TAYLOR COLLISON

Sharebrokers and Investment Advisers
www.taylorcollison.com.au

12 January 2012

AtCor Medical Holdings Limited (ACG)

Speculative Buy

Major New US Advocacy for Central Pressure Assessment

$0.09

Thomas Duthy ***PhD MBA***
tduthy@taylorcollison.com.au
+61 8 8217 3900

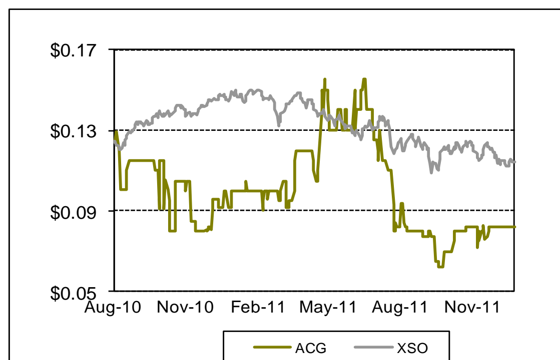
Summary

Market capitalisation (M)	**$12.1**
Share price	**$0.09**
Price target	**$0.25**
52 week low	$0.06
52 week high	$0.17
Ave Monthly Vol (M)	2.4
Cash as at 30/9/11 (M)	$1.3
NTA per share	$0.04

Key Financials (A$'000)

Year End	2011 Actual	2012 Est.	2013 Est.
Product Sales	7,458	8,767	10,371
Total Revenue	**7,677**	**9,072**	**10,948**
COGS	**(1,071)**	**(1,236)**	**(1,462)**
Net Op. Rev	(2,929)	(1,112)	394
EBITDA	**(2,949)**	**(1,217)**	**317**
EBIT	(3,101)	(1,302)	213
Reported Profit	**(3,081)**	**(1,197)**	**290**
Reported EPS (c)	**(2.5)**	**(0.9)**	**0.2**
PE Ratio (x)	**n/a**	**n/a**	**41.6**
ROE (%)	-91.0%	-48.3%	13.7%

Share Price Graph (A$)



Key Points

AtCor announced three US medical associations have united to support non-invasive central pressure (CP) assessment.

Core support from the National Medical Association (NMA), which represents 50,000 African American physicians and >100 affiliated societies.

The Association of Minority Nephrologists (AOMN) and Association of Black Cardiologists (ABC) have also agreed to support the initiative.

Formal policy adoption that central pressure measures to identify cardiovascular risk should be utilised by physicians, especially in African Americans.

Our View

- **Main Driver for the Advocacy is Significant Rates of Hypertension in the African American Population** – Using AtCor's core technology SphygmoCor®, a number of clinical studies to date have demonstrated the utility of this device in assessing both differential central hypertension drug effects or detection of hypertension in otherwise normal black adults. The rate of hypertension in African Americans is estimated at 1.5x that of the white population, with greater challenges in management and control.
- **All Three Organisations Actively Encourage Central Pressure Measurement be Implemented into Standard of Care for the Treatment of Hypertension** – We consider this significant when formulating our view that the central pressure thematic is growing in importance and AtCor is uniquely positioned to capture this emerging market opportunity (assessed by AtCor at US$2.2b). The NMA considers central blood pressure assessment as a major advance in the identification of cardiovascular risk. On our analysis, the NMA position is a first for recommending its members adopt a specific technology (CP assessment/monitoring). The policy position does not materially impact our FY12 forecasts, but will support our revenue build of clinician based sales in the US to ~23% of total revenue by FY15.
- **Implications for Upcoming CPT Panel Meeting** – The Renal Physicians Association (RPA) filed for a unique CPT reimbursement code with the American Medical Association (AMA) in November, the results of which is expected late 1Q CY12. The filing will provide for a unique code for the SphygmoCor® test – i.e. a non-invasive measure of central pressure. We are line ball on the outcome (i.e. much favoured CPT 1 v a CPT 3 code); however, irrespective of this, the support of the NMA and others will be a major determinant in future reimbursement from private payers, but also across Medicare programs via further local coverage decisions in our view.
- **Outlook** – The Company has guided 15-20% cc revenue growth in FY12, which on our estimates equates to an overall NPAT loss of $1.2m on product revenues of $8.8m (+17.6% on pcp). We set our price target at $0.25 (+3.0 cps on previous), The Company continues to progress its reimbursement plans in the US, with the outcome of its CPT coding application with the RPA expected in March. We maintain our Speculative Buy recommendation. The major risk remains any deterioration in the pharma clinical trials business; given the relatively low cash position of the Company moving forward.

