



# COMPANY UPDATE

DR. KALLIWODA EQUITY RESEARCH

Aug. 04, 2005

## LINOS AG

Technology / Photonics / Optics

Unchanged: **BUY**  
Coverage: Since Q3 2004

Last price: € 9,20

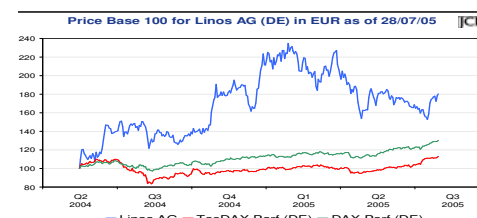
Old Fair Value: €13.35 New: € 12,90

**Event:** Preliminary Figures Q2/2005

- **Strong cash-flow ensures technology projection**
- **New production centre in Bavaria**
- **Weak Q2-results but improved order entry**
- **X-RAY imaging as convincing growth-driver**

### Company Description

Core business of LINOS AG is optical technologies (key technology photonics). The product spectrum includes high-quality complex lenses and optical devices such as printing machines (digital print on the basis of photonic-techniques or laser and DVD-mastering). In the healthcare & life science segment, LINOS AG enjoys an impressive market position in molecular diagnostics and in bio research (medicine technique). The photography and defense segment includes the areas camera and security techniques.



Figures in EUR	2002	2003	2004	2005e	2006e
EPS Dr. Kalliwoda			1,09	0,74	1,03
EPS Consensus	-1,50	-1,90	0,80	0,90	1,10
Total Revenues (mln)	73,0	73,1	89,9	83,6	91,1
net Income (adj.)	-8,8	-9,6	5,4	3,7	5,2
net cash per share	-6,3	-6,2	-4,7	-3,3	-2,1
net Cash	-31,4	-31,0	-23,5	-16,6	-10,4
Free Cash Flow	2,3	1,2	9,8	7,9	5,0
P/E	-	-4,7	8,2	12,1	8,7
P/S	-	0,61	0,50	0,54	0,49
Price (curr)	8,95				5,00
52W high	12,25				35
52W low	3,7				36,3
Market Cap (mln)	44,8				0,005%
ROE curr	n.m.				LIAG
Sales CAGR 03-09	7%				LIAG
Web Page	www.linos.de				WKN 525650

Source: DR.KALLIWODA | RESEARCH



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## 1. FINANCIALS

### 1.1 Normalization of order entry in Q2/2005

After weak order intake in the first quarter 2005 the incoming orders for LINOS AG have normalized in the second quarter with € 23.8 million. However orders with a value of € 2.5 million had to be cancelled because of the announcement of insolvency by Agfa photo. Therefore there remain an order intake of € 21.3 million. This means that the total orders on hand on June 30, 2005 amounted to € 59.3 million and were higher than in the previous quarter (€ 57.1 million). In the first half-year LINOS AG generated sales of € 40.3 million compared to € 44.0 million in the previous year quarter. The recession in sales is primarily based on the weak development in the semiconductor sector. LINOS AG obtained an operating result of € 3.8 million in the first half-year 2005 compared to € 4.3 million in the first half-year 2004. Write-offs of stocks and accounts receivable of € 1,5 million relating to the Agfa business were taken into account here. The EBIT would have been € 5,3 million on June 30,2005 if this amount of € 1,5 million had not been written off.

### 1.2 Establishment of a new building for the industrial centre in Bavaria

Positive cashflows of the last two years permit investments at a value of € 5.3 million for a new production centre in Bavaria. The manufacturing area covers 7200 m<sup>2</sup>. Work will start in the middle of August 2005. Management and staff have developed a concept for the ensuring of locations. A comprehensive reduction of costs is the crucial advantage of this new concept for the next financial years of the LINOS AG. The new production building ensures a further optimization of LINOS production. The now possible exit from the manufacturing areas rented today reduces the infrastructure costs of LINOS AG. The Lower Bavarian government is supporting the project by providing funding. A further strategic advantage is the increase of the strategic competitive strengths regarding LINOS´ competitors. Additionally this area is known for its many qualified skilled workers and experts. Furthermore there is a close co-operation with the the University of Deggendorf playing a crucial role for finding qualified and suitable technical graduates.

### 1.3 Slight reduction of company guidance for 2005

The Executive Board of LINOS AG has applied the worst-case scenario in the current quarterly financial statements regarding the effects of the insolvency of Agfa photo in the second quarter (see 1.1). As the company guidance the Executive Board of LINOS AG calls a sales estimates between € 81 million to € 85 million and Ebit from € 7.5 million to € 9 million (the company guidance of 31 march, 2005 was between € 8.5 million and € 10 million, sales estimates remained unchanged). LINOS AG remains an efficient company and has a good market position in the market of High end optical solutions.



