

Recommendation:

BUY (-)

Risk:

MEDIUM (-)

Price Target:

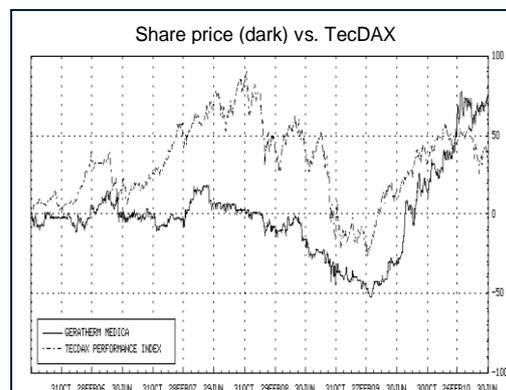
EUR 10.20 (-)

05 July 2010

On the way to an international med-tech company

Greater focus on Cardio/Stroke and Respiratory business

- Geratherm is an internationally operating medical technology company that develops, produces and markets medical products with a focus on Cardio/Stroke, Temperature Management and Respiratory. The company's main growth dynamic is presently related to the Temperature Management division which was mostly propelled by EU's ban on mercury that took effect in April 2009 and led to a rapidly increased demand for Geratherm's clinical glass thermometers, which contain a liquid metal alloy instead of toxic mercury.
- However, the company's medium and long-term strategy implies more focus on Cardio/Stroke and Respiratory division and hence growth acceleration in these two areas, which should reduce dependence on current core business and leverage additional sales and earnings potential.
- In FY 2009 total sales reached EUR 15.05m (PY: EUR 10.34m). An above average increase in revenues of ~43% in 2009, which was the result of the EU's ban on mercury that took effect in April of 2009, demonstrated the company's management capability of quickly reacting on governmental regulations. Geratherm's EBIT-margin jumped from 5.8% in 2008 to 14.9% in 2009. The sharp increase in the EBIT-margin shows the profit potential inherent in Geratherm's business model.
- Main growth drivers for Geratherm are on the one hand the EU's ban on mercury and a probable worldwide extension of the ban that are expected to fuel revenues in the core business of the company. Whereas the ban on mercury will fuel for short- to mid- term growth, the Respiratory and Cardio/Stroke business units will ramp up simultaneously but influence growth rate mid- to long-term.
- We applied a multiple valuation based on a peer group and a discounted cash flow model to derive the company's fair value. Weighting both valuation models equally with 50% we derive a final fair value of EUR 10.18 per share. We set a price target of EUR 10.20 per share and initiate our coverage with BUY recommendation.



Source: CBS Research AG, Bloomberg

Change	2010E		2011E		2012E	
	new	old	new	old	new	old
Sales	18.5	-	23.4	-	29.2	-
EBIT	3.1	-	3.7	-	4.6	-
EPS	0.7	-	0.9	-	1.0	-

www.geratherm.com

Sector: Medical devices

WKN: 549562

ISIN: DE0005495626

Reuters: GMEG.DE

Bloomberg: GME GY

Short company profile

Geratherm is an internationally operating medical technology company.

Share data:

Share price (last closing price):	EUR 8.50
Shares outstanding (m):	4.95
Market capitalisation (EURm):	42.07
Enterprise value (EURm):	28.83
Ø daily trading volume (3 m., no. of shares):	5,566

Performance data:

High 52 weeks (EUR):	EUR 9.40
Low 52 weeks (EUR):	EUR 3.50
Absolute performance (12 months):	137.4%
Relative performance: (vs. TecDAX)	
1 month	-1.7%
3 months	7.0%
6 months	36.4%
12 months	101.5%

Shareholders:

GMF Beteiligungs-beratung GmbH	52.0%
Freefloat	48.0%

Financial calendar:

2Q Results	19 August 2010
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Key data

Y/E 31.12., EUR m	2008	2009	2010E	2011E	2012E
Total sales	10.3	15.0	19.3	24.4	30.5
Gross profit	6.1	8.7	11.3	14.3	17.9
EBIT	0.6	2.2	3.1	3.7	4.6
Net income	-3.0	2.6	3.7	4.3	5.1
EPS	-0.65	0.60	0.74	0.87	1.02
CPS	0.31	1.27	1.84	2.02	2.43
EPS in EUR	-0.65	0.60	0.74	0.87	1.02
Gross profit margin	58.9%	57.9%	58.3%	58.4%	58.5%
EBIT margin	5.8%	14.9%	15.8%	15.3%	15.1%
EV/EBIT	48.4	12.9	9.4	7.7	6.3
P/E	-13.9	16.2	11.5	9.8	8.3

Source: Geratherm Medical AG, CBS Research AG

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Investment thesis

Founded in 1993 and located in Geschwenda, Germany, Geratherm is an internationally operating medical technology company that develops, produces and markets medical products with a focus on Cardio/Stroke, Temperature Management and Respiratory. The export share of the company's sales exceeds 80%. The company's revenues are geographically diversified, with Europe generating nearly 65% (thereof Germany with 19%) of annual revenues. 35% of revenues come from the USA, South America and other countries. The Geratherm Group employed a total of 126 staff members as of 31 March 2010 (PY: 92 staff members). The shares of Geratherm Medical AG have been trading since the year 2000 in the regulated Market (Prime Standard segment) of the Frankfurt Stock Exchange. Additionally, the management performs investment activities in the health care sector and correspondingly holds shares in several med-tech and biopharmaceutical companies.

Geratherm operates through three business units whereof temperature management, especially the Healthcare Diagnostics (HD) division, is presently the core business unit of the company. The Temperature Management division encompasses the Healthcare Diagnostics and Medical Warming Systems segment and generated revenues of EUR 13.4m in FY 2009 which amounted to ~93% of total revenues. The remaining part of revenues was produced by the two further business units Cardio/Stroke (EUR 0.36m) and Respiratory division (EUR 0.61m). In the Cardio/Stroke segment, the company concentrates on the atrial fibrillation market. With regard to the products offered in the Respiratory segment the main feature is measuring lung function.

The company's main growth dynamic is still related to the Temperature Management division which was mostly propelled by EU's ban on mercury that took effect in April of 2009 and led to among other things a rapidly increased demand for Geratherm's clinical glass thermometers which contain a liquid metal alloy instead of toxic mercury. The eco-friendly clinical glass thermometers, made of the non toxic measuring fluid Gallium, are produced and distributed exclusively by the Geratherm Medical AG worldwide, therefore, the company could also benefit from potential mercury bans in other countries.

However, the new business segments have not less capability to boost growth and more importantly profitability. In fact, the company's medium and long-term strategy implies more focus on Cardio/Stroke and Respiratory division and hence growth acceleration in these two areas. In line with this long-term strategy Geratherm's management intends to equalize the shares of revenue contribution of each business segment. In other words, the objective is to reduce dependence on current core business by investing in new business fields in order to leverage additional sales and earnings potential.

Geratherm's core business unit, the Healthcare Diagnostics (HD) segment, generates sufficient operating cash flows to finance the buildup of the new business units and to cover their current operating losses. Hence, implementation of the core corporate strategy (to direct new business units to growth) depends crucially on the strategic alignment and success of the HD segment as this business segment provides the necessary funds to initiate a diversified growth path.

**Internationally
operating medical
technology company**

**Core activities in the
Temperature
Management division**

**Governmental ban on
mercury drives the
temperature
management business**

**More focus on
Cardio/Stroke and
Respiratory business
units**

**Healthcare
Diagnostics segment
provides funds
necessary for the
expansion of other
segments**

In FY 2009 total sales reached EUR 15.05m (PY: EUR 10.34m). An above average increase in revenues of ~43% in 2009, which was the result of the EU's ban on mercury that took effect in April of 2009, demonstrated the company's management capability of quickly reacting on governmental regulations. Geratherm's EBIT-margin jumped from 5.8% in 2008 to 14.9% in 2009. The sharp increase in the EBIT-margin shows the profit potential inherent in Geratherm's business model. Hence, operating profitability increased disproportionately with changes in total sales.

Main growth drivers for Geratherm are on the one hand the EU's ban on mercury and a probable worldwide extension of the ban that are expected to fuel revenues in the core business of the company. Whereas the ban on mercury will fuel for short- to mid- term growth, the Respiratory and Cardio/Stroke business units will ramp up simultaneously but influence growth rate mid- to long-term. With respect to operating profitability, we have assumed a reducing EBIT-margin that amounts to 14.9% in 2013E, and shrinks to 11.5% in 2019E. Here, we cut our above-average EBIT-margin back to a more conservative level resulting in an EBIT-margin considerably below the peer group median EBIT-margin.

We have verified our assumed profitability margins for Geratherm by comparing it with our peer group companies. Whereas the assumed EBITDA- and EBIT-margin for Geratherm fall into the range of observed profitability margins, the profit margins for Geratherm are significantly above the peer group median and mean. The reason for the above-average profit margins assumed in our forecasts is that Geratherm invests significant amounts of cash in listed companies and hence, generates positive net financial results. Only in 2008 impairment losses on the stakes lead to an exceptionally negative impact on net financial result and pulled down net income.

We applied a multiple valuation based on a peer group and a discounted cash flow (DCF) model to derive the company's fair value. Our peer group comparison indicates a fair value of EUR 9.82 per share. Our DCF model results in a fair value of EUR 10.54 per share. Weighting both valuation models equally with 50% we derive a final fair value of EUR 10.18 per share. We set a price target of EUR 10.20 per share and initiate our coverage with BUY recommendation.

2009: significant improvement of sales and operating margins

Sales and profitability estimates

Verification of estimates

Our price target is EUR 10.20 per share

SWOT

Strengths

- Besides its growing and profitable core business in the field of temperature measurement, the company has developed innovative and patented products that are addressing the highly competitive but profitable market for medical technology devices.
- Geratherm has continuously distributed dividends except for to the fiscal year 2008. According to the company dividends will be distributed again in 2009 and amount to EUR 0.40 per share. Between 2010E and 2012E we assumed dividend payments of EUR 0.40 per share.
- Highly profitable core business division (Temperature Management) that funds the newly developed business units (high operating cash flow).
- The company possesses a good financial structure with an advantageous equity-to-asset ratio.
- No dependence on external financing sources due to highly profitable and growing core business.
- With regard to the core business (Healthcare Diagnostics), approximately 50% of sold products are represented by the glass thermometers filled with gallium. The production process for this product consists of machineries and equipments specifically constructed for Geratherm's needs. That is, the internally production processes are unique and hamper market entry even if the patented technology would be available to competitors.
- Geratherm is in the position of financing product developments, market entries and growth on its own for the most part thanks to its solid asset, financial and earnings situation.
- Geratherm Medical has filed for or been granted patent protection for various products in a wide variety of countries.
- The company is geographically well diversified with revenues generated outside Europe accounting for more than 50% of total revenues.

Weaknesses

- Core business segment Temperature Management is the only profitable division at the moment.
- In 2009 93.3% of revenues were generated by the Temperature Management division posing low diversification business risk.
- Dependency on Draegerwerk in launching/promoting the newly developed stroke algorithm.
- Net operating margin of Geratherm is influenced by its security investments which adversely affects the risk-return relation of the business model.

- Although approximately 50% of Geratherm's sold products are produced internally in Germany, the remaining part is produced by external suppliers. Therefore the company depends on external production capacities which in turn could lead to delayed deliveries and hence negatively influence sales and profitability.

Opportunities

- Further growth opportunities through additional international mercury bans.
- The company holds securities of companies active in the Healthcare sector. With brightening economic conditions the invested funds could contribute to additional income which would benefit Geratherm's shareholders.
- The new business areas Cardio/Stroke, Respiratory and Warming Systems could make an above-average contribution to sale revenues and lead to accelerated growth.
- The high demand for Geratherm's core business products as a consequence of the EU's ban on mercury and a probable worldwide ban is expected to boost the company's sales in combination with considerably larger capacities in 2010 and 2011.