Differential Central Pressure in African American Populations, Detected by SphygmoCor®, is Driving Minority Advocacy

Three important studies utilising SphygmoCor® have shown benefits in detecting central pressure variations in African American populations with or without diagnosed hypertension.

AtCor's technology provides a distinct advantage to minority populations.

The evidence driving the need is described below. In our view, **AtCor** now finds itself in a very strong position as it possesses a technology which is clearly favourable to minority populations, such as African Americans and with that comes diverse advocacy and support.

A 2003 study found underlying death rate from high BP in white males in the US was 14.9% versus 49.7% in black males (Centres for Disease Control and Prevention), while the risk of developing Cardiovascular Disease (CVD) in the next ten years is 3x higher in young African American men versus white men. In 2007, African Americans are 1.5x more likely than whites to have high blood pressure according to the Office of Minority Health.

Earlier detection and intervention of CVD a high priority in African Americans.

Utilising earlier detection and intervention of CVD in African Americans is seen by many to be a priority area. Under the Department of Health and Human Services (HHS) action plan to reduce racial and ethnic health disparities, the HHS will develop, implement, and evaluate interventions to prevent cardiovascular diseases and their risk factors. This commenced in 2011. HHS will implement interventions that will range from quality of care improvement opportunities to potential reimbursement incentives for policy and health system changes. This initiative will involve working both with minority providers and providers serving minority populations.

Independent studies using SphygmoCor® over the last three years has provided the impetus for the NMA support. These studies are described below.

In 1Q CY11, a 506 patient study in African Americans found beta blockers (first line treatment for hypertension) showed that these patients exhibited higher central systolic and pulse pressure than those not treated with beta blockers, when assessed using beta blockers.

In 3Q CY11, a 215 adolescent study with type 2 diabetes showed African American patients had increased vascular stiffness than age-matched Caucasians. This led the authors to conclude *"These results suggest race-specific risk factor modification may be helpful to prevent early cardiovascular disease in this high risk population."*

In 4Q CY11, an 836 patient study in Black Africans at high risk of cardiovascular disease showed a lack of independent and positive association between C-reactive protein (associated with increased arterial stiffness in some studies) and measures of central aortic measures, as determined by SphygmoCor®.

Significant studies utilising SphygmoCor® has driven the advocacy.

In 4Q CY08, a small study involving 55 healthy African American and white college students, the study group found that African American men have greater central blood pressure (BP), despite comparable brachial BP as compared to white men. This was the first study to show particular racial differences in central BP, particularly in light of similarities in brachial BP. Moreover, only SphygmoCor® was able to capture diffuse vascular dysfunction in young African American men – via increased arterial stiffness; which was not reflected in brachial BP measures.

In 4Q CY09, a 903 African American and African Caribbean study showed that between both groups, arterial stiffness as determined by SphygmoCor® essentially was identical.

