24.0) | (33.8) | (43.9) | (56.2) | (68.7) |
| Net Income (Adjusted) | 96.8 | 124 | 156 | 199 | 239 |
| Average Fully Diluted Shares Outstanding | 25.9 | 25.9 | 25.6 | 26.2 | 26.4 |

**Key Cash Flow Statement Data**

| | | | | | |
|---|---|---|---|---|---|
| Net Income (Reported) | 89.5 | 155 | 160 | 199 | 239 |
| Depreciation & Amortization | 20.0 | 12.8 | 16.2 | 20.1 | 24.8 |
| Change in Working Capital | (6.60) | (33.9) | (8.87) | (7.91) | (7.70) |
| Deferred Taxation Charge | 0 | 0 | 0 | 0 | 0 |
| Other Adjustments, Net | 30.0 | (24.0) | (0.02) | 4.67 | 4.51 |
| Cash Flow from Operations | 133 | 110 | 167 | 216 | 261 |
| Capital Expenditure | (19.9) | (25.1) | (30.5) | (36.5) | (43.0) |
| (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) | (36.5) | (43.0) |
| Share Issue / (Repurchase) | 8.40 | 10.9 | 0 | 0 | 0 |
| Cost of Dividends Paid | (21.5) | (43.9) | (56.7) | (56.0) | (70.1) |
| Cash Flow from Financing | (13.1) | (151) | (136) | (180) | (218) |
| Non Cash Changes to Debt | NA | NA | NA | NA | NA |
| Change in Net Debt | (86.7) | 65.6 | (12.2) | (49.1) | (148) |
| Net Debt | (194) | (163) | (176) | (225) | (372) |

**Key Balance Sheet Data**

| | | | | | |
|---|---|---|---|---|---|
| Property, Plant & Equipment | 32.0 | 42.2 | 53.1 | 65.9 | 80.1 |
| 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 | 21.4 | 24.8 |
| Trade Receivables | 71.0 | 105 | 113 | 135 | 157 |
| Cash & Equivalents | 195 | 164 | 176 | 225 | 373 |
| Other Current Assets | 33.8 | 52.5 | 61.2 | 73.2 | 85.0 |
| Total Assets | 470 | 516 | 562 | 665 | 868 |
| Long-Term Debt | 0.71 | 0 | 0 | 0 | 0 |
| Other Non-Current Liabilities | 35.5 | 28.9 | 38.7 | 46.3 | 53.8 |
| Short-Term Debt | 0 | 0.55 | 0.55 | 0.55 | 0.55 |
| Other Current Liabilities | 77.7 | 129 | 137 | 164 | 190 |
| Total Liabilities | 114 | 158 | 176 | 211 | 245 |
| Total Equity | 356 | 358 | 386 | 455 | 624 |
| Total Equity & Liabilities | 470 | 516 | 562 | 665 | 868 |

**Key Metrics**

***iQmethod*** SM **- Bus Performance***

| | | | | | |
|---|---|---|---|---|---|
| Return On Capital Employed | 26.6% | 35.3% | 39.9% | 43.0% | 40.6% |
| Return On Equity | 30.3% | 34.8% | 41.9% | 47.4% | 44.4% |
| Operating Margin | 29.6% | 39.8% | 35.0% | 35.3% | 36.5% |
| Free Cash Flow (MM) | 113 | 84.5 | 136 | 180 | 218 |

***iQmethod*** SM **- Quality of Earnings***

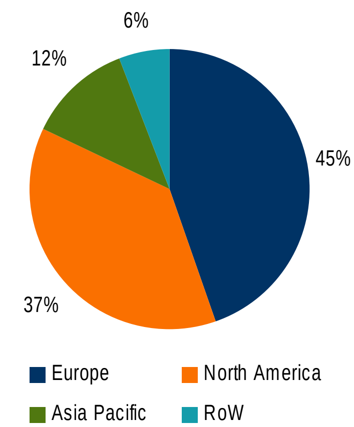
| | | | | | |
|---|---|---|---|---|---|
| Cash Realization Ratio | 1.37x | 0.88x | 1.07x | 1.08x | 1.09x |
| Asset Replacement Ratio | 2.13x | 2.37x | 2.32x | 2.25x | 2.17x |
| Tax Rate | 21.1% | 17.9% | 21.6% | 22.0% | 22.3% |
| Net Debt/Equity | -54.5% | -45.7% | -45.5% | -49.4% | -59.7% |
| Interest Cover | 8.81x | 7.57x | 28.5x | NM | NM |

* For full definitions of *iQmethod* SM measures, see page 8.