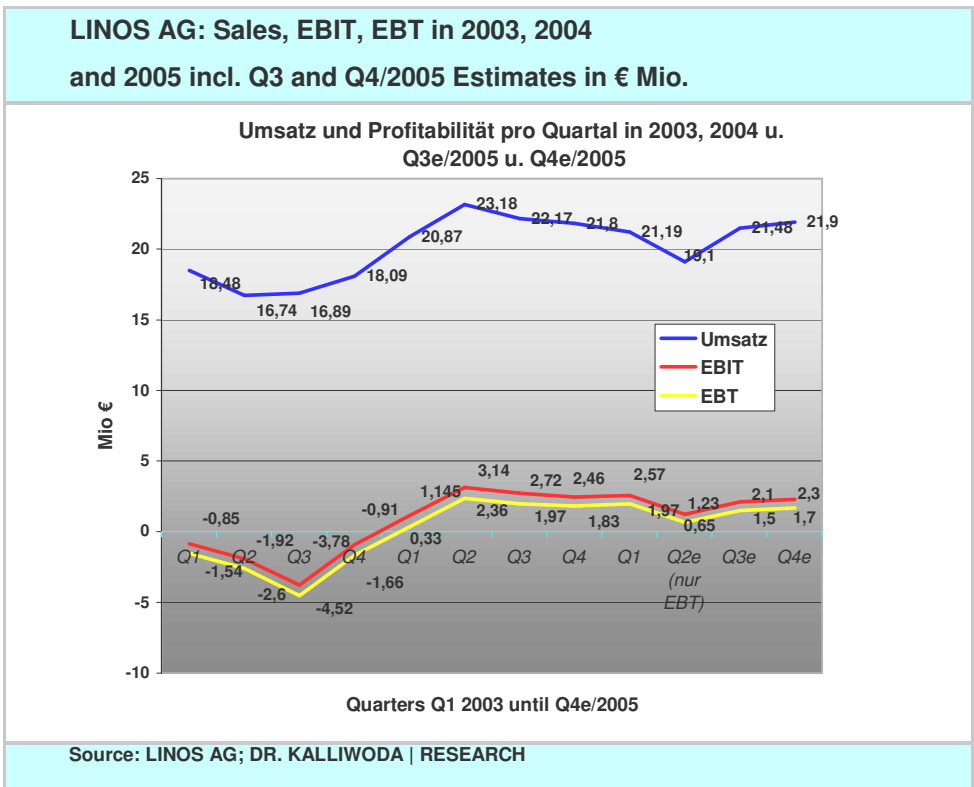
## 1.4 Our estimates for Q3 and Q4/2005

In Q3/2005 we estimate sales of € 21.5 million and EBIT of € 2.1 million and an EBT of € 1.5 million. In Q4/2005 we prognosticate sales of € 21.9 million EBIT of € 2.3 million and an EBT of € 1.7 million. The perspectives of the semiconductor industry up to the end of the year are not promising. The investments of the semiconductor producers remain on present level. Suppliers of the semiconductor producers such as LINOS AG are dependant on investmentcycles, e.g. on ASML Lithography. Growth impulses for LINOS AG proceed in our opinion from the business segment Health Care & Life Sciences. LINOS AG is an important component supplier for X-Ray systems in Europe, Japan and the USA and is taking profit from a strong demand from the developing countries. LINOS AG supplies highly soluble image intensifiers for radiodiagnostics. cameras e.g. for the application fields cardiology and surgery. See for this the following table on quarter and previous year quarter basis with the preliminary Q2/2005-figures. The following table and graphic following clarify the company's development of sales- and earnings from 2003 to 2005 including our estimates of the quarters Q3/2005 and Q4/2005. The EBT of LINOS AG has increased continuously since Q3/2003. Also EBIT increased in relation to the negative results in 2003 to Q2/2004 continuously. Since Q3/2004 EBIT stagnated on a quarterly basis between € 2.6 and € 3.14 million. Q2/2005 is untypical in our opinion with only € 1.23 million due to the insolvency of the customer Agfa photo. For Q3/2005 and Q4/2005 we expect a stabilization of EBIT- and EBT-margins. The continuous growth trend of the market segments bio research and medicine devices should contribute to this. The same applies to sales on a quarterly basis. For Q3/2005 and Q4/2005 rising sales should be reached based on normalizing incoming orders.

