



HELVEA

Geberit

NEUTRAL

Target: CHF160.-

Price: CHF160.-

Rating: Unchanged - Target: Changed ↑ EPS: Changed

2 May 2008

STRONG Q1 2008 RESULTS AND MEETING WITH CFO

- Geberit's sales and EBIT were down by 'only' around 5% in Q1 2008, much better than our expectations, with negative organic growth of 'just' -1.5% and an unexpected increase in gross margins
- These good results were achieved thanks to high pricing power, a less marked impact from higher raw material prices, a better sales mix and lower inventories
- We have upgraded our EPS estimates by 6.6% for 2008 and by 5.3% for 2009 and beyond, driven by higher sales and margin assumptions as well as a lower number of shares in 2008
- Price target raised from CHF140 to CHF160: NEUTRAL reiterated

Construction/Mid&Small Caps

Patrick Appenzeller
+41 (0)43 388 9267
pappenzeller@helvea.com

Sales contact
Geneva
+41 (0)22 354 9000
London
+44 (0)20 7054 7100
Zurich
+41 (0)43 388 9200
Montreal
+1 (514) 288 3556
New York
+1 (212) 935 51 50

Bloomberg symbol
GEBN.VX
Reuters symbol
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Geberit – Company data

	Revenues	EBITDA	EBIT	Net profits	NOPLAT	EPS	P/E	EV/ EBITDA	DPS	Yield
	CHF m	CHF m	CHF m	CHF m	CHF m	CHF	X	X	CHF	%
2006	2,184	569	482	355	371	8.97	17.8	11.3	4.00	2.5
2007	2,487	638	554	463	433	11.7	13.7	10.1	5.20	3.2
2008E	2,500	620	533	407	418	10.6	15.1	10.4	5.50	3.4
2009E	2,650	656	564	432	442	11.5	14.0	9.8	5.80	3.6
2010E	2,809	702	602	465	471	11.9	13.5	9.2	6.00	3.7

Shares outstanding (m)	41.75	Share performance	3m	6m	12m	24m
Market cap. (CHF m)	6,684	Absolute	3%	3%	-26%	11%
Enterprise value (CHF m)	6,423	Relative to local	4%	19%	-10%	10%
Estimated free float	86%	Relative to Eur. sector	3%	23%	-4%	9%

REVIEW OF Q1 2008 RESULTS

Geberit: Key Q1 2008 results vs. Helvea/consensus estimates

(In CHF m)	Q1 2007	Q1 2008 Reported	Y-o-y change	Q1 2008E Helvea	Q1 2008E Consensus
Sales	676.2	643.1	-4.9%	611.7	632.0
EBITDA	196.0	185.7	-5.3%	165.9	n.a.
EBITDA margin	29.0%	28.9%	-10bp	27.1%	n.a.
EBIT	175.3	166.2	-5.2%	146.3	159.0
EBIT margin	25.9%	25.8%	-10bp	23.9%	25.2%
Financial results	-3.6	2.6	-172%	-3.0	n.a.
Taxes	-41.7	-38.5	-7.7%	-33.0	n.a.
Net profits	130.0	130.3	0.2%	110.3	117.0

Sources: Company data; consensus according to Bloomberg; Helvea estimates

Q1 2008 sales and profits clearly above our estimates

Geberit's sales were down by 'only' 4.9% in Q1 2008 to CHF643.1m, a much less steep decline than we had anticipated: organic growth worked out at -1.5%, considerably better than we had assumed (-5.5%). In addition, the cost of materials surprisingly fell more steeply than sales (-7.8%), with the gross margin actually

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progressing by 70bp to 54.9%. As a result, despite the slightly negative organic growth, EBITDA fell by 'just' 5.3% to CHF185.7m, well above our estimate of CHF165.9m, with the EBITDA margin virtually flat at 28.9% (29.0% in Q1 2007). The financial result was positive, also underpinned by an unquantified positive currency impact. The tax rate was lower, enabling net profits to match the high level achieved in Q1 2007. The tax rate in Q1 is usually very volatile and should not be used as barometer for the full year: management's guidance for the full year is for a tax rate of 23%-24%. Free cash flow (which is seasonally low in Q1) improved from -CHF16.6m to CHF20.2m, partly courtesy of improved net working capital management.

