

Niznick Announces New Dental Implant Portfolio



Niznick's First Public Showing of New Implant Portfolio

On 26 January 2006, Dr. Niznick announced his new dental implant system that will be sold under his recently established dental implant company, Implant Direct. His press release also confirms that he has won the binding arbitration with Zimmer, which has allowed him to re-enter the dental implant market following the expiry of his non-compete clause on 8 January 2006. With the regulatory submission almost complete, we estimate Implant Direct will be in a position to start selling its product portfolio in 2H CY06.

Nobel Biocare - Offering Compatible Implants

Implant Direct is launching the RePlant dental implant system at a 60% discount, which offers prosthetic compatibility with one of Nobel Biocare's (NOBE) best selling products, the Replace Tapered implant. We are somewhat surprised to see RePlant duplicate NOBE's unique internal tri-lobe connection, which was previously regarded as having strong patent protection. Effectively a break-down of this proprietary connection has the potential to negatively affect 1/3rd of NOBE's value chain as it gives customers for the first time the choice of a more cost effective abutment. Interestingly, the RePlant system has also replicated the body taper of Replace, which allows for surgical compatibility with the Swedish based company's drills and surgical instruments and thereby, substantially, reduces switching cost for current NOBE users.

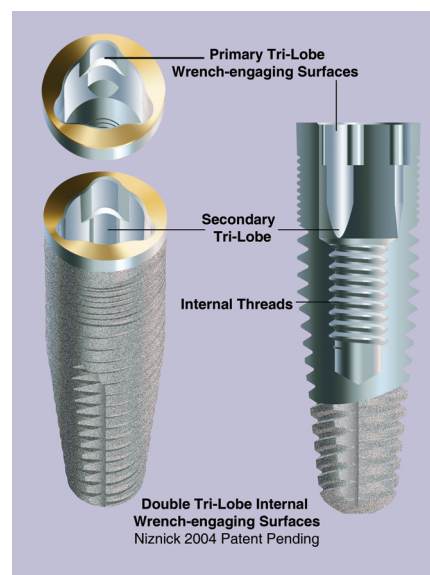
Straumann – Offering Alternative Implants

Implant Direct's product portfolio suggests it is not directly targeting Straumann (STMN), but rather offering customers a 70% cheaper alternative with the Spectra System, making it on a relative basis a less risky proposition to NOBE.

Investment Conclusion

With the emergence of discount dental implant companies not being new, we suspect Implant Direct is unlikely to have a material impact on the growth outlook for the dental implant market. Nevertheless, with a unique internet based business model that allows for unprecedented low dental implant prices, supported by Dr. Niznick's strong reputation, we believe the prudent investor should continue to monitor NOBE, STMN's and Zimmer's quarterly growth rates (particularly in the U.S.) to gain further comfort on our thesis. While we continue to see positive returns at Nobel Biocare and Straumann over the longer-term, we feel the current FY06E P/E valuation range of 28-31x does not allow for any material uncertainties. As such we retain our 'Neutral' stance on Nobel Biocare as we are unable to form a conclusive opinion on the claims surrounding Nobel Direct; we also retain our 'Neutral' stance on Straumann.

Niznick's Internal Connection is Compatible with Nobel Biocare's Replace Dental Implant.



Niznick Announces Product Portfolio

On 26 January 2006, Dr. Niznick announced his new dental implant system that will be sold under his recently established dental implant company, Implant Direct. His press release also confirms that he has won the binding arbitration with Zimmer, which has allowed him to re-enter the dental implant market following the expiry of his non-compete clause on 8 January 2006.

Arbitration Result – Allowed To Re-enter Market

In February 2005, Zimmer Dental instituted a binding arbitration, seeking to extend Dr. Niznick's non-compete period by 18 months. This was based on the contention that any preparation to compete by Dr. Niznick, prior to the expiration of the restrictive period on 8 January 2006, was a violation of the Asset Purchase Agreement between Zimmer and Dr. Niznick. According to Dr. Niznick's press release, the arbitrator's decision resolved this dispute regarding the non-compete violation, in his favor:

"Niznick will also be free to compete with Zimmer after January 9, 2006, through lawful advertising that compares his products or services with those of other implant manufacturers, including Zimmer."

Table 1: Price Comparison - Implant Direct RePlant™ vs. Nobel Replace®

	ImplantDirect	Nobel Biocare	
US\$	RePlant	RePlace Tapered	Discount
Implant	\$150	\$384	-61%
Abutment	\$75	\$182	-59%
Total	\$225	\$566	-60%

Source: Implant Direct. Note implant prices include cover screw

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.

Implant Direct's Strategy

As highlighted in our previous research, Niznick's strategy for re-entering the dental implant market is based on cost leadership. Specifically, Implant Direct's mission statement is:

"To provide experienced implant dentists with online access to purchase application-specific implants and prosthetics, delivering high quality, innovative products at factory-direct prices."

