

PLASMASELECT AG

GERMANY / HEALTH CARE & NEW TECHNOLOGIES

Primary exchange: Frankfurt
 Bloomberg symbol: PM3 GR
 ISIN: DE0005471809

NEWS FLASH

RATING:	Buy
PRICE TARGET:	€1.50
RETURN POTENTIAL:	257.1%
RISK RATING:	High

SIGNIFICANT IMPAIRMENT CHARGE ON FY 2007/08 RESULT

PlasmaSelect announced that it has fully written off the earn-out from the sale of the generics business to Actavis by €17.6m. This one-off measure will burden 2007/08 profit in the discontinued business. While we consider the news disappointing, we had not included a gain from the earn-out in our financial projections due to the high risk involved. Further, we believe the company is making good progress in its restructuring process, as reflected in the recent joint venture deal with Diaco for its Italian subsidiaries. We maintain our €1.50 price target and Buy rating.

Earn-out written down on generics sale to Actavis The 2007 sale of PlasmaSelect's Generics business to the Actavis Group (Iceland) for more than €70m included an earn-out to be paid by Actavis in 2009 on the achievement of certain performance targets during 2008. It seems that Actavis have not achieved the desired performance with the acquired products. PlasmaSelect have thus decided to conduct a full impairment of the earn-out amounting to €17.6m that will burden 2007/08 results.

Restructuring into investment holding company In November 2008, PlasmaSelect closed a deal with Italian company Diaco S.p.A. to merge both companies' Italian subsidiaries into a joint venture. The company will retain 40% of the JV holding company, with the purchase price to be paid from the JV's liquid profits over the next 5 years. As PlasmaSelect now holds a minority stake in the JV, revenues will be de-consolidated effective of 2007/08. This step will have little impact on 2007/08 revenues (only the last two weeks of the financial year that ended on 30 November will be affected), but it will trigger a one-off charge of c. €1.0m.

Fundamentals remain strong – maintain Buy rating We adjust our forecasts to take these events into account. While the impairment charge from the Actavis deal is disappointing and to a large extent triggered by the current financial crisis, we believe the company is taking strategic steps in the right direction. PlasmaSelect's loss making Italian subsidiaries will in our view benefit from the JV deal with Diaco, enabling a quicker turnaround. We continue to have a positive opinion on Aquaworx' prospects. Based on the company's progress on transforming itself into an investment holding, we maintain our €1.50 price target and Buy rating.

FINANCIAL HISTORY & PROJECTIONS

	FY 05/06	FY 06/07	FY 07/08E	FY 08/09E	FY 09/10E	FY 10/11E
Revenue (€m)	41.45	35.97	35.36	43.10	52.34	65.29
Y-o-y growth	na	-13.2%	-1.7%	21.9%	21.4%	24.7%
EBIT (€m)	-3.73	-22.84	-16.70	0.00	1.39	3.34
EBIT margin	-9.0%	-63.5%	-47.2%	0.0%	2.7%	5.1%
Net income (€m)	-5.55	-28.70	-19.13	-2.34	-0.95	0.91
EPS (diluted) (€)	-0.33	-1.72	-1.00	-0.10	-0.04	0.04
P/E (x)	na	na	na	na	na	11.1
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

*Projections for continued operations including one-off expenses

RISKS

The main risks to our price target include: marketing and commercialisation risk; competition risk, including the development of new technologies; and restructuring risk.

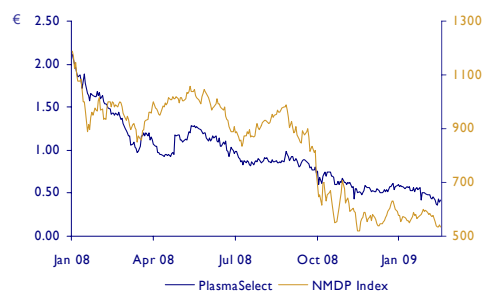
COMPANY PROFILE

PlasmaSelect, based in Munich, Germany, is a holding investment company focused on the healthcare and new technologies sectors. The company's current portfolio includes holdings in companies offering "infusion and rinsing solutions" for hospitals and an innovative process for water treatment.

