

UBS Investment Research

Nobel Biocare AG

Strong growth to continue. US market remains a key driver.

Strong operating performance from Nobel expected to continue

It has been our long held view that, despite market concerns, the debate in Sweden over Nobel Direct is unlikely to adversely impact company performance. Indeed since concerns about Nobel Direct were first aired in late 2005, Nobel's financial performance has been exceptional with sales growing by 26.8% & 23.5% in the first 2 quarters of 2006

US Survey feedback is supportive of our positive view

A survey of 60 dental professionals in the biggest market for Nobel, the US, provided some encouraging evidence: Only 5% of dentists surveyed experienced problems with NobelDirect, 50% having never experienced any problems at all. The survey suggests overall use of Nobel implants is expected to rise 55% in the next 12 months

Resolution in Sweden re Nobel Direct in coming months

Following second expert report to the SMPA (Swedish Medical Products Agency) on 11-Sep-06, we anticipate a final decision from the SMPA in the next 2 months. Removal of this uncertainty should see the market more willing to reward Nobel Biocare for its strong growth, in our view.

Valuation: CHF375 price target is DCF-derived

We reiterate our PT, estimates & Buy rating. We move from "1" to "2" to reflect anticipated volatility in share price ahead of the SMPA decision & believe current valuation offers an attractive buying opportunity into a long-term high growth story.

Highlights (€m)	12/04	12/05	12/06E	12/07E	12/08E
Revenues	388	484	608	732	880
EBIT (UBS)	127	164	207	253	308
Net income (UBS)	103	132	156	195	240
EPS (UBS, €)	4.08	5.20	6.14	7.70	9.48
Net DPS (UBS, €)	1.03	1.12	1.43	1.63	1.82

Profitability & Valuation	5-yr hist. av.	12/05	12/06E	12/07E	12/08E
EBIT margin %	24.3	33.9	34.1	34.6	35.0
ROIC (EBIT) %	38.4	93.2	96.7	98.7	114.9
EV/EBITDA x	16.6	24.7	20.7	16.7	13.8
PE (UBS) x	27.1	33.3	29.9	23.8	19.3
Net dividend yield %	0.8	0.6	0.8	0.9	1.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of CHF291.00 on 19 Sep 2006 23:37 BST

Maja S Pataki
Analyst
maja-s.pataki@ubs.com
+41 1 239 1365

Martin Wales, PhD
Analyst
martin.wales@ubs.com
+44-20-7568 8428

Amie Gramlick
Associate Analyst
amie.gramlick@ubs.com
+44-20-7568 1284

Global Equity Research

Switzerland

Medical Supplies

Rating **Buy 2**
Prior: Buy 1

Price target CHF375.00/US\$299.57
Unchanged

Price CHF291.00/US\$232.47

RIC: NOBE.VX BBG: NOBE SW

21 September 2006

Trading data (local/US\$)

52-wk. range	CHF323.25-265.00/US\$261.65-207.67
Market cap.	CHF7.57bn/US\$6.05bn
Shares o/s	26.0m (BFREE)
Free float	100%
Avg. daily volume ('000)	158
Avg. daily value (CHFm)	46.3

Balance sheet data 12/06E

Shareholders' equity	€0.38bn
P/BV (UBS)	12.3x
Net cash (debt)	€0.14bn

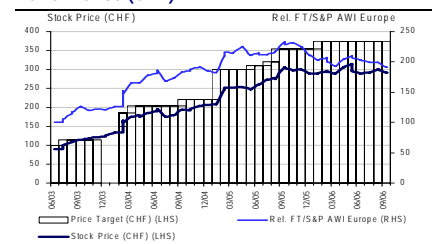
Forecast returns

Forecast price appreciation	+28.9%
Forecast dividend yield	1.2%
Forecast stock return	+30.1%
Market return assumption	7.0%
Forecast excess return	+23.1%

EPS (UBS, €)

	12/06E			12/05
	From	To	Cons.	Actual
Q1E	-	-	1.48	1.03
Q2E	-	-	1.65	1.23
Q3E	-	-	1.31	0.92
Q4E	-	-	2.08	1.72
12/06E	6.14	6.14	6.05	
12/07E	7.70	7.70	7.55	

Performance (CHF)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 31

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Maja S Pataki
Analyst
maja-s.pataki@ubs.com
+41 1 239 1365

Martin Wales, PhD
Analyst
martin.wales@ubs.com
+44-20-7568 8428

Amie Gramlick
Associate Analyst
amie.gramlick@ubs.com
+44-20-7568 1284

Summary and investment case

We believe that the negative newsflow which has been widely reported in Swedish press (eg, Dagens Hyster, Dagens Industri) on NobelDirect (Nobel Biocare's one-piece implant launched in 2004), suggesting that it causes excessive bone loss, has been a major reason for Nobel's relative share price performance of -2% (absolute performance +7%) in the year to date.

However, it has been our longstanding published view that the share price reaction to concerns regarding NobelDirect has been overdone (see our notes of 6-Jan-06, 10-Feb-06 & 11-Aug-06). Discussions with opinion leaders and competitors have also supported this view. However, we wanted to further understand the impact these concerns were having on Nobel Biocare in its most important market, the US. Consequently, we commissioned Rood Research Inc., an independent market research company, to conduct a survey in the US to understand better the perception of the company, its products and aspects of the competitive environment in the US.

Positive independent survey results

The survey was conducted via the internet and consisted of 60 participants, each placing at least 10 dental implants per month (average 20 per month), who use Nobel Biocare and have been placing implants for at least two years (average 15 years). Key findings from this survey are summarised below.

- Close to 50% of dentists asked have never experienced a problem with NobelDirect and 45% of dentists did not feel they had enough experience with the product to comment on it. Only 5% of dentists asked had experienced problems. Problems with osseointegration (the structural and functional connection between the living bone and an implant surface) were one of three concerns, while another referred to the usual difficulties that can occur with any implant system. More importantly, 65% of dentists in our poll were not aware of any problems related to NobelDirect.
- 93% of the dentists in our sample do not intend to switch from Nobel Biocare to another player, and only 3% stated they intend to change supplier (no information for 3% of dentists).
- The majority of respondents estimate market growth at 10-15%, below UBS market growth estimate of 18% in 2006 and 17% in 2007. However, as the average number of Nobel Biocare implants used is expected to increase 55% over the coming 12 months and the number of implants from other manufacturers is expected to remain flat, market growth rates could prove too conservative.

Whilst a 60 person survey cannot be considered conclusive, it does suggest that US dental professionals are not seeing major issues with NobelDirect. More generally, it appears that Nobel's focus on aesthetics and easy solutions (accounting for more than 50% of positive mentions in the questionnaire with regard to important implant characteristics) should result in further market share gains, helped by the high quality of Nobel's products (according to the questionnaire, the main advantage of Nobel).

An independent market research survey in US to identify the impact of NobelDirect

Survey consisted of 60 participants placing an average of 20 Nobel implants a month

95% of dentists have either never had a problem with NobelDirect or did not have enough experience to comment

Average number of Nobel implants placed expected to increase by 55% over 12 months

Nobel should continue to outgrow the market

Globally, we expect the company to grow sales by 25% in 2006E, and by more than 20% in 2007/08E, with the US a key driver of this growth. Higher-priced product innovations and a positive product mix, coupled with economies of scale, should result in further margin expansion, in our view.

Valuation

We reiterate our Buy rating for Nobel Biocare with a price target of CHF375. We believe current share price levels offer a good buying opportunity into a long-term growth story.

We reiterate our Buy rating and our PT of CHF375

The market remains sensitive to newsflow in relation to the upcoming SMPA decision on NobelDirect as evidenced by the recent 7% share price decline on the release of further comments by the expert panel on 14-Sep-06. Consequently we expect the shares will remain volatile in the near term and we move from Buy "1" to Buy "2" to reflect this continued higher volatility.

The dental implant market remains our favourite subsector in the UBS European healthcare sector. We like the dental implant market for the following reasons: its estimated growth rates of c18% in 2006 and c17% in 2007, limited pricing pressure, limited to no impact from economic downturns and no known threat from potential changes in dental reimbursement schemes.

Independent market report

Nobel's absolute share price performance in the year to date of 7% suggests, in our view, investors are concerned that the NobelDirect issue could result in a substantial slowdown in growth.

It has been our longstanding published view that the share price reaction over Swedish concerns related to bone loss as a result of NobelDirect have been overdone (see our notes on 6 January 2006, 10 February 2006 and 11 August 2006). Discussions with opinion leaders and competitors have supported this view. We provided a scenario analysis in our January note investigating the financial impact for Nobel Biocare should NobelDirect be withdrawn. Based on UBS estimates the impact on earnings, including a potential client loss, would only be in the single digit range, 7% on 2007E earnings.

However, to further understand the impact that concerns regarding NobelDirect could have on Nobel Biocare, in its most important market the US, we commissioned Rood Research Inc., an independent market research company, to carry out a survey of dental professionals. Our goal was to better understand the perception of the company, its products and aspects of the competitive environment in the US. Included in the survey were two questions on Nobel Direct:

- Are you aware of the newsflow related to Nobel Direct?
- Have you ever experienced problems with Nobel Direct?

The survey was conducted via the internet and consisted of 60 participants. Of the 60 dentists questioned, 41 were periodontists and 19 were oral surgeons. All participants place at least 10 implants per months (with the average being 20 per month), use Nobel Biocare and have been placing implants for at least two years (with the average being 15 years).

