

Recommendation: **BUY** (BUY) Risk: **MEDIUM** (Medium) Price Target: **EUR 10.20** (10.20)

22 November 2010

Export sales show impressive growth

On 18 November 2010, Geratherm Medical AG reported financial figures for 3Q 2010. During the first nine months of 2010, the company increased sales by 22.8% to EUR 12.46m. Total sales jumped by 22% to EUR 12.96m. The main growth driver was the demand for Geratherm's environmentally friendly products with gallium filling. Aside from Germany where revenues decreased by -18.2% to EUR 1.6m, Geratherm advanced with export sales that stood for 88% of generated turnover. Geratherm's management mentioned that "turnover development in the German market is unsatisfactory, but has been exhibiting an improving trend in the past two months". We assess the turnover development on the German market not as critical or significant for several reasons. First of all, the submarkets in the USA (9M 2010: Sales +EUR 0.17m yoy) and other regions (+EUR 0.18m) more than compensated for the decline observed in the German market (-EUR 0.34m) in absolute terms. Secondly, the impressive growth dynamics in Europe (+28.8%) and South America (+63.4%) opens up the chance of even higher sales growth in the future as sales growth impact of the domestic market steadily decreases with ascending export sales. For 2010E, we expect that Geratherm's subsidiary in Sao Paulo will generate more sales on the group level than the German market for the first time.

Furthermore, besides continuous growth within Geratherm's core business segment Healthcare Diagnostics (9M 2010: Sales +26.1% yoy), additional growth impulses are expected to be stimulated by the Medical Warming Systems and the Cardio/Stroke segments. On 20th September 2010, the company obtained FDA approval for its Medical Warming Systems, paving the way for their distribution on the US market. With regard to the Cardio/Stroke segment strong growth in the customer base could be observed. Therefore we do not adjust our sales projections for the current fiscal year 2010E and thereafter.

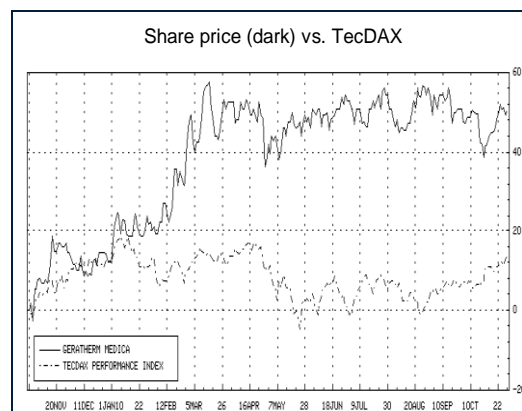
The company's operating result (EBIT) increased by 18.9% to EUR 1.88m in 9M 2010. During 9M 2009, Geratherm's EBIT-margin rose by 271%. Although 9M 2009 was not a representative year influenced by several positive non-recurring items, the anew rise in Geratherm's EBIT-margin during 9M 2010 demonstrates that growth dynamics do not dilute margins.

Unchanged price target: We reiterate our BUY recommendation and our price target of EUR 10.20 per share.

Key data

Y/E 31.12., EUR m	2008	2009	2010E	2011E	2012E
Sales	10.1	14.4	18.5	23.4	29.2
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	0.11	0.60	0.17	0.55	0.63
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	51.4	13.7	10.0	8.2	6.7
P/E	-13.4	15.5	11.0	9.4	8.0

Source: Geratherm Medical AG, CBS Research AG



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: Healthcare-Products
WKN: 549562 ISIN: DE0005495626
Reuters: GMEG.DE Bloomberg: GME GY

Short company profile

Geratherm is an internationally operating medical technology company. The company produces temperature and blood pressure monitors.

Share data:

Share price (last closing price, EUR):	8.16
Shares outstanding (m):	4.95
Market capitalisation (EURm):	40.14
Enterprise value (EURm):	30.63
Ø daily trading volume (3 m., no. of shares):	5,393

Performance data:

High 52 weeks (EUR):	9.40
Low 52 weeks (EUR):	6.20
Absolute performance (12 months):	25%
Relative performance: (vs. TecDAX)	
1 month	-2.0%
3 months	-10.8%
6 months	-13.7%
12 months	14.8%

Shareholders:

GMF Beteiligungs-beratung GmbH	52.0%
Freefloat	48.0%

Financial calendar:

n.a.

