# Nobel Biocare

**Company Update** **BUY**

Equity | Switzerland | Medical Technology
19 February 2007

# Study Shows Higher Complications with NobelGuide

Merrill Lynch


Michael K. Jüngling +44 20 7996 2247
Research Analyst
MLPF&S (UK)
michael_jungling@ml.com

Alex Surla +44 20 7996 0799
Research Analyst
MLPF&S (UK)
alex_surla@ml.com


## Feedback from 5th World Congress of Osseointegration

During the 5th World Congress of Osseointegration, which was held on 15-17 February 2007 in Venice, Professor Björn Klinge from the Karolinska Institute presented a study on Nobel Biocare's 'Teeth-in-an-Hour' concept that involves NobelGuide, titled *"Success and failure following computer assisted virtual treatment planning in immediate loading of the edentulous patients"*. It should be noted that Professor Klinge is also one of three independent expert MPA panellists for the NobelDirect investigation in Sweden.

## Summary of Findings

In this study involving 31 cases (21 maxillary & 10 mandibular) and 175 fixtures, the results showed a success rate of 22/31 or 71%. **Complications** occurred in 9/31 (29%) and include misfit of abutments (3/31;10%), moderate/extensive adjustment of bridge (8/31;26%) and loss of fixtures of 4/31 (13%) and loss of implants of 16/175 (9%).

Professor Klinge concluded that Nobel Biocare's Teeth-in-an-Hour concept can provide very positive patient experience when successful and it is possible to treat more fragile patients. However, there are more complications when compared to the current gold standard and with no/limited long-term data available the method is still in the exploratory phase.

## Investment Conclusion - Buy

We retain our '**Buy'** recommendation and our 12-month price objective of **CHF470 per share**. Key risks to our valuation continue to include launching new products to quickly without long-term clinical data.

### Estimates (Dec)

| (EUR) | 2005A IFRS | 2006A IFRS | 2007E IFRS | 2008E IFRS | 2009E IFRS |
|---|---|---|---|---|---|
| EPS (Adjusted) | 4.86 | 6.18 | 8.12 | 9.93 | 11.9 |
| EPS Change (YoY) | 28.5% | 27.2% | 31.4% | 22.4% | 19.6% |
| Dividend / Share | 2.26 | 2.64 | 2.84 | 3.48 | 4.16 |

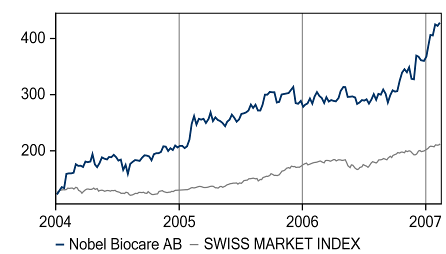
### Valuation (Dec)

| | 2005A | 2006A | 2007E | 2008E | 2009E |
|---|---|---|---|---|---|
| P/E | 54.4x | 42.7x | 32.5x | 26.6x | 22.2x |
| Dividend Yield | 0.86% | 1.00% | 1.08% | 1.32% | 1.57% |
| EV / EBITDA* | 36.1x | 28.8x | 23.1x | 19.0x | 15.8x |
| Free Cash Flow Yield* | 1.25% | 2.02% | 3.12% | 3.39% | 4.13% |

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

### Stock Data

| | |
|---|---|
| Price | CHF428.25 |
| Price Objective | CHF470.00 |
| Date Established | 8-Feb-2007 |
| Investment Opinion | B-1-7 |
| Volatility Risk | MEDIUM |
| 52-Week Range | CHF278.00-CHF441.50 |
| Mrkt Val / Shares Out (mn) | CHF10,474 / 24.5 |
| Average Daily Volume | 155,210 |
| ML Symbol / Exchange | NBCHF / SWX |
| Bloomberg / Reuters | NOBE VX / NOBE.VX |
| ROE (2007E) | 60.5% |
| Net Dbt to Eqty (Dec-2006A) | NA |
| Est. 5-Yr EPS / DPS Growth | 20.2% / 18.9% |
| Free Float | 100.0% |

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Refer to important disclosures on page 9 to 10. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