Market research conclusions

NobelDirect

We were not surprised that of the 60 respondents, only one third (20) were aware of the news on NobelDirect, of which more than half (11) said they have not changed their view following the news.

Close to 50% of dentists asked have never experienced a problem with NobelDirect and c45% of dentists did not feel they had enough experience with the product to comment on it. Only 5% of dentists asked had experienced problems with the product.

Bone loss, or a less severe version of it – problems with osseointegration – was one of three main issues, while another referred to the usual difficulties that can occur with any implant system. More so, 65% of dentists in our poll were not aware of any problems related to NobelDirect.

To further understand the impact concerns relating to NobelDirect could have on the company we commissioned an independent market report

Survey of 60 dentists placing an average of 20 implants a month with an average of 20 years experience

95% of dentists have either never had a problem with NobelDirect or did not have enough experience to comment

Osseointegration is one of only three main issues

93% of dentists in our sample do not intend to switch from Nobel Biocare to another player, 3% intend to switch due to product issues unrelated to NobelDirect or due to lack of service/unhappiness with sales, and 3% could not be contacted for further details.

Market growth/Use of Nobel products

The majority of dentists participating in the questionnaire (more than 65%) estimate market growth to be 10-18% and 40% estimate growth at 10-15%. However, questionnaire feedback on the number of implants the dentists surveyed expect to place suggest that dental implant market growth rates should be above the estimated 10-15%.

Dentists surveyed estimate market growth of 10-18%

Participants' remarks on average number of Nobel implants used over a 12-month period suggest a growth rate of 55%, while the use of other implants were flat.

Average number of Nobel implants increased by 55%

Main/advantage/disadvantage of Nobel Biocare's products

63% of dentists in our questionnaire started with another implant brand and switched to Nobel an average of five years ago. The two main reasons being the high quality of its products (29%) and requests from referring dentists (16%).

63% of dentists had switched to Nobel products

Nobel's main product advantage is its high quality (45% of mentions) and good reputation (13%). The main disadvantage is high cost (70% of mentions).

Dr. Niznick

Some 80% of respondents were familiar with Dr. Niznick, a pioneer in implant history, head of the company Implant Direct.

80% of had heard of Dr. Niznick

Summary of survey findings

- Nobel Biocare is known for high quality, but high prices
- Use of Nobel products is expected to increase throughout 2006
- Almost all respondents either have never experienced problems with NobelDirect, or have not had enough experience with the product to comment
- One-third of respondents were aware of recent newsflow related to NobelDirect causing excessive bone loss, of which half now perceive NobelDirect less favourably
- NobelGuide (a computer aided or model-based planning system) is perceived to be a unique and impressive piece of technology, but with limited real world applications and potentially prohibitive costs. There is a high degree of familiarity with NobelGuide among this sample, and most respondents familiar with it intend to use it.
- Most respondents were familiar with Dr Niznick. He is recognised as an innovator who is responsible for advancing the field of implant dentistry.

- Most respondents estimate growth rates for the dental implant market over the next years at somewhere in the region of 10-18% (UBS estimates 17% for 2007E).

Our conclusions following the market report

The feedback from the independent research group, Rood Research Inc., is in-line with our take from discussions with opinion leaders and competitors and suggests that the NobelDirect issue does not have the same weighting in the dental community as it does in the financial markets, in our view. This supports our longstanding published view that share price reactions appear overdone.

While a 60 person dental professional survey cannot be considered conclusive, only c30% of dentists participating in the survey is aware of the newsflow, and only 5% have had problems with NobelDirect. Problems with osseointegration was one of three reasons cited. 93% of dentists say they will stay Nobel Biocare customers, and only 3% confirmed their intention to switch – due to sales rep problems, marketing to generalists, and product problems (not related to NobelDirect). The average number of Nobel implants placed over a 12-month period is expected to increase by 55%, while implants from other manufacturers are expected to remain flat. The main advantage of Nobel Biocare products cited is their high product quality.

In our view, the outcome of the independent market research group survey supports individual feedback from opinion leaders in the market that potential problems that could occur when placing the implant are in line with those that can be experienced with other manufacturers' products. The findings support the SMPA's statement from February 2006 that there was no reason to take action against NobelDirect.

Nobel's 31 August report to the SMPA addresses all points of the expert's first report from July 19 on NobelDirect and offers a solid explanation for differences in bone loss measurement, in our view. In our view, the company's report that was sent to the SMPA end August should offer a good base for constructive discussion with all parties involved.

On September 11 the Swedish expert panel released a second report to the SMPA, commenting on Nobel Biocare's report from August 31. Strong remarks were made regarding NobelDirect, Nobel's clinical studies and working climate, among other comments. The report concludes "NobelDirect cannot be regarded as a finished product, but a prototype, which should be used with caution under strictly controlled circumstances" (Reuters news, September 14). The report does not include any new data or clinical studies.

To illustrate the worst case, a product recall globally, in our view, would likely result in 7% lower 2007 earnings (UBS note from 6 January 2006).

We expect a final decision from the SMPA in the next two months. A more likely scenario could be an additional alteration of marketing material, in our view.

In our view NobelDirect does not have the same impact in dental community as in the financial markets

NobelDirect problems perceived as no different from problems that can occur with other implant systems

Criticism regarding Nobel's marketing

While initially the NobelDirect concerns raised by the Swedish Professors Tomas Albrektsson and Lars Sennnerby related to the product NobelDirect (causing higher-than-normal bone loss) focus has shifted to marketing material for NobelDirect as commented in the first report by the independent expert group.

Following the change in the dental market, financial market concerns seem to have shifted from possible quality concerns and a related slowdown in growth, to Nobel Biocare being too aggressive a marketing machine, in our view.

Although we have not been exposed to Nobel's marketing material, and are not in a position to judge the criticism related to this, we would like to highlight some thoughts:

- In our view, Nobel's marketing and innovations are likely to have driven the acceleration in market growth to an estimated 18% in 2006 from 12-15% in early 2000. The company has increased awareness among generalists for dental implants, which has triggered an increase in referral rates.
- Nobel's innovations are very focused on making the procedure easier and on aesthetics, both important characteristics of a desirable dental implant according to our questionnaire, with 26% and 24.6% of mentions.
- The dental implant market has not undergone a strong development phase since the mid 60s when the first implant was launched. Most companies focus has been on developing the implant surface to improve osseointegration and stability. Further development of implants into other dimensions only happened in the late 90s/early 2000.
- In our view, focus on innovation and increasing awareness is crucial for future growth in the dental implant market. While Nobel Biocare's marketing strategy can be questioned, we believe market growth rates could drop below 15% again if Nobel's efforts were halted.

Market growth remains strong

Following recent worries that market growth could be facing a slowdown, we revisited the UBS dental implant market model. Although our market growth estimates of 18% for 2006E and 17% for 2007E are somewhat above market growth expectations, stated by dental professionals who participated in our survey, we feel comfortable with our estimates given the expected increase of Nobel products of 55% and flat use of competitors' products.

Market growth should also be encouraged by Nobel Biocare's collaboration with universities in which the company assists universities to set up an implant education section for undergraduate students. For reference purposes only we outline some numbers below:

New York University College of Dentistry; according to the secretary c235-250 students graduated in 2005. Assuming that close to 70% of graduates would start

Investor concerns appear to have shifted from product quality to marketing issues

We reiterate our UBS dental implant market growth estimates of 18% and 17% for 2006E and 2007E, respectively

Nobel Biocare's collaboration with universities should benefit market growth

to place implants, an estimation of 150 students, with an average of 10 implants a months would eventually result in US\$6.3m of revenues for the dental implant market (implant price US\$350). This compares to an average of potentially c40-50 graduates starting dental implant dentistry couple of years after graduation. Thus, the incremental value of educational efforts should be seen in acceleration of time and US\$c4.5m. While this represents less than 1% of the market, it equally only represents one university and should be taken as a reference to potential long-term market growth.

Valuation

Summary

Once the strong performer of the Swiss market (2004: Nobel relative to the Swiss market +54%; 2005 till the NobelDirect impact: Nobel relative to the Swiss Market +15%) Nobel's share price performance over the past 12 months and year to date looks weak, as highlighted in Table 1.

Nobel's year-to-date share price performance looks weak

Table 1: Nobel Biocare's performance – absolute and relative to the Swiss market

	12 months	year-to-date
Nobel	8%	7%
Nobel rel to Swiss Market	-12%	-2%

Source: UBS estimates

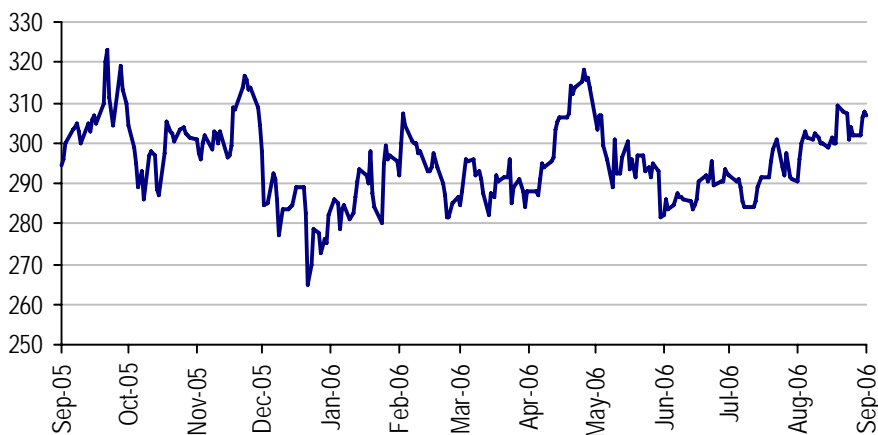
With sales growth of close to 25% in 2006E, Nobel Biocare should continue to outgrow the global dental implant market and gain further market share. Despite investments in education and sales networks to sustain long-term growth, the company should expand its margins further in 2006, resulting in earnings growth of 18% in 2006E, accelerating to above 25% in 2007E.

