



biolitec AG

ISIN: DE0005213409

Q2 2008/09 Results

sales and earnings have bottomed out - will the share price follow?

- Downward cycle seems to bottom out. Biolitec reports a sales growth rate of 8.6% vis-à-vis Q1-08/09, however, sales on a YoY comparison are still declining.
- One-time charges and a deduction of inventories are triggering biolitec's negative quarterly earnings of T€-734 in Q2.
- Lacklustre sales in the U.S. markets are one of the major reasons that the company reports a negative 6-M EBIT of €-0.6 Mill. (€3.1 Mill.).
- While we see a seasonal recovery in the US market, competition has become more fierce with retaliating US competitors vis-à-vis biolitec's market entry strategy. Markets for distribution in Europe and in the middle East are developing more in line showing positive signs.
- Fiber optics and laser probes are biolitec's major growth drivers stabilizing revenues in other segments. This product group represents a "floor" to the Company's margins.

We interpret biolitec's Q2 results as a chance to absorb further costs accumulated in the past 12 months. Slightly higher sales in Q2 compared to Q1-08/09 are a suitable timing to book one-time charges and to adjust the value of biolitec's inventories.

One-time charges were booked for severance payments to account for the reduction of biolitec's sales force in the U.S.

While we still recognize sluggish sales in the U.S. markets, with a glance to the Company's regional segment reporting, management's actions seem to show first results to the changed market environment regarding the cost structure.

As of today, biolitec has retained 12 professional sales reps on their payroll in the US compared to > 25 professionals twelve months earlier.

Biolitec also addresses more fertile markets like in the Middle East and Asia where the Company's laser products show more subtle growth rates. We expect that biolitec will be able to expand its presence with laser devices in such lucrative markets in the future.

High cost of goods sold, i.e. distribution oriented costs are the major reason for biolitec's negative EBIT reported with €-1.1 Mill. in Q2, or €-0.6 Mill. in the 6M time-frame.

Q2 2008/09 reporting

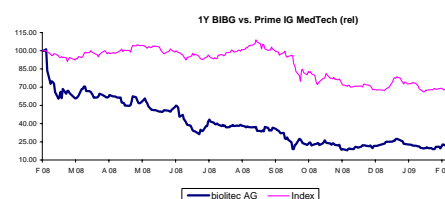
- alternative fiscal year -

Medical Technology · Germany

Fair Value: €4.20 - 4.70

previous: €5.85 - 6.35 (unchanged)

Price Chart



Key data · €

Price	2.77
Year Hi/Lo	9.95 / 2.10
MarketCap (m)	29.13
Free Float (%)	25.7
Reuters Code	BIBG.DE
Bloomberg Code	BIB

Financials · € · IAS in Mill., except per share data

FY 30/06	06/07a	07/08a	08/09e	09/10e
Sales	39.0	35.4	35.0	38.5
(prev.)	39.0	42.9	39.3	45.2
EBIT	6.70	1.4	3.4	4.2
(prev.)	6.70	5.6	4.8	8.1
EPS	0.56	0.19	0.21	0.28
(prev.)	0.56	0.40	0.39	0.63

Valuation · IAS

FY 30/06	06/07a	07/08a	08/09e	09/10e
MC/Sales	0.6	0.7	0.7	0.6
PE	4.1	12.3	10.8	8.3

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Segment Reporting

In Q2 2008/09 biolitec reported the following segments - product groups, and geographic sales regions:

Product Groups	6-M Product Sales		Change		Product Groups	3-M Product Sales		Change	
	2008/09	2007/08	absolut	in %		Q2 - 08/09	Q1 - 08/09	absolut	in %
Fiber Optics/ Laser Probes	10,092	11,852	-1,760	-14.8%	Fiber Optics/ Laser Devices	5,520	4,572	948	20.7%
Laser Devices	4,648	6,480	-1,832	-28.3%	Laser Devices	2,222	2,426	-204	-8.4%
Foscan	717	800	-83	-10.4%	Foscan	305	412	-107	-26.0%
TOTAL	15,457	19,132	-3,675	-19.2%	TOTAL	8,047	7,410	637	8.6%

Source: biolitec AG, interim reports 2007/2008 / RedHerring oHG

In our YoY comparison, declining sales are still evident throughout all product categories. The YoY comparison is biased because biolitec booked a non-recurring "large order" for BPH Lasers in 2007/08. To bring the current Q2 reporting in perspective we prefer to compare the quarterly information with the previous quarter, i.e. with Q1 2008/09.