# *iQprofile* SM Nobel Biocare

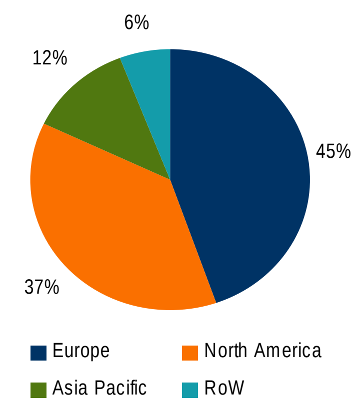
| Key Income Statement Data (Dec) | 2005A | 2006A | 2007E | 2008E | 2009E |
|---|---|---|---|---|---|
| (EUR Millions) | IFRS | IFRS | IFRS | IFRS | IFRS |
| Sales | 485 | 601 | 733 | 868 | 1,008 |
| EBITDA Adjusted | 175 | 220 | 274 | 334 | 399 |
| Depreciation & Amortization | (12.8) | (15.6) | (18.3) | (23.0) | (28.4) |
| EBIT Adjusted | 162 | 204 | 255 | 311 | 371 |
| Net Interest & Other Income | (4.49) | (5.30) | 1.32 | 1.92 | 4.07 |
| Tax Expense / Benefit | (33.8) | (44.7) | (56.4) | (69.7) | (84.3) |
| Net Income (Adjusted) | 124 | 154 | 200 | 243 | 291 |
| Average Fully Diluted Shares Outstanding | 25.9 | 25.1 | 25.2 | 25.3 | 25.3 |
| **Key Cash Flow Statement Data** | | | | | |
| Net Income (Reported) | 155 | 158 | 200 | 243 | 291 |
| Depreciation & Amortization | 12.8 | 15.6 | 18.3 | 23.0 | 28.4 |
| Change in Working Capital | (33.9) | (18.2) | 8.80 | (9.32) | (9.78) |
| Deferred Taxation Charge | 0 | 0 | 0 | 0 | 0 |
| Other Adjustments, Net | (24.0) | 5.75 | 12.2 | 5.28 | 5.59 |
| Cash Flow from Operations | 110 | 161 | 239 | 262 | 315 |
| Capital Expenditure | (25.1) | (27.9) | (36.5) | (43.0) | (48.0) |
| (Acquisition) / Disposal of Investments | 0 | 0 | 0 | 0 | 0 |
| Other Cash Inflow / (Outflow) | 0.19 | 34.9 | 0 | 0 | 0 |
| Cash Flow from Investing | (24.9) | 6.94 | (36.5) | (43.0) | (48.0) |
| Share Issue / (Repurchase) | 10.9 | 26.4 | 0 | 0 | 0 |
| Cost of Dividends Paid | (43.9) | (55.7) | (65.6) | (69.5) | (85.0) |
| Cash Flow from Financing | (151) | (165) | (203) | (219) | (267) |
| Non Cash Changes to Debt | NA | NA | NA | NA | NA |
| Change in Net Debt | 65.6 | (2.95) | 57.1 | (149) | (182) |
| Net Debt | (163) | (133) | (76.1) | (225) | (407) |
| **Key Balance Sheet Data** | | | | | |
| Property, Plant & Equipment | 42.2 | 48.7 | 63.1 | 79.0 | 94.7 |
| Goodwill | 130 | 126 | 126 | 126 | 126 |
| Other Intangibles | 6.86 | 10.4 | 14.2 | 18.3 | 22.3 |
| Other Non-Current Assets | 14.8 | 13.3 | 22.0 | 26.0 | 30.2 |
| Trade Receivables | 105 | 124 | 139 | 165 | 191 |
| Cash & Equivalents | 164 | 135 | 77.5 | 227 | 409 |
| Other Current Assets | 52.5 | 47.4 | 76.7 | 90.8 | 105 |
| Total Assets | 516 | 504 | 519 | 732 | 978 |
| Long-Term Debt | 0 | 0 | 0 | 0 | 0 |
| Other Non-Current Liabilities | 28.9 | 28.6 | 47.7 | 56.4 | 65.5 |
| Short-Term Debt | 0.55 | 1.44 | 1.44 | 1.44 | 1.44 |
| Other Current Liabilities | 129 | 113 | 169 | 200 | 232 |
| Total Liabilities | 158 | 143 | 218 | 257 | 299 |
| Total Equity | 358 | 361 | 301 | 474 | 680 |
| Total Equity & Liabilities | 516 | 504 | 519 | 732 | 978 |
| **Key Metrics** | | | | | |
| ***iQmethod*** SM **- Bus Performance*** | | | | | |
| Return On Capital Employed | 35.3% | 43.5% | 54.0% | 55.1% | 45.4% |
| Return On Equity | 34.8% | 42.9% | 60.5% | 62.7% | 50.3% |
| Operating Margin | 39.8% | 34.7% | 34.8% | 35.8% | 36.8% |
| Free Cash Flow (MM) | 84.5 | 133 | 203 | 219 | 267 |
| ***iQmethod*** SM **- Quality of Earnings*** | | | | | |
| Cash Realization Ratio | 0.88x | 1.05x | 1.20x | 1.08x | 1.08x |
| Asset Replacement Ratio | 2.37x | 2.38x | 2.51x | 2.37x | 2.15x |
| Tax Rate | 17.9% | 22.0% | 22.0% | 22.3% | 22.5% |
| Net Debt/Equity | -45.7% | -36.9% | -25.3% | -47.5% | -59.9% |
| Interest Cover | 7.57x | 11.4x | NM | NM | NM |