Sales growth of c25% implies further market share gains

Since strong earnings growth does not seem to be reflected in the share price performance, the reason why Nobel shares traded in a band of CHF280-300 for most of the last 12 months may be related to possible NobelDirect product quality issues.

Strong earnings growth not reflected in share price performance

Chart 1: Last twelve months Nobel share price performance



Source: Thomson financial

Table 2 lists the main events related to the NobelDirect case. As seen in Chart 1, there is a strong correlation between NobelDirect newsflow and share price performance, initially resulting in major dips.

Table 2: Summary of events related to NobelDirect

Date	Comment
16/10/2005	Prof Tomas Albrektsson appears on Swedish TV criticising NobelDirect
21/10/2005	Q3 numbers (lower EBIT margins, European growth at 12%) - first discussion on Swedish professors' claims
16/12/2006	Nobel publicly rejects critics' claims after analysts publish updates on the Gothenburg group findings
21/12/2005	Nobel sends letter to Vice-Chancellor of Gothenburg University requesting access to data supporting the Swedish Professors' claims
05/01/2006	Nobel reports Dr P.O Oestman has made available in the previous few days findings of bone loss as a result of NobelDirect
25/01/2006	SMPA holds a meeting with the Swedish professors to discuss their claims
06/02/2006	Meeting held between SMPA, Nobel and the Swedish professors to discuss claims
16/03/2006	Nobel reports positive findings on NobelDirect at AO meeting
19/07/2006	Expert Panel release report recommending that Nobel stop marketing NobelDirect
09/08/2006	Nobel establishes constructive dialogue with the SMPA and puts NobelDirect marketing material on hold
10/08/2006	Nobel reports Q306 numbers and publicly gives its response to the Expert Panel report
31/08/2006	Nobel Biocare hands in report to the Swedish Medical Products Agency commenting on expert report
11/09/2006	Expert panel release second report recommending that NobelDirect should be only used in clinical studies

Source: Nobel Biocare, Reuters

Over the past couple of months, negative newsflow on NobelDirect has not resulted in major share price falls, rather puts a cap on share price performance. We believe that share price performance in our view reflects investors' worries shifting from possible issues related to NobelDirect product quality, to reputation damage that might result in customer losses and a slowdown in growth.

NobelDirect newsflow has put a cap on the share price performance

Valuation

Two valuation methodologies

To derive a price target for Nobel Biocare, we apply two valuation methodologies.

- (1) Three-stage DCF valuation;
- (2) Multiples-based valuation

Three-stage DCF value

Our DCF valuation is based on the UBS three-stage DCF model. We use a European equity risk premium of 4%, in line with the historical European level of c4.0% calculated by UBS strategists.

The beta is generally based on the relative volatility of historical stock price returns. We use a beta of 1.0 for Nobel Biocare.

Beta

For the risk-free rate, we use a rough average of the 10-year government bond yield in Switzerland and Europe. We use a medium-term growth rate of 9.5% for 10 years (2009-18E), which is slightly below the derived growth rate for 10 years of 10%, which is derived by our market model. We believe this growth rate is realistic, given the current low penetration of dental implants. We use a terminal growth rate of 2.5%, which is based on similar growth rates for restorative dentistry and roughly in line with nominal GDP growth. We use a

Medium-term growth rate of 9.5%

terminal return on capital of 12%. The European average is 10-11%, but we consider that a higher rate is justified for medical technology stocks because of their above-average levels of intangibles (brands, R&D).

As Nobel Biocare is net cash, we have applied a negative weighting to the position. Under this method, WACC is higher than the cost of equity. We have used a one-year Swiss franc LIBOR rate for the return on the net cash balance. Using 'normal' tax rates of 20-22%, we arrive at a WACC of 7.7%.

WACC of 7.7% for Nobel Biocare

Using these assumptions, we arrive at a DCF value of CHF380 for Nobel Biocare – slightly above our price target of CHF375.

Multiples-based valuation

(a) Comparison with historical prospective PE multiples

Although we recognise that historical valuations can be subject to errors, we still regard it as a good proxy to check our DCF valuation. We have calculated the historical prospective PE multiples for Nobel Biocare for 2001-05.

Average historical PE multiple an attractive proxy

Table 3: Average historical prospective PE multiples

(x)	Prospective PE 2001-05	2006E	2007E	2008E
Nobel Biocare	25.1	32.1	25.4	20.7
Straumann	29.4	30.7	24.4	20.2

Source: UBS estimates

On current 2007E PE, Nobel Biocare trades in line with the average historical prospective PE. We believe a premium to historical prospective PE multiples is justified, given the significant changes at the company over the past five years.

Nobel trades in line with the average historical prospective PE

In addition, the strong growth of the dental implant market suggest further upside to valuation, in our view. Furthermore, the FY 05 results confirm that Nobel Biocare's focus on the aesthetics area and product launches facilitating the treatment should allow the company to outgrow the market substantially. We forecast revenue growth of 25% in 2006, versus estimated market growth of 18%. Longer-term, Nobel Biocare should be well positioned, given its strategy to continue to anticipate trends in the dynamic implant market and meet industry demands.

Table 4: DCF-implied PE multiples for Straumann and Nobel Biocare

Straumann	2005E	2006E	Nobel Biocare	2006E	2007E
Price	251.25		Price	306.75	
Target multiple	34.0	33.6	Target multiple	38.8	30.6
Price target	290	290	Price target	375	375
Upside	15%	15%	Upside	22%	22%

Source: UBS estimates [Note: Current prices as of 14/09/2006]

Our price target of CHF375 for Nobel Biocare implies a PE 2007E target multiple of 31x.

Target multiple of 31x PE 2006E consistent with historical methodology

(c) PEG ratios

Table 5:

current	Price	EPS CAGR 05-08E	PE 06E	PE 07E	PE 08E	PEG 06E	PEG 07E	PEG 08E
Straumann	253.5	16.8%	29.3	23.3	19.4	1.7	1.4	1.2
Nobel Biocare	306.5	22.2%	31.8	25.1	20.4	1.4	1.1	0.9
at target								
Straumann	290	16.8%	33.6	26.7	22.2	2.0	1.6	1.3
Nobel Biocare	375	22.2%	38.9	30.7	24.9	1.8	1.4	1.1

Source: UBS estimates, prices as of 13/09/2006

We believe that the PEG ratios, current and at target, highlight the relatively undemanding valuation of Nobel Biocare, notwithstanding the high PE multiples.

Price target and rating

We reiterate our Buy rating for Nobel Biocare with a price target of CHF375.

We reiterate our Buy rating and price target of CHF375

The market remains sensitive to newsflow in relation to the upcoming SMPA decision on NobelDirect as evidenced by the recent 7% share price decline on the release of further comments by the expert panel on 14-Sep-06. Consequently the shares will remain volatile in the near term and we move from Buy "1" to Buy "2" to reflect this continued higher volatility.

The dental implant market remains our favourite sub-sector in the European healthcare sector. We like the dental implant market for the forecast growth rates of c18% in 2006 and c17% in 2007, limited pricing pressure, limited to no impact from economic downturns, and the absence of the threat from potential changes in the reimbursement scheme.

Risk

Quality concerns

There is a risk with regard to product quality issues, which although inherent for any medical technology company, market behaviour implies greater risk for Nobel Biocare, in our view.

Product quality issues

Currency exposure

A major negative for the dental companies under discussion is their relatively high exposure to the USD (c40%).

USD weakness hitting earnings

With its production sites in Yorba Linda and Fair Lawn, the USD currency risk for Nobel Biocare is to a large extent translational. We estimate that a 10% decline in the USD/EUR rate would have a -5 to 0% impact on earnings.

Communication concerns

Nobel Biocare's CEO's statement in March that "the case has been closed" – while the investigation was still ongoing – was investigated by the Swiss Stock Exchange and cleared as correct. Nobel Biocare's comment was referring to the case with regard to product quality, which was indeed closed. However, investigations continued into why there were such large differences in bone loss measurement.

Competition

Since the dental implant market is considered to represent such a strong growth opportunity, the possibility of new competition entering the market has often been mentioned as a potential risk for growth. Specifically, since Dr. Niznick announced his return to the market with his discount implant company ImplantDirect, the market seems to have been worried about pricing pressure eroding manufacturers' margins.

While we believe that there should be room for new entrants into the market, we are not worried about discount implants ruining the overall market pricing. Discount manufacturers don't offer a high service level or education, but simply sell standard dental implants. We believe branded manufacturers should continue to focus on R&D, allowing them to command premium pricing.

Competition should not add pricing pressure

SMPA decision

Whilst we await the final decision from the SMPA re Nobel Direct, concerns about possible withdrawal of the product may continue to adversely impact share price performance.

