

Q2 results preview - Midcaps

Rating	TP	EPS 08e	EPS 09e
	↘ (15%)	↘ (26%)	↘ (7%)

Price (27 August 2008)	EUR4.07
Market cap./Free float (EURm)	142.4/105.4
EV (EURm)	136.3
3m avg. volume (EURm)	0.5
Reuters/Bloomberg	E5T.MI/ETH IM

Financial data	12/06	12/07	12/08e	12/09e
Adjusted EPS (EUR)	0.01	(0.04)	0.20	0.39
EPS - IBES (EUR)	-	(0.07)	0.18	0.35
Net dividend (EUR)	0.00	0.00	0.00	0.00
Sales (EURm)	50.8	76.5	106.2	143.6
Adjusted EBIT (EURm)	(0.6)	(1.6)	11.4	20.5
Adj. net profit (EURm)	0.3	(1.3)	7.0	13.6
Adj. net debt / EBITDA (x)	-	-	-	-

Stockmarket ratios*	12/06	12/07	12/08e	12/09e
P/E (x)	785.1	-	20.4	10.5
P/BV (x)	2.2	2.1	1.0	1.0
Net yield (%)	0.0	0.0	0.0	0.0
FCF yield (%)	(5.0)	(2.4)	6.5	4.6
EV/Sales (x)	2.8	3.6	1.3	1.0
EV/EBITDA (x)	65.7	189.1	8.7	5.5
EV/EBIT (x)	-	-	12.0	6.8

* Yearly average prices for FY to end-12/06, 12/07

Performance (%)	1w	1m	3m	12m
Absolute	1	1	(22)	(49)
Rel. IT Hardware	(3)	(2)	(18)	(26)
Rel. DJ STOXX50	0	1	(14)	(34)

Price relative to DJ STOXX50



Source: Datastream

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Please refer to important disclosures at the end of this report.

Outperform

Target price	EUR5.50 (+35%)
Sector rating	Underperform

H1 results on August 29 - In the middle of transition

► H1 results should show weak top line but improving margins

We expect ETH's H1 08e sales at EUR42.7m, meaning a 20.4% increase YoY but around -18.0% organic, chiefly due to the negative forex effect (-10%) and the unusually high seasonality of H1 07 (50% of sales achieved in H1 vs 40% historically). Admittedly, the company's focus was more on re-organizing the structure after the M&A wave of recent years, to the detriment of commercial efforts. However, the gross margin should be at 56% (50% in H1 07) and the EBITDA margin at 4.1% (versus 1.9% in H1 07).

► We were too optimistic on 2008. Numbers revised into line with guidance

The likely gloomy H1 performance requires us to revise our estimates for FY08e and beyond. We have cut our FY revenue estimate by 24.5% to EUR106.2m and our EBITDA by 24% to EUR16.1m, while keeping the margin at over 15% as an effect of the cost rationalization effects that should be already visible in H1. Note that our previous estimates were significantly above the guidance (EUR100m-110m revenues and an EBITDA margin of at least 15%) as we expected the entry of Finmeccanica in the shareholder base (11%) to stimulate a strong increase in the order flow and the launch of wearable PCs to kick in this year; both events now look unlikely in 2008.

► The best is yet to come – We stay Outperform, TP cut to EUR5.5/share

Our lower estimates yield a DCF-based TP of EUR5.5/share (down from EUR6.5/share). Nevertheless, we believe that Eurotech's just-completed re-organization process, coupled with the many new business opportunities that should soon arise (especially from the deals with Finmeccanica and Intel), justify our optimism on long-term growth, and hence value-creation potential. Only a limited part of such new opportunities is already factored into our model. The best is yet to come. Hence, we stick to our Outperform rating.

