



COMPANY FLASHNOTE

DR. KALLIWODA EQUITY RESEARCH

Okt. 06, 2005

LINOS AG

Technology / Photonics / Optics

Unchanged: **BUY**

Coverage: Since Q3 2004

Last price: € 10,00

Old Fair Value: € 12.90 New: € 12,90

Event: New Order for € 12 Million in the Defense Segment

- **High order intake in the third quarter of 2005**
- **Order intake in Q3 increases by 66% compared to the same period in the previous year**
- **Total orders on hand have risen to € 67 million (Sep. 2005)**

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	0,83	1,14
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	4,1	5,7
net cash per share	-6,3	-6,2	-4,7	-2,4	-0,3
net Cash	-31,4	-31,0	-23,5	-12,1	-1,4
Free Cash Flow	2,3	1,2	9,8	8,4	5,6
P/E	-	-5,3	9,3	12,2	8,9
P/S	-	0,69	0,56	0,60	0,55
Price (curr)	10,1				5,00
52W high	12,25				35
52w low	3,7				36,3
Market Cap (mln)	50,5				0,005%
ROE curr	n.m.				LIAG
Sales CAGR 03-09	7%				LIAG
Web Page	www.linos.de				WKN 525650
					Shares out (mln)
					6M Avrg Vol (000s)
					Free Float (in %)
					Geregelter Markt / Prime Standard
					Reuters code
					Bloomberg
					WKN

Source: DR.KALLIWODA | RESEARCH



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1. ORDER FOR € 12 MILLION

LINOS AG succeeded in receiving an order for € 12 million in the defense segment of the Information Technology & Communications business division. The supply of optical systems for security technology starts in Q1/2006.

The order intake in the third quarter of 2005 amounts over € 28 million, which corresponds to an increase of 66% compared to the previous year quarter. The total orders on hand rose in the last two quarters noticeably to approx. € 67 million. This is an increase of about € 8 million in relation to the previous quarter with € 59.3 million. In our opinion LINOS AG will compensate diminishing sales from the Turkey order (sales from the large Turkish order are based on the Method-of-Completion rule (IAS 11)). We keep unchanged our "BUY" recommendation. On the basis of our conservative sales and profit estimates we obtain an unchanged fair value of € 12, 90 per share (see chapter 2).