Threats

- The company's positive development depends on a wide variety of success factors. Two major success factors are patent protection and product approvals by various authorities in different countries. These risks are foreseeable only to a certain extent. This relates both to scheduling and financial resource planning.
- Even if Geratherm is able to develop and get product approval from authorities there is the risk of market entry failure which could deteriorate profitability ratios or even adversely impact liquidity. However, according to the company's management the maximum risk for the individual projects have been defined and the expenses have been managed in such a way that the security and independence of Geratherm Medical is not seriously affected in the event of a worst-case scenario occurring.
- Geratherm is internationally active (80% export quota) and thus earns significant amounts of US-dollars. Although most of the dollar amount is used to cover payments for contract production and purchasing the raw material gallium (natural hedge), with increasing geographic diversification currency risk will also increase.
- Geratherm is investing part of its cash (cash management) in listed companies operating in familiar sectors or exhibiting a similar business focus. Therefore, the current turmoil in the financial markets may have negative effects on the assets, financial and earnings situation of the listed companies.
- Continuous supply of specific raw materials to maintain ongoing production could be disturbed by procurement risk. Procurement risk involve shortages in supplies or increases in the prices of the raw

materials necessary for production as well as devaluation risks in the case of decreasing raw material prices of products in the company's own inventory.

- Industrial and intellectual property rights may become the target of attacks and violations.
- Due to the increased demand for Geratherm's core business products as a result of the EU's ban and a probable worldwide ban on mercury, the company could invest too much in new capacities in order to be able to serve increased demand. This would result in high growth and profits in the short term, and overcapacities in the mid to long term (risk of managing unbalanced growth).

Valuation

Valuation summary

We applied a multiple valuation based on a peer group and a discounted cash flow (DCF) model to derive the company's fair value. Our peer group comparison indicates a fair value of EUR 9.82 per share. Our DCF model results in a fair value of EUR 10.54 per share. Weighting both valuation models equally with 50% we derive a final fair value of EUR 10.18 per share. We set a price target of EUR 10.20 per share and initiate our coverage with BUY recommendation.

Final fair value: Consolidation of both valuation methods

	Weighting factor	Fair value per share (EUR)
Peer group valuation	50.0%	9.82
DCF valuation	50.0%	10.54
Fair value per share (EUR)		10.18

Source: CBS Research AG

Peer group valuation

In order to include a market-oriented approach in our valuation, we used a multiple valuation based on a peer group. Our peer group comprises various medical technology companies that operate in Germany and on a global scale.

Peer Group: Company data

Company name	EBITDA margin			EBIT margin			Net margin		
	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
COVIDIEN PLC	26.2%	26.6%	26.8%	21.7%	22.2%	22.9%	15.7%	16.0%	17.1%
MEDISANA AG	3.2%	5.5%	6.2%	2.2%	4.7%	5.5%	-0.6%	2.4%	3.3%
OMRON CORP	11.2%	13.0%	12.4%	6.7%	8.4%	8.5%	3.9%	4.9%	5.4%
DRAEGERWERK AG & CO KGAA	10.3%	10.9%	11.1%	7.1%	7.8%	8.1%	3.3%	3.8%	4.0%
CARL ZEISS MEDITEC AG	14.8%	15.1%	15.8%	12.4%	12.7%	13.1%	7.9%	8.4%	8.7%
INVERNESS MEDICAL INNOVATION	25.4%	28.8%	30.7%	12.2%	14.1%	23.0%	11.0%	11.1%	13.8%
ECKERT & ZIEGLER STRAHLEN UN	20.7%	21.3%	22.2%	14.6%	15.2%	16.1%	8.1%	8.7%	9.5%
CAREFUSION CORP	18.0%	19.1%	19.8%	13.4%	14.7%	15.3%	7.8%	8.8%	9.6%
MEVIS MEDICAL SOLUTIONS AG	36.1%	44.0%	46.7%	11.1%	21.3%	23.8%	16.4%	11.6%	13.9%
RESMED INC	27.9%	28.1%	27.6%	22.4%	23.1%	24.4%	17.1%	17.1%	17.6%
STRATEC BIOMEDICAL AG	22.9%	23.4%	23.9%	20.1%	20.4%	21.2%	15.7%	16.3%	16.7%
Average	19.7%	21.4%	22.1%	13.1%	15.0%	16.5%	9.7%	9.9%	10.9%
Median	20.7%	21.3%	22.2%	12.4%	14.7%	16.1%	8.1%	8.8%	9.6%

Source: CBS Research AG; Bloomberg

Peer group – short overview

Our peer group comprises the following companies:

Covidien PLC. is a large global manufacturer of medical devices and supplies, diagnostic imaging agents, pharmaceuticals, and other healthcare products for use in clinical and home settings. The company is based in Dublin, Ireland.

Medisana AG develops, manufactures, and markets home health care products for retail markets. It offers health control products, including blood pressure and pulse rate monitors, as well as thermometers and devices to monitor basic heart functions; and home therapy products comprising soft heat products, massage devices, humidifiers, inhalers, and pain therapy products.

Our peer group

Covidien PLC.

Medisana AG

OMRON Corporation offers automation products and services in industrial automation, electronic components, social systems, and healthcare markets. It operates in five segments: Industrial Automation, Electronic Components, Automotive Electronic Components, Social Systems, and Healthcare. The Healthcare segment provides blood pressure monitors, non-invasive vascular monitors, electric toothbrushes, portable ECGs, patient monitors, digital thermometers, body composition monitors, pedometers, and nebulizers.

OMRON Corp.

Established in 1889 and located in Lubeck, Germany. **Draegerwerk AG & Co. KGaA** provides medical and safety technology solutions worldwide. The company operates in two divisions, Medical and Safety. The Medical division engages in the development, production, and marketing of medical equipment, system solutions, and services for the acute point of care processes. The Safety division develops, produces, and markets safety products, system solutions, and services for personal protection, gas detection technology, and hazard management.

Draegerwerk AG & Co. KGaA

Carl Zeiss Meditec AG, together with its subsidiaries, operates as an integrated medical technology company worldwide. The company offers various end-to-end solutions for the diagnosis and treatment of ophthalmic diseases and visualization solutions for microsurgery. Its product lines include ophthalmology/optometry, neurosurgery, ENT, spine, P&R, dentistry, radiotherapy, and gynaecology.

Carl Zeiss Meditec AG

Inverness Medical Innovations, Inc. engages in the development, manufacture, and marketing of consumer and professional medical diagnostic products. The company operates in three segments professional diagnostics, health management and consumer diagnostics.

Inverness Medical Innovations, Inc.

Founded in 1992 and headquartered in Berlin **Eckert & Ziegler Strahlen- und Medizintechnik AG** is a global isotope technology company and holding company for a number of specialized subsidiary companies in the field of processing of radioisotopes and of development, production, and marketing of isotope technology components, medical devices, and similar products.

Eckert & Ziegler Strahlen- und Medizintechnik AG

Founded in 1997 and based in Bremen, **MeVis Medical Solutions AG** is a producer of software products for image-based medicine, particularly digital radiology. With its software solutions, it provides medical practitioners with substantial added value in screening and diagnostics as well as therapy and intervention planning for cancer, particularly breast cancer, neurology and lung conditions.

MeVis Medical Solutions AG

Headquartered in San Diego, **CareFusion Corporation** is a medical technology company, provides various healthcare products and services in the United States and internationally. It operates in two segments, Critical Care Technologies, and Medical Technologies and Services. The company employs more than 15,000 people in more than 20 countries worldwide.

CareFusion Corporation

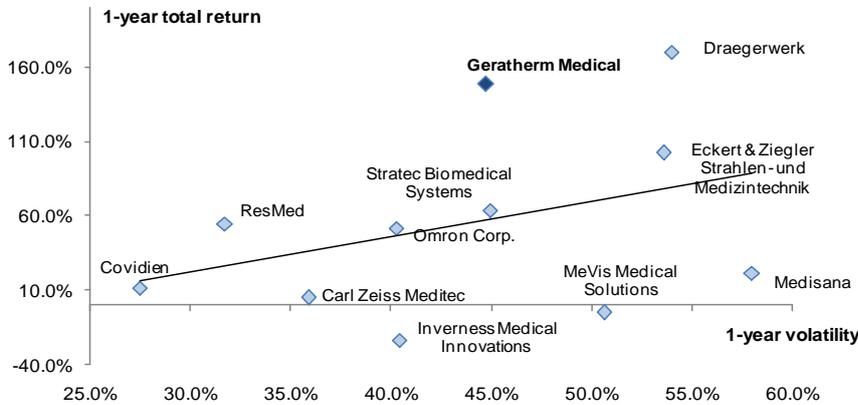
Founded in 1989 **ResMed Inc.** engages in the development, manufacture, and distribution of medical equipment for treating, diagnosing, and managing sleep-disordered breathing (SDB) and other respiratory disorders. Products The company's portfolio of products for the treatment of OSA and other forms of SDB includes airflow generators, diagnostic products, mask systems, headgear, and other accessories.

ResMed Inc.

Established in 1979 and located in Birkenfeld, Germany, **STRATEC Biomedical Systems** develops and manufactures fully automated analyzer systems based on its own patented technologies for its partners in the fields of clinical diagnostics and biotechnology. The company operates in Germany, Italy, Belgium, France, Ireland, and the United States.

STRATEC Biomedical Systems

1-year risk-return performance of peers



Source: CBS Research AG; Bloomberg

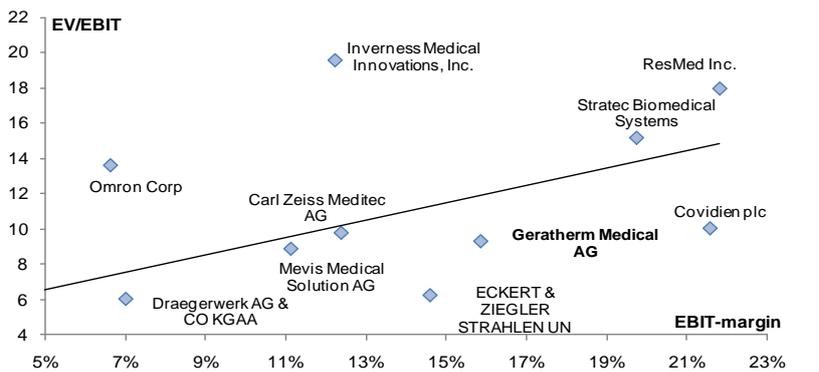
On the graph above, we have outlined the performance of Geratherm and its peers in terms of risk and return over one year (last 365 days). Juxtaposing the total return over the year with the daily volatility of Geratherm and its peers, one can see that share price of Geratherm was characterised by very high return and relatively moderate volatility in comparison to its peers (with the largest gap above the trend line). The only company that had a higher annual return was Draegerwerk, however, in case of Draegerwerk the volatility was disproportionately higher.

Attractive risk-return profile...

Furthermore, the chart from above does not imply that investors missed the opportunity to yield future returns due to the strong increase in stock price over the last year. As can be seen from the chart hereunder, Geratherm, Eckert & Ziegler and COVIDIEN are still attractive investments because their expected operating profitability for 2010E are evaluated relatively lower by capital markets than for the other peer group companies. Hence, despite the fact that Geratherm’s stock has increased strongly over the last year, the peer group comparison in combination with the advantageous risk-return profile indicated by the chart above reveals further upside potential, which strongly supports our calculated fair value for Geratherm in our DCF model.