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

## Company Description

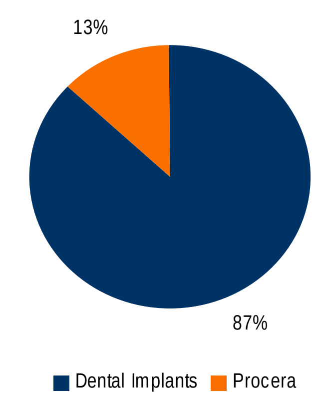
Nobel Biocare is the world leader in innovative esthetic dental solutions. It offers a one-stop-shop for restorative esthetic dentistry, offering a wide range of innovative Crown & Bridge & Implant products. In dental implants, Nobel Biocare holds world #1 position with c.33% market share. The company 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 | 21.5x |

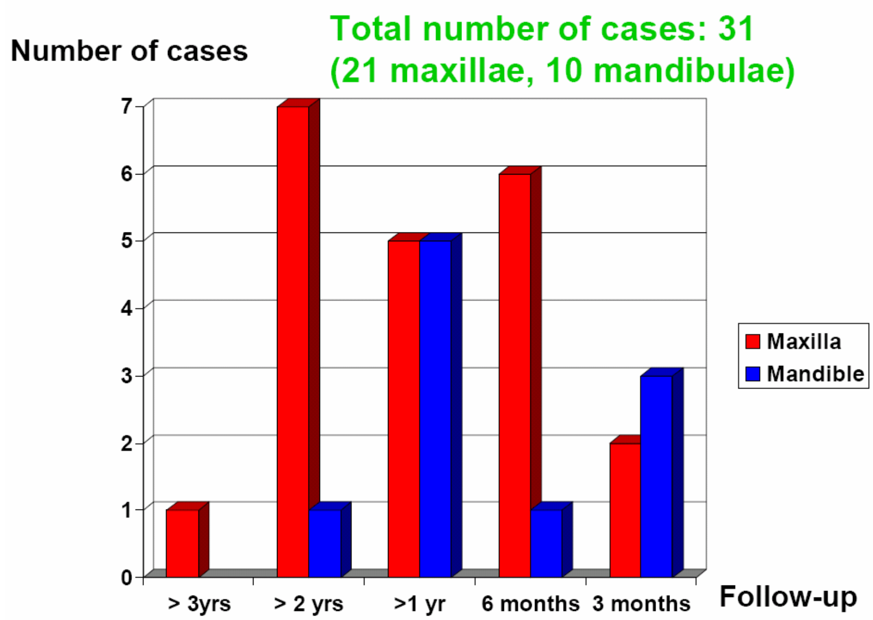
# Single Centre Data - NobelGuide

During the 5th World Congress of Osseointegration, which was held on 15-17 February 2007 in Venice, Professor Björn Klinge from the Karolinska Institute presented a study on Nobel Biocare's 'Teeth-in-an-Hour' concept that involves NobelGuide, titled *"Success and failure following computer assisted virtual treatment planning in immediate loading of the edentulous patients"*. It should be noted that Professor Klinge is also one of three independent expert MPA panellists for the NobelDirect investigation in Sweden.

## Summary of Clinical Data

In this study involving 31 cases (21 maxillary and 10 mandibular) and 175 fixtures with up to > 3 years of follow-up, the results showed a success rate of 22 / 31 (71%).

Chart 3: Age Distribution of Follow-up




Source: Professor Klinge

**Complications** occurred in 9/31 (29%) and include misfit of abutments (3/31;10%), moderate/extensive adjustment of bridge (8/31; 26%) and loss of fixtures of 4/31 (13%) and loss of implants of 16/175 (9%). The author highlighted further that the complications/failures reported in the data set includes clinical data only, as no radiographic assessment has been performed of bone-loss at 1 year follow-up. Thus the data presented is an **overestimate of the true success.**

## Advantages

Professor Klinge highlighted the following advantages: **1]** one stage procedure; **2]** no/limited bleeding, swelling, postop pain; **3]** possible to treat more fragile/vulnerable patients; and **4]** possible to treat patients with previous negative experiences of implant treatment.

