



8 July 2010

AtCor Medical Holdings Limited (ACG)

Speculative Buy

US\$1.8m Contract, Further Expansion of Coverage in Midwest

\$0.15

Thomas Duthy *PhD MBA*
tduthy@taylorcollison.com.au
+61 2 9377 1500

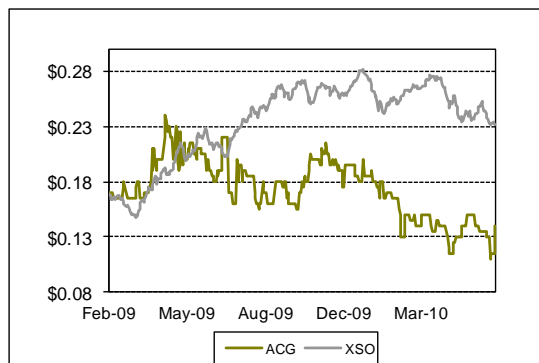
Summary

Market capitalisation (M)	\$15.1
Share price	\$0.15
Price target	\$0.30
52 week low	\$0.11
52 week high	\$0.22
Ave Monthly Vol (M)	1.5
Cash as at 31/3/10 (M)	\$1.7
NTA per share	\$0.06

Key Financials (A\$'000)

Year End	2009	2010	2011
	Actual.	Est.	Est.
Product Sales	11,209	9,886	12,667
Total Revenue	12,400	10,572	12,696
COGS	(1,740)	(1,295)	(1,761)
Net Op. Rev	(1,508)	(1,389)	244
EBITDA	(1,750)	(1,472)	215
EBIT	(1,926)	(1,608)	78
Reported Profit	(1,691)	(1,524)	107
Reported EPS (c)	(1.7)	(1.5)	0.1
PE Ratio (x)	n/a	n/a	141.2
ROE (%)	-31.9%	-39.2%	3.4%

Share Price Graph (A\$)



Key Points

AtCor has received a second positive Medicare coverage ruling in Michigan for use of SphygmoCor®.

Second ruling relates to the management of hypertension associated with renal (kidney) disease.

Further state-based Medicare coverage decisions, including Florida, over next 2-3 quarters remains on track.

New pharma contract also announced worth US\$1.8m.

Our View

- Motoring in Michigan** – The Michigan Medicare carrier represents over five million covered lives across four US states (Indiana, Illinois, Wisconsin and Michigan itself), representing 11% of total Medicare coverage in the US. In the context of this second decision, we note the Administrative Law Judge (ALJ) for the Centers of Medicare and Medicaid Services disagreed with the Medicare health plan assessment that SphygmoCor® was “experimental” and ruled coverage must be provided. Indeed the judge’s comments were quite unequivocal on the merits of the devices safety, effectiveness and acceptance by the medical fraternity. We re-iterate the health economics of the clinician model with our estimated payback volume of 187 tests at US\$75 per test providing a payback period of approximately 4.7 months on a US\$14k device purchase.
- Continued Pharma Contract Conversion Achieved** – The Company has delivered on its recent guidance on “close to conversion” opportunities for the business with a new contract with a major international pharma company worth US\$1.8m in equipment sales and associated service income. While all other matters of the agreement are confidential, we note this is the second deal announced in past three months (total value: US\$2.9m). As such clinical trial contracts and associated service income are expected in the normal course of AtCor’s operating business, we have not revised our forecast FY11 revenues of \$12.7m. This segment continues to provide at least 50% of total sales revenue (inc. service income) to the business and our anticipation is for further growth y/y, given the low applicable clinical trial penetration and narrow customer base (10 at 1H10).
- Outlook** – We have made no changes to our forecasts as a result of the expansion of Medicare coverage in Michigan (and other states) for SphygmoCor® use and the new pharmaceutical contract win. We maintain our FY10 NPAT loss estimate of \$1.5m, on product revenues of \$9.9m which we expect to reverse into a small profit (\$0.1m) in FY11. The Company currently trades on 1.5x FY10 sales, which we consider overly discounted by the market given our view for double digit product revenue growth in FY11. We maintain our Speculative Buy recommendation and price target of \$0.30, representing the blended average of our 2 year DCF and discounted 20x FY12 earnings.

Changes to Forecasts

	FY10E			FY11E			FY12E		
	Previous	Revised	Change	Previous	Revised	Change	Previous	Revised	Change
Product Sales (\$m)	9.9	9.9	0.0%	12.7	12.7	0.0%	16.7	16.7	0.0%
EBITDA (\$m)	(1.5)	(1.5)	0.0%	0.2	0.2	0.0%	2.5	2.5	0.0%
EBIT (\$m)	(1.6)	(1.6)	0.0%	0.1	0.1	0.0%	2.4	2.4	0.0%
NPAT (\$m)	(1.5)	(1.5)	0.0%	0.1	0.1	0.0%	2.4	2.4	0.0%
EPS (c)	(1.5)	(1.5)	0.0%	0.1	0.1	0.0%	2.4	2.4	0.0%

Source: Taylor Collison estimates

ACG - Summary of Forecasts

ACG \$ 0.15

PROFIT & LOSS SUMMARY (A\$000s)