Product recall

Early this year, in our report from 6 January, we derived a scenario analysis on a potential product recall from NobelDirect. Based on UBSe a global product recall would reduce UBSe 2007E by -7%, based on -7% reduction of UBSe for 2007 sales. This calculation was based on the following assumptions:

- NobelDirect accounts for c3.5% of sales in 2007E

- Nobel Biocare loses some accounts due to NobelDirect incident
- NobelDirect has the same margin as other implants

With H1 06 results Nobel's management stated that NobelDirect represents c1.4% of sales, which is below UBSe assumptions of 3.4% for 2006E used in the worst case scenario.

So far product claims have mainly emerged from Sweden, as far as we are aware, offering a potential case on product recall in Sweden only. The impact on earnings in such a case would not be material, in our view.

Risk of lawsuits in the US

A greater risk to Nobel Biocare's earnings, and a concern in the financial markets, represent potential lawsuits in the US, should the product be recalled from the market in the US.

The likelihood of lawsuits and their potential financial magnitude are difficult to assess. However, to highlight a potential impact on Nobel's numbers we refer to a recently published article. An article in *Veckans Affärer*, 24 August, highlights lawsuits in the US as a major risk for Nobel Biocare, potentially costing the company USD2bn, assuming that c50% of estimated 100'000 implants have been implanted in the US. Should one-third of patients face severe problems and claims of USD100'000 would arise this could amount up to USD2bn, or cEUR1.6bn, representing c30% of market capitalisation.

The company has made no comments about potential lawsuits and we cannot verify the costs suggested in the above article.

However we would highlight the company has 2007e net cash of EUR250m & could use this with debt financing to settle any financial costs should it lose a lawsuit as a result of any US claims, in our view. Using an interest rate assumption of 5% would imply interest rate payments of cEUR65-70m after net cash deduction and reduce our earnings by c25% and c20% for 2006E and 2007E, respectively.

Nobel Biocare has indicated 86'000 NobelDirect products have been implanted worldwide so far, we estimate 40% in the US. If we assume in line with the Swedish group's published claims, that 30% of implants suffering from bone loss, this would imply c10'300 patients (if every patient has only one implant). Claims of USD100'000 costs per patient in line with the Swedish magazine article referred to above, it would result in costs of USD1.3bn, EUR1bn, c22% of market capitalisation. This assumption, after net cash deduction and debt financing, would reduce our earnings by c14% and 11%.

Based on current information it is difficult to assess the likelihood of any given scenario arising. At this stage we do not include the financial impact of any potential claims in our forecasts.

NobelDirect

Summary

Nobel's absolute share price performance year to date of 7% suggests, in our view that investors are concerned that the NobelDirect issue could result in a substantial slowdown in growth.

Nobel's share price performance of 7% reflect investors' worries

It has been our longstanding view that the share price reaction to concerns over Swedish bone loss concerns related to NobelDirect has been overdone (see our notes on 6 January 2006, 10 February 2006 and 11 August 2006). Discussions with opinion leaders and competitors had supported this view. We provided a scenario analysis in our January note investigating the financial impact for Nobel Biocare should NobelDirect be withdrawn. Based on UBS estimates the impact on earnings, including a potential client loss, should remain in the single digit range.

It has been our longstanding view that share price reaction has been overdone

However, to further understand the impact concerns relating NobelDirect could have on Nobel Biocare in its most important market, the US, we commissioned Rood Research, Inc., an independent market research company. Our goal was to better understand the perception of the company, its products and aspects of the competitive environment in the US. Included in the survey were two questions on Nobel Direct:

- Are you aware of the newsflow related to Nobel Direct?
- Have you ever experienced problems with Nobel Direct?

Of the 60 respondents participating in the survey, only one-third (20) were aware of the news on NobelDirect. Of those 20, more than half (11) said they had not been affected in their view of the product by the news. This outcome supports our longstanding view.

Only one-third of dentists participating in the survey were aware of news relating to NobelDirect

Questionnaire

Objectives

To get a feel for Nobel Biocare's long-term growth potential in the important US market we focussed the survey on the general perception of the global leader in the market, current practices and market growth.

Survey to check dentists' view of Nobel Biocare's perception in the important US market

The key objectives of the research were:

- Evaluation of current practices and preferences in dental implant technology
- To determine the use of Nobel Biocare and other implants
- To get feedback on the NobelDirect issue
- To get feedback on NobelGuide
- To get a feeling for expected growth rates for the dental implant market

Methodology and sample

The survey was conducted via the internet and consisted of 60 participants. Of the 60 dentists, 41 were periodontists and 19 were oral surgeons. All participants place at least 10 implants per months (with the average being 20 per month), use Nobel Biocare, and have been placing implants for at least two years (with the average being 15 years).

60 dentists, with an average of 20 years' experience, placing an average 20 implants a month

Overall, more than 190 periodontists and oral surgeons attempted the survey, yet only 31% qualified. Of the 69% who did not qualify:

2/3 terminated because they did not use Nobel Biocare – representing 45% of all participants (qualified and non-qualified).

1/3 terminated as they place less than 10 implants a month

Key findings – summary

- Nobel Biocare is known for high quality, but high prices
- NobelReplace Tapered is by far the most commonly used Nobel product
- The use of Nobel products is expected to increase throughout 2006
- Almost all respondents either have never experienced problems with NobelDirect or have not had enough experience with the product to comment
- 1/3 of respondents are aware of recent newsflow related to NobelDirect possibly causing excessive bone loss; of these, half now perceive NobelDirect less favourably
- NobelGuide is perceived to be a unique and impressive piece of technology, but with limited real-world applications and a potentially prohibitive cost. There is a high degree of familiarity with NobelGuide among this sample and most respondents familiar with it intend to use it
- Most respondents are familiar with Dr Niznick. He is recognised as an innovator who is responsible for advancing the field of implant dentistry.
- Most respondents estimate growth rates for the dental implant market over the next years at between 10% and 18% (UBSe 17% for 2007E).

High quality, but high price

Most dentists are familiar with Dr. Niznick

Our conclusion

The feedback from the independent research group, Rood Research Inc., is in-line with our take from discussions with opinion leaders and competitors and suggests that the NobelDirect issue does not have the same weighting in the dental community as it does in the financial markets, in our view. This supports our longstanding published view that share price reactions appear overdone.

NobelDirect does not appear to pose the same problem in the dental community as it does in the financial markets

Only c30% of dentists participating in the survey is aware of the newsflow, and only 5% have had problems with NobelDirect. Problems with osseointegration was one of three reasons cited. 93% of dentists say they will stay Nobel Biocare customers, and only 3% confirmed their intention to switch – due to sales rep problems, marketing to generalists, and product problems (not related to NobelDirect). The average number of Nobel implants placed over a 12-month period is expected to increase by 55%, while implants from other manufacturers are expected to remain flat. The main advantage of Nobel Biocare products cited is their high product quality.

In our view, the outcome of the independent market research group survey supports individual feedback from opinion leaders in the market that potential problems that could occur when placing NobelDirect could be in line with those that can be experienced with any other manufacturers' products. The findings support the SMPA's statement from February 2006 that there was no reason to take action against NobelDirect.

The survey supports individual feedback from opinion leaders

Nobel's 31 August report to the SMPA addresses all points of the expert's first report from July 19 on NobelDirect and offers a solid explanation for differences in bone loss measurement, in our view. The report that was sent to the SMPA at the end of August should offer a good base for constructive discussion with all parties involved.

On September 11 the expert panel released a second report to the SMPA, commenting on Nobel Biocare's report from August 31. Strong remarks were made regarding the product, Nobel's clinical studies and working climate, among other comments. The report concludes "NobelDirect cannot be regarded as a finished product, but a prototype, which should be used with caution under strictly controlled circumstances" (Reuters news, September 14). The report does not include any new data or clinical studies.

We expect a final decision from the SMPA in the next two months. A possible scenario could be an additional alteration of marketing material, in our view.

Final decision by the SMPA expected in the next two months

However, as discussed in our note (UBS note from 6 January 2006) a global product recall, would in our view result in 7% lower 2007 earnings, based on the assumption the company would lose accounts. Should the product be recalled in Sweden only, the impact on earnings is likely to be minimal, in our view.

Detailed findings of the survey

Question: What Nobel products are commonly used (select all products commonly used)?

Of all the products mentioned (multiple product mentioning was possible), NobelDirect accounted for 18% of total mentions. Interestingly, there was no great difference between the two sub-groups of oral surgeons and periodontists.

The most common product was NobelReplace Tapered, which accounted for 44% of mentions. Other products mentioned included: NobelReplace Straight and Branemark System®'s Groovy (both 11% of mentions), NobelPerfect (9%), Speedy (3%), Tapered Groovy (2%) and Branemark MK-III (1%).

NobelReplace Tapered – the most commonly used product

Question: What is the single most utilised Nobel product?

For 39 dentists (65% of the sample), NobelReplace Tapered was the single most utilised product. Again, the percentage was roughly the same for periodontists (63%) as for oral surgeons (68%).

For six dentists (10% of the sample), NobelDirect represented the single most utilised Nobel product, equally represented in both groups.

NobelDirect was the most important product for only 10% of respondents

Question: Have you ever experienced problems with NobelDirect?

Of the sample of 60 dentists:

Yes – three dentists, 5% of the sample

No – 29 dentists, 48% of the sample

Not enough experience of NobelDirect to comment – 28 dentists, 47% of sample

The problems mentioned by the three dentists regarding NobelDirect are roughly in line with the answers we were given in our private chats with dentists. Comments included:

Only 5% of respondents faced problems with NobelDirect;...