...and further upside potential for Geratherm’s stock price

Relation EV/EBIT and EBIT-margin of peer group companies



Source: CBS Research AG; Bloomberg

Valuation

We used the median and not the average of the peer group multiples for the valuation. We applied these multiples to our financial forecasts for Geratherm. The P/E multiples were used to calculate the fair value of equity directly. The Enterprise Value (EV) multiples resulted in a "fair EV" of the company from which we subsequently deducted Geratherm's net financial debt. Our peer group model results in a fair market cap of EUR 48.6m or EUR 9.82 per share.

Peer Group: Multiples and derived value

Peer Group: Multiples									
Company name	EV / EBITDA			EV / EBIT			P / E		
	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
COVIDIEN PLC	7.6	7.0	6.6	9.2	8.4	7.7	12.1	11.1	9.8
MEDISANA AG	n.m.	8.7	6.9	n.m.	10.2	7.8	n.m.	17.5	12.2
OMRON CORP	7.1	5.7	5.7	11.7	8.9	8.3	19.1	n.a.	12.5
DRAEGERWERK AG & CO KGAA	4.0	3.6	3.4	5.7	5.0	4.7	10.8	9.4	8.2
CARL ZEISS MEDITEC AG	7.8	7.2	6.6	9.4	8.6	7.9	17.6	15.6	14.3
INVERNESS MEDICAL INNOVATION	8.9	7.3	6.4	18.5	14.9	8.6	9.9	8.6	7.7
ECKERT & ZIEGLER STRAHLEN UN	4.3	4.0	3.5	6.2	5.5	4.9	13.5	11.7	10.1
CAREFUSION CORP	6.9	6.2	5.6	9.3	8.1	7.3	15.8	13.8	12.0
MEVIS MEDICAL SOLUTIONS AG	2.9	2.1	1.6	9.3	4.2	3.2	10.5	14.0	9.7
RESMED INC	13.9	12.0	10.3	17.3	14.5	11.6	24.6	21.6	18.1
STRATEC BIOMEDICAL AG	13.4	11.0	9.5	15.2	12.6	10.7	19.9	16.3	14.1
Average	7.7	6.8	6.0	11.2	9.2	7.5	15.4	14.0	11.7
Median	7.3	7.0	6.4	9.3	8.6	7.8	14.6	13.9	12.0

EURm, except EPS (EUR)	EBITDA			EBIT			EPS		
	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Geratherm Medical AG: Financial estimates CBS Research	3.5	4.2	5.0	3.1	3.7	4.6	0.74	0.87	1.02
Applied multiples: Peer group median	7.3	7.0	6.4	9.3	8.6	7.8	14.6	13.9	12.0
Enterprise value (derived)	25.7	29.7	32.3	28.6	32.1	35.8	-	-	-
+ Excess cash and marketable securities	15.8								
- Financial debt and minority interest	-2.6								
Market capitalization (derived)	38.9	42.9	45.5	41.8	45.4	49.0	53.7	59.6	60.6
Average	48.6								
Fair market capitalization	48.6								
Number of shares (m)	4.95								
Fair value per share (EUR)	9.82								

Source: CBS Research AG; Bloomberg

Multiples based on closing share prices of 02 July 2010

DCF valuation

By means of DCF model (three phases) we calculated the fundamentally deduced fair value of Geratherm Medical AG. Concerning cash and cash equivalents as well as debts we referred to the balance sheet of the first quarter year of 2010.

Weighted average cost of capital (WACC): On basis of the long-term yields of German federal bonds, we set the risk-free rate at 3.5%. We assumed an equity risk premium of 6.0%, and a debt risk premium of 3%. Adhering to a conservative approach, we adopted a beta of 1.3. For the calculation of Geratherm's WACC, we furthermore assumed a long-term target equity ratio at market values of 85%. These premises lead to a WACC of 10.26%.

Phase 1 (2010-12E): We estimated the free cash flows (FCF) of phase 1, according to our detailed financial forecasts for these years.

Assumptions:

WACC of 10.26%

Phase 1: Detailed financial forecasts

Phase 2 (2013-19E): For Phase 2, we took more general assumptions. We allowed annual total sales growth to decrease successively to 6.9% in 2019E, resulting in a CAGR 2013E-2019E of 15.5%. Main growth drivers for Geratherm are on the one hand the EU's ban on mercury and a probable worldwide extension of the ban that are expected to fuel revenues in the core business of the company. Whereas the ban on mercury will fuel for short- to mid- term growth, the Respiratory and Cardio/Stroke business units will ramp up simultaneously but influence growth rate mid- to long-term. With respect to operating profitability, we have assumed a reducing EBIT-margin that amounts to 14.9% in 2013E, and shrinks to 11.5% in 2019E. Here, we cut our above-average EBIT-margin back to a more conservative level resulting in an EBIT-margin considerably below the peer group median EBIT-margin.

Phase 2: Decreasing growth rates and EBIT-margins

Phase 3: For the calculation of the terminal value, we applied a long-term FCF growth rate of 2.0% which approximates the estimated long-term inflation rate. This assumption theoretically corresponds to a real-term zero growth, since we use a nominal discount rate (WACC).

Phase 3: 2.0% terminal value growth

Based on these assumptions, we calculated a fair value of equity of EUR 52.2m, or EUR 10.54 per share.

DCF model results in a fair value per share of EUR 10.54

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	∞
Total sales	19.3	24.4	30.5	37.2	44.8	53.4	62.8	71.6	78.4	83.8	
YoY growth	28.5%	26.7%	24.8%	21.9%	20.3%	19.4%	17.5%	14.0%	9.5%	6.9%	
EBIT	3.1	3.7	4.6	5.5	6.8	8.1	9.0	9.6	9.8	9.7	
EBIT margin	15.8%	15.3%	15.1%	14.9%	15.1%	15.2%	14.3%	13.4%	12.5%	11.5%	
Income tax on EBIT (cash tax rate)	-0.3	-0.3	-0.4	-1.5	-1.9	-2.3	-2.5	-2.7	-2.7	-2.7	
Depreciation and amortisation	0.4	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	
Other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	-1.6	-1.8	-2.1	-2.3	-2.6	-3.0	-3.2	-3.0	-2.3	-1.9	
Net capital expenditure	-0.8	-0.4	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.3	-0.3	
Free cash flow	0.8	1.7	2.3	2.0	2.6	2.9	3.4	4.0	4.8	5.1	
Present values	0.7	1.4	1.8	1.3	1.6	1.6	1.7	1.8	1.9	1.9	23.2
Present value Phase 1	3.9										
Present value Phase 2	11.9										
Present value Phase 3	23.2										
Total present value	39.0										
+ Excess cash/Non-operating assets	15.8										
- Financial debt	-2.6										
Fair value of equity	52.2										
Number of shares (m)	4.9										
Fair value per share (EUR)	10.54										

Risk free rate	3.50%	Target equity ratio	85.0%
Equity risk premium	6.00%	Beta (fundamental)	1.30
Debt risk premium	3.00%	WACC	10.26%
Tax shield	28.0%	Terminal growth	2.0%

Sensitivity analysis					
Terminal growth (Phase 3)					
	1.0%	1.5%	2.0%	2.5%	3.0%
9.3%	11.16	11.52	11.92	12.39	12.93
9.8%	10.54	10.85	11.19	11.58	12.02
WACC	10.3%	10.00	10.25	10.54	10.87
	10.8%	9.51	9.73	9.98	10.25
	11.3%	9.07	9.26	9.47	9.71

Source: CBS Research AG

Company profile

At a glance

Geratherm is an internationally operating medical technology company that develops, produces and markets medical products with a focus on Cardio/Stroke, Temperature Management and Respiratory. Geratherm's traditional core activities are related to products that allow for measuring or maintaining the body's temperature (Temperature Management division). The Temperature Management division encompasses the Healthcare Diagnostics and Medical Warming Systems segment and generated revenues of EUR 13.4m in fiscal year 2009 which amounted to approximately 93% of total revenues. The remaining part of revenues was produced by the Cardio/Stroke (EUR 0.36m) and Respiratory division (EUR 0.61m). In the Cardio/Stroke segment, the company concentrates on the atrial fibrillation market. Special interest here is the early detection of atrial fibrillation. With regard to the products offered in the Respiratory segment the main feature is measuring lung function.

The products offered by Geratherm are primarily aimed at addressing international niche markets. The majority of the products offered are based on basic innovations that are protected with patents and therefore offer profitable growth opportunities. For example, in 2009 the EU's ban on mercury, which took effect in April of 2009, led to among other things a rapidly increased demand for Geratherm's clinical glass thermometers which contain a liquid metal alloy instead of toxic mercury. The eco-friendly clinical glass thermometers, made of the non toxic measuring fluid Gallium, are produced and distributed exclusively by the Geratherm Medical AG worldwide. This change in general healthcare policies contributed to total revenues of EUR 14.39m in 2009, an increase of +43% compared to the previous fiscal year (90% of revenues in 2009 were generated by the Healthcare Diagnostics division which the clinical glass thermometer belongs to). The development of gross profit paralleled growth in sales volume and increased by +43% to EUR 8.7m. Operating result (EBIT) almost quadrupled compared to 2008 due to the strong growth in sales (+276%).

Geratherm is addressing the market for medical products that are influenced by demographic and socio-cultural developments worldwide. Whereas regulatory arrangements are unforeseen events and depend on the national political climate, demographic trends and socio-cultural developments indicate the future growth drivers for medical technology companies. For instance, the increasing life expectancy and the rise in chronic diseases induce demand for healthcare services that in return increase the demand for medical devices. According to market experts, growth is expected to continue over the next years. Vendors of medical products are benefiting from advancing diseases of civilization that fuel the need for secure, cheap and innovative medical technologies. Geratherm with its global footprint is in a good position to participate in that growth opportunity disproportionately high due to its patented and innovative medical products. The export share of the company's sales exceeds 80%. The company's revenues are geographically diversified, with Europe generating nearly 65% (thereof Germany with 19%) of annual revenues. 35% of revenues come from the USA, South America and other countries. The Geratherm Group employed a total of 126 staff members as of 31 March 2010 (previous year: 92 staff members).

Core activities in the Temperature Management division

Geratherm's clinical thermometers benefit from change in EU's healthcare policies and boosts financial results in 2009

Geratherm is serving a growing international market with an export share that exceeds 80% as of 2009

History

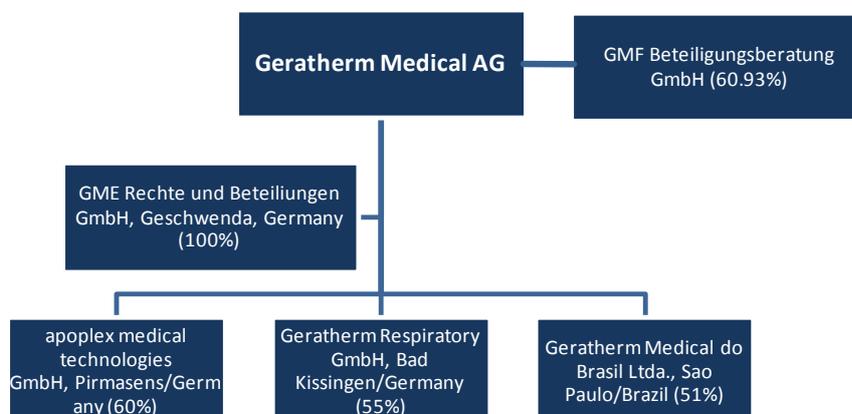
Geratherm Medical AG was founded in 1993 and is the successor company of the former Thermometerwerk Geraberg (TWG) that was spun out of VEB Werk für Technisches Glas Ilmenau in 1972. Geratherm is headquartered in Geschwenda belonging to the federal state Thuringia, Germany. Geratherm started from scratch but succeeded in the course of time in building up a profitable and growing operating business. The roots of Geratherm Medical AG go back to the fundamental discovery of a replacement substance for mercury consisting of gallium, indium and tin. This environmentally friendly and innovative substance was employed in analogue glass clinical thermometers for the first time and as a consequence initiated the dynamic growth story the company is still participating in. However, with the EU's ban on mercury the company has entered a new growth path that the management had expected to enter already in 2005. Additionally other regions show signs of following the ban and support the usage of environmentally friendly medical devices. As a listed company Geratherm has the possibility of tapping capital markets to fund growth while simultaneously giving investors the chance to participate in this dynamic growth story.

