

## Basic Report - update

### Analyst

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### Recommendation

# BUY

(previous recommendation: BUY)

### Fair Value

# € 13.50

(previous € 11.15)

**BankM Research on Bloomberg, Thomson/Reuters, Factset, CapitalIQ and www.BankM.de**

## Strategic Partner as a majority shareholder

### Topcon Europe B.V. has acquired 50.1% of the ifa systems AG shares in a public tender offer

On December 9<sup>th</sup> 2015, Topcon BV closed a tender offer to bid for a majority stake of ifa systems AG. In this transaction Topcon acquired 1,377,750 shares of ifa systems equal to 50.1% of the Company at a price of € 15.20 per share. The transaction is valued € 41.8 Mill. = 13.5X EBITDA<sub>(2015)</sub> or 4.8X Sales<sub>(2015)</sub>.

### ifa systems' founder team (=Board and management) will stay on board

The leadership team has sold its majority stake to Topcon on a pro rata basis according to the Terms & Conditions of the tender offer retaining ca. 10% of the Company. Management were offered long-term executive contracts by the bidding Company.

### Q2 + Q3/2015 business results with no particular surprise

ifa systems finished Q2/2015 with total sales of € 2.25 Mill., reporting an operating profit of T€ 0.33. With revenues at last year's level, it was management's strategy to pursue a path of productivity showing an operating margin of 10% above last year's result.

### Business results Q4/2015

Q4 results came in with a sharp surplus on the top line reporting total revenues at € 4.1 Mill., a growth rate of 12.5% yoy. Licenses generated via the new Co-operation were a major driver. Fueled by a strong operating profit reported for the first semester, full-year EBIT may now be expected to top € 2.6 Mill., an increase of 8.3% yoy (EBIT<sub>(2014)</sub> € 2.4 Mill.). ifa system was able to generate additional sales > € 1.0 Mill. from the joint project "IMAGEnet<sup>®</sup> Connect". Both Companies had introduced this innovative VNA-application (vendor neutral archive) in November during the annual meeting of AAO in Las Vegas.

### Merge Healthcare is an official partner for internat'l hospital installations

Having completed a complex installation at the largest and most prominent eye hospital in Asia (SNEC Singapore), ifa systems engaged in a partnership with Merge Healthcare focusing on international distribution. The new partner is the US market leader for PACS<sup>™</sup> and imaging systems.

### We have increased the fair value of ifa systems by € 2.35 to € 13.50 per share. Our rationale: ifa systems is able to manage its cyclical project business with more and more comfort and the partnership with Topcon will provide a higher level of stability. We also considered increased multiples in the capital markets.

## Key Financial Data

Year	Sales (Mio. €)	EBITDA (Mio. €)	EBIT (Mio. €)	EBT (Mio. €)	adj. Net (Mio. €)	adj. EPS (€)	DPS (€)	EBIT-Margin	Netto-Margin
2013	10.1	2.6	1.6	1.5	1.0	0.42	0.03	15.8%	10.3%
2014	10.4	2.8	2.2	2.2	1.5	0.54	0.12	21.4%	14.3%
2015e	10.6	3.2	2.6	2.6	1.9	0.71	0.12	24.7%	18.3%
2016e	12.5	3.6	2.9	2.9	2.2	0.79	0.12	23.5%	17.4%
2017e	14.2	3.8	3.1	3.1	2.3	0.83	0.12	21.8%	16.1%

Source: BankM Research, ifa systems AG

\*) Glossary page 17

Sector	Enterprise Software
WKN	783078
ISIN	DE0007830788
Bloomberg/Reuters	IS8 GR Equity
Accounting	IFRS
Financial Year	31.12.
Financial Reporting	April 2016
Q1/2016	
Segment	Open Market
Transparency	Entry Standard

### Financial Figures

	2015e	2016e	2017e
EV/Sales	3.4	2.9	2.4
EV/EBITDA	8.9	8.0	7.7
EV/EBIT	11.0	9.9	9.4
P/E adj.	14.9	13.4	12.6
Price/Bookvalue	1.5	1.4	1.3
Price/FCF	16.5	12.1	11.6
ROE (%)	10.0	10.9	9.9
Divident Yield (%)	1.1	1.1	1.1

### No. Shares

(Mill. Shares) 2,75 Mill.

### Market Cap. / EV

(Mill. €) 29,6 / 30,1

### Free Float

40.10%

### Ø daily Trades

(3M, in €) \$41,500

### 12 M high/low

(XETRA-Close) € 15,00 / 8,30

### Price Feb 16, 2016

(XETRA-Close) € 10,77

### Performance

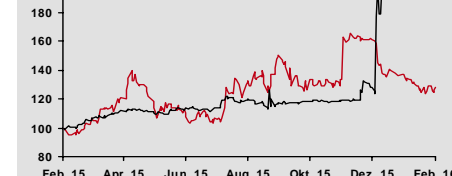
1M 6M 12M

absolut -5.7% -8.0% 26.9%

relativ -4.9% -48.9% -39.9%

### Benchmark

Entry All Share - Perform.



ifa systems AG, XETRA (red/light) vs. Entry All Share Perf. (black/dark) Source: Bloomberg

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## Investment Considerations

- Recurring income from Licensing and long-term contracts have increased by 50% in the past 4 years. According to ifa systems' business model, this trend will continue in the future. Large installations in hospitals are generating a high number of runtime licenses. The Company is covering ca. 80% of its fixed costs via long-term licensing agreements.
- ifa systems will be able to better scale its innovative offering in cooperation with the new strategic partner Topcon. While ifa systems will now be integrated in a multinational corporate structure, management of the new partner has identified ifa's know-how and credentials so they will opt to furnish the Company with a high degree of freedom to operate as a "think-tank".
- A potential of influence and dependence resulting from the new Topcon relationship is indisputable. The façon, Topcon was bidding for the majority share did set the tone that the new majority shareholder - highly profitable itself - is not interested to carve out their partner's asset base. Moreover, we expect that Topcon's management will have sufficient sensitivity to regularly compensate ifa systems minority shareholders with a similar ROI as the shareholders in the parent company.
- ifa systems has positioned its business model in the HIT market (Healthcare Information Technology). The Company's offering caters for applications suitable for large outpatient ophthalmologists and hospitals specialized in ophthalmology. A sound set of credentials is required to compete in this highly specialized HIT segment. However, successful market participants are compensated with high margins in this industry segment.
- The new partnership with Topcon, ifa's existing credentials, and the more recently established relationships with Merge Healthcare are unleashing additional potential for ifa systems to grow into additional high-margin businesses. Technology related to telemedicine applications and data capture may now be monetized. Extending ifa systems' EMR with such functionality will add significant value and increase its USP.
- ifa systems has sufficient flexibility to execute its business plan given its strong debt-free balance sheet. High synergies unfolding from the relationship with the majority shareholder Topcon coupled with the Company's focus on high-margin business like tele-medical and VNA applications will be drivers along ifa systems' sustainable growth path.