1.1 Results until Q2/2005

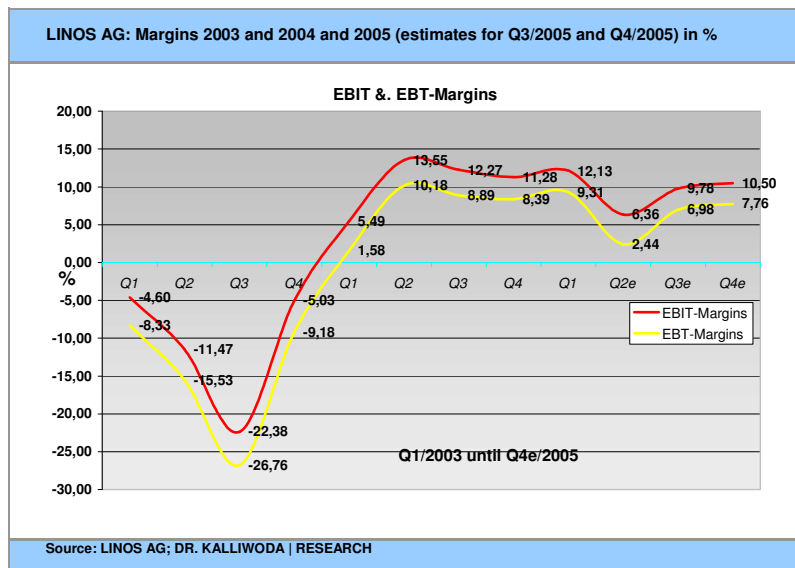
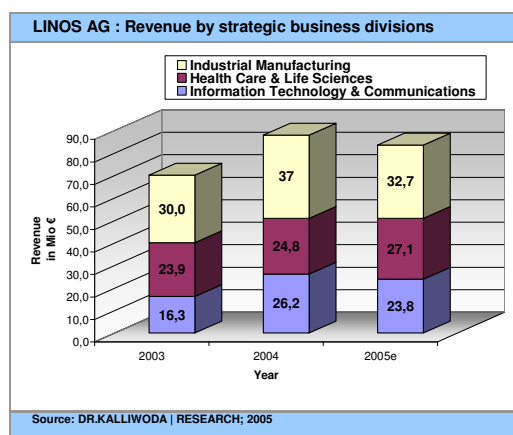
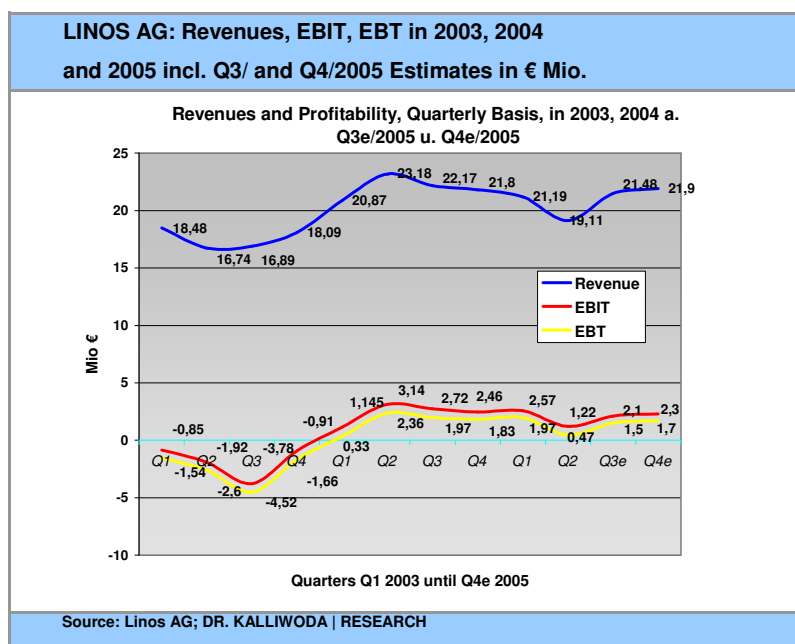
LINOS 2004 and 2005 (until Q2/2005): Profit & Loss (IFRS)																					
	Q1 2004	Q1 2003	Change to Q1 2003	Q2 2004	Q2 2003	Change to Q2 2003	Q3 2004	Q3 2003	Change to Q3 2003	Q4 2004	Q4 2003	Change to Q4 2003	Total 2004	Total 2003	Change to Total 2003	Q1 2005	Q1 2004	Change to Q1 2004	Q2 2005	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%	21,187	20,865	1,5%	19,11	23,18	-17,5%
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	56,5%	0,304	-0,29	-206,3%	0,338	0,547	-38,2%	-0,23	-0,03	824,0%
Production f. oth.own fixed ass.capitalized	0,17	0,30	-45,0%	0,25	0,20	28,6%	0,17	0,25	-32,3%	0,94	0,46	105,2%	1,533	1,21	26,7%	0,30	0,17	83,6%	0,64	0,25	153,6%
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	-7,5%	0,372	0,32	16,3%	0,58	0,57	2,7%
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	-5,52	-1,2%	-4,71	-5,57	-15,4%
Cost of purchased services	-0,95	-0,75	26,7%	-0,74	-0,70	6,9%	-0,84	-0,74	13,8%	-0,73	-0,80	-9,5%	-3,264	-2,99	9,2%	-0,68	-0,95	-28,9%	-0,78	-0,74	4,7%
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%	-6,90	-6,64	3,9%
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%	-1,43	-1,54	-6,8%
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%	-1,22	-1,82	-32,7%
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%	-3,69	-4,54	-18,8%
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%	-0,16	0,01	-1425,0%
Result from operations (EBIT)	1,15	-0,85	-235,5%	3,14	-1,92	-263,2%	2,72	-3,78	-172,1%	2,73	-0,91	-400,2%	9,728	-7,45	-230,6%	2,57	1,15	124,5%	1,22	3,14	-61,3%
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	-26,9%	0,02	0,02	0,0%	0,02	0,03	-54,5%
Interest expenses	-0,86	-0,71	20,8%	-0,82	-0,74	10,3%	-0,77	-0,76	1,2%	-0,65	-0,81	-19,6%	-3,133	-3,02	3,7%	-0,620	-0,86	-27,9%	-0,76	-0,82	-6,6%
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	0,00	-133,3%
Result before taxes on income (EBT)	0,32	-1,54	-107,3%	2,36	-2,60	-190,7%	1,97	-4,52	-143,6%	2,09	-1,66	-226,0%	6,719	-10,32	-165,1%	1,97	0,32	506,8%	0,47	2,36	-80,2%
Taxes on income	-0,25	0,50	-149,7%	-0,69	0,90	-176,8%	-0,76	-0,10	-670,0%	0,50	-0,60	-183,9%	-1,292	0,70	-284,3%	-0,68	-0,250	172,4%	-0,20	-0,69	-71,5%
Consolidated net result	0,07	-1,03	-1,07	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	0,07	1621,3%	0,27	1,67	-83,8%
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%	0,27	1,67	-83,8%
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%
Undiluted earnings per share in EUR	0,01	-0,21	-1,07	0,33	-34,1%	-1,98	0,24	-92,5%	-1,26	51,8%	-0,45	-2,15	1,086	-1,92	-156,5%	0,26	0,02		0,05	0,33	-83,8%
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%	0,27	1,67	-83,8%
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%
Diluted earnings per share in EUR	0,01	-0,21	-107,3%	0,33	-34,1%	-1,97,9%	0,24	-93,3%	-1,26,2%	0,52	-0,45	-214,6%	1,08	-1,92	-156,3%	0,26	0,015	1619,3%	0,05	0,33	-83,8%