'The implants do not go in and I have to re-prepare the site.'

'The only problem was a failure to osseointegrate.'

'Occasional failures as with any system occur.'

...osseointegration was only one of three arguments

Question: Are you aware of recent newsflow relating to NobelDirect causing excessive bone loss?

Yes – 20 dentists

No – 40 dentists

The percentage of US dentists (more than 65% of the sample population) that were unaware of newsflow relating to NobelDirect is likely to be higher than in Europe, in our view. Most European dentists we spoke to had come across a press article on NobelDirect.

65% of dentists are not aware of NobelDirect newsflow

Reactions by c30% of dentists (20) who were aware of this newsflow were as follows:

'Recent newsflow has not changed my view on Nobel' (11 dentists, 55% of dentists aware of newsflow and 18% of overall sample population).

'I perceive Nobel somewhat less favourably now' (seven dentists, 35% of dentists aware of newsflow and c12% of total sample population).

'I perceive Nobel significantly less favourably now' (two dentists, 10% of dentists aware of situation and 3% of total sample population)

Question: Do you plan to switch from Nobel Biocare to another manufacturer in the next year?

Yes – nine dentists, 15% of sample population

No – 51 dentists, 85% of sample population

Concerned by the high proportion of dentists intending to switch from Nobel Biocare to another implant manufacturer, we conducted a follow-up investigation to determine the reasons for switching and ultimately, the potential impact on Nobel's sales growth.

Of the nine dentists that mentioned that they planned to switch from Nobel to another player, we managed to obtain further details from seven. Of the seven dentists, five do not intend to switch from Nobel to another player, but to explore other options or maintain their existing level of use of Nobel products (ie, not increase usage). Including these findings, 93% of dentists do not intend to switch from Nobel to another manufacturer.

93% of dentists do not intend to switch out of Nobel Biocare products

Cost was the main reason for using other products in addition to Nobel implants, but other reasons mentioned included not being satisfied with the sales representatives and excessive marketing to generalists.

One of the two periodontists who plans to switch is not happy with the sales representatives and service, and mentioned lack of attention. The other dentists mentioned problems when placing Nobel implants as a reason. He uses NobelReplace Tapered. Future potential implant systems for such dentists were Astra and ITI (Straumann).

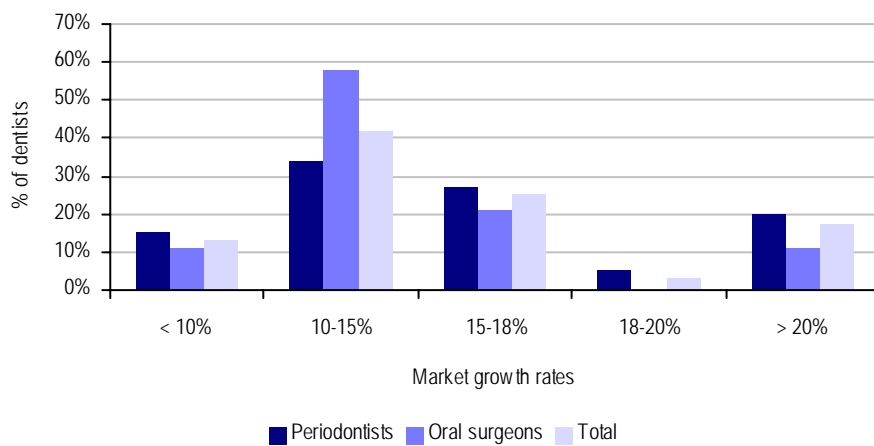
Reasons for switching – not happy with sales reps and service

Question: What do you think dental implant market growth will be for the next years?

More than 65% of dentists contributing to our questionnaire estimated dental implant market growth for 2007 at 10-18%, with more than 40% estimating market growth at 10-15%.

40% of dentists estimated market growth at 10-15%

Chart 2: Estimated market growth rate for the dental implant market over the next year



Source: Rood Research

Interestingly, there is a difference in the distribution of views on market growth between periodontists and oral surgeons. Available data suggests oral surgeons are more conservative regarding the likely growth rate for the next 12 months. Some 58% of oral surgeons estimate market growth at 10-15% and 21% at 15-18%. Only 11% estimate market growth to be more than 20%.

The distribution of market growth views by periodontists is wider, with only 34% of periodontists expecting market growth to be 10-15%, 27% expecting 15-18% and 20% expecting more than 20%

Our estimate for dental implant market growth in 2007 of 17% is more aggressive than the 10-15% estimated by the majority (42% of the total, 58% of oral surgeons).

Our estimate for market growth of 17% in 2007 is above stated growth expectations by respondents

Question: How many Nobel implants are you placing per month today compared with six months ago and how many do you expect to place six months from now?

According to Table 6, the average number of Nobel implants increased by 18% over the past six months and is expected to increase by a further 31% over the next six months. This implies a 12-month growth of 55% for the number of Nobel implants used.

Average number of Nobel implants should increase by 55% over the next 12 months

Looking at sub-group expectations, periodontists expected to increase their use of Nobel implants by 38% over 12 months and oral surgeons by 56%. Given the fact that the differences in market growth expectations and Nobel implant expectations seems substantial, we believe market growth rate expectations could be too conservative, unless there is a substantial drop in the use of products from other manufacturers.

Table 6: Number of Nobel dental implants placed per month

	Past six months	Now	In six months	12-month period
Periodontists	13	14	18	
% growth		8%	29%	38%
Oral surgeons	9	11	14	
% growth		22%	27%	56%
Total	11	13	17	
% growth		18%	31%	55%

Source: Rood Research

Question: How many implants from other manufacturers are you placing per month today compared with six months ago and how many do you expect to place six months from now?

Looking at Table 7, the average number of dental implants from other manufacturers is expected to remain the same over a 12-month period. An interesting fact is that oral surgeons plan to use fewer products from other manufacturers (-20%), while periodontists expect to increase the number by 29% over the next 12 months. This could suggest that oral surgeons plan to switch more into Nobel products, while periodontists overall expect to increase the number of implants placed.

On average, number of other implants expected to remain flat

Table 7: Use of dental implants from other manufacturers

	Previous six months	now	In six months	12-month period
Periodontists	7	8	9	
% growth		14%	13%	29%
Oral surgeons	10	9	8	
% growth		-10%	-11%	-20%
Total	8	8	8	
% growth		0%	0%	0%

Source: Rood Research

At an absolute level, the average number of dental implants from other manufacturers placed over 12 months is constant at eight, while the average number of Nobel Biocare dental implants should increase from 11 to 17 over 12 months (see Table 6).

Question: What are the most important characteristics of dental implants?

With close to 39%, osseointegration was listed as the most important characteristic, followed by ease of use (26%) and aesthetics (24.6%).

Osseointegration – the main characteristic, followed by ease-of-use and aesthetics

For periodontists, osseointegration was significantly more important than any other characteristic, at 41%, compared with ease of use, at 23%. Among oral surgeons, osseointegration and ease of use were equally important, both accounting for c33%.

Question: Have you always used Nobel Biocare?

Yes – 22 dentists, 37% of sample

No – 38 dentists, 63% of sample

Question: Why did you switch to Nobel Biocare?

The 38 dentists who have not always used Nobel Biocare products switched on average five years ago. The reasons for switching are listed in Table 8.

63% of dentists questioned switched on average five years ago to Nobel

Table 8: Reasons for switching to Nobel Biocare products

Reason	Periodontists	Oral surgeons	Total
High quality of Nobel products	35%	17%	29%
Request from referring dentists	15%	17%	16%
Greater variety of products offered by Nobel	8%	25%	13%
Superior reputation of Nobel	15%	0%	11%
Dissatisfaction with another company	12%	8%	11%
Better service from Nobel	4%	17%	8%
Other	12%	17%	13%

Source: Rood Research

The main reason for switching, accounting for 30% of dentists who switched, was Nobel's high product quality, followed by those answering that switching happened following requests from referring dentists (16%). The third reason cited for switching was greater product variety, accounting for 13% of all respondents.

Main reason for switching was product quality

The main reason for periodontists switching to Nobel Biocare products was product quality (35%) followed by those answering that switching happened following requests from referring dentists (10.5%). Among oral surgeons, the principal reason for switching was greater product variety, at 25%.

Question: What is the main advantage offered by Nobel Biocare?

For 45% of all dentists, the main advantage afforded by Nobel Biocare is the high quality of its products, with 47% of oral surgeons mentioning product quality and 44% of periodontists. Good reputation and familiarity each account for 13% of all mentions, although oral surgeons do not seem to care at all about reputation, given that it received zero mentions. For them, good service (21% of oral surgeons, 0% of periodontists and 7% of the total) is important.

Main advantage of Nobel Biocare products is high quality

Table 9: What is the main advantage offered by Nobel Biocare

Advantage	Periodontists	Oral surgeons	Total
High quality of products	44%	47%	45%
Good reputation	20%	0%	13%
Familiarity	12%	16%	13%
Innovative technology	10%	5%	8%
Good service	0%	21%	7%
Wide variety of products offered	5%	0%	3%
None	2%	5%	3%
Other	7%	5%	7%

Source: Rood Research

Question: What is the main disadvantage of Nobel Biocare products?