TRADING DATA

Closing price (27.02.09)	€0.42
Shares outstanding	24.17m
Market capitalisation	€10.15m
52-week range	€0.36 / 1.37
Average volume (12 months)	21,544

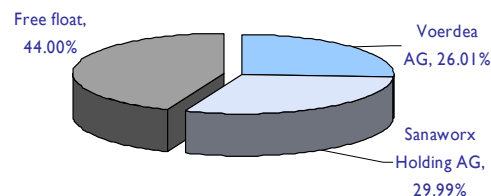
STOCK OVERVIEW



COMPANY DATA (as of 31 August 2008)

Liquid assets (incl. securities)	€23.84m
Current assets	€50.76m
Intangible assets	€85.96m
Total assets	€171.33m
Current liabilities	€40.70m
Shareholders' equity	€56.36m

SHAREHOLDERS





EARN-OUT FROM SALE OF THE GENERICS BUSINESS WRITTEN DOWN

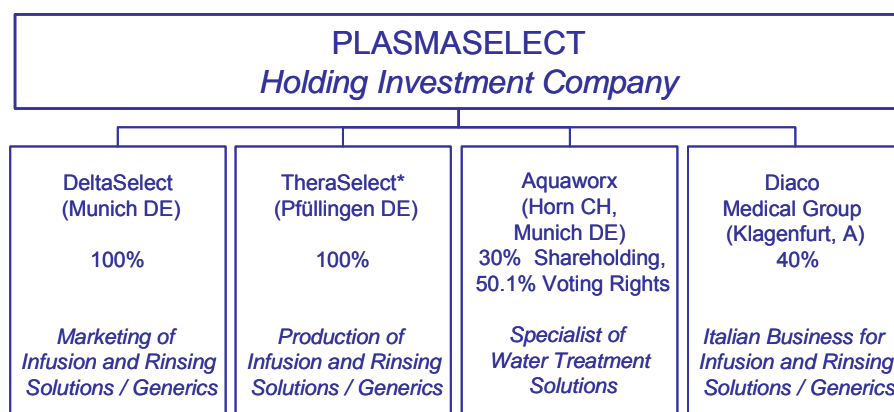
PlasmaSelect has incurred a full impairment charge amounting to €17.6m as a result of the Actavis Group (Iceland) failing to meet performance targets in 2008. The charge will burden 2007/08 results in discontinued operations. While disappointing, we had not included the potential benefit from the earn-out into our financial forecasts and valuation model due to the high risks involved.

Actavis reported it may have not achieved the desired performance with the acquired products. The company gave PlasmaSelect no clear explanation on the reasons for the underperformance of the generics package. PlasmaSelect has also learned that the Actavis Group is in the process of being sold, which we believe reduces the possibility of renegotiation. In addition, the Icelandic bank acting as guarantor of the deal asked for a moratorium, due to the financial crisis in Iceland.

We are not entirely surprised about Actavis failing to meet the targets outlined in the deal. First, the Actavis Group's management has performed poorly over the last twelve months, which we believe has triggered the resignation of CEO Róbert Wessman in August last year. The company had severe difficulties in its US subsidiary in New Jersey which triggered a product recall and lawsuits from affected patients. Second, Iceland has been severely affected by the worldwide financial crisis, with the prime minister announcing on 26 January 2009 the immediate resignation of his government due to the collapse of the country's currency and banking system.

ITALIAN SUBSIDIARIES RESTRUCTURED INTO A JOINT VENTURE

PlasmaSelect is approaching completion in the restructuring of its Healthcare division. On 29 August 2008, the company announced the closure of its loss-making production site in Marburg (scheduled for Q2 2009). More recently, on 14 November 2008, PlasmaSelect came to an agreement with Italian company Diaco S.p.A to merge both companies' Italian subsidiaries into a joint venture. PlasmaSelect will retain 40% of the JV holding company. In the deal, PlasmaSelect's subsidiaries AltaSelect and NovaSelect were valued at €11m against €5m for Diaco's Italian subsidiary Laboratory Diaco Biomedicalli (LDB). PlasmaSelect will receive the purchase price from the liquid profits of the JV over the next five years. We see Diaco as a good partner that currently ranks among the leading infusion and rinsing solutions players in Italy.