In 1Q CY10, a study involving Novartis and University researchers compared a Novartis' hypertension drug, aliskiren and a diuretic with that of amlodipine in 332 African Americans with Stage 2 hypertension. Using SphygmoCor®, it was shown that while both drug combinations had similar effects peripherally (i.e. using a cuff), only aliskiren/diuretic combination resulted in a significant reduction in central pressure. The authors concluded *"Our findings suggest an important new option for assessing the benefits of blood pressure medications in African American patients."*

As a result of these studies, a number of representative bodies of minorities have expressly supported central pressure assessment, encompassing SphygmoCor®, including the NMA, ABC and AOMN, as described below. As the NMA press release highlights, the US's leading medical organisations of physicians committed to minority health have aligned for this support.

Who is the National Medical Association (NMA)?

NMA represents ~50,000 physicians, 112 societies.

The NMA promotes the collective interest of physicians and patients of African descent. It represents ~50,000 African American physicians, with ~112 affiliated societies. **Atcor** has worked with the NMA over the last 3.5 years to reduce health disparities. This includes **AtCor** working with the Health Policy Committee within the NMA. The result therefore is a long time in the making.

AtCor had previously indicated the NMA Health policy committee met on the 21st October, where agreement was reached on supporting a code and reimbursement for central pressure measurement using SphygmoCor®. NMA has now formalised its health policy to support central pressure adoption and payment (coverage).

We note the 2010 NMA position on key health policy issues, which stipulated prioritising preventative healthcare policies as a core strategic initiative. This dovetails generally with the Obama Healthcare reforms in the US which stipulates insurance coverage for preventative health services, and a federally directed fund to provide expanded and sustained national investment in prevention and public health programs. This includes the so called annual wellness visit for Medicare beneficiaries and new insurance plans that cover preventative services. Medicare coverage for the over 65 population represents over 50 million covered lives and is expected to reach 78 million by 2030.

NMA advocacy is very significant.

We have examined the recent history of NMA press releases and note the decision to fully endorse central pressure adoption is very unique to the organisation. On our analysis since 2009, this is the first time the NMA has endorsed a specific technology to be adopted to treat a major disease in the minority population. This is a major achievement for **AtCor**, and while the NMA does not specifically recommend SphygmoCor's use, this device continues to be the leading central pressure device in clinical use in the US at present.

Association of Black Cardiologists

ABC will provide a foothold into the ACC given commonality of membership.

The Association of Black Cardiologists (ABC) is dedicated to eliminating the disparities related to cardiovascular disease in all people of colour. This involves specific advocacy – explaining their interest in **AtCor's** CPT initiative. International membership exceeds 2,500 health professionals. Importantly, the ABC members are also highly likely to be members of the American College of Cardiology (ACC), which is the major cardiology society in the US, representing ~39,000 members and a significant society on the CPT panel at the AMA.

In our view, the ABC's commonality with the ACC should be considered favourable for **AtCor's** CPT coding ambitions.

Association of Minority Nephrologists (AOMN)

The AOMN was formed in 1988 and is dedicated to improving the health of all minorities. AOMN notes that up to 30% of end stage renal disease patients are from minority groups. While a reasonably small constituency, the AOMN represents the third supporting society to align in support of the use of central blood pressure in minimising health disparities in minority populations.