Source: LINOS AG; DR.KALLIWODA | RESEARCH

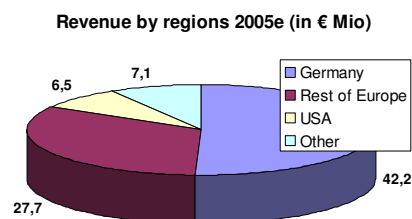


1.2 Unchanged estimates for Q3 and Q4/2005

In Q2/2005 we estimate sales - like in our last company update from 4 August - of € 21.5 million and EBIT of € 2.1 million and EBT of € 1.5 million. In Q4/2005 we prognosticate sales of € 21.9 million, EBIT of € 2.3 million and EBT of € 1.7 million (unchanged too). The order for € 12 million - described in chapter 1 - will start to have a positive impact in Q1/2006. Following graphics illustrate the development of sales and margins until Q2/2005 inclusive our estimates up to 31st Dec., 2005 (left column). The development of sales after divisions/regions are shown in the graphics in the right column.



Estimates for regions:
Source: DR.KALLIWODA | RESEARCH





1.3 Estimates for 2005 until 2009

From 2005 to 2009 we prognosticate sales improvement from € 83.6 million in 2005 to € 100.8 million in 2009. We keep our estimates unchanged. Regarding the companies increasing order intake our estimates appear conservative. For 2005 we estimate EBIT of € 8 million with a continuously increase up to € 12 million in 2009.¹

1.4 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
Revenues (incl. finished goods)		73,0	73,1	89,9	83,6	91,1	94,7	96,4	100,8
% change		-15,8%	0,1%	23,0%	-7,0%	9,0%	4,0%	1,8%	4,6%
COGS		-18,4	-21,2	-25,8	-24,4	-26,7	-27,9	-29,0	-31,8
% of revenues		25%	29%	26%	24%	27%	29%	29%	30%
Gross income		54,6	51,9	64,1	59,2	64,4	66,8	67,4	69,0
% change		-12,2%	-4,9%	23,5%	-7,6%	8,8%	3,8%	0,9%	2,3%
Gross margin		75%	71%	71%	71%	71%	67%	67%	69%
Personnel expenses		-38,2	-35,9	-33,2	-31,9	-34,0	-34,5	-35,0	-36,4
% of revenues		52%	49%	-37%	-37%	-36%	-35%	2%	-36%
S, S&A (Distr./Mark.)		0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
% of revenues		0%	0%	0%	0%	0%	0%	0%	0%
Other op. Income		-15,1	-12,9	-14,1	-14,4	-14,3	-14,2	-13,9	-2,4
EBITDA		-9,2	-7,0	14,8	12,8	16,1	18,1	18,5	19,5
% of revenues		-13%	-10%	17%	15%	18%	19%	19%	19%
EBITDA margin		-13%	-10%	16,5%	15,4%	17,7%	19,1%	19,2%	19,3%
EBIT		-9,2	-7,5	9,7	8,0	10,8	11,7	11,7	12,0
% of revenues		-13%	-10%	11%	10%	12%	12%	12%	12%
EBIT margin		-13%	-10%	9,7%	9,6%	11,9%	12,4%	12,2%	11,9%
Financial result		-3,2	-2,9	-3,0	-2,9	-2,5	-2,2	-2,3	-0,9
Pre tax income		-12,4	-10,3	6,7	5,1	7,9	9,5	10,1	11,1
% of revenues		-17,0%	-14,1%	7,5%	6,1%	8,7%	10,0%	10,5%	11,1%
Taxes		3,5	0,7	-1,3	-1,4	-2,8	-3,3	-3,5	-3,9
Tax rate		28,6%	6,8%	19,2%	28,0%	35,0%	35,0%	35,0%	35,0%
Minorities		0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net income (Ex adj.)		-8,8	-9,6	5,4	3,7	5,2	6,2	6,6	7,2
% of revenues		-12%	-13%	6%	4%	6%	7%	7%	7%
Net margin		-12%	-13%	5,4%	4,4%	5,7%	6,5%	6,8%	7,2%
# shares out (mln)		5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00
EPS		-0,49	-0,53	1,09	0,74	1,03	1,24	1,32	1,45