With 42 mentions, accounting for 70% of all dentists, high costs are Nobel Biocare's main disadvantage, followed by inadequate service, at 12%. Some 10% of respondents said there were no disadvantages with Nobel's products. Based on the data, pricing appears to be more of a problem for periodontists.

Main disadvantage of Nobel Biocare products is high pricing

Table 10: Main disadvantages relating to Nobel Biocare

Disadvantage	Periodontists	Oral surgeons	Total
High cost	76%	58%	70%
Insufficient service	7%	21%	12%
None	10%	11%	10%
Not enough education/training	5%	5%	5%
Other	2%	5%	3%

Source: Rood Research

Question: Are you familiar with NobelGuide?

Yes – 43 dentists, 72% of sample population

No – 17 dentists, 29% of sample population

Of the dentists familiar with NobelGuide, 77% are periodontists and 23% are oral surgeons. Some 79% of them (34 dentists) intend to use it, while 21% (9) will not.

72% of dentists are familiar with NobelGuide

Some 91% of the ones familiar with the product believe it will increase treatment costs while 9% believe it will have no impact.

91% intend to use NobelGuide

Table 11: Most frequently mentioned comments regarding NobelGuide

Comments	Periodontists	Oral surgeons	Total
It is an impressive/unique technology	25%	23%	24%
It is a good system/useful tool	28%	0%	20%
It has limited applications	19%	23%	20%
It has the potential to advance implant surgery	16%	0%	11%
It is expensive	3%	31%	11%
Its cost is 'prohibitive'	6%	8%	7%
There is a steep learning curve	3%	15%	7%

Source: Rood Research

Question. Are you familiar with Dr Niznik?

Yes – 48 dentists, 80% of sample population

No – 12 dentists, 10% of sample population

Conclusions from the survey

Conclusions 1. Nobel Direct

NobelDirect is the single most important product for only 10% of the sample population and so doesn't represent a key product for Nobel Biocare. Furthermore, close to 50% of dentists asked never experienced a problem with NobelDirect and c45% of dentists did not feel they had enough experience with the product to comment on it. Only 5% of dentists asked experienced problems with the product.

Only 5% of dentists experienced problems with NobelDirect

Bone loss, or a softer version of it, problems with osseointegration was one of three arguments while another argument referred to the usual troubles that can occur with any implant system. More so, 65% of dentists in our poll were not aware of any problems related to NobelDirect.

65% of respondents not aware of NobelDirect issue

While our sample group of 60 dentists still represents only a minor fraction of the overall dental society, we still believe that the criticism and feedback related to NobelDirect would have been stronger were bone loss a serious issue related to using the products.

Some 93% of dentists in our sample do not plan to switch from Nobel Biocare to another player, while 3% intend to change due to product issues (not related to NobelDirect) or sales/service issues. For a further 3% of dentists, we lack information on why and if they really intend to switch.

Based on our estimates, Nobel Biocare grows its share of new customers by more than 10% each year and should be able to continue doing so –even possibly accelerating this growth rate due to its collaborations with universities.

We estimate Nobel should grow its share of new accounts by more than 10% every year

Conclusions 2. Market & Nobel Biocare growth potential

Data suggests that growth rates for the dental implant market should exceed the 10-18% estimated by our sample group, as the average number of Nobel implants should increase by 55% over the next 12 months while the use of other implants should be flat. Furthermore, based on available data, we believe Nobel Biocare should continue to outgrow the market due to dentists switching to Nobel Biocare products from those of other manufacturers.

Data suggests that implant market growth should be above the estimated 10-18%

Conclusions 3. Perception in the market of Nobel Biocare

Data from the questionnaire suggests that NobelDirect does not seem to represent a material risk to Nobel Biocare. Market growth should remain healthy, in the high teens, and dentists might be switching into Nobel products, resulting in above market growth rates.

Conclusions 4. Key characteristics of dental implants

The most important characteristic of a dental implant remains osseointegration, at c39%. The two next most important characteristics are ease of use (26%) and aesthetics (24.6%).

Osseointegration remains the most important characteristic

Some 63% of dentists completing our questionnaire started with another implant brand and switched on average five years ago to Nobel. The two main reasons given were the high quality of the products (29%) and requests from referring dentists (16%).

Nobel's main product advantage is high quality (45% of mentions) and good reputation (13%). The main disadvantage is high cost with 70%.

Conclusions 5. Nobel Guide

More than 70 dentists are familiar with NobelGuide and more than 55% intend to use it.

Conclusions 6. Threat from Dr Niznick's implants

For a couple of years now, Dr Niznick has been widely reported in the press to be set to re-enter the market with his discount implants. While his company, Implant Direct, has been up and running since first quarter 2006, he is still awaiting FDA approval for the majority of his products. Initially expected in June 2006, FDA clearance is now expected come through in the third quarter, according to industry sources.

The impact of Implant Direct entering the market is difficult to assess. However, given his high profile among dentists, we expect a solid cash inflow.

To get a feeling for Implant Direct's potential market share, we included a question on Dr. Niznick's awareness among the dental community. Some 80% of dentists were familiar with Dr Niznick.

Some 80% of respondents were familiar with Dr Niznick. Given Dr. Niznick's awareness in the dental community, we believe Implant Direct should capture a mid-single-digit market share. Recognition for what he has achieved with Core-Vent and his reputation for being innovative should result in a small, but solid customer base. However, we do not expect Dr Niznick's presence in the market to hurt Nobel Biocare's solid growth rates.

Dr Niznick has been widely reported to be set to re-enter the market

Some 80% of respondents are familiar with Dr Niznick

Dr Niznick should be successful but not at the expense of Nobel Biocare, in our view

Marketing issues

We would make the following observations re Nobel Biocare's marketing strategy based on both our analysis and the results of the survey.

- Nobel's marketing and innovations are likely to have driven the acceleration in its market growth from 12-15% in early 2000 to an estimated 18% in 2006, in our view. The company increased awareness of its dental implants among generalists, triggering an increase in referral rates.
- Nobel's innovations are very much focused on making procedure easier and aesthetics – both important characteristics of a dental implant: according to our questionnaire, they received 26% and 24.6% of mentions, respectively.
- The dental implant market has not undergone a strong development phase since the mid 1960s, when the first implant was launched. Most companies have focused on further developing the implant surface to improve osseointegration and increase stability. The further development of implants into other dimensions only happened in the late 1990s/early 2000s.
- Nobel's comment that every generalist can place an implant refers, in our view, more to the fact that implants are state-of-the-art tooth replacements. Therefore, every generalist should be able to treat easy cases – not creating an artificial, inflated customer base. We feel comfortable with our view, given Nobel's efforts to enter into collaborations with universities to establish dental implant dentistry as part of the general syllabus.
- Change is uncomfortable. A change to the industry where more and more generalist place implants could, we believe, be uncomfortable for specialists and a potential reason for criticism.

In our view, a focus on innovation and increasing awareness is crucial for future growth in the dental implant market. While Nobel Biocare's marketing strategy can be questioned, we believe market growth rates would likely drop below 15% again if Nobel's efforts were to be stopped.

While we believe this would be of interest for some dental specialists and dental opinion leaders, we doubt any of the other dental implant manufacturers would really support Nobel's exit as they likely benefit from accelerating market growth rates. In addition, given that dental implants are medically superior to the traditional bridge treatment, it cannot be in the interest of patients to keep the number of dentists able to do the procedure low.

Nobel's marketing is likely to have been one of the drivers of the acceleration in market growth

Dental implant market has not undergone a strong development phase since the first implant was launched

Change is uncomfortable

Innovations and increasing awareness are likely crucial for growth in the dental implant market

Nobel's exit would not help anyone

UBS market model

Early in 2004, we launched the UBS dental implant market model (see *Attractive on a long-term perspective*, 30 January 2004).

UBS dental implant market model introduced in 2004

We derived an average annual market growth of c18% for 2000-05E, challenging the thus far stated 12-15%, and estimated market growth to be c18% in 2006 and 17% for 2007. While in early 2004, most dental implant players agreed with our market growth estimates, we believe the current consensus among manufacturers is for growth of 15-17% in 2006/07E.

We have revisited our market model to evaluate the potential changes to our basic assumptions. In our opinion, our derived market growth rates offer rather potential for upward revisions, depending very much on the level of improved awareness among dentists and patients.

Market growth estimates offer upside potential

Table 12: UBS market model for the dental implant market in USDm

	00E	01E	02E	03E	04E	05E	06E	07E	08E	09E	10E	11E	12E	13E	14E	15E	16E	17E	18E	19E	20E
Dental implant market in US\$m	0.7	0.8	0.9	1.1	1.3	1.5	1.8	2.1	2.4	2.8	3.2	3.5	3.8	4.2	4.6	4.9	5.4	5.8	6.2	6.6	7.1
UBS estimated market growth		13%	15%	18%	20%	20%	18%	17%	15%	15%	14%	10%	10%	9%	9%	7%	8%	8%	7%	7%	7%

Source: UBS estimates

One major long-term market driver could stem from Nobel Biocare's collaborations with universities, through which the company helps universities establish implant education programmes for undergraduates. The intention is that every student graduating as a dentist has the education and skill set to perform implant dentistry. Consequently, more and more generalists could handle the easy implant procedures while the complicated cases would still require specialist skills, so easing, if not solving, the bottleneck of dentists performing this procedure.