Author: Enid Omerovic (Analyst)

Close Brothers Seydler Research AG
Phone: +49 (0) 69-977 84 56 0
Email: research@cbseydlerresearch.ag

www.cbseydlerresearch.ag

Appendix

Geratherm Medical AG

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	0.96	0.98
as % of Total sales			8.8%	-33.8%	3.7%	4.9%	3.9%	3.2%
EBT			1.44	-2.90	2.80	4.01	4.71	5.57
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	4.29	5.06
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	4.29	5.06
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

Research



Schillerstrasse 27 - 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 977 8456-0

Roger Peeters CEO	+49 (0)69 -977 8456- 12 Roger.Peeters@cbseydlerresearch.ag		
Martin Decot	+49 (0)69 -977 8456- 13 Martin.Decot@cbseydlerresearch.ag	Rabeya Khan	+49 (0)69 -977 8456- 10 Martin.Decot@cbseydlerresearch.ag
Igor Kim	+49 (0)69 -977 8456- 15 Igor.Kim@cbseydlerresearch.ag	Ralf Marinoni	+49 (0)69 -977 8456- 17 Ralf.Marinoni@cbseydlerresearch.ag
Manuel Martin	+49 (0)69 -977 8456- 16 Manuel.Martin@cbseydlerresearch.ag	Enid Omerovic	+49 (0)69 -977 8456- 19 Enid.Omerovic@cbseydlerresearch.ag
Marcus Silbe	+49 (0)69 -977 8456- 14 Marcus.Silbe@cbseydlerresearch.ag	Veysel Taze	+49 (0)69 -977 8456- 18 Veysel.Taze@cbseydlerresearch.ag

Institutional Sales



Schillerstrasse 27 - 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 9 20 54-400

Raimar Bock Head of Sales	+49 (0)69 -9 20 54-115 Raimar.Bock@cbseydler.com		
Rüdiger Eich (Germany, Switzerland)	+49 (0)69 -9 20 54-119 Ruediger.Eich@cbseydler.com	Uwe Gerhardt (Germany, Switzerland)	+49 (0)69 -9 20 54-168 Uwe.Gerhardt@cbseydler.com
Klaus Korzilius (Austria, Benelux, Germany)	+49 (0)69 -9 20 54-114 Klaus.Korzilius@cbseydler.com	Stefan Krewinkel (Execution, UK)	+49 (0)69 -9 20 54-118 Stefan.Krewinkel@cbseydler.com
Markus Laifle (Execution)	+49 (0)69 -9 20 54-120 Markus.Laifle@cbseydler.com	Bruno de Lencquesaing (Benelux, France)	+49 (0)69 -9 20 54-116 Bruno.deLencquesaing@cbseydler.com

Sales USA



111 Town Square Place
Suite 1500A
Jersey City, NJ 07310

Phone: +1 201 216 0100

Tom Higgins	+1 201 706 6013 thiggins@hudsonsecurities
-------------	---

Disclaimer and statement according to § 34b German Securities Trading Act (“Wertpapierhandelsgesetz”) in combination with the provisions on financial analysis (“Finanzanalyseverordnung” FinAnV)

This report has been prepared independently of the company analysed by Close Brothers Seydler Research AG and/ or its cooperation partners and the analyst(s) mentioned on the front page (hereafter all are jointly and/or individually called the ‘author’). None of Close Brothers Seydler Research AG, Close Brothers Seydler Bank AG or its cooperation partners, the Company or its shareholders has independently verified any of the information given in this document.

Section 34b of the German Securities Trading Act in combination with the FinAnV requires an enterprise preparing a security analysis to point out possible conflicts of interest with respect to the company that is the subject of the analysis.

Close Brothers Seydler Research AG is a majority owned subsidiary of Close Brothers Seydler Bank AG (hereafter ‘CBS’). However, Close Brothers Seydler Research AG (hereafter ‘CBSR’) provides its research work independent from CBS. CBS is offering a wide range of Services not only including investment banking services and liquidity providing services (designated sponsoring). CBS or CBSR may possess relations to the covered companies as follows (additional information and disclosures will be made available upon request):

- a. CBS holds more than 5% interest in the capital stock of the company that is subject of the analysis.
- b. CBS was a participant in the management of a (co)consortium in a selling agent function for the issuance of financial instruments, which themselves or their issuer is the subject of this financial analysis within the last twelve months.
- c. CBS has provided investment banking and/or consulting services during the last 12 months for the company analysed for which compensation has been or will be paid for.
- d. CBS acts as designated sponsor for the company's securities on the basis of an existing designated sponsorship contract. The services include the provision of bid and ask offers. Due to the designated sponsoring service agreement CBS may regularly possess shares of the company and receives a compensation and/ or provision for its services.
- e. The designated sponsor service agreement includes a contractually agreed provision for research services.
- f. CBSR and the analysed company have a contractual agreement about the preparation of research reports. CBSR receives a compensation in return.
- g. CBS has a significant financial interest in relation to the company that is subject of this analysis.