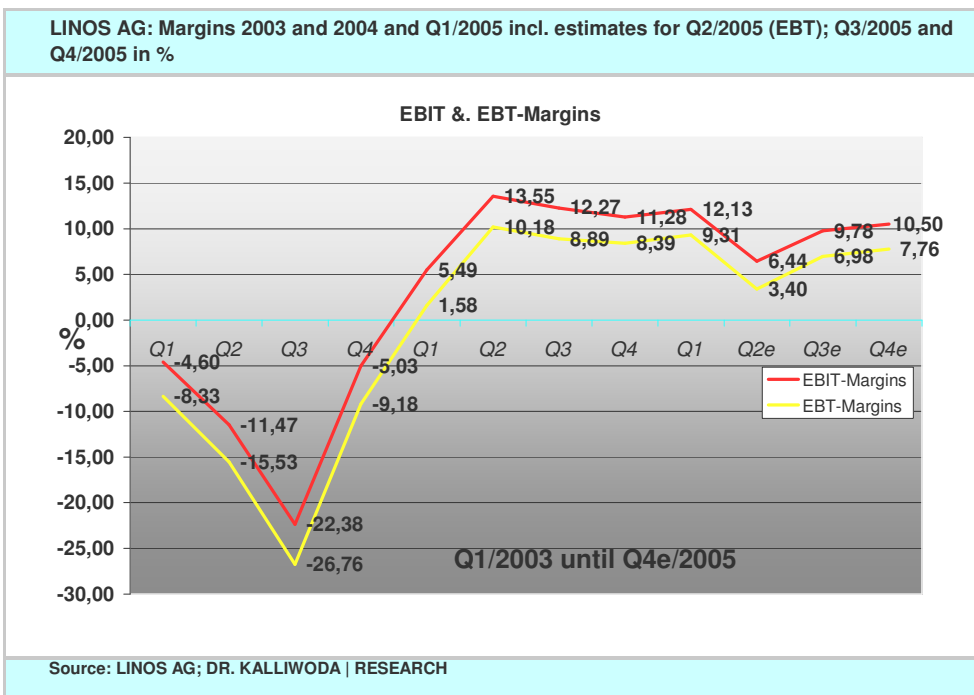
LINOS 2004 and 2005 (incl. Estimates Q2/2005): Profit & Loss (IFRS)