Unlike other discount dental implant companies, Niznick is trying to differentiate himself through industry leading dental implant prices by eliminating the industry's traditionally costly sales and marketing expenses. Table 1 provides an overview of the cost structure of Nobel and Straumann, which indicates that 48-54% of total costs relate to Sales & Marketing compared with 26-29% for COGS and 5-9% for Research & Development.

Clearly these cost savings can only be passed on if dentists/surgeons are willing to purchase dental implants over the Internet and are willing to accept little by way of customer service. At this stage, we continue to believe that an Internet only approach will equate to a niche opportunity over the intermediate term and should not have a material impact on how the industry does business. Furthermore, we believe such an approach will only attract more experienced users, as they typically require no education or training, compared to customers who have only recently moved into performing dental implant procedures.

Table 2 : Cost Structure of Nobel Biocare and Straumann (FY04A)

Description	Nobel Biocare		Straumann	
	EURm	Share	CHFm	Share
COGS	79.1	29%	77.9	26%
Selling	131.5	48%	159.0	54%
Administration	47.5	17%	34.4	12%
R & D	13.7	6%	25.3	8%
Total	272.0	100%	296.5	100%

Implant Direct - Product Portfolio

Implant Direct's product portfolio includes solutions for current users of Zimmer Dental, Nobel Biocare and Straumann. Before going into some of the specific details of Implant Direct products, we highlight some of the key characteristics such as surface treatment and thread design, which incorporate features covered by 7 new patent applications filed by Dr. Niznick.

Implant Surface – Soluble Blast Media

The Implant Direct implant portfolio incorporates a medium roughened textured surface by blasting with a blast media of biocompatible tri-calcium phosphate particles that are soluble and easily removed. This soluble blast media surface is also found on the implants of Zimmer, BioHorizons and Lifecore Biomedical.

Thread Design – Includes Mini Threads

Each of the implants from Implant Direct comes with a new thread design of 'mini-threads' (Niznick has a patent pending), which are a combination of double and quadruple-lead threads. It appears that there is no clinical data on this design yet, but it should be noted that micro-threads have been popularized by AstraTech's implant design to reduce the stress from biting forces in the crestal area that can contribute to bone loss.

Zimmer Compatible Implants (Spectra-System)

The Spectra-System line includes six application-specific implants (ScrewPlant, ScrewPlus, ScrewIndirect, Legacy, ScrewDirect and ScrewRedirect) designed to be inserted using Zimmer's dental drills and surgical instruments for the Zimmer's Tapered Screw-Vent implant, thereby reducing switching cost for the dentist. Nevertheless, Implant Direct will also sell a complete line of surgical instruments for the Spectra-System.

Spectra-System

As part of the Spectra-System, Implant Direct is expected to introduce Legacy, which includes the internal hex and bevel platform that was first introduced by Niznick in 1986 and still used with Zimmer Dental's best selling Screw-Vent implants; however this implant will not be sold in the U.S. until October 2007. Other dental implants include ScrewPlus, which is a one-stage implant (the industry trend continues towards one-stage as it only requires one surgery rather than two), while ScrewPlant caters to two-stage implant users. In addition, Implant Direct will also be offering a one-piece implant called ScrewReDirect, which offers a 12 degree angled head with a scalloped margin, which is positioned for immediate load clinical applications in the maxillary anterior esthetic area. It is our view that this implant targets Nobel Biocare's recently introduced and premium priced Nobel Perfect implant. Finally, there are also the ScrewDirect and ScrewIndirect which are one-piece implants... (the latter) being for edentulous jaws, providing an abutment head that can be used with screw retained prosthesis. We feel the (ScrewDirect) implant is targeted at the same audience as Nobel Biocare's NobelDirect implant, which is currently being accused by Sweden's University of Gothenburg for excessive bone loss.

Table 3: Price Comparison - Spectra-System vs. Other Systems

Implant	ScrewPlus	Straumann ITI	Discount
Price	U.S. \$150	U.S. \$521	-71%
Implant	ScrewPlant	Zimmer (Screw-Vent)	Discount
Price	U.S. \$150	U.S. \$512	-71%
Implant	ScrewDirect 3mm	NobelDirect 3mm	Discount
Price	U.S. \$150	U.S. \$450	-67%

Source: Implant Direct - U.S. List Prices including cover screw

ScrewPlus, which is targeting Straumann's ITI tapered implant, will be selling in the U.S for US\$150 and represents a ~70% discount to the official list price; we suspect that with most medical device companies, the price charged is below list price and as such the discount is likely to be less. The implant price highlighted for Straumann includes the implant (US\$305), the cover screw (US\$34.50), the healing cap (US\$48), a straight abutment (US\$129) and the protective cap (US\$7.50), which totals US \$521. ScrewPlant, which is targeting Zimmer's Screw-Vent implant, will also be selling in the U.S., but for US \$150 and represents a ~70% discount to the official list price. Finally, ScrewDirect, which is targeting NobelDirect will also sell for a ~70% discount.

