

HEALTHCARE

A Research Publication by DZ BANK AG

MeVis Medical Solutions⁶⁾

Reuters: M3VGn.DE

Bloomberg: M3V GY

Year *	Sales EUR m	Adj. IFRS- Earnings per sh. EUR	Cash flow per share EUR	PER	PCF	Dividend per share EUR
2009	13.9 (13.9)	0.23 (0.23)	1.91 (1.91)	101.6	12.5	0.00
2010e	14.2 (14.0)	-0.81 (-0.33)	1.32 (2.27)	-	9.7	0.00
2011e	13.5 (14.9)	-0.48 (-0.26)	1.78 (2.64)	-	5.7	0.00
2012e	13.2 (15.5)	-0.01 (-0.02)	2.29 (2.78)	-	4.4	0.00

* Fiscal year end December – In brackets: Figures from the last publication

High impairments on growth project

- » **Preliminary figures for 2010:** The figures presented for 2010 were disappointing overall. On the one hand, business with new licences declined sharply (-9% to EUR 9.7m). However, the company managed to achieve a slight increase in total sales (+4% to EUR 14.4m) due to growth in the maintenance business (+47% to EUR 4.7m). On the other hand, significant impairments on intangible assets of EUR 5.5m placed a strain on earnings (EBIT: EUR -6m; prev. year: EUR +1.6m). The company also had to establish additional provisions.
- » **DZ BANK opinion:** The development of new licences was particularly disappointing. The market for digital mammography now seems to be saturated given that the switch from analogue to digital has progressed further. The acceptance of new products in the Other Diagnostics segment still appears to be low, which has led to a drop in sales. Given that the development of maintenance revenues was stronger than expected, sales were even slightly better than expected overall. The impairment on the lung CT business was very disappointing. We had regarded this business as highly promising.
- » **Guidance:** We expect company guidance to be given with the final figures. However, we are now much more cautious overall following the decline in new business in the last few quarters. If the acceptance of new products does not improve markedly in the coming quarters, the liquidity position will shrink considerably due to high development costs and purchase price obligations that are still present.

The figures presented were disappointing; the risk-reward profile has deteriorated in our view. The further success of the company will strongly depend on the acceptance of new products. We currently advise against investment in MeVis.

Selected Companies	Price on 23 Mar 2011	PER		EV / EBITDA		EV / Sales 11e	Re- com.
		11e	12e	11e	12e		
MeVis Medical Solutions	10.08 EUR	-	-	5.9	4.5	1.15	↓
CompuGroup Medical	11.40 EUR	15.1	11.5	8.5	7.1	1.87	-
Merge Healthcare	4.33 USD	24.7	14.4	3.9	3.6	0.91	-
icad Inc.	1.08 USD	-	-	-	-	-	-
Sectra AB	33.20 SEK	24.2	16.0	7.5	5.8	0.99	-
Median for all peer group companies		24.2	14.4	7.5	5.8	0.99	-

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate
Source: DZ BANK, I/B/E/S, FactSet

EQUITIES

Flash
24 Mar 2011

Sell (prev. Hold)

Closing price 23 Mar 2011

(in EUR): 10.08

Fair value: 10.50 (prev. 16.00)

Risk classification: 5

Financial ratios 2011e:

Book value per share (in EUR):	15.45
Equity ratio (in %):	71.8
Net margin (in %):	-5.0
ROE (in %):	-3.1
Dividend yield (in %):	0.0
Free cash flow (EUR m):	2.4
Net debt (EUR m):	1.4

Number of shares

(million units): 1.7

Market cap

(in EUR m): 17.11

Free float (in %): 38.8

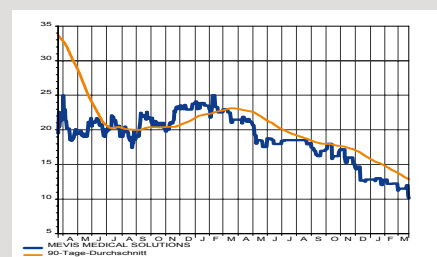
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Author: Michael Bissinger, Analyst