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Table 1: Eurotech – Quarterly, half-year and full-year figures for 2007 and 2008e

EURm	Q1 07	Q2 07	H1 07	FY 07	Q1 08	Q2 08e	H1 08e	FY 08e
Sales	15.2	20.3	35.5	76.5	21.4	21.2	42.7	106.2
YoY chg (%)	119	21	49.9	50.8	41.5	4.7	20.4	38.8
Gross Profit	8.0	9.8	17.8	38.1	12.4	11.7	24.1	58.1
Gross Margin (%)	52.9	48.1	50.1	49.7	58	55	56	55
EBITDA	(0.8)	1.4	0.7	1.8	1.87	(0.11)	1.75	16.1
EBITDA margin (%)	(4.9)	7.1	1.9	2.3	8.7	(0.5)	4.1	15.1
EBIT	(1.66)	0.20	(1.46)	(4.1)	1.11	(1.95)	(0.84)	8.7
EBIT margin (%)	(10.9)	1.0	(4.1)	(5.4)	5.2	(9.2)	(2.0)	8.2
Profit before taxes	(1.2)	0.5	(0.7)	(3.9)	0.04	(1.84)	(1.79)	9.2

Source: Company, Exane BNP Paribas estimates

Table 2: Eurotech – New and old estimates

EURm	New		Old		New vs old (% difference)	
	2008e	2009e	2008e	2009e	2008e	2009e
Sales	106.2	143.6	140.7	173.5	(24.5)	(17.2)
YoY chg (%)	38.8	35.2	83.8	23.3		
Gross Profit	58.1	78.0	76.4	94.1	(24.0)	(17.2)
Gross Margin (%)	54.7	54.3	54.3	54.3		
EBITDA	16.1	26.0	21.6	29.6	(25.6)	(12.2)
EBITDA margin (%)	15.1	18.1	15.3	17.1		
EBIT	8.73	17.97	14.26	21.58	(38.8)	(16.7)
EBIT margin (%)	8.2	12.5	10.1	12.4		
Profit before taxes	9.17	18.62	14.70	22.10	(37.6)	(15.7)

Source: Exane BNP Paribas estimates

Forthcoming events

Date	Event
29 Aug. 2008	H1 2008 Results
14 Nov. 2008	Q3 2008 Results

Commitment of transparency (see www.exane.com/disclosureequitiesuk for details. Complete disclosures available on www.exane.com/compliance)

Exane is independent of BNP Paribas (BNPP) and the agreement between the two companies is structured to guarantee the independence of Exane's research, published under the brandname « Exane BNP Paribas ». Nevertheless, to respect a principle of transparency, we separately identify potential conflicts of interest with BNPP regarding the company/(ies) covered by this research document.

Exane

Investment banking	Distributor	Liquidity provider	Corporate links	Analyst's personal interest	Equity stake		Amended after Disclosure to company	Additional material conflicts
					US Law	French Law		
NO	NO	NO	NO	NO	NO	NO	NO	NO

Source: Exane

BNP Paribas

Potential conflicts of interest: None.

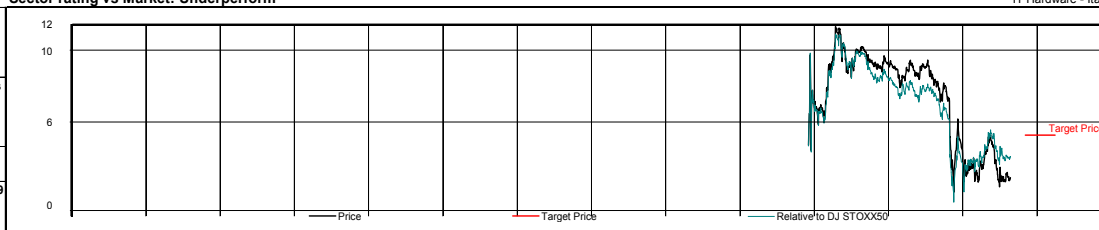
Source: BNP Paribas

Price at 27/08/08: EUR 4.1
Target price: EUR 5.5 / + 35.2%

Stock rating vs Sector: Outperform
Sector rating vs Market: Underperform

EUROTECH
IT Hardware - Italy

Enterprise value (EURm)	136		
Mkt cap. / Free float (EURm)	142 / 105		
3m average volume (EURm)	0.53		
12-mth high / low (EUR)	8.1 / 3.7		
Performance	1mth	3mths	12mths
Absolute	1%	(22%)	(49%)
Rel. (Sector)	(2%)	(18%)	(26%)
Rel. (DJ STOXX50)	1%	(14%)	(34%)
Reuters/Bloomberg	E5T.MI / ETH IM		
Analyst: Roberta Ciaccia			
CAGR	2006/2008	2008/2009	
EPS restated (*)	317%	94%	
CFPS	NC	66%	