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## Financial Analysis / Quarterly Reporting

In 2015, ifa systems AG reported quarterly sales and EBIT above last year's levels. We can expect sales for the full business year 2015 at ca. € 10.6 Mill., associated with an EBIT of 2.6 Mill. resulting in record profitability for the full-year 2015.

Considering the management capacity tied to the many negotiation rounds with Topcon and with Merge Healthcare (today Watson Health), it is remarkable that ifa system's management was able to top last year's business results. The Company had to absorb considerable additional costs for auditing and due diligence relating to such high-level cooperation agreements. The Company would not be able to execute such transactions without a functioning and effective 2<sup>nd</sup> management level.

The higher margins that we have seen this year are a result from decreased hardware-IT sales in parallel to an elevated number of license contracts invoiced. Such increase could happen with the new software leasing model offered since early 2015. Since April 2015, ifa systems has redeemed a 5-year term-loan resulting in no debt servicing expenses during the second semester 2015.

Should Topcon as the majority shareholder also support the offered software leasing model, ifa systems would now have a much better position to re-finance their leasing business.

**Higher operating earnings generated via lower marketing expenses have improved operating margins**

**Debt-free balance sheet since July 2015 resulting in higher financial flexibility.**

### QoQ Comparison 2013

in €('000) except EPS	12M	%-age	Q1/12	%-age	Q2/12	%-age	Q3/12	%-age	Q4/12	%-age	2013	%-age
	2012	Change	Change LY	Change LY	Change LY	Change LY	Change LY	Change LY	Change LY	Total Sales		
Total Sales	10,434	6.4%	2,209	2.7%	2,009	-9.5%	2,239	-1.8%	3,649	-3.6%	10,106	100.0%
EBIT	958	-49.4%	325	195.5%	235	11.9%	420	61.5%	621	64.3%	1,601	15.8%
Net Profit	573	-55.9%	234		169		258		382		1,043	10.3%
EPS (in ct.)	0.23		0.09		0.07		0.10		0.15		0.42	

### QoQ Comparison 2014

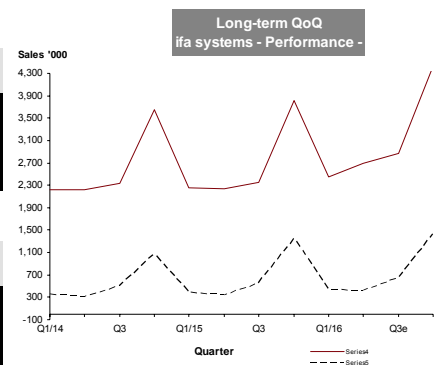
in €('000) except EPS	12M	%-age	Q1/12	%-age	Q2/12	%-age	Q3/12	%-age	Q4/12	%-age	2014	%-age
	2013	Change	Change LY	Change LY	Change LY	Change LY	Change LY	Change LY	Change LY	Total Sales		
Total Sales	10,106	-3.1%	2,220	0.5%	2,220	10.5%	2,340	4.5%	3,650	0.0%	10,430	100.0%
EBIT	1,601	67.1%	360	10.8%	303	28.9%	500	19.0%	1,256	102.3%	2,419	23.2%
Net Profit	1,043	82.2%	241		203		335		841		1,620	15.5%
EPS (in ct.)	0.42		0.09		0.07		0.12		0.31		0.59	

### QoQ Comparison 2015\*

in €('000) except EPS	12M	%-age	Q1/12	%-age	Q2/12	%-age	Q3/12	%-age	Q4/12	%-age	2015e	%-age
	2014	Change	Change LY	Change LY	Change LY	Change LY	Change LY	Change LY	Change LY	Total Sales		
Total Sales	10,430	3.2%	2,250	1.4%	2,230	0.5%	2,350	0.4%	3,805	4.2%	10,635	100.0%
EBIT	2,419	51.1%	395	9.7%	335	10.6%	550	10.0%	1,340	6.7%	2,620	24.6%
Net Profit	1,620	55.2%	293		248		408		993		1,941	18.3%
EPS (in ct.)	0.59		0.11		0.09		0.15		0.36		0.71	

### QoQ Comparison 2016\*

in €('000) except EPS	12M	%-age	Q1/12	%-age	Q2/12	%-age	Q3/12	%-age	Q4/12	%-age	2016e	%-age
	2015e	Change	Change LY	Change LY	Change LY	Change LY	Change LY	Change LY	Change LY	Total Sales		
Total Sales	10,635	2.0%	2,453	9.0%	2,700	21.1%	2,868	22.0%	4,425	16.3%	12,445	100.0%
EBIT	2,620	8.3%	440	11.4%	425	26.9%	640	16.4%	1,419	5.9%	2,924	23.5%
Net Profit	1,941	19.9%	326		315		474		1,047		2,163	17.4%
EPS (in ct.)	0.71		0.12		0.11		0.17		0.38		0.79	



Source: Quarterly reports ifa systems, BankM Research

Source: Quarterly reporting ifa systems AG; Forecasts: BankM

\*) Quarterly results/forecasts may differ from Company reporting because of consolidation effects

## Business Development

### Since December 2015, Topcon is a majority shareholder having acquired a 50.1% stake in ifa systems

In October 2015, the Japanese technology company Topcon Corp. showed an interest to acquire a majority stake of ifa systems. In a public purchase offer, Topcon Europe B.V. (Topcon's Subsidiary in the NL) extended a bid for 50.1% of ifa system AG share capital at a price of € 15.20 per share.

The Topcon offer was supported by the board of ifa systems AG because it is accompanied with a strategic cooperation between the two market leading companies.