DZ BANK
Bank on Germany

AT A GLANCE

Company profile

MeVis Medical Solutions AG was founded in Bremen in 1997 and has been listed on Deutsche Börse's Prime Standard since 16.11.2007. MeVis is an independent manufacturer of software products for image-based medicine, especially for digital radiology. MeVis software solutions create significant added value for physicians for early detection and diagnosis as well as for therapy and intervention planning in the areas of cancer diseases, especially breast cancer, neurology and lung diseases.

Basis for investment recommendation

MeVis Medical Solutions is a technology and market leader in the field of software for digital breast screening and plans to leverage this know-how to other areas. This offers significant growth opportunities; however, we also see various risks involved in the new strategic direction. We therefore only recommend the stock for very risk-inclined investors. Our coverage kicks off with a hold rating.

Price sensitive current issues

- » Final results presentation
- » Development of the market for digital mammography
- » Success of new products, especially of the VisiaEnterprise
- » Development of the market for lung-screening
- » Write-offs on intangible assets

Opportunities and risks

Opportunities	Risks
Stronger acceptance of CAD products	Declining cash and cash equivalents
Introduction of a lung screening programme in the USA	Write-offs on intangible assets
Success of new products	Continuing low acceptance of CAD products
Success of the Visa Enterprise	Declining income from the digital mammography segment
Development of the digital mammography market ex US	Loss of OEM contracts und partners

¹⁾⁻⁹⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

PROFIT AND LOSS ACCOUNT

Euro m	2009	2010e	2011e	2012e	2013e	2014e
Sales	13.9	14.2	13.5	13.2	13.2	13.2
Change in inventory/Own work	2.3	2.8	2.6	2.6	2.6	2.6
Total output	16.2	17.0	16.1	15.8	15.8	15.8
% against prev. year		5%	-5%	-2%	0%	0%
Cost of materials	-0.5	-1.0	-1.1	-1.1	-1.1	-1.1
Personnel expenses	-9.8	-10.4	-10.0	-9.6	-9.2	-9.2
Other operating income	1.8	1.2	1.1	1.1	1.1	1.1
Other operating expenses	-3.3	-3.7	-3.0	-2.2	-1.3	-1.0
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	4.5	3.1	3.1	4.1	5.2	5.5
For information: EBITDA adjusted	4.5	1.9	3.1	4.1	5.2	5.5
Depreciation	-2.8	-8.9	-3.8	-3.9	-4.0	-4.1
thereof on goodwill	0.0	-4.1	0.0	0.0	0.0	0.0
Operating profit (EBIT)	1.6	-5.8	-0.7	0.2	1.2	1.5
For information: EBIT adjusted	1.6	-1.7	-0.7	0.2	1.2	1.5
% against prev. year		-206%			629%	17%
Interest paid / received	-0.5	-0.2	-0.4	-0.2	0.1	0.3
Profit before tax	1.2	-6.1	-1.1	0.0	1.3	1.7
For information: EBT adjusted	1.2	-2.0	-1.1	0.0	1.3	1.7
% against prev. year		-268%				33%
Income taxes from continuing operations	-0.8	0.2	0.3	0.0	-0.3	-0.4
Tax rate	66%	3%	26%	-14%	27%	24%
Net profit from continuing operations	0.4	-5.9	-0.8	0.0	1.0	1.3
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.4	-5.9	-0.8	0.0	1.0	1.3
Profit or loss attributable to minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Profit or loss attributable to shareholders	0.4	-5.9	-0.8	0.0	1.0	1.3
thereof from continuing operations	0.4	-5.9	-0.8	0.0	1.0	1.3
thereof from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	1.700	1.700	1.700	1.700	1.700	1.700
IFRS earnings per share, diluted	0.23	-3.47	-0.48	-0.01	0.56	0.78
Adjusted earnings per share, diluted (contin.)	0.23	-0.81	-0.48	-0.01	0.56	0.78

