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4 November 2008

AtCor Medical Holdings Limited (ACG)

Speculative Buy

US$4.2m in Pharma Trial Contracts since June

$0.13

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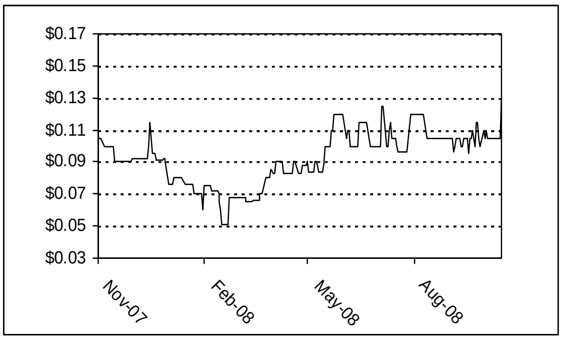
Summary

Market Capitalisation (M)	**$13.0**
Share Price	**$0.13**
Price Target	**$0.29**
52 Week High	$0.14
52 Week Low	$0.05
Av. Monthly Volume (Yr Rolling)(M)	1.6
Cash as at 30/6/08 (M)	**$3.3**
Est. Cash Burn Per Quarter (M)	$0.5
NTA Per Share	$0.06

Key Financials (A$'000)

Year End	2008 Actual	2009 Est.	FY10 Est.
Product Sales	6,451	9,128	12,779
Total Revenue	**7,363**	**10,066**	**13,575**
COGS	**(1,286)**	**(1,597)**	**(2,236)**
Net Op. Rev	(3,579)	(2,162)	509
EBITDA	**(3,997)**	**(2,500)**	**313**
EBIT	(4,145)	(2,638)	160
Reported Profit	**(3,793)**	**(2,300)**	**356**
Reported EPS (c)	**(3.8)**	**(2.1)**	**0.3**
PE Ratio (x)	**n/a**	**n/a**	**40.2**
ROE (%)	-49.4%	-39.7%	6.1%

Share Price Graph (A$)



Key Points

AtCor has signed an additional US$0.5m clinical trial contract, with cumulative contracts of US$4.2m since June.

Contracts consist of supply of SphygmoCor® systems coupled with support services for the trial.

New independent clinical study advocates pharma companies focus on central cardiac pressures in drug development.

Second generation SphygmoCor® launch imminent in the US.

Major reduction in quarterly operating cash burn to just $0.18m, with small increase in net cash to $3.3m on FX gains.

Our View

- We believe the majority of pharma orders to date represent sales to a small number of pharma users, principally to investigate central pressures in cardiovascular drug development (e.g. hypertension trials). We have previously noted the top 10 pharma globally are undertaking 96 Phase 1-4 cardiovascular trials, implying a penetration rate for AtCor of 7.3% (US$7.3m in major contracts) since 1Q CY06, ignoring phase transition effects or clinical failures. We note that globally, of the ~1200 hypertension clinical trials currently undertaken, 50% are sponsored by major pharmaceutical companies which in our view further underlie the sales opportunity in this segment for AtCor Medical. Management re-iterate this segment will constitute the major opportunity over the next 1-2 years. The use of SphygmoCor® as a cardiac monitoring safety tool across the entire clinical trial spectrum is also plausible in the medium term given ongoing drug safety initiatives within regulatory bodies such as the US FDA.
- AtCor also expects to launch portable second generation SphygmoCor® systems, designed to target the US$500m specialist clinician market over the next two weeks at major international conferences. The new systems have received US FDA 510k, CE Mark and TGA clearance and offer features consistent with the first generation product with heart rate variability testing, but at ¼ the size (<laptop footprint) and weight of the current systems. We anticipate pricing structures consistent with the first generation product, circa US$20k. Sales into this segment were up 50% on pcp in FY08, with third party payers now reimbursing under local codes. We are forecasting only modest US sales (A$0.2m) in FY09 with this launch.
- The Company currently trades on 1.35x EV/Sales on FY08 product sales, a significant discount to ASX microcap medical instrumentation comparables (11.3x) and 1.1x EV/Sales based on our FY09 estimates. We have kept our FY09 product sales estimates at $9.1m, the lower end of Company expectations of $9-$10m. We maintain our forecast FY09 NPAT loss of $2.3m, a 33.4% improvement on pcp. We expect the Company to turn a maiden profit in FY10. As a result of DF adjustments to our core valuation metrics (DCF, discounted multiples) we have upgraded our blended valuation and price target to $0.29 ($0.24 previous). We maintain our Speculative Buy recommendation.