When the tender offer closed on December 12<sup>th</sup> 2015, Topcon received a quota of acceptance of 72.5% equal to 1,994,883 shares at a price of € 15.20 per share. The shares offered to Topcon were accepted according to the T&C of the tender offer, i.e. according to the quota of acceptance of 72.5%.

The price Topcon offered for ifa systems' shares carried a premium of 32%. The bidder wanted to make sure that the tender offer will be accepted. At this time, ifa systems' founder team (Board, Executives & employees) were still majority shareholders of the Company. It is a valid assumption that the price of the shares necessary to obtain the majority was a condition of ifa systems' founder team.

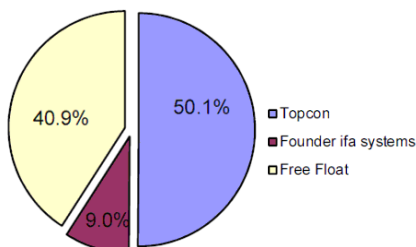
The Topcon deal values ifa systems AG € 41.8 Mill., equal to 13.5X EBITDA<sub>(2015)</sub> and 4.8X revenues<sub>(2015)</sub>, at a P/E<sub>(2015)</sub> of 20X.

To put this price into perspective, we compare the Topcon transaction with the IBM bid for Merge Healthcare that materialized in October 2015. IBM (Watson Health) paid ca. \$ 1.0 Bn. The IBM deal was priced at a P/E<sub>(2016)</sub> level of 30.0X and a sales<sub>(2016)</sub> multiple of 4.0X.

Topcon's partnership as a majority shareholder of ifa systems has many advantages for both Companies. We are sure that we will see several synergies in the near future.

Changes in the shareholder structure as of Topcon acquisition:

#### New Shareholder structure



Source: ifa systems AG, Deutsche Börse

#### Shareholder Structure pre-event

Shareholder	% of equity (pre-event)
Founder - Group	32.6%
thereof: Employees	7.4%
Board	13.0%
Executive Board	12.2%
other shareholder	67.4%

#### Shareholder Structure past-event

Shareholder	% of equity (past-event)
Topcon Europe B.V.	50.1%
Founder - Group	9.0%
thereof: Employees	1.5%
Board	3.9%
Executive Board	3.6%
Free Float	40.9%

Pre-event, ifa systems' founder team controlled ca. 32.6% of the share capital. Circa 23.6% of their shares were sold to Topcon so that this group currently owns 9.0% as per today.

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## The new shareholder Topcon at a glance

### A Synopsis

Topcon Corp. is a global player and a market leader specializing in the manufacture of optical instruments based in Tokyo. Since its founding in 1932, the Company focused on quality and innovation. Over years Topcon Corporation became a world wide multinational company with subsidiaries in Asia, America and Europe. Circa 75% of Topcon's sales are generated on international markets. Last business year (2015/3), Topcon booked ca. 1/3 of total revenues (ca. € 300 Mill.) within their Eye Care (Ophthalmology) unit.

Topcon's eye care unit offers high-end devices with applications in diagnostics, refraction and for surgical applications; in addition the Company offers software for recording, processing, and storage of pictures and archives.

### Key Financial Data Topcon Group

Mill. YEN Mill. EUR

	FY2013	FY2014	FY2014
Total Sales, Group	116,685	128,569	974
Sales, International	89,187	97,568	739
Overseas Sales (%)	76.4	75.9	75.9
Sales - Eye Care Segment	38,736	41,240	312
Jahresüberschuss, Konzern	5,963	8,670	66
R&D expenditure	9,184	10,677	81
EBIT Eye Care Segment	4,003	5,093	39

Source: Annual Report 2014/15 - Topcon Corp.

Currently Topcon is valued ca. € 1.4 Bn. in the capital markets; the Company's shares are traded at the Tokyo Stock Exchange (First Section - Ticker: 7732.T). Topcon's current market valuation reflects 1.5X sales which is also equal to a P/E<sub>(actual)</sub> of 21.2X.

For the forthcoming business year (2016/3) it is management's objective to increase global sales by 10% with an operating result +20% (yoy). Topcon may be compared to the German Carl Zeiss MediTech AG.



While Topcon is 100 times larger compared to ifa systems AG, both Companies have a similarly formidable philosophy in terms of quality, service, and product.

In the past twenty years, both Companies have repeatedly co-operated on larger projects establishing a long-term relationship over time. With this background information, Topcon's desire to acquire a majority stake in ifa systems can hardly be interpreted as a "blind-date", moreover this transaction is the consequence of a long-term relationship. The tighter co-operation between Topcon and ifa systems will result in significant synergies for both Companies, i.e. synergies regarding product development, eHealth & Telemedicine applications, software development and -integration.



**Higher economies of scale unleashed with the new co-operation**

On ifa systems' part we realize significantly higher economies of scale in virtually all business segments resulting from the Topcon co-operation. Teleretinal services is one of ifa's cutting-edge technologies, delivered by Inovion Corp. This technology will now be moving far up of the Company's agenda.

**Topcon will appreciate ifa's know-how pertaining middleware and telemedicine applications.**

Topcon will enjoy an ideal strategic partner in ifa systems regarding product development and innovations for HIT solutions. Also, ifa systems/integratin AG is a suitable partner to develop and integrate software for all Topcon devices. Topcon's high-end products have a very long lifetime. Recurring revenues e.g. from (regular) software updates should be a welcomed source of future revenues.

IMAGEnet® Connect was the first product that ifa systems developed for Topcon providing imaging solutions and electronic documentation.

The application based on VNA technology (vendor neutral archive) was first introduced in November 2015 during the annual AAO meeting in Las Vegas.

In section "Strategic Change" we have analyzed additional synergies resulting from the new partnership.

## **Hospital Installations / Distribution**

**ifa's risk exposure associated with the project business has been reduced and managed nicely via installation- and distribution partners**

In addition to several medium-sized projects ifa systems has completed two prominent international installations. In the Netherlands, Oogziekenhuis Rotterdam (OOG) went live, a highly specialized Eye Center with more than 300 ifa work stations in addition to a benchmark project in Asia at Singapore National Eye Center (SNEC). With both installations ifa systems was able to demonstrate that the Company is able to handle the most complex installations differentiating itself from its peers. Both of the benchmark projects have set a yardstick for integrated HIT solutions, integrating medical devices, PACS, and hospital information systems.