Fiscal year end December

Source: MeVis Medical Solutions and DZ BANK estimates

RATIOS

Euro	2009	2010e	2011e	2012e	2013e
Profit and loss ratios					
Total output (m)	16.2	17.0	16.1	15.8	15.8
EBITDA margin	27.7%	11.0%	19.5%	25.8%	33.3%
EBIT margin	10.1%	-10.2%	-4.4%	1.1%	7.9%
Net margin	2.5%	-8.1%	-5.0%	-0.1%	6.1%
Investment ratio	46.9%	23.5%	26.6%	23.2%	24.5%
R&D as % of total output					
Net other operating costs as % of total output	8.9%	14.9%	12.0%	6.8%	1.5%
Net financial income as % of total output	-2.9%	-1.3%	-2.5%	-1.2%	0.4%
Interest cover	4.1			1.0	15.2
Average sales growth next five years	-0.5%				
Average earnings growth next five years	27.2%				

Profitability ratios					
ROE	1.2%	-5.1%	-3.1%	-0.1%	3.5%
ROCE	5.5%	-7.3%	-2.9%	0.7%	5.2%

Productivity ratios					
Sales per employee ('000)	87.92	91.98	84.42	80.63	78.09
EBIT per employee ('000)	8.88	-9.40	-3.70	0.87	6.17

Balance sheet ratios					
Equity ratio	64.0%	66.7%	71.8%	78.5%	79.2%
Long term debt and equity / Fixed assets	132.7%	131.3%	114.2%	103.9%	108.5%
Liquidity (quick ratio)	181.9%	221.7%	154.5%	109.9%	130.1%
Receivables as % of total output	26.1%	26.3%	26.4%	26.3%	26.3%
Investment (net of GW) / Depreciation		110.8%	111.4%	93.6%	96.8%
Working capital as % of total output	6.8%	2.5%	2.6%	2.9%	3.2%
Net debt (m)	-0.6	0.0	1.4	1.2	0.1
Net debt complete (m)	-1.9	-1.4	0.0	-0.2	-1.4

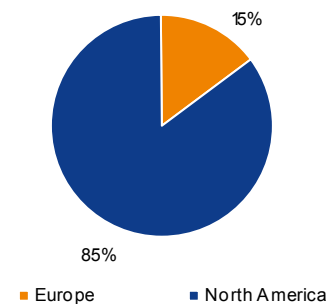
Figures per share					
Earnings per share, diluted	0.23	-0.81	-0.48	-0.01	0.56
Diluted cash earnings per share	1.91	1.32	1.78	2.29	2.92
Dividend per common share	0.00	0.00	0.00	0.00	0.00
Cash per share, diluted	4.54	2.74	2.14	0.51	1.17
Net debt per share, diluted	-0.36	0.02	0.84	0.71	0.04

Valuation ratios					
Enterprise value / Sales	2.5	1.3	1.2	1.2	1.1
Enterprise value / EBITDA	8.9	11.6	5.9	4.5	3.3
Enterprise value / EBIT	24.3			107.3	13.8
EV/Sales to sales growth		-2.59	-2.32	-2.33	-2.20
PEG ratio - common shares					

