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# AtCor Medical Holdings Limited (ACG)

Speculative Buy

Major Clinical Endorsement Continues; FY09 Sales Upgrade

\$0.17

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## Key Points

AtCor has reported on two major clinical outcome studies using SphygmoCor® at the American Heart Association (AHA) meeting.

Central Pulse Pressure (CPP) measured using SphygmoCor® was predictive of cardiovascular (CV) events (n=2,405).

In a second study (n=800), CPP using SphygmoCor® was found to be a superior predictor of atrial fibrillation (AF).

AGM product sales guidance of “minimum of 45% on pcp”, implying product sales of at least A\$9.4m on our estimates.

## Summary

<b>Market Capitalisation (M)</b>	<b>\$17.0</b>
<b>Share Price</b>	<b>\$0.17</b>
<b>Price Target</b>	<b>\$0.29</b>
52 Week High	\$0.18
52 Week Low	\$0.05
Av. Monthly Volume (Yr Rolling)(M)	1.6
<b>Cash as at 30/6/08 (M)</b>	<b>\$3.3</b>
Est. Cash Burn Per Quarter (M)	\$0.5
NTA Per Share	\$0.06

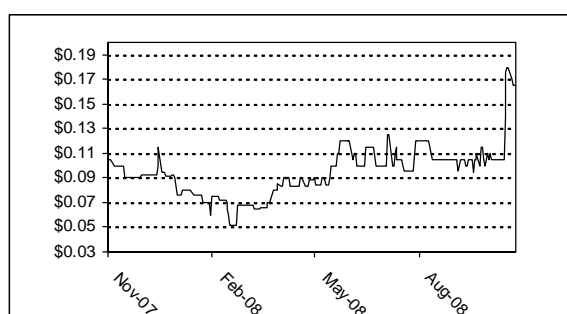
## Our View

- The focus of the recent AHA meeting was on prevention of cardiovascular disease (CVD). Early prevention via identification of CVD risk factors is considered vital. In our view, there is now significant momentum building on the utility of central pressure measurement as a vital tool in ameliorating such risk (see Appendix 1). CPP measurements (calculated as the difference between systolic and diastolic blood pressure at the ascending aorta) >50mm of mercury (Hg) was significantly (p<0.001) able to predict CV outcomes, independent of other CVD risk factors. Healthy individual peripheral PP (PPP) is approximately 40mm Hg, with CPP approx 10mm lower. PPP using a standard pressure cuff were not predictive in this study. This threshold CPP value is a world first, and significant from a clinical perspective. The researchers noted the use of non-invasive CPP as a treatment target in intervention strategies and treatment trials.
- The second study which classifies non-invasive CPP as a robust predictor of first AF allows AtCor to diversify the utility of SphygmoCor® in the clinical setting. Indeed, it was *superior* in predictive qualities to well established clinical and echocardiographic risk factors. With every 20mm Hg increase in CPP, the risk of AF doubled. AF affects approximately 3.8% of people over 60 and 9% over 80 years. AF represents a disturbance of the heart's electrical system resulting in an abnormal interval of heart beat.
- While the stock has appreciably re-rated of late, we believe the Company remains an attractive proposition given recent sales guidance and a robust pipeline of pharma sales opportunities with an attractive lease/service model in this market segment. We consider this opportunity to be very defensive. Moreover, we believe the continued major clinical outcome studies will drive future clinician endorsement and reimbursement. Based on the accumulating body of evidence of its superior predictive characteristics for cardiovascular events, central pressure testing looks set to gain real traction as CVD prevention becomes a major market and regulatory thematic. As a result of AGM guidance, we have upgraded our FY09 sales estimates by 2.5% to \$9.4m, the lower end of Company guidance and upgraded our FY08E NPAT loss estimates by 7.7% to \$2.1m. We maintain our blended valuation, price target of \$0.29 per share and Speculative Buy recommendation.