In 2010 the Geratherm's share celebrates its tenth anniversary of being listed on the Frankfurt Stock Exchange. Geratherm Medical AG has been quoted on the stock exchange since 2000 and approved for official trading on the Frankfurt Securities Exchange, in the Prime Standards category. In addition, Geratherm Medical AG is listed in the German Entrepreneurial Index and the German Health-Care Index.

Company structure

The consolidated group includes Geratherm Medical AG, GME Rechte und Beteiligungen GmbH, Geratherm Medical do Brasil Ltda., apoplex medical technologies GmbH and Geratherm Respiratory GmbH. The diagrammed share quotas apply in detail. The results of apoplex medical technologies, Geratherm Respiratory and Geratherm Medical do Brasil are taken into account only to the extent of Geratherm's participating interest.

Consolidated group and share quotas



Source: Geratherm Medical AG, CBS Research AG

The GMF Beteiligungsberatung GmbH, Frankfurt am Main held a direct share of 60.93% in Geratherm Medical AG as of 31 December 2009.

The roots of Geratherm Medical AG go back to a discovery of a substance consisting of gallium, indium and tin

Geratherm Medical AG has been quoted since 2000

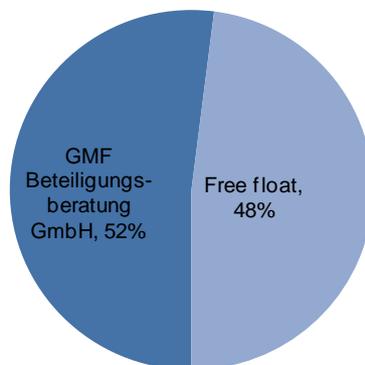
Shareholder structure

Currently, Geratherm's main shareholder is GMF Beteiligungsberatung GmbH holding approximately 52% of total share capital. GMF is a Frankfurt a. M. based Private Equity house founded in 1992. The main activities of GMF embrace M&A and capital increases, as well as equity investments and building and restructuring corporations. Dr. Gert Frank is one of two partners within the GMF Beteiligungsberatung GmbH and responsible for the Private Equity and Capital Markets division of GMF. The GMF's share in Geratherm decreased from 60.93% to 52% due to the capital increase carried out on 11 March 2010. The successful placed increase in capital among institutional investors lead to a gross inflow of EUR 3.6m.

**GMF
Beteiligungsberatung
GmbH main
shareholder**

The free float portion of 48% consists solely of international institutional investors.

Geratherm shareholder structure



Source: Geratherm Medical AG, CBS Research AG

On 11 March 2010 a capital increase was successfully placed among institutional investors. The gross proceeds for Geratherm Medical from the placement amounted to approximately EUR 3.6m. The new shares were admitted to trading in the Prime Standard segment of the Frankfurt Stock Exchange on 18 March 2010. The transaction also comprised a block trade of a further 100,000 shares held by an existing shareholder of Geratherm Medical AG with international investors.

Management

Geratherm's management consists of Dr. Gert Frank and Thomas Robst. The chairman of the board is Dr. Gert Frank who is responsible for personnel, technology, finance as well as research and development. Dr. Gert Frank exhibits expert knowledge in the field of healthcare and life sciences with over 20 years experience. Before Dr. Gert Frank founded Geratherm Medical AG, he worked at UBS AG, British American Tobacco p.l.c. and was acting in several entrepreneurial activities. Mr. Gert Frank holds a PhD in industrial engineering.

Member of the board Thomas Robst is a graduated computer scientist and responsible for the IT, sales and marketing as well as logistics within Geratherm Medical AG.

Business model

Business units

Geratherm operates through three business units whereof temperature management, especially the Healthcare Diagnostics (HD) division, marks the core business unit of the company. To understand Geratherm's business model, we must turn to the two important factors of its core business unit. It depicts for the most part a historical operational development and explains today's strategic positioning of Geratherm. With regard to historical operational development the HD division represents the roots of the company as this business unit comprises of products sold at the beginning of operational activity and explains the profitable growth path experienced so far. Today sale of clinical thermometers represents nearly 73% of HD segment's sales, which in return generated nearly 90% of total sales in 2009. The remaining part of HD's sales can mostly be attributed to blood pressure monitors. The HD segment encompasses products that are distributed internationally to pharmacies, clinics and hospitals.

HD division depicts history and explains today's strategic positioning

Operational areas – Product overview

 <p>Cardio/Stroke Cardiac arrhythmia screening</p>	<p>Cardio/Stroke (apoplex medical technologies GmbH)</p> <ul style="list-style-type: none"> - focus on easy-to-apply and efficient methods for the patient screening for preventing strokes and vascular dementia - the product SRA (Stroke Risk Analyser) is an internet-based platform as an early warning system for strokes - business unit not profitable but expansion is going on (apoplex did manage to continue to expand the installed test base) - 2009: more than 7,600 analyses were performed to identify atrial fibrillation (> +50% y-o-y); number - 2009: number of doctors connected to the system 472 (> +50 y-o-y)
 <p>Medical Warming Systems Measuring and maintaining the body temperature</p>	<p>Temperature Management</p> <p>← Medical Warming Systems Healthcare Diagnostics (HD) →</p> <ul style="list-style-type: none"> - supplied to clinics and hospitals (IniqueTemp) & rescue services organisations (UniqueResc+) - both products currently in market launch phase - revenues in 2009 of EUR 0.448m (+9.8% y-o-y) - good competitive position - focus on higher-quality segment - blood pressure monitors distributed via pharmacies - sales of clinical thermometers represents 72.6% of HD segment's sales - sales of blood pressure monitors represents 24.4% of HD segment's sales
 <p>Respiratory Pulmonary function diagnosis</p>	<p>Respiratory</p> <ul style="list-style-type: none"> - products designed for pulmonary function diagnostics and cardiopulmonary function diagnostics - business unit not profitable but expansion is going on (positive earnings contribution expected in 2010) - products: Spirostik (testing pulmonary functions) & Ergostik (diagnosing cardiopulmonary function)

Source: Geratherm Medical AG, CBS Research AG

With reference to today's strategic positioning of Geratherm, the HD division has also played an important role. Its profitable expansion rendered possible the buildup of additional business units. Besides the Medical Warming Systems segment that belongs to the Temperature Management division, the company has enlarged its business activity through the development of the Cardio/Stroke and Respiratory divisions. The Cardio/Stroke division offers technological products for preventing strokes whereas the Respiratory division offers products designed for pulmonary function diagnostics. Although the company's main growth dynamic is still related to the Temperature Management division (EU's ban on mercury in 2009 and other potential bans worldwide following), the new business segments have the capability to boost growth and more importantly profitability. Today's consolidated operating margin of Geratherm is adversely influenced by the new segments still generating losses. Hence, regardless of whether the new segments show dynamic growth patterns, generating break-even would increase operating margin at group level.

Core business is covering expenses for buildup of new business segments

Strategy

Corporate strategy

Until 2006, Geratherm primarily had grown through its operating activities related to the Temperature Management division before it started to broaden its revenue base. Between 2006 and 2009 the portion of Medical Warming segment's sales of total revenues nearly halved whereas HD segment's sales of total revenues decreased from 93,1% in 2006 to 90,2% in 2009. During this time period first revenues were generated by the new business segments Cardio/Stroke and Respiratory. The contribution of these new segments to total revenues increased in absolute terms from EUR 0.07m in 2007 to nearly EUR 1m in 2009 corresponding to a revenue share of approximately 7% as of 2009.

Medium- to long-term Geratherm's management intends to equalize the shares of revenue contribution of each business segment. In other words, the objective is to reduce dependence on current core business by investing in new business fields in order to leverage additional sales and earnings potential. To realize that aim, more and more emphasis has to be placed on research and development tasks so that the range of products in all but primarily the new business segments is upgraded and adapted to prevailing market trends continuously.

Equal revenue contribution by all three business segments

Strategic importance and development of business segments

Segment Key Figures:	2006			2007			2008			2009		
(EURm)	Revenues	Share	Change	Revenues	Share	Change	Revenues	Share	Change	Revenues	Share	Change
Healthcare Diagnostics	8.00	93.1%	5%	8.24	93.6%	3%	9.21	91.4%	12%	12.97	90.2%	41%
Medical Warming Systems	0.59	6.9%	3%	0.50	5.7%	-16%	0.41	4.0%	-18%	0.45	3.1%	10%
Cardio/Stroke	0.00	0.0%	n.a.	0.02	0.2%	n.a.	0.12	1.2%	588%	0.36	2.5%	207%
Respiratory	0.00	0.0%	n.a.	0.05	0.6%	n.a.	0.34	3.4%	573%	0.61	4.2%	78%
Total	8.59		5%	8.80		2%	10.08		15%	14.39		43%

Geographical diversification	2006			2007			2008			2009		
(EURm)	Revenues	Share	Change	Revenues	Share	Change	Revenues	Share	Change	Revenues	Share	Change
Germany	1.78	20.7%	-5%	1.72	19.5%	-3%	2.07	20.6%	21%	2.67	18.6%	29%
Europe	3.54	41.2%	-5%	3.86	43.8%	9%	4.11	40.8%	7%	6.65	46.3%	62%
USA	1.30	15.1%	-19%	1.19	13.5%	-9%	1.27	12.6%	7%	1.45	10.1%	14%
South America	0.92	10.7%	159%	1.26	14.3%	38%	1.83	18.2%	45%	2.34	16.3%	28%
Other	1.06	12.3%	67%	0.78	8.9%	-26%	0.79	7.8%	2%	1.27	8.8%	60%
Total	8.59		5%	8.80		2%	10.08		15%	14.39		43%

Source: Geratherm Medical AG, CBS Research AG

The company's core strategy is clear cut and directed toward growth, profitability and diversification. Diversification is realized when company revenues depend on more than one business unit. But before this multi-business diversification can be realized first of all new business units and appropriate products have to be developed and launched successfully. With regard to Geratherm this prerequisite is exacerbated by the fact that products and services in the healthcare and life science sectors are highly regulated by state authorities and therefore encounter high market entry costs.

Geratherm's core business unit, the Healthcare Diagnostics segment, generates sufficient operating cash flows to finance the buildup of the new business units and to cover their current operating losses. Hence, implementation of the core corporate strategy (to direct new business units to growth) depends crucially on the strategic alignment of the HD segment as this business segment provides the necessary funds to initiate a diversified growth path.

Core business finances buildup of new business units...

...and therefore exhibit high strategic importance

Segment strategy

As per 31 March 2010, the company held cash and securities in the amount of EUR 15.8m. Thus, the company is financially well equipped to finance further growth. The most profitable and most developed business segment of Geratherm, the Temperature Management division, holds out the prospect of high growth due to legal obligations (EU's ban of mercury) released in several countries. The substitution process triggered by this regulatory requirement started in April 2009 and could catapult the company into an absolutely new dimension depending on further mercury bans in other countries and the company's ability to master the potential growth. However, these growth opportunities are relatively short winded and require high capital investments. Furthermore, the company would increase not decrease business risk by restricting its strategy to that growth scenario. Therefore in the HD segment Geratherm will focus on product improvements and product portfolio extension. New products will be distributed through already existent sales channels of hospitals, clinics and pharmacies. Preparatory developments are in the process for the new product field of inhalers for treating asthma, bronchitis and other chronic or acute respiratory diseases as well as products for measuring the oxygen level in blood. According to the company, these new products will be released during the course of the 2010 fiscal year.