In this report, the following conflicts of interests are given at the time, when the report has been published: b, d, f

CBS and/or its employees or clients may take positions in, and may make purchases and/ or sales as principal or agent in the securities or related financial instruments discussed in this analysis. CBS may provide investment banking, consulting, and/ or other services to and/ or serve as directors of the companies referred to in this analysis. No part of the authors compensation was, is or will be directly or indirectly related to the recommendations or views expressed.

Recommendation System:

Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 6 months:

BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price Target
05.07.2010	BUY (Initiating coverage)	EUR 8.50	EUR 10.20
20.08.2010	BUY (BUY)	EUR 8.70	EUR 10.20 (EUR 10.20)
22.11.2010	BUY (BUY)	EUR 8.16	EUR 10.20 (EUR 10.20)

Risk-scaling System:

Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 6 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark

MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

HIGH: The volatility is expected to be higher than the volatility of the benchmark

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies.

The figures taken from the income statement, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks.

These may change at any time without prior notice.

The opinions and forecasts contained in this report are those of the author alone. Material sources of information for preparing this report are publications in domestic and foreign media such as information services (including but not limited to Reuters, VWD, Bloomberg, DPA-AFX), business press (including but not limited to Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times), professional publications, published statistics, rating agencies as well as publications of the analysed issuers. Furthermore, discussions were held with the management for the purpose of preparing the analysis. Potentially parts of the analysis have been provided to the issuer prior to going to press; no significant changes were made afterwards, however. Any information in this report is based on data considered to be reliable, but no representations or guarantees are made by the author with regard to the accuracy or completeness of the data. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. Possible errors or incompleteness of the information do not constitute grounds for liability, neither with regard to indirect nor to direct or consequential damages. The views presented on the covered company accurately reflect the personal views of the author. All employees of the author's company who are involved with the preparation and/or the offering of financial analyzes are subject to internal compliance regulations.

The report is for information purposes, it is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the securities mentioned in this report. Any reference to past performance should not be taken as indication of future performance. The author does not accept any liability whatsoever for any direct or consequential loss arising from any use of material contained in this report. The report is confidential and it is submitted to selected recipients only. The report is prepared for professional investors only and it is not intended for private investors. Consequently, it should not be distributed to any such persons. Also, the report may be communicated electronically before physical copies are available. It may not be reproduced (in whole or in part) to any other investment firm or any other individual person without the prior written approval from the author. The author is not registered in the United Kingdom nor with any U.S. regulatory body.

It has not been determined in advance whether and in what intervals this report will be updated. Unless otherwise stated current prices refer to the closing price of the previous trading day. Any reference to past performance should not be taken as indication of future performance. The author maintains the right to change his opinions without notice, i.e. the opinions given reflect the author's judgment on the date of this report.

This analysis is intended to provide information to assist institutional investors in making their own investment decisions, not to provide investment advice to any specific investor.

By accepting this report the recipient accepts that the above restrictions are binding. German law shall be applicable and court of jurisdiction for all disputes shall be Frankfurt am Main (Germany).

This report should be made available in the United States solely to investors that are (i) "major US institutional investors" (within the meaning of SEC Rule 15a-6 and applicable interpretations relating thereto) that are also "qualified institutional buyers" (QIBs) within the meaning of SEC Rule 144A promulgated by the United States Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Securities Act") or (ii) investors that are not "US Persons" within the meaning of Regulation S under the Securities Act and applicable interpretations relating thereto. The offer or sale of certain securities in the United States may be made to QIBs in reliance on Rule 144A. Such securities may include those offered and sold outside the United States in transactions intended to be exempt from registration pursuant to Regulation S. This report does not constitute in any way an offer or a solicitation of interest in any securities to be offered or sold pursuant to Regulation S. Any such securities may not be offered or sold to US Persons at this time and may be resold to US Persons only if such securities are registered under the Securities Act of 1933, as amended, and applicable state securities laws, or pursuant to an exemption from registration.

This publication is for distribution in or from the United Kingdom only to persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom or any order made there under or to investment professionals as defined in Section 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is not intended to be distributed or passed on, directly or indirectly, to any other class of persons.

This publication is for distribution in Canada only to pension funds, mutual funds, banks, asset managers and insurance companies.

The distribution of this publication in other jurisdictions may be restricted by law, and persons into whose possession this publication comes should inform themselves about, and observe, any such restrictions. In particular this publication may not be sent into or distributed, directly or indirectly, in Japan or to any resident thereof.

Responsible Supervisory Authority:

Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, Federal Financial Supervisory Authority)

Graurheindorferstraße 108

53117 Bonn

and

Lurgiallee 12

60439 Frankfurt

 **Close Brothers Seydler**
Research AG

Schillerstrasse 27 - 29

60313 Frankfurt am Main

www.cbseydlerresearch.ag

Tel.: 0049 - (0)69 - 97 78 45 60