**Company Description**

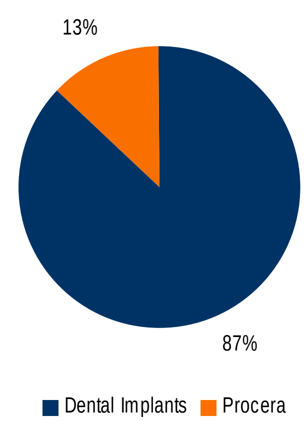
Nobel Biocare is the world leader in innovative esthetic dental solutions. It offers a one-stop-shop for restorative esthetic dentistry, offering a wide range of innovative Crown & Bridge & Implant products. In dental implants, Nobel Biocare holds world #1 position with c.33% market share. The company 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 | 12.6x |

# Expert Panel Publishes Response

**The Expert Panel, which was appointed by the Swedish Medical Products Agency (MPA) to investigate allegations that NobelDirect causes excessive bone loss, provided a response to Nobel Biocare's (NOBE) rebuttal from the 31 August 2006. A summary of the key findings, which have been translated from Swedish, are as follows:**

- **NobelDirect a Prototype** – the Panel has indicated that NobelDirect could have the potential to be a good implant, provided that one could eliminate the reasons for the reported unexpected bone loss. However, until one can find solutions to this bone loss, the NobelDirect implant can not be seen as a developed product, but more of a prototype that should only be used with care and under a strict controlled environment. Furthermore, the Panel stressed that the problem of NobelDirect is **not its usability** but a number of important reports that show unexpected bone losses around the implant during the first year of implantation.

- **How to Measure Bone Loss** – the panel has highlighted that the long-term treatment of an implant depends foremost on whether the bone support can be maintained. If significant bone loss occurs early after the implant has been inserted, one has to assume that the functional time of the implant is limited increasing the risk of losing it. With the following studies showing:

  - **T-106 A + B**: 14% of patients had more than 3mm of bone loss;
  - **Rocci & Gottlow:** 55% of patients had more than 3mm of bone loss;
  - **Sennerby et al 2006:** 30.7% of patients had more than 3mm of bone loss;
  - **Sennerby, Becker, Jonsson et al 2006:** 37.6% had more than 3mm of bone loss; and
  - **Östmann et al 2006:** 20% of patients had more than 3mm of bone loss;

  the risk of NobelDirect is clearly highlighted even if other more favourable short-term results have been shown.

- **Clinical Relevance of Bone Loss** – although NOBE states in its marketing materials that "The NobelDirect implant was specifically designed to prevent marginal bone loss at the alveolar crest", the aforementioned studies suggest more than 3mm of bone loss in 14-55% of patients. Furthermore, it is **not clear yet whether the bone loss continues**. **Bone destruction can be of such an extent** that it represents a big clinical problem for the patient's bone and the treating dentist. When the bone support disappears the soft tissue can sink away and the raw grey implant surface is exposed in the mouth. Often this treatment is unacceptable from an aesthetic point of view, while further treatment can lead to the fact that the **implant with the adjacent jaw bone has to be removed during surgical procedure.** Another possible outcome is that the soft tissue changes and a deep pocket is created at the implant with chronic destruction of the tissue, which results in an inflammatory reaction.

- **Radiological Measurements** – the panel has stated that it feels it is unreasonable to suggest that only specialists in radiology can make correct judgements of the bone level around the implant. While the panel does not doubt the competency of Professor Gröndahls, it did want to highlight that she only studied parts of the X rays that were chosen by NOBE in advance. Furthermore, it was pointed out that when one gets multiple reports of unexpected bone loss from independent clinics with access to both clinical and radiological data, you have to assume it is trustworthy even if the radiological competence amongst the people involved is not at a specialist level.