In the Warming Systems segment the company pursues a strategy that targets international niche markets. The main focus is on research and development activities in order to expand the product portfolio and transfer the warming technology to new application areas. However, a major part of necessary research and development expenses occurred in the last three years and are no longer expected to continue at this level. The warming technology is already applied in the civil as well as in the military sector. With the initiated product extension, the warming technology is intended to be transferred to the emergency response segment. The primary goal is to increase sales up to the level required to operate profitable on the segment level.

With regard to the Respiratory segment, the company concentrates on further product developments as well as adaption of existent products to market demand. Research and development activities are still on a high level and will remain there in 2010 and 2011. The products for monitoring pulmonary function, which were produced at the beginning of the last year, are currently in the commercial launch phase. The same is true for the Ergostik and Ergostik Complete products, which offer cardiopulmonary function diagnostics and performance diagnostics. Geratherm is pursuing the goal of operating in various MedTech markets by deploying its platform strategy based on the proprietary Blue Cherry software. Applying the Blue Cherry software, functionality usually reserved for hospital laboratories and scientific research centers is being made available to the primary care sector. Hence, the Respiratory segment is also addressing niche markets enabling its customers to improve diagnosis and treatment. Additionally, by following the platform software strategy, the existent but more importantly new devices are functionally standardized and therefore easier to handle by cutomers already using Geratherm's MedTech products.

Market launch efforts determine the strategy applied in the Cardio/Stroke business area. Studies, which are jointly conducted with third parties (at various university hospitals and cardiologic centers) on the basis of technology for detecting atrial fibrillation, accompany the market entry phase in order to validate usefulness and effectiveness of the patented and innovative technology SRA. Furthermore, Geratherm is cooperating with Draegerwerk AG & Co. KGaA, that

**Temperature
Management segment
– Healthcare
Diagnostics**

**Temperature
Management segment
– Warming Systems**

Respiratory segment

Cardio/Stroke segment

integrates Geratherm's SRAclinic in its installed basis for German-speaking countries. Draegerwerk AG & KGaA develops, produces and markets equipment and systems in the medical and safety technology fields. These sales agreements allow Geratherm to market its relatively new technology in collaboration with a bigger and more reputable market player. Therefore, market entry barriers are bypassed and marketing and distribution expenses lowered. At the company level this market entry strategy lowers business risk but on the other hand increases dependence on cooperation partners.

Products

Cardio/Stroke

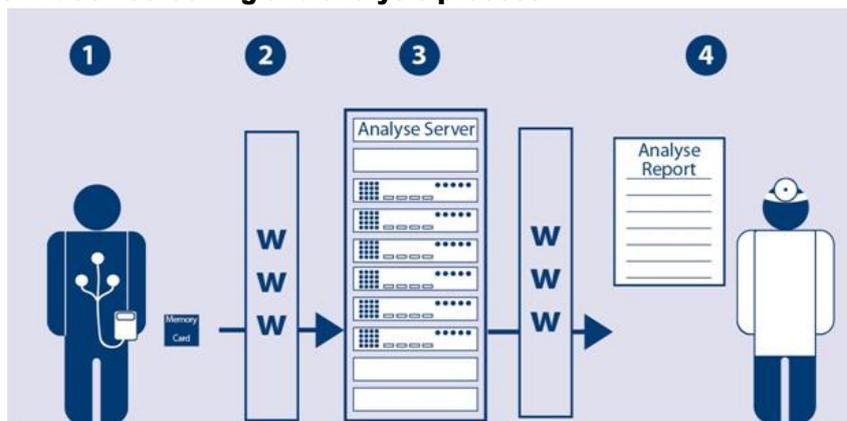
The Cardio/Stroke product area is embedded in Geratherm's subsidiary apoplex medical technologies GmbH located in Pirmasens, Germany. apoplex has specialized in new and innovative technological products for preventing strokes. To this end, apoplex has developed a system for identifying cardio-arrhythmia / atrial fibrillation in order to prevent a stroke (20-25% of all strokes are caused by atrial fibrillation). The solution offered by apoplex is a innovative screening method for detecting atrial fibrillation.

The screening method identifies the changes in heart rate dynamics in correlation with paroxysmal atrial fibrillation by using a combination of six mathematical parameters and a subsequent comparison with healthy subjects. With this procedure, changes in connection with paroxysmal atrial fibrillation (PAF) could be identified with a high sensitivity. A normal electrocardiogram (ECG) provides information about the electric activity of the heart and registers the heart's rhythm when the atrial fibrillation occurs. The difficulty is to identify PAF at the time of testing even though the patient is not suffering from atrial fibrillation during the time of testing. The technology offered by apoplex is geared to eliminate this deficit of conventional ECG recording and specializes in detecting atrial fibrillation even it is not evident at the time of the measurement (paroxysmal atrial fibrillation).

Screening for atrial fibrillation

New technology calculates the risk for atrial fibrillation

SRAdoc - screening and analysis process



Source: Geratherm Medical AG, CBS Research AG

The user of apoplex's products will be provided with an automatically generated report as a PDF File either via Email or via its personal data base access to a server stored at apoplex. apoplex is offering two products that are intended to prevent strokes.

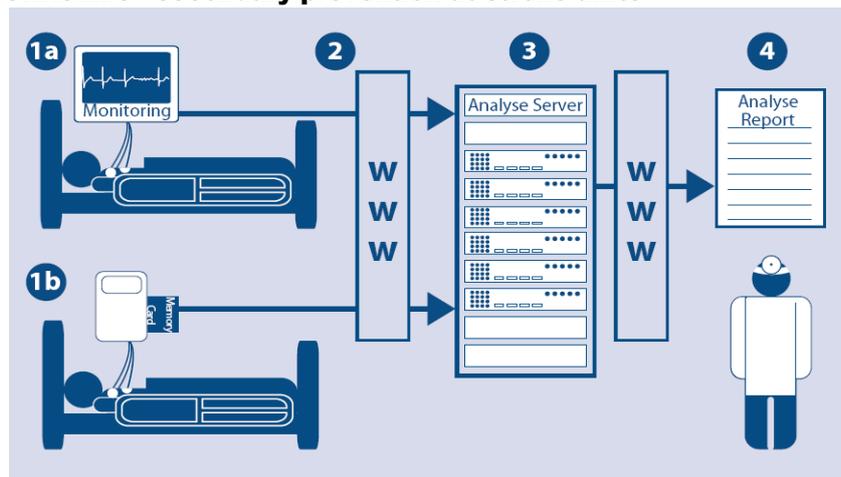
The first product (SRAdoc) is made for and mainly used by general Practitioners (doctors' offices). The product automatically fully screens patients with relevant risk factors in order to obtain a qualified risk assessment. Besides the risk for PAF there might be other important features in the patient's ECG that can be analyzed or reviewed with the internet-based report and analysis technology of apoplex. There is no additional software or special hardware needed and access is possible from each PC with internet connection via a link provided by apoplex to its customers.

SRAdoc-primary prevention

With the second product (SRAclinic), a screening for PAF in patients at stroke units is performed. Stroke units are specialized departments with a focus on the treatment of patients immediately following stroke. The SRAclinic helps to decrease the number of strokes with unknown etiology (cryptogenic strokes) and hence, decreases the probability for recurrent strokes. The difference of the SRAclinic compared to the other SRA applications is that the SRAclinic is used on patients after a stroke. The application is focused on solving the question of whether atrial fibrillation was the cause for the stroke. A reliable answer to this question and the facilitated subsequent proof eases a treatment decision and improves treatment quality of patients.

SRAclinic-secondary prevention

SRAclinic - secondary prevention at stroke units



Source: Geratherm Medical AG, CBS Research AG

Temperature Management

The Temperature Management business unit is divided into the **Medical Warming Systems** and the Healthcare Diagnostic division. In the Medical Warming Systems division Geratherm develops, manufactures and markets products for the measurement and maintenance of body temperature. The spectrum ranges from portable mini-computers for the documentation of body temperature to active patient warming systems with the trademarks UniqueTemp and UniqueResc which are used in the operating theatre and in rescue situations. Geratherm Warming Systems permit fully automated hypothermia prevention by using microchip technology in combination with ultra-fine conductive fabric. A variant of the system for use in the operating theatre is increasingly being employed in rescue missions. Geratherm provides low-cost products for sea and mountain rescue and for rescue helicopters. With regard to patient warming systems used in the operating theatre more than 3,000 systems have already been installed up to the present. With its Temperature Management division Geratherm is servicing an international niche market.

Patient warming systems an international niche market

In the **Healthcare Diagnostic** division Geratherm develops, manufactures and markets products for measuring vital data, especially body temperature and blood pressure. Geratherm is internationally well-known for its wide range of clinical thermometers that have been marketed to pharmacies and hospitals around the world for many years. In the clinical thermometer segment, Geratherm enjoys competitive advantages that secure its solid market position. The clinical thermometer business proved to be a stable source of income for the company in 2009. Highly qualitative and environmentally friendly products helped to boost revenues of this division despite weak economic surroundings. The main driver was the classical product of Geratherm, a mercury-free clinical glass thermometer that is filled with gallium. With the new developed solar clinical thermometer the company broadened its product portfolio and underscored its ecological awareness.

Additionally, the company offers blood pressure monitors for various applications (measuring upper arm and wrist blood pressure with integrated arrhythmia detection and computer interface). These supplementary products are distributed through pharmacies and hospitals, the same sales channels used for the other healthcare diagnostics products.

Respiratory

Founded in 2007, Geratherm Respiratory focuses on the development, production and marketing of products designed for pulmonary function diagnostics and cardiopulmonary function diagnostics. For the pulmonary function test (spirometry), the so-called flow/volume measurement is used to evaluate the function of the lungs and respiratory. Here the company has developed Spirostik Complete, which is a USB PC spirometer with an integrated Microsoft Windows computer and high speed thermal printer. All products rely on the company's own diagnostic software platform called Blue Cherry. The Spirostik Complete comes with full network compatibility allowing all data to be easily shared between multiple Spirostik devices, or other Blue Cherry diagnostic systems. Furthermore with this compatibility data can be sent directly to local information systems in the form of a PDF file directly from the desktop device without the need to be loaded into a second software package on the network.

In addition to testing pulmonary function, Geratherm Respiratory also offers solutions for diagnosing cardiopulmonary function. The devices developed and produced by Geratherm enable its customers to analyze breath-by-breath gas exchange of its patients and for example integrate features like automatic detection of anaerobic threshold. The Ergostik devices are based on the proprietary Blue Cherry diagnostic software also implemented into the Spirostik product. Hence, all the devices offered by Geratherm are compatible among each other allowing all data to be easily shared between multiple devices, or other Blue Cherry review stations and diagnostic systems.

The software based products in the Respiratory business unit are all suitable for connecting to the internet. Using an internet connection the implemented Blue Cherry software can automatically download updates, ensuring the system is always updated to the latest software version. All Geratherm Respiratory products are designed to meet the ATS and ERS criteria and other international standards and guidelines. The Ergostik and the Spirostik comply with DIN EN ISO 23747. In general, all Geratherm products are manufactured in accordance with DIN EN ISO 9001 and DIN EN 13485.

Dynamically growing business unit with classical glass thermometer as main growth driver

Spirostik Complete for the pulmonary function test (spirometry)

Devices for diagnosing cardiopulmonary function

Geratherm products manufactured in accordance with DIN EN ISO 9001 and DIN EN 13485

Market environment

Temperature management market

Temperature measurement

Due to the high toxicity mercury-based thermometers are presently banned in most developed countries and as a consequence were replaced by alternative temperature measurement devices. After the ban of mercury in most developed countries, over the last several years the thermometer market has significantly changed, became more diversified in terms of technology, and can be segmented as digital, electronic infrared and gallium-based thermometer. Thus, worries regarding the use of mercury in thermometers, and the subsequent phase out of mercury thermometers in several developed markets led to completely new set of innovative thermometers.