### Disadvantages

The disadvantages highlighted were: **1]** more complications than with current gold standard; and **2]** very limited scientific data available.

### Study Conclusion

Professor Klinge concluded that Nobel Biocare's Teeth-in-an-Hour concept can provide very positive patient experience when successful and it is possible to treat more fragile patients. However, there are more complications when compared to the current gold standard and with no/limited long-term data available the method is still in the exploratory phase.

## Investment Conclusion

While we strongly support Nobel Biocare's visionary approach to dental implantology, we do believe, as highlighted by us previously, that the company may be too aggressive in rolling-out new products without long-term clinical data. Based on the company's recently reported growth rates, it appears that the company's reputation remains intact, but there is a clear risk if product launches continue at the rate of the last two years, that it could have longer-term consequences. Furthermore, it is interesting to note that most of the negative findings have been reported in one country, Sweden.

**We retain our 'Buy' recommendation and our 12-month price objective of CHF470 per share**

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Table 1: Nobel Biocare Profit & Loss Model

| Dec Y/E (EURm) | FY03A | FY04A | FY05A | FY06A | FY07E | FY08E | FY09E | FY10E |
|---|---|---|---|---|---|---|---|---|
| Europe | 157.7 | 189.8 | 218.5 | 266.6 | 321.2 | 372.6 | 424.7 | 473.6 |
| North America | 121.8 | 132.1 | 180.1 | 222.1 | 271.6 | 323.2 | 378.2 | 434.9 |
| Asia/Pacific | 37.1 | 45.6 | 60.1 | 79.4 | 101.7 | 126.1 | 151.3 | 177.0 |
| RoW | 17.3 | 20.9 | 25.8 | 32.5 | 39.0 | 46.0 | 53.4 | 60.9 |
| Total Sales | 334.0 | 388.4 | 484.5 | 600.6 | 733.5 | 867.9 | 1007.6 | 1146.3 |
| Cost Of Goods Sold | -78.8 | -78.8 | -86.0 | -95.8 | -112.2 | -129.3 | -145.1 | -160.5 |
| Gross Profit | 255.1 | 309.6 | 398.5 | 504.8 | 621.3 | 738.6 | 862.5 | 985.8 |
| Selling Expenses | -119.2 | -132.9 | -156.3 | -201.0 | -239.8 | -278.6 | -320.4 | -359.9 |
| Administration Expenses | -36.3 | -49.6 | -62.8 | -82.0 | -95.4 | -110.2 | -125.9 | -141.0 |
| Research & Development | -13.6 | -14.0 | -17.1 | -17.6 | -30.8 | -39.1 | -45.3 | -51.6 |
| 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 | 204.2 | 255.2 | 310.7 | 370.8 | 433.3 |
| Financial Revenue | 3.0 | 12.1 | 17.0 | 12.6 | 1.4 | 2.0 | 4.1 | 6.7 |
| Financial Expense | -3.6 | -12.8 | -21.4 | -17.9 | -0.1 | -0.1 | -0.1 | -0.1 |
| Net Financial | -0.6 | -0.8 | -4.5 | -5.3 | 1.3 | 1.9 | 4.1 | 6.6 |
| EBT | 85.5 | 114.4 | 157.8 | 198.9 | 256.6 | 312.6 | 374.9 | 440.0 |
| Tax Expense | -17.5 | -23.7 | -33.8 | -44.7 | -56.4 | -69.7 | -84.3 | -99.9 |
| Net Income (b/f Minorities) | 68.1 | 90.7 | 124.0 | 154.2 | 200.1 | 242.9 | 290.5 | 340.1 |
| 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 | 154.2 | 200.1 | 242.9 | 290.5 | 340.1 |
| Non-recurring | 5.8 | 1.7 | 30.6 | 3.9 | 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 | 158.1 | 200.1 | 242.9 | 290.5 | 340.1 |
| EPS (before Non-recurring) - normal | 2.67 | 3.52 | 4.86 | 6.18 | 8.12 | 9.93 | 11.88 | 13.90 |
| EPS (before Non-recurring) - diluted | 2.55 | 3.48 | 4.79 | 6.14 | 7.96 | 9.62 | 11.51 | 13.47 |
| EPS (before GW) - normal | 3.04 | 3.86 | 4.86 | 6.18 | 8.12 | 9.93 | 11.88 | 13.90 |
| EPS (before GW) - diluted | 2.91 | 3.81 | 4.79 | 6.14 | 7.96 | 9.62 | 11.51 | 13.47 |
| DPS | 0.85 | 1.72 | 2.26 | 2.64 | 2.84 | 3.48 | 4.16 | 4.87 |