* TheraSelect's facilities in Marburg will be closed in Q2 2009

Graph 1

Source: PlasmaSelect, First Berlin



CHANGES TO OUR FORECASTS

We make slight changes to our forecasts, which overall include no one-off expenses. We lower our sales estimates slightly and increase our operating loss estimate for full-year 2007/08, as we believe Aquaworx is slightly behind our profit projections.

All figures in €m *	2007/08E			2008/09E			2009/10E		
	old	new	% change	old	new	% change	old	new	% change
Sales	37.10	35.36	-4.7%	43.45	43.10	-0.8%	52.69	52.34	-0.7%
EBIT	-4.09	-5.54	35.5%	0.00	0.00	na	1.38	1.39	0.7%
margin (%)	na	na	-	na	na	-	2.6%	2.7%	-
Net income / loss	-6.52	-8.00	22.7%	-2.30	-2.34	1.7%	-1.00	-0.95	-5.0%
margin (%)	na	na	-	na	na	-	na	na	-
EPS (€)	-0.34	-0.34	0.0%	-0.10	-0.10	0.0%	-0.04	-0.04	0.0%

*Our forecasts include continued operations only, excluding one-off expenses

Table 1

Source: First Berlin

There is little visibility for revenues from the Italian subsidiaries; we estimate these were some €10m-15m per year. However, we will not reduce our revenue forecasts for 2009 and beyond until the company discloses more information. At the same time, we expect a slight boost in group EBIT from 2009 as a result of the move for the following reasons: First, the company can deconsolidate the Italian subsidiaries' slight net losses, which will be recorded as financial loss. Second, we expect the JV to result in improved performance, thus turning Italian operations around quicker.

SALES AND EBIT FORECASTS BY SEGMENT

All figures in €m *	FY 07/08E	FY 08/09E	FY 09/10E	FY 10/11E	FY 11/12E
Group sales	35.36	43.10	52.34	65.29	85.53
Continued operations (IV solutions & others)	34.46	34.80	35.32	36.03	36.75
Water purification	0.90	8.30	17.02	29.26	48.78
Group operating profit	-5.54	0.00	1.39	3.32	7.95
Continued operations (IV solutions & others)	-4.80	0.06	0.28	0.40	0.44
Water purification	-0.74	-0.07	1.11	2.93	7.51
Group operating margin	-15.7%	0.0%	2.7%	5.1%	9.3%
Continued operations (IV solutions & others)	-13.9%	0.2%	0.8%	1.1%	1.2%
Water purification	-81.5%	-0.8%	6.5%	10.0%	15.4%

*Our forecasts include continued operations only, excluding one-off expenses

Table 2

Source: First Berlin

**FIRST BERLIN RATING & PRICE TARGET HISTORY**

Report No.	Date of publication	Previous day closing price	Rating	Price target	Interim high	% change to high
Initial Report	28 January 2005	€4.30	Strong Buy	€8.00	-	-
2...17	↓	↓	↓	↓	↓	↓
18	6 August 2008	€0.85	Buy	€1.50	€0.92	7.6%
19	18 August 2008	€0.85	Buy	€1.50	€0.98	15.3%
20	11 September 2008	€0.88	Buy	€1.50	€0.90	2.3%
21	Today	€0.42	Buy	€1.50	-	-

Christian Orquera

First Berlin
Equity Research GmbH

Lennéstrasse 9
10785 Berlin

Tel. +49 (0)30 - 80 93 96 95

Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

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I, Christian Orquera, certify that the views expressed in this report accurately reflect my personal and professional views about the subject company; and I certify that my compensation is not directly linked to any specific financial transaction including trading revenue or asset management fees; neither is it directly or indirectly related to the specific recommendation or views contained in this research. In addition, I possess no shares in the subject company.

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First Berlin's investment rating system is five tiered and includes an investment recommendation and a risk rating. Our recommendations, which are a function of our expectation of total return (forecast price appreciation and dividend yield) in the year specified, are as follows:

STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance

BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

Up until 16 May 2008, First Berlin's investment rating system was three tiered and was a function of our expectation of return (forecast price appreciation and dividend yield) over the specified year. Our investment ratings were as follows: BUY: expected return greater than 15%; HOLD: expected return between 0% and 15%; and SELL: expected negative return.

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