- **NOBE's Clinical Documentation & Publication Policy** – in the marketing documentation of NobelDirect, NOBE states that extensive research exists and highlights, "Our qualifications are your security – More prospective clinical studies with at least 5 year follow than all other competitors combined". As this does contain one single result on NobelDirect, the panel views this as another example of serious misleading marketing. In addition, the panel expresses their concerns about the overlapping of data / publications and sees this behaviour by NOBE as scientific misconduct.

- **Working Climate –** the panel thought it was important to provide their view on the working environment to the MPA. In connection with its investigation the panel has looked at materials from the press and personal statements by the clinics involved, which suggests that clinicians have felt threatened and pressured by NOBE after criticising the NobelDirect implant. It was further highlighted that the MPA should acknowledge this situation because it is of great importance that freedom of information is not only upheld but encouraged in the medical technology area.

## Investment Conclusion

We interpret the comments by the Expert Panel as **very serious** and view the probability of a NobelDirect recall by the Medical Products Agency as higher than before. As we are unable to form a conclusive view on how the agency will decide, we again highlight our previously published scenario analysis. Our analysis suggests that a **positive decision** would value NOBE at **CHF364 per share**, a **NobelDirect label change** would bring this to **CHF340**, while a **product withdraw**al and the resulting uncertainties would bring this to **CHF268**. We continue to believe that the uncertainties surrounding NobelDirect are not yet resolved (unlike consensus) and thus we retain our **'Neutral'** recommendation.

Table 1: Nobel Biocare Profit & Loss Model

| Dec Y/E (EURm) | FY03A | FY04A | FY05A | FY06E | FY07E | FY08E | FY09E |
|---|---|---|---|---|---|---|---|
| Europe | 157.7 | 189.8 | 216.5 | 257.6 | 296.2 | 334.7 | 371.5 |
| North America | 121.8 | 132.1 | 180.1 | 223.4 | 279.2 | 332.3 | 385.4 |
| Asia/Pacific | 37.1 | 45.6 | 60.1 | 81.1 | 97.3 | 114.8 | 133.2 |
| RoW | 17.3 | 20.9 | 27.9 | 33.4 | 39.5 | 45.6 | 52.0 |
| Total Sales | 334.0 | 388.4 | 484.5 | 595.5 | 712.2 | 827.4 | 942.1 |
| Cost Of Goods Sold | -78.8 | -78.8 | -86.0 | -97.7 | -112.5 | -127.4 | -143.2 |
| Gross Profit | 255.1 | 309.6 | 398.5 | 497.8 | 599.7 | 700.0 | 798.9 |
| Selling Expenses | -119.2 | -132.9 | -156.3 | -197.1 | -227.9 | -260.6 | -293.0 |
| Administration Expenses | -36.3 | -49.6 | -62.8 | -73.8 | -84.8 | -96.0 | -107.4 |
| Research & Development | -13.6 | -14.0 | -17.1 | -22.6 | -35.6 | -41.4 | -45.2 |
| Other Operating Expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 86.1 | 113.1 | 162.3 | 204.3 | 251.4 | 302.0 | 353.3 |
| Financial Revenue | 3.0 | 12.1 | 17.0 | 2.5 | 4.0 | 6.0 | 9.2 |
| Financial Expense | -3.6 | -12.8 | -21.4 | -7.2 | 0.0 | 0.0 | 0.0 |
| Net Financial | -0.6 | -0.8 | -4.5 | -4.6 | 4.0 | 6.0 | 9.2 |
| EBT | 85.5 | 114.4 | 157.8 | 199.6 | 255.4 | 308.0 | 362.5 |
| Tax Expense | -17.5 | -23.7 | -33.8 | -43.9 | -56.2 | -68.7 | -81.6 |
| Net Income (b/f Minorities) | 68.1 | 90.7 | 124.0 | 155.7 | 199.2 | 239.3 | 280.9 |
| Minority Interest | -0.7 | -0.5 | 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 | 155.7 | 199.2 | 239.3 | 280.9 |
| Non-recurring | 5.8 | 1.7 | 30.6 | 3.9 | 0.0 | 0.0 | 0.0 |
| Tax on Non-recurring | -1.2 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Income (a/f Non-recurring) | 72.0 | 91.6 | 154.7 | 159.6 | 199.2 | 239.3 | 280.9 |
| EPS (before Non-recurring) - normal | 2.67 | 3.52 | 4.86 | 6.20 | 7.87 | 9.40 | 11.04 |
| EPS (before Non-recurring) - diluted | 2.55 | 3.48 | 4.79 | 6.08 | 7.59 | 9.05 | 10.63 |
| EPS (before GW) - normal | 3.04 | 3.86 | 4.86 | 6.20 | 7.87 | 9.40 | 11.04 |
| EPS (before GW) - diluted | 2.91 | 3.81 | 4.79 | 6.08 | 7.59 | 9.05 | 10.63 |
| DPS | 0.85 | 1.72 | 2.25 | 2.22 | 2.76 | 3.29 | 3.86 |