| % Change | FY03A | FY04A | FY05A | FY06A | FY07E | FY08E | FY09E | FY10E |
|---|---|---|---|---|---|---|---|---|
| Europe | 16.8% | 20.4% | 15.1% | 22.0% | 20.5% | 16.0% | 14.0% | 11.5% |
| North America | -3.8% | 8.4% | 36.4% | 23.3% | 22.3% | 19.0% | 17.0% | 15.0% |
| Asia/Pacific | 11.4% | 23.0% | 31.7% | 32.2% | 28.0% | 24.0% | 20.0% | 17.0% |
| Total Sales | 7.3% | 16.3% | 24.8% | 23.9% | 22.1% | 18.3% | 16.1% | 13.8% |
| Cost Of Goods Sold | 3.7% | -0.1% | 9.2% | 11.4% | 17.1% | 15.2% | 12.2% | 10.6% |
| Gross Profit | 8.5% | 21.3% | 28.7% | 26.7% | 23.1% | 18.9% | 16.8% | 14.3% |
| Selling Expenses | -2.5% | 11.5% | 17.6% | 28.6% | 19.3% | 16.2% | 15.0% | 12.3% |
| Administration Expenses | 22.2% | 36.5% | 26.8% | 30.5% | 16.3% | 15.6% | 14.3% | 12.0% |
| Research & Development | 3.7% | 3.4% | 21.7% | 2.9% | 75.3% | 26.8% | 16.1% | 13.8% |
| EBIT | 22.6% | 31.4% | 43.5% | 25.8% | 25.0% | 21.7% | 19.3% | 16.9% |
| EBT | 25.2% | 33.8% | 37.9% | 26.0% | 29.0% | 21.8% | 19.9% | 17.4% |
| Net Income (a/f Minorities b/f Non-recurring) | 59.1% | 33.9% | 37.5% | 24.3% | 29.8% | 21.4% | 19.6% | 17.1% |
| EPS (before Non-recurring) - normal | 44.9% | 31.1% | 25.6% | 28.2% | 29.7% | 20.9% | 19.6% | 17.1% |
| EPS (before GW) - normal | 44.2% | 27.2% | 25.8% | 27.2% | 31.4% | 22.4% | 19.6% | 17.1% |

| Margin Analysis | FY03A | FY04A | FY05A | FY06A | FY07E | FY08E | FY09E | FY10E |
|---|---|---|---|---|---|---|---|---|
| Gross Profit | 76.4% | 79.7% | 82.3% | 84.0% | 84.7% | 85.1% | 85.6% | 86.0% |
| Selling Expenses | 35.7% | 34.2% | 32.3% | 33.5% | 32.7% | 32.1% | 31.8% | 31.4% |
| Administration Expenses | 10.9% | 12.8% | 13.0% | 13.7% | 13.0% | 12.7% | 12.5% | 12.3% |
| Research & Development | 4.1% | 3.6% | 3.5% | 2.9% | 4.2% | 4.5% | 4.5% | 4.5% |
| EBIT | 25.8% | 29.1% | 33.5% | 34.0% | 34.8% | 35.8% | 36.8% | 37.8% |
| EBT | 25.6% | 29.5% | 32.6% | 33.1% | 35.0% | 36.0% | 37.2% | 38.4% |
| Net Income (a/f Minorities b/f Non-recurring) | 20.2% | 23.2% | 25.6% | 25.7% | 27.3% | 28.0% | 28.8% | 29.7% |
| Tax Rate | 20.4% | 20.7% | 21.4% | 22.5% | 22.0% | 22.3% | 22.5% | 22.7% |
| Interest Cover (x) | 148.5 | 146.0 | 36.2 | 38.5 | NM | NM | NM | NM |
| Gearing | -61.3% | -119.8% | -84.0% | -58.5% | -33.8% | -90.6% | -149.4% | -208.9% |
| ROE | 28.7% | 28.5% | 43.3% | 44.0% | 60.5% | 62.7% | 50.3% | 42.6% |