## Key Financials (A\$'000)

Year End	2008	2009	2010
	Actual	Est.	Est.
Product Sales	6,451	9,354	12,815
<b>Total Revenue</b>	<b>7,363</b>	<b>10,239</b>	<b>13,613</b>
<b>COGS</b>	<b>(1,286)</b>	<b>(1,637)</b>	<b>(2,243)</b>
Net Op. Rev	(3,579)	(1,986)	588
<b>EBITDA</b>	<b>(3,997)</b>	<b>(2,271)</b>	<b>390</b>
EBIT	(4,145)	(2,409)	238
<b>Reported Profit</b>	<b>(3,793)</b>	<b>(2,124)</b>	<b>436</b>
<b>Reported EPS (c)</b>	<b>(3.8)</b>	<b>(1.9)</b>	<b>0.4</b>
<b>PE Ratio (x)</b>	<b>n/a</b>	<b>n/a</b>	<b>42.9</b>
ROE (%)	-49.4%	-36.1%	7.2%

## Share Price Graph (A\$)



## Appendix 1

### SphygmoCor® - Recent Major Clinical Outcome Studies

Date	Name of Study	# Patients	Major Findings
Nov-08	Strong Heart Study - New Data	2,405	Central pulse pressure (CPP) using SphygmoCor, which was in excess of 50mm Hg was predictive of cardiovascular (CV) events ( $p < 0.001$ ) independent of other risk factors, and is a useful target for intervention strategies and treatment trials. Peripheral pulse pressure had no predictive qualities
Nov-08	SAFFIHRE	800	CPP using SphygmoCor is a robust predictor ( $p < 0.0001$ ) of first atrial fibrillation (AF), with every 20mm increase in Hg from CPP near doubles risk of developing AF.
Jul-08	Aust CP Risk Stratification Study	675	Patients with normal brachial systolic blood pressure (SBP), 96% had central SBP within the range of patients with high-normal brachial SBP, as well as 64% within the range of patients with grade 1 hypertension.
May-08	Anglo-Cardiff Collaborative Trial	10,613	>70% of patients classified as having high-normal blood pressure at the cuff had central pressures corresponding to patients with Stage 1 hypertension.
May-07	Strong Heart Study	3,520	CPPs were found to be <b>50%</b> more predictive than peripheral (cuff) pressure measurements in stratifying the risk of cardiovascular outcomes including death, MI (myocardial infarction – heart attack), stroke and other major events. Moreover, there was a strong positive relationship between central pulse pressures, with a steep increase in the CV event rate as central pulse pressures increased.

Source: Taylor Collison

## ACG - Summary of Forecasts

ACG \$ 0.17

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
<b>Total Revenue</b>	<b>4,285</b>	<b>5,736</b>	<b>7,363</b>	<b>10,239</b>	<b>13,613</b>
<i>Growth (pcp)</i>	22.8%	33.9%	28.4%	39.1%	32.9%
<b>Cost of Goods Sold</b>	<b>(965)</b>	<b>(1,011)</b>	<b>(1,286)</b>	<b>(1,637)</b>	<b>(2,243)</b>
<i>Gross Margin</i>	71.1%	79.2%	80.1%	82.5%	82.5%
<b>Net Operating Revenue</b>	<b>(4,158)</b>	<b>(5,251)</b>	<b>(3,579)</b>	<b>(1,986)</b>	<b>588</b>
Direct R&D Expenses	0	0	0	0	0
<b>EBITDA</b>	<b>(4,720)</b>	<b>(5,917)</b>	<b>(3,997)</b>	<b>(2,271)</b>	<b>390</b>
Dep'n/Other Amort'n	(64)	(162)	(148)	(138)	(152)
<b>EBIT</b>	<b>(4,801)</b>	<b>(6,079)</b>	<b>(4,145)</b>	<b>(2,409)</b>	<b>238</b>
Net Interest	562	666	418	285	198
<b>Pre-Tax Profit</b>	<b>(4,239)</b>	<b>(5,413)</b>	<b>(3,727)</b>	<b>(2,124)</b>	<b>436</b>
Tax Expense	234	230	(66)	0	0
Minorities	0	0	0	0	0
<b>NPAT</b>	<b>(4,005)</b>	<b>(5,183)</b>	<b>(3,793)</b>	<b>(2,124)</b>	<b>436</b>
<i>Growth (pcp)</i>	-35.3%	-29.4%	26.8%	44.0%	310.0%
Net Abnormals	0	0	0	0	0
<b>Reported Profit</b>	<b>(4,005)</b>	<b>(5,183)</b>	<b>(3,793)</b>	<b>(2,124)</b>	<b>436</b>