	Q1 2004	Q1 2003	Change to Q1 2003	Q2 2004	Q2 2003	Change to Q2 2003	Q3 2004	Q3 2003	Change to Q3 2003	Q4 2004	Q4 2003	Change to Q4 2003	Total 2004	Total 2003	Change to total 2004	Q1 2005	Q1 2004	Change to Q1 2004	Q2 2005	Q2 2004	Change to Q2 2004
Revenue	20,87	18,48	12,9%	23,18	16,74	38,5%	22,17	16,89	31,3%	21,86	18,09	20,9%	88,077	70,19	25,5%	21,167	20,865	1,5%	19,10	23,18	-17,6%
Changes in inventories of finished goods and work in progress	0,55	0,20	180,5%	-0,03	0,08	-132,1%	0,83	0,11	653,6%	-1,05	-0,67	56,2%	0,304	-0,29	-206,3%	0,338	0,547	-38,2%	-0,05 e	-0,03	100,0%
Production f. oth.own fixed ass.capitalized	0,17	0,30	-43,0%	0,25	0,20	26,6%	0,17	0,25	-32,3%	0,94	0,46	105,2%	1,533	1,21	26,7%	0,30	0,17	83,6%	0,60 e	0,25	138,1%
Other operating income	0,32	0,26	25,0%	0,57	0,28	102,1%	0,43	0,75	-42,9%	0,52	0,69	-25,3%	1,833	1,98	-7,8%	0,372	0,32	16,3%	0,30 e	0,57	-47,0%
Costs of purchased materials																					
Cost of raw materials and supplies and purchased goods	-5,52	-4,69	17,8%	-5,57	-4,23	31,6%	-6,37	-4,45	43,1%	-5,12	-4,85	5,4%	-22,571	-18,22	23,9%	-5,46	-5,92	-1,2%	-5,18 e	-5,57	-7,0%
Cost of purchased services	-0,85	-0,75	26,7%	-0,74	-0,70	6,9%	-0,84	-0,74	13,0%	-0,73	-0,80	-9,5%	-3,264	-2,99	9,2%	-0,68	-0,95	-28,9%	-0,70 e	-0,74	-5,6%
Personnel expenses																					
Wages and salaries	-7,32	-7,84	-6,6%	-6,64	-7,42	-10,6%	-6,73	-8,45	-20,4%	-6,81	-6,04	12,7%	-27,494	-29,752	-7,6%	-6,94	-7,32	-5,2%	-6,60 e	-6,64	-0,6%
Social secur. Contribut. & oth. pension costs	-1,44	-1,60	-9,9%	-1,54	-1,63	-5,5%	-1,29	-1,54	-15,8%	-1,48	-1,38	7,7%	-5,755	-6,14	-6,3%	-1,47	-1,44	1,8%	-1,46 e	-1,54	-5,0%
Depreciation and amortization (including goodwill)	-1,80	-2,02	-10,8%	-1,82	-2,06	-11,9%	-1,75	-2,34	-25,1%	-1,81	-3,68	-50,8%	-7,180	-10,10	-28,9%	-1,26	-1,80	-30,0%	-1,20 e	-1,82	-33,9%
Other operating expenses	-3,71	-3,00	23,5%	-4,54	-3,10	46,8%	-3,94	-4,20	-6,2%	-3,74	-2,64	41,7%	-15,935	-12,94	23,2%	-3,69	-3,71	-0,7%	-3,60 e	-4,54	-20,8%
Foreign currency gains / losses	-0,01	-0,18	-96,1%	0,01	-0,08	-115,0%	0,04	-0,07	-164,6%	0,13	-0,08	-266,3%	0,180	-0,41	-144,3%	-0,15	-0,01	2000,0%	0,02 e	0,01	66,7%
<b>Result from operations (EBIT)</b>	<b>1,15</b>	<b>-0,85</b>	<b>-235,5%</b>	<b>3,14</b>	<b>-1,92</b>	<b>-263,2%</b>	<b>2,72</b>	<b>-3,78</b>	<b>-172,1%</b>	<b>2,73</b>	<b>-0,91</b>	<b>-400,2%</b>	<b>9,728</b>	<b>-7,45</b>	<b>-230,6%</b>	<b>2,57</b>	<b>1,15</b>	<b>124,5%</b>	<b>1,23</b>	<b>3,14</b>	<b>-60,8%</b>
Interest income	0,02	0,01	57,1%	0,03	0,06	-45,0%	0,04	0,03	37,0%	0,04	0,06	-38,6%	0,118	0,16	-33,3%	0,02	0,02	0,0%	0,03 e	0,03	0,0%
Interest expenses	-0,86	-0,71	20,8%	-0,82	-0,74	10,3%	-0,77	-0,76	1,2%	-0,65	-0,81	-19,8%	-3,133	-3,02	3,7%	-0,620	-0,86	-27,9%	-0,62 e	-0,82	-24,0%
Income / expenses from participations accounted at equity	0,02	0,01	125,0%	0,00	0,00	0,0%	-0,02	-0,01	-54,5%	-0,02	0,00	1900,0%	0,006	0,00	-700,0%	0,00	0,02	-100,0%	0,00 e	0,00	0,0%
<b>Result before taxes on income (EBT)</b>	<b>0,32</b>	<b>-1,54</b>	<b>-107,3%</b>	<b>2,36</b>	<b>-2,60</b>	<b>-190,7%</b>	<b>1,97</b>	<b>-4,52</b>	<b>-143,6%</b>	<b>2,09</b>	<b>-1,66</b>	<b>-226,0%</b>	<b>6,719</b>	<b>-10,32</b>	<b>-165,1%</b>	<b>1,97</b>	<b>0,32</b>	<b>506,6%</b>	<b>0,65 e</b>	<b>2,36</b>	<b>-72,6%</b>
Taxes on income	-0,25	0,50	-149,7%	-0,69	0,90	-176,8%	-0,76	-0,10	-86,0%	0,50	-0,60	-183,9%	-1,292	0,70	-284,3%	-0,68	-0,250	172,4%	-0,22 e	-0,69	-68,0%
<b>Consolidated net result</b>	<b>0,07</b>	<b>-1,03</b>	<b>-107,3%</b>	<b>1,67</b>	<b>-1,70</b>	<b>-198,0%</b>	<b>1,21</b>	<b>-4,63</b>	<b>-126,2%</b>	<b>2,59</b>	<b>-2,26</b>	<b>-214,8%</b>	<b>5,427</b>	<b>-9,62</b>	<b>-156,4%</b>	<b>1,29</b>	<b>0,07</b>	<b>1621,3%</b>	<b>0,43 e</b>	<b>1,67</b>	<b>-74,5%</b>
Undiluted earnings per share																					
Consolidated net result	0,07	-1,03	-107,3%	1,67	-1,70	-198,0%	1,21	-4,63	-126,2%	2,59	-2,26	-214,8%	5,427	-9,62	-156,4%	1,291	0,075	1621,3%	0,43 e	1,67	-74,5%
Shares (weighted average in the fiscal year) (in thousands)	5,00	5,00	0,0%	5,00	5,00	0,0%	5,00	5,00	0,0%	5,00	-10,00	-150,0%	5,002	5,00	0,0%	5,004	5,00	0,1%	5,00	5,00	0,0%
<b>Undiluted earnings per share in EUR</b>	<b>0,01</b>	<b>-0,21</b>	<b>-107,3%</b>	<b>0,33</b>	<b>-0,34</b>	<b>-197,9%</b>	<b>0,24</b>	<b>-0,93</b>	<b>-126,2%</b>	<b>0,52</b>	<b>-0,45</b>	<b>-214,6%</b>	<b>1,086</b>	<b>-1,92</b>	<b>-156,5%</b>	<b>0,26</b>	<b>0,02</b>	<b>1619,3%</b>	<b>0,09 e</b>	<b>0,33</b>	<b>-74,5%</b>
Diluted earnings per share																					
Consolidated net result	0,07	-1,03	-107,3%	1,67	-1,70	-198,0%	1,21	-4,63	-126,2%	2,59	-2,26	-214,8%	5,427	-9,62	-156,4%	1,29	0,075	1621,3%	0,43 e	1,67	-74,5%
Shares (weighted average in the fiscal year) (in mln)	5,00	5,00	0,1%	5,01	5,00	0,1%	5,01	5,00	0,2%	5,01	-10,00	-150,1%	5,008	5,00	0,2%	5,010	5,004	0,1%	5,01	5,00	0,1%
<b>Diluted earnings per share in EUR</b>	<b>0,01</b>	<b>-0,21</b>	<b>-107,3%</b>	<b>0,33</b>	<b>-0,34</b>	<b>-197,9%</b>	<b>0,24</b>	<b>-0,93</b>	<b>-126,2%</b>	<b>0,52</b>	<b>-0,45</b>	<b>-214,6%</b>	<b>1,086</b>	<b>-1,92</b>	<b>-156,3%</b>	<b>0,26</b>	<b>0,015</b>	<b>1619,3%</b>	<b>0,09 e</b>	<b>0,33</b>	<b>-74,5%</b>

