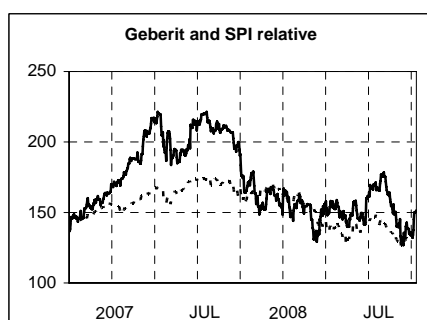


**Q2 2008 results**
**Q2 2008 results exceed expectations; solid organic growth and better margins in difficult market environment → BUY confirmed**
**BUY**

Market cap.	CHF m	5966	Key figures	2006	2007	2008E	2009E	2010E	CAGR
Last price	CHF	152	(CHF)						05-10E
52 week high	CHF	180	Net revenues (m)	1849	2206	2251	2388	2532	9.1
52 week low	CHF	123	Growth rate (%)	12.7	19.3	2.0	6.1	6.1	
YTD performance	%	-2.6	EBITDA (m)	569	638	666	707	750	10.5
<b>Economic value</b>	<b>CHF</b>	<b>208</b>	Margin (%)	30.8	28.9	29.6	29.6	29.6	
Soft factor ded.	%	0	EBIT (m)	482	554	577	616	657	12.3
<b>Fair value NZB</b>	<b>CHF</b>	<b>208</b>	Margin (%)	26.1	25.1	25.6	25.8	25.9	
Div. ranking shs	m	39.4	Net profit (m)	367	463	445	479	514	14.4
Symbols	GEBN.VX, GEBN VX		Dividend	4.0	5.2	5.1	5.5	5.2	15.9



EPS revision	2006	2007	2008E	2009E	2010E	CAGR
EPS new	9.1	11.5	11.3	12.2	13.0	15.2
EPS old			11.0	11.8	12.7	
% change			2.9	3.0	3.0	

Valuation (x)	2006	2007	2008E	2009E	2010E
P / EPS	16.3	15.8	13.4	12.5	11.6
P / CEPS	16.3	15.8	13.4	12.5	11.6
P / BV	5.6	5.2	4.0	3.4	2.9
EV / EBITDA	11.0	11.4	8.8	7.9	7.1
Dividend yield (%)	2.7	2.9	3.4	3.6	3.4

Geberit has again positively surprised the market with its strong quarterly results, clearly demonstrating that its product range and market position are able to trigger growth even in a difficult market environment. The Q2 2008 results exceeded consensus in terms of EBITDA and net income by 7% and 18% respectively. The company was able to make up for the negative base effect from the strong H1 2007 and the negative currency movements. The Q2 sales increase of 2.1% yoy was composed of +7.2% organic growth in l.c., a -3.1% currency impact, and -1.9% deconsolidation effects. Higher revenues and a positive mix effect (Sanitary Systems have higher margins than Piping Systems) led to a stellar improvement of the EBITDA margin from 23.7% to 27.5% yoy. Net profit increased by 28.3% to CHF 125.5m, thanks to an enhanced financial result (forex gain) and a low tax rate.

Management highlighted the uncertain development in important markets and the highly volatile trend in raw material prices: the latter hinder clean forecasts for FY 2008. Given the diminishing base effect which put pressure on organic sales growth in H1, sales growth should be sequentially higher in H2. 2008 organic sales growth should be within the mid-term target of 4-6%, and the operating margins should match the high level of previous years.

**BUY rating and price target of CHF 190 confirmed**

Geberit is gaining market share, and boasts strong pricing power. These are key success factors for solid development in a difficult market environment. Based on our EVA<sup>®</sup>/DCF model, we have derived an economic value and 'fair value NZB' of CHF 208 per share (previously CHF 202) from our estimates, indicating upside potential of 37%. We are therefore continuing to recommend purchase of Geberit shares with a 12-month price target of CHF 190.

- **Q2 2008 key figures:** Geberit reported solid organic growth of +7.2% in Q2 2008. This demonstrated that the Q1 decline of -1.5% was only a temporary hiccup caused by one-off effects. Firstly, growth in Q1 and to a lesser degree in Q2 was burdened by a negative base effect due to price concessions in the Piping Systems segment in H1 2007. Secondly, the earlier Easter holidays in Q1 2008 led to a shift of revenues from Q1 to Q2. In addition, destocking ahead of new product introductions may have further increased the shift from Q1 to Q2. The quarterly sales increase of 2.1% was composed of +7.2% organic growth in local currencies, a -3.1% currency impact, and -1.9% from deconsolidation effects (disposal of UK underground piping business).