| % Change | FY03A | FY04A | FY05A | FY06E | FY07E | FY08E | FY09E |
|---|---|---|---|---|---|---|---|
| Europe | 16.8% | 20.4% | 14.0% | 19.0% | 15.0% | 13.0% | 11.0% |
| North America | -3.8% | 8.4% | 36.4% | 24.0% | 25.0% | 19.0% | 16.0% |
| Asia/Pacific | 11.4% | 23.0% | 31.7% | 35.0% | 20.0% | 18.0% | 16.0% |
| Total Sales | 7.3% | 16.3% | 24.8% | 22.9% | 19.6% | 16.2% | 13.9% |
| Cost Of Goods Sold | 3.7% | -0.1% | 9.2% | 13.6% | 15.2% | 13.2% | 12.4% |
| Gross Profit | 8.5% | 21.3% | 28.7% | 24.9% | 20.5% | 16.7% | 14.1% |
| Selling Expenses | -2.5% | 11.5% | 17.6% | 26.1% | 15.6% | 14.4% | 12.4% |
| Administration Expenses | 22.2% | 36.5% | 26.8% | 17.5% | 14.8% | 13.2% | 11.9% |
| Research & Development | 3.7% | 3.4% | 21.7% | 32.6% | 57.4% | 16.2% | 9.3% |
| EBIT | 22.6% | 31.4% | 43.5% | 25.9% | 23.1% | 20.1% | 17.0% |
| EBT | 25.2% | 33.8% | 37.9% | 26.5% | 27.9% | 20.6% | 17.7% |
| Net Income (a/f Minorities b/f Non-recurring) | 59.1% | 33.9% | 37.5% | 25.6% | 27.9% | 20.1% | 17.4% |
| EPS (before Non-recurring) - normal | 44.9% | 31.1% | 25.6% | 27.1% | 24.8% | 19.2% | 17.4% |
| EPS (before GW) - normal | 44.2% | 27.2% | 25.8% | 27.7% | 27.0% | 19.4% | 17.4% |

| Margin Analysis | FY03A | FY04A | FY05A | FY06E | FY07E | FY08E | FY09E |
|---|---|---|---|---|---|---|---|
| Gross Profit | 76.4% | 79.7% | 82.3% | 83.6% | 84.2% | 84.6% | 84.8% |
| Selling Expenses | 35.7% | 34.2% | 32.3% | 33.1% | 32.0% | 31.5% | 31.1% |
| Administration Expenses | 10.9% | 12.8% | 13.0% | 12.4% | 11.9% | 11.6% | 11.4% |
| Research & Development | 4.1% | 3.6% | 3.5% | 3.8% | 5.0% | 5.0% | 4.8% |
| EBIT | 25.8% | 29.1% | 33.5% | 34.3% | 35.3% | 36.5% | 37.5% |
| EBT | 25.6% | 29.5% | 32.6% | 33.5% | 35.9% | 37.2% | 38.5% |
| Net Income (a/f Minorities b/f Non-recurring) | 20.2% | 23.2% | 25.6% | 26.1% | 28.0% | 28.9% | 29.8% |
| Tax Rate | 20.4% | 20.7% | 21.4% | 22.0% | 22.0% | 22.3% | 22.5% |
| Interest Cover (x) | 148.5 | 146.0 | 36.2 | 44.3 | NM | NM | NM |
| Gearing | -61.3% | -119.8% | -84.0% | -83.4% | -97.7% | -148.2% | -201.4% |
| ROE | 28.7% | 28.5% | 43.3% | 42.9% | 47.4% | 44.4% | 38.9% |

