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AtCor Medical Holdings Limited (ACG)

Speculative Buy

Additional US\$0.8m in Pharma Contracts Underscores Defensive Model

\$0.22

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Key Points

AtCor announced today two additional pharmaceutical clinical trial orders worth US\$0.8m (A\$1.1m).

Over US\$7.3m in new contracts over past 10 months secured.

Additional contracts were repeat business wins with leading undisclosed pharmaceutical companies (US\$0.64m and US\$0.2m, respectively).

SphygmoCor[®] has been proven across multiple clinical studies to stratify cardiovascular (CV) risk and delineate drug effects on central aortic pressures.

Summary

Market Capitalisation (M)	\$22.0
Share Price	\$0.22
Price Target	\$0.30
52 Week High	\$0.22
52 Week Low	\$0.065
Av. Monthly Volume (Yr Rolling)(M)	1.5
Cash as at 31/12/08 (M)	\$2.9
Est. Cash Burn Per Quarter (M)	n/a
NTA Per Share	\$0.06

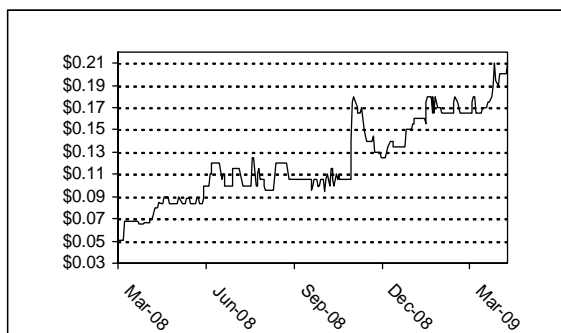
Our View

- The pharmaceutical clinical trials market continues to offer investors in AtCor Medical attractive defensive characteristics. Unlike the majority of other microcap ASX Healthcare Equipment and Services (3510) plays, AtCor is presently not reliant on public/private hospital purchasers or specialist clinics/clinicians to drive the majority of equipment sales and associated services. The repeat business attributes highlighted today are suggestive of customer satisfaction with the SphygmoCor[®] system. We understand AtCor currently contracts with only a small number of pharmaceutical customers, suggesting further customer penetration is likely in the medium term. In support of this, we have previously estimated nine major pharma companies are running 96 clinical trials/approval processes for cardiovascular drugs.
- Today's announcement continues to drive home the effectiveness of an embedment strategy for the pharma trials market, which seeks to win business throughout the clinical trial spectrum (Phase 1-4) for particular drugs or drug classes. AtCor believes this market is worth >US\$100m annually. With a renewed focus on cardiac safety by regulators like the FDA, this model also lends itself to contract success across multiple drug studies within the customer's existing pipeline. Though we believe a profitable business model exists servicing solely pharmaceutical clients, we consider such clinical validation as an appetising entrée into the larger specialist clinician market. We expect the Company to provide further clarification on local reimbursement initiatives in the US at the FY.
- We have made no changes to our FY09, FY10 and FY11 estimates as a result of today's clinical trial contract wins. Our FY09 product sales estimates are in line with mgt guidance of 55% growth on pcp, at >80% GM. The Company is expected to release its quarterly cash statements next week. 1H10 cash flow is expected to be further enhanced by an additional \$1.2m outstanding receivable which is due and payable by the end of CY09; representing director and former director loans with the Company. On 1.9x EV/Sales, AtCor remains an attractive proposition viz. sector comparables. As a result of demonstrable management execution, a significantly enhanced operating environment and sufficient cash reserves through to profitability we continue with our Speculative Buy recommendation and blended valuation/price target of \$0.30.

Key Financials (A\$'000)

Year End	2008	2009	2010
	Actual	Est.	Est.
Product Sales	6,451	10,279	13,743
Total Revenue	7,363	11,706	14,364
COGS	(1,286)	(1,799)	(2,405)
Net Op. Rev	(3,579)	(1,418)	723
EBITDA	(3,997)	(1,639)	702
EBIT	(4,145)	(1,778)	550
Reported Profit	(3,793)	(1,594)	570
Reported EPS (c)	(3.8)	(1.4)	0.5
PE Ratio (x)	n/a	n/a	42.4
ROE (%)	-49.4%	-31.1%	12.5%

Share Price Graph (A\$)