The reasons why Geberit's Q1 2008 comfortably beat expectations can be pinpointed as:...

Owing to the very strong base effect from Q1 2007, we had expected Q1 2008 to be a difficult quarter for Geberit. There was a tough basis of comparison as the European construction environment had been very buoyant in Q1 2007, particularly in Germany where pre-buying ahead of the January 2007 VAT hike and abolition of the *Eigenheimzulage* (government housing grants available to owner-occupiers for buying or building their own homes) was still feeding through into business in Q1 2007. As 2007 unfolded, German building permits fell substantially. Furthermore, the early Easter this year cut the number of working days in the quarter by two. As we had been expecting a bigger negative rate of organic growth, we had also assumed that there would be a much tighter squeeze on margins, but this turned out not to be the case. After the conference call and one-to-one discussions with the CFO, Roland Iff, we have pinpointed the following reasons for Geberit's successful outcome in Q1 this year:

...its pricing power,...

- Geberit started 2008 with full price rises: contrary to normal practice, price rises had been pushed through during H2 2007 in Piping Systems, plus traditional price hikes feeding through from 1 January and 1 April. This demonstrates that the company has been able to pass both higher raw material prices and salary increases onto customers. We are assuming that price rises averaged 4%-5% y-o-y in Q1 2008, meaning that volumes would have been down by over 5%.

...less impact from higher raw material prices, a better sales mix...

- The pressure coming from increased raw material costs appears to have eased: we assume that this has mainly been due to the recent fall in nickel prices.
- There was also a positive impact from the product mix as growth in Sanitary Systems was higher than at Piping Systems (no Q1 figures available). In 2007, Piping Systems mainly benefited from the previously mentioned pre-buying effects. Margins at Sanitary Systems are higher, aided by Geberit's unique positioning.

...and lower inventories

- Inventory levels at end-Q1 2008 were lower than in Q1 2007, which led to a significant improvement in net working capital. It also looks as if the de-/restocking effect at wholesalers ahead of new products being launched was less than we had assumed. New products have been introduced as of 1 April 2008, but, according to the CFO, some deliveries to wholesalers had already taken place in Q1.

Geberit's Q1 results once again made it abundantly clear that any comparisons with competitors in the piping business, like Uponor (which published a very weak set of results on the same day) or Wavin, are misleading. Geberit competes with the two companies only marginally in some areas in Piping Systems, but usually in more profitable niches and often in connection with Sanitary Systems. Uponor is strong in under-floor heating and underground piping in which Geberit is not active anymore.

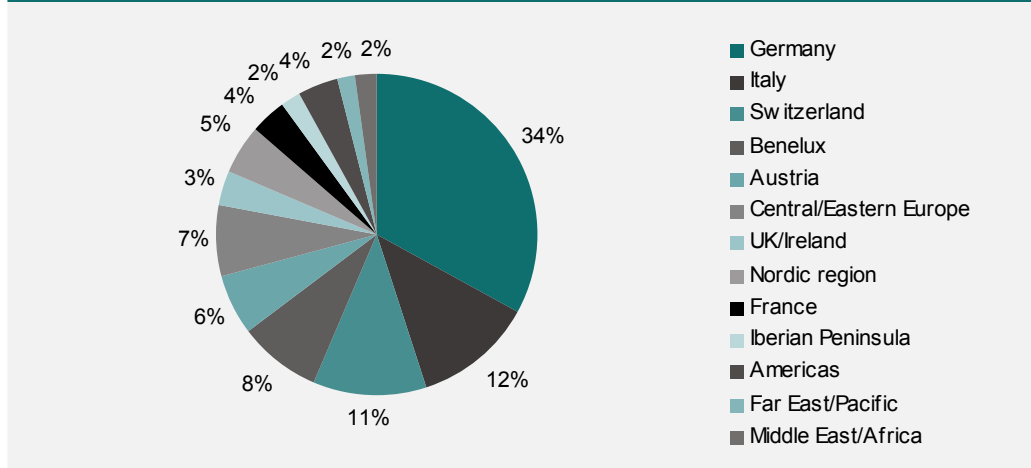
Regional and divisional overview

Negative organic growth in Europe

Europe (which accounted for 93.2% of Geberit's Q1 2008 sales) posted negative organic growth of -2.3% (we assume that this was mainly due to Germany where growth had been a staggering 33% in Q1 2007 y-o-y compared to Q1 2006). No information about Geberit's organic growth rates by European market was disclosed,