Source: LINOS AG; DR.KALLIWODA | RESEARCH



The following diagram illustrates the positive development of the margins until Q2/2005 (preliminary results) and our estimates until year end.





## 1.5 Estimates for 2005 to 2009

From 2005 to 2009 we prognosticate sales improvement from € 83.6 million in 2005 to € 100.8 million in 2009. We reduced our sales estimates for the current financial year in relation to our last analysis from 19 May 2005 (Q1/2005) over € 1.5 million. For the subsequent years our estimates remained almost identical (approx. 1% less for each financial year). The reason for the adjustment of sales and earnings prognoses for 2005 are our defensive estimations for the semiconductor industry as well as the effects of the insolvency of Agfa photo. For 2005 we estimate EBIT of € 8 million. The guidance of LINOS AG lies between € 7.5 million and € 9 million. In 2006 we expect EBIT of € 10.8 million, in 2007 € 11.7 million, in 2008 € 11.75 million and in 2009 € 12 million. With our estimates we are not considering a superproportional increase in sales in the business segment IT & Communications. The EBT row should grow relatively more strongly than in the past, because LINOS AG constantly improves its financial result by the strong dismantling of their financial commitments. We estimate EBT in 2005 of € 5.1 million. In 2006 we proceed with € 7.9 million, for 2007 we expect EBT of € 9.5 million, for 2008 of € 10.1 million and for 2009 of € 11.1 million.

## 1.6 Profit- and loss-accounting until 2009

The following table shows the profit and loss accounts with our estimates until 2009.

PROFIT & LOSS LINOS AG								
€ mln								
	2002	2003	2004	2005e	2006e	2007e	2008e	2009e
<b>Revenues (incl. finished goods)</b>	<b>73,0</b>	<b>73,1</b>	<b>89,9</b>	<b>83,6</b>	<b>91,1</b>	<b>94,7</b>	<b>96,4</b>	<b>100,8</b>
% change	-15,8%	0,1%	23,0%	-7,0%	9,0%	4,0%	1,8%	4,6%
<b>COGS</b>	<b>-18,4</b>	<b>-21,2</b>	<b>-25,8</b>	<b>-24,4</b>	<b>-26,7</b>	<b>-27,9</b>	<b>-29,0</b>	<b>-31,8</b>
% of revenues	25%	29%	26%	24%	27%	29%	29%	30%
<b>Gross income</b>	<b>54,6</b>	<b>51,9</b>	<b>64,1</b>	<b>59,2</b>	<b>64,4</b>	<b>66,8</b>	<b>67,4</b>	<b>69,0</b>
% change	-12,2%	-4,9%	23,5%	-7,6%	8,8%	3,8%	0,9%	2,3%
<b>Gross margin</b>	<b>75%</b>	<b>71%</b>	<b>71%</b>	<b>71%</b>	<b>71%</b>	<b>67%</b>	<b>67%</b>	<b>69%</b>
<b>Personnel expenses</b>	<b>-38,2</b>	<b>-35,9</b>	<b>-33,2</b>	<b>-31,9</b>	<b>-34,0</b>	<b>-34,5</b>	<b>-35,0</b>	<b>-36,4</b>
% of revenues	52%	49%	37%	37%	36%	35%	2%	36%
<b>S, S&amp;A (Distr./Mark.)</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>
% of revenues	0%	0%	0%	0%	0%	0%	0%	0%
<b>Other op. Income</b>	<b>-15,1</b>	<b>-12,9</b>	<b>-14,1</b>	<b>-14,4</b>	<b>-14,3</b>	<b>-14,2</b>	<b>-13,9</b>	<b>-2,4</b>
<b>EBITDA</b>	<b>-9,2</b>	<b>-7,0</b>	<b>14,8</b>	<b>12,8</b>	<b>16,1</b>	<b>18,1</b>	<b>18,5</b>	<b>19,5</b>
% of revenues	-13%	-10%	17%	15%	18%	19%	19%	19%
<b>EBITDA margin</b>	<b>-13%</b>	<b>-10%</b>	<b>16,5%</b>	<b>15,4%</b>	<b>17,7%</b>	<b>19,1%</b>	<b>19,2%</b>	<b>19,3%</b>
<b>EBIT</b>	<b>-9,2</b>	<b>-7,5</b>	<b>9,7</b>	<b>8,0</b>	<b>10,8</b>	<b>11,7</b>	<b>11,7</b>	<b>12,0</b>
% of revenues	-13%	-10%	11%	10%	12%	12%	12%	12%
<b>EBIT margin</b>	<b>-13%</b>	<b>-10%</b>	<b>9,7%</b>	<b>9,6%</b>	<b>11,9%</b>	<b>12,4%</b>	<b>12,2%</b>	<b>11,9%</b>
<b>Financial result</b>	<b>-3,2</b>	<b>-2,9</b>	<b>-3,0</b>	<b>-2,9</b>	<b>-2,5</b>	<b>-2,2</b>	<b>-2,3</b>	<b>-0,9</b>
<b>Pre tax income</b>	<b>-12,4</b>	<b>-10,3</b>	<b>6,7</b>	<b>5,1</b>	<b>7,9</b>	<b>9,5</b>	<b>10,1</b>	<b>11,1</b>
% of revenues	-17,0%	-14,1%	7,5%	6,1%	8,7%	10,0%	10,5%	11,1%
<b>Taxes</b>	<b>3,5</b>	<b>0,7</b>	<b>-1,3</b>	<b>-1,4</b>	<b>-3,3</b>	<b>-3,3</b>	<b>-3,5</b>	<b>-3,9</b>
Tax rate	28,6%	6,8%	19,2%	28,0%	35,0%	35,0%	35,0%	35,0%
<b>Minorities</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>
<b>Net income (Ex adj.)</b>	<b>-8,8</b>	<b>-9,6</b>	<b>5,4</b>	<b>3,7</b>	<b>5,2</b>	<b>6,2</b>	<b>6,6</b>	<b>7,2</b>
% of revenues	-12%	-13%	6%	4%	6%	7%	7%	7%
<b>Net margin</b>	<b>-12%</b>	<b>-13%</b>	<b>5,4%</b>	<b>4,4%</b>	<b>5,7%</b>	<b>6,5%</b>	<b>6,8%</b>	<b>7,2%</b>
# shares out (mln)	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00
<b>EPS</b>	<b>-0,49</b>	<b>-0,53</b>	<b>1,09</b>	<b>0,74</b>	<b>1,03</b>	<b>1,24</b>	<b>1,32</b>	<b>1,45</b>