Source: Merrill Lynch estimates

Table 2: Nobel Biocare Balance Sheet Model

| Dec Y/E (EURm) | FY03A | FY04A | FY05A | FY06A | FY07E | FY08E | FY09E | FY10E |
|---|---|---|---|---|---|---|---|---|
| Cash & Equivalents | 109.5 | 194.9 | 163.9 | 134.6 | 77.5 | 226.9 | 408.6 | 622.4 |
| Trade Receivables | 59.2 | 71.0 | 105.0 | 124.1 | 139.4 | 164.9 | 191.4 | 217.8 |
| Deferred Tax Asset | 6.2 | 1.3 | 1.3 | 2.8 | 3.4 | 4.0 | 4.7 | 5.3 |
| Other Receivables | 9.5 | 2.3 | 15.7 | 3.1 | 18.3 | 21.7 | 25.2 | 28.7 |
| Inventories | 22.4 | 17.6 | 30.1 | 30.5 | 44.0 | 52.1 | 60.5 | 68.8 |
| Pre-paid Expenses & Accruals | 5.7 | 12.6 | 5.4 | 11.0 | 11.0 | 13.0 | 15.1 | 17.2 |
| Current Assets | 212.4 | 299.7 | 321.4 | 306.0 | 293.6 | 482.6 | 705.5 | 960.1 |
| Fixed Assets | 28.1 | 32.0 | 42.2 | 48.7 | 63.1 | 79.0 | 94.7 | 111.7 |
| Intangible Assets | 125.3 | 122.8 | 137.3 | 136.2 | 139.9 | 144.1 | 148.0 | 151.6 |
| 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 | 10.9 | 19.8 | 23.4 | 27.2 | 31.0 |
| Other Receivables | 1.3 | 0.8 | 1.6 | 2.4 | 2.2 | 2.6 | 3.0 | 3.4 |
| Non Current Assets | 166.1 | 170.4 | 194.3 | 198.1 | 225.0 | 249.1 | 272.9 | 297.7 |
| Total Assets | 378.5 | 470.1 | 515.7 | 504.1 | 518.6 | 731.7 | 978.4 | 1257.8 |
| Borrowings | 0.1 | 0.0 | 0.6 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| Trade Payable | 9.1 | 12.9 | 18.9 | 32.0 | 25.7 | 30.4 | 35.3 | 40.1 |
| Income Taxes Payable | 15.5 | 21.1 | 30.3 | 25.4 | 40.3 | 47.7 | 55.4 | 63.0 |
| Other Liabilities | 14.6 | 10.8 | 41.5 | 19.2 | 44.0 | 52.1 | 60.5 | 68.8 |
| Accruals & Deferred Income | 22.8 | 32.9 | 37.9 | 36.8 | 58.7 | 69.4 | 80.6 | 91.7 |
| Current Liabilities | 62.1 | 77.7 | 129.1 | 114.8 | 170.1 | 201.1 | 233.2 | 265.1 |
| 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 | 11.4 | 18.3 | 21.7 | 25.2 | 28.7 |
| Provisions | 22.4 | 22.2 | 16.6 | 17.1 | 29.3 | 34.7 | 40.3 | 45.9 |
| Non Current Liabilities | 30.5 | 36.2 | 28.9 | 28.6 | 47.7 | 56.4 | 65.5 | 74.5 |
| Total Liabilities | 92.6 | 113.8 | 158.0 | 143.3 | 217.8 | 257.5 | 298.7 | 339.6 |
| Net Assets | 286.0 | 356.3 | 357.7 | 360.8 | 300.8 | 474.3 | 679.8 | 918.2 |
| Share Capital | 32.3 | 33.3 | 33.3 | 32.7 | 32.7 | 32.7 | 32.7 | 32.7 |
| Share Premium | 79.6 | 88.5 | 98.4 | 120.5 | 120.5 | 120.5 | 120.5 | 120.5 |
| 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 | 458.6 | 593.1 | 766.6 | 972.1 | 1210.5 |
| Total Shareholders Equity | 286.0 | 356.3 | 357.7 | 360.8 | 300.8 | 474.3 | 679.8 | 918.2 |