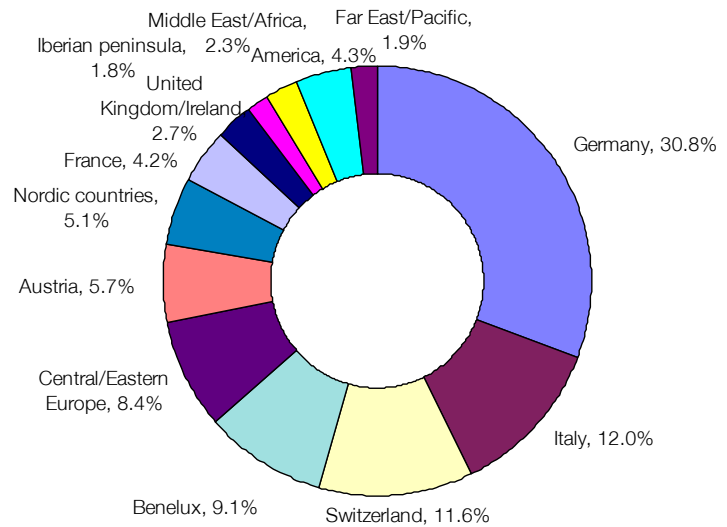
**Regional development:** H1 2008 saw a decline of sales in the core markets of Germany (-8.2% organic growth in lc) and Italy (-2.3%), as well as a stagnation in Iberia. Management explained that the decline in Germany was mainly due to the base effect mentioned above. For FY 2008, German revenues in local currencies should be close to the 2007 level (without assuming any improvement in construction activity). Dynamic growth was achieved in the United Kingdom/Ireland (+50.4%), Central/Eastern Europe (+16.4%), the Nordic countries (+13.6%), France (+12.9%) and the Benelux countries (+9.6%). Switzerland (+5.6%) and Austria (+1.9%) also posted growth. Outside Europe, the Far East/Pacific and Middle East/Africa markets grew by +32.1% and +22.2% respectively, while America declined by -0.8%. In the latter region, Geberit experienced solid growth with its key products installation systems and electronic faucets that are being promoted in cooperation with Duravit, while Chicago Faucet struggled with its incumbent product range.

**Product mix:** Sanitary Systems' sales increased by +5.9% yoy in H1 2008, while those of Piping Systems dropped by -1.4% yoy. The main explanation for the latter development was the division's volume strategy in H1 2007, which led to a negative base effect. As Piping System's product range achieves lower margins, the mix change is beneficial for group margins. However, for the remainder of 2008, the CEO anticipates balanced yoy growth for both segments. This will limit margin improvements based on mix changes.

**Margin development:** As a result of the organic sales growth in Q2 2008, the operating leverage had a positive impact on the bottom line. A further positive effect on margins came from price increases made in H2 2007 and at the beginning of 2008. The product mix with higher margin Sanitary Systems sales at the expense of Piping Systems also pushed margins. EBITDA and EBIT showed over-proportional increases of +18.5% and +21.8% respectively. A better financial result (the company reported gains on forex positions) and a low tax rate further improved the bottom line. As a result, net profit increased by 28.3% to CHF 125.5m.

- **Outlook for selected markets:** Geberit expects its H2 2008 sales growth to slightly exceed the H1 level, largely due to a diminishing negative base effect from 2007. Management commented on the signs of weakness in selected European markets such as Spain, UK and Italy, but expects no negative surprises. Emerging markets, low penetration markets and market share gains should compensate for the stagnation of construction activity in selected markets. The CEO reported briefly on the ytd development and the outlook for a number of countries as outlined below. Figure 1 below indicates the importance of individual countries with regard to H1 2008 sales.

Figure 1: Gross sales by market (H1 2008; CHF 1.292bn)



Source: Geberit

**Germany (30.8% of group sales):** Germany was the main contributor to the H1 2008 decline in group organic sales growth in l.c. of -8.2%. This was due to a negative base effect from H1 2007 caused by good weather conditions, the discontinuation of federal subsidies for family homes ('Eigenheimzulage') and Geberit's volume strategy in Piping Systems. Management expects 2008 revenues from Germany to approach those of 2007, given that the negative base effect will shrink in H2. However, we consider this optimistic in the light of construction statistics and deteriorating economic indicators. Residential and non-residential construction orders in Germany declined by -8.6% YoY (Figure 2) and +0.7% YoY (Figure 3) between January and May 2008.