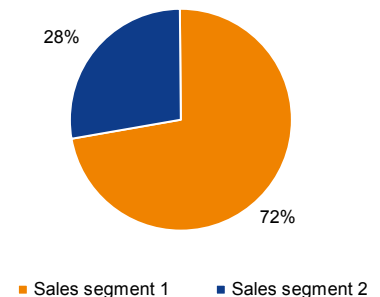
Fiscal year end December

Source: MeVis Medical Solutions, DZ BANK estimates

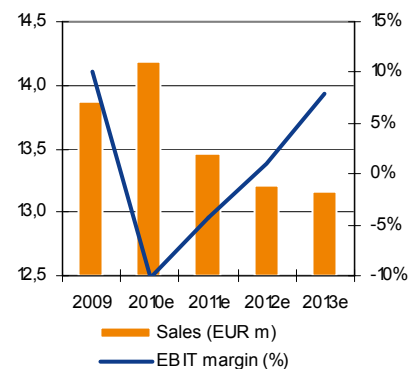
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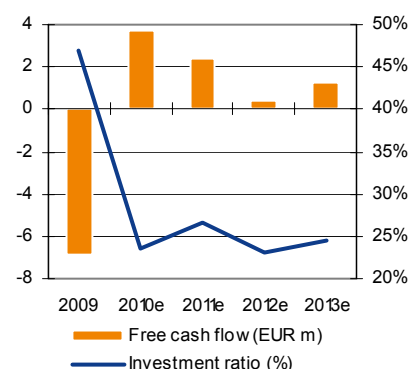
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SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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BALANCE SHEET

IFRS - Euro m	2009	2010e	2011e	2012e	2013e	2014e
ASSETS						
Non current assets	29.9	26.1	26.7	26.4	26.2	26.4
Intangible assets	27.1	22.4	23.0	22.9	22.9	23.0
thereof goodwill	16.6	13.3	14.1	14.1	14.1	14.1
Tangible assets	1.2	1.0	0.8	0.6	0.5	0.4
Financial assets	0.0	1.1	1.0	0.9	1.1	1.4
Other long-term assets	1.6	1.6	1.9	1.9	1.7	1.5
Current assets	21.1	14.5	9.9	7.0	8.1	9.3
Inventories	0.1	0.2	0.2	0.2	0.2	0.2
Trade receivables	4.2	4.5	4.2	4.2	4.1	4.2
Financial assets	8.7	4.9	1.6	1.6	1.6	1.6
Other receivables and short-term assets	0.4	0.3	0.3	0.3	0.3	0.3
Liquid assets	7.7	4.7	3.6	0.9	2.0	3.1
Assets available for sale	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	51.0	40.6	36.6	33.4	34.3	35.6
LIABILITIES						
Shareholders' equity	32.6	27.1	26.3	26.3	27.2	28.5
Share capital	1.8	1.8	1.8	1.8	1.8	1.8
Reserves	33.4	27.5	26.7	26.7	27.7	29.0
Other equity	1.5	1.5	1.5	1.5	1.5	1.5
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Treasury stock	-4.2	-3.8	-3.8	-3.8	-3.8	-3.8
Non current liabilities	7.0	7.2	4.2	1.2	1.2	1.2
Provisions for pensions	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	0.0	0.1	0.1	0.1	0.1	0.1
Financial liabilities	6.6	6.7	3.7	0.7	0.7	0.7
Other payables	0.4	0.4	0.4	0.4	0.4	0.4
Current liabilities	11.3	6.3	6.1	6.0	5.9	5.9
Trade payables	1.1	0.9	0.8	0.8	0.8	0.8
Other provisions	0.2	0.9	0.9	0.9	0.9	0.9
Financial liabilities	7.9	1.4	1.4	1.4	1.4	1.4
Other liabilities	2.1	3.2	3.0	2.9	2.8	2.7
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity and liabilities	51.0	40.6	36.6	33.4	34.3	35.6
Fiscal year end December						

Source: MeVis Medical Solutions and DZ BANK estimates

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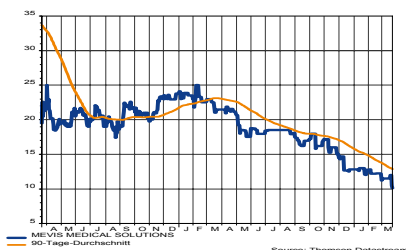
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RATING HISTORY

Recommendation	Date	Price
Sell	24 Mar 2011	10.08 EUR
Hold	1 Dec 2010	15.10 EUR

^{1) - 9)} Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

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