In this scenario the current momentum is more evident and a clear recovery can be observed within biolitec's consumables. In particular, fiber optics and laser probes are showing a solid recovery with a QoQ growth rate of 20.7%. Laser devices and Foscan® on the other hand are still lagging slightly behind.

We would like to note that an analysis of the development for Foscan® during the past 12 months is not really appropriate. The new development partners that came to the project recently need ca. 18 month to generate results. According to biolitec's management, the partnership with Bracco and TechSphere is on schedule, i.e. without significant delays.

Biolitec's laser devices are still suffering from the soft market environment prevailing in the U.S.; in all other distribution markets (Europe, Middle East and Asia) we see the beginning of a recovery.

The investor should realize that biolitec's consumables, i.e. fiber optics and laser probes are the major drivers generating the reported sales growth of 8.6% from Q1 to Q2-08/09.

Geographic Regions	6-M Product Sales		Change		Geographic Regions	3-M Product Sales		Change	
	2008/09	2007/08	absolut	in %		Q2 - 08/09	Q1 - 08/09	absolut	in %
Europe	8,119	8,133	-14	-0.2%	Europe	4,354	3,765	589	15.6%
North America	5,417	9,674	-4,257	-44.0%	North America	2,674	2,743	-69	-2.5%
Asia / ROW	1,921	1,326	595	44.9%	Asia / ROW	1,019	902	117	13.0%
TOTAL	15,457	19,133	-3,676	-19.2%	TOTAL	8,047	7,410	637	8.6%

Source: biolitec AG, interim reports 2007/2008 / RedHerring oHG

With a view on the regional sales distribution we have a clear picture on a QoQ comparison while the YoY comparison is still inflationary/biased by a non representative one-time order last year written with a U.S. leasing company for BPH lasers.

Biolitec's sales efforts reflect a growth rate of 15.6% in Europe, and a growth rate of 13.0% in Asia. Even the U.S. market shows a sign of recovery.



We would like to point out that biolitec's market entry into the U.S. laser device market initiated 18 months ago turned out to be more difficult than management anticipated. Going forward we forecast only modest growth rates for biolitec's devices in the U.S. Competition will not accept the Company's presence and retaliate with adequate measures.

In this context, we would like to point out that for example VNUS has reported sales growth rates of ca. 30% p.q. in their past two interim reports.

Operating expenses and profitability

To analyze the quality of biolitec's Q2 earnings we have also compared the company's last quarter (Q1) in addition to a YoY view:

	Q2 2008/09		Q1 2008/09		6M 2008/09
Revenues	8,047,527	100.0%	7,409,658	100.0%	15,457,185
Cost of revenues	-3,155,864	-39.2%	-2,142,352	-28.9%	-5,298,216
Gross profit	4,891,663	60.8%	5,267,306	71.1%	10,158,969
Other operating income	418,281	5.2%	702,617	9.5%	1,120,898
Selling and marketing expenses	-3,332,999	-41.4%	-2,958,466	-39.9%	-6,291,465
General administrative expenses	-1,505,356	-18.7%	-1,411,234	-19.0%	-2,916,590
Research and development expenses	-1,543,636	-19.2%	-1,059,086	-14.3%	-2,602,722
Other operating expenses	-28,856	-0.4%	-20,955	-0.3%	-49,811
total operating costs	-6,410,847	-79.7%	-5,449,741	-73.5%	-11,860,588
Operating income	-1,100,902	-13.7%	520,182	7.0%	-580,720
Other income	-27,283	-0.3%	-5,495	-0.1%	-32,778
Foreign currency exchange losses	20,318	0.3%	7,027	0.1%	27,345
Other taxes	-3,742	0.0%	-6,394	-0.1%	-10,136
EBIT	-1,111,609	-13.8%	515,320	7.0%	-596,289
Interest Income and Expense	-27,234	-0.3%	-6,667	-0.1%	-33,901
Income tax	586,196	7.3%	139,188	1.9%	725,384
Result before minority interest	-552,647	-6.9%	647,841	8.7%	95,194
Minority interest	-181,588	-2.3%	-83,107	-1.1%	-264,695
Net Income/ Loss	-734,235	-9.1%	564,734	7.6%	-169,501