Presently, the thermometer market has to a large extent reached saturation. The competitive environment of this sector is characterised by lower entry barriers which attract plenty of new market players causing price erosion and moderate growth rate compared to other types of medical equipment. Aside from numerous small producers there are some large medical device manufacturers whose business model also implies the production of temperature monitor devices.

In terms of geographical breakdown the thermometers market development considerably varies, e.g. in some countries with lower income per cap the demand for more expensive types of thermometers (electronic, digital) is highly elastic, whereas in countries with more developed economies for the electronic temperature measurement devices are less price sensitive. Therefore, given this trend, gallium-based thermometers from Geratherm are very well positioned, as they are safe in contrast to mercury thermometers and cheaper than electronic ones. Thus, producing both electronic and gallium-based thermometers allows Geratherm to address the needs of various customers with different demand elasticities.

In European markets the major market players are Covidien, Omron Healthcare, Inc, A&D Medical, Microlife Corporation and Geratherm. According to Frost & Sullivan research, while the Western Europe thermometers market has already matured, the Eastern Europe thermometers market is still in the growing stage. The primary market growth drivers should be further product improvements and introducing new product features. (Source: Frost & Sullivan; Thermometer Market: Eastern Europe Vs Western Europe; Dec 2007)

Temperature maintenance

In the segment of medical warming systems Geratherm offers products that are designed to maintain the body's temperature. Geratherm supplies warming systems to clinics (UniqueTemp⁰ label) and international service organizations (UniqueResc+ label). The products developed by the company for both submarkets are presently in the market launch phase.

Medical warming systems are designed to prevent hypothermia (a condition in which core temperature drops below the required for normal metabolism and body functions). According to MedTech Insight research, hypothermia occurs in 21% to 66% of all trauma patients, and it is estimated that 60% to 70% of the ~15m patients who undergo surgery with anesthesia annually in Europe become

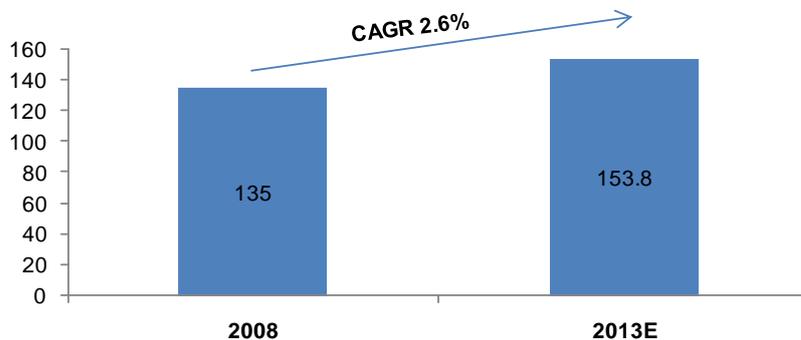
Substitution of toxic mercury thermometers in most developed countries

Highly competitive thermometer market with low market entry barriers has reached saturation

Gallium-based thermometers from Geratherm are well positioned

hypothermic. In addition ~2m patients per year become hypothermic due to accidents, adverse environmental conditions, or drowning.

Temperature management products in Europe (in USD m)



Source: MedTech Insight; CBS Research AG

In 2008, sales of temperature management products to hospitals in the European countries of France, Germany, Italy, Spain, and the United Kingdom (U.K.) amounted to ~USD 135.0m. The segment is expected to grow at a moderate rate forecasted CAGR at 2.6%, with sales reaching an estimated USD 153.8m in 2013E. (Source: European markets for temperature management products for hospitals, MedTech Insight).

USD 135m sales volume in 2008

Cardio/Stroke (Screening for cardiac arrhythmia)

Atrial fibrillation (AF), the most dangerous single risk factor for stroke, represents the most frequent cardiac arrhythmia and has been observed in approx. 0.4 to 2% of the general population. On average, 6% of patients with atrial fibrillation have a stroke, with 15-20% of all strokes occurring during fibrillation.

Over 6m patients in Europe suffer from atrial fibrillation. The primary hazard of AF is embolic stroke which is increased 4–5-fold, assuming great importance in advanced age when it becomes a dominant factor. AF is associated with about a doubling of mortality. (Source: Status of the Epidemiology of Atrial Fibrillation; WB Kannel, MD, MPH and EJ Benjamin, MD, ScMc; 2008; 92:) According to Datamonitor estimates, there are over 11m atrial fibrillation patients in the seven major markets. (Source: Stakeholder Insight: Atrial Fibrillation - Limited efficacy and poor safety lead to bleak outlook 2006). The rapid increase in atrial fibrillation prevalence is driven by a number of factors, namely ageing population, the obesity epidemic, better prevention of strokes, and better survival of patients with cardiac disease.

Atrial fibrillation prevalence is driven by several factors

Atrial fibrillation is common among older adults and provides a contemporary basis for estimates of prevalence in US. The number of patients with atrial fibrillation is likely to increase 2.5-fold during the next 50 years, reflecting the growing proportion of elderly individuals (Source: Prevalence of diagnosed atrial fibrillation in adults: national implications for rhythm management and stroke prevention: The anticoagulation and risk factors in atrial fibrillation (ATRIA) Study; Hylek EM, Phillips KA, Chang Y, Henault LE, Selby JV, Singer DE; 2001).

Growing proportion of elderly individuals come along with rising number of patients with AF

Pulmonary function diagnostics

Geratherm's products in the field of cardiopulmonary function diagnostics and performance diagnostics are currently in the commercial launch phase. The

function of the lungs and respiratory system are evaluated using different flow measurements in the pulmonary function test (spirometry).

The market of pulmonary function diagnostics is characterized by high competition. Being a relatively mature industry makes it difficult for newer companies to enter. Numerous medical devices manufacturers focus or partly operate on this area such as CareFusion (through Viasys Healthcare), A-M Systems, Vitalograph, Medical Graphics Corporation, COSMED, SensorMedics Corp, Medical Indicators Inc. Angeion Corp. and others.

According to Frost & Sullivan, one of the prime drivers for spirometry market is the increasing incidence of diseases such as Chronic Obstructive Pulmonary Disease (COPD) and asthma. Today millions of people across the world suffer from asthma and COPD. It has been estimated that anywhere between 200,000 and 300,000 people die of COPD every year in Europe. Around 30m people in Europe suffer from asthma from which just a little less than 2m undergo symptoms that can be characterized as severe. Increased prevalence of such chronic disorders can be considered to be the most important factor for the growing demand in spirometers. (Frost & Sullivan: Spirometry market breathes comfortably – a European Union Perspective; 2007).

In addition to typical growth drivers such as, cumulative effects of smoking, increase in the number of aged patients (afflicted by respiratory problems), desire for an active lifestyle by the aging population, and growth in homecare solutions, government regulations are also critical to respiratory care equipment and supplies market.

Between 200,000 and 300,000 people die of COPD every year in Europe

Government regulations as additional growth driver

Financials

Historical review

Profit and Loss Account

Geratherm's revenues are driven by long-term growth factors like the increasing life expectancy and the rise in chronic diseases. These inherent growth-factors run up the demand for healthcare services and induce investments in the market for medical technology in order to develop relevant medical devices in response to demand. Besides attractive products that focus on solving medical treatment problems or reducing costs, Geratherm's revenues are also influenced by additional key factors that include the early identification of changes in general healthcare policies. Thus, the company was able to profit from such changes in 2009. With an above average increase in revenues of approximately 43% in 2009, which was the result of the EU's ban on mercury that took effect in April of 2009, the company's management demonstrated capability of quickly reacting on governmental regulations and managing dynamic growth.

**Sales increase of +43%
in 2009**

In fiscal year 2009 total sales reached EUR 15.05m (PY: EUR 10.34m) and included other operating income (EUR 0.53m), other capitalized own work (EUR 0.06m) and change in inventory of semi-finished and finished products (EUR 0.06m). In sum, these items amounted to 4.6% of sales and lead to a slightly higher increase in total sales of 45.4% (sales increased by 42.7%). Subtracting cost of raw materials (EUR 6.09m) and costs of purchased services (EUR 0.24m) the company achieved a gross profit margin of 57.9% in 2009 (PY: 58.9%). The decrease in gross profit margin can be attributed to a disproportionate increase in cost of raw materials (50%). However, in relation to total sales cost of raw materials stood at 40%, indicating a slightly lower proportion than the historical average of 41% between 2005 and 2008. The cost of materials primarily relate to raw materials and consumables, trade goods, heating expenses, energy costs and external services that summed up to EUR 6.33m in 2009.

**Gross profit margin of
57.9%**

Geratherm's EBIT-margin jumped from 5.8% in 2008 to 14.9% in 2009. This increase marks a new profitability level. Between 2005 and 2008 the EBIT-margin ranged between 7.2% and 5.7%. But due to the surge in sales in 2009, combined with a disproportionate increase in SGA (Selling General and Administrative) expenses and depreciation amounts, operating profit considerably increased and reached EUR 2.24m in fiscal year 2009 (+276% y-o-y). The jump in the EBIT-margin shows the profit potential inherent in Geratherm's business model. Hence, operating profitability increased disproportionately with changes in total sales.

**EBIT-margin increases
by +276% y-o-y**

The company gained an EBT (Earnings before Taxes) of EUR 2.80m (PY: EUR -2.90m), which was positively influenced by the net financial result. The dividend income, income from security sales and security related expenses as well as interest income and expenses made a positive contribution of EUR 0.56m to the operating profit. However, despite the fact that in the past Geratherm's management on average succeeded in generating positive contributions from security sales, the necessary valuation adjustments of share holdings in accordance with IAS 39.67 had significantly increased volatility of net income.

**EBT of EUR 2.80m
positively influenced
by net financial result
of EUR 0.56m**

Subtracting the income taxes Geratherm's EAT (Earnings after Taxes) reached EUR 2.60m in 2009, whereas in the previous fiscal year a negative EAT of EUR -3.02m was achieved. The profit reported in the income statement for the 2009 fiscal year for the shareholders of the parent company was EUR 2.68m or EUR 0.60 per share incorporating minority interests.

EAT of EUR 2.60m

Balance Sheet

In 2009 Geratherm's balance sheet total increased by EUR 7.59m and amounted to EUR 22.65m. Current assets stood at 73.6% of the balance sheet total, corresponding to EUR 16.67m in value. Current assets surged by approximately EUR 7m which was amongst other things paralleled by the increase in loan liabilities (EUR +1.77m), the positive net income (+ EUR 2.60m) and the appreciation of the securities held by Geratherm. The security valuation adjustments in the amount of EUR 2.37m led to a surge in balanced security holdings and increased "securities hold for sale" to EUR 5.36m (+79%) as of December 31, 2009. Hence, with a total consolidated income of nearly EUR 5m in 2009, the losses and depreciations due to impairments from 2008 have almost been offset in full again.

With regard to certain items within the current assets and current liabilities Geratherm succeeded in improving its liquidity as well as operating efficiency. As can be seen from the chart hereunder, Geratherm's cash conversion cycle decreased and was accompanied by an increased working capital turnover. Whereas the cash conversion cycle indicates the amount of time that elapses from the point when a company invests in working capital until the point at which the company collects cash, the working capital turnover indicates how efficiently the company generates revenue with its working capital. For example, a working capital turnover ratio of 4 indicates that the company generates 4 EUR of revenue for every 1 EUR of working capital. A high working capital turnover ratio indicates greater efficiency (the company is generating a high level of revenues relative to working capital).