but Geberit did comment that growth was high in Central and Eastern Europe (where Geberit's biggest market is Poland) – this area of Europe accounted for 7.5% of the group's sales in 2007. Organic growth worked out at 13.4% in Africa/Middle East (1.8% of Q1 2008 group sales) and at 34.6% for the Asia/Pacific region (1.6%) whereas it was practically flat at –0.4% in the USA (3.4%).

Geberit: Breakdown of sales by region (2007)



Source: Company data

New products

The CEO, Albert M. Baehny, commented that it was too early to provide any quantitative information about the impact of new product launches. More information will be given at the half-year reporting stage. These products were presenting during Q1 to installers and wholesalers, mainly in France, Benelux countries, Italy and Germany: Geberit had extremely positive initial feedback from new products launched on the market towards the end of Q1 2008. The most promising new product is the world's first new concealed cistern that can be installed without tools. This will completely replace Geberit's traditional concealed cisterns.

OUTLOOK

Outlook for construction industry overall

Geberit still assumes that the construction industry in some key European markets has peaked while rapid expansion in the construction sector in other regions, such as Eastern Europe, the Middle East or Asia, should continue unabated.

The outlook for the building industry in Eastern and Central Europe is still positive whereas, in Western Europe, flat to negative growth is expected in Germany and Switzerland (flat to negative in residential; positive in non-residential), downside potential is quite considerable for Spain and the UK (where Geberit should still continue to deepen the penetration of its concealed cistern), but prospects are positive overall for Austria, Benelux countries, Sweden and Norway, mostly helped by a sound outlook for non-residential building work and renovation projects. In Germany, indications are mixed, with wholesalers quite negative, but producers rather positive. As for Italy, Geberit's second most important market, the overall outlook for new construction is negative, flat to negative in renovation whereas, for non-residential, it is positive.

Promising new products

Outlook for Europe's building industry mixed

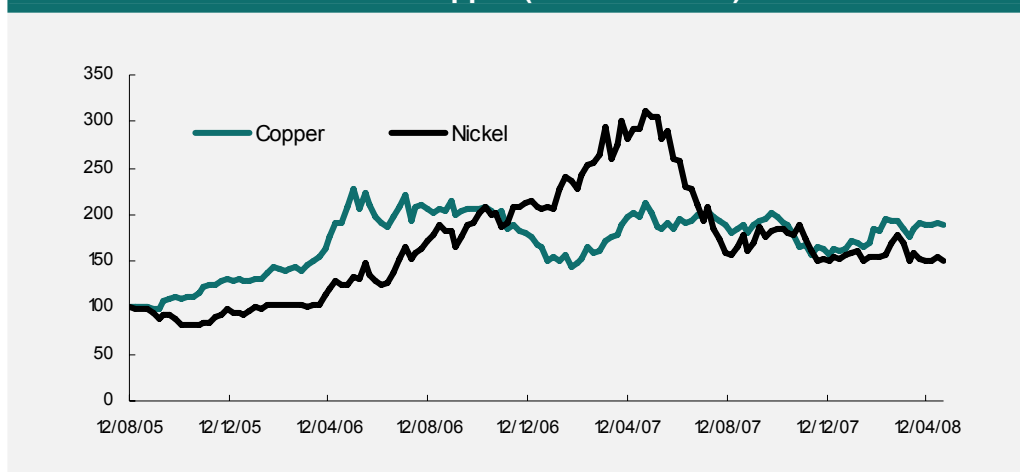
There is some risk that sales growth could slow more markedly in European residential construction markets and that non-residential sectors might also be affected as banks become less willing to finance construction of, for example, homes, offices and shopping centres. This could also see growth slackening in Central and Eastern Europe.