Source: biolitec AG, interim reports 2007/2008 / RedHerring oHG

While we recognize a sales growth rate of 8% in Q2 compared to Q1-08/09, biolitec's top line is significantly charged with operating cost items that result in a negative EBIT of €-1.1 Mill.

Cost of goods sold and distribution expenses have a major impact to of the weak operating result. Q2 CoGs are up by 10% compared to Q1 caused by a write-down of inventories (devices with outdated technology) and severance charges for redundant sales professionals.

The charges biolitec booked in Q2 regarding the "damages" experienced in the U.S. market should be an adequate measure cleaning up the company's balance sheet to go forward.

We understand biolitec's R&D expenses amounting to € 1.5 Mill. (19.2% of sales) as a positive signal to secure the Company's leadership position in the laser and PDT market. Nonetheless, we expect R&D expenses to decline in the next quarters of this fiscal year because of contribution payments for Foscan® from the development partners (TechSphere and Bracco).



In addition to the reduced R&D expenses we expect relevant tax adjustments so that the investor will see a positive year-end result 2008/09, also in accordance with management's guidance.

The major drivers in the future should be a slight market improvement for the Company's products in the U.S. in addition to an increasing demand for biolitec's innovative laser applications in all markets served.

Balance Sheet Discussion

In our analysis and update for Q1-2008/09 we already criticized biolitec's inventory position. With a value soaring at € 26 Mill., the Company has announced appropriate actions, however, management was not able to execute such measures in this difficult market environment.

The remaining positions on biolitec's balance sheet are of a solid nature. The equity ratio of 84% is lending the Company much more credibility. The cash reserves amounting to € 5.9 Mill. should be understood as a necessary cushion in those times to be perceived as solvent trading partner.

Considerations of Valuation

We have updated our valuation models and slightly reduced our sales and earnings forecasts to reflect the difficult market situation biolitec is currently facing.

According to our FCF model we calculate a fair value of € 6.56 per biolitec share. This value is based on a corporate growth rate of ca. 10% p.a.

Our peer group model consisting of national and international MedTech companies currently reflects a P/E multiple of 12X (Median) based on an international comparison and a factor of 11.4X (Median) national.

Relative to biolitec's earnings expectations for 2009 (EPS: € 0.21) we calculate a fair value for biolitec's stock of € 2.90, also considering a 20% "liquidity discount".

On equally weighted basis we suggest a fair value for biolitec's stock of € 4.45 and a trading spread of € 4.20 to € 4.70.