Figure 2: Construction orders residential buildings

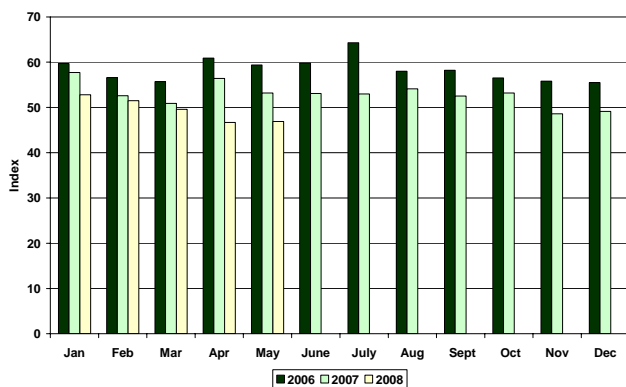
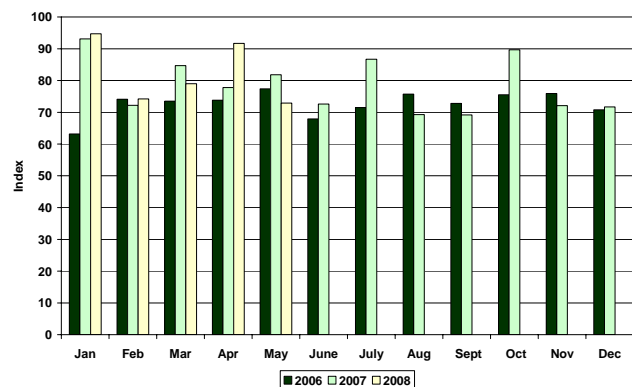


Figure 3: Construction orders non-residential buildings

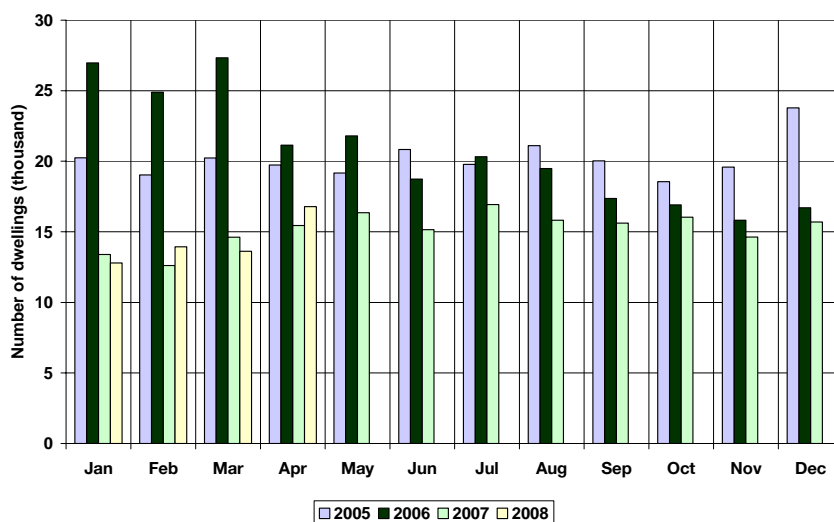


Source: Deutsche Bundesbank

Residential construction permits (Figure 4) reached a higher level in the period January to May 2008 than in 2007 (+1.9%). In terms of value, this increase corresponds to +12.4%, indicating higher construction costs and a trend towards more expensive buildings. The yoy increase can be largely explained by the strong decline experienced at the beginning of 2007 (triggered by the discontinuation of subsidies for family homes). If this trend continues, there is

potential for a stronger new residential construction market in 2009, as predicted by forecasters that were quoted by the CEO.

Figure 4: Residential construction permits in Germany



Source: Statistisches Bundesamt

As new construction accounts for only about 20-30% of Geberit's German revenues, the development of renovations is much more important. While the latter is considered less sensitive to economic cycles than new construction, there are only limited statistics for renovation activity available. Geberit's CEO again highlighted the fact that about 55% of the 39m apartments in Germany are now more than 35 years old, indicating potential demand for renovations.