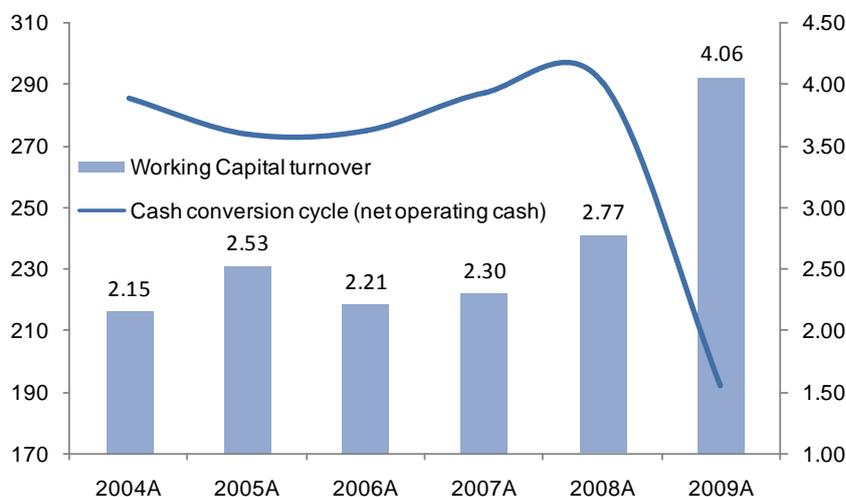
Related to the cash conversion cycle, Geratherm decreased the time between the outlay of cash and the collection of cash from 285 in 2004 to 192 in 2009. The time between the outlay of cash and the collection of cash is called the "cash conversion cycle". As mentioned before, a shorter cash conversion cycle indicates greater liquidity. A short conversion cycle implies that the company only needs to finance its inventory and accounts receivable for a short period of time. A longer cash conversion cycle indicates lower liquidity; it implies that the company must finance its inventory and accounts receivable for a longer period of time, possibly indicating a need for a higher level of capital to fund current assets.

Security valuation adjustments in the amount of EUR +2.37

Increased working capital turnover indicates greater operating efficiency

Decreased cash conversion cycle indicates improved liquidity measure

Operating efficiency and cash conversion cycle (in days) for Geratherm



Source: Geratherm Medical AG, CBS Research AG

Other important items on the asset side of the balance sheet are the long term assets amounting to EUR 3.36m and the deferred taxes in the amount of EUR 2.63m. The deferred taxes are assets from the tax losses carried forward less the deferred tax liabilities on capitalized developments. Long-term assets, development costs, software and goodwill form the intangible assets in the amount of EUR 1.04m, whereas land, technical equipment, factory and office equipment and construction in process presented the tangible assets in the amount of EUR 2.32m. The higher amount of fixed assets can be traced back to an investment program pursued in an effort to increase the capacities at the Geschwenda location for the amount of EUR 0.76m in order to meet the surging demand for clinical thermometers.

In 2009 the company's equity capital accounted for 78% of the balance sheet total or EUR 3.93 per share. Although equity capital increased by nearly 40% in absolute terms in 2009, its share of total equity and liabilities decreased from 84% to 78%. This development was caused by increased current and noncurrent liabilities totaling EUR 4.98m (EUR +2.57m) as of 2009.

Forecasts

Profit and Loss Account

Geratherm's sales depend on various factors and regulatory developments that are difficult to measure/to forecast and therefore imply high risk. For example, currently sales in the Temperature Management division is driven by the EU's ban on mercury. Although today's electrical thermometers are nearly perfect substitutes in a functional sense for clinical thermometers filled with mercury, they are not with regard to haptics. With its patented and mercury-free clinical glass thermometer containing gallium and operating without batteries or sunlight, Geratherm possesses a product that not only substitutes glass thermometers filled with mercury functionally but also haptically and optically. Despite the difficulties in assessing the influence of this patented technology on business sales, we have assumed above average growth rates for the Temperature Management segment in the short- to mid-term. We believe that Geratherm will benefit in the substitution process initiated by the EU's ban disproportionately due to its well-diversified product portfolio and already existent sales channels.

For the Medical Warming Systems division that is a subdivision of the Temperature Management division, we have oriented ourselves on the recent past and the future strategy for this segment. In doing so, we forecast an annual growth rate of 10% for this subdivision. We believe that this annual growth rate reflects adequately the management's strategy to transfer the warming technology to new application areas and to increase sales up to the level required to operate profitably on the segment level. However, due to the more dynamic growth rates assumed for other segments, this subdivision is expected to lose share of total sales continuously.

For the Cardio/Stroke division we modelled a somewhat more dynamic growth than for the Temperature Management business unit. Here two aspects are of major importance. The first aspect refers to the cooperation with a global player in the field of medical technology that integrates Geratherm's SRAclinic in its installed basis for German-speaking countries. Draegerwerk AG & KGaA is a German-based and internationally diversified medical technology company that generates 80% of its sales volume of approximately EUR 2bn outside Germany. This sales agreement allows Geratherm to market its relatively new technology in collaboration with a bigger and more reputable market player. Furthermore, in

Increase in long-term assets primarily due to investment in capacities

Above average growth rate in Temperature Management division due to EU's mercury ban and probable worldwide extension of the ban

Declining share of total sales for the Medical Warming Systems division despite annual growth rate of 10%

Cooperation with Draegerwerk AG & Co. KGaA

case of successful product launch in Germany, Geratherm has the opportunity to extend this business relationship and show even more dynamic growth rates in the Cardio/Stroke business segment than assumed in our estimates, by entering international markets (Draegerwerk possesses a global network of its own sales and service companies in 40 countries, with representatives in a total of 190 countries).

The second aspect relates to the fact that atrial fibrillation screening is becoming more and more important for compulsory health insurance funds. apoplex signed contracts with two major insurance companies that reimburse preventive medical checkups of panel patients in the field of primary care. Additionally, according to Geratherm, large studies are being conducted for the second product SRAdoc in twenty cardiologic centers in Germany. In case of favorable test results this could accelerate growth within the Cardio/Stroke business unit.

Contracts signed with two major insurance companies

In the Respiratory division, Geratherm has developed a PC-based pulmonary function system for physicians, internal specialists, pulmonologist and occupational physicians. With the products Spirostik Complete and Ergostik the company is targeting niche markets. We identified two factors that we believe are important for the development in that business unit. Firstly, all products in the respiratory division are based on the same software which enables connection and communications between them. On the other hand, compatibility, internet access and data exchangeability allow specialists to operate efficiently and use modern means for work like the internet. Secondly, the products' functionalities, usually reserved for hospital laboratories and scientific research centers, are now available for the primary care sector and helps physicians to improve treatment. Therefore, with further success stories Geratherm Respiratory's product developments will gain more attention in the market which in turn will spur product sales.

Innovative functionalities and easy handling

Sales forecasts for the business segments of Geratherm Medical AG

Sales Estimates:												
(EURm)	2009			2010E			2011E			2012E		
	Revenues	Share	Change									
Healthcare Diagnostics	12.97	90.2%	40.8%	16.08	87.0%	24.0%	19.30	82.4%	20.0%	22.19	75.9%	15.0%
Medical Warning Systems	0.45	3.1%	9.8%	0.49	2.7%	10.0%	0.54	2.3%	10.0%	0.60	2.0%	10.0%
Cardio/Stroke	0.36	2.5%	206.8%	0.75	4.1%	110.0%	1.43	6.1%	90.0%	2.58	8.8%	80.0%
Respiratory	0.61	4.2%	77.6%	1.16	6.3%	90.0%	2.14	9.1%	85.0%	3.85	13.2%	80.0%
Sales	14.39		42.7%	18.49		28.5%	23.41		26.7%	29.22		24.8%

Profitability Estimates												
(EURm)	2009			2010E			2011E			2012E		
		Margin	Change									
Total sales	15.04			19.30			24.45			30.51		
Gross Profit	8.71	57.9%	45.4%	11.26	58.3%	29.3%	14.29	58.4%	26.9%	17.86	58.5%	25.0%
EBITDA	2.61	17.3%	190.2%	3.50	18.1%	34.1%	4.22	17.3%	20.6%	5.00	16.4%	18.6%
EBIT	2.24	14.9%	275.6%	3.06	15.9%	36.8%	3.69	15.1%	20.5%	4.54	14.9%	23.1%
Net income	2.60	17.3%	n.a.	3.53	18.3%	35.5%	4.07	16.6%	15.3%	4.78	15.7%	17.6%

Source: Geratherm Medical AG; CBS Research AG

As mentioned before, we have estimated sales for each business unit. In doing so, we have considered Geratherm management's medium to long-term strategic sales target that aims at equalizing divisions' sales contributions. Hence, in our model the sales share of the Temperature Management division is decreasing whereas the Cardio/Stroke and the Respiratory business units continuously increase their sales shares. In our projections, sales shares will be equalised in 2019.

We have verified our assumed profitability margins for Geratherm by comparing it with our peer group companies. Whereas the assumed EBITDA- and EBIT-margin for Geratherm fall into the range of observed profitability margins, the profit margins for Geratherm are significantly above the peer group median and mean. The reason for the above-average profit margins assumed in our forecasts is that Geratherm invests significant amounts of cash in listed companies and hence, generates positive net financial results. Only in 2008, when the largest economic crisis of the postwar period raged and caused much destabilization of capital markets, impairment losses on the stakes lead to an exceptionally negative impact on net financial result and pulled down net income by EUR - 4,02m. However, as the global economy further stabilizes and systemic risk decrease, which in turn should lower the probability of impairments on security holding, we have assumed positive contributions from investment activities. Between 2010E and 2012E we have assumed positive contributions of EUR 1m annually. From 2013E onwards, the positive contribution in our model decreases annually by EUR 0.1m.

A complementary explanation for the above-average profit margin of Geratherm are the losses carried forward of EUR 9.7m as of 31 December 2009. The tax losses carried forward generally minimise the tax burden of Geratherm in future periods. In our valuation model, we have assumed that within the next three fiscal years Geratherm will have consumed all of its losses carried forward. Furthermore, we suppose that Geratherm's deferred tax assets of EUR 2.63m (as of 31 December 2009) are solely caused by losses carried forward and will fade away simultaneously with the reducing losses carried forward.

Balance Sheet

In estimating Geratherm's balance sheet, we have pictured a balance sheet structure that complies with the forecasted company growth. Concerning the equity ratio we have forecasted an increase from 78% in 2009 to 82.5% in 2012E. The increase between 2009 and 2010E is influenced by the capital increase in the amount of EUR 3.6m that was executed on 11 March 2010. However, the main part of shareholders' equity increase is caused by retained earnings.

Noncurrent liabilities we expect to remain at the 2009 level balanced. Current liabilities remain also almost unchanged as their share of balance sheet total increases by only 10 basis points between 2009 and 2012E. The main item within current liabilities remains trade liabilities, which increase with total sales. In 2009 trade payables amounted to EUR 0,71m whereas in 2012E this item, according to our estimates, will reach an amount of EUR 1.27m. This implies a disproportionate increase with regard to sales. While sales between 2009 and 2012E are expected to increase annually on average by 27%, trade payables will only increase by 21%.

With regard to the asset side of the balance sheet, proportions change significantly within the projected period. As mentioned before, the deferred tax assets will dissolve in our valuation model, as we have assumed that within the next three fiscal years Geratherm will have consumed all of its losses carried forward. The assumed reduction in deferred taxes, in combination with relatively moderate investments in noncurrent assets between 2010E and 2012E, will lead to noncurrent assets' share of balance sheet total of 10.9% in 2012E (2009: 14.8%). Within noncurrent assets, we have assumed investments of EUR 0.7m in 2010E and EUR 0.3m in 2011E for technical equipment and machinery that will be necessary to master future growth in the Healthcare Diagnostics division. Additionally, we have supposed investments for other equipment, factory and

Above-average profit margin are explained by positive net financial result and...