| Balance Sheet - Analytical Ratios | FY03A | FY04A | FY05A | FY06A | FY07E | FY08E | FY09E | FY10E |
|---|---|---|---|---|---|---|---|---|
| Working Capital (m) | 40.9 | 27.2 | 28.9 | 58.1 | 47.4 | 56.1 | 65.1 | 74.1 |
| Change in Working Capital | 4.1 | (13.8) | 1.7 | 29.2 | (10.7) | 8.7 | 9.0 | 9.0 |
| WC / Sales (%) | 12.3% | 7.0% | 6.0% | 9.7% | 6.5% | 6.5% | 6.5% | 6.5% |
| Trade Receivable / Sales (%) | 17.7% | 18.3% | 21.7% | 20.7% | 19.0% | 19.0% | 19.0% | 19.0% |
| Inventories / Sales (%) | 6.7% | 4.5% | 6.2% | 5.1% | 6.0% | 6.0% | 6.0% | 6.0% |
| Trade Payable / Sales (%) | 2.7% | 3.3% | 3.9% | 5.3% | 3.5% | 3.5% | 3.5% | 3.5% |
| Gross debt (m) | (0.8) | (0.7) | (0.6) | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) |
| Net (debt)/cash (m) | 108.7 | 194.2 | 163.3 | 133.2 | 76.1 | 225.5 | 407.2 | 620.9 |
| Change in net (debt) / cash (m) | 87.3 | 85.5 | (30.9) | (30.2) | (57.1) | 149.4 | 181.7 | 213.7 |
| Net Debt/Equity (%) | -38.0% | -54.5% | -45.7% | -36.9% | -25.3% | -47.5% | -59.9% | -67.6% |
| Gearing (Net debt / Net debt +Equity) (%) | -61.3% | -119.8% | -84.0% | -58.5% | -33.8% | -90.6% | -149.4% | -208.9% |
| Debt / Equity | 38.0% | 54.5% | 45.7% | 36.9% | 25.3% | 47.5% | 59.9% | 67.6% |
| ROE (using average equity) % | 28.7% | 28.5% | 43.3% | 44.0% | 60.5% | 62.7% | 50.3% | 42.6% |
| ROA (using average assets) % | 4.6% | 5.5% | 9.1% | 31.0% | 39.1% | 38.9% | 34.0% | 30.4% |
| Net Tangible Assets (m) | 160.7 | 233.5 | 220.4 | 312.1 | 237.7 | 395.3 | 585.1 | 806.5 |
| NTA per Share (diluted) | 6.3 | 9.1 | 8.7 | 12.6 | 9.7 | 16.2 | 23.9 | 33.0 |

Source: Merrill Lynch estimates

Table 3: Nobel Biocare's Cash Flow Model

| Dec Y/E (EURm) | FY03A | FY04A | FY05A | FY06A | FY07E | FY08E | FY09E | FY10E |
|---|---|---|---|---|---|---|---|---|
| EBT | 85.5 | 114.4 | 157.8 | 198.9 | 256.6 | 312.6 | 374.9 | 440.0 |
| EBIT non-recurring | 5.8 | 1.7 | 30.6 | 3.9 | 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 | 15.6 | 18.3 | 23.0 | 28.4 | 34.4 |
| Financial Income/Expense | 0.6 | -2.3 | 0.0 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Non Cash Items | 2.9 | 7.3 | -31.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| (Increase) / Decrease in Trade & Other Receivables | -24.9 | -11.5 | -41.1 | -11.1 | -39.9 | -35.5 | -37.0 | -36.7 |
| (Increase) / Decrease in Inventories | 4.2 | 4.8 | -12.5 | -0.4 | -13.5 | -8.1 | -8.4 | -8.3 |
| Increase / (Decrease) in Trade & Other Payables | 10.8 | 0.2 | 19.6 | -6.7 | 62.2 | 34.2 | 35.6 | 35.3 |
| Increase / (Decrease) in Provisions | 1.3 | 9.8 | -0.3 | 1.4 | 10.9 | 3.4 | 1.5 | -1.1 |
| Tax Expense | -18.3 | -13.1 | -28.3 | -44.0 | -56.4 | -69.7 | -84.3 | -99.9 |
| Operating Cash Flow | 83.4 | 131.3 | 107.8 | 160.3 | 238.1 | 259.9 | 310.6 | 363.7 |
| Interest received | 2.2 | 2.8 | 3.3 | 2.5 | 1.4 | 2.0 | 4.1 | 6.7 |
| Purchase (-) / Sales (+) of Intangible Assets | -1.1 | -3.8 | -5.5 | -8.0 | -7.5 | -9.0 | -10.0 | -11.0 |
| Purchase (-) / Sales (+) of Fixed Assets | -12.8 | -16.1 | -19.6 | -20.0 | -29.0 | -34.0 | -38.0 | -44.0 |
| 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 | 9.5 | -35.1 | -41.0 | -43.9 | -48.3 |
| Sale of Treasury Shares / New Shares | 20.5 | 0.0 | -117.2 | -135.9 | -194.4 | 0.0 | 0.0 | 0.0 |
| Redemption of Warrants & Options | 4.9 | 8.4 | 10.9 | 26.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Increase / (Decrease) in Borrowings | -27.5 | 0.0 | -0.7 | 0.0 | 57.1 | -149.4 | -181.7 | -213.7 |
| Interest Paid | -1.6 | -1.2 | -1.5 | -1.6 | -0.1 | -0.1 | -0.1 | -0.1 |
| Dividends Paid | -13.1 | -21.5 | -43.9 | -55.7 | -65.6 | -69.5 | -85.0 | -101.7 |
| Financing Cash Flow | -16.8 | -14.3 | -152.5 | -166.9 | -203.0 | -218.9 | -266.7 | -315.4 |
| Net Increase/ (Decrease) in Funds | 59.6 | 86.7 | -66.3 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| Cash Flow - Analytical Ratios | FY03A | FY04A | FY05A | FY06A | FY07E | FY08E | FY09E | FY10E |
|---|---|---|---|---|---|---|---|---|
| Operating Cash Flow growth (%) | 18.6% | 57.5% | -17.9% | 48.8% | 48.5% | 9.2% | 19.5% | 17.1% |
| CFPS (normal) | 3.32 | 5.19 | 4.29 | 6.46 | 9.71 | 10.71 | 12.87 | 15.14 |
| CFPS (diluted) | 3.18 | 5.13 | 4.23 | 6.42 | 9.52 | 10.37 | 12.46 | 14.67 |