Profit and Loss Account

Fiscal Year 30/06 • IAS in (€Mill.)	04/05	05/06a	06/07a	07/08a	08/09e	09/10e	05/06a	06/07a	07/08a	08/09e	09/10e	5Y ø
							y-o-y changes (%)					
Sales Revenues	24.9	29.1	39.0	35.4	35.0	38.5	17	34	-9	-1	10	10
Cost Of Goods Sold	7.0	9.3	12.6	11.5	11.2	11.9	34	35	-9	-2	7	13
Gross Profit	17.9	19.8	26.5	23.9	23.8	26.6	10	34	-10	0	12	9
Other Operating Income	1.8	1.5	1.1	1.1	1.5	1.0	-21	-24	0	36	-33	-9
Distribution Expenses	7.2	7.1	9.0	12.8	11.5	12.0	-2	27	42	-10	4	12
General and Administrative Expenses	5.4	6.3	6.1	6.2	5.5	6.0	16	-3	2	-12	10	3
R&D	5.9	5.5	5.5	5.1	5.3	5.8	-7	1	-8	3	10	0
EBITDA	1.3	2.4	6.9	0.90	3.10	3.79	91	183	-87	246	22	91
Other Operating Expenses	0.0	0.0	0.2	0.8	0.3	0.4						
Currency Profit/ Loss	0.1	-0.1	-0.4	-0.3	0.0	0.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Taxes	0.0	0.0	0.0	0.1	0.0	0.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBIT	1.4	2.3	6.7	1.4	3.4	4.2						
Interest Income/ Expenses	0.0	0.0	0.1	0.0	-0.7	-0.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Financial Expenses	0.0	0.0	0.0	0.0	-0.1	0.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Financial Result	0.0	0.0	0.1	0.0	-0.8	-0.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBT	1.4	2.3	6.8	1.4	2.6	3.5	63	197	-79	80	34	59
Taxes on Income	0.6	0.4	1.7	-0.5	0.6	0.9	-38	338	-127	-239	34	-6
Minorities Result	0.8	1.9	5.1	1.9	1.9	2.6	148	167	-62	2	34	58
Group Adjustments	0.3	0.2	0.5	0.1	0.3	0.3	-33	154	-89	445	0	95
Adjusted Net Profit	1.0	2.1	5.6	2.0	2.2	2.9	98	170	-65	14	30	49
Dep. on Tang. Ass. and o. Op. Ass.	1.7	1.5	1.3	1.5	1.3	1.5	-16	-8	13	-15	15	-2
EBITDA	3.0	3.9	8.3	2.4	4.4	5.3	29	112	-71	82	20	35
Personnel Expenses	8.5	9.2	9.9	12.3	14.1	16.7	8	8	24	15	18	15
Distribution And Marketing Expenses	7.2	7.1	11.8	12.7	10.6	11.7	-2	68	7	-16	10	13
R&D Costs	3.9	5.5	5.5	5.3	5.3	5.8	40	1	-4	-1	10	9
Adj. No. of Shares	10.0	10.0	10.0	10.5	10.5	10.5	0	0	5	0	0	1
Adj. Net Profit/Share (EPS)	0.08	0.21	0.56	0.19	0.21	0.28	169	170	-66	14	30	63
Adj. Cash Earnings (CE)/Share	0.26	0.40	0.69	0.33	0.33	0.42	56	72	-52	2	25	20

Cash Flow Statements

Fiscal Year 30/06 • IAS in (€Mill.)	04/05	05/06a	06/07a	07/08a	08/09e	09/10e	05/06a	06/07a	07/08a	08/09e	09/10e	5Y ø
							y-o-y changes (%)					
Adjusted Net Profit	1.0	2.1	5.6	2.0	2.2	2.9	97.8	169.6	-64.7	14.4	29.9	49.4
+ Depreciation & Amortisation	1.7	1.5	1.3	1.5	1.3	1.5	-16.1	-8.3	12.8	-15.2	15.5	-2.3
Chg. In Long-Term Provisions	-0.2	0.5	0.0	0.0	0.0	0.0	n/a	n/a	n/a	n/a	n/a	n/a
= Cash Earnings	2.6	4.0	6.9	3.5	3.5	4.4	55.7	72.4	-49.7	1.6	24.7	20.9
+ Minorities	0.3	0.2	0.5	0.1	0.3	0.3	-33.4	153.9	-88.7	445.5	0.0	95.5
- Chg. In Net Working Capital	0.7	1.0	3.1	6.4	0.1	-0.1	36.0	224.9	103.9	-97.9	-184.0	
+/- Latent Taxes	0.0	0.2	0.0	0.7	0.0	0.0						
= Operative Cash Flow	1.6	3.1	3.3	-2.3	3.1	4.2	96.8	5.9	-169.3	-236.0	35.9	-53.3
- Capex	2.1	2.4	2.9	2.3	2.5	2.7	14.6	24.0	-22.0	8.7	8.0	6.7
= Free Cash Flow	-0.5	0.7	0.3	-4.6	0.6	1.5						