**Italy (12.0%):** Geberit's second most important market, Italy, reported a 2.3% decline in sales. Here, too, Geberit holds a strong market position, at the same time facing a difficult residential market. The extent of the impact on H2 of a negative base effect remains to be seen.

**France (4.2%):** Despite a stagnating residential market, Geberit grew by +12.9% in France. This success clearly demonstrates the company's ability to thrive in markets in which its penetration rate is still low.

**United Kingdom/Ireland (2.7%):** Geberit's early focus on the non-residential construction segment in the UK has proved successful, rendering the company virtually immune to the difficult housing market. Organic sales growth in l.c. was +50.4% achieved mainly with non-residential construction projects. After the disposal of the underground piping business, the company has a product range that allows for market share gains. For H2 2008, Geberit expects lower, but still double digit growth rates in this market.

**Iberian Peninsula (1.8%):** Despite the collapsing Spanish construction market (Jan-May construction permits down 58% yoy), Geberit was able to report pleasing development with stable revenues.

→ **Opinion:** Geberit demonstrated that a company with the right products and a solid market position is able to withstand a volume decline in its core markets. Given the latter, the company should also be able to grow in the coming years despite lower residential construction activity in several markets. In addition, there is upside potential in Germany as the decline in H1 2008 was mainly due to the base effect from H1 2007 and not to a cyclical downturn caused by the economic situation. Germany has been a lackluster new construction market in recent years, and renovations have remained at low levels. Geberit also benefits from the fact that its exposure to those European construction markets which are at risk is limited. In Spain, the company can gain market share at the expense of conventional sanitary installations, thus allowing it to keep revenues roughly stable for the time being. In the UK market, the focus on non-residential projects has made the company virtually immune to the residential decline. In addition, Geberit's concealed sanitary systems and multilayer pipes are gaining market share at the expense of conventional sanitary systems and copper pipes.

- **Raw material prices under control:** Management stated yesterday that higher raw material prices had not had any negative impact in H1 2008. This comes as a surprise in the light of higher prices for various commodities relevant for Geberit. 53% of the company's material costs are related to metals, including aluminum, stainless steel, carbon steel and copper. Plastics account for 25% of material costs, while the remaining 22% include various items such as purchased electrical components and packaging. While the price of aluminum has remained close to its 2007 average, polyethylene and steel are now trading at significantly higher prices.

Figure 6: Aluminium prices

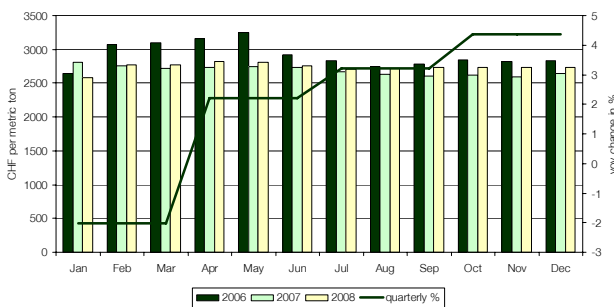
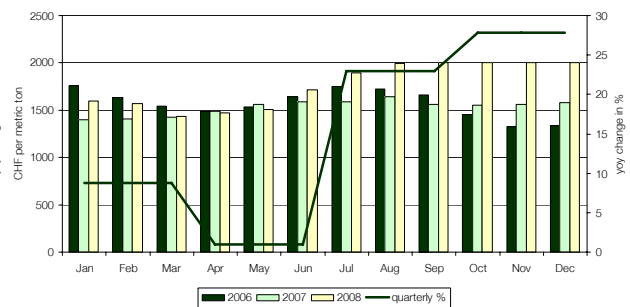