Examining the Case for AtCor's CPT Coding Initiative

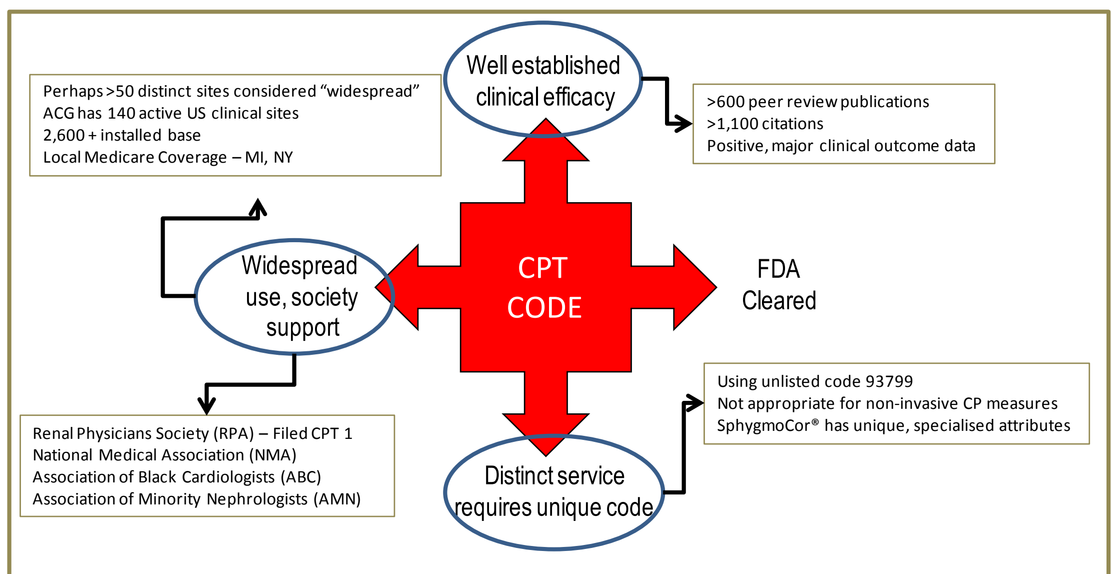
We note that the Renal Physicians Association (RPA) have filed with the American Medical Association (AMA), the use of non-invasive central arterial pressure monitoring at the upcoming CPT panel meeting (February). This is consistent with **AtCor's** guidance that a filing was expected to occur via the RPA in November. We have summarised the process for CPT 1 coding, below. In essence, the tenets for eligibility to receive a CPT 1 code according to the AMA are:

- that the service/procedure has received approval from the Food and Drug Administration (FDA) for the specific use of devices or drugs;
- that the suggested procedure/service is a distinct service performed by many physicians/practitioners across the United States;
- that the clinical efficacy of the service/procedure is well established and documented in U.S. peer review literature;
- that the suggested service/procedure is neither a fragmentation of an existing procedure/service nor currently reportable by one or more existing codes; and
- that the suggested service/procedure is not requested as a means to report extraordinary circumstances related to the performance of a procedure/service already having a specific CPT code.

We have examined the utility of the **AtCor** SphygmoCor® technology and believe the package put forward by the RPA, and other advocacy groups represent a solid footing for a unique code. SphygmoCor® was FDA cleared in 2002.

AtCor meets all requirements for a CPT 1.

Addressing the Requirements for CPT 1 Coding



Source: AtCor Medical; Taylor Collison

The benefit of receiving a CPT 1 coding determination is that coverage is almost automatic within Medicare (at present, **AtCor** has several local coverage decisions for resistant hypertension in the Michigan region and New York). A CPT 1 code also increases (but not guarantees) the likelihood of payer coverage.

Current healthcare environment not conducive to automatic CPT 1 granting however.

We do not believe the announcement by **AtCor** on the NMA and other supporting organisations demonstrably increases the likelihood of a CPT 1 code, but note that Association of Minority Nephrologists (AOMN) is likely to cross over with the RPA and similarly the Association of Black Cardiologists (ABC) with the very influential American College of Cardiology (ACC). As a result, we are line-ball on whether **AtCor** will receive a CPT 1 code, especially given the majority of new CPT codes awarded have been a category 3 code, which are then flipped up to category 1 codes within a five year period.

CPT 3 code the alternative.

An alternate outcome for **AtCor** would be the granting of a CPT 3 code for SphygmoCor®, which in our view is less desirable, but appears to be more common from the AMA as the preferred alternative to a CPT 1. A CPT 3 code requires more leg work to convince payers to reimburse – as many view the code as investigational in nature. Moreover, unlike a CPT 1 code, no relative unit values are established and therefore reimbursement thresholds are at the level of individual negotiation with the payer in question.