Currently, ifa systems' project pipeline consists of 15 installations (5 domestic and 10 international). The order-book includes benchmark projects in Saudi-Arabia (Magrabi-Group) and in South America.

ifa systems' indirect distribution efforts have progressed. Meanwhile, the Company has built a network of 60 sales-/service and installation partners worldwide that contribute to increase the number of project requests. The selectively chosen partner network supports the brand recognition "ifa" and finally leads to a higher service-level of ifa's international benchmark projects.

## **"Software as a Service" software leasing model**

**The leasing model offered to clients is suitable now, given the changed scenario.**

Since early 2015, ifa system has been offering its applications to customers on a leasing basis. Initially we had some reservations because of the retarded cash-flow streams and the credit risk at hand. Given today's financial flexibility, i.e. debt-free balance sheet and strong strategic partner, the model "software as a service" is an adequate tool to stimulate the Company's sales, especially in the Anglo-Saxon world, where debt-financed purchases are a preferred to do business.

ifa's leasing model considers a monthly payment schedule for licenses catering for more flexible financing solutions. The debt financing triggers a retarded cash-flow stream from the time of installation to the following 3-5 years. The lessor receives proportional monthly payments and is left with the credit risk during the lifetime of the lease. In ifa system's case the current leasing model generates additional payments of ca. € 10K p.m.

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## Strategic Change

As of today, neither Senior Management of Topcon, nor management of ifa systems have provided information regarding the role ifa system will play within the Topcon universe.

According to an unofficial response provided by ifa's senior management, such discussions between the two Companies are ongoing and are in an advanced stage. We expect that news will be announced later on this year. The only change that we know is a reorganization of ifa's top-line reporting for fiscal year 2016.

Following we would like to draw our own scenario regarding priorities in combining the resources of both Companies in a co-operation:

### Telemedicine

Management of ifa systems AG had already recognized the trend for telemedicine services when they acquired Inoveon Corp. five years ago. Such applications should now move even higher up in the agenda. Using Inoveon's technology for diabetes-management based on Teleretinal Services, a higher degree/faster track of market penetration should now be possible. Inoveon has a proven concept (gold standard) for early diagnosis of Diabetic Retinopathy and Cystoid Macular Edema.

Topcon has relevant, sophisticated Medical Devices like fundus cameras, et al. at various installation points to position the technology now at hand to a market standard. Topcon's fundus camera enjoys a special recommendation from the UK NHA (National Health Agency) for Diabetes-screening.

When EUREQUO was established in 2007 ifa systems emerged as the technical advisor of this unique European registry for improving quality of cataract and refractive surgery.

In September 2015, ifa systems presented the latest version of the EUREQUO project „European Registry of Quality Outcomes for Cataract and Refractive Surgery“ to surgeons and ophthalmologists. This web-based database has a record of more than 1.6 Mill. cataract surgeries associated with relevant quality data.

More than 1,200 ophthalmologic surgeons from 16 European countries are using and providing data-feed to this extensive database. ifa systems has developed this registry-based software; the Company is the exclusive partner of this powerful web based IT-infrastructure.

EUREQUO includes all the relevant elements of modern telemedicine services, i.e. quality based registries, PACS, archiving, and co-management projects for clinical applications. It may be regarded as a primary stage of an interoperability plan.

Topcon will profit from ifa systems and integration AG regarding their relation to ESCRS/EUREQUO as well as from the telemedicine know-how attained in their role.

**Inoveon's Telemedicine applications are well suited for a project among the new partners**

**ifa's Know-how resulting from their association with EUREQUO is a valuable asset for Topcon**

**In the future telemedicine applications will be an integral component in the healthcare industry**

**Future relevance of Telemedicine applications:**

According to a study conducted by BITKOM (10/2015), telemedicine services will be a major part of our daily life and an integral component in the healthcare industry. This study concludes that any physician will exchange medical information with other specialist doctors in 75% of all medical cases.

The general practitioner will analyze and interpret diagnostic pictures with the medical specialist and explain/sharer specific information of the disease with the patient. 98% of the surgeons are sure that interoperability plan will be important in the future, i.e. the support of telemedicine applications (tele-surgery). In complex cases a leading specialist may be consulted from abroad and he may even provide assistance during the surgery.

According to the study, 97% of the physicians explained why tele-monitoring routines for a patient's health condition will play an important role in a healing plan. Patient data for cardiac- and diabetes treatments are transmitted from remote places to the physician's office. The doctor will receive a complete dataset for examination purposes without permanent visits of the patient.

In the future telemedicine applications are a central key to meet the medical needs in times of significant demographic changes. Especially patients residing in remote places may be treated more effectively without increasing cost. Currently, there is a regulatory consultation in Germany regarding a refunding policy for health insurance pertaining to tele-consulted indications like x-ray material or other picture material.

**Vendor Neutral Archive (VNA) und PACS**

The success story of ifa systems' EMR application on international markets is primarily the completeness of the functionalities and the adaptability to the individual hospital information system required in highly specialized/state-of-the-art eye centers. The "ifa" application meets all international standards to exchange data and other information required in hospitals like HL7, DICOM, IHE.

For large, integrated solutions, digital interfaces and gateways, i.e. suitable middleware is always a critical issue for the HIT system provider. More recently, ifa systems has started offering middleware solutions as a vendor neutral archive to quickly adapt to all possible peripheral devices. ifa systems' middleware solutions are ideal products to place via the existing ifa distribution network, installation partners and distributors.

Topcon's is using a HL7 and DICOM standards in their highly advanced medical devices. Such interfaces are critical for distribution purposes. An additional open, vendor neutral archive would probably not be rejected by the Company's sales representatives. A promising point of co-operation is evident. Both Companies have already proved a successful team approach in developing IMAGEnet<sup>®</sup> Connect.

**Business expansion**

Given the sharp increase in ifa systems' business volume across all segments, the Company will have to staff-up significantly within the group - nationally and internationally. We expect that ifa systems - including all group companies - will count 120 employees (+30) on a 12-month horizon.