Figure 7: Polyethylene prices



Source: Bloomberg

Figure 8: Steel prices

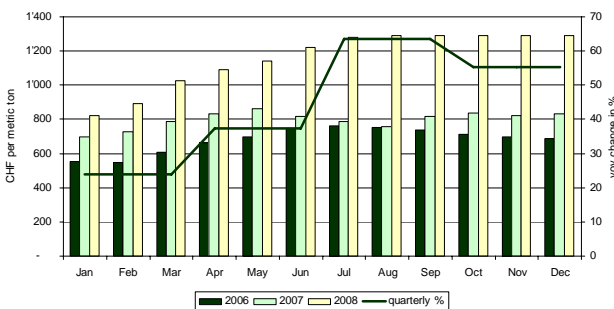
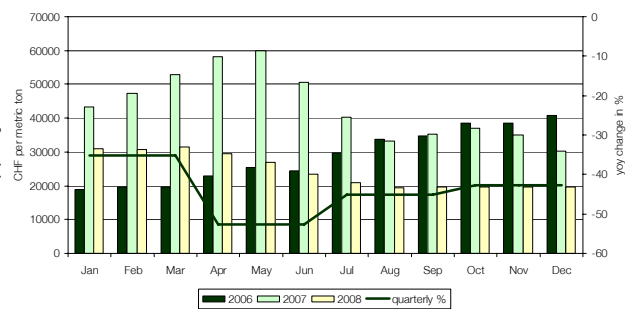


Figure 9: Nickel prices



Source: Bloomberg

While carbon steel prices look set to increase, lower prices were reported for nickel and zinc. These metals are used by Geberit for actuator plates as well as for zinc plating. Nickel is also an alloy component for stainless steel. A more efficient use of materials (less waste, less material content), mixed spot prices, alternative sourcing and the positive impact of weaker forex rates may have stabilized material costs in H1.

For H2 2008, management anticipates higher polyethylene prices and potentially higher prices for industrial metals. However, these increases are typically passed on to clients without major delay. The visible increase in commodity prices helps convince business partners to accept such price adjustments.

→ **Opinion:** As Geberit purchases most materials on a quarterly basis without hedging, we expect to see a marginal deterioration of the gross margin in H2 due to higher polyethylene- and steel prices. However, as the company's competitors are subject to comparable commodity prices, we expect Geberit to be able to adjust its prices as necessary. A stronger negative effect on margins could result from a product mix. The gross margin increased from 57.6% in H2 2007 to 59.2% in H1 2008, a level which will be difficult to sustain for the remainder of the year. We assume that H2 2008 could see a product mix comparable to that of H2 2007, which would potentially yield a comparable gross margin of 57.5%. Based on higher commodity prices and a stronger top line, we now anticipate a slightly lower EBIT margin in 2008 (22.7% vs. 22.8%). We assume that EBIT will grow marginally faster than net revenues at +4.2% and +2.0% respectively.

- **Outlook FY 2008:** Management highlighted the uncertain development in important markets and a highly volatile trend in raw material prices – both of which are hindrances to a clean forecast for FY 2008. Nevertheless, Geberit is assuming a general weakening of the building sector in Western Europe as well as continued, unclouded development in Eastern Europe, Asia and the Middle East. Given the diminishing base effect that put pressure on organic sales growth in H1, sales growth should be sequentially higher in H2. 2008 organic sales growth is expected to be within the mid-term target of 4-6%, and the operating margins should be at the same high level seen in previous years. This should translate into a comparatively over-proportional increase in earnings per share.

→ **Opinion:** As usual in its outlook, Geberit clearly differentiated between general construction- and installation market development and its own perspectives which are clearly better. For FY 2008, we assume organic sales growth of +5.6% and an EBITDA margin (in % of gross sales) of 26.3% compared to 25.7% in FY 2007.

- **Share buyback/acquisitions:** Since 21 January 2008, Geberit has repurchased almost 2m shares worth CHF 291m (CHF 149 average price) under its 5% share-buyback program. The company has now repurchased about 97% of the total volume. The buyback is being executed over the course of this year via a second trading line, and the repurchased shares will be cancelled. During the conference call, the CEO declined to comment on a further buyback planned for next year. A further share buyback is an alternative to a major acquisition. As there are no negotiations currently taking place, it is unlikely that a transaction will be made this year. Nevertheless, Geberit has a watch list comprising various candidates.

→ **Opinion:** We have incorporated the full 5% share buyback in our model. The buyback leaves sufficient firing power to fund significant acquisitions. We believe that Geberit could invest up to CHF 2bn for acquisitions (150% gearing, 3x net debt/EBITDA 2008), but it is difficult to identify available targets that meet Geberit's quality criteria. As far as we can see, there is no imminent deal on the horizon. Even in the mid-term, it will remain difficult to identify larger candidates that improve the company's business profile.