Renal Physicians Association (RPA)

The Renal Physicians Association (RPA) is the professional organisation of nephrologists RPA acts as the national representative for physicians engaged in the study and management of patients with renal disease. The RPA sites 4,000 members – including physicians to nurses to practice managers.

In our view, their desire to support a CPT filing on behalf of **AtCor Medical** was premised on the fact that nephrologists are treating renal disease patients, with up to 80% of chronic patients experiencing hypertension at some point during their disease. Hypertension remains the second most common cause of end stage renal failure, next to diabetes.

Outlook

We have provided a six month milestone chart for **AtCor**, below. This does not include continued pharmaceutical clinical trial contracts, which are integral to its operating activities.

AtCor CY12 Milestone Chart	Timing
AMA CPT Panel Meeting	Feb CY12
Results of CPT Filing	Mar CY12
CPT Code Implementation (on positive outcome)	Jul CY12
Medicare Coverage - FL or CA/NV	1H CY12
Expanded/Additional Alliance	1H CY12

Source: Taylor Collison estimates

Maintain Speculative Buy, PT of $0.25.

The Company has guided 15-20% cc revenue growth in FY12, which on our estimates equates to an overall NPAT loss of $1.2m on product revenues of $8.8m (+17.6% on pcp). We set our price target at $0.25 (+3.0 cps on previous), The Company continues to progress its reimbursement plans in the US, with the outcome of its CPT coding application with the RPA expected in March. We maintain our Speculative Buy recommendation. The major risk remains any deterioration in the pharma clinical trials business; given the relatively low cash position of the Company moving forward.

ACG - Summary of Forecasts | ACG $ 0.09

PROFIT & LOSS SUMMARY (A$000s)

Period	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Product Sales	11,209	9,198	7,458	8,767	10,371	12,944
growth (%)	73.8%	-17.9%	-18.9%	17.6%	18.3%	24.8%
Total Revenue	12,400	10,034	7,677	9,072	10,948	13,650
Cost of Goods Sold	(1,740)	(910)	(1,071)	(1,236)	(1,462)	(1,825)
Gross Margin	84.5%	90.1%	85.6%	85.9%	85.9%	85.9%
Total Operating Expense	(13,908)	(11,088)	(10,606)	(10,184)	(10,554)	(11,678)
Net Operating Revenue	(1,508)	(1,054)	(2,929)	(1,112)	394	1,972
Direct R&D Expenses	0	0	0	0	0	0
EBITDA	(1,750)	(1,108)	(2,949)	(1,217)	317	1,891
Dep'n/Other Amort'n	(176)	(166)	(152)	(85)	(104)	(116)
EBIT	(1,926)	(1,274)	(3,101)	(1,302)	213	1,776
Net Interest	242	54	20	105	77	81
Pre-Tax Profit	(1,684)	(1,220)	(3,081)	(1,197)	290	1,857
Tax Expense	(7)	0	0	0	0	0
Minorities	0	0	0	0	0	0
NPAT Normalised*	(1,946)	(995)	(2,454)	(1,197)	290	1,857
NPAT	(1,691)	(1,220)	(3,081)	(1,197)	290	1,857
Growth (pcp)	55.4%	27.9%	-152.5%	61.1%	124.2%	540.2%
Net Abnormals	0	0	0	0	0	0
Reported Profit	(1,691)	(1,220)	(3,081)	(1,197)	290	1,857

PER SHARE DATA

Period	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Reported EPS (c)	(1.7)	(1.2)	(2.5)	(0.9)	0.2	1.4
Growth (pcp)	55.4%	28.0%	109.2%	-64.9%	-124.2%	540.2%
EPS Normalised (c)	(1.9)	(1.0)	(2.0)	(0.9)	0.2	1.4
Growth (pcp)	46.5%	49.0%	104.3%	-56.0%	-124.2%	540.2%
Dividend (c)	0.0	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%	0%
Gross CF per Share (c)	(0.1)	(2.1)	(1.8)	(0.5)	0.1	1.4
NTA per share (c)	4.5	3.6	2.4	1.4	1.7	3.2