In the course of ifa's future path of expansion qualified employees will be a limiting factor, similarly to the growth path the Company enjoyed in the past five years. Management considers meeting the increased demand of education and training by using the internal ifa-academy.

**PACS applications and VNA are a top priority of future business development**

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## Valuation / Capital Market Issues

Data as of Feb 16, 2016		Peer Group - Germany				MCap/ Sales		EV/ EBITDA		EV/ EBIT		P/E	
Peer Companies	Ticker	Quote	N° of shares	MCAP	EV	16e	17e	16e	17e	16e	17e	16e	17e
Nemetschek	NEM	38.00	38.5	1,463.0	1,453.5	4.6	4.1	18.3	16.1	23.3	16.1	33.5	28.5
Nexus	NXU	17.05	15.7	268.3	230.8	2.4	2.1	10.3	9.0	16.1	9.0	20.5	16.9
CompuGroup Medical AG	COP	33.08	53.2	1,760.5	2,077.7	3.0	2.7	15.6	13.9	21.7	13.9	29.6	23.6
Geratherm Medical AG	GME	10.29	5.0	50.9	54.4	2.2	2.0	11.8	9.9	14.3	12.1	21.0	18.1
Carl-Zeiss MediTech	AFX	27.74	81.3	2,255.5	2,104.4	2.1	1.9	12.2	11.1	14.2	11.1	22.8	20.8
<b>Mean</b>						<b>2.8</b>	<b>2.6</b>	<b>13.6</b>	<b>12.0</b>	<b>17.9</b>	<b>12.4</b>	<b>25.5</b>	<b>21.6</b>
<b>Median</b>						<b>2.4</b>	<b>2.1</b>	<b>12.2</b>	<b>11.1</b>	<b>16.1</b>	<b>12.1</b>	<b>22.8</b>	<b>20.8</b>
<b>ifa systems AG</b>	<b>IS8</b>	<b>10.77</b>	<b>2.75</b>	<b>29.62</b>	<b>30.10</b>	<b>2.4</b>	<b>2.1</b>	<b>8.3</b>	<b>8.0</b>	<b>10.3</b>	<b>9.8</b>	<b>13.8</b>	<b>13.0</b>
Fair value per Share using Mean						12.93	13.38	17.94	16.40	18.98	13.92	19.89	17.91
Fair value per Share using Median						10.74	11.04	16.01	15.21	17.02	13.55	17.82	17.30
Liquidity Discount			20%										
Fair value per Share using Mean						10.35	10.70	14.35	13.12	15.19	11.14	15.91	14.33
Fair value per Share using Median						8.60	8.83	12.81	12.17	13.61	10.84	14.25	<b>13.85</b>

Source: Bloomberg, I/B/E/S, Thomson, Forecasts BankM Research

Table (Price / Multiples)

Price	P/E 2016	P/E 2017	EV/EBIT 2016	EV/EBIT 2017
8.00	10.3	9.6	7.7	7.3
8.40	10.8	10.1	8.1	7.7
8.70	11.2	10.5	8.4	7.9
9.20	11.8	11.1	8.9	8.4
9.50	12.2	11.4	9.1	8.6
10.00	12.8	12.0	9.6	9.1
10.30	13.2	12.4	9.9	9.4
10.55	13.5	12.7	10.1	9.6
11.05	14.2	13.3	10.6	10.0
11.55	14.8	13.9	11.1	10.5
12.15	15.6	14.6	11.6	11.0
12.50	16.0	15.1	12.0	11.3
13.00	16.7	15.7	12.5	11.8
13.50	17.3	16.3	12.9	12.2
13.90	17.8	16.7	13.3	12.6

Calculation: BankM Research

We have updated the multiples shown in our Peer Group analysis. The peer group is split in a national (German) and in an international (US/UK) peer group. We have eliminated Merge Healthcare in the international peer group because the Company was merged with IBM (Watson Health) in October 2015. We have weighted the national Peer Group  $\frac{2}{3}$  and the international Peer Group  $\frac{1}{3}$  to contribute to a final Peer Group value.

Our German Peer Group suggests a value for ifa systems AG of € 13.85 per share using a calculation based on P/E<sub>2017</sub> multiples. For this calculation we have used the median of the five sector peers. Because of the relatively low market liquidity of ifa's stock we have further discounted the result by 20%.

Data as of Feb 16, 2016		Peer Group - USA				MCap/ Sales		EV/ EBITDA		EV/ EBIT		P/E	
Peer Companies	Ticker	Quote	N° of shares	MCAP	EV	16e	17e	16e	17e	16e	17e	16e	17e
Allscripts Healthcare Sol.	MDRX	12.71	180.1	2,289.1	2,814.2	1.6	1.5	9.9	8.8	14.6	8.8	83.1	48.9
Quality Systems, Inc.	QSII	13.97	60.2	841.1	782.3	1.7	1.5	10.0	8.4	12.6	8.4	25.1	23.6
<b>Mean</b>						<b>1.6</b>	<b>1.5</b>	<b>10.0</b>	<b>8.6</b>	<b>13.6</b>	<b>8.6</b>	<b>54.1</b>	<b>36.2</b>
<b>ifa systems AG</b>	<b>IS8</b>	<b>10.77</b>	<b>2.75</b>	<b>29.62</b>	<b>30.10</b>	<b>2.4</b>	<b>2.1</b>	<b>8.3</b>	<b>8.0</b>	<b>10.3</b>	<b>9.8</b>	<b>13.8</b>	<b>13.0</b>
Fair value per Share using Mean						7.36	7.84	13.11	11.77	14.42	9.64	42.20	30.08
Liquidity Discount			20%										
Fair value per Share using Mean						5.88	6.27	10.48	9.42	11.54	7.71	33.76	24.08

Source: Bloomberg, I/B/E/S, Thomson, Forecasts BankM Research

**Since the takeover bid for Merge Healthcare the valuation of the sub-sector Health-IT is soaring on the US capital market**

Our valuation based on the international Peer Group suggests a value for ifa systems AG of **€ 24.08** per share. Since the merger Watson Health with Merge Healthcare in Q4/2015, valuations in the Health-IT sector soared at levels 90% above 6M moving average of the sector.

In this spectacular takeover bid for Merge Healthcare, the Company's shareholders received US\$ 1 Bn., equal to 4.0 X sales and 30.0 X earnings<sub>2016</sub>. This transaction is an indication regarding the attractiveness of market leaders with a special know-how in medical imaging and picture processing technology.