PER SHARE DATA (EUR)	Dec. 05	Dec. 06	Dec. 07	Dec. 08e	Dec. 09e
No of shares year end, basic, (m)	18.675	35.004	35.004	35.004	35.004
Average no of shares, diluted, excl. treasury stocks (m)	18.675	26.840	35.004	35.004	35.004
Price (yearly avg from Dec. 05 to Dec. 07)	6.0	9.0	7.9	4.1	4.1
EPS reported	0.05	0.07	(0.09)	0.14	0.33
EPS restated	0.04	0.01	(0.04)	0.20	0.39
% change	NS	(73.6%)	NS	NS	94.2%
CFPS	0.08	(0.15)	(0.10)	0.33	0.55
Book value (BVPS) (a)	1.7	4.0	3.8	3.9	4.2
Net dividend	0.00	0.00	0.00	0.00	0.00
STOCKMARKET RATIOS	YEARLY AVERAGE PRICES for end Dec. 05 to Dec. 07				
P / E (P/ EPS restated)	138.7x	NS	NC	20.4x	10.5x
P / E relative to DJ STOXX50	1,050%	NS	NC	205%	123%
P / CF	73.2x	NC	NC	12.3x	7.4x
FCF yield	3.3%	(5.0%)	(2.4%)	6.5%	4.6%
P / BVPS	3.47x	2.24x	2.09x	1.04x	0.96x
Net yield	0.0%	0.0%	0.0%	0.0%	0.0%
Payout	0.0%	0.0%	(0.0%)	0.0%	0.0%
EV / Sales	3.15x	2.79x	3.60x	1.28x	0.97x
EV / Restated EBITDA	31.7x	65.7x	189.1x	8.7x	5.5x
EV / Restated EBIT	47.8x	NC	NC	12.0x	6.8x
EV / OpFCF	17.1x	NC	NC	10.5x	11.1x
EV / Capital employed (incl. gross goodwill)	7.6x	3.5x	3.9x	1.0x	1.0x
ENTERPRISE VALUE (EURm)	94	142	276	136	140
Market cap	112	242	275	142	142
+ Adjusted net debt	(20)	(100)	(13)	(23)	(11)
+ Other liabilities and commitments			0	0	0
+ Revalued minority interests	2	0	17	17	8
- Revalued investments	0	0	4	0	0
P & L HIGHLIGHTS (EURm)	Switch to IFRS data from FY ended 12/05				
Sales	29.9	50.8	76.5	106.2	143.6
Restated EBITDA (b)	3.0	2.2	1.5	15.7	25.5
Depreciation	(1.0)	(2.7)	(3.0)	(4.3)	(5.0)
Restated EBIT (b) (*)	2.0	(0.6)	(1.6)	11.4	20.5
Reported operating profit (loss)	2.3	(0.3)	(4.1)	8.7	18.0
Net financial income (charges)	(0.3)	2.2	0.3	0.4	0.7
Affiliates	-	-	-	-	-
Other					
Tax	(1.0)	(1.4)	0.4	(3.2)	(6.4)
Minorities	(0.0)	(0.1)	0.2	(1.1)	(0.7)
Goodwill amortisation	-	-	-	-	-
Net attributable profit reported	1.0	0.4	(3.2)	5.0	11.5
Net attributable profit restated (c)	0.8	0.3	(1.3)	7.0	13.6
CASH FLOW HIGHLIGHTS (EURm)	Dec. 05	Dec. 06	Dec. 07	Dec. 08e	Dec. 09e
EBITDA (reported)	3.3	2.4	(1.1)	13.0	23.0
EBITDA adjustment (b)	(0.3)	(0.2)	2.6	2.6	2.6
Other items	0.3	0.2	0.3	0.4	0.5
Change in WCR	4.5	(2.7)	(0.2)	3.0	(7.4)
Operating cash flow	7.8	(0.3)	1.6	19.0	18.6
Capex	(2.3)	(4.1)	(3.5)	(6.0)	(6.0)