ACG - Summary of Forecasts

ACG \$ 0.22

PROFIT & LOSS SUMMARY (A\$000s)					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Total Revenue	5,736	7,363	11,706	14,364	16,668
<i>Growth (pcp)</i>	33.9%	28.4%	59.0%	22.7%	16.0%
Cost of Goods Sold	(1,011)	(1,286)	(1,799)	(2,405)	(2,898)
<i>Gross Margin</i>	79.2%	80.1%	82.5%	82.5%	82.5%
Net Operating Revenue	(5,251)	(3,579)	(1,418)	723	3,469
Direct R&D Expenses	0	0	0	0	0
EBITDA	(5,917)	(3,997)	(1,639)	702	3,358
Depn/Other Amort'n	(162)	(148)	(140)	(152)	(168)
EBIT	(6,079)	(4,145)	(1,778)	550	3,190
Net Interest	666	418	221	21	111
Pre-Tax Profit	(5,413)	(3,727)	(1,557)	570	3,301
Tax Expense	230	(66)	(37)	0	0
Minorities	0	0	0	0	0
NPAT	(5,183)	(3,793)	(1,594)	570	3,301
<i>Growth (pcp)</i>	-29.4%	26.8%	58.0%	310.0%	148.7%
Net Abnormals	0	0	0	0	0
Reported Profit	(5,183)	(3,793)	(1,594)	570	3,301

PER SHARE DATA					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Reported EPS (c)	(5.2)	(3.8)	(1.4)	0.5	3.0
<i>Growth (pcp)</i>	n/a	-26.8%	-61.8%	-135.8%	478.7%
EPS Pre-Net R&D (c)	(5.4)	(4.3)	(2.0)	(0.0)	3.0
<i>Growth (pcp)</i>	n/a	-20.5%	-53.5%	-98.7%	-11276.3%
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Gross CF per Share (c)	(4.6)	(4.0)	(0.7)	1.6	2.0
NTA per share (c)	9.1	5.7	3.7	4.3	7.3

KEY RATIOS					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBITD/Sales Margin %	-103.2%	-54.3%	-14.0%	4.9%	20.1%
EBIT/Sales Margin %	-106.0%	-56.3%	-15.2%	3.8%	19.1%
Current ratio (x)	4.5	2.9	2.6	2.7	3.5
Net Debt : Equity (%)	-74.6%	-55.6%	-52.3%	-79.4%	-72.8%
ROE (%)	-43.6%	-49.4%	-31.1%	12.5%	50.6%
Dividend Payout Ratio (%)	n/a	n/a	0.0%	0.0%	0.0%

VALUATION MULTIPLES					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
PE Ratio (x)	n/a	n/a	n/a	42.4	7.3
Dividend Yield (%)	n/a	n/a	0.0%	0.0%	0.0%
EV/EBITDA (x)	n/a	n/a	n/a	25.8	4.8
EV/EBIT (x)	n/a	n/a	n/a	33.0	5.0

CAPITAL RAISING ASSUMPTIONS					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
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

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

BALANCE SHEET SUMMARY					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
Cash	6,999	3,316	2,241	3,865	5,959
Receivables	1,446	1,877	2,878	1,787	3,311
Pre Payments	0	0	0	0	0
Inventories	383	401	720	962	1,159
Investments	0	0	0	0	0
Other	196	100	159	159	159
Total Current Assets	9,024	5,694	5,998	6,773	10,588
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Receivables*	1,828	1,684	0	0	0
Property Plant & Equip	284	350	449	513	550
Intangibles	268	222	173	147	125
Deferred Tax Assets	0	0	0	0	0
Other	0	0	0	0	0
Total Non-Current Assets	2,380	2,256	622	661	675
TOTAL ASSETS	11,404	7,950	6,620	7,433	11,263
Accounts Payable	1,985	1,953	2,261	2,474	2,980
Revenue in Advance	0	0	0	0	0
Borrowings	0	0	0	0	0
Deferred Tax Liabilities	0	0	0	0	0
Provisions	19	19	51	69	83
Total Current Liab	2,004	1,972	2,313	2,542	3,063
Borrowings	0	0	0	0	0
Provisions	18	17	20	20	20
Other	0	0	0	0	0
Total Non-Current Liab	18	17	20	20	20
TOTAL LIABILITIES	2,022	1,989	2,333	2,562	3,083
TOTAL EQUITY	9,382	5,961	4,287	4,871	8,180

* Assumes director loans repaid in FY10

CASH FLOW SUMMARY					
Period	FY07A	FY08A	FY09E	FY10E	FY11E
EBIT (excl Abs/Extr)	(6,079)	(4,145)	(1,778)	550	3,190
Add: Depreciation	121	102	102	130	149
Amortisation	41	46	38	22	19
Change in Pay.	597	(32)	308	212	507
Change in Rev. in Ad.	0	0	0	0	0
Less: Tax paid	230	(66)	(37)	0	0
Net Interest	666	418	221	21	111
Change in Rec.	(65)	(287)	683	1,092	(1,525)
Change in Inv.	(89)	(18)	(319)	(242)	(197)
Gross Cashflows	(4,578)	(3,982)	(782)	1,784	2,254
Capex	(137)	(168)	(200)	(160)	(160)
Free Cashflows	(4,715)	(4,150)	(982)	1,624	2,094
Dividends Paid	0	0	0	0	0
Net Cash Flow	(4,715)	(4,150)	(982)	1,624	2,094

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