Quelle: DR. KALLIWODA | RESEARCH; LINOS AG



## 1.7 Balance sheet and cashflow-forecasts until 2009

The following table shows the balance sheet of LINOS AG with our estimates until 2009. The restructuring actions and efficiency of LINOS AG increases and should lead to a steadily improved balance sheet.

BALANCE SHEET LINOS AG																
EUR mln																
	2002	in %	2003	in %	2004	in %	2005e	in %	2006e	in %	2007e	in %	2008e	in %	2009e	in %
Intangible assets	28,6	33	25,4	33	23,8	30,4	24,1	32	23,1	29	24,5	29,61	25,8	30,17	25,0	29
(there of goodwill)	1,9	27	1,8	17	0,0	14	0,0	25	0,0	24	0,0	23,41	0,0	22,66	0,0	22
Tangible assets	18,5	21	13,4	17	11,1	14	15,3	20	18,1	23	18,7	23	19,0	22	20,1	23
Financial assets	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0
<b>Fixed assets</b>	<b>49,0</b>	<b>55</b>	<b>40,7</b>	<b>50</b>	<b>34,9</b>	<b>45</b>	<b>39,4</b>	<b>52</b>	<b>41,2</b>	<b>51</b>	<b>43,2</b>	<b>52</b>	<b>44,8</b>	<b>52</b>	<b>45,1</b>	<b>52</b>
Inventories	21,2	25	20,5	27	21,4	27	19,8	26	21,0	26	21,6	26	21,8	25	22,5	26
Trade debtors	10,0	12	10,0	13	12,8	16	11,2	15	11,9	15	12,2	15	12,4	14	12,8	15
Other current assets	6,4	7	6,2	8	6,1	8	5,9	8	6,2	8	6,4	8	6,4	8	6,6	8
Cash & marketable sec.	1,5	2	1,7	2	3,0	4	0,0	0	-0,1	0	-0,5	-1	0,1	0	-0,5	-1
<b>Current assets</b>	<b>39,1</b>	<b>45</b>	<b>38,3</b>	<b>50</b>	<b>43,4</b>	<b>55</b>	<b>37,0</b>	<b>48</b>	<b>39,1</b>	<b>49</b>	<b>39,6</b>	<b>48</b>	<b>41,2</b>	<b>48</b>	<b>48,5</b>	<b>48</b>
<b>Total assets</b>	<b>86,2</b>	<b>100</b>	<b>77,2</b>	<b>100</b>	<b>78,4</b>	<b>100</b>	<b>76,4</b>	<b>100</b>	<b>80,3</b>	<b>100</b>	<b>82,9</b>	<b>100</b>	<b>85,6</b>	<b>100</b>	<b>86,5</b>	<b>100</b>
Share capital	5,0	6	5,0	7	5,0	6	5,0	6	5,0	7	5,0	5	5,0	6	5,0	6
Reserves	22,0	26	12,1	16	17,4	22	23,5	22	28,5	16	34,7	17	41,2	48	48,5	56
Minority interests	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0
Provisions	20,3	24	20,3	26	19,6	25	18,9	25	19,8	26	20,2	20	20,4	24	20,8	24
Financial liabilities	32,9	38	32,6	42	26,5	34	19,3	34	16,8	42	14,5	27	9,8	33	3,7	33
Other liabilities	5,9	7	6,7	9	9,8	12	9,7	12	10,3	9	10,5	10	9,2	12	8,5	13
<b>Total liabilities</b>	<b>59,1</b>	<b>69</b>	<b>59,7</b>	<b>78</b>	<b>55,9</b>	<b>71</b>	<b>47,9</b>	<b>71</b>	<b>46,8</b>	<b>78</b>	<b>43,2</b>	<b>56</b>	<b>39,4</b>	<b>46</b>	<b>33,0</b>	<b>38</b>
<b>Total equity and liabilities</b>	<b>86,2</b>	<b>100</b>	<b>76,8</b>	<b>100</b>	<b>78,4</b>	<b>100</b>	<b>76,4</b>	<b>100</b>	<b>80,3</b>	<b>100</b>	<b>82,9</b>	<b>100</b>	<b>85,6</b>	<b>100</b>	<b>86,5</b>	<b>100</b>
Working capital	31		30		34,3		31,1		33		33,8		34		35	
Net debt	48		48		41,7		42,8		45		46,7		47		48	
Gearing	1,8		2,8		1,9		1,5		1,3		1,2		1,0		0,9	