Source: Merrill Lynch estimates

## Price Objective Basis & Risk

Our **Buy** recommendation and 12 month **price objective** of CHF470 per share is based on our DCF valuation using a WACC of 8.3%, and a terminal growth rate of 2.5%.

**Risk** to our valuation include a slowing dental implant market driven by a weaker economy in conjunction with the lack of reimbursement for dental implant procedures, inability to maintain high teens sales growth, foreign exchange, as well as the Swedish Medical Products Agency changing their view on the safety of the NobelDirect implant

## Analyst Certification

I, Michael Jüngling, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. 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 |

***iQmethod*** SM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

***iQdatabase*** ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

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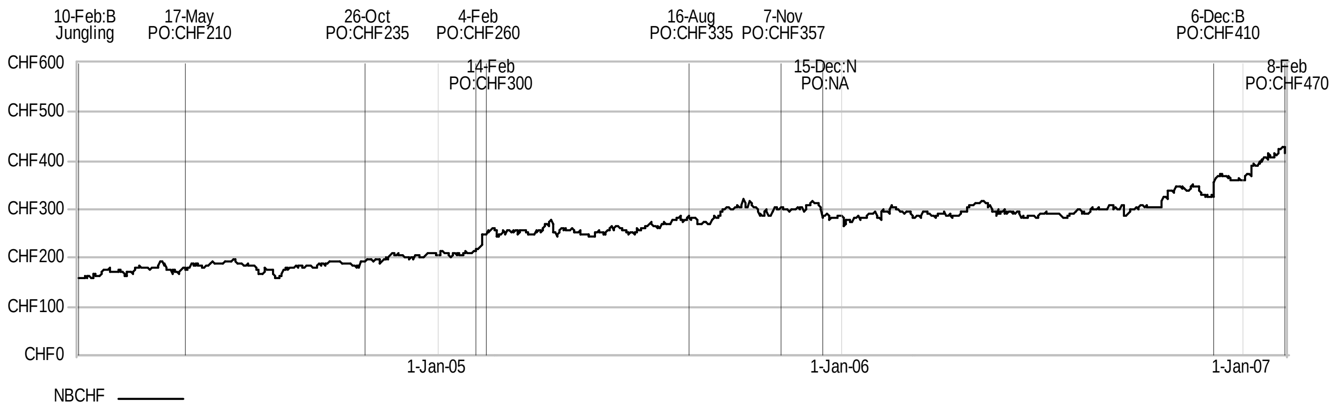
## NBCHF Price Chart




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 January 31, 2007 or such later date as indicated.

## Investment Rating Distribution: Health Care Group (as of 31 Dec 2006)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|---|---|---|---|---|---|
| Buy | 93 | 43.87% | Buy | 26 | 27.96% |
| Neutral | 108 | 50.94% | Neutral | 33 | 30.56% |
| Sell | 11 | 5.19% | Sell | 3 | 27.27% |

## Investment Rating Distribution: Global Group (as of 31 Dec 2006)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|---|---|---|---|---|---|
| Buy | 1306 | 42.74% | Buy | 406 | 31.09% |
| Neutral | 1509 | 49.38% | Neutral | 446 | 29.56% |
| Sell | 241 | 7.89% | Sell | 53 | 21.99% |

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