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Product Sales	6,451	11,209	9,886	12,667	16,664
growth (%)	32.8%	73.8%	-118%	28.1%	316%
Total Revenue	7,363	12,400	10,572	12,696	16,714
Cost of Goods Sold	(1,286)	(1,740)	(1,295)	(1,761)	(2,350)
Gross Margin	80.1%	84.5%	86.9%	86.1%	85.9%
Total Operating Expenses	(10,942)	(13,908)	(11,961)	(12,452)	(14,159)
Net Operating Revenue	(3,579)	(1,508)	(1,389)	244	2,555
Direct R&D Expenses	0	0	0	0	0
EBITDA	(3,997)	(1,750)	(1,472)	215	2,505
Dep'n/Other Amort'n	(148)	(176)	(135)	(137)	(155)
EBIT	(4,145)	(1,926)	(1,608)	78	2,350
Net Interest	48	242	84	29	50
Pre-Tax Profit	(3,727)	(1,684)	(1,524)	107	2,400
Tax Expense	(66)	(7)	0	0	0
Minorities	0	0	0	0	0
NPAT Normalised*	(3,635)	(1,946)	(1,332)	107	2,400
NPAT	(3,793)	(1,691)	(1,524)	107	2,400
Growth (pcp)	26.8%	55.4%	9.9%	n/a	2515%
Net Abnormals	0	0	0	0	0
Reported Profit	(3,793)	(1,691)	(1,524)	107	2,400

PER SHARE DATA

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Reported EPS (c)	(3.8)	(1.7)	(1.5)	0.1	2.4
Growth (pcp)	-26.8%	55.4%	10.2%	n/a	2515%
EPS Normalised (c)	(3.6)	(1.9)	(1.3)	0.1	2.4
Growth (pcp)	-32.6%	46.5%	318%	n/a	2515%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	(3.5)	0.1	(1.2)	(0.2)	2.4
NTA per share (c)	5.7	4.5	3.0	3.1	5.6

KEY RATIOS

Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBITDA/Sales Margin %	-54.3%	-14.1%	-13.9%	17%	15.0%
EBIT/Sales Margin %	-56.3%	-15.5%	-15.2%	0.6%	14.1%
Current ratio (x)	2.9	2.3	2.2	2.2	2.6
Net Debt : Equity (%)	-55.6%	-73.5%	-60.9%	-47.7%	-67.4%
ROE (%)	-49.4%	-319%	-39.2%	3.4%	54.2%
Dividend Payout Ratio (%)	n/a	n/a	0.0%	0.0%	0.0%

VALUATION MULTIPLES

Period	FY08A	FY09A	FY10E	FY11E	FY12E
PE Ratio (x)	n/a	n/a	n/a	1412	6.3
Dividend Yield (%)	n/a	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	18	10	13	11	0.7
EV/EBITDA (x)	n/a	n/a	n/a	62.8	4.5
EV/EBIT (x)	n/a	n/a	n/a	174.2	4.8

CAPITAL RAISING ASSUMPTIONS

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Shares Issued (m)	0.0	0.0	0.0	0.0	0.0
Issue Price (A\$)	0.00	0.00	0.00	0.00	0.00
Cash Raised (A\$m)	0.0	0.0	0.0	0.0	0.0

* Excluding FX gains/losses

BALANCE SHEET SUMMARY

Period	FY08A	FY09A	FY10E	FY11E	FY12E
Cash	3,316	3,416	1,900	1,538	3,796
Receivables	1,877	3,382	2,373	2,533	3,333
Pre Payments	0	0	0	0	0
Inventories	401	434	395	760	1,000
Investments	0	0	0	0	0
Other	100	139	170	170	170
Total Current Assets	5,694	7,371	4,838	5,002	8,299
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Receivables	1,684	0	0	0	0
Property Plant & Equip	350	352	373	471	512
Intangibles	222	177	133	89	45
Other	0	0	0	0	0
Total Non-Current Assets	2,256	529	506	560	557
TOTAL ASSETS	7,950	7,900	5,344	5,561	8,856
Accounts Payable	1,953	3,223	2,175	2,280	3,166
Borrowings	0	0	0	0	0
Provisions	19	4	20	25	33
Other	0	0	0	0	0
Total Current Liab	1,972	3,227	2,195	2,305	3,199
Borrowings	0	0	0	0	0
Provisions	17	28	28	28	28
Other	0	0	0	0	0
Total Non-Current Liab	17	28	28	28	28
TOTAL LIABILITIES	1,989	3,255	2,223	2,333	3,227
TOTAL EQUITY	5,961	4,645	3,121	3,228	5,629

CASH FLOW SUMMARY

Period	FY08A	FY09A	FY10E	FY11E	FY12E
EBIT (excl Abs/Extr)	(4,145)	(1,926)	(1,608)	78	2,350
Add: Depreciation	102	131	102	108	137
Amortisation	46	45	33	29	18
Change in Pay.	(32)	1,270	(1,048)	105	886
Less: Tax paid	(66)	0	0	0	0
Net Interest	48	242	84	29	50
Change in Rec.	(287)	179	1,009	(161)	(802)
Change in Inv.	(18)	(33)	39	(365)	(240)
Other	504	163	163	(25)	59
Gross Cashflows	(3,478)	71	(1,236)	(202)	2,458
Capex	(168)	(132)	(160)	(160)	(200)
Free Cashflows	(3,646)	(61)	(1,396)	(362)	2,258
Dividends Paid	0	0	0	0	0
Exchange Rate Adjustments	(37)	161	(120)	0	0
Net Cash Flow	(3,683)	100	(1,516)	(362)	2,258

Disclaimer

The following Warning, Disclaimer and Disclosure relate to all material presented in this document and should be read before making any investment decision.

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. 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.

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: July 2010

Analyst: Thomas Duthy

Release Authorised by: David Whiting

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