To account for ifa systems' international profile we are using the Company's sales-mix (Europe/overseas) to allocate an adequate value contribution. ifa systems is generating more than 50% of corporate sales on domestic/European markets and ca. 1/3 of sales on international markets. With reference to the Peer Group we split the valuation 1/3 to the US Peer Group and 2/3 to the German/European Peer Group.

Result - Peer Group GE           € 13.85 X 2/3 = € 9.24  
 Result - Peer Group US       € 24.08 X 1/3 = € 8.03  
**Value derived from Peer Group           € 17.27**

## Free Cash-Flow Analysis

in '000 €	14	15e	16e	17e	18e	19e	20e	21e	22e	23e	2024+
	Base	1	2	3	4	5	6	7	8	9	Terminal
Revenue Growth Rate		4.6%	18.4%	17.7%	15.0%	15.0%	15.0%	13.0%	13.0%	13.0%	1.0%
Revenues	8,160	8,535	10,105	11,894	13,678	15,730	18,089	20,441	23,098	26,101	26,362
EBIT Margin	27.3%	30.8%	28.9%	26.1%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	15.0%
EBIT	2,230	2,630	2,924	3,101	3,283	3,775	4,341	4,906	5,544	6,264	3,954
Taxes	687	650	760	806	985	1,133	1,302	1,472	1,663	1,879	1,186
Earnings before Interest	1,543	1,980	2,164	2,295	2,298	2,643	3,039	3,434	3,880	4,385	2,768
+ Depreciation	610	640	705	680	714	750	787	827	868	911	957
- Capex	1,750	1,550	1,400	1,400	1,200	1,200	1,200	1,200	1,200	1,200	957
- Change in WC	-254	-719	-933	-933	-1,119	-1,141	-1,096	-1,052	-1,010	-969	-931
= Free CF to Firm (FCFF)	657	1,789	2,402	2,507	2,931	3,334	3,722	4,113	4,558	5,066	3,699
Terminal Value											32,427
<b>WACC Calculation</b>											
Tax rate (s)	31.5%	25.0%	26.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Debt Ratio	2.8%	0.8%	0.6%	0.6%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Cost of Equity	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%
Cost of Debt	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
After tax cost of debt	3.4%	3.8%	3.7%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Cost of Capital WACC	12.6%	12.8%	12.8%	12.8%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%
<b>Present Value Calculation</b>											
Present Value of FCFF		1,586	1,887	1,746	1,836	1,858	1,845	1,814	1,788	1,768	
Present Value of Terminal Value											11,319
<b>The Valuation</b>											
PV of FCFF (High growth phase)	16,129	63.4%									
+ PV of Terminal Value	9,319	36.6%									
= Value of operating	25,447										
+ Value of cash & non OP Assets	1,852										
= Value of the firm	26,899										
- Value of Debt & Pensions	150										
= Value of Equity	26,749										
Value per share	9.73										

Source: BankM Research

### Growth - Terminal Value

		0.50%	0.75%	1.00%	1.25%	1.50%
Beta	1.00	12.07	12.24	12.41	12.60	12.79
	1.15	10.43	10.54	10.66	10.79	10.92
	1.25	9.54	9.63	9.73	9.83	9.93
	1.35	8.78	8.85	8.93	9.01	9.09
	1.50	7.82	7.87	7.93	7.99	8.05

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Sales and Profit margins reflect our medium-term forecasts regarding ifa's product markets and competitive environment of ifa systems' six business units. The Company's robust business model, today in co-operation with a market leading medical device Company, will justify our expectations regarding the Company's future growth.

We expect that we even have to lift our forecasts in the course of 2016 when ifa's role within the Topcon business universe will be defined more specifically.

In our FCF calculation we have assumed a growth rate of 16.5% (CAGR) and an EBIT margin of 19.5% (CAGR) within a time horizon of 5 years.

In the later stage of the corporate development phase our sales growth rate will decline gradually to 13%. During this phase we calculate with a stable operating margin of 24%.

The growth rate in our terminal value is a moderate 1.0% with an EBIT margin of 15%. Given this growth scenario our, FCF model suggests an equity value of € 26.7 Mill. and a price of **€9.73 per share of ifa systems**.

## Summary

We realize a high variance in the sub-segment „Health-IT“ on the US market. Earnings multiples have increased by ca. 90% in a 6M range triggered by the Merge Healthcare deal.

The value derived from our Peer Group climbed by a total of € 4.57 to € 17.27 vis-à-vis € 12.70 in our last valuation.

Given the current price level, ifa systems fits nicely into our peer group based on a national and on an international approach.

We suggest an equal weighting of our results derived from the peer group approach and from our FCF analysis.

Results derived from FCF calculation:	€ 9.73
Result derived from Peer Group:	€ <u>17.27</u>
	€ 27.00 : 2

**Fair Value - weighted 50:50%**                      **€13.50 per share**

The valuation of ifa systems' stock at a price of 13.50 appears as a good fit in today's landscape, i.e. with a view on the market and from a corporate development perspective. The most recent market price paid for a majority stake of 50.1% in ifa systems was € 15.20 per share. It should, however, be considered that such a premium was necessary to get hold of a block that was in control of a closed group of owners.

A share price of € 13.50 is equal to a P/E<sub>2016</sub> of 17.3X or a P/E<sub>2017</sub> of 16.3X. Such multiples correspond to ifa systems' peers in the European market. On an EV/EBIT valuation we calculate multiples of 12.9X<sub>2016</sub> und 12.2X<sub>2017</sub>.

**We consider a value of €13.50 for ifa's stock as justified.**

**The Company has a potential of further growth, should the majority shareholder opt for an autonomous management**

We are convinced that there is future potential in the Company, should the majority shareholder preserve ifa's autonomy und compensate the remaining minority shareholders with a dividend "at market".

In case the synergies available in this partnership will be unleashed only at a modest rate, and the resulting profits were available in the Company we would be able to see ifa systems opening up a new chapter in their corporate history.

As a „controlled“ Company, ifa systems AG now enjoys several advantages in the Capital Markets. Such benefits are also factored into our valuation. The Company is ideally positioned in the Health-IT market. There are sufficient avenues of growth ahead for the Company. The segment in which ifa systems is competing allows margins of 20% and beyond.