Quelle: DR. KALLIWODA | RESEARCH; LINOS AG

¹ See our company update Q2/2005 from 04th August 2005.



2. VALUATION: PRICE TARGET € 12,90 (UNCHANG.)

On the basis of our three stage discount cash flow model we calculate a fair value of € 12.90 (market capitalization of € 64.5 million). We recommend the share to buy with an unchanged 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 3.3%. 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 1.45. These parameters applied, we received a weighted average cost of capital (WACC) of 9,2%. On the basis of these capital costs we derive a fair value for the share of € 12,94. We set the assumption that the company grows on a long-term basis by 1,0% (terminal growth). The following table shows the individual parameters of our DCF model.

DCF PARAMETER	
PARAMETERS	
Risk-free rate	3,3%
Risk premium	8,5%
Beta	1,45
Longterm growth rate	1,0%
Cost of equity	10,8%
Cost of debt (after Tax)	4,9%
WACC	9,2%
NET PRESENT VALUE OF FREE CASH FLOWS (Mio. EUR)	
Phase 1 (2005-2006)	11,1
Phase 2 (2007-2009)	16,4
Phase 3 (2010...terminal value)	55,4
Net debt	-18,2
Value of total equity	64,7
DCF value per share	12,94

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 € 64,7 million, corresponding to a fair share price of € 12,94 for LINOS AG is calculated.

Sensitivity analysis per share Sensitivitätsanalyse je Aktie

(EUR)	Diskontierungszinssatz					
	β = 1,45	7,2%	8,2%	9,2%	10,2%	11,2%
0,0%		16	14	12	11	10
langf. Wachstum	0,0%	16	14	12	11	9,570
	0,5%	17	15	13	11,016	10
	1,0%	18	15	12,94128	11	10
	1,5%	19	15,66	13	12	10
	2,0%	19,84	16	14	12	10

Source: Dr. Kalliwoda Research

Sensitivity analysis: Market Capitalization Sensitivitätsanalyse: Marktkapitalisierung

(Mio. EUR)	Diskontierungszinssatz					
	β = 1,45	7,2%	8,2%	9,2%	10,2%	11,2%
0,0%		82	70	61	54	48
langf. Wachstum	0,0%	82	70	61	54	48
	0,5%	85	73	63	55	49
	1,0%	89	75	64,71	56	50
	1,5%	94	78	67	58	51
	2,0%	99	82	69	60	52

Source: Dr. Kalliwoda Research



3. SWOT ANALYSIS

STRENGTHS

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

OPPORTUNITIES

New Applications	<ul style="list-style-type: none"> LINOS as a technology leader takes advantage of new applications of Photonics
Healthcare	<ul style="list-style-type: none"> High growth rates in the segment Health Care are expected
Contracts	<ul style="list-style-type: none"> 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
Eastern Europe	<ul style="list-style-type: none"> Cost savings by misalignment of the production processes to Eastern Europe
Location Bavaria	<ul style="list-style-type: none"> Current new building of the industrial centre optics strengthens market position of LINOS
Sources of Light	<ul style="list-style-type: none"> Growth of the demand for memory chips, those with optical functions such as sources of light and fiber-optic conductors
Digitization	<ul style="list-style-type: none"> LINOS should take profit from the trend to digitization in the Imaging industry
Computed Radiography	<ul style="list-style-type: none"> 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.

WEAKNESSES

Tight Niches	<ul style="list-style-type: none"> LINOS is partly active in very tight niches.
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THREATS

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



4. CONTACT

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