ACG - Summary of Forecasts ACG $ 0.13

PROFIT & LOSS SUMMARY (A$000s)					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
Total Revenue	**4,285**	**5,736**	**7,363**	**10,066**	**13,575**
Growth (pcp)	*22.8%*	*33.9%*	*28.4%*	*36.7%*	*34.9%*
Cost of Goods Sold	**(965)**	**(1,011)**	**(1,286)**	**(1,597)**	**(2,236)**
Gross Margin	*71.1%*	*79.2%*	*80.1%*	*82.5%*	*82.5%*
Net Operating Revenue	**(4,158)**	**(5,251)**	**(3,579)**	**(2,162)**	**509**
Direct R&D Expenses	0	0	0	0	0
EBITDA	**(4,720)**	**(5,917)**	**(3,997)**	**(2,500)**	**313**
Dep'n/Other Amort'n	(64)	(162)	(148)	(138)	(152)
EBIT	**(4,801)**	**(6,079)**	**(4,145)**	**(2,638)**	**160**
Net Interest	562	666	418	338	196
Pre-Tax Profit	**(4,239)**	**(5,413)**	**(3,727)**	**(2,300)**	**356**
Tax Expense	234	230	(66)	0	0
Minorities	0	0	0	0	0
NPAT	**(4,005)**	**(5,183)**	**(3,793)**	**(2,300)**	**356**
Growth (pcp)	*-35.3%*	*-29.4%*	*26.8%*	*39.4%*	*310.0%*
Net Abnormals	0	0	0	0	0
Reported Profit	**(4,005)**	**(5,183)**	**(3,793)**	**(2,300)**	**356**

PER SHARE DATA					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
Reported EPS (c)	**(4.0)**	**(5.2)**	**(3.8)**	**(2.1)**	**0.3**
Growth (pcp)	*n/a*	*n/a*	*-26.8%*	*-44.9%*	*-115.5%*
EPS Pre-Net R&D (c)	**(4.4)**	**(5.4)**	**(4.3)**	**(2.6)**	**(0.2)**
Growth (pcp)	*n/a*	*n/a*	*-20.5%*	*-38.5%*	*-91.6%*
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	(4.5)	(4.6)	(4.0)	(2.9)	1.0
NTA per share (c)	14.1	9.1	5.7	5.0	5.3

KEY RATIOS					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
EBITD/Sales Margin %	-110.2%	-103.2%	-54.3%	-24.8%	2.3%
EBIT/Sales Margin %	-112.0%	-106.0%	-56.3%	-26.2%	1.2%
Current ratio (x)	9.8	4.5	2.9	2.5	3.2
Net Debt : Equity (%)	-82.0%	-74.6%	-55.6%	-34.5%	-47.4%
ROE (%)	-51.6%	-43.6%	-49.4%	-39.7%	6.1%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
PE Ratio (x)	n/a	n/a	n/a	n/a	40.2
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITD (x)	n/a	n/a	n/a	n/a	32.5
EV/EBIT (x)	n/a	n/a	n/a	n/a	63.4

CAPITAL RAISING ASSUMPTIONS					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
Shares Issued (m)	0.0	0.0	0.0	10.0	0.0
Issue Price (A$)	0.00	0.00	0.00	0.20	0.00
Cash Raised (A$m)	0.00	0.0	0.0	2.0	0.0

** TC est additional $0.5m in expenses in FY10 if FY09 US reimbursement achieved*

BALANCE SHEET SUMMARY					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
Cash	11,811	6,999	3,316	1,941	2,844
Receivables	1,381	1,446	1,877	2,556	3,834
Pre Paymenrs	0	0	0	0	0
Inventories	294	383	401	639	895
Investments	0	0	0	0	0
Other	213	196	100	100	100
Total Current Assets	13,699	9,024	5,694	5,236	7,672
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Receivables*	1,697	1,828	1,684	1,836	0
Property Plant & Equip	140	284	350	449	553
Intangibles	309	268	222	175	149
Deferred Tax Assets	0	0	0	0	0
Other	0	0	0	0	0
Total Non-Current Assets	2,146	2,380	2,256	2,459	702
TOTAL ASSETS	**15,845**	**11,404**	**7,950**	**7,695**	**8,375**
Accounts Payable	1,388	1,985	1,953	2,008	2,300
Revenue in Advance	0	0	0	0	0
Borrowings	0	0	0	0	0
Deferred Tax Liabilities	0	0	0	0	0
Provisions	16	19	19	46	64
Total Current Liab	1,404	2,004	1,972	2,054	2,364
Borrowings	0	0	0	0	0
Provisions	35	18	17	17	17
Other	0	0	0	0	0
Total Non-Current Liab	35	18	17	17	17
TOTAL LIABILITIES	**1,439**	**2,022**	**1,989**	**2,071**	**2,381**
TOTAL EQUITY	**14,405**	**9,382**	**5,961**	**5,624**	**5,993**

** Assumes director loans repaid in FY10*

CASH FLOW SUMMARY					
Period	**FY06A**	**FY07A**	**FY08A**	**FY09E**	**FY10E**
EBIT (excl Abs/Extr)	**(4,801)**	**(6,079)**	**(4,145)**	**(2,638)**	**160**
Add: Depreciation	64	121	102	102	130
Amortisation	17	41	46	37	22
Change in Pay.	(118)	597	(32)	55	292
Change in Rev. in Ad.	0	0	0	0	0
Less: Tax paid	234	230	(66)	0	0
Net Interest	562	666	418	338	196
Change in Rec.	(353)	(65)	(287)	(830)	558
Change in Inv.	(91)	(89)	(18)	(238)	(256)
Gross Cashflows	(4,486)	(4,578)	(3,982)	(3,175)	1,103
Capex	(97)	(137)	(168)	(200)	(200)
Free Cashflows	(4,583)	(4,715)	(4,150)	(3,375)	903
Dividends Paid	0	0	0	0	0
Net Cash Flow	**(4,583)**	**(4,715)**	**(4,150)**	**(3,375)**	**903**

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Date Prepared: November 2008

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