KEY RATIOS

Period	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
EBITDA/Sales Margin %	-14.1%	-11.0%	-38.4%	-13.4%	2.9%	13.9%
EBIT/Sales Margin %	-15.5%	-12.7%	-40.4%	-14.4%	1.9%	13.0%
Current ratio (x)	2.3	2.6	2.3	1.6	1.7	2.0
Net Debt : Equity (%)	-73.5%	-43.0%	-56.5%	-52.0%	-46.6%	-64.6%
ROE (%)	-31.9%	-29.1%	-91.0%	-48.3%	13.7%	56.8%
Dividend Payout Ratio (%)	n/a	0.0%	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES

Period	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
PE Ratio (x)	n/a	n/a	n/a	n/a	41.6	6.5
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	0.8	1.1	1.4	1.3	1.1	0.7
EV/EBITDA (x)	n/a	n/a	n/a	n/a	34.7	4.9
EV/EBIT (x)	n/a	n/a	n/a	n/a	51.6	5.3

CAPITAL RAISING ASSUMPTIONS

Period	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Shares Issued (m)	0.0	0.0	33.7	0.0	0.0	0.0
Issue Price (A$)	0.00	0.00	0.07	0.00	0.00	0.00
Cash Raised (A$m)	0.0	0.0	2.4	0.0	0.0	0.0

** Excluding FX gains/losses*

BALANCE SHEET SUMMARY

Period	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
Cash	3,416	1,608	1,714	1,001	1,072	2,738
Receivables	3,382	3,433	2,694	2,455	3,111	3,883
Pre Payments	0	0	0	0	0	0
Inventories	434	295	292	351	415	518
Investments	0	0	0	0	0	0
Other	139	179	235	235	235	235
Total Current Assets	7,371	5,515	4,935	4,042	4,833	7,374
Investments	0	0	0	0	0	0
Inventories	0	0	0	0	0	0
Receivables	0	0	0	0	0	0
Property Plant & Equip	352	255	243	343	393	521
Intangibles	177	131	73	29	12	5
Other	0	0	0	0	0	0
Total Non-Current Assets	529	386	316	372	404	526
TOTAL ASSETS	7,900	5,901	5,251	4,414	5,237	7,899
Accounts Payable	3,223	2,127	2,165	2,455	2,904	3,624
Borrowings	0	0	0	0	0	0
Provisions	4	0	19	0	0	0
Other	0	0	0	0	0	0
Total Current Liab	3,227	2,127	2,184	2,455	2,904	3,624
Borrowings	0	0	0	0	0	0
Provisions	28	37	35	35	35	35
Other	0	0	0	0	0	0
Total Non-Current Liab	28	37	35	35	35	35
TOTAL LIABILITIES	3,255	2,164	2,219	2,490	2,939	3,659
TOTAL EQUITY	4,645	3,737	3,032	1,924	2,298	4,240

CASH FLOW SUMMARY

Period	FY09A	FY10A	FY11A	FY12E	FY13E	FY14E
EBIT (excl Abs/Extr)	(1,926)	(1,274)	(3,101)	(1,302)	213	1,776
Add: Depreciation	131	120	94	74	99	114
Amortisation	45	46	58	12	5	2
Change in Pay.	1,270	(1,096)	38	290	449	720
Less: Tax paid	0	0	0	0	0	0
Net Interest	242	54	20	105	77	81
Change in Rec.	179	(51)	739	236	(660)	(775)
Change in Inv.	(33)	139	3	(59)	(64)	(103)
Gross Cashflows	(92)	(2,062)	(2,149)	(645)	119	1,815
Capex	(132)	(61)	(82)	(100)	(100)	(200)
Free Cashflows	(224)	(2,123)	(2,231)	(745)	19	1,615
Other	163	395	253	32	51	51
Share Issue Proceeds	0	0	2,154	0	0	0
Dividends Paid	0	0	0	0	0	0
Net Cash Flow	(61)	(1,728)	176	(713)	70	1,666
Effect of FX on Cash	161	(79)	(71)	0	0	0