Source: Merrill Lynch estimates

Table 2: Nobel Biocare Balance Sheet Model

| Dec Y/E (EURm) | FY03A | FY04A | FY05A | FY06E | FY07E | FY08E | FY09E |
|---|---|---|---|---|---|---|---|
| Cash & Equivalents | 109.5 | 194.9 | 163.9 | 176.1 | 225.1 | 372.9 | 549.1 |
| Trade Receivables | 59.2 | 71.0 | 105.0 | 113.1 | 135.3 | 157.2 | 179.0 |
| Deferred Tax Asset | 6.2 | 1.3 | 1.3 | 1.6 | 1.9 | 2.3 | 2.6 |
| Other Receivables | 9.5 | 2.3 | 15.7 | 14.9 | 17.8 | 20.7 | 23.6 |
| Inventories | 22.4 | 17.6 | 30.1 | 35.7 | 42.7 | 49.6 | 56.5 |
| Pre-paid Expenses & Accruals | 5.7 | 12.6 | 5.4 | 8.9 | 10.7 | 12.4 | 14.1 |
| Current Assets | 212.4 | 299.7 | 321.4 | 350.4 | 433.6 | 615.2 | 824.9 |
| Fixed Assets | 28.1 | 32.0 | 42.2 | 53.1 | 65.9 | 80.1 | 94.1 |
| Intangible Assets | 125.3 | 122.8 | 137.3 | 140.8 | 144.3 | 148.3 | 152.1 |
| Associated Companies | 2.3 | 4.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred Tax Assets | 9.2 | 10.5 | 13.2 | 16.1 | 19.2 | 22.3 | 25.4 |
| Other Receivables | 1.3 | 0.8 | 1.6 | 1.8 | 2.1 | 2.5 | 2.8 |
| Non Current Assets | 166.1 | 170.4 | 194.3 | 211.7 | 231.6 | 253.2 | 274.4 |
| Total Assets | 378.5 | 470.1 | 515.7 | 562.1 | 665.2 | 868.4 | 1099.3 |
| Borrowings | 0.1 | 0.0 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Trade Payable | 9.1 | 12.9 | 18.9 | 20.8 | 24.9 | 29.0 | 33.0 |
| Income Taxes Payable | 15.5 | 21.1 | 30.3 | 32.8 | 39.2 | 45.5 | 51.8 |
| Other Liabilities | 14.6 | 10.8 | 37.3 | 35.7 | 42.7 | 49.6 | 56.5 |
| Accruals & Deferred Income | 22.8 | 32.9 | 42.1 | 47.6 | 57.0 | 66.2 | 75.4 |
| Current Liabilities | 62.1 | 77.7 | 129.1 | 137.5 | 164.4 | 190.9 | 217.2 |
| Borrowings | 0.7 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred Tax Liabilities | 7.4 | 13.3 | 12.2 | 14.9 | 17.8 | 20.7 | 23.6 |
| Provisions | 22.4 | 22.2 | 16.6 | 23.8 | 28.5 | 33.1 | 37.7 |
| Non Current Liabilities | 30.5 | 36.2 | 28.9 | 38.7 | 46.3 | 53.8 | 61.2 |
| Total Liabilities | 92.6 | 113.8 | 158.0 | 176.2 | 210.7 | 244.6 | 278.5 |
| Net Assets | 286.0 | 356.3 | 357.7 | 385.9 | 454.6 | 623.7 | 820.8 |
| Share Capital | 32.3 | 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 |
| Minority Interest | 2.5 | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Retained Profits | 171.5 | 233.7 | 352.3 | 455.2 | 598.4 | 767.6 | 964.8 |
| Total Shareholders Equity | 286.0 | 356.3 | 357.7 | 385.9 | 454.6 | 623.7 | 820.9 |