PER SHARE DATA					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
<b>Reported EPS (c)</b>	<b>(4.0)</b>	<b>(5.2)</b>	<b>(3.8)</b>	<b>(1.9)</b>	<b>0.4</b>
<i>Growth (pcp)</i>	n/a	n/a	-26.8%	-49.1%	-120.5%
<b>EPS Pre-Net R&amp;D (c)</b>	<b>(4.4)</b>	<b>(5.4)</b>	<b>(4.3)</b>	<b>(2.5)</b>	<b>(0.1)</b>
<i>Growth (pcp)</i>	n/a	n/a	-20.5%	-42.2%	-94.0%
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)	(2.8)	1.1
NTA per share (c)	14.1	9.1	5.7	5.1	5.5

KEY RATIOS					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
EBITD/Sales Margin %	-110.2%	-103.2%	-54.3%	-22.2%	2.9%
EBIT/Sales Margin %	-112.0%	-106.0%	-56.3%	-23.5%	1.7%
Current ratio (x)	9.8	4.5	2.9	2.6	3.3
Net Debt : Equity (%)	-82.0%	-74.6%	-55.6%	-36.0%	-49.5%
ROE (%)	-51.6%	-43.6%	-49.4%	-36.1%	7.2%
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	42.9
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITD (x)	n/a	n/a	n/a	n/a	35.6
EV/EBIT (x)	n/a	n/a	n/a	n/a	58.5

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	2,088	3,093
Receivables	1,381	1,446	1,877	2,619	3,844
Pre Payments	0	0	0	0	0
Inventories	294	383	401	655	897
Investments	0	0	0	0	0
Other	213	196	100	100	100
<b>Total Current Assets</b>	<b>13,699</b>	<b>9,024</b>	<b>5,694</b>	<b>5,462</b>	<b>7,934</b>
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
<b>Total Non-Current Assets</b>	<b>2,146</b>	<b>2,380</b>	<b>2,256</b>	<b>2,459</b>	<b>702</b>
<b>TOTAL ASSETS</b>	<b>15,845</b>	<b>11,404</b>	<b>7,950</b>	<b>7,921</b>	<b>8,637</b>
Accounts Payable	1,388	1,985	1,953	2,058	2,307
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	47	64
<b>Total Current Liab</b>	<b>1,404</b>	<b>2,004</b>	<b>1,972</b>	<b>2,105</b>	<b>2,371</b>
Borrowings	0	0	0	0	0
Provisions	35	18	17	17	17
Other	0	0	0	0	0
<b>Total Non-Current Liab</b>	<b>35</b>	<b>18</b>	<b>17</b>	<b>17</b>	<b>17</b>
<b>TOTAL LIABILITIES</b>	<b>1,439</b>	<b>2,022</b>	<b>1,989</b>	<b>2,122</b>	<b>2,388</b>
<b>TOTAL EQUITY</b>	<b>14,405</b>	<b>9,382</b>	<b>5,961</b>	<b>5,799</b>	<b>6,249</b>

\* Assumes director loans repaid in FY10

CASH FLOW SUMMARY					
Period	FY06A	FY07A	FY08A	FY09E	FY10E
<b>EBIT (excl Abs/Extr)</b>	<b>(4,801)</b>	<b>(6,079)</b>	<b>(4,145)</b>	<b>(2,409)</b>	<b>238</b>
Add: Depreciation	64	121	102	102	130
Amortisation	17	41	46	37	22
Change in Pay.	(118)	597	(32)	105	249
Change in Rev. in Ad.	0	0	0	0	0
Less: Tax paid	234	230	(66)	0	0
Net Interest	562	666	418	285	198
Change in Rec.	(353)	(65)	(287)	(894)	610
Change in Inv.	(91)	(89)	(18)	(254)	(242)
<b>Gross Cashflows</b>	<b>(4,486)</b>	<b>(4,578)</b>	<b>(3,982)</b>	<b>(3,028)</b>	<b>1,205</b>
Capex	(97)	(137)	(168)	(200)	(200)
<b>Free Cashflows</b>	<b>(4,583)</b>	<b>(4,715)</b>	<b>(4,150)</b>	<b>(3,228)</b>	<b>1,005</b>
Dividends Paid	0	0	0	0	0
<b>Net Cash Flow</b>	<b>(4,583)</b>	<b>(4,715)</b>	<b>(4,150)</b>	<b>(3,228)</b>	<b>1,005</b>

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