ACG - VALUATION METHODOLOGY

	Multiple Applied	Weight	Value ($ps)	Blended Value ($ps)
DCF Valuation	n/a	33%	$0.24	$0.08
Disc. PE Valuation	25x FY14	33%	$0.27	$0.09
Disc. Revenue Multiple	3.0x FY14	33%	$0.24	$0.08
Blended Equity Valuation/PT				**$0.25**

Disclaimer

Warning (General Advice Only): Past performance is not a reliable indicator of future performance. This report is a private communication to clients and intending clients and is not intended for public circulation or publication or for the use of any third party, without the approval of Taylor Collison Limited ABN 53 008 172 450 ("Taylor Collison"), an Australian Financial Services Licensee and Participant of the ASX Group. TC Corporate Pty Ltd ABN 31 075 963 352 ("TC Corporate") is a wholly owned subsidiary of Taylor Collison Limited. While the report is based on information from sources that Taylor Collison considers reliable, its accuracy and completeness cannot be guaranteed. This report does not take into account specific investment needs or other considerations, which may be pertinent to individual investors, and for this reason clients should contact Taylor Collison to discuss their individual needs before acting on this report. Those acting upon such information and recommendations without contacting one of our advisors do so entirely at their own risk.

This report may contain "forward-looking statements". The words "expect", "should", "could", "may", "predict", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of and guidance on, future earnings and financial position and performance are also forward looking statements. Forward-looking statements, opinions and estimates provided in this report are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions.

Any opinions, conclusions, forecasts or recommendations are reasonably held at the time of compilation but are subject to change without notice and Taylor Collison assumes no obligation to update this document after it has been issued. Except for any liability which by law cannot be excluded, Taylor Collison, its directors, employees and agents disclaim all liability (whether in negligence or otherwise) for any error, inaccuracy in, or omission from the information contained in this document or any loss or damage suffered by the recipient or any other person directly or indirectly through relying upon the information.

Disclosure: Analyst remuneration is not linked to the rating outcome. Taylor Collison may solicit business from any company mentioned in this report. For the securities discussed in this report, Taylor Collison may make a market and may sell or buy on a principal basis. Taylor Collison has been retained by the Company to provide ongoing corporate advisory services. Taylor Collison, or any individuals preparing this report, may at any time have a position in any securities or options of any of the issuers in this report and holdings may change during the life of this document. As at the date of release of this research report, Taylor Collison, it's Director's and staff collectively have a significant interest in ACG ordinary shares and unlisted options.

Analyst Interests: The Analyst(s) may hold the product(s) referred to in this document, but Taylor Collison Limited considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s)' holdings may change during the life of this document.

Analyst Certification: The analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

Date Prepared: January 2012

Analyst: Thomas Duthy

Release Authorised by: David Pittman

Taylor Collison Limited
Sharebrokers and Investment Advisers
A.B.N. 53 008 172 450 AFSL No. 247083

Level 16, 211 Victoria Square
Adelaide, South Australia, 5000
G.P.O. Box 2046, Adelaide, South Australia, 5001
Telephone: 08 8217 3900 Facsimile: 08 8231 3506
Email: broker@taylorcollison.com.au

Level 10, 167 Macquarie Street
Sydney, New South Wales, 2000
G.P.O. Box 4261, Sydney, New South Wales, 2001
Telephone: 02 9377 1500 Facsimile: 02 9232 1677
Email: sydney1@taylorcollison.com.au

Participant of the Australian Securities Exchange Group
www.taylorcollison.com.au
ESTABLISHED 1928