| Balance Sheet - Analytical Ratios | FY03A | FY04A | FY05A | FY06E | FY07E | FY08E | FY09E |
|---|---|---|---|---|---|---|---|
| Working Capital (m) | 40.9 | 27.2 | 28.9 | 37.4 | 44.7 | 51.9 | 59.1 |
| Change in Working Capital | 4.1 | (13.8) | 1.7 | 8.5 | 7.3 | 7.2 | 7.2 |
| WC / Sales (%) | 12.3% | 7.0% | 6.0% | 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% |
| Inventories / Sales (%) | 6.7% | 4.5% | 6.2% | 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% |
| Gross debt (m) | (0.8) | (0.7) | (0.6) | (0.6) | (0.6) | (0.6) | (0.6) |
| Net (debt)/cash (m) | 108.7 | 194.2 | 163.3 | 175.5 | 224.6 | 372.4 | 548.5 |
| Change in net (debt) / cash (m) | 87.3 | 85.5 | (30.9) | 12.2 | 49.1 | 147.8 | 176.1 |
| Net Debt/Equity (%) | -38.0% | -54.5% | -45.7% | -45.5% | -49.4% | -59.7% | -66.8% |
| Gearing (Net debt / Net debt +Equity) (%) | -61.3% | -119.8% | -84.0% | -83.4% | -97.7% | -148.2% | -201.4% |
| Debt / Equity | 38.0% | 54.5% | 45.7% | 45.5% | 49.4% | 59.7% | 66.8% |
| ROE (using average equity) % | 28.7% | 28.5% | 43.3% | 42.9% | 47.4% | 44.4% | 38.9% |
| ROA (using average assets) % | 4.6% | 5.5% | 9.1% | 29.6% | 32.5% | 31.2% | 28.6% |
| Net Tangible Assets (m) | 160.7 | 233.5 | 220.4 | 332.8 | 388.7 | 543.7 | 726.7 |
| NTA per Share (diluted) | 6.3 | 9.1 | 8.7 | 13.2 | 15.3 | 21.4 | 28.5 |

Source: Merrill Lynch estimates

Table 3: Nobel Biocare's Cash Flow Model

| Dec Y/E (EURm) | FY03A | FY04A | FY05A | FY06E | FY07E | FY08E | FY09E |
|---|---|---|---|---|---|---|---|
| EBT | 85.5 | 114.4 | 157.8 | 199.6 | 255.4 | 308.0 | 362.5 |
| EBIT non-recurring | 5.8 | 1.7 | 30.6 | 3.9 | 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 |
| Depreciation/Amortisation | 20.0 | 20.0 | 12.8 | 16.2 | 20.1 | 24.8 | 30.2 |
| Financial Income/Expense | 0.6 | -2.3 | 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 |
| (Increase) / Decrease in Trade & Other Receivables | -24.9 | -11.5 | -41.1 | -14.3 | -30.7 | -30.2 | -30.2 |
| (Increase) / Decrease in Inventories | 4.2 | 4.8 | -12.5 | -5.6 | -7.0 | -6.9 | -6.9 |
| Increase / (Decrease) in Trade & Other Payables | 10.8 | 0.2 | 19.6 | 11.0 | 29.8 | 29.4 | 29.3 |
| Increase / (Decrease) in Provisions | 1.3 | 9.8 | -0.3 | 4.6 | 0.7 | -1.5 | -4.6 |
| Tax Expense | -18.3 | -13.1 | -28.3 | -43.9 | -56.2 | -68.7 | -81.6 |
| Operating Cash Flow | 83.4 | 131.3 | 107.8 | 171.5 | 212.1 | 255.0 | 298.7 |
| Interest received | 2.2 | 2.8 | 3.3 | 2.5 | 4.0 | 6.0 | 9.2 |
| Purchase (-) / Sales (+) of Intangible Assets | -1.1 | -3.8 | -5.5 | -6.5 | -7.5 | -9.0 | -10.0 |
| Purchase (-) / Sales (+) of Fixed Assets | -12.8 | -16.1 | -19.6 | -24.0 | -29.0 | -34.0 | -38.0 |
| Disposals of Options in Associate | 4.7 | 0.0 | 38.6 | 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 |
| Acquisition of subsidiary | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing Cash Flow | -7.0 | -30.3 | -21.6 | -28.0 | -32.5 | -37.0 | -38.8 |
| Sale of Treasury Shares / New Shares | 20.5 | 0.0 | -117.2 | -74.6 | -74.6 | 0.0 | 0.0 |
| Redemption of Warrants & Options | 4.9 | 8.4 | 10.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Increase / (Decrease) in Borrowings | -27.5 | 0.0 | -0.7 | -12.2 | -49.1 | -147.8 | -176.1 |
| Interest Paid | -1.6 | -1.2 | -1.5 | -7.2 | 0.0 | 0.0 | 0.0 |
| Dividends Paid | -13.1 | -21.5 | -43.9 | -56.7 | -56.0 | -70.1 | -83.8 |
| Financing Cash Flow | -16.8 | -14.3 | -152.5 | -143.6 | -179.6 | -217.9 | -259.9 |
| | | | | | | | |
| Net Increase/ (Decrease) in Funds | 59.6 | 86.7 | -66.3 | 0.0 | 0.0 | 0.0 | 0.0 |

