

BIOLITEC AG

GERMANY / MEDICAL EQUIPMENT

Frankfurt Stock Exchange
 Bloomberg symbol: BIB GR
 ISIN: DE0005213409

Q2 RESULTS

RATING:	Add
PRICE TARGET:	€5.00
RETURN POTENTIAL:	4.6%
RISK RATING:	High

BACK ON THE GROWTH TRACK

Biolitec has released Q2 results. The numbers were close to our expectations and importantly showed a return to q-on-q sales growth, following eight quarters in which this metric had been negative. We expect sales growth to accelerate throughout the rest of fiscal 2010 driven by a gradual recovery in investment in lasers and double digit growth from both the Pharma business area and the Asia/ROW region. Meanwhile, the EBIT margin is on track for a dramatic recovery to 8.4%. We maintain our price target of €5.00 but move the rating back to Add to reflect recent share price appreciation.

Sales growth in Q2 despite weak US\$ Biolitec's sales rose 2.5% in fiscal Q2 to €8.2m (Q2 2008/09: €8.0m) despite the impact of an average 11% depreciation in the US Dollar against the Euro on the c. one third of sales made in North America. Sales in the laser segment were up 1.3% at €2.3m (Q2 2008/09: €2.2m) while consumables (Fibre Optics/Laser Probes) sales moved 0.7% ahead to €5.6m (Q2 2008/09: €5.5m). The strongest performance though came from Pharma where sales rose 42.3% to €0.4m (Q2 2008/09: €0.3m).

Mixed picture across regions Despite US Dollar weakness North American sales rose 11.8% to €3.0m (Q2 2008/09: €2.7m) helped by the passage of the Stark laws which prevent physicians referring patients to clinics in which they have a financial interest. These clinics are typically supplied by Biolitec's competitors, whereas Biolitec has a stronger position with independent clinics. Sales in Europe were down 0.9% at €4.3m (Q2 2008/09: €4.4m) but performance was much improved on Q1 2009/10 which showed a y-o-y sales decline of 32.4%. Asia/ROW sales were down 7.8% at €0.9m (Q2 2008/09: €1.0m). Sales in the region have been at around €1m per quarter for the past eighteen months. Management continue to believe there is potential to treble this figure over the next three years.

Recent margin improvement continues into Q2 Q2 continued the improvement in profitability apparent since Q4 of fiscal 2009. The Q2 EBIT margin came in at 9.9% (Q2 2008/09: -13.8%). The improvement has been brought about by reduced sales and marketing costs and a reduction in R&D expenses closer to the German Medical Technology sector average of 9.0%. General and administrative expenses remained high in Q2 as a result of costs in connection with the court case against American Medical Systems in the United States. However, Biolitec looks well on track to achieve our FY 2009/10 EBIT margin forecast of 8.4%. We leave our forecasts unchanged and maintain our price target of €5.00. Following the recent rise in the share price the rating moves back to Add.

FINANCIAL HISTORY & PROJECTIONS

	FY 06/07	FY 07/08	FY 08/09	FY 09/10E	FY 10/11E	FY 11/12E
Revenue (€m)	39.04	35.40	30.52	31.01	37.08	42.22
Y-o-y growth	34.1%	-9.3%	-13.8%	1.6%	19.6%	13.9%
EBIT (€m)	6.89	1.43	0.32	2.60	3.89	6.16
EBIT margin	17.7%	4.0%	1.0%	8.4%	10.5%	14.6%
Net income (€m)	5.71	1.98	0.65	2.58	3.99	6.13
EPS (diluted) (€)	0.57	0.19	0.06	0.25	0.38	0.58
P/E (x)	8.4	25.4	77.9	19.5	12.6	8.2
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

RISKS

Risks to the company include but are not limited to: failure of products to pass clinical examinations, potential costs from litigation, risks related to economic conditions and competition and dependence on key personnel.

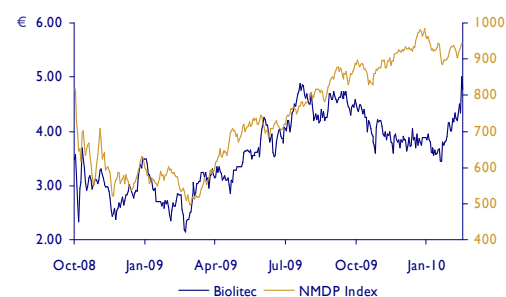
COMPANY PROFILE

Biolitec AG develops, produces and distributes laser devices for innovative medical therapies. The company also plans to expand the production, development and sale of pharmaceutical substances in the future. Biolitec has production facilities in Germany, the US, Latvia and Malaysia and representations in various other countries e.g. India and Russia.

TRADING DATA

Closing price (04.03.10)	€4.78
Shares outstanding	10.52m
Market capitalisation	€50.27m
52-week range	€2.37 / 5.01
Average volume (12 months)	3,479

STOCK OVERVIEW



COMPANY DATA (as of 31 December 2009)

Liquid assets	€7.27m
Current assets	€38.21m
Intangible assets (incl. goodwill)	€10.70m
Total assets	€63.67m
Current liabilities	€4.15m
Shareholders' equity	€55.31m

SHAREHOLDERS

Biomed Technology Holdings	74.3%
Dr Spaniol	0.4%
Dr Meyersiek	0.1%
Dr Schröder	0.1%
Free float	25.1%



FIRST BERLIN RATING & PRICE TARGET HISTORY

Report No.	Date of publication	Previous day closing price	Rating	Price target	Interim high	% change to high
Initial Report	4 June 2009	€3.55	Buy	€4.50	€4.88	37.5%
2	5 October 2009	€4.47	Add	€5.00	€4.60	2.9%
3	3 December 2009	€3.95	Buy	€5.00	€5.01	26.8%
4	Today	€4.78	Add	€5.00	-	-

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

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

BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

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

SELL: Expected negative return greater than -15%

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

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