...deferred tax assets in combination with losses carried forward

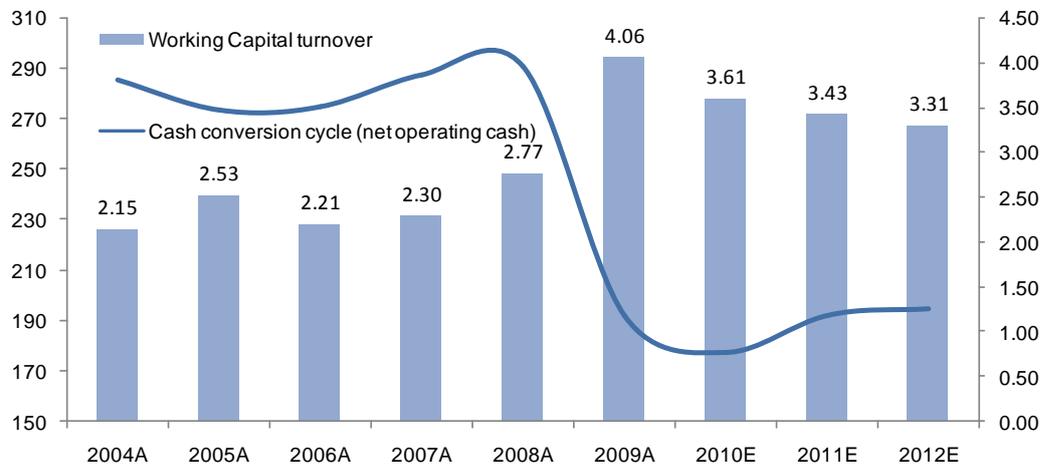
Equity ratio increases from 78% to 82.5%

Disproportionate increase of trade payables

Assumed investments necessary to master future growth

office equipment. For the remaining items within noncurrent assets, we have fixed the amounts displayed in the balance sheet of 2009 or assumed no replacement expenditures so that expected depreciation amounts will lead to continuously declining balanced amounts.

Projected balance sheet items and implied efficiency/liquidity ratio (in days)



Source: Geratherm Medical AG, CBS Research AG

As can be seen from the chart above, our projections for current assets and current liabilities indicate a deteriorating efficiency (working capital turnover) between 2009 and 2012E as working capital turnover decreases from 4.06 in 2009 to 3.31 in 2012E. The cash conversion cycle, which is derived from trade receivables, trade payables and inventories, is also worsening in the projected period. However, in 2009 the efficiency and liquidity indicators improved strongly because demand effects led to a change in period fluctuations of inventory stocks. Although we believe that these demand effects will remain effective in the future, we decided to consolidate the efficiency and liquidity improvements on a lower level. In doing so, we emphasize our conservative valuation approach as these indicators significantly influence free cash flows of the company.

**Demand effects
change periodic
fluctuations of
inventory stocks**

Appendix

Profit and loss account

	IFRS	EURm	2007	2008	2009	2010E	2011E	2012E
Sales			8.80	10.08	14.39	18.49	23.41	29.22
YoY growth			2.5%	14.5%	42.7%	28.5%	26.7%	24.8%
Change in inventory of semi-finished and finished products			0.17	-0.39	0.06	0.05	0.07	0.08
Other capitalized own work			0.21	0.33	0.06	0.35	0.44	0.55
Other operating income			0.18	0.33	0.53	0.42	0.53	0.66
Total sales			9.36	10.34	15.04	19.30	24.45	30.51
YoY growth			5.0%	10.5%	45.4%	28.3%	26.7%	24.8%
Cost of raw materials, consumables and goods for resale			-3.91	-4.06	-6.09	-7.58	-9.60	-11.98
Costs of purchased services			-0.19	-0.24	-0.46	-0.56	-0.67	-0.78
Gross profit			5.19	6.09	8.71	11.26	14.29	17.86
as % of Total sales			55.4%	58.9%	57.9%	58.3%	58.4%	58.5%
Personnel expenses			-2.26	-2.56	-3.10	-4.07	-5.38	-7.01
as % of Total sales			24.1%	24.7%	20.6%	22.0%	23.0%	24.0%
Amortization & Depreciation			-0.31	-0.30	-0.37	-0.44	-0.48	-0.41
as % of Total sales			3.4%	2.9%	2.5%	2.3%	1.9%	1.3%
Other operating expenses			-2.00	-2.64	-3.01	-3.70	-4.68	-5.84
as % of Total sales			21.4%	25.5%	20.0%	20.0%	20.0%	20.0%
EBIT			0.62	0.60	2.24	3.06	3.75	4.60
as % of Total sales			6.6%	5.8%	14.9%	15.8%	15.3%	15.1%
Net financial result			0.82	-3.50	0.56	0.95	0.97	0.99
as % of Total sales			8.8%	-33.8%	3.7%	4.9%	4.0%	3.2%
EBT			1.44	-2.90	2.80	4.01	4.72	5.59
as % of Total sales			15.4%	-28.1%	18.6%	20.8%	19.3%	18.3%
Income taxes			-0.14	-0.12	-0.19	-0.34	-0.42	-0.51
as % of EBT			10.0%	4.0%	6.9%	8.4%	8.8%	9.2%
EAT (Earnings after tax)			1.30	-3.02	2.60	3.67	4.30	5.07
as % of Total sales			13.8%	-29.2%	17.3%	19.0%	17.6%	16.6%
Results of the minority interests			-0.10	-0.10	-0.08	0.00	0.00	0.00
Results of the shareholders of the parent company			1.39	-2.92	2.68	3.67	4.30	5.07
as % of Total sales			14.9%	-28.2%	17.8%	19.0%	17.6%	16.6%
Shares outstanding (m), weighted			4.50	4.50	4.50	4.87	4.95	4.95
Basic earnings per share (EUR)			0.31	-0.65	0.60	0.74	0.87	1.02

Source: CBS Research AG; Geratherm Medical AG

Balance sheet

	IFRS	EURm	2007	2008	2009	2010E	2011E	2012E
Assets								
Noncurrent assets			2.39	2.81	3.36	3.70	3.65	3.40
as % of total assets			13.2%	18.6%	14.8%	13.1%	11.8%	9.9%
Development costs			0.55	0.92	0.92	0.73	0.55	0.36
Software			0.04	0.05	0.04	0.04	0.04	0.04
Goodwill			0.08	0.08	0.08	0.08	0.08	0.08
Land, land rights and buildings			1.35	1.27	1.20	1.12	1.05	0.97
Technical equipment and machinery			0.23	0.30	0.73	1.35	1.55	1.45
Other equipment, factory and office equipment			0.15	0.15	0.15	0.14	0.15	0.26
Construction in process			0.00	0.04	0.23	0.23	0.23	0.23
Current assets			13.01	9.59	16.67	22.83	26.36	30.93
as % of total assets			71.6%	63.7%	73.6%	80.5%	85.2%	90.1%
Trade receivables			1.89	1.98	2.36	3.17	4.02	5.02
Tax receivables			0.11	0.06	0.10	0.10	0.10	0.10
Other assets			0.11	0.10	0.32	0.32	0.32	0.32
Inventories			2.93	3.08	2.82	4.18	5.34	6.69
Securities			5.88	2.99	5.36	6.75	6.75	6.75
Cash and cash equivalents			2.09	1.37	5.70	8.30	9.83	12.05
Deferred taxes			2.76	2.66	2.63	1.84	0.94	0.00
as % of total assets			15.2%	17.7%	11.6%	6.5%	3.0%	0.0%
Total assets			18.17	15.06	22.65	28.37	30.95	34.33
Shareholders' equity and liabilities								
Shareholders' equity			16.38	12.65	17.67	22.85	25.20	28.33
as % of total equity and liabilities			90.2%	84.0%	78.0%	80.5%	81.4%	82.5%
Subscribed capital			4.50	4.50	4.50	4.95	4.95	4.95
Capital reserves			7.57	7.57	7.57	10.58	10.58	10.58
Other reserves			4.18	0.53	5.60	7.32	9.68	12.80
Minority interests			0.12	0.05	0.00	0.00	0.00	0.00
Noncurrent Liabilities			0.82	0.92	3.07	3.09	3.09	3.09
as % of total equity and liabilities			4.5%	6.1%	13.6%	10.9%	10.0%	9.0%
Liabilities to banks			0.00	0.00	2.00	2.00	2.00	2.00
Accrued investment subsidies			0.56	0.52	0.61	0.59	0.59	0.59
Other long-term liabilities			0.26	0.41	0.47	0.50	0.50	0.50
Current Liabilities			0.97	1.49	1.91	2.43	2.65	2.91
as % of total equity and liabilities			5.4%	9.9%	8.4%	8.6%	8.6%	8.5%
Liabilities to banks			0.00	0.67	0.44	0.58	0.58	0.58
Payments on accounts			0.07	0.00	0.08	0.09	0.09	0.09
Trade payables			0.46	0.36	0.71	0.79	1.01	1.26
Tax liabilities			0.05	0.04	0.15	0.20	0.20	0.20
Other short-term liabilities			0.40	0.42	0.53	0.77	0.77	0.77
Total equity and liabilities			18.17	15.06	22.65	28.37	30.95	34.33

Source: CBS Research AG; Geratherm Medical AG

Cash flow statement

	IFRS	EURm	2007	2008	2009	2010E	2011E	2012E
Net income			1.30	-3.02	2.60	3.67	4.30	5.07
Depreciation and amortization			0.31	0.30	0.37	0.44	0.48	0.41
Decrease in deferred taxes			0.14	0.10	0.04	0.79	0.90	0.94
Income from security trading			-0.75	-0.49	-1.16	-1.00	-1.00	-1.00
Loss from valuation of securities			0.01	4.02	0.50	0.00	0.00	0.00
Increase/decrease in Inventories			-0.36	-0.15	0.26	-1.36	-1.16	-1.35
Increase/decrease in trade receivables			0.26	-0.03	-0.65	-0.81	-0.85	-1.00
Change in current liabilities and other liabilities			-0.19	-0.30	0.59	0.35	0.22	0.26
Increase in accrued investment subsidies			-0.05	-0.04	0.09	-0.01	0.00	0.00
Increases/decreases in other costs affecting income/expenses			0.37	0.09	0.06	0.03	0.00	0.00
Cash flow from operating activities			1.04	0.47	2.71	2.09	2.90	3.33
Cash outflow for investments in fixed assets			-0.45	-0.72	-0.83	-0.79	-0.42	-0.16
Monies received based on financial assets			2.67	1.00	2.73	1.00	1.00	1.00
Cash outflow based on financial assets			-4.82	-0.99	-2.09	-1.39	0.00	0.00
Profit and loss from revaluation of securities			0.00	0.00	0.00	0.00	0.00	0.00
Cash flow from investing activities			-2.60	-0.72	-0.19	-1.18	0.58	0.84
Increase in loan liabilities			0.00	0.67	1.77	0.14	0.00	0.00
Inflow from long-term liabilities			0.16	0.15	0.06	0.04	0.00	0.00
Dividend payments			-1.80	-1.35	0.00	-1.95	-1.95	-1.95
Dividend payout to minorities			0.00	-0.01	-0.02	0.00	0.00	0.00
Cash inflow from minority interests			0.16	0.07	0.00	0.00	0.00	0.00
Net incoming payment from capital increase			0.00	0.00	0.00	3.46	0.00	0.00
Cash flow from financing activities			-1.49	-0.47	1.81	1.69	-1.95	-1.95
Total change in cash and cash equivalents			-3.05	-0.71	4.33	2.60	1.53	2.22
Cash and cash equivalents at the start of the period			5.13	2.08	1.37	5.70	8.30	9.83
Cash and cash equivalents at the end of the period			2.08	1.37	5.70	8.30	9.83	12.05

Source: CBS Research AG; Geratherm Medical AG

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