- **EU antitrust investigation:** In connection with the antitrust case 'Bathroom Fittings and Fixtures' (European Community Commission, pending since 2004), Geberit was asked in April 2008 to submit certain sales information. From the company's point of view, the complaints raised against it are unjustified. Geberit still believes that the pending proceedings will not significantly influence its financial situation or operating results. However, based on the currently available information, a reliable forecast as to the proceedings' outcome cannot be made as yet. The Commission's decision is expected to be issued by the end of 2008 / beginning of 2009. As per June 30, 2008, no provision for a possible fine stemming from this antitrust case had been booked.

→ **Opinion:** In the light of the above information, we have not included any financial effects in our model.

- **Conclusion/recommendation:** We expect Geberit to increase its profits and cash flow even in the face of declining economic growth, thanks to (1) better penetration of existing markets, (2) entry into new markets, (3) replacement of visible flushing cistern systems, (4) replacement of copper piping systems, (5) economies of scale, (6) continuous operational excellence measures, and (7) price increases. The group has plenty of potential to grow outside Germany, and can also gain market share within Germany itself. Based on our EVA<sup>®</sup>/DCF model, we have derived an economic value and 'fair value NZB' of CHF 208 per share (previously CHF 202) from our estimates, indicating upside potential of 37%. Consequently, we are continuing to recommend purchase of Geberit's shares with a 12-month price target of CHF 190.

Figure 4: Q2 2008 deviation from NZB estimates/change in forecasts

(CHF m)	Deviation from NZB est.			Change in forecasts								
	Q2 2008 est.	Q2 2008 actual	Dev. in %	2008E		Dev. in %	2009E		Dev. in %	2010E		Dev. in %
				old	new		old	new		old	new	
<b>Gross sales</b>	<b>661</b>	<b>649</b>	<b>-2.0</b>	<b>2508</b>	<b>2537</b>	<b>1.2</b>	<b>2660</b>	<b>2692</b>	<b>1.2</b>	<b>2822</b>	<b>2855</b>	<b>1.2</b>
Growth (%)	4.2	2.1		0.8	2.0		6.1	6.1		6.1	6.1	
of which volume & prices (%)	8.9	7.2		5.6	5.6		6.1	6.1		6.1	6.1	
of which currency impact (%)	-3.0	-3.1		-3.9	-2.7		0.0	0.0		0.0	0.0	
of which change in structure (%)	-1.7	-1.9		-0.9	-0.9		0.0	0.0		0.0	0.0	
<b>EBITDA</b>	<b>169</b>	<b>179</b>	<b>5.9</b>	<b>661</b>	<b>666</b>	<b>0.8</b>	<b>701</b>	<b>707</b>	<b>0.9</b>	<b>743</b>	<b>750</b>	<b>0.9</b>
Margin (% gross sales)	25.5	27.5		26.4	26.3		26.3	26.3		26.3	26.3	
<b>EBITA</b>	<b>148</b>	<b>160</b>	<b>8.1</b>	<b>582</b>	<b>587</b>	<b>0.9</b>	<b>620</b>	<b>626</b>	<b>1.0</b>	<b>660</b>	<b>667</b>	<b>1.0</b>
<b>EBIT</b>	<b>145</b>	<b>158</b>	<b>9.2</b>	<b>572</b>	<b>577</b>	<b>0.9</b>	<b>610</b>	<b>616</b>	<b>1.0</b>	<b>650</b>	<b>657</b>	<b>1.0</b>
Margin (% gross sales)	21.9	24.4		22.8	22.7		22.9	22.9		23.0	23.0	
<b>EBT</b>	<b>138</b>	<b>158</b>	<b>14.3</b>	<b>566</b>	<b>571</b>	<b>0.9</b>	<b>608</b>	<b>614</b>	<b>1.0</b>	<b>652</b>	<b>659</b>	<b>1.1</b>
Group profit	106	126	18.6	433	445	2.9	465	479	3.0	499	514	3.0
<b>Net profit after minorities</b>	<b>106</b>	<b>126</b>	<b>18.6</b>	<b>433</b>	<b>445</b>	<b>2.9</b>	<b>465</b>	<b>479</b>	<b>3.0</b>	<b>499</b>	<b>514</b>	<b>3.0</b>

Source: Geberit, NZB estimates

**Agenda:**

- |                    |                  |
|--------------------|------------------|
| - 30 October, 2008 | Q3 2008 results  |
| - 20 January, 2009 | Key figures 2008 |
| - 12 March, 2009   | FY 2008 results  |

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