Source: DR.KALLIWODA| Research, LINOS AG

We expect the operative cashflow of LINOS AG to be € 10.1 million for the whole year 2005. With our prognoses for the operative cashflows until 2009 we receive an annually discounted growth rate of 9,2 %<sup>1)</sup>.

CASH FLOW STATEMENT LINOS AG									
€ mln									
	2002	2003	2004	2005e	2006e	2007e	2008e	2009e	CAGR 01. Aug
Operating cash flow	7,5	3,1	13,0	10,1	7,0	8,1	13,1	12,3	9,2%
Cash flow from investments	-5,2	-1,8	-3,2	-2,2	-2,0	-2,6	-2,8	-2,8	
Dividend payments	0,0	0,0	0,0	0,0	-0,3	-0,5	-0,7	-1,0	
Cash flow from financing	-3,1	-4,3	-4,3	-9,2	-6,3	-0,5	-1,6	-0,6	
<b>Free cash flow</b>	<b>2,3</b>	<b>1,2</b>	<b>9,8</b>	<b>7,9</b>	<b>5,0</b>	<b>5,5</b>	<b>10,3</b>	<b>9,5</b>	

Source: DR.KALLIWODA| Research, LINOS AG

<sup>1)</sup> Compound average growth rate: The growth rates of the operating cashflows were discounted to 2005 with a weighted average cost of capital of 8,4% (WACC).



## 2. VALUATION: PRICE TARGET € 12,90

On the basis of our three speed Discount cash flow model we calculate a fair value of € 12.90 (market capitalization of € 64.5 million). We recommend the share for purchase with a price target of € 12.90 on view of 12 months.

### 2.1 Company valuation: DCF-approach

The valuation of LINOS A was done through the three-staged discount-cashflow model to calculate the inner value of the share. We made the following assumptions: We set the risk free interest rate at 3.7%. This corresponds to a 10 year bond. We calculated the risk premium with 8,5% and the beta factor in relation to the TecDax30 with 1.25. These parameters applied, we received a weighted average cost of capital (WACC) of 8,4%. On the basis of these capital costs we derive a fair value for the share of € 12,90. We set the assumption that the company grows on a long-term basis by 1,5% (terminal growth). The following table shows the individual parameters of our DCF model.

DCF PARAMETER	
PARAMETERS	
Risk-free rate	3,7%
Risk premium	8,5%
Beta	1,25
Longterm growth rate	1,0%
Cost of equity	9,7%
Cost of debt (after Tax)	4,9%
WACC	8,4%
NET PRESENT VALUE OF FREE CASH FLOWS (Mio. EUR)	
Phase 1 (2005-2006)	10,1
Phase 2 (2007-2009)	14,7
Phase 3 (2010...terminal value)	60,9
Net debt	-21,2
Value of total equity	64,5
DCF value per share	12,90

Source: DR.KALLIWODA | RESEARCH 2005

### 2.2 Sensitivity analysis

We did a sensitivity analysis in order to detect the variability of our deduced fair value under different economic scenarios. For this, see the following tables below.

We consider a long-term growth of only 0.5% very unrealistic.

We have chosen a long term growth of 1% which is a defensive assumption. From these numbers, a market-capitalization of € 64,5 million, corresponding to a fair share price of € 12,9 for LINOS AG is calculated.