Balance Sheet

Fiscal Year 30/06 • IAS in (€Mill.)	04/05	05/06a	06/07a	07/08a	08/09e	09/10e	04/05	05/06a	06/07a	07/08e	08/09e	09/10e
Assets	% of Balance Sheet Total											
Tangible Assets	7.1	8.0	9.4	8.0	9.2	10.4	18.1	18.0	17.7	11.9	13.1	13.9
Other Assets	7.5	7.6	8.0	8.0	8.0	8.0	19.1	17.0	15.1	12.0	11.4	10.7
t/o Goodwill	3.4	3.4	4.1	4.1	4.1	4.1	8.8	7.7	7.8	6.2	5.8	5.5
Deferred Tax Liabilities		2.8	1.7	2.6	2.2	1.8						
Total Fixed Assets	14.5	18.4	19.0	18.5	19.4	20.2	37.2	41.3	36.0	27.8	27.6	27.0
Inventories	10.9	11.3	13.3	24.1	24.6	25.1	27.9	25.5	25.1	36.1	35.0	33.6
Accounts Receivable	7.6	8.5	12.9	10.8	12.4	14.0	19.4	19.2	24.4	16.3	17.6	18.7
Total Liquid Funds	2.8	3.2	4.3	10.2	10.8	12.3	7.1	7.3	8.1	15.4	15.4	16.5
Other Current Assets	3.3	3.0	3.4	3.0	3.2	3.2	8.5	6.7	6.4	4.5	4.6	4.3
Total Current Assets	24.6	26.1	33.8	48.1	51.0	54.7	62.9	58.7	63.9	72.2	72.5	73.0
Balance Sheet Total	39.1	44.5	52.9	66.6	70.3	74.9	100.0	100.0	100.0	100.0	100.0	100.0
Liabilities	% of Balance Sheet Total											
Subscribed Capital	10.0	10.0	10.0	10.5	10.5	10.5	25.6	22.5	18.9	15.8	15.0	14.1
Share Premium	27.8	27.8	27.8	34.1	34.1	34.1	71.1	62.4	52.5	51.2	48.5	45.5
Retained Earnings & Other Reserves	-3.4	-1.3	4.2	5.5	7.8	10.7	-8.7	-3.0	8.0	8.3	11.1	14.3
Other Earnings	2.0	2.0	1.9	2.1	2.1	2.1	5.1	4.5	3.6	3.2	3.0	2.8
Shareholders Equity	36.4	38.4	43.9	52.3	54.5	57.4	93.0	86.4	83.0	78.5	77.5	76.7
Minorities	0.9	0.8	0.3	0.2	0.2	0.2	2.4	1.7	0.5	0.3	0.3	0.3
Group Equity	37.3	39.2	44.2	52.5	54.7	57.6	95.4	88.1	83.5	78.8	77.8	76.9
Provisions	1.7	2.2	3.4	2.6	2.0	2.0	4.3	4.9	6.5	3.9	2.8	2.7
t/o Pension Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities	0.1	3.1	5.3	11.5	13.6	15.3						
Total Liabilities	1.8	5.3	8.7	14.1	15.6	17.3	4.6	11.9	16.5	21.1	22.2	23.1
t/o Interest Bearing Liabilities	0.3	0.6	0.4	4.7	4.6	4.9	0.8	1.3	0.7	7.1	6.5	6.5
t/o Non Interest Bearing Liab. <1Y	4.6	4.8	8.3	10.2	12.4	14.7	11.9	10.7	15.7	15.4	17.6	19.6
Balance Sheet Total	39.1	44.5	52.9	66.6	70.3	74.9	100.0	100.0	100.0	100.0	100.0	100.0



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The following previous Research reports / Financial Analysis were released for the company:

DATE	FAIR VAUE	PRICE ON THE DAY OF PUBLICATION
12/08/2008	€ 5.85 - 6.35	€2.77
10/28/2008	€ 5.85 - 6.35	€3.04
06/10/2008	€10.70 - 11,20	€6.56
03/11/2008	€14.30 - 14.80	€8.18

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Security prices provided in this report are closing prices retrieved on XETRA (8 p.m.) on the trading day prior to date of publication.

Regulatory authority: Bundesanstalt für Finanzdienstleistungen (BaFin), Germany.