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## Appendix

### Balance Sheet

Fiscal Year 31/12 • IFRS	13	14	15e	16e	17e	14	15e	16e	17e
<b>Assets</b>						<b>% of Balance Sheet total</b>			
Tangible Assets	279	214	224	79	-41	0.9	0.9	0.3	-0.1
Other Assets	16,201	19,033	20,582	24,804	29,067	81.2	81.7	80.8	81.9
t/o Goodwill	11,151	13,421	15,521	17,871	20,221	57.2	61.6	58.2	57.0
<b>Total Fixed Assets</b>	<b>16,480</b>	<b>19,247</b>	<b>20,806</b>	<b>24,883</b>	<b>29,026</b>	<b>82.1</b>	<b>82.6</b>	<b>81.1</b>	<b>81.8</b>
Inventories	75	74	75	88	101	0.3	0.3	0.3	0.3
Accounts Receivable	1,091	1,964	2,803	3,282	3,754	8.4	11.1	10.7	10.6
Total Liquid Funds	878	1,852	1,178	2,072	2,177	7.9	4.7	6.8	6.1
Other Current Assets	250	309	315	369	422	1.3	1.3	1.2	1.2
<b>Total Current Assets</b>	<b>2,294</b>	<b>4,199</b>	<b>4,371</b>	<b>5,812</b>	<b>6,454</b>	<b>17.9</b>	<b>17.4</b>	<b>18.9</b>	<b>18.2</b>
<b>Balance Sheet Total</b>	<b>18,774</b>	<b>23,446</b>	<b>25,177</b>	<b>30,695</b>	<b>35,480</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Liabilities</b>						<b>% of Balance Sheet total</b>			
Subscribed Capital	2,500	2,750	2,750	2,750	2,750	11.7	10.9	9.0	7.8
Share Premium	5,828	7,305	7,305	7,305	7,305	31.2	29.0	23.8	20.6
Retained Earnings & Other Reserves	5,810	7,820	9,440	11,274	13,239	33.4	37.5	36.7	37.3
<b>Shareholders Equity</b>	<b>14,138</b>	<b>17,875</b>	<b>19,495</b>	<b>21,329</b>	<b>23,294</b>	<b>76.2</b>	<b>77.4</b>	<b>69.5</b>	<b>65.7</b>
Group Equity	14,138	17,875	19,495	21,329	23,294	76.2	77.4	69.5	65.7
<b>Provisions</b>	606	865	882	1,033	1,181	3.7	3.5	3.4	3.3
t/o Pension Provisions	0	0	0	0	0	0.0	0.0	0.0	0.0
Other Liabilities	4,030	4,706	4,800	8,333	11,005	20.1	19.1	27.1	31.0
<b>Total Liabilities</b>	<b>4,636</b>	<b>5,571</b>	<b>5,682</b>	<b>9,366</b>	<b>12,186</b>	<b>23.8</b>	<b>22.6</b>	<b>30.5</b>	<b>34.3</b>
t/o Interest Bearing Liabilities	489	497	150	126	144	2.1	0.6	0.4	0.4
t/o Non Interest Bearing Liab. <1Y	3,218	3,321	3,386	3,966	4,536	14.2	13.5	12.9	12.8
<b>Balance Sheet Total</b>	<b>18,774</b>	<b>23,446</b>	<b>25,177</b>	<b>30,695</b>	<b>35,480</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: BankM Research / actual Date, ifa systems AG



## Profit & Loss Account and Forecasting

Fiscal Year 31/12 • IFRS	13	14	15e	16e	17e	14	15e	16e	17e	5Y ø
	<b>Changes YoY (%)</b>									
<b>Sales - CIS</b>	2,121	2,225	2,240	2,770	3,420	4.9	0.7	23.7	23.5	23.6
<b>Sales - Interfaces &amp; Register</b>	960	1,020	1,195	1,750	1,950	6.3	17.2	46.4	11.4	27.7
<b>Sales - Telemedicine</b>	345	350	385	640	790	1.4	10.0	66.2	23.4	43.2
<b>Sales - Hardware</b>	820	790	650	500	400	-3.7	-17.7	-23.1	-20.0	-21.6
<b>Sales - Licenses</b>	3,525	3,775	4,065	4,445	5,334	7.1	7.7	9.3	20.0	14.6
<b>Sales</b>	7,771	8,160	8,535	10,105	11,894	5.0	4.6	18.4	17.7	11.2
Own costs, capitalized	2,335	2,270	2,100	2,350	2,350	-2.8	-7.5	11.9	0.0	0.2
<b>Total Sales &amp; services</b>	10,106	10,430	10,635	12,455	14,244	3.2	2.0	17.1	14.4	9.0
Material Expenses	750	743	540	720	720	-0.9	-27.3	33.3	0.0	-1.0
<b>Gross Profit</b>	9,356	9,687	10,095	11,735	13,524	3.5	4.2	16.2	15.2	9.6
Other Operating Income	367	200	300	180	200	-45.5	50.0	-40.0	11.1	-14.1
Personnel Expenses	3,448	3,787	3,805	4,700	5,640	9.8	0.5	23.5	20.0	13.1
Other Operating and R&D Expenses	3,627	3,260	3,320	3,586	4,303	-10.1	1.8	8.0	20.0	4.4
EBITDA	2,648	2,840	3,270	3,629	3,781	7.3	15.1	11.0	4.2	9.3
Total Depreciation	1,047	610	640	705	680	-41.7	4.9	10.2	-3.5	-10.2
<b>EBIT</b>	1,601	2,230	2,630	2,924	3,101	39.3	17.9	11.2	6.0	18.0
Interest Income	10	0	0	0	0	-100.0	0.0	0.0	0.0	-100.0
Interest Expenses	70	50	30	0	0	-28.6	-40.0	-100.0	0.0	-100.0
<b>Financial Result</b>	-60	-50	-30	0	0	-16.7	-40.0	-100.0	0.0	-100.0
<b>EBT</b>	1,541	2,180	2,600	2,924	3,101	41.5	19.3	12.5	6.0	19.1
Taxes on Income	498	687	650	760	806	37.9	-5.3	17.0	6.0	12.8
<b>Net Profit</b>	1,043	1,493	1,950	2,164	2,295	43.2	30.6	11.0	6.0	21.8
Dep. on Tang. Assets & o. Op.Ass.	1,047	610	640	705	680	-41.7	4.9	10.2	-3.5	-10.2
<b>EBITA</b>	1,601	2,230	2,630	2,924	3,101	39.3	17.9	11.2	6.0	18.0
Adj. No. of Shares	2,500	2,750	2,750	2,750	2,750	10.0	0.0	0.0	0.0	2.4
<b>Adj. Net Profit/Share (EPS)</b>	0.42	0.54	0.71	0.79	0.83	30.2	30.6	11.0	6.0	18.9
<b>Adj. Net Profit/Share ex Goodwill</b>	0.42	0.54	0.71	0.79	0.83	30.2	30.6	11.0	6.0	18.9
<b>Adj. Cash Earnings (CE)/Share</b>	0.84	0.76	0.94	1.04	1.08	-8.5	23.1	10.8	3.7	6.7