Long-term growth should be supported by Nobel's collaborations with universities

Table 13 details some of Nobel's collaborations. In addition to these highlighted cases, Nobel has agreements with a number of North American universities. They include: Louisiana State University, Case Western University, the University of Pennsylvania, University of Illinois, Medical College of Georgia and University of Ontario in Canada (details of these agreements are not available).

To illustrate the potential impact on market growth, we do some easy calculations:

New York University College of Dentistry: Some 235-250 students graduated in 2005, according to the university secretary. Assuming that about 70% of graduates would start to place implants that equates to c150 students. Placing

an average 10 implants a month would eventually result in US\$6.3 million of revenues for the dental implant market (implant price US\$350).

The latter compares with an average of a potential c40-50 graduates starting dental implant dentistry a couple of years after graduation, assuming implant dentistry is not part of the university curriculum. Thus, the incremental value of the educational efforts should be seen in the form of accelerated development and potential incremental revenues of cUS\$4.5 million.

Potential incremental revenues are USD4.5 million

While the incrementally revenues generated represent less than 1% of the total value of the global implant market, the example represents only one graduation year of one university and should be taken as a reference to potential long-term market growth.

Table 13: Nobel Biocare collaborations with universities – a few examples

University	No of students graduating, 2005	Agreement made	Comment
New York University College of Dentistry	235-250	November 2005	Nobel working with the university to incorporate dental implant therapy and aesthetic dentistry curriculum into all four years of NYU pre-doctoral education programme. Donation of US\$5 million over five years
University of Toronto (Faculty of Dentistry)	NA	November 2005 (had previous strategic relationship)	Grant of US\$2 million to establish Nobel Biocare Chair in Prosthodontics, to advance research in the relationship between prothodontics and implantology
University of Sydney (Faculty of Dentistry)	NA	August 2006	Nobel establishing the Nobel Biocare Chair of Oral Rehabilitation and will fund (€1.7m over five years) the Nobel Biocare Centre of Excellence in Oral Rehabilitation
University of Maryland Dental School	NA	April 2006	Three-year partnership to position the school as a leader for students, and grant of US\$2 million
University of British Columbia	NA	March 2006	Grant of C\$5 million over five years to the university to establish the Nobel Biocare Oral Health Centre, promoting the study of implants and prosthetics
UCLA School of Dentistry	NA	September 2006	Donation of US\$2.5 million to the UCLA School of Dentistry, California, to create an endowed chair in surgical implant dentistry

Source: Nobel Biocare, UBS estimates

Nobel's collaborations typically include education on full tooth replacement using implants, and Procera abutments and crowns. In all collaborations, only Nobel implants are used at the undergraduate level and later students are trained on all implants. From past experience, dentists only switch supplier if they have a substantially better offer with regards to product quality, product portfolio and service. Looking at the current market environment, we believe there is no player offering a better mix of the three than Nobel Biocare. Therefore, we believe that the majority of graduates that started with using Nobel Biocare products are likely to turn into long-term customers.

Students are educated on full tooth replacement

■ Nobel Biocare AG

Nobel Biocare is the leader in the global dental implant market, with a global market share of c30%. With its brands Brånemark System and Replace, the company offers a complete range of dental implants for different segments of the market. It also offers a unique technology that automates the production of dental ceramic copings for crowns and bridges through its Procera product line. This business also gives the group access to the conventional dental prosthetics market segment, which is a major segment of the overall dental market, ie dental laboratories and general practitioners.

■ Statement of Risk

We detail risks on page 14 of the note.

■ Analyst Certification

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UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 6% above the MRA, higher degree of predictability	Buy 2	FSR is > 6% above the MRA, lower degree of predictability	Buy	48%	34%
Neutral 1	FSR is between -6% and 6% of the MRA, higher degree of predictability	Neutral 2	FSR is between -6% and 6% of the MRA, lower degree of predictability	Hold/Neutral	45%	35%
Reduce 1	FSR is > 6% below the MRA, higher degree of predictability	Reduce 2	FSR is > 6% below the MRA, lower degree of predictability	Sell	7%	32%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 June 2006.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Companies mentioned

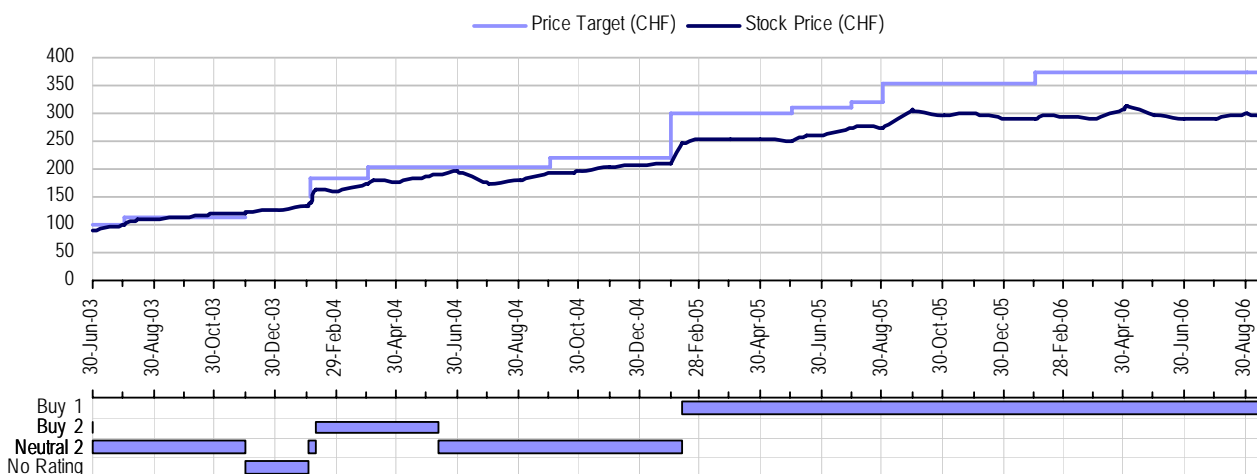
Company Name	Reuters	Rating	Price	Price date/time
Nobel Biocare AG ^{4,5,8}	NOBE.VX	Buy 2	CHF291.00	19 Sep 2006 23:37 BST
Straumann ^{4,5,13}	STMN.S	Buy 1	CHF255.00	19 Sep 2006 23:37 BST

Source: UBS. BST: British summer time.

- 4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
- 5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
- 8. The equity analyst covering this company, a member of his or her team, or one of their household members has a long common stock position in this company.
- 13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company`s common equity securities as of last month`s end (or the prior month`s end if this report is dated less than 10 days after the most recent month`s end).

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Nobel Biocare AG (CHF)



Source: UBS; as of 19 September 2006.

Note: On September 9, 2006, UBS adopted new percentage band criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details). Between October 13, 2003 and September 9, 2006 the percentage band criteria used in the rating system was 10%. Prior to October 13, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential >15%, smaller range around price target; Buy 2: Excess return potential >15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Excess return is defined as the difference between the FSR and the one-year local market interest rate.