Outlook for Geberit in Q2 2008

Geberit did not provide any specific guidance for Q2 or about the effect from new products or the impact of selling and raw material prices. However, gross margins should increase y-o-y in Q2 as the volume strategy in the Piping Systems division had a negative impact on Q2 2007 figures when the EBITDA margin slid from 27.5% to 23.7%. Geberit did not want to give further information about business developments in April, but we assume that y-o-y growth in April is also likely to have been very positive as a result of a favourable Easter base effect and new products.

Outlook on raw material prices and costs

Price trends for nickel and copper (LME 3 months)



Source: Bloomberg

Raw material costs have a significant impact on Geberit's results, but this looks to have been tempered somewhat

Raw material costs accounted for 29.8% of sales in Q1 2008 versus 30.8% in Q1 2007, and we assume that this percentage will not change significantly in Q2 2008. As a result, a positive base effect should be created as the percentage had worked out at 32.8% in Q2 2007. The recent decline in nickel prices will undoubtedly have helped Geberit in Q1 and might also continue to do so in the current quarter. Industrial metals (nickel, copper and aluminium) account for about 53% of Geberit's raw materials whilst plastics, like polyethylene and polystyrene, account for 25%. A high copper price tends to have a favourable impact for Geberit as it drives the ongoing substitution of copper by carbon steel and multi-layer pipes.

■ SHARE BUY-BACK PROGRAMME

60% of the share buy-back programme executed

So far, Geberit has completed 60% of the recently announced share buy-back programme for 2008 via its second line. So far, no shares have been cancelled from the share buy-back programme in 2006/07 (corresponding to 3.3% of outstanding shares). A decision on this would have to be made at a general meeting of shareholders, the next regular AGM not being scheduled until 2009. This limits Geberit's potential for further share buy-backs as the threshold of 10% of own shares should not be exceeded.

Geberit: Number of shares

	Number of shares	As a %
Outstanding shares at 31 December 2007	41,747,731	100.0%
Shares from 2006/2007 share buy-back programme	-1,391,000	3.3%
Treasury shares at 31 December 2007	-637,569	1.5%
Repurchased in current share buy-back programme (at 30 April 2008)	-1,227,500	2.9%
Current number of shares used for dilution (including buy-backs)	38,491,662	92.2%
Still to be repurchased under 2008 share buy-back programme	-859,887	2.0%
Shares from convertible bonds, which can be converted up to 2010	1,564,254	3.7%
Potential number of shares after 2010	39,196,029	93.9%

Sources: Company data; Bloomberg

■ REVISIONS TO ESTIMATES

Geberit: Revised Helvea estimates

(In CHF m)	2008E Previous	2008E New	Revision	2009E Previous	2009E New	Revision
Sales	2,448	2,500	2.1%	2,595	2,650	2.1%
EBITDA	592	620	4.7%	627	656	4.5%
EBIT	506	533	5.4%	534	564	5.5%
Net profits	384	407	5.8%	408	432	5.7%
EPS (CHF)	10.0	10.6	6.6%	10.9	11.5	5.3%

Source: Helvea estimates

Upgrading of estimates to reflect better than expected organic growth, pricing power and lower number of shares

We have upgraded our sales estimate for 2008 by 2.1%, mainly to reflect the better than expected Q1 sales and the euro's recent recovery. We have lowered our estimates for the cost of materials due to the significantly better than expected developments in Q1 and the likelihood that prices of some of those raw materials key to Geberit (e.g. nickel) will now stabilise at lower levels. Consequently, we have raised our EBITDA margin estimate by 60bp to 24.8%, i.e. towards the upper end of Geberit's long-term target range of 23%-25%, but still below the consensus estimate. As we have also lowered our forecasts for net financial expenses and the number of average shares in 2008 due to the foreseeable faster than expected completion of the share buy-back programme, we have increased our EPS estimates by 6.6% for 2008 and by 5.3% in 2009 and beyond.