| Cash Flow - Analytical Ratios | FY03A | FY04A | FY05A | FY06E | FY07E | FY08E | FY09E |
|---|---|---|---|---|---|---|---|
| Operating Cash Flow growth (%) | 18.6% | 57.5% | -17.9% | 59.1% | 23.7% | 20.2% | 17.1% |
| CFPS (normal) | 3.32 | 5.19 | 4.29 | 6.65 | 8.54 | 10.25 | 12.09 |
| CFPS (diluted) | 3.18 | 5.13 | 4.23 | 6.52 | 8.24 | 9.87 | 11.65 |

Source: Merrill Lynch estimates

## Analyst Certification

I, Michael Jüngling, hereby certify that the views expressed in this research report about securities and issuers accurately reflect the research model applied in such analysis. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### *iQmethod* SM Measures Definitions

| Business Performance | Numerator | Denominator |
|---|---|---|
| Return On Capital Employed | NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization | Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization |
| 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 | EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities | Sales |
| EV / EBITDA | Enterprise Value | Basic EBIT + Depreciation + Amortization |

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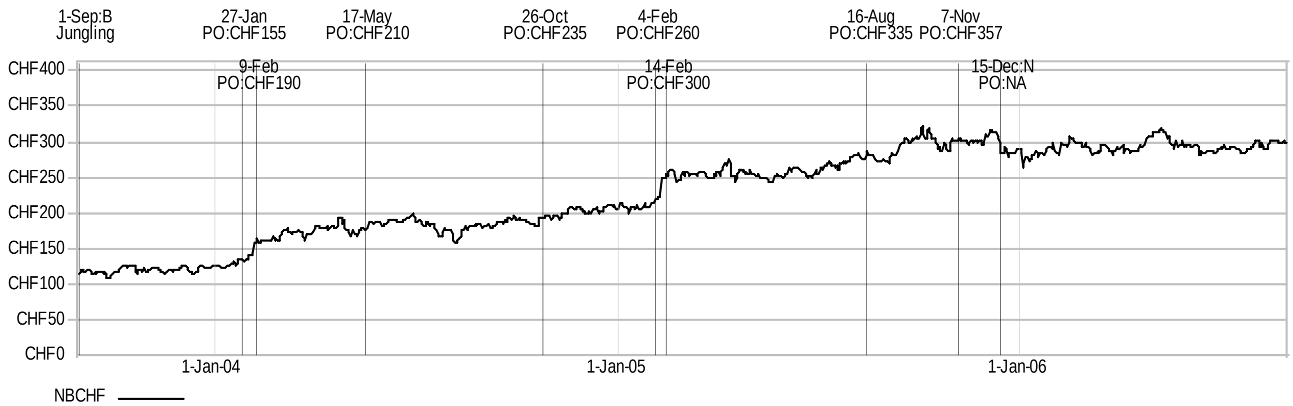
### NBCHF Price Chart




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 August 31, 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 |
|---|---|---|---|---|---|
| Buy | 1264 | 44.12% | Buy | 430 | 34.02% |
| Neutral | 1398 | 48.80% | Neutral | 404 | 28.90% |
| Sell | 203 | 7.09% | Sell | 45 | 22.17% |

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