Nobel Biocare Compatible Implants from Implant Direct (RePlant)

In addition to Spectra-System, Implant Direct is also launching the RePlant System, which offers prosthetic compatibility with one of Nobel Biocare's best selling products, the Replace Tapered implant. RePlant System ...includes the same color coded platform for matching the correct color coded NOBE abutment.

Internal Connection – Has the Replace Patent Been Cracked?

We are somewhat surprised to see RePlant duplicate Nobel Biocare's unique internal tri-lobe connection, which was previously regarded as having strong patent protection. Effectively, a break-down of this proprietary connection has the potential to negatively affect 1/3rd of NOBE's value chain (i.e. dental implant is 2/3rd while the abutment is 1/3rd) as it gives customers for the first time the choice of using a more cost effective abutment.

Reduced Switching Cost – Compatible Surgical Instruments

Interestingly, the RePlant implant has replicated the body taper of Nobel Biocare's Replace implant, which allows for surgical compatibility with the Swedish company's drills and surgical instruments. This in our view substantially reduces the switching cost for current Nobel Biocare users, as there is no need to buy an expensive surgical kit, which can typically retail for between US\$1,000-2,000. Clearly, one of the key success factors on whether RePlant implant will pose a risk for Nobel Biocare, depends on just how compatible their surgical kits are with the new Implant Direct offering; this level of compatibility is particularly important as Implant Direct has no intention to manufacture their own surgical instruments for RePlant. We suspect anything less than a perfect fit will be unacceptable to the dentist/surgeon.

Price Comparison – RePlant vs. Replace Select Tapered

Based on official U.S. list prices it appears that Implant Direct's RePlant will sell at a 60% discount compared to Nobel Biocare's Replace Select Tapered system, which includes the implant, abutment and cover screw.

Investment Conclusion

Provided below is our investment conclusion on the financial impact of Implant Direct's price leadership strategy on the premium dental implant companies (primarily Nobel Biocare and Straumann), following the first public showing of its new dental implant range on 24 January 2006.

Implant Direct's Price Leadership Strategy

With the emergence of discount dental implant companies not being new (we suspect there are well over 100 operating worldwide), we suspect Implant Direct is unlikely to have a material impact on the growth outlook for the dental implant market. Nevertheless, with a unique internet based business model that allows for unprecedented low dental implant prices, supported by Dr. Niznick's strong reputation (particularly in the U.S.), we believe it would be wrong for investors to become complacent and ignore the additional competition.

Nobel Biocare – Prices 70% Lower

Implant Direct appears to be aggressively targeting one of Nobel Biocare's top selling implant systems, Replace Select Tapered, by adopting its unique internal tri-lobe connection as well as making it compatible with the existing company's surgical tools, thereby reducing switching cost for the dentist; without offering its own surgical kits, this effectively means Implant Direct is only targeting existing high volume users. Despite this, we believe Nobel Biocare's strong reputation and customer service, clinical data and focus on education and training, will probably allow it to stem off any material impact from Implant Direct.

Straumann – Prices 70% Lower

Based on Implant Direct's product portfolio, it appears Dr. Niznick is not directly targeting Straumann's product portfolio, but rather offering customers a cheaper alternative with its Spectra System; this on a relative basis makes the company a less risky proposition compared to Nobel Biocare. Similarly to Nobel Biocare, we believe Straumann's strong reputation for clinical research, education and training will probably make it tough for Implant Direct to win a material number of customers from the Swiss based company.

Long-term Outlook - Unchanged

Over the long-term we continue to believe that the dental implant market can comfortably grow in the mid-teens and continue to view the dental implant market as the most exciting growth area in European MedTech. Nevertheless, everything has its price and we feel that the strong investor interest in dental implants over the years has rightfully pushed up valuations sharply for Nobel Biocare and Straumann. While we continue to see positive returns of the aforementioned companies over the long-term, we feel the current FY06E P/E valuation range of 28-31x does not allow for any material uncertainties. As such we retain our 'Neutral' stance on Nobel Biocare (NBCHF, CHF287.O B-2-7) on the basis that we are not yet able to form a conclusive opinion on whether the claims by Gothenburg University suggesting excessive bone loss from NobelDirect will result in the eventual withdrawal of the product. We also retain our 'Neutral' stance on Straumann (SAUHF, CHF291.5, B-2-7) on the basis that the company will find it difficult to show the level of margin expansion in FY06E that investors have become accustomed to over the years (as a result of the strong capital expenditure cycle in the U.S. and the roll-out of SLActive) and strong market expectations of an acceleration in organic local currency sales growth to +18% in FY06E.