Operating free cash flow (OpFCF)	5.5	(4.4)	(1.9)	13.0	12.6
Net financial items + tax paid	(1.7)	(7.6)	(5.1)	(2.7)	(5.7)
Free cash flow	3.8	(12.0)	(7.0)	10.3	6.9
Net financial investments	0.2	(19.8)	(80.6)	0.0	(18.9)
Other	0.0	0.1	0.2	0.0	0.0
Capital increase (decrease)	25.3	111.3	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Increase (decrease) in net financial debt	(29.3)	(79.6)	87.4	(10.3)	12.1
Cash flow, group share	2	(4)	(3)	12	19
BALANCE SHEET HIGHLIGHTS (EURm)	Dec. 05	Dec. 06	Dec. 07	Dec. 08e	Dec. 09e
Fixed operating assets, incl. gross goodwill	9	31	118	116	114
WCR	4	10	24	21	29
Capital employed, incl. gross goodwill	12	41	142	138	143
Shareholders' funds, group share	32	141	131	136	148
Minorities	1	0	8	8	(11)
Provisions/ Other liabilities	1	5	19	20	20
Net financial debt (cash)	(20)	(100)	(13)	(23)	(11)
FINANCIAL RATIOS (%)	Dec. 05	Dec. 06	Dec. 07	Dec. 08e	Dec. 09e
Sales (% change)	NS	70.0%	50.8%	38.8%	35.2%
Organic sales growth	50.0%	20.0%	4.4%	39.6%	35.2%
Restated EBIT (% change) (*)	NS	NS	(185.4%)	NS	80.4%
Restated attributable net profit (% change) (*)	NS	(62.0%)	NS	NS	94.2%
Personnel costs / Sales	24.2%	25.4%	29.6%	20.4%	18.8%
Restated EBITDA margin	9.9%	4.3%	1.9%	14.7%	17.8%
Restated EBIT margin	6.6%	(1.1%)	(2.1%)	10.7%	14.3%
Tax rate	49.0%	75.6%	NC	34.5%	34.3%
Net margin	3.4%	0.9%	(4.5%)	5.7%	8.5%
Capex / Sales	7.7%	8.0%	4.6%	5.6%	4.2%
OpFCF / Sales	18.4%	(8.6%)	(2.5%)	12.3%	8.8%
WCR / Sales	12.3%	19.7%	31.8%	20.1%	20.0%
Capital employed (excl. gross goodwill) / Sales	20.8%	27.8%	(52.0%)	(38.6%)	(9.5%)
ROE (before goodwill)	2.5%	0.2%	(1.0%)	5.1%	9.2%
Gearing	(62%)	(71%)	(9%)	(16%)	(8%)
EBITDA / Financial charges	10.0x	NC	NC	NC	NC
Adjusted financial debt / EBITDA	NC	NC	NC	NC	NC
ROCE, excl. gross goodwill	19.6%	(2.4%)	2.4%	(17.2%)	NS
ROCE, incl. gross goodwill	9.8%	(0.8%)	(1.4%)	5.1%	8.9%
WACC	9.2%	9.0%	8.9%	13.0%	13.0%
Average number of employees					

(a) Intangibles: EUR110.96m, or EUR3 per share. (b) adjusted for capital gains/losses, impairment charges, exceptional restructuring charges, capitalized R&D, pension charge replaced by service cost
(c) adj. for capital gains losses, imp. charges, capitalized R&D, exceptional restructuring, (*) also adjusted for goodwill for pre IFRS years



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