Fiscal Year 31/12 • IFRS	13	14	15e	16e	17e	14	15e	16e	17e	5Y ø
	<b>Changes YoY (%)</b>									
<b>Adjusted Net Profit</b>	1,043	1,493	1,950	2,164	2,295	43.2	30.6	11.0	6.0	21.8
+ Depreciation & Amortisation	1,047	610	640	705	680	-41.7	4.9	10.2	-3.5	-10.2
<b>+ Chg. in long-term Provisions</b>	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
<b>= Cash Earnings</b>	2,090	2,103	2,590	2,869	2,975	0.6	23.1	10.8	3.7	9.2
- Chg. in Net Working Capital	-1,593	-254	-719	-933	-933	-84.1	183.5	29.7	-0.1	54.3
<b>= Operating Cash Flow</b>	3,683	2,357	3,309	3,802	3,907	-36.0	40.4	14.9	2.8	1.5
- Capex	2,500	1,750	1,550	1,400	1,400	-30.0	-11.4	-9.7	0.0	-13.5
<b>= Free Cash Flow</b>	1,183	607	1,759	2,402	2,507	-48.7	189.8	36.6	4.4	20.7
- Net Other Items	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
- Dividends (Previous Year)	75	330	330	330	330	340.0	0.0	0.0	0.0	44.8
+ Increase in Share Capital	0	1,775	0	0	0	0.0	-100.0	0.0	0.0	-100.0
+ Bank Loans	-230	-200	-251	0	0	-13.0	25.5	-100.0	0.0	-100.0
<b>= Incr. in Cash (+)/Decr. in Cash (-)</b>	878	1,852	1,178	2,072	2,177	110.9	-36.4	75.9	5.1	25.5

Source: BankM Research / actual Date, ifa systems AG

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Equity investments generally involve high risks. Investors may lose some or all of the money invested. Potential investors should take into account that share prices may fall and rise and that income from an investment may fluctuate considerably. Past performance is no guarantee for future results. Investors make their decisions at their own risk.

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**Responsible for the content of this document: biw Bank für Investments und Wertpapiere AG (biw AG), Willich, Germany.**

**Author: Rüdiger Holzammer, M.B.A.**

Regulatory authority for biw AG is Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Straße 108, 53117 Bonn, Germany and Lurgiallee 12, 60439 Frankfurt am Main, Germany.

Issuer of the analysed instruments is ifa systems AG

**Information according to sec. 4 §. 4 No 4 FinAnV (previous publications regarding the issuer within the last 12 months):**

Analyst	Date	Recommendation	Faire Value
Rüdiger Holzammer	Dec. 16, 2013	BUY	€ 5.58
Rüdiger Holzammer	March 10, 2014	BUY	€ 8.77
Rüdiger Holzammer	Jan. 7, 2015	BUY	€ 9.60
Rüdiger Holzammer	May 4, 2015	BUY	€ 11.15

### II. Additional Information:

#### 1. Sources of Information:

Main sources of information for the compilation of this document are publications in national and international media and information services (e.g. Reuters, VWD, Bloomberg, dpa-AFX, ACMR-IBIS World and others), financial newspapers and magazines (e.g. Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Economist and others), specialist media, published statistics, rating agencies as well as publications by peer group companies and the company itself. Furthermore talks with the management of the issuer have been held. This document was made available to the issuer prior to publication to ensure the accuracy of the information provided. This resulted in no changes in content.

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The following valuation methods are being used: Multiple-based models (Price/Earnings, Price/Cash-flow, Price/Book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, historical valuation approaches, discount models (DCF, DDM), break-up value and sum-of-the-parts-approaches, asset-based evaluation methods or a combination of the above. The used valuation models depend on macroeconomic factors, such as interest rates, exchange rates, raw materials and on basic assumptions about the economy. Additionally, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Rendered evaluation results and fair values derived from the models might therefore change respectively. The evaluation results in general relate to a 12-month horizon. However, evaluation results are subject to changing market conditions and represent only the situation at a given point of time. The evaluation results and fair value prices may in fact be achieved more quickly or slowly than expected by the analysts. Also, the evaluation results and fair value prices might need to be revised upward or downward.

#### 3. Date of first publication of this document:

**February 17, 2016**

#### 4. Date and time of prices of the instruments quoted in this document:

**Closing prices, dated February 16, 2016**

#### 5. Updates:

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## Glossary

### \*\*) Glossary

ASCRS	American Society of Cataract and Refractive Surgery
ASOA	American Society of Ophthalmic Administrators
CAGR	Compound annual growth rate
CDSS	clinical decision support systems
DDSS	Diagnosis Decision Support Systems
DMP	Disease Management Program
ecPACS	Eye Care Picture Archive and Communication System
EDC	electronic data capture
e-Health	elektronische Informationstechnologie im Medizinbereich
EPA	elektronische Patientenakte = EHR electronic Health Record = EMR electronic Medical Record
HIT	Health Information Technology
ICD	International Classification for Diseases Beispielsweise ICD-9 oder ICD-10 Standard
IMS	International Medical Standard, Steht für die Kombination von ICD-10, Meaningful Use und SNOMED
PACS	Picture Archive and Communication Systems
SNOMED	Systematized Nomenclature in Medicine
VNA	Vendor Neutral Archive