

## BIOLITEC AG

GERMANY / MEDICAL EQUIPMENT

Primary exchange: Frankfurt  
 Bloomberg symbol: BIB GR  
 ISIN: DE0005213409

## ANNUAL REPORT

RATING:	<b>Add</b>
PRICE TARGET:	<b>€5.00</b>
RETURN POTENTIAL:	<b>11.9%</b>
RISK RATING:	<b>High</b>

### RESUMPTION OF GROWTH PATH

**Biolitec has released its 2008/09 annual report. Q4 profitability was higher than we expected but following discussions with management we have reduced the forecasts for 2009/10 and 2010/11 (see tables 1 and 2 overleaf), which we published in our initiating coverage study in June. However, the incorporation of a longer explicit period (to 2025 rather than 2020) in our valuation model causes us to raise our price target from €4.50 to €5.00.**

**Q4 profitability above our forecast** Q4 2008/09 EBIT was nearly €0.5m higher than we had been looking for, due to strong other operating income, capitalisation of R&D expenses, other income and FX gains.

**Lowering 2009/10 and 2010/11 forecasts following discussions with management...** Investment in new lasers is likely to remain sluggish over the next year or so even though use of disposables by the installed base should continue at a healthy rate. After talking to CEO and founder, Dr Neuberger, we have reduced our sales forecasts, particularly for Europe. In Europe we are now looking for growth of 0.8% in 2009/10 followed by 10.1% in 2010/11 as economic recovery takes a firmer hold. Sales growth in Europe should also be boosted by pharmaceuticals where the company is making headway with its Foscan head and neck cancer treatment.

**US business to benefit from passage of Stark laws** In 2008/09 Biolitec's North American business suffered (sales -24.8%) not only from an unfavourable investment climate but also from delays in the passing of the Stark laws. The Stark laws, which have been in force since the beginning of October 2009, 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. Several Biolitec customers built up large inventories in the expectations that Stark would be passed earlier than it was. These inventories were unwound through much of 2008/09. We expect sales in both the North American varicose vein and BPH (benign prostate hyperplasia) businesses to rebound this year and next. We are looking for sales growth of 7.2% for the current fiscal year and 6.8% for 2009/10.

### FINANCIAL HISTORY & PROJECTIONS

	FY 06/07	FY 07/08	FY 08/09E	FY 09/10E	FY 10/11E	FY 11/12E
Revenue (€m)	39.04	35.40	30.52	33.65	38.53	44.15
Y-o-y growth	34.1%	-9.3%	-13.8%	10.2%	14.5%	14.6%
EBIT (€m)	7.12	1.04	-0.17	1.73	3.51	6.00
EBIT margin	18.2%	2.9%	-0.6%	5.1%	9.1%	13.6%
Net income (€m)	5.71	1.98	0.65	1.68	3.42	5.83
EPS (diluted) (€)	0.57	0.19	0.06	0.16	0.33	0.55
P/E (x)	7.8	23.7	72.8	28.0	13.7	8.1
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 (02.10.09)	€4.47
Shares outstanding	10.52m
Market capitalisation	€47.01m
52-week range	€2.15 / 4.88
Average volume (12 months)	4,769

### STOCK OVERVIEW



### COMPANY DATA (as of 30 June 2009)

Liquid assets	€6.22m
Current assets	€39.68m
Intangible assets (incl. goodwill)	€9.98m
Total assets	€63.83m
Current liabilities	€6.45m
Shareholders' equity	€53.08m

### SHAREHOLDERS

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



**Biotech making rapid progress in Rest of World** Sales to the ROW (mainly Asia, Mid-East and South America) rose 43.4% in 2008/09 to €4.0m. This is still only 13.2% of sales but Dr Neuberger believes ROW sales could treble over the next three years. Biotech's Japanese licensee has been waiting for approval for the company's varicose vein laser products for four years. There are no competing laser products for treatment of varicose veins on the Japanese market. Japan is the second largest healthcare market worldwide. Biotech's product has great sales potential on this market once it is approved.

**We expect EBIT margins to retake the double digit level within three years** The sales declines of the past two years have put pressure on Biotech's profitability. EBIT margins have also suffered from a large absolute jump in sales and marketing expenses. These rose from 24.2% of sales in 2005/06 to 49.2% of sales in 2008/09. The increase in sales and marketing expenses has tracked Biotech's internationalisation – particularly its expansion in the United States. In the U.S., Biotech has leased large numbers of its laser devices to customers in order to accelerate high margin sales of disposables. The leased lasers have swollen the finished goods line under current assets. The ensuing depreciation has been booked under sales and marketing costs. We expect sales and marketing expenses to fall relative to revenues as the investment climate for lasers improves. The recent deal with Bracco, whereby the Italian health care company will carry part of the R&D costs associated with the development of Foscan, will also boost profitability. In fiscal 2006, 2007 and 2008 R&D expenditure was in the mid-teens as a percentage of sales. The Bracco deal should bring this figure down to 9% which is the average for German medtech companies. Margins will also be helped by the relative expansion of the high margin pharmaceuticals business (mainly Foscan). We expect this segment to rise from 5.8% of sales in fiscal 2009 to 8.5% of sales by fiscal 2012.

**Price target increased despite reductions in near-term forecasts** Although we have reduced our near-term forecasts, we raise our price target from €4.50 to €5.00 to reflect a change to our DCF model. Our model now incorporates an explicit period extending to 2025 (previously 2020). The recommendation is Add.

#### Q4 2008/09 AND FY 2008/09 VERSUS OUR ESTIMATES

All figures in €m	Q4 08/09E	Q4 08/09A	% difference	FY 08/09E	FY 08/09A	% difference
Sales	7.62	7.24	-5.0%	30.90	30.52	-1.2%
EBIT	0.55	1.02	84.2%	-0.15	0.32	n.a.
Net profit	0.31	1.02	229.0%	-0.06	0.65	n.a.
Diluted EPS (€)	0.02	0.09	350.0%	-0.01	0.06	n.a.

Table 1

Source: First Berlin

#### CHANGES TO OUR FORECASTS

All figures in €m	2009/10E			2010/11E			2011/12E		
	old	new	% change	old	new	% change	old	new	% change
Sales	35.54	33.65	-5.3%	40.42	38.53	-4.7%	45.47	44.15	-2.9%
EBIT	3.20	1.73	-45.9%	5.66	3.51	-38.1%	8.64	6.00	-30.5%
Net profit	2.34	1.68	-28.3%	4.08	3.42	-16.1%	6.18	5.83	-5.7%
Diluted EPS (€)	0.22	0.16	-27.5%	0.39	0.33	-16.6%	0.59	0.55	-6.0%

Table 2

Source: First Berlin



## 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	Today	€4.47	Add	€5.00	-	-

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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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