#### Sensitivity analysis per share Sensitivitätsanalyse je Aktie

(EUR)	β = 1,25	Diskontierungszinssatz				
		6,4%	7,4%	8,4%	9,4%	10,4%
0,0%		17	14	12	10	9
langf. Wachstum	0,0%	17	14	12	10	<b>8,941</b>
	0,5%	18	15	12	<b>10,609</b>	9
	1,0%	19	15	<b>12,89987</b>	11	9
	1,5%	20	<b>16,28</b>	13	11	10
	2,0%	<b>21,86</b>	17	14	12	10

Source: Dr. Kalliwoda Research

#### Sensitivity analysis: Market Capitalization Sensitivitätsanalyse: Marktkapitalisierung

(Mio. EUR)	β = 1,25	Diskontierungszinssatz				
		6,4%	7,4%	8,4%	9,4%	10,4%
0,0%		85	71	60	52	45
langf. Wachstum	0,0%	85	71	60	52	<b>45</b>
	0,5%	90	74	62	<b>53</b>	46
	1,0%	95	77	<b>64,50</b>	55	47
	1,5%	101	<b>81</b>	67	57	48
	2,0%	<b>109</b>	86	70	59	50

Source: Dr. Kalliwoda Research





## 3. SWOT ANALYSIS

### STRENGTHS

<b>Medical Technology</b>	<ul style="list-style-type: none"> <li>LINOS is developing as technology leader in the medical diagnostics &amp; pharmacology-fields as a supplier of optical components &amp; complete systems</li> </ul>
<b>X-Ray Imaging</b>	<ul style="list-style-type: none"> <li>LINOS is expert for the market segment X-Ray Imaging among other things; particularly in the developing countries there is a high demand for X-Ray units</li> </ul>
<b>EBIT-Margins</b>	<ul style="list-style-type: none"> <li>Constant improvement of the EBIT-margins due to cost savings</li> </ul>
<b>Cash-Cows</b>	<ul style="list-style-type: none"> <li>Cash-cow segment Health Care &amp; Life Sciences and Information Technology &amp; Communications compensates Industrial Manufacturing</li> </ul>
<b>Laser Processing</b>	<ul style="list-style-type: none"> <li>The market segments laser technology and laser material processing remain as a clear reliable basis possible for profits and cashflows</li> </ul>
<b>F&amp;E</b>	<ul style="list-style-type: none"> <li>Cashflow- CAGR of over 10% (estimates until 2009) ensures development of the technological leadership</li> </ul>
<b>Customer Relations</b>	<ul style="list-style-type: none"> <li>Long-term customer relationships</li> </ul>

### OPPORTUNITIES

<b>New Applications</b>	<ul style="list-style-type: none"> <li>LINOS as a technology leader takes advantage of new applications of Photonics</li> </ul>
<b>Healthcare</b>	<ul style="list-style-type: none"> <li>High growth rates in the segment Health Care are expected</li> </ul>
<b>Contracts</b>	<ul style="list-style-type: none"> <li>Particularly starting from 2006 we expect strong impulses in the market segments bio research and molecular diagnostics with numerous project-related contracts with an average contract-size of € 2.5 million</li> </ul>
<b>Eastern Europe</b>	<ul style="list-style-type: none"> <li>Cost savings by misalignment of the production processes to Eastern Europe</li> </ul>
<b>Location Bavaria</b>	<ul style="list-style-type: none"> <li>Current new building of the industrial centre optics strengthens market position of LINOS</li> </ul>
<b>Sources of Light</b>	<ul style="list-style-type: none"> <li>Growth of the demand for memory chips, those with optical functions such as sources of light and fiber-optic conductors</li> </ul>
<b>Digitization</b>	<ul style="list-style-type: none"> <li>LINOS should take profit from the trend to digitization in the Imaging industry</li> </ul>
<b>Computed Radiography</b>	<ul style="list-style-type: none"> <li>LINOS should succeed from the change in the Healthcare and Life Sciences industry: E.g. high growth rates in the "Computed Radiography" and Radiography and laboratory automation for diagnostic purposes.</li> </ul>

### WEAKNESSES

<b>Turkey replacement ?</b>	<ul style="list-style-type: none"> <li>Compared with 2004 we expect less in 2005 sales due to declining invoicings of the large order for Turkey</li> </ul>
<b>Tight Niches</b>	<ul style="list-style-type: none"> <li>LINOS is partly active in very tight niches.</li> </ul>

### THREATS

<b>Semiconductor situa.</b>	<ul style="list-style-type: none"> <li>Continuing weakness of the semiconductor economic situation reduces the results of the business segment Industrial Manufacturing</li> </ul>
<b>Asian Competition</b>	<ul style="list-style-type: none"> <li>Possible competitors from the Asian area</li> </ul>
<b>Growth ?</b>	<ul style="list-style-type: none"> <li>Limited cash for growth, reducing the liabilities has higher priority</li> </ul>
<b>Critical Size</b>	<ul style="list-style-type: none"> <li>LINOS is not a blue chip company; synergies would increase with higher scale effects; new production site in Bavaria should improve this.</li> </ul>



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