■ RECOMMENDATION

We have increased our price target from CHF140 to CHF160, but we are sticking with our NEUTRAL recommendation

Geberit's Q1 2008 results made impressive reading, especially on the margin front, with Geberit once again demonstrating its pricing muscle and, we assume, benefiting from good timing in purchasing raw materials. Geberit's Sanitary Systems business is unique and the ongoing increased penetration of concealed cisterns in several countries can offset any negative impact from the Piping Systems division and adverse growth in Geberit's core markets. Over the next two to three quarters, newly launched products should deliver additional support. On a less positive note, the poor outlook for Western Europe's residential construction industry will curb Geberit's growth potential (but helped by ongoing price increases) and a cyclical downturn would probably also affect 2009 and 2010. However, on the back of our upgrading of EPS estimates and our assumption now that short-term risks are diminishing as the base effect from last year turns somewhat more favourable, we have lifted our price target from CHF140 to CHF160, but we stick with our NEUTRAL recommendation.

FINANCIAL DATA

Profit & loss

<i>(In CHF m)</i>	2006	2007	2008E	2009E	2010E	2007	2008E	2009E	2010E	CAGR 3Y
Revenues	2,184	2,487	2,500	2,650	2,809	13.9%	0.5%	6.0%	6.0%	4.1%
COGS	-969	-1,166	-1,160	-1,232	-1,308					3.9%
Gross operating profits	1,214	1,321	1,341	1,419	1,501					4.3%
R&D	-	-	-	-	-					n.m.
SG&A	-442	-467	-493	-522	-542					5.0%
Other operating inc./exp.	-203	-216	-228	-241	-257					6.0%
EBITDA	569	638	620	656	702	12.1%	-2.9%	5.8%	7.0%	3.2%
Depreciation	-76.9	-75.1	-76.3	-82.2	-89.9					6.2%
Amortisation	-10.0	-9.0	-10.0	-10.0	-10.0					3.6%
EBIT	482	554	533	564	602	14.8%	-3.7%	5.6%	6.8%	2.8%
Net financials	-16.3	-11.4	-5.4	-2.9	1.6					n.m.
Extraordinary items	0.0	48.8	0.0	0.0	0.0					n.m.
Pre-tax profits	466	591	528	561	603					0.7%
Taxes	-111	-128	-121	-129	-139					2.8%
Minority interests (P/L)	-	-	-	-	-					n.m.
Net profits	355	463	407	432	465	30.5%	-12.2%	6.2%	7.6%	0.1%
Reported EPS (CHF)	8.97	11.7	10.6	11.5	11.9					0.5%
Cash EPS (CHF)	8.65	11.7	10.9	11.7	12.1					1.2%
Fully dilut. rep. EPS (CHF)	8.53	11.3	9.74	10.3	10.7					-1.7%
Dividend/share (CHF)	4.00	5.20	5.50	5.80	6.00					4.9%

Cash flow statement

<i>(In CHF m)</i>	2006	2007	2008E	2009E	2010E	2007	2008E	2009E	2010E	CAGR 3Y
EBITA	492	563	543	574	612	14.3%	-3.4%	5.5%	6.7%	2.8%
Taxes on EBITA	-111	-129	-125	-132	-141					2.8%
NOPLAT	371	433	418	442	471	16.9%	-3.4%	5.5%	6.7%	2.8%
Depreciation	76.9	75.1	76.3	82.2	89.9					6.2%
Operating cash flow	448	508	495	524	561					3.3%
Change in working capital	-10.1	-49.1	-17.7	-41.2	-29.0					-16.1%
Capex	-78.7	-89.9	-147	-140	-103					4.7%
Acquisition/disposals	-0.9	0.0	0.0	0.0	0.0					n.m.
Free cash flow	358	369	331	343	429	3.3%	-10.5%	3.7%	25.1%	5.1%
Dividends	-102	-159	-199	-207	-227					12.7%
Payout ratio	44.6%	50.4%	50.5%	49.4%	49.5%					
Cash tax rate	23.8%	21.6%	23.0%	23.0%	23.0%					