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Nobel Biocare AG

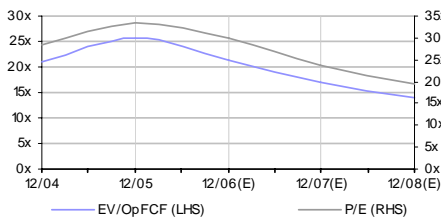
Income statement (€m)	12/01	12/02	12/03	12/04	12/05	12/06E	% ch	12/07E	% ch	12/08E	% ch
Revenue	288	311	334	388	484	608	25.5	732	20.3	880	20.3
Operating expenses (ex deprecn)	(226)	(219)	(227)	(250)	(309)	(384)	24.0	(458)	19.3	(547)	19.5
EBITDA (UBS)	63	92	107	138	175	224	28.2	274	21.9	333	21.6
Depreciation	(9)	(11)	(11)	(11)	(11)	(17)	60.8	(20)	20.3	(25)	20.3
Operating income (EBIT, UBS)	53	81	97	127	164	207	26.1	253	22.1	308	21.7
Other income and associates	(7)	(11)	(9)	(9)	(2)	0		0		0	
Net interest	(3)	(2)	4	1	(5)	(7)	53.3	(3)	-56.5	0	
Abnormal items (pre-tax)	(7)	(7)	0	0	31	4	-87.3	0		0	
Profit before tax	36	61	91	119	188	204	8.5	250	22.4	308	23.2
Tax	(16)	(23)	(19)	(24)	(34)	(45)	33.1	(55)	22.4	(68)	23.2
Profit after tax	20	38	73	95	155	159	3.1	195	22.4	240	23.2
Abnormal items (post-tax)	(0)	0	0	0	0	0		0		0	
Minorities / pref dividends	0	(0)	(1)	(1)	0	0		0		0	
Net income (local GAAP)	20	38	72	95	155	159	3.1	195	22.4	240	23.2
Net income (UBS)	34	56	81	103	132	156	18.1	195	25.5	240	23.2
Tax rate (%)	44	37	20	20	18	22	22.7	22	0.0	22	0.0
Pre-abnormal tax rate (%)	32	29	18	19	18	22	26.9	22	-1.9	22	0.0
Per share (€)	12/01	12/02	12/03	12/04	12/05	12/06E	% ch	12/07E	% ch	12/08E	% ch
EPS (local GAAP)	0.80	1.49	2.84	3.74	6.10	6.29	3.1	7.70	22.4	9.48	23.2
EPS (UBS)	1.36	2.19	3.21	4.08	5.20	6.14	18.1	7.70	25.5	9.48	23.2
Net DPS	0.21	0.35	0.85	1.03	1.12	1.43	27.9	1.63	13.6	1.82	12.0
Cash EPS	1.73	2.63	3.63	4.53	5.62	6.81	21.3	8.51	24.9	10.46	22.9
BVPS	8.07	8.39	11.02	13.87	11.90	14.91	25.3	19.96	33.8	25.95	30.0
Balance sheet (€m)	12/01	12/02	12/03	12/04	12/05	12/06E	% ch	12/07E	% ch	12/08E	% ch
Net tangible fixed assets	30	27	25	34	43	51	18.6	55	8.9	56	0.6
Net intangible fixed assets	169	145	125	123	123	123	0.0	123	0.0	123	0.0
Net working capital	44	46	56	48	59	73	23.2	88	20.3	106	20.3
Other liabilities	(2)	(12)	(23)	(34)	(43)	0		0		(14)	
Operating invested capital	241	206	184	171	182	247	35.3	266	7.8	270	1.6
Investments / other assets	16	10	13	16	15	15	0.0	15	0.0	15	0.0
Total capital employed	257	216	197	186	197	261	32.6	281	7.4	285	1.5
Shareholders' equity	204	213	281	357	309	384	24.2	514	33.8	668	30.0
Minority interests	0	2	3	1	0	0		0		0	
Total equity	204	215	283	358	309	384	24.2	514	33.8	668	30.0
Net debt/(cash)	31	(21)	(109)	(194)	(128)	(139)	8.2	(249)	79.5	(399)	60.1
Debt deemed provisions	22	23	22	22	17	17	0.0	17	0.0	17	0.0
Total capital employed	257	216	197	186	197	261	32.6	281	7.4	285	1.5
Cash flow (€m)	12/01	12/02	12/03	12/04	12/05	12/06E	% ch	12/07E	% ch	12/08E	% ch
Operating income (EBIT, UBS)	53	81	97	127	164	207	26.1	253	22.1	308	21.7
Depreciation	9	11	11	11	11	17	60.8	20	20.3	25	20.3
Net change in working capital	16	(2)	(10)	(3)	(11)	(14)	25.0	(15)	7.6	(18)	20.3
Other (operating)	31	29	13	10	(3)	(2)	-34.5	(1)	-52.6	(1)	0.0
Operating cash flow	110	119	110	145	161	209	29.5	258	23.5	314	21.7
Net interest received / (paid)	(3)	(2)	4	1	(5)	(7)	53.3	(3)	-56.5	0	
Dividends paid	(7)	(8)	(13)	(22)	(44)	(57)	30.2	(65)	14.1	(73)	12.0
Tax paid	(16)	(23)	(19)	(24)	(34)	(45)	33.1	(55)	22.4	(68)	23.2
Capital expenditure	(11)	(14)	(14)	(33)	(16)	(25)	56.2	(25)	0.0	(25)	0.0
Net acquisitions / disposals	(38)	0	0	0	4	0		0		0	
Other	(284)	(2)	(29)	(28)	(125)	(66)	-47.0	(0)	-100.0	(0)	42.9
Share issues	0	1	20	0	0	0		0		0	
Cash flow (inc)/dec in net debt	(249)	71	60	40	(58)	9		110	117.8	148	35.1
FX / non cash items	264	(19)	27	46	(8)	2		1	-52.6	2	111.1
Balance sheet (inc)/dec in net debt	15	52	87	86	(66)	10		110	95.9	150	35.7
Core EBITDA	63	92	107	138	175	224	28.2	274	21.9	333	21.6
Maintenance capital expenditure	(5)	(5)	(5)	(5)	(5)	(5)	0.0	(5)	0.0	(5)	0.0
Maintenance net working capital	(1)	(1)	(1)	(2)	(2)	(2)	-0.1	(2)	0.0	(2)	0.0
Operating free cash flow, pre-tax	57	86	101	132	169	218	29.3	267	22.6	326	22.1

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

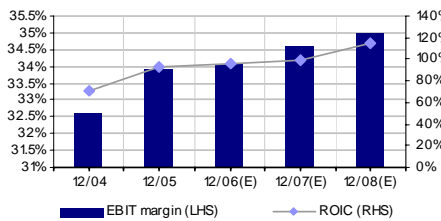
Company profile

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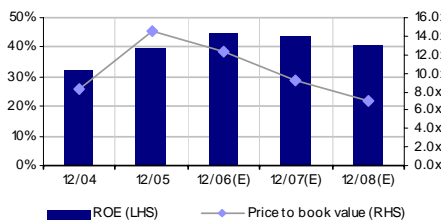
Value (EV/OpFCF & P/E)



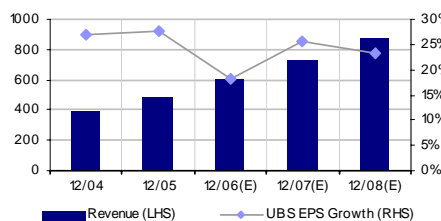
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	12/04	12/05	12/06E	12/07E	12/08E
P/E (local GAAP)	36.4	31.0	28.4	29.1	23.8	19.3
P/E (UBS)	27.1	28.4	33.3	29.9	23.8	19.3
P/CEPS	22.2	25.6	30.8	26.9	21.5	17.5
Net dividend yield (%)	0.8	0.9	0.6	0.8	0.9	1.0
P/BV	5.8	8.4	14.5	12.3	9.2	7.1
EV/revenue (core)	4.7	7.1	8.9	7.6	6.3	5.2
EV/EBITDA (core)	16.6	20.0	24.7	20.7	16.7	13.8
EV/EBIT (core)	18.7	21.8	26.3	22.4	18.1	14.9
EV/OpFCF (core)	17.8	20.9	25.6	21.3	17.1	14.0
EV/op. invested capital	7.1	NM	NM	NM	NM	NM

Enterprise value (€m)	12/04	12/05	12/06E	12/07E	12/08E
Average market cap	2,952	4,452	4,773	4,773	4,773
+ minority interests	5	0	0	0	0
+ average net debt (cash)	(194)	(128)	(134)	(194)	(194)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	0
Core enterprise value	2,763	4,324	4,639	4,579	4,579

Growth (%)	5Yr Avg	12/04	12/05	12/06E	12/07E	12/08E
Revenue	11.7	16.3	24.7	25.5	20.3	20.3
EBITDA (UBS)	31.6	28.8	26.8	28.2	21.9	21.6
EBIT (UBS)	34.5	31.3	29.8	26.1	22.1	21.7
EPS (UBS)	49.9	27.0	27.5	18.1	25.5	23.2
Cash EPS	42.4	24.6	24.1	21.3	24.9	22.9
DPS Net	49.1	21.5	8.9	27.9	13.6	12.0
BVPS	15.5	25.9	-14.2	25.3	33.8	30.0

Margins (%)	5Yr Avg	12/04	12/05	12/06E	12/07E	12/08E
EBITDA / revenue	27.5	35.5	36.1	36.9	37.4	37.8
EBIT / revenue	24.3	32.6	33.9	34.1	34.6	35.0
Net profit (UBS) / revenue	17.8	26.6	27.2	25.6	26.7	27.3

Return on capital (%)	5Yr Avg	12/04	12/05	12/06E	12/07E	12/08E
EBIT ROIC (UBS)	38.4	71.4	NM	NM	NM	NM
ROIC post tax	-	58.0	NM	75.0	NM	NM
Net ROE	23.9	32.4	39.5	44.9	43.5	40.7

Coverage ratios (x)	5Yr Avg	12/04	12/05	12/06E	12/07E	12/08E
EBIT / net interest	-	-	NM	NM	NM	-
Dividend cover (UBS EPS)	4.9	4.0	4.6	4.3	4.7	5.2
Div. payout ratio (% UBS EPS)	21.7	25.2	21.5	23.3	21.1	19.2
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	12/04	12/05	12/06E	12/07E	12/08E
Revenue / op. invested capital	0.2	2.2	2.7	2.8	2.9	3.3
Revenue / fixed assets	0.2	2.5	3.0	3.6	4.2	4.9
Revenue / net working capital	0.2	7.4	9.0	9.2	9.1	9.1

Investment ratios (x)	5Yr Avg	12/04	12/05	12/06E	12/07E	12/08E
OpFCF / EBIT	1.0	1.0	1.0	1.1	1.1	1.1
Capex / revenue (%)	NM	8.5	3.3	4.1	3.4	2.8
Capex / depreciation	1.7	2.9	1.5	1.5	1.2	1.0

Capital structure (%)	5Yr Avg	12/04	12/05	12/06E	12/07E	12/08E
Net debt / total equity	-19.8	-54.4	-41.6	-36.2	-48.6	-59.8
Net debt / (net debt + equity)	-24.7	NM	-71.1	-56.7	-94.4	NM
Net debt (core) / EV	-3.3	-7.0	-3.0	-2.9	-4.2	-4.2

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptional items and other special items. Valuations: based on an average share price that year, (E): based on a share price of CHF291.00 on 19 Sep 2006 23:37 BST. Market cap (E) may include forecast share issues/buybacks.

Maja S Pataki

Analyst
maja-s.pataki@ubs.com
+41 1 239 1365

Martin Wales, PhD

Analyst
martin.wales@ubs.com
+44-20-7568 8428

Amie Gramlick

Associate Analyst
amie.gramlick@ubs.com
+44-20-7568 1284