Balance sheet

<i>(In CHF m)</i>	2006	2007	2008E	2009E	2010E
Operating cash	182	450	535	646	822
Marketable securities	-	-	-	-	-
Receivables	116	127	130	141	149
Inventories	200	226	239	265	280
Other short-term assets	52.0	51.7	52.0	55.0	58.2
Short-term assets	550	855	957	1,106	1,309
Net fixed assets	534	529	600	657	671
Goodwill	708	714	714	714	714
Long-term financial assets	102	84.9	85.4	90.3	95.6
Other long-term assets	118	115	115	115	115
Long-term assets	1,461	1,443	1,514	1,577	1,595
Total assets	2,011	2,298	2,470	2,683	2,904
Short-term financial debt	14.7	2.9	2.9	2.9	2.9
Accounts payable	102	93.3	92.3	97.7	103
Accrued liabilities	213	143	144	152	161
Short-term liabilities	330	239	239	253	267
Long-term financial debt	308	271	221	171	121
Pension liabilities	153	157	173	190	209
Other liabilities	65.1	67.7	69.7	71.7	73.7
Minority interests	-	-	-	-	-
Long-term liabilities	615	655	634	618	604
Shareholders' equity	1,066	1,404	1,597	1,812	2,033
Total liabilities and equity	2,011	2,298	2,470	2,683	2,904
Net debt	141	-176	-312	-472	-698
Operating working capital	289	436	454	495	524
Invested capital	1,530	1,680	1,768	1,867	1,909

Key ratios

	2007	2008E	2009E	2010E
Margins				
Gross margin	53.1%	53.6%	53.5%	53.4%
EBITDA	25.7%	24.8%	24.7%	25.0%
EBIT	22.3%	21.3%	21.3%	21.4%
Net profits	18.6%	16.3%	16.3%	16.5%
Free cash flow	14.9%	13.2%	12.9%	15.3%
Operating data				
WC as % sales	17.5%	18.2%	18.7%	18.7%
Days out. receivables	19	19	19	19
Days out. payables	29	29	29	29
Returns				
ROIC	27.0%	24.3%	24.3%	25.0%
ROE	37.5%	27.1%	25.3%	24.2%
Financing data (X)				
Book gearing	-0.1	-0.2	-0.3	-0.3
FCF/net fin. results	32.4	61.2	118	n.m.



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Divisional overview

(In CHF m)	2006	2007	2008E	2009E	2010E	2007	2008E	2009E	2010E	CAGR 3Y
Revenues										
Installation Systems	745	864	907	953	1,000	16.1%	5.0%	5.0%	5.0%	5.0%
Flushing Systems	218	247	259	280	303	13.2%	5.0%	8.0%	8.0%	7.0%
Public	146	151	151	159	166	3.2%	0.0%	5.0%	5.0%	3.3%
Waste Fitting and Traps	100	105	101	106	111	4.6%	-4.0%	5.0%	5.0%	1.9%
Building Drainage Systems	360	380	342	354	366	5.5%	-10.0%	3.5%	3.4%	-1.2%
Supply Systems	614	739	739	799	862	20.5%	0.0%	8.0%	8.0%	5.3%
TOTAL	2,184	2,487	2,500	2,650	2,809	13.9%	0.5%	6.0%	6.0%	4.1%
EBIT										
TOTAL	482	554	533	564	602	14.8%	-3.7%	5.6%	6.8%	2.8%
EBIT margin										
TOTAL	22.1%	22.3%	21.3%	21.3%	21.4%					

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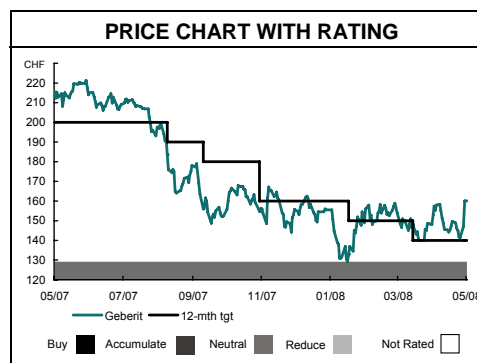
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Rating/share class	Large-cap	Mid-cap & Small-cap
BUY	>20%	>30%
ACCUMULATE	10% to 20%	15% to 30%
NEUTRAL	–10% to 10%	–15% to 15%
REDUCE	<–10%	<–15%



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25